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MONTHLY NEWS

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

Edited by Andrew Sparshott | Tel +44 (0)20 8669 5126 | Email enquiries@cirec.net | Web www.cirec.net

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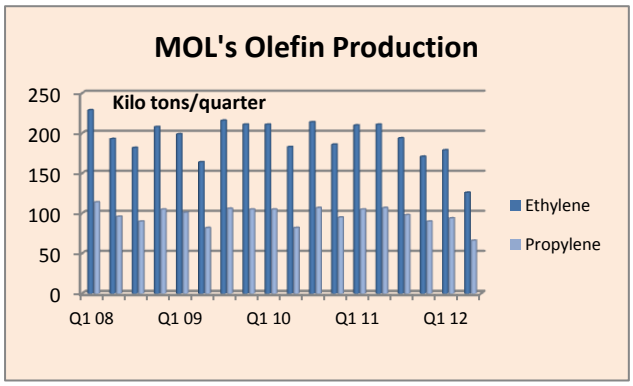
FEATURES FROM THIS ISSUE

CENTRAL & SOUTH EAST EUROPE

Petrochemicals

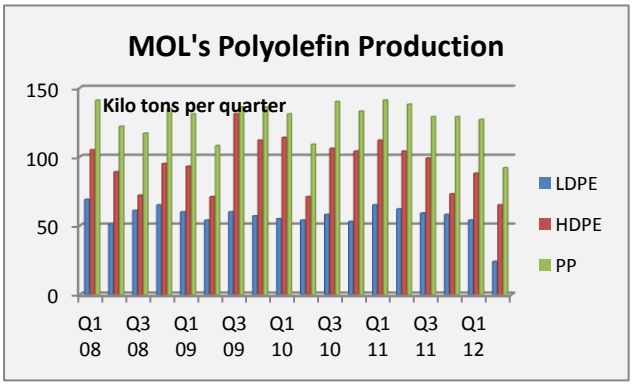
MOL-butadiene project & first half performance

MOL has reached the decision to build a butadiene extraction unit at Tiszaujvaros, with capital expenditure estimated to reach about Ft 30 billion. Construction should start in 2013 and the production will commence in 2015. The plant, which is to be designed with a capacity of 130,000 tpa, is being constructed to assist TVK's profitability. The alternative location to Tiszaujvaros would have been Bratislava, but MOL has decided against this option. In 2011, TVK shipped 39,600 tons of C4s to Synthos and is aiming to add value to this feedstock.

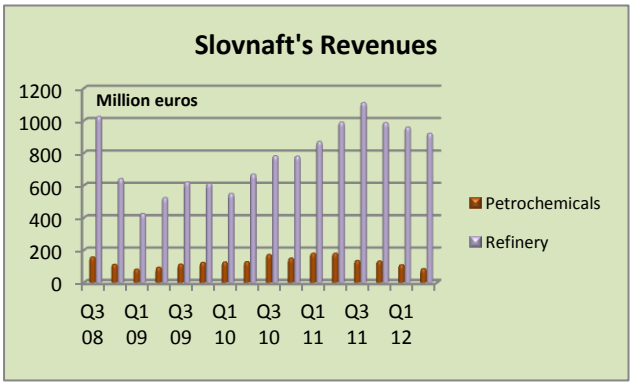


MOL achieved a Ft 269 billion EBITDA in the first half of 2012, which is 24% below 2011. The main reason behind the fall included the lack of revenues from Syria this year due to the ongoing turmoil. In the petrochemical sector, subsidiaries Slovnaft and TVK reported weaker results than in the same period in 2011. Slovnaft reported an average integrated petrochemicals margin of 36% down on 2011, to €190/ton in Q2 2012. However, in comparison with Q1 2012 it represented an increase of 18%, and this was influenced by a fall in naphtha costs. Total refinery throughput for Slovnaft amounted to 1.189 million tons in the second quarter this year which is 315,000 tons lower than in 2011 due to maintenance turnarounds.

TVK's operating profit of the first six months of 2012 declined, similarly due to lower petrochemical margins, in addition to higher prices of natural gas, steam and electric energy. At the same time lower production and sales volumes were recorded due to maintenance. The shutdowns began at the end of May and affected Olefin-1, HDPE-1, LDPE-2 and PP-3 plants. The production in the polymer plants and in the Olefin-1 plant started up by the end of July, as part of the three year maintenance cycle. In future the three-year maintenance cycle-time for TVK will be increased to four-years.



Due to the shutdowns, TVK's overall capacity utilisation dropped by 19% against the first quarter, and by almost 29% compared to Q2 2011. For January to June this year utilisation was down by 22% against the same period in 2011. In April this year, TVK renewed its long term supply contract of 120,000 tpa of ethylene with BorsodChem and prolonged it until the end of 2020.



Slovnaft-logistics

Slovnaft Petrochemicals (has appointed Alfred Talke as general contractor of its new logistics facility at Bratislava, in order to serve the new LDPE plant. With a projected price of €22 million; the contract with Alfred Talke includes the engineering, procurement and construction of the new facility which will provide the complete logistical set-up for the new LDPE plant. The project is set for completion in Q2 2013, and includes 28 silos, a large building for packaging and warehousing, office building and space for traffic and shunting. Two bagging lines and two bulk loading devices will also be installed. The logistics facility is currently in the initial stage, with building permits expected to be granted in early 2013. After permits have been

received construction work is expected to commence. Slovnaft is replacing its existing 178,000 tpa line for LDPE with a new 220,000 tpa line by 2015. The company also operates a 220,000 tpa ethylene and 110,000 tpa propylene cracker at Bratislava, as well as a 255,000 tpa polypropylene plant.

Petrohemija-HDPE expansion

Petrohemija started the expansion of the HDPE plant at Pancevo on 3 September, after the project was approved in August. Production has been halted for virtually the rest of the year. By the middle of September the full HDPE plant had been dismantled ready for the next stage. Equipment suppliers from the US and Canada then embarked on the process of checking equipment prior to installation.

The project will be implemented over three months, with 15 November cited as the completion date. The HDPE project will progress in October before the mechanical tasks are completed in November. The plant is scheduled for start-up in mid-December 2012, with capacity being increased from 76,000 tpa to 166,000 tpa. Production from the plant will start in early next year. HDPE and LDPE production at Pancevo was halted temporarily in early July due to a lack of feedstocks.

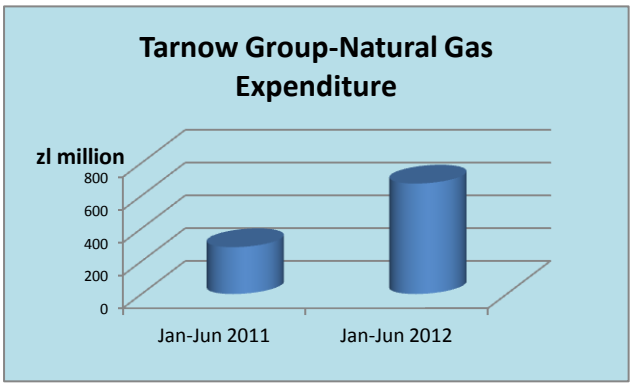
Oltchim privatisation decision?

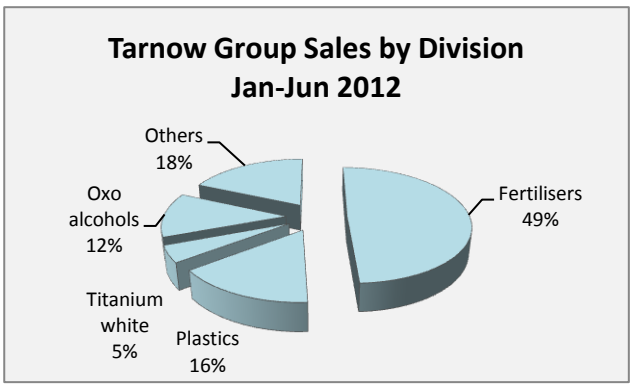
Four companies submitted bids in the privatisation of Oltchim, as shown below. Three of the bidders did not think Oltchim to be worth much, whilst media mogul Dan Diaconescu won the open auction with a bid of 203 million lei or €45 million. Initially it seemed that the Oltchim privatisation had been finalised, but questions have quickly emerged over whether the winner of the tender has sufficient funds and whether or not the contract was signed.

Oltchim bids, 21 Sept 2012	
Company	*Bid (million lei)*
Aisa	30
Chimcomplex	18.8
PCC SE	13.4
Dan Diaconescu	203.0

The original deadline for offers was 17 September, but Gazprom asked for an extension even if it did not submit a bid in the end. Exactly why Gazprom showed interest and then withdrew is not known. By contrast Dan Diaconescu, whose offer was submitted ten minutes late, said he had doubled his previous offer and now had a foreign backer. The other participants were PCC SE, a company registered in Germany and already a minority shareholder in Oltchim, Chimcomplex and Aisa Invest which is effectively the same backer. PCC is involved in some of the product areas occupied by Oltchim and thus was able to assess the value of the assets, but the bid was seen as derisory by the Romanian government. It seems that the Treasury may have been swayed by the much higher price offered by Dan Diaconescu, which was exceptionally higher than any other bidders, or simply accepted an illusory bid in order to avoid selling the company too cheaply.

Chemicals





ZA Tarnow, Jan-Jun 2012

The Tarnow Group achieved a net profit of zl 251.18 million in the first half of 2012 against zl 130.55 million a year earlier, indicating the benefits of consolidation. Revenues amounted to zl 3,814 million against zl 1,966 million in January to June 2011. The consolidation with ZCh Police through the first half of 2012 has played an important part in the group's results. The largest share in the income stemmed from the fertiliser division. In addition to the production facilities from ZCh Police, all other divisions inside the Tarnow Group performed strongly in the first half of 2012.

Costs connected with the use of materials and energy demonstrated a 108.2% increase against the first half of last year. This difference results from the addition of a new entity to the group and an increase in the prices of

basic commodities. The addition of ZCh Police to the group also resulted in a 147.4% increase in natural gas consumption. The costs of using natural gas amounted to zl 673,728 000, constituting 25.9% of total group costs for materials and energy. Beneficial aspects of consolidation included a contract between ZCh Police and ZA Tarnow, signed in July, for ammonia supplies to deliver to Tarnow to run until the end of 2014. The value of the contract has an estimated value of zl 360 million, conditional on gas prices.

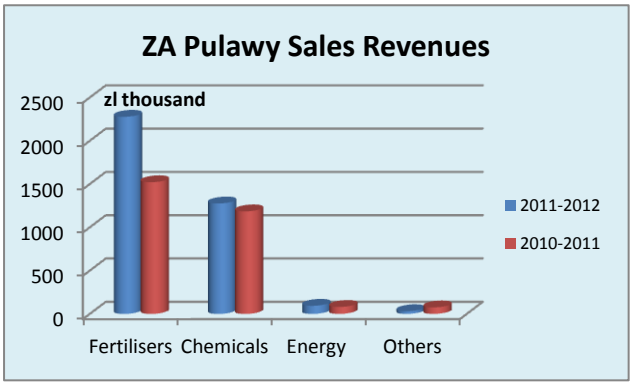
In the second half of the year the Tarnow Group expects fertiliser sales to fluctuate in line with seasonal patterns. Caprolactam and polyamide markets are likely to soften according to ZA Tarnow in the second half of the year. The main reason determining this trend is the on-going drop in demand in the automotive and fabrics sectors. A further drop in caprolactam and polyamide prices is expected next quarter, first and foremost as a result of reduced demand. In the case of oxo alcohols and plasticisers a slowdown in demand and consumption is expected, mainly in the European market due to macro-economics. This is probably a worst case outlook and oxo alcohol sales by ZAK may not fluctuate greatly from the graphic above. Forecasts for the titanium white market are not overly optimistic, a product produced by ZCh Police, as demand has been weak this year and is not expected to undergo much change.

