Chemical Information Resources for East Europe and CIS

CIREC MONTHLY NEWS

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

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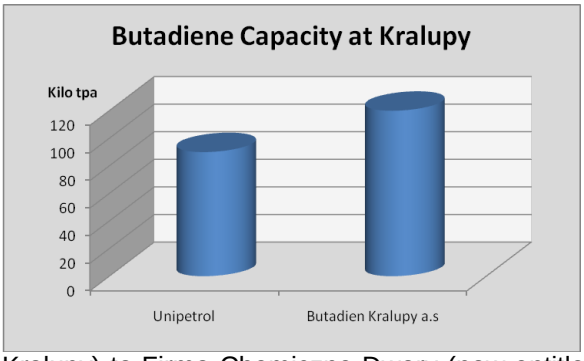
CENTRAL & SOUTH EAST EUROPE

Chemicals & Polymers

Unipetrol-Synthos butadiene jv starts

Butadien Kralupy, the jv between Unipetrol and Synthos Kralupy, launched production of its new butadiene unit on 25 June. The investment has amounted to Kc 1.2 billion rand the new unit replaces the current butadiene unit operated by Synthos Kralupy. The new unit increases the current production capacity at Kralupy from the original 90,000 tpa to 120,000 tpa, which will put the company amongst the ten largest butadiene producers in Europe.



The new production unit uses the technology secured from the Japanese company JSR, whilst the Czech company Chemoprojekt has been responsible for construction. The new technology is energy-saving, and reduces heat consumption by 3% against the old unit. A high level of automation is another advantage. Similar technologies operate only in Japan, India and South Korea.

The decision to construct a new butadiene unit was a part of the contract to sell Kaucuk (now entitled Synthos Kralupy) to Firma Chemiczne Dwory (now entitled Synthos). On the basis of this contract, a jv agreement was signed thereby creating Butadien Kralupy. Unipetrol owns 51% of the Butadien Kralupy, which was created in 2007, and Synthos Kralupy owns the remaining 49%. Butadien Kralupy will ensure the processing of C4 fraction from Unipetrol's steam cracker, and at the same time will provide raffinate 1 for the MTBE unit.

The main consumer of the new unit's main product will still be Synthos Kralupy. The raw material is required for the production of polybutadiene rubber, which is used in the production of high-performance tyres. For the Synthos Capital Group, the investment will ensure better feedstock base stability, which will allow an acceleration of key investments and improvements in the Group's market position.

Oltchim to restart Arpechim's petrochemical facilities

Oltchim's petrochemical facilities at Pitesti, acquired late last year from Petrom, are expected to restart in July after two earlier failed attempts. Restarting the cracker plant will provide raw materials needed Oltchim after plants from Arpechim were closed in the autumn of 2008. The extended shutdown has cost Oltchim substantial losses and has been a priority for the company to restart. By being idle and having to purchase olefins for delivery by rail, Oltchim incurred losses of 52.8 million lei (€12.5 million) in the first quarter of this year. Earlier Oltchim stated that it would resume activity in April, but then postponed it to due to delays in funding repairs at Arpechim.

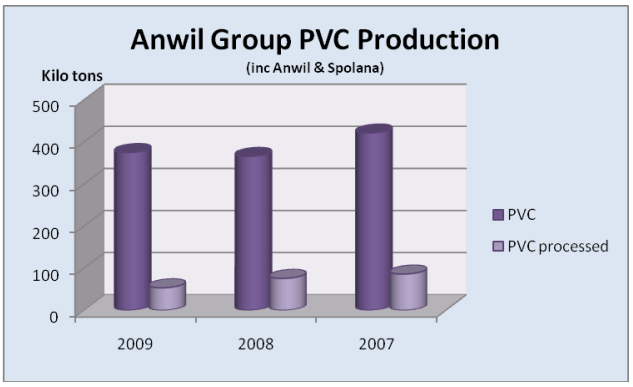
The capital value of Oltchim has increased as a result of the takeover of Arpechim's petrochemical facilities, although minority shareholder PCC has serious doubts about the fairness of measuring the capital increase. PCC claims that the market value of the assets of the petrochemical division of Arpechim, which were valued at €89.5 million euros, should not exceed a euro as only €12.9 million were paid for the assets. Moreover, PCC believes that Oltchim will not return to profit after restarting Arpechim facilities, as nothing has changed since the takeover. Oltchim effectively wants to restart the same plant that generated losses for Petrom. Oltchim, conversely, claims integration with the Arpechim's petrochemical represents the only solution that will enable the company to survive, given that due to EU restrictions it cannot import large quantities of ethylene as suggested by PCC.

The Ministry of Economy is the majority stakeholder in Oltchim, with a 54.79% stake. Oltchim reported a 2009 business turnover of 1.077 billion lei, down 44.6% from 2008. Oltchim's 2009 losses stood at 209.8 million lei. Oltchim was 1.88 billion lei indebted at the end of 2009, with 1.15 billion lei to be paid in one year. The Romanian Government has approved a memorandum under which it will continue the procedures of notification to the European Commission concerning the aid package for investment in Oltchim at Ramnicu Valcea. PCC has been in strong opposition to State and European Commission aid in the belief that it will not help Oltchim in the long run.

BorsodChem-Wanhua increases influence

BorsodChem could be soon taken over by the Chinese company Wanhua, which is providing €140 million to help it complete the construction of the new TDI 2 plant and the new nitric acid plant. As soon as the restructuring deal is completed, Wanhua may exercise a call option to acquire Permira Funds. Wanhua has already become a 38% shareholder in BorsodChem following the approval of the financial restructuring plan by BorsodChem's senior and mezzanine lenders.

The stake and call option have been provided partly in return for an investment from Wanhua, which BorsodChem is to put towards the completion of a 200,000 tpa TDI plant and a nitric acid facility at its main site at Kazincbarcika. Wanhua gained a seat in BorsodChem after anonymously buying up large chunks of its outstanding loans portfolio through an investment bank in 2009. As creditors of the financial restructuring plan, Wanhua offers a high degree of financial flexibility and a solid basis for BorsodChem's long-term growth. BorsodChem is now ready to restart TDI and nitric acid projects, which had stalled due to a lack of finance. These projects, when completed, are expected to have a significant impact on the profitability of the company.



Central European plant outages

Anwil has announced a force-majeure for PVC production at Wloclawek from the end of June due the failure on the electrolysis plant. The accident at the electrolysis plant has led to procedures to minimise the production of PVC, VCM and caustic soda. The accident is being assessed by the insurer, with preliminary assessments indicating that resolving the chlorine problems could last about five months. The failure does not signify the permanent cessation of production and sale of PVC and PVC processed. Spolana at Neratovice, as part of the Anwil group, is working at full capacity in an effort to provide Anwil with product whilst Anwil is undertaking measures to ensure the supply of raw materials from other sources. The Anwil group specialises in the production of PVC granulates (cable soft and technical rigid), PVC sheets (foam and rigid) and PVC-based dry blends.

BorsodChem's force majeure in recent weeks has impacted on MDI prices in Europe, and represents a minor setback for thd company after recording improvements in the first quarter. The force majuere was declared on 14 June.

Most of the facilities of Dow Chemical in the chemical park at Schkopau have started operating again, after a power outage on 15 June resulted in a standstill at all 21 plants. *At* Schkopau, Dow Chemical produces LDPE, LLDPE, polypropylene, polystyrene, expandable polystyrene and PET.

Dioki-INA

Agreement was reached between INA and Dioki at the start of June, which will ensure delivery of gas and ethane from INA to Dioki's Zitnjak plant. The debt owed to INA amounted to 120 million Kuna, but Dioki paid a part of the debt at the end of May and has now signed a new contract for delivery of natural gas. The entire Molve-ethane-ethylene chain was designed as an integrated technological process in the communist era, at the start of the 1980s. The Dioki group closed 2009 with a loss of 157.74 million Kuna, which is an increase over the previous year by 15%.

Gazprom Neft modernises Pancevo refinery

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 a hydrogen plant at the Pancevo oil refinery. The launch of the hydrocracking and hydrotreating unit is scheduled for the fourth quarter in 2012.

Petrohemija-reduced feedstocks from NIS

Petrohemija expects NIS to reduce naphtha supplies in the latter part of this year with debt problems resurfacing. Petrohemija stresses that it is not threatened by bankruptcy, as was the case last year as they pay due and rescheduled obligations to creditors such as NIS and LUKoil. Monthly losses are not as bad as in 2009, but Petrohemija is still indebted to NIS. Partly as a result, intensive discussions are underway with SOCAR in Azerbaijan. Whilst the plant is running at reasonable rates of utilisation, other factors make it very difficult for Petrohemija to progress with investment plans. Under current conditions, the company is only able to consider environmental improvements.

MOL-Surgutneftegaz

The new Hungarian government is planning to initiate talks with Russian investor Surgutneftegaz concerning the latter's 21% stake in Hungarian oil group MOL. MOL has refused to consider any cooperation with Surgutneftegaz since in 2009 it acquired the shareholding from OMV. This transaction was undertaken without giving any advance notification to MOL or the Hungarian government.

