Chemical Information Resources for East Europe and CIS

CIREC MONTHLY NEWS

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

Edited by Andrew Sparshott | Tel +44 (0)20 8669 5126 | Email enquiries@cirec.net | Web www.cirec.net

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Issue 223, 29 June 2009

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- Togliattikauchuk started the reconstruction of the isoprene unit, which involves the transition from the two stage process
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- SIBUR and Mogilevkhimvolokno are considering a jv in the production of PTA
- Navoiazot and the Korean company ISU Corp have created a jv ISU Navoi Chemical for the production of PVC

CENTRAL & SOUTH EAST EUROPE

Orlen-Group

PKN Orlen and PGNiG have signed a joint operation agreement to work on an exploration-production project located in the north-western part of Poland. The project is a continuation of exploration and appraisal work carried out by PGNiG in the Polish lowlands. The project will be led by Orlen Upstream, a wholly owned subsidiary of PKN Orlen that was set up with the purpose of implementing Orlen's upstream strategy. Orlen will own a 49% interest in the project and PGNiG will manage the remaining 51% interest. The estimated costs for the co-operation is not expected to exceed zl 400 million.

Unipetrol decided at its AGM in June that it will pay no dividends to shareholders this year, and will add Kc 4.2 billion out of its unconsolidated Kc 4.4 billion profit for last year to retained profits. The remaining Kc 221 million of the profit will go to the mandatory reserve fund. Unipetrol has been hit by the economic crisis and may be forced to restrict investments. In the first quarter of this year, Unipetrol made over a Kc 190 million loss and its sales dropped by 34% against the same period in 2009.

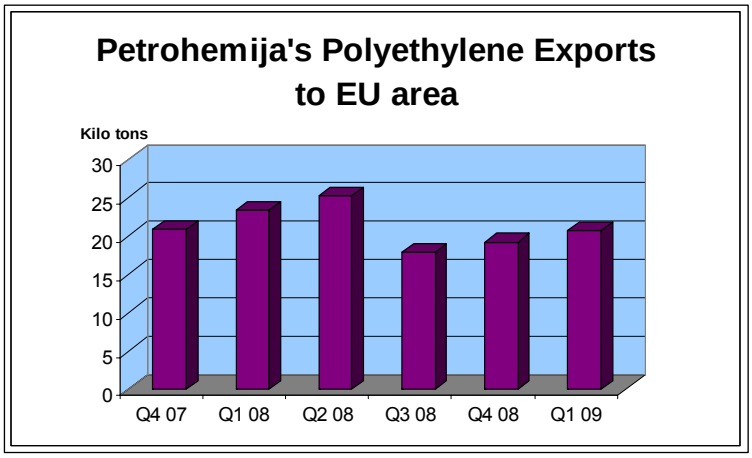
Petrochemical Arges-Oltchim

Oltchim's takeover of Petrochemical Arges may receive financial support from the Romanian state bank Eximbank in order to ensure that the transaction goes through. Eximbank could guarantee up to 80% (€49.6million) of the €62 million loan needed by Oltchim to take over the petrochemical unit from Petrom. The Ministry of Economy recently started negotiations with Petrom to buy the petrochemical operations of Arpechim on behalf of Oltchim. As part of the deal, the government is willing to pay Oltchim's €35 million debt to Arpechim. The EU would have to approve the deal.

OMV has been looking to sell Arpechim as it does not represent a core part of its business, whilst at the same time it provides the main raw material resource base for Oltchim's production. Petrom stopped production temporarily at the steam cracker in mid-November 2008, which consequently affected downstream production at Oltchim. Oltchim has assessed that plans to expand the pyrolysis capacity are feasible, by raising ethylene from 185,000 tpa to 300,000 tpa. Oltchim has a share capital of 34.3 million lei, being 53.25% controlled by the Economy Ministry and 12.89% by PCC. PCC was negotiating with OMV in 2007 to take over Petrochemical Arges, but withdrew interest.

Petrohemija halts production for 30 days

HIP Petrohemija halted petrochemical production at Pancevo on 24 June for a period of 30 days, after €210 million in debts had prevented the company from buying raw materials. After Gazprom-Neft acquired NIS in February this year, it had started to demand advance payment for naphtha. Previously, Petrohemija had received supplies as part of a government subsidy to NIS. The company will have to reach a strategic agreement with NIS and LUKoil, to which it owes both for feedstocks, in order for Petrohemija to be able to become profitable again and to bring its employees back. Petrohemija is ready to offer its waste water and energy plants, over which NIS wants to secure control, as collateral for future deliveries of naphtha. Employees have been ordered to take vacations during the shutdown.



At the start of June, Petrohemija stated it is embarking on a restructuring process, which involves seeking a strategic partner after reducing debts to a reasonable level. A team comprised of company representatives, cabinet officials, and representatives of NIS will be set up in order to draft the restructuring plan. The previous restructuring plan, drafted by the privatisation agency, envisaged debt write-offs and sale of assets to repay creditors, but this is being changed. The agency's plan has called for the sale of three subsidiary companies: Petrohemija's synthetic rubber plant at Elemir, the

compound producer Panonijaplast at Crepaja, and pipes and fittings plant Petroplast at Pancevo. Petrohemija has also announced that it wants to sell its carbon black plant, which has a capacity of 15,000 tpa.

HIP Petrohemija reported a net loss of 1.973 billion dinars ($26.9 million) in 2008. The government has agreed that the proceeds from the sale of property and assets are to be deposited on a separate account and would be used for the settlement of creditors. Petrohemija was forced to halt production at the start of May after NIS suspended crude oil deliveries to the company. NIS stopped supplies due to the debt, but later agreed to deliver 5,000 tons of raw materials. Although Petrohemija buys most of its crude oil from abroad, additional quantities are required from NIS. In addition to owing NIS, Petrohemija also owes €35 million to LUKoil-Beopetrol and €9 million to state-controlled gas supplier Srbijagas.

Chemicals

PKN Orlen-Anwil

Due to growing financial pressure, PKN Orlen may be forced in 2010 to negotiate with banks over the terms of its credit agreements. This would take place if it did not manage to reduce its debts to a sufficient degree in 2009. One way out of the situation would be to sell its shares in Polkomtel and Anwil. PKN Orlen has indicated of its readiness to dispose of Anwil even if it is required to break it into parts. To this end, it has appointed an adviser, as the group hopes to close the in 2009. Despite the negative financial position, PKN Orlen is still planning to spend zł.10 billion on investments between 2009-2011.

Polish Chemical Production (unit-kilo tons)

Product	*Jan-May 09*	*Jan-May 08*
Caustic Soda	31.3	42.1
Soda Ash	376.8	509.9
Ethylene	210.6	268.6
Propylene	147.3	178.0
Butadiene	19.7	27.1
Toluene	35.4	65.2
Phenol	12.2	22.0
Caprolactam	59.4	69.3
Polyethylene	141.2	170.4
Polystyrene	49.1	46.8
PVC	102.3	117.9
Polypropylene	108.1	119.5
Synthetic Rubber	51.9	57.4
Pesticides	13.0	17.9

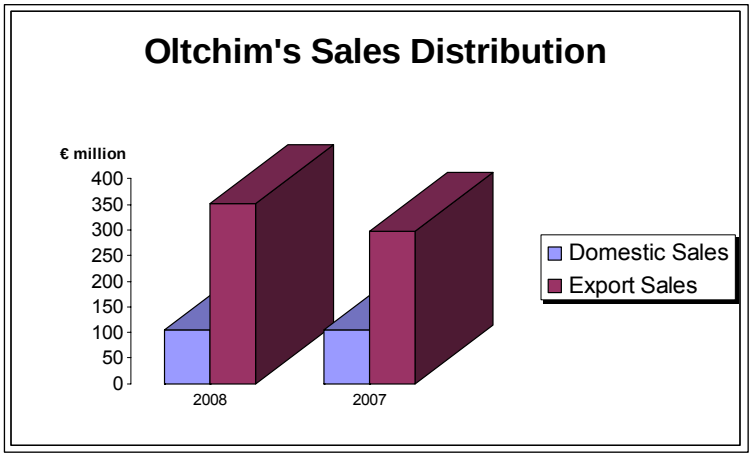
Synthos-Q1 2009

Synthos recorded lower turnover and net profits for the first quarter of 2009 following weaker demand for synthetic rubber and polystyrene. However, the results were much better than expected which is attributed partly to restructuring within the group in response to the market turmoil. The fourth quarter of 2008 was subject to high costs and low demand, which resulted in very poor results, but raw material costs have been lower this year allowing the group to record a profit.