ZA Tarnow-ZA Pulawy consoldiation

The complex process merger between the Tarnow and Pulawy groups is progressing although it is far from clear how the combined assets will be mixed and managed. Plans for the consolidation of the two chemical groups will be presented by the Polish Treasury in the near future. Union influence from the respective companies also plays an important role in determining the structure of the proposed merger.

Although ZA Pulawy sees the merger on an equal footing, it is evident that the Tarnow Group holds the upper hand. In mid-September, the Tarnow board resolved to increase the share capital by an amount not exceeding zl 214,336,465 through the issue of up to 42,867,293 shares of Series D. The shares will be offered to the shareholders of ZA Pulawy. A European Commission decision on the approval for the merger of these companies is expected in November, although cannot be guaranteed. Tarnow is Poland's largest chemical group, cantered on the parent company ZA Tarnow. The Treasury has just over 32% in shares.

Aside product synergies the potential for gas consumption after a Tarnow-Pulawy merger is considerable. At present around 3 billion cubic metres of gas is consumed per annum at the four major chemical plants that would comprise ZAK, ZA Tarnow, ZCh Police and ZA Pulawy. Moreover, after the construction of gas-fired power plants by ZA Pulawy and ZAK annual demand for gas could rise to 5 billion cubic metres per annum. PGNiG may benefit to some extent, there are options now such as importing gas from Germany and above all such a united group of consumers would hold strong bargaining power. .



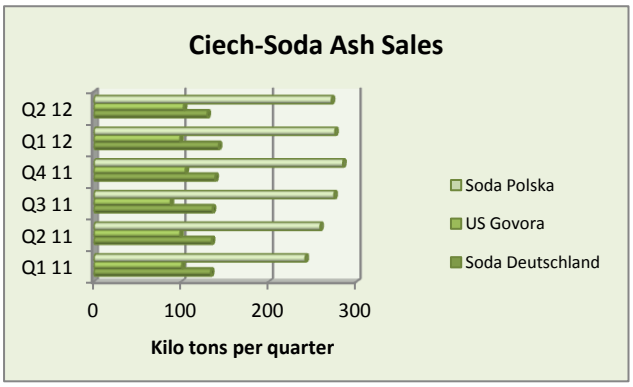
ZA Pulawy-improved efficiency in 2011-2012

ZA Pulawy recorded its best year on record between 1 July 2011 to 30 June 2012 in terms of financial results. Revenues amounted to zl 3.662 million against zl 2.822 million in the previous year, whilst net profits rose to zl 595,661 against zl 226,068. The EBITDA rose by 88% and net profit rose by 115%. ZA Pulawy's current project focus is concentrated on its planned power plant, whereby construction could start in 2015 and be completed by 2017.

Nearly all key products contributed to the company's performance, most of which was down to higher prices. Despite the improvements in profits costs rose sharply last year, particularly for gas which rose to 57% of total expenditures as opposed to 51% the previous year. The price of gas increased in the summer of 2011 by about 11%, and in the spring of 2012 about 16%. As a result, average rate of gas consumption per ton of ammonia worked out at 845/m3 against the global average of 1,100/m3.

In the financial year 2011/2012 the average price of natural gas for ZA Pulawy was about $10.15/MMBtu. In the reporting period, adjusted price of natural gas for the company increased twice. Contracts were signed in 2012 with the Entrade Group for about 5% of gas supply for the company, which has been supplied under the so-called reverse services on the Yamal pipeline.

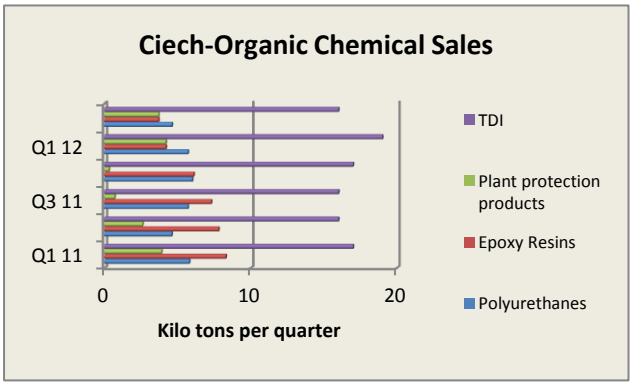
The fertiliser division increased its share of total sales from 54% to 63% in 2011-2012. Around two thirds of fertiliser sales are generated on the domestic market where price increases were recorded across the range of products. In the chemical sector, exports account for nearly three quarters of sales which includes products melamine, caprolactam, AdBlue and hydrogen peroxide. Chemical sale revenues were up 4.9% for 2011-2012. Melamine accounts for around 30% of chemical division sales for ZA Pulawy, and its market presence may have been helped by the imposition of an anti-dumping duty on imported melamine from China which runs until 13 May 2016.



Ciech, Jan-Jun 2012

Ciech's results in the second quarter were in line with forecasts, at the EBITDA and EBIT were lower by 8.7% and 7%. The loss of zl 349.2 million was in line with expectations. During the second quarter, the company generated strong cash flow from operating activities, reaching zl 90 million compared to zl 31 million in the first quarter. The soda ash division continues to play a central part in Ciech's product sales with profits amounting to zl 13.2 million in the second quarter against zl 43.2 milliion in the first quarter. Organic sales rose from zl 17.3 million to zl 24.3 million in the second quarter mainly due to high TDI prices.

Efforts to sell Zachem have thus far been unsuccessful. Despite stronger TDI sales performance this year Ciech is pessimistic of future propsects due to the existence of competitors with much lower costs of production. Any significant drop in prices could accelerate the decision to terminate TDI prodcution. Zachem would need around zl billion to build a new plant, which is not part of Ciech's strategy.



Ciech expects to notice an improvement in the soda ash division in the second half of 2012, but expects a significant deterioration in the organic division due to a seasonal lull in sales of plant protection agents.

Ciech-Zachem

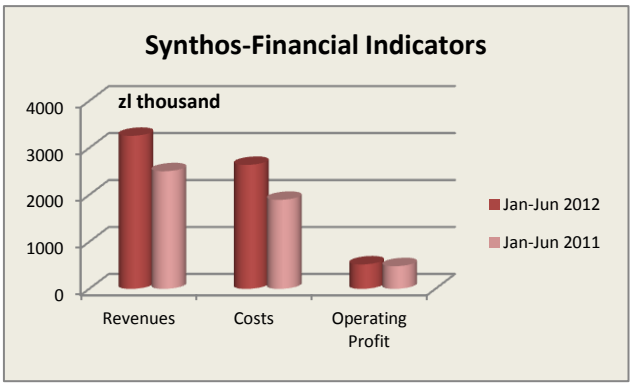
Trade unionists threaten protest in fears that Zachem could be liquidated. The unions have asked Ciech to present a recovery plan for Zachem with guaranteed investment in the privatisation agreement. Three projects have been extended to 2014, all of are important for the company, but on the other hand the new epichlorohydrin plant has been completed in the past couple of months. The entire investment cost was zl 70 million of which zl 27 million was provided through EU funding. The installation of the new epichlorohydrin plant will reduce energy consumption, whilst the manufacturing cost becomes independent from the price of oil due to the use of waste glycerine. The plant provides raw materials for the production of resins by Ciech subsidiary Organika-Sarzyna.

Synthos, Jan-Jun 2012

In the first half of 2012, the Synthos Group systematically increased sales volumes of polybutadiene rubber produced by its subsidiary Synthos PBR at Kralupy. For group sales in the first half of 2012 revenues increased whilst the gross profit turned out to be smaller than the same period last year. Revenues in the first half of the year amounted to zl 3.25 billion against zl 2.5 billion in 2011. The gross profit decreased by zl 65 million.

This year Synthos completed the expansion of EPS capacity at Oswiecim from 80,000 tpa to 100,000 tpa. The increase was made possible after the construction of a new reactor. Total group capaciry for EPS now stands at 205,000 tpa, with 105,000 tpa located at Kralupy. Synthos plans further investment in EPS in relation to improved

insulating properties (low thermal conductivity). Improving the properties of the new EPS Styrofoam has included the use of a new type of flame retardant which has resulted in product that is more environmentally friendly.



Synthos-Goodyear

Synthos reached agreement with Goodyear on 23 August for supplies of ESBR and SSBR from Synthos-Dwory at Oswiecim, Synthos-Kralupy and Synthos-PBR at Kralupy. The main part of the agreement has been concluded for rubber supplies until 31 December 2018.

The contract price is based on a formula that takes into account the price of raw materials. The value of the contract is significant in that it exceeds 10% of the revenue from the sale of the Capital group based on the last four financial quarters.

Polish Chemical Production (unit-kilo tons)

Product	*Jan-Jul 12*	*Jan-Jul 11*
Caustic Soda Liquid	166.7	165.7
Caustic Soda Solid	36.3	29.8
Soda Ash	640.2	590.6
Ethylene	259.2	319.1
Propylene	179.4	213.9
Butadiene	31.3	37.7
Toluene	9.9	49.1
Phenol	22.6	24.6
Caprolactam	98.7	93.3
Acetic Acid	5.1	5.5
Polyethylene	180.6	213.0
Polystyrene	75.8	77.4
PVC	147.0	165.4
Polypropylene	132.4	143.4
Synthetic Rubber	110.3	109.7
Ammonia (Gaseous)	744.0	725.7
Ammonia (Liquid)	775.5	658.1
Pesticides	13.1	13.3
Nitric Acid	1340.0	1125.0

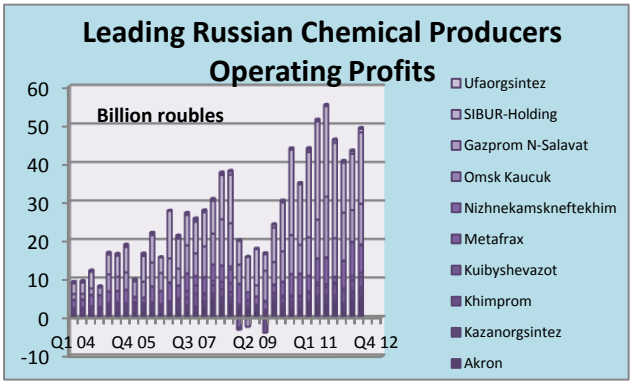
PCC Rokita-bond issue

PCC Rokita undertook a bond issue on 17 September, aimed at providing more funds for investment. PCC Rokita is Poland's only producer of polyether polyols; it is Poland's largest supplier of chlorine to the water companies and the second largest European producer of chlorobenzene. The development strategy of the company provides for investments in all three major production divisions.

PCC Rokita generated revenues of zl 510.3 million in the first half of 2012, 27% up on the same period last year. Gross profit increased by 37.3%, whilst operating profit rose 38.1% to zl 34.4 million. During the first half of 2012 PCC Rokita completed construction and put into service a fourth plant for the production of polyols. The company is now capable of producing 95,000 tpa, after an increase of 30,000 tpa. Future plans depend on a bond issue valued at zl 200 million, which will be used in part to support improvements in chlorine production.

PCC Rokita 100% subsidiary PCC Exol increased sales by 25.6% up in the first half of 2012, helped by production from the 30,000 tpa ethoxylation plant at Plock (which started production in 2011). Gross profit amounted to zl 27.2 million, an increase of 25.4%. Plock was chosen for the new plant for non-ionic surfactants for its proximity to PKN Orlen in order to receive ethylene oxide by pipeline without the need to transport it to PCC Rokita's base at Brzeg Dolny. The capacity of PCC Rokita's ethoxylation plant at Brzeg Dolny comprises 35,000 tpa, thus giving the group 65,000 tpa in total.