Options for Polish chemical company sell-offs

Merger & acquistion activity in the Polish chemical industry has failed to make progress this year and alterrnative strategies are under review to try and restart processes affecting a number of companies. After the collapse of the deal to sell 84.79% in Anwil to ZA Pulawy, PKN Orlen states it will not rush into a new transaction. PKN Orlen does not preclude the possibility of selling the fertiliser and PVC units separately, whilst at the same time the group is not in a hurry to offload assets. Discussions with ZA Pulawy came to an end when it could not agree on price, despite the offer being increased from the Pulawy side. Other factors included the future cooperation between the new owners and PKN Orlen's petrochemical complex mainly focusing on ethylene. PKN Orlen has stated that it does not intend to return to negotiations with previous bidders prior to the exclusivity agreement with ZA Pulawy, such as Achema in Lithuania.

Should PKN Orlen wish to sell Anwil in constituent parts then the process would become more complicated in separating the fertiliser and chlorine-PVC divisions. Both complexes use the same facilities such as water and the wastewater treatment plant. However, it may prove easier in terms of finding a buyer and more financially rewarding to sell the divisions separately than as one unit. Thus, PKN Orlen is weighing up options, although no decision is anticipated in the near term.

Polish Chemical Production (unit-kilo tons)

Product	*Jan-May 10*	*Jan-May 09*
Caustic Soda Liquid	120.2	121.8
Caustic Soda Solid	26.2	31.3
Soda Ash	397.9	376.8
Ethylene	199.7	210.6
Propylene	125.8	97.5
Butadiene	23.5	19.7
Toluene	32.2	35.4
Phenol	11.3	12.2
Caprolactam	70.2	59.4
Polyethylene	134.7	141.2
Polystyrene	55.3	49.1
PVC	88.7	102.3
Polypropylene	94.0	108.1
Synthetic Rubber	66.3	51.9
Pesticides	11.8	13.0

The sale by division scenario is similar for other Polish chemical companies, which the government has tried and failed to sell. One of the chief problems preventing the sale of the Polish chemical companies commonly apparent is the diversity of the companies involved. Investors are more interested in buying component parts of Polish chemical companies rather than the entire production mix, which includes a broad diversity of products. Thus, there are not too many potential bidders for entire companies such as ZAK and ZAT in their current format, or at least at the price sought by the government.

Consideration is being given to creating separate product divisions which might have more appeal to investors. For example, it might be possible to consider the creation of a separate fertiliser company incorporating all of the fertiliser units distributed throughout the country. For the petrochemical industry, there could be synergies between PVC, caprolactam, melamine, plastic construction and oxo alcohols. One difficulty could arise from trying to combine these products under the same group in terms of geographical distance, as it would be difficult to integrate plants located several hundred kilometres from each other. However, the size of such a group would have strong bargaining power when buying raw materials. The main point from this review is that policy on privatisation has been unrealistic, both now and before, and some type of new formula is required to attract investors.

Ciech has failed to sell one of its subsidiaries Chema, a chemicals distributor, to Brenntag. It has, however, managed to sell Ciech-Service as part of Ciech's measures to reduce its debt, one of which involves the sale of unwanted companies. The belief is that by offloading fringe assets it may be easier to privatise the

company. High debts at the moment are preventing any possiblity to privatise Ciech. Should efforts to sell subsidiaries succeed, there is hope that privatisation could start by the end of this year or early 2011.

Ciech's Sales by Product Division (zl million)

Division	*Q1 2010*	*Q1 2009*
Soda	339.916	424.804
Organic	324.458	249.267
Agrochemical	164.741	214.48
Silicates & glass	77.371	42.01
Others	55.518	61.198
Total	962.004	991.759

Ciech Q1 2010

Consolidated net sales of Ciech Group in Q1 2010 amounted to zl 962.004 million, declining by 3% or zl 29.755 million against Q1 2009. The main reason for the fall in revenues was lower sales from the soda ash division, although this was partially balanced by higher revenues of the organic and silicates and glass divisions. The group witnessed a significant improvement in TDI sales' margins in the first quarter, and volumes, in comparison with the same period in 2009. Epoxy and polyester resins also increased. During the first quarter this year Ciech signed a long term supply agreement for TDA supplies from Air Products, to supply Zachem for TDI production.

Other Polish chemical news

Recent rains in southern Poland blocked the transport of essential items of equipment for ZAK's new nitric acid plant. A barge with a boiler was not able to pass under the bridges and is waiting for lower levels on the Oder. The boiler weighs about 200 tons and was delayed for a few days. Delivering by water trasnport was chosen as the barge could sail almost to the plant and facilitates lower costs.

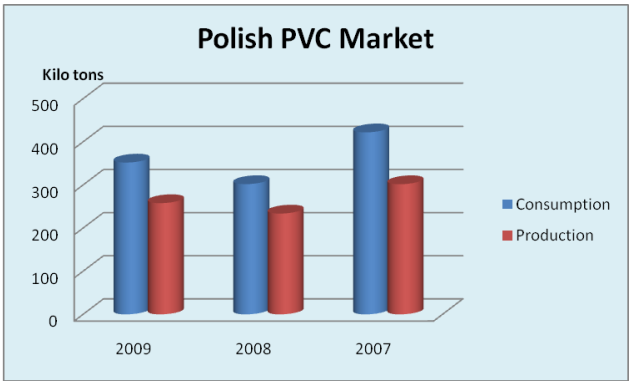
In the first half of 2010, ZAK achieved a net profit of about zl 20 million. The market situation has improved considerably measured against the collapse in demand for fertilisers and oxo alcohols in 2009, last year.

Pressures have been mounting on ZCh Police to reach settlement with banks for outstanding debts. The company has already devised a strict restructuring programme for the next few years to ensure the company's survival, including substantial job cuts. At the end of May, the European Commission approved a grant of public aid to ZCh Police. The Industry Development Agency will grant zl 150 million in the form of a loan and will be used as expenditure related to conducting core activities in the next few months.

ZCh Police requested public funds to be granted originally in the fourth quarter of 2009. The loan granted needs to be repaid within 6 months, although ZCh Police will be able to apply for an extension of the aid funds repayment provided that they present the EC with a reliable and detailed restructuring plan. The restructuring plan is going to be submitted to the Supervisory Board and to the State Ministry of Treasury in mid-July. The company made another positive agreement at the end of June, by extending the use of a credit limit in the PKO Polish Bank amounting to zl 82 million until mid-November 2010, with the possibility of further extending the deadline until January 2011.

PVC consumption in Poland

Consumption of PVC in Poland in 2009 totalled around 352,000 tons, which was a decrease of about 70,000 tons in comparison to 2007, or more than 50,000 tons in comparison to 2008. Imports of PVC resin to Poland fell by 22% in 2009 in comparison to the previous year. As a result of the economic crisis, which severely influenced European sales (for example, Germany bought only 21% of Polanvil's output in 2009, while a year earlier it was 37%), forced Poland to look for new sales targets in other regions. Anwil's PVC sales from Wloclawek (Polanvil) and from Neratovice (Neralit) have started to move into new markets such as India and China. This trend is likely to be slowed down in the next few months during the PVC outage at Wloclawek.



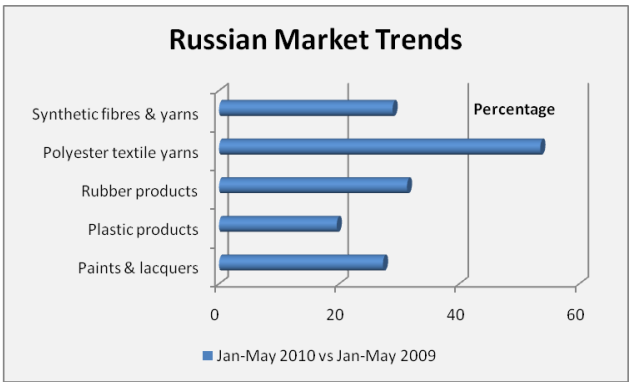
In 2009 the cable market in Poland shrank by about 30%, which resulted in a considerable decrease in Anwil's sales to this sector. The slowdown in construction, however, was not so dramatic. Combined with a relatively good situation in other areas relying on granulates and rigid blends for their operation, allowed the group to achieve a satisfactory level of sales in the main product groups. As important export may be for the Anwil group, the domestic market is still given a priority. At present, Anwil is the only PVC sheet manufacturer on the Polish

and Czech market. The group's foam sheets Anwipor® and rigid sheets Anwidur® are widely used in such areas as advertising, industry and construction.

Port investments
Russian trader Uralchem has announced a jv for the construction of a dry bulk fertiliser terminal with the Freeport of Riga. The planned terminal will provide an export facility for the shipment of its products into Europe and will enable the port of Riga to diversify its cargo throughput. The new terminal is currently at the design stage and is due online in 2012 with a projected throughput of 2 million tons. A second stage expansion is also under consideration, which would see the throughput of the dry bulk fertiliser terminal increased to 5 million tons. The port of Riga is heavily reliant on transit cargo forwarded or received from the CIS; accounting for approximately 80% of the port's total throughput.

Metraco intends to build a terminal in the Szczecin port for the handling of sulphuric acid. A lease has been signed for 10,000 square metres of land port, at which a base for transhipment warehouse of sulphuric acid. The port of Szczecin has developed three reservoirs, connected by pipeline to the quay for loading and position of the acid to the ships.

RUSSIA



Russian chemical production Jan-May 2010
Russian chemical production rose 20.5% in the first five months of 2010 against the same period last year. Plastics and rubber production rose 20.9% and paints and lacquers rose by 27.3%. In the polymer sector, the production of PVC for January-May 2010 amounted to 257,300 tons, 17.5 % higher than in the same period last year. Polystyrene production rose 15.8% to 124,700 tons and polyethylene rose 21% to 695,700 tons.

