Chemical Information Resources for East Europe and CIS

CIREC MONTHLY NEWS

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

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Issue 259, 22 June 2012

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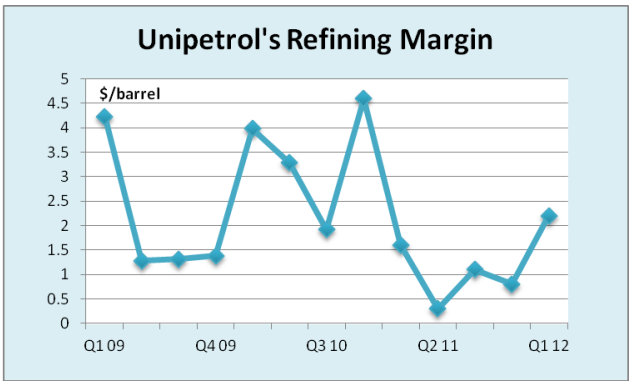
CENTRAL & SOUTH EAST EUROPE

Petrochemicals

Central European refineries

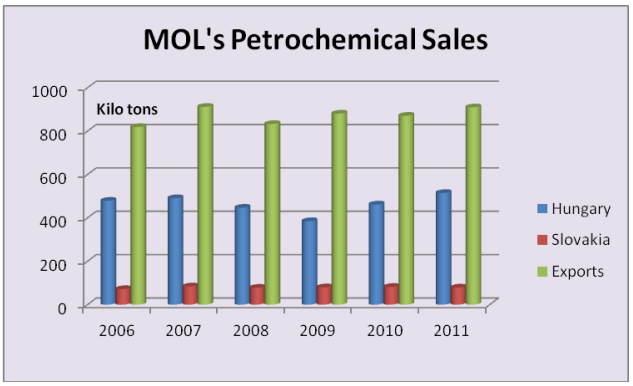
PKN Orlen faces some important challenges that may be resolvable only by the sale of certain assets. After several years of restructuring and cost reductions the group finds itself facing difficulties in the refining sector. In the Czech Republic, Unipetrol has already suspended oil refining at its small refinery at Paramo, and its future remains uncertain. Moreover, losses are being made elsewhere in the Orlen group in refining. At the same time PKN Orlen, possibly under political pressure, is looking for investment ideas with the financial basis to implement those ideas and so this has raised questions about asset sales.



Another issue of concern is logistics. The company still has negotiated a new agreement for the use of transmission infrastructure belonging to state-owned company Mero. The current agreement expires at the end of the year and an agreement is yet to be found. Earlier in the year Ceska rafinerska was at loggerheads with shareholders in the Transalpine Pipeline (TAL) and Mero.

In Lithuania, Orlen Lietuva resumed production at full capacity in mid-June after a month of maintenance and upgrades. The upgrades, the biggest in the history of the refinery, are intended to help to boost EBITDA to $20 million. The repairs and upgrades cost $65 million. Despite a positive outlook for Orlen Lietuva, the Orlen is the position of requiring capital to undertake an investment programme which the group considers is necessary to maintain its position in Central Europe.

Croatian group INA issued a statement in June dismissing the reports that the Sisak and Rijeka refineries are to be closed. In Romania, Rafo at Onesti may contract a loan of around €60 million from foreign creditors and another €10 million from major shareholder, Petrochemical Holding Austria, for a new business plan. This is aimed at underpinning the project of upgrading and modernising the refinery. Petrochemical Holding, holds 96.5% in the company. The main owner of Petrochemical Holding Yakov Goldovsky is keen on developing the PX-PTA chain as part of the refinery modernisation.



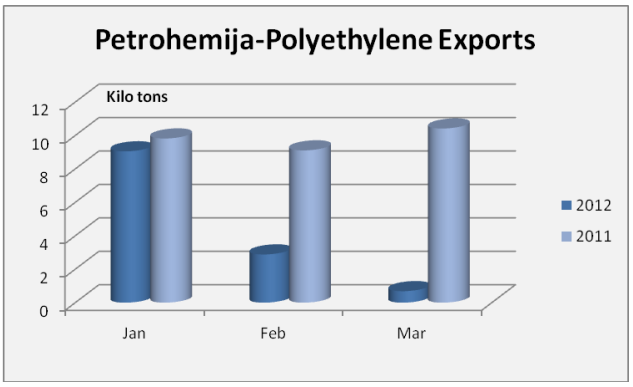
MOL strategy in petrochemicals

The short and medium-term strategies of TVK and MOL have been outlined as to cut costs and optimise production. There is some thought being given towards the construction of a 130,000 tpa butadiene plant which would cost around €100 million, but no decision has been reached as yet. Taking into account the C4 surplus at TVK, which it currently sells to Synthos, it could make sense to add value to these feedstocks at Tiszaujvaros.

The only member of the MOL group to be investing in petrochemicals at present is Slovnaft, which is undertaking a project to reconstruct the 210.000 tpa cracker at Bratislava. This project is expected to be completed in 2015 and will coincide with an expansion of the LDPE plant. The cracker reconstruction and the new LDPE plant will cost MOL about €300 million and is the largest investment being executed in this time frame for the chemical industry in Central Europe.

On the back of investments at Slovnaft MOL aims to retain its position as a major player in the Central-East European petrochemical industry competing most of all against the Orlen group. Since the incorporation of Slovnaft into the group, MOL has strived to harmonise product balances with TVK particularly polypropylene which both companies produce. TVK produces only small volumes of LDPE these days, and focuses more on HDPE, whilst Slovnaft largely operates as MOL"s LDPE division.

The old 180,000 tpa LDPE plant at Bratislava is to be replaced with a new plant for 220,000 tpa which is being designed to produce nearly 30 types of polyethylene from food applications to thick and thin-walled foils. Construction of the LDPE line is scheduled to start in 2013, based on Basell's 'Lupotech T' technology, and start-up is planned for the first quarter in 2015. Tecnimont has been selected to act as the project contractor.

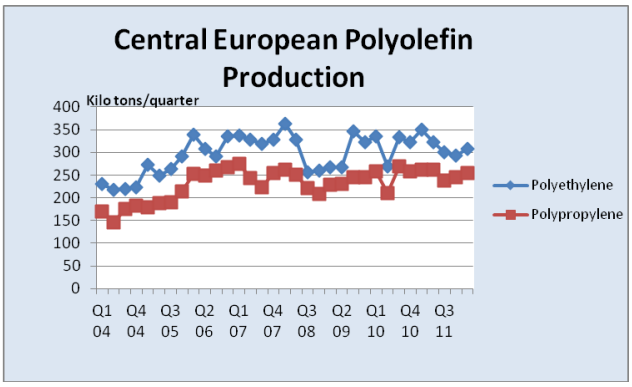


Central European polyolefins

HIP Petrohemija took the decision in June to complete the HDPE project at Pancevo, for which construction started on 9 August 2010. The planned stoppage of HDPE production to allow completion of the project will take place between 1 September to 1 December 2012. This will increase capacity of the HDPE plant to 90,000 tpa. HIP Petrohemija reduced exports of polyethylene sharply in the first quarter this year due to the maintenance shutdown which started in February and only finished in May.

In terms of volumes little has changed in the past few years regarding polyolefin production in Central Europe, but there is continual movement in quality and new products. Slovnaft is the sole producer in the process of expanding, having announced plans in December to replace seven production lines at Bratislava, and increase polyethylene capacity by 40,000 tpa to 220,000 tpa. In the polypropylene sector Slovnaft has started producing four new polypropylene grades earmarked for the European market based on Dow Chemical's Unipol technology. The new grades are claimed not only to raise processing efficiency, while maintaining or even increasing the finished product's performance, but also reportedly cut polymer consumption.

Limitations within the Orlen structure may be preventing development at Basell Orlen Polyolefins (BOP), particularly as there is some overlap in HDPE and polypropylene production. BOP has developed a range of products in recent years aimed at reducing energy consumption. BOP was formed several years ago by Basell Europe Holdings and PKN Orlen, and is divided 50-50 in share ownership.



In South East Europe, imports into the region have dropped slightly this year after the Bourgas plant restarted. In the first five months of 2012 LUKoil-Neftochim at Bourgas produced 23,340 tons of polypropylene. This unit is the only plant in the petrochemical division that is operating using propylene from the FCC. The plant produced 5,910 tons in May which is 12% more than in April. Other plants in the region include Hipol in Serbia, where volumes remain relatively small.

Chemicals

Tarnow Group Ownership by Parent Company

Company name	*Location*	*% share*
ATT Polymers GmbH	Guben, Germany	100
KOLTAR	Tarnow	100
ZAK S.A.	Kedzierzyn	93.48
Z.Ch Police	Police	66
PKCh Sp	Tarnow	63.27

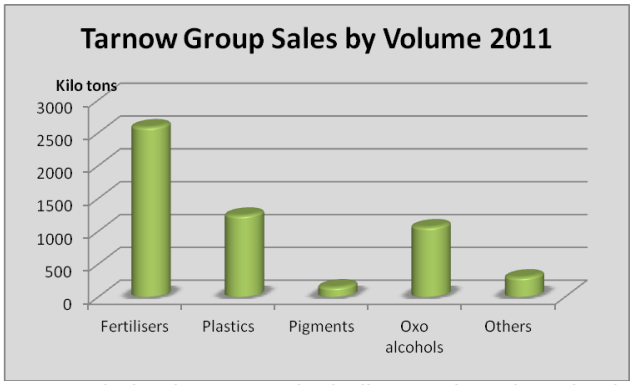
Tarnow Group acquisition

The offer from Akron to purchase ZA Tarnow and its other group companies has provoked strong reaction in Poland, including the remote possibility of PCC of teaming up with private equity funds to make a counter bid. Akron offered zl 1.5 billion ($438.7 million) for 64.8% of ZA Tarnow, which in the opinion of the company was much too low and failed to reflect the full value of the group facilities and potential. Furthermore, the Akron Group failed to specify any plans or strategic programme for control over the Tarnow Group and ZA Tarnow. The argument put forward is that Akron did not fully take into account possible synergies from the transaction and option strategies for ZA Tarnow and its constituent group members.

Thus, the Polish Treasury Ministry, which oversees state assets and holds 32% in the Tarnow Group, has rejected Akron's offer and believes a counter bid could not be ruled out. Opposition in Poland to the offer has not been

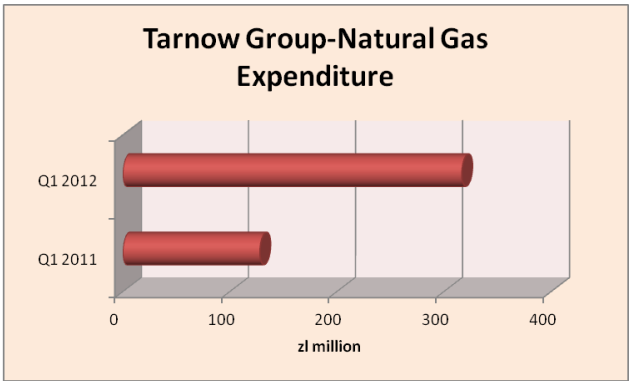
universal. The trade unions from group member ZCh Police have supported the presence of the Russian company in the view that the proposal requires further examination. Akron faces a difficult position in Russia over raw material supplies from Apatit, (which is part of the Fosagro group) and efforts to buy the Tarnow Group may lie behind these steps. However, there is an argument stating that the acquisition of the Tarnow Group will not change the relationship between Fosagro and Akron, where recently supplies of apatite concentrate have been suspended between the two groups. The lack of supply of raw materials has recently interrupted production of compound fertilisers by Akron.