RUSSIA



Russian chemical industry performance

Russian chemical company operating profits performed relatively well in the first half of 2012 despite the rises in costs for energy and raw materials recorded by large parts of the industry. As a rule operating profits for the leading chemical producers in Russia have started to plateau after a series of quarters of uninterrupted rises. A significant dip took place in 2008-2009 following the global financial crisis, but performance thereafter quickly returned to the previous levels and higher.

Over the past two years revenues have risen faster

than profits due to rising production costs faced by most producers. In general the upward trend in operating profits since 2004 has been made possible through some investments but predominantly through improved organisation, cost reductions where possible, etc. The next significant surge in operating profits is expected to take place after some of the large-scale investments, either under construction or under planning, have been converted into new production facilities. By using modern technologies producers should be capable of maximising profit margins.

Russian Chemical Production (unit-kilo tons)

Product	*Jan-Aug 12*	*Jan-Aug 11*
Acetic Acid	103.4	86.9
Ammonia	9,123.3	9,499.7
Benzene	724.6	734.2
Butanols	154.9	139.4
C Black	481.1	483.7
Caustic Soda	701.4	664.6
Ethylene	1,489.2	1,636.8
Methanol	2,240.4	2,035.0
PET	300.7	234.0
Phenol	182.7	173.5
Polyethylene	893.5	1,054.4
Polypropylene	435.5	453.5
Polystyrene	223.3	205.6
Propylene	734.4	832.2
PVC	411.6	369.7
Soda Ash	1,893.4	1,871.0
Styrene	344.1	318.1

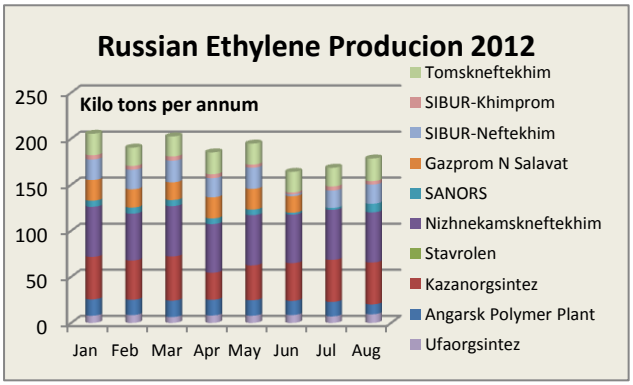
Due to current investments taking place in the Russian chemical industry, the Ministry of Economic Development has forecast that chemical production in Russia will rise by 21.6% by 2015 in comparison with 2011. The precise estimate may be debatable but the investments in polypropylene capacity, PVC and polystyrene combined with other products will add considerable volumes of capacity by 2015. These new plants will be augmented at even larger levels of projects in the period 2015-2020.

The Ministry of Economic Development has forecast that investments up to 2015 could help shift the trade balance by boosting exports around three times, whilst at the same time imports could fall by around a third. This accordingly could reduce the share of imports in domestic consumption of chemicals from around 40% at present to around 25%, but this estimate depends on the new facilities running at close to full utilisation. .For this year though, imports of chemical products into Russia are expected by the Ministry to rise by 6.5% over 2011. WTO entry in 2012 may help to address the limitations of access for Russian chemical companies in a number of foreign markets.

As part of the estimates for chemical production, the Ministry of Economic Development predicts that output of rubber and plastic products will increase 22.5% by 2015 against 2011. Production of tyres for passenger cars in 2015 is forecast to grow by 22.8% in comparison with 2011, in order to meet demand. As one of the major players in the chemical market a wide number of investments are scheduled; SIBUR plans to develop a whole range of products including BOPP films, nonwovens, PVC, polyolefin plastic pipes, etc.

Aside the forecast for investment into new facilities the Ministry of Economic Development expects capacity utilisation levels on some of the existing chemical and derivative plants to rise in the next few years as modifications are made to meet the demand from domestic consumers. The paint industry, for example, recorded only 42.6% capacity utilisation last year whilst chemical fibres and yarns only achieved 48.9% and both these sectors are expected to see improvements.

Feedstocks & Petrochemical Projects



Russian ethylene production

Russian ethylene production totalled 1.489 million tons in the period January to August this year, 10% down on the same period in 2011. Production in July rose 5% against June to 172,600 tons due to the completion of maintenance by SIBUR-Neftekhim and SANORS at Novokuibyshevsk. The increases from these plants were offset by an outage at Gazprom Neftekhim Salavat. Scheduled maintenance shutdowns over the summer months reduced production levels in June and July. Production of ethylene in August rose 1% over July to 174,000 tons. Increases by Ufaorgsintez and Tomskneftekhim were offset by maintenance at Angarsk and Salavat.

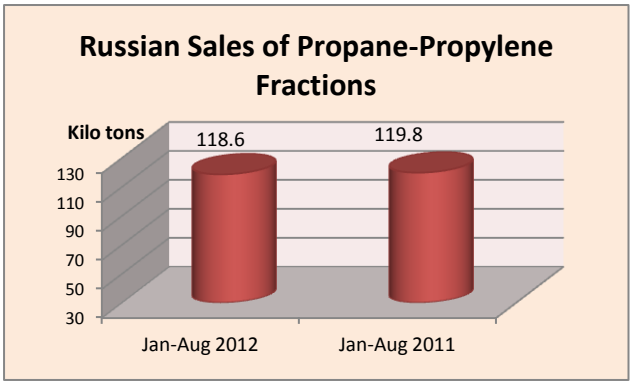
Stavrolen's intention to restore full production by mid-September was extended to the end of the month. The company started pre-commissioning of the cracker with the new equipment in early August, but the process has

taken longer than expected. The polypropylene plant at Budyennovsk has been running since March based on propylene merchant sales from either Karpatneftekhim or Russian producers. Stavrolen is the second largest Russian producer of HDPE after Kazanorgsintez and the third in the production of polypropylene after Nizhnekamskneftekhim and Tomskneftekhim. From 13 to 17 September LUKoil shipped an initial delivery 5,130 tons of naphtha to Stavrolen from the Korobkovsky GPP in preparation for the restart.

Russian propylene domestic market sales

Russian sales of propylene on the domestic market amounted to 243,000 tons in the period January to August 2012, 19% up on 2011. Availability has been helped this year by extra production by LUKoil-NNOS at Kstovo, which increased volumes this year by 29% to 86,300 tons. The Stavrolen cracker outage has increased the amount of domestic merchant market activity, as Stavrolen has been forced to buy propylene for polypropylene production, whilst at the same time exports have dropped. In the first eight months of 2012 Russian propylene exports were 43% down on the same period last year to 15,400 tons.

In August, the sales of Russian propylene in the domestic market amounted to 34,900 tons, or 9% more than in July. SIBUR-Neftekhim increased shipments by 14% to 11,200 tons, and LUKoil-NNOS by 13%, to 12,200 tons. The only domestic company to reduce the supply to the domestic market was Angarsk Polymer Plant which shipped 7,000 tons which was 8% lower than in July, and this was due to maintenance starting in August. In terms of production Russia increased propylene by 6% in August over July to 88,400 tons. Ufaorgsintez increased the production of the monomer to 12,800 tons (+45% compared to July), whilst Tomskneftekhim increased production 29% to 11,500 tons. In the period January to August this year Russian propylene production totalled 734,400 tons which was 12% down on 2011.

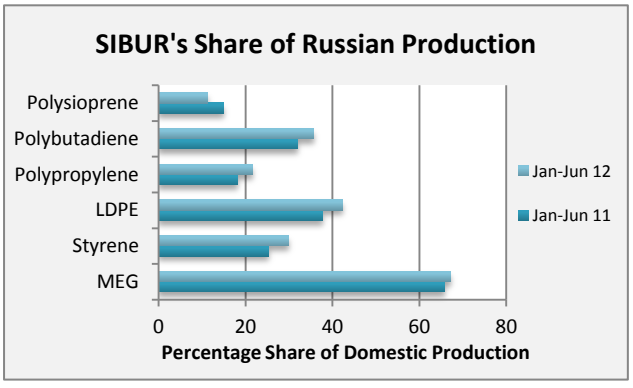


For propane-propylene fractions, total shipments to the domestic market amounted to 118,600 tons in the period January-August 2012 which was 1% down on the same period last year. Large buyers of propane-propylene fractions in Russia include Samaraorgsintez (26% of gross purchases in 2012) and SIBUR-Khimprom (25%).

Saratovorgsintez began maintenance on its acrylonitrile plant in September to last for 30 days. Saratovorgsintez is the largest consumer of commercial propylene in Russia, which will help to relieve pressure on the supply market. In the first seven months of 2012 the company purchased 94,000 tons of propylene, 46% of total consumption.

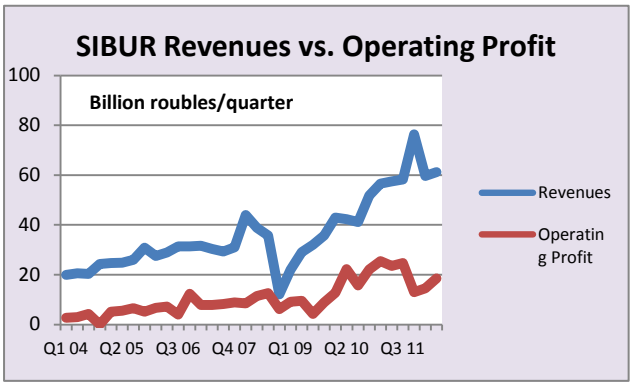
SIBUR opens Vyngapur Gas Processing Plant in Yamal region

SIBUR has commissioned its Vyngapur gas plant in West Siberia. The capacity of the new plant comprises 2.4 billion cubic metres of associated gas per annum. The new plant is based on the Vyngapur compressor station, which itself has a capacity of 1.65 billion cubic metres per annum. Regarding feedstocks, the capacity for gas liquids has increased for SIBUR by more than two-fold up to 640,000 tpa, including natural gas liquids with ethane of up to 221,000 tpa. Investments in the Vyngapur GPP amounted to 4.8 billion roubles, representing a significant part of the 20 billion roubles invested by SIBUR in the modernisation of gas processing facilities and the Yamal pipeline infrastructure since 2007.



SIBUR and Gazprom Neft have also signed a memorandum of understanding on the utilisation rate in the Vyngapur group of fields. The agreement provides for the extension until 2022 of the contract for the supply of gas to Vyngapur GPP and mutual guarantee companies in terms of delivery and processing. The associated gas under processing is divided into gas liquids and dry gas. LPG is supplied via a length of about 90 km on the Noyabrsk filler railroad overpass. In the future, these volumes of petrochemical feedstock will be delivered mainly to Tobolsk-Neftekhim where work is underway to expand the gas fractionation capacity from 3.8 million to 6.6 million tpa. Dry gas is supplied to the

Urengoy-Chelyabinsk gas pipeline network, which is owned by Gazprom.