The least profitable area of production for the Synthos group has been extruded polystyrene (XPS) where demand in the construction industry has been badly affected. Expandable polystyrene performed relatively well in the first quarter, whilst synthetic rubber sales were down marginally but up on profit margins. One of the main attractions of Synthos is a small net debt of zl 139 million and strong cash reserves.

Oltchim-state support to help through downturn

The Romanian government passed a memorandum on 3 June with a view to submitting a pre-notification to the European Commission, for the grant of a €49-million state guarantee to support Oltchim. The Finance and Economy ministers were commissioned to find solutions so that the company could keep running at a reasonable level. Oltchim takes around 75% of turnover from exports and has been highly affected by the international economic downturn.



Oltchim recorded losses of €61.4 million in 2008, two-fold more than in 2007 when the company lost €26.3 million. Turnover increased in 2008 by 11.2% to €530.5

million, whilst investments in 2008 were mostly focused on the modernisation of the PVC facilities.

Oltchim is currently operating at only around 40% of capacity, following Petrom's decision to stop raw materials deliveries. The company announced operating losses of more than 106 million lei for Q4 2008 and a net loss of 28 million lei for Q1 2009, up eight times from the corresponding period of 2008. The turnover of the company fell by 39.1% in the first quarter of 2009, from 467.4 million lei in the similar period of 2008, to 284.6 million lei (€66.6 million).

Oltchim has borrowed €700,000 from the Romanian branch of GarantiBank International NV to finance its current activity. The company budgeted investments in amount of 576.8 million lei for this year, of which 500 million lei from loans. Due to the financial challenges, Oltchim has decided to send part of its staff into technical redundancy starting as from 22 June until further notice.

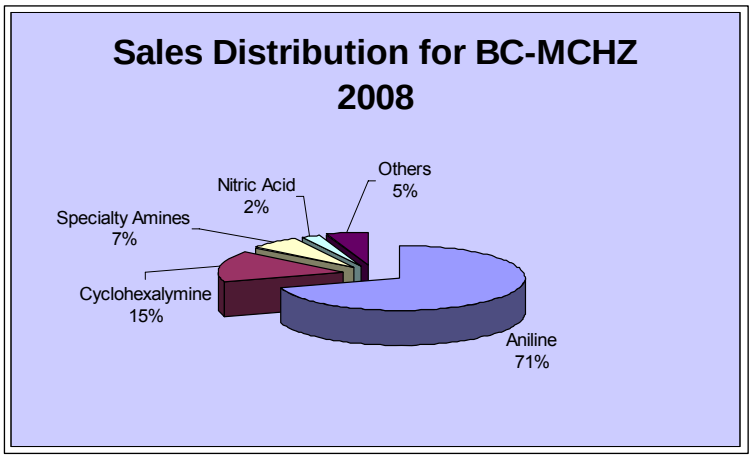
BorsodChem-MCHZ 2008

BorsodChem-MCHZ at Ostrava recorded a loss of Kc 246.6 million in 2008 against profits of Kc 112 million in 2007. Sales from own products and services fell by around a fifth to Kc 4.23 billion. In 2007, the company made Kc 5.3 billion in sales, Kc 151 million higher than in 2006.

The net loss reached Kc 204.6 million for 2008 compared with a Kc 65.7 million net profit in 2007. The operating loss was worth nearly Kc 180 million on total revenues at Kc 4.179 billion. Apart from a fall in the sales of own products, the company had to struggle with a huge increase in the prices of natural gas, oil, electricity and ammonia and a sudden drop in product prices in the last few months of 2008.

Aniline sales from the 150,000 tpa plant, contribute around 70% to total sales, but fell sharply last year with exports accounting for 97% of output. Due to the recession, sales are expected to reach only Kc 2.9 billion and EBITDA profit Kc 86.9 million in 2009, although investments of Kc 80.7 million are still planned. Particular focus is being given to the modernisation of the nitrobenzene unit. Contracts were concluded last year between BorsodChem MCHZ and Petrochemia Blachownia (which is also owned by BorsodChem) for leases of tanks and the purchase of benzene. The closure of one MDI line by BorsodChem at Kazincbarcika is a primary factor in affecting sales.

BorsodChem in Hungary is increasing prices for its TDI product range, with immediate effect or as existing contracts and agreements permit. BorsodChem said it will increase prices for its full TDI product range by about $140 per ton in West and East Europe, while prices in export regions will rise by $200 a ton or higher, depending on destination. According to BorsodChem, price increases in TDI are essential in order to re-establish margin levels and compensate for recent increases in raw materials prices.



Plastics news

Chimimport Invest has taken control of Bulgarian plastics packaging producer Asenova Krepost, after buying out the company's minority shareholders. Chimimport Invest raised its shareholding from 15.4% to 50.5%. It intends to streamline Asenova Krepost's operations, improve its profitability and expand the company's market position. In 2008, Asenova made a €3.68 million loss on annual sales of €15.4 million.

The packaging company is based in Asenovgrad and is one of the largest polyethylene and polypropylene film and flexible packaging producers in the Balkan region. Its products include shrink and stretch transit film packaging, low density polyethylene, PP and BOPP films, multilayer films; retail bags, etc. Production includes 2,500 tpa of BOPP film, 40 million woven PP bags, 3,500 tpa of PP twine for baling and 2 million flexible packaging containers. Asenova has longer term plans to introduce five-layer film co-extrusion equipment, to enter plastics waste recycling and to produce polycarbonate sheet for the construction market.

The Austrian company Greiner PURtec has expanded its capacity in the Czech Republic by almost 50%, with the completion of a new production hall. The company has invested around €11 million into the construction of a new 13,000 m2 hall at its Czech subsidiary Greiner PURtec at Nyrsko. The relocation, which will enable the Czech business to meet growing demand, tripling its output of hot water tank insulation jackets, was completed in late April.

Greiner PURtec has been looking to invest to prepare for new business stimulated by the growth in heat pumps, solar panels, biomass boilers and other ecological heating equipment. The move also allowed the local offshoot to shorten delivery periods and offer additional services such as insulation installation. Greiner established its Czech business at Nyrsko firstly in 1999, and installed an enlarged seat-moulding machine at its original plant in 2005.

Gas prices & supplies

PGNiG has held talks with chemical producers in Poland for a reduction in gas prices and a lowering of rates for unused pipeline capacity. However, PGNiG is reluctant to consider any such moves and opposed to he introduction of a special tariff for the chemical sector.

The Slovak gas company SPP has signed a contract to supply 2 billion cubic metres of gas to Slovnaft. SPP, run by France's GDF Suez and Germany's E.ON through a joint 49% stake, stated that the contract will last until 2013. In terms of the contractual duration and the contracted volumes, this represents one of the largest contracts to be concluded between a natural gas trader and an end customer in Central Europe.

Bulgarian natural gas distribution company Overgas will lower its prices by around 30% from July, which will mean that end consumers will pay 196 leva per thousand cubic metres less. The new price is formed according to the State Energy and Water Regulatory Commission to reduce natural gas prices by 30% in the second half of 2009.

Fertilisers

Agropolichim at Devnya will launch a new production line for evaporation of concentrated phosphoric acid as part of a planned production upgrade. The project will cost upwards of €10 million and another €15 million will be ploughed into a new depot to streamline phosphorus production. The same amount has been earmarked for an ammonium nitrate installation. Romanian fertiliser producer Amonil Slobozia reported net profit worth 6.25 million lei in Q1 this year, almost three times lower against the net result of 17.878 million lei reported in 2008. The company reported a turnover worth 62.183 million lei, up 17.4% lower against the first three months of last year.

Romania imported 300,000 tons of chemical fertilisers last year, totalling €149 million, while exports worth almost 2 million tons which brought revenues worth €559 million to local producers. Last year was an exceptional year for the producers of chemical fertilisers, due to very good conditions on the international market. This year, however, promises to be much worse unless the government takes measures to support local farmers and discourage imports.

