

Chemical Information Resources for East Europe and CIS

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MONTHLY NEWS

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

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Issue 237, 27 August 2010

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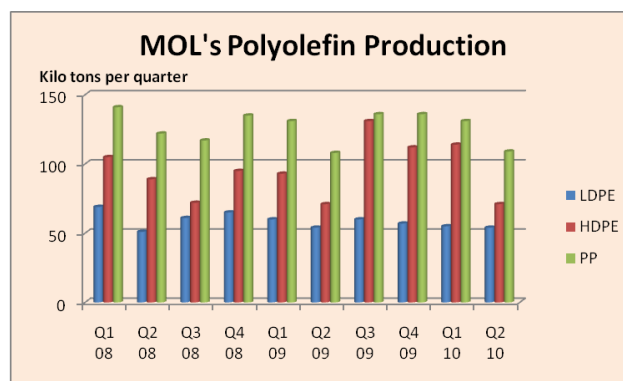
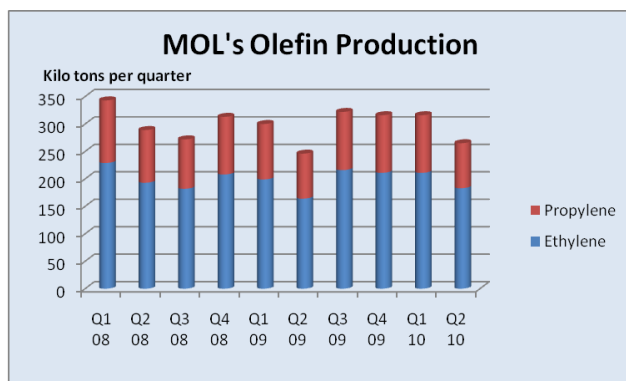
CENTRAL & SOUTH EAST EUROPE

Petrochemicals

MOL Q2 and first half of 2010

Overall for the first half of 2010 MOL's operating loss in the petrochemical division reduced significantly to Ft 0.6 million against the operating loss of Ft 13.0 billion in the first half last year. The main reasons for the improvement were the higher margins, higher olefin product prices, lower electricity prices, higher production and sales volumes. Petrochemical margins for the first half year increased by 10% to €323/ton, and whilst the naphtha price in dollar terms rose by 62% it was offset by a 32-64% increase for polymer prices in euro-terms. Monomer and polymer production volumes increased by 8% and 6% respectively compared to the same period in 2009.

MOL's olefin and polymer production volumes decreased by 13% and 17% respectively in the second quarter against the first quarter, due to the planned turnaround in TVK's Olefin-2 plant and polymer plants, and other plants at Slovnaft. Olefin and polymer sales for the MOL group fell by 10% in Q2 against the same period last year. Despite the turnarounds, MOL's operating profit in the petrochemical division converted to positive in Q2 2010. The main reasons for the Ft 3.8 billion profit against the first quarter in 2010 were higher petrochemical margins, efficiency improvements and stricter cost control. The operating profit was limited to an extent by higher electricity prices and an unfavourable change exchange rate.



Second quarter petrochemical margins increased by 13% to €343/ton compared to Q1 2010. The average naphtha price was lower by 2% in dollar-terms, while the average polymer quotations in euro-terms rose by up to 20%. The petrochemical divisions of the MOL group (including TVK and Slovnaft Petrochemicals) are striving to cope with the economic challenges by diversifying their product and client portfolio and aiming for

higher added value. Compared to West Europe, higher-margin areas such as injection moulding or blow moulding have a lower share in the Central and East European and especially the Hungarian market. At the same time, the share of film production is significantly higher in Central Europe and Hungary than in West Europe. This is considered to be a lower-margin area which is threatened by import competition, and thus the group is trying to formulate a strategy that increases the value of its overall product range.

TVK's Sales' Revenues (Ft million)

Exports	Jan-Jun 10	Jan-Jun 09
Olefin	6,203	1,175
LDPE	6,919	4,559
HDPE	51,224	32,915
PP	19,094	13,864
Domestic	Jan-Jun 10	Jan-Jun 09
Olefin	50,479	26,475
LDPE	5,059	3,863
HDPE	5,462	3,581
PP	17,704	11,464
Total	Jan-Jun 10	Jan-Jun 09
Olefin	56,682	27,650
LDPE	11,978	8,422
HDPE	56,686	36,496
PP	36,798	25,328

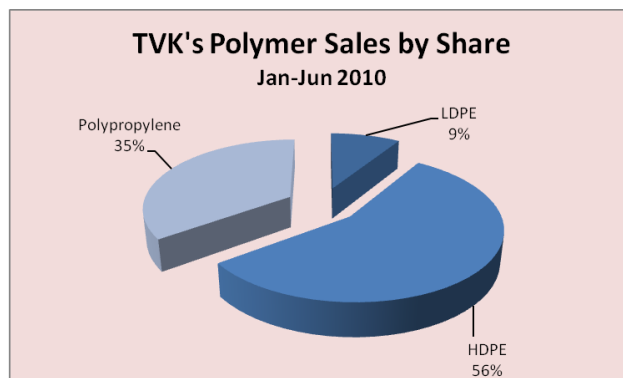
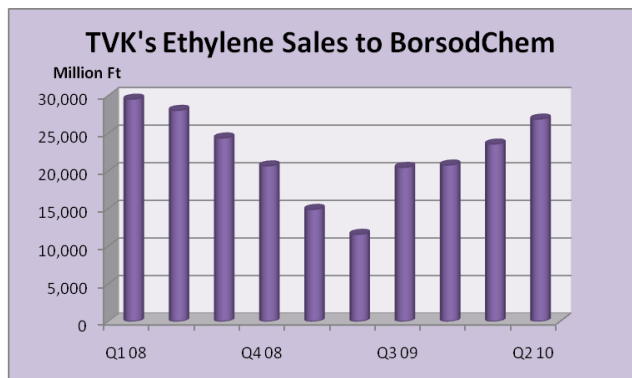
TVK, Q2 2010 & first half of 2010

TVK's revenues showed a marked recovery in the first half of this year, with each category of polyolefin recording increases. LDPE revenues recorded the smallest increase, due largely to the closure of its oldest unit in March last year. Ethylene sales to BorsodChem almost doubled in the first half of 2010 in response to a recovery for PVC demand.

TVK broke even in the second quarter on revenues of Ft 89.2 billion, after recording a Ft 4.7 billion loss in the same period last year. TVK's revenue rose 73.7% to Ft 89.2 billion during the period. The costs of feedstock rose at a slower pace, increasing 64.0% to Ft 80.0 billion to give TVK an operating profit of Ft 2.6 billion, compared to a loss of Ft 7.1 billion in Q2 2009.

Operating profit in the second quarter was absorbed by a Ft 2.5 billion financial loss to leave TVK with a small net income of Ft 26 million. Overall for the first six months, first-half revenue increased 56.4% to Ft 174.1 billion and feedstock costs rose 51.9% to Ft 161.9 billion. This combined to raise operating profit to Ft 2.0 billion although this was offset by a Ft 2.4 billion financial loss which pushed the company Ft 589 million into the red.

Total capacity utilisation showed an upturn of 13% in the first half of 2010, due to the absence of unplanned stoppages. However due to a planned turnaround in the second quarter in 2010 capacity utilisation fell 15% against the second quarter last year.

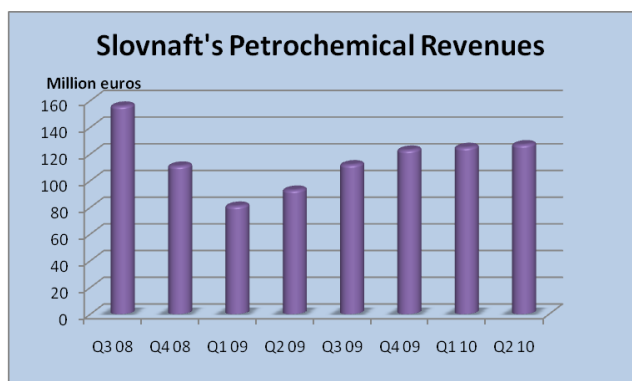


Polymer production and sales increased by 14% and 9% respectively in the first half of 2010. Due to the final shutdown of the LDPE-1 plant in March, 2009 the production share of LDPE dropped, and compensated for by the growth of HDPE. On the basis of the first half of 2010, polymer sales were divided into LDPE 9%, HDPE 56% and polypropylene 35%.

TVK's strategy seeks to shape and improve a balanced product portfolio by attaching equally high importance to develop polyethylene and polypropylene product lines. Cooperation with strategic partners, such as MOL Group companies and BorsodChem, remain a key element of operations. In order to develop business and improve capacity utilisation rates at the olefin plants, TVK signed a three years supply contract in December 2009 for selling butadiene rich C4 fraction to the Polish polystyrene producer Synthos. In the third quarter Messer has won a lucrative equipment contract with TVK to supply laboratory equipment to the olefin plant at Tiszaújváros. This follows on from a gas supply system handover in November 2009, including a system which supplies hydrogen, helium, nitrogen and calibration gases.

Slovnaft Q2 2010

The Slovnaft Group recorded an operating loss of €2.7 million in the second quarter in 2010, mainly due to the impact of general turnarounds. The operating loss of the petrochemical division halved compared to the loss incurred in Q2 2009 and also significantly improved against Q1 2010. Slovnaft Group showed good performance in the second quarter, despite the planned overhaul and technical adjustments.



Petrochemical margins increased in Q2 by 25% against the same period last year and by 13% compared to the first quarter. The average margin of €323 per ton was driven by stronger polymer prices and falls in naphtha costs. There was also an increase in the propylene contract price. Although the group ended with an operating loss of €5.8 million in the first half, there was a slight upturn in the petrochemical division, where they succeeded in spite of downtime in the first half of 2010. Polymer sales volumes in Q2 2010 were below the Q2 2009 level by 24% as a result of a production turnaround in May 2010.

PKN Orlen-Wloclawek energy plant

PKN Orlen has started the process of gathering information about potential contractors for building an energy plant at Wloclawek, which the group aims to start work in 2014. The projected power plant unit will comprise 400-500 MW. PKN Orlen has invited potential contractors to confirm the investment intentions to

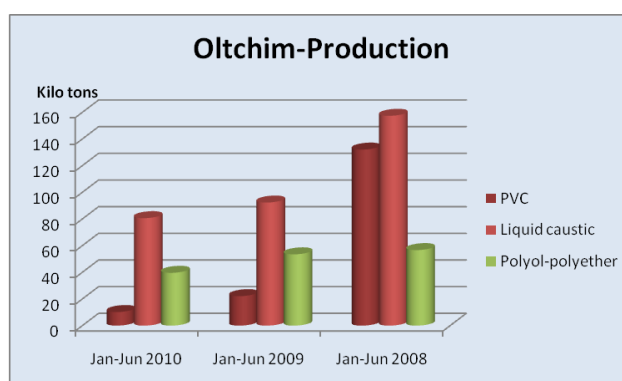
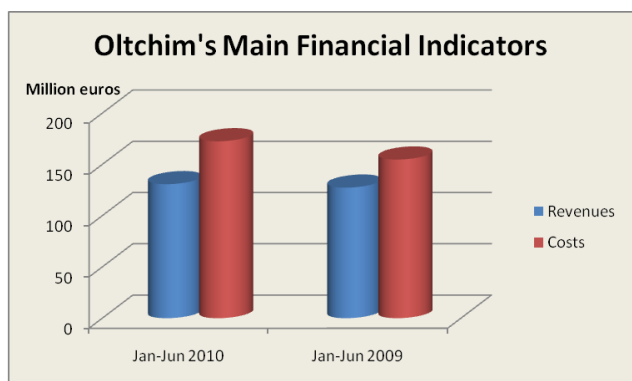
participate in the tender for general contractor of the project. Anwil, which for now remains the property of PKN Orlen, may not benefit from electricity produced in the proposed new power plant at Wloclawek. Despite the failure of talks with the Pulawy group, PKN Orlen still hopes to sell Anwil.