SIBUR, first half of 2012

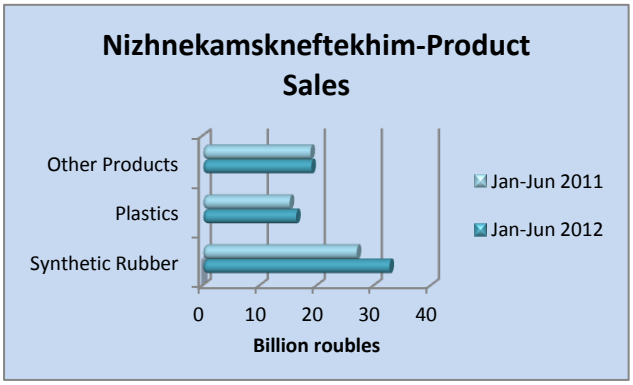
SIBUR Holding reduced its net profit by 9% in the first half of 2012 down to 31.09 billion roubles. Revenues increased by 6% to 120.9 billion roubles, gross profit by 4%, to 50.5 billion roubles. The cost of sales increased by 7.5% to 70.4 billion roubles. The group is heavily focused on investment including the construction of the LPG terminal at Ust-Luga and the development of pipeline links and gas processing plants in the Yamal-Nenets and Khanty-Mansiisk regions.

Polymer projects at Tobolsk and Kstovo are close to completion, in addition to a thermoelastomer plant at Voronezh and the reconstruction of the butyl rubber and isoprene plants at Togliatti. In the near future a new EPS line will be opened at Perm, under the subsidiary SIBUR-Khimprom. The largest of all projects Zapsibneftekhim is in the early stages of planning and final decisions should be made available in 2013. Outside of Russia, SIBUR has entered into a jv with Reliance Industries in India for the production of butyl rubber.

Despite the promising range of projects either close to completion or in the early stages for construction, one of the presiding issues emerging for SIBUR from the first half of 2012 was equipment deterioration which thus required expenses to undertake maintenance. Most of the assets in the SIBUR range of petrochemical plants were constructed over thirty years ago, and are starting to feel the effects of wear and tear.

Nizhnekamskneftekhim-Kazanorgsintez, credit ratings

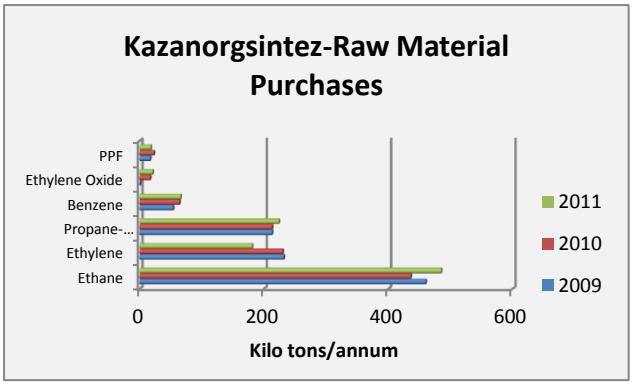
Fitch Ratings has evaluated Nizhnekamskneftekhim and Kazanorgsintez in terms of current credit rating and future prospects, retaining a position of stable for Nizhnekamskneftekhim but downgrading Kazanorgsintez due to continued concerns over feedstocks. In 2011 Nizhnekamskneftekhim achieved revenue growth of 31% partly due to price increases, and partly o increased production which by 7.6% over 2011.

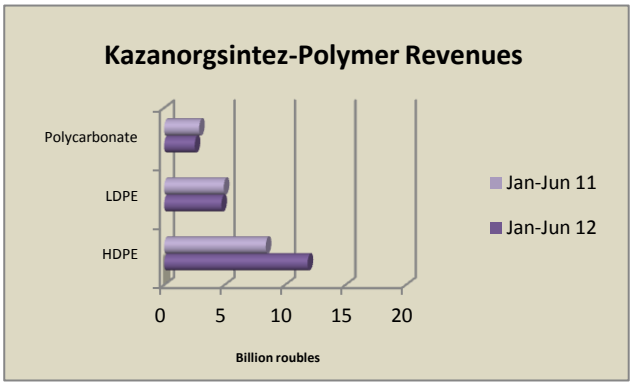


Fitch anticipates that revenue growth in 2012-2013 for Nizhnekamskneftekhim should trend at middle single digits, and any moderate decrease in prices should be offset by higher sales' volumes. This takes into account the new ABS plant which is scheduled for start-up at Nizhnekamsk in late 2012 and the forecast for synthetic rubber sales. Although large-scale investments are required for the new million ton cracker, together with polyolefin plants, Fitch anticipates Nizhnekamskneftekhim as being capable of coping until 2016-2017 when the first products from the new plants are expected.

In addition to the expansion in polystyrene, Nizhnekamskneftekhim plans to add new capacities for polyethylene and polypropylene with capacities of 600,000 tpa and 400,000 tpa respectively for 2016. The preliminary cost of the complex is approximately $3 billion. ING has been selected as the financial advisor to the project. The outlook for Kazanorgsintez is less certain according to Fitch; the debt load is still significant affecting its creditworthiness. The possibility of reducing the leverage of refinancing after 2013 is vulnerable to cyclical downturns. Fitch emphasises that liquidity is not a concern for the near future, as Kazanorgsintez has accumulated sufficient reserves which cover debt service requirements over the next 15 months.

The main issue is that Fitch forecasts a slight downturn in revenue in 2013, but this forecast may be questionable. A more certain reality is the continuing challenge faced by feedstock issues, in terms of ethane supply from Tatneft and Gazprom which is not sufficient to run the ethylene facilities at Kazan at full capacity. As a result the company has to purchase supplementary volumes of ethylene from Nizhnekamskneftekhim or to buy propane-butane supplies for ethylene production, but either of those options tend to diminish profit margins. Whilst Nizhnekamskneftekhim is in the early stages of its one million tpa cracker project, Kazanorgsintez has suggested that Tatarstan would be better off building two new 500,000 tpa crackers, one at Kazan and one at Nizhnekamsk. However, there is not a realistic prospect of this happening.

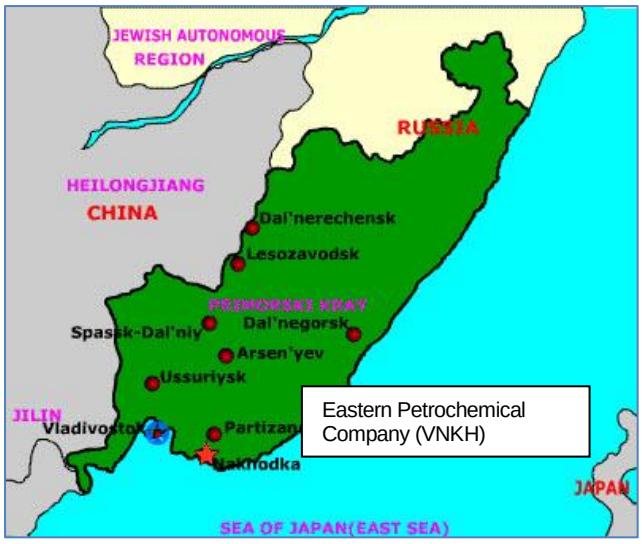




Nizhnekamskneftekhim-Gazprombank

Nizhnekamskneftekhim is trying to expand cooperation with Gazprombank in order to provide funds to support the investment into the new olefin cracker and polyolefin facilities. The new range of plants is intended to include 600,000 tpa of polyethylene and 400,000 tpa of polypropylene. Gazprombank has prepared a number of proposals for Nizhnekamskneftekhim in addition to other industrial plants in Tatarstan.

The net profit of Nizhnekamskneftekhim increased in the first half of 2012 by 0.7% over 2011 to 8.115 billion roubles. Profits rose due to improved performance at nearly all of the product divisions. Revenues from product sales increased by 11.4% to 68.3 billion roubles, including from the sale of rubber by 21.2% to 32.8 billion roubles, from the sale of plastics by 7.3% to 16.4 billion roubles and from the sale of other products by 0.9% to 19.1 billion roubles. The cost of sales increased by 8.2% to 49 billion roubles, and the EBITDA by 8.5% to 12.4 billion roubles. Nizhnekamskneftekhim plans to start up production of ABS plastics at its new plant in November this year. The capacity of the plant has been designed to produce 60,000 tpa, with full capacity expected to be achieved in 2013.



Eastern Petrochemical Company-Nadhodka

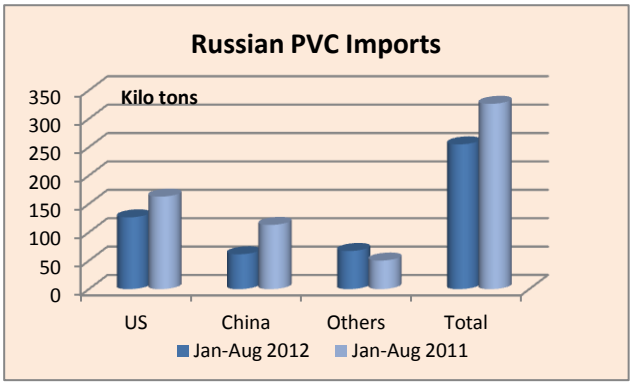
Rosneft reports that it has initiated construction of the new petrochemical complex located at Nakhodka under its subsidiary Eastern Petrochemical Company, which is located at Nakhodka in the Russian Far East. This location is made attractive due to the proximity to the developing markets of South East Asia, as well as the presence of its own terminal in an ice-free port.

The petrochemical complex will produce polyethylene low and high density polypropylene, and a number of other products. The olefin complex is being designed to produce 1.4 million tpa of ethylene and 600,000 tpa of propylene, although are interim stages of development planned from 2016 onwards. Around 80% of production from the petrochemical complex is expected to be exported. Naphtha is planned to form the initial feedstock for petrochemical production, but Rosneft is already in talks with Gazprom for gas supplies to Eastern Petrochemical Company from Sakhalin and the Sakhalin-Khabarovsk-Vladivostok pipeline. Eastern Petrochemical Company has started to work on plans to build a gas thermal power at to Nakhodka with a capacity of 685 MW. In addition to providing energy to the new petrochemical complex the power station will supply electricity and heat for the nearby villages and will provide competition for the Far Eastern Generating Company.

Bulk Polymers

Russian PVC market

PVC imports into Russia in the first eight months of this year amounted to 255,100 tons, which is 28% less than the same period in 2011. PVC imports in August amounted to 36,800 tons, a decrease of 4% compared with July. Cheaper US product has been seen lately, with imports amounting to 22,400 tons in August which was 24% up on



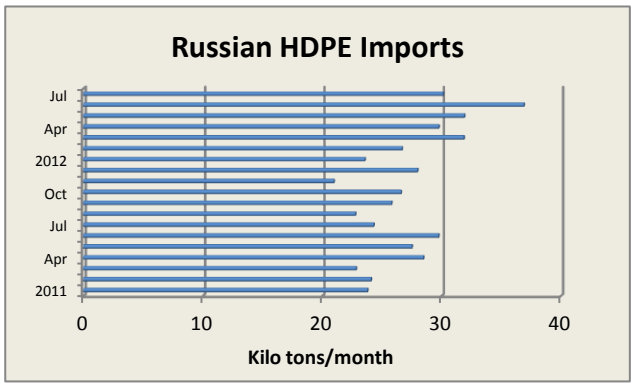
July. Supplies of acetylene based PVC from China in August amounted to 3,900 tons. Imports from Ukraine dropped in August in advance of the planned stoppage at Karpatneftekhim.

Kaustik at Sterlitamak (included in Bashkhim) suspended production of PVC on 3 September due to limited supplies of ethylene from Gazprom Neftekhim Salavat. Production was resumed on 4 September, but the plant is only expected to achieve 50% utilisation throughout September. In June 2011, Gazprom Neftekhim Salavat signed a five-year contract for the supply of raw materials to Kaustik after resolving a dispute over payments between the two companies. The largest producer of PVC in Russia Sayanskkhimplast undertook maintenance in August, and this meant that domestic market supply started September leaning towards tight or low inventory. At the end of August warehouse stocks of PVC were estimated in the range of 13,000 tons, which is about twice less than at the end of July.

