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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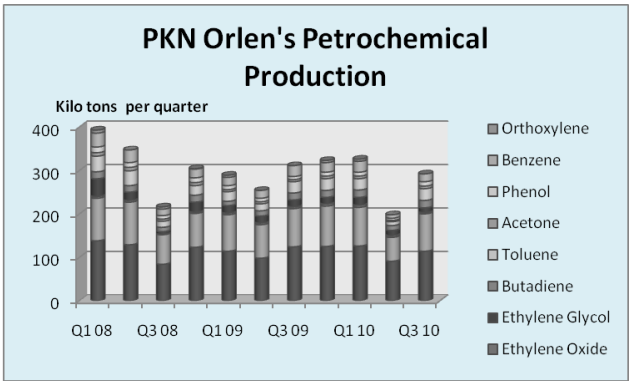
FEATURES FROM THIS ISSUE

CENTRAL & SOUTH EAST EUROPE

Petrochemicals

PKN Orlen, Q3 2010

PKN Orlen reported a 33.5% rise in third quarter net profit, on the back of higher retail and petrochemical sales. The third-quarter net profit was zl 1.24 billion compared with zl 930.6 million in the same period in 2009. The company's operating profit almost doubled to zl 788.6 million. In the petrochemical sector, sales rose by 8% in the quarter to zl 21 billion, while operational profit more than doubled to zl 142 million. Petrochemical production volumes remain lower than in the first half of 2008, despite market improvements. Cracker operating rates were held back in the third quarter due to derivative plant outages.

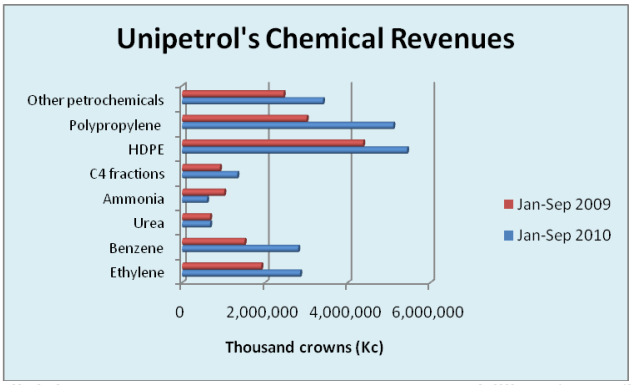


Orlen's operational profit was driven largely by the increase of petrochemical margins and changes in foreign exchange rates. This took place despite the changes in prices of petrochemical products on inventory valuation, which reduced profit from divisional operations by zl 43 million. The main features of the quarter involved stable growth of sales of olefins and polyolefins and higher demand in the area of fertilisers which are produced by Anwil. At the same time, lower sales of PVC resulted from the extended outage at Anwil.

Orlen's capital expenditures in the petrochemical division were zl 220 million lower in the third quarter, as the investment into the paraxylene and PTA plants are well advanced. Thus, the main part of the current programme into petrochemicals has been carried out already. PKN Orlen will increase its oil throughput capacity at the Plock refinery to 16.5-17 million tons due to new investments to be launched at the turn of 2010 and 2011.

Unipetrol, Q3 2010

Unipetrol's profitability improved significantly in the third quarter, with net profits totalling Kc 175 million and the group operating profit amounting to Kc 238 million. Aside the strong results for fuel sales, Unipetrol also recorded an increase in polyolefin sales in the third quarter. Revenues from refining and petrochemicals amounted to Kc 22.5 billion; the group processed 1.182 million tons of crude oil which is 2% more than in the same period last year and about 10% more than in the period April-June 2010.



Most petrochemical products recorded higher revenues for the three quarters in 2010 against the same period last year. Unipetrol's main product sales in its petrochemical division consist of HDPE and polypropylene. In the third quarter, the operational profit of the petrochemical division amounted to Kc 176 million. The most important factors behind the results included higher petrochemical margins and better sales volumes.

The positive results of the petrochemical division contrast with the losses recorded in the refinery division. Revenues rose 21% to Kc 17 billion for refinery division in the quarter, but profits were down due to a revaluation of stocks. Despite the financial results, the group achieved the best quarterly refining sales' volumes over the last two years, while utilisation of refinery capacity was over 85%. As a group, Unipetrol is considered to hold a strong cash position and its indebtedness is currently at a record low level.

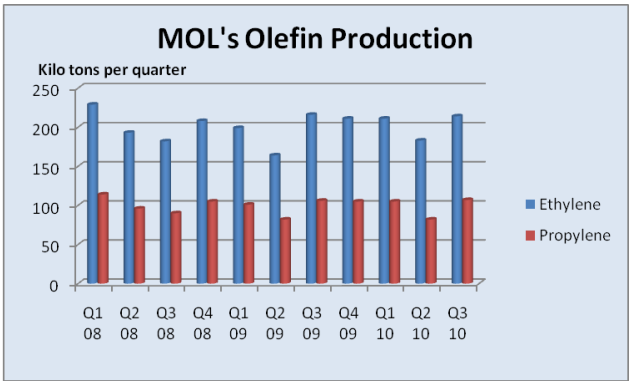
MOL, Q3 & Jan-Sep 2010

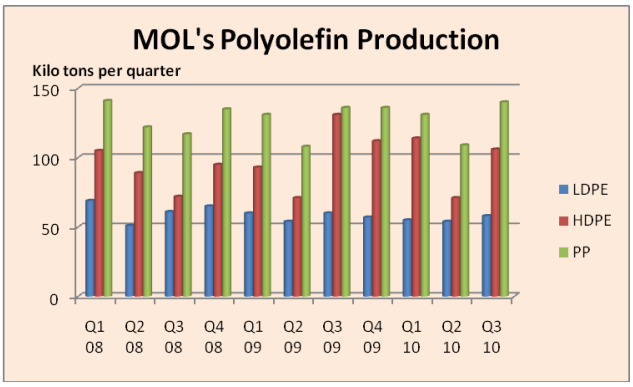
MOL's operating profit in the petrochemical division amounted to Ft 6.0 billion in Q3 2010, which was higher by Ft 4.5 billion compared to Q2 and increased by Ft 4.7 billion against the same period in 2009. MOL's operating profit from the petrochemical division in the period Q1-Q3 2010 totalled Ft 17.1 billion, compared to an operating

loss of Ft 5.5 billion in the same period last year. This year, monomer and polymer production volumes increased by 5% and 4% respectively compared to 2009. LDPE accounted for 19% of polymer production in the first three quarters, HDPE 37% and polypropylene 44%. In Q1-Q3 2010, MOL's capital expenditure in the petrochemical division totalled Ft 7.4 billion, which is lower by Ft 6.6 billion against 2009 due to less investment at TVK and Slovnaft's olefin plants. .

MOL's group third-quarter net income reached Ft 92.1 billion, more than seven times the Ft 12.9 billion result achieved in the same period in 2009. Some of the factors explaining profit improvement were attributed to better petrochemical margins, higher olefin product prices, lower electricity prices and higher production and sales' volumes in its oil refining division. MOL's integrated petrochemical margin increased by 9% in the third quarter against the second quarter, to €373/ton, helping to drive up profitability. The average naphtha price was lower by 5% in dollar terms, while the average polymer prices in euro terms fell by 1-4%. The group's olefin and polymer production increased by 18% and 22% respectively compared to the previous quarter, the difference in which was due mainly to the planned turnaround at TVK in Q2 and lower activity in that period.

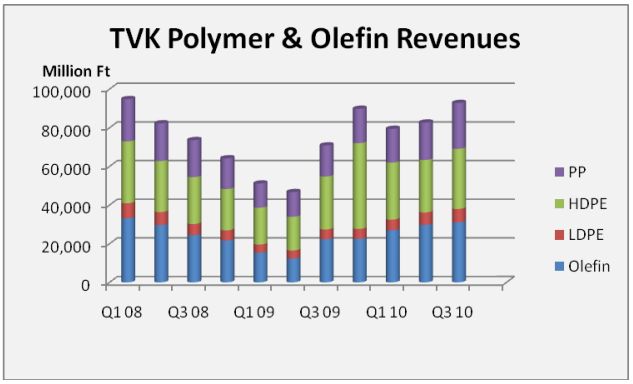
For export markets, MOL's polymer client base is relatively balanced, with industrial packaging, consumer packaging, consumer goods and distributors each accounting for 15-20% of sales. In Hungary, however, industrial packaging and consumer packaging together account for 60%, while consumer goods account for just 10%. According to MOL, it is striving to increase the share of injection-moulding or pipe material within its total output.





TVK, Q3 & Jan-Sep 2010

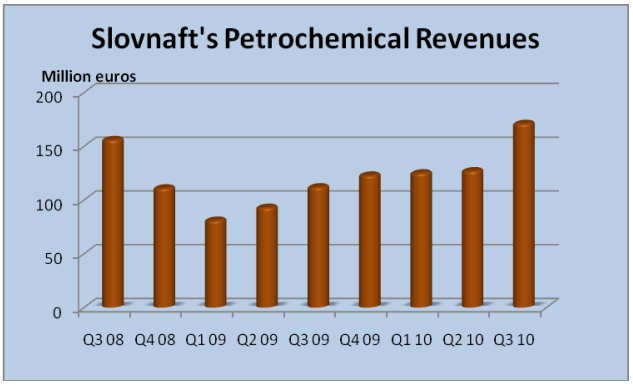
TVK group level sales income amounted to Ft 270,035 million in the period January-September 2010, Ft 83,941 million more than in the first nine months of 2009. This was due to both higher prices and sales volumes, although slightly moderated by the impact of the exchange rate fluctuations.



The main part of the TVK group recorded a net income of Ft 1.95 billion in Q3, rising 40.8% from the same period in 2009 due to better sales and margins. Overall, capacity utilisation showed an upturn of 8% in Q1-Q3 2010, due largely to the absence of unscheduled outages one of which occurred last year. Polymer production and sales were 7% and 5% higher respectively in the first nine months of 2010.

Due to the final shutdown of the old LDPE-1 plant at Tiszaujvaros in March, 2009, the share of LDPE dropped in TVK's product composition and this was taken up by an increased share of HDPE. Thus, overall for the first three quarters in 2010, LDPE accounted for 9% of TVK's polymer production, HDPE 56% and polypropylene 35%. Polymer production and sales were 13% and 14%, respectively higher in third against the second quarter, when sales were lower due to planned maintenance.

A comparison of Q1-Q3 2010 to Q1-Q3 2009 shows a rise in prices for LDPE of 45%, HDPE 22-23% and polypropylene 47-51%. The average price of a ton of naphtha went up by 41% to $663 during the first nine months of this year, whilst margins rose consecutively in each of the three quarters in 2010. However, petrochemical margins are expected by TVK to deteriorate in the fourth quarter, although sales are expected to remain at the same level as in the third quarter.



Slovnaft, Jan-Sep 2010

Slovnaft's integrated petrochemical margin in Q3 2010 increased by 4% against the same quarter last year, and by 9% compared to Q2 2010. The average margin achieved by the company this year in the first three quarters totalled €339/ton.