Oltchim records profits in first half of 2010

Costs continue to outstrip revenues at Oltchim causing losses for the company. As in the first half of last year, Oltchim's activity in the first six months was affected by the lack of ethylene with a severe impact on PVC production. Most of the turnover (76%) was generated by exports, which rose 8.5% against 2009. Revenues increased by only 2.63% from 539.4 million lei to 553,650,000 lei, but costs increased by 11.5% from 655.42 million to 730.82 million lei. The company is controlled by the state, which holds 54.79% of the Ministry of Securities, while the German company PCC has 12.16% of shares.

Minority shareholder PCC believes that the financial results of Oltchim in the second quarter of 2010 showed a dramatic deterioration in the company's financial situation. In the second quarter of 2010, registered losses of Oltchim totalled 124.392 million lei, almost two and a half times higher than in the first quarter of this year when it recorded losses of 52.802 million lei. Total losses in the first half of 2010 reached 177.2 million lei, against a 116 million lei loss recorded during the same period last year.

PCC argues that Oltchim's losses continue to grow, despite huge investments over the years 1995-2007, which amounted to a total of €335 million. As a result, PCC believes that Oltchim needs to restructure drastically in order to avoid closing the company. Oltchim's management conversely believes that PCC has other ambitions such as eliminating the competition for its Polish subsidiary PCC Rokita which shares a similar production profile to that of Oltchim.



Arpechim restart & impact on Oltchim

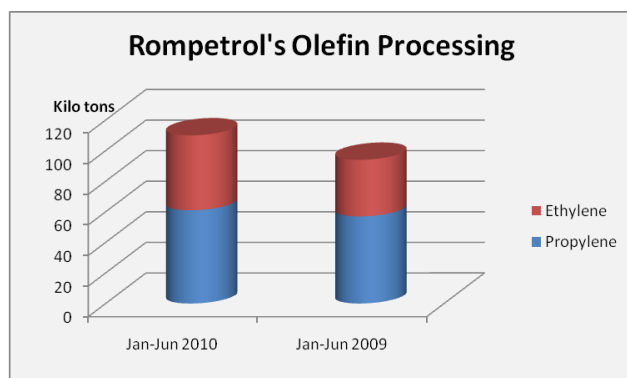
A chink of light for Oltchim may be seen in the rebooting the petrochemical plant at Pitesti, which could finally take place at the end of August or early September. Oltchim has invested around €15 million in revamping Arpechim, which when underway will enable a revival of capacity utilisation levels at Ramnicu Valcea. Investments by Oltchim in the Arpechim petrochemical facilities amounted to 730.8 million lei in the first half of the year. The acquisition of Arpechim resulted in a capital gain for Oltchim of 367 million lei, although this has been questioned by PCC. Following the start-up of the cracker at Pitesti the company's financial performance is expected to improve in the fourth quarter. Oltchim expects that the company could return to profitability by 2012 after the restart of the Arpechim cracker. In addition to facilitating higher chemical production at Ramnicu Valcea, Oltchim's demand for petrochemical feedstocks from the refinery at Arpechim to supply the cracker could help Petrom to decide to maintain higher refinery production levels.

South East European refineries

Jacobs Engineering Group has received a contract from Heurtey Petrochem in France to provide engineering services for a new hydrogen plant generation unit at the NIS refinery at Pancevo. Gazprom Neft has begun the construction of a hydrocracking and hydrotreating unit at the Pancevo refinery, as part of the process in the modernisation of the NIS facilities. The construction of light hydrocracking and hydrotreating unit will increase processing at Pancevo to 4.8 million tpa, with gasoline production rising to 638,000 tpa and diesel production to 1.54 million tpa. Thus, the complex will not only cover local Serbian market requirements but provide conditions for export gasoline supplies to the Balkan states.

The total investment of Gazprom Neft to upgrade the Pancevo refinery is around €500 million, including the construction of the hydrogen plant. The launch of the hydrocracking and hydrotreating unit is scheduled for the fourth quarter in 2012.

Petrom continues to operate the Arpechim refinery on an as needed basis during 2010. During the first half of 2010, Petrom maintained a low utilisation rate at its refineries at 51%. This was mainly due to the Arpechim refinery being in economic shutdown from mid January until end February and throughout June in response to challenging market conditions. In addition, the overall utilisation rate was further impacted by Petrobrazi undergoing a turnaround starting at the beginning of April and running until the beginning of May. Total refining output was down 27% compared to the first half of 2009. In the group's chemical sector, Petrom expects to close Doljchim by the end of 2010 and until then will run the operations on an as needed basis and integration needs. The dismantling and decontamination of the plant will be started in compliance with European environmental standards.



Rompetro Petrochemicals, Jan-Jun 2010

Rompetro Petrochemicals recorded a 33% increase in gross revenues to \$146.5 million in the first half of 2010. The increase in gross revenues is mainly the result of higher prices for petrochemical products compared against 2009. This year the EBITDA has improved significantly due to positive margins from petrochemical product sales, the diversification of the product portfolio and streamlining of the company's activity.

Rompetro Petrochemicals will increase the capacity of the HDPE plant by more than 70% by March

2011. The total value of the investment in the project is estimated in the range of \$18 million. The modernisation programme will allow an increase in the installation capacity from 60,000 tpa to 100,000 tpa which represents a reduction of over 10% in the processing costs. It will facilitate a diversification in the range of products provided, as well as an increase in the operating safety.

Chemicals

Polish plant news

ZAK declared *force majeure* from its oxo-alcohols plant on 18 August. Production at its synthetic gas plant was disrupted which led to a complete shutdown of the oxo-synthesis and oxo-alcohols installations.

Product	Jan-Jul 10	Jan-Jul 09
Caustic Soda Liquid	153.8	166.8
Caustic Soda Solid	35.9	39.9
Soda Ash	564.9	517.0
Ethylene	279.2	280.0
Propylene	181.7	199.0
Butadiene	33.6	27.3
Toluene	53.9	51.6
Phenol	17.5	18.2
Caprolactam	92.8	76.4
Polyethylene	200.7	184.0
Polystyrene	81.4	72.7
PVC	115.3	143.0
Polypropylene	126.8	147.0
Synthetic Rubber	92.6	75.3
Pesticides	13.6	15.6

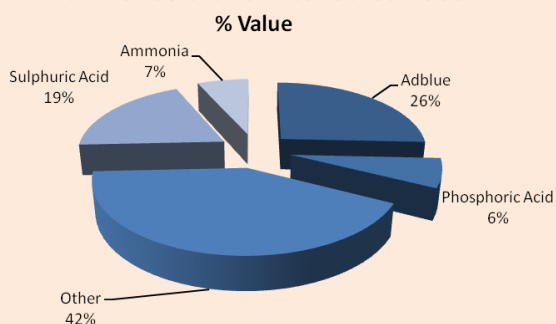
Deliveries of isobutanol, n-butanol, and 2-EH as well as aldehydes have been affected. Although the outage is not expected to last long, deliveries are expected to be cut by roughly 30% while the *force majeure* remains in place. ZAK also said that it will not be able to accept any deliveries of propylene during the *force majeure* and that its earlier proposed delivery programme for propylene is no longer valid. Further collections will only be resumed when production has restarted.

PVC production at Anwil dropped in July following the outage at the end of June, whilst BOP's unplanned stoppage in May has affected polypropylene production in the first seven months of 2010. ZA Tarnow restored full production of caprolactam in early August after the accident on 17 July. Production resumed initially on 24 July, but full capacity was not achieved until 3 August. Currently the line is operating at 95% of capacity. Repairs at the caprolactam unit involved an exchange of the damaged furnace, which will be launched in September 2010.

ZCh Police-improved results in first half of 2010

ZCh Police achieved a zł 22.06 million consolidated net loss in the first half of 2010 against a loss of zł 228.17 million in the same period last year. Revenues amounted to zł 922.35 million to zł 873.38 million in the first half of 2009. ZCh Police reduced costs in the first six months of 2010 by zł 27.4 million, representing a 22% fall against last year. The company is continuing its initiatives to increase sales of AdBlue and ferrous sulphate, which has resulted in expansion of its markets. ZCh Police has continued its expansion of titanium white in the markets where trade is conducted in US dollars.

Z Ch Police's Chemical Sales 2009



PGNiG has again agreed to postpone debt repayments by Z Ch Police. The total repayment will be 31 December 2012. This means that PGNiG has lengthened the maturity of the obligations ZCh Police included in an annex to the agreement of 30 June 2010 for two years and six months.

Ciech-measures decided to reduce debts

Ciech has drawn up an agreement with the banks and its creditors over financing, aimed at improving the financial condition of the group and facilitate the repayment of debt. The main idea is to secure cash from the sale of several subsidiaries, whilst the group

wants to close unprofitable production lines and optimise employment. Ciech plans to sell shares in a number of companies in the next two years, including Vitrosilicon, Alwernia, and Fosfory. The group will additionally seek buyers for some parts of Zachem and aim to eliminate some product lines at Bydgoszcz. Production will also be limited in Fosfory and Soda Poland Ciech, whilst an agreement has been reached between Ciech and three banks for credit for Organika-Sarzyna.

Spolchemie agrees restructuring package

Spolchemie has agreed with the creditor banks to extend the so-called standstill agreements until the end of this year. Spolchemie is repaying part of its commitment now, but most of the burden should be distributed only from next year when the company foresees a profit. Spolchemie has been facing very serious problems since 2008, but has embarked on radical restructuring this year affecting not only the range of products under offer but also the number of employees.

NCHZ-tender process for sale starts

Slovak restructuring management company ECR has officially announced a public tender for sale of Novácke chemické závody (NCHZ). The aim is to conclude the winner by the end of 2010 or start of 2011. NCHZ was declared bankrupt last year following a decision by the European Commission to impose a fine for cartel agreements with other European chemical companies. The Commission claims that between 2004 and 2007 the cartel fixed prices for calcium carbide and related products in the EU area. The EC decided on the maximum penalty, despite meaning bankruptcy for NCHZ. In May this year, the largest lenders agreed on the sales process of NCHZ.

NCHZ produces organic as well as inorganic chemicals for further use in various industries. It currently employs 1,764 people. Last year it reported a turnover of €230 million and made a profit of €363,000. It is owned by a Cypriot company, Disor Holdings Limited, which acquired shares previously owned by Slovak financial firms Penta and Garantovaná.

