Chemical Information Resources for East Europe and CIS

CIREC MONTHLY NEWS

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

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Issue 264, 27 Nov 2012

## FEATURES FROM THIS ISSUE

# CENTRAL & SOUTH EAST EUROPE

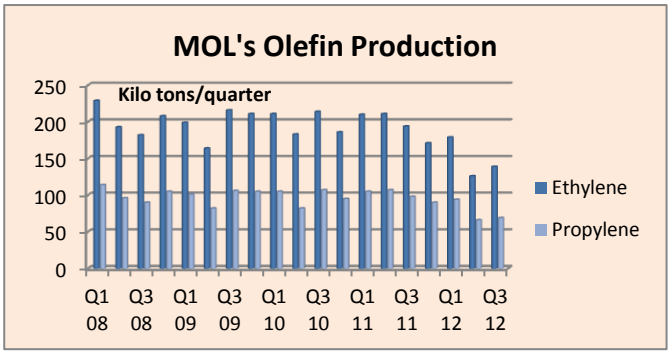
## Petrochemicals

| TVK's Sales' Revenues (Ft million) | | |
|---|---|---|
| **Exports** | ***Jan-Sep 12*** | ***Jan-Sep 11*** |
| Olefin | 16,221 | 12,346 |
| LDPE | 5,939 | 12,186 |
| HDPE | 70,832 | 90,209 |
| PP | 36,588 | 40,317 |
| **Domestic** | ***Jan-Sep 12*** | ***Jan-Sep 11*** |
| Olefin | 86,311 | 100,969 |
| LDPE | 7,980 | 8,632 |
| HDPE | 9,054 | 9,950 |
| PP | 31,954 | 33,496 |
| **Total Sales** | ***Jan-Sep 12*** | ***Jan-Sep 11*** |
| Olefin | 102,532 | 113,315 |
| LDPE | 13,919 | 20,818 |
| HDPE | 79,886 | 100,159 |
| PP | 68,542 | 73,813 |
| Total | 264,879 | 308,105 |

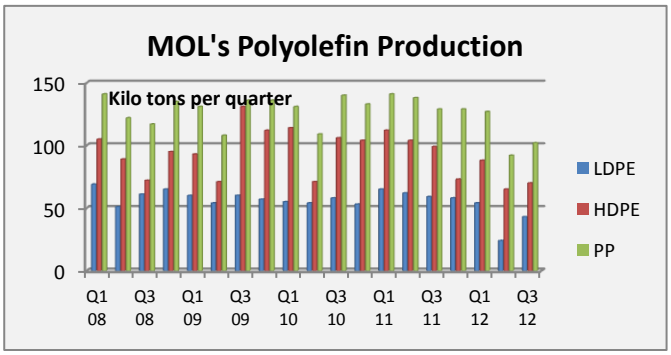
### MOL, Jan-Sep 2012

MOL's petrochemical production dipped in the third quarter due largely to lower volumes and revenues from TVK. Cracker outages for the MOL group heavily affected production volumes for the third quarter. TVK recorded an operating loss for the first nine months of Ft 10.56 billion, against a net profit of Ft 708 million in the same period last year. Operating profit for TVK declined by Ft 11.3 billion, due to a range of factors including unfavourable exchange rate fluctuations, and higher prices for natural gas, steam and electric energy. TVK's integrated petrochemical margin fell by 20% mainly attributed to the exchange rate factor, whilst slow markets have also affected results.

For the MOL Group, including oil and gas, net sales for the first three quarters in 2012 fell by 6% to €3.36 billion due to lower demand for oil products in the domestic and international markets, as well as lower sales volumes caused by turnarounds. Overall, the economic results of the MOL in the third quarter improved after the first half of the year. Capital expenditures MOL Group for the first three quarters of this year amounted to €109 million, increasing by a third over 2011. More than half of the investments directed to projects related to increasing production efficiency, maintaining operational reliability and improving the quality of the production process in the refinery.




In the next few years, the most important investments for MOL include the construction of new petrochemical units at Bratislava to produce polyethylene, a new butadiene plant at Tiszaujvaros, and the modernisation and expansion of the transport capacity pipeline between the Slovak Republic and Hungary.

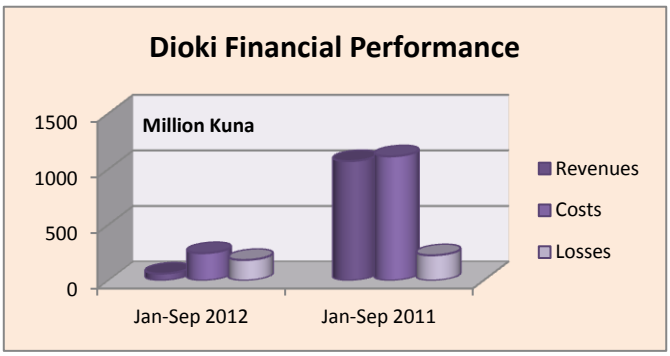



### South East Europe

A number of regional developments are taking place at present, involving polyethylene expansions by Petrohemija and Rompetrol combined with a closure by Dioki but some revival in prospects. In Serbia, Petrohemija is close to completing its reconstruction and expansion of the HDPE plant at Pancevo, and restart of the cracker. Following testing of the plants, production could restart by 20-21 December.

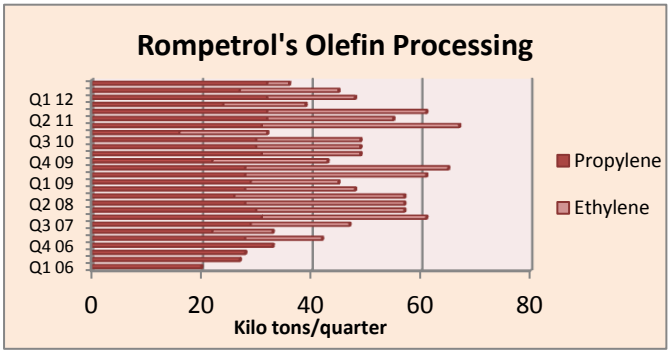
At the end of November Gazprom Neft will consider the issue of increasing the share of its subsidiary NIS in HIP Petrohemija. NIS currently owns 12.72%, but Gazprom Neft may be interested in converting part of the debt load faced by Petrohemija into equity. If the conversion is approved, the share of NIS in Petrohemija may increase up to 33.3%. Gazprom Neft controls 56.5% in NIS where refining capacity stands at 7.3 million tpa at both Pancevo and Novi Sad.

A downside of the HDPE expansion at Pancevo and related shutdown since the summer has been that the Petrohemija's rubber division Elemir near Zrenjanin has been denied C4 feedstocks. This has forced reductions in output, but the plant has been allowed to revive operations though the import of more than a thousand tons of C4 fractions from Turkey. .

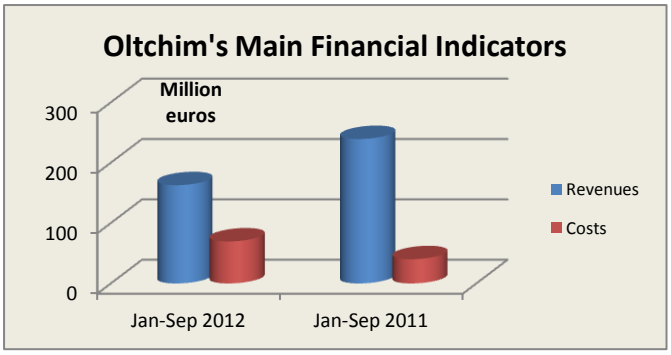



In Croatia, Dioki closed down the plants for ethylene and polyethylene at Zitnjak near Zagreb in October, in addition to the supporting business functions at the site. The decision was made a year after production was suspended in the respective plants, largely influenced by the decline in the raw material base and ethane availability from domestic sources. The inability to find alternative solutions to supply petrochemical feedstocks rendered the plants effectively inoperative. Furthermore, Dioki has also decided to close the energy unit, which is associated with this plant. The EPS plant at Zitnjak has long been suspended, but may have a future if a partner can be found to styrene monomer. Production could restart in 2014 if financial support can be found.

The Dina petrochemical division of Dioki, located at Omisalj, offers some scope for hope and revival. The lack of production activity in the past year has meant that in the first nine months of 2012 the Dioki Group reduced revenues to 61.6 million Kuna from 1073.9 million Kuna in the same period last year. Costs totalled 245.4 million Kuna in 2012 against 1116.7 million in 2011. The difference in costs is due to the major disruption to production operations at both petrochemical plants at Omisalj and Zitnjak. Losses improved slightly at 183.8 million Kuna, against 226.7 million Kuna in 2011. Given that most of the expenditures are related to the cost of raw material costs losses have been better controlled this year.




Rompetrol Petrochemicals processed 30% less raw materials in the first nine months of the year, mainly due the temporary closure of its HDPE plant. It processed 58% less ethylene and 4% less propylene compared to last year. The HDPE plant is being expanded from 70,000 tpa to 100,000 tpa, and this project is soon to be completed. Rompetrol Petrochemicals also runs a 60,000 tpa LDPE plant at Navodari, but only at low capacity. Rompetrol Petrochemicals reported a net loss of €12.6 million for the first nine months of 2011, versus a net loss of €3.2 million in 2011.




### Oltchim, Jan-Sep 2012

The IMF has agreed with the €20 million government-backed loan for Oltchim, but this only buys a little time into the new year in order that a system of private management can be applied. The pressure to find a buyer is exceedingly strong, but it is considered unrealistic for the government to expect buyers to pay a high price for the assets and preserve the employment set-up as it stands today.

Revenues for the company fell by 47% in the first nine months of 2012 to 721.9 million lei (€162.8 million), while losses increased by 72% to 308.5 million lei (69.6 million). In the same period of 2011, the company achieved total revenues of 1.36 billion and a loss of 179.7 million lei. Production resumed at Oltchim's membrane electrolysis plant on 28 October, and employees are optimistic that production will gradually return to normal. However, there is recognition that without more funds from the government that the company may be forced to stop again.

Romania badly needs the IMF's cash and to divest itself of loss-making assets, but there are no investors to date willing to pay a decent price for Oltchim. Moreover, the prospect of developing Oltchim together with the petrochemical facilities at Pitesti may have to be forgotten. In late November a large part of the equipment at Pitesti was put up for auction by bailiffs due unpaid debts. The complications over the privatisation of Oltchim and the half-way ownership of the cracker at Pitesti have led a situation where the creditors have sent the bailiffs into the complex to claim equipment in lieu of unpaid debts.

## Chemicals

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

| *Product* | *Jan-Oct 12* | *Jan-Oct 11* |
|---|---|---|
| Caustic Soda Liquid | 247.6 | 239.8 |
| Caustic Soda Solid | 52.5 | 45.4 |
| Soda Ash | 933.0 | 869.2 |
| Ethylene | 372.0 | 464.2 |
| Propylene | 268.0 | 300.5 |
| Butadiene | 45.6 | 55.8 |
| Toluene | 17.6 | 52.1 |
| Phenol | 29.8 | 33.4 |
| Caprolactam | 136.4 | 135.7 |
| Acetic Acid | 6.6 | 6.7 |
| Polyethylene | 260.8 | 305.9 |
| Polystyrene | 118.6 | 110.5 |
| PVC | 213.3 | 243.2 |
| Polypropylene | 200.2 | 209.5 |
| Synthetic Rubber | 160.2 | 153.9 |
| Ammonia (Gaseous) | 1041.9 | 960.4 |
| Ammonia (Liquid) | 1067.4 | 916.6 |
| Pesticides | 20.5 | 17.1 |
| Nitric Acid | 1926.0 | 1747.7 |

### Lotos-ZAT form partnership to construct petrochemical plant

Grupa Lotos SA has formed a partnership for cooperation with ZA Tarnow (ZAT) to build a large scale chemical plant at Gdansk on the Baltic coast. The two groups have estimated that they could be willing to spend in the range of zl 5-6 billion ($1.6-1.9 billion) to construct new facilities, and construction could begin in either 2014 or 2015. The aim would make the new facilities operational by 2018. The large deficit in Polish chemical trade provides the strong incentive to construct new chemical plants. Furthermore being located on the Baltic coast could offer a range of trade possibilities.

