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MONTHLY NEWS

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

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CENTRAL & SOUTH EAST EUROPE

Petrochemicals

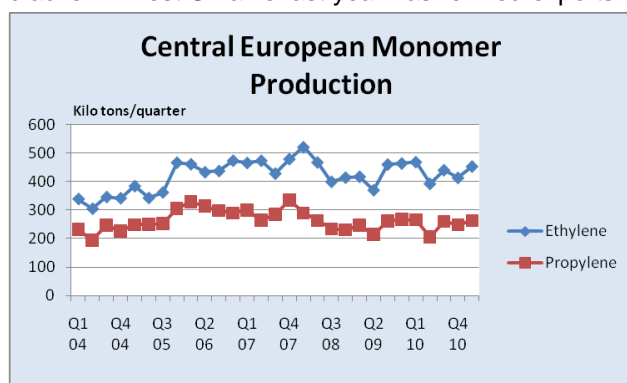
European olefin prices

Ethylene contract prices in Europe went down in June after seven months of successive increases. The June number amounted to €1185/ton delivered, which reflected a fall of €45/ton from May. This follows sharp falls in crude and naphtha. A sharp fall in naphtha prices, down by 15% in the second week of May, and record high prices for propylene and butadiene saw naphtha cracking good returns. In Europe prices for LPG increased around mid-month and naphtha produced higher steam cracking margins for the remainder of May.

Central European olefin production outlook

Ethylene and propylene production volumes in Central Europe remain balanced. PKN Orlen expects second-quarter operating profit to top the January-March figure due to a higher spread between Ural and Brent oil prices. PKN Orlen intends to make another attempt at selling all or part of Anwil later this year. The group had negotiated the sale of Anwil last year with ZA Pulawy but talks fell apart over price. The resumption of the Kalush cracker in west Ukraine last year has revived exports of ethylene to Hungary in recent months and propylene to

Romania. Ethylene sales from Litvinov to Boehlen in East Germany rose in 2010 against the previous two years, and provide important feedstocks for Dow.

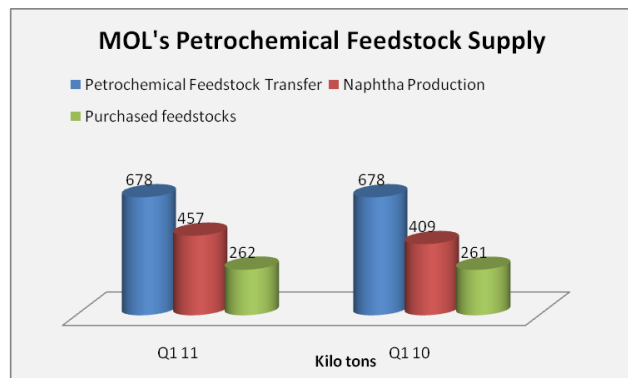


A common problem cited for the crackers in Central Europe is the lack of pipeline connections, which are unlikely to be constructed taking into account costs of construction. As far back as the early 1970s, plans were developed for an ethylene pipeline that would link the chemical plants in Central Europe, but the whole project was never undertaken. Instead a number of pipelines were developed between cracker and derivative plants, whilst only two interconnecting

cracker pipelines were constructed consisting of Kalush-Tiszaujvaros and Litvinov-Boehlen.

TVK and Slovnaft, although part of the same MOL group, are connected only by rail links which limits the possibilities for integration. Slovnaft is an integrated refining and petrochemical complex, whilst TVK converts naphtha, gas oil and liquefied gases purchased from the MOL Group into ethylene and propylene. Ethylene, produced by TVK's is sold to BorsodChem, whilst surplus propylene is sold to Slovnaft Petrochemicals and external customers.

Despite additional propylene being supplied to Slovnaft the planned target for polypropylene production was not achieved due to lower propylene availability. In 2010, the polypropylene unit at Bratislava produced 241,000 tons. Slovnaft's polyethylene production reached 151,000 tons, a fall of 8% versus 2009. This decrease was caused by the scheduled shutdown of the steam cracker and polyethylene units during the technological turnaround of May 2010, and the fact that extra ethylene was not available. Overall Slovnaft's polymer sales fell by 6% compared to 2009 to 395,000 tons.



MOL Q1 2011

MOL reported a first-quarter net profit of Ft 92.66 billion versus Ft 11.55 billion in 2010, as high oil prices and foreign currency gains boosted the bottom line. However, the first-quarter unadjusted net profit came in lower than expectations of Ft 99.5 billion.

The contribution of MOL's petrochemical division to the group results was positive. MOL's polymer demand was stable in Q1 2011, with demand recovering increasing significantly in the automotive, construction and packaging industries. In Q1 2011,

monomer production increased slightly while the polymer production volumes increased by 6%. Polymer sales increased by 5% (14,000 tons), due to the improving market demand.

The production of propylene increased at TVK whilst Slovnaft purchased the additional output. In 2010, Slovnaft's glycol and ethylene oxide production were shut down and this allowed higher capacity utilisation of LDPE units. Slovnaft's total polymer sales in Q1 2011 increased by 13,000 tons and totalled 111,000 tons.

Slovnaft's petrochemical division processed 657,000 tons of naphtha and light hydrocarbons in 2010. The steam cracker produced 197,000 tons of ethylene and 93,000 tons of propylene. 2010 was affected by scheduled shutdown of production units during a technological turnaround in May 2010. The introduction of the Eco vision steam cracker project was aimed at increasing the efficiency of furnaces and to reduce energy consumption.

TVK's Sales' Revenues (Ft million)		
Exports	Q1 11	Q1 10
Olefin	3,630	3,349
LDPE	3,969	2,989
HDPE	32,603	26,821
PP	13,985	9,875
Domestic	Q1 11	Q1 10
Olefin	33,248	23,578
LDPE	3,251	2,575
HDPE	3,563	2,670
PP	10,889	7,584
Total Sales	Q1 11	Q1 10
Olefin	36,878	26,927
LDPE	7,220	5,564
HDPE	36,166	29,491
PP	24,874	17,459

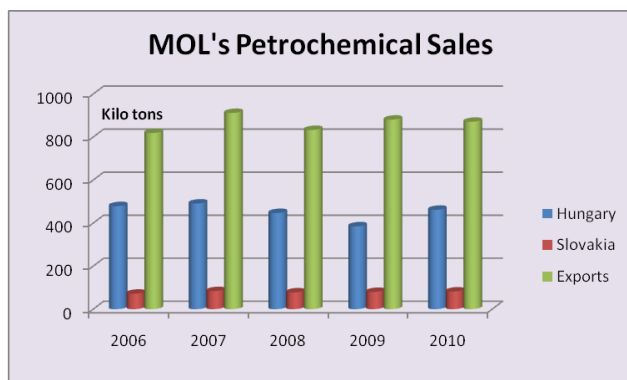
TVK recorded increases in revenues in the first quarter this year against the same period in 2010 due to higher prices. The operating profit recorded in the first quarter in 2011 was Ft 4.7 billion higher than in Q4 2010. The increase of olefin and polymer product prices exceeded the price increase of naphtha, meaning an improvement in margins. The increased volume of production and the lower quantity of natural gas consumption and the reduced steam price also had a positive effect.

Comparing the results of Q1 2011 with the first quarter of the previous year, TVK's operating profit improved due to the favourable margins. TVK's ethylene deliveries to BorsodChem increased by 6,800 tons in the first quarter resulting slight fall in HDPE production. In Q1 2011, MOL's olefin and polymer production volumes increased by 13% and 10%, respectively compared to the previous quarter.

As a result of the increased ratio in the monomer to olefin volume, the production of polymers increased. Beside the higher production, the polymer sales increased by 4% (11,000 tons), while the closed inventory level increased from the lower volume of the end of 2010 due to the business as

usual operation and the flexible amendments to market demand.

TVK's Olefin-1 Plant started up in 1975 and Olefin-2 came on line in 2004. Both utilise Linde technology. The capacity of the two plants increased in 2008 from 620,000 tpa to 660,000 tpa, as a result of the efficiency modifications made in 2007. In 2010, olefin production (ethylene and propylene together) was higher by 5% than in 2009, whilst sales income from olefin production increased by 63% over 2009. The capacity utilisation of both plants calculated for ethylene increased from 86% to 90%.



MOL's capital expenditure in petrochemicals the first quarter totalled Ft 0.4 billion, lower by Ft 1.6 billion against last year. The main reason behind the fall in expenditures was the finalisation of the Slovnaft cracker project during the first half of 2010.

MOL last year benefited from the first year of the crude C4 sales contract with Synthos, whilst the main ethylene consumer BorsodChem stabilised purchases after a difficult 2009. Pyrolysis oil sales to the carbon black unit in Tiszaújvaros improved significantly in 2010, due to the upturn in the tyre industry. The MOL Group uses the co-products

cracking, such as isobutylene, benzene-toluene, C8 and C9 fractions to produce MTBE and benzene or as components in blended gasoline and heating oil. Quench oil is utilised as feedstock for producing carbon black by Tiszai Columbian Koromgyártó Kft, located in the TVK industrial complex.

In terms of the domestic market, the MOL group's current polymer product and customer line-up in Hungary lags behind high-margin or high-growth areas. While film materials comprise up 46% of MOL's domestic sales, film only accounts for 35% of plastic demand in Hungary. By contrast, injection-moulding material makes up just 13% of MOL's Hungarian sales, even as it accounts for 25% of demand in Hungary.

Oltchim starts production at Arpechim

Petrochemical feedstocks were loaded into the cracker at Pitesti on 19 May designed to produce propylene and propane, in Oltchim's effort to restart the vertical chain of integration. This facility at Pitesti is intended to produce 56,000 tpa of propylene and propane. The commissioning of this plant will be able Oltchim to secure part of its feedstock supply for production of propylene oxide and oxo-alcohols, with propane supplies to be used as feedstock for the pyrolysis plant. This represents a first step towards restarting the whole Arpechim petrochemical division at Pitesti since it was bought by Oltchim in January 2010. Two units at Arpechim were designed from the outset to support an integrated function, connecting with pipelines for the transport of ethylene and propylene to Oltchim.

Oltchim has made an offer to buy Petrom's Arpechim refinery as Romania attempts to increase the attraction of the company before selling its stake in the chemical company. Oltchim is seeking to secure cheaper raw materials for its petrochemical operations and boost investors' interest before its privatisation. The company aims to conclude the deal before the government sells its majority stake in loss-making Oltchim by the end of the year. Petrom said in March that it will permanently close Arpechim and convert the site into a crude oil and fuel storage facility after it failed to find a buyer for the outdated refinery. Oltchim is willing to pay cash for the refinery and this could be an opportunity, as we would become a fully integrated company.

Rafo's Project Proposals

Product	Capacity (Ktpa)
Paraxylene	414
Benzene	233
Propylene	100
Naphtha	283

Rafo-paraxylene

Paraxylene production facilities could be restarted at the Rafo refinery at Onesti in Romania, after the majority owner Yakov Goldovsky (former CEO of SIBUR) formed contacts with the Russian telecom-financial group AFK Sistem. The Russian group wants to invest in petrochemicals primarily inside Russia, but also in East Europe should opportunities emerge. Rafo has been considering reviving idle aromatic units for several years, and finance may now be available to support these projects. Yakov Goldovsky owns 96% in Rafo, through the Vienna based Petrochemical Holding, and has already outlined plans for producing petrochemical feedstocks as

illustrated in the table. The aim would be to sell all of these products in the merchant market, predominantly in Europe.