Russian production of fibres in January-May 2010 amounted to 50,100 tons, 35% up on the same period last year. Polyamide fibres rose by 24.5% and polyester by 53.5%. The production of kapron fibres totalled 3,600 tons for the first five months in 2010, which was up due to the resumption of production of industrial nylon yarn at Khimvolokno Shchekino. The production of cord filaments at Kuibyshevazot increased by 25.6 % due to increased exports. Polyester textile yarns increased due to high production at Tver Polyester.

The long-awaited Customs Union of Russia, Belarus and Kazakhstan finally began on 1 July, although the benefits may take some time to be seen. Belarus has a reluctant member of the Union, and has only emerged in recent days from the gas supply dispute with Russia. In principle at least there should be advantages for trade co-operation between the three countries, but opportunities may be slow to emerge at least in the first phase.

Overall, the Russian economy is performing relatively well and most Russian chemical plants are running at full capacity, notwithstanding shutdowns. Investment continues to dominate discussion in the industry, mainly in relation to feedstocks and their transportation. Doubts have been raised by LUKoil over the proposed gas-chemical complex at Budyennovsk due to concerns over government tax policy on gas. LUKoil fears that this policy would render the project unprofitable. In the plastics sector, SIBUR has formed an agreement with the Russian car company Sollers for providing raw materials for automotive production. In the rubber sector, Voronezhsintezkaucuk expects to achieve high production volumes this year whilst SIBUR has outlined a modernisation and expansion project for the Krasnoyarsk Synthetic Rubber Plant.

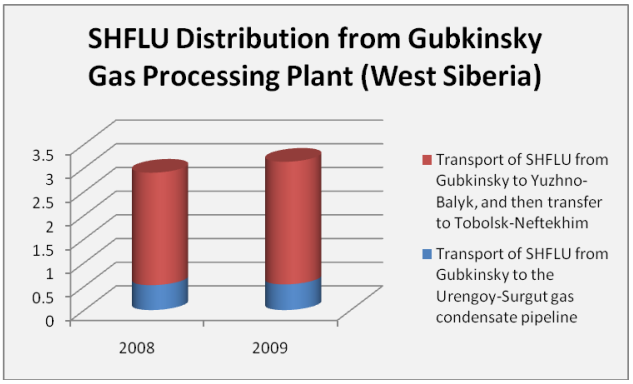
Feedstocks/petrochemicals

Russian government plans for the petrochemical industry
A chief issue to be decided by the Russian government in the next few months is financing options between two pipeline routing proposals of SIBUR and TAIF for the transportation of natural gas liquids from Siberia to the western part of the country. SBUR advocates the construction of a product pipeline from Urengoy to the

Baltic coast under the so-called the Chord pipeline, where the group has designs to construct a largest petrochemical complex. Conversely, TAIF defends the idea of restoring and modernising the disabled pipeline of Belozersk-Surgut-Tobolsk-Tyumen-Ufa-Minnibayevo-Nizhnekamsk and its extension to the Baltic. The pipeline was put out of action in 1989 following a major accident near Ufa. A main advantage of this option is that it satisfies the interests of not one company, but all companies operating on this route. The SIBUR proposal is thought to be better from under technical analysis, but it would leave other petrochemical companies without access to hydrocarbon feedstocks from West Siberia. Either way, government financial support is essential and only one of these options can be selected. By the end of this year, the government is expected which is the most feasible and by what amount it is willing to invest in supporting the development of the petrochemical industry.

SIBUR associated gas pipelines & projects

SIBUR has begun engineering and survey work on the construction of the new product pipeline from the Yuzhniy Balyk GPK to Tobolsk-Neftekhim with a total length of 400 km. This would allow an increase in the transportation of SHFLU or NGLs to Tobolsk. The current pipeline has a capacity of 4.2 million tpa and the new pipeline, should it be constructed, would have a capacity of 7 million tpa. The new pipeline would carry a high content of ethane, whilst the old pipeline would be decommissioned on start-up of the new pipeline. The general contractor for the engineering and survey is the Russian gas institute NIPIgaspererabotka.



SIBUR has started the construction of the filler railroad overpass in the Yamal-Nenets region, as part of its programme to establish a uniform system for gas processing. The project includes the modernisation of the Vyngapur compressor station, and construction of pipelines connecting Gubkinsky, Muravlenkovo and Vyngapur via Noyabrsk. The construction of a railway overpass in Noyabrsk is the final point in completing the creation of an integrated processing system for associated gas, and an independent transport network for petrochemical raw materials.

SIBUR has stated that it is ready to participate in the creation of a new gas processing plant in the Yamal-Nenets region, which will make use of gas from oil fields in the north of the Krasnoyarsk Territory and the Yamal-Nenets region. The so-called Polar project could provide gas liquids for transportation to the Gubkinsky gas processing plant, around 300 km from the proposed project. Given that the Gubkinsky gas processing plant will soon be integrated into a single transportation system, SIBUR would be capable of making use of these liquids.

SIBUR-Trans, wagon agreement

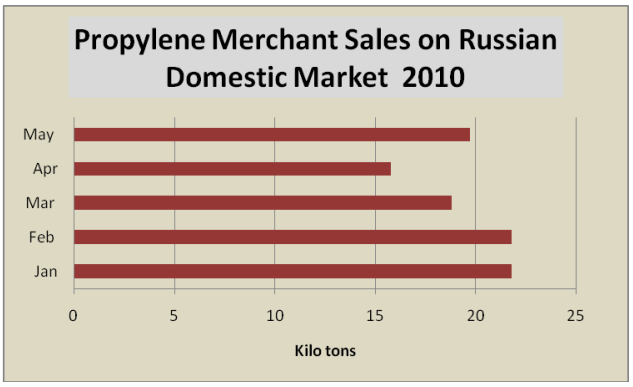
SIBUR-Trans has concluded an agreement with Salavatneftemash to supply 300 wagons for the transportation of LPGs. SIBUR-Trans is a service subsidiary engaged in the transportation of raw materials and products for SIBUR, as well as management of railway infrastructure companies. It is the largest LPG carrier in Russia for the transportation of LPGs, gas processing and liquid chemicals. There are also 200 tank containers for the transportation of propane, butane and 188 open wagons. During the period 2007-2010, SIBUR-Trans increased its rolling stock from 3,680 to 4,389 units and in 2009 the company transported 7.5 million tons of petrochemical raw materials and products. Salavatneftemash is one of Russia's largest manufacturers of equipment for oil and gas production and processing industries, pipelines and tank wagons.

TAIF, Taneko & petrochemical investments

The design complex for Taneko's refinery at Nizhnekamsk, based on a capacity of 14 million tpa, will be completed by the end of the year according to reports from TAIF. Initially, the refining capacity was planned for 7 million tpa, but was later increased to 14 million tpa to include oil produced by the small oil companies in Tatarstan. The first phase of the complex is planned for start-up on 10 October.

TAIF's investment programme in petrochemicals has been revised this year in response to the economic downturn it has experienced since 2008, combined with a new regime of conditions concerning the supply of raw materials. Investments in the petrochemical sector have been revised downwards to 355.5 billion roubles, to cover the period up to 2016. A project at Kazan remains under consideration to produce

200,000 tpa of ethylene and 50,000 tpa of benzene, whilst the group plans to make provisions to reduce dependence on raw material structures through Gazprom.



Russian propylene sales

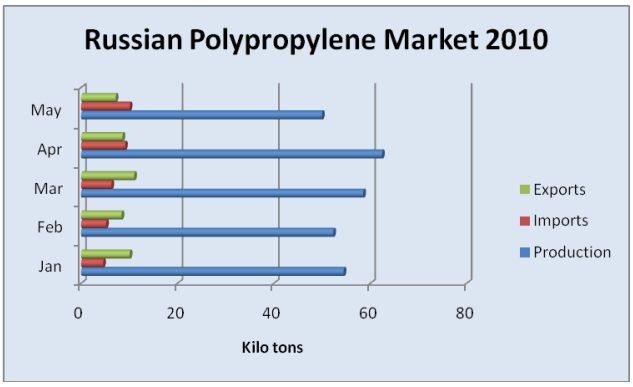
Shipments of commodity propylene on the Russian market increased in May by 25% over April to 19,700 tons. The growth of shipments was due to increased acrylonitrile production by Saratovorgsintez and increased purchases of propylene by Salavatnefteorgsintez for oxo alcohol production. For the period January-May 2010, shipments totalled 97,800 tons which is 10% more than in 2009. Total Russian propylene production for the first five months this year amounted to 556,710 tons.

Bulk polymers

Russian polypropylene market

Russia imported 10,090 tons of polypropylene in May, which was 9% more than in April and 54% higher than in May 2009. Significant volumes of Turkmen polypropylene, 4,920 tons, were imported in May which was 73% up on April. Total imports for the first five months amounted to 35,350 tons which is 22% higher than in the same period last year. The main volumes were delivered from Turkmenistan (34%), Ukraine (17%), Poland (10%) and Germany (10%).

