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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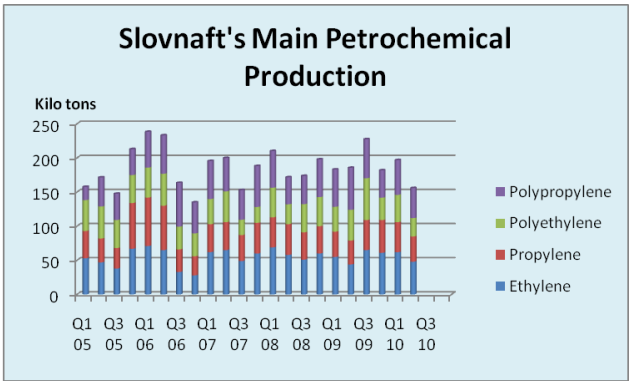
FROM THIS ISSUE

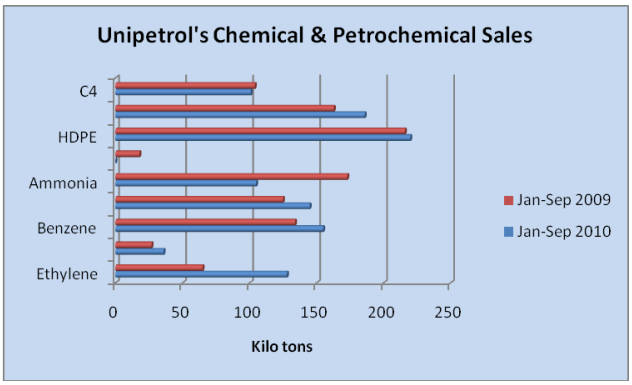
CENTRAL & SOUTH EAST EUROPE

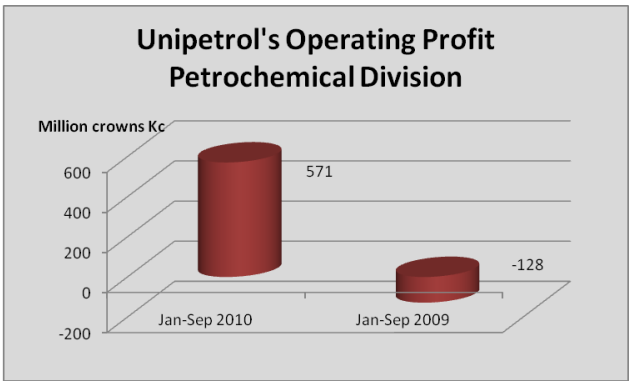
Petrochemicals



Slovnaft considers new petrochemical complex

Slovnaft is considering the investment of several hundred million euros in building a new petrochemical plant at Bratislava, in order to produce products with added value. A decision on the investment will be made by MOL in the coming months, with the principal aim of the strategy focused on producing products with higher margins. Slovnaft is seeking to realign its activities towards more sophisticated chemicals, partly to make it less dependent on fluctuations in the economy, and partly fuel sales. Petrochemicals accounted for about one-fifth of Slovnaft's first-half sales of €1.22 billion, with the rest stemming from refinery products. Over the past three years, Slovnaft has already spent €40 million to boost the capacity of its ethylene unit and make production more energy efficient. As the graphic above illustrates, production volumes at Slovnaft have not changed greatly in recent years and the company achieved a peak for olefins and polyolefins in 2006.





Unipetrol, Jan-Sep 2010

Unipetrol recorded a net profit in excess of Kc 1 billion in the first three quarters of this year measured against a loss of Kc 583.7 million in the same period in 2009. Sales grew to Kc 64 billion against Kc 49 billion in 2009. In Q3, Unipetrol posted a net profit of Kc 175 million, a drop of 66% against the previous quarter but an increase from a Kc 35 million loss in the same period last year. The operating profit (EBIT) for January-September reached Kc 1.56 billion, compared with a loss of Kc 394 million. .

Sales in Q3 amounted to Kc 22.5 billion, down by 4% against Q2. The results were influenced primarily by the petrochemical division, which posted an operating profit of Kc 176 million in the third quarter. This was down by 20% against the second quarter. The main factors that influenced Unipetrol's performance in the petrochemical division in the third quarter were slightly lower olefin margins, which fell by 5% and improved polyolefin margins, which fell by 12%. Overall, results have proved positive despite lower sales' volumes. This was due to shift of the start of steam cracker shutdown towards the end of the quarter.

Unipetrol's Petrochemical Sales (unit-kilo tons)

Product	*Jan-Sep 2010*	*Jan-Sep 2009*
Ethylene	128.0	65.0
Propylene	36.0	27.0
Benzene	155.0	134.0
Urea	145.0	125.0
Ammonia	105.0	173.0
Oxo Alcohols	0.0	18.0
HDPE	220.0	216.0
PP	186.0	163.0
C4	101.0	104.0

An industrial chemistry research and educational centre project is being launched at Litvinov, which will be constructed on the premises of Unipetrol at Zaluzí in the Most industrial zone. The project is aimed at connecting research capacities between Czech educational institutes and industrial organisations. The centre has received support from European Union funds, which will cover most of the investment expenditure. It will allow the start of reconstruction work at the former oxo alcohol production plant filling room at the beginning of the next year. As a result, 23 laboratories with modern equipment will be developed in the industrial zone, along with a conference room with two auditoriums and other research and

educational facilities. Research will be contracted by the Unipetrol Group companies but also other companies from the industry will be able to make use of the facilities. In the western part of the Czech Republic, the main chemical producers include Spolchemie, Hexion Sokolov, Spolana at Neratovice and Synthos Kralupy.

Gdansk possible petrochemical investments

Polish refining company Lotos has floated the idea that it might be prepared to move into petrochemicals following its privatisation process, but only in collaboration with a strategic partner. Using the PKN Orlen-Basell example, Lotos has indiacted that it couid extend its refinery produciton into polymer producttion based on naphtha. The introduction of new installations at the refinery are set to lead to the prodcution of pyrolysis gasoline, which is currently not produced at the site.

As a result the Lotos Group is assessing the possibility of constructing a petrochemical plant, with the aim to tackle the deficit in polymers in Poland. The main negative factor would come from naphtha as a feedstock cost, which would make it difficult to compete in global markets and manage capital payback. However, the location of Gdansk would also be practical with regard to both export potential and the domestic market.

Petrohemija selects SNC Lavalin for cracker upgrade

Petrohemija has awarded SNC Lavalin the tender for the investment programme involving the reconstruction of the ethylene cracker at Pancevo. The project will also include the HDPE facilities and other parts of the petrochemical complex. The Shaw Group has been selected as the subcontractor. Second and third place rankings in the tender process were awarded to Saipem and Lummus. In the next few months, HIP-Petrohemija will begin negotiations with SNC Lavalin regarding a contract and time-schedule for the project.

NIS-Pancevo refinery upgrade starts

NIS has shut its main refinery at Pancevo for an upgrade that will last 45 days. NIS, majority owned by Gazprom Neft, will spend €14 million on new equipment for fluid catalytic cracking and 480 million dinars on other production units at the Pancevo refinery. Gazprom Neft, which bought a 51% stake in NIS for €400 million in 2009, is obliged to invest €500 million in NIS to upgrade its processing facilities. The overhaul of the Pancevo refinery, damaged during NATO bombing of Serbia in 1999, is part of Gazprom Neft's drive to prepare for the opening up of the market next year. This will be when NIS loses its monopoly on processing and refining crude oil in Serbia.

Rompetrol-Petromidia reconstruction

Rompetrol has completed the reconstruction of the fluid catalytic cracking (FCC) unit at the Petromidia refinery. The FCC project is part of the 2010 programme aimed to Increase the refinery's productivity by a total of 28% (from 3.5 to 5 million tpa) by replacing worn equipment. The reconstruction effort will Increase the production of propane and propylene fractions, to be refined further at the group's petrochemical installations.

Oltchim to take loans to finance restart of Arpechim

Oltchim has stated that it is close to completing the overhaul and repair work which is necessary to restart production at Pitesti. However, the factor stopping a restart of production is the lack of working capital for which the shareholders approved loans of €100 million at the end of September. Of that total, around €40 million is intended to restart work at the Pitesti plant, and the rest required for working capital necessary for integrating activities with Oltchim's complex at Ramnicu Valcea. PCC, which holds a 12.15% stake in Oltchim, has challenged the decision in court to borrow due to how the loans were secured and the artificial valuation of Arpechim's assets. Oltchim managed to recover business in the first three quarters in 2010, and returned to profit in September for the first time in over two years.

Central European Gas & Electricity

Poland has initialled a gas deal with Russia, which will guarantee supplies up until 2022. It also includes a rise in annual gas supplies from 7.5 billion cubic metres to 10 billion cubic metres, as well as the transit of gas from Russia to West Europe using the Yamal pipeline. About two-thirds of Poland's natural gas comes from Russia. Poland is building a liquefied natural gas terminal on the Baltic, to be completed in 2014, whilst there are yet unrealised hopes that the country sits on top of significant deposits of shale gas. The new agreement with Russia reduces the risk of winter disruptions to supply, as has occurred in recent years affecting the major fertiliser producers.

In the Czech Republic, Synthos Kralupy entered into an agreement with RWE at the end of September to supply natural gas in 2011. The value of the contract is placed at €32 million. The increase in Czech electricity prices next year may affect the chemical industry, although the government is trying to ensure that costs do not rise too far. Chemical producers expected to be affected include Unipetrol, Synthos Kralupy and Spolchemie. The expected rises of at least 5.5% are related to the development of solar power plants in the Czech Republic. The Czech Chemical Association completed a survey among its members and calculated the impact of the contribution to support renewable energy sources next year at around Kc 2 billion.

Business divisions that do not depend on ethylene from Arpechim improved their performance in profitability, allowing a reduction in losses by over 50 times against the same period in 2009. The company still faces serious difficulties in terms of the debts and the requirement to invest, but the latest results have at least stopped the sequence of losses. The IMF has suggested to the Romanian government that Oltchim should be privatised, as this may be the only feasible option that could allow the company to be transformed into a successful business.