Over the three quarters, total refinery product sales fell by 11.4% against 2009 due to significantly lower sales of motor fuels. This was particularly evident on the Hungarian and Czech markets. Revenues from refinery product sales for export, however, increased 15.3% against Q1-Q3 2009 as a result of the increase of prices for crude oil products. Polymer sales for Slovnaft increased 11% in Q3 against the same period last year and totalled 112,800 tons. Exports and domestic polymer sales in the third quarter increased by 49% and 7% respectively compared to the second quarter.

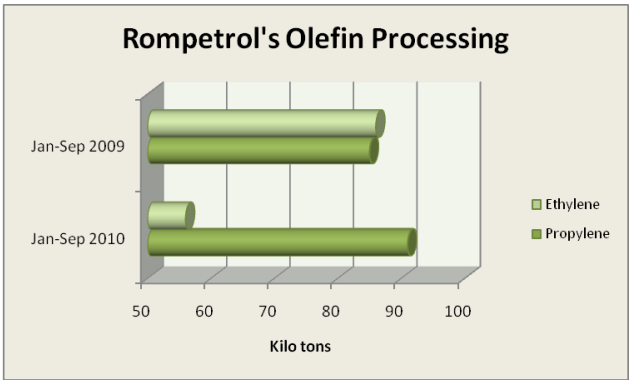
Lotos-Mitsubishi xylene agreement

Polish refining group Lotos and Mitsubishi International (Germany) have signed contracts for the sale of mixed xylenes. Supplies are due to start at some stage between May and November 2011 and will last for 42 months. The estimated value of the agreement over its term will amount to zl 805.3 million. Lotos wants to further diversify the product portfolio by reducing the share of aromatic hydrocarbons in gasoline blending pool produced at the Gdansk refinery. Some of the product leaving the catalytic reforming unit (reformate) will be further processed at the xylene separation unit.

At present, any surplus volumes of reformate are exported. Due to the production and sale of mixed xylenes, Lotos will be able to generate a higher margin on sales than for reformate exports. To meet the provisions of the agreement, Lotos plans to build a unit at Gdansk with a capacity of 65 tons per hour of reformate. The group believes that sales of reformate in the European market could be affected by oversupply in the next few years, and thus Lotos is trying to counter this trend by selling xylenes.

Rompetrol Petrochemicals, Jan-Sep 2010

Rompetrol Petrochemicals recorded gross revenues of $214.3 million in the first nine months in 2010, 18% higher than the same period last year. The increase in gross revenues is mainly as a result of higher prices, whilst better margins have helped result in an EBITDA of $11.5 million against a loss of $12.5 million in 2009. Ethylene processing at the Petromidia site fell from 86,000 tons in the first three quarters in 2009 to 56,000 tons in 2010. This was due to the shutdown of HDPE unit which started in November 2009; at the same time the company will increase the capacity of HDPE production by more than 70% in 2011. The modernisation programme will allow an increase in HDPE capacity from 60,000 to 100,000 tpa, it will also lead to a reduction of over 10% in processing costs, and a diversification of the range of products offered.



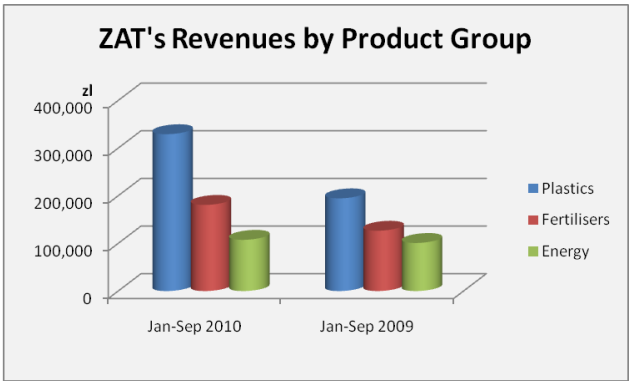
Rompetrol Petrochemicals, completed automation process

Rompetrol Petrochemicals has successfully completed the automation of polymer plants, and the integration of operations into the command and control centre (CCR) based at the Petromidia platform. The refining activities of Rompetrol Rafinare are presently coordinated through this centre. The integration of the petrochemical plants into the command centre supports the company's objective to improve its position as a polymer supplier and producer in the region.

The new centre allows full tracking of operations including the control and protection of technological flows, the collection and online transmission of process data and the reduction of production costs. The project was coordinated by Rominserv, the general contractor of the Rompetrol Group. The new centre integrates the three polymer production plants (polypropylene, LDPE and HDPE), as well as those related to pyrolysis

including the steam boilers and the propane-propylene separation station.

Polymers & chemicals



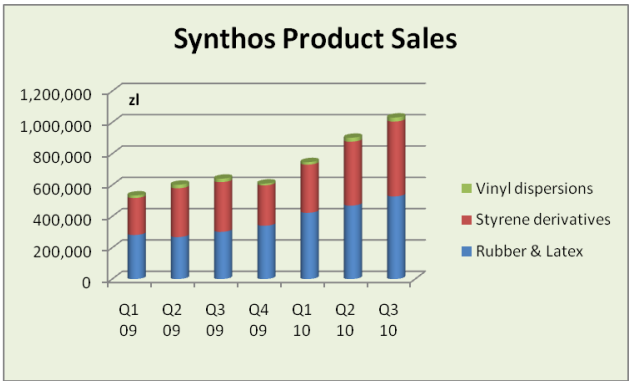
ZA Tarnow, Q3 & Jan-Sep 2010

ZA Tarnow (ZAT) recorded a zl 13.14 million consolidated net profit in the third quarter of 2010, against a loss of zl 28.20 million in the same period last year. The operating profit at group level was zl 16.33 million against a loss of zl 25.75 million, Consolidated revenues amounted to zl 411.39 million against zl 266.77 million, with all main product groups showing an increase. For the first three quarters, ZAT achieved a net profit of zl 42.78 million against a loss of zl 5.65 million last year.

ZAT is continuing work on the expansion of the caprolactam plant, which is intended to raise capacity to 103,300 tpa. Currently, the second phase of this project is being prepared, and this will be carried out during the overhaul break next year. Other key projects include the development of a new hydrogen generation system, which will make it possible to use natural gas from new local resources. This will help to reduce costs by lower usage of imported Russian gas. The extension of the plastics plant will expand the production capacity of the compounds based on polyamide-6. One project that has been placed on hold is for polyoxymethylene, for which the company has decided that electricity costs make the investment unprofitable. ZAT estimates that after the consolidation of the merger with ZAK, revenues could rise to zl 3 billion in 2011**.** The transaction to buy equity in ZAK will be financed through the issuance of shares in ZAT or through convertible bonds.

ZAK to supply nitric acid to Tarnow

As part of the new synergy between ZAK and ZAT, around 6,000 tons of nitric acid per month could be shipped from Kedzierzyn to Tarnow. After successful initial tests, ZAK's new plant at Kedzierzyn is expected to start production in the next few weeks. This will replace the old existing unit which does not meet environmental requirements. The new plant will be capable of producing around 900 tons of nitric acid per day, which is more than can be used captively by ZAK. Nitric acid could be shipped from Kedzierzyn to Tarnow by either rail or road. By purchasing from ZAK it means that ZAT may be able to avoid investing in building a new acid unit.



Synthos, Q3 2010

Consolidated revenues for the Synthos group, including the Kralupy and Oswiecim divisions, exceeded one billion zlotys in the third quarter for the first time in the group's history. Operating profit of the group amounted to zl 164.7 million against sales revenues of zl 1,052.9 million. High prices for synthetic rubber have been the main factor behind the revenue increase, and at the same time net profits have risen to zl 142 million against zl 48.61 million in 2009. The Polish division of Synthos, formerly known as Dwory, is considered to be the most profitable chemical company in Poland. The Czech division at Kralupy, formerly Kaucuk, is also highly profitable and has added significant value since its acquisition from Unipetrol.

Synthos-butadiene supply

Synthos Dwory has agreed a contract with OMV Refining and Marketing for butadiene supply between 2011-2015, with the contract valued at around €55 million. The parties have agreed a pricing formula based on ICIS published prices. Synthos Dwory requires additional supply of butadiene to supplement the deliveries it receives from PKN Orlen at Plock. In June 2010, Synthos Kralupy became the beneficiary of butadiene from the new plant from the jv Butadien Kralupy in which Unipetrol holds a 51% stake. As a result of these developments, the Synthos group has managed to build long term supply guarantee for butadiene for both of its subsidiaries in Poland and the Czech Republic.

ZCH Police Revenues & Production		
Revenues (million zl)		
Product	*Jan-Sep 10*	*Jan-Sep 09*
Fertilisers	437.4	120.9
Chemicals	7.4	5.2
Pigments	72.5	62.5
Production (unit-kilo tons)		
Product	*Jan-Sep 10*	*Jan-Sep 09*
Fertilisers	367.5	114
Chemicals	19.5	14
Pigments	10.9	10.1

ZCh Police, Q3 2010

ZCH Police recorded a net profit of zl 10.9 million in the third quarter, the company's first positive result in eight quarters. Net revenues from sales ZCH Police for the third quarter amounted to zl 525.2 million and were more than twice as high than the same period last year. Fertiliser sales were the main factor behind the increase, whilst chemicals and pigments showed minor rises.

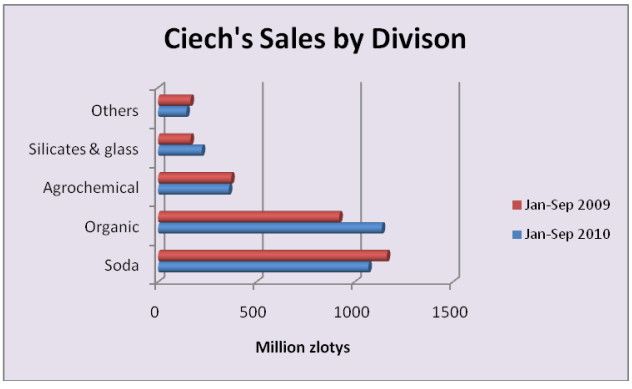
The company is gradually recovering from its financial difficulties after introducing a strict regime of cost-cutting. About three quarters of the company's costs are classified as variable costs. This includes the cost of consumption of basic materials for the production of fertilisers, including natural gas, phosphate and potassium salt. As variable costs are not fully controlled by the company, restructuring activities have focused mainly on reducing fixed costs, which in 2009 amounted to zl 390 million. ZCh Police has launched a strict restructuring plan that is expected to deliver the company savings of around zl 130 million per annum and aims to enable it to avoid bankruptcy.

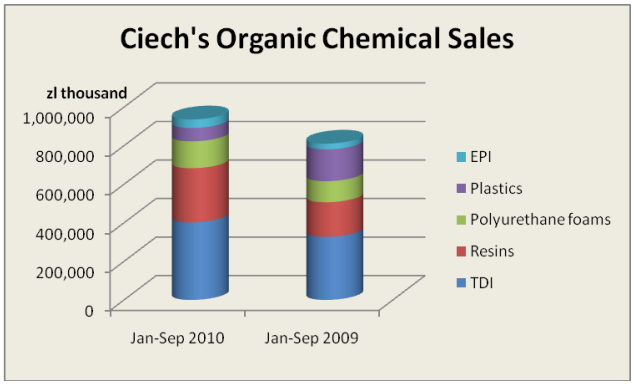
ZA Pulawy, Jan-Sep 2010

In a reversal of trends in the past few years, ZCH Police has managed to report good results in the third quarter whilst ZA Pulawy has encountered problems. ZA Pulawy recorded a zl 38.51 million consolidated net loss in the period July-September; despite achieving higher revenues of zl 452.22 million against zl 384.88 million in the same period in 2009. ZA Pulawy increased sales of AdBlue in the first three quarters in 2010 by 2.4% compared to the same period last year. However, this is viewed as a negative result due to the consequence of poor sector transport services and logistics. Overall, the negative financial results are attributed to the combination of a major shutdown in the quarter and high gas prices, but the company expects to return to profitability after the technical problems have been resolved

ZA Pulawy has recently been facing difficulties in carrying out contracts for the sale of melamine, due to an accident at the plant. On 29 October, the company launched an unplanned repair installation Melamine II, as the result of a reactor accident, and this shutdown was completed in late November 2010. The company confirmed that the renovation of this unit coincided with the planned, but a prolonged repair outage for Melamine III, which was completed on 22-23 November. Thus, melamine supply should now start to return to normal.