PKN Orlen's Petrochemical Capacities Poland

Product	Capacity (Ktpa)
Acetone	32
Benzene	256
Butadiene	69
Ethylene Oxide	105
Glycols	106
MTBE	115
Olefins	700
Paraxylene	400
Phenol	51
PTA	600

PKN Orlen completes PX-PTA project

PKN Orlen has officially launched Europe's most advanced complex for paraxylene and PTA in the presence of the Polish Prime Minister Donald Tusk. The new complex comprises facilities located at PKN Orlen's plant at Plock (paraxylene production) and at Wloclawek (PTA production). The project was completed in a period of three years and cost more than zł 1 billion. Demand for PTA is growing strongly in Central and East Europe and as the majority of PTA consumers are located in close proximity to PKN Orlen's plant it means convenient access to the market. PKN Orlen is also well placed in terms of its technical resources, organisation and logistics to supply PTA from the new complex to external markets, and has already concluded relevant sales contracts.

Orlen's PX/PTA complex is the second largest and most advanced industrial complex of this kind in Europe. Its production capacities amount to 400,000 tpa of paraxylene and 600,000 tpa of PTA which represents 20% of Europe's total output. The PTA plant at Wloclawek occupies an area of 16 hectares, on which 15 new buildings were erected and more than 800 various facilities, such as tanks, reactors, exchangers and pumps, were installed. The PX/PTA complex includes a 700-ton compressor, a titanium-lined reactor weighing 450 tons, and dryers weighing 260 tons each. Due to their size, some parts of the equipment could only be transported by water.

Orlen purchased the license to produce paraxylene from UOP. The detailed engineering design, as well as equipment deliveries, was undertaken by Technip Italy. The license to produce PTA was purchased from Mitsubishi Chemical Engineering, which also developed and provided the engineering design for the PTA units. The PTA production technology offered by Mitsubishi Chemical Engineering Corporation is considered to be among the most advanced in the world.

The construction of PKN Orlen's new complex has been the first project in the Polish market to involve cooperation and know-how sharing from such a broad based group of companies located in Poland, Japan, the US and Italy. It was constructed in cooperation with Mitsubishi Chemical Engineering Corporation, Mitsubishi

Heavy Industries, Fluor and UOP. The general contractor for the construction and assembly work was undertaken by Polimex-Mostostal SA.

Chemicals

Indorama-PET expansion

Indorama Ventures will build a 220,000 tpa PET expansion project at its site in Wloclawek. The project will raise PET capacity at the site, formerly owned by SK Eurochem, to 360,000 tpa. The project is expected to be completed in 2013. Indorama Ventures intends to source PTA from PKN Orlen's new PTA plant at Wloclawek.

Indorama Ventures completed the acquisition of PET producer SK Eurochem from SK Chemicals in March.

HIRSCH-Romania

The plastics group Hirsch is planning to start a new unit at Oradea this year, which would be its second plant in Romania. At the first plant at Cluj in Romania, the company has manufactured EPS insulation for five years. The Hirsch Servo Group's core business division, EPS Processing, currently operates a plant in Austria, as well as three other plants in Hungary, two in Poland and Slovakia, and one in Romania. The new site at Oradea will mainly manufacture EPS packaging for monitors, televisions, and audio and video systems. The start of production is scheduled for August 2011.

Fremach-Slovakia

Belgian plastics processor Fremach plans to set up a production and warehouse unit at Tmava in Slovakia at a cost of €10 million. According to environmental impact assessment plans, submitted by the company, the project includes 10,440 square metres of production and 11,275 square metres of storage area. At the new plant, Fremach plans to produce plastic parts for the electronic and automotive industries, including sockets, holders, or car dashboards. The company expects to process 6,300 tpa of polymer granules (ABS, PS and PA66). The construction of the new plant will take place from May to December 2011.

Spolchemie-banks agreement

Spolchemie is considering expanding its 28,000 tpa epichlorohydrin plant at Usti nad Labem. Spolchemie has recently colluded with the banks on the further extension of the so-called standstill agreements, which are now valid until June this year. The stabilisation agreement allows milder conditions of debt, which last year reached about Kc 2.7 billion. In 2009, the company was severely affected by the recession with revenues dropping from Kc 5.1 to about Kc 3.4 billion culminating with a loss of Kc 340 million.

Revenues improved to Kc 5.25 billion in 2010, with a profit of Kc 154 million. Whilst market conditions helped towards the better results, the restructuring programme carried out by the company was a key factor behind the increase in profits. The profitable operations of the company continued in the first quarter in 2011, when it recorded a profit of Kc 120 million and revenues of Kc 1.4 billion. Spolchemie forecasts that this year the company will end with revenues of at least Kc 5.5 billion for a planned Kc 280 million profit.

Styron-new SSBR unit

Styron began the construction in May of a new unit for the production of solution styrene butadiene rubber (SSBR) at Schkopau. The production line will be built adjacent to the two existing plants and is scheduled to be put into operation in the fourth quarter in 2012. The capacity of the new company will be 50,000 tpa. Bain Capital became the owner of the styrene unit in June 2010 after Dow Chemical sold it for \$1.63 billion. The first and second production lines were launched in 2002 and 2009, respectively.

PCC Rokita-opens new ethoxylation plant

PCC Rokita opened its new ethoxylation plant in May, after investing zł 62 million in the construction. The new plant has been built adjacent to PKN Orlen at Plock. This is in order to be capable of processing ethylene oxide on the spot, without having the complications of transporting it to PCC Rokita's main production site at Brzeg Dolny near Wroclaw.

The installation was built based on the best available technology (BAT), with a huge emphasis on issues related to environmental and process safety. The products of the newly-built plant for further processing will then be transported to a new installation for sulphation at Brzeg Dolny and other clients in industries such as household cleaning and personal hygiene, textiles. The advantages of the new ethoxylation plant at Plock include a flexible production reaction section which can produce a wide range of non-ionic surfactants.

PCC Rokita-bonds to be issued to support development

PCC Rokita expects to issue 150,000 two-year bonds with a nominal value of zł 100 each, with a total issue of zł 15 million. The finance will be used to finance the plans of the company, in part development and partially for working capital. Around zł 5.35 million is intended to be spent to upgrade the research and development facilities and purchase equipment for research laboratories. One of the projects includes optimising the use of chlorine and the company plans to allocate zł 3 million to this goal. The remaining zł 6 million will be used to improve the security of the business.

PCC Rokita's revenue rose in to zł 914 million compared with zł 883 million in 2009. The net profit comprised zł 17.1 million compared to zł 41.7 million in 2009, and operating profit amounted to zł 35 million compared to zł 60 million.

Ciech-Rudniki

Ciech is one of eight bidders to purchase Zakłady Chemiczne Rudniki, which focuses on inorganic chemistry. The main products of the company include sodium and potassium silicate. The export share in sales of the company amounts to approximately 54% most of which goes to Europe. Ciech wants to buy Zakłady Chemiczne Rudniki to extend its production chain from soda ash downwards. Ciech is also extending its interest in the Alwernia Chemical Plant, which specialises in the production: phosphorus, feed, fertilizer, and agricultural and horticultural plants.

Polish Chemical Production (unit-kilo tons)		
Product	Jan-Apr 11	Jan-Apr 10
Caustic Soda Liquid	94.1	90.8
Caustic Soda Solid	16.4	20.8
Soda Ash	330.7	321.0
Ethylene	185.4	152.4
Propylene	121.9	101.4
Butadiene	22.8	18.5
Toluene	45.3	30.4
Phenol	14.2	9.9
Caprolactam	57.8	55.4
Polyethylene	127.0	103.6
Polystyrene	42.9	42.9
PVC	92.1	67.3
Polypropylene	78.6	70.2
Synthetic Rubber	61.7	52.1
Pesticides	9.6	10.6

Zachem-restructuring programme

Zachem is undergoing a restructuring programme including organisational structures and funding, aimed at reducing losses and improving the productivity of the company. Another of the ideas to optimise the organizational structure is to separate the foams division, whilst reducing the number of employees at the plant against the protest of the unions. Group owner Ciech has issued more shares in order to support subsidiaries such as Zachem and Organika-Sarzyna.

It is planned to include building a modern system using membrane electrolysis of brine. The expected cost of the investment is more than zł 200 million. With a new, cost-efficient electrolysis, which is installing a high production capacity, excess caustic soda and chlorine will be made available. Another zł 90 million is required for the construction of the installation and innovative technology EPI production from glycerol and changes in the production of TDI. However, the company faces major cost challenges in order to stay competitive, it does not have the economies of scale enjoyed by BorsodChem which itself has struggled to survive in the past few

years.

ZA Puławy-hydrogen peroxide supply, melamine & energy

ZA Puławy has signed a contract for long-term supply of hydrogen peroxide with DJCHEM Chemicals Poland. The quantity is expected to be in the range of 10,000 tons. DJCHEM Chemicals Poland is the largest producer in the world of diethylhydroxylamine DEHA.

Polish Energy Group and ZA Puławy signed an agreement on 31 May to construct a plant with a power capacity of about 840 MW. The cost of this investment is about zł 3 billion and the aim is to use biomass. The project, according to previous assumptions, will be implemented within the target company Melamine III.

Regarding melamine sales, the EU has imposed a five-year tariff on melamine from China to help Polish, Dutch and Austrian producers compete with cheaper imports. The duty of €415 (\$593) per ton punishes Chinese exporters of melamine for selling it in the EU below cost. ZA Puławy, OCI Melamine and Borealis Agrolinz Melamine account for about 90% of EU melamine production, and requested the EU to impose sanctions. Poland exports only small volumes of chemicals to China such as caprolactam and isocyanates, which could possibly be redirected to other markets should the Chinese government respond with retaliatory measures.

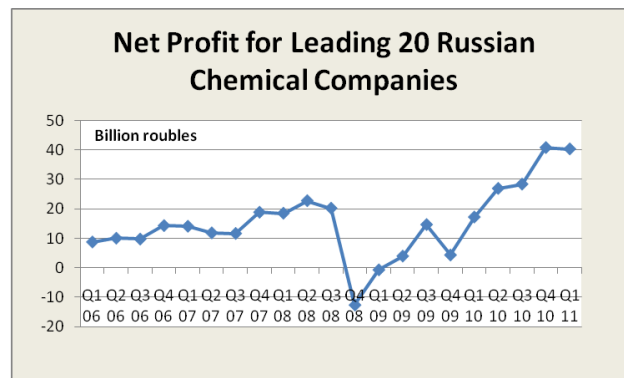
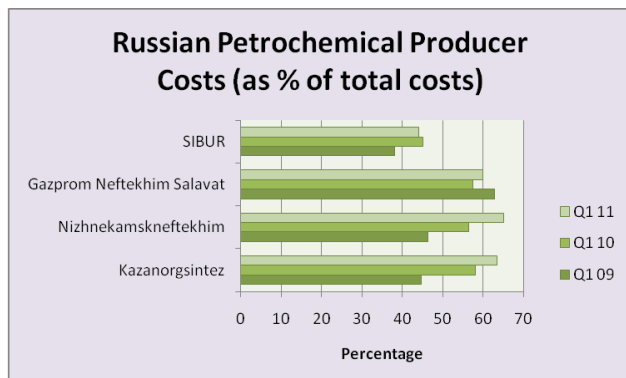
RUSSIA

Russian chemical company finances Q1 2011

Russian chemical producers recorded substantial increases in revenues in the first quarter, accompanied by rises in production costs. Profitability for most producers rose against the same period last year, although restricted by higher energy and raw material prices. Higher prices for naphtha and gas liquids impacted on the costs of feedstocks. As illustrated below costs as a percentage of total costs have been rising for the main producers, particularly for Nizhnekamskneftekhim and Kazanorgsintez which are dependent exclusively on raw

material suppliers. The average cost of raw materials in relation to total costs can vary, but usually ranges between 50-60%.