In response to Akron's offer the management of ZA Tarnow has laid out its own vision of strategic development including an expansion of core areas already in existence in addition to strategic alliances, mergers and acquisitions in Poland and abroad. ZA Tarnow plans to continue investing in its production base in Poland, aiming to expand profitable product lines, increasing cost efficiency as well as launching a new generation chemical product portfolio. Some of the main areas being targeted by the Tarnow group include engineering plastics, oxo alcohols, plasticisers, caprolactam and non-organic chemicals such as ammonia and pigments.



The Tarnow Group is the fifth largest producer of polyamides in Europe, the sole Polish producer of POM and one of the leading producers of fertilisers in the EU. It is not clear why but the Polish Treasury fears that the possible acquisition by Akron of the Tarnow Group may jeopardise the future of shale gas in Poland. A more logical concern is that might put production units in Poland under pressure. The State Treasury of Poland, which owns the majority stake in the amount of 32.05%, is the largest shareholder in ZA Tarnow.

Oxo alcohols accounted for 19.9% of revenues in 2011 and plastics 23.3% including engineering plastics which are produced by ZA Tarnow and ATT Polymers GmbH. High quality polyamides are obtained through the polycondensation of caprolactam. The oxo alcohol division belonging to ZAK includes products 2-EH, normal butanol and isobutanol in addition to plasticisers diisobutyl phthalate, dioctyl phthalate, di(2-propyl heptyl) phthalate and di(2-ethylhexyl) terephthalate. The acquisition of ZCh Police last year introduced pigments to the group, with a production line of 40,000 tpa. The range of pigments currently covers 9 rutile types, and is widely used in the coating, plastics and paper industries.



Polish gas costs and impact on chemicals

After gas costs rose significantly in the first quarter this year the Tarnow Group is trying to negotiate a new contract for the supply of natural gas from PGNiG. Costs rose this partly to higher prices and partly to the incorporation of ZCh Police into the Tarnow Group. The annual consumption of gas by ZAK and ZA Tarnow amounts approximately to 400 million cubic metres, whilst ZCh Police is larger and annually consumes over 550 million cubic metres. Thus, even a minimal increase in prices is a major leap in expenditure for the group. As an alternative to purchasing gas from PGNiG, the group can now access gas from Germany. In the case of ZCh Police and ZAK-less than 10% of gas comes from Germany through the gas passage in Lasów, but although it helps in terms of supply it has thus far made little difference to the prices being paid. To some extent ZA Tarnow has benefited from the price of local gas supplies in the Tarnow area, but despite these savings this year's gas bill for the Tarnow Group will increase considerably.

ZA Pulawy faced a 16.04% increase in gas costs from April, which was a similar rise to Tarnow Group.ZA Pulawy is Poland's third largest user of gas and consumes about 800 million cubic metres of natural gas per annum. The cost of gas comprises around 50% of the company's total raw material expenses and thus the April price hike by PGNiG increases costs for ZA Pulawy by more than zl 160 million per annum. As an alternative to supply ZA Pulawy has signed a contract for spot gas supplies from Entrada but this may account for only about 5% of annual demand. It seems hard at present to reduce the dependency of Polish chemical producers on PGNiG. ZA Pulawy is hoping for further contracts to diversify supply from the Interconnector pipeline from the Czech Republic,

but the process is taking time to take effect. Four of the five largest chemical companies in Poland have already concluded supply agreements for gas through the Interconnector which connects Germany in Lasów.

ZA Pulawy-Product Capacities (unit-ktpa	
Product	**Capacity**
Ammonium nitrate	1103.85
Ammonium nitrate (gran)	919.875
UAN	1000
Urea (total)	1215
Urea (gran)	600
Melamine	92
Caprolactam	70
Ammonium sulphate	156
Hydrogen peroxide	10
Liquid carbon dioxide	74.25

Synthos places offer for ZA Pulawy

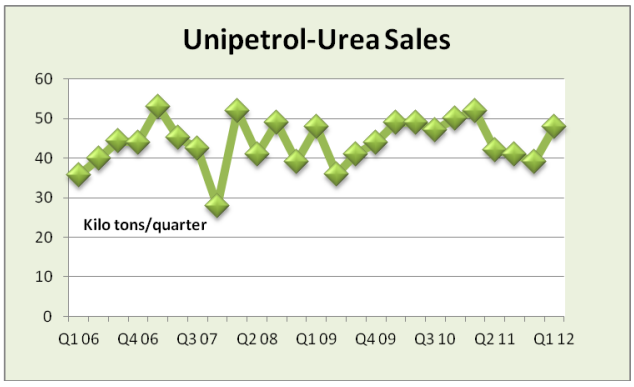
Synthos has offered $578 million for 100% stake in ZA Pulawy, which is being examined by the Polish Treasury. The response to the offer is possibly likely to be much warmer than Akron's bid for ZA Tarnow simply due to the shares of the company remaining inside Poland. If the Treasury wishes to sell shares in ZA Pulawy, as it has been previously outlined, this would at least retain domestic ownership.

In terms of synergy there is not a much overlap between Synthos and ZA Pulawy, the former is focused on plastics and rubber and the latter is focused on fertilisers, melamine and caprolactam. Both companies are dependent on benzene for different products, but in general synergies are not as clear as between Akron and ZA Tarnow.

Synthos believes that proposed in the tender offer price is attractive for existing shareholders, particularly given the inevitable reduction in margins on sales made by ZA Pulawy over the coming quarters and years, especially in the field of fertilisers. At the same time studies made by Synthos show the potential to improve the operational efficiency of ZA Pulawy in the long term and the opportunity to increase company value through the development of the group Synthos.

Synthos-Goodyear license

Synthos has concluded a licence agreement between Synthos Dwory and Goodyear for production technology for SSBR rubber. Acquisition of licenses and know-how from Goodyear will provide the basis to expand the capacity of Synthos Dwory in modern SSBR rubber to 90,000 tpa. Synthos Dwory plans to launch a production unit that operates based on this technology by 2015. Tyres based on SSBR will grow at a rate higher than conventional tyres and comply with EU goals of energy conservation and reduction of C02 emissions. In July 2011, Synthos launched neodymium polybutadiene rubber production at Kralupy and the addition of SSBR will help to meet the demand for modern tyres. New investment in SSBR rubber will increase production capacity of the Synthos group in modern synthetic rubbers, as well as allow for widening portfolio of products used by leading tyre manufacturers.



Unipetrol to close urea plant at Litvinov

Unipetrol plans to shut down production of urea at Litvinov by the end of this year. The reasons for the decision are economic, as the plant has produced poor results in recent years. The agro division for Unipetrol will continue to produce ammonia after the closure of the urea plant. Another important reason for this decision is that the integrated production of urea plant permits is limited to 31 December 2017. An extension would be subject to significant investment in the reconstruction of the urea production units with the necessary capital expenditure of around several hundred million crowns. It is expected that the permanent closure of the urea units will benefit the group's financial results in 2013.

Sulphuric acid terminal

At the end of May Metraco (owned by KGHM SA) opened a port terminal for sulphuric acid at Szczecin, which has been set up to increase Polish exports. The terminal meets the ISO 14000 environmental standards, and operates a closed system for unloading and pumping acid into to the ship. The terminal is located on the Katowice peninsula at Szczecin. The first ship to transport sulphuric acid from the port of Szczecin is expected in July. Metraco is a subsidiary of KGHM Polish Copper SA, which is the country's largest provider of technical sulphuric acid of 600,000 tpa.

Chimcomplex-ferric chloride project

Chimcomplex shareholders have decided in favour of accepting loans from Eximbank to expand production capacity for ferric chloride by 5,000 tpa. Shareholders are required to approve a multi-currency loan with

Raiffeisen Bank project to improve the energy efficiency of the unit for membrane electrolysis, currently being implemented by Chimcomplex. The company has secured project financing and construction of the two cogeneration plants for electricity and steam technology, and the energy-consuming mill.

Ferric chloride is used in etching printed circuit boards in electronics and electrical coatings, in metallography, surface water treatments, waste water treatment, coagulation having properties for industrial and drinking water treatment, clay colloids and precipitation of heavy metals (Copper, Zinc, Lead, Nickel and Cobalt), industry pharmaceutical or chemical oxidant agent. Chimcomplex increased revenues in the first quarter this year, rising from 46 million lei to 48 million lei, but exports were down to 66% of income as opposed to 81% last year. This was due to higher sales on the domestic market.

RUSSIA

Russian Chemical Production (unit-kilo tons)

Product	*Jan-May 12*	*Jan-May 11*
Acetic Acid	66.0	57.4
Ammonia	5,862.1	6,214.0
Butanols	113.1	95.7
C Black	310.9	300.0
Caustic Soda	439.0	388.3
Ethylene	978.0	1,054.5
Methanol	1,452.0	1,336.8
PET	184.3	128.7
Phenol	116.4	107.6
Polypropylene	262.8	286.8
Polystyrene	139.7	134.3
Propylene	484.0	544.6
PVC	268.6	215.9
Soda Ash	1,191.2	1,150.6
Styrene	188.7	218.0
Synthetic Rubber	454.7	528.7

Russian chemical production Jan-May 2012

Russian chemical production continued in May in a similar pattern to the preceding two months, and for the industry overall volumes were down 2.3% in the period January-May 2012 against the same period last year. The production of plastics in primary forms fell by 2.8% over the same period of 2011 to 2.169 million tons. The extended outage at Budyennovsk continues to affect monomer volumes and is the main cause for lower production levels for polyolefins.

Ethylene production fell by 8.4% to 978,000 tons in the period January to May; propylene fell by 14%, to 501,500 tons whilst xylenes fell 9.2% to 210,500 tons. Benzene dropped 0 8% to 461,300 tons but styrene increased by 3.5% to 225,600 tons and phenol by 2.6%, to 116.400 tons.

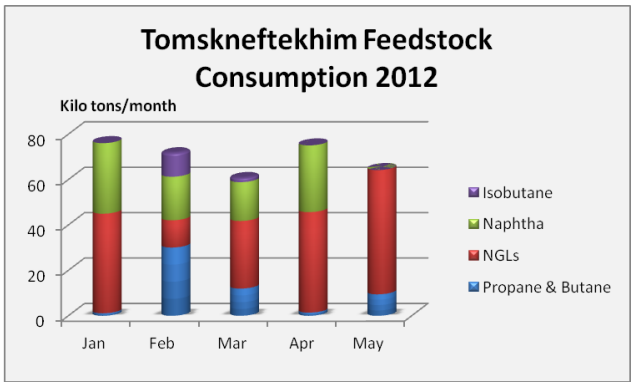
PVC and polystyrene have been largely unaffected by tighter ethylene and benzene, and production for both products has surpassed volumes achieved in January-May 2011. However, the production of polyesters, polycarbonates, alkyd and epoxy resins decreased by 3.7% to 214,000 tons, and polyamides fell by 23.1% to 48,600 tons. Production of formaldehyde resins increased by 4.3% to 378,000 tons. In the mineral fertiliser sector, production dropped 3.7% in the period January-May 2012 against last year to 7.707 million tons. Trends are not expected to alter significantly in the next few months, polypropylene is the only product where a new entrant is possible.

Feedstocks & Petrochemical Projects

Russian petrochemical feedstocks

Feedstock consumption in the petrochemical industry has been fluctuating quite widely this year, with naphtha supplies increasing in the second quarter at the expense of LPGs and SHFLU. Although the long term trend is for petrochemical producers to gradually switch to gas liquids and ethane, naphtha still retains an important role for the industry. By contrast, however, Russian refiners are much less dependent on the petrochemical industry for naphtha sales as this outlet accounts for only a small share from total sales which are dominated by exports. Exports of naphtha from Russia have been boosted this year following the launch of the Taneko refinery at Nizhnekamsk, which supplied 288,500 tons to foreign customers in the first four months in 2012. Despite the overall increase, export shipments of naphtha have started to decline in the past couple of months due to shortages from the oil and gas condensate sector, as well as the redistribution of primary factions in favour of increasing the production of motor gasoline.