ZA Pulawy is undertaking plans to build large storage faculties for ammonia, which are intended to boost efficiency and the supply security of the company. Storage facilities of 15 000 tons, together with the system of loading and unloading tank cars and trucks, will cost around zl 108.5 million. The main aim of the investment is to help to eliminate bottlenecks.

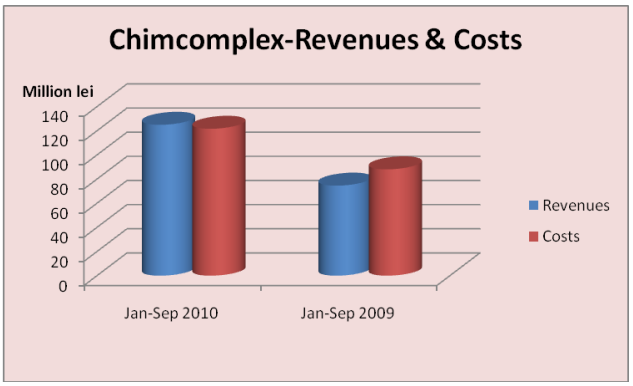




Ciech, Jan-Sep 2010

Ciech's revenues increased overall in the first three quarters in 2010, although the group still recorded a loss in the third quarter of zl 28.86 million. Despite improved margins, Ciech's loss deepened mainly due to financial factors including an increase in interest rates, the revaluation of foreign currency loans and accounting for the loss of share sales in ZA Tarnow as part of its divestment strategy. Outages also took place in the third quarter in Ciech's organic chemical division, affecting profitability. Ciech achieved a 10% increase in revenues in the third quarter, and according to the group, the effects of its restructuring programme will only start to be seen in 2011.

The results of Ciech's organic division in Q3 were affected by the annual shutdown at Zachem's plant at Bydgoszcz. Even so, sales' volumes for TDI and epoxy resins rose in the third quarter and in spite of lower TDI margins the results of the organic division improved against the same period in 2009. The soda division reported improvements in terms of sales' volumes by 10% and profit by 3%, whilst technical improvements were made at Ciech's Govora soda ash plant in Romania. A similar recovery was observed in agricultural products, whereby the rise in cereal prices resulted in a sharp increase in demand for all types of fertilisers. Ciech is currently preparing to issue 23 million shares with subscription rights. Large parts of the capital increase will be earmarked for the development and restructuring of the Ciech group.



Chimcomplex, Jan-Sep 2010

Romanian chlorine producer Chimcomplex increased revenues significantly in the first three quarters of 2010, and exceeded costs by 4 million lei. The company sold around 40,000 tons of perchloroethylene in the first three quarters this year against 44,000 tons for the whole of 2009. Methylene chloride sales totalled 100,000 tons last year, which has been matched concurrently in the first three quarters. Chimcomplex only sells chlorinated solvents to consumers with the appropriate processing equipment which limits its sales' volumes. Earlier this year, Chimcomplex approved a project for expanding capacity and improving technology in the production of ferric chloride.

IMF pressure for the privatisation of Oltchim

The IMF has recommended to the Romanian government that the only viable option available for Oltchim is privatisation, if finance is to be secured for the restart of Arpechim's petrochemical facilities at Pitesti. Two investment funds have already shown interest in taking stakes in Oltchim, although the government is seeking a strategic investor that is ready to take a majority stake. The original plan was to privatise Oltchim in 2012, by after which the company might have regained profitability according to government projections.

However, the situation regarding Oltchim is extremely complex with minority shareholder PCC pressurising the European Commission to investigate the grant of illegal state aid. The EC is examining several elements of the company's recent activities, such as the acquisition financing and the process of restoring ethylene production at Pitesti, and intent to convert the Romanian state's debt into shares.

The EC has also been under pressure from other European PVC players to fully examine Oltchim's affairs and the acquisition of Arpechim. The implication is that any measures that would lead to an increase in production capacity of PVC in the EU market would have a harmful effect on players, many of whom already having serious difficulties. Thus, if state aid is deemed to have been illegal it could mean that it would not be possible to restart the Pitesti cracker. The main argument is that Arpechim is not a viable unit, taking the age of equipment and plant location into account. Therefore, an acquisition from OMV Petrom would have been extremely unlikely without state support.

NCHZ-tender process

Slovakia's state privatisation agency the National Property Fund (FNM), one of the creditors of the NCHZ, has strongly indicated that it will not support the company's sale following the recent tender process. The FNM adopted a decision that it would use all legal tools and available remedial procedures in the ongoing bankruptcy proceedings, aimed at satisfying its claim to the maximum extent. Thus, the FNM will vote against the approval of the €2-million offer that came out of the tender procedure.

The offer is believed to have been submitted by a company called M-Energo, which was created in November last year with shareholders based in Cyprus. M-Energo accordingly wants to invest in €70-100 million in NCHZ to preserve the plant NCHZ is desperate to find new owners as it is alleged to be short of operating capital. Although the Board have denied the claim, doubts are growing as to the capability of the company to survive without a new buyer. Should NCHZ be forced to close it could result in the loss of up to 7,000 jobs, including 1,700 employees of the company and another 5,300 people who indirectly would lose their jobs.

Petrom starts talks for the sale of Doljchim

Petrom has started the last round of negotiations for the sale of fertiliser and methanol producer Doljchim to Interagro. Key factors in the negotiations between the two sides concern retrofitting, the investment environment and plant profitability. Gas prices are also a factor as they have risen since talks started. The environmental permits expire for Doljchim's installations for urea, ammonia and methanol production by the end of the year, and for ammonium nitrate and nitric acid by the end of 2011. Environmental investments and new technologies are the key to negotiations with Interagro. In order to receive new permits, technology improvements are required on some of the installations to comply with EU standards.

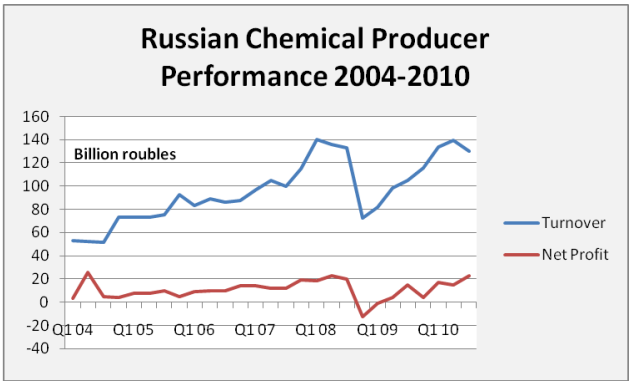
PCC has stated that regardless of the outcome of the EC investigation, Oltchim needs restructuring, a new business plan and a realistic budget. In PCC's opinion, Oltchim should stop production of commodities such as PVC and develop alternative solutions for advanced and niche products. Oltchim conversely maintains that by securing finance for the restart of the Arpechim cracker will allow existing facilities at Ramnicu Valcea to operate at full capacity leading to an increase in turnover and profitability.

Previous efforts to privatise the company have ended without success and the government had wanted to defer its sale until it became a viable business operation. However, as the Arpechim petrochemical plant has been unable to restart due to a lack of finance, Oltchim needs to find a strategic investor with knowledge of the chemical industry. Under normal circumstances, minority shareholder PCC might be expected to place an offer but relations with Oltchim have been soured by criticism over strategy. Moreover, if PCC was granted a majority stake, it would almost certainly not restart Arpechim and seek to develop a new direction for the company.

RUSSIA

Russian chemical companies continue to show good results

Revenues and profitability rose sharply in the third quarter for the majority of chemical producers in Russia, measured against the same period in 2009. Levels for both financial indicators are yet to exceed the so-called pre-crisis numbers established in the early part of 2008. The substantial decline in economic activity in the fourth quarter in 2008 and subsequent first two quarters in 2009 have helped amplify the increases in revenues and profits this year, but are less emphatic when compared against periods in 2007 and the first half of 2008. The graphic opposite charts the collective performance of the leading twenty chemical and petrochemical companies in Russia.



The most significant increases in revenues were recorded at SIBUR, Nizhnekamskneftekhim and Kazanorgsintez, all of which have added new production capacity in the past two years. A trend that has been illustrated for a wide range of chemical products is the increase in domestic sales and reduction of export activity. Exports remain an integral part of most companies' marketing strategies. but there has been a shift towards the domestic market in the past 18-24 months.

Chemical trade for Russia improved in the first three quarters in 2010, with volumes close to levels seen in 2006 and 2007. Exports rose 21% in the period January-September 2010, and imports 25%. This year fertiliser exports have been helped by better global demand, whilst imports of polymers and added value chemicals have risen sharply in response to a recovery in economic activity in Russia. Methanol and synthetic rubber exports have recovered strongly in 2010 after the declines recorded in 2009.

Exports of petrochemical products from Russia in January-September 2010 totalled 1.76 million tons, up 20% over the same period last year. In value terms, exports totalled $1.2 billion, an increase of 46% over 2009. Imports of petrochemical products in Russia in January-September 2010 amounted to 512,200 tons, a 39% increase over the same period last year. In value terms, imports increased by 1.6 times to $841.5 million.

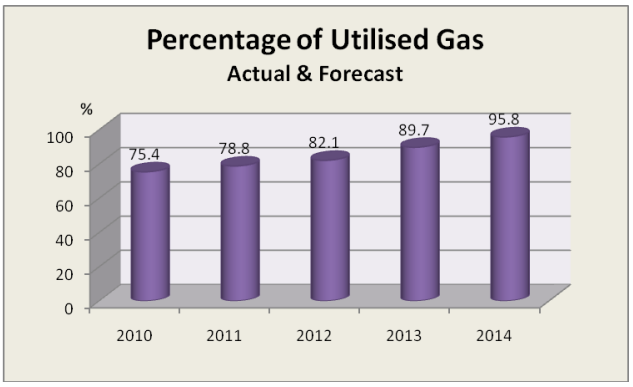
Feedstocks & petrochemicals

Russian Ministry of Energy may loosen rules on APG utilisation

As the 2012 deadline draws closer for oil companies to achieve 95% utilisation of associated gas, serious doubts have started to emerge that the companies will meet the government set target. The Ministry of Energy has already clarified that the requirement for 95% utilisation applies to each entire company, and not

every field. Thus, some companies could offset the weaker fields with higher than 95% utilisation at other fields, and achieving the required average overall.