Russian polypropylene market

Imports of polypropylene into Russia totalled 23,600 tons in August against 22,000 tons in July. The leading supplier in August was Borealis with 4,530 tons, followed by the Turkmenbashi refinery in Turkmenistan with 4,120 tons and SABIC 3,750 tons. Polypropylene imports to Russia in January-August 2012 amounted to 187,000 tons, which is 50% more than the same period last year. Most of the polypropylene originated from Europe and the Middle East.

The Moscow polypropylene plant stopped production from 21 September for maintenance for about 25 days. The plant's capacity of 100,000 tpa and produced 75,652 tons in the first eight months in 2012. Tomskneftekhim increased polypropylene production in August by 50% over July, amounting to 12,570 tons. A maintenance shutdown took place in July in response to the very hot weather in the Tomsk region. For the first eight months of 2012 Tomskneftekhim produced 90,200 tons against 89,100 tons in 2011.



Russian HDPE market

Kazanorgsintez stopped HDPE production in mid-September for a scheduled stop which is to last around a month. Total production of HDPE in Russia in the first seven months of this year amounted to about 407,000 tons, up 20% compared to the same period in 2011. Shutdowns at Gazprom Neftekhim Salavat and Nizhnekamskneftekhim combined with the Stavrolen plant, which is in the process of restarting has left the market in short supply and leaning towards imports. Prices have subsequently risen, especially for producers of film production and polyethylene pipes.

Russian PET production

Russian PET production fell 12% in August compared to August last year, amounting to 36,400 tons. The cause of lower production in August was an unscheduled stoppage undertaken by Polief and under utilisation by Alko-Naphtha. Total capacity for PET production in Russia is 43,500 tpa per month.

Russian PET Production (unit-kilo tons)

Producer	*Jan-Aug 12*	*Jan-Aug 11*
Evroplast (Senezh)	61.8	66.3
SIBUR-PETF	55.7	49.3
Alko-Naphtha	97.7	24.9
Polief	85.5	93.5
Total	300.7	234.0

Overall for the period January to August Russian PET production totalled 300,700 tons against 234,000 tons in the same period last year. The increase was primarily attributable to extra production by Alko-Naphtha.

Aromatics & derivatives

Russian benzene market

Sales of Russian benzene on the domestic market amounted to 57,900 tons in July, about the same as in June. After completion of repair work at SIBUR-Neftekhim, SIBUR increased shipments of benzene to the domestic market by 2.9 times against June to 4,600 tons. In addition, Gazprom Neft increased supplies to domestic consumers to 9,100 tons (46% versus June) after resuming full production. At the same time, due to the shutdown for scheduled maintenance in the middle of last month Kirishinefteorgsintez reduced sales volume of benzene 3.1 times, to 2,200 tons. West Siberian Metallurgical Combine reduced shipments of raw materials to the domestic market by 35%, to 3,700 tons.

Russian Benzene Market (unit-kilo tons)

	Jan-Jul 12	*Jan-Jul 11*
Production	657.8	650.8
Domestic Sales	433.1	427

In the first seven months in 2012 Russian producers sold 433,100 tons of benzene on the domestic market which was 1% up on the same period last year. Production increased slightly despite the absence of the Stavrolen plant, with total volumes helped by production from coal based producers. Imports of benzene totalled 26,640 tons in the period January to July this year, 8% up on 2011. Kuibyshevazot bought 76% of imports this year, Samaraorgsintez 10% and Kazanorgsintez 4%.

Export duty imposed on coal based benzene

A 10% export duty on benzene produced by coke was introduced in late August, but is already facing challenges from the coke producers who believe that the duty should be scrapped. Benzene consumers in Russia such as Kuibyshevazot, Shchekinoazot, Azot at Kemerovo, SANORS, etc, in addition to SIBUR, had instigated the application of a duty on benzene produced by the metallurgical industry. The argument was based on tightness in the Russian benzene market whilst at the same the coke producer had exported large volumes in 2011. The coke producers believe that the duty has been implemented unfairly, as Russian consumers are not prepared to provide a guaranteed uninterrupted purchase of 100% of the benzene produced by this method.

In 2011, Russian coke plants produced 320,000 tons of benzene of which around 220,000 tons was consumed domestically. Around 19% of total benzene production in Russia was based on coal in 2011, but the percentage has increased this year due to the outage at Stavrolen. Benzene supply is expected to higher from the petrochemical plants and refineries in 2013, and it is the coke producers that are first to lose market share. In addition to providing the last resort of choice for benzene consumers, coke producers are also expected to offer lower prices than the other production sectors.

Russian Benzene Production from Coke (unit-kilo tons)

Producer	*Jan-Aug 12*	*Jan-Aug 11*
Altay-Koks	16.4	21.8
Chelyabinsk MK	12.8	9.2
Koks, Kemerovo	13.0	14.1
Magnitogorsk MK	43.2	33.6
Novolipetsk MK	13.9	18.9
Severstal	18.4	26.5
Ural Steel	5.0	4.7
Zapsib	38.5	0.0
Total	161.1	128.8

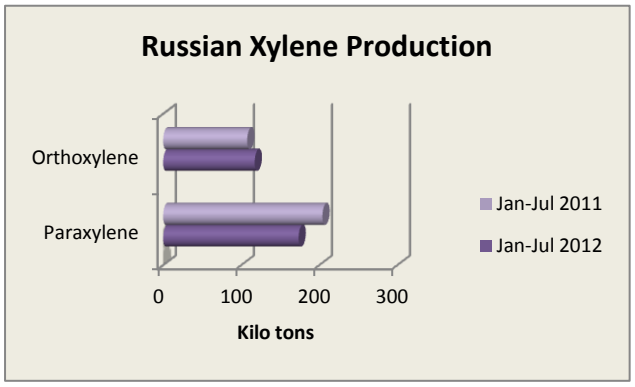
Coke producers argue that if they are prevented from export due to the 10% duty, whilst at the same time they cannot sell enough benzene on the domestic market this could adversely affect the production activities of the smelter and provide an environmental threat. Benzene exports tend to alleviate these concerns.

A motion was proposed on 3 September by coke producers to overturn the 10% tariff, and submitted to the Russian Ministry of Industry and Ministry of Economic Development. As the table opposite shows production of benzene through the coke method has risen this year, due mainly to export activity, but may now drop whilst the 10% duty remains in force.

Shchekenoazot caprolactam upgrade

Shchekinoazot has started reconstruction of the caprolactam unit, which will include new equipment for the oxidation of cyclohexane. The modernisation of the plant is being managed by the company's own technical department and the modifications are expected to be patented under the Shchekinoazot name. Two patents have been put forward, firstly for a method of cyclohexanone and cyclohexanol installation and secondly for the hydrolysis of esters in the production of caprolactam.

The company hopes to market its technology. In order to support the expanded production of caprolactam Shchekinoazot has been completing its new hydrogen plant over the summer period, with the technology provided by Haldor Topsoe.



Russian xylenes, Jan-Jul 2012

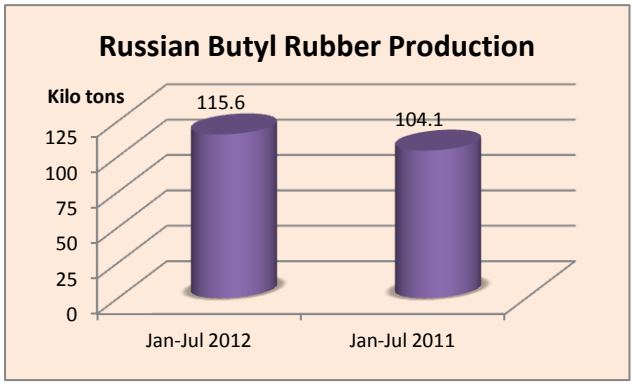
From January to July production of xylene isomers in Russia totalled 290,800 tons, which was 7% lower than in 2011. The drop was attributed to lower volumes produced at the Omsk refinery after maintenance in April and May. The planned outage took up more time than in previous years and Gazprom-Neft was forced to reduce deliveries to domestic and export customers. Largely as a result, paraxylene production dropped 15% against January to July 2011 to 173,500 tons, although orthoxylene has risen 9% over 2012 to 117,300 tons. Other than phthalic anhydride, orthoxylene is consumed in the production of paints, fuels and pharmaceuticals. Kamteks-Khimprom is the largest consumer of orthoxylene in Russia.

The share of the paraxylene in xylene production in Russia from January to July 2012 comprised 60%, and orthoxylene 40%. In the same period in 2011, the figures were 66% and 34% respectively. Exports of paraxylene dropped 29% to 63,300 tons in January to July 2012, whilst deliveries to Polief for PTA production dropped by only 4%. As a result of domestic market concentration the share of exports in production of paraxylene in Russia fell from 42% in 2011 to 36% this year. Orthoxylene exports were also down this year by 21%.

Russian Market for Paraxylene (unit-kilo tons)

	Jan-Jul 12	*Jan-Jul 11*	*Jan-Dec 11*	*Jan-Dec 10*
Production	173.5	204.1	319.9	323.1
Exports	63.3	89.2	0.0	0.3
Imports	0.0	0.0	50.4	37.6
Market Balance	110.2	115.0	370.3	360.4

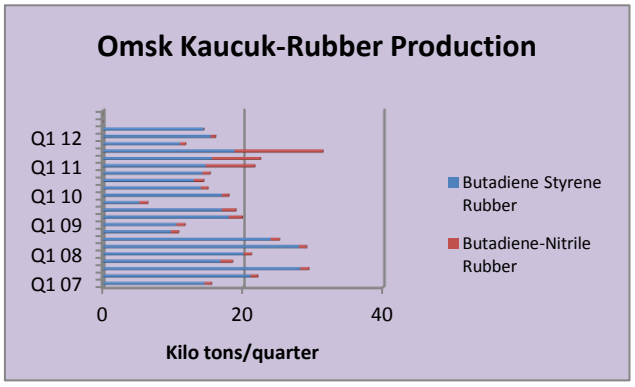
Only Gazprom Neft at Omsk actively sells xylenes both on domestic and foreign markets. Ufaneftekhim sells most of the production to Polief, whilst Kirishinefteorgsintez almost exclusively exports from its north west Russian location. Thus In August Kirishinefteorgsintez went down for maintenance, but this did not impact on the domestic market. In the first seven months of 2012 export share of xylene producers comprised 60% of production for Kirishinefteorgsintez, 36% for Gazprom-Neft and only 4% for Ufaneftekhim.



Synthetic Rubber

Togliattikaucuk-butyl rubber expansion

Togliattikaucuk has begun its project to increase capacity for butyl rubber by 10% up to 53,000 tpa. In early September the existing shop for butyl rubber began installation of a new automated production line with a capacity of 4 tons per hour. A second line is planned for installation; the equipment has been manufactured by the Swiss company Welding. According to Togliattikaucuk running an extra line will balance the load on different production sites and improve equipment reliability.

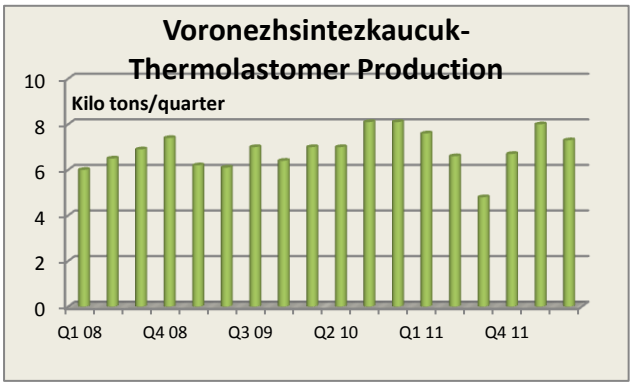


Butyl rubber production in Russia totalled 115,600 tons in the period January-July 2012, 11% more than the same period last year. Togliattikaucuk accounted for 21% of production with Nizhnekamskneftekhim accounting for 79% of production. Almost all of the butyl rubber produced in Russia is exported.