Chemicals & Polymers

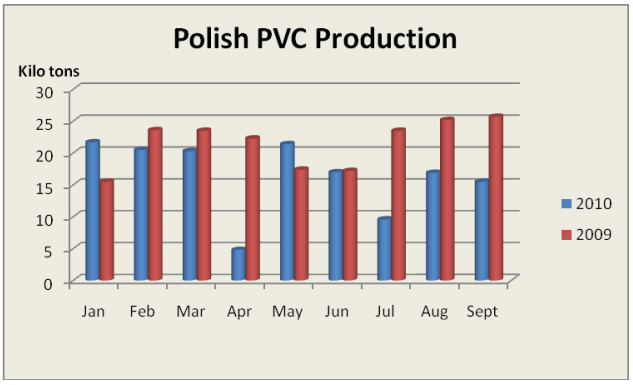
PCC Rokita close to starting new membrane facility

PCC Rokita at Brzeg Dolny has started the first phase of its new membrane electrolysis plant. The company has invested zl 126 million in the project of which zl 60 million was provided through a loan from the Regional Fund for Environmental Protection at Wroclaw. The loan was awarded on the basis of applying membrane technology allows for the elimination of environmentally burdensome mercury cell technology. It is also technology compatible with the European Directive IPPC and fulfills the requirements of BAT (Best Available Technology).

A key advanatge of the new plant involves a significant reduction in electricity consumption, estimated at around 20% lower than the older mercury method. Running the membrane electrolysis plant is the first step toward abandoning the mercury cell technology in chlorine production at PCC Rokita. This will be achieved after the completion of the planned second phase of the conversion to membrane technology.

Anwil-VCM

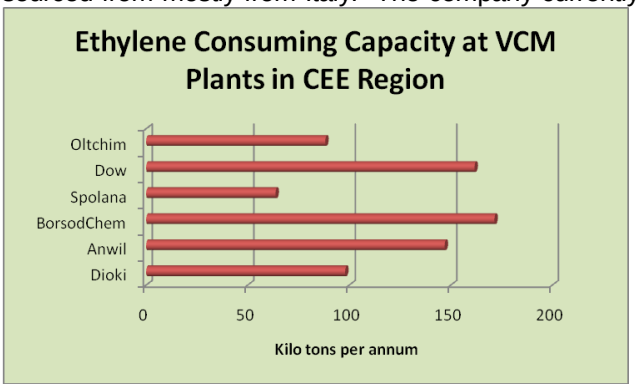
Anwil expects its VCM plant at Wloclawek to be running in the near future, possibly November, after the company declared force majeure on PVC and caustic soda at the start of July. This occurred after a breakdown of electrolysis installation in the chlorine and caustic soda part of the plant complex.

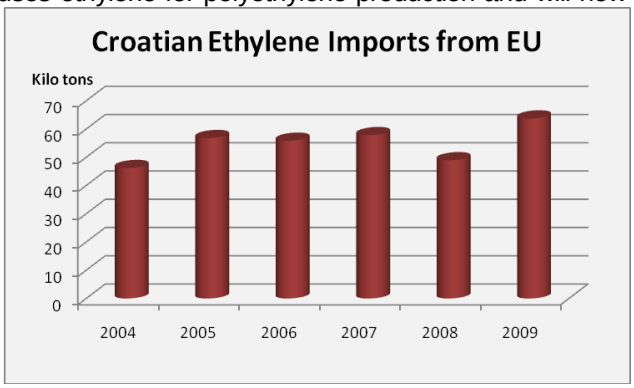


Whilst repairs have been underway, Anwil has sourced feedstocks from its subsidiary Spolana in the Czech Republic and bought EDC on the spot market. Production of PVC at Wloclawek has been lower than normal in the past few months, but still sufficient to meet a large share of contract deliveries.

Dioki-VCM

Dioki has started the full production of VCM in its new facility at Omisalj on Krk Island. Investment into the project has amounted to €35 million and includes a capacity of 200,000 tpa. Without its own PVC capacity, the VCM could be supplied to Vinyls Italia which Dioki is trying to buy. Trials of the VCM unit at Omisalj were conducted in September. This is Dioki's second major investment in the Dina petrochemical complex this year, the other being the renovation and modernisation of facilities for the production of the polyethylene unit. Dioki is the only regional VCM producer that is not connected by pipeline to a cracker, and depends on imports which are sourced from mostly from Italy. The company currently uses ethylene for polyethylene production and will now





be required to increase imports. Ethylene consuming capacities for active VCM plants in Central and South East Europe are shown in the graphic above. Aside the start-up, Dioki is progressing with the possible purchase of Vinyls Italia, although it is faced by competition from at least one West European company which might be a preferred option for the unions and employees. Dioki has submitted a bid to buy the Ravenna and Porto

Torres sites. Vinyls Italia, which formerly belonged to Ineos, went into receivership in May last year. This forced the closure of production facilities for PVC and other related products in Ravenna, Porto Maghera and Porto Torres. As part of the tender and in order to help push through the sale, Vinyls Italia's parent company Eni has stated that it would supply raw materials and cede necessary assets to ensure a restart of the plants.

In the first nine months of 2010, Dioki recorded a loss amounting to 79.3 million Kuna. This compares against a profit in the same period last year of 5.7 million Kuna. Natural gas prices affected performance, whilst the company also faced shortages of raw materials. Despite the overall loss, the result recorded a significant positive shift from operations from all business divisions.

BorsodChem TDI & environmental assurance

BorsodChem expects that its new TDI plant at Kazincbarcika not to cause an oversupply balance in the global TDI market, at least in the short term. The plant is planned for start-up in 2011, and when it comes onstream the older TDI facility will be closed for maintenance. The new plant will consist of a capacity of 200,000 tpa, and will be launched at the same time as the current 90,000 tpa plant undergoes an extended shutdown. The only other new TDI capacity projected for start-up in 2011 is the increase at Bayer's plant at Caojing in China. BorsodChem considers that its new facility will take a market position without affecting the global market balance.

Following the recent toxic sludge disaster in Hungary, BorsodChem has made statements showing its commitment to the environment and its sound record in production. BorsodChem's environmental capital expenditure over the past ten years amounts to more than €128 million. The company's development projects include application of the best available technology (BAT) throughout the complex, which comply with EU standards.

Ciech-financial restructuring

Ciech has been considering various options on how to raise capital to resolve its debt issues, and at the end of October approved the issuance of up to 23 million new shares. This represents a key development in the group's history. In August this year, the EBRD signed an agreement with the Treasury and Ciech and simultaneously declared that he could spend up to zl 300 million to participate in the financing of long-term groups, including both instruments in debt and equity.

Ciech has said that the capital from the new shares will allow it to carry out key investment and development, which support the Group's restructuring plan for 2010-2015 and the construction of a new long-term financing structure. The capital will be used for a number of projects, including the modernisation of the power station belonging to Janikowo Soda and the construction of a new membrane electrolysis plant at Zachem. At the end of August, Ciech's debt was estimated zl 1.8 billion, and by agreement with the banks it is to be reduced by 400 million zl until the end of the first quarter of 2011.

Polish Chemical Production (unit-kilo tons)

Product	*Jan-Sep 10*	*Jan-Sep 09*
Caustic Soda Liquid	179.2	145.2
Caustic Soda Solid	42.8	57.8
Soda Ash	746.3	664.6
Ethylene	366.1	280.0
Propylene	242.9	199.0
Butadiene	45.1	38.5
Toluene	71.4	70.4
Phenol	24.1	23.7
Caprolactam	115.2	103.3
Polyethylene	264.3	244.1
Polystyrene	104.1	93.7
PVC	147.7	193.9
Polypropylene	174.4	190.5
Synthetic Rubber	119.7	98.3
Pesticides	16.2	17.3

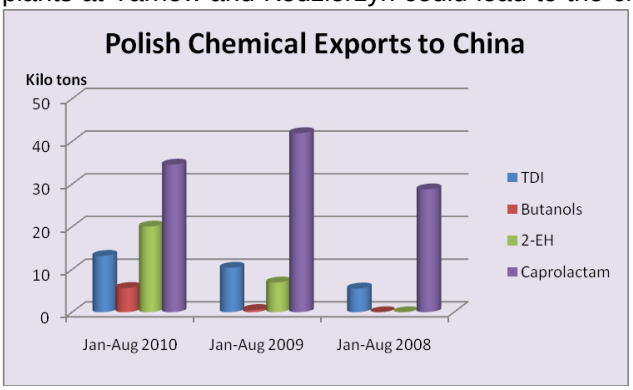
Ciech is also in the process of collecting funds from asset sales of non-core activities. Thus far, agreements have been concluded the sale of shares of PTU, ZAT, and the Polish Chemical Consortium totalling more than zl 200 million. In addition, the completion of sale of an advanced project in Gdansk Phosphor will be an important step towards fulfilling the commitments of the current agreement with the banks.

The consent of shareholders to raise additional funds from issuing shares will help to create a new financial architecture and support the introduction of the restructuring plans of the Group. The restructuring includes a rescheduling of project completion dates; i.e., Organika-Sarzyna could be finished about two years later and at Zachem about three years later than originally planned. Organika-Sarzyna is building a plant for two substances that are used in the manufacture of plant protection agents. The investment by Organika is to introduce innovative technology for the production of two active substances MCPA and MCPP. Construction of the new plant will

cost over zl 123 million, of which nearly zl 34 million is being provided by the EU Operational Programme Innovative Economy. Aside the conversion of chlorine technology, Zachem also aims to increase TDI capacity to 90,000 tpa.

ZAT-ZAK merger

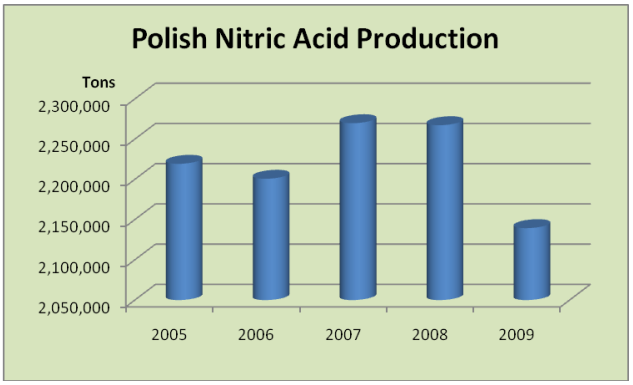
Following agreements made at Kedzierzyn on 20 October, ZAK is closer to merging with ZAT which will require a total transaction of around zl 150 million. By ZAK increasing the share capital by zl 150 million, ZAT will become owner of 52.62% of the shares and thus control of ZAK. The combination of chemical plants at Tarnow and Kedzierzyn could lead to the creation of a major conglomerate focusing on fertilisers.