Net profitability has risen sharply in the past few quarters for the major petrochemical companies in Russia, recovering from the deep losses incurred in 2009. The major hikes in net profit were seen by SIBUR-Holding, Nizhnekamskneftekhim, Gazprom Neftekhim Salavat, Akron and the Evrokhim group.



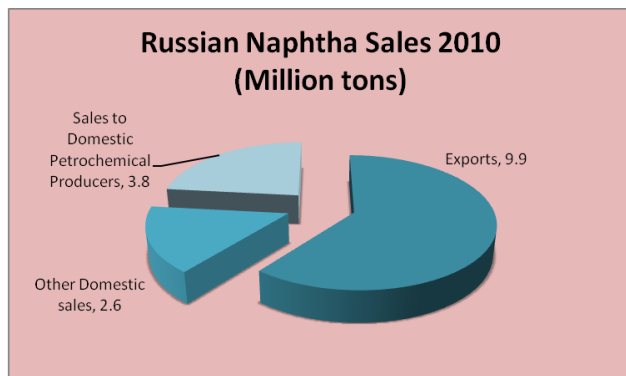
Russia reduced the export of petrochemical products in January-April 2011 by 20% over the same period last year down to 729,200 tons. In value terms, exports fell by 15% to \$587.156 million. In April, exports of petrochemicals fell by 12% compared with April 2010 to 187,800 tons. Supplies of LDPE from Russia amounted to 52,300 tons, which is 1.4 times lower than in January-April 2010. In value terms, shipments reached \$83.1 million (a drop of 32%). Exports of HDPE fell 3.6 times to 19,700 tons, and by value 2.8 times to \$32 million. Exports of polypropylene totalled 2,805 tons versus 27,460 tons in 2010. Exports of methanol increased by 2% to 410,640 tons and in value terms by 24% and totalled \$113.8 million.

Feedstocks & petrochemicals

Naphtha & LPG export duties

The Russian government has proposed the introduction of export duties to protect naphtha supplies, which have been exported in large volumes recently. Naphtha and vacuum gas oil have traditionally been taxed as heavy oil products, but from 1 June the export duty rose from \$211.8 per ton \$415.8 per ton bringing it into line with gasoline duties and light product duties.

Russia produced a total of 16.3 million tons of naphtha in 2010. The largest producers include Rosneft, Gazprom Neft, LUKoil, TNK-BP and Gazprom. A total of 9.9 million tons of naphtha was exported last year, whilst 6.4 million tons was supplied to the domestic market. Around 60%, or 3.8 million tons of naphtha, was sold domestically into the petrochemical industry. Another 1.0 million tons of naphtha was delivered to commercial structures, which were mostly redirected for export, whilst approximately 1.2 million tons were sold to Russian oil depots and gas stations.



In recent years, Russian petrochemical producers have tended to replace naphtha partly with LPG. By discouraging naphtha exports, it is considered unlikely to lead to increased consumption at the crackers. Naphtha is the main feedstock for six of the twelve Russian crackers including Nizhnekamskneftekhim, Stavrolen, Tomskneftekhim, Angarsk Polymer Plant, Gazprom Neftekhim Salavat and SIBUR-Neftekhim, and there are no reported shortages.

LPG export duties are also rising, having been increased from \$130.2 in May to \$189.8 per ton. In December 2010 the Russian government approved the

formula for calculating the export duty on LPG, determined by the average price at the border with Poland. If the average price is below \$490 per ton, the duties are zero, but at between \$490 and \$640 the export tax could range from \$0.5 to \$75 per ton of LPG. If the price of LPG is higher than \$740, then the minimum fee is \$135.7 per ton.

LPG exports from Russia in January-April 2011 fell by 10% compared to the same period in 2010 to 724,100 tons. At the same time revenues from the export of LPG increased for four months by 17% to \$515.1 million. Butane exports totalled 55,100 tons, 17% lower than in January-April last year, whilst exports of propane decreased by 6% to 495,100 tons.

Feedstock Consumption 2010 Volga-Ural Petrochemical Producers (unit-kilo tons)				
Producer	Naphtha	LPG	NGL	Ethane
Nizhnekamskneftekhim	1090	755	252	-
Kazanorgsintez	-	187	-	437
Gazprom Neftekhim Salavat	340	53	154	70
Ufaorgsintez	-	251	28	-
Neftekhimya	-	4	1	104
SIBUR-Kstovo	428	428	-	-
SIBUR-Khimprom	-	104	-	-
Total:	1858	1782	435	611

Russian pipeline-feedstock options

Regional administrations in the Volga-Urals and SIBUR are waiting for a pending government decision on the selection of pipeline route for NGLs from West Siberia to the Baltic coast. SIBUR's case is based on the construction of a brand new pipeline traversing from Yamal-Nenets in a northerly direction towards the Baltic coast, whilst the governments of Bashkortostan and Tatarstan advocate a more southerly route transiting the Volga-Urals and based on the renovation of an old idle pipeline which exploded in 1989.

According to Tatarstan and Bashkortostan, excess raw materials from West Siberia can be delivered to petrochemical plants in the Urals and the Volga region. The position of Tatarstan and Bashkortostan is that NGLs are necessary to be supplied from West Siberia in order to undertake the range of petrochemical projects planned for the region. The pipeline can then be extended to the Baltic with the further export of intermediate products in the EU.

Feedstock Demand Estimates after Ethylene Investments Volga-Ural Petrochemical Producers (unit-kilo tpa)					
Producer	Ethylene	Naphtha	LPG	NGL	Ethane
Nizhnekamskneftekhim	1600	1856	2028	676	-
Kazanorgsintez	640	-	591	-	523
Gazprom Neftekhim Salavat	1400	2635	420	945	70
Ufaorgsintez	180	-	480	-	-
Neftekhimya	60	-	-	-	80
SIBUR-Kstovo	450	644	644	-	-
SIBUR-Khimprom	60	-	187	-	-
Total:	4390	5135	4350	1621	673

The cost of product pipeline from West Siberia to the Ural-Volga region could reach about \$4 billion, but cannot be built without the support of the government and the consent of SIBUR as a supplier of raw materials. SIBUR's position by contrast to Tatarstan and Bashkortostan states that the Volga region has sufficient resources of its own to supply the petrochemical industry. In particular, the Taneko refinery at Nizhnekamsk is being designed to be able to produce 2.5 million tpa of naphtha. However, there are already doubts when

the second phase of the Taneko refinery project will take place, which could prevent the increase in the capacity from 7 million tpa to 14 million tpa. Moreover, petrochemical producers in the Volga region wish to utilise gas liquids where possible and naphtha is not the preferred feedstock in cost terms.

Gas processing plants in West Siberia are expected to continue increasing output in the next few years. Whilst there is a shortage of NGLs in the Volga-Urals region SIBUR does not see the need to serve this market. However, even now it can be difficult for consumers to secure all of required feedstock; i.e., Nizhnekamskneftekhim collected its combined LPGs from around 32 different sources. Demand for NGLs in the Ural-Volga region from West Siberia is expected to climb substantially in by 2020, thus additional supply routes are required. This includes demand from the Nizhnekamskneftekhim at around 2 million tpa, a potential new ethylene unit in Salavat requiring 2.8 million tpa, and the Minnibayevo GPP in Tatarstan around 1 million tpa. Other end-users include Uralorgsintez at the Chaikovsky Plant 0.8 million tpa, and the Novokuibyshevsk Petrochemical Company at 1 million tpa.

Whichever pipeline option is favoured by the government, it is unlikely to be ready until at least 2017. Tatarstan and Bashkortostan governments have sanctioned the Federal government to take at least a 51% stake as an operator in the pipeline, should it be built through the region. Should by contrast the northern option be favoured, the only other way for increasing delivery of gas liquids to the Volga-Urals is through rail transport. However, volumes would be limited and possibly would not be sufficient to cover full demand. In part the increase in ethane capacity at Orenburg as planned by Gazprom would be beneficial, but questions remain of how much additional ethane will be made available. Moreover, should it happen it is expected to favour mainly Gazprom Neftekhim Salavat (formerly Salavatnefteorgsintez) and may not necessarily provide benefits for other petrochemical players such as Kazanorgsintez.

Russian Chemical Production (unit-kilo tons)

Product	Jan-Apr 11	Jan-Apr 10
Acetic Acid	43.4	46.3
Ammonia	4,934.9	4,063.2
Benzene	397.2	376.7
Butanols	66.2	89.3
C Black	238.2	200.6
Ethylene	846.1	851.8
PET	101.8	133.3
Phenol	63.3	80.7
Phthalic Anhydride	38.3	41.8
Polyethylene	548.5	572.2
Polypropylene	224.5	4.2
Polystyrene	110.8	64.2
Propylene	433.2	30.8
PVC	191.3	499.2
Soda Ash	910.9	854.5
Styrene	175.6	172.9
Synthetic Rubber	412.7	378.1
Urea	2,118.9	1,853.6

SIBUR opposes NGL pipeline

SIBUR has stated it sees no need to build the product pipeline West Siberia-Ural-Volga, which has been insisted by governments and parliaments of Tatarstan and Bashkortostan. SIBUR claims that the raw material base is already sufficient in the Volga region in the form of naphtha, produced by refineries in Tatarstan and Bashkortostan, as well as ethane and lighter hydrocarbons from the Orenburg region. This should be enough for the production of monomers required for the regional petrochemical companies. SIBUR argues that it and other companies located in European part of Russia, are now forced to use rail transport natural gas liquids from West Siberia and work at the same time with good profitability.

Tobolsk-Neftekhim-gas fractionating expansion

SIBUR plans to launch in the Tobolsk-Neftekhim's second gas fractionation unit (TSGFU-2) by 2015 with capacity of 2.8 million tpa. The second gas fractionation unit does not depend on the railroad, and connects with Tobolsk-Neftekhim to Yuzhniy-Balyk GPP where associated gas processing capacity is being expanded.

In order to support the new fractionating plant three distillation columns were delivered in May 2011 from the Tobolsk industrial port area to Tobolsk-Neftekhim. The largest of these columns has a height of 90 metres and a weight of 611 tons. Columns are designed to highlight the ethane-propane and isobutane-butane fraction in the preparatory work for the construction of TSGFU-2. Regarding TSGFU-1, the existing fractionating plant, capacity is being increased through new columns and rising to 3.8 million tpa.

Tobolsk-Neftekhim Production (unit-kilo tons)

Product	Jan-Apr 11	Jan-Apr 10
Butadiene	69.7	64.4
Hydrocarbon gases	897.0	855.1
NGLs	1.3	1197.5

After the two plants are up and running by 2015 Tobolsk-Neftekhim will be capable of processing 6.6 million tpa. Since 2005, the capacity of TSGFU has gradually increased, reaching 3.0 million tons in 2009 and 3.5 million tons in 2010. The expansion of gas processing facilities is ultimately part of SIBUR's plan to develop a gas-chemical complex in West

Siberia, involving ethylene and polyethylene.