RUSSIA

Feedstocks

Associated gas news

The Ministry for the Power Industry in Russia has advocated the introduction of legislation that would give suppliers of associated gas and dry gas priority access to gas-transport networks. This would require modification of article 27 of the Federal Law concerning gas supply in the Russian Federation. The reasons for changing the legislation are partly due to environmental factors of gas flaring and partly due to the economic advantages of using associated gas.

Nizhnevartovsk Gas Processing Plant completed 35 years of operations in June, having been one of the first such plants established in the Yugra region of West Siberia in 1974. In 2008, the plant processed 150 billion cubic metres of dry gas, 32 billion cubic metres of SHFLU and 4 billion cubic metres of gasoline. Plans are in place to construct a new unit which will provide an additional capacity of 1.5 billion cubic metres

per annum for associated gas processing. The Nizhnevartovsk plant is part of the jv Yugragazpererabotka, created by SIBUR-Holding and TNK-BP in 2007.

Russian Chemical Production Jan-May 2009 (unit-kilo tons)

Product	*Jan-May 09*	*Jan-May 08*
Ethylene	884.2	1007.9
Benzene	388.2	524.8
Styrene	192.3	270.2
Phenol	57.4	100.8
Polyethylene	552.4	549.4
Polypropylene	229.5	215.0
PVC	209.0	254.5
Polystyrene	102.4	110.3
Butanols	111.7	112.1
Methanol	847.3	1553.3
Synthetic Rubber	334.9	548.0
Caustic Soda	440.0	554.1
Soda Ash	903.4	1240.3
Ammonia	5630.8	5706.7
Synthetic Fibres	36.5	34.5

Tatneft intends to increase the use of associated gas from 94.6% to 97.5% in the period 2009-2013, so it is already close to the minimum government targets. In February 2009, the Russian government made the decision to set the effective use of 95% of the total output of associated gas as a stipulated legal level by 2012. To implement the programme in Tatarstan, 4 zones have been identified based on prospects for using associated. The central and eastern zones already are served by a pipeline system for delivering gas to the Minnibayevo gas processing facility.

Surgutneftegaz increased the utilisation of associated gas in 2008 to 95.4%, which means it has already hit the government target of 95%. In 2008, Surgutneftegaz introduced 12 new air separation units, two gas pipeline power stations, three compressor stations, etc. The application of this equipment has helped the recycling of associated gas, and in 2009 Surgutneftegaz is aiming for 95.65% utilisation. Tatneft and Surgutneftegaz are the two of the best placed oil producers in relation to associated gas utilisation, but major challenges remain for other producers such as Rosneft, LUKoil and Gazprom-Neft.

Gazprom-Neft & SIBUR associated gas East Siberia

Gazprom-Neft and SIBUR have concluded an agreement for plans to process associated gas in the Irkutsk, Krasnoyarsk and other regions in East Siberia and the Russian Far East. In April, SIBUR concluded a similar agreement with TNK-BP for gas processing in the Irkutsk region. In the agreement with Gazprom-Neft, SIBUR will take responsibility for seeking sites to establish gas processing plants, taking into account transportation, etc. SIBUR will perform an analytical study for the construction of gas-processing facilities in East Siberia and the Far East. This analytical study is to result in the suitable selection of geographic locations for a gas processing plant, which is to be based on Gazprom-Neft and other oil deposits. In addition, it will identify gas volumes, the gas component structure, and end-product transportation routes.

Gazprom-Neft will take responsibility for providing its forecast data on associated gas and natural gas production volumes in the above regions, and will offer optional sites for GPP construction. Upon completion of the study, the parties will assess a possible form of partnership and the project-financing outlay.

Stavropol-Kalmikya GPP

Whilst LUKoil is formulating its investment schedule into the Stavrolen petrochemical complex at Budyennovsk, questions remain over the exact location of the gas processing plant which is to supply the feedstocks for the new facilities. LUKoil's plans for Budyennovsk include around $5 billion of investment, with around $2 billion intended for a gas processing plant at Kalmikya. The processing plant would utilise gas resources from the North Caspian. However, another school of thought suggests that the gas processing plant should be located at Budyennovsk, closer to the production facilities, but this proposal faces stiff competition from Kalmikya. The local administration has already developed an outline for a site .at Artezian on the Caspian sea, aimed at making use of LUKoil's extraction activities in the North Caspian.

The original Kalmikya concept envisages that gas will be sent to Artezian for processing before being shipped for 200 km to Budyennovsk by pipeline as SHFLU. The gas processing plant would need to be in place by 2013, or at least prior to the completion of petrochemical investments at Budyennovsk. The Stavropol administration has argued that the construction of the gas processing plant would be more justifiable economically on its own territory, and so the Kalmikya administration is now attempting to impress LUKoil with business rationale for constructing the plant at Artezian. Laying the basis for the gas processing plant has already started, with approval already having been received from public hearings, etc. As a result, it would represent a major economic loss should the plant be constructed elsewhere. In addition to

providing one billion cubic metres of gas per annum, the gas processing plant would also produce dry gas for proposed new ammonia and urea plants in Kalmikya.

Tatarstan natural gas-chemical project

Further examination has been undertaken over the possibility of constructing a petrochemical complex in Tatarstan, based on the Urengoy-Pomary-Uzhgorod gas pipeline. It is too early yet to know if this represents a real prospect as discussions and studies are in the formative stages. However, it does concur with Gazprom's strategy to consume more natural gas in domestic activities rather than depend on exports. Sales of natural gas to Europe have been down significantly this year, partly due to demand and partly to consumers looking elsewhere. Gas production in Russia is forecast for 2010 to total 705 billion cubic metres, which could rise to 780 billion by 2015 and the long term outlook of 950 billion by 2030. In 2007, Russia processed 70.9 billion cubic metres of gas and the forecast for 2010 already is 95 billion cubic metres. This could rise to around 140 billion by 2015 and the long-term forecast is for 270 billion by 2030.

Tatarstan is thus evaluating prospects and has identified the town of Arsk as a possible site for a petrochemical complex, which could potentially consume around 2.6 billion cubic metres of gas per annum. The project idea is based on the production of methanol through to olefins. As a result, the complex would process gas through to polymers, with aims to produce around 400,000 tpa of polyethylene and 700,000 tpa of polypropylene.

Investments into the project have been estimated at around five billion euros. At this stage, the feasibility report has not even been completed, but the project appears to have wide connotations than solely producing products for the market. For example, olefins would be connected to the Volga-Urals ethylene pipeline for sale to other consumers such as Kazanorgsintez and Kaustik at Sterlitamak. In addition to ethylene, ethane could become available for usage by Kazanorgsintez which would lessen the dependency on ethane from Orenburg.

SIBUR-Citco EU approval

The European Commission has approved SIBUR's takeover of gas and petrochemical trader Citco in Vienna. The Russian company can acquire full control over the group Citco which includes companies Citco Waren-Handelsgesellschaft m.b. H. Citco Holdings Limited (Cyprus) and Westin Trading S.A. (Panama).

SIBUR started the procedure to purchase Citco in May with the ultimate aim of occupying around 20% of the European LPG market. This would eliminate the dependency on Gazprom-Export through which SIBUR has exported gas and petrochemicals until now. The contract with Gazprom-Neft expires in the summer and SIBUR ha decided to seek an alternative trading route. In 2008, SIBUR exported products worth 48.150 billion roubles. Before completing the purchase of Citco, the holding will undertake due diligence. In addition to selling products from Gazprom and Gazprom-Export, Citco also sells products from Salavatnefteorgsintez

Ust Luga terminal approval

The Russian Federal State Agency has approved construction of SIBUR's LPG transshipment facility in the commercial sea port of Ust-Luga (Leningrad oblast). The project has been approved by the Federal Maritime and River Transport Agency, and the Federal State Unitary Enterprise Rosmorport. In the next stage, SIBUR will begin developing engineering documentation, whilst deadlines of construction will be determined by the availability of credit.