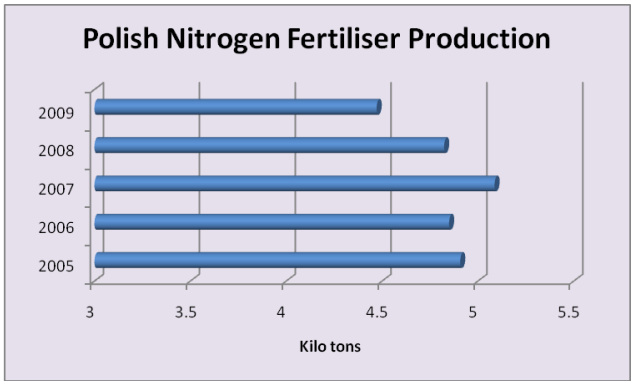


The two companies complement one another not only in fertilisers, but also organic chemicals. Ammonia and nitric acid produced at Kedzierzyn could be used for example by ZAT at Tarnow, and there is considerable potential elsewhere for synergy even before further investments are considered. ZAT wishes to issue shares instead of bonds convertible into shares in order to finance the transaction for ZAK. Both ZAT and ZAK export large volunes of products to China, mostly consisting of TDI, butanols, 2-EH and caprolactam. Overall, shipments of these products from Poland to China have been higher this year aside caprolactam where exports have been sent to other countries in Asia.

ZAK to start new nitric acid facility launched in October

ZAK's new nitric acid plant at Kedzierzyn has been launched officially, with full start-up scheduled for December. Costing around zl 300 million, the installation is considered central for ZAK's future. The decision to build the new plant was taken due to the need to meet stringent EU regulations, including the BAT requirements (Best Available Technology). The new facility will be much more efficient than the existing plant, whilst using less resources and being more environmentally friendly. It will also reduce emissions of CO2, etc. For the investment, ZAK SA received a grant of zl 20 million from the EU's Operational Programme Infrastructure and Environment for 2007-2013. The main contractor for the nitric acid plant has been the Czech company Chemoprojekt.





The new nitric acid uses a new iron-aluminium catalyst, which helps to reduce emissions of nitrous oxide to the atmosphere by around 90%. There are strong environmental and economic reasons for applying this technology in all nitric acid plants in Poland, which could help to reduce greenhouse gas emissions from chemical plants. Theoretically, ZAK could buy urea from other sources, but for logistical reasons this is not viable. The investment means that ZAK will possess the most modern range of chemical plants in Poland, as the oldest installation is the oxo alcohol unit was constructed in the latter part of the 1990s. The new nitric acid plant is designed to produce around zl 25 million of savings per annum, and also carries benefits in terms of energy and working conditions.

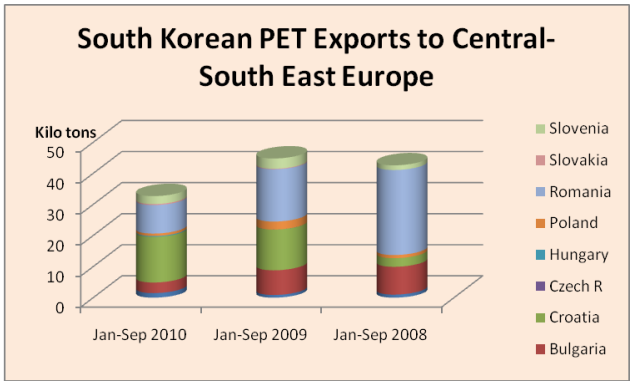
ZA Pulawy-ZCh Police privatisation

The Ministry of the Treasury has extended the deadline for bids for ZA Pulawy and ZCh Police from 11 October to 16 November. The Treasury plans to sell 50.67%in ZA Pulawy and 59.41% in ZCh Police. The Treasury Ministry started the privatisation process for ZA Pulawy and ZCh Police on 23 July and has already received a number of offers. Accordingly, ZA Pulawy has received four offers to date and Police two offers.

However, there are doubts whether buyers will be found that are ready to pay the Treasury's price and there is a possibility that these two companies could merge in the same way as ZAT and ZAK.

BASF-Poland

BASF has opened two new plants in Śrem near Poznań, one of which is to manufacture polyurethane systems and the other chemicals for the construction industry. The value of the two investment projects is estimated at zl 40 million (approximately €10 million). The plant manufacturing polyurethane systems deals with developing, producing and distributing polyurethane systems for the construction, automotive, furniture, cooling and other industries. Both plants produce predominantly for the Polish market. The decision to locate the investments at Śrem was made due to the proximity of Poznań and the A2 motorway, combined with the investor-friendly policy of the special economic zone.



Central European Plastics

South Korean exports of PET to Central and South East Europe have fallen this year due to increased regional competition. Romania provided the largest market for South Korean imports of PET until 2008, but competition from Rompetrol has reduced volumes. Croatia is currently the largest end-use destination. Polish plastics converter Suwary has acquired Unipet at Torun and plans to invest zl 4.5 million in the next twelve months to increase production of PET. The acquisition of Unipet is Suwary's first step in the development of packaging and bottle preforms. According to the company, the market for PET packaging in Poland is growing by an average of 5% per annum, while the market of special containers from plastic is growing at rates above 10%.

Ergis-Eurofilms, the Polish manufacturer of polyethylene and plastics, increased sales in the third quarter by 30% against the same period in 2009. The increase in orders was recorded from both the construction and sanitary sectors, and the cosmetic and food industries. The increase includes both film and injection products. Ergis-Eurofilms has started to invest in the construction a new plant for the manufacturing plant for packaging films at Wąbrzeźno (Kujawsko-Pomorskie). The value of investments is estimated at about zl 22 million.

The consumption of expanded polystyrene (EPS) in the Czech Republic is expected to rise by up to 12% this year against 2009, according to the Czech EPS Association. The amount of EPS consumed domestically during the first eight months of 2010 reached 39,500 tons, representing an increase of around 20%. The organisation estimates that the total could reach 56,000 tons this year, a rise of up to 12% against 2009. Last year witnessed a fall in demand for the material by 9.3%. This decline was due not only due to the economic recession, but also because of a slow start to Czech residential building modernisation support and energy savings programmes.

Flexpol-BOPE investment

Polish packaging film producer Flexpol at Plock is reported to be planning an investment of nearly €13 million in a project to produce BOPE (biaxially oriented polyethylene) film products. Flexpol, already a producer of BOPP films is also said to be undertaking a major modernisation and expansion of its plant. The scheme to introduce the BOPE manufacture is expected to create at least 30 new jobs and is scheduled to be launched late in 2011. Both Flexpol projects involve the introduction of new technology which has been utilised in Poland for less than a year. This means the company will qualify for additional funding from the EU on top of financial incentive assistance in the Polish special economic zone. Flexpol is part of Supravis Group a leading manufacturer of plastics packaging materials in Central and East European markets.

Interagro restarts ammonia plant

Interagro in Romania has decided to close all its chemical plants due to gas prices which have made it unprofitable to operate. Viromet, Piatra Neamt and Fagaras Nitramonia are already closed. By the end of this month the Bacau fertiliser plant will close and Turnu Magurele will close by the end of the year. The closures will result in redundancies of up to 7,000 employees.

RUSSIA

Russia's long term plans for petrochemicals

The Russian Ministry of Energy has made ambitious estimates regarding investments in petrochemicals over the next two decades that are intended to transform Russia into a major player in the global market. These projections are based conditionally on a range of key factors, mostly involving infrastructure and pipeline developments.

According to the Ministry, over the next decade the country aims to construct six large petrochemical complexes. Some of the proposed sites in Volga-Urals region and North Caspian require less outlay to support new petrochemical facilities, but some of the other listed targets in East and West Siberia and the Far East require substantial investment. The table below shows the main regions where petrochemical investments are thought likely to take place in the next decade, and the main type of feedstock that could be available. Although the domestic market is expected to provide the main stimulant to investments, projects in North West Russia and the Russian Far East are expected to be heavily oriented towards export activity.

Regions for Russian Petrochemical Investments 2010-2020

Region	Feedstocks	Proposed project ideas
West Siberia	Dry stripped gas/SHFLU based on associated gas	1 million tpa of ethylene, 600-900,000 tpa of propylene
Privolzhsky (Volga)	Naphtha/Dry stripped gas supplied from local refineries and West Siberia	Expansion of Kstovo to 430,000 tpa; expansion of ethylene facilities at Nizhnekamsk and Kazan
Caspian	Dry stripped gas/ethane/naphtha	600,000 tpa of polyethylene and 200,000 tpa of polypropylene
North West	NGLs from West Siberia, based on associated gas	1 million tpa of ethylene; 600,000 tpa of propylene
East Siberia	Naphtha/ethane	2.3 million tpa of ethylene; 1 million tpa of propylene
Far East	Naphtha/NGLs	3 million tpa of ethylene; 1.5 million tpa of propylene

Main Products Imported by China from Russia (unit-kilo tons)

Product	*Jan-Sep 2010*	*Jan-Sep 2009*
HDPE	39.857	45.890
LDPE	92.183	148.382
n-butanol	86.406	72.873
iso-butanols	58.19	54.261
PVC	0.095	2.311
Phthalic Anhydride	18.796	32.946
2-EH	6.957	14.083
PP	15.165	34.803
Acrylonitrile	7.662	16.970
DOP	3.483	1.986
Caprolactam	97.885	84.665
Polycarbonate	21.168	6.688
Styrene	12.232	7.845
Orthoxylene	3.948	40.135
Paraxylene	5.248	19.883
Bisphenol	27.325	22.552
Polyamide	33.049	43.604

Russian foreign trade in chemicals, Jan-Sep 2010

Russia's foreign trade turnover for chemicals increased by 23% in the first nine months in 2010 against the same period last year to $27.4 billion. The share of exports in the turnover amounted to 50.4% and import 49.6%. The volume of exports rose by 21% to $13.8 billion, whilst imports increased by 25% to $13.6 billion.

Mineral fertilisers occupy the leading role in chemical exports, accounting for 39% of export revenues in the period January-September 2010. Exports are carried out in a number of other product areas, including synthetic rubber, plastics and synthetic resins, ammonia, caprolactam, etc. Imports are focused on a wide range of products, mainly of high added value. This range includes plastics, tyres, paints and varnishes, rubber and rubber products.

Aggregate Russian chemical and petrochemical exports to China fell in the third quarter. Aside plant outages, the trend indicates stronger demand in the Russian domestic market. Butanols and caprolactam continued with their orientation towards exports in the third quarter, whilst a number of products saw sizeable declines in volumes (i.e., LDPE, bisphenol A) to China or no trade at all (i.e., acetone, acrylonitrile). Polycarbonate and polyamide exports continued to be shipped from Kazanorgsintez and Kuibyshevazot respectively.