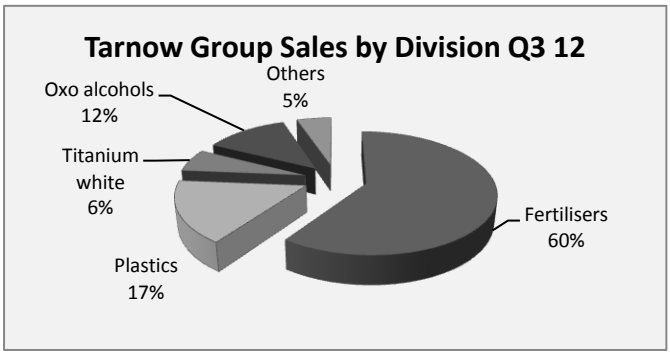
Both companies have been in discussion for some time regarding possible collaboration. The location of Gdansk possesses the availability of raw materials from the refinery, in addition to the port and convenient proximity to the supply of gas. In the future, supply may be extended to include shale gas. The first stage of the project design process will involve a feasibility study to select which products will be produced and which technologies to be used, etc. Considering the scope of products imported into Poland there are a number of possibilities, ranging from methanol to a new cracker.

The two groups Lotos and ZA Tarnow bring different advantages to the alliance, the first in refining and the second in fertilisers and organic chemicals. Lotos started producing xylene fractions this year as part of an agreement with Mitsubishi, but has had little prior involvement in the chemical sector. ZA Tarnow has been expanding rapidly since the merger with ZAK and ZCh Police in the past two years and now will become part of a huge group after the full consolidation of ZA Pulawy and its affiliated companies.

### ZA Tarnow and ZA Pulawy sign first agreement regarding consolidation

ZA Tarnow (ZAT) and ZA Pulawy (ZAP) signed an agreement on 14 November regarding consolidation of the two groups. The agreement provides for the consolidation of ZAT and ZAP and their affiliated subsidiaries and assets into one conglomerate group. The two groups will start to operate under the same brand from 5 December onwards. The new group will seek to maximize cost synergies across the spectrum of business activities. A main objective will be to build a complete flexible product portfolio in fertilisers. The group will also be striving to achieve increased economies of scale and optimisation of logistics and transportation functions.

The parties agreed that consolidation will take place in accordance with the principles and obligations of social contracts and company collective agreements. The Board of ZAT, as part of its corporate powers, has also pledged to support the implementation of ZAP's identified projects. The consolidation agreement will enter into force on the date of registration of the capital increase.

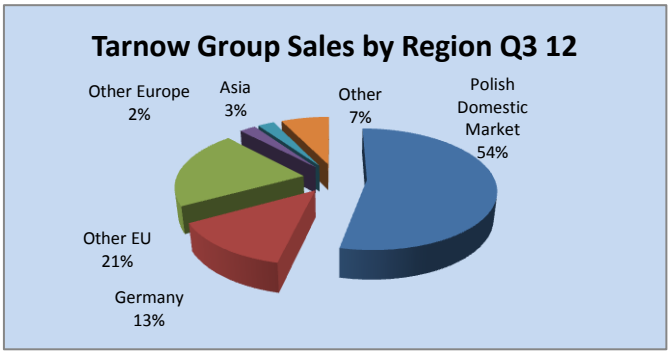



### Tarnow Group, Q3 2012

The Tarnow Group recorded an increase in fertiliser sales in third quarter as a percentage of total sales from 13.0% to 27.6%, whilst plastics and intermediates fell from 22.5% in Q3 2011 to 15.7% and oxo alcohols and plasticizers fell from 18.5% to 12.0%. These different divisions in the group, which are based at several locations throughout Poland, offer a wide range of products but not a great amount of synergy or overlap.

If there has been a common trend this year it has been the slowdown in sales for many products. As a result, ZA Tarnow and the Group's operating profit fell in the third quarter this year against 2011 by zl 20.7 million to zl 152 million. The group's outlook is cautious towards

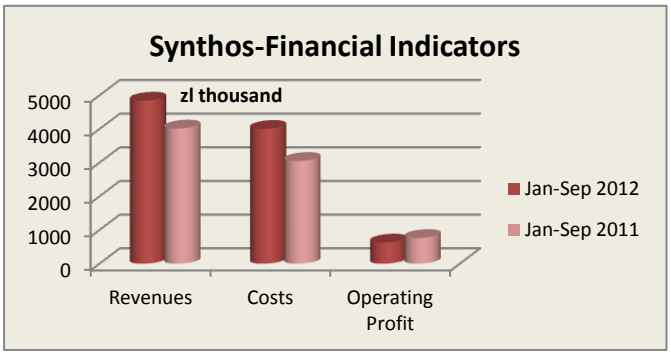
short term profitability, although there is an expectation that fertiliser prices will remain strong in the fourth quarter and that demand in the titanium dioxide market is expected to improve from the first quarter of 2013. A challenge for the parent company ZA Tarnow could come from benzene tightness which could drive up prices, whilst at the same time caprolactam sales remain sluggish. The outlook for the next few quarters is rather negative according to ZA Tarnow, particularly if oil prices remain high whilst many products encounter weak demand or lower growth rates. Gas prices could come down due to new price arrangements with PGNiG, but this may alleviate only part of the losses expected elsewhere.




Revenues from sales in the plastics division in the third quarter amounted to zl 279.903 million and accounted for 16.5% of total sales revenue of the group. Oxo alcohol sales from Kedzierzyn were down in the third quarter by zl 42.902 million than last year and totalled zl 210.291 million. The difference resulted from the decline in sales, both in terms of quantity and value. The pigments division, which is based at the ZCh Police site, has seen a rising trend in sales. The results achieved on sales in the third quarter of 2012 more than doubled revenues exceed obtained in the third quarter of the previous year. In terms of market distribution Poland accounted for more than half of the group sales in the third quarter this year, followed by Germany and the rest of the EU.

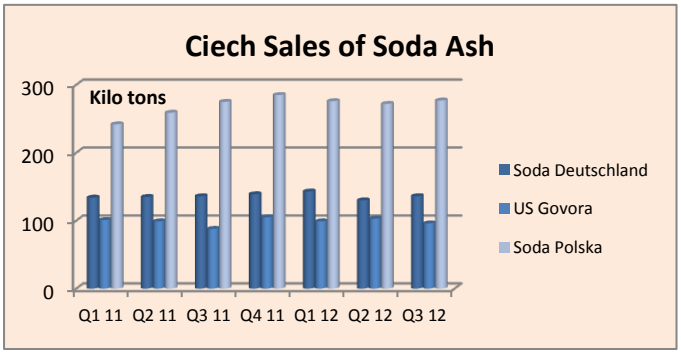
## ZA Pulawy-gas supply agreement with Egesa

ZA Pulawy signed an agreement in October with Energy Group Egesa for the supply of gas for 2013, reducing the dependency on PGNiG. The agreement is to be undertaken through individual contracts, whereby the parties agree on the duration of each case, a pricing formula and the amount of contracted capacity of gas. The estimated value of the contract is zl 131 million. The purchase price for the gas supply to Pulawy will be determined on the basis of a formula-based price index trading. The contract protects about 10% of ZA Pulawy's planned gas demand in 2013, equating to around 100 million m3 of gas. Egesa is formerly Entrade Group and is already working with ZA Pulawy. Recently, a two-year contract was signed by ZCh Police for gas from an independent supplier company.



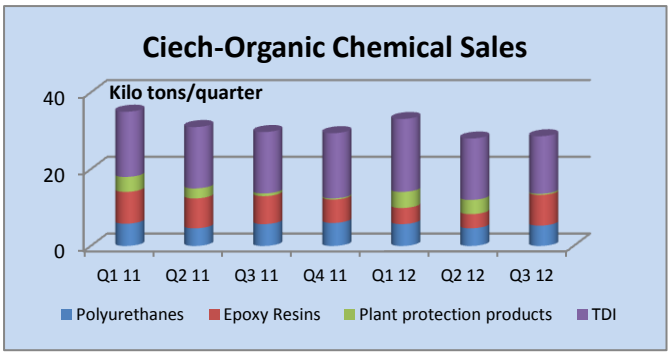

## Synthos, Q3 2012

After several years of reporting high profits the Synthos Group recorded a decline in the third quarter this year, down from zl 282.5 million in 2011 to zl 110.8 million this year. Among the negative factors in this period, the company lists the downturn in the petrochemical industry and the building sector. The third quarter is seasonally a good time for the building industry, but this year construction has felt the effects of the economic crisis in Europe. Operating profit fell in the third quarter to zl 133.6 million from zl 323.1 million a year earlier. Group revenues increased to zl 1,587.8 million from zl 1,512 million in the third quarter of 2011.




## Ciech-Q3 2012

The third quarter for Ciech this year was characterized by improved efficiency and intensive restructuring of the group. In the first three quarters of 2012 Ciech implemented a number of key investment projects, including the modernisation of the Janikowo energy plant, an increase in capacity of sodium bicarbonate from 70,000 tpa to 90,000 tpa the construction of an innovative system for the production MCPA and MCPP-P by Organika-Sarzyna. The Ciech Group achieved revenues of zl 1.1 billion in Q3 compared to zl 1 billion in Q3 2011. The EBITDA increased by 38% to zl 91 million from zl 66 million for the same quarter in 2011.




Improving operational performance is primarily due to an increase in volumes and margins generated in the soda division. The EBITDA from the soda division totalled zl 85 million in the third quarter, which represented an increase of 21%. The organic chemical division's EBITDA amounted to zl 6 million, compared to a loss of zl 17 million in the same period in 2011. On 24 September 2012, Ciech and Zachem concluded a conditional agreement with BASF for the transfer of intangible assets related to the production of TDI to BASF Poland. This agreement covers the transfer of assets for TDI, including customer lists, and trade contracts for the sale TDI. Other parts include intellectual property rights to the products, TDI technology and know-how related to the production of TDI.

The value of the transaction amounts to €43 million. Closing the sale is subject to Treasury approvals, if which affirmed in the positive, means that the transfer could take place at the end of December 2012. Ciech will cease to involvement in the TDI market on that date. The transfer of assets has led Ciech to try and cancel its contract with Air Products for TDA supply, ostensibly for a breach of contract but in reality directly the result of the TDI asset sale. This contract could be terminated on 11 December, affecting TDA supplies worth around $80 million per annum.

### PCC Rokita-dry port at Tczew

PCC Intermodal Gdynia has won EU funding for a project that will contribute to the development of a dry port at Tczew. The transhipment terminal supports loads directly from the PCC Intermodal terminal to seaports and terminals at the European ports of Hamburg, Bremerhaven and Rotterdam. PCC Intermodal Gdynia estimates that the investment will be ready in 2014, and will cost around zl 200 million. The Tczew terminal is to be one of the main hubs of national and European network of intermodal (railcar) transport. PCC Intermodal has already bought land development in logistics and distribution operations with an area of 63 hectares. The new terminal will cover an area over 20 hectares.

### PCC Rokita increases revenues and profits

Consolidated revenues for PCC Rokita in the third quarter this year amounted to zl 258 million, 38.4% up over last year. Net profit amounted to zl 7.9 million, an increase of zl 5.1 million. PCC Rokita has announced its decision to hold the next issue of corporate bonds under the Bond Issue Programme. The previous issue was met with great interest to individual investors.

One of the most important investments for PCC involves the conversion of chlorine production technology from mercury to membrane. This investment will not only provide environmental benefits, but also save on production costs. Investments in chlorine technology will also help to attract new customers from the pharmaceutical industry and advanced polymers and the strengthening of the domestic market for caustic soda. PCC intends to create a new company engaged in the production of polyurethanes, which will include one of the existing divisions of PCC Rokita. In mid-2012 PCC SE formed a jv with Shchekinoazot for dimethyl ether production in the Tula region in Central Russia. The plant will have a capacity of 20,000 tpa and will be located about 180 km from Moscow when it is introduced in 2014.

### Czech chlorine plants

Spolchemie is currently preparing for the construction of its new electrolysis unit at Usti nad Labem, after the project was threatened last year by a lack of funds. The company was required to ask permission for an extension to the permit for phasing out mercury to 2015. The new electrolysis unit, which could cost about Kc 2 billion, represents the core investment for Spolchemie. The technology supplier for the project has not been announced to date. Spolchemie emerged from the effects of the recession last year, which has allowed the company to revive the conversion project.

Spolana's situation looks more difficult than Spolchemie, and has requested a longer extension to chlorine production using mercury. In 2007 Spolana received an integrated permit for the production of chlorine, provided that by the end of August 2012 the company had submitted a request for a building permit for new safe membrane technology. This was not submitted as required.

By the end of 2014, the company was required to have discontinued the use of mercury but that seems highly improbable considering the lack of progress on the project. Instead Spolana has asked for an extension of the permit until 2020, and that request is being considered. Difficult economic circumstances after the financial crisis of 2008 meant that the target of 2012 became financially unviable for the start of construction of the membrane unit at Neratovice.