Transneft-Tatneft

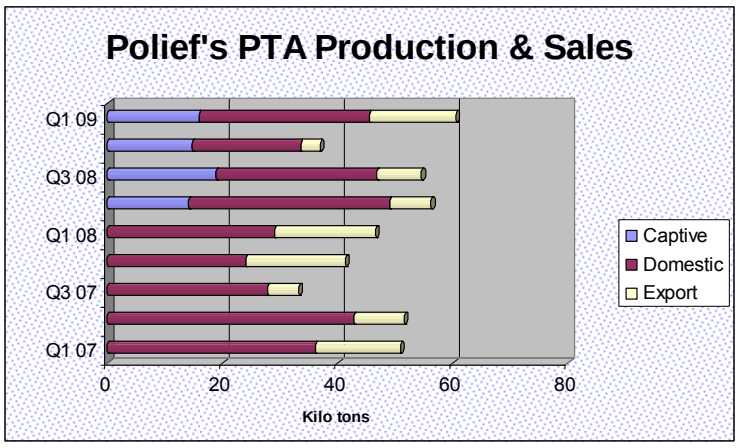
Transneft and Tatneft have signed a contract for building a Kaleikino-Nizhnekamsk refinery pipeline, and reconstructing the Almetyevsk-Nizhnekamsk-Kstovo oil pipeline. The project involves building an external infrastructure for the Taneko complex under construction in Nizhnekamsk. Tatneft, at the request of Transneft, is to reconstruct the product line and to construct an oil pipeline using over 12 billion roubles allocated by the Russian Investment Fund.

According to Tatneft, the contractor to build the pipeline has been appointed as the Almetievskneft oil and gas recovery division, while the Leninogorskneft oil and gas division will reconstruct the product line. The work needs to be completed under the terms of the contract by 31 October 2009. Taneko's first stage of construction, that includes the primary distillation unit Alou-AVT-7 and off-sites, is scheduled to be finished at the end of 2009.

Petrochemicals

Polief Q1 2009

PTA and PET sales accounted for 59% and 33% respectively for Polief's turnover in the first quarter in 2009. In contrast to the first quarter in 2008, turnover from production rose 49% to 537.006 million roubles. PTA sales totalled 43,502 tons, which was 4,366 tons less than last year due to the start-up of PET facilities at Blagoveshchensk. Thus, overall with captive production included PTA production surpassed last year's volume. PET production totalled 18,286 tons in the first quarter, with only one line operating for most of the period. Of the PET production, 88% was sold on the domestic market with sales distribution to Siberia, the Volga region and the European parts of Russia. Exports of 2,184 tons were shipped mainly to Kazakhstan and Uzbekistan. In the first quarter of 2009, aside Polief two other PET plants operated in Russia at SIBUR-PETF (capacity 70,000 tpa) and Senezh Polymers (capacity 90,000 tpa). The main advantage of Polief over the two other producers is integration back to PTA. Both SIBUR-PETF and Senezh Polymers occasionally purchase PTA from Polief and are quite often forced to import from North-East Asia. This year PTA imports were down in the first three months due to availability from Polief, but in April over 3,000 tons arrived from South Korea.



Polief's Sales' Revenues (Billion roubles)			
Turnover	2008	Q1 08	Q1 09
PTA	3.66	1.099	1.052
PET	1.624	0	0.584
Total	5.284	1.099	1.636

As the PET facilities at Blagoveshchensk were not operating at full capacity, and partly helped by the weaker currency, Polief exported 34.45% of its PTA sales in the first quarter against only 15.03% in the fourth quarter of 2008. The second quarter has seen greater focus on the domestic market, due to the seasonality of the PET market which tends to increase during the summer months. Thus, Polief's PET production has been higher since April, thus resulting in more captive consumption of PTA whilst demand for PTA from SIBUR-PETF and Senezh Polymers has been higher.

Polief recorded a large net loss for the first quarter despite showing profits before tax and higher revenues. Profitability was helped in the early part of 2009 by falls in costs for isophthalic acid (down 18%), paraxylene 10% and MEG 20%. However, Polief faced other problems such as losses on financial markets from the devaluation of the rouble. Profitability against the company's own capital for the first quarter of 2009 was registered at -28%.

Polief Technopark

With regional and federal government backing, Polief is creating its own technopark in order to simulate downstream consumption around the polyester industry. A group called EnergoResource will manage the technopark, with support from the government of Bashkortostan. Small companies will be encouraged to establish themselves on a site close to the Polief complex, for which Polief will act as the main provider of raw materials.

PET preform production is expected to take place, in addition to polyester fibre applications. The technopark is designed to increase integration of production from Polief and to reduce the dependency on merchant sales on the domestic and export markets. The technopark is deigned to play a key part in the company's future sales strategy and turnover, particularly in view of Polief's expansion of PTA capacity to 600,000 tpa and PET to 400,000 tpa intended for 2011.

Taneko-project revisions

Tatneft has decided to postpone the launch of petrochemical projects at the Taneko complex under construction at Nizhnekamsk, and will prioritise crude processing. In 2010, a production facility with a capacity of 7 million tpa is scheduled to be put into operation, with the capacity to be stepped up later to 14 million tpa. However, the construction of the petrochemical facilities is to be postponed due mainly to the

changes in the financial situation and the fact that costs have escalated. Rising costs forced Tatneft to cancel contracts with Italian and South Korean companies in April this year for petrochemical facilities, with the aim of finding cheaper solutions. During the reappraisal, Tatneft decided to postpone the petrochemical projects which include polypropylene, benzene, paraxylene, PTA and PET. In the near future Taneko is expected to report to the republic government concerning the participation of new partners in the design and equipment deliveries for the installations of the second and third parts of the first stage of the complex at Nizhnekamsk.

The refinery part of the Taneko project has taken on more significance since the merger with the other refinery project at Nizhnekamsk (managed by TAIF) took place. The second crude processing unit ELOU AVT-7 is to be built at the site instead of a petrochemical facility, which will increase capacity from 7 million tpa to 14 million tpa. In addition, Tatneft reached agreement with Transneft in May 2009 for the construction of a pipeline Kalejkino to the Nizhnekamsk refinery with a throughput of 14 million tpa. The diameter of the pipeline will be 530 mm instead of 740 mm as planned previously. External infrastructure construction is aimed to be completed by the end of October this year.

The reasons for abandoning the petrochemical projects are less related to the state of the economy and more to do with the aim to process more oil within Tatarstan. TAIF's oil company intends to increase production from 7 to 10 million tpa whilst overall the republic is looking to process 24 million tpa of the annual production of 32 million tons. In 2008, various licenses were approved for the project from the government whilst credit of $1.125 billion was received from BNP Paribas. A total of 32.1 billion roubles was invested in 2008, with 52.4 billion roubles planned for investment this year. The main initial focus is installing the ELOU-AVT-7 unit in the refinery by the end of 2009, with start-up planned for 2010.

Taneko to act as base for local design company

In addition to creating a refining complex, Tatarstan wants to set up a design company using the Taneko facilities as a base. Taneko will thus not only consist of a production plant, but also a management company able to perform turnkey construction. The Industry and Trade Ministry of Tatarstan is completing the formation of a task force jointly with Tatneftekhiminvest Holding, on developing cooperation within the local engineering, oil and petrochemical sectors. The task force's key objectives will be continuous monitoring and analysis of investment projects undertaken in Tatarstan, and devising a concept for a head design company.

SIBUR maintenance

Tobolsk-Neftekhim started its planned maintenance at the beginning of June. The work mainly involved two rectification columns for SHFLU (wide fractions of light hydrocarbons), and the replacement of equipment in the butadiene, isobutylene and MTBE units. Repairs have also been carried out on some of the basic utilities which back up production. Longer term, Tobolsk-Neftekhim is aiming to double its processing capacity for SHFLU to 5.8 million tpa.

SIBUR-Neftekhim completed a shutdown at the Kaprolaktam division at Dzerzhinsk, having started at the end of April for the PVC unit and in May for the chlorine and caustic plants. The shutdown included an audit and replacement of safety valves, etc. SIBUR-Neftekhim has decided to re-invest the net profit from 2008, which totalled 121.3 million roubles, into further development of the production units.