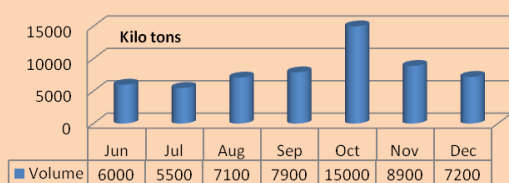
AFK Sistem-expanding chemical interests

Russian financial and telecom group AFK Sistem is extending its interests in the chemical industry, particularly in Bashkortostan. AFK System controls Bashneft and is considering setting up its own chemical holdings. At the same time, the former head of the SIBUR Yakov Goldovsky, who is active in the chemical sector in the Nizhniy Novgorod, has been invited to join AFK Sistem with a view to seeking potential chemical locations.

AFK Sistem has already developed several scenarios for the chemical business, focusing mostly on petrochemicals based on its asset base in fuel and energy in Bashkortostan. It would like to combine the petrochemical assets of Ufaneftkhim and Ufaorgsintez if the shareholders approve, whilst it also already

possesses a 17.5% stake in Polief. The group sees considerable benefit in utilising the experience of Yakov Goldovsky, who is well-known in the Russian petrochemical industry. Currently, his main subsidiary Korund is constructing a sodium cyanide unit which should be completed in December 2011. This plant possesses a capacity is 40,000 tpa, which will fully meet the needs of the Russian market in the gold mining industry.

Planned Ethylene Deliveries from Gazprom Neftekhim Salavat to Kaustik 2011

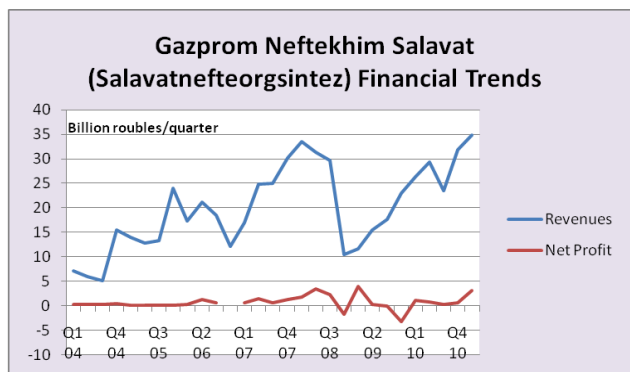


Gazprom Neftekhim Salavat-Kaustik ethylene agreement

Gazprom Neftekhim Salavat and Kaustik have reached agreement for ethylene supplies for the period from 1 June until the end of 2011, when volumes will comprise 57,600 tons and from 2012 to 2016 when delivery will total 95,000 tpa. The parties agreed on a

monthly delivery schedule according to which in June Kaustik will receive 6,000 tons, to be followed by 5,500 tons in July, 7,100 tons in August, 7,900 tons in September, 15,000 tons in October, 8,900 tons in November and 7,200 tons in December.

The contract delivery schedule for the coming years will be agreed by the parties no later than one month before the start of the year. Kaustik also has a preferential right to third parties for the purchase of additional quantities of ethylene at a price fixed by contract. The price of ethylene between Gazprom Neftekhim Salavat and Kaustik will be calculated by a formula that takes into account the cost of raw materials used for pyrolysis: naphtha, NGL, ethane and transportation costs for its delivery, as well as several other indicators.



Gazprom Neftekhim Salavat-Q1 2011

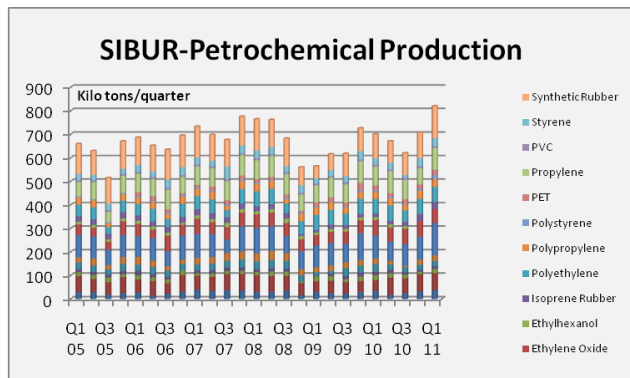
Gazprom Neftekhim Salavat increased revenues by a third in the first quarter of the year up to 34.86 billion roubles. The growth in revenues has been stimulated to a large extent from petrochemicals and fertilisers. Costs have increased by 35% to 24.8 billion roubles, with the gross profit rising by 28% to 10.073 billion roubles. The net profit in the first quarter rose 2.8 times up to 3.028 billion roubles, which is dramatically higher than the 649.6 million roubles in the fourth quarter in 2010 and 352.9 million roubles for the third quarter. Despite the increase the ratio of net profit to revenues remains low,

The major feedstock supplier in the first quarter this year to Salavat was Surgutneftegaz, accounting for 53% of deliveries. Other feedstock suppliers included Gazprom and LUKoil with 23% and 21.5% respectively. For the whole of 2010 the company's revenue rose 1.6 times to 110.940 billion roubles, whilst costs of production rose 1.7 times to 82.7 billion roubles.

In terms of physical output Salavatnefteorgsintez produced 643,000 tons of gasoline in 2010, 2.08 million tons of diesel, 230,000 tons of ethylene, 87,600 tons of propylene, 106,200 tons of petroleum benzene, 132,000 tons of styrene, and 141,000 tons of ethylbenzene. The production of LDPE totalled 39,000 tons, HDPE 31,400 tons polystyrene 25,400 tons, and butanols 137.600 tons. The company also produced 475,000 tons of urea, 414,500 tons of liquid ammonia, and 219.400 tons of nitrogen fertilisers.

Gazprom Neftekhim Salavat has signed an agreement on a pre-export club emergency credit line of \$500 million from ING Bank NV. ING Bank acts as the sole coordinator, book runner, agent for the documentation and the agent for servicing the loan. Credit has been granted for a period of 42 months and after 6-month grace period, payments will be repaid by equal installments. The company has received 75% of the loan in December 2010.

The major project investments under consideration by Gazprom Neftekhim Salavat are concentrated on the expansion of olefin capacities, firstly on the existing cracker to 380,000 tpa by 2013 and secondly a much larger one million tpa cracker by 2016 that would depend on additional feedstocks being supplied by Gazprom from Orenburg. The aim is to create several thousand jobs in the Salavat area over the next decade based on expanded petrochemical facilities.



SIBUR increases petrochemical output and profits in Q1 2011

SIBUR's production of main petrochemical products rose in physical terms for the first three months of 2011, with few plant outages combined with expansion in output particularly for SIBUR-Khimprom and SIBUR-Neftekhim. Detailed data for SIBUR's individual plants can be seen on www.cirec.net in the Statistical Database.

SIBUR's net profit increased by two-fold in the first quarter this year compared to the same period in 2010.

Revenues grew by 31.5% to 56.613 billion roubles, with costs up by 21.2% to 31.138 billion roubles. The total group profit rose 47% to 25.474 billion roubles, whilst profit from sales increased 1.6 times up to 19.445 billion

roubles and profit before tax increased almost 2-fold to 24.19 billion roubles. For the whole of 2010, SIBUR's net income rose eight times against 2009 at 43.8 billion roubles. Revenues grew 1.5 times up to 178.225 billion roubles, with costs up 27% to 105.465 billion roubles. Profit before tax rose 7.4-fold to 54.092 billion roubles.

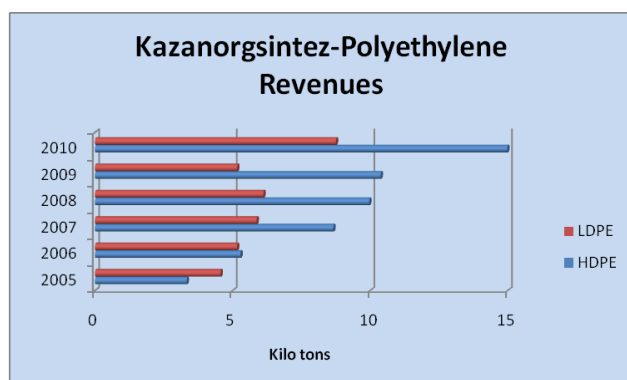
SIBUR-Chinese trade

Sales of SIBUR Holding in China (including sales in Hong Kong) in 2011 are forecast to grow in value by around 5-7% compared to 2010. In 2010, the group's sales to China totalled about €400 million and the share of Chinese market in SIBUR's sales amounted to around 14%, SIBUR supplies the Chinese market with a diversified range of products, primarily polyethylene, nitrile rubber and butyl rubber. All products which are produced by the holding can be delivered to the Chinese market through a trading subsidiary, which was especially created last year. As the group uses the Yuan as a form of currency it allows greater flexibility and allows larger volumes to be sold.

One of the most important petrochemical projects being undertaken at present involves the polypropylene unit at Tobolsk-Polymer, of which SIBUR plans to export large volumes to China. This plant should be fully active by 2013 and will include grades for injection moulding, manufacturing of fibres and BOPP, etc. About half of the homopolymer produced will be used in Russia, but China will provide the first destination for export activity.

LUKoil-Q1 2011

LUKoil's proceeds from sales from petrochemical products in the first quarter of 2011 increased by 1.7 times (or \$215 million) compared to the same period in 2010 up to \$516 million. In particular, export and sales of petrochemical products in international markets doubled in the first quarter of 2011 up to \$277 million. Domestic sales grew by 41% to \$239 million. The increase in performance resulted from growth in sales by plants in Russia and Ukraine. In the fourth quarter of 2010, LUKoil resumed output at Karpatneftekhim in Ukraine after the reconstruction and construction of the line for the production of chlorine and caustic soda. Operating expenses of petrochemical companies in the first quarter increased 1.7 times up to \$68 million.



Kazanorgsintez Q1 2011

The net profit of Kazanorgsintez fell by 27.5% in the first quarter this year against 2010, down to 522.859 million roubles, due largely to higher costs from ethane and margins. Ethane costs have risen in 2011, particularly following the end of the tolling arrangements with SIBUR. Revenues grew by 10.8% to 9.39 billion roubles, with costs rising by 8.9% to 7.6 billion roubles and the gross profit rose 19.6%, to 1.786 billion roubles. HDPE revenues rose sharply in 2010 over the previous year, which itself showed a slight increase over 2008 despite enduring difficult conditions. The net income of Kazanorgsintez for the

whole of 2010 totalled 1.142 billion roubles, against a net loss of 2.115 billion roubles in the first quarter in 2010.

Russian Ethylene Production (unit-kilo tons)

Producer	Jan-Apr 11	Jan-Apr 10
Angarsk Polymer Plant	73.3	69.4
Kazanorgsintez	122.1	144.4
LUKoil-Neftekhim	113.5	114.1
Nizhnekamskneftekhim	209.8	210.3
Renova-Orgsintez	8.2	18.9
Salavatnefteorgsintez	91.3	83.0
SIBUR-Holding	89.8	80.7
SIBUR-Holding	13.1	11.3
SIBUR-Holding	89.7	87.4
Ufaorgsintez	35.3	32.3
Total	846.1	851.8

The controlling stake in Kazanorgsintez is owned by Telecom Management, (100% subsidiary of TAIF) and is pledged to Sberbank based on the debt obligations. Sberbank has recently approved new loan conditions for Kazanorgsintez, which follows a decision in April to approve a major credit transaction with Gazprombank to attract 30 billion roubles.