More directly, the Russian Ministry of Energy has acknowledged that oil companies may not have time before 2012 to bring the level of utilisation of associated gas up to the required 95%. Companies operating in the territory of the Khanty-Mansiisk region, for instance, have been identified as only being capable of reaching 95% utilisation by 2014 at the earliest. Currently, every oil company is undertaking its own environmental programme, but even after taking these measures into account they will be unable to meet the 95% target by 2012. An extra two years will be required to achieve the 95% utilisation rate. Only two of the main oil producers have already attained a high percentage of utilisation of associated gas. This includes Surgutneftegaz (96%) and LUKoil-West Siberia (93%).



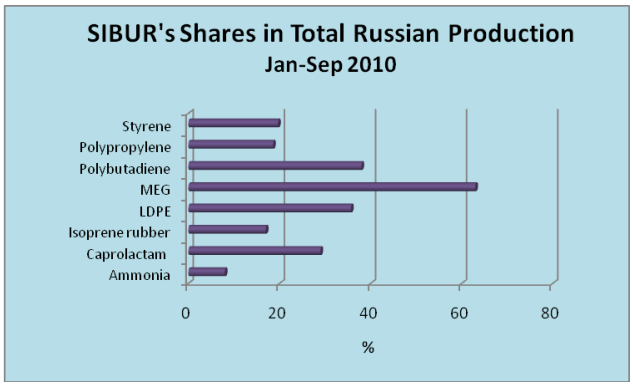
For the whole of 2010, Russian oil companies are expected to produce around 65 billion cubic metres of associated gas, of which only 49 billion cubic metres will be used rationally, and 16 billion cubic metres or 24.5% flared into the atmosphere. At current levels, the level of utilisation of associated gas will only reach only 82% by 2012, way short of the 95% target. From the extracted 67 billion cubic metres that has been forecast for 2012, 55 billion cubic metres will be disposed of and 12 billion cubic metres flared. By 2013, the utilisation of associated gas will reach 91%, and only in 2014 will the target of 95% be achieved based on current forecasts. The latest estimate is that Russia will produce 68 billion cubic metres in 2014, of which 65 billion cubic metres will be useful and utilised economically and only 3 billion flared.

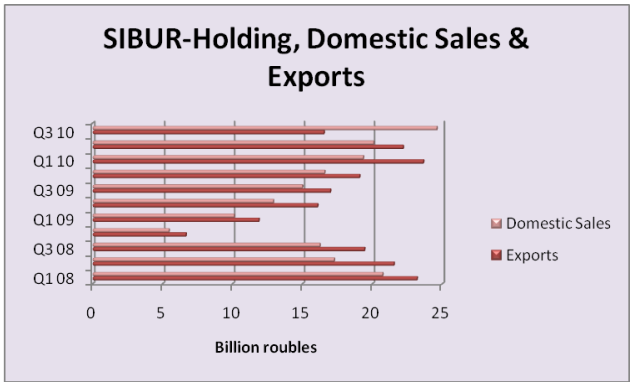
SIBUR's Share in Russian Chemical Production Q3 2010	
Ammonia	8%
Caprolactam	29%
Isoprene Rubber	17%
LDPE	35.7%
MEG	63%
Polybutadiene	38%
Styrene	20%

SIBUR, Jan-Sep 2010

SIBUR Holding increased net profit by 14 times in the period January-September 2010, compared to the same period last year, totalling 30.9 billion roubles. Revenues increased in 1.6 times up to 126.4 billion roubles whilst costs rose 29% to 75.8 billion roubles. As a result, gross profit increased by 2.4 times up to 50.9 billion roubles. A key change in the third quarter was the sharp increase in SIBUR's domestic sales, with the share of exports in total sales falling to its lowest ratio (40.2%) on record for the group. In the previous ten quarters, the share of exports had ranged from 52.5% to 55.8%. SIBUR's exports are now coordinated through its trading subsidiary Citco Waren-Handelsgesellschaft, and its main regions of trade include Asia, particularly China, and Europe.

SIBUR has recently opened a Chinese trading company called Citco (Shanghai) Trading Co. Total sales for SIBUR in China in 2009 amounted to 350,000 tons of petrochemicals, worth about $500 million. Broken down into products, this included 175,000 tons of plastics, 71,000 tons of caprolactam, 53,000 tons of liquid chemical products and 47,000 tons of synthetic rubber. SIBUR expects its total exports to China in 2010 to be worth in the range $550-600 million. Furthermore, the group aims to begin selling its products in China from December 2010 onwards using Yuan rather than the dollar. This is intended to allow SIBUR to expand the market due to small and medium-sized businesses.





SIBUR-Kstovo, equipment delivered for cracker expansion

SIBUR-Kstovo, the newly entitled division evolving from the restructuring of SIBUR-Neftekhim, has received the first equipment for installation at the EP-300 cracker as part of the expansion programme. The centrifugal turbocharger pyrogas M-1 was manufactured by Mitsubishi Corporation and took six weeks to deliver from its original site to Kstovo. This is reported by SIBUR-Kstovo to form a key part of the expansion of ethylene capacity at the EP-300 cracker, from 260,000 tpa to 360,000 tpa for the first phase and up to 450,000 tpa in the second phase. The entire amount of the additional ethylene produced at Kstovo is intended for delivery to RusVinyl. Completion of work on the first stage of the project is scheduled for 2013.

To recap, SIBUR has reorganised SIBUR-Neftekhim to create SIBUR Kstovo and to retain the production facilities at Dzerzhinsk under the title of SIBUR-Neftekhim. These units include the Kaprolaktam division and the ethylene oxide/glycol plants. A complete reorganisation of SIBUR-Neftekhim is expected to be completed in the second half of 2011.

Stavrolen Production (unit-kilo tons)

Product	*Jan-Sep 10*	*Jan-Sep 09*
Ethylene	233.7	186.2
Propylene	102.2	76.2
Benzene	39.0	39.3
HDPE	243.6	172.7
Polypropylene	85.5	41.7

LUKoil, petrochemical revenues rise 37% in first three quarters

LUKoil increased revenues from petrochemical sales from its Russian plants by 37% in the first three quarters against last year. Revenues totalled $1.071 billion, of which the most significant trend was the 54% increase recorded in domestic sales. The domestic market accounted for $520 million of sales, whilst exports dropped by 8% to $398 million. The remaining revenues came from captive processing. Revenue growth in Russia was due to an increase in sales prices and the strengthening of the rouble against the dollar. Stavrolen, LUKoil's main domestic petrochemical producer, recorded increases in olefin and polyolefin production over the three quarters of 2010.

Angarsk Polymer Plant Production (unit-kilo tons)

Product	*Jan-Sep 10*	*Jan-Sep 09*
Ethylene	153.4	126.8
Propylene	81.7	69.5
Benzene	46.4	41.8
Styrene	23.9	26.8
Polyethylene	54.6	43.2
Polypropylene	161.1	141.7
Polystyrene	10.3	10.1

Rosneft-petrochemical sales Jan-Sep 2010

Rosneft increased its revenue from sales of petrochemical products by 20.3% in the first three quarters of 2010, up to $315 million. Rosneft produces petrochemicals at Angarsk, where revenues increased 91.7% in the first three quarters in 2010 and physical production increased by 14.9%. However, sales' revenues from petrochemicals dropped in the third quarter against the second quarter by 16.4% due partly to declining prices and partly due to planned maintenance at the Angarsk Polymer Plant. Rosneft processed 650,000 tons of naphtha in the first three quarters in 2010. In October, Rosneft signed license agreements for the application of polyethylene technology supplied by Ineos at Angarsk.

Nizhnekamskneftekhim, Jan-Sep 2010

Nizhnekamskneftekhim increased its turnover by 62% in the first three quarters in 2010 against 2009, up to 68.81 billion roubles. The company attributes the growth of revenue to the sale of products such as isoprene rubber (SKI-3) which increased by two-fold against 2009, SKDN rubber which rose by 64% and butyl rubber which rose by 58%.

The company's exports, as a component share of total sales, remain marginally in excess of domestic sales. The gap though was narrowed in the third quarter partly by the absence of styrene monomer exports. Nizhnekamskneftekhim either used styrene captively or sold its surplus on the domestic market. For export markets, China accounted for 35% of shipments in the first three quarters, followed by Finland 10%, and Poland and Turkey both 9%.

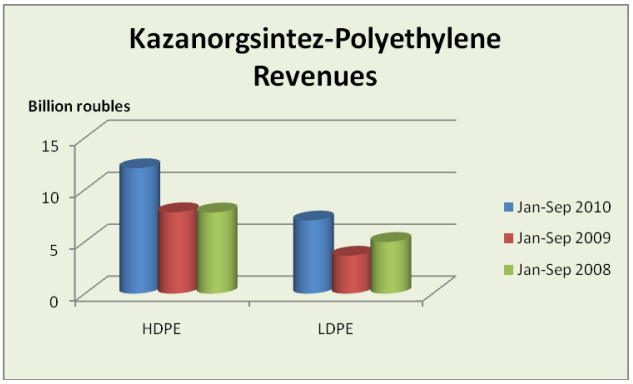
Nizhnekamskneftekhim Production (unit-kilo tons)

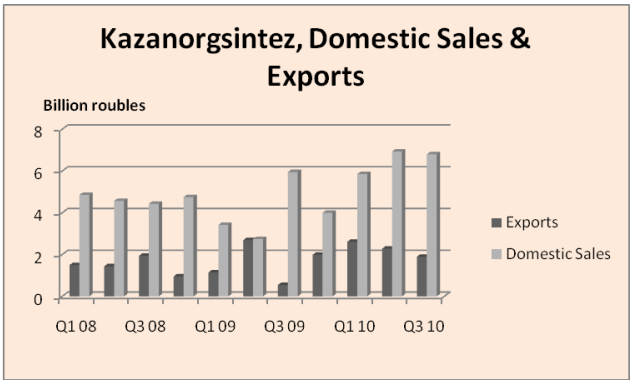
Product	*Jan-Sep 10*	*Jan-Sep 09*
Ethylene	455.3	429.5
Propylene	217.3	196.6
Benzene	143.4	137.6
Styrene	155.2	154.8
Polyethylene	139.6	86.9
Polypropylene	161.1	141.7
Polystyrene	132.3	112.1

In bulk polymers, polypropylene revenues for Nizhnekamskneftekhim rose by 47% in the first three quarters, polyethylene rose by 43.5%, and polystyrene rose by 36.58%. Gross profit of the company has doubled and amounted to 14.616 billion roubles, whilst net profit rose 8.6 times amounted to 6.296 billion roubles. Production increased in all the main product groups in the first three quarters, and should the cracker run as planned in the fourth quarter the company expects to achieve record figures for ethylene and propylene output for entire year.

Kazanorgsintez, Jan-Sep 2010

Kazanorgsintez increased revenues 1.6 times in the first three quarters in 2010 compared to the same period last year, up to 26.404 billion roubles. According to the company, revenue growth was attributed to rising prices for polymers combined with the cancellation of the tolling arrangement SIBUR. Under this process where feedstocks were converted into polyethylene, Kazanorgsintez was unable to increase its profits. For the first three quarters, LDPE revenues for Kazanorgsintez rose 1.9 times to 7.031 billion roubles, whilst HDPE rose 1.5 times to 12.062 billion roubles.