In terms of Russian chemical production, fertilisers increased by 24.8% to 13.3 million tons in the first three quarters in 2010. Plastics increased 9.9% to 3.6 million tons, synthetic rubber by 35.6% to 1.004 million tons, and tyres by 27.1% up to 29.7 million units. Production of passenger cars In January-September 2010 increased by 92.8% to 823,000 units, trucks by 62,6% to 102,000 units, buses by 38.7% to 27,600 units.

Feedstocks & petrochemicals

SIBUR completes latest investments in West Siberian gas processing plants

Further investments have been completed by SIBUR at its gas processing plants in West Siberia, which are part of the ongoing process to raise the volume of gas liquid deliveries for further processing at Tobolsk-Neftekhim. At the Yuzhniy Balyk gas processing plant a new pump has been introduced, which should help improve gas liquids transport in terms of cost to Tobolsk-Neftekhim, whilst the launch of new low condensation unit at the Gubkinsky Gas Processing Plant (GPP) will allow an increase in the extraction of associated gas to 99%. The commissioning of the unit will allow the production of an additional 150,000 tpa of SHFLU or NGLs, which can then be supplied through the system of product pipelines to Tobolsk-Neftekhim for further processing.

In the next two years, SIBUR plans to introduce projects to build plants for the retrieval of target fractions at the Yuzhniy-Balyk GPP and the Vyngapur compressor station. The total capital investment in these projects is expected to total around 7.4 billion roubles. The recovery rate of mineral fractions at the two plants will reach 99-99.5%, with SHFLU production increasing by around 500,000 tpa. In addition, there will be the possibility of an additional extraction of up to 120,000 tpa of ethane.

The Vyngapur COP currently processes up to 1.6 billion cubic metres of associated gas per annum, which will be raised to 2.1 billion by 2012. Due to the growth of associated gas in the Yamal-Nenets region, a loading rack has been constructed at Noyabrsk, which will allow the transport by rail of up to 1.5 million tpa of NGLs, including up to 200,000 tpa of ethane.

These developments will help to provide valuable feedstocks for processing at Tobolsk-Neftekhim, which itself is dependent on deliveries via Yuzhniy Balyk. The concept of a gas processing plant at Yuzhniy Balyk was first developed in 1974 and the first unit was started in 1978, with a capacity of 500 million cubic metres per annum for associated gas processing. This was increased to 1.070 billion cubic metres in 1985 and in 2007 to 1.5 billion cubic metres. Further expansions took place in 2009 raising capacity to 2.930 billion cubic metres per annum. Processing totalled 1.963 billion cubic metres of gas last year, 67% of full capacity.

SIBUR may participate in the construction of a new gas processing plant

SIBUR may take part in the construction of a proposed new gas processing plant at Barabinsk in Central Siberia, which aims to process associated gas at oil fields in the Tomsk and Novosibirsk regions. The project may be undertaken in conjunction with the oil and gas companies Gazprom Neft, TNK-BP, Rosneft and Vostokgazprom. The project involves the collection of associated gas from several fields in the region; the associated gas will be linked by a single compressor station and then transported to Barabinsk, where the gas processing plant will be built. The plant is intended to produce 1.5 billion cubic metres of gas per annum, which will be capable of producing 300,000 tpa of gas liquids.

Samara region faces feedstock issues

Problems have emerged recently in feedstock supplies to Novokuibyshevsk Petrochemical Company in the Samara region, affecting both SIBUR and Rosneft. Both companies have been forced to change flow charts. As expansion is being undertaken at TNK-BP's facilities at Zainsk, including the construction of a new gas fractionating plant for associated gas, supplies of feedstock have been reduced substantially. This trend is expected to intensify until 2014, when TNK-BP will use all of its feedstocks and convert into NGLs.

In 2011-2012, TNK-BP plans to increase capacity of the Zainsk GPP and begin processing NGL based on its own gas fractionation plant. As a result, it will consume raw materials which are sold currently to Rosneft and thus stop all deliveries. Rosneft said that falling gas supplies will be replaced by gas from other sources, in particular Samaraneftegaz. SIBUR has acknowledged problems with the supply of raw materials in the Samara region, and states that the delivery of raw materials by rail from its own gas processing plants in West Siberia is unprofitable. The company is considering options for re-profiling of its petrochemical assets at Novokuibyshevsk and is negotiating with possible partners to build on its new facilities.

Tatneft, Jan-Sep 2010

Tatneft collected 575.8 million cubic metres of associated gas in the period January-September 2010, and 206,200 tons of SHFLU or NGLs. The processing wing of Tatneft, Tatneftegazpererabotka, produced 342 million cubic metres of dry stripped gas, 68,000 tons of ethane fractions, 264.400 tons of liquefied gas and 153,300 tons of liquid hydrocarbons. Tatneftegazpererabotka was established in 2002 on the basis of the former Tatarstan oil and gas organisation Tatneftegaz. Currently, Tatneft implements corporate program of action for utilisation of associated gas, calculated for 2009-2013. The programme provides for increasing the utilisation of associated gas to 98%.

TAIF seeks finance

TAIF is negotiating with the world's largest banks on the financing of projects in refining and petrochemicals worth $12 billion. TAIF has met with representatives of the Merrill Lynch, and in the near future is expected to meet with JPMorgan, Deutsche Bank, and Credit Swiss. The purpose of visits by foreign companies is to fund further development programmes, oil refining and petrochemical industry of Tatarstan. TAIF consists of numerous business areas, including Kazanorgsintez and Nizhnekamskneftekhim.

The closest consumer of liquids is Tomskneftekhim located 400 km away. The petrochemical producer is already in the process of diversifying its feedstock to include ethane from associated gas processing at the Yuzhniy-Balyk gas processing plant in West Siberia. For the new gas processing plant, Barabinsk is located in the Novosibirsk region.

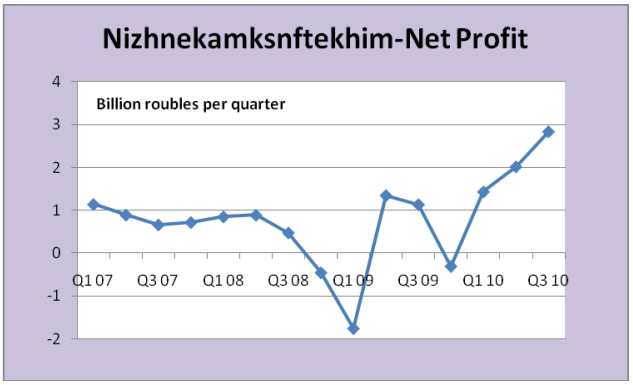
Russian LPGs production & exports

Russian propane and butane production totalled 7.522 million tons in the period January-August 2010, 7.5% up on the same period last year. SIBUR produced 2.269 million tons, of which 1.768 million tons were sold to Tobolsk-Neftekhim, whilst Gazprom produced 1.885 million tons of propane and butane. SIBUR plans to increase production of LPGs by 3% in 2010 up to 3.406 million tons, dry gas production by 3% up to 11.189 billion cubic metres, and the production of synthetic rubber by 27% to 431,000 tons.

Russia increased exports of LPGs in the period January-August 2010 by 40% against the same period last year up to 1,521,000 tons. Revenues from the export of LPG increased 2.6 times to $785.6 million. Poland was the main destination for butane and propane exports, followed by Turkey. Butane exports in total rose 1.9 times to 103,000 tons and propane rose 37% to 1.014 million tons. Currently, Russia exports about 3 million tpa of liquefied gases, with a maximum of 4 million tpa possible. A serious source of competition comes from North Africa. The Ministry of Energy plans to support development of LPG production and exports over the next decade.

Nizhnekamskneftekhim reconsiders ethylene capacity

Nizhnekamskneftekhim is considering a revised reduction of its proposed new cracker, down from the original plan for 1 million tpa to 400,000 tpa at least in the first phase. The question of reducing capacity in the new project has arisen due largely to changes in the petrochemical market in the past two years. Other projects coming onstream in Russia over the next few years, combined with restructured demand patterns after the 2008 crisis, has led to more modest calculations of how much extra ethylene is required.



An additional 400,000 tpa of ethylene would be sufficient for the internal demand at Nizhnekamskneftekhim and for the merchant requirements at Kazanorgsintez. Although the company would prefer to use ethane to produce ethylene at a proposed new cracker, the uncertainty over pipeline developments has led Nizhnekamskneftekhim to conclude that naphtha purchases are a more dependable if costlier feedstock. Naphtha will be made available from the new Taneko refinery at Nizhnekamsk, with direct links between the two plants. When full onstream Taneko will be able to supply up to 1.1 million tpa of naphtha, which will allow for 100% which could provide sufficient feedstocks for an ethylene cracker of 400,000 tpa. In order to construct a one million tpa cracker, the company would need far greater guarantee on feedstock availability. This is one of the factors against the larger plant in addition to higher capital outlay and the uncertainty of what to do with the extra ethylene. At 400,000 tpa, Nizhnekamskneftekhim intends to consume 300,000 tpa and sell the remainder to Kazanorgsintez. The question yet to be decided is whether this option is the best for the company, or whether it should persist with its original plan for 1 million tpa.

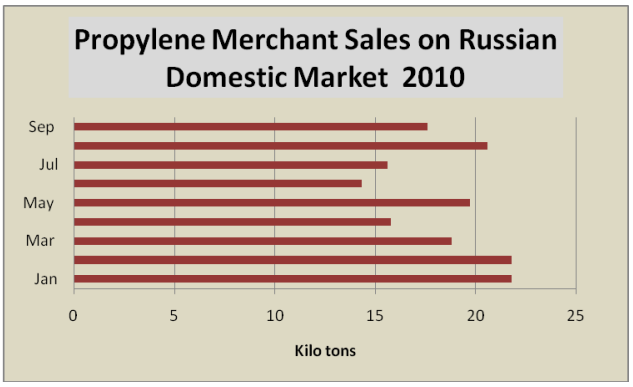
Kazanorgsintez-increased profits in third quarter

Kazanorgsintez tripled its net profit in the third quarter of 2010 compared with the second quarter, rising to 605 million roubles from 216 million roubles. Third quarter profits in 2009 totalled 331 million roubles. Prices for ethane from Gazprom increased by 49% in the second quarter against Q2 2009, after a 30% increase was recorded in the first quarter this year. As a result of these rises, ethane costs in relation to polyethylene prices were a major drain on profitability. However, ethane prices softened in the third quarter, allowing profits to recover. The total debt of Kazanorgsintez at the end of June this year amounted to 35.3 billion roubles, of which 29.3 billion roubles was owed to credit institutions including Sberbank. At the end of

last year, Sberbank opened two credit lines for five years up to 20 billion roubles, half of which were under state guarantees.