# RUSSIA

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

| *Product* | *Jan-Oct 12* | *Jan-Oct 11* |
|---|---|---|
| Acetic Acid | 120.1 | 113.6 |
| Ammonia | 11,267.3 | 11,539.2 |
| Benzene | 908.4 | 911.6 |
| Butanols | 207.2 | 173.2 |
| C Black | 604.2 | 603.6 |
| Caustic Soda | 919.0 | 839.2 |
| Ethylene | 1,808 | 2,035.7 |
| Methanol | 2,704.2 | 2,465.2 |
| PET | 379.4 | 304.1 |
| Phenol | 227.4 | 206.9 |
| Phthalic Anhydride | 73.4 | 80.0 |
| Polyethylene | 1,233 | 1,275.1 |
| Polypropylene | 559.6 | 569.7 |
| Polystyrene | 309.9 | 263.5 |
| Propylene | 918.6 | 1,010.3 |
| PVC | 502.2 | 462.7 |
| Soda Ash | 2,375.6 | 2,341.7 |
| Styrene | 430.9 | 398.1 |
| Urea | 4,801.2 | 4,795.8 |

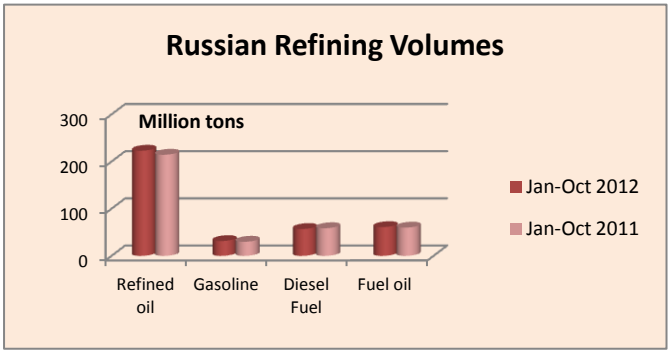
### Russian chemical production, Jan-Oct 2012

Russian production of basic chemicals fell 2.5%, according to government figures, in January to October 2012 over the same period last year. The most important factor has been that production of mineral fertilisers dropping in January-October 2012 by 4.3% to 14.9 million tons. Production of synthetic ammonia dropped by 2.2 % to 11.3 million tons, whilst sulphuric acid increased by 3.4% to 9.1 million tons, soda ash rose by 1.5% to 2.4 million tons and caustic soda rose by 5% to 903,000 tons.

Ethylene production dropped 10.8% in Russia from January to October 2012 to 1.808 million tons, and propylene fell by 9.1%, to 918,600 tons. In the aromatics sector benzene dropped slightly to 908,400 tons, and xylenes by 0.3% to 419,500 tons. On the plus side, phenol increased by 7.1% to 227,400 tons and styrene by 8.3%, to 430,900 tons.

Russian production of base polymers rose 1.4% in the period January to October 2012 to 4.367 million tons. However, polyethylene production decreased by 11.1% to 1.233 million tons, polypropylene fell by 6.9%, to 559,600 tons, and simple, polyesters, polycarbonates, alkyd and epoxy resins dropped by 0.8% to 421,500 tons. Polyamides dropped by 22.6%, to 97,900 tons, due mainly to maintenance at Kuibyshevazot. Polystyrene production increased by 11.1% to 309,900 tons and PVC by 2.7%, to 547,800 tons. Synthetic rubber production declined by 1.1% to 1.184 million tons.

## Feedstocks & Petrochemical Projects



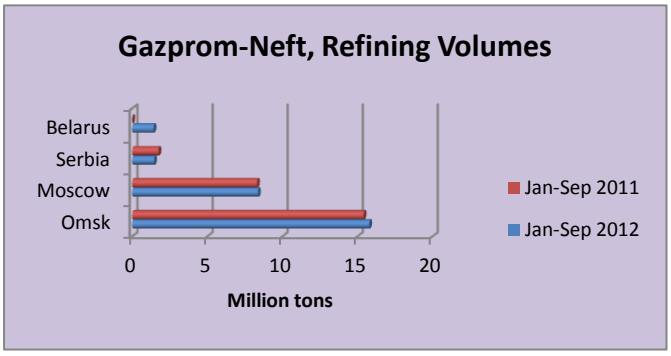

### Russian refinery news

The volume of oil refining in Russia in the period January-October 2012 rose by 4.1% over 2011 to 223 million tons. In oil products output, gasoline rose by 3.5% to 31.4 million tons, whilst diesel fuel fell by 2.9%, to 57 million tons and fuel oil increased by 1.8%, to 61 million tons.

The start of construction of the Tomsk refinery ZapSibNPZ, which has been scheduled for 2013, may be delayed due to the lack of equipment to complete the pipeline connection for crude oil supplies. ZapSibNPZ is being constructed on a 100 hectare site, located in the northern industrial centre of Tomsk, adjacent to Tomskneftekhim. Naphtha production from the new 3 million tpa refinery is expected to comprise around 600,000 tpa, which would be made available to Tomskneftekhim at lower prices than the company is paying for delivery from other refineries.

Neftechimservice at Kemerovo plans to attract Czech company ALTA and the Czech Export Bank to implement the second phase of the project of building a refinery in the Yaya area in Siberia. The first stage of the refinery is expected to start next year and comprises a capacity of 3 million tpa, rising in the second stage 6 million tpa by 2015. The refinery will produce around 1 million tpa of naphtha.

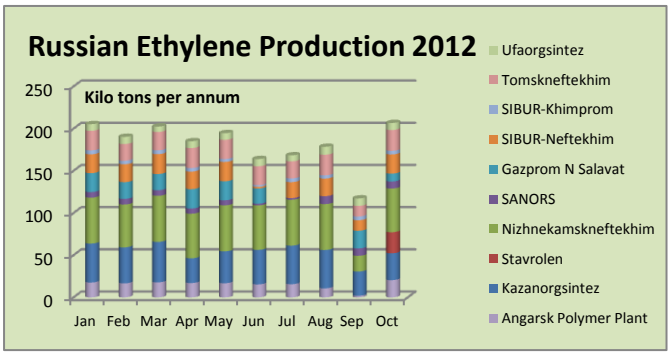
In Tatarstan, TAIF-NK has started construction at Nizhnekamsk of the installation for ultra deep processing of heavy oil residues based on Veba technology. The installation will increase the production and sales of naphtha, and will increase the production of diesel fuel emissions standard Euro-5. The total cost of the complex is estimated at $1.835 billion and will provide an important source of feedstocks for the new cracker planned by Nizhnekamskneftekhim.




## Gazprom-Neft, Jan-Sep 2012

Gazprom Neft's performance improved substantially in the period January to September 2012 due to increases in hydrocarbon production and refining volumes, together with higher crude and petroleum product prices. Revenues increased 20.4% to 912,320 million roubles and the EBITDA increased by 10.0% to 244,894 million roubles. Refining throughput from its Russian and foreign plants increased 5.8% to 32.67 million tons.

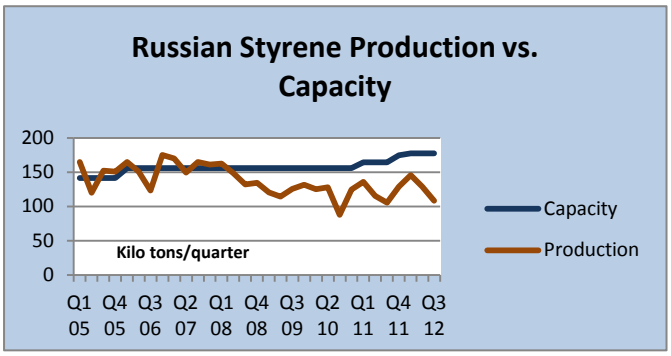
Gazprom Neft is considering a number of projects in the petrochemical industry, mainly in the Omsk area. In particular, the company has decided to implement a joint project with SIBUR for processing paraxylene to PTA. In addition, Gazprom Neft is considering plans to produce caprolactam using benzene produced by the Omsk refinery. In the near future Gazprom Neft will start supplying propane-propylene fractions to the Polyom polypropylene plant which is in the process of start-up.




## Russian olefin monomer output rises in October

Production of ethylene and propylene in Russia increased by 1.8 times in October over September 2012, due partly to the restart of the Stavrolen cracker and partly to the resumption of operations at a number of plants that were down for maintenance in September. Ethylene production totalled 205,000 tons in October and propylene 108,000 tons.

In the period January to October 2012 sales of propylene on the domestic market totalled 292,700 tons, 12% more than in 2011. Sales in October doubled against September to 33,100 tons, due primarily to the resumption of supply from Angarsk Polymer Plant. In addition, the supply of monomer from SIBUR-Neftekhim amounted to 10,900 tons, or 2.2 times more than the previous month. Regarding export activity, Russian shipments abroad rose 4% in October against September to 6,200 tons. LUKoil-NNOS exported 1,500 tons from its Kstovo refinery in October, the first shipments of propylene abroad for the company since January. SIBUR-Neftekhim, also at Kstovo, reduced exports 1.7 times to 998 tons, and Omsk Kaucuk reduced exports by 12% to 3,700 tons. Exports totalled 28,900 tons in the first ten months in 2012, 27% down on last year. Export destinations can be broken down this year into Poland with 61%, Belarus 34% and Romania 5%.



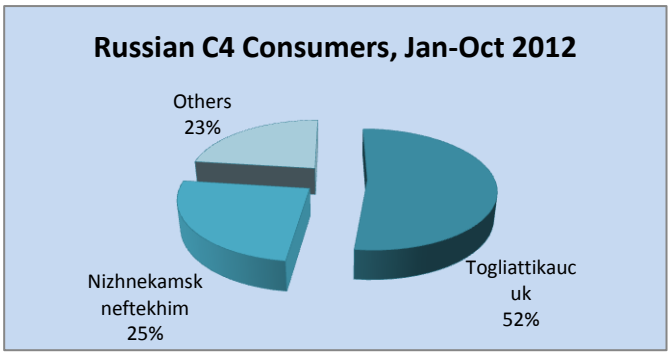

## Russian styrene market, Jan-Oct 2012

Domestic merchant sales of styrene monomer totalled 73,200 tons in the period January to October 2012, 4% down on 2011. Sales on the merchant market increased in October over September due to increased availability from the Angarsk and Salavat plants.

The recent introduction of the second EPS line at Perm may represent a turning point for the styrene monomer balance in Russia. Styrene monomer has become extremely tight for the domestic merchant market, forcing consumers such as Pizhi Prof at Kirishi and Plastik at Uzlovaya to seek new sources. Capacity utilisation at the styrene plants is constricted by the availability of ethylene and benzene and as a result some plants are running lower than full capability. Despite the large-scale announcement of investment projects in Russia styrene monomer is yet to be mentioned although Nizhnekamskneftekhim is considering how it could expand its existing facilities.

## Russian butylene-butadiene fractions

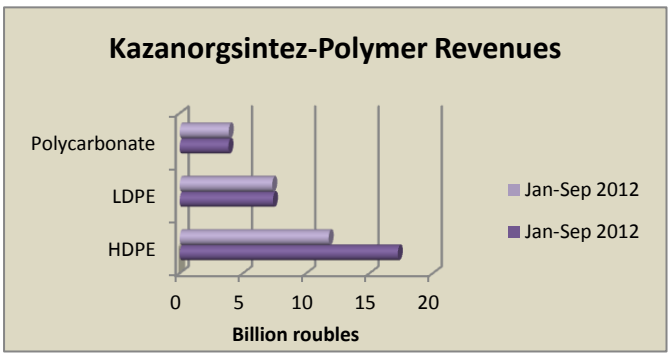
Russian producers of butylene-butadiene fractions in October shipped 28,300 tons to the domestic market, 2.3 times more than in September. The increase was partly helped by the restart of the Stavrolen cracker, shipping




6,200 tons of butylene-butadiene fractions whilst also SIBUR-Neftekhim increased shipments by 44% to 5,500 tons following maintenance in September. Tomskneftekhim also increased shipments 1.7 times to 6,700 tons. This increase was attributed to higher purchase volumes of LPGs for cracker operations. In the period January to October 2012 Russian sales of butylene-butadiene fractions on the domestic market totalled 206,500 tons, 25% down on the same period last year. Togliattikaucuk accounted for 52% of total purchases and Nizhnekamskneftekhim 25%.