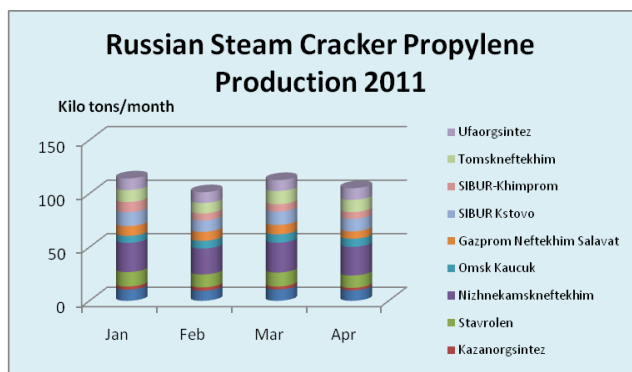
Russian olefins

Russian ethylene production remains largely unchanged in the first four months of 2011 against 2010, with Kazanorgsintez registering the largest fall from 144,400 tons to 122,100 tons. Kazanorgsintez possesses more un-used capacity than any of the other ethylene producers and if able to secure ethane supply could increase production in the second half of the year.

The government of Bashkortostan claims that the federal government in Moscow should intervene in the pricing of raw materials for chemical production in the country, as for the most part both consumers and producers are unable to agree on pricing. The recent dispute between

Kaustik at Sterlitamak and Gazprom Neftekhim Salavat (Salavatnefteorgsintez) has reflected large problems in the industry. On the one hand Kaustik needs to buy ethylene cheaply enough to be capable of competing against imports of PVC, whilst on the other hand Gazprom Neftekhim Salavat sees no incentive for selling a strategic product such as ethylene cheaply.

Propylene production at the steam crackers remained stable in the first four months in 2011. The merchant market for propylene has tightened over the past few years following the construction of polypropylene plants at Nizhnekamskneftekhim and Stavrolen in 2007 and 2006 respectively. The rise of captive consumption from naphtha based propylene has removed propylene that was previously sold to a range of consumers, such as Saratovorgsintez for acrylonitrile, Akrlat for acrylic acid and Samaraorgsintez for phenol. Samaraorgsintez, moreover, intends to expand phenol capacity to 150,000 tpa this year which will increase propylene requirements to 54,000 tpa.



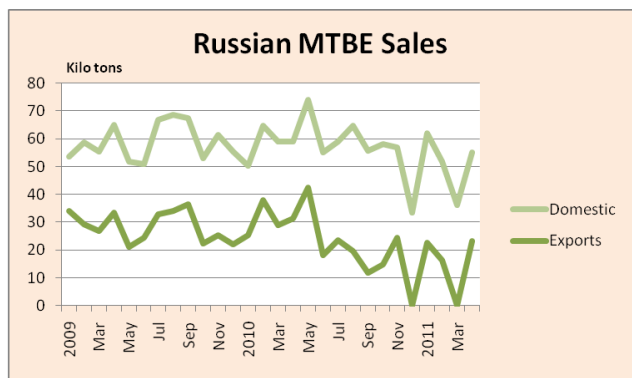
Of the cracker based propylene producers only SIBUR-Neftekhim and Angarsk Polymer Plant are geared towards merchant sales; both companies have no captive consumption to date. By contrast, of the refinery based propylene producers, only Neftekhimya at Moscow and Ufaorgsintez use the monomer captively for the production of polypropylene. The other plants such as Gazprom Neft at the Omsk refinery and TNK-BP at the Ryazan refinery, which accounted for 51% and 32% of refinery propylene in 2010, both rely solely on the merchant market. TNK-BP is the major Russian propylene exporter, shipping 38,000 tons in 2010

from the total of 44.500 tons.

Last year, the volume of refinery based propylene shipments in Russia rose by 22% to 327,000 tons. The increase in sales came from demand at Omsk Kaucuk, SIBUR-Khimprom and Samaraorgsintez. These companies processed around 75% of refinery propylene sold in domestic markets. The market should tighten again after the start-up of the Omsk polypropylene plant in 2011 although it may take time for the new unit to develop market share. More propylene from refineries is expected to become available in the next few years, with Rosneft examining plans for Novokuibyshevsk and LUKoil for Perm and Volgograd.

Russian MTBE news

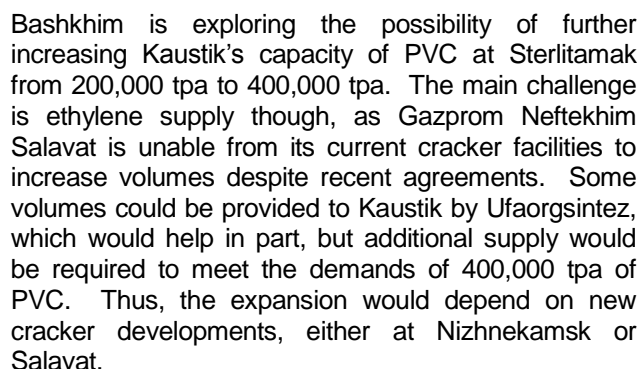
Uralorgsintez, part of the SIBUR group, is undertaking expansions of MTBE capacity from 200,000 tpa to 270,000 tpa and benzene from 80,000 tpa to 120,000 tpa. The main technical policy of Uralorgsintez is aimed at introducing new technologies that allow it to process the raw materials with the most efficient use of equipment.



Nizhnekamskneftekhim has finished refitting the MTBE unit in order to enhance its performance. This has increased capacity by 38% to 124 000 tpa. The MTBE unit, which is part of the plant for isoprene monomer production, was commissioned in 2002 and was originally designed to produce 90,000 tpa. The increase in capacity places Nizhnekamskneftekhim in the top three producers in Russia, behind Ekooil at Omsk and Kaucuk Volzhskiy. The capacity to produce MTBE in these two plants is 300,000 tpa and 135,000 tpa respectively.

Kaucuk at Volzhskiy is aiming to complete two investment projects this year. The first project includes an expansion of storage facilities for liquefied hydrocarbon gases and isolation, storage and shipment of propane-propylene fractions. The second project comprises the completion of a new plant for the production of isobutylene dimers with a capacity of 18,000 tpa. Isobutylene dimers are in demand due to applications in motor fuels as high quality ecologically safe components. Kaucuk is one the major producers of MTBE in Russia, the development strategy of the company up to 2012 includes a strengthening position in the market of high-octane additives.

In the first four months in 2011 Russia produced 191,800 tons of PVC, 7% lower than in the same period last year. Production totalled 46,500 tons in April which was 4% less than March. The position on ethylene supply for Kaustik remains unclear although due to technical reasons rather than commercial. Kaustik suspended PVC production on 26 April due to a lack of ethylene due to the compulsory restrictions on ethylene via the Volga-Urals pipeline, which is owned by Nizhnekamskneftekhim. Kaustik had been requesting a flow rate of at least 9.5 tons per hour of ethylene, whilst Nizhnekamskneftekhim argues that it should not exceed 6.0-6.3 tons per hour. Kaustik has now reached a new agreement with Gazprom Neftekhim Salavat for ethylene for the remainder of this year and beyond, and thus the flow issue may return to hamper deliveries in future. The Sterlitamak plant will take a maintenance shutdown for two weeks at the end of June and is expected to reach full capacity later in the year.



Khimprom at Volgograd (the sole producer of emulsion PVC in Russia) carried out maintenance and repair work in April for two weeks. The other producer at Volgograd Plastkard resumed PVC production on 26 May after nearly two weeks of routine preventive maintenance. The company supplies around 8,000 tons per month to the domestic market. This was followed in early June by the restart of production at Sayanskkhimplast after nearly three-week shutdown for preventive maintenance. The company's average monthly shipment of resin to the internal market amounts to 24-25,000 tons.

The largest PVC producer in Russia Sayanskkhimplast increased net profit in 2010 by 32% compared with 2009, up to 1.318 billion roubles. Revenues reached 9.0 billion roubles which were up 17% compared to 2009. Gross profit was recorded at 2.0 billion roubles against 579.3 million roubles a year earlier. Sayanskkhimplast produced 256,600 tons of PVC in 2010. Work continued last year on the suspended projects from 2009, including the LPG pyrolysis furnace. The use of gas creates additional opportunities to reduce costs and improve product quality.

The main challenge facing Sayanskkhimplast is over ethylene supply. The company has in place a long term supply agreement with Rosneft for deliveries from Angarsk by pipeline, but needs further sources in order to support the expansion of PVC capacity. Costs have risen substantially this year following the liberalisation of the energy market, which makes it harder to achieve profits. One of the long term objectives of the company is to increase productivity per worker, for example the current ratio at Sayanskkhimplast is 60 tons per worker compared to 200-240 tons per worker in Europe and China.



Russian polypropylene production comprised 56,500 tons in April, which is 4% lower than in March and 3% lower than in April 2010. The reduction in output was the result of an excess of polypropylene in the Russian market due to lower demand. Traders were in possession of significant stocks. All of the Russian producers slightly reduced output against March, except Ufaorgsintez which increased by 9%. Stavrolen reduced output by 18% and this was the largest fall. In the first four months Russia produced 224,500 tons of polypropylene, which is 1% higher than in the same

period last year.

Tomskneftekhim-polyolefin targets 2011

Tomskneftekhim intends to produce 123,000 tons of polypropylene and 241,000 tons of LDPE in 2011, against 119,000 and 239,000 tons respectively in 2010. The polyolefin facilities will be shut down on 22 July for annual preventative maintenance, which will last four weeks. In addition to polypropylene and LDPE, Tomskneftekhim produces butylene-butadiene fraction, heavy pyrolysis resin, liquid pyrolysis products, as well as ethylene and propylene for in-plant consumption.

Russian polyethylene market

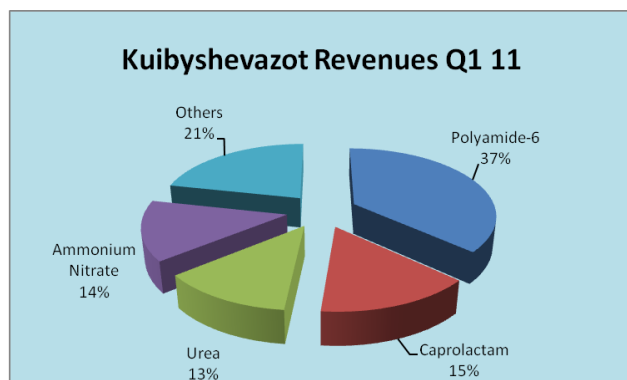
Russia reduced HDPE production by 21% in April compared to March due mainly to the transition of Nizhnekamskneftekhim to LLDPE production. The only HDPE producer to increase production was Kazanorgsintez. Russia increased HDPE exports in April by 11% than in March to 32,800 tons of which 16,700 tons were exported to China. Ukraine also accounted for 6,600 tons of exports.

LDPE production in Russia totalled 50,400 tons in April, 19% lower than in March. The main reason for the decline was the scheduled maintenance on both lines for LDPE at Kazanorgsintez. Polymer produced at Kazanorgsintez occupies around 30% of total Russian LDPE output. A total of 223,000 tons of LDPE was produced in the first four months in 2011, 5% below the same period last year.