NGL or SHFLU shipments by rail to the Russian domestic petrochemical market declined by 6% in May against April due to the reduction in shipments from Yuzhniy-Balyk (down 22,600 tons) and the Astrakhan gas processing plant (down 16,400 tons). Rail deliveries from the Yuzhniy-Balyk Gas Processing Plant declined due to increased volumes transported by pipeline to Tobolsk-Neftekhim. Deliveries of SHFLU for pyrolysis at petrochemical plants amounted to 64,400 tons in May, 44% down against April. Reducing consumption of gas fractions was due to the increase of processing other types of pyrolysis feedstock. Tomskneftekhim increased naphtha purchases at the expense of gas liquids in May.



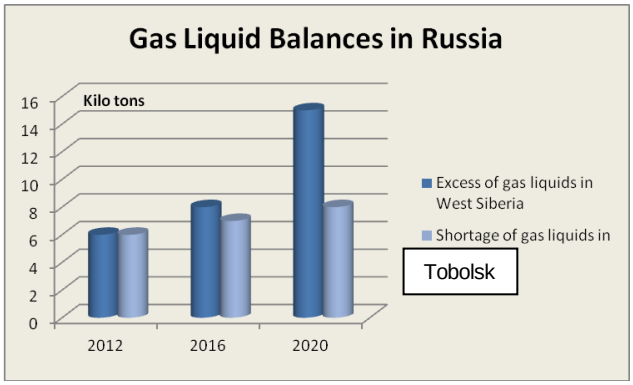
Russian supplies of butadiene-butylene fractions totalled 20,500 tons to the domestic market in May, the same as in April. Tomskneftekhim increased shipments by 13%, to 5,900 tons whilst SIBUR-Neftekhim reduced shipments by 8%, to 4,400 tons. In addition, Gazprom Neftekhim Salavat reduced shipments from 1,100 tons in April to 817 tons in May. In the first five months of 2012 Russian sales of butylene-butadiene fractions on the domestic market totalled 109,800 tons which was 29% less than in 2011. In addition to the Stavrolen outage SIBUR-Neftekhim reduced shipments in the first five months in 2012 to 25,800 tons. This was against 31,700 tons in the same period last year.

SIBUR-Purovsky pipeline equipment contract & Linde to design 1.5 million tpa cracker

SIBUR and Chelyabinsk Tube Rolling Plant (ChTPZ) have concluded a three-year contract for the delivery of tubular products for the construction of NGL pipelines from Novatek's Purovsky Plant of Gas Condensate to Tobolsk-Neftekhim. Deliveries of pipe will be carried out in several batches during the 2012-2014 period. The capacity of the plant in the first stretch between Purovsky and Yuzhniy-Balyk GIC will involve 4 million tpa of NGLs, whilst the second stretch from Yuzhniy-Balyk GIC to Tobolsk-Neftekhim will comprise a capacity of 8 million tpa.

Construction of the NGL-pipeline is part of the expansion of facilities for transportation of raw materials in West Siberia. The project, in addition to the construction of a new pipeline, involves the expansion of the existing product pipeline from the Yuzhniy-Balyk GIC to Tobolsk-Neftekhim. The total length of the pipeline is 1,100 km which will be capable of transporting natural gas liquids with a high content of ethane. SIBUR is in the process of planning large scale investments in petrochemicals at Tobolsk through the subsidiary Zapsibneftekhim (West Siberian Petrochemicals), and the pipeline from Purovsky is required to support 1.5 million tpa of ethylene and related products.

Stroytransgaz has been selected to build the part of the pipeline for the transportation of SHFLU from Purovsky to Tobolsk-Neftekhim. The capacity of the pipeline from Purovsky to Yuzhniy Balyk will comprise 4 million tpa, considered as the northern section, whilst from Yuzhniy Balyk to Tobolsk it will rise to 8 million tpa and this is considered to be the southern section. Linde has recently signed a contract with SIBUR for the design of the 1.5 million tpa cracker to be constructed at SIBUR's subsidiary Zapsibneftekhim at Tobolsk.

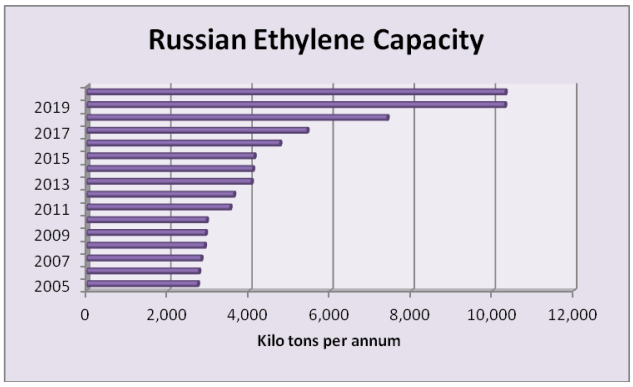


Yamal-Volga gas liquid pipeline

By September this year Bashkortostan, Tatarstan and Yamal hope to confirm and create a proposed consortium for the construction of a gas liquid pipeline to link the Yamal region of West Siberia to the Volga region for the petrochemical industry. The product pipeline Yamal-Volga is seen in some circles as an indispensable condition for the six-cluster strategy, which forms the basis of the oil-gas chemistry plan for the Russian Federation up to 2030. The consortium will be created for the construction and operation of a gas liquid pipeline from Yamal-Nenets to petrochemical companies in the Volga cluster.

In 2011, it looked as if the prospects for building the pipeline had all but gone but the project revival may be down to the persistence of Bashkortostan and Tatarstan. However, another aspect is the decision to construct a large-

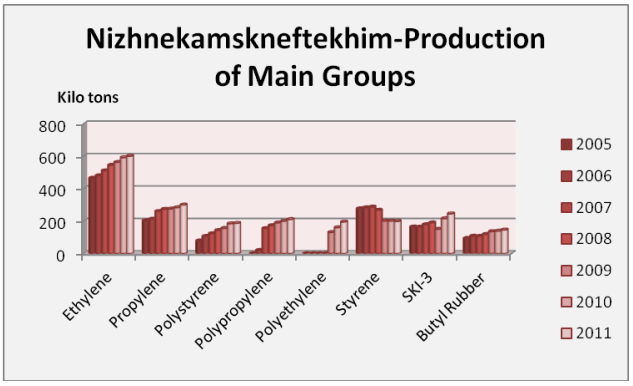
scale petrochemical complex at Tobolsk which will absorb a large volume of feedstocks. This has altered SIBUR's approach towards its Chord pipeline project, linking Yamal and the Baltic coast, as there may be insufficient feedstocks to justify the investment. Even so there will still be a surplus of some degree in the Yamal region and the Volga region may provide an outlet. Petrochemical producers such as Kazanorgsintez, Nizhnekamskneftekhim and Gazprom Neftekhim Salavat, are strongly in favour of building a new pipeline to provide a combination of supplementary and alternative feedstocks to meet the demand from new capacities. Equally these producers are not completely dependent on this pipeline being constructed, and are aware that financial constraints may present the biggest challenge to the project being completed.



Nizhnekamskneftekhim-ethylene expansion

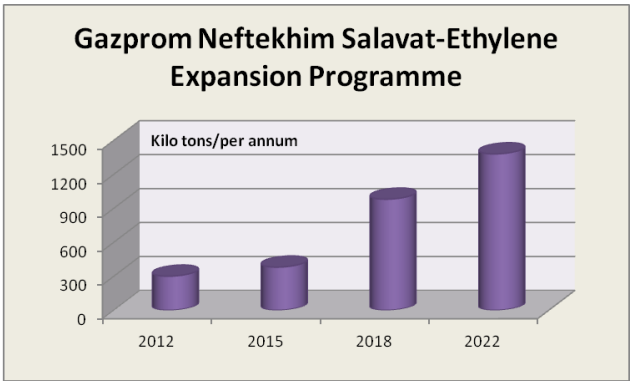
Nizhnekamskneftekhim has again revised its plans for its ethylene investments and this time has decided to accelerate the construction of the new ethylene complex with a capacity of 1.0 million tpa. The aim is now to bring the production date forward from 2017 to 2016 driven partly from pressure from the Tatarstan government which wishes to increase industrial production in the republic.

Tatarstan maintains a strong degree of independence within Russia on industrial policy and is thus able to guide and support its petrochemical industry and companies in a far more efficient way than the federal government in Moscow. Opposite it is possible to examine the changes in ethylene capacity that can be expected up to 2020. Although there may be doubts over certain projects being completed in line with schedules there seems to be strong reason to envisage that ethylene capacity will surpass 10 million tpa by 2019-2020.



In addition to the construction of the new ethylene cracker, Nizhnekamskneftekhim intends to build two separate lines of 300,000 tpa for polyethylene, and one line for 400,000 tpa of polypropylene. These plants will add to the existing facilities for HDPE and polypropylene. To date, Nizhnekamskneftekhim has signed contracts with Lummus to undertake the projects. These contracts were expanded in mid-June to include Russian design documentation for the new complex. ING has been selected as the bank responsible for raising the funds.

In terms of raw materials, local naphtha supply will be in surplus by the time the new cracker starts as the Taneko refinery at Nizhnekamsk is currently in the second stage of investment leading to a doubling of capacity. In view of the agreement between Bashkortostan, Tatarstan and the Yamal region to construct a new product pipeline gas liquids could also be available in abundance, but should this not happen deliveries are still possible by rail. Full production data and current capacity data for Nizhnekamskneftekhim is available on the Statistical Database at www.cirec.net.



Gazprom Neftekhim ethylene expansion

Gazprom Neftekhim Salavat has stated that its programme to expand ethylene capacity in the next decade will comprise three main stages, in contrast to the plans laid out by Nizhnekamskneftekhim.

Initially the target for Gazprom Neftekhim Salavat is to complete the expansion of the existing ethylene plant to 380,000 tpa by 2015, before transferring attention to two separate sections for the proposed one million tpa of ethylene. Gazprom Neftekhim Salavat arranged pre-contracted to work on a pyrolysis unit last year with companies Toyo and KBR. The first part of the new ethylene facilities will be added in 2018, with 600,000 tpa of capacity, to be followed by 400,000 tpa by 2022. Full

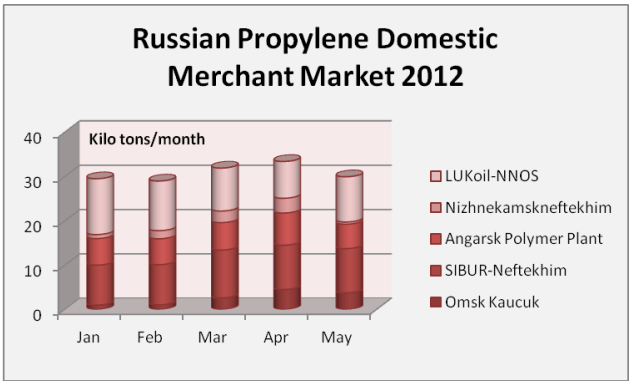
production data and current capacity data for Gazprom Neftekhim Salavat is available on the Statistical Database at www.cirec.net.

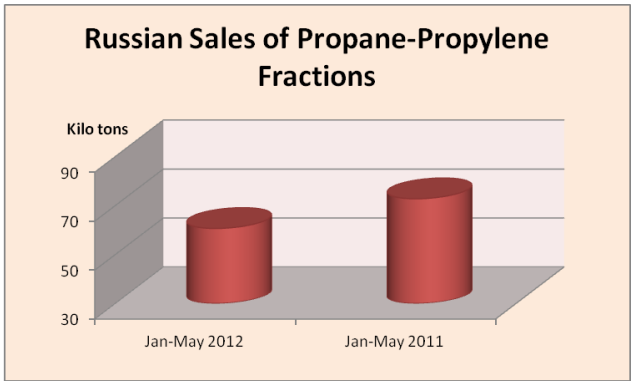
In addition to the above projects the company intends a number of changes in relation to feedstocks. By 2020, Gazprom Neftekhim Salavat estimates that gas feedstocks from refinery sources could reach 242,000 tons per annum. For these purposes, the company will build about 4,000 metres of new pipeline to supply natural gas and NGL removal, which it hopes to implement in 2012. At present, Gazprom Neftekhim Salavat occupies about 2% of the petrochemical market in Russia and the company wants to expand this to 13% by 2020 in addition to increasing the EBIDTA from petrochemical sales. Refinery modernisation will result in the installation of a new unit for catalytic cracking, and other units for hydrocracking and coking.