Kazanorgsintez-debt restructuring

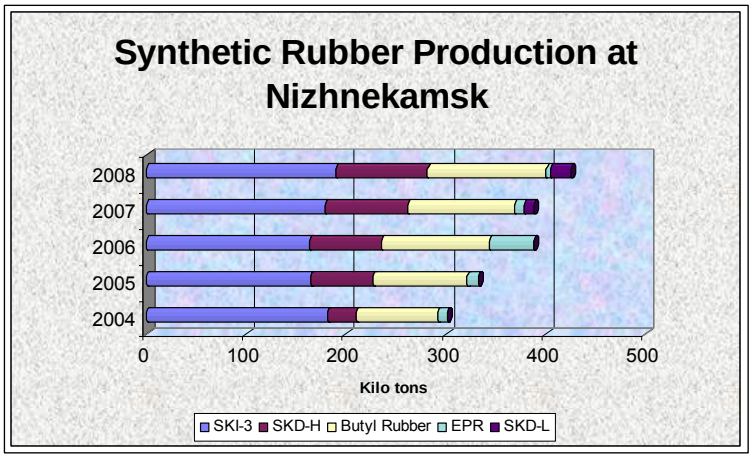
Kazanorgsintez is reported to have defaulted on its bonds and the holders may be required to repurchase securities. The company is facing the evident need to restructure, as the most optimistic EBITDA estimate of $80-100 million would not be sufficient to repay the short-term debt of 11.3 roubles. Kazanorgsintez's total debt is estimated at 29 billion roubles and the company is trying to restructure the debt by speaking to all the creditors. However, it is a complicated procedure and the company needs support from the federal government as the creditors include two large Russian banks. Kazanorgsintez is facing its main problems in relation to raw material supply. The government sees Kazanorgsintez essentially to be a high liquid company insofar product output does not remain in the warehouse for long.

Nizhnekamskneftekhim-maintaining investment strategy

Nizhnekamskneftekhim has stated that it does not intend to modify or reduce its investment strategy despite the change in economic conditions over the past two to three quarters. In the first quarter of 2009, losses were incurred mainly due to poor margins in January and February. However, after five months, turnover

had reached 87% of the same period in 2008. Following the results of the first quarter 2009, the sum of short-term credits of the company totalled 637.9 million roubles and long-term credits of 21,340 billion roubles. Previously, Nizhnekamskneftekhim had aimed to attract finance for project investment through share emissions to the value of 25.780 billion roubles. However, this possibility was rejected by the state stock market authorities in 2007, and the situation has not changed since then. One school of thought believes that Nizhnekamskneftekhim should be capable of securing loans to finance investment, whilst another suggests quite the opposite and that the company will be forced to downsize project plans. TAIF controls 79.3% of Nizhnekamskneftekhim.

Even in a weak market the company is still aiming at doubling its turnover by 2012 against 2007, to reach around 125 billion roubles. However, the investment strategy depends to an extent on improvements in the global financial markets. Most of the expansion strategy devised by Nizhnekamskneftekhim is based around ethylene costs, as this forms the backbone of most of its products. Efforts are being made to expand the polyolefin facilities and to find licensors, in addition to new rubber products. Synthetic rubber production is continually expanding at Nizhnekamsk, as shown in the graphic. Last year's volumes were boosted by the start of lithium polybutadiene production (SKD-L).



Nizhnekamskneftekhim plans to ship less ethylene to Kazanorgsintez in 2009, mainly due to the demands of the new polyethylene plant at Nizhnekamsk. A total of 193,000 tons of ethylene was shipped to Kazanorgsintez in 2008, and sales almost topped 70,000 tons in Q1 2009. However, the company stresses that this year that figure from 2008 is unlikely to be surpassed due to the rise in captive consumption at Nizhnekamsk.

After the planned cracker shutdown in September, Nizhnekamskneftekhim expects ethylene capacity to increase to 620,000 tpa but during the shutdown it will be difficult to supply Kazanorgsintez with its ethylene requirements. With the compressor station on the pipeline at Salavat undergoing major repairs, possibilities for Kazanorgsintez to purchase ethylene from other sources seems ruled out.

Russian Styrene Market (unit-kilo tons)

	2008	*2007*	*Q1 09*	*Q1 08*
Production	577.5	621.0	120.8	163.2
Export	300.9	327.1	62.5	91.9
Consumption	276.6	293.9	58.3	71.3

Russian Styrene Sales on Domestic Market (unit-kilo tons)

	2008	*2007*	*Q1 09*	*Q1 08*
Nizhnekamskneftekhim	9.0	1.2	0.0	0.0
Angarsk Polymer Plant	10.4	11.1	3.5	2.1
Plastik	2.3	3.7	1.1	0.1
Salavatnefteorgsintez	13.1	30.5	4.5	4.7
SIBUR-Khimprom	51.3	54.6	7.1	15.4

Russian styrene market Q1 2009

Styrene consumption fell 17% in Russia in the first quarter of 2009 against the same period last year, with production down by 26%. Polystyrene sales have been affected by the recession, whilst non-integrated users of styrene have reduced purchases on the open market.

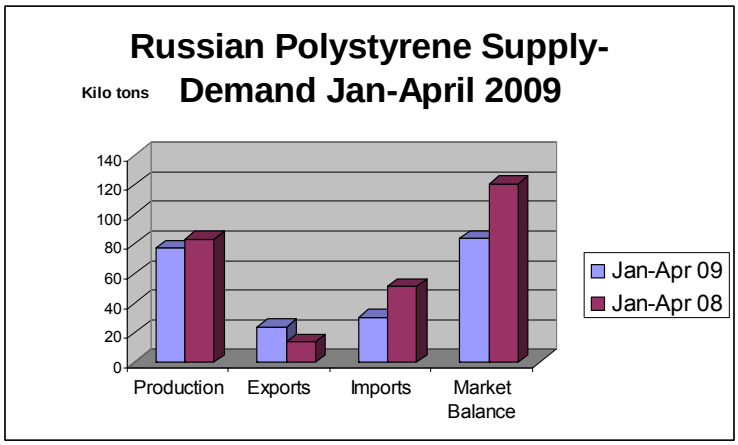
The main consumers of open market styrene in Russia include Styrovit at Kirishi, Voronezhsintezkaucuk and Omsk-Polymer, all of which bought less styrene monomer in the first quarter. Export deliveries from Nizhnekamskneftehim were considerably reduced to 50,300 tons which was 27% less than in Q1 2008. The second quarter has shown an improvement over the first quarter for styrene sales and prices.

Styrene consumption in Russia fell 5% in 2008, down to 276,600 tons due to lower production of polystyrene and ABS which were 3% and 19% down respectively on 2007. Plastics demand was badly affected by slowdowns in the car and construction sectors. Styrene production totalled 577,500 tons in 2008, which was 7% down on the previous year. Both Nizhnekamskneftekhim and Salavatnefteorgsintez recorded downturns due mostly to pressure for ethylene in other units within those companies.

Bulk polymers

Russian polystyrene market, Jan-Apr 2009

Polystyrene consumption dropped 31.7% in the first four months of 2009 in Russia, with most market sectors affected by the recession. The construction industry accounts for between 50-56% of all types of polystyrene consumption and demand has been down considerably against 2008. Falls in construction have reduced the production of insulation materials by 20-25%.

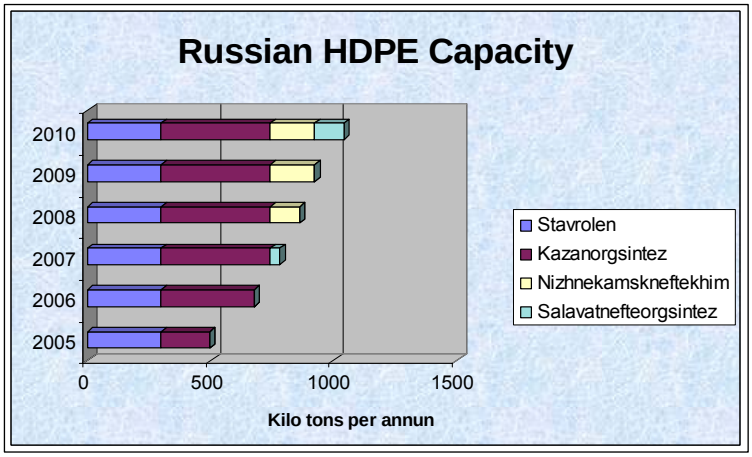


Imports have been most affected by the economic downturn for polystyrene so far this year, down by 40.7% on the same period in 2008. At the same time, domestic production dropped only by 8.5% to 77,310 tons. Due to the weak market, exports of polystyrene from Russia rose 70% in the first four months of 2009 totalling 24,200 tons or 31% of total production.