SNOS-Kaustik, ethylene resumption

Ethylene supply between Salavatnefteorgsintez and Kaustik is running on the short term contractual basis agreed in September that needs to be replaced by a long term agreement before the end of the year. In May 2010, Salavatnefteorgsintez and Kazanorgsintez reached agreement on supplies of ethylene by a formula similar to Kaustik. However, this new formula is not to the preference of Kaustik which resulted in non-payment for ethylene supplies over June and July. PVC production was affected at Sterlitamak due to the ethylene disruptions, with Kaustik producing 27% less output in the first three quarters of 2010 against last year.



Russian propylene market

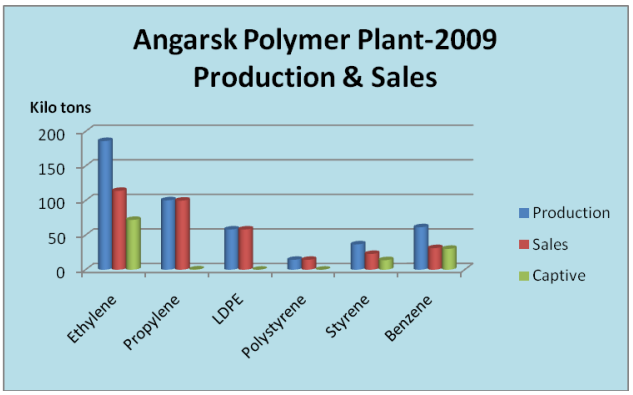
Russia exported 29,200 tons of propylene in the first three quarters in 2010, 2.3 times more than the same period last year. The main exporters of propylene in this year have been SIBUR-Neftekhim and Omsk Kaucuk, accounting for 64% and 31% respectively for volumes.

Propylene has been exported from Russia this year solely to Poland and Romania, accounting for 82% and 18% of exports. Domestic sales of propylene have been stable with Saratovorgsintez the main buyer for acrylonitrile production.

Bulk Polymers

Rosneft signs polyethylene technology agreements with Ineos

Ineos Technologies has licensed its Innovene process for the production of HDPE and LLDPE at the Angarsk Polymer Plant in the Irkutsk oblast. The 345,000 tpa plant will produce a full range of Ziegler and Chrome monomodal and bimodal products. Angarsk Polymer Plant will be well positioned to deliver specialty and commodity polyethylene products for the Russian and Chinese markets using, Ineos Technologies slurry PE Technology.



Ineos has already started three licenses in China for Innovene products, but this is the first time that Ineos has licensed this process in Russia. The companies have now begun the engineering phase of the project.

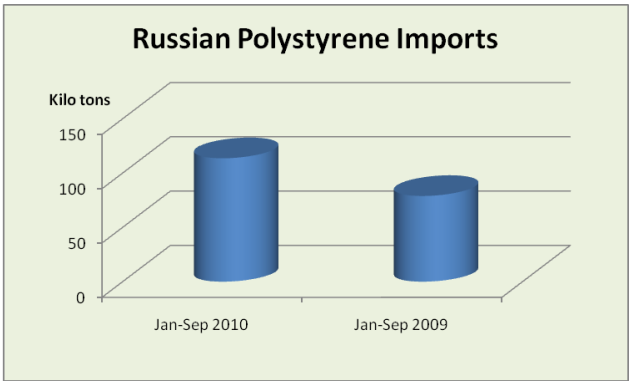
Angarsk Polymer Plant started its strategic development plan in 2009. This will run up to 2013 during which modernisation of the existing units will be carried out in addition to the construction of new units. One of the company's main aims is to transfer to cheaper raw materials and to consider the expansion of the ethylene cracker from 300,000 tpa to 420,000 tpa. In addition to the polyethylene project mentioned above, Angarsk Polymer Plant wants to construct a polypropylene plant with a capacity of 270,000 tpa.

Gazprom considering further expansion at Novy Urengoy

Gazprom and the Novy Urengoy Gas Processing Complex are considering further projects beyond the completion of the ethylene-LDPE plant in 2012-2013. The next project at Novy Urengoy envisages construction of the second plant to produce polyolefins, raising capacity to 1 million tpa. Construction of the first phase is now in the latter stages and is expected to be completed on schedule. Over 2009-2010, substantial progress was achieved in the project, of which one of the main engineering companies has been Stroytransgaz. Approximately 25% of the polyethylene from the new plant will be supplied to the domestic market, with the remainder targeted for export to China.

Polystyrene plant at Perm to be launched on 6 November

SIBUR Holding is to launch the production of expandable polystyrene (EPS) at SIBUR-Khimprom on 9 November. The new styrene unit will start on 5-7 November. The capacity of the polystyrene plant will be 50,000 tpa, with the main markets for production intended to be Russia, Poland, in addition to CIS countries. The second 50,000 tpa plant at Perm will be launched in 2012. After starting the first stage, production at SIBUR-Khimprom will produce EPS of four types: standard (for insulation boards and packaging materials), self (for insulation), a standard low-pentane (to produce a dense, mostly food packaging) and self-extinguishing low-pentane (for the production of solid construction boards with a high thermal conductivity). After starting the second phase, it will also produce EPS colour and fillers.



South Korean Exports to Russia (unit-kilo tons)

Product	*Jan-Sep 10*	*Jan-Sep 09*	*Jan-Sep 08*
PET	89.121	86.220	111.299
PVC	31.623	22.767	39.69
Polystyrene	28.083	18.571	37.183
HDPE	35.943	*26.725*	85.034
LDPE	9.982	4.723	12.569
ABS	18.828	11.002	14.754
Total	**213.580**	**170.008**	**300.529**

In the period January-September 2010, Russia imported a total of 72,000 tons of polystyrene, which is 30% over the same period in 2009. Deliveries of polystyrene into Russia are mainly from China and South Korea, whose share in total shipments for the first nine months this year amounted to 42.2% and 35.9% respectively.

Nizhnekamskneftekhim to produce ABS by 2012

Nizhnekamskneftekhim intends to start production of ABS plastics by 2012 to add to the existing Russian plant at Uzlovaya. Nizhnekamskneftekhim expects the capacity to be in excess of 50,000 tpa. The ABS market in Russia has made significant strides this year after the declines recorded in 2009. The improvement in demand from the automobile industry has driven up consumption and the sole Russian producer Plastik at Uzlovaya has been running for the most part at full capacity. Plastik is expanding its plant which could reach a total capacity of 80,000 tpa. Plastik is managed on a jv between SIBUR and the technology group Rosnano, where the shares are 44% and 50% respectively. .Another 6% is owned by Samsung Cheil, which acts as the licensor of the project.

Tobolsk-Polymer, propane dehydrogenation column installed

Tobolsk-Polymer has now completed the installation of the propane dehydrogenation column, consisting of a length of 96 metres, 11 metres in diameter and weighing 1,095 tons. The column started its journey in South Korea and was shipped by sea through the Panama Canal, before being sent to Archangelsk and then by special barge along the Northern Sea Route to Tobolsk. The transportation of such large equipment via the Irtysh river for Tobolsk-Polymer took about one year of preparatory work. This involved the modernisation of the port, construction of bypass roads, etc.

For the construction of polypropylene production plant in Tobolsk, around 60,000 tons of concrete is required which is being supplied by local company Tobolskstroymehanizatsiya. The project is scheduled for completion in May 2012, although production is not expected to start before December 2012-January 2013. At the peak of the polypropylene project at Tobolsk, around 5,500 people are expected to be involved in the construction process.

Vnesheconombank (VEB) and SIBUR agreed terms earlier this year on the loan of funds required for the construction of the polypropylene project. Under the agreement, VEB will provide $1.22 billion to SIBUR of the $1.44 billion total required to finance the plant. VEB will receive the funds from Western banks under the guarantees of export agencies in Italy and Germany.

Omsk polypropylene project, propane-propylene fractions

Although start-up date has been given for the Omsk polypropylene project, the project is well advanced with the installation of the unit for propane-propylene fractions already completed. The main supplier of process equipment installed cost over 100 million roubles, and involves a capacity of 250,000 tpa. The capacity of the polypropylene plant is designed at 180,000 tpa and will form the centre of a cluster in the Omsk region

for plastics conversion. The total credit line for this project is $1.38 billion. More than half of the 180,000 tpa of polypropylene production will be processed at the newly created industrial park.

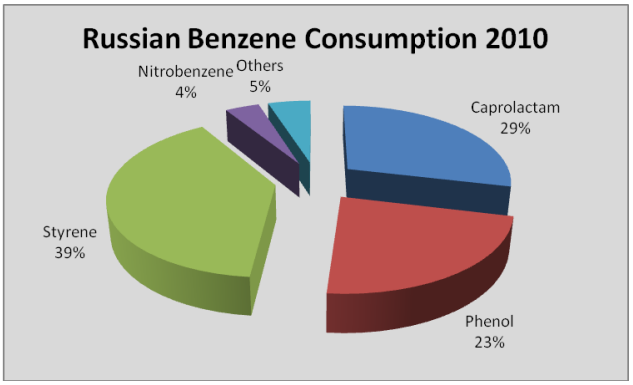
Tomskneftekhim-new PP grades

Tomskneftekhim has started the production of new grades of polypropylene, including GP N180 and H250 GP designed for moulding and production of composite materials for various purposes. These products are generated without the use of organic peroxides, which means that they are better protected from environmental influences. The new grades of production have been approved for application in food industries.