BorsodChem's TDI plant to come onstream in 2011

Wanhua Industrial Group, a minority owner of BorsodChem, has stated that the new TDI plant is set to



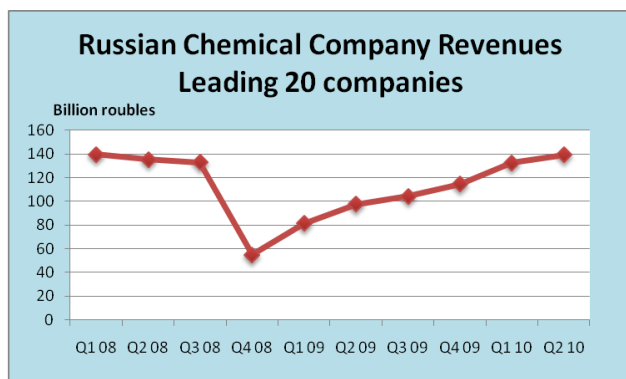
come online next year could improve the group's profitability. Wanhua, the largest isocyanate producer in the Asia Pacific region, bought 38% in BorsodChem from First Chemical Holding for around \$180 million in June with a call option for the remaining shares. BorsodChem has said that it would use the funding to complete the construction of its new TDI 2 plant and a nitric acid plant as well as for general corporate purposes. The TDI plant could be completed in the first half of 2011 and will make BorsodChem the most cost-efficient TDI producer in Europe,

BorsodChem's TDI investment could pose competition for Zachem

Wanhua's injection of funds has allowed BorsodChem to safely resume an investment in the installation of its new TDI plant with a capacity of 200,000 tpa. BorsodChem can currently produce 90,000 tpa or about 15,000 tpa more than the Zachem Ciech group. The increase in TDI capacity by BorsodChem could affect Zachem; as such a large capacity will affect prices and margins. Zachem exports large volumes of TDI to China, as indicated in the graphic above. It is too early to gauge the effects of the project, as the new

BorsodChem plant will not be introduced for two to three years. However, it is of some concern to Zachem in that it may result in regional overcapacity forcing the company to seek other markets.

RUSSIA



Russian market, Jan-July 2010

Revenues for the leading twenty Russian chemical companies climbed in the second quarter this year to reach levels recorded last seen in the first quarter in 2008. At the same time, costs of raw materials have risen after significant falls seen in 2009. Overall profitability has improved for most Russian chemical producers this year. The third quarter may be affected by lower revenues due to reduced market consumption levels as a result of the heatwave. The record-breaking heatwave has destroyed grain crops across Russia, ruining close to a third of the country's forecast harvest, while

Russia's largest car manufacturers Avtovaz and GAZ, closed assembly lines as high temperatures made working conditions unbearable on factory floors.

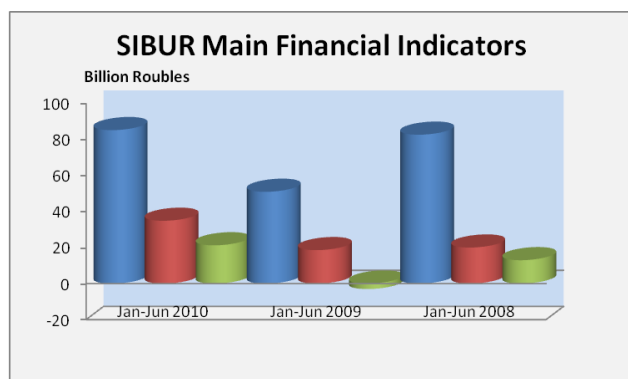
Russian Polymer Production (unit-kilo tons)		
Product	Jan-Jul 10	Jan-Jul 09
Polyethylene	918.7	804.5
Polypropylene	365.9	328.6
PVC	345.1	310.8
Polystyrene	169.3	146.4
Syn Rubber	553.6	500.1

In the period January-July 2010 chemical production in Russia increased 18.4% against January-July 2009. In the product sectors, a 22.4% increase was achieved for rubber and plastic products, and 23.2% for lacquers and paints. Synthetic fibre production rose 26.4% to 50,800 tons including a 62.7% increase for polyamide fibres and yarns to 21,800 tons. In the polymer sector, Russia increased polyethylene production by 13.4% in the first seven months to 918,700 tons.

Feedstocks/petrochemicals

TNK-BP, associated gas processing

TNK-BP's subsidiary Orenburgneft plans to invest 1.3 billion roubles in the construction of facilities for recycling and processing of associated gas. The level of associated gas utilisation at Orenburgneft in 2009 was recorded at 72.7% and needs to increase to 95% by 2012. TNK-BP has also approved a project for gas gathering in the Samotlor field in accordance with the Kyoto Protocol. Last year, BNP Paribas signed an agreement with TNK-BP for associated gas utilisation in the Samotlor field aimed at reducing flaring and greenhouse gas emissions.



SIBUR, Jan-Jun 2010 financial overview

SIBUR's net profit rose to 21.625 billion roubles in the first half of the year against a loss in the same period in 2009 of 3.036 billion roubles. Revenues increased by 81.6% and reached 85.289 billion roubles. The growth in revenue correlates directly with the global recovery which has led to higher prices and volumes of consumption in the domestic and external markets. The gross profit for SIBUR grew 3.67 times to 34.885 billion roubles, whilst the value of net assets rose 44.85% to 110.919 billion roubles. Revenues slightly exceeded the first half of 2008, although profits were higher.

SIBUR acquires transport companies

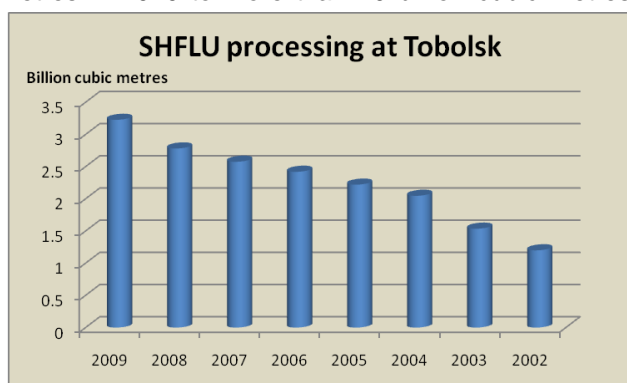
SIBUR has acquired a number of transport companies, which own the railway infrastructure in the Yamal-Nenets and the Khanty-Mansiisk regions in West Siberia and in the Perm region. The holding company aims to integrate the new divisions into the structure of a transport company SIBUR-Trans. According to SIBUR, the acquisition of infrastructure will allow the company to minimise logistical risks, reduce costs and

optimise its own fleet of rolling stock. SIBUR-Trans has been operating on the Russian market for more than 15 years. As of August 2010, it has its own fleet of over four thousand units of rolling stock and in total the management company has more than 12 thousand cars of various categories. The volume of traffic over the past three years has increased by 9%, reaching the 2009 level of 7.5 million tons, and is expected to continue rising.

SIBUR to double gas processing at Tobolsk

SIBUR's investment committee has decided to embark on the project for the second gas fractionating unit at Tobolsk-Neftekhim, for the processing of wide fraction of light hydrocarbons (SHFLU). The plant will be designed to process 2.8 million tpa. Over the past few years, Tobolsk-Neftekhim has gradually increased its processing of gas raw materials and this has been helped by an increase in capacity to 3 million tpa in 2005. The first gas fractionating unit at Tobolsk, which was started originally in 1984, is being further expanded to attain a capacity of 3.8 million tpa by 2011. Thus, when the new unit starts in probably circa 2014-2015, total processing capacity for gas liquids at Tobolsk-Neftekhim will rise to 6.6 million tpa.

The expansion of gas processing capacity is part of SIBUR's programme to develop the gas and chemical complex in West Siberia. It includes an increase in the processing of associated gas to 16.8 billion cubic metres in 2010 to more than 20 billion cubic metres by 2012. It also includes the construction of a new



pipeline capacity of 7 million tpa to transport NGLs from Yuzhniy Balyk Gas Processing Plant to Tobolsk-Neftekhim, as well as a number of other infrastructure projects.

Yuzhniy-Balyk ethane for Tomskneftekhim

SIBUR has expanded ethane production from associated gas processing at the Yuzhniy-Balyk gas processing plant in the Yamal-Nenets region, which is intended for transportation to Tomskneftekhim for ethylene production. Due to the introduction of new technology SIBUR is now able to extract ethane at Yuzhniy-Balyk together with SHFLU. The group

can produce gas liquids with an ethane content of 6.2% and the new composition of NGLs will improve performance at the pyrolysis installation at Tomskneftekhim. During the period 2011-2012, SIBUR plans to allocate up to 90,000 tons of ethane from the Yuzhniy-Balyk plant. The same technology could, moreover, be applied to the other gas processing plants within SIBUR.

Tomskneftekhim, ethane to be used for ethylene production

Tomskneftekhim recently relaunched its ethylene cracker following modernisation. This has included the installation of new equipment on one of the ethylene columns, provided by Sulzer-Chemtech to allow the usage of ethane. This is the fourth column at Tomsk to be modernised in recent years by Sulzer. The modernisation enables the facility to improve rectification indicators and also the quality of ethylene production. Tomskneftekhim encountered an accident at its cracker during a planned maintenance shutdown in early August.

SIBUR-Neftekhim-divisional restructuring

By the end of 2010, SIBUR-Holding expects to complete the separation of SIBUR-Neftekhim's activities at Kstovo and Dzerzhinsk into separate legal entities. SIBUR considers that it is necessary to reorganise the SIBUR-Neftekhim in an attempt to optimise the structure of company management and give more power directly to companies at Kstovo and Dzerzhinsk.

In the years 2001 to 2008, the presence of an interim management team for SIBUR-Neftekhim was necessary in order to navigate the plants away from a pre-bankruptcy state and subsequently to integrate them into SIBUR's holding company. The structure was created to allow the corporate centre of SIBUR to interact directly with the industrial sites.

Under the planned restructuring, a new entity at Kstovo will be registered as SIBUR-Kstovo LLC, whilst the Dzerzhinsk production sites will remain within SIBUR-Neftekhim. The two companies will report directly to the SIBUR's Directorate of Plastics and Organic Synthesis. The aim of the divisional reorganisation is to improve management efficiency and reduce the company's administrative costs. The businesses will have greater operational autonomy. Efforts are underway to construct a contractual relationship, particularly in the supply of ethylene from Kstovo to Dzerzhinsk for ethylene oxide production.

SIBUR-Neftekhim has placed an issue for 2.054 million shares, with a nominal value of 1 rouble each. As a result of placing an additional issue, the charter capital of SIBUR-Neftekhim will increase 1.7 times to 5.118 million roubles. This increase will help to support investment projects. Prior to registration of additional shares, the capital of SIBUR-Neftekhim was 3.064 billion roubles and is divided into ordinary shares of par value of 1 rouble.

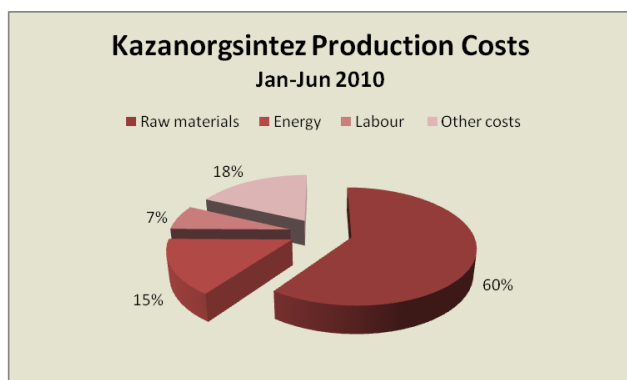
SIBUR-Neftekhim-EO/MEG maintenance

SIBUR-Neftekhim completed its overload catalyst on the first line synthesis of ethylene oxide in July, after Scientific Design approved the application of the new catalyst. A similar catalyst in December 2009 was loaded on the second line of the ethylene oxide plant. The new catalyst will enable the ethylene oxide and glycols plant to increase production both in volume and quality. The EO/MEG plant was reconstructed in 2005, which resulted in increased production capacity for ethylene oxide from 200,000 tpa to 240,000 tpa and MEG from 170,000 tpa to 200,000 tpa. In 2010, the MEG capacity is now operating at 230,000 tpa whilst the ethylene oxide has a top capacity of 264,000 tpa.