Gazprom accounted for 36.95% of raw material supplies to Kazanorgsintez in the third quarter, followed by SIBUR with 16.87%, Nizhnekamskneftekhim with 14.89% and the trading company ImpeksNeftehim with 10.83%. Against price rises for polymers, the costs of ethylene and propane-butane rose 1.6 times and 15% respectively. Total liabilities of Kazanorgsintez fell by almost 7% by the end of September to 35.108 billion roubles, including long-term 30.93 billion roubles and short-term 4.178 billion roubles. The decline is due to the increase in equity as a result of the higher profits to date in 2010. Sberbank is one of the major creditors, being owed 18.809 billion roubles.

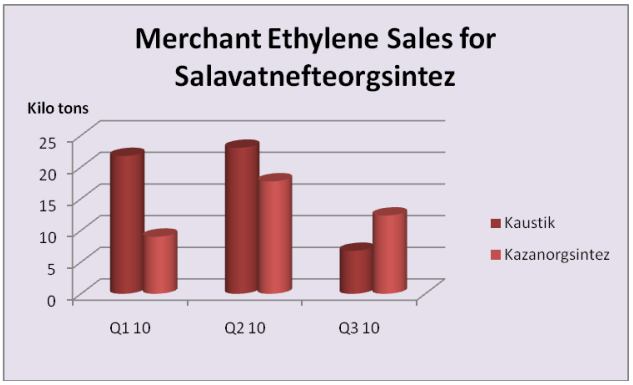
Salavatnefteorgsintez Production (unit-kilo tons)

Product	*Jan-Sep 10*	*Jan-Sep 09*
Ethylene	156.2	137.3
Propylene	60.1	71.1
Benzene	51.7	99.5
Styrene	95.3	104.8
Polyethylene	44.5	29.8
Polystyrene	20.1	18.6
P anhydride	9.5	6.6

Salavatnefteorgsintez, Jan-Sep 2010

Salavatnefteorgsintez recorded a net profit of 2.952 billion roubles in the first three quarters in 2010, against a loss of 3.708 billion roubles in the same period last year. The company's net profit for the third quarter of this year amounted to 352.89 million roubles, which compares well against a net loss of 750 million roubles in the same period in 2009. However, compared with the second quarter of this year, the net profit fell five times mainly due to the dispute over ethylene supply to Kaustik at Sterlitamak.

Salavatnefteorgsintez and Kaustik, having agreed their differences over the ethylene price in the latter part of the summer, have accordingly been on the edge of a new conflict with opposing views on where the price should stand. From 13 November until 30 November, a temporary price was agreed at a rate of 19,500 roubles per ton. In the third quarter, Salavatnefteorgsintez reduced ethylene production due to planned maintenance. Whilst shipments dropped to Kazanorgsintez by around 30% in the third quarter, Kaustik saw a 70% reduction in ethylene supplies. If the FAS had not applied pressure on Salavatnefteorgsintez to resume delivery in late August Kaustik may not have received any ethylene during the quarter.

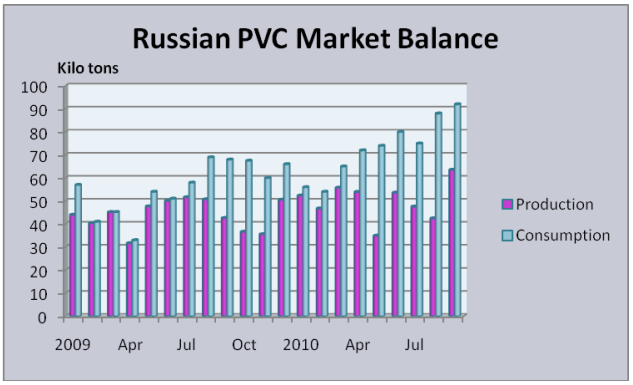


The Federal Antimonopoly Service (FAS) issued Salavatnefteorgsintez with an instruction in to conclude a deal with Kaustik for a five-year supply contract for ethylene in the range of 82-84,000 tpa. The FAS has recommended two options for pricing the contract, both of which have been accepted by Kaustik. The first involves a contract for a price formula for ethylene, as per previous long-term contract, whilst the second is based on a formula linking ethylene to the oil price variation.

Despite the intervention of government Salavatnefteorgsintez has challenged the FAS, under the argument

that to agree a five year contract on a pre-set formula is not in the company's best interests. It has already submitted an application to the Moscow Arbitration Court invalidating the decision and order of the FAS to conclude a contract with Kaustik. The government may need to apply further pressure on Salavatnefteorgsintez to agree terms with Kaustik, as the prospect of halting PVC production at Sterlitamak and the resulting lay-offs is not an option that Moscow is willing to countenance.

Bulk polymers



Russian PVC market

Russian PVC consumption totalled an estimated 255,000 tons in the third quarter in 2010, 27% higher than in the same period last year. Total consumption for the first three quarters amounted to 656,000 tons, 20,000 tons down on the first three quarters in 2008 prior to effects on the market from the global financial crisis. Production of PVC totalled 117,000 tons in the third quarter this year, 16% down on 2009 due principally to the extended outage at Kaustik resulting from ethylene problems. The company restarted production in late August after a resumption of ethylene supply from Salavat, and as a result imports declined by 12% to 54,000 tons in September against August. Imports for the first three quarters totalled 336,000 tons in the first three quarters in 2010, 45% more than in the same period in 2009.

Russian Polyolefin Trade

Exports (kilo tons)

Product	*Jan-Sep 10*	*Jan-Sep 09*
LDPE	138.2	181.0
HDPE	106.5	98.6
PP	31.1	45.1

Exports ($mil)

Product	*Jan-Sep 10*	*Jan-Sep 09*
LDPE	178.7	189.4
HDPE	135.5	96.1
PP	36.1	45.5

Imports (kilo tons)

Product	*Jan-Sep 10*	*Jan-Sep 09*
LDPE	41.1	31.9
HDPE	166.5	111.0
LLDPE	72.5	60.4
PP	81.2	60.6

Imports ($mil)

Product	*Jan-Sep 10*	*Jan-Sep 09*
LDPE	80.4	54.3
HDPE	268.8	153.6
LLDPE	123.9	86.0
PP	123.4	68.6

PVC production in Russia totalled 418,300 tons in the first three quarters in 2010, 3% more than the same period last year. Only Sayanskkhimplast showed an increase in production, rising 14% against the same period last year. Kaustik at Sterlitamak reduced production by 5% and Plastkard at Volgograd recorded a similar result against 2009.

From December 2010, Plastkard will start selling PVC plastics produced by Nikokhim subsidiary Plastkab. The aim of this cooperation is optimising business links within the Nikokhim group. Plastkab, also located at (Volgograd, specialises in the production of cable, footwear, and special grades of PVC. Plastkard produces suspension PVC and high-grade PVC for mass and niche applications.

Perm-new polystyrene facilities to stimulate investment in processing

Following the start of the expandable polystyrene plant at SIBUR-Khimprom, the Perm regional administration is developing a plan to locate processors close to the site. The polystyrene plant was opened on 9 November, together with an official launch of the new styrene and ethylbenzene facilities at Perm. Expandable polystyrene will be produced for the first time in Russia by SIBUR-Khimprom, intended for a wide range of products, including insulation panels for thermal insulation of walls and ceilings, thin-walled products, fire-resistant technology and food packaging.

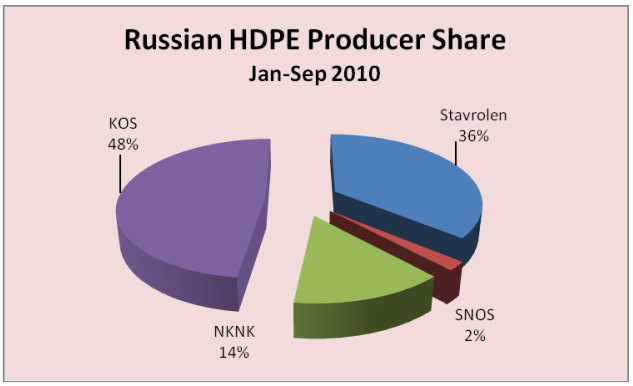
The development of the styrene chain has cost an estimated 8 billion roubles, with SIBUR-Khimprom starting construction in 2008. The project was undertaken in three phases: the construction of a new ethylbenzene manufacturing capacity of 220,000 tpa, followed by the decommissioning of old plant (120,000 tpa), expanding the existing styrene unit 100,000 tpa to 135,000 tpa and construction of expandable polystyrene production capacity of 50,000 tpa. The new plant for the production of ethylbenzene was built under license from Badger Licensing. The application of modern technologies based on zeolite catalysts is capable of eliminating emissions into the atmosphere of hydrogen chloride and aromatic hydrocarbons, as well as the pollution of wastewater with chlorides, etc. During reconstruction of the styrene unit, production

was transferred to vacuum dehydration thereby reducing consumption of ethylbenzene, in addition to reducing energy consumption.

The new production of Alphapor expandable polystyrene with a capacity of 50,000 tpa was built by the Austrian-Norwegian technology company Sunpor. Until now the main bulk of this type of polymer material was imported into Russia from Europe and Asia, including finished products.

Russian HDPE market

Despite increases in HDPE production in Russia this year, the market has been subject to shortages in supply resulting in strong increase for imports. Total HDPE imports for the first three quarters increased 1.5 fold against the same period last year to 166,500 tons. Imports are not only driven by volume but also by the absence of specific grades from Russian producers.



Production of HDPE in Russia rose 17.5% in the first three quarters in 2010, with production reaching a record high in August of 79,300 tons. Kazanorgsintez and Nizhnekamskneftekhim stopped production in September for scheduled maintenance, helping to create tightness in the marketplace. The other two HDPE producers are Stavrolen and Salavatnefteorgsintez.

Kazanorgsintez is continually faced by feedstock shortages, both in ethane and ethylene, but has still managed to achieve 76% utilisation in 2010 against 70% last year. Only Stavrolen has operated at full capacity this year, despite an unplanned outage, whilst Nizhnekamskneftekhim alternates between HDPE and LLDPE production. The main area of shortages for HDPE is in blow grade material.

Polypropylene projects in Omsk and Tobolsk

Titan has received delivery for the last of the three columns for its production of propane-propylene fractions. The third column is expected to be installed by the middle of December, which will allow the separation of propane-propylene fractions for propylene polymerisation. Part of the propane is to be used as a fuel gas. The installation of the PPF unit includes three columns, two reactors, heat exchangers and tanks. The plant capacity is 250,000 tpa.

In the middle of November, a large deethanizer distillation column was installed at Tobolsk-Polymer which follows the installation of the propane dehydrogenation column in early October. The deethanizer column is designed to remove ethane and lighter materials from the process.

Synthetic Rubber

Synthetic rubber news

Krasnoyarsk Machine-Building Plant has announced the introduction a prototype for rocket and space technology, developed on the basis of butadiene-acrylonitrile. This type of rubber has a high resistance to temperature and corrosive environments. The rubber will be produced by Kazan Synthetic Rubber Plant.

Krasnoyarsk Synthetic Rubber Plant plans to invest 2.125 billion roubles in the expansion in capacity in the period 2010-2014 that will see higher production of butadiene-nitrile rubbers, in addition to the production of butadiene. Capacity for synthetic rubber production will be increased from 36,500 tpa to 56,000 tpa, whilst a new butadiene facility will have a capacity of 40,000 tpa. The bulk of the investments, or around 1.222 billion roubles, will take place in 2013 and will be financed by SIBUR.