Aromatics & derivatives

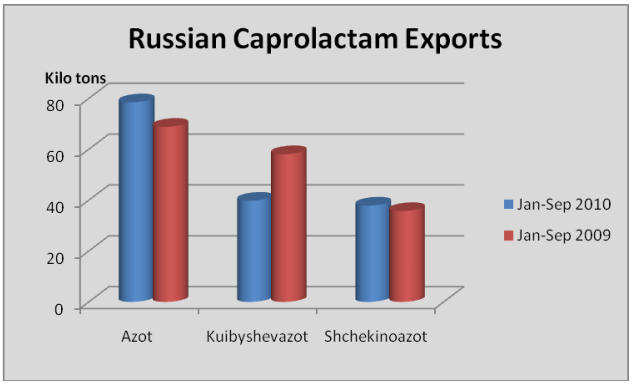
Russian domestic benzene sales helped by caprolactam production

In the first nine months of 2010, Russian benzene sales on the domestic market totalled 551,200 tons which was 12% more than in the same period last year. The increase was attributable mostly to the rise in phenol and caprolactam production. The benzene market in Russia is largely balanced, with the supply side moving occasionally into surplus but mostly in marginal deficit. The unplanned outage at the Stavrolen plant in May caused shortages over the summer months, and due to a lack of availability some end-users have been forced to reduce purchases of benzene. Caprolactam producers were affected most of all; the product accounts for the largest share of benzene purchases in the merchant market and accounted for 229,800 tons in the first three quarters in 2010. Phenol producers increased volumes of purchases of raw materials by 26% to 130,300 tons. In the past, deficits in Russian supply have been compensated by imports from Ukraine and Kazakhstan, but supply from these sources has not been available this year. Increased caprolactam and adipic acid production in Ukraine this year has resulted in less benzene being available, although following the restart of the cracker at Kalush that situation could start to change in the coming months.



Shchekinoazot hydrogen project for caprolactam

Sberbank has signed a loan agreement with Shchekinoazot to build a hydrogen unit at the Shchekino site worth a total of €43.9 million, with the bank providing as much as €39.5 million. Construction of the hydrogen unit is based on technology supplied by Haldor Topsoe, and comprises a capacity of 26,000 cubic metres per hour. Its integration into the production of caprolactam will reduce the cost of hydrogen by up to two-fold and reduce harmful emissions into the environment. The hydrogen plant will be completed in two years, and will be constructed by the Dzerzhinsk based organisation NIIK.



Russian Caprolactam Exports, Jan-Sep 2010

The resumption of caprolactam production at Kemerovo after an accident encountered at the Azot complex in the summer combined with higher output by Kuibyshevazot, helped increase the exports of caprolactam in September. Russia exported 16,200 tons in September, 2.1 times more than in August. Total exports for the first three quarters amounted to 158,000 tons of caprolactam, which was 11% less than the same period last year. A reduced shipment from Kuibyshevazot is the main factor behind the lower exports this year, with the company focusing more on polyamide production. Exports declined by 46% to 39,800 tons in the first three quarters. Aside the start up of the fourth polyamide unit, benzene shortages over the summer affected production and trade.

Other producers have been able to increase the supply of products abroad. For the nine months of this year, Shchekinoazot shipped 37,900 tons to foreign markets, a 6% increase over the same period in 2009.

Export deliveries from Azot at Kemerovo in the first three quarters of this year grew by 14% and amounted to 78,500 tons. This is despite the outage that occurred during the middle part of the year.

Methanol & Ammonia

Fertiliser & methanol producers request new gas price formula

Having accepted the inevitable liberalisation of gas prices, Russian producers of nitrogen fertilisers are now seeking their own formula on how to calculate what they will have to pay for the primary raw material. Starting in 2014, domestic gas prices will be liberalised to give gas producers equal profitability for domestic sales and exports to Europe. Producers of fertilisers and methanol in Russia have asked the government to set a price formula for natural gas to the Russian market, as well as fixing the price of gas for at least a payback period for investment activity. Representatives of the fertiliser and methanol industries claim that further modernisation is possible only through significant investments in building modern units. Through the inability to modernise, the sector would lose competitiveness. As the industry is export-oriented, it will lead to a drop in capacity utilisation, increased costs, reduction of staff in many enterprises, reduce taxes, whilst increasing the cost of nitrogen fertilisers for the Russian agrarian sector.

The chemical companies are asking for a special gas pricing formula using the minimal contract or spot price, or a combination of the two based on West European markets. Gazprom's average European price is now about $280 per 1,000 cubic metres, while the forecast for the year is $308. European spot prices are much lower, averaging $207 in the first quarter and $214 in the second quarter based on UK's National Balancing Point exchange. The industry-proposed formula found that it would now give a price of $120 to $130 per 1,000 cubic metres, whilst using the Federal Tariff Service formula the price would be $160 to $170. This latter price would be about double the level fertiliser companies are paying now.

Companies have also asked to reduce tariffs on railway transportation for ammonia and methanol by around 40%, in order to develop affordable tariffs on the pipeline and transportation infrastructure. Other issues of importance highlighted by ammonia and methanol producers include the stimulation of industrial clusters and new chemical facilities in the Russian ports (i.e., Taman, Ust-Luga, Sakhalin and the Far East ports) to reduce dependence on the Ukrainian and Baltic coastlines.

Akron-Novgorod Production (unit-kilo tons)

Product	*Jan-Sep 10*	*Jan-Sep 09*
Ammonia	1 279,1	1 239,1
Nitrogen fertiliser	1 630,5	1 677,7
Ammonium nitrate	956,5	1 141,7
Urea	330,2	328,3
Urea-ammonium	343,8	207,7
Complex fertilisers	1 772,2	1 526,0
NPK	1 639,8	1 381,4
Methanol	60,1	52,5
Formaldehyde	93,5	91,3
Urea formaldehyde resin	108,7	109,9
Calcium carbonate	413,2	371,9
Liquid carbon dioxide	34,4	30,9
Argon	4,9	4,5
Hydrochloric acid	120,4	68,7

Akron, Jan-Sep 2010

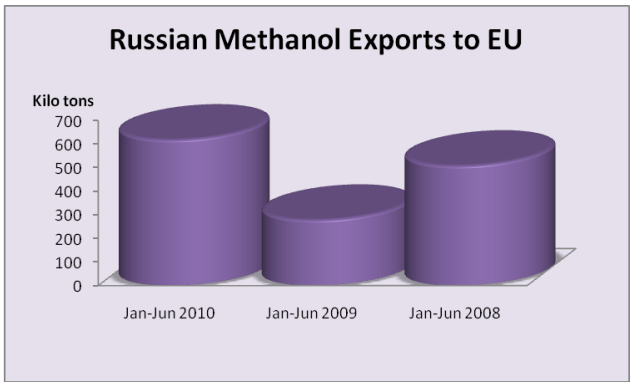
Akron produced 4.229 million tons of marketable products in the first three quarters in 2010, 8% higher than in the same period last year. Production of ammonia and mineral fertilisers were 7% higher and amounted to 3.393 million tons. The main factor behind the increase was due to higher production of by the Akron subsidiary Hongri Akron in China, rising by 48% to 640,000 tpa. Commodity output at the Drogobuzh subsidiary in Russia fell by 10% to 1.183 million tons, due to a stoppage at the ammonia plants in August and September 2010.

Production of organic chemicals increased 13% to 835,000 tons in the first three quarters. The increase was mainly due to higher production of calcium carbonate at Novgorod, and hydrochloric acid in Hongri Akron. Methanol increased production by 14.5% to 60,100 tons.

Russian methanol exports

Russian methanol production totalled 1.488 million tons for the first half of 2010, which represented a significant recovery against last year but still remains below the production volumes achieved in 2008. Russian methanol exports rose 2.3 fold in the first six months of 2010 year, and accounted for 41.5% of total production. Finland accounts for around 80% of exports, with other importing countries including Slovakia and Ukraine. Russian exporters have been affected by the presence of product from new plants, but despite this exports have increased this year to the EU. A possible important development includes EU sanctions against Iran which could limit Iranian methanol import, which could benefit Russian producers. Iran may be able to compensate for the loss of business in the EU by selling more in China. Already in the first nine months of

2010, Iran exported 1.550 million tons of methanol to China against 604,896 tons in the same period last year. Whilst Iran is moving further east, Russian producers sense a possibility of selling more product in the fourth quarter to the EU, even if the long term outlook appears less stable.



Internal consumption of methanol in Russia rose by around 18% in the first eight months of 2009. The main suppliers of methanol on the internal Russian market are still Metafrax, Sibmetakhim and TOAZ, which combined have accounted for 85% of sales to the domestic market in 2010.

Itera-methanol construction

Itera plans to start the construction of a gas-chemical complex in the Sverdlovsk region in the first quarter in 2011, including a methanol plant with a capacity of 600,000 tpa. The cost of the complex is expected to total €304 million, with start-up scheduled for 2013-2014. UralMetanolGroup and the Czech Export Bank (CEB) signed a contract on 16 July in Ekaterinburg for a loan worth €196.5 million. The first tranche of funds is provided for 13 years in the form of project financing, which will be granted this year.

The turnkey plant is being designed to produce 600,000 tpa of methanol, with the start of production planned for 2014. Haldor Topsoe is the licensor whilst the general contractors include the Italian company Techint and the Czech company Alta. The new plant will be located in close proximity to the production premises at Uralkhimplast, where part of the output will be used for formaldehyde production.

UralMetanolGroup was created on a parity basis by Itera and UCP Chemicals AG (main shareholder Uralkhimplast); with the aim of building on the Uralkhimplast site a chemical complex for processing of gas and production of organic chemicals. Itera will ensure the supply of natural gas of up to 600 million cubic metres per annum.

The major challenges ahead for Uralkhimplast this year include the launch of new reactors in phenol-formaldehyde resin plant and to increase production capacity for formaldehyde. The company also invests heavily in environmental programmes and the introduction of measures aimed at energy conservation. Around 24 million roubles will be directed to the development of the Chemical Park Tagil, which is adjacent to Uralkhimplast and the new methanol complex. Other goals include prospective projects aimed at reducing the dependence on raw material suppliers. The Chemical Park at Tagil is designed to create a cluster of consumers based on products from Uralkhimplast.

Novatek-Yurkharovskoye field

Novatek has launched the third complex at the Yurkharovskoye gas condensate field in the Yamal region. The uniqueness of the project lies is that the application of methanol eliminates the environmental risks associated with the delivery of product. Novatek runs two installations for the production of methanol, with a capacity 12,500 tpa and 40,000 tpa.

Azot Cherepovets-new urea plant

Azot at Cherepovets has agreed terms for the construction of a new plant for urea production, with a capacity of 500,000 tpa, and a new gas turbine power plant with a capacity of 32 MW. Total investment in the project is estimated at more than $250 million, with start-up of the urea plant planned for 2012. The gas turbine unit will cover almost the complete needs in electricity, as well as improve the company's energy efficiency. Russian urea production is targeted essentially on exports, accounting for around 90% of all shipments. The largest end-users in the domestic market include the producers of urea-formaldehyde resins and urea-formaldehyde concentrate, and fertiliser producers.