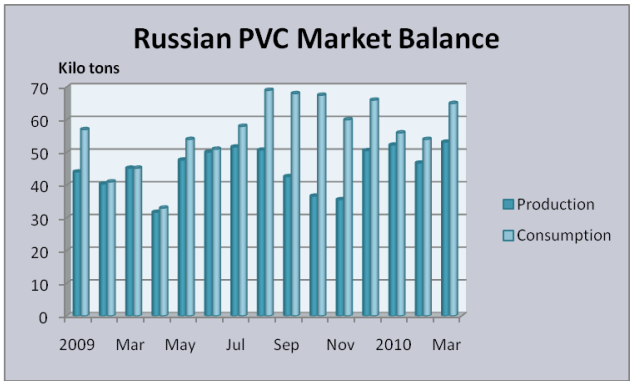
At the same time as imports are increasing, exports of Russian polypropylene have started to decline. This has been due to higher demand on the domestic market and also due to stoppages at Nizhnekamskneftekhim, the Moscow plant and more recently Ufaorgsintez. Russia exported 37,310 tons of polypropylene in the first four months of 2010, 27% up on the same period last year. Higher production by Stavrolen at Budyennovsk enabled increased export activity in addition to higher domestic sales.



Omsk polypropylene project

Progress continues on the Omsk polypropylene project, which is scheduled to be launched in the latter part of 2010. A scrubber was installed in May which is used to separate monomer and polymer, whilst at the end of May the reactor was mounted under supervision of Tecnimont. Equipment including the reprocessing unit for propane-propylene fractions and the hydrogen station) is expected to arrive in August.

Storage tanks have already been installed for granular polypropylene. After start-up, the plant will produce 180,000 tpa of polypropylene (including 78 different brands), about half of which is expected to delivered to foreign markets. Construction and assembly is expected to be completed in the fourth quarter in 2010.



Russian PVC market

PVC production totalled 241,170 tons in the first five months in 2010, 15% more than in the same period last year. PVC suspension grade totalled 231,990 tons and PVC paste 9,080 tons. SIBUR-Neftekhim completed repairs on its PVC plant at Dzerzhinsk in April, but other outages meant that production fell in May by 35% against April to 34,950 tons. Sayanskkhimplast underwent a shutdown in May and only produced 5,420 tons against 23,720 tons in April.

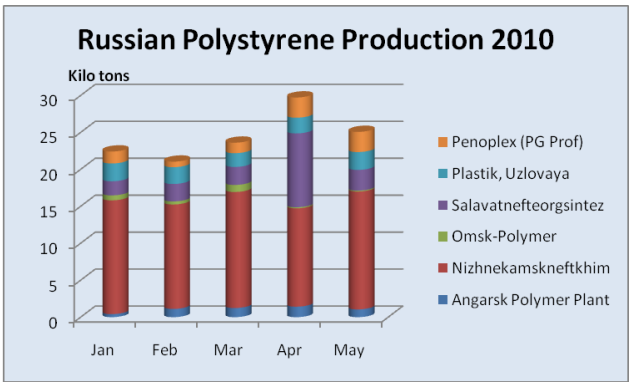
Imports accounted for 17% of the Russian PVC

market in the first quarter. Even with all Russian plants running at full capacity, the market faces a deficit. Thus, imports will remain important probably until the RusVinyl project is ready to start production. This year consumption is gradually returning to pre-crisis levels resulting in lower export activity, although this is relatively small.

Imports were severely affected last year by the falls in demand although have seen some recovery in the first quarter in 2010, thus corresponding to 2007 levels. China remains the main importer of PVC suspension grade, followed by US imports which amounted to 18,030 tons in the first four months of 2010. This represents a new trend in that US imports in previous years have been insignificant.

Russian polystyrene market

Russian polystyrene production increased 22% in the first five months this year and totalled 124,700 tons, whilst imports have continued to recover from the declines last year. Polystyrene consumption in Russia in the first quarter of 2010 totalled 81,500 tons, which was about 10,000 tons less than in 2008.



Peak consumption of polystyrene occurred in 2007, when the construction sector was actively being developed. Consumption in 2009 totalled 361,000 tons in 2009, which was only 12% more than in 2006. The total production of polystyrene in the first quarter was similar to the same period in 2009 (about 66,000 tons). However, in 2010 exports have declined steadily whilst at the same time imports have rallied this year. Import deliveries increased by 47% in the first quarter in 2010 against 2009 and totalled 30,000 tons.

Aromatics & derivatives

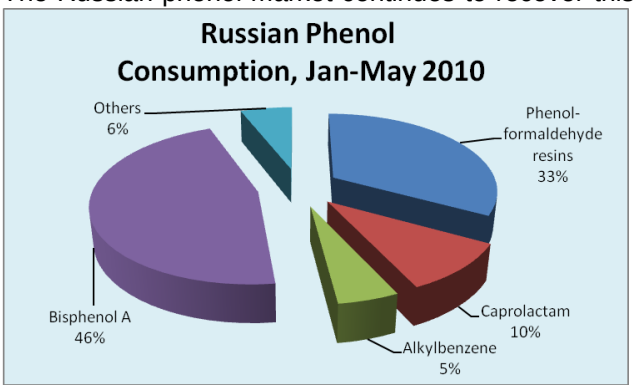
Russian aromatics supply, Jan-May 2010

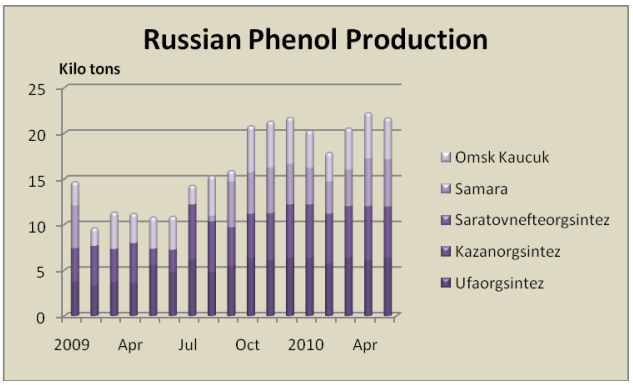
In the first five months of 2010 Russian refineries sold 56,000 tons of orthoxylene on the domestic market, which is 48% higher than in the same period last year. The increased consumption has come mainly from phthalic anhydride demand, particularly from the main phthalic producer Kamteks-Khimprom at Perm. The main supplier of orthoxylene to the domestic market is Gazprom Neft from the Omsk oil refinery with 48% of shipments. This is followed by Ufaneftekhim and Kirishinefteorgsintez with 27% and 25% respectively.

Benzene supply has been tight due to instability at the Omsk oil refinery, in addition to reduced supply of benzene from Stavrolen to the domestic market. The Omsk refinery underwent planned repair work in May resulting in lower availability of benzene and xylenes. Under these market conditions, certain producers have increased wholesale prices of benzene although during July supplies are expected to return to normal.

Russian phenol trends

The Russian phenol market continues to recover this year after the declines in 2009, and has been helped recently by a seasonal increase in demand. The main application areas which are witnessing strong growth include phenolic resins and bisphenol A, both of which have seen higher output at relatively new plants. Due to the rapid growth in consumption of phenol in April and May total consumption rose 43% for the first

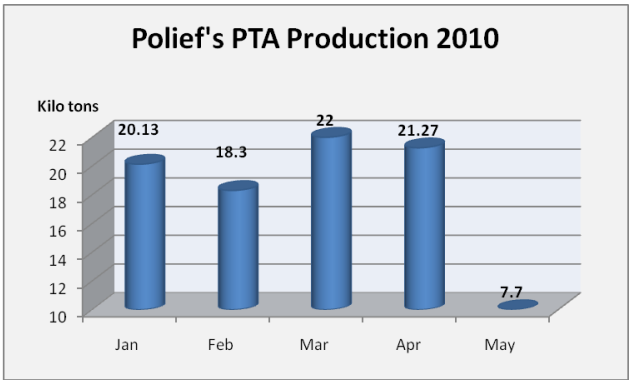




five months of 2010 against the same period last year. The first quarter actually experienced a downturn of around 10% against the same period in 2009, but due to the onset of the main construction season production levels have risen in the second quarter. Ufaorgsintez underwent a shutdown in June and although is working back at full capacity total Russian production is not sufficient to meet demand.

Russian caprolactam market, Jan-May 2010

During the period January-May 2010, Russia exported 101,400 tons of caprolactam showing a 10% increase than the same period in 2009. Despite the overall increase in volumes this year, the trend in exports is slowing due to higher captive consumption by Kuibyshevazot. Following the start-up of the fourth line for polyamide production, Kuibyshevazot has reduced exports over the past few months. Another factor that has affected caprolactam export in recent weeks has been the lack of benzene which has affected caprolactam production.



Polief-PTA outage

Polief undertook a three week planned maintenance shutdown in May on the PTA plan. Production for May totalled 7,700 tons, 64% less than in April. The company produced 89,400 tons of PTA in the first five months of 2010, which was 10% lower than in the same period in 2009.

Polief-shareholding change

The Bashkortostan holding company AFK Sistem has acquired a 17.5% stake in Polief from the government of Bashkortostan. Sistem is a vertically integrated group, including Baskhirian refineries, and supplies Polief with paraxylene from Ufaneftekhim. The group states that it is ready to participate in the management of Polief, although this would be with a minority voice. Other shareholders include the jv between SIBUR and LUKoil which is Domestic Polymers (50%) and the Russian bank VTB with 32.5%. Polief is currently focusing on a 20 billion rouble investment up to 2012, which will result in an expansion of PET capacity to 600,000 tpa and PTA to 400,000 tpa.