Voronezhsintezkaucuk-new butadiene-styrene thermoplastic plant

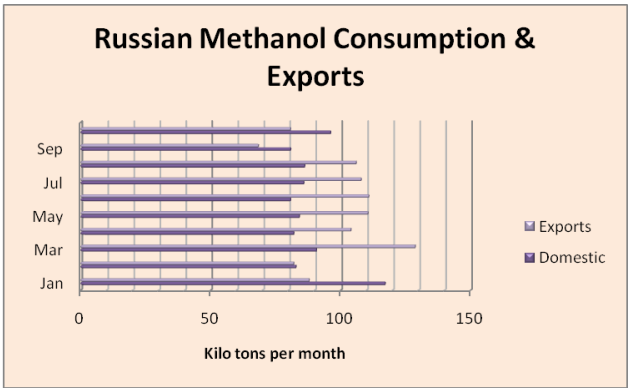
Voronezhsintezkaucuk is in the process of selecting applicants for constructing its new butadiene-styrene thermoplastic (TEP plant of 50,000 tpa. SIBUR concluded contracts in 2009 with TSRC Corporation (Taiwan) for a licence agreement to construct a new thermoelastomer plant at Voronezhsintezkaucuk. This will allow the production of seven grades of thermoelastomers. Construction of the new facilities is expected to be completed by 2012-2013, should all procedures go to plan.

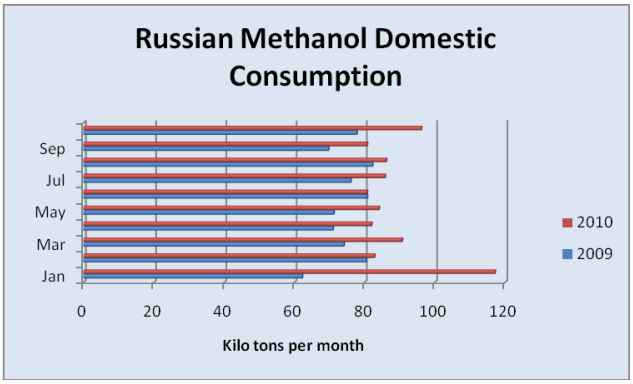
During the first half of 2010, Voronezhsintezkaucuk started the process of dismantling the old plant which will provide the site for the new plant. Also this year the company has signed a contract with the Kazan institute Soyuzchemproject to develop the project documentation. Construction could start in March/April 2011. Demand for thermoelastomers is forecast to rise strongly over the next few years, particularly in relation to road construction, and it is on this basis that Voronezhsintezkaucuk has authorised the investment. Following completion of the project, the capacity for thermoelastomers at Voronezhsintezkaucuk will rise to 85,000 tpa.

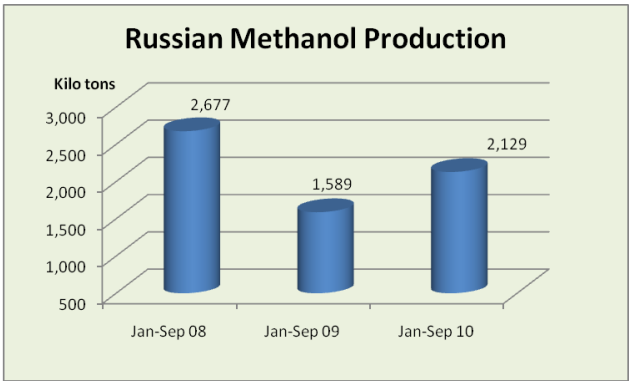
Methanol & related products

Russian methanol market & gas prices

Russian methanol production increased in the first three quarters in 2010 against last year, but remained lower than the volumes recorded in the first three quarters in 2008. Domestic consumption of methanol in Russia has this year surpassed levels against 2009, with almost higher usage recorded on a monthly basis as the year has progressed. Exports continue to remain higher than domestic sales, but the difference is more marginal as domestic applications increase. In the first ten months of 2010, exports exceeded domestic consumption by 11%. Domestic sales have risen overall by around 20% this year and totalled around 890,000 tons.







The main merchant consumers of commercial methanol in Russia include the gas companies, the producers of MTBE and synthetic rubber. Metafrax, Sibmetakhim and TOAZ accounted for 85-90% of the gross sales in the domestic market. Sales increased sharply in October due to the start of the heating season.

The gas price for producers of nitrogen fertilisers and methanol could be reduced by 10-15%, if proposals put forward by the Ministry of Industry and Trade are pushed through. In addition, the Ministry proposes to review the methodology for transportation tariffs. The rates for freight transport by rail in 2011 are already forecast to rise 12.4% against 2010, with further rises of 8% planned for 2012 and 7.4% in 2013. In 2009, the methanol producers negotiated discounts for rail transport in order to revive export activity, but concerns over rail costs have started to resurface as the rail companies seek to increase profits. As a result, producers are pressurising the government to find a long term solution, not only for rail costs, but also the price of gas that would provide a guarantee on payback for investment activity.

Evrokhim, Jan-Sep 2010

Net profits for Evrokhim increased by 32% in the first nine months of 2010 to 11.7 billion roubles. In dollar terms, net profit grew 42% in January-September 2010 to $388 million compared with the same period last year. Consolidated revenue rose 26% to 69.7 billion roubles. Evrokhim subsidiaries Azot at Nevinomyssk

and Azot at Novomoskovsk showed good increases in profit levels against 2009, but still are recording below the profit averages seen prior to the global financial crisis.

Evrokhim includes a number of production companies in Russia including Azot at Nevinomyssk, Azot at Novomoskovsk, Phosphorite, Evrokhim-BM, and the Kovdorsky mine. It also owns the Lifosa fertiliser plant in Lithuania. Azot at Novomoskovsk increased its net profit 1.7 times to 596.4 million roubles, with revenues rising 17%. Higher prices for methanol and urea helped drive up revenues. In September, Azot completed its revamp of the Ammonia-3 unit, which will significantly reduce the consumption of raw materials in ammonia production and reduce power consumption. In addition, the productivity of the unit increased to 1,650 tons per day of ammonia, and steam production grew by 0.04 Gcal per ton. Total volume of investments for the project amounted to over 200 million roubles.

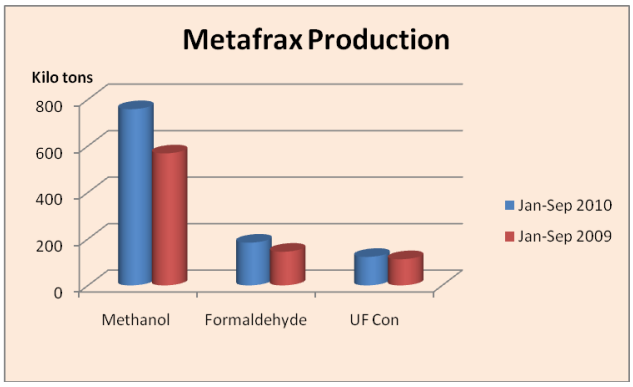
Production at Azot Nevinomyssk (kilo tons)

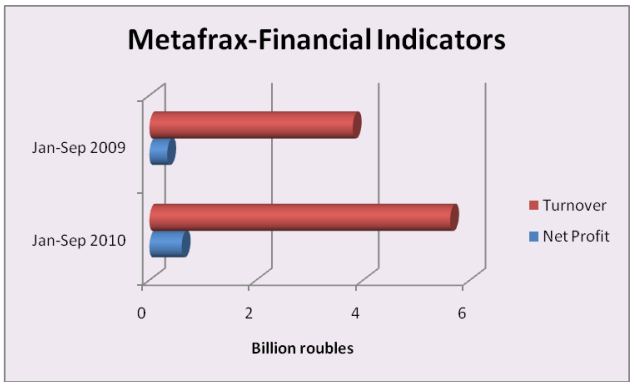
Product	*Jan-Sep 10*	*Jan-Sep 09*
Ammonia	891.8	821.6
Urea	498.0	502.5
Methanol	91.2	78.1
Acetic acid	115.6	122.1
Acetaldehyde	28.8	25.5
Butanols	14.0	12.1
VAM	13.7	13.4
Butyl acetate	13.1	13.3
PV alcohol	0.6	0.6

Azot at Nevinomyssk increased its net profit over the same period in 2009 to 20% to 3.3 billion roubles. Revenue grew by 19% to 15.1 billion roubles. Azot in Nevinomyssk increased production for most products in the first three quarters in 2010 against the same period last year, with the exception of acetic acid for which the plant underwent maintenance in the third quarter. Mineral fertiliser production increased in response to higher demand.

Metafrax, Jan-Sep 2010

Metafrax increased production of methanol by 33.5% to 758,000 tons in the first three quarters whilst formaldehyde increased by 27% and amounted to 183,800 tons. Urea-formaldehyde concentrate production rose by 9% to 122,600 tons. Aside the increase in production, profitability rose sharply against the first three quarters in 2009 as shown in the graphic above. The product-profitability ratio rose from 9.1% in the first three quarters last year to 13% in 2010, although this still compares unfavourably with 25.9% achieved in the same period in 2008. This year, Metafrax intends to produce more than 1 million tons of methanol compared to 838,000 tons in 2009.





Akron-new ammonia project

Akron has started preparing a project to increase production of ammonia at its Novgorod complex. The new installation of ammonia capacity of 500-700,000 tpa is planned to be operational by 2015 and investment in the project will range between $200 to $250 million. Its launch will fully meet the growing needs of the company in nitrogen raw material. In 2009, the holding company Akron has produced 1.682 million tons of ammonia.

Akron has this year continued construction on its new urea unit, which will have a capacity of 330,000 tpa. . Production is scheduled for launch in December 2011, with the total investment in the project worth about $100 million. The current capacity for Akron in urea production is 450,000 tpa.

Azot Kemerovo, ammonia modernisation

Azot at Kemerovo has completed a stage in the modernisation of its ammonia facilities, aimed at improving efficiency and reducing production costs. The project includes modernisation of the steam turbine compressor, which will significantly reduce steam consumption as well as releasing additional heat to the enterprise network. Process optimisation and deeper disposal of heat energy released at various stages of production of ammonia, has been estimated at being capable of reducing consumption of natural gas by 827 cubic meters per hour. The next stage of modernisation of ammonia production is scheduled for 2011 and includes upgrading of Ammonia-1

shop to further reduce energy consumption and increase production by 50 tons per day. Azot provides about 80% of the supply of ammonium nitrate to Siberia and the Russian Far East.

Tatarstan-new ammonia project

TAIF, Mitsubishi Heavy Industries and Sojitz Corporation have selected China National Chemical Engineering Corporation (CNCEC) as EPC-contractor for the ammonia and methanol complex to be constructed in Tatarstan. Sojitz will provide coordination between the project and CNCEC for construction. The contract for the chemical complex was signed **on** 13 November during the visit to Japan of the Russian President.

Licensors for the Ammonium project comprise Haldor Topsoe**,** Saipem and Uhde Fertiliser Technology. The project cost is estimated at $1.5 billion. It is being implemented with the support of Venture Investment Fund of Tatarstan and Vneshekonombank (VEB), which will invest $70 million in the project and will attract an additional $800 million from third-party banks. VEB holds 20% in equity in Ammonium.