Amongst the producers, Plastik recorded a fall of 21.8% in the first four months of 2008; Salavatnefteorgsintez was down 37.3% whilst Styrovit reduced production by 42.9%. Salavatnefteorgsintez stopped production of shock-resistant polystyrene between December 2008 and April 2009 due partly to the weak market position and partly to undertake maintenance. To offset the falls in overall polystyrene supply, Nizhnekamskneftekhim increased production by 13.5% and Angarsk Polymer Plant increased by 12.9%.

Salavatnefteorgsintez-HDPE plant to start in Q4 2009

Salavatnefteorgsintez registered a trade name SNOLEN at the start of June for output from its new HDPE plant which is under construction. A start-up date has been announced for the fourth quarter this year, which is a slight delay from the original aim for the first half of 2009. The 120,000 tpa plant is based on technology supplied by LyondellBasell, with Tecnimont as the project contractor. The plant will be capable of producing 32 grades of product (for films, pipes, etc). Despite similar production in Russia from Kazanorgsintez, Stavrolen and Nizhnekamskneftekhim, imports still accounted for 32% of the HDPE market in 2008. As a result, Salavatnefteorgsintez should provide another source of competition for importers. Low liquidity amongst consumers has been a feature of the market in 2009, partly explaining the delayed start-up at Salavat. The company is banking, to a certain extent, on an improved market climate towards the latter part of the year or early 2010. Salavatnefteorgsintez has recently been included on the list of companies that are eligible to receive government support should it be necessary.



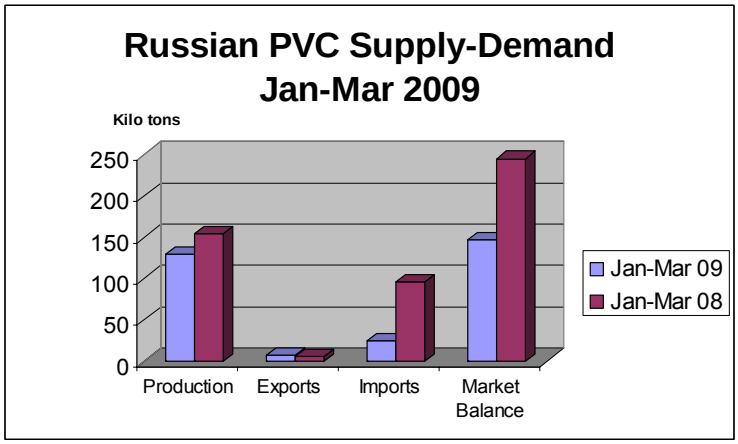
RusVinyl-2013 start-up

Following board meetings in June for RusVinyl, the first stage of the PVC project at Kstovo has been targeted for the first quarter of 2013. The RusVinyl project has been pushed back to 2013 due to a combination of changes in the PVC market over the past 8-9 months and restrictions imposed on finance. The PVC market in Russia declined around 40% in the first quarter against the same period in 2008. Although the market could rebound quickly when liquidity improves, it has been decided to reschedule the start-up date for the 330,000 tpa plant. The expansion of the Kstovo cracker, which aims to increase ethylene capacity eventually to 430,000 tpa, is also expected to follow a 2013 completion schedule.

The design documentation has been handed over to the Russian government for appraisal passage with results expected to be received in September 2009. The company has faced complications in financing, but is seeking alternative sources of funds. On 24 June, the government of the Nizhniy Novgorod region, the Kstovo area and RusVinyl signed a tripartite cooperation agreement regarding the development of an engineering infrastructure for the plant and the reconstruction of an access highway.

Russian PVC market Q1 2009

Imports of PVC have dropped sharply this year in Russia due to lower demand and in part the devalued currency, which itself has made it more attractive for consumers to purchase from domestic sources. The shortage of liquidity is also a factor that is restricting purchases. Exports have increased this year, although still remain relatively small. The collapse of the construction industry in Russia has impacted heavily on PVC consumption, which may have been down as much as 40% in the first quarter of 2009 against the same period in 2008. The government decision n June to allocate 90 billion roubles to the economy (about 12% of GDP) may help to stabilise the markets, but this may take some months before its feeds through the system.



Despite lower consumption this year investment in processing can still be seen. The Vladimir Chemical Plant successfully tested a new PVC compound in May, with intended usage in the construction sector. PVC profile manufacturer Veka Rus completed the installation of additional; storage at its Moscow plant in May, whilst at the same time the company is examining the prospect of increasing extrusion capacity. A total of 24 lines operated at the Moscow site of Veka Rus in 2008, with 12 running at Novosibirsk all based on Eber technology. Production totalled around 60,000 tons in 2008.

SIBUR-thermoelastomer project

SIBUR has concluded contracts with TSRC Corporation (Taiwan) for a licence agreement to construct a new thermoelastomer plant at Voronezhsintezkaucuk. This will allow the production of seven grades of thermoelastomers, which will have a combined capacity of 50,000 tpa. Construction of the new facilities is expected to be completed by 2013. TRSC has current plant capacities of in China, Taiwan and Thailand. The output at Voronezh is intended for bitumen, plastic applications, etc. Voronezhsintezkaucuk will add 30,000 tpa of new capacity this year, whilst rubber capacity will remain at 110,000 tpa. SIBUR is planning investments of 737 million roubles in 2009 at Voronezh. The main aim of Voronezhsintezkaucuk during the recession is to keep production running, although maximum capacity has not been possible due to the lower number of orders. Emulsion production has been running at 50-60%, with thermoelastomers at 60-70%. For the whole of June, the thermoelastomer plant was closed for maintenance.

Synthetic rubber

Togliattikauchuk to increase isoprene capacity

Togliattikauchuk started the reconstruction of the isoprene monomer plant, which involves the transition from the two-stage process to one stage. The new production method will help to reduce the cost price of production, although the project is unlikely to be completed for several years. Production will continue unaffected at the 90,000 tpa plant, which will be increased to 100,000 tpa after reconstruction. Around 80% of isoprene at Togliattikauchuk is used in the production of butyl and isoprene rubber.

Togliattikauchuk increases butyl rubber production

Butyl rubber production at Togliattikauchuk has started to increase in the past two months due to slight improvements in the demand position. Production totalled 4,500 tons in May which was the normal volume prior to the global financial crisis last year. Production was forced to stop in October 2008 and restarted in February. One line was stopped in June for a maintenance outage, and production is expected to resume 100% utilisation following the restart. Butyl rubber accounted for 16% of total rubber production at Togliattikauchuk in 2008.

Voronezhsintezkaucuk-modernisation
Voronezhsintezkauchuk has finalised the investment project to transfer part of its polybutadiene rubber production to neodymium catalysts, in addition to starting the production of soluble butadiene-styrene rubber (DSSK). Modified technology will enable the company to produce new types of rubber with improved durability, wear resistance and environmental impact parameters matching the best global standards. These rubbers will be used mainly in tyre production of mid- and high price segments.

The overall butadiene rubber output at Voronezhsintezkauchuk will still total 160,000 tpa with 70,000 tpa being produced under the new technology. Should demand be favorable, the plant might completely convert in future to producing new rubbers. Project investments comprised 800 million roubles, with most technology solutions implemented by the plant's R&D centers. Energy costs have been reduced 5-7% as one of the project's economic benefits. At present, potential customers are examining test rubber samples to provide feedback. Based on testing results production units will be made operational in the next few months.

Methanol

Novocherkassk Synthetic Products Plant, methanol unit stops
Novocherkassk Plant of Synthetic Products stopped methanol production in May due to low prices and the non-profitability of sales. The company had hoped to produce 130,000 tons of methanol in 2009, against 72,491 tons in 2008, and had increased production by 22% in the first four months of 2009. However, the plant is expected to be idle until September, when the company will review the market. As the capacity is relatively small, the impact on the domestic market is not likely to be noticed in terms of upward pricing. Novocherkassk Plant of Synthetic Products is managed by the holding Agro-invest, which belongs to the Swedish company Black Earth Farming.

According to Novocherkassk Plant of Synthetic Products, the current market price of 4,000 roubles per ton for methanol is set against a cost price of around 8,000 roubles per ton. During the outage of the methanol plant, staff numbers will be reduced dramatically with the remaining staff focused on producing n-methyl pyrrolidone and foam. in March 2009, the company won a tender from the Ministry of Emergency Measures and the Ministry of Defence to supply 1,000 tons of n-methyl pyrrolidone. If methanol is required, it is probably cheaper to buy it on the open market.