Russian Chemical Production (unit-kilo tons)

Product	*Jan-May 10*	*Jan-May 09*
Ethylene	1085.3	884.2
Benzene	446.2	388.2
Styrene	222.1	192.3
Phenol	105.9	57.4
Polyethylene	692.7	552.4
Polypropylene	277.8	229.5
PVC	243.8	209.0
Polystyrene	124.7	102.4
Butanols	116.8	111.7
Methanol	1280.8	847.3
Synthetic Rubber	461.6	334.9
Caustic Soda	450.3	440.0
Soda Ash	1077.6	903.4
Ammonia	5018.0	5630.8
Synthetic Fibres	30.9	36.5
Phthalic Anhydride	50.5	67.2
Acetic Acid	59.8	65.9
C Black	257.4	176.4

Russian PET market, Jan-May 2010

Russian PET production amounted to 26,380 tons in May 2010, 3% more than in May 2009 and 8% higher than in April this year. The Senezh Plant produced 8,540 tons in May, 24% higher than April. For the first five months of 2010 Russian production totalled 121,480 tons which was 19% up the same period last year. The significant difference is due largely to the market-enforced outage at Polief's PET plant in early 2009. As a result of that outage, Polief produced 12,260 tons of PET in the first quarter of 2009 and this was increased to 33,380 tons in the first quarter this year.

Organic chemicals

Shchekinoazot-transition to new methanol plant

Shchekinoazot has completed testing of pipelines for compressed oxygen for its new methanol plant, whilst metal and concrete structures have been installed. On the main floor, work is continuing on the installation of the gas network. In July, Shchekinoazot expects a significant supply of steel, reinforced concrete structures, process piping, valves, etc to be installed. Shchekinoazot is using Haldor Topsoe technology for its M-450 plant, making it the most modern methanol plant in Russia. The start of commercial operation with a capacity of 450,000 tpa will not only significantly increase the production of methanol, but it will also improve its profitability. This will be achieved by reducing production costs significantly, and reducing expenditure in raw materials and energy. The new plant will provide Shchekinoazot with a competitive advantage not only in the domestic market but also abroad. With rising costs for gas and energy in the domestic market introducing new technology and equipment provides the opportunity for the company to stabilise and to further develop its formaldehyde product chain.

Czech Export Bank to finance methanol plant at Nizhniy Tagil

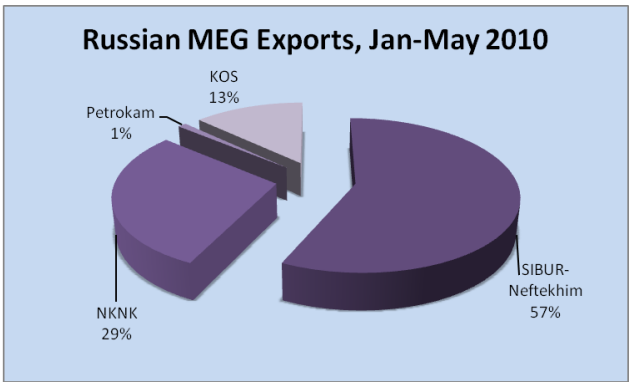
The Czech Export Bank is expected to conclude agreements for loans to support the construction of the methanol plant at Nizhniy Tagil under the jv UralMetanolGroup. It is expected that the loans will amount to €2 billion with a maturity of 10 years. The Czech engineering group Alta will participate in the project, which involves Itera and Uralkhimplast as jv partners. The planned capacity of the methanol plant is 600,000 tpa, part of which is intended for usage by Uralkhimplast and part for export.

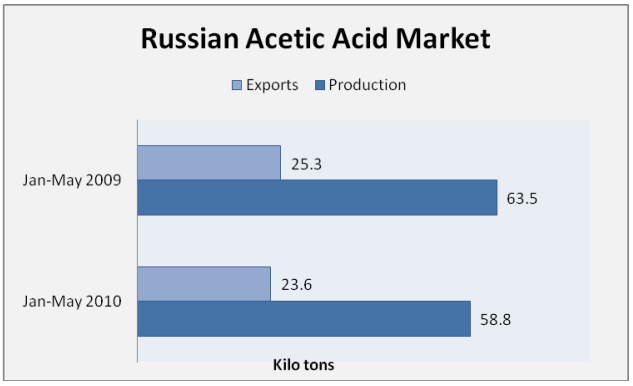
Russian MTBE exports

MTBE sales in the Russian market totalled 141,100 tons in the first five months of 2010, almost the same as last year. Demand has started to improve due to higher production of gasoline in Russia. The major suppliers of MTBE to the domestic market this year are mainly plants which are part of the SIBUR group, accounting for 52% of total sales. The main consumers of MTBE in the Russian market include the Ryazan oil refinery, Gazprom Processing, LUKoil Nizhnegorodnefteorgsintez and Kirishinefteorgsintez. The share of output of these refineries account for about 71% of total marketable product.

Russian MEG exports, Jan-May 2010

MEG exports from Russia totalled 38,700 tons in the first five months of 2010, 2% up on the same period last year. The main end-destination for Russian MEG has been Belarus, which consumed 80% or 31,000 tons of exports due to increased PET production at Mogilevkhimvolokno. The main Russian exporter remains SIBUR-Neftekhim, but due to the increased supply to Russian domestic PET producers by 65% export availability has been affected. Petrokam at Nizhnekamsk has reduced export shipments this year significantly, from 6,100 tons in the period January-May 2009 to 285 tons in January-May 2010. This has been caused by the cessation of ethylene oxide deliveries from Nizhnekamskneftekhim over the past few months, on which it depends solely for feedstocks. Low production at Petrokam naturally feeds through to reductions in export availability. At the same time Nizhnekamskneftekhim exported 11,200 tons of MEG in the first five months of 2010; eight fold up on the same period last year. Kazanorgsintez exported 5,200 tons to date this year against 368 tons in 2009.





Russian acetic acid exports

Acetic acid exports declined in April and May from Azot at Nevinomyssk, due to increases in domestic consumption. In March, Stavrolen resumed production of VAM whilst acetate solvent producers have also increased the demand for acetic acid. Another factor affecting exports has been downtime at the methanol and acetic acid facilities at Nevinomyssk, which took place in April. Exports of acetic acid totalled 23,600 tons in the first five months, 7% less than in the same period last year. Total production of acetic acid for the first five months was 58,800 tons, 8% less than in 2009.

Russian acetone sales

Acetone sales on the domestic market have been increasing due largely to higher purchases by Dzerzhinsk Orgsteklo. In the first five months of 2010, Russian sales of acetone totalled 27,000 tons which was 32% more than in the same period last year. Dzerzhinsk Orgsteklo purchased 1,800 tons of acetone in May, 80% up on April. The other main consumer on the Russian market is Khimprom at Novocheboksarsk.

Increased domestic consumption of acetone has

reduced availability for exports recently although overall exports are up. In the first five months of 2010 Russia increased acetone exports by 57% over 2009 to 19,900 tons. The main exporters include Samaraorgsintez with 52% of shipments and Omsk Kaucuk with 42%. The main export destinations include Belarus (39%), Turkey (24%) and China (16%).

Other organic chemicals

Ethyl acetate sales on the domestic market increased in the first five months this year by 14% to 3,500 tons. The main consumers of ethyl acetate in Russia included the organic chemical sector and the paint sector with 36% and 20% respectively of gross consumption. Production totalled 6,300 tons in the first five months of 2010, with Amzinsky Wood Chemical Plant accounting for 64% of production.

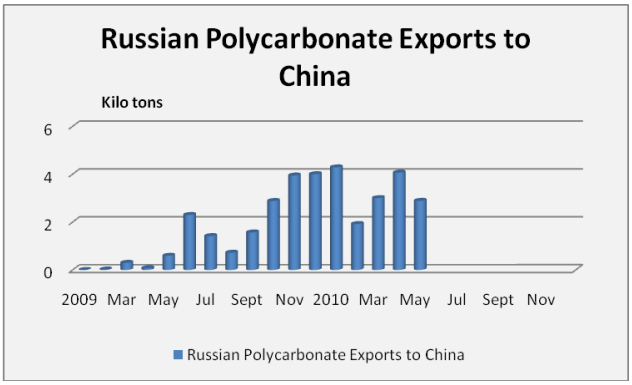
Butanol supplies in the domestic market were tight in June due to reduced availability for domestic consumers and high export activity. Scheduled shutdowns at Azot at Nevinomyssk in April and the stoppage in May at Salavatnefteorgsintez affected market volumes. A deficit in supply has led to an increase in market prices of butanol, although supply is expected to resume normality in July and August.

Russian Butanol Production (unit-tons)

Producer	*Location*	*Normal*	*Iso*	*Total*
Azot	Nevinomyssk	6,689	0	6,689
Angarsk PC	Angarsk	2,959	0	2,959
SIBUR-Khimprom	Perm	14,899	18,501	33,400
Salavatnefteorgsintez	Salavat	35,570	14,333	49,903
Total		60,117	32,834	92,951

Metafrax produced 7,400 tons of pentaerythritol in the period January-May 2010, 21% less than the same period in 2009. Last year, the plant was idle for an extended period due to low demand for pentaerythritol in Russia and abroad, as a result of the global financial and economic crisis. Due to increased demand this year, Metafrax has been operating pentaerythritol steadily this year due to improved market conditions for phthalic anhydride and application in alkyd paints.