Russian Chemical Production (unit-kilo tons)

Product	*Jan-Sep 10*	*Jan-Sep 09*
Acetic Acid	118.0	125.9
Ammonia	9,676.3	9,475.0
Benzene	797.7	743.6
Butanols	187.1	188.4
C Black	484.2	376.1
Caustic Soda	805.9	822.3
Ethylene	1,790.8	1,638.2
Methanol	2,158.3	1,588.7
PET	222.4	223.1
Phenol	174.4	113.6
Phthalic Anhydride	79.8	123.4
Polyethylene	1,168.5	1,034.8
Polypropylene	485.3	431.1
Polystyrene	221.1	187.8
Propylene	887.1	881.9
PVC	451.1	404.1
Soda Ash	1,873.0	1,727.0
Styrene	353.3	361.1
Synthetic Rubber	903.0	679.5

The project was originally scheduled for start-up in the first quarter in 2012, but delays have been incurred due largely to the impact of the global financial crisis. The new facility, to be constructed at Mendeleevsk in Tatarstan, will include projected capacities of 1,382 tons of ammonia and 668 tons of methanol per day based on natural gas. It has been estimated that production at the site will require 800 million cubic meters of gas per year.

Mitsubishi states that the new plant in Tatarstan will be the first new fertiliser production facility to be built in Russia in the last 20 years, and will provide high value for Russia's natural gas resources. The new plant will use proprietary technology from Haldor Topsoe, which has only been installed in one other plant in Malaysia. Sojitz will handle logistics for the construction of the Tatarstan plant.

Economic questions over Mendeleevsk project

Questions have arisen over the Ammonium project regarding the production and export of urea. Ammonium could encounter difficulties as location of the plant is not practical for exports. Russia currently exports around 75% of urea, but most plants have closer access to ports. Distances from Mendeleevsk to the ports will involve very high costs and feasibly make exports unviable. The options for river/sea exports are limited, in that they only permit access to the Caspian Sea and Black Sea to countries where there is already oversupply.

Given that the Ammonium project involves Japanese and Chinese companies, potential markets could be found in Asia, particularly China. However, China is developing its own production of the product from coal technology and may also not require additional supply. In general, the location of the new production complex at Mendeleevsk is considered less profitable than other similar producers Uralchem and Akron, and thus may face difficulties if it seeks to export a large share of the production.

Aromatic derivatives

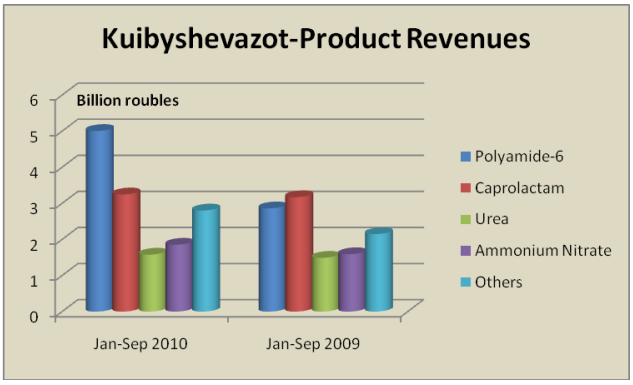
Russian phenol market

Phenol exports from Russia have been suspended over November and December due to internal demand and lower production. In previous years, Russia has exported large volumes of phenol but the domestic market has tightened since 2008 due to the start-up of bisphenol A production at Kazan in addition to further developments in phenol-formaldehyde resins. These two products account for around 80% of domestic consumption in Russia. Phenol is expected to remain tightly balanced in 2011, with little trade either in the way of exports or imports. .

Kuibyshevazot, Jan-Sep 2010

In the first nine months of 2010, Kuibyshevazot increased revenues for all of its product groups with polyamide recording 75% higher income against the same period in 2009. This follows the start-up of the

company's fourth polyamide unit in the early part of 2010 and makes Kuibyshevazot one of the most profitable chemical companies in Russia. Caprolactam and urea revenues increased 2% and 6% higher respectively in 2010 against 2009. Kuibyshevazot has completed reconstruction recently on its ammonia facilities, increasing capacity to 1,800 tons per day while reducing consumption of natural gas per unit of output.



Kuibyshevazot is currently establishing a pilot project for the revival and further development of polyamide fabric production at Balakovo in the Saratov region. Kuibyshevazot completed the full integration of the fibre plant Baltex at Balakovo in the third quarter in 2010.

Baltex in the past has been one of the leading Russian manufacturers of synthetic and mixed fabrics, and as part of the restoration of production facilities Kuibyshevazot hopes to challenge imported products from China. Kuibyshevazot has previously acquired Kurskkhimvolokno, another flagging Russian fibre producer, and has helped revive the output of fibres and threads.

Plastics

SIBUR-Novatek integration

SIBUR has started to integrate newly acquired assets from Novatek, mainly for the production of BOPP film. As expected, Novatek-Polymer has entered into the Biaksplen structure and is to be called Biaksplen-NK. Currently, the main supplier of polypropylene to Novatek-Polymer is Stavrolen, which belongs to the LUKoil group, but SIBUR has already started the process of transferring the procurement to its own polypropylene sourcing either from Moscow or Tomsk. Novatek-Polymer produces more than a dozen types of insulation tapes and films based on polyethylene and polypropylene totalling more than 30,000 tpa. In late 2009, SIBUR gained 50% in the main Russian BOPP producer Biaksplen. The company has three plants located in the Nizhny Novgorod, Kursk and Moscow regions.

EBRD-Kaluga investment

The European Bank for Reconstruction and Development (EBRD) has granted the Finnish company Rani Plast a loan of €8 million to build a plant near Kaluga (188 km south of Moscow) for the production of plastic film. The plant is to be constructed on a turnkey basis, with the total construction cost estimated at €20 million. Construction of the plant is scheduled for completion in late 2011 and it will be located in a private industrial park in the Kaluga region. Rani Plast specialises in the production of polyethylene films for agriculture, consumer goods, electrical insulation.

Khanty-Mansiisk PET project

Prospects for developing a PET chain at Yugra in Khanty Mansiisk have been improved by the confirmed support of the Russian technology group Rosnano. Metaprocess in Moscow is almost certainly expected to be awarded the role of main contractor in the project, should it go ahead, of which the cost has been estimated at around 16 billion roubles. In addition to Rosnano, the China Association for Synthetic Fibres (CCFA) has confirmed that that it would like to participate in the project. The project involves the processing of associated gas through to PET, by using methanol as a starting feedstock.

The new plant is expected to be located at a former site selected for petrochemical investments in the Soviet era, called Obpolimer. This site is situated in Nyagan, 15 km from the gas processing plant Nyagangazpererabotka which is controlled by SIBUR-Tyumen. The raw material supplier to the new plant is expected to be the oil company Aurora Oil, but as a reserve Metaprocess has reached a preliminary agreement with SIBUR for the supply of dry stripped gas from Nyagangazpererabotka.

The cost of PET produced from methanol, according to Metaprocess, will be 30% lower than that of Polief and SIBUR where paraxylene from oil is used. An agreement was concluded in March by the Yugra Gas Chemical Company (YUGHK) and a Russian company New Gas Technology Management to develop the

production chain from gas through to petrochemicals in the Khanty-Mansiisk region. The aim is to create a gas-chemical cluster, in which derivative companies may utilise this raw material base.

Industrial chemical parks

Alabuga SEZ

Tatneft-Alabuga Glass, a jv between Tatneft and Preiss-Daimler Group, has begun production of glass-fibre in the Alabuga Special Economic Zone (SEZ) in Tatarstan. The new plant has a capacity of 21,000 tpa, which equates to about 15-17% of the Russian market at current levels of demand. The company already has a backlog of orders and a number of signed contracts for the supply of products. The plant will produce products based on glass for construction, automotive, shipbuilding, electrical and other industries. The project required €84.5 million in investment.

A Russian-Italian jv Pixar Coatings has started an application to produce paints and varnishes in the Alabuga SEZ. The company expects to invest around 615 million roubles in the new plant. The project is expected to be carried out in two stages; the first of which envisages the production of liquid coatings and the second stage the production of powder coatings.

Turkish company Sisecam wants to build a plant in the Alabuga SEZ for refining of dolomite and limestone for usage in glass production at its subsidiary Trakia Glass Russ. The capacity of the plant is about 70,000 tpa and the volume of investments estimated at $10.8 million. Production could start in the second half of 2013. This project could provide the full technological cycle as a supplier of raw materials for glass production in the Alabuga SEZ.

An important advantage of the new production line includes the possibility of using local natural materials (sand, lime, clay, etc.), a convenient geographical location, proximity to large petrochemical, automobile manufacturing, road, electrical and other industrial enterprises. There is also a well-developed transport infrastructure in the region. The location of new production in the Alabuga SEZ provides plant significant tax benefits including exemption of local taxes, including property tax, use reduced by 4.5% tax rate.

Omsk technopark

The first stage of creating an industrial park at Omsk has been assisted by more than twenty companies agreeing to invest as residents in the 2011-2012 timeframe. An intermediate tank farm at Omsk will include small and medium-sized businesses, specialising in polymer processing and manufacturing of various commercial products. The Omsk industrial park is to be based mainly on polypropylene production at the Titan plant, which is expected to start in 2011 after initially being set for late 2010. Subsidies will be granted for companies establishing a production base in the industrial park.

Belarus

Belarussian Chemical Output (unit-kilo tons)

Fertilisers	***Jan-Sep 10***	***Jan-Sep 09***
Potassium Fertilisers	4036.0	1830.0
Nitrogen Fertilisers	566.4	563.1
Phosph Fertilisers	147.1	136.4
Ammonia	771.4	765.2
Sulphuric Acid	674.7	628.8
Petrochemicals	***Jan-Sep 10***	***Jan-Sep 09***
Ethylene	104.3	105.6
Benzene	68.8	79.1
Caprolactam	94.6	89.4
Phthalic Anhydride	15.8	10.2
Polyethylene	102.6	102.5
PET	166.8	158.0

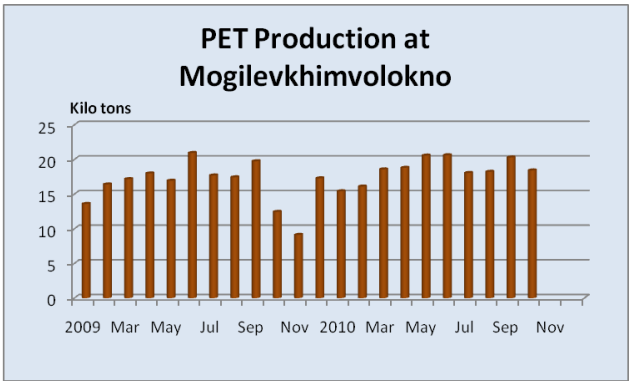
Belarussian chemical production, Jan-Sep 2010

Production in the chemical and petrochemical industries in Belarus rose 14.4% in the first three quarters in 2010. Revenues totalled 11.8 trillion roubles. Production of mineral fertilisers totalled 4.7 million tons for the first three quarters, 87.8% higher than in the same period last year. Petrochemical production by volume was similar to last year, with benzene volumes lower due to an outage at Naftan.

