Chemical Information Resources for East Europe and CIS

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MONTHLY NEWS

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

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Issue 228, 30 November 2009

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- Central European olefin and polyolefin production revived in the third quarter, due in part to more stable demand and in part to less downtime
- PKN Orlen posted a third-quarter net profit driven by one-off gains and strong retail gas sales
- MOL's petrochemical division achieved an operating profit of Ft 1.4 billion in the third quarter of 2009, against a loss of Ft 9.3 billion in the previous quarter
- Petrom's petrochemical sales dropped by 33% in Q3 2009 compared to last year, as the steam cracker unit in Arpechim remained offline
- BorsodChem has asked for a moratorium on its debt repayments to be extended until the middle of January
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- Nizhnekamskneftekhim recorded a net profit of 1.14 billion roubles in the third quarter in 2009, after incurring losses of 406.780 million roubles in the first half of the year.
- SIBUR-Neftekhim is to enter the second phase of reconstruction at Dzerzhinsk of the ethylene oxide and glycol plants in 2010, with increases in capacity
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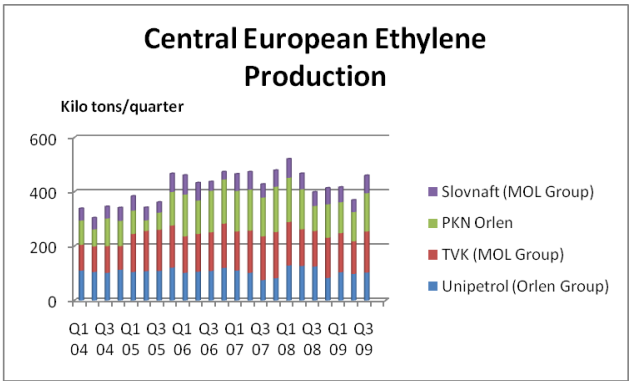
- Metafrax has devised targets for the company up to 2015 that include an increase in turnover to 7 billion roubles per annum
- Mogilevkhimvolokno is seeking investors for installation of a new PET plant for food grade packaging, included into the programme of development up to 2012 and designed to replace an existing plan
- The Russian Federal Antimonopoly Service (FAS) has supplied preliminary approval for the 50% acquisition of Biaksplen by SIBUR-Holding
- Tomskneftekhim is to convert polypropylene production in December to a titanium-magnesium catalyst
- Plastik at Uzlovaya, part of SIBUR-Holding, is investing in the expansion of its styrene plant and increasing capacity to 60,000 tpa
- Kaustik at Sterlitamak is currently undergoing an investment programme for the expansion of VCM and PVC facilities, which is targeted for completion by 2012
- Togliattikaucuk has received a patent for a new method of producing isoprene rubber

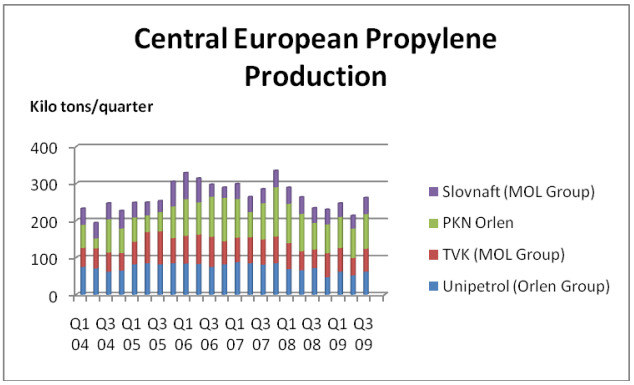
CENTRAL & SOUTH EAST EUROPE

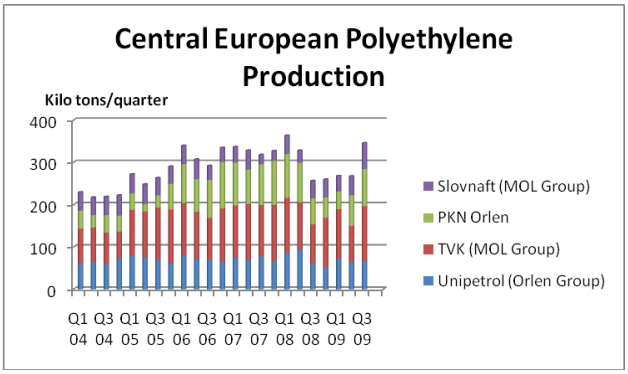
Petrochemicals

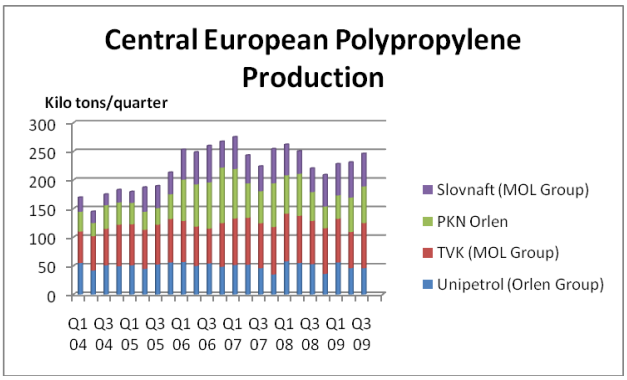
Central European Olefin/Polyolefin Production Q3 2009