Plastics



Russian polycarbonate

Polycarbonate exports from Kazanorgsintez doubled in the first five months in 2010 against last year and totalled 16,174 tons. The main destination for Russian polycarbonate is China, accounting for 95% of exports. Regarding polycarbonate imports into Russia, the first four months recorded shipments of 12,910 tons which is twice more than in 2009, but lower than in 2008. The main source of polycarbonate imports in Russia originate from Germany (49%) and Spain (24%).

Biaksplen-SIBUR

SIBUR Holding is hoping to reduce the amount it is paying for 50% in the purchase of Biaksplen. The group is aiming for a substantial reduction in the price from 1.75 billion roubles to 6.26 million roubles, and has raised the matter in court. Strategically the purchase of Biaksplen is important for SIBUR as it consumes a large volume of polypropylene. The planned increase in BOPP capacity at Tomsk, raising Biaksplen's capacity to 130,000 tpa, is also a key part of SIBUR's strategy.

Russian BOPP production totalled 34,280 tons in the first four months of 2010, 18% up on last year. Biaksplen occupies about 60% of Russian production, followed by Novatek-Polymer with 22% and company Isratek C 18%.

Danafleks opens new plant

A new production line has been launched by Danafleks in the Technopolis Khimgrad at Kazan to produce flexible packaging polymer film. Investments in the project have exceeded one billion roubles. Entering the second phase is planned in the fourth quarter of 2010. The new venue will ensure the production of up to 50,000 tpa of packaging film and will increase the annual market share of Danafleks in Russia from around 10-12% to 20%.

Finnish company Rani Plast to build plant at Kaluga

Rani Plast has signed an agreement with Lemminkainen, a Finnish developer, to construct a polyethylene film plant in the Russian city of Kaluga. The new plant is expected to be completed in late 2011 and will have an area of 5,400 cubic metres. Total investment by Rani Plast, which is a Finnish family-owned film extrusion company, in the project is estimated at €20 million. The Kaluga plant will be one of Rani Plast's largest production facilities in Europe and will specialise in producing high quality polyethylene film for Russian consumers and packaging companies.

SIBUR-automotive plastics

SIBUR has reached preliminary agreement with the Russian car company Sollers, identifying the main directions of cooperation of the parties in the production and supply of automotive products. Under the agreement, Plastik at Tula could provide over twenty items of products for different car parts, totalling up to 4,500 tpa. In the course of 2010, the parties will determine the specific conditions and arrangements of supply. Raw materials that SIBUR is likely to supply include production include polypropylene and polyethylene.

Tatneft & Preiss Daimler present project

Tatneft and the German group Preiss-Daimler have opened the jv project Tatneft-Alabuga Glass Fibre, which will produce about 21,000 tpa of products from glass fibre. These products will be distributed for construction, automotive, shipbuilding, electrical and other industry branches. The new plant is located in the Alabuga Special Economic Zone, which grants tax benefits to residents in the first few years of operation. This project will facilitate new efficient high-tech production in Tatarstan, with investments estimated in the range of €84.5 million. The advantages of the new production facility include proximity to large petrochemical, automobile manufacturing and road construction facilities, as well as a developed transport infrastructure in the region.

Synthetic Rubber

Russian Synthetic Rubber Production(unit-kilo tons)

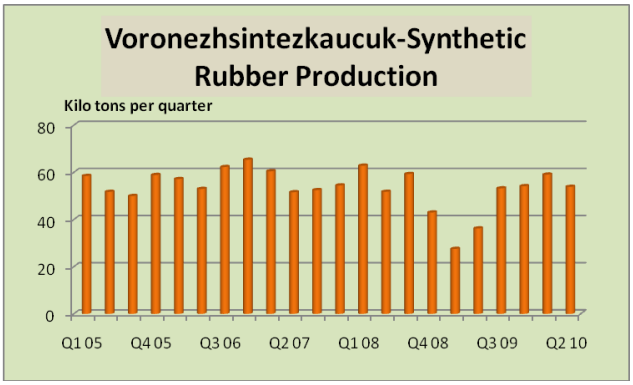
Producer	*Jan-May 10*	*Jan-May 09*
Efremov SR Plant	7.6	10.7
Kautschuk (Sterlitamak)	39.7	43.9
Krasnoyarsk SR Plant	15.5	6.8
Nizhnekamskneftekhim	194.7	136.2
Omsk Kaucuk	18.8	27.0
Kazan SR Plant	2.5	3.3
Togliattikaucuk	70.2	46.6
Voronezhsintezkaucuk	103.5	59.0
Sterlitamak Petrochem	9.1	1.4
Totals	461.6	334.9

Russian synthetic production, Jan-May 2010

Russian production of synthetic rubber dropped 2% in May against April and amounted to 95,250 tons. Overall, production from January to May 2010 in Russia amounted to 473,360 tons, a 41% increase over the same period in 2009. Domestic demand for synthetic rubber softens traditionally during the summer months due to lower demand from the tyre manufacturers. However, there remains a high demand for Russian products in foreign markets with exports accounting for 71 % of Russian production in the period January-May 2010. The domestic market expects the resumption of growth of consumption in August and the gradual recovery of the domestic automobile industry, which will help to continue the improvement against 2009 performance.

Voronezhsintezkaucuk-targets 2010

Voronezhsintezkaucuk plans to produce at total of 225,750 tons of products this year compared to 217,000 tons in 2008, which was previously the company's record year. The target for 2009 has been set on the basis of the first half year whereby the company has produced 126,000 tons, the largest share of which is synthetic rubber. The Voronezh plant produces 17 types of synthetic rubber and in 2010 has set a target of 113.900 tons. The highest added value product group is thermoelastomers which are used in road construction, roofing materials, adhesives, sealants, etc. The company produces 35,000 tpa of thermoelastomers and by 2012 plans to increase production to 85,000 tpa following the construction of a new line.

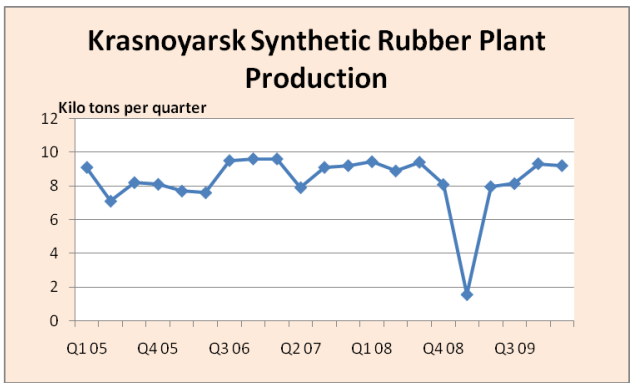


The construction of the manufacturing and warehouse facilities for the new production unit for thermoelastomers is set to begin in February and March

2011. Commissioning of the expanded capacity is planned in September 2012. SIBUR controls 49.9% of Voronezhsintezkaucuk.

SIBUR investment plans for Krasnoyarsk

SIBUR is planning an investment of more than 2 billion roubles (€52 million) to expand production capacity at Krasnoyarsk for butadiene-acrylonitrile rubber (NBR) and butadiene. The project, scheduled to be completed by 2014, will result in an increase in production capacity of NBR to 56,000 tpa from the current level of 36,500 tpa. It will also create 40,000 tpa of new butadiene capacity. It is likely that most of the material from the expanded Krasnoyarsk plant will be exported. Amongst other SIBUR rubber plants, around 85% of Togliattikaucuk's production goes to Asia, the US and Spain.



SIBUR-Amtel

SIBUR Holding has bought the debts tyre holding Amtel owed to creditors, which will allow SIBUR to increase its share of the Russian tyre market. SIBUR bought 89% of the debts of bankrupt Amtel, including the debt Amtel-Vredestein and the Kirov, Voronezh tyre plants. All of them are at various stages of bankruptcy, and SIBUR now owns the rights to claim for 17 billion from 19 billion roubles. Being virtually the only creditor of Amtel, SIBUR will initiate the introduction of competitive management and to obtain the assets of the holding of the debt. This will allow the company to increase SIBUR's market share of the Russian tyre sector from 17% to 24-30%.

Other Products

Azot Kemerovo-reconstruction

Azot has launched its annual overhaul programme, with this year the focus presiding over 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.

Urea-Azot Cherepovets

Azot Cherepovets has installed the first part of the 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.

New sodium cyanide plant for Korund

The Scientific Research Institute of Urea at Dzerzhinsk (NIIK) has won the contract to design a new sodium cyanide plant for Korund at Dzerzhinsk. The capacity of the new plant is intended to be 80,000 tpa, with construction scheduled to start on 1 October 2010 and production scheduled to start in the first quarter of 2012. 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, it considers that integration would be beneficial and 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.

EO pipeline to be revamped

A tender process is being organised by SIBUR-Neftekhim underway for the construction of a new ethylene oxide pipeline between Kaprolaktam at Dzerzhinsk and its consumer ZAO Himsorbent. Himsorbent intends to invest around 92 million roubles in the construction of a pipeline to supply ethylene oxide from the nearby Kaprolaktam plant, which is part of SIBUR-Neftekhim. This would replace the current system of rail deliveries of ethylene oxide to Himsorbent and will facilitate an increase from 2,500-3,000 tons per month to around 5,000 tons. The Investment Council of the Nizhny Novgorod region has approved a land area of 13,000 square metres rented by Himsorbent. The founders of Himsorbent include Gazprom and ZAO

Khimtek Engineering. Himsorbent is Russia s only producer of methyldiethanolamine, a high-sorbent used in the oil, gas, and nitrogen industry.