LUKoil-petrochemical division Q1 2012

Proceeds from the sale of petrochemicals by LUKoil in the first quarter of 2012 totalled $328 million, 36.4% lower than in January-March 2011. The decline was mainly due to lower sales volume in Russia, 150,000 tons, or 73.7% against last year, due to a fire at Budyennovsk which has prevented Stavrolen from producing olefins. Largely as a result of this outage sales on the domestic market were 4.6 times down for LUKoil in the first quarter down to $52 million, whilst exports remain unchanged at $276 million.

The cause of the accident at Stavrolen last year has been attributed to the aging of the metal on the coil, and this led to the breakdown of the equipment. The rest of the equipment at the plant appears to be in working order, but at the same time there has been criticism pointed towards the management of the plant where a number of mistakes took place prior to the accident on 15 December. As pointed out, this is not the first occasion where LUKoil has taken much longer than first expected to repair and restart a damaged petrochemical plant.





Russian propylene supply, Jan-May 2012

In the first five months of 2012 sales of propylene on the domestic merchant market amounted to 153,400 tons, 15% more than the same period in 2011. Despite the absence of production at Budyennovsk LUKoil-NNOS at Kstovo has more than compensated with an increase in sales to the domestic market. Domestic merchant sales of propylene dropped in May due to less shipments from Nizhnekamskneftekhim. Regarding trade, Russian exports of propylene totalled 14,300 tons in the period January to May this year, which was 36% less than the same period in 2011.

In the first five months of 2012 Russian production of propylene totalled 484,000 tons, 10% less than in the same period in 2011. Exports have been affected by the Stavrolen outage and were down 32% in the first five months against the same period last year to 13.440 tons. For propane-propylene fractions shipments to the domestic market dropped 20% in the period January-May 2012 against last year and totalled 60,600 tons. A number of outages are behind the fall. TNK-BP at Ryazan has recorded the largest fall following an extended outage, but started supplying to the domestic market at the end of May.

Russian styrene market

Domestic merchant sales of styrene monomer in the period January-May 2012 totalled 38,000 tons which was almost the same as in 2011. From the start of July to the middle of August Gazprom Neftekhim Salavat has scheduled a shutdown for both benzene and styrene. Styrene exports totalled 7,350 tons in May, 65% up on April, which was due to a number of factors. Total exports for January to May 2012 amounted to 49,180 tons which was 18% down on the same last year. The main country-consumers of Russian product included Finland (57% of gross exports), Turkey (19%) and China (12%).

Bulk Polymers

Russian polystyrene market, Jan-May 2012

Imports of general purpose polystyrene into Russia have increased rapidly since the beginning of 2012 and were up 13% for the period January-May 2012 to 19,000 tons. Imports

totalled 6,200 tons in May, the highest amount recorded for a number of years. Gazprom Neftekhim Salavat plans to stop production lines for polystyrene for maintenance in early July, and may not restart until the end of August. This is not expected to lead to a shortage in the domestic market as Nizhnekamskneftekhim should be capable of meeting any shortfalls from the Salavat shutdown. Thus, imports may not be required more than current levels to meet demand. In the ABS sector, Plastik at Uzlovaya expects to resume production on 15 July after closing in May for a maintenance period. The company had built up inventory to cover the outage.

Russian Polystyrene Production (unit-kilo tons)

Producer	*Jan-May 12*	*Jan-May 11*
Angarsk Polymer Plant	5.0	5.8
Nizhnekamskneftekhim	79.8	78.9
Gazprom Neftekhim Salavat	10.5	13.2
Plastik	8	12.5
SIBUR-Khimprom	17.6	9.2
Pizhi Prof (Styrovit)	18.7	14.7
Totals	139.7	134.3

High demand for polystyrene in the construction sector contributed to the increase of production volumes by Pizhi Prof (formerly Styrovit) at Kirishi. In May, the company produced 3,600 tons of general purpose polystyrene, and for the period January to May this year produced 18,700 tons which was 20% up on 2011. Penoplex, which belongs to the same group, aims to start its sixth and seventh plants in Russia in July and August for the processing of polystyrene. The new plants have been constructed at Irkutsk and Khabarovsk, the latter possessing the capacity to produce 100,000 cubic metres per annum of thermal insulation. Both plants will be working on new environmentally friendly technologies without the use of ozone-depleting refrigerant.

After the Khabarovsk plant achieves full capacity Penoplex should be able to produce more than 200,000 cubic metres per annum of thermal insulation in East Siberia and the Russian Far East. Existing plants are located at Kirishi, Taganrog, Novosibirsk, and Perm in Russia and Kapshagay in Kazakhstan. By August, after the opening of the plants at Irkutsk and Khabarovsk the total production capacity will rise to 2.320 million cubic metres of insulation per annum.

Nizhnekamskneftekhim-ABS project close to completion

Nizhnekamskneftekhim has begun installation of its ABS plant with metal structures starting to be erected. Four reactors are set to be installed; and to date about 12% of equipment has been completed with about a third of pipeline requirements undertaken. The ABS plant is being designed with a capacity of 70,000 tpa, and Nizhnekamskneftekhim hopes to complete the project before the end of 2012. Two types of product will be produced including extrusion and injection moulding which will challenge imported plastics that dominate the Russian market. In 2011, imports of ABS accounted for 72% or 36,600 tons in Russian consumption. Increased demand for ABS in 2012 led to an increase in imports by 17% over 2011 by 7,500 tons.

Russian Polypropylene Production (unit-kilo tons)

Producer	*Jan-May 12*	*Jan-May 11*
Ufaorgsintez	48.9	40.9
LUKoil-Neftekhim	20.6	52.7
Neftekhimya, Moscow	46.5	48.3
Nizhnekamskneftekhim	87.9	88.9
Tomskneftekhim	58.9	56.0
Totals	262.8	286.8

Russian polypropylene market, Jan-May 2012

Russian polypropylene production increased by 14% in May compared to April and amounted to 60,500 tons. Aside Nizhnekamskneftekhim, which suspended production for several days in May, all producers increased volumes. Overall for January-May 2012 production totalled 262,900 tons, which was 8% down on the same period last year.

Imports of polypropylene in the Russian market increased in May to 24,000 tons from 18,657 tons in April. A strong decline in imports was started to be seen in June in response to declined values for the rouble against other currencies, making domestic purchases more affordable and imports less attractive. The largest volume of imports in May came from Turkmenistan, amounting to more than 9,000 tons, whilst South Korea increased shipments up to 3,000 tons. In total, Russian imports of polypropylene totalled 99,000 tons in January to May 2012 which was 15% up on last year. To support domestic production Stavrolen increased capacity utilisation of its polypropylene plant to 80% in May and increased further in June.

Ufaorgsintez plans a scheduled shutdown in mid-July, lasting up to seven days. Another maintenance shutdown took place at Ufaorgsintez in April, and there be a third shutdown this year in the autumn. Ufaorgsintez is in the process of being transferred from the ownership of Bashneft to United Petrochemical Holding, which is partly owned by Yakov Goldovsky (former SIBUR CEO).

The Omsk polypropylene plant has obtained permission of the Construction Department at the Municipality of

Omsk allowing the commissioning of production. The most sensitive area of production has involved the processing of propane-propylene fractions, and necessary approvals have now been received the production of polypropylene could be started in the near future according to Polyom. Regarding Tobolsk-Polymer, SIBUR plans to finish construction of the polypropylene plant by August 2012. The start of the complex is scheduled for the first quarter of 2013, after start-up operations are conducted between September until early next year.

Aromatics & derivatives

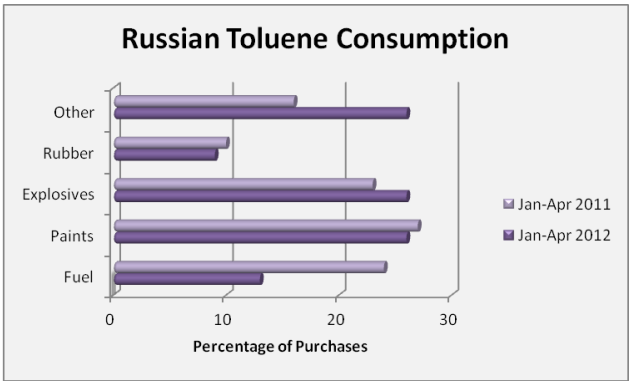
Russian benzene supply, Jan-May 2012

Russian production of benzene totalled 87,700 tons in May, which was 2% less than in April due to short term maintenance at Gazprom-Neft's Omsk refinery and LUKoil-PNOS at Perm. Coal based producer West Siberian Metallurgical Combine increased production from 3,824 tons in April to 5.900 tons, and Gazprom Neftekhim Salavat recorded a 49% increase to 11,000 tons. Benzene production in Russia totalled 461,300 tons in the first five months in 2012, slightly down on last year.

Sales of benzene on the domestic merchant market amounted to 52,800 tons in May which was 15% down on April. Despite the fall in May domestic sales were up 5% on the first five months of 2012 against last year and totalled 317,400 tons. Gazprom Neft reduced shipments 3.1 fold to 2,500 tons due to the requirements of maintenance, whilst the Angarsk Polymer Plant and Slavneft-YANOS reduced sales to 3,700 tons (24% less than April) and 4,400 tons (19% down), respectively. At the same time after repairs were undertaken by Uralorgsintez in April shipments from the Chaikovsky plant in the Perm region were increased 29% in May to 5,900 tons.

The accident at the Stavrolen cracker on 15 December last year remains the main cause of the current supply side tightness in Russia. Stavrolen shipped 66,600 tons of benzene to the domestic market in 2011, constituting 9% of Russia's gross supply. The market situation has been helped by the restart of the West Siberian Metallurgical Combine in November last year and also imports. Benzene from Ukrainian plants Yasinovsky Coke and Zaporozhkoks is regularly shipped to Samaraorgsintez and Kuibyshevazot as an alternative source of raw materials. From the start of July to the middle of August Gazprom Neftekhim Salavat will undertake a shutdown for both benzene and styrene, thereby maintaining the supply side constrictions.

One of the main merchant consumers Kuibyshevazot reduced benzene purchases by 58% in May against April to 6,400 tons of which 4,780 tons was supplied from domestic sources and 1,600 tons was supplied from Ukraine and Kazakhstan. The decline in purchases by Kuibyshevazot was due to maintenance outages by Gazprom Neft at Omsk between 25 April to 28 May and Karpatneftekhim in Ukraine from 25 April. The main suppliers of raw material for caprolactam production by Kuibyshevazot in May were Slavneft-YANOS (2,090 tons), Severstal (1,260 tons) and Zaporozhkoks (930 tons). In the period January to May 2012, Russia imported 22,130 tons of benzene of which 95% came from Ukraine.