Russian EPS market

SIBUR-Trans has made the first shipment of expandable polystyrene (EPS) from SIBUR-Khimprom at Perm. Shipment of the first instalment of Alphapor EPS was sent to a consumer called Eco-Prom in the Yamal-Nenets region in West Siberia. Consumers in the northern regions of Siberia are actively interested in EPS due principally to the requirements for insulation. Demand for EPS in Russia is estimated currently at around 120,000 tpa with the market growing overall at 6-10% per annum. In April 2011 SIBUR-Khimprom reduced output of EPS by 32% than March to 1,690 tons. Total production from January to April this year amounted to 7,790 tons.

Aromatics & derivatives



Kuibyshevazot Q1 2011

Kuibyshevazot recorded a further increase in revenues from polyamide in the first quarter this year, and accounted for 37% of total income. The company has plans in the next few years to increase production capacity, to promote further modernisation and the introduction of resource-saving technologies that will minimise costs. The planned projects include the expansion of production capacity for caprolactam and polyamide-6, yarns and cord fabric. Other projects include expansions in the production of ammonia and nitrogen fertilisers, the implementation of technical measures aimed at reducing expenditure on raw

materials and energy, and increased industrial and environmental safety.

Kuibyshevazot achieved 63% of revenues from exports in the first quarter this year, with shipments focused mostly on North and South-East Asia, Middle East, and West and East Europe. Deliveries in the domestic market are concentrated on a number of regions including Krasnodar and Stavropol, Rostov, Volgograd, Samara, etc. Whilst most of the fertilisers are sold domestically, large volumes of caprolactam and polyamide are shipped for export. The company is attempting to develop the domestic market for engineering plastics whilst nylon cord fabric is supplied to the Russian tyre plants in Tatarstan and Altai Kray.

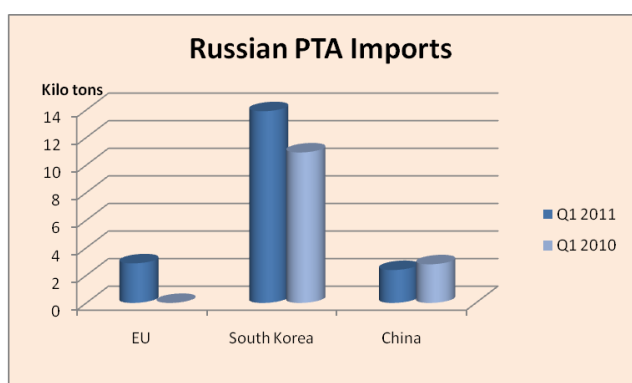
Polief-new safety control system installed

VTB plans to sell its stake of 32.5% in Polief to SIBUR, which will require various approvals before being concluded. SIBUR will be expected to continue dialogue with the other shareholders over the development of Polief. SIBUR already owns 50% +1 in Domestic Polymers, which in turn owns 50% plus one share in Polief. Thus, after taking the stake from VTB, SIBUR will be the controlling shareholder. Another percentage of shares

are held by unnamed financial investors, which belong to the government of Bashkortostan and are managed by Bashneft. SIBUR is reviewing investment opportunities in the polyester business.

Polief has established an internal unit for the control of industrial safety, occupational safety, emergencies and environmental *protection*. The activities of the new unit are primarily aimed at improving industrial safety facilities. Polief is Russia's only producer of PTA with production capacity is 230,000 tpa of PTA and 120,000 tpa of PET. Polief adopted a decision to increase PET capacity to 200,000 tpa by 2013, requiring investments of around 1.5 billion roubles. The company is considering a possible expansion of PTA capacity from 250,000 tpa to 300,000 tpa. In 2010 the consumption of PET in Russia amounted to 568,000 tons of which 312,000 tons stemmed from domestic production.

Production of PET in Russia in 2015 could grow by almost two times compared with 2010 up to 610,000 tpa. Demand is projected to rise 42% over 2010 by 2015 to around 800,000 tpa, with a trend emerging of more domestic production and less influence on imports. Imports of PET in Russia could be reduced by 27% to 195,000 tons. PTA demand Russia is expected to reach around 600,000 tpa by 2015 of which Polief could provide 250,000 tpa and the remainder from imports.



Russian PET raw materials

In the first four months of 2011 Russia imported 20,200 tons of PTA which is twice higher than in the same period last year. Alko-Naphtha is now the main importer of PTA in Russia, with the Kaliningrad plant accounting for 78% of imports from abroad to date in 2011. The main source of PTA imports is KP Chemical from South Korea, providing 11,700 or 58% of gross imports.

MEG imports into Russia have also risen due to the start-up of the Alko-Naphtha PET plant. Traditionally Russia has exported large volumes of MEG production, but has been reducing volumes in recent years due to the rise in PTA production at Polief. The Russian market of MEG over the past two years has turned into a deficit due largely to the lack of ethylene.

Imports have not been significant in the past, but with Alko-Naphtha located at Kaliningrad it is easier to source from abroad than from domestic sources. Imports totalled 2,400 tons in April which was 18% up on March, with Alko-Naphtha accounting for most of the shipments. Russia imported 9,000 tons of MEG in the first four months of 2011, of which Alko-Naphtha accounted for 82% of shipments, 8,100 tons and Senezh the remainder of 900 tons. The production of PET requires 0.3 tons of MEG and 0.7 tons of PTA.

Synthetic Rubber

Russian Synthetic Rubber Production (unit-kilo tons)

Producer	Jan-Apr 11	Jan-Apr 10
Efremov Synthetic Rubber Plant	15.6	7.6
Sintez-Kaucuk	39.5	29.3
Krasnoyarsk Synthetic Rubber Plant	13.3	12.2
Nizhnekamskneftekhim	176.9	156.5
Omsk Kaucuk	18.7	15.5
Kazan Synthetic Rubber	2.5	1.9
Togliattikaucuk	57.0	57.8
Voronezhsintezkaucuk	78.9	80.8
Sterlitamak Petrochemical Plant	9.2	15.5
Ufaorgsintez	1.1	1.0

SIBUR rubber plants

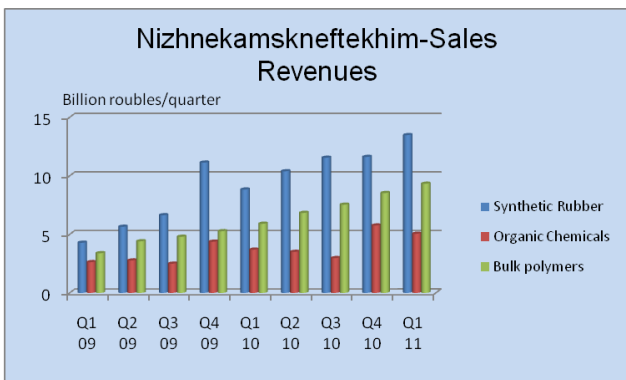
Krasnoyarsk Synthetic Rubber Plant (SIBUR) increased revenues by 42.5% in the first quarter in 2011 over 2010, totalling 279.838 million roubles. Krasnoyarsk Synthetic Rubber Plant was commissioned in 1952 and produces a wide range of quality of butadiene-nitrile rubber. In 2010 the plant produced 37,000 tons of butadiene-nitrile rubber and expects to produce up to 40,000 tons in 2011.

Togliattikaucuk produced 43,000 tons of synthetic rubber in Q1 2011, of which 70% was exported. The main consumers of the company are located in Asia, USA and Spain. Export quantities in the past two years have averaged 85% of total sales, but the

company is attempting to focus more on the domestic market. The company plans to increase capacity through a series of investments, which also include measures to save energy and raw materials.

Togliattikaucuk has started preparations for a project into the expansion of isoprene capacity up to 120,000 tpa. The company plans to install a fourth line for the separation of isoprene rubber capacity of 8 tons per hour, replace, and install additional pumps, heat exchangers and compressor equipment. The line will be launched no earlier than 2016.

Currently Togliattikaucuk produces isoprene rubber on three lines; the third line was launched in May 2010. This increased flexibility of production and increased capacity to 82,000 tpa. Other producers of isoprene rubber in Russia include Nizhnekamskneftekhim and Sintez-Kaucuk. Total production was 106,580 tons which was 11% more than in the same period last year, of which Togliattikaucuk accounted for 14%.

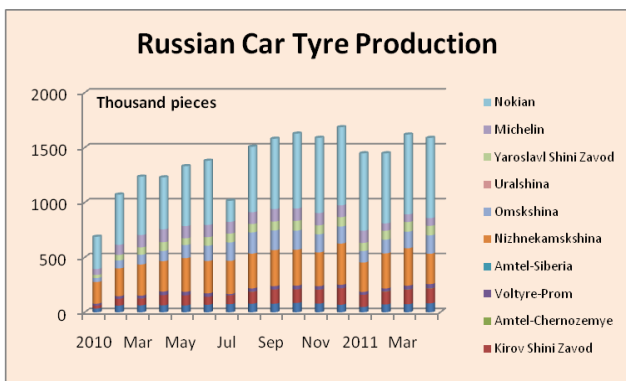


Nizhnekamskneftekhim-Q1 2011 revenues

In the first quarter this year synthetic rubber revenues increased sharply against the past few quarters. SIBUR provides the competition for Nizhnekamskneftekhim in both isoprene and butyl rubber sales. Around 72% of isoprene rubber sales by Nizhnekamskneftekhim were exported last year, against 94% of butyl rubber sales.

Russian tyre production Jan-Apr 2011

Tyre production for cars in Russia rose in January-April 2011 by 35.7% against the same period last year to 10,364 thousand pieces. Tyres for trucks, buses and trolleybuses totalled 3,069 thousand units, which was 46.6% up on 2010. Continued growth of tyre production has affected the growth of consumption in synthetic rubber which has risen this year.



Nizhnekamskshina (part of Tatneft-Neftekhim) is negotiating the further supply of tyres to the VW plant at Kaluga for the assembly of Skoda and VW Tiguan. According to Tatneft, in one year of cooperation Nizhnekamskshina has already supplied the Volkswagen plant more than 135,000 tyres.

Omsk Kaucuk-Q1 2011

Revenues for Omsk Kaucuk rose 15% in the first quarter this year, with rubber income rising 6.3% and phenol and acetone 33.4%. At the same time, costs have risen due to rises in raw materials, energy and

wages. At the end of 2009 a Russian interdepartmental government committee decided to provide state support to Omsk Kaucuk in order to attract loans. The amount intended for reconstruction has been approved at 900 million including projects aimed at improving production technologies. However, Omsk Kaucuk is disadvantaged in not being vertically integrated and needs to buy butadiene from other sources such as Azerbaijan and Turkey. The production of gasoline from stable gas condensate represents a new area for the company, with aims to produce 500,000 tons this year. The gasoline is added to ethanol or ETBE, both of which where demand is rising.

The company is currently focused on the optimisation of energy consumption in production. Work is also underway to reequip the production of phenol-acetone units. Omsk Kaucuk has developed a process for producing isopropanol from acetone, with a view to expanding its range of products and removing the dependency on seasonal fluctuations. In terms of feedstocks, Omsk Kaucuk has continued the development of the recycling process for stable gas condensate to produce modern fuels.