The methanol plant at Novocherkassk has been incurring losses partly due to the age of the equipment aside market factors. The company is planning investments of around 12 billion roubles over the next two years to modernise and expand the methanol plant from its current capacity of 160,000 tpa to 450,000 tpa. The investment plan also includes the construction of a new acetic acid plant with a capacity of 150,000 tpa.

Transport costs for Russian methanol producers
A decision on the change of the tariff rate for the rail transportation of methanol could be taken in the near future, which if approved could help to reduce rates for methanol producers by around 30%. As Metafrax has argued, it is necessary to reduce the tariff in order to make methanol exports profitable. The Gubakha plant has run at a loss for the past six months, whilst transport costs have remained unchanged at 1515 roubles per ton despite lower prices on the world markets. Transport costs have always represented a problem for Russian methanol producers, but the situation has deteriorated dramatically this year. The rail transport companies have defended their prices, but are now faced with offering lower costs to methanol producers or moving less methanol. Russia exported around 2 million tons of methanol in 2008, but that is expected to way down on 2009.

Uralkhim-Sordinsky
Uralkhim is considering a project concerning the development of the Sordinsky site of the Vjatsko-Kamsky phosphate deposit in the Kirov region. These plans are expected to progress despite the restrictions imposed on finance. Uralkhim has stated that it would continue development of the raw-material base in the Kirov region and will aim to start the production of phosphoric concentrate this year.

The Vjatsko-Kamsky deposit is considered to possess the largest source of phosphates in Europe. Investments into the Sordinsky have been estimated this year to cost in the range of one billion roubles and would act as a basis for the production of phosphate and complex fertilisers. Uralkhim was created by the ex-president of

SIBUR Dmitry Mazepin based on Kirovo-Chepetsk chemical industrial complex (КЧХК), Azot at Berezniki and Voskresensk Mineral Fertilisers in the Moscow region.

Organic chemicals

Akrilat increasing focus on domestic market

Since the latter part of 2008, sales have dropped sharply for Akrilat at Dzerzhinsk impacting on operating rates. In December 2008 and January 2009 the company's warehouses filled up quickly due to lower sales, whilst in February-March 2009 the company faced feedstock shortages which halted production before being restarted in April. The operation of the plant for the rest of the year will depend on sales' volumes. A catalyst replacement is required at some stage this year, which will mean a two month shutdown. This looks likely that this could take place in the late summer or early autumn. Raw material problems could also affect production.

In 2007, Akrilat increased export sales by 25%, and was shipping more than 800 tons of methyl and ethyl acrylate in some months. In 2008, the company encountered lower sales but exports still accounted for the largest part of production. The Russian market accounted for 14.6% of volumes sold and 18.3% of turnover in 2008. Around half of acrylic acid consumption in Russia goes into the paint sector, with around 15-20% going into cosmetics, and this contrasts with global trends of 25-30% on superconcentrates.

Whilst the Russian market is very small at present, its long term potential is considerable and Akrilat hopes to be able to increase sales on the domestic market at the expense of exports. Over the past few years, the domestic market has grown from virtually nothing. This has translated into increasing its share in Akrilat's sales and profit to 18.1% and 27.6% respectively in 2007, and 23.5% and 33.6% in 2008. The paints industry has been growing at 10-20% until the global financial crisis in 2008.

Akrilat is considering the possibility of starting the production of emulsions from butyl acrylate. A feasibility study is currently underway, with financial backing arrangements being assessed. The Akrilat management group has purchased a greenfield site of 41.2 hectares in the Dzerzhinsk region, for it paid a price of 240 million roubles. Decisions on how to use the site are yet to be decided. Group Akrilat owns 99.99% of Akrilat and controls strategy, project investments and export policy.

Volzhskiy-Orgsintez-profit increase in 2009

Volzhskiy Orgsintez increased net profit 3.9 times in the first quarter of 2009 against the same period in 2008 to 803.024 million roubles. The rise in profits was due mainly to the high prices achieved by the company for methonin sales. Turnover rose 34.9% to 1.864 billion roubles, with pre-tax profits rising 3.6 fold to 986.423 million roubles. Volzhskiy Orgsintez also produces n-methyl pyrrolidone and aniline.

Dzerzhinsk Orgsteklo creates subsidiary for MMA plant

Dzerzhinsk Orgsteklo (DOS) has created a daughter company OOO "MMA" for the restart of the MMA plant. The daughter company is expected to start work in October 2009. The regional government has provided 120 million roubles as bank credit, whilst the owner of DOS will bring in 80 million roubles. The conclusion of credit contracts, and also granting of loans should take place in the middle of June. Other financial support has been provided by neighbouring company Korund which depends on cyanide supplies from DOS. Korund has been in talks to construct its own cyanide plant to eliminate the dependency on purchases from DOS, but is yet to conclude financing.

Other products/companies

Tatarstan polyester cluster

Tatarstan and the Ivanovo region have been in close talks regarding co-operation in developing the textile sector in the Alabuga Special Economic Zone. Combining the long experience of the Ivanovo region in the textile industry with the raw material base of Tatarstan, the aim is to provide fibres for the domestic market particularly polyester. PET production is expected to start in Tatarstan under the Korean jv KP Bars in 2011. Tatarstan possesses polypropylene in abundance at Nizhnekamskneftekhim, which could be applied to the fibre sector, whilst several fibre plants are planned for Kazan. These include 180,400 tpa of polyamide 66 and 125,700 tpa of polyacrylonitroile, although financing and technology have yet to be finalised. Tatarstan lacks experience in fibre

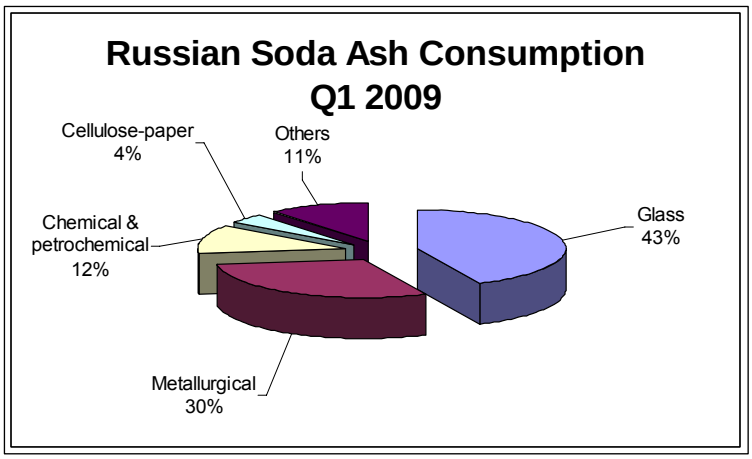
industry development; hence there are mutual advantages in working closely with Ivanovo region which traditionally has been the centre for textiles in Russia.

Plastkard-Praxair

Praxair started the construction of a unit at Plastkard at the end of May 2009 for the production of industrial gases. Start-up of the unit is planned for February 2011, with output to be used locally in the Volgograd chemical park. Around €30 million is being invested into the new unit, which will produce nitrogen, oxygen and argon for the local area. Praxair was ready to construct own plant in Russia, but has decided to construct at Plastkard. There are two existing producers of industrial gases already in the Volgograd region, including Volgograd Oxygen Plant and Volga Nitrogen Oxygen Plant.

Russian soda ash 2009

Soda ash production has increased month by month in 2009 after the falls at the end of last year. Demand has grown from the big consumers in the metallurgical and glass industries. Although production in April 2009 was 16% less than in April 2008, totalling 201,700 tons, this was much better than in the first quarter of 2009 which was only 64% of the volumes produced in 2008.



Bashkirya Khimya has become the majority stakeholder in Soda at Berezniki, which has a capacity of 500,000 tpa of soda ash. Bashkirya Khimya also controls Soda at Sterlitamak, which is the major soda ash producer in Russia. Soda at Berezniki came under the administration of Bashkirya Khimya in May 2008, before shares were transferred to it from the previous owner in Cyprus in the latter part of the year. It is not yet clear if Bashkirya Khimya has aims to invest or offload the Berezniki plant, but it does now hold en extremely strong position in the Russian soda ash market.