Kazanorgsintez, Jan-Jun 2010

Kazanorgsintez increased turnover by 76.8% in the first half of 2010 to reach 17.7 billion roubles. The increase in revenue is due primarily to higher prices for products which the company sells and the abolition of processing which had previously been carried out behalf of SIBUR. High quality production for certain products allows Kazanorgsintez to impose prices in line with world levels. Exports accounted for 26.94% of turnover for Kazanorgsintez in the first half of 2010.

Physical volumes of production increased by 14.3%, whilst the cost of production increased by 64.16%. The price of ethane to Kazanorgsintez rose 148.9%, propane-butane by 104% and benzene by 103.7%. Despite the rises in raw material costs the company managed to achieve a net profit of 938.102 million roubles in the first half of 2010, as against a net loss for the same period of 2009 of 1.868 billion roubles. The company has transferred almost all its debt obligations to the long term.

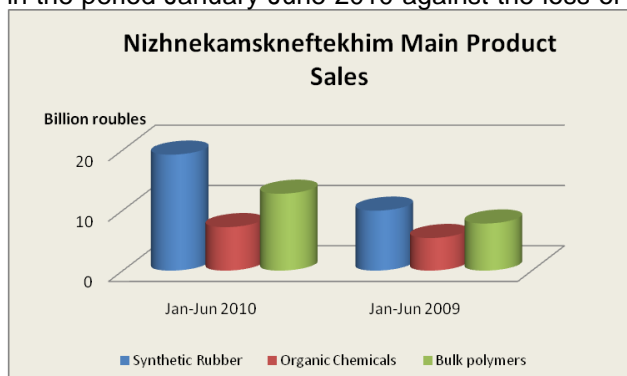


Raw materials accounted for 59.9% of total production costs in the second quarter against 50.1% in the same quarter in 2009. High commodity prices for Kazanorgsintez associated with the new contract for the supply of ethane with Gazprom in late 2009 has helped drive up raw material costs.

As a result, the price of ethane for Kazanorgsintez is significantly higher than worldwide prices. Due to high ethane prices and adverse currency factors, the company's second quarter net profits decreased against the first quarter 3.33 times to 261.434 million roubles. The main types of raw materials for Kazanorgsintez include ethane, propane-butane and benzene. Prices for all those raw materials have risen in the past year in relation to global oil prices. Electricity to Kazanorgsintez is supplied by two sources; Kazan TETS-3 and Kazan-TETS2.

Nizhnekamskneftekhim, Jan-Jun 2010

Nizhnekamskneftekhim's revenue for the first six months increased 1.7 times compared to the same period last year and amounted to 44.279 billion roubles. The company reported a net profit of 3.455 billion roubles in the period January-June 2010 against the loss of 407 million roubles last year. Gross profit has doubled



to 9.019 billion roubles, whilst pre-tax profits amounted to 4.44 billion roubles against the loss of 380.082 million roubles for the first half of 2009. Synthetic rubber sales improved significantly in the second quarter against the same period last year, rising from 9.944 billion roubles to 19.233 billion roubles. The other two sales divisions, organic and polymers, both recorded increases.

Nizhnekamskneftekhim completed ten years as a polymer producer in August, with the first of its three polystyrene plants starting up in August 2000. In

that period the company has produced a total of 778,000 tons of polystyrene. Polypropylene and HDPE

production have been started in the meantime, now meaning that polymer sales account for just under 30% of total product sales.

Monomers

Salavatnefteorgsintez-Kaustik, ethylene dispute

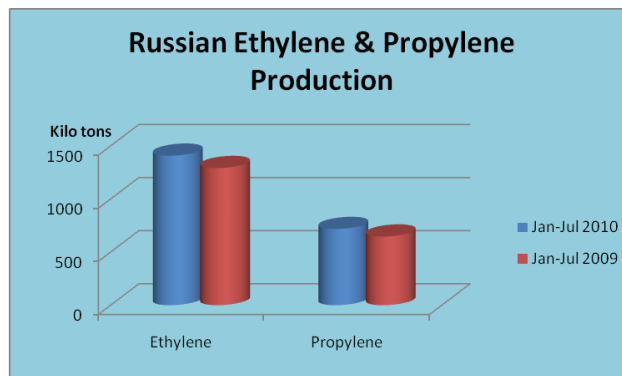
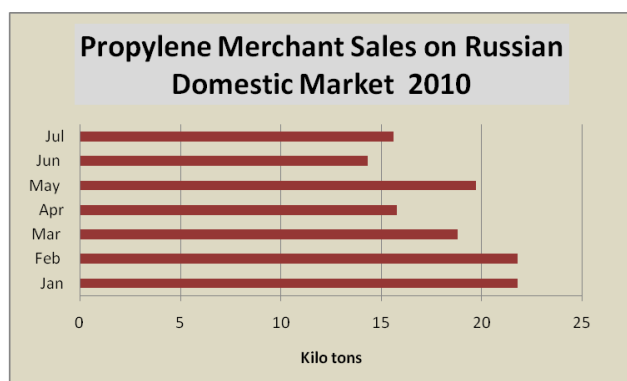
Salavatnefteorgsintez and Kaustik have run into conflict over the ethylene price formula, resulting in supply disruptions and at Kaustik in July and August. The official account is given that due to maintenance on the cracker at Salavatnefteorgsintez, but unofficially ethylene supply to Sterlitamak has been disrupted due to non-payment by Kaustik for deliveries in June and July. The two companies have maintained relations over the past few years, despite a price disagreement in 2006, but events have now culminated in supplies actually being stopped. The last price which Kaustik paid was at 21,200 roubles per ton for ethylene, which Kaustik feels is too high whilst Salavatnefteorgsintez believes the opposite.

In the past six months Salavatnefteorgsintez has sold ethylene to Kaustik on the basis of short-term monthly contracts. The price has risen from 14,500 roubles per ton to 21,500 roubles per ton in the past few months whilst in July Salavatnefteorgsintez increased the price further to 24,500 roubles per ton. A similar price was agreed with Kazanorgsintez for ethylene sales via the pipeline system, although Kazanorgsintez is not expected to buy much monomer from Salavat. Kaustik's problem is that Salavatnefteorgsintez is likely to have much less ethylene available for merchant sales when the new HDPE plant reaches full capacity and will have little incentive to drop its ethylene price. As a result, Kaustik has very little bargaining power. On the plus side, the fact that both companies are located in Bashkortostan means that there is a good possibility of regional government mediation to resolve the issue. Alternatively, as with the Kazanorgsintez-SIBUR dispute it may be that Putin comes to the rescue.

Russian propylene market balanced

Propylene supply to the Russian market increased in July by 9% over June and totalled 15,600 tons. The main factor contributing to the increase in the supply in July was the downtime at the olefin plant at Salavatnefteorgsintez. In order to maintain production at its oxo-alcohol plants, Salavatnefteorgsintez has been forced to purchase propylene on the open market from other crackers. In July, the company bought 5,800 tons of additional propylene, almost double from June. In the period January-July, a total of 127,400 tons of propylene was sold on the Russian domestic market which was 2% less than last year. Due to reduced production of acrylonitrile by Saratovorgsintez, the company purchased 15% less propylene than in 2009.

On the supply side, SIBUR-Khimprom has boosted its own production of propylene from propane-propylene fractions. However, due to increases in its own oxo alcohol production shipped only 1,500 tons of propylene to the Russian market against 20,200 tons in the same period against the same period last year. Salavatnefteorgsintez has reduced propylene production whilst at the same time increasing the production of 2-ethylhexanol and butanols. In the first seven months of 2010 Salavatnefteorgsintez bought 24,200 tons of propylene on the open market against 2.300 from January to July 2009.



The increase in production of polypropylene at Stavrolen has led to an increase of captive consumption of propylene and as a consequence less availability for sale on the open market. In the first seven months of 2010 Stavrolen shipped 11,400 tons of propylene to the domestic market or 56% less than in 2009. Some of this decline has been offset by availability from other producers Angarsk Polymer Plant, Omsk Kaucuk, Kazanorgsintez and Nizhnekamskneftekhim.

Russian aromatics supply eases in July

Benzene sales on the domestic market increased in July 4% over June to 62,700 tons. Caprolactam producers increased benzene purchases 59% in July after shutdowns. At the same time, the production of phenol and styrene was lower and reduced the consumption of benzene. SIBUR-Khimprom and Salavatnefteorgsintez stopped styrene production in July for maintenance whilst Samaraorgsintez and Kazanorgsintez reduced benzene purchases for phenol production. In the first seven months of 2010 sales of benzene on the domestic market rose 19% over last year to 437,000 tons.

Toluene sales on the domestic market amounted to 6,600 tons in July, 16% more than in June. The increase was due to higher production at LUKoil-PNOS at Perm. In June and July, the Russian market endured a deficit partly due to lower output at Kirishinefteorgsintez. In the period January-July 2010, a total of 49,500 tons of toluene was sold on the domestic market reflecting an 18% fall against last year. Captive requirements by the refineries for toluene, such as a high-octane supplement, was the main factor behind lower sales on the open market.

Russian styrene market

Stoppages at two Russian styrene producers recently have led to a decrease in gross output and availability in the domestic market. Deliveries to the merchant market were reduced 26% in July against June and amounted to 4,800 tons. Salavatnefteorgsintez and SIBUR-Khimprom significantly reduced the volume of deliveries to the Russian market. In the first seven months in 2010 the supply of styrene on the Russian market fell by 3% and amounted to 46,800 tons. Whilst most of the open market styrene buyers have increased their purchases this year the main reason for the decline was the halt in polystyrene production at Omsk-Polymer. By June 2010, the company was forced to cease production due to financial difficulties.

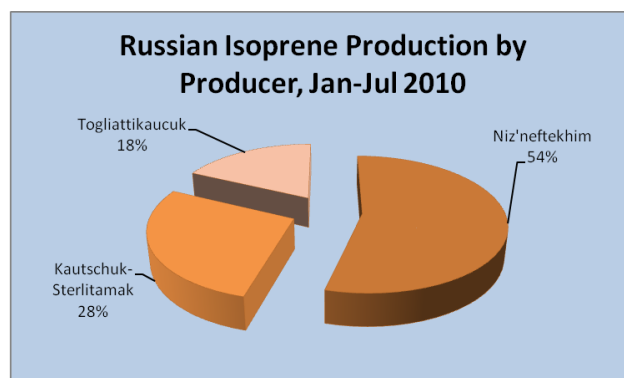
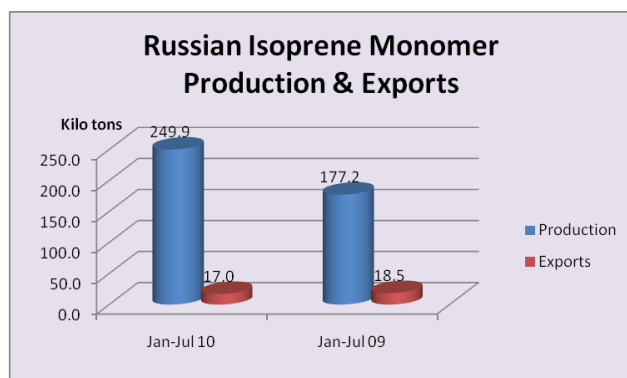
Russian isoprene market, Jan-Jul 2010

Isoprene monomer production and consumption have been rising in 2010 due to the recovery in demand for synthetic rubber, both domestically and abroad. In the first seven months of 2010 production volumes ran at close to full capacity at the three plants in Russia. The problem facing the market is that no new capacity is under planning for at least a few years. Substantial increases in isoprene production from isobutane can be expected no earlier than 2014, after Togliattikaucuk completes its conversion to the one-stage method.