Methanol & related chemicals

Shchekinoazot-strategic investments

Total capital investment planned in Shchekinoazot involves around 15 billion roubles in the next few years up to 2015. In particular, the plan includes the construction of a new hydrogen production unit and the reconstruction of the cyclohexane oxidation unit. The start of new plants will significantly reduce the cost of hydrogen, energy consumption, natural gas, oxygen, and reduce the burden on the environment by using the most up to date technology.

Production at Azot Nevinomyssk, (kilo tons)

Product	Q1 11	Q1 10
Ammonia	297.8	304.8
Urea	174.3	172.3
Methanol	32.6	29.7
Acetic Acid	42.0	43.4
Acetaldehyde	10.5	9.3
Butanols	6.0	4.6
VAM	4.5	4.6
Butyl Acetate	5.1	3.9
Polyvinyl Alcohol	0.2	0.2

Metafrax-power plant

Metafrax is considering building its own power plant at Gubakha, either 8MW to 15 MW, to form the basis of an energy efficiency programme for the company during the 2011-2015 period. A decision will be made in the third and fourth quarters this year, and the project could involve investment of around 300 million roubles. For electricity production, the company intends to use secondary energy sources including compressed natural gas (maximum capacity-7 MW), low-calorie exhaust gas, and steam (potential capacity-up to 4 MW). Metafrax aims to provide around 75% of the company's needs by 2015. This will help to offset the impact of rising gas and electricity prices which Metafrax buys on the open market, and also support the expansion in production.

Evrokhim Financial Indicators

	Q1 2011		Q4 2010		Q1 2010	
	Bil rbls	\$mil	Bil rbls	\$mil	Bil rbls	\$mil
Revenue	31.2	1,067	28.1	916	21.6	723
EBITDA	11.6	395	10.6	345	5.3	177
Net profit	11.3	388	8.3	271	4.5	150

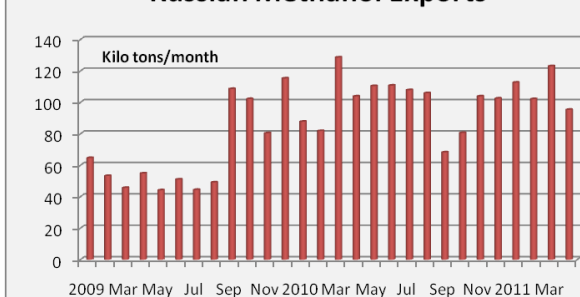
Evrokhim-Q1 2011

Evrokhim reported a net profit for the three months ended 31 March 2011 of 11.3 billion roubles, representing an increase of 154% compared to the first three months in 2010. Revenues for the group increased 44% to 31.2 billion roubles up from 21.6 billion in the first quarter of 2010. Fertiliser sales volumes for the first quarter of 2011 were up by 3%, and by 5% compared to the previous quarter. Nitrogen and phosphate sales volumes reached

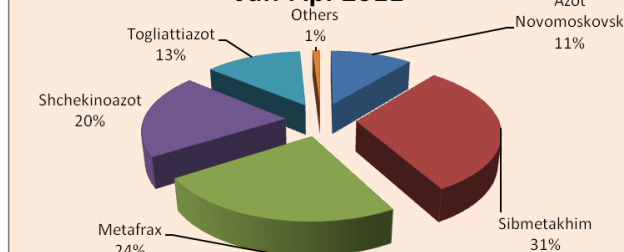
2.179 million tons.

The Evrokhim Group's subsidiaries in Russia include Azot Nevinomyssk, Azot Novomoskovsk, Phosphorite, Evrokhim-BMU, and Kovdorsky GOK. In Lithuania, the Evrokhim Group controls the Lifosa plant. The Group is vertically integrated with activities spanning from mining to production logistics and distribution. Evrokhim holds licenses to develop potash reserves in Russia, which in global terms gives it an estimated fifth-largest volume in potash reserves.

Russian Methanol Exports



Russian Methanol Exports Jan-Apr 2011



Russian methanol exports

In April, exports of methanol from Russia amounted to 95,500 tons dropping 22% against March. Total exports amounted to 434,000 tons in the first four months of the year which exceeded volumes over last year by 8%. Finland and Turkey account for the main share of shipments, followed by Ukraine and Slovakia. Of the producers, Togliattiazot has been increasing the volume of shipments of methanol abroad this year, shipping mainly to Turkey. Metafrax and Sibmetahim ship mainly to Finland.

Russian Phenol-Formaldehyde Resin Market (unit-kilo tons)

	Q1 11	Q1 10	2010	2009
Production	45.2	47.6	204.3	138.0
Exports	1.0	0.5	5.2	3.9
Imports	5.6	3.2	26.3	31.6
Market Balance	49.9	50.3	225.4	165.8

Russian phenol-formaldehyde resins

Phenol-formaldehyde resin production rose sharply in 2010, after the start-up of new capacity, and has stabilised this year. The major producers this year include Uralkhimplast, Shchekinoazot and MetaDynea, which accounted for 44% of production in the first quarter. Around 60% of shipments in the domestic market are supplied through rail transport, whilst the wood processing industry accounted for 94% of consumption in the first three months of 2011.

Consumption of phenol-formaldehyde resins in 2010 totalled 225,400 tons which was 36% up on 2009. Imports play a small part in Russian consumption, being sourced mostly from Finland. The main constraint on the expansion of phenol-formaldehyde resin production is the lack of phenol which is in tight supply in Russia. Imports however, are expected to continue playing only a relatively small part in the market balance.

Organic chemicals & plastics

Russian butanol & phthalic anhydride production

In April this year in Russia produced 24,500 tons of butanols which is 11% less than in the previous month but a 56% increase over the same period in 2010. Azot at Nevinomyssk stopped production in April due to scheduled maintenance. From January to April, the production of butanols totalled 104,600 tons (15% more than during the time period of 2010). The proportion of n-butanol in the gross production in the first four months of this year was 63%, and isobutanol 37%. Total production was divided in the first four months into Gazprom Neftekhim Salavat with 51%, SIBUR-Khimprom 24%, Angarsk Petrochemical Company 19%, and Azot Nevinomyssk 6%.

Russia produced 38,300 tons of phthalic anhydride in the first four months in 2011, which is 13% more than over the same period last year. The rise in production was the result of a significant increase of purchases by domestic consumers producing plasticizers, paints and varnishes. Kamteks-Khimprom accounted for 87% of total production and Gazprom Neftekhim Salavat the remaining 13%.

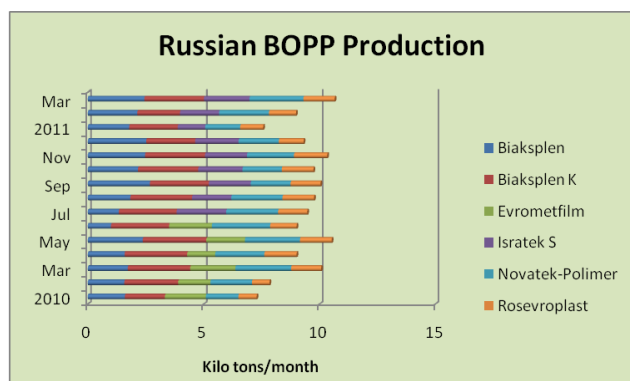
Akrilat-ethyl acetate

Akrilat conducted tests on ethyl acetate production in 2010 and is now in the process of obtaining the patent. In addition, Akrilat continues to explore the possibility of deeper processing products by building a facility for the production of dispersions for the coatings industry. This includes anti-corrosion coatings, producing various kinds of polymers of acrylic acid and copolymers.

Samaraorgsintez-Mitsubishi MMA project

Samaraorgsintez signed a memorandum of understanding with Mitsubishi Chemical to construct a methyl methacrylate plant at Novokuibyshevsk. The cost of the investment is estimated at \$120-150 million, and the plant's capacity will be 70,000 tpa. Samaraorgsintez announced its intention in 2010 to build an MMA plant at Novokuibyshevsk, and has been searching for partners. Tentative agreements were reached with the Chinese company Chzhunmen, but other interests are being pursued and Evonik was considered in addition to Mitsubishi. Mitsubishi Chemical has signed a memorandum of understanding and owns a proprietary technology for the production of methyl methacrylate which it uses at Nigita in Japan.

An advantage of Japanese technology is that it virtually produces no by-products such as ammonium sulphate and sulphur emissions. The only waste that is present during the operation of the Japanese plant is water vapour and hydrogen. Samaraorgsintez wants to invest in this project from various resources including equity capital, loans and export financing from the Japanese partners. Construction is scheduled to begin before the end of 2015. Methyl methacrylate in demand in Russia comes largely from the automotive industry and electronics industry (manufacturing lamps, screens, monitors, etc).

**Russian BOPP market**

Russian BOPP production rose in the first four months of 2011 by 5.4% against the same period last year. Russia exported 918.8 tons of BOPP film in April, 8.7% more than in March. However, due to increased demand in the domestic market Russia exports of BOPP fell 54.2% against the same period last year.

Biaksplen K at Kursk accounted for 60% of exports and the remainder was supplied by Isratek C. Almost all of the BOPP was exported to Ukraine, followed by other CIS republics. The Biaksplen group has started the production of BOPP film with a thickness of 12

microns. A new kind of film is easier and cheaper to produce a thickness of 20 microns by more than 30%. New products are designed for laminating a transparent film, which is used for packaging of confectionery products. Biaksplen NK (formerly Novatek-Polymer) increased capacity this year from 26,000 tpa to 42,000 tpa following the installation of three new lines. The plant produced 8,140 tons of BOPP in the period January-April 2011

against 7,720 tons in the same period last year.

Russian coatings market, Jan-Apr 2011

Imports of paint materials in Russia have been growing this year outstripping the increase of production in the country. In the first four months in 2011, Russia imported 65,000 tons of coatings which are 11% higher than the same period last year. Demand for paints for industrial use is increasing, but mainly through imports which have risen 35% this year and account for 65% of all consumption. Paints in the construction and domestic sector are usually met from Russian producers and thus imports play a much less influential role in overall consumption.

In terms of raw materials Russian producers source mainly from domestic chemical plants, whilst titanium dioxide is sometimes imported from Ukraine. Whilst the quality of titanium dioxide from Crimean Titan is comparable to global standards the cost is considered to be high which makes it difficult for coatings producers to compete against imported paints. Last year production of coatings rose 44% in 2010 against 2009 but still remained lower than in 2008.

SIBUR-Rhodia JV

Rhodia and SIBUR have signed a letter of intent to create a 50-50 JV in specialty surfactants. This strategic alliance is to be focused on creating a leader in the CIS market where specialty surfactants are used. This includes application areas such as home and personal care, and oil and gas industries, with the surfactants sector growing at more than 6% per annum.

Rhodia will provide its expertise in surfactant technologies while SIBUR will provide raw materials and logistics. SIBUR expects the JV to be established by the end of 2011. Construction of new production facilities is planned at Dzerzhinsk and commissioning of the plant is expected in 2013. Russia's leading producer of surfactants is Sintanol Plant (up to 2003, this company was part of SIBUR-Neftekhim).

Plant Sintanol

Plant Sintanol has started the production of sulphonated products at Dzerzhinsk. The capacity of the new plant is 37,000 tpa and is designed to challenge imports. Highly automated equipment has been supplied under a contract with Italian companies Desmet Ballestra.