Evrokhim-phosphoric acid modernisation

Evrokhim is modernising its phosphoric acid facilities at Kingisepp in the Leningrad region, at a cost of 600 million roubles. This is aimed at helping the plant to produce phosphoric acid on the two stage process instead of the four stage process, in addition to increasing the concentration from 24% to 34%. The modernisation will also lead to a reduction in energy consumption levels, whilst the project provides for the transportation of a by-product phosphopolyhydrate. The investment programme is expected to be completed by 2011.

Solvay-Soda Berezniki

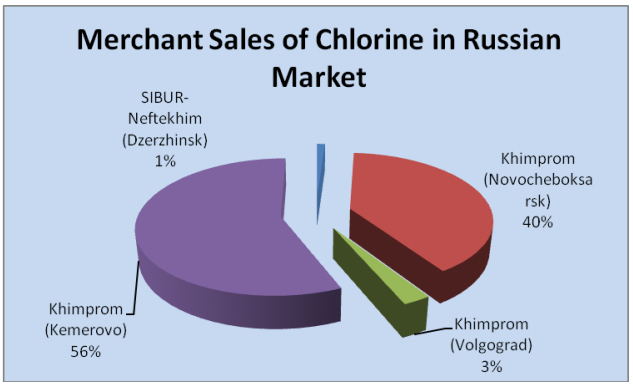
Solvay announced in the middle of June that it was unable to complete its acquisition of a majority stake in the Berezniki Soda Plant (BSZ) from Sodium Group Investment Limited. This follows a decision in the early part of June from the Federal Antimonopoly Service of Russia to finally grant the right of interested parties to buy BSZ. On the same day, the FAS also authorised the Bashkhim group to acquire the control of the BSZ soda ash plant. The Sodium Group decided on 9 June to sell its majority ownership of 96.998% in BSZ to the Bashkhim, which together with Soda at Sterlitamak has given it control of about 65% of Russian soda ash capacity. Solvay commented that it was deeply disappointed by the administrative process which led to this outcome.

On 17 March, the FAS denied Solvay approval to acquire 97% in BSZ citing discrepancies between the registered and the actual owner of the plant. BSZ is a producer of soda ash largely based on the Verkhnekamsk deposit of potassium and magnesium salts. The company has capacity to produce 650,000 tpa of soda ash, but only produced 387,500 tons last year. Since 1 January 2010, output from BSZ has been sold through Solvay Plastchem, a subsidiary of Solvay and it is not clear if this will continue. At the end of May, BSZ started the production of soda ash grade A (heavy soda) which is in higher demand than grade B. Design and construction started in 2006, but overall capacity will remain the same at 650,000 tpa.

Chlorine news

Khimprom at Novocheboksarsk has started to initiate activities aimed at improving energy efficiency and energy production. The programme is scheduled for 2010-2011 during which the company is to examine advanced energy-saving technologies in the production of hydrogen peroxide. Other products include the modernisation of the caustic soda plant, to modernise a system for collecting steam condensate and electrolyzers if the service life of chlorine and caustic soda. This will significantly reduce the consumption of electricity and steam, as well as expand its capacity due to the stabilisation of the equipment.

In the first five months of 2010, Kaustik at Volgograd achieved a turnover of 2.236 billion roubles, 7.2% more than during the same period of 2009. The company increased production of liquid caustic soda by 5.7% to 88,500 tons in the first five months, whilst solid caustic soda production increased by 4.6%, to 37,140 tons, and hydrochloric acid by 0.5% to 111,600 tons. Kaustik consumes most of its chlorine production, and only plays a small part in the Russian chlorine merchant market which is dominated by Khimprom at Kemerovo and Khimprom at Novocheboksarsk.



SIBUR-Neftekhim undertook a preventive maintenance shutdown at the Kaprolaktam plant at Dzerzhinsk in May, including six shops and one department of the production of chlorine and organochlorines. The specifics of the production regime allows for no repairs during normal production operations. As a result, periodically scheduled repairs are undertaken when the chlorine plant has been stopped.

Omsk-Polymer, bankruptcy

Omsk-Polymer has been declared bankrupt after failing to repay its bank debts. The company is currently unable to receive the required styrene monomer from Nizhnekamskneftekhim or Angarsk Polymer Plant as both companies prefer to export. Moreover, due to the lack of outside investment and the failure of possible integration into the Omsk holding group Titan, Omsk-Polymer has been unable to meet demands of

creditors. Omsk-Polymer was created in 2005 at the production site of the bankrupt OAO Omskhimprom. The company produces polystyrene and its products including disposable utensils and packaging evolves under the trademark Polymer-Pak, as well as paints and varnishes. The plant is recognised as part of the government strategic programme on petrochemicals up to 2012, but is now facing an uncertain future. Substantial funds were received in 2006 in order to purchase equipment for a revamp of the phthalic anhydride plant. This was not undertaken and thus the company was unable to repay loans by March 2010, which has resulted in the declaration of bankruptcy.

Lanxess-Omsk possible investment

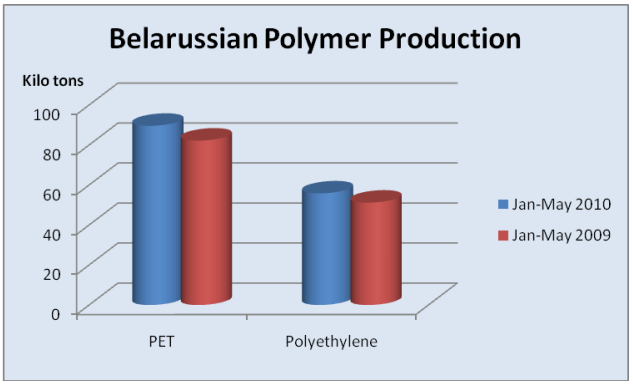
Lanxess is considering possible investments in the Omsk region, where there is a strong chemical industry base and a good infrastructure. In view of the raw materials available in the Omsk region, Lanxess is considering an ion-exchange resin plant with investments of €15-20 million. A potential location for the proposed investment is under consideration in the northern industrial zone of the regional centre. This is close to the new polypropylene plant under construction, which is to be ready to start later this year. The polypropylene plant is being located in an industrial cluster, where there also plans for a polycrystalline silicon plant.

Belarus

Belarussian gas prices & oil refining

The gas dispute between Russia and Belarus seems to have been settled helping to dispel threats of supply disruption to the chemical industry in Belarus and Central Europe. Grodno Azot was close to being ready to stop the production of ammonia, caprolactam and methanol due to gas shortages, but this possibility has now been averted. Halting production under emergency conditions, as stressed by Azot, can incur difficulties in restarting for the company. Grodno Azot consumes 1.2-1.5 billion cubic metres of gas per annum and is the largest consumer in Belarus. The average price of Russian gas for Belarus for 2010 is expected to amount to $187 per thousand cubic metres. Prices were set in the second quarter at $184.8 following $169 for the first quarter.

Belarusian oil refineries have reduced capacity utilisation to 70% in the first half of this year, after Russia imposed high export duties on oil and oil products to Belarus from 1 January 2010. In the period 2007-2009, Belarus paid duties only on two thirds of oil imports and received around 6.3 million tons duty-free. In the first six months of 2010, Russia imported 7.385 million tons. Belarusian refineries also processed 240,000 tons of oil from Venezuela, with this source rising sharply in the next few months. According to Belarus, prices of crude from Venezuela are lower than Russian prices.



Belarussian polymer production, Jan-May 2010

Mogilevkhimvolokno produced 20,580 tons of PET in May, 9% more than April and 21% higher than in May 2009. In the first five months of the year Belarus produced 89,520 tons of PET, 9% more than the same period in 2009. PET capacity at Mogilevkhimvolokno has been running close to 100% in the past two months, and has not been affected to date by the issues faced by the company regarding paraxylene supply.

Polymir at Novopolotsk produced 12,500 tons of LDPE in May, and 55,800 tons for the first five months of 2010. Production was 9% lower than in the same period last year, due principally to the reductions in feedstock deliveries from Russia in February.

Mogilevkhimvolokno-paraxylene options

Mogilevkhimvolokno hopes to secure an alternative source of paraxylene in the third quarter that would help overcome the problem of raised Russian prices since the start of 2010. The company suffered big losses in the first quarter and until the company can resolve the problem of feedstocks is unlikely to change. Currently, Mogilevkhimvolokno has long-term contracts with such major companies as Gazprom Neft, SIBUR Holding and Nizhnekamskneftekhim for paraxylene and MEG shipments. However, this year these contracts have run into problems following the increase in Russian export duties from 1 January which has made these products more expensive and prevented Mogilevkhimvolokno from making a profit. In the first

five months of 2010, Mogilevkhimvolokno bought 31,000 tons of MEG from Russia. Not only does Mogilevkhimvolokno have long term raw material contracts with Russian producers, but it has long term contracts for sales of polyester fibres and yarns to Russian consumers. Rising feedstock costs have resulted in higher product prices and thus the problem of raised export duties does not end with the export of Russian paraxylene and MEG. Whilst Mogilevkhimvolokno is keen to develop relations in the West and in other markets, Russia is likely to remain significant in terms of both raw materials and sales.