Low demand in 2009 led to reductions in operating rates for isoprene monomer, and helped sway the closure of the 60,000 tpa Novokuibyshevsk plant. Consumption patterns started to see some sort of recovery by the end of 2009, partly due to the decision by the Russian government to support the domestic car industry and partly due to improved export opportunities for isoprene rubber.

Utilisation rates improved in the second half of 2009 against the first half for isoprene monomer production by 36%. Overall though, isoprene production declined 22% against 2008. Production of isoprene through the two-stage process is still more important in Russia, with only Nizhnekamskneftekhim using the more modern one-stage process.

From January to July 2010, the production of isoprene monomer increased by 41% against last year and totalled 249,800 tons. The increase in production was mainly due to an increase in production at Nizhnekamskneftekhim and Kautschuk at Sterlitamak, by 12% and 10% respectively. Isoprene rubber production increased by 18%, which was not enough to absorb the increase in the monomer and thus surplus product was exported. Exports of monomer totalled 17,000 tons in the first seven months of 2010, 8% less than in the same period last year. Nizhnekamskneftekhim accounted for 56% of exports and Togliattikaucuk 43%.

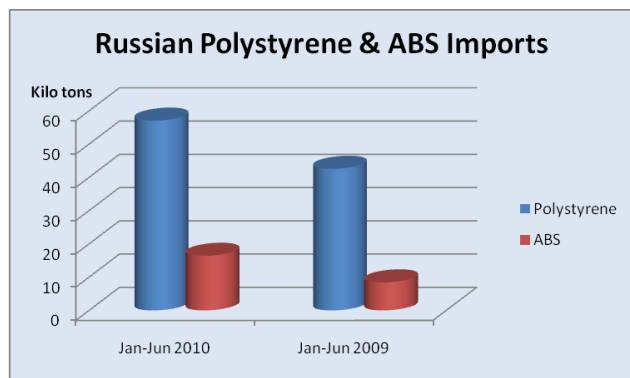


Bulk polymers

SIBUR aims to challenge imports of EPS

SIBUR-Holding aims to commission a new EPS plant in November at SIBUR-Khimprom, with a capacity of 50,000 tpa. The second stage, also with a capacity of 50,000 tpa, is planned to enter in second quarter of 2012. Investments in the first phase of the project are expected to total around 2.1 billion roubles, and the second phase 1.7 billion roubles.

The EPS market in Russia is dominated to a large extent by imports from China and Europe. However, imports from China, which arrive via Vladivostok, often do not correspond to the building regulations and requirements in Russia. SIBUR will be seeking to challenge these imports. Production of expandable polystyrene amounted to 32,100 tons in 2009, 13.5% down on the previous year. Some of the market



applications are in their early stages, but are showing prospects for growth in future. Overall, Russian imports of polystyrene amounted to 103,900 tons in 2009, which was 40% down on the same period last year.

Russian imports of polystyrene & ABS

Russian imports of polystyrene rose 34% in the first six months of 2010, and totalled 57,040 tons. South Korea was the main supplier of imports, which accounted for 24% of volumes, followed by Belgium 18% and China 18%. ABS imports totalled 16,410 tons in the first half of 2010, 95% more than in the

same period in 2009. The main suppliers of ABS plastics in Russia are undertaken by South Korea 63% and Belgium 16%.

Salavatnefteorgsintez delayed the restart of the polystyrene plant in August, after stopping production on 10 June. Styrene shortages forced a delay causing problems for polystyrene supply in Russia in July and August. Salavatnefteorgsintez can produce up to 34,000 tpa of polystyrene, including high-impact polystyrene, general purpose polystyrene and EPS. The plant produced 12,560 tons of polystyrene in the first half of 2010, 13% higher than the same period of 2009.

Tobolsk polypropylene project

The North-Western Shipping Company, Volga Shipping Company, together with the Volga-Baltic Logistics embarked on the main stage of the delivery of large equipment for the construction of complex at Tobolsk-Polymer. The main phase of delivery of large equipment for the construction of the complex from South Korea started on 9 August with the delivery at the port of Arkhangelsk. This included 11 pieces of heavy equipment, with the largest unit having a weight of 1,096 tons and a length of 96 metres. This is the column installation for propane dehydrogenation. Especially for this project North-Western Shipping Company has built a unique barge with a length of 102 metres. From Arkhangelsk the barge will follow the Northern Sea Route, via the rivers Ob and Irtysh as shown in the map opposite, and equipment will be delivered to the industrial port of Tobolsk.



The insurance group SOGAZ has signed the general contract cargo insurance with Tobolsk-Polymer to insurance cover the transport of various goods for the period of the construction project at Tobolsk. The total sum insured under the insurance contract is \$720 million.

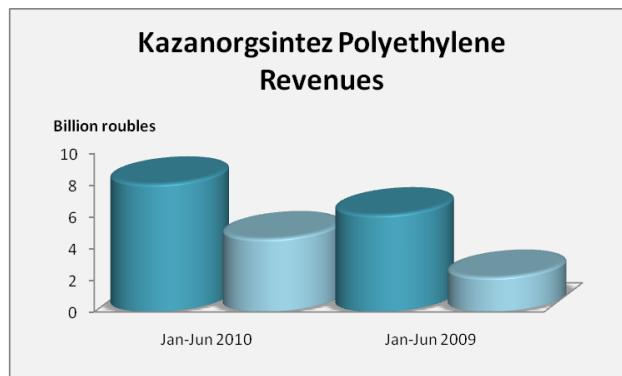
Russian polypropylene market, Jan-Jul 2010

Polypropylene production totalled 363,890 tons in the first seven months of 2010, which was 11% higher

than in the same period last year. Stavrolen increased production 2.7 times due to extended maintenance in 2009, whilst Nizhnekamskneftekhim has increased production by 8%. Tomsneftekhim undertook a shutdown in August, whilst Nizhnekamskneftekhim plans a shutdown in September.

Russian LDPE & HDPE markets

Russian LDPE production increased 5% in the first half of 2010, with exports to China declining in recent months in preference for the domestic market. Overall exports declined 15% in the first six months of 2010 whilst at the same time imports were 18% higher than in 2009.



Russia exported 105,400 tons of HDPE in the first half of 2010, 1.4 times more than the same period in 2009. The main markets for Russian HDPE exports have included this year Turkey and China. Production of HDPE totalled 419,200 tons in the first half of 2010 against 332,700 tons in the same period last year. Sales to the domestic market increased 26% in the first six months in 2010, and this increase was due mainly to higher production at Kazanorgsintez and Stavrolen. Production of HDPE at Budyennovsk increased 1.7 times in the first six months in 2010 to 158,800 tons, whilst polypropylene rose 4.1 times to 58,240 tons. Imports of HDPE totalled 102,300 tons in the first half of 2010 against 73,590 tons in the same period last year. Against the first half of 2008 imports are still down by 21%, but this is accounted for by the increase in domestic production at several Russian plants.

Kaustik PVC Resin Revenues

	Jan-Jun 10	Jan-Jun 09
Billion roubles	1.383	1.079
% total revenues	58.7	50.2

Kaustik, Jan-Jun 2010

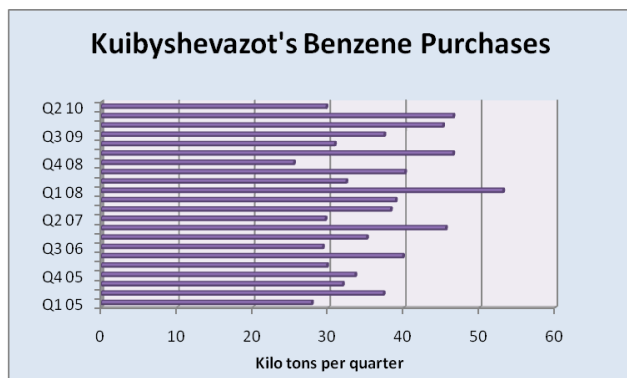
PVC production rose 9.96% in the second quarter this year against the same period in 2009, following modernisation of the plant. Kaustik's turnover increased by 1.6% for caustic soda sales in the second quarter of 2010 against the same period in 2009. Kaustik is the second largest producer of

caustic soda in Russia, accounting for 17% of production in the first half of the year. The company is currently facing a disruption to ethylene supplies from Salavatnefteorgsintez.

Aromatics & derivatives

Russian caprolactam market, Jan-Jun 2010

Russian caprolactam producers achieved full capacity utilisation in the second quarter, with exports rising at the same time. Despite the increase in captive consumption by Kuibyshevazot, following the start-up of the fourth polyamide unit, domestic volumes still remain relatively low and the three Russian producers depend on export activity to maintain utilisation levels. In 2009, domestic consumption dropped 41% against 2008



to 73,600 tons influenced mainly to the fall in demand from the tyre industry. Exports last year totalled 244,600 tons which was 26% more than in 2008

In 2010, Russia has witnessed an increase in consumption of caprolactam as markets have revived and Kuibyshevazot has increased captive usage. Domestic consumption of caprolactam has increased by 53% in the first half of the year to 49,600 tons. Yet despite this rise, demand saw a minor softening in the second quarter and dropped

11% against the first quarter.

The major problem faced by caprolactam producers this year has been the supply of benzene. Around 300,000 tpa of benzene is consumed in the production of caprolactam in Russia, with all three producers dependent on purchases in the merchant market. Supply tightened in Russia in the second quarter due to outages at Omsk and Budyennovsk which forced Kuibyshevazot to resume the purchase of Ukrainian benzene although there are restrictions on volume. Certainly, Ukrainian benzene producers are unable to meet the needs of Kuibyshevazot in full, although the restart of the Karpatneftekhim plant may increase availability for export to Russia. Notwithstanding, benzene supply problems are expected to continue until the end of the third quarter.

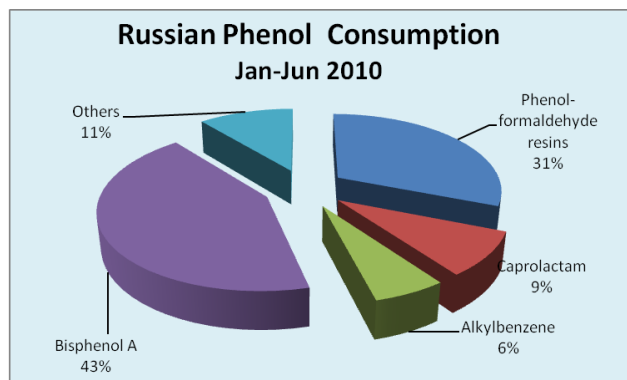
Kuibyshevazot-Production (unit-kilo tons)

Product	Jan-Jun 10	Jan-Jun 09
Polyamide-6	52.4	38
High Tenacity Tech Yarns	3.9	2.8
Tyre Cord Fabric	3.2	2.2
Caprolactam	83.6	84.8
Ammonia	288.8	219
Urea	155.4	166.5
Ammonium Nitrate	266	267.4
Ammonium Sulphate	213.5	219

Kuibyshevazot, Jan-Jun 2010

Kuibyshevazot achieved a turnover for the first six months of 10.38 billion roubles, 43.7% against the corresponding period last year. Kuibyshevazot exported 67% of its production in the first half of 2010. Cost increases were seen for natural gas which is used for the production of ammonia and mineral fertilisers, and also an increase in energy and rail freight. Other negative factors have included stronger foreign competition and the introduction of trade limits on caprolactam sales coupled with the instability of benzene supplies.