Omsk Kaucuk, Jan-Jun 2012

Omsk Kaucuk achieved a net profit of 96.5 million roubles in the first half of 2012, significantly higher than the 1.97 million roubles in the same period last year. Revenues rose 30% to 2.5 billion roubles, whilst gross profits rose 9% to 354.4 billion roubles.

At the start of 2012 Omsk Kaucuk planned an increase in revenues by around 10% over 2011, and it appears as if this target will be met. In the rubber division Omsk Kaucuk produces predominantly butadiene-styrene grades, although in the past it did produce small quantities of butadiene-nitrile rubber which seems now to have been phased out.



Voronezhsintezkaucuk goals 2012

The main goals for Voronezhsintezkaucuk this year tasks of this year are aimed at increasing the production of rubber and latex, to reduce production costs, power consumption and increase consumer properties of products.

The company is currently working on the modernisation of the fifth line of separation of butadiene rubber (SKD-ND). The designer has finished the bulk of the project. Another important project is the construction of new thermoelastomer capacity of 50,000 tpa which was targeted for start-up in 2012, but the project may be moving slower than expected.

Methanol & related chemicals

Russian Methanol Production (unit-kilo tons)

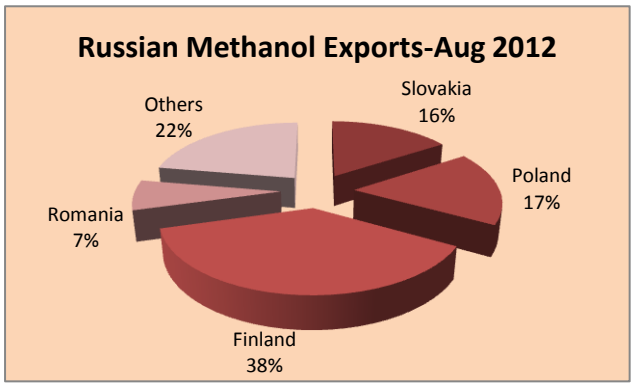
Producer	*Jan-Aug 12*	*Jan-Aug 11*
Shchekinoazot	291.7	200.6
Sibmetakhim	523.3	492.6
Metafrax	668.0	609.0
Akron	52.8	51.0
Azot, Novomoskovsk	203.4	189.3
Angarsk Petrochemical	9.8	11.2
Azot, Nevinomyssk	71.1	82.6
Togliattiazot	421.8	398.7
Totals	2241.8	2035.0

Excluding Novatek plant

Russian methanol supply, Jan-Aug 2012

In the period January to August 2012 Russian methanol production totalled 2.240 million tons, which is 7% higher than the same period in 2011. With the exception of Azot at Nevinomyssk all other producers increased production. Domestic shipments of methanol amounted to 99,000 tons in August, 2% down on July. Synthetic rubber accounted for the largest share of methanol purchases in August, taking 30% of shipments. The only sector that reduced consumption of methanol in July and August was for MTBE production. Although methanol volumes to the domestic merchant market have been fairly stable this year the next few months is expected to undergo some tightness due to shutdowns.

Togliattiazot and Sibmetakhim, at Togliatti and Tomsk respectively, both started maintenance in September. Sibmetakhim started maintenance in mid-September for about a month, whilst Togliattiazot started a shutdown at the beginning of September which could last until the middle of October. These stoppages of the second and third largest methanol producers in Russia will help to tighten domestic availability and possibly affect export activity temporarily. Togliattiazot sells most of its methanol on the domestic market, whilst Metafrax and Sibmetakhim also engage in export activity.



As a forerunner to the planned shutdowns, exports of methanol from Russia in August fell almost 30% compared to July. Russian producers sold 107,500 tons against 151,500 tons recorded in July. Aside shutdowns, a decline in demand for Russian methanol in the European market was noted.

Sibmetahim exported 36,600 tons in August, and Shchekinoazot 35,500 tons, respective falls of 22% and 15% over July. Metafrax exported only 742 tons of methanol in August, which is almost 97% less than in July.

The only company to increase exports was Togliattiazot, which shipped 4% more methanol in August, but even then it only amounted to 16,000 tons. The average price of exported Russian methanol in August fell by 2% on July to $283/ton DAF Russian border, against $290/ton in July.

Metafrax-electricity contracts

Metafrax plans to buy electricity on the wholesale market in 2013, reducing purchases from its traditional supplier Permenergosbyt. Metafrax believes it can reduce production costs from buying energy on the open market, whilst at the same time it is deciding whether to construct its own power plant. If approved construction could start in the 2014-2015 timeframe, but a decision is not likely to be made before the end of this year.

Ammonium methanol project

The Ammonium project at Mendeleevsk in Tatarstan has reached the stage where pipelines and concrete structures are being installed. The project involves the construction of plants for ammonia, methanol and urea, with respective capacities of 455,000, 238,000 and 717,500 tpa respectively. If the company does not wish to produce methanol it can use that capacity for ammonia.

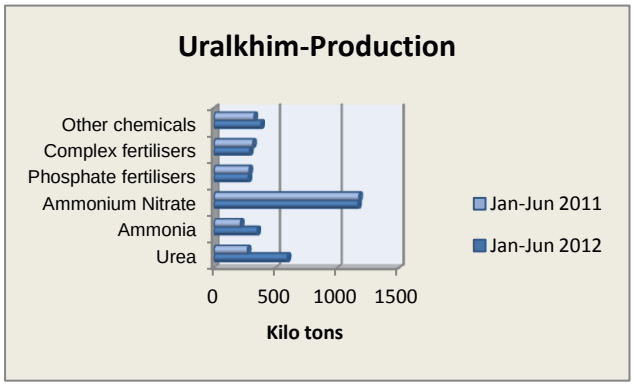
The first part of the construction was started on 12 October 2011. Construction is scheduled to finish by the end of 2014, and the beginning of the main industrial activity in the first quarter of 2015. The project is expected to reach full capacity roughly in the fourth quarter of 2015. The general contractor for the Ammonium project combines a consortium of Mitsubishi Heavy Industries (MHI), Sojitz Corporation and China National Chemical Engineering Corporation (CNCEC).

Uralmethanolgrup-methanol project to start in 2013

The jv UralMetanolGroup, consisting of Uralkhimplast and Itera, has decided to postpone the start of construction of the new methanol plant at Nizhny Tagil in the first quarter in 2013. Previously construction was planned to begin in the second quarter of 2012. The construction period is expected to remain three years, with the scheduled start-up now revised to 2016. The 600,000 tpa methanol plant is to be constructed on the Uralkhimplast site, which could consume up to 600 million cubic metres of gas per annum. The original agreement to create a jv between Uralkhimplast and gas supplier Itera was formed in 2006.

Uralkhimplast, Jan-Jun 2012

Uralkhimplast reduced its net profit in the period January-June 2012 by 28-fold against the same period in 2011, down to 207,000 roubles. Revenues increased by 1.2% to 1.96 billion roubles, and gross profit increased by 7% to 352.66 million roubles. Profits seem to have been affected by raw material costs and the lack of possibility for passing these increases on to the end-consumers.



Uralkhimplast specialises in the manufacture of synthetic resins and plastics, including urea and phenolic resins. It also produces construction and specialty plastics, PVC compounds and consumer goods. The main shareholder is the UCP Chemicals AG (Austria), which owns 96.685% of the share capital.

Uralkhim, Jan-Jun 2012

Fertiliser group Uralkhim's revenue for the first half of 2012 grew to $1.261 billion, compared to 1.035 million in the first half of 2011. The operating profit amounted to $410 million, or 33% of the revenue, compared with the operating profit of $288 million, or 28% of the revenue in the first half of 2011. Net profit for the first half of 2012 amounted to $444 million, compared to $266 million in the first half of 2011. Uralkhim and Novatek-Perm have signed a gas supply contract valid until 31 December 2017. Uralkhim previously agreed a five-year, 14.5-billion-rouble gas supply contract with Gazprom. The aim is to procure roughly 60% of its gas from Gazprom and 40% from Novatek over the next five years.

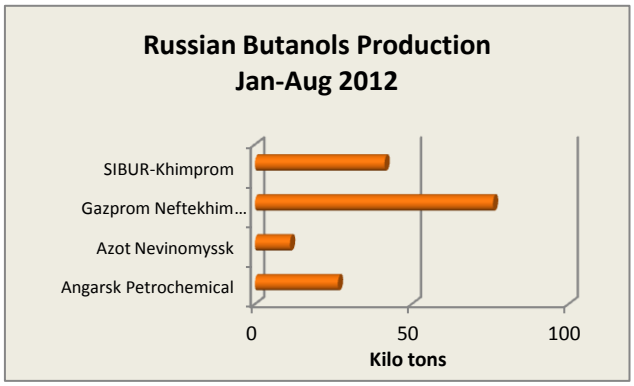
Uralkhim subsidiary Azot at Perm is in the final stage of overhaul and modernisation for 2012, where the focus has been on ammonia improvements. By introducing new software the company can control production more precisely avoiding wastage. Next year Azot wants to apply new software in the control of urea and concentrated nitric acid production.

Organic Products

Russian butanols, Jan-Aug 2012

From January to August 2012 Russian domestic consumption for butanols totalled 52,730 tons, which represented a 26% increase on the same period last year. Normal butanols accounted for 88% of total sales.

Production totalled 154,888 tons in the first eight months, 6% lower than for the same period in 2011. The share of normal butanol comprised 62% of production and isobutanol 38%. The major consumers of butanols in Russia include the Dmitrievsky Chemical Plant, for the production of butyl acetate, and Akrilat for the production of butyl acrylate.



Exports of butanols totalled 96,140 tons in the period January-August, which is 24% down on the same period last year. The share of exports to China amounted to 51% of shipments, and Finland 36%. Gazprom Neftekhim Salavat accounted for 56% of exports in the first eight months in 2012, Angarsk Petrochemical Company 21%, SIBUR-Khimprom 22%, and Azot at Nevinomyssk less than 1%. Exports are comprised 50/50 in terms of normal butanol and isobutanol. September has already seen a downturn in domestic demand due to higher inventories, which may last into October. Exports are likely to remain at the same levels however.

MMA project-Novokuibyshevsk

SANORS has decided to use technology supplied by Mitsubishi Gas Chemicals (MGC) for the project to build a new production line for methyl methacrylate (MMA) at Novokuibyshevsk. Construction is targeted for completion in 2015, with the design capacity set at 70,000 tpa. Investment in the project is estimated to require about 5 billion roubles.

The technology involves the production of MMA using acetone and methanol without using sulphuric acid. An MMA plant using Mitsubishi technology has been successfully operating at Niigata in Japan. SANORS believes there is strong demand in this product area, justifying the investment. The group is currently completing work on the feasibility study for the PMMA project, where the aim is to manufacture optical grade up to 50,000 tpa. The company notes that in Russia today there is no modern production of PMMA, which is fully imported in the form of powders, granules or finished products.

Tatneft-maleic anhydride project considered

Tatneft is considering building a production unit for maleic anhydride, in order to develop a supply chain for the production of unsaturated polyester resins and glass fibre. Russian maleic anhydride previously existed at Novomoskovsk, but was based on old technology that it became uncompetitive to continue operating. The market for maleic derivatives has been very slow to develop in Russia and only now has a project for maleic anhydride come under consideration. The plant size proposed is 40,000 tpa, to be located in the Alabuga Special Economic Zone (SEZ).