## SIBUR starts work Purovsky-Tobolsk gas liquid pipeline

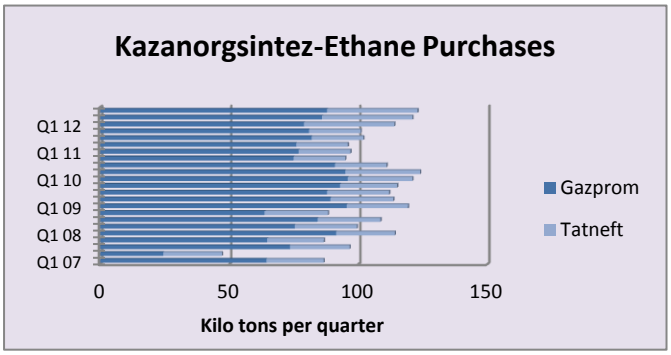
SIBUR has started work on the construction of the main pipelines to transport wide fractions of light hydrocarbons (gas liquids) from Purovsky to Tobolsk-Neftekhim. The pipeline is divided into two construction parts, Purovsky Plant-Yuzhniy Balyk head pumping station with a length of 689 km and Yuzhniy-Balyk-Tobolsk-Neftekhim with a length of 417 km. The planned capacity of a new product pipeline is 4 million tpa for the first section, and up to 8 million tpa in the second. The project aims to consolidate the light hydrocarbon resources of the Yamal-Nenets and Khanty-Mansi Autonomous District for transportation and downstream production at Tobolsk in the development of the West-Siberian petrochemical cluster. The pipeline construction provides a key part in feedstock provision for the new million ton cracker planned for Zapsibneftekhim at Tobolsk.




## Kazanorgsintez, Jan-Sep 2012

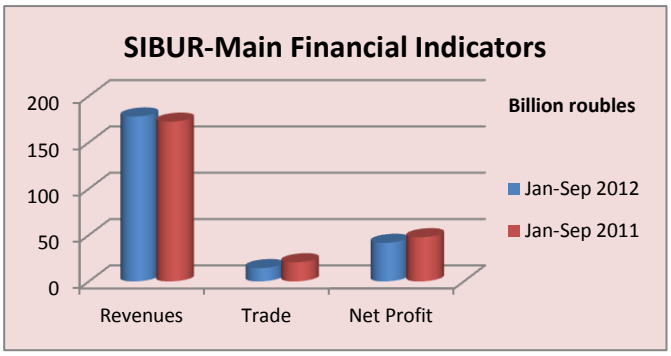
Revenues for Kazanorgsintez rose significantly in the period January to September 2012 against last year rising from 26.993 billion roubles to 33.418 billion roubles. A net profit of 7.8% was achieved in 2012 which was 90 times higher than in 2011.

This improvement in the financial performance for Kazanorgsintez has allowed a reduction in debt to the main lender Sberbank, which at the beginning of this year had to loan 25.8 billion roubles. The company has reduced its body of credit by more than 2 billion roubles. Kazanorgsintez should be able to make a profit in 2012 of at least around 3 billion roubles, which would be up seven-fold over 2011 when the net profit of the company amounted to 437.3 million roubles. The company's total revenue for 2012 is projected at 43-44 billion roubles, which would be about 18% higher than the results of 2011. One main reason for the increase in profitability has been the improved supply of ethane, mainly from Orenburg where Gazprom has exceeded contract obligations by around 10%. Another factor has been that Tatneft has increased capacity from 90,000 tpa to 140,000 tpa at the Minnibayevo Gas Processing Plant. This year the Minnibayevo plant has operated at around 80% of capacity, but next year expects to produce 140,000 tons of ethane.



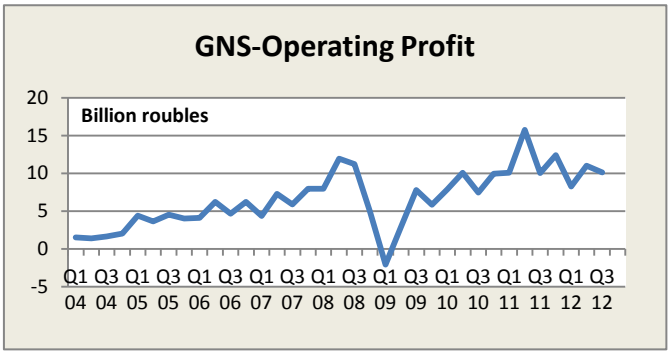

Other contributory factors have included the Stavrolen outage, which has meant that prices and margins of HDPE in Russia have been much higher than last year. HDPE revenues accounted for 51.5% of total revenues in the period January to September this year, against 43.6% of revenues in 2011. LDPE and polycarbonate revenues were mainly unchanged from last year.

Kazanorgsintez has reduced export activity in 2011 from 22% of revenues to 12% in 2012, with greater concentration on the domestic market. Outside of polymers, Kazanorgsintez has benefited from sales of acetone which have increased 13.5% in the period January to September 2012 to 29.9 million roubles and phenol 7.5% to 51 million roubles. With Stavrolen returning to the HDPE market in October profits from this product area may start to decline next year, but the key for Kazanorgsintez is ethane supply and the outlook does look slightly more settled.




### SIBUR, Jan-Sep 2012

SIBUR's net profit in January-September 2012 totalled 41.6 billion roubles, 12.7% less than in the same period last year. The net profit margin decreased from 27.7% for the first 9 months of 2011 to 23.4% this year, whilst revenues increased by 3.3% and amounted to 178.01 billion roubles. Gross profit decreased by 0.3% to 73.5 billion roubles, sales profit by 8% to 49.02 billion roubles, and profit before tax up 12.3% to 51.45 billion roubles. Trade was down this year due to SIBUR's divestment of subsidiaries in tyres and fertilisers as well as the termination in the second quarter of purchases of liquefied petroleum gas for resale.




### Gazprom Neftekhim Salavat, Jan-Sep 2012

Gazprom Neftekhim Salavat recorded a loss of 601 million roubles in the first three quarters in 2012 against a net profit of 3.165 billion roubles in the same period last year. The company's revenue increased slightly and amounted to 109.452 billion roubles, but gross profit decreased by 18% to 29.371 billion roubles. The cost of production increased by 9.4% to 83.4 billion roubles. Results were affected by crude prices and weak margins for its petrochemical products. Gazprom Processing (Gazprom Pererabotka) owns 97.57% of shares of in Gazprom Neftekhim Salavat.

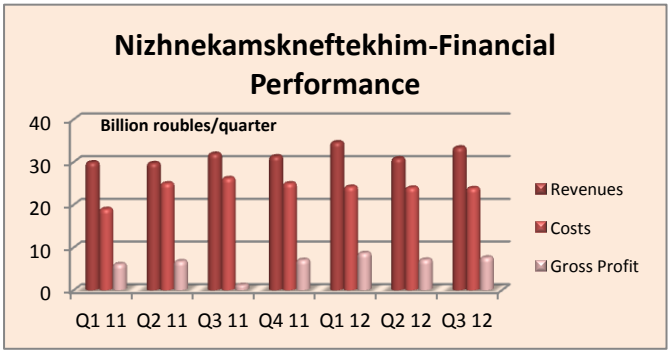
### Gazprom Neftekhim Salavat, new cracker furnace

Gazprom Neftekhim Salavat has commissioned a new pyrolysis furnace F-04 type SRT-VI that will increase the selectivity. The furnace has been supplied by ABB Lummus Global and will enable Gazprom Neftekhim Salavat to increase the yield of ethylene and propylene. Furthermore, the use of a new SRT-VI furnace will reduce energy consumption of production and commodity standards. Commissioning of the new equipment will begin after the completion of the installation of metal pipes and piping. Further cooperation is expected between Japan and Bashkortostan in the Russian petrochemical industry, including the planned ethylene expansion at Gazprom Neftekhim Salavat.

### Angarsk Polymer Plant-cracker upgrade

Rosneft subsidiary Angarsk Polymer Plant expects to start the process of reconstructing the EP-300 cracker from next year. The company is currently conducting preliminary studies in conjunction with the local engineering institute Angarskneftehimproekt. Project documentation for reconstruction of the EP-300 cracker is being put together by Technip, which has been contracted by Rosneft to perform the design. The project could be started as early as in 2013 with a two year construction period envisaged.

The main focus of the project is to install five new dual pyrolysis furnaces and ovens for the connection of new networks and systems. The current capacity of Angarsk Polymer Plant is 200,000 tpa of ethylene, 100,000 tpa of propylene, and 60,000 tpa of benzene. Capacity will be increased together with modernisation. The raw material for the Angarsk plant is naphtha and hydrocarbon gases, mainly supplied from the Angarsk refinery. The ethylene plant supplies feedstocks for the captive production of polyethylene and styrene, whilst supplying Sayanskkhimplast ethylene by pipeline for PVC production. In 2010, Angarsk Polymer Plant signed a licence agreement with Ineos for Innovene technology, but this is not yet ready to be introduced.

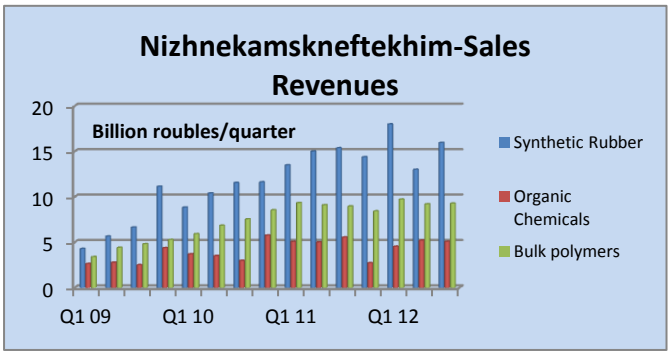



### Nizhnekamskneftekhim-Yokogawa

Japanese company Yokogawa Electric could take part in the construction of the new olefin complex by Nizhnekamskneftekhim. Yokogawa Electric's

equipment works effectively in a number of plants managed by Nizhnekamskneftekhim, including ethylene oxide, the existing unit for ethylene, polystyrene, and polyolefins. Yokogawa is also involved in commissioning tests in the production of ABS plastics.

Nizhnekamskneftekhim has already completed the selection of main licensors to create the new ethylene complex with a capacity of 1 million tpa. The license agreement and contract for basic engineering of the ethylene plant was awarded to Lummus Technology Heat Transfer. Polyolefin license contracts have been concluded with Ineos and Basell. The next step in the project involves the decision on the olefin engineering company, which will provide the basic and detail engineering.




### Nizhnekamskneftekhim, Jan-Sep 2012

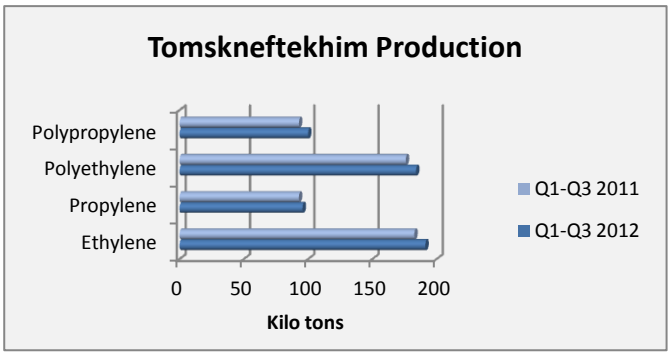
Nizhnekamskneftekhim recorded a net profit of 14.9 billion roubles in the first three quarter in 2012, 34% up over the same period last year. Revenue increased by 4.4% to 95.6 billion roubles, and the cost of production by 29% to 72.1 billion roubles. The size of the long-term debt commitments of the company decreased by 19% to 6.8 billion roubles, whilst short-term liabilities fell 8.5% to 10.7 billion roubles.

## Bulk Polymers

### Tomskneftekhim-modernisation programme underway

SIBUR has started the reconstruction of capacities at Tomskneftekhim in order to increase production, to improve quality and variety, and improve production safety. The reconstruction involves increasing production capacity of polypropylene from 130,000 tpa to 140,000 tpa, in addition to increasing the production capacity of LDPE from 240,000 tpa to 270,000 tpa, using technology provided by Basell Polyolefins. The introduction of new technology in the production of LDPE aims to produce products with improved characteristics, as well as the production of new grades of LDPE.

The FEED contract for this investment has been agreed with Tecnimont which will subcontract the Russian company Plastpolimer to provide support for polypropylene modernisation. Russian polypropylene production capacity totalled 605,200 tpa in 2011, while consumption amounted to 801,000 tons. The Titan polypropylene plant at Omsk (180,000 tpa) is in the early stages of production, whilst Tobolsk-Polymer expects to start production in the second quarter last year.




For LDPE, Russian capacity totalled 636,800 tpa at the end of 2011, whilst consumption totalled 633,702 tons. With capacity running at close to 100% last year the LDPE market is largely in equilibrium. A major new project for LDPE production is being developed at Novy Urengoy, but this is unlikely to be operational at least until 2015.