Saratovorgsintez to increase sodium cyanide production

Saratovorgsintez plans to expand production of sodium cyanide from 15,000 tpa to 18,000 tpa, with delivery of the equipment and construction works scheduled for 2011. Saratovorgsintez started production briquetted sodium cyanide in 2007 in order to fully meet the needs of the Russian market, and replace it with imports. In September last year Korund-Qian, a subsidiary of Korund started building a plant for producing sodium cyanide at Dzerzhinsk. This plant will produce 40,000 tpa planned for start-up in 2012. In 2012-2013, Korund intends to build the second phase of the project bring total production capacity of cyanide salts to 80,000 tpa.

Russian chemical clusters and industrial zones

Bashkortostan chemical cluster

Gazprom is expected to be the main investor in the proposed chemical cluster proposed by Bashkortostan, but at the same time Bashkortostan wants to see the draft of other investors. Gazprom is expected to increase ethane capacity at Orenburg by closing its underground storage for helium and converting it to ethane. This would provide the necessary feedstock for Gazprom Neftekhim Salavat, which aims to build a one million tpa cracker. This would form the basis for the chemical cluster and may also be of assistance to Kazanorgsintez.

Major Chemical Producers Bashkortostan	
Gazprom Neftekhim Salavat	Ethylene, propylene, PE, oxo alcohols, EB, etc
Kaustik, Sterlitamak	PVC, caustic soda, epichlorohydrin
Sintez-Kaucuk, Sterlitamak	Isoprene rubber, butadiene rubber
Sterlitamak Petrochemical Plant	Butadiene rubber, anti-oxidants
Ufakhimprom	Bisphenol A
Ufaorgsintez	Ethylene, propylene, polyolefins, phenol-acetone

Bashkortostan has approached Tatarstan with the idea of setting up JVs in oil refining and petrochemicals. The two regions have traditionally adopted a lukewarm attitude towards one another due to historical reasons, but similar interests in feedstock supply is tending to create dialogue between the two republics. Mutual support for a gas liquids pipeline from West Siberia via the Volga and Urals region provides impetus for co-operation.

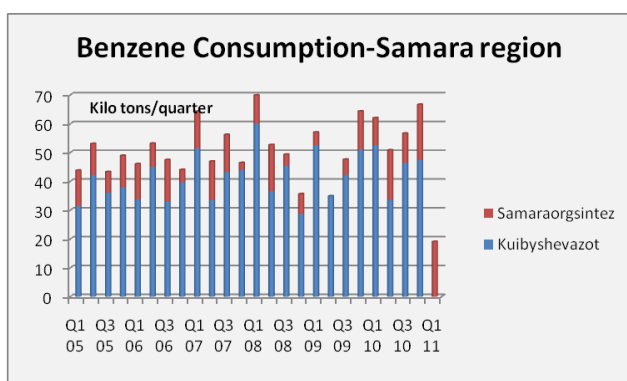
The petrochemical industry in Bashkortostan is focused mainly on the Russian market, whilst in Tatarstan the balance between exports and domestic market sales is more even. The Russian state bank VTB is interested in investments in the petrochemical and energy industries in Tatarstan, and supporting numerous projects. Last year, Bashkortostan chemical producers Ufaorgsintez increased revenues by 6.7% (up to 7.9 billion roubles), Sterlitamak Petrochemical Plant (SNHZ) by 2.1% (up to 5.4 billion roubles), Polief by 25.8% (up to 10 billion roubles), and Gazprom Neftekhim Salavat 1.6 times (up to 105 billion roubles). However, only around a quarter of revenues for Gazprom Neftekhim Salavat are derived from chemicals, and as a petrochemical producer it remains less significant than Nizhnekamskneftekhim and Kazanorgsintez.

Caspian cluster

The Russian Ministry of Energy has initiated the construction of large-scale pyrolysis facilities in the Caspian petrochemical cluster, based around the existing Stavrolen complex at Budyennovsk. The capacities of the new plant include 600,000 tpa of polyethylene and 200,000 tpa of polypropylene. According to the plans of the development programme for the Caspian cluster it will operate in southern Russia based on the existing processing facilities at Budyennovsk which will be supplied raw materials to the developing fields of the northern Caspian Sea. The cluster will be created from scratch, but it is possible that can be adjusted some interaction between the existing petrochemical facilities in the region. Environmental assessments are currently being conducted as to the safety of constructing new petrochemical plants at Budyennovsk.

Samara chemical industry, integration and development

Chemical production in the Samara region rose 25% in the first four months in 2011 against the same period last year, and 16% higher than in the pre-crisis period in 2008. Kuibyshevazot undertook the biggest investment activity last year completing the construction and commissioning of the fourth polyamide line. Investment in the project amounted to over 1.4 billion roubles. Polyamide, produced at this facility, is considered to be equal in quality to world producers. Thus, domestic light industry now has the option of buying locally rather than from imports.



A growing trend in the Samara region is integration in the chemical industry amongst the group Novokuibyshevsk companies Samaraorgsintez, Neftekhimya and Novokuibyshevsk Petrochemical Company. The initiators of these integration processes confidently expect a positive synergy effect, and could help towards addressing the shortage of raw materials which has been a feature of the Samara region for the past decade.

In the Samara region there is a particular problem with benzene supply. Consumption of benzene by such producers as Kuibyshevazot, Samaraorgsintez and

Promsintez totals over 200,000 tpa, and could increase to 300,000 tpa. The regional government is doing its utmost to solve the problem, and has been in discussions with Rosneft discussed in detail the organisation of production of benzene at the Novokuibyshevsk refinery, Kuibyshev and Syzran refineries.

As part of the upgrade of the Novokuibyshevsk refinery Rosneft installed a unit in July 2010 to allocate benzene content fraction with a capacity of 80,000 tpa. The resulting benzene content fractions can be used to supply merchant benzene, and then phenol, acetone, styrene and other petrochemical products. In 2012, the Novokuibyshevsk refinery plans to complete the construction of a benzene plant with a capacity of 50,000 tpa.

Belarus

Belarussian feedstock costs

From 1 July 2011 Belarus imposed a 31.4% increase in selling prices of naphtha for pyrolysis and aromatic hydrocarbons. These increases are the result of serious economic difficulties in the country and will affect benzene, orthoxylene and paraxylene supplies. Mogilevkhimvolokno and Polymir expect to see costs rise for polyester and ethylene production respectively.

Belarussian polypropylene imports totalled 4,300 tons in April, 2% less than in March and 9% lower than the comparable period in 2010. The maximum volume of the polymer is imported from Russia which accounted for

58% of imports, followed by Poland, Germany, Slovakia and Ukraine. Total imports for the first four months in 2010 amounted to 17,300 tons of polypropylene which was 10% more than in the same period last year.

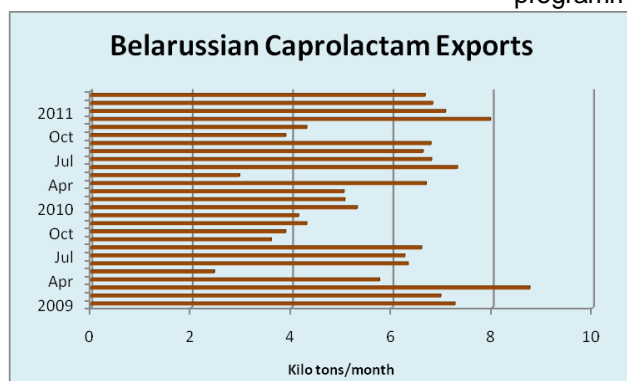
**Belarussian Chemical Output
(unit-kilo tons)**

<i>Fertilisers</i>	<i>Jan-Apr 11</i>	<i>Jan-Apr 10</i>
Potassium Fertilisers	1788.5	1856.5
Nitrogen Fertilisers	207.1	272.9
Phosphate Fertilisers	54.1	72.2
Ammonia	270.0	361.4
Sulphuric Acid	337.3	309.9
<i>Petrochemicals</i>	<i>Jan-Apr 11</i>	<i>Jan-Apr 10</i>
Ethylene	49.2	44.4
Benzene	36.6	30.7
Caprolactam	45.3	40.4
Phthalic Anhydride	3.0	7.3
Polyethylene	46.0	43.3
PET	63.7	69.0

LDPE exports from Belarus amounted to 7,400 tons in April which was 3% less than in March. The main directions of shipments are the Russian and Ukrainian markets. In the first four months in 2011. Since the beginning of 2011, Belarus exported 27,200 tons of LDPE, which is 4% more than in the same period of 2010. In April, Belarus imported 3,700 tons of PVC, 12% more than in March and 5.3 times higher than that recorded in the comparable period of 2010. In the first four months in 2011, Belarus imported 13,600 tons of PVC that is seven times more than the same period of 2010.

Azot Grodno-project plans

Azot is planning an investment programme in the next few years, involving the construction of a new complex for the production of ammonia, methanol and urea, with the use of advanced energy saving and environmental technology. As part of the development programme, the company also plans to reconstruct caprolactam production. Caprolactam is a major export commodity for Azot, being delivered largely to Asia and China in particular. Last year Azot installed additional oxidation of cyclohexane, which has generated about 20,000 tpa of cyclohexanone mixture. The company aims to increase caprolactam capacity up to 140,000 tpa.



At present Azot is considering building a new nitric acid plant of 400,000 tpa and expansion of the fertiliser plant up to 1.142 million tpa. The current production unit for nitric acid was put into operation in December 1963. The programme also provides for construction of a new plant for production of urea (1.5

tons/day) and a melamine plant with a capacity of 30,000 tpa. This plant is conditioned by the need to meet the growing demand for melamine in Belarus and will cost in the range of around \$112 million. Other projects include the expansion of methanol capacity at Grodno to 238,000 tpa.

Kazakhstan-Azerbaijan

United Chemical-expansion plans

United Chemical Co., a unit of Kazakhstan's Sovereign Wealth Fund, may borrow about \$3 billion from banks next year as part of the strategy to boost exports of refined oil and gas products. The chemical company may seek loans from a number of sources for project-financing. The company plans to spend \$20 billion to build chemical plants in the next 15 years. Kazakhstan set up United Chemical in 2008 as part of a plan to boost production of value-added goods and lessen the economy's reliance on exports of raw materials. An affiliate is overseeing the construction of a \$6.3 billion gas chemicals complex to produce polypropylene and polyethylene at Atyrau. Kazakhstan's National Wellbeing Fund Samruk-Kazyna, which controls United Chemical, was used to bail out banks and companies during the credit crisis, leaving it in control of assets accounting for half of the country's economic output.

SOCAR-Petkim cooperation

A foundation for the new oil refinery will be laid out in Turkey this autumn to meet the needs of the Petkim petrochemical complex, in which SOCAR has equity. The volume of investments needed to build refineries is estimated at \$4.5-\$5 billion, with SOCAR-Turcas will provide a large share. In 2008 the alliance between SOCAR and Turcas won a tender to buy a 51% stake in Petkim offering \$2.04 billion. Turkey imports 70-75% of its chemical products demand and investments in the development of Petkim are aimed at substituting part of that demand. In return, Petkim continues to provide technical assistance to SOCAR's Azerkimya through an exchange of necessary raw materials and products.

Relevant Currencies

Czech crown. Kc. \$1 = 20.85. €1 = 25.5671; Hungarian Forint. Ft. \$1 = 223.5. €1 = 274.065; Polish zloty. zl. \$1 = 3.1135. €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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