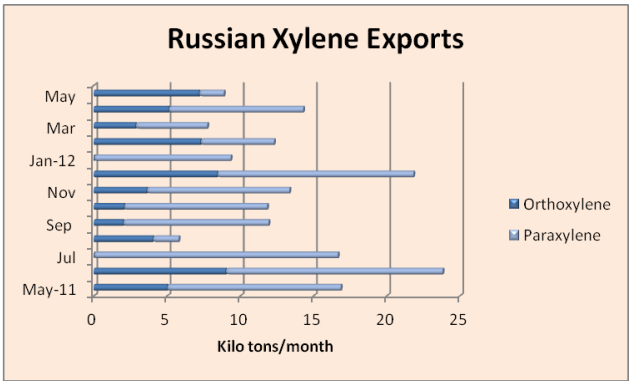
Russian toluene market, Jan-Apr 2012

Russian toluene production totalled 110,800 tons in the first four months in 2012, 13% up on the same period last year. Consumption is rising in the Russian market which has required increased capacity utilisation, but even higher output has not avoided a deficit at the beginning

of the main season for sales. The increase in production was triggered mostly by growing domestic demand due to purchases of producers of industrial explosives and paints. In addition to explosives, it is widely used as a solvent in paints and rubbers, as well as high-octane additive to motor fuels. Smaller amounts of toluene are used in the manufacture of flotation reagents, agrochemicals and other products.

Production of toluene in the Russian Federation is undertaken at a number of oil refineries and coke plants. More than 60% of total Russian production of toluene for the first four months of 2012 was produced at three largest refineries, Gazprom Neft, Slavneft-Yaroslavnefteorgsintez and LUKoil-Permnefteorgsintez. All of the toluene production is consumed in the country, with no trade shipments. Major consumers include the Biysk oleum plant which it uses for explosives, Nizhnekamskneftekhim for rubber production and Remstroy uses toluene as a high-octane additive to motor fuels.

Total deliveries to the domestic merchant market January to April 2012 amounted to 50,400 tons which was a 23% increase over the same period in 2011. Paints rose almost twice whilst increases were noted in most other applications aside motor fuels. Toluene consumption as a solvent for rubber increased by 19%. The share of explosives in the total amount of consumption has increased from 23% in the first four months in 2011 to 26% in 2012, whilst paints increased from 16% to 26%. The share of petroleum producers in total consumption decreased from 22% to 13%.



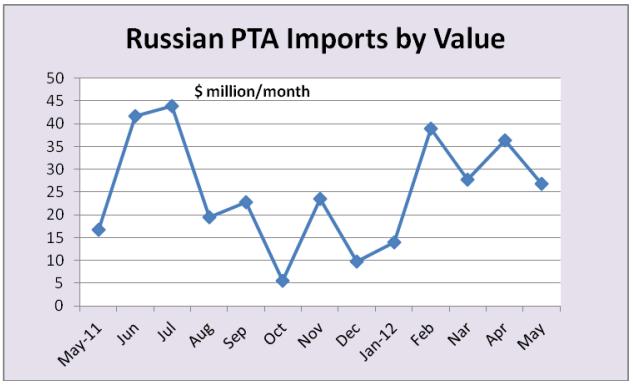
Russian orthoxylene exports, Jan-May 2012

Sales of orthoxylene on the Russian domestic market amounted to 7,140 tons in May which was 29% lower than in April and 43% lower than in May 2011. Total sales of orthoxylene to the domestic market amounted to 55,350 tons in the period January to May 2012, 4% down on the same period last year. In the domestic market a slight deficit emerged whilst at the same time the cost of production continues to increase. Orthoxylene supply in Russia has tightened in recent months, and this resulted in lower export activity. Orthoxylene exports totalled 22,411 tons in the first five months of 2012, 18% down on the same period last year. Finland accounted for 65% of exports in this period, followed by China 20% and Ukraine 15%.

Russian PET market-beer ban poses challenge

The Union of Russian Brewers and representatives of related industries are set to appeal to the Russian government to consider the possibility of postponing the introduction of the ban on the use of PET packaging for beer before 1 January 2014. Such restrictions could cause serious consequences not only for industry but also for related sectors of the economy including trade, agriculture, and petrochemicals. With beer accounting for a significant percentage of PET consumption in Russia a ban on its usage would leave producers of PET with a large surplus whilst beer manufacturers would be faced by higher packaging costs for alternative materials.

The ban on using PET for packaging beer also applies to the other two countries in the Customs Union, including Kazakhstan and Belarus. Kazakh officials and brewers have recently recommended the elimination of the technical regulations of the Customs Union on the use of PET in beer packaging. However, there is a wide division of thought about a possible ban inside Russia, whether it contravenes WTO rules and how much will lost in income and jobs. Arguments against the ban suggest that PET packaging is an important part of the economy and in recent years the petrochemical sector has invested considerable sums to develop the PX-PET chain with further investments planned. By banning beer packaging from PET, the industry will be put back a number of years whilst increasing costs for the consumer. Opponents of the PET bottle have pointed to unsafe packaging and the desire to reduce alcoholism.



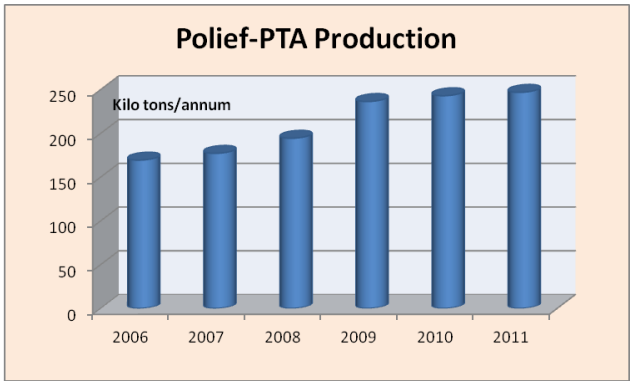
Gazprom Neft- possible PTA plant?

Gazprom Neft continues to examine prospects for the construction of PTA and PET plants at the Omsk refinery, where paraxylene is produced and either exported or sold on the domestic merchant market. A significant proportion of the structure of the plant is

directed towards aromatic hydrocarbons: including benzene, paraxylene, and orthoxylene. The improved process introduced in 2009 allows the company to produce paraxylene and benzene to 99.95% and 99.98% respectively.

PTA is a product in short supply in Russia with imports roughly pro rata operating at around 300,000 tpa at present. Import values started to rise last year with the start of production at Alko-Naphtha; there was an initial surge in import activity before settling and levels are fairly constant at the moment at around $25-30 million a month.

At the same time as imports of PTA are required Russia exports a considerable volume of paraxylene. Building a PET plant may be less viable in view of a number of plants already in existence, and particularly that imports have started to fall noticeably since the start-up of the Kaliningrad plant last year. There is also a large-scale PET plant starting construction in southern Russia in the Nalchik region. However, Gazprom Neft believes that to secure the maximum value from the PX-PTA chain in that it may also need to produce PET. It is possible that some form of co-operation with SIBUR might be considered, as SIBUR already holds a key position in the marketplace through SIBUR-PETF and Polief. Further details could be made available later in the year.



Polief 2011

The sole producer of PTA in Russia is Polief which produced 246,883 tons in 2011. From the total 117,348 tons were used captively and the remainder sold almost exclusively to Russian PET producers. PET production totalled 137,528 tons in 2011, which exceeded the capacity 120,000 tpa. Polief supplies PTA principally to Senezh at Solnechnogorsk and SIBUR-PETF at Tver.

Synthetic Rubber

Russian Synthetic Rubber Production (unit-kilo tons)

Producer	*Jan-May 12*	*Jan-May 11*
Efremov Synthetic Rubber Plant	11.2	20.7
Kazan Plant for SR	2.8	3.3
Krasnoyarsk SR Plant	17.8	16.7
Nizhnekamskneftekhim	246.6	226.9
Omsk Kaucuk	25.5	24.1
Sintez-Kaucuk, Sterlitamak	53.6	50.0
Sterlitamak Petrochemical Plant	17.5	21.8
Togliattikaucuk	64.0	71.2
Voronezhsintezkaucuk	102.7	95.7
Total	541.7	530.4

Russian synthetic rubber market, Jan0May 2012

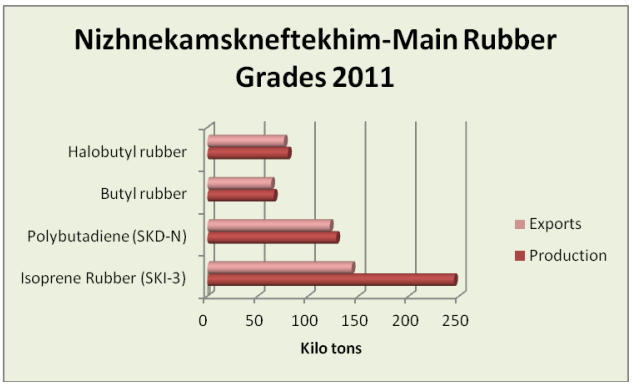
Russian synthetic rubber production increased slightly in the first five months in 2012 over last year due to increases at several plants. However, production at Efremov was affected by butadiene supply, whilst operations at Togliattikaucuk were affected by an enforced outage at the end of April and start of May. Production at Sintez Kaucuk and Sterlitamak Petrochemical Plant operates on the same site and both companies have been combined to run under the same managing company Tau Neftekhim since 2011. For a detailed quarterly breakdown of synthetic rubber production by product, i.e., butadiene, isoprene, butyl, etc, please visit the Statistical Database at www.cirec.net.

Consumption of synthetic rubber in the domestic market dropped in June due to a seasonal drop in demand from the tyre sector. Low demand and the continued decrease in the value of butadiene in world markets have pushed prices of methylstyrene and acrylonitrile brands downwards by an average of around 6%. In July, the consumption of rubber in Russia could start to rise slightly as tyre manufacturers start to revive output.

The second quarter is traditionally a quiet time in the Russian tyre market; i.e., Russian consumption of synthetic rubber fell in April by 14% against March to 43,900 tons. Shipments to foreign markets decreased by 17% in April to 60,600 tons, whilst imports of these products into Russia fell 9% to 6,300 tons. The largest exporter in April was Nizhnekamskneftekhim accounting for 36,300 tons, followed by Voronezhsintezkaucuk with 9,500 tons and Omsk Kaucuk with 1,200 tons. Exports of synthetic rubber amounted to 284,100 tons in the period January-April 2012 which was 9% up over the same period last year and more or less consistent with the increase in production. Important destinations for Russian exports include Belgium, Poland and China 9%.

In the period January to May 2012 production of car tyres in Russia rose by 6.1% against last year to 13.7 million

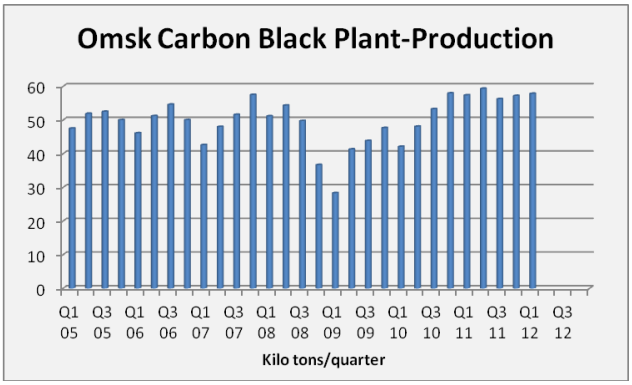
pieces, whilst truck and large vehicle tyres dropped 17.6% to 3.178 million pieces and tractor tyres dropped 18.8% to 606,800 pieces. The production of solid rubber or cushion tyres, interchangeable treads and flaps, grew by 45.3% to 3.094 million pieces.



Nizhnekamskneftekhim-rubber exports 2011

Nizhnekamskneftekhim exported 71% of its isoprene rubber in 2011, increasing 13% over 2010 or the same percentage as production increased. Isoprene rubber does have a market inside Russia, unlike the other large volume rubbers which are produced by Nizhnekamskneftekhim and are heavily oriented towards export.

Butyl rubber exports amounted to 96% of production, which was slightly down on 2010 due to the increase in halobutyl rubber activity. For halobutyl rubber, production increased from 62,000 tons in 2010 to 80,000 tons in 2011, with 95% of production exported. Nizhnekamskneftekhim accounted for around 15% in 2011 of the global market for butyl and halobutyl rubber. Production of butyl rubber is certified for compliance by the international standard quality management system ISO 9001. The other large volume exported product is polybutadiene (SKD-N), with foreign shipments accounting for 95% of the 128,015 tons produced in 2011. The share of Nizhnekamskneftekhim in global markets for butadiene rubber was 6% in 2011.