In terms of feedstocks, maleic anhydride can be produced either through benzene or butane, and it may be the latter feedstock considered by Tatneft due to good availability and lower production costs. Following official entry into the WTO, the Russian government has introduced a new tariffs on a number of chemical products whilst other products may be phased in later. The duty for maleic anhydride has been set at €0.04 per kilogram.

Plasticizer alcohols

Russia produced 54,800 tons of phthalic anhydride in the period January to July 2012, 11% less than in 2011. Demand for phthalic anhydride in Russia is met mainly by two suppliers, Kamteks-Khimprom at Perm and Lakokraska at Lida in Belarus. Gazprom Neftekhim Salavat also produces phthalic anhydride, but converts all production captively into plasticizers. Russia imports small amounts of Ukrainian phthalic anhydride from Lizinvest at Rubezhnoye, but these shipments are infrequent.

Kamteks-Khimprom accounted for 77% of the Russian phthalic market in the first seven months of 2012, against 83% in the same period last year. Kamteks-Khimprom has produced less product in 2012 due to technical reasons. Besides the planned traditional repairs in the early autumn, the plant at Perm production stopped in early May 2012 and resumed the issue here only a month later. In 2013, Kamteks-Khimprom expects to run without unplanned shutdowns and will thus increase production over 2012.

Russian production of DOP totalled 7,540 tons in July, which is twice the volume in June and the highest amount this year. Part of the reason for the higher production was a few larger orders from customers and the availability of phthalic anhydride following the maintenance stoppage at Kamteks-Khimprom.

Despite the rise in demand for DIDF and DINP, DOP still plays an important part in the production of PVC cables in the Russian market. Around 80% of plasticizer consumption comprises of DOP, mainly down to price in that DIDF and DINP are more expensive. PVC cable producers using DINP and DIDF include Bashplast, and are attracted by the higher qualities. However, DINP and DIDF needs to be imported as the sole Russian plant Roshalsky produces only small volumes. In the first half of 2012 the Roshalsky plant

increased production of DIDF by 56% over the same period last year to 963 tons. This comprised around 3% of the Russian market.

Metafrax-pentaerythitol expansion

Metafrax is examining an investment project into the expansion of pentaerythritol production at Gubakha. The original plant was designed by the Novosibirsk branch of Giproplast and started production in 1982. The plant has reached the stage where modernisation is necessary, including the conversion to a more contemporary alkaline method of production. Current capacity stands at 22,500 tpa, producing two grades of product.

Production has been running at in excess of capacity levels in the past year, with volumes totalling 15,930 tons in the first eight months in 2012. Metafrax wants to expand capacity to meet the demand from exports and domestic consumers. The options are to either increase capacity of the existing plant to 30,000 tpa or to construct an entirely new plant with a capacity of 50,000 tpa. A feasibility study has is underway and when completed it should help to decide which option to follow. As part of the investment Metafrax wants to start the production of a new product dipentaerythritol.

Russian Market for Styrene-Acrylic Dispersions (unit-kilo tons)

	Jan-Jun 12	*Jan-Jun 11*	*Jan-Dec 11*	*Jan-Dec 10*
Production	16.8	13.2	23.8	20.5
Exports	0.6	0.0	0.0	0.3
Imports	35.5	20.8	50.4	37.6
Market Balance	51.7	34.0	74.2	57.8

Styrene-acrylic dispersions market

The market for styrene-acrylic dispersions in Russia has expanded this year on the basis of both higher production and higher imports. Domestic plants possess the potential to run higher, but are often not competitive with imports despite the presence of raw materials such as butyl acrylate.

The most advanced and high-grade dispersions are usually imported into the country, while domestic producers meet the demand for base dispersions. In the first half of 2012 the expansion of the market was stimulated from demand by manufacturers of paints and varnishes, and water-based paints. Demand is expected to remain strong over the second half of 2012.

Other Products

SIBUR develops Dzerzhinsk logistics network

SIBUR has started organising the sale of styrene produced at Perm and Uzlovaya through a new logistics park established nearby SIBUR-Neftekhim at Dzerzhinsk. The park has been developed in part to handle products produced by Akrilat, which is now a member of SIBUR. Styrene enters Dzerzhinsk by railway, and its packaging facility into small lots can meet the needs of small and medium-sized consumers located in the vicinity of Dzerzhinsk. The emergence of a second site for styrene transportation has allowed SIBUR not only to reduce the costs of consumers, but also to complete deliveries of styrene and butyl acrylate. If necessary, SIBUR may consider delivery truck product to the consumer. Later the industrial park Oka-Polymer, established at the site of the former factory Kaprolaktam, will create a centre of processing and marketing of plastics, including those produced by SIBUR enterprises.

SIBUR-Rhodia jv

The Dzerzhinsk area chosen for the possible construction of a jv between SIBUR and Rhodia to produce surfactants has successfully passed environmental audit. SIBUR has already completed the acquisition of land within the boundaries of the industrial site of production for ethylene oxide and glycols under SIBUR-Neftekhim. SIBUR and Rhodia have been planning a jv since 2011 with the aim of producing surfactants by 2014.

Pigment-Tambov

Formaldehyde production at Pigment, located at Tambov, rose 16% in the first half of 2012 against the same period in 2011. Since 2010, Pigment has embarked on a large-scale programme to develop synthetic resins,

initially by producing its own formaldehyde which was previously purchased on the open market. The production of 50% formaldehyde has allowed the company develop a vertically integrated supply chain and develop new resins for the plywood industry.

The 40,000 tpa plant for formaldehyde is now running at full capacity. The company has expanded into higher grades of formaldehyde in the past year whilst increasing the production of urea-formaldehyde binders. A main outlet for the company is selling resins to producers of plywood. For the pigment division the company produced 3,000 tons in the period January to July this year, 58% up on 2011. The increase in output has been helped by the production of phthalocyanine blue pigment.

Russian soda ash market

Russian producers sold 134,500 tons of caustic soda in August on the domestic market, 5% up on July. Soda at Sterlitamak sold 64,810 tons in August, which was 6% down against July, whilst Soda at Berezniki increased sales 71% to 25,660 tons. The other plants included Achinsk Alumina Plant with 27,490 tons (2%) and Pikalevo Soda 13,770 tons (4%). In the first eight months of 2012 domestic consumers bought 1.09 million tons, or 5% less than in the same period of 2011. For trade, soda ash exports from Russia amounted to 392,399 tons in the period January to August this year against imports of 259,752 tons. Bulgaria provided around 30% of the imports from the Devnya plant.

Russian Soda Ash Production (unit-kilo tons)

Producer	*Jan-Aug 12*	*Jan-Aug 11*
Soda-Sterlitamak	1089.2	1070.2
Achinsk Glinoleum Plant	333.3	357.0
Soda-Berezniki	349.6	329.8
Pikalevo Soda Plant	121.4	114.0
Totals	1893.4	1871.0

PPG-Tver paint plant

PPG Industries intends to build its first Russian plant near Tver. After months of selection Tver was chosen as the best location to construct a new plant.

Penoplex expands capacity

Penoplex has launched a programme to increase capacity at its plants for the production of insulation materials from extruded polystyrene at Perm and Kirishi. Commissioning of two new production lines with capacity of 1,500 kg per hour at each plant is scheduled for May 2012. Total production capacity of the company after commissioning new production lines will amount to 2.5 million cubic metres per annum.

Increased production at Perm has been decided due to an increase in construction not only in the Urals, but also in adjacent regions of Tatarstan and the Volga region. Penoplex currently owns seven plants at Kirishi, Novosibirsk, Perm, Taganrog, Karaganda (Kazakhstan), Cheremkhovo (Irkutsk region) and Khabarovsk. Penoplex occupied a 52% share in the Russian market for insulation in 2011.

New plastics plant opens in Tatarstan

A new plant for the manufacturing of plastic containers by the company I-Plast took place at Nizhnekamsk in September. Injection moulding capacity comprises 5,500 tpa, with production aimed at containers for various industries, including plastic pallets, trays, resin sheet, and other types of products. Raw materials for the plant are being provided almost exclusively by Nizhnekamskneftekhim.

Russian caustic soda market

In the period January to July 2012 Russian caustic soda consumption totalled 513,700 tons, which was 4% up on 2011. Exports have been stronger this year for both liquid and solid product. Domestic production has increased despite the steam supply problems in the spring between Khimprom at Volgograd and LUKoil Volgogradenergo.

Exports declined in 2011 following the start-up of the Karpatneftekhim plant in Ukraine and the launch of a new plant at Pavlodar, this reducing demand from Kazakhstan. This year Russian suppliers have developed other markets such as Azerbaijan where liquid exports totalled 13,260 tons in the first seven months in 2012 against 1,000 tons in 2011. Demand in Azerbaijan has been aided by extra purchases by the Ganja alumina plant. Azot at Rustavi in Georgia bought 380.6 tons of Russian liquid caustic soda in July. Total purchases of caustic soda made by Azot at Rustavi totalled 3,970 tons, all of which was produced by Kaustik at Volgograd. Georgian purchases of caustic soda from Russia began in October 2011.

Russian Caustic Soda Market (unit-kilo tons)

	Jan-Jul 12	*Jan-Jul 11*	*Jan-Dec 11*	*Jan-Dec 10*
Production	620.3	574.4	1023.8	1055.5
Exports liquid	76.6	63.3	132.9	168.2
Exports solid	52.1	42.7	75.7	74.2
Imports liquid	11.2	9.0	13.5	6.4
Imports solid	10.9	17.3	30.2	34.7
Market Balance	513.7	494.7	858.9	854.1

Karpatneftekhim exported 8,540 tons of liquid caustic soda to Russia in January to July this year, up 27% on 2011, and all purchases made by LUKoil subsidiary Saratovorgsintez. A second Ukrainian producer Dniproazot exported 1,040 tons this year whilst not exporting in 2011. Despite imports from Ukraine and China (for solid) the share of imports in total Russian consumption remains low.

Over the next couple of years a few developments are expected in relation to capacity. In July, the management of SIBUR-Neftekhim announced the phased closure of the former chlorine production plant Kaprolaktam. The

decision was taken due to obsolete equipment, and is scheduled for 1 April 2013, although this is not expected to affect the market. RusVinyl will start its new 235,000 plant for caustic soda at latest by 2014 and so will this more than compensate for the close of the Dzerzhinsk plant. At Perm, Halopolymer at Kirovo-Chipetsky plans to increase capacity to 200,000 tpa of caustic soda against 90,000 tpa at present, and will use membrane technology. The launch of the new plant is scheduled for the third quarter in 2014. Capacity expansions will change the market equilibrium, which could lead to the closure of the older plants in Russia.

Belarus

Belarussian Chemical Output (unit-kilo tons)

Fertilisers	*Jan-Aug 12*	*Jan-Aug 11*
Potassium Fertilisers	3616.7	3740.4
Nitrogen Fertilisers	566.5	541.1
Phosphate Fertilisers	177.3	129.1
Sulphuric Acid	632.0	622.7
Petrochemicals	***Jan-Aug 12***	***Jan-Aug 11***
Ethylene	161.1	97.6
Benzene	91.5	70.0
Caprolactam	83.9	88.7
Phthalic Anhydride	11.0	14.8
Polyethylene	95.9	91.8
PET	131.1	138.9

Belarussian petrochemicals

Polymir at Novopolotsk stopped LDPE production on 16 September and will be down for three weeks. The company increased ethylene production 65% in the period January to August this year against 2011, whilst polyethylene production has remained virtually unchanged. Ethylene capacity was modernised in 2011 after the replacement of four compressors in the cracker. The polyethylene plant has also been modernised, although the capacity is unchanged.