**Russian Polypropylene Capacity November 2012 (Unit-ktpa)**

| Producer | Capacity |
|---|---|
| Ufaorgsintez | 100 |
| Stavrolen | 120 |
| Moscow NPZ | 114 |
| Nizhnekamskneftekhim | 180 |
| Tomskneftekhim | 130 |
| Omsk Kaucuk | 180 |
| Total | 824 |

### Nizhnekamnskneftekhim selects Basell technology for 2nd PP unit

Nizhnekamskneftekhim has selected Basell technology for its new polypropylene facility which will be constructed as part of the new polyolefin complex at Nizhnekamsk. This unit will be much larger than the existing plant, where capacity stands at 230,000 tpa. The new plant will be designed to produce 400,000 tpa. Polypropylene capacity in Russia is rising significantly; Omsk Kaucuk is in process of mastering start-up at present whilst Tobolsk-Polymer has recently completed testing on packaging lines for the new plant next year. The Tobolsk-Polymer project represents, in particular, a significant leap forward for Russian polypropylene production and together with the Omsk plant could create a surplus in 2013. At the same time domestic consumption is rising which may help to reduce the amount of surplus in 2014-2016. However, in the 2016-2017 timeframe Nizhnekamskneftekhim and Zapsibneftekhim are expected to commission

new plants raising questions about a new surplus and possible export opportunities. The degree of surplus will be ultimately determined by the rate of growth in consumption inside the Russian market.


## Russian HDPE imports

Imports of HDPE to Russia in October amounted to 46,100 tons in October, 9% more than September. The largest increase in import grades was for polyethylene pipe where 18,600 tons was shipped into the country, 39% more than September. During the first ten months of 2012 Russian imports of HDPE totalled 336,300 tons. Sources have varied but have originated mainly from South Korea, Saudi Arabia, and Germany.

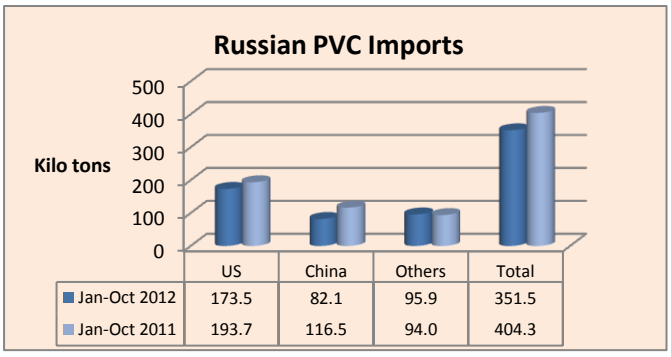
The increase in import volumes this year has been driven mainly by the extended outage at Budyennovsk, which has now ended after the cracker was restarted in late September. Stavrolen started to produce HDPE in the early part of October. Production started with HDPE blow moulding grades, followed later in the month by film and pipe. The impact on imports is expected to felt in the coming months.

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

| *Producer* | *Jan-Oct 12* | *Jan-Oct 11* |
|---|---|---|
| Kazanorgsintez | 345.3 | 291.8 |
| Stavrolen | 22.0 | 255.1 |
| Nizhnekamskneftekhim | 166.9 | 120.1 |
| GNS (Salavat) | 44.1 | 41.7 |
| Total | 578.3 | 708.7 |

## Russian HDPE production, Jan-Oct 2012

Following the restart of the Stavrolen plant Russian HDPE production increased in October to the highest level this year, 70,000 tons, which was almost double the level of September. Kazanorgsintez stopped HDPE production in mid-September for a scheduled stop caused low production. Stavrolen resumed production in early October and reached 100% utilisation by the end of the month, producing 22,000 tons. Kazanorgsintez resumed production of HDPE in early October and produced 25,800 tons for the month. Gazprom Neftekhim Salavat Petrochemical increased utilisation to 90% of capacity utilisation whilst Nizhnekamskneftekhim remained unchanged. Production totalled 572,200 tons in the period January to October, 18% down on 2011.




## Russian PVC Imports, Oct 2012

Russian imports of PVC totalled 48,850 tons in October, 21% more than in September. US imports amounted to 25,000 tons in October after totalling 22,100 tons in September. Despite problems with rail cars Chinese suppliers shipped 14,700 tons to Russia against 6,000 tons in September. Imports from the US and China have been partly helped by the downtime by Karpatneftekhim in Ukraine. For the period January to October 2012 Russian imports of PVC amounted to 351.600 tons, 15% down on last year.

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

| *Producer* | *Jan-Oct 12* | *Jan-Oct 11* |
|---|---|---|
| Evroplast (Senezh) | 77.5 | 71.8 |
| SIBUR-PETF | 74.4 | 62.4 |
| Alko-Naphtha | 118.0 | 53.3 |
| Polief | 109.6 | 116.6 |
| Total | 379.4 | 304.1 |

## Russian PET market, Jan-Oct 2012

Russian PET production totalled 379,400 tons in the first ten months in 2012, up by 75,300 tons over January to October 2012. Aside the rise in volumes from Alko-Naphtha, SIBUR-PETF has increased production this year although Polief has reduced slightly due to maintenance.

Imports of PET into Russia amounted to 8,500 tons in October, 15% lower than September and reflective of declining volumes into the Russian market. Aside increased domestic availability this year, recent declines in demand have been noted from the soft drinks and beer sectors. In January-October Russian PET imports totalled 133,000 tons which is 47.5% less than in 2011. Russian processors are taking a more cautious approach to purchasing this year, not to repeat the mistakes of 2011 and avoid excess material. It now seems that the beer industry will not be prevented from

using PET for packaging. The beer industry is one of the largest consumers of this type of packaging for beverages. The sector accounts for between 25% to 31% of preforms produced currently in Russia.

## Aromatics & derivatives


### Omsk refinery-PTA plans

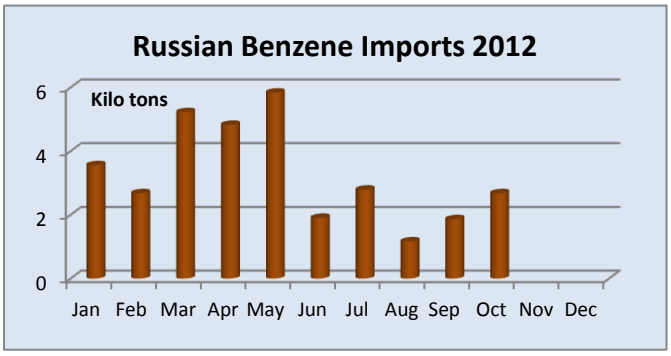
SIBUR is in the process of evaluating a joint project with Gazprom Neft for the construction of a PTA plant at the Omsk refinery. Significant investments are planned by Gazprom Neft for the Omsk refinery over the next few years and PTA represents a key project. Involvement with SIBUR is considered important in relation to integrating the new plant with Russian PET producers.

PTA represents the main feedstock issue facing PET producers in Russia, followed by MEG. The Ethan project at Nalchik, for example, may be forced to depend on the delivery of raw materials from Novorossiysk on the Black Sea due to the absence of available feedstock on the domestic market. Based on current production levels Russian companies would be unable to supply either PTA or MEG, even before logistics come into question. Other PET/polyester project locations under planning and review in Russia include Ivanovo and Tatarstan, where both locations posses more accessibility to raw material deliveries.

The sole producer of PTA in Russia is Polief, with 250,000 tpa of capacity. Alko-Naphtha works on imported PTA (88,600 tons purchased in 2011 and 173,000 tons predicted for the whole of 2012). As a result, Gazprom Neft and SIBUR view the construction of new PTA facilities, using the paraxylene from the Omsk refinery. MEG investments are harder to identify in Russia. Eastern Petrochemical Company is building a new unit at Nakhodka in the Russian Far East but this is unlikely to be shipped to the western parts of Russia. Exports of MEG are possible at present, but there are estimates that the net surplus balance could soon shift to deficit. Around 32,000 tons was imported in the first ten months in 2012 and this is expected to rise next year.

### Russian benzene, Oct 2012

Russian sales of benzene to the merchant market totalled 61,000 tons in October, 10% up on September. The restart of production at the Angarsk Polymer Plant and SIBUR-Neftekhim, both after maintenance, resulted in more availability on the domestic market. At the same time Gazprom Neftekhim Salavat reduced sales by 20% to 6,800 tons. In the period January to October 2012 Russian sales of benzene on the domestic market totalled 601,400 tons against 606,200 tons in 2011. On 13 November, Stavrolen resumed production of benzene at Budyennovsk and this should help to provide additional supply to the market.

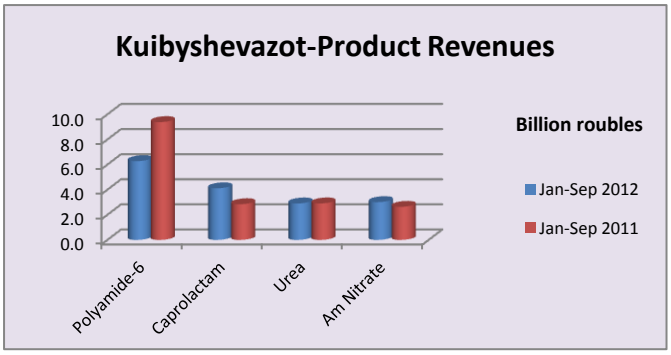



Production of benzene increased 38% in October over the previous month to 94,900 tons. Angarsk Polymer Plant increased production 1.8 times to 8,800 tons, Nizhnekamskneftekhim increased production five times to 14,000 tons, whilst increases were also recorded by SIBUR-Neftekhim and TNK-BP at Ryazan. Benzene production totalled 908,000 tons in the period January to October, down slightly on last year.

Imports of benzene into Russia totalled 32,500 tons in the period January to October 2012, 7% down on last year. Major importers consisted of Ukrainian producers Yasinovsky Coke with 53% of gross supply and Zaporozhkoks 30%. Domestic consumers of imported benzene include Samaraorgsintez, Kazanorgsintez and Kuibyshevazot. In the period January to October 2012 ArcelorMittal Temirtau shipped 1,970 tons of benzene from Kazakhstan to Russia.

### Kuibyshevazot, Jan-Sep 2012

Kuibyshevazot's turnover dropped 5.6% in the period January to September 2012 against the same period last year and totalled 21.4 billion roubles. Net profits declined from 4.238 billion roubles in 2011 against 2.7 billion




roubles this year. Most products saw a decline in volume aside fabric cord which rose 10.2% over the same period last year. The weak results are attributable to a decline in market prices and extended maintenance at some of the units. Kuibyshevazot will soon start operations at the new units for ammonia and hydrogen together with the Linde Group. This is a jv in Kuibyshevazot owns a 24% interest.

### Kuibyshevazot-benzene plans

The Russian Federal Antimonopoly Service (FAS) has granted Kuibyshevazot the right to buy 37% minus one share of Benzol, and for implementing the project for the construction of a benzene plant at Togliatti. As a result of this decision, Kuibyshevazot has increased its share in Benzol to 75% minus one share. A jv Benzol was created in 2004 together with Magnitogorsk Metallurgical Combine for the construction of a 70,000 tpa benzene plant at Togliatti based on coal. However, this jv did not progress and was replaced by a new jv with InterViks based on hydrocarbons. A pilot plant has already been established, although it is not clear when the full plant will be up and running. Kuibyshevazot consumes around 130-140,000 tpa of benzene for the production of caprolactam, and wants to produce around 100,000 tpa from the new plant.

### Russian orthoxylene market, Jan-Sep 2012

Russian phthalic anhydride production may come under pressure in 2013 from orthoxylene supply tightness, if recent trends continue. Demand for orthoxylene from other applications such as paint and varnishes in the Russian market has risen in 2012, whilst also its use as high-octane additive for motor fuels has increased. As domestic consumption of orthoxylene has increased in 2012 exports have subsequently fallen.

**Russian Orthoxylene Market (unit-kilo tons)**

| | *Jan-Sep 12* | *Jan-Sep 11* | *Jan-Dec 12* | *Jan-Dec 11* |
|---|---|---|---|---|
| Production | 150.8 | 128.9 | 176.4 | 193.8 |
| Exports | 35.8 | 42.2 | 56.4 | 66.4 |
| Market Balance | 115.0 | 86.7 | 120.0 | 127.5 |

Phthalic anhydride remains the main outlet for orthoxylene, accounting for 67% of consumption in the first three quarters in 2012. Kamteks-Khimprom accounts for the largest share of shipments. Paints are the second largest consumer of xylenes, accounting for 28% of purchases in 2012 and showed a 20% rise over 2011. Enterprises where orthoxylene used as a high-octane additive for production of motor fuels accounted for 2% of consumption in the period January-September 2012.

From January to September this year, orthoxylene production increased by 17% to 150,780 tons. Ufaneftekhim significantly increased production, whilst Kirishinefteorgsintez and Gazprom Neft, by contrast, reduced capacity utilisation. Ufaneftekhim is the only producer to increase exports this year, rising 3.5 fold against the same period in 2011. Due to growing domestic demand Kirishinefteorgsintez reduced exports by 31%, and Gazprom Neft by 32%. As a result total exports declined by 15% against January-September 2011 to 35,830 tons.