Belarus-Ukraine

Polymir petrochemical project reviewed

Investments into the petrochemical complex at Novopolotsk, owned by Polymir, have come under review by holding company Belneftekhim. Aside financial concerns, Belneftekhim fears competition from the Middle East which could make an investment at Novopolotsk unprofitable. Without access to cheap raw materials, it would make it very difficult for Polymir to produce at low enough cost on polyolefins for export. Thus, it would need one of the Russian oil producers, such as LUKoil or Rosneft, to invest but to guarantee low prices for feedstock. Polimir has been considering the construction of new polyolefin and olefin facilities, in addition to an MEG plant with the focus on domestic demand.

Belarussian Chemical Output (unit-kilo tons)

Fertilisers	***Jan-May 09***	***Jan-May 08***
Potassium Fertilisers	946.5	1506.9
Nitrogen Fertilisers	329.3	337.5
Phosphate Fertilisers	84.8	92.7
Ammonia	436.1	451.9
Sulphuric Acid	374.8	390.6
Petrochemicals	***Jan-May 09***	***Jan-May 08***
Ethylene	63.1	67.6
Benzene	38.3	44.5
Caprolactam	47.8	55.2
Phthalic Anhydride	7.4	7.4
Polyethylene	59.6	60.4
PET	82.1	96.4

Mogilevkhimvolokno in talks with SIBUR over possible PTA jv

Mogilevkhimvolokno and SIBUR-Holding are in negotiations on co-production of PTA. Following the cancellation of the paraxylene project at the Mozyr refinery and doubts over the construction of an MEG plant by Polimir, Mogilevkhimvolokno has been forced to seek alternative partners and sources of raw materials for its own PTA project. SIBUR wants PTA for its own consumption, and in order to develop the product chain more cost-effectively.

The cost of the original plan to construct a 320,000 tpa plant for PTA at Mogilevkhimvolokno was estimated at

$213.4 million. The two sides are considering the commercial aspects to such a project, in terms of shares in the jv, financial arrangements, etc. Mogilevkhimvolokno has been planning for the past two years the construction of a PTA plant, but without the raw material base in Belarus the economic viability of building the plant at Mogilev has been reduced. Thus, aside the question of finance, location is also a key factor to be considered and whether or not it would be better to place the plant in Russia. SIBUR already has a stake in the Polief plant near Ufa, which is expanding its PTA capacity from 230,000 tpa to 600,000 tpa and the PET facilities from 120,000 tpa to 400,000 tpa. Mogilevkhimvolokno wants to construct a PTA plant to replace DMT in order to reduce costs in the production of polyester fibres and PET.

Mogilev Plant of Artificial Fibres

Mogilev Plant of Artificial Fibres has issued a tender for the supply of equipment for the production of polyethylene packaging films. The investment programme for 2009 includes constructing a unit for three-layer polyethylene film with a capacity of 1,500 tpa. The aim is to start the plant before the end of 2009. Mogilev Plant of Artificial Fibres became a stock holding company in 2003 and is part of the state holding company Belneftekhim. More than 80% of production from the plant is exported, which includes BOPP.

Ukrainian Chemical Production (unit-kilo tons)

Product	*Jan-May 09*	*Jan-May 09*
Acetic Acid	26.9	63.9
Adipic Acid	0.0	13.9
Ammonia	1316.2	2342.3
Benzene (-95%)	65.3	116.0
Benzene (+95%)	21.2	73.9
Caprolactam	14.4	24.4
Caustic Soda	16.3	46.6
Ethylene	0.0	85.0
Formaldehyde	6.1	36.9
Methanol	35.8	74.7
Polyethylene	0.0	45.1
Polypropylene	38.0	40.6
Polystyrene	5.7	18.0
Polyvinyl Acetate	3.2	4.5
Propylene	0.0	37.8
Soda Ash	257.7	414.5
Titanium Dioxide	30.6	58.0
Toluene	1.4	2.9

Ukrainian chemical production Jan-May 2009

During January-May 2009, fertiliser production dropped 22.1% compared to same period last year with ammonia down 44%. In May, production of nitrogen fertilisers fell by 19.1% compared to May 2008 and totalled 197,000 tons. Production in chemicals is down across the board in Ukraine due principally to the state of the economy. The production facilities at Karpatneftekhim are still idle, which means that ethylene and polyethylene in Ukraine have not been produced at Kalush since the first half of last year.

Karpatneftekhim to complete PVC project in 2010

The PVC project under construction at Kalush is expected by Karpatneftekhim to be introduced in the third quarter of 2010, after originally being scheduled for October 2009. LUKoil-Neftekhim has decided to delay start-up almost by a year due mainly to economic circumstances and some hold-ups in construction. Whilst the market for PVC has been very weak this year both in Ukraine and regionally, the company hopes that the economy will have improved by the second half of 2010. The PVC plant at Kalush is designed to have a capacity of 300,000 tpa, based on technology supplied by Uhde and Vinnolit, and is costing in the range of $500 million. The new chlorine facilities at Kalush may be completed in 2009. Recently, Karpatneftekhim has started to use steam from its own production of VCM, which is much cheaper than the cost of steam supplied by the Kalush thermal power station.

Kazakhstan-Central Asia

Navoiazot-methanol & fertiliser investments

Navoiazot has placed in operation a unit for phosphate ammonium nitrate with an initial capacity of 20,000 tpa, rising to 180,000 tpa by the end of 2009. Investments into the new plant are worth $2.4 million, financed from the company's own resources. Another $3.6 million will be invested in other projects this year; including dimethyl ether with a capacity of 1,200 tpa and methanol with a capacity of 12,000 tpa. Navoiazot has been selected as the site of for Uzbekistan's joint investment with International Petroleum Investment Co (IPIC) for building of a chemical complex worth $1.34 billion. This will include 750,000 tpa of ammonia and 1 million tpa of urea, which are planned to be in operation by 2013. The general contractor for the project will be the German company MAN Ferrostaal AG.

Navoiazot-ISU jv for PVC

Navoiazot and the Korean company ISU Corp have created a jv ISU Navoi Chemical for the production of PVC. The construction of the plant is expected to start in the second half of 2009, involving a 50,000 tpa unit coupled with a 32,000 tpa unit for caustic soda. Project financing will be carried out from credits provided by Korean companies for around $80 million of the total required $90 million and Navoiazot $10

million. In another Uzbek-Korean jv, Uzbekneftegaz and the South Korean company BTX have agreed a jv for investments into industrial gases on the Navoiazot site.

KazMunaiGaz-aromatics investments expected to proceed

Construction of the benzene and paraxylene plants at Atyrau, with respective capacities of 133,000 tpa and 496,000 tpa, is expected to start this year at the same time as the polyolefin project gets underway. This will have a capacity of 800,000 tpa of polyethylene and 450,000 tpa of polypropylene. It remains unclear what the destination will be for the paraxylene produced at Atyrau, whether into PET on the site or for export to Russia and other regions. KazMunaiGaz has purchased a majority stake in the Pavlodar Petrochemical Plant, which can process up to 7 million tpa of crude.

Other Kazakh news

Imports of polystyrene into Kazakhstan have risen this year as Sat Operating Aktau has faced problems with raw materials supplies. At present, the company is undertaking negotiations with the new suppliers of styrene. In the first quarter, very little polystyrene was produced at Aktau, whilst imports totalling 1,490 tons arrived for domestic consumers mainly from China and South Korea. Production of polystyrene at Aktau is not expected to resume normal operating rates at least until later in the year.

The Ministry of Industry and Trade in Russia and the Ministry of Energy and Mineral Resources of Kazakhstan have approved the investment project by Evrokhim in the Zhambul region. Evrokhim plans to construct a phosphate fertiliser plant with a capacity of 2 million tpa at Karatau. The company plans to invest $4 billion by 2015, mostly on production but including $300 million in the development of the infrastructure in Karatau. Evrokhim is also undertaking important projects in Russia for potassium salts in the Volgograd region and potassium and magnesium salts in the Perm region.

Relevant Currencies

(Czech crown. Kc. $1= 22.027. €1 = 28.182): (Hungarian Forint. Ft. $1 = 235.4. €1 = 301.01): (Polish zloty. zl. $3.6882. €1 =4.7140): (Romanian Lei. $1 = 3.36. €1= 4.2968). (Ukrainian hryvnia. $1 = 8.350. €1 = 10.762): (Rus rouble. $1 = 35.635. €1= 45.517)

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