For Belarussian benzene production, the Mozyr and Novopolotsk refineries produced 91,500 tons of benzene in the first eight months in 2012, a 31% increase over the same period in 2011. The increase in operating time at the refineries was due to the modernisation of production facilities in Belarus in 2011.

MTBE imports into Belarus from Russia dropped by around 25% in the period January to August this year to 112,000 tons. This was due in part to higher demand in the Russian market and the higher prices being asked for by Russian producers.

Azot Grodno-Production (unit-kilo tons)

Product	*Jan-Aug 12*	*Jan-Aug 11*
Methanol	54.9	50.5
Caprolactam	83.9	88.7
Polyamide primary	35.0	13.4
Polyamide filled	7.2	7.4
Ammonia	711.3	714.0

Azot Grodno-Jan-Aug 2012

Azot at Grodno increased fertiliser production in January-August 2012 by 5.2% over the same period last year. Methanol production totalled 54,900 tons, 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.

Belarussian polymer imports

Polymer imports into Belarus have grown steadily throughout 2012 with polystyrene and polypropylene being the largest volume products. In the period January to July 2012 Belarus imported 36,152 tons of polystyrene and 33,770 tons of polypropylene. HDPE imports totalled 27,803 tons and PVC 26,683 tons. Belarussian imports of PVC totalled 6,190 tons in July which was 1.6 times up on June.

The increase in imports was the result of increasing the supply of the polymer from the US and Germany. Shipments of PVC from the US rose by 1.8 times to 1,500 tons, and from Germany 3.2-fold to 1,300 tons. In addition, imports from Poland and Russia rose and amounted to 2,200 tons and 200 tons, respectively.

Lakokraska-phthalic anhydride

From January to August 2012 shipments of phthalic anhydride from Lakokraska to the Russian market amounted to 4,710 tons. This is 30% higher than for the comparable period in 2011. Other markets for Belarussian phthalic anhydride exports include Poland and Ukraine. Lakokraska at Lida shipped 690 tons to Russia in August, 45% more than in July, and 2.2 times than in August 2011. The main volume of Belarusian products in August 2012 was bought by Russian Coatings (265 tons or 39%), Empils Emery (106 tons, or 15%) and ABC Farben (2012 tons, or 31%).

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, but traditional markets such as Russia are becoming more difficult in view of higher Russian domestic capacity with more to follow. 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.

Ukraine

Ukrainian Chemical Production (unit-kilo tons)

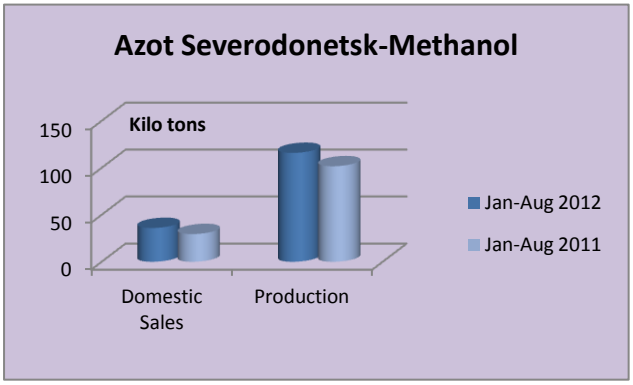
Product	*Jan-Aug 12*	*Jan-Aug 11*
Acetic Acid	91.6	97.2
Ammonia	3370.2	3424.7
Benzene (+95%)	91.2	87.2
Caprolactam	25.1	41.1
Caustic Soda	111.8	112.9
Ethylene	128.2	131.9
Formaldehyde	21.0	24.0
Methanol	115.9	101.7
Polypropylene	25.5	64.3
Polystyrene	11.7	12.8
Polyvinyl Acetate	3.2	3.9
PVC	71.4	38.0
Propylene	55.2	60.4
Soda Ash	434.3	518.7
Titanium Dioxide	101.2	103.9
Toluene	3.7	3.9

Karpatneftekhim-PVC shudown

Karpatneftehim closed its PVC line for maintenance on 9 September 2012 and will be down for at least around two months. LUKoil may keep the plant idle for the remainder of the fourth quarter in response to the unresolved issue over of VAT from the Ukrainian government for feedstock imports.

In the first seven months of 2012 shipment of Russian normal butane to Karpatneftekhim increased by 82% against 2011 to 203,700 tons, and thus VAT has risen sharply this year. Karpatneftekhim has tended to replace other types of pyrolysis of raw materials, in particular vacuum gas oil, with butane the main supplier of which has been SIBUR. Total shipments of butane from SIBUR subsidiaries Uralorgsintez and Tobolsk-Neftekhim amounted 95,200 tons in the period January to July 2012.

LUKoil believes that Karpatneftekhim should be exempt from such VAT payments. Even if the plant does restart PVC imports will be required at least through October to compensate for the lack of domestic production. The main source of imported PVC into Ukraine includes US and East European producers.



TNK-BP tries to sell Linik

TNK-BP is in talks with several bidders for Linik for the Lisichansk refinery, including Dmitry Firtash. The capacity of the Lisichansk refinery is 6.5 million tpa and 100,000 tpa of polypropylene. In 2011 the refinery operated at 70% of capacity, but this year has run only in small volumes.

Azot increases methanol sales and production in 2012

From January to August 2012, Azot at Severodonetsk sold 36,000 tons of methanol, which is almost 22% above the level recorded in the same period last year. Aside more stable demand, Russian imports have been less prominent this year. Azot expects demand to rise in October and November as the gas companies in Ukraine increase consumption. At the same demand from formaldehyde producers is expected to rise in the fourth quarter putting pressure on supply. In theory, imports could start to increase to cover the deficit.

Azot stopped ammonia production at the end of August for maintenance which will last until 14 October. Renovation will increase capacity from 1,600 tons to 1,700 tons per day whilst the gas flow rate required to produce a ton of ammonia will drop to 10-15 cubic metres.

Formaldehyde and resin producer Karpat Smol has started importing more methanol from Russia, increasing shipments to 2,000 tons in June and 2,500 tons in July. Aside Karpat Smol, imports into Ukraine have been in decline this year. The only two Russian methanol producers exporting to Ukraine are Shchekinoazot and Azot at Nevinomyssk. Linik at Lisichansk has significantly reduced purchases due to lower MTBE production. For the first seven months this year Ukraine imported 11,000 tons of methanol, which is almost half the volume of in the same period of 2011. The cost of imported methanol into Ukraine from Russia was on average about $340 per ton DAF Ukrainian border, which was increase of 3% compared to the same period last year.

Ukrainian plasticizer market

Plasticizer imports into Ukraine have risen slightly this year to compensate for the decline in domestic production levels. In the first seven months of 2012, imports of plasticizers increased by 4% and amounted to 13,300 tons. DOP represented the largest plasticizer, accounting for 6,600 tons of imports. DOP is the sole plasticizer produced in Ukraine and production was down by over 2,000 tons in the period January to July against 2011. The main source of imports into Ukraine are Polish and Czech suppliers, which compete favourably on price. Although Ukrainian producers Polikem and Lizinvest started slowly this year, production has started to increase in recent months helped somewhat by lower prices for 2-EH from SIBUR in Russia.

Ukrainian Plasticizer Market (unit-kilo tons)

	Jan-Jul 12	*Jan-Jul 11*	*Jan-Dec 11*	*Jan-Dec 10*
Production	5.9	7.9	12.5	7.7
Exports	0.6	2.4	3.7	1.0
Imports	13.3	12.8	11.2	8.4
Market Balance	18.6	18.3	20.0	15.1

Following the amendments to the customs tariffs imported DOP will be subject to taxes at a rate of 6.5%. Thus, the situation may change in favour of Ukrainian producers in the next few months. Imposition of a duty would grant Ukrainian producers the opportunity to increase the sales of the product in the domestic market and generate more revenue that can be used as an investment resource. However, the effect of taxes will not lead to the disappearance of imported DOP on the Ukrainian market. For Polish companies in Ukraine is one of the major markets. In 2011, exports of DOP from Poland amounted to 29,300 tons, of which 6,900 tons was sold in Ukraine. Deza from the Czech Republic shipped 2,700 tons in 2011, or 12% of the company's exports.

Ukrainian phthalic anhydride market

Phthalic anhydride imports into Ukraine totalled 4,560 tons in the first seven months in 2012, 18% less than in the same period last year. Increases in domestic production by Lizinvest at Rubezhnoye have impacted on import activity, which is still dominated by Kamteks-Khimprom and Lida from Russia and Belarus respectively.

From the consumer perspective, the introduction of import duties on plasticizers is a negative development. The main consumers of plasticizers in Ukraine are manufacturers of vinyl wallpaper, PVC, etc. Currently Ukrainian processors, unlike Russian, have the opportunity to buy imported raw materials duty free, which gives them an advantage when selling their products in Russia. However, the change of tariffs will lead to higher prices for raw ingredients and deprive the competitiveness of Ukrainian products.

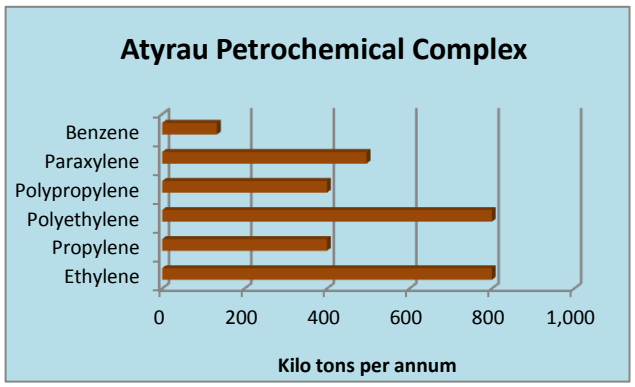
Central Asia

Uzbek PVC project on hold

The jv ISU Navoi Chemical, formed between ISU Engineering of South Korea and Navoiazot has indefinitely halted construction of the PVC plant in Uzbekistan. The Korean side has concluded that the acetylene units at Navoiazot, which are planned to provide the feedstocks for the PVC plant, are in need of modernisation before the project can go ahead. According to the original construction plan, the plant was supposed to start in 2012 but this can be put on hold until the acetylene plants have been improved significantly. The project plans included capacities of 50,000 tpa of PVC and 32,000 tpa of caustic soda, with finance agreed with the Fund for Reconstruction and Development of Uzbekistan.

Honeywell-Uzbekistan

Honeywell is interested in plans to construct plants for the production of light olefins (ethylene and propylene) from natural gas in the Bukhara region. Through a 500,000 tpa plant of methanol light olefins will be produced in the form of 190,000 tpa of ethylene and propylene. For this project Honeywell is required to provide a feasibility study by the end of the year.



Aromatics project at Atyrau underway

The aromatics project at Atyrau is now under construction and the project is expected to be completed by 2016. Construction of the aromatics unit will lead to the production of high value added benzene and paraxylene, whilst also reconstructing the Atyrau refinery to provide high-quality motor fuel Kazakhstan. KazMunaiGaz agreed to borrow $1.13 billion from the Export-Import Bank of China to upgrade its Atyrau oil refinery.

China Petroleum & Chemical Corp, Marubeni Corp and KazStroyService will complete work on the $1.7 billion project in an estimated period of 41 months. It remains unclear when the aromatics facilities will be operational, but 2015 is possible if the project runs to schedule. The integrated gas-chemical complex at Atyrau, involving 1.2 million tpa capacity of polyolefins, could be operational by 2016. This project does face some financing issues, however, and delays are possible.

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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