Mogilevkhimvolokno-increased revenues

In the past few months, the share of raw materials purchased by Mogilevkhimvolokno outside of Russia has increased reducing the dependency on Russian producers. At the same time, the company has developed new markets resulting principally from the financial crisis and market effects in 2008. The import of feedstocks from alternative sources this year has been due directly to the hike in Russian export duties on oil products. Mogilevkhimvolokno has extended its sales into new markets such as Poland, the Czech Republic and Italy, and this has ensured maximum capacity utilisation at its polyester facilities. High global prices for cotton

have driven up demand for synthetic fibres and prices. In January-October this year, Mogilevkhimvolokno achieved 35.9% more revenue than in the same period in 2009.

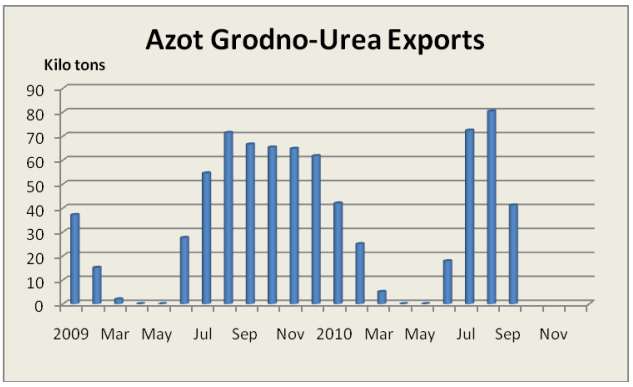


During the period from 2006 to 2010 Mogilevkhimvolokno has installed a wide range of new lines for polyester production including roofing materials, geotextiles, high-and low technical yarns, bicomponent fibres, and polyester strapping. In November 2010, Mogilevkhimvolokno launched a new production line for nonwovens making it the only company in the CIS to produce high-quality needle-punched nonwoven polyester fabrics. The first batch of new products has already been manufactured and samples shipped to the domestic consumer Vitebsk Carpets.

Despite export duties hiking up paraxylene prices, Mogilevkhimvolokno continues to buy product from Russia in smaller volumes. Long term contracts for five years are in place with Gazprom-Neft for the supply of paraxylene. Other contracts for raw materials include SIBUR for the supply of MEG for a period of three years, and with the Spanish company Cepsa for the supply of PTA for one year. Shipments of these products are agreed by the month and the price is determined by the formula depending on world markets.

Potash-Azot Grodno

For the first ten months of 2010, Azot at Grodno achieved revenues of 149.586 billion roubles, 13.4% more than in 2009. In the first ten months in 2010, urea production increased by 0.4% to 737,950 tons, ammonia by 0.7% to 840.793 tons and methanol by 156.8% to 68.003 tons. In November the company finished the repairs in the Urea-3 unit, and production has restarted.



Belarusian Potash Company has won the exclusive right to export nitrogen fertilisers and methanol produced by Azot at Grodno. Potash Company was established in 2005, including shareholders Belaruskali (45%), Uralkali (50%) and Belarusian Railways (5%). The company is the exclusive exporter of potash fertilisers produced by Belaruskali and Uralkali.

Ukrainian Chemical Production (unit-kilo tons)

Product	*Jan-Oct 10*	*Jan-Oct 09*
Acetic Acid	65.5	66.6
Ammonia	3409.8	2480.5
Benzene (-95%)	173.8	153.1
Benzene (+95%)	96.5	57.8
Caustic Soda	54.0	37.1
Ethylene	27.4	0.0
Formaldehyde	22.2	17.4
Methanol	69.8	72.6
polyethylene	0.0	0.0
Polypropylene	67.6	82.6
Polystyrene	13.1	17.5
Polyvinyl Acetate	5.8	4.1
Propylene	12.6	0.0
Soda Ash	580.4	556.6
Titanium Dioxide	110.1	84.9
Toluene	4.4	3.9

Ukraine

Karpatneftekhim-testing new chlorine faculties

Karpatneftekhim has started testing the production of chlorine and caustic soda facilities using membrane technology. Capacities of the plants include 200,000 tpa of caustic soda and 180,000 tpa of chlorine. The production of chlorine will fully meet the needs Karpatneftehim in this raw material for production of suspension The PVC plant, with a capacity of 300,000 tpa, is scheduled for start-up in December this year. Investment in the project has amounted to more than $150 million. The production of chlorine and caustic soda by membrane method will reduce costs by 1.5 times in addition to meeting higher standards regarding environmental safety. The company plans to sell around 60% of PVC production to the Ukrainian market, and the remainder to be exported to Russia, Europe and the Far East. .

Ukrainian monomer supply

Ethylene production at Kalush totalled 27,000 tons in

September and October, after more than two years of stoppage. The restart of benzene production at Karpatneftehim has helped increase the supply of products to foreign markets, whilst impacting on imports. Ukraine imported 18,200 tons of benzene in the first half of 2010, of which Azot at Cherkassy accounted for 75% of shipments and Rivneazot 25%. Both consumers need to purchase oil based benzene for caprolactam and adipic acid respectively, and no will be able to source feedstocks domestically.

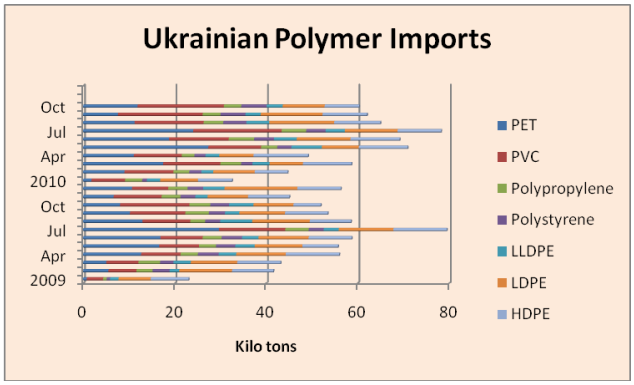
As a result of the Kalush restart, Karpatneftekhim was responsible for exporting 4,500 tons of benzene in October, most of which went to Belarus. Overall for the first ten months in 2010, Ukraine exported 7,600 tons of benzene which was 29% less than in the same period last year. Until the restart of the Kalush plant, low export volumes of benzene in this year until were due to high demand for the products in the domestic market.

Ukrainian polymers

Due to problems securing styrene monomer, Stirol at Gorlovka has reduced polystyrene exports in the past few months. As a result, production was down by 4,100 tons in the first three quarters of 2010 against last year. Due to monomer shortages and the impact on production at Gorlovka, polystyrene imports into Ukraine rose in the third quarter. Overall though, imports in the first three quarters totalled about the same as last year at 30,800 tons of polystyrene.

Styrene monomer imports totalled 8,892 tons in the first three quarters of 2010, 40.1% down on the same period last year when 14,845 tons were imported. In 2008, Ukraine imported 22,955 tons; Russia accounts for nearly all imports of styrene and has limited supply in view of its own polystyrene requirements.

Karpatneftekhim exported 10,200 tons of HDPE in October, following 1,900 tons in September. Over the two month period a total of 15,000 tons of HDPE was produced at Kalush. The main markets for Karpatneftekhim include Turkey (45% of gross exports) and Russia (36%). The start-up of the HDPE plant has already impacted on imports into Ukraine which were lower in October against September.



The trend for polymer imports into Ukraine has been upwards in the past two years, as illustrated by the graphic opposite. The seasonal demand for PET accounts for the exceptionally high demand in June and July. Whilst the economy has made some sort of recovery, import trends in 2011 are expected to be further affected by the domestic production of HDPE at Kalush and the start-up of the new PVC plant. PVC imports in the past 12-18 months have averaged between 15,000 tons to 20,000 tons per month and these volumes are expected to decline considerably the face of domestic availability.

Central Asia & Kazakhstan

SOCAR completes reconstruction of railway link to Azerkimya cracker

SOCAR has completed the overhaul of a 10-km part of the railway connection for Azerkimya, which is used to transport raw materials and exported products. SOCAR has invested in replacing unusable conditions of sleepers and rails and will continue with further modernisation. The railway will connect the ethylene and propylene plant to the main railway line.

Azerbaijan exported 26,382 tons of polyethylene in the period January-September 2010, yielding revenues of $26.959 million. Exports by volume increased 14.4% in 2010, with revenues rising 37.8%. In January-September, the production of chemical products increased in Azerbaijan by 25.9% against the same period in 2009.

Navoiazot-construction of PVC plant to start in 2011

Navoiazot in Uzbekistan plans to begin the construction of a new complex for the production of PVC and caustic soda in 2011. The PVC plant is to be designed with a capacity of 50,000 tpa and caustic soda 32,000 tpa. An acetylene plant of 23,000 tpa will also be constructed in order to produce VCM. Currently, Navoiazot is undertaking a feasibility study for a complex for the production of ammonia and urea, with

possible capacities of 900,000 tpa and 1.0 million tpa respectively. Other new fertiliser projects include potassium nitrate where a new plant will be constructed.

Other projects where Navoiazot is active include the adjustment of methanol production to grade A for consumption in motor fuels. Around $1.2 million has been invested in 2010 into the 12,000 tpa plant at Navoi. In addition, Navoiazot plans to develop dimethyl ether with a capacity of 2,000 tpa with start-up aimed for 2012. Other projects at Navoiazot include the production of monochloroacetic acid (MCA), which will help to replace imports used for the production of cellulose. The MCA plant will have a capacity of 2,500 tpa.

Atyrau olefin & polyolefin complex

The construction of the olefin and polyolefin complex at Atyrau is scheduled to start in February 2011, with the foundations for the basic infrastructure having been established. The project to build an integrated chemical complex at Atyrau region is being undertaken by Kazakhstan Petrochemical Industries, in which the shareholders include KMG EP (51%), and another 24.5% owned by SAT & Company. The initial cost of the project previously was estimated at $5.2 billion, including infrastructure investment, but the project cost has increased since then due to rising commodity prices.

This project will be undertaken in two phases. Phase 1 is based on gas from the Tengiz field in western Kazakhstan, whilst phase 2 is based on the development of the offshore Kashagan gas deposit in the Caspian. The olefin and polyolefin complex is scheduled for completion by 2013. The complex will consist of three plants for the production of olefins and two units for the production of polyolefins. Total capacity of the complex will reach 1.2 million tpa, broken down into 800,000 tpa of polyethylene and 400,000 tpa of polypropylene. The polyethylene plant will be divided between HDPE, LDPE and LLDPE. As previously reported, the lion's share of gas-chemical complex will be exported to the Chinese market. Only around 10% of the total output will be directed towards the Kazakhs domestic market, and the remainder destined for export. Kazakhstan plans to export to Turkey about 800,000 tons of polypropylene over a period of 10 years.

Relevant Currencies
Czech crown. Kc. $1= 19.01. €1 = 24.881: Hungarian Forint. Ft. $1 = 213.35. €1 = 279.4002: Polish zloty. zl. $1=3.1272. €1 =4.0953: Bulgarian leva: $1 = 1.493. €1= 1.9552: Romanian Lei. $1 = 3.2871. €1= 4.3047: Croatian Kuna HRK. $1 = 5.768. €1= 7.4343: Ukrainian hryvnia. $1 = 7.97. €1 = 10.434: Rus rouble. $1 = 31.3826. €1= 41.098

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