### Russian orthoxylene exports, Oct 2012

Orthoxylene exports in October from Russia amounted to 1,500 tons, 2.2 times less than in September and 26% lower than in October 2011. The reduction is due to increased demand in the domestic market, with new application areas such as high-octane additives for motor fuels seeing growth. In October only Kirishinefteorgsintez participated in exports, sending all shipments to Finland. Overall, from January to October 2012, orthoxylene exports from Russia totalled 37,800 tons, 15% down on last year. Domestic sales of orthoxylene totalled 11,020 tons in October, 27% less than in September, but 26% higher than in October 2011. In the period January to October Russian sales on the domestic market were up 9% on last year to 113,780 tons.

### Russian phthalic anhydride market, Oct 2012

Exports of phthalic anhydride from Russia amounted to 3,700 tons in October, 2% lower than September and 15% lower than in October 2011. Kamteks-Khimprom accounted for 3,370 tons, whilst another 330 tons was re-exported from Ukrainian sources. Regarding imports Lakokraska in Belarus shipped only 158 tons in October, 40% down on September. The main volumes of Belarusian products in October were bought by paint companies ABC Farben and Russian Coatings.

From January to October 2012, export shipments of phthalic anhydride from Russia amounted to 44,500 tons and this was 3% less than in 2011. Turkey accounted for 23% of Russian exports, China 23%, Poland 17% and Ukraine 11%.

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

| *Product* | *Jan-Sep 12* | *Jan-Sep 11* |
|---|---|---|
| HDPE | 0.2 | 0.1 |
| LDPE | 53.2 | 56.3 |
| n-butanol | 59.4 | 72.3 |
| iso-butanols | 62.3 | 63.4 |
| PVC | 0.2 | 0.7 |
| Phthalic Anhydride | 11.3 | 9.9 |
| 2-EH | 8.4 | 7.4 |
| PP | 6.3 | 1.7 |
| Acrylonitrile | 14.6 | 7.4 |
| Caprolactam | 138.6 | 97.2 |
| Polycarbonate | 15.8 | 11.8 |
| Styrene | 6.8 | 8.0 |
| Orthoxylene | 2.9 | 1.0 |
| Paraxylene | 5.2 | 0.0 |
| Phenol | 1.5 | 0.0 |
| Acetone | 9.6 | 5.8 |
| Bisphenol A | 28.0 | 23.0 |
| Methacrylic Acid | 2.0 | 0.0 |
| Polyamide | 31.2 | 41.5 |

### Russian toluene market

The volume of Russian toluene by rail to domestic consumers in October totalled 7,900 tons, 26% less than in September, but at 9% higher than in October 2011. Consumption is divided between explosive manufacturers, paint producers, lubricants, etc. In the first ten months of 2012 rail deliveries of toluene to the Russian market totalled 96,100 tons, 13% more than in 2011.

## Synthetic Rubber

### Butadiene-Tobolsk

SIBUR recently completed the expansion of the butadiene plant at Tobolsk from 197,000 tpa to 207,000 tpa, which will help the domestic market for merchant butadiene. The original design capacity of the butadiene plant at Tobolsk was 180,000 tpa, started in 1987 with the first shipment sent to the synthetic rubber plant at Krasnoyarsk. In 2010, SIBUR increased production capacity at Tobolsk to 197,000 tpa and now in 2012 up to 207,000 tpa.

Butadiene production is undertaken by one-step dehydrogenation of butane under vacuum, and is carried out using the process developed by Goodrich. This technology enables a product of high purity, thus butadiene produced by Tobolsk-Neftekhim confirms to levels of 99.5-99.6%. Tobolsk-Neftekhim produces about 40% of Russian butadiene, and sells all of its output on the merchant market to consumers such as Krasnoyarsk SBR plant, Voronezhsintezkaucuk, and the Efremov Synthetic Rubber Plant.

### SIBUR-Sinopec jv at Krasnoyarsk

SIBUR and Sinopec have concluded an agreement under which Sinopec plans to buy a 25% +1 share in Krasnoyarsk Synthetic Rubber Plant, leaving SIBUR with majority control. The transaction is subject to approval by the Russian and Chinese regulators. The parties had previously signed a cooperation agreement, which is the basis for a joint venture for the production of butadiene nitrile rubber based at Krasnoyarsk. The investment plan comprises an expansion in butadiene-nitrile capacity from 42,500 tpa to 56,000 tpa and this should be implemented by 2014.

SIBUR and Sinopec have also discussed projects for the establishment of a jv for the production of nitrile and polyisoprene rubber at Shanghai. Possible production capacity is estimated at 50,000 tpa for each type of rubber and will be finally determined after the technical and economic evaluation of the project.

**Russian Tyre Production (unit-million pieces)**

| | *Jan-Oct 12* | *Jan-Oct 11* |
|---|---|---|
| Cars | 24.4 | 26.1 |
| Lorry | 6.8 | 7.1 |
| Agricultural | 1.1 | 1.2 |
| Total | 32.4 | 34.4 |

### Russan tyres face Chinese imports

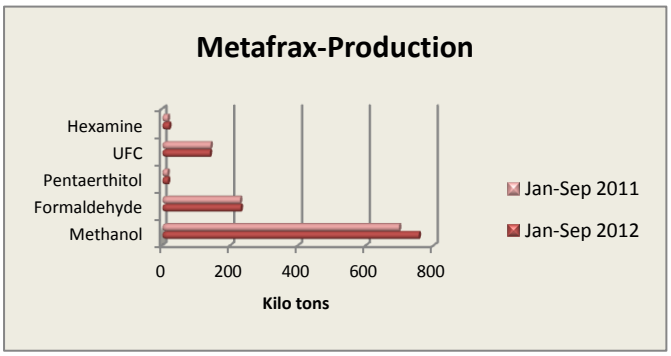
Russian car tyre production fell 6.8% in the period January to October 2010 to 24.4 million pieces, whilst falls were also recorded for truck and agricultural tyres. Domestic tyre manufacturers in Russia fear a sharp rise in imports of cheap Chinese tyres as a result of Russia's accession to the WTO and are preparing an appeal to the government on the possibility of initiating an anti-dumping investigation against tyres from China. From total consumption of around 60 million tyres this year Chinese imports could amount to 3 million tyres, thus amounting to 5% of the market but Russian tyre producers are not keen to prevent this share growing. The cost of Chinese tyres generally is lower than the cost of production of domestic products.

### Omsk Kaucuk, Jan-Sept 2012

Omsk Kaucuk increased its net profit by 4.5 times in the period January to September 2012 against last year to 107.4 million roubles. Revenue for the period increased by 14% up to 3.699 billion roubles. At the start of November the shareholders took the decision to unite Omsk Kaucuk's three subsidiaries Omsk Synthetic Rubber Plant, Omsk Organic Chemical Division and Omsk Plant of Pyrolysis.

Despite the increase in profits this year Omsk Kaucuk's main strategic challenge appears to rest on raw material uncertainty. The company buys C4s or butadiene but both are in short supply in Russia. The company stresses that new rubber capacity is required in Russia to meet the demand of the rapidly expanding automotive industry, but feedstock constraints mean that investments are difficult. In the area of phenol, Omsk Kaucuk does not believe that consumption in Russia will alter much in the next five years unless legislation is changed to allow greater use of phenolic based products.

## Methanol & Ammonia

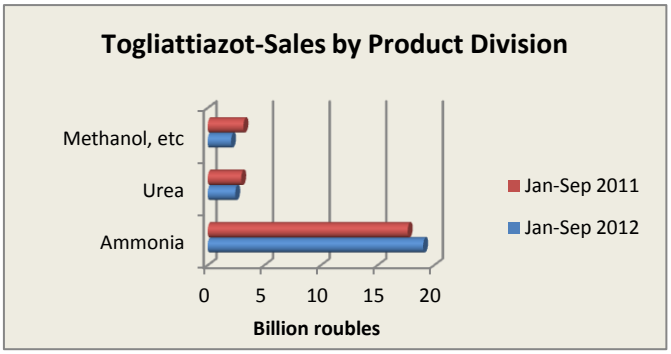



### Metafrax, Jan-Sep 2012

Metafrax achieved turnover of 8 billion roubles in the period January-September 2012, 1.7 billion roubles up on 2011. The share of exports in total sales comprised 39.2% against 39%, thus hardly reflecting any change. Production of methanol totalled 757,000 tons in the first three quarters (58,000 tons up on 2011). According to preliminary data, the net income received by the company in January-September amounted to 1.6 million roubles. This is twice higher than in the corresponding period last year. Metafrax has reached agreement recently with VTB Capital in Moscow for funding short-term projects as well as the possible allocation of $500-600 million for major projects.

### Russian methanol market, Jan-Oct 2012

Methanol sales on the domestic market totalled 970,000 tons in the period January to October 2012 which is 1% up on last year. The sales volumes of methanol in Russia have appeared strong in November compared to October due to seasonally high demand. October sales of methanol totalled 88,500 tons which was 8% lower than September, and down due to repairs at Togliattiazot. Metafrax sold 39,500 tons in October on the domestic market and Sibmetakhim 30,000 tons. Over the 10 months of 2012 the sales of MTBE in the Russian market amounted to about 576,000 tons, 13% up on 2011.




### Togliattiazot, Jan-Sep 2012

Net profit of Togliattiazot for January-September 2012 increased by 57% to 6.45 billion roubles. Revenue from product sales decreased by 1% to 23.5 billion roubles. And the cost of sales decreased by 1% to 10.15 billion roubles. Togliattiazot is Russia's largest producer of ammonia, and also produces urea, methanol and urea-formaldehyde concentrate. Ownership of the company is divided into 76% by the management of Togliattiazot and 9.74% by Uralkhim.

### Evrokhim, Jan-Sep 2012

Evrokhim's central division increased its net profit 2.3 times to 7.9 billion roubles. Revenues increased by 30% to 47.1 billion roubles, whilst the EBITDA decreased by 14% to 11.7 billion roubles. Evrokhim's fertiliser division increased its EBITDA by 22% to 22.6 billion roubles. The contribution of the gas producer in this divisional EBITDA totalled 348 million roubles. In January-September, Severneft-Urengoy produced 514 million cubic metres of gas and 99,000 tons of gas condensate. In this case, 431.5 million cubic metres of gas were sold to Gazprom on contracts in force prior to the transaction, and the remaining 48.5 million cubic metres have been shipped to Azot at Novomoskovsk.

**Azot Novomoskovsk-Financial Performance (Billion roubles)**

| | *Revenues* | *Costs* | *Pre-Tax Profit* |
|---|---|---|---|
| Jan-Sep 2012 | 25.974 | 12.819 | 10.047 |
| Jan-Sep 2011 | 21.814 | 10.840 | 7.085 |

Net profit of Azot at Novomoskovsk rose in January-September 2012 by 31.5% to 8.42 billion roubles. Revenues from product sales increased by 19% to 26 billion roubles, while exports grew by 22% to 20.3 billion roubles and accounting for around 80% of sales. Sales on the domestic market rose by 9.3% to 5.6 billion roubles, whilst the cost of sales increased by 13.5% to 12.3 billion roubles.

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

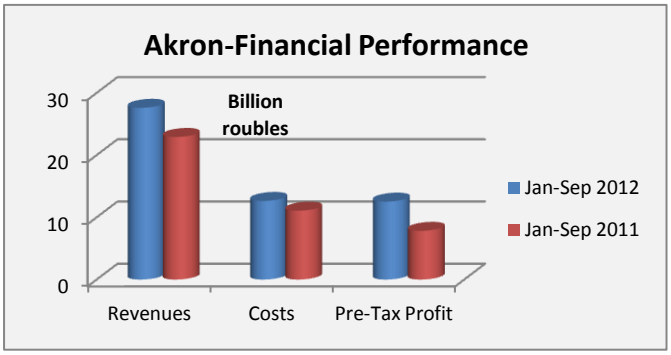
| *Product* | *Jan-Sep 2012* | *Jan-Sep 2011* |
|---|---|---|
| Urea | 856.0 | 795.0 |
| Ammonia | 577.6 | 530.1 |
| Ammonium Nitrate | 1898.7 | 2032.4 |
| Ammophos | 304.8 | 357.2 |
| Complex fertilisers | 462.1 | 445.6 |
| Other chemicals | 242.5 | 207.9 |

### Uralkhim, Jan-Sep 2012

Uralkhim's revenue in the first nine months of 2012 grew to $1.804 billion, compared to $1.556 million in 2011. Operating profit amounted to $553 million compared to $487 million in 2011. Urea and ammonia production both increased in 2012. Uralkhim may increase investment in its Perm plants Azot and Minudobrenya in 2013 by around 20% over this year to 2.4 billion roubles. Most of the funds will be used to replace worn-out equipment. Uralkhim is also considering the reconstruction of ammonia and urea plants.