Investment is underway by the company for the production of nitric acid and caprolactam. Kuibyshevazot plans to start the production of soda ash for its own usage, but only at a capacity of 7,000 tpa. Preparations are also being made to overhaul the ammonia plants. A major event for the company in the first half of 2010 was the start-up of the fourth unit for polyamide-6 production in February. Kuibyshevazot created a JV in China several years ago for the production of engineering plastics, which is heavily integrated with the polyamide production units. In order to try and tackle the problem of benzene supply Kuibyshevazot has been investigating the possibility of using phenol for the production of caprolactam.

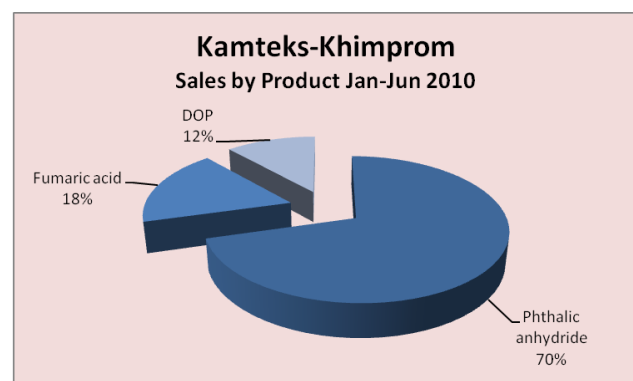


Russian phenol market, Jan-Jun 2010

Phenol consumption has been boosted this year by usage in the production of bisphenol A, accounting for 43% of volumes in the first half of the year. Scheduled maintenance at Samaraorgsintez and Kazanorgsintez in July has affected the Russian market of phenol, whilst production stabilised in August. Further scheduled maintenance in September is intended which is expected to keep the market tightly balanced.

Russian phthalic anhydride, Jan-Jun 2010

Russia exported 33,100 tons of phthalic anhydride in the first half of 2010, 2% less than the same period last year. China accounted for 57% of Russian exports. Production volumes were actually lower in the first half of 2010 due to planned outages, but profitability has been helped significantly by higher product prices both for exports and domestic sales.



The main Russian producer of phthalic anhydride Kamteks-Khimprom at Perm recorded a substantial increase in revenues in the first half of 2010, rising from 234.8 million roubles last year to 352.4 million roubles. Mostly importantly, the company achieved a net profit of 75.8 million roubles against a loss of 29.5 million roubles in the first half of 2009. In addition to phthalic anhydride, Kamteks-Khimprom produces fumaric acid and DOP. Kamteks-Khimprom plans a shutdown for maintenance in September, lasting for a month. The company aims

to sell product to the domestic market from inventories during the outage.

Methanol

Metafrax, Jan-Jun 2010

Metafrax increased net profit by 1.58 times in the first half year up to 397.538 million roubles. Turnover rose 1.51 times to 3.812 billion roubles, with the cost increasing by 39.56% to 2,857 billion roubles. Profits from sales in the first half increased by 2.35 times, up to 470.513 million roubles and profit before tax increased by 1.6 times up to 492.733 million roubles. Turnover for Metafrax in the first half rose by 31.29% to 2.363 billion roubles. The plans for the company up to 2015 include an increase in annual turnover to 7 million roubles per annum, although this may just depend on rising product prices. One of the most important goals is to increase the utilisation of methanol at Gubakha to around 400,000 tpa and to reduce the dependency on exports. Some of the other projects include the reconstruction of the utropin plant and full utilisation of the units for concentrated formaldehyde and polyamide.

Production at Azot Nevinomyssk, (kilo tons)

Product	Jan-Jun 2010	Jan-Jun 2009
Ammonia	304.8	292.6
Urea	172.3	186.2
Methanol	29.7	19.3
Acetic Acid	43.4	34.3
Acetaldehyde	9.3	6.5
Butanols	4.6	3.2
VAM	4.6	3.4
Butyl Acetate	3.9	3.2
Polyvinyl Alcohol	0.2	0.2

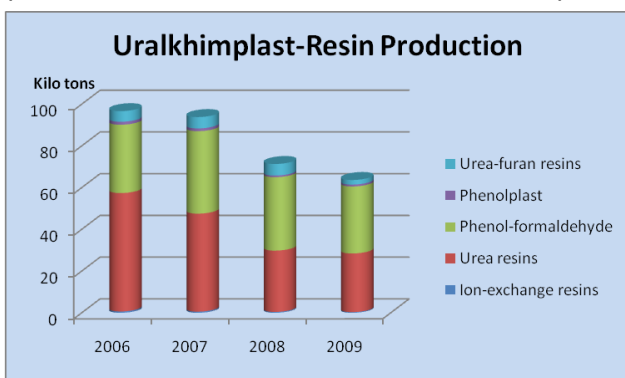
roubles.

In the first half of 2010 Akron continued the reconstruction of its methanol plant at Novgorod, raising capacity to 600 tons per day. Work is also being carried out on one of the urea plants raising capacity to 1,000 tons per day.

NOMOS-BANK has established a credit and documentary limit of 1 billion roubles for a period of 1.5 years. Credit resources are being directed to Shchekinoazot. The company is in the process of starting up its new M-450 methanol plant. Shchekinoazot increased production and sales in the first half of 2010, including a rise of 25% for methanol and 58% for caprolactam.

Uralkhimplast-formaldehyde processing

Uralkhimplast increased turnover by 41.9% in the first seven months of 2010, following a poor year for production and financial results in 2009. The production of urea-formaldehyde resins rose 66.4 %, phenol-formaldehyde resin by 44.7 %, phenolic resins by 64.4%, and orthocresol by 32%. Uralkhimplast is currently in the process of renovating its facilities for the production of formaldehyde, including the construction of three units for concentrated formaldehyde and urea-formaldehyde concentrate.



an increase. Other projects include the start of PVC plasticizer production based on Bausano equipment and the continued reconstruction of the polyethylenepolyamide unit. Around 24 million roubles will be directed to the development of the Chemical Park Tagil, which is seen as a major flagship development for the company.

Tyumen plastics plant to build new production facility

The Tyumen Plastics Plant plans to build a new facility for the production of synthetic resins in the industrial area of Utiashva in the Tyumen region. The planned capacity of a new plant will comprise 43,000 tpa and

will produce resins for industries such as wood processing, the construction industry, metallurgy, oil and gas, etc. The project includes the construction of plants for production of non-methanol formaldehyde and urea-formaldehyde concentrate. The use in the processes of non-methanol formaldehyde from its own production will provide a high quality resin to reduce production costs, and to allow the company to operate independently.

Organic chemicals

Russian acetone market, Jan-Jul 2010

In the first seven months in 2010 domestic sales of acetone on the Russian market has totalled 36.300 tons which was 16% more than in the same period in 2009. The main factor contributing to increased domestic sales has been the resumption of production of methyl methacrylate by Dzerzhinsk Orgsteklo (DOS). In the first seven months in 2010 DOS purchased 6,700 tons of acetone, accounting for 18% of total domestic sales.

Exports of acetone increased 34% in the first seven months in 2010 and totalled 24,600 tons. Increased supply has been made possible due to the growth of production of phenol and acetone at Russian plants. The main suppliers of acetone to foreign markets this year were Samaraorgsintez and Omsk Kaucuk, which accounted for 47% of total Russian exports. Samaraorgsintez undertook a shutdown for phenol and acetone production in July, resulting in a decline in availability for the domestic market. Kazanorgsintez also stopped for a planned maintenance.



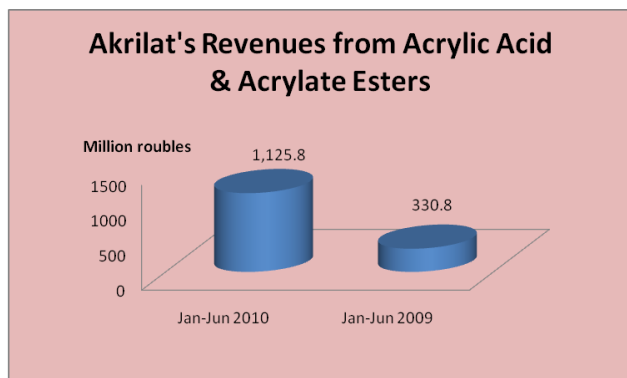
of acetic acid purchases in the Russian domestic market this year. The largest consumer in Russia is Azot which uses acetic acid captively for VAM production.

Russian acetic acid market, Jan-Jul 2010

Sales of acetic acid to the domestic market totalled 39,200 tons in the first seven months in 2010, 11% down on the same period last year. Reduced consumption by Stavrolen for the production of VAM was the chief reason for the decline in sales coupled with an outage in April at Azot at Nevinomyssk. Acetate solvents remain the dominant sector for acetic acid consumption, accounting for 77% of purchases this year in the first seven months of 2010. Whilst most of the consumers produce VAM, butyl and ethyl acetate the exception is Polief for the production of PTA. Polief accounted for 15%

Exports of acetic acid fell by 8% in the first seven months of 2010, largely due to an outage at Nevinomyssk in April. Exports in July from Azot rose by 4% in July over June and amounted to 4,000 tons. The increase was made available due to reduced consumption in the domestic market. Domestic consumption of acetic acid has been affected by the lack of butanol availability in the Russian market, which has thus limited the production of butyl and ethyl acetate and subsequent demand for acetic.

The outlook for the remainder of 2010 is better access to butanol supply for acetate producers, which should increase purchases of acetic acid. Butyl acetate production is expected to increase production whilst the picture is less clear for ethyl acetate. Export demand has declined and as most of Russian ethyl acetate production is exported this trend is likely to have a direct impact on plant activity.



Akrilat Q2 2010

Turnover increased in the second quarter for Akrilat for sales of acrylic acid and acrylate esters, bringing the first half year's results significantly above those in 2009. Export revenues rose for Akrilat due to opportunities in the European market, leading to an increase in revenues of 89.6% against the first quarter and a 355.3% increase against the second quarter.

Plastics

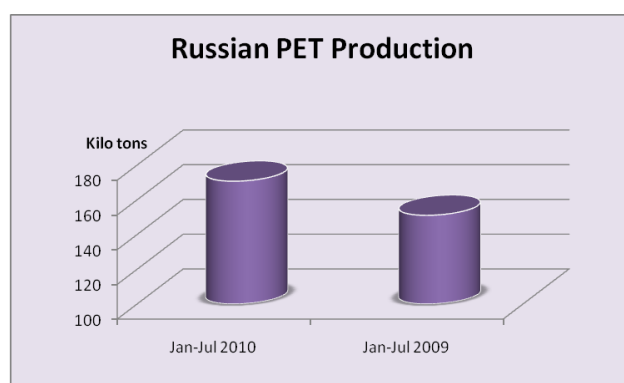
Russian polymer pipe market

In the first six months this year Russia exported 110,000 tons of polyethylene pipes, 15% more than the same period in 2009. Around 97% of exports went to Kazakhstan, with the main suppliers comprising Polyplastik (39% of Russian exports) and Kazanorgsintez (10%). Water pipes account for about 70% of Russian polyethylene pipe production, with gas accounting for 30%. From April to June sales of polyethylene pipes in the domestic market increased against the first quarter by 20-35%. The most popular forms of pipes in Russia consist of diameter 110-400 mm, whilst the market suffers from a shortage of pipes of small diameter 20-63 mm. Continued growth in the Russian pipe market this year will depend to a large extent on public finances supporting a variety of construction programmes.