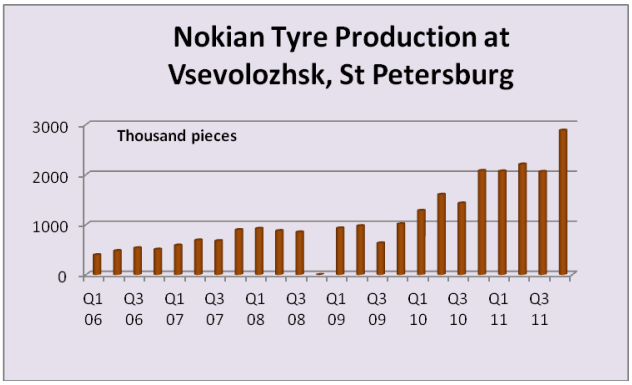
Omsk Carbon Black Plant

The West-Siberian branch of Sberbank has decided to open a credit line for Omsktekhuglerod (Omsk Carbon Black Plant) with a limit of 400 million roubles for a period of 1.5 years. The finance is intended to expand and modernise Omsktekhuglerod, increasing capacity from 203,000 tpa at present to 265,000 tpa. Omsktekhuglerod's main consumers include Nokian Tyres, Michelin, Continental, Pirelli, etc.

Export shipments of Russian carbon black in April amounted to 38,800 tons which is 1% less than in March, and by 3% less against the same period last year. Even so the share of production supplied to foreign markets has expanded from 59% to 63%. The main areas of supply of products were Poland (31% of total shipments), Hungary (16%), Austria (10%) and Belarus (9%).

Russian tyre news

Yokohama opened a new tyre plant at Lipetsk at the end of May. The capacity of the plant is 1.4 million pieces per annum with a total investment cost of 4.8 billion roubles. The company is planning to construct the second phase by 2015 and the third phase by 2017. Total investments in the project could total 11.7 billion roubles, whilst capacity will reach 3.5 million pieces per annum. The plant is owned by a jv between Yokohama Rubber and Itochu), and has been designed to produce both winter and summer tyres for the Russian market. Russia ranks fourth in terms of size for Yokohama Rubber, after Japan, USA and China.



In early June Nokian Tyres started production on its site at Vsevolozhsk, for which construction started in 2011. Nokian expects to run two production lines with a design capacity of 1.5 million tyres per annum. The plant will produce tyres for passenger cars, SUVs and light trucks. Before the end of 2014 Nokian plans to introduce two additional lines in order to increase total annual capacity of the plant up to 6 million units. In the first quarter this year Nokian Tyres produced 3 million tyres, and production was up 44% over the first quarter in 2011. The share of Nokian Tyres in Russian car tyre manufacture has now risen to 35%.

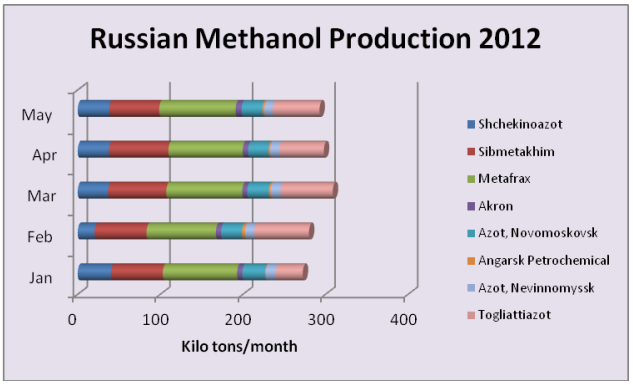
Other tyre manufacturers are considering investment in Russia due to rising demand for car tyres in particular. Chinese company Triangle Group has been the latest company to consider construction of a tyre plant in Russia. From January to April of 2012 Triangle Group increased the import of tyres for light trucks relative to the same period in 2011 by 2.8 fold to 29,600.

If approved, Russian company Kordiant (previously SIBUR-Russian Tyres) intends to invest about $400 million over a period of 6-7 years in the development of production car tyres and the start of production of super large tyres at Omskshina. The investment programme requires approval from shareholders. Kordiant plans to develop tow areas at Omsk, including an increase of car tyre capacity from 3.5 million pieces per annum to 6 million, and the introduction of 20,000 pieces per annum of super large volume tyres. The holding company Kordiant consists of Yaroslavl Tyre Plant, Voltyre-Prom (Volzhskiy, Volgograd region), Omskshina, Kordiant-Vostok (Omsk) and Uralshina (Ekaterinburg).

Methanol & related chemicals

Russian methanol market, Jan-May 2012

Methanol production in Russia remained stable in May. Prices are not changing much in the Russian domestic market where they range 9,800-15,340 roubles per ton, depending on volume and location. The cost of methanol from trading companies varies in the range 10,500-14,000 roubles per ton including VAT. In the second half of May Novokuibyshevsk Petrochemical Company started to produce TAME for gasoline production at 300,000 tpa, adding a new methanol consumer to the domestic market. Purchases could reach 5,000 tons per month when the Novokuibyshevsk plant starts running at full capacity.



The largest suppliers of methanol in the domestic market remain Metafrax, Sibmetakhim and Togliattiazot. In May the companies sold 27,700 tons, 17,500 tons and 24,000 tons respectively. Total sales to the domestic market were down 15% against April to 78,500 tons. The main focus of Sibmetakhim is the domestic market and sold almost 30% less than in April. This in turn was due to reduced consumption of methanol by gas companies. Russian exports of methanol totalled 133,000 tons in May 2012, 2% up on April. Rising commodity product sales outside the country are due mainly to the high demand for the product. Metafrax, Sibmetakhim and Shchekinoazot accounted for 75% of exports in May.

Environmental opposition to methanol projects

A petition has emerged against the proposal by Adnoc to construct a methanol plant in the Krasnodar region near Taman. The project is seen by environmentalists as harmful to the area and it is now clear how the local inhabitants might benefit from such a plant. The construction of the plant could lead to the destruction of the cultural, historical, and archaeological and resort development in the area.

A similar petition and motion has not been successful in Nizhniy Tagil, as after public hearings the new 600,000 methanol project has been given the go-ahead. In addition to methanol, a number of other plants will undergo construction forming the basis of chemical industrial park at Nizhniy Tagil. The project was approved despite objections from environmentalists and who afterwards said that the hearings failed to examine environmental safety from the proposed methanol plant.

Fosagro-new ammonia plant

Fosagro expects to select two of the four contractors for its new ammonia plants by mid-July. The capacity of the new plants is expected to total 760,000 tpa and Fosagro hopes to complete negotiations by the end of this year. The estimated cost of construction of a new ammonia plant at Cherepovets, with a capacity of 760,000 tpa, could reach about $600 million. Gazprom has confirmed the technical feasibility of providing Fosagro 800 million cubic metres of gas from 2016 for new production in Cherepovets.

Construction of the new unit will increase the overall capacity of ammonia for Fosagro up to 1.9 million tpa. At the end of 2011, Fosagro increased total capacity from 1.01 to 1.15 million tpa. Increased capacity will allow the company to increase processing of apatite concentrate and consequently, increase the production of fertilisers. In

the long term, the company plans to increase the production of phosphate fertilisers from 4.1 to 7.2 million tpa.

Azot commissionng melamine plant

The first products from the new melamine plant at Nevinomyssk are expected to be shipped in the next month or two. Russia imports about 35,000 tpa of melamine at present and thus the new plant will in theory at least cover the full needs of Russia and the CIS. The volume of investment by Evrokhim in this project will amount to about 10.5 billion roubles. The latest technology has been used for the project leading to the production of low-pressure melamine.

The holding company Evrokhim also plans to invest around $1 billion in Azot at Nevinomyssk to build a fertiliser complex including ammonia at 700,000 tpa, in addition to derivative plants. Ammonia from the new complex will be shipped to Belorechensk Minudobrenya, which is also part of Evrokhim. This project could take four to five years to construct.

Russian Urea Production (unit-kilo tons)

Producer	*Jan-Mar 12*	*Jan-Mar 11*
Akron	120.7	124.0
Azot Kemerovo	132.9	128.4
Azot Novomoskovsk	131.8	148.2
Azot (SIBUR)	179.4	174.3
Kuibyshevazot	335.6	363.6
Minudobrenya	55.3	47.3
Azot Nevinomyssk	89.0	90.2
Azot Cherepovets	173.5	169.2
Gazprom N Salavat	148.9	160.2
Togliattiazot	111.3	183.4
Total	1478.4	162.3

Russian urea project news

Akron started its new 335,000 tpa urea plant at the start of April at Novgorod to add to the existing facilities of 450,000 tpa. The rise in capacity to 785,000 tpa will not only increase sales of commercial urea, but also expand production capacity of urea-ammonia up to 1 million tpa and increase the production of urea-formaldehyde resins. The company started the project Urea-1000 in 2008, and a full-scale construction of a new urea unit was started in 2010. The total investment in the project totalled $95 million.

Akron plans to build a new ammonia plant with a capacity of 700,000 tpa, which should be completed in 2015 and could require around $400 million. Akron is also focused on the reconstruction of the methanol plant, but it does not appear to be a priority project. Gas prices have been increasing for Akron in the past two years as part of Gazprom's transition to the regulation of wholesale prices and thus reducing production costs is a key priority.

Gazprom Neftekhim Salavat has completed construction of a urea granulation and received an experimental batch of about 60 tons in February. In early March, granulated urea will be produced on experimental-industrial run. In total the project has cost 1.2 billion roubles. Granular urea is seen as superior in its characteristics being several times stronger, less cake and easy to transport over long distances. In the long-term plans of the company include the export of granulated urea. A license for the new production unit was provided Toyo Engineering Corp.

Organic chemicals & plastics

Russian butanol market, Jan-May 2012

Russian companies produced 25,883 tons of butanols in May which was 20% higher than in April, and 45% higher than May 2011. The share of normal butanol in gross output in May was 62%, and isobutanol 38%. Gazprom Neftekhim Salavat accounted for 50% of production, SIBUR-Khimprom 29%, Angarsk Petrochemical Company 13%, and Azot Nevinomyssk 8%. Russian production of butanols totalled 113,125 tons in the period January-May 2012, which is up against last year. The share of normal butanol in gross output from January to May this year was 62%, and isobutanol 38%.

Domestic sales of butanols amounted to 7,190 tons in May which is 44% higher than April and 65% higher than in May 2011. The proportion of normal butanol in gross sales on the domestic market was 87% and isobutanol 13%. Gazprom Neftekhim Salavat sold 4,060 tons in the domestic market in May (57% of total deliveries), SIBUR-Khimprom 2,320 tons (32%), Angarsk Petrochemical Company 750 tons (10%), and Azot Nevinomyssk 600 tons (1%). The largest amount of butanols were shipped in May to the Dmitrievsky chemical plant, which

uses the product for the production of butyl acetate. Overall, from January to May 2012 domestic butanol sales amounted to 31,150 tons which reflects a 17% increase over the same period in 2011.

Akrikat 2011

Akrilat's net income totalled 485.7 million roubles in 2011, which is almost 72 times more than in 2010. The improvement in net profit was influenced partly from gains on foreign currency transactions and partly from the sale of raw materials and other inventory items. Proceeds from sales decreased by 17% to 1.35 billion roubles. Gross profit remained almost the same as last year and amounted to 354 million roubles, whilst production costs reduced by 21% to 996.6 million roubles.