### Akron, Jan-Sep 2012

Net profit of Akron increased 60% in the first nine months of 2012 and amounted to 9.84 billion roubles. Revenues increased by 20.5% and amounted to 27.6 billion roubles. Akron is concentrating on the expansion of the methanol plant to 600 tons per day, and the construction of ground storage facilities for methanol. Other projects include the reconstruction of the urea plant to increase its capacity to 1800 tons per day.




The main challenges to Akron lie in the cost of natural gas, sylvite, apatite, energy and transportation. In all of these sectors rises have been recorded this year, although some quite modest. Higher tariffs for electricity and natural gas took place from July. Part of the gas consumption is based on regulated prices, but this share has been in decline with the rise of volumes based on market prices. Gas prices are scheduled to rise in 2013-2014, up to a maximum of 15% each year, although it will take some time before Akron and other Russian fertiliser producers are paying full international prices.

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

| *Producer* | *Jan-Oct 12* |
|---|---|
| Akron | 189.7 |
| Azot Kemerovo | 401.8 |
| Azot Novomoskovsk (Evrokhim) | 1191.1 |
| Azot (Uralkhim) | 555.9 |
| Kuibyshevazot | 252.9 |
| Minudobrenya (Uralkhim) | 553.6 |
| Azot Nevinomyssk (Evrokhim) | 555.9 |
| Azot Cherepovets(Fosagro) | 388.1 |
| Gazprom Neftekhim Salavat | 415.1 |
| Togliattiazot | 329.5 |
| Fosagro | 116.0 |
| Total | 4949.6 |

### Fosagro, ammonia and urea investments

Fosagro expects to choose a new licensor for the ammonia plant at Cherepovets by the end of 2012. The capacity of the planned new plant will be 760,000 tpa, with an investment cost of around $600 million. Gazprom has confirmed the technical ability to provide additional gas to Cherepovets at a rate of 800 million cubic metres in 2016 to support ammonia and urea production. The gas is to be delivered from the Bovanenkovo field in the Arctic circle which has only opened this year. The huge Bovanenkovo gas field possesses reserves of about 5 trillion cubic metres.

In October Fosagro opened a new urea plant of 500,000 tpa, the first new investment in Russia for many years. Total capital investment in the construction of the urea and power plants were more than 7.5 billion roubles, using Stamicarbon technology. The need for a new urea plant arose due to the excess of ammonia at Cherepovets. This places Fosagro as the third largest producer of urea in Russia after Evrokhim (1.49 million tpa) and Uralkhim (1.2 million tpa). Fosagro-Cherepovets was established on 1 July this year through the merger of Ammophos and Azot Cherepovets.

## Organic Products

### Russian butanols market

Domestic shipments of butanols to the Russian market amounted to 5,330 tons in October, 15% down on September. Despite the decline in the last month domestic purchases rose 17% in the period January to October 2012 over 2011 and totalled 64,310 tons. Broken down by product normal butanols accounted for 86% of shipments. although trend has been seen this year of isobutanol consumption gradually increasing in Russia. The main purchaser of butanols in the Russian market remains the Dmitrievsky Chemical Plant, which produces butyl acetate and also exports butanols on behalf of the main producer Gazprom Neftekhim Salavat. Akrilat at Dzerzhinsk, which is now part of SIBUR, is the second largest consumer.


Butanol exports from Russia rose 18% in October against September and totalled 14,410 tons. The increase was due to the increasing demand for butanol in Asia. China accounts for the largest part of export shipments. For January to October 2012 Russian exports of butanols totalled 139,900 tons, 18% down on 2011. Gazprom Neftekhim Salavat accounted for 54% of shipments, followed by SIBUR-Khimprom with 24% and Angarsk Petrochemical Company with 22%. Normal butanols comprised 49% of total exports, and it is normal butanols where domestic growth has taken place this year.

### Plasticizer alcohols

Russian consumption of DINP rose 27% in the period January to September 2012 over 2011 and totalled 42,600 tons. Sales of DIDF for the same period grew by 29% to 3,780 tons. DOP sales have increased this year in Russia also, but by a much slower rate at 5% to 57,600 tons. This was due mainly to purchases from the consumer Tarkett whilst smaller consumers also increased their processing volumes of DINP and DIDF. The increase in DOP sales comes after a decline of 16% in 2011 and was mainly due to the growth of cable PVC. Volumes of production of DOP at Russian plants in the nine months of 2012 increased by 18% to 55,800 tons. However, the demand for DOP in 2013 is expected to drop back again, particularly if the Roshalsky Plasticizer Plant completes an expansion of its DINP capacity.

Price fluctuations for DINP and DIDF have slowed the transition from DOP this year. The average price gap, for example, between DINP and DOP in 2012 was about $275/ton, against $510/ton in 2011. Two of the European suppliers provide Tarkett with higher grade plasticizers at the same price the customer would expect to pay for DOP. This has allowed Tarkett to see the value of DINP. Thus, the shift towards these plasticizers seems inevitable, but the pace of change will be determined by comparative prices of DOP and domestic availability.

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

| Producer | Jan-Oct 12 | Jan-Oct 11 |
|---|---|---|
| Ufaorgsintez | 60.9 | 48.1 |
| Kazanorgsintez | 52.8 | 44.7 |
| Samara | 62.2 | 62.7 |
| Omsk Kaucuk | 51.9 | 51.1 |
| Total | 227.8 | 206.6 |

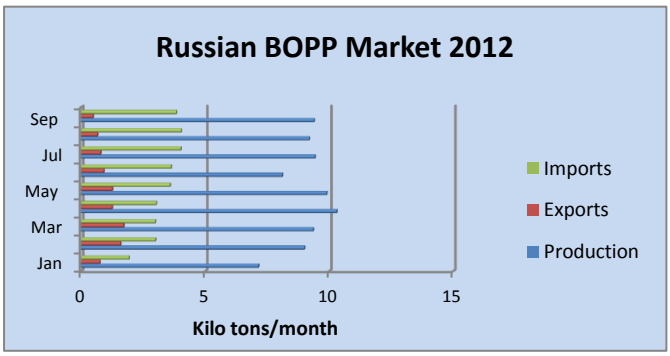
### Russian phenol market

From January to October 2012, exports of phenol from Russia amounted to about 7,000 tons. This represents a marked increase over 576 tons in the same period last year, and reflective of a more active market. Imports totalled 5,400 tons in 2012 against 4,000 tons in 2011. Borealis is the main source of imports, with Shchekinoazot and Pigment as the main Russian buyers. Production of phenol in Russia has been stimulated this year by increases at Ufaorgsintez and Kazanorgsintez.

## Other Products

### Biaksplen Group starts CPP film production

The Biaksplen Group has started large-scale production of a new brand of metallised CPP-film, which is used in flexible packaging and laminates used for packaging products. The use of CPP-films in the package allows the combination of good barrier properties, high seal strength, puncture resistance, etc. Until this year, Russian consumption of non-oriented polypropylene film was met solely through imports, as well as through the production of two-stage films, when the extrusion and film metallisation is performed by two different companies. The current market of consumption of metallised biaxially oriented films in Russia is about 17,000 tpa, while consumption of metallised CPP-film is much lower at 2,000 tpa.




The Biaksplen Group is focused primarily on BOPP production, consisting of four plants located at Balakhna (Nizhny Novgorod region), Kursk (Kursk region), Novokuibyshevsk (Samara region), and the Moscow region. Total capacity of BOPP production is 111,000 tpa. BOPP supply in Russia has been tight this year, following technical problems at the Biaksplen

group between May and September. Imports have risen subsequently. A major new investment in BOPP capacity is being undertaken by SIBUR, which owns Biaksplen, at Tomskneftekhim.

### Elastokam-technical polyurethane centre

Elastokam has opened a technical centre at Vsevolozhsk in the Leningrad region for integrated support of processors of polyurethane. The opening of the technical centre will provide processers of polyurethane materials a comprehensive service in the field of sales and technology. The centre equipment is capable of testing polyurethane materials of any industry, including automotive, construction, and furniture manufacturing. Elastokam is a jv formed in the 1990s between BASF Polyurethanes and Nizhnekamskneftekhim for producing polyurethane systems.

### Gazprom Khimvolokno-new polyester cord line

Gazprom Khimvolokno at Volgograd (formerly SIBUR-Volzhskiy) has commissioned a new production line for polyester tyre cord fabrics, which are intended for the production of car tyres. Capital investment in the project amounted to about 4 billion roubles. The capacity of the line is around 30 million running metres per annum which is expected to start in 2013. The new line will significantly increase the output of high-quality polyester cord and supplies the domestic tyre manufacturers. Gazprom Neftekhim Salavat acquired 100% of shares of SIBUR- Volzhskiy in December 2011 for 75 million roubles.

### Galopoloymer-new Teflon line

Galopolymer has launched a new line for the production of Teflon-4MB (FEP) at Kirovo-Chipetsky. The line uses equipment supplied by KraussMaffei Berstorff GmbH (Germany) will enable the company to increase production Teflon-4MB (FEP) up to ten-fold. It will also help to improve product quality through the inclusion of the line unit for melt filtration. Teflon-4MB is used in chemically resistant fibres with flame retardant properties, durability, physiologically safe and bio persistence.

Galopolymer has put forward the need for specialised regulations for fluoropolymers in connection with Russia's entry into the WTO. These regulations are intended to establish mandatory for implementation and enforcement of safety requirements for fluoride and chlorine based in line with the requirements of the Montreal Protocol on Substances that Deplete the Ozone Layer.

Galopolymer fears the prospect of Teflon waste coming to the Russian market, which contain high concentrations of perfluorooctanoic acid, a poisonous substance listed on the Persistent Organic Pollutants Stockholm Convention on Persistent Organic Pollutants. Moreover, in practice, products from recycled waste fluoropolymers possess poorer physical and mechanical properties, etc.

### Nikokhim completes merger

The merger between Kaustik at Volgograd and Plastkab at Volgograd has been completed under the holding company Nikokhim. Kaustik had previously merged with Plastkard, the PVC producer, to unite the two companies that were originally created as one Soviet enterprise before being split up in the post-Soviet privatisation. Plastkab produces PVC compounds, which creates a vertical chain in chlorine based production and end-products. The merger has been undertaken to not only improve operational efficiency by centralising administrative functions, but also to achieve elimination of production risks by reducing losses in the PVC chain.

### Praxair-Togliatti

Praxair Samara plans to build a modern high-tech plant in the Togliatti SEZ (Special Economic Zone) for the production of industrial and specialty gases. The project in the SEZ is intended to attract new investors to the region, for which Praxair's plant represents an integral part of the manufacturing process. Building the new plant is scheduled for completion by the end of 2014.

### SIBUR sells ethylene chlorohydrin plant

SIBUR-Neftekhim Industrial Park Oka-Polymer and Kazan Synthetic Rubber Plant signed an agreement to sell the **K**azan plant installations for the production of ethylene chlorohydrin in Dzerzhinsk. As part of the sale of the unit for ethylene chlorohydrin SIBUR and Kazan Synthetic Rubber Plant signed an agreement up to 2018 for delivery of ethylene oxide, the main raw material for the production of ethylene chlorohydrin. Ethylene oxide is produced nearby at Dzerzhinsk by SIBUR-Neftekhim. In addition to the production unit for ethylene chlorohydrin, the Kazan Synthetic Rubber Plant will also have access to auxiliary facilities located at the site of the Industrial Park Oka-Polymer where it will be one of the first residents. Production capacity for the ethylene chlorohydrin plant is 22,000 tpa.


### Russian soda ash

In October, Russian consumers bought 25,210 tons Ukrainian soda ash, 24% up against September. In the period January to October 2012 Crimean Soda delivered 190,690 tons of soda ash to the Russian market, 69% up on the same period last year. The share of Ukrainian soda ash in total Russian imports was 55%. Sodi from Bulgaria has accounted for

30% of imports in 2012.

## Belarus


### Kazakhstan-Mogilevkhimvolkno

Kazakhstan and Belarus have been in discussions to create a jv based on Mogilevkhimvolokno, possibly involving equity stakes as part of the pending privatisation of Belneftekhim. The main premise of interest is focused on paraxylene, which could be shipped from a new plant under construction at Atyrau in Kazakhstan to Mogilev in Belarus. This initially could involve the production of DMT, which Mogilevkhimvolokno currently produces but Kazakhstan's main interest is concentrated on the financing the construction of a new PTA plant at Mogilev. The aim is to develop a vertical chain from paraxylene through to fibres.