Demand for polypropylene pipes is traditionally high in the second quarter, with the most popular diameter 20-25 mm used for water. Rising polypropylene prices this year have impacted on margins and thus the cost of pipe domestic production increased by 20-30%. The Russian market of polypropylene pipes depends on imported products. Imports of pipes totalled 7,500 tons in the first five months in 2010, 10% higher than in 2009. Demand for pipes is expected to stay strong through September and October.

Russian PET production, Jan-Jul 2010

PET production in Russia totalled 23,800 tons in July, 6% less than in June and 2% less than in July 2009. The Senezh plant reduced production in July by 38% against June to 5,100 tons in July, whilst the other producers operated at full capacity. In the first seven months of 2010, Russia produced 170,710 tons of PET, 23% up on 2009 due largely to the downtime at Polief in the first part of the year. Polief produced 78,940 tons of PET in the period January-July 2010 against 54,560 tons in the same period last year.



PET preforms account for around 95% of PET resin production in Russia, whereas in Europe a significant share of the market is accounted for in the production of polyester yarns and fibres. Over the past few years, the dominance of PET imports in the Russian market has declined firstly by the addition of domestic capacity and secondly the economic downturn. Whilst imports have recovered marginally in the first half of 2010, total inward shipments have been less than domestic production.

The introduction of the new plant at Kaliningrad in the second half of this year will be categorised as domestic capacity, even if it is not located on mainland Russia, and this is expected to further erode the presence of imports. The main sources of imports into Russia are largely dominated by volumes from South Korea and China. Russia has started to export small volumes of PET, which is expected to become more noticeable after the start-up of the Alko-Naphtha plant. In the first half of 2010, Russia exported 4,130 tons of PET, which amounted to 3% of total production.

Freudenberg Politex launches second geotextile line

Italian company Freudenberg Politex launched its second geotextile nonwovens line in July at its plant at Zavolzhie in the Nizhny Novgorod region. The second line has a capacity of 3,000 tpa, and uses raw material from post-consumer PET waste recycled by Freudenberg Politex. This equipment will produce staple polyester geotextiles ranging from 100 g/m² to 800 g/m² and a width of 6m. The new plant has required \$1.6 million in investment from which the product will be used as geotextile for various construction and engineering applications. These include road reinforcement, ground drainage and for an anti-contamination layer in waste landfill sites. Freudenberg Politex launched its first line at Nizhny Novgorod in 2006.

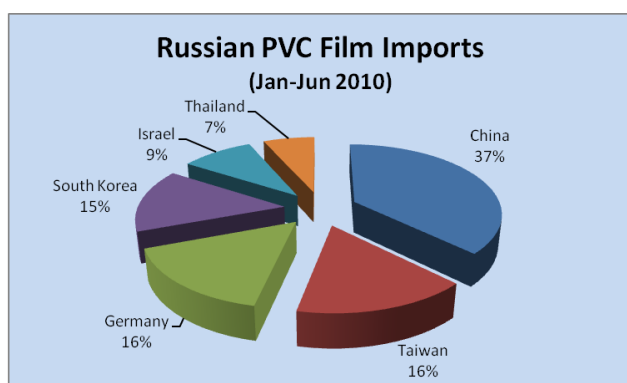
SIBUR launches production of non-woven geotextiles

SIBUR subsidiary Orton has launched a new plant for producing non-woven geotextiles under the Kanvalan trademark. The new facility contains a capacity of 9.400 tpa. The material will be produced from primary polypropylene using the span bond production technology. Kanvalan are geotextiles that are white in colour and have a width of up to 5.2 metres, which are used for separating structural layers, as well as in drainage and protection. The main spheres of application of this product include the construction of roads and railways, the development of infrastructure for oil and gas fields, pipeline ballasting, as well as industrial and civil construction.

Another unit for geosynthetic materials is to be launched later this year at SIBUR's subsidiary Plastik at Uzlovaya. The main sales markets for the Kanvalan products manufactured at the Orton site at Kemerovo are expected to be West and East Siberia, the Russian Far East, and Kazakhstan. The licensor and the supplier of the equipment for the new line of geotextiles is the Italian company O.R.V. Manufacturing S.p.A. The total investment in this particular project amounts to 900 million roubles.

Russian polycarbonate market, Jan-Jun 2010

Polycarbonate imports amounted to 21,940 tons in the first half of 2010, twice more than last year. Germany was the main supplier, providing 41% of imports followed by Spain with 22%. Domestic consumers continue to purchase from foreign companies despite the availability of local material from Kazanorgsintez. The main problem facing Kazanorgsintez is the lack of infrastructure in delivering product to consumers. Other difficulties include consumers having to buy material through traders which can mean that domestic prices often exceed import prices. Contracts with suppliers such as Bayer, for example, have been preferred to buying from traders.



Russian polymer films, Jan-Jun 2010

Russian imports of PVC films rose 55% in the first half of 2010, to 33,580 tons with a large share of the shipments arriving from Asia. Russian polypropylene film exports rose 7% in the first half of 2010 to 10,730 tons of which BOPP accounted for 98% of volumes. Biaksplen accounted for 62% of exports, Novatek-Polymer 21% and Evrometfilms 16%. The main export destinations include Ukraine with 62%, Poland 15% Kazakhstan 8% and Italy 6%. Imports of polypropylene films declined 1% in the first half of 2010. A total of 12,330 tons was imported of which BOPP accounted for 82% of

shipments. The main importers into Russia include Innovia Films, Treofan, Amcor Flexles Reflex and ExxonMobil.

SIBUR has resolved differences with the former owner of the Biaksplen group of companies. Claims related to the valuation of the company over a 50% stake in OOO Biaksplen have now been dropped by SIBUR. Biaksplen's BOPP plant at Balakhna in the Moscow region suffered a technical problem in early July, forcing the company to declare *force majeure* and stopping production for around two weeks. Production was restored at the end of July.

Synthetic Rubber

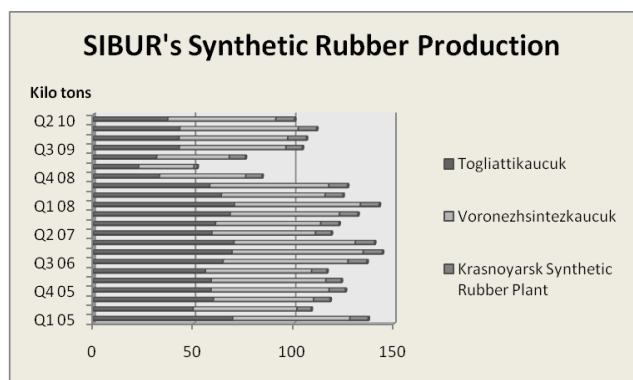
SIBUR tyre news

SIBUR and Tatneft are considering a merger of their tyre activities. The combination of SIBUR Russian Tyres and Nizhnekamskshina would represent a formidable force in the Russian tyre sector, particularly since SIBUR bought 90% of the debts of Amtel in June. SIBUR is now beginning to develop a plan for financial restructuring of the former competitor. The fixed assets of Amtel include tyre plants at Kirov (Amtel-Volga) and Voronezh (Amtel-Chernozemye). The plan of SIBUR includes increasing sales, streamlining assets of Amtel, and the procurement of raw materials for these new plants from within the SIBUR group.

Being virtually the only creditor of Amtel, SIBUR will initiate the introduction of competitive management and to obtain the assets of the Amtel holding for the debt. This will allow the company to increase SIBUR's market share of the Russian tyre sector from 17% to somewhere between 24-30%. Should an agreement

be found with Tatneft, market share of the group could expand well beyond 50% of the total Russian market.

SIBUR-Russian Tyres has won the tender for the supply of tire products to the Ministry of Agriculture in the Republic of Cuba. The contract amount is over \$8 million, and involves around 40,000 pieces of tyres. As part of a contract after a tender in the Republic of Cuba will put tires for agricultural machinery and trucks. Previously SIBUR-Holding entered into contracts to supply products to Brazil, Venezuela and Ecuador.



Voronezhskintezkavcuk-Air Products

Voronezhskintezkavcuk signed a contract with Air Products on 24 August 2010 to build a new air separation plant. Under the agreement, Air Products will install a plant with a capacity of 3,000 cubic metres per hour of gaseous nitrogen and up to 16,000 cubic metres per hour of dry compressed air. After the commissioning of new installation in 2012 the old shop will be closed. The current installation consists of four air separation plants producing nitrogen, oxygen and compressed air needed for the production of synthetic rubber and latex. However, it was constructed in the late 1970s and is now

obsolete. The choice for Voronezhskintezkavcuk was to modernise the old production unit or build a new unit. Eventually after analysis, the company selected the option with Air Products.

Other products

Nikokhim-Rosnano magnesium chloride project

Nikokhim has agreed co-financing terms with Russian technology group Rosnano at the site Kaustik at Volgograd to start the production of nanostructured magnesium hydroxide. The total project cost is estimated at 2.8 billion roubles. Nikokhim is the largest Russian producer of solid caustic soda, chlorinated paraffin, synthetic hydrochloric acid and chlorine. It holds second place in Russia for the production of liquid caustic soda and sodium hypochlorite and in third place for the production of PVC.

Earlier this year, Rosnano agreed to support the construction of a new magnesium chloride plant at Kaustik. The project will be used as a flame retardant additive to be sold on the domestic market, in addition to exports. The total project budget is 3.1 billion roubles, of which Rosnano will provide 167 million roubles in addition to providing a loan to Nikokhim for 1.11 billion roubles. The project includes the design and construction of an environmentally safe and economically efficient plant for nanostructured magnesium hydroxide, with a capacity of 25,000 tpa. Production at full capacity is targeted for 2013.

Russia currently imports only 5-6,000 tpa of magnesium hydroxide, but annual demand is growing at levels between 10-20%. The availability of locally produced magnesium hydroxide may help to speed up consumption levels in an effort to try and reduce the number of fires that take place from unsafe furniture, buildings, etc. Laws have been introduced increasing requirements for fire safety, as well as the introduction of new rules for the cable industry and construction. This will introduce stricter requirements for non-flammability and non-toxicity products, which will stimulate the growth of this market in the future. The share of imports in Russia's market flame retardants comprises about 75%. The domestic market lacks many kinds of flame retardants such as bromine-containing, high-quality aluminium trihydrate, high-quality magnesium hydroxide, and phosphorous flame retardants.

Titanium dioxide project for Chelyabinsk

A new titanium dioxide plant is planned for the Chelyabinsk region involving loans of around \$200 million from the Czech Export Bank. The line for the production of titanium oxide will be built on the basis of a mining plant in the village Medvedivka by Chrysostom. It is estimated that it would take around five years to repay the investment, whilst the new production unit could create up to an additional 3,000 jobs. At present, Russia imports most of its titanium dioxide from Ukraine.

New sodium cyanide plant for Korund

The Scientific Research Institute of Urea at Dzerzhinsk (NIIK) has won the contract to support the construction of a new sodium cyanide plant for Korund at Dzerzhinsk. The capacity of the new plant is

intended to be 40,000 tpa in the first phase, with construction scheduled to start on 1 October 2010 and production to start in the first quarter of 2012 or even by the end of 2011. Reports have suggested that Korund might be interested in buying Dzerzhinsk Orgsteklo (DOS), after being entrusted to re-establish productive chains between the two companies. As DOS is one of Korund's main raw material suppliers, the prospect of integration would appear to have advantages and would ensure that DOS continued to operate. Problems for DOS naturally represent problems for Korund in terms of hydrocyanic acid supply, particularly when production was halted in 2008 and 2009.