Since July 2010 the main activity of Akrilat has involved the processing of raw materials (propylene, butanols, acrylic acid) on behalf of SIBUR. On 1 December 2011, Akrilat handed over all movable and immovable property to rent SIBUR-Neftekhim. SIBUR took control of Akrilat in July 2011. Production facilities include 25,000 tpa of acrylic acid, 36,000 tpa of heavy esters (butyl acrylate), and 10,000 tpa of light esters (methyl and ethyl acrylate).

Plant Sintanol-polycarboxylate project

Plant Sintanol at Dzerzhinsk plans to undertake a project to build a unit for the production of polycarboxylates, based on technology developed by Russian scientists at Vladimir. In early 2013 the company plans to introduce a pilot plant with capacity of 10 tons which is costing about 100 million roubles. Polycarboxylates are surface-active agents that are widely used in construction as an additive to concrete, which improves their elasticity, fluidity, a set of strength, frost resistance. In addition, they were widely introduced in washing powders instead of phosphates. Currently, polycarboxylates are not produced in Russia.

In May 2011, Plant Sintanol introduced a first installation for sulphonation, investing about 500 million roubles. The capacity of the sulphonation unit is 37,000 tpa based on equipment supplied under a contract with Italian company Desmet Ballestra. At the same time the company is building a new ethoxylation unit with a capacity of 10,000 tpa which will be introduced in late summer this year. Plant Sintanol is Russia's leading manufacturer of surfactants. The company was founded in 2003 based on Kaprolaktam's former division offloaded by SIBUR-Neftekhim.

Russian plasticizer alcohols

Russian production of phthalic anhydride totalled 35,200 tons in the period January-April 2012, 8% down on the same period last year. From January to May 2012 phthalic anhydride imports into Russia from Lakokraska in Belarus amounted to 3,770 tons which is 85% up on the same period last year. The main volume of Belarusian phthalic anhydride in May 2012 was bought by Kaustik at Volgograd (444 tons or 62.5% of gross imports). The company then sells phthalic anhydride into the Ukrainian market. Other consumers in Russia include manufacturers of paints and varnishes, ABC Farben, Empils, and Russian Coatings, etc.

Russian imports of DOP amounted to 268 tons in May, 2.2 fold up on April. The growth of imports is due to the resumption of deliveries from South Korea and lower prices. The cost of product from Russian producers in early May increased, but the key factor behind higher imports was the outage started by Gazprom Neftekhim Salavat. The main supplier of DOP on the Russian market in May was the Korean company Aekyung Petrochemical, which shipped 168 tons, followed by the Ukrainian producer Polikem with 100 tons.

Shchekinoazot-hydrogen unit close to completion

Shchekinoazot plans to complete the installation of its new hydrogen unit in early July. Commissioning of the new hydrogen unit will then commence which is seen by the company as important to reduce the cost of caprolactam production. Moreover, a new scheme for ammonia will significantly reduce the cost of its production, which should have a positive impact on the cost of caprolactam. It is expected that the new plant will allow a 55% reduction in the cost of producing hydrogen and 45% in the production of ammonia. The main part of the project was undertaken by Haldor Topsoe, with the general designer Dzerzhinsk NIIK.

Shchekinoazot increased chemical exports by 18% in the period January-April 2012 over the same period last year, including a 10% rise in caprolactam sales and 18% for methanol. The start of the new methanol plant in October last year has increased availability with focus on exports. Shchekinoazot continues to undertake a strategic programme for the modernisation of the caprolactam unit, which should be completed in the fourth quarter in 2012. Renovation is scheduled to start in July on the cyclohexanone plant, reducing caprolactam production to around 140 tons per day. Modernisation will include the installation of a new ammonium sulphate dryer.

Shchekinoazot signed a jv in June with the German group PCC for the construction of dimethyl ether in the Tula region. The plant, which will be built on the Shchekinoazot site, is scheduled for launch in 2014. Apart from providing the location Shchekinoazot's part in the jv is to ensure uninterrupted supply of methanol for production.

Chlorine & Other Products

Russian caustic soda market

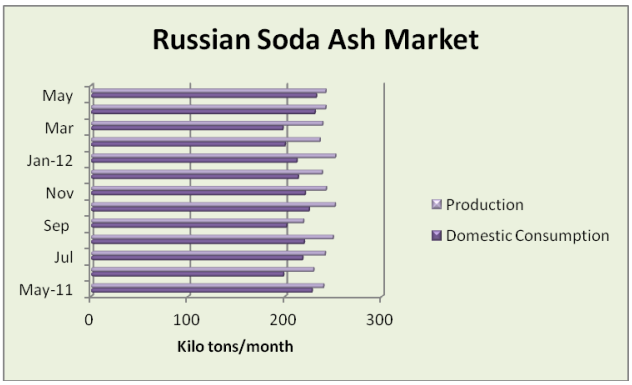
The Russian Federal Antimonopoly Service (FAS) fined the United Trading Company (ETK) 912 million roubles for the organisation of a cartel for the market of liquid caustic soda from 2005 to 2011. The penalty imposed on

Russian Caustic Soda Production (unit-kilo tons)

Producer	*Jan-May 12*	*Jan-May 11*
SIBUR-Neftekhim	26.0	23.0
Khimprom, Novocheboksarsk	39.3	36.1
Kaustik, Volgograd	88.0	89.0
Khimprom, Volgograd	30.7	13.5
Kaustik, Sterlitamak	72.6	52.5
Sayanskkhimplast	75.6	72.6
Azot, Novomoskovsk	20.1	17.7
Bratsk TSKK	31.0	33.5
Kirov-Chipetskiy CC	37.6	37.7
Others	18.1	12.7
Totals	439.0	388.3

ETK is still one of the largest on record for anti-cartel activities. This was the culmination of investigation starting in 2010 with a number of other producers and traders, and Kaustik Volgograd has already been fined 191.5 million roubles. Caustic soda production rose by around 50,000 tons in the first five months in 2012, with the largest increase recorded by Kaustik at Sterlitamak. Kaustik sold 15,340 tons of liquid caustic soda in May, 7% lower than April when it sold 17,460 tons. Amongst the main customers in May Volzhskiy Orgsintez purchased 2,300 tons, SC Ilim 2,700 tons, Nizhnekamskneftekhim 2,000 tons, Gazprom Neftekhim Salavat 886 tons and Kuibyshevazot 522 tons. Kaustik at Volgograd has started shipping product to Azerbaijan, having exported 9,300 tons in the first five months in 2012.

The Russian association for chlorine and caustic soda RusChlor has raised the spectre of possible negative effects for the domestic producers after Russia enters the WTO. Participants in the association believe that after accession to the WTO caustic soda producers will be disadvantaged unless Russia takes appropriate protective measures. The main issue focuses on energy consumption which RusChlor argues is much higher per ton of PVC than in China. After WTO entry, import duties on PVC will be greatly reduced and the market will be open to Chinese product which would make Russian production uncompetitive. At the same time RusChlor is not acknowledging the benefits of WTO accession which may counter-balance concerns of competitiveness.



Russian soda ash market, Jan-May 2012

Russian soda ash producers sold 146,840 tons to the domestic market in May, 1% more than in April when sales totalled 144,830 tons. In the first five months of 2011 the domestic market accounted for 695,640 tons of soda ash, 3% lower than in the same period in 2011, and is about half of total production in this period.

Russia also imports large volumes of soda ash even if it is lower than it exports. Sodi from Bulgaria exported around 30,000 tons into Russia in the first five months in 2012, from total Russian imports of 149,390 tons.

Air Liquide-Alabuga

Air Liquide launched a plant for the production of liquid oxygen and nitrogen in May in the Alabuga Special Economic Zone (SEZ) in Tatarstan. The plant's capacity is 200 tons of liquid oxygen and nitrogen per day. Air Liquide plans to further develop the business in the Alabuga SEZ by creating a system of delivery of products to other consumers. The total investment in this project is approximately €35 million. Air Liquide has been a resident of the Alabuga SEZ since 2008. The first stage of the plant put into operation in 2010, produces 40 tons per day of gaseous oxygen delivered through a pipeline to Preis-Daimler Tatneft-Alabuga Glass. In November this year Air Liquide intends to put into operation a plant for the production of industrial gases at Balakovo.

FAS approves take-over of Dzerzhinsk Orgteklo

The Federal Antimonopoly Service (FAS) has granted the United Petrochemical Company approval for the acquisition of rights to buy Dzerzhinsk Orgsteklo (DOS). Dzerzhinsk Orgsteklo is considering a major upgrade, including new extruders and increasing capacity. Earlier FAS allowed United Petrochemical Company to buy 100% of Korund, as well as 90.17% of voting shares in Ufaorgsintez.

Korund-sodium cyanide plant start-up

Korund-Cyan at Dzerzhinsk (part of the Petrochemical Holding) plans to introduce first unit for sodium cyanide production in 2012, with a capacity of 40,000 tpa. In 2013 Korund aims to launch the second phase of the project raising capacity to 80,000 tpa. The timing of the plant start-up changed due to altered estimates of market demand, with Korund deciding to increase capacity from 40,000 tpa to 80,000 tpa. Sodium cyanide is produced under license from Evonik Rohm/CyPlus. The main outlet for sodium cyanide is the gold mining industry. The existing unit of 10,000 tpa at Korund may be closed after start-up of the launch of the second stage of the project next year.

Alabuga-carbon fibre project

A plant to produce composite materials was opened in the Alabuga Special Economic Zone at the end of May, with the nuclear industry the main application area. Commissioning of the new modern production unit, equipped with the latest technology, should enable Tatarstan to become competitive in the global market for composite materials. The plant should start to see output by next year. Capacity of the first

production line is 1,500 tpa of carbon fibre, which will allow the plant to challenge for up to 2-3% of the world market.

SoyuzNefteGaz-hydrocarbon solvents

SoyuzNefteGaz located at Belgorod plans to introduce a complex for the production of hydrocarbon solvents at Kursk by the end of 2012. Launching the second phase is planned for 2013, and the third phase in 2014. The total cost of the investment project amounts to 1.1 billion roubles. The capacity of the complex is 75,000 tpa with a view to increase to 150,000 tpa.

Ukraine

Ukrainian Chemical Production (unit-kilo tons)

Product	*Jan-May 12*	*Jan-May 11*
Acetic Acid	49.4	65.5
Ammonia	1932.8	2167.4
Benzene (-95%)	71.4	73.7
Benzene (+95%)	89.0	64.2
Caprolactam	22.7	30.1
Caustic Soda	71.1	61.4
Ethylene	82.0	83.1
Methanol	69.7	69.4
Polyethylene	45.6	45.5
Polypropylene	25.5	42.9
Polystyrene	6.4	7.4
Polyvinyl Acetate	2.3	2.1
PVC	71.4	6.4
Propylene	36.1	38.8
Soda Ash	261.3	322.7
Titanium Dioxide	63.9	63.8
Toluene	2.8	2.5

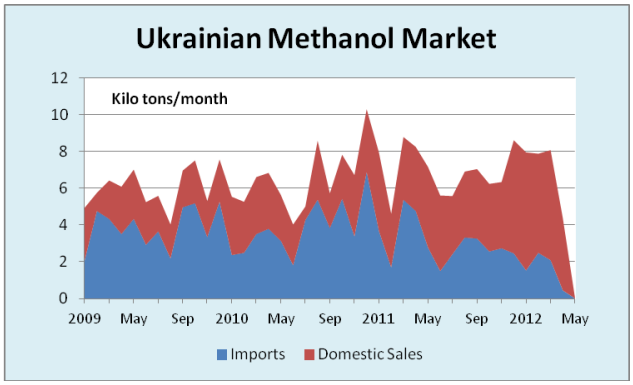
Ukrainian methanol market, Jan-Apr 2012

Methanol production in Ukraine amounted to 14,224 tons in May against 9,140 tons in April and 18,140 tons in March. Reduced production of methanol in April was due to a maintenance outage on derivatives at Severodonetsk. Completion of planned repairs on Azot's acetic acid plant in the second half of April resulted in increased methanol production in May. In June, the volume of use of methanol in Ukraine may be slightly reduced due to maintenance on the methanol plant at Severodonetsk.