Ukraine

Karpatneftekhim to resume polyethylene production

Karpatneftekhim plans to resume production of polyethylene at Kalush on 10 August, with the plant being idle since July 2008. Ethylene production is now scheduled to restart in July. The HDPE plant at Kalush was started in 1997 based on Unipol technology. Consumption of HDPE in Ukraine in 2009 totalled 128,000 tons, and for the first four months of 2010 32,000 tons. The main source of imports is currently Russia followed by the Czech Republic and Hungary, but these supplies may see reductions when Karpatneftekhim comes back onstream.

Ukrainian Chemical Production (unit-kilo tons)

Product	*Jan-May 10*	*Jan-May 09*
Acetic Acid	44.8	26.9
Ammonia	1754.1	1316.2
Benzene (-95%)	91.0	65.3
Benzene (+95%)	45.8	21.2
Caustic Soda	21.1	16.3
Formaldehyde	21.1	6.1
Methanol	36.1	35.8
Polyethylene	0.0	0.0
Polypropylene	36.5	38.0
Polystyrene	7.2	5.7
Polyvinyl Acetate	2.4	3.2
Soda Ash	272.2	257.7
Titanium Dioxide	50.2	30.6
Toluene	2.3	1.4

Kalush pipe plant

Start-up operations were completed in May at the Kalush Pipe Plant for a new line of 1,500 tpa for sewage pipe, with diameters from 110 mm to 400 mm and for water from 90 mm to 400 mm. Products from the plant started to be sold in June and are competing with imported counterparts from Poland and Romania. PVC will be purchased abroad in the first few months until the Karpatneftekhim plant starts up towards the end of 2010. In May 2009, the Kalush Pipe Plant commissioned three production extrusion lines with a combined capacity of 10,000 tpa for the production of polyethylene pipes.

Ukrainian organic chemicals

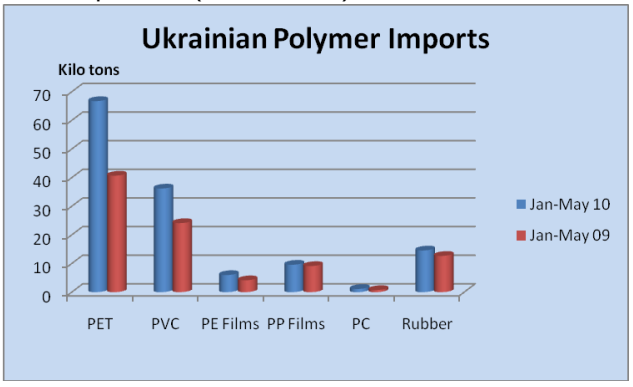
Ukraine exported 6,100 tons of ethyl acetate in the first five months in 2010, 81% more than the same period of 2009. Exports accounted for 92% of production in this period, with the main end-destinations including Poland, Austria and Slovakia. The main exporter from Ukraine is the Perechinsky Wood Chemical Plant, whilst the other producer Kirovograd Raiagrosnab focuses on the domestic market. However, volumes on the domestic market have been in decline this year due to a significant reduction in purchases of by consumers manufacturing paints and varnishes for special purposes.

Ukrainian Ethyl Acetate Market Balance (unit-kilo tons)

	2009	*2008*	*J-M 10*	*J-M 09*
Production	17.7	26.0	8.7	5.7
Exports	12.8	20.6	6.1	3.4
Imports	0.5	0.58	2.8	2.5

Ukrainian polymer imports increase

PVC imports into Ukraine rose 1.5 fold in the first five months of 2010 against last year, up to 36,200 tons. Imports from the US accounted for 39% of total shipments (14,200 tons). Ukrainian consumers have also increased the import of PVC this year from BorsodChem by 24%.



Ukraine imported 1,130 tons of polycarbonate in the first five months of 2010, 50% up on last year. Ukraine imported 66,750 tons of PET In the first five months of 2010, which was 64% up. China accounted for 39% of imports, India 19% and South Korea 18%.

Ukraine imported 22,150 tons of polymer films in the first five months of 2010 which was 27% higher. The overall share in imports of films in the Ukrainian market is about 29%. Polyethylene film imports rose 44% in the first five months and totalled 5,890 tons. The main suppliers of films included Germany (21%), Turkey (15%), and Poland (13%). PVC film imports

rose 59% and totalled 6,650 tons with China accounting for 31% of imports. The share of imports in consumption is around 80%.

Imports of polypropylene films in Ukraine increased 5% against the first five months in 2009 and amounted to 9,580 tons. Russia accounted for 56% of imports, mostly supplied by Biaksplen. Ukrainian exports of polymer films rose 9% in the first five months of 2010, amounting to 9,060 tons. Polyethylene film, which accounts for 80% of export shipments, totalled 6,600 tons or 8% over last year. Other films included 1,420 tons of polypropylene and 1,040 tons of PVC.

Central Asia-Kazakhstan

SOCAR-Azerkimya update

The initial stages of SOCAR activities in Azerkimya involve the process of dismantling obsolete plants and equipment and to replace these units with advanced modern technology. Dismantling has already been completed at the surfactants plant, whilst pipes and other equipment have started to be changed at the organic synthesis plant. Current production at Azerkimya is unprofitable and has only been operational due to subsidies from the state budget. SOCAR plans to abandon these subsidies and to develop a production base that is capable of operating profitably. As part of this goal, SOCAR will aim to integrate and coordinate Azerkimya with Petkim's petrochemical operations in Turkey.

SOCAR has for some considerable time been the locomotive of the Azerbaijani economy, and is now trying to influence other industries such as chemicals. SOCAR plans to attract around a $100 million loan in the short to medium term for the development of plants belonging to Azerkimya. These funds will be directed to the production of new products and building new plants. One of the main projects involves minor alterations to the EP-300 cracker and the launch of HDPE and polypropylene production.

IFC-AzMeCo

The IFC has reached agreement to work with the Azerbaijan Methanol Company (AzMeCo) to improve the company's governance practices, and providing advice that will help establish good corporate governance in the petrochemical industry. AzMeCo was founded in 2007 as a methanol company and is currently in the process of plant construction. The IFC will assess the company's corporate governance standards and develop a tailored improvement plan to align it with international best practices. The Swiss government is supporting the project through its State Secretariat for Economic Affairs.

Kungrad soda ash plant

Kungrad soda plant intends to reach the design capacity of 100,000 tpa this year, after start-up was undertaken in 2006. In 2009, the Kungrad soda plant produced 76,700 tons of soda ash, 8% more than in 2008. Growth in production has been possible due partly to the favourable location of the company, and the fact that it is the sole producer in Central Asia. The main raw material for the production of soda ash at the Kungrad soda plant is salt mined at Barsakelmes, and limestone from the Dzhamansaysk field. With the soda ash plant running at 100,000 tpa, raw material consumption amounts to about 153,000 tpa of limestone, 160,000 tpa of salt and around 1,000 tpa of ammonia.

Uzbek demand for soda ash is estimated at 60,000 tpa, which can be met in full from the Kungrad soda ash plant in addition to export activity. In 2009, a total of 56,000 tons was sold on the domestic market with the main consumers including Quartz, Farmglass, Uzbekneftegaz and Uzkimesanoat. The remainder of the 76,700 tons was exported to Kazakhstan, Russia, Tajikistan, Kyrgyzstan, Iran and Turkmenistan.

Other Uzbek news

Uzkhimprom plans to start the production of potassium chloride at Dekhkanabad in July. The initial design capacity of the plant will be about 200,000 tpa, with about 50,000 tons expected to be produced this year. The plant is based on the Tyubegatansk deposits which are estimated at 400.2 million tons of ore. By 2015, Uzkhimprom plans to expand capacity to 600,000 tpa by 2015. Recently, the State holding company signed a memorandum of cooperation with Oman Oil Company under which it will take part in the construction of the second stage of the Dekhkanabad potash fertiliser plant. The plant is to be designed to produce 400,000 tpa of potash fertilisers and its construction will cost in the range of $250 million.

In addition, Uzkhimprom and Oman Oil Company plan to build a unit for the production of complex fertilisers at Navoi with a capacity of 250,000 tpa at an estimated cost of $180 million. These projects are scheduled for construction in the 2010-2015 timeframe.

Ferganaazot is investing around $5 million in the modernisation of chemical fibres $5 million by 2012. This project will help increase the production of acetate filament four-fold from 500 tons in 2009 to 2,000 tons in 2012. The project will be undert5aken at Fergana Chemical Fibre Plant, which is a part of Ferganaazot. Fergana Chemical Fibre Plant was commissioned in 1969 to meet the demand of light industry enterprises for textile fibres. The design capacity is 14,800 tpa of chemical fibres, including 6,600 tpa of acetate filament.

Polyethylene pipe plants in Central Asia

A new polyethylene pipe plant has been opened in the Navoi special economic zone in Uzbekistan. The plant has been set up by Shurtan Gaz Kimyo Qurilish, a subsidiary of the Shurtan Gaz Chemical Plant. Pipes will be exported in addition to be being sold on the domestic market. The range of pipes under manufacture comprises a diameter of 75 to 630 mm, with investments into the project valued around $6.2 million. Construction of the plant started in November 2009 and took seven months to complete.

A new polyethylene pipe plant started its construction at Pavlodar in north-east Kazakhstan in June. Pressure pipes produced from polyethylene, designed for transporting water and with diameters from 20 to 500 mm will be produced based on Chinese equipment. Raw material supplies of Korea. The design capacity of the plant is 300,000 linear metres per annum.

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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