The cost of the sodium cyanide project is estimated at €90 million, and involves the engineering company EPC Engineering Consulting GmbH and Turkish Renaissance Construction. The sodium cyanide project is closely aligned to the plans for gold mining companies in Russia and the CIS. Should demand justify, Korund is ready to double its capacity to 80,000 tpa. Korund believes that the Russian market consumes around 60,000 tpa of sodium cyanide, but another Russian producer Saratovorgsintez places the market estimation closer to 25-30,000 tpa. Korund will probably be capable of maximising its capacity of 40,000 tpa, through sales to countries such as Uzbekistan. However, a future expansion to 80,000 tpa will much depend on Russian companies such as Polyus Gold, Polymetal and Severstal to develop new deposits of gold.

Ammonia/fertiliser news

Russian fertiliser producer FosAgro is planning to merge with Silvinit, the country's largest potash producer, to create a new chemicals group, which could also include Apatit. State-owned Russian Technologies has alternatively proposed establishing a new chemical holding company of which Silvinit could also be part. The proposed merger would not change the competitive environment as fertilisers produced at FosAgro and Silvinit are complementary and not competitive goods. The second option includes a wider range of interests from SIBUR Holding to Silvinit and Togliattiazot. Last year Russian Technologies tried to set up a holding company with Renova and SIBUR on the basis of the Khimprom plant at Volgograd to produce chlorine products.

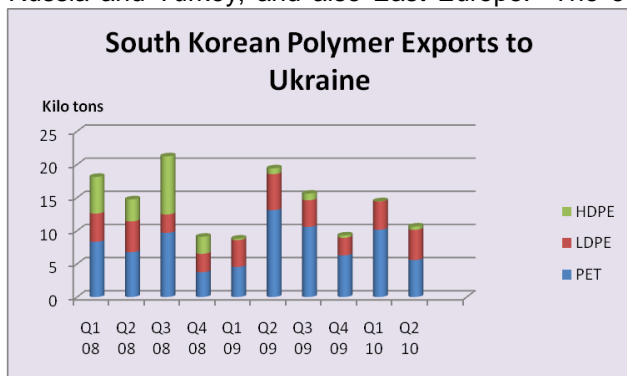
Azot has launched its annual overhaul programme, with this year the focus aiming at a significant reduction in energy consumption and improving the company's environmental record. Investment plans for Azot in 2010 include projects to upgrade the steam turbine unit in the ammonia-2 shop, and an upgrade of the gas turbine in weak nitric acid unit. The major achievements for Azot in the past year include the completion of the big-budget investment projects, including the reconstruction of distillation unit for the caprolactam unit, and introducing a modern automated process control system for urea production.

Azot Cherepovets has installed the first part of its urea project, which will eventually have a capacity of 500,000 tpa based on environmentally friendly technology. The project is expected to be completed in the second half of 2010 at a cost of \$250 million. In addition to the urea plant, Azot is constructing a gas turbine power plant, which will not only meet the needs of new plant but also 80% of the company's electricity consumption. Azot is owned by the FosAgro group.

Ukraine

Karpatneftekhim resumes polyethylene production in August

Karpatneftekhim is set to resume production of polyethylene at Kalush on 27 August. The plant will produce HDPE film brands initially with sales focused mainly on the Ukrainian market. Depending on the situation of internal and external markets, Karpatneftekhim may seek possible export to nearby countries such as Russia and Turkey, and also East Europe. The ethylene cracker at Kalush is expected to start in early September. The HDPE plant capacity comprises 100,000 tpa and was started originally in 1997 based on Unipol technology.



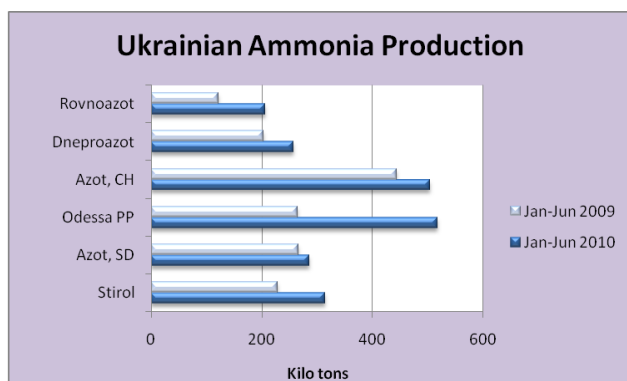
Ukrainian polymer market, Jan-Jul 2010

Imports of polystyrene into Ukraine totalled 20,260 tons in the first seven months in 2010, which was 15% up on last year. The main source of imports included Russia, Poland and China. The sole polystyrene producer in Ukraine Stirol produced 10,200 tons in the first seven months of 2010, 7% up on 2009. Stirol stopped production in August due to

shortages of styrene monomer, which traditionally are supplied from Russia. Ukraine imported 1,980 tons of ABS in the first seven months of 2010, which was 53% more than in the same period last year. South Korea accounted for 87% of exports.

PVC imports into Ukraine in July amounted 19,330 tons, comprising 16,340 tons of suspension grade, 1,630 tons of emulsion grade and 1,360 tons of other grades. In the period January-July 2010, Ukraine imported 81,050 tons of PVC including 65,710 tons of suspension grade and 8,350 tons of emulsion grade. The remaining 6,990 tons consisted of micro-suspension grade. The main importers of PVC into Ukraine this year have included the USA with 25%, Germany 18%, and Hungary and Poland with both 15%.

Linik at Lisichansk produced 42,640 tons of polypropylene in the first seven months of 2010, which is 24% less than the same period than in 2009. The reduction is due to maintenance requirements, scheduled and unscheduled. Polycarbonate imports totalled 1,660 tons in the first seven months of 2010, with the main sources arriving from Germany (38%), Netherlands (19%) and Spain (10%).



expanded production capacity to 1.6 tons per day. ammonia plant.

Ukrainian ammonia production

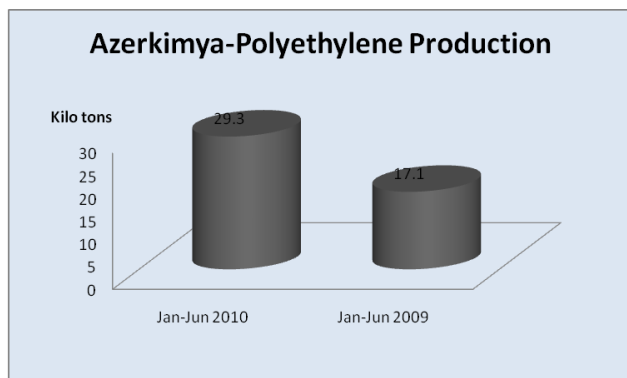
Ammonia production in Ukraine increased at all the plants in the first half of this year, with the largest rise recorded at Odessa. In the first half of 2010 Stirol produced 315,000 tons of ammonia and 150,000 tons of urea. Around 50% of the ammonia is processed into one line for urea at Gorlovka, whilst another which has been under reconstruction in the past eighteen months is to be launched in the next few weeks. Azot at Cherkassy completed a major scheduled maintenance on its urea plant in August, involving repairs to the column synthesis, pipes and fittings, etc. At the same time, Azot has The company has also reloaded the catalyst at the

Ukrainian privatisation

Speculation has emerged that Stirol could seek closer integration with one of the main gas suppliers from Russia in order to reduce gas costs. Natural gas accounts for around 70% of total production costs for Stirol, which caused losses of \$40 million in 2009 and \$24 million in the first quarter in 2010. The most logical way of solving this problem would be to seek close ties with a gas supplier. At this stage the company is considering offering part of its equity to interested parties such as SIBUR-Holding and Ostchem.

The Ostchem Group is also interested in the acquisition of Azot at Cherkassy and is considering the participation in the sale of 40% shares in Azot at Severodonetsk. If successful with the Cherkassy acquisition, it would grant Ostchem control of around 40% of Ukrainian ammonia exports and 50% of urea.

Central Asia-Kazakhstan



Azerkhima LDPE

Azerkhimya produced 29,300 tons of LDPE in the first half of 2010, twice more than in the same period last year. In 2009, capacity utilisation never exceeded 30% of the 150,000 tpa capacity although this year utilisation has improved slightly. With intense repairs being undertaken at the plant as part of SOCAR's short term re-investment programme production is expected to increase in the latter part of the year.

SOCAR is paying special attention to improving Azerkimya's transport infrastructure. The production unit's automobile fleet has been centralised, expanded and equipped with new vehicles and mechanisms. Azerkimya has started to overhaul and rebuilt its railways to improve chemical exports. To date, a 7.3 km section has already been rebuilt with some of the

rails having been replaced. Specialists at Azerkimya determined earlier that the production unit's railways must be reconstructed and nearly doubled in length to guarantee cargo coordination and efficiency.

Armenia-Nairit investment and cluster

The owner of Nairit in Armenia, Rhinoville Property Limited, plans to invest \$130 million in the development of the company by the end of 2011. The aim is to develop a chemical cluster based on Nairit. The company is currently completing the transition to new technology for chloroprene rubber from the acetylene process to butadiene, which will significantly reduce production costs. Nairit has a capacity for chloroprene of 10,000 tpa, and exports 99% of its output. Discussions have been made recently with Nizhnekamskneftekhim over feedstock supplies. Previously, Nairit planned to start the butadiene plant together with acetyl-chloroprene rubber at the end of 2009, but this was delayed due to technical issues.

Kazakh polyethylene pipe plant

A new polyethylene pipe plant has been launched in Kazakhstan in the Zhambyl region, with a total project investment estimated at €3.46 million. The plant has been started by Taraz Pipe Plant, a subsidiary of Astana TOO Kazakhstan Pipe Plant, founded in 2005 as part of industrial and innovation programme. It will produce high-pressure polyethylene pipes for water supply in diameter 20-1000 mm, pressure polyethylene pipes for gas supply with diameter 20-450 mm and polyethylene fittings of a wide range. The plant's products will be primarily intended for domestic construction industry and the reconstruction of the gas networks of low and medium pressure water supply in the region.

Atyrau petrochemical complex & special economic zone

The Development Bank of Kazakhstan and the Atyrau Refinery (a subsidiary of KMG-Processing and Marketing) have signed a general loan agreement on opening the credit line for \$1.63 billion for 13 years. The Bank provides the loan factory as part of the strategic investment project for the construction of the production of aromatic hydrocarbons at the Atyrau refinery. The Ministry of Oil and Gas of Kazakhstan has submitted plans to the Ministry of Economic Development and Trade of Kazakhstan to create a special economic zone (SEZ) under the title National Industrial Petrochemical Technology Park in the Atyrau region. The aim will be to integrate small and medium businesses into the technology park, which will produce products from polyethylene and polypropylene.

Relevant Currencies

Relevant Currencies

Czech crown. Kc. \$1= 20.85. €1 = 25.5671; Hungarian Forint. Ft. \$1 = 223.5. €1 = 274.065; Polish zloty. zl. \$1=3.315. €1=4.065; Bulgarian leva: \$1 = 1.5956. €1= 1.9596; Romanian Lei. \$1 = 3.4151. €1= 4.187; Croatian Kuna HRK. \$1 = 5.9239. €1= 7.2641; Ukrainian hryvnia. \$1 = 7.931. €1 = 9.7253; Rus rouble. \$1 = 31.022. €1= 38.0405

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