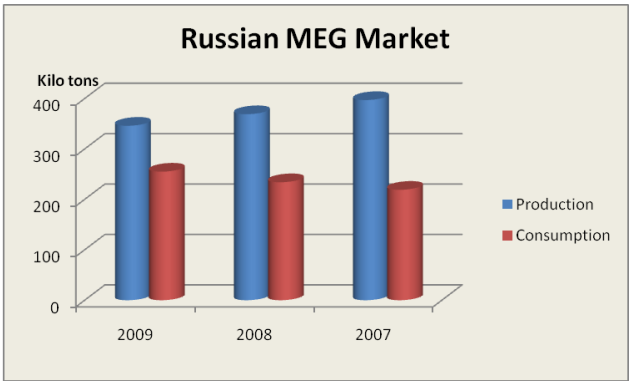
Organic Chemicals

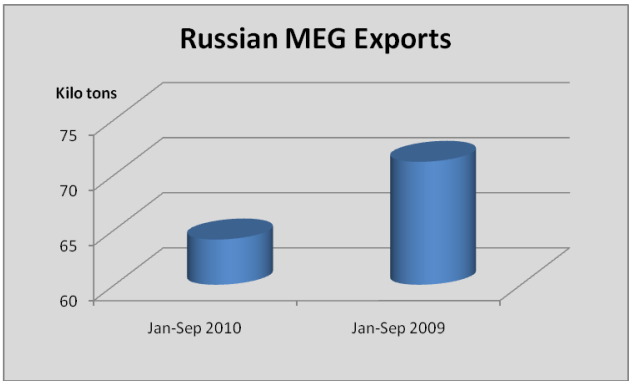
Russian solvent markets, Jan-Sep 2010

Russian production of butanols totalled 210,200 tons in the first three quarters in 2010, 12% up on last year. Production was dominated by normal butanol taking 65% of the total. Salavatnefteorgsintez accounted for

47% of total butanols output, including normal and iso. Other producers included SIBUR-Khimprom with 27% of the total, Angarsk Petrochemical Company with 20% and Azot at Nevinomyssk with 6%.

Domestic sales of acetic acid totalled 52,500 tons in the first three quarters in 2010, 10% less than the same period last year. Reduced consumption has been evident in solvent acetate production. Acetone consumption, by contrast, has been rising this year due in part to a resumption of activity at the MMA plant at Dzerzhinsk. Total consumption amounted to 48,200 tons in the first three quarters, 23% up on the same period last year. DOS at Dzerzhinsk accounted for 10,900 tons of shipments in this period. Sintez-Acetone, also at Dzerzhinsk, is another important consumer. Exports of acetone totalled 27,400 tons for the first three quarters, which was a similar volume to last year. Belarus and China have provided on the main outlets.





Russian MEG market, Jan-Sep 2010

Due to a stoppage for repairs at Nizhnekamskneftekhim's ethylene complex, MEG exports from Russia declined 33% against August to 4,800 tons in September. In the period January-September 2010, Russia exported 64,100 tons of MEG which was 11% down on the same period last year. Domestic sales have increased this year due to higher demand from the PET sector. Polief increased purchases of MEG in the first three quarters by 59% to 39,500 tons. SIBUR-Neftekhim remains the main MEG exporter from Russia, although it has sold more product to Polief in 2010.

Synthetic Rubber

Nizhnekamskneftekhim-rubber capacity expansion

Nizhnekamskneftekhim plans to invest 3.5 billion roubles in the next few years in the modernisation of the company's synthetic rubber facilities. Project targets include an expansion of isoprene rubber from 150,000 tpa to 280,000 tpa; polybutadiene capacity from about 90,000 tpa to 150,000 tpa. The company is also aiming for an increase in butyl rubber capacity to 140,000 tpa. By the end of 2015 production capacity will increase to 734,000 tpa. The company produced a total of 397,510 tons of synthetic rubber in 2009, comprising around 40% of total Russian production.

Sterlitamak Petrochemical Plant, Jan-Sep 2010

Sterlitamak Petrochemical Plant increased turnover by 22.8% in the first three quarters of 2010 to 3.71 billion roubles. The main factor behind the increase in revenues is due to the growth in rubber production, which rose 2.1 times to 31,100 tons. Close co-operation with Nizhnekamskneftekhim has provided the necessary feedstocks for rubber production and helped to offset falls in antioxidant and MTBE volumes. Exports accounted for 37.9% of turnover or 1.45 billion roubles. Overall, petrochemical production for Sterlitamak Petrochemical Plant totalled 95,950 tons in the first three quarters, 31.5% down on last year.

Sterlitamak Petrochemical Company Production (unit-kilo tons)

Product	*Jan-Sep 10*	*Jan-Sep 09*
Synthetic rubber	31.1	14.8
MTBE	21	25.4
Anti-oxidants	12.7	27.9

Plastics

SIBUR-polypropylene processing plants

SIBUR is reported to have paid 2.4 billion roubles for 100% of share capital in Novatek-Polymer. The acquisition will provide an important outlet for polypropylene produced at Tomsk and Moscow at present, and Tobolsk in the future. Another key development includes a new BOPP unit of 35,000 tpa that is to be

completed at Tomsk in 2011, based at the Tomskneftekhim site. SIBUR subsidiary Orton at Kemerovo has recently started the production of nonwoven geotextiles, under the trademark Kanvalan and with a capacity of 9,400 tpa. Tomskneftekhim is supplying the polypropylene for the plant, delivering up to 1,000 tons per month.

Novatek-Polymer produces more than a dozen types of insulation tapes and films based on polyethylene and polypropylene. The company is the largest in Russia and CIS manufacturer of insulating corrosion-resistant materials for insulation of underground pipelines.

Omsk refinery-polymer-bitumen binders
The Omsk refinery has opened a facility for the production of road surface components on the basis of road bitumen, polymer-bitumen binders (PBB) and bitumen emulsions. The plant capacity has been designed at 10,000 tpa. The features of the product offers properties of heat resistance, frost resistance and durability. Polymer-bitumen binders are composite materials based on traditional bitumen's using block copolymers such as SBS (styrene-butadiene-styrene). Through their application, the period between the repairs of roads increased from 2-4 years to 7-10 years. When calculating the total cost of construction of 1 km of road rise in the use of bitumen is less than 1%, and fully pays for 2.5 years at the operation stage. The main supplier of polymeric materials for the new asphalt (thermoplastic elastomers) is SIBUR, the only producer of this polymer in Russia.

Derivatives

Air Liquide-Kstovo
Air Liquide plans to start construction of an air separation unit worth €60 million in the Nizhny Novgorod region, whilst it also aims to increase investments in Russia over the next five years. The plant, whose opening is scheduled for 2012, will supply oxygen, nitrogen and dry compressed air to RusVinyl, and will also supply liquid gases to other industrial customers in the region. The plant will be located in Kstovo and will produce 350 tons of oxygen per day.

Air Liquide has invested a total of €150 million in Russia in the past five years and plans to invest another €150 million by the end of this year. Air Liquide's total investment in Russia might reach €1 billion by the end of 2015. Russia's industrial gas market, which had moderate growth until 2009, is likely to grow by 15% to 20% in 2010. Air Liquide, which launched an air separation unit at Severstal's steel mill in Cherepovets in 2007, signed an agreement with the company earlier this year to build another similar unit. The company's plant in Kstovo will deliver more than half of its gas to RusVinyl through a pipeline. Air Liquide may build another pipeline if it finds more large customers in the Nizhny Novgorod region.

Sterlitamak Petrochemical Plant-Agidol
Sterlitamak Petrochemical Plant is to construct a new plant for the production of antioxidant Agidol-110. Around 500 million roubles is required to complete the construction, which will take around two years to complete and bring to the state budget around 250 million roubles of tax revenue annually. There are no competitors producing Agidol-110 in Russia, with potential customers including Nizhnekamskneftekhim, Ufaorgsintez and SIBUR-Khimprom. The main aim of Sterlitamak Petrochemical Plant is to overtake China which produces a similar product. Around 90% of the equipment has been provided for the production of Agidol-110, with around 40% of installation completed. Agidol-110 is used as a highly effective antioxidant and heat stabiliser for rubber and latex, polymers and glues.

Usolyekhimprom-energy stoppages
Supply of electricity and heat, and hot water stopped at Usolyekhimprom's chemical plant in the Irkutsk region on 6 October 2010. The energy company Irkutskenergo stopped the supply of electricity following the non-payment of debts of around 500 million roubles. In the first eight months in 2010, Usolyekhimprom recorded losses of around 860 million roubles. In June 2010, the holding company Nitol stopped certain units as part of a long-term programme of restructuring production assets. These included the production units for epichlorohydrin, chlorine and caustic soda.

Nitol has complained about high energy prices, which have risen 2.5 times over the past three years. The average price has risen from 40 kopecks per kw in 2007 to 103 kopecks in 2010. The cost of thermal energy in the pair has grown in 1.6 times, whilst the growth of energy tariffs is expected to continue, and so Nitol has decided to close production. The production process is intensive, accounting for 40-45% of total

costs. The plant was constructed on the basis of availability of cheap energy resources in the Soviet period, but that advantage has now been lost.

The second most important contributor to costs is raw materials, accounting for more than 20% of total costs. Of the raw materials, propylene accounted for 70% of costs. In the first quarter of 2009, the average cost of propylene was 2,400 roubles per ton and that has now risen to 24,000 roubles per ton. Located in the Irkutsk region, transport costs to the site at Usolyekhimprom are also high. Imports from China provide keen competition for Usolyekhimprom in products such as PVC, caustic soda, etc. Currently the company is making all efforts necessary to repay the debt owed to Irkutskenergo.

The long term strategy of Nitol is focused on the development of the Usolye industrial site as an industrial cluster based on polysilicon. By 2020, Nitol plans to develop an industrial cluster of using high-tech materials. Traditional chlorine chemistry should give way to a new generation of chemistry according to Nitol. In 2007 the group decided to introduce a project to build Russia's first large-scale production of polycrystalline silicon, which is the basis for microelectronics and solar energy. The first phase of the new plant produced polysilicon in 2008. The group aims to expand polysilicon production, whilst at the same time constructing a new plant for chlorine and caustic soda using membrane technology.