Ukrainian gas companies in April continued to buy imported methanol, although with the end of heating season it meant that consumption showed a downward trend and fell four times against March. Imports have also fallen due to the lack of purchasing from one of the largest Ukrainian consumers Karpat Smol (Karpat Resins), although Linik continues to buy for MTBE production at Lisichansk.

The main trends emerging in the Ukrainian methanol market in the past year has been lower imports. Consumption in the period January to April 2012 dropped 10% against the same period last year, with imports mostly affected. Azot, by contrast, continues to expand its presence in the domestic market although more than half of methanol consumption is undertaken captively into the production of acetic acid, formaldehyde and its derivatives. In the period January to April 2012 captive consumption amounted to 34,000 tons, 13% less than in the same period last year when Azot processed 38,000 tons. Most of the methanol sold from Severodonetsk is still procured by gas companies, accounting for 70% of purchases. Stirol at Gorlovka purchases around 25-30% of domestically produced methanol market on the open market for the production of formaldehyde and its derivatives.

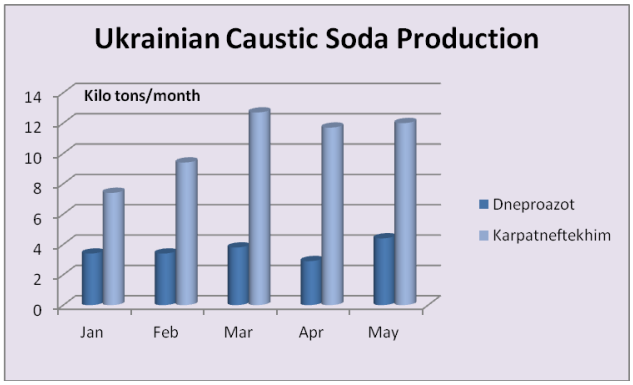
From January to April 2012 imports of methanol amounted to 6,500 tons, almost 60% below the mark recorded in the same period in 2011. Karpat Smol is the biggest consumer of imported methanol in Ukraine; it is one of the leaders in production of formaldehyde derivatives (including urea-formaldehyde resins and urea-formaldehyde concentrate. However trading companies have not purchased imported methanol this year as Azot has been increasing production volumes. From January to April 2012 Azot increased production by 7% against last year, and were only 8% down on 2008 when the plant was last running at very high utilisation rates.



The largest source of imports is still shipped from Shchekinoazot, accounting for 70% of imported methanol in the first four months in 2012. Another 25% came from the two Evrokhim plants at Novomoskovsk and Nevinomyssk. Despite the reduction in imports of commodity methanol in Ukraine, its value shows an upward trend. Current Russian prices stand in the range of $352/ton DAF border Ukraine. Domestic prices have also been rising in the past few months, showing a 10% increase in March and a 3% increase in April bringing prices up to the range of 4000-4300 hryvnia per ton, including VAT.

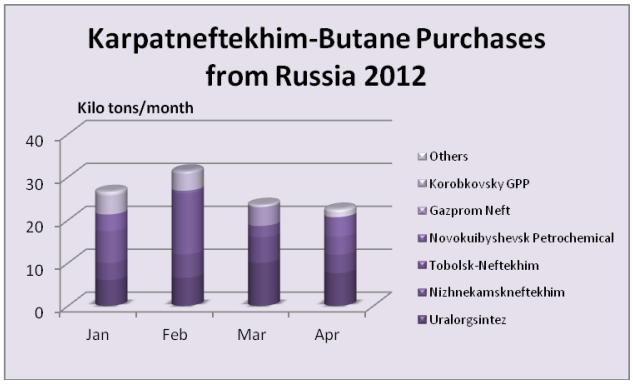
Ukrainian benzene market, Jan-May 2012

Benzene production in Ukraine totalled 6,360 tons in May, 36% down against April. Karpatneftekhim undertook a maintenance shutdown from 25 April running through the whole of May and fini8shing on 10 June. As a result, only 490 tons was sold to the domestic market in May against 3,130 tons in April. In addition, other producers did not produce in May. Production of benzene (plus 95%) totalled 51,070 tons in January to May this year, which was 14% less than in 2011. Domestic sales dropped in May by 23% April and amounted to 2,300 tons. Zarya at Rubezhnoye increased the sales of the product in the domestic market by 2.8 times to 1,810 tons. In the first five months this year a total of 20,720 tons were sold to Ukrainian consumers of which Azot at Cherkassy purchased 73% for the production of caprolactam.



Ukrainian caustic soda market, Jan-Apr 2012

Ukraine exported 6,360 tons of liquid caustic soda in April, which is 7% lower than in March. The largest exporters included Karpatneftekhim amounting to 4,570 tons which was 6% lower than March and Dneproazot 1,790 tons which was 10% down. Exports went to Russia (44%), Belarus (28%), and Romania (18%). In total Ukraine exported 22,970 tons of caustic soda liquid in the period January-April which was 72% up on 2011. Karpatneftekhim accounts for the largest share of liquid caustic soda sales on the domestic market, followed by Dniproazot with 2,310 tons. Nikolaev Alumina Plant is the main consumer in Ukraine, accounting for more than half of all purchases.



Kapratneftekhim-butane sgipments

Butane purchases from Russia to Karpatneftekhim peaked in February but eased back in March and April. Major suppliers to Ukraine include SIBUR plants Uralorgsintez and Tobolsk-Neftekhim, followed by Nizhnekamskneftekhim. Ethylene and propylene production at Kalush in the first five months in 2012 was very similar to last year.

Ukrainian polymer markets, Jan-May 2012

Imports of PET into Ukraine amounted to 73,983 tons in the first five months this year, 11.4% up on the same period in 2011. Imports rose in sharply in May over April due to seasonal factors. Prices have risen due to higher paraxylene costs and other PET raw materials. China has started to supply increased volumes of PET to Ukraine, although the country still imports from a wide range of sources.

In the polypropylene sector, Linik produced 1,900 tons in May which was slightly down on April. The plant at Lisichansk is operating on imported raw materials, but production is severely restricted from producing anywhere near its normal level of 8-9,000 tons per month. Linik has been badly affected this year by raw material shortages and situation at the Lisichansk refinery owned by TNK-BP. Polypropylene production was expected to restart in early June after another temporary outage and with TNK-BP experiencing a shortfall of propane-propylene fractions at its Ryazan refinery the outlet is not promising. TNK-BP is continuing to consider the transfer of Linik's polypropylene plant to Yaroslavnefteorgsintez, which is owned by TNK-BP jointly with Gazprom Neft.

Aside polypropylene, Ukrainian polymer production has risen this year. In the first five months in 2012 polymer production was up 56% against the same period in 2011 to a total of 154,000 tons. Karpatneftekhim produced 78,000 tons of PVC in the period January- May 2012, and 46,000 tons of HDPE. Polystyrene production at Gorlovka fell by 8% to 6,810 tons, including 1,100 tons of EPS.

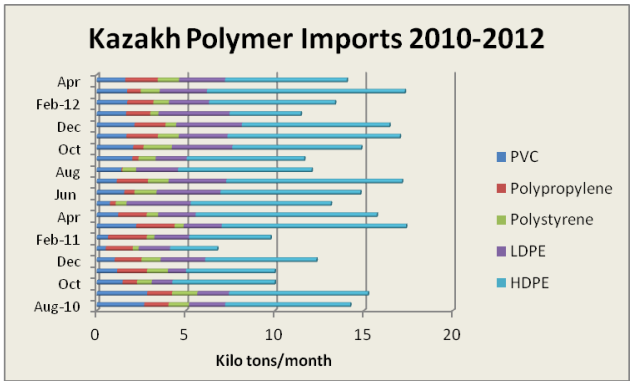
Ukrainian plasticizer alcogols market, Jan-Apr 2012

Import volumes of DOP in Ukraine continue to decline. In April, the country imported 725 tons of plasticizer which is 15% less than in March. In anticipation of growth in consumer activity on the Ukrainian producers increased their production of plasticizers. The reduction in supply due to an increase in domestic DOP production which totalled 1,102 tons in March and 1,072 tons in April. In April, Prominvest reduced the volume of purchases of

imported DOP from 258 tons to 194 tons, the trading company Galich-cable reduced purchases from 191 tons to 169 tons, and Koryukovka Plant of Technical Papers from 128 tons to 108 tons. The main suppliers of DOP in April were Polish producers Boryszew (35%), ZAK (27%) and the Czech producer Deza (38%).

Ukraine imported 863 tons of phthalic anhydride in April, which is 31% higher than the previous month and nearly 2.2 times higher than in April 2011. The largest consumers of phthalic anhydride in April were Lizinvest (21% of total imports), trade companies, Impress (17%) and Himteks-trade (14%), as well DOP producer Polikem (12%). The largest suppliers of phthalic anhydride to Ukraine were Kamteks-Khimprom (56% of total imports) and Lakokraska (23%). In total from January to April 2012 import volumes of phthalic anhydride amounted to 2,180 tons, which is 20% lower than for the same period last year.

Central Asia



Kazakh polymer market, Jan-Apr 2012

Import trends for polymers into Kazakhstan are stable, with volumes tending to fluctuate monthly depending on inventories. Imports of all types of polyethylene into Kazakhstan amounted to 9,600 tons in April this year down 32% against March. HDPE accounted for 6,800 tons of shipments which was 38% down on March. Sources included Russian, South Korean and Malaysian material.

Imports of LDPE decreased slightly (4%) in April and amounted to 2,600 tons of which 2,200 tons came from Russia. Imports of linear polyethylene in April also fell to 180 tons which was 33% down on March. The main selling season in Kazakhstan usually starts In April-May so volumes have started to rise. Even so, the Kazakh market is growing relatively slowly and due to its size it means that the new polyolefin plants being constructed at Atyrau will need to be almost entirely export-oriented. The sole Kazakh producer of polypropylene at present is located at Pavlodar, with a capacity of 50,000 tpa, producing homopolymer grades 102.1040, 1050. The plant produced 3,410 tons in April which was 12% down on March.

Sumgait Chemical Park

The Sumgait Chemical Industrial Park was registered in June, the main purpose of which is to develop small and medium sized chemical processing, in particular final chemical products ranging from packaging and plastics. The new park is close enough for small production facilities to partially or fully use the products manufactured by plants included in SOCAR's production association Azerkimya. Small production facilities will be able to purchase raw materials in the new complex of oil and gas refining, petrochemical production, and import the necessary products or technologies.

Azerbaijan chemical industry, Jan-May 2012

Since Azerkimya entered SOCAR in 2010 chemical production in Azerbaijan has increased gradually, whilst at the same time a number of petrochemical projects have been announced. The growth of chemical production has also been accompanied by an increase in export volumes. Azerkimya produced 4,250 tons of propylene in May this year which was 24% up on April, whilst butylene-butadiene fractions rose 23% to 2,390 tons. For the period January-May 2012 Azerkimya produced 21,490 tons of propylene, whilst production of butylene-butadiene fractions totalled 12,430 tons of which 10,730 tons were exported to Russia. In addition to increased production the economy has needed to import other raw materials. Caustic soda imports from Russia totalled 9,740 tons in the period January-May 2012, against virtually nothing last year.

In January-April 2011 Azerbaijan exported chemical products worth $23.825 million whilst in 2012 this rose to $58 million, representing an increase of 146%. Even so the share of chemical products in total exports from Azerbaijan was 0.7%, and thus the chemical sector remains only a small part of the economy which is dominated by oil and gas. More than 50% of the total exports from Azerkimya go to the Turkish market, whilst the share of exports represents 92% of total chemical production. In 2014 Azerkimya expects to start a new large-scale urea plant at Sumgait which will provide the basis for other industries in the domestic market.

Relevant Currencies

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

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