Paraxylene supply for Mogilevkhimvolokno traditionally comes from Russia, mostly Omsk. Availability is constrained due to the rise of paraxylene consumption in Russia. Moreover, Gazprom-Neft in conjunction with SIBUR, is evaluating possibilities for a PTA project at Omsk which would all but phase out merchant sales to either the domestic or export markets. Although such a project is unlikely to be completed prior to 2016, it does raise strategic supply questions for Mogilevkhimvolokno. Should the PTA project at Omsk proceed it would leave Kirishinefteorgsintez as the only remaining Russian paraxylene plant with availability for export. Traditionally exports from Kirishi are directed to other markets rather than Belarus.

**Belarussian Chemical Imports (unit-kilo tons)**

| *Product* | *Jan-Sep 12* | *Jan-Sep 11* |
|---|---|---|
| ABS | 7.2 | 6.0 |
| MEG | 45.7 | 60.2 |
| PET | 17.3 | 5.6 |
| PVC | 37.5 | 32.4 |
| Polypropylene | 46.1 | 40.9 |
| Polystyrene | 46.8 | 45.5 |
| LDPE | 11.5 | 7.6 |
| HDPE | 38.6 | 39.4 |
| Soda Ash | 97.8 | 98.7 |
| NaOH Liquid | 42.3 | 51.1 |
| NaOH Solid | 8.5 | 9.0 |
| Carbon Black | 44.4 | 42.0 |

Kazakhstan is in the process of constructing its new aromatics complex at Atyrau in the north-west of the country, including 133,000 tpa and 496,000 tpa of paraxylene. This complex could be completed by the end of 2013, or start of 2014. Until now it has been assumed that the paraxylene would be shipped mostly to China, but following the proposed collaboration between Kazakhstan and Belarus a large proportion of the output could be shipped to Belarus for consumption at Mogilev. The distance between Atyrau and Mogilev is around 2100 km, which is less than potential sales to the Chinese market. Kazakhstan Petrochemical Industries has estimated it would require around $700 million to construct a PTA plant at Mogilev, whilst investing another $300 million in the development of polyesters.

**Belarussian Chemical Exports (unit-kilo tons)**

| *Product* | *Jan-Sep 12* | *Jan-Sep 11* |
|---|---|---|
| Phthalic anhydride | 4.7 | 6.6 |
| Caprolactam | 35.6 | 56.2 |
| Urea | 148.2 | 127.0 |
| Sulphuric Acid | 49.9 | 55.1 |
| Methanol | 54.8 | 48.0 |
| PET | 33.8 | 32.4 |
| Polyamide | 13.4 | 1.8 |
| LDPE | 67.4 | 58.6 |

Kazakhstan and Belarus are part of the three-country Eurasian customs union, together with Russia, that allows free trade to take place or at least in principle. It is not clear if Kazakhstan Petrochemical Industries had considered constructing a PTA plant at Nalchik, where Ethan is constructing a new PET facility and has expressed the intention to build its own PTA facility. The distance between Nalchik and Atyrau is less than half than between Mogilev and Atyrau.

### Mogilevkhimvoloko-expansion plans

Mogilevkhimvolokno is targeting a three-fold rise in profits by the end of 2015 by developing new products with added value. One of the main projects includes an increase in the production of PET edible grade from 80,000 to 240,000 tpa. The company wishes to further develop its processing capacity, reducing the emphasis on export activity.

Exports constitute a relatively small part of Mogilevkhimvolokno's production of PET, and traditional markets such as Russia are becoming more difficult in view of higher Russian domestic capacity. Moreover, imports are still

required into Belarus in order to meet product demand not covered by Mogilevkhimvolokno. At present the company is heavily focused on its product market strategy whilst at the same time trying to diversify its raw material sources.

**Azot Grodno-Production (unit-kilo tons)**

| *Product* | *Jan-Sep 12* | *Jan-Sep 11* |
|---|---|---|
| Methanol | 62.4 | 58.3 |
| Caprolactam | 89.4 | 97.4 |
| Polyamide primary | 37.7 | 34.6 |
| Polyamide filled | 8.0 | 8.2 |
| Ammonia | 775.3 | 804.3 |

### Azot Grodno-Jan-Sep 2012

Azot at Grodno increased fertiliser production in January-September 2012 by 5.2% over the same period last year. Methanol production totalled 54,900 tons in the first three quarters, 8% up on 2011, and caprolactam 83,900 tons which was 5.5% down. In October 2011, Azot finalised a merger with Khimvolokno a producer of polyamide and polyester yarns and fibres, polyamide-6, and composite materials based on materials produced by Azot. Khimvolokno became part of Azot as a fibre complex and has since expanded production volumes. The production of man-made fibres and filaments at Grodno rose 5.8% in the period January to August 2012 to 29,675 tons, cord fabric by 2.7% to 33.806 million linear metres. Polyamide rose by nearly threefold to 35,000 tons, whilst filled polyamide dropped 2.7% to 7,215 tons.

## Ukraine

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

| *Product* | *Jan-Oct 12* | *Jan-Oct 11* |
|---|---|---|
| Acetic Acid | 118.9 | 122.3 |
| Ammonia | 4140.6 | 4299.5 |
| Benzene (+95%) | 97.7 | 106.7 |
| Caustic Soda | 120.3 | 133.7 |
| Ethylene | 128.2 | 157.2 |
| Methanol | 146.8 | 130.9 |
| Polyethylene | 54.7 | 84.3 |
| Polypropylene | 25.5 | 76.7 |
| Polystyrene | 15.1 | 17.9 |
| Polyvinyl Acetate | 3.9 | 5.3 |
| PVC | 71.4 | 65.4 |
| Propylene | 55.2 | 71.1 |
| Soda Ash | 545.5 | 639.3 |
| Titanium Dioxide | 125.3 | 129.3 |
| Toluene | 5.2 | 4.9 |

### Ukrainian benzene market

Benzene purchases in Ukraine totalled 23,900 tons in the period January to October 2012, of which the main buyer was Azot at Cherkassy with 64% of shipments. Ukrainian benzene production amounted to 6,300 tons in October, produced by two companies Yasinovsky Coke and Zaporozhkoks. Benzene production totalled 88.800 tons in the period January to October 2012, 22% down on last year.

The Ukrainian government has supported the introduction of excise duty on benzene and methanol technical at €250 and €400 per ton respectively. The adoption of the bill would establish state control over the implementation of the crude coal benzene and methanol, to clamp down on counterfeit production of motor fuels with the addition of benzene and methanol will increase revenues to the state budget. In 2011, Ukraine produced 160,000 tons of benzene, of which only 34,000 tons were directed to organic synthesis.

### Ukrainian methanol market

Azot produced 147,000 tons of methanol in the first ten months of 2012, 12% up on 2011. Production has been bolstered in the past couple of months by demand from the heating sector, whilst demand has also been good from the resin manufacturers. Imports of methanol from Russia totalled 15,300 tons in the period January to October 2012, almost twice lower than the same period last year. Imports amounted to 2,100 tons in October, 50% up on September. The main buyer of Russian methanol is Karpat Smol at Kalush, accounting for around two-thirds of demand. Gas companies also buy Russian methanol, accounting for between 10% to 20% of total shipments.

### Ukrainian caustic soda market

Ukrainian production of caustic soda in October fell by 40% to 3,200 tons (based on 100% NaOH), all of which was produced by Dniproazot. Karpatneftehim remained idle in October. This led to more imports from Russia, rising 2.5 times against September to 5,330 tons. All of the Russian imports came from Volgograd, 2,410 tons from Khimprom and 2,930 tons from Kaustik. The main consumer was the Mykolaiv Alumina Plant, which purchased 4,290 tons at $393.4/ton.

## Central Asia

### AzMeCo-methanol start-up by end of year

Azerbaijani Methanol Company (AzMeCo) aims to start shipping product from the new methanol plant in early 2013, after the start-up in November 2012 was postponed. The start-up date has now been moved to 24 December 2012. Construction work at the plant has been completed, including the testing of processes, but other

factors have prevented start-up. In the early part of 2013 AzMeCo hopes to produce at around 60% of capacity before rising to full capacity of the 720,000 tpa plant by the middle of the year. The plant uses ICI technology, now owned by Johnson Matthey. Investment in the project has cost around $350 million, excluding interest on financing.

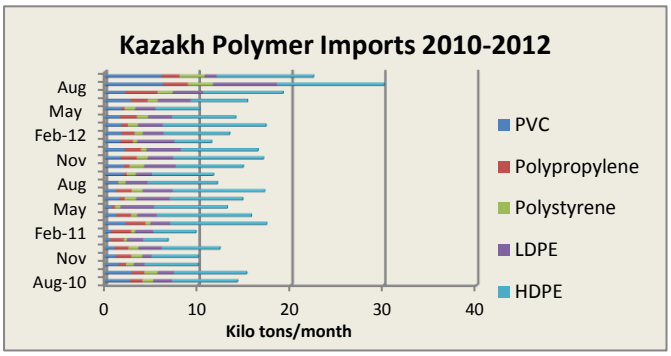
In January-September 2012, Azerbaijan exported chemical products worth $119.703 million, 54.72% up on the same period in 2011 from $77.368 million. Despite the increase, chemicals accounted for only 0.67% of total exports from Azerbaijan, thus remaining very small in relation to oil and gas sales. For January to October this year, Azerkimya produced 28,000 tons of propylene, 40% of which was shipped to Russian consumers. Another feedstock exported to Russia is butylene-butadiene fraction, of which Azerkimya shipped 90% of its production of 16,300 tons in the first ten months in 2012.

### AzMeCo signs contract for methanol supply

BP signed an agreement with AzMeCo at the end of November to purchase methanol from the new plant in Azerbaijan. Most if not all of the production will be purchased by BP.

### SOCAR starts shipping chemicals through Kulevi terminal

SOCAR shipped the first batch of chemical products in November through its own Kulevi oil terminal in Georgia. The first batch of cars loaded chemical products from Azerkimya (propylene and butane-butylene fractions), which will be shipped via Kulevi terminal to the Turkish company Petkim. In future the terminal is expected to carry around 4,500 tons per month after investments are undertaken at Sumgait. Over the next two years polyethylene production is expected to rise while polypropylene production is expected to start in 2015. The Kulevi oil terminal was introduced in 2008 and has been expanded to cover petrochemical products.




### Kazakh polymers

Polymer imports into Kazakhstan totalled 153,000 tons in the first three quarters in 2012 against 118,000 tons in the same period last year. HDPE is the largest product from the group of bulk polymers where there is no domestic production at present. By the time the new polyolefins complex at Atyrau becomes operational in 2016, domestic consumption of HDPE could have reached by around 200,000 tpa which would provide a market for the polyethylene. Polypropylene imports are much less significant, partly due to the availability of domestic production in Kazakhstan. Neftekhim at Pavlodar increased polypropylene production by 29% in the first three quarters in 2012 to 36,000 tons. The company is currently modernising the facilities to increase capacity from 30,000 tpa to 100,000 tpa, with a view on the domestic and export markets.

### Kazakh-Tadzik agreement

The largest gold mines in Tajikistan have signed a memorandum with United Chemical Company in Kazakhstan regarding procurement of sodium cyanide. The product is used in the preparation of gold and silver from ore, and viewing the widespread growth prospects of gold in Tajikistan, the country is preparing to sign long-term contracts for the supply of sodium cyanide. Exports of sodium cyanide from Kazakhstan are to begin in late 2014, when the SEZ Chempark Taraz in the Zhambyl region will start a new plant. A capacity of 25,000 tpa of sodium cyanide will be available, based on modern technology.

### Uzbek chemical industry

In January-September 2012 the chemical industry in Uzbekistan increased fertiliser production to 955,400 tons, which was 5.4% up on 2011. Production of plant protection products also exceeded the previous year by 4.6%. The government of Uzbekistan plans to attract companies principally from South Korea in new projects related to gas chemistry with investments estimated in the range $900 million. In September this year Uzbekneftegaz signed documents with South Korean companies on cooperation and construction for projects in the production of synthesis gas and polymer products.

The development of polyethylene facilities at Ustyurt in Uzbekistan is well documented, but new areas previously untapped include studying the prospects for the production of polycarbonate, polystyrene and ABS-plastics. Another agreement covers the production of 1.4 butanediol from natural gas and methanol, followed by the development of production of spandex. Uzbekneftegaz and Honam Petrochemical have signed a memorandum of understanding on the organisation of the production of plastic products for the automotive industry worth about $10 million. In the nearer term Uzkimesanoat plans to introduce 15 kinds of new products in the 2013-2015

period. These products will include magnesium compounds, plastic products, iron chelate, monochloroacetic acid, etc.

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*Relevant Currencies*

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

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