Ukraine

Ukrainian Chemical Production (unit-kilo tons)

Product	*Jan-Sep 10*	*Jan-Sep 09*
Acetic Acid	*55.2	54.5
Ammonia	3022.1	2185.7
Benzene (-95%)	156.1	135.3
Benzene (+95%)	80.9	48.9
Caustic Soda	41.8	32.5
Formaldehyde	18.5	14.4
Methanol	59.6	60.2
Polypropylene	58.9	73.3
Polystyrene	10.5	14.6
Polyvinyl Acetate	5.2	3.6
Soda Ash	515.3	495.6
Titanium Dioxide	97.1	73.3
Toluene	3.9	3.4

**Revised number*

Karpatneftekhim-resumes shipments to customers

After Karpatneftekhim resumed production in early September, the first batch of product was shipped on 23 September. The product was propylene and the quantity 2,700 tons, which was mainly exported to Russia. In addition, ethylene was shipped to Hungary and a small amount of benzene was sent to Belarus. Output of polyethylene will be sold mainly in the domestic market, thus displacing some imports. The cracker was closed in June 2008 due to poor economics of feedstock delivery and product pricing. The launch of the ethylene cracker and the polyethylene unit will represent the prelude to the commissioning of new facilities for the production of chlorine, caustic soda and PVC.

Ukrainian methanol market

Russian imports of methanol have increased into Ukraine this year to compensate for the declines in production at Severodonetsk. Azot has been forced to reduce production due to insufficient gas supplies from Russia. Consumption of methanol has been increasing this year due to the needs for MTBE and urea-formaldehyde resins. Over the first three quarters of 2010, gross output of methanol in Ukraine fell by 21% against the same period in 2009.

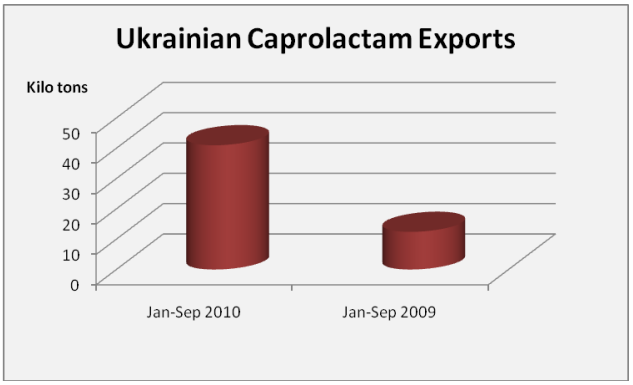
Although Russian methanol is offered at lower prices to Azot's production, some consumers prefer to buy domestic material as it is more easily available. Thus, domestically produced methanol accounted for 35% of consumption in the first nine months of 2010. As a result of strong Russian competition, Azot recently requested an antidumping investigation on imports of Russian products into Ukraine. The outcome is not yet known, but if it is decided in Azot's favour Russian imports are expected to decline.

The optimal price of natural gas for producers of nitrogen fertilisers at current market prices has been estimated at $205 per thousand cubic metres, excluding VAT and transportation costs. The present price of natural gas for industrial enterprises (including producers of nitrogen fertilisers) is $275 per thousand cubic metres.

Ukrainian caprolactam exports

Ukrainian exports of caprolactam totalled 41,500 tons in the first three quarters in 2010, 3.3 times up on the same period last year. The sole producer Azot at Cherkassy has exported large volumes to Asia, particularly China which accounted for 97% of exports. Caprolactam production at Cherkassy was suspended in November 2008 running through to April 2009 due to the effects of the global financial crisis, but production has been running at high utilisation rates this year due mostly to export shipments.

Azot has sourced its benzene from abroad mostly, as it has not been able to secure the necessary grade of benzene in the domestic market. Imports of benzene totalled 35,500 tons in the first three quarters in 2010 compared against 379 tons in the same period last year. Demand for benzene has been fuelled by the growth in production for not only caprolactam but also adipic acid and nitrobenzene. Due to the restart of benzene production at Karpatneftekhim, imports are expected to fall in the fourth quarter.



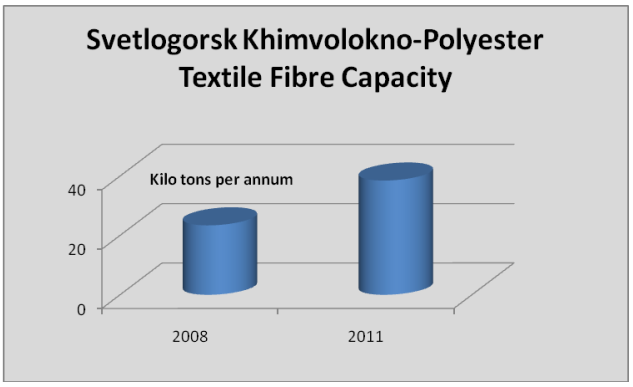
Rubezhnoye Chemical Plant launches unit

A new plant for nitrobenzene has been opened by Zarya at Rubezhnoye in eastern Ukraine, for which construction was helped by the involvement of the Russian company Volzhskiy Orgsintez. Zarya specialises in the production of industrial explosives and military products. The government has attempted to sell Zarya, but due to its military orientation it has been virtually impossible to attract buyers. As a result, the company has been forced to find other ways to survive by developing new projects involving the processing of benzene. The new nitrobenzene plant has a capacity of 50,000 tpa and will be followed by other projects in 2011. The sulphuric acid plant is up for reconstruction, whilst also Zarya plans the construction of a thermal power plant which will significantly reduce the cost of natural gas.

Belarus

Mogilevkhimvolokno-paraxylene diversification

Mogilevkhimvolokno has started to diversify supplies of paraxylene after the introduction of higher duties for imports from Russia this year. The rise in duties from Russia has added around 20-25% in cost to the production of DMT at PET at Mogilevkhimvolokno, which has forced the company to seek alternative supplies from other regions such as Europe and Asia. Since the introduction of import duties on paraxylene, Mogilevkhimvolokno has responded promptly and applied a number of anti-crisis measures. Russian paraxylene will continue to be bought, but instead of accounting for all of Mogilevkhimvolokno's purchases, it will only account for around 50%. In addition to identifying new sources, Naftan has completed the modernisation of its aromatic hydrocarbon unit, including an expansion of paraxylene capacity to 70,000 tpa. The small additional supply of paraxylene will be sold to Mogilevkhimvolokno.



Mogilevkhimvolokno, together with the State Enterprise Institute of Petroleum and Chemistry, has developed a new product a high-strength heat-resistant polyester filament with high adhesion to rubber. The assortment list includes yarn linear density 111-675 Tex, twisted and untwisted. The main applications of high-strength heat-resistant polyester filaments include the production of conveyor belts, V-belts and other industrial products.

Svetlogorsk Khimvolokno, reconstruction

Svetlogorsk Khimvolokno is undertaking large-scale reconstruction and modernisation of the production of polyester textile fibres, raising capacity from 23,400 tpa in 2008 to 38,500 tpa in 2011. The current phase of reconstruction is under contract with Marubeni Corporation with credit provided by Japan Bank for International Cooperation. New machinery is being introduced for spinning; drawing and texturing that will allow Khimvolokno to increase production and to expand its range of fibres with high added value, quality and competitiveness.

Central Asia & Kazakhstan

Azerkimya, Jan-Sep 2010

Azerkimya produced 10.6 million cubic metres of nitrogen in January-September, 18.1% more than the same period of 2009. The petrochemical company group showed increases for nearly all chemical products, except

sulphuric acid and propylene. Recently, Azerkimya started to use modern inhibitors and ethane in the pyrolysis furnace provided by Petkim. This is an important step to eliminate blockages, creating serious problems for the company, which cause interruptions in the production process.

In order to increase production capacity at Azerkimya and to generate exports of higher quality products to the export market, a series of new technology projects have been identified as important for the development of the complex. SOCAR plans a phased renovation of existing facilities at Azerkimya, in particular the EP-300 cracker. As a result of modernisation and the introduction of new feedstock sources such as ethane, costs of olefin production can be substantially reduced. SOCAR also plans the construction of a new industrial site, for polypropylene and a gas separation plant. Using a new gas separation plant after full hydrogenation of butane-butylene fractions would be possible for processing, together with the naphtha, in the EP-300 complex.

Azerkimya sends butane-butylene fractions to Nizhnekamskneftekhim

Azerkimya sent the first consignment of butane-butylene fractions to Nizhnekamskneftekhim in October, after the restoration of the EP-300 cracker at Sumgait. Azerkimya intends to work jointly with the Russian company to enhance the exchange of chemical products, including the delivery of propylene to Nizhnekamsk by late 2010.

Nizhnekamskneftekhim has established a working relationship with Azerkimya, involving the exchange of chemicals and other activities. BASF has also been in contact with SOCAR regarding possible co-operation over the development of Azerkimya. BASF has proposed the use of new, more efficient and waste-free technologies for the Sumgait complex.

Atyrau petrochemical project receives advance payment

An advance payment of $156 million has been made by KazMunaiGaz (KMG) to Sinopec Engineering for the construction of the aromatic hydrocarbon complex at the Atyrau oil refinery. The project will allow the Atyrau refinery to enter into a single petrochemical chain of the country, introduce innovative technologies that meet the high level of European environmental standards, and not only remain competitive in today's fuel market, but also significantly improve the ecological and sanitary-hygienic situation in the region.

Around 85% of the value of the contract is funded by the associated loan from the Export-Import Bank of China, and the remaining 15% the National Fund of Kazakhstan. In October 2009, a contract was signed between the Atyrau refinery and Sinopec Engineering for the construction of the benzene and paraxylene plants.

Kungrad Soda Plant-running close to full capacity

The Kungrad Soda Plant, the only producer of soda ash in Central Asia, expects to export a total of around 30,000 tons this year from a total production up to 100,000 tons. This would mean that the plant would be running at full capacity for the first time since it started. Kungrad Soda Plant is located in the Karakalpakstan region of Uzbekistan, and was commissioned in August 2006 by China's Sitic Pacific Ltd. and GAK Uzkhimprom. The total project cost was $100 million, with the technological part of the project financed by a loan from Industrial and Commercial Bank of China.

In 2009, Kungrad Soda Plant produced 76,700 tons of soda ash, which was 8% more than in 2008. Exports totalled 32,000 tons in 2009, mostly to Kazakhstan, Russia, Tajikistan, Kyrgyzstan, Iran and Turkmenistan. Domestic consumption in Uzbekistan was estimated at 56,500 tons last year, with imports supplementing domestic production.

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

Contents Issue No 239