Central European olefin and polyolefin production revived in the third quarter due in part to more stable demand and partly to less downtime. Ethylene and polyethylene saw the largest quarterly increases, although TVK's ethylene output this year has been affected by reduced purchases from BorsodChem.









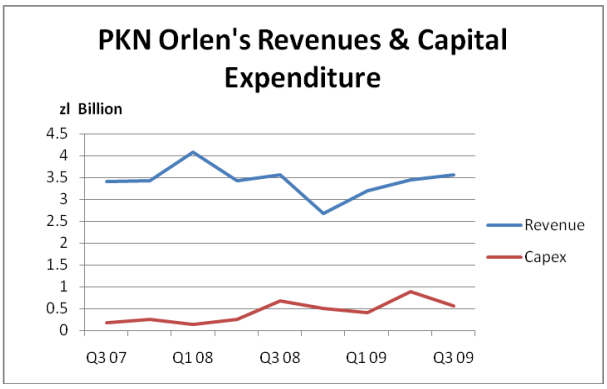
PKN Orlen Group Petrochemical Sales (unit-kilo tons)		
Product	***Jan-Sep 09***	***Jan-Sep 08***
Ethylene	193	210
Propylene	155	169
Ethylene Oxide	13	10
Ethylene Glycol	52	68
Butadiene	40	41
Toluene	51	85
Acetone	16	21
Phenol	25	33
Benzene	191	219
Orthoxylene	15	19
Paraxylene	1	18
Polyethylene	343	364
Polypropylene	287	294
PVC	279	249

PKN Orlen Q3 2009

PKN Orlen posted a third-quarter net profit above expectations, driven by one-off gains and strong retail gas sales. However, the outlook for the fourth quarter remains bleak. In the third quarter, the group's earnings reached zl 931 million ($338 million), partly due to zl1.1 billion in gains on inventory revaluation, loan adjustments and lower liabilities. However, the one-offs covered up poor operating results at the PKN Orlen's core business operations, mainly in refining and petrochemicals, where margins fell 56% and 23% respectively. Sales of petrochemicals outside of the Orlen group were down for most products in the first three quarters, although PVC recorded a noticeable increase.

The effect of changes in the prices of petrochemical products on the valuation of inventories increased the petrochemical division operational result by zl 35 million. Lower fertiliser sales, which are included in the petrochemical division, brought total sales down by 90,000 tons against last year.

In the third quarter of 2009, PKN Orlen's capital expenditure for petrochemicals totalled zl 552 million, which was zl 120 million lower than in the same quarter last year. The largest projects executed in the third quarter in 2009 included the construction of paraxylene and PTA units in Poland, together with the connection of the PTA plant at Wloclawek to utilities. Another key project has involved the construction of the new butadiene plant at Kralupy in the Czech Republic.



PKN Orlen PTA

The PTA plant at Wloclawek is scheduled to commence production in April 2010, but may be delayed to the second half of the year. The cost of the PTA plant has been estimated at zl 3.73 billion, with Mitsubishi Heavy Industries is providing the technology. The capacity of the PTA plant is 600,000 tpa which will be supported by a new paraxylene plant at Plock with a capacity of 400,000 tpa. The paraxylene plant is being constructed by Technip based on UOP technology, and was scheduled originally to be completed by December 2009.

Unipetrol Q3 2009

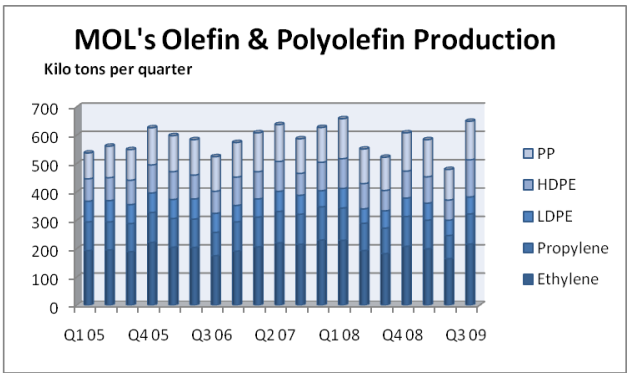
Unipetrol posted an operational profit of Kc 5 million in the third quarter of 2009, which was the company's first positive result after three consecutive quarters in the red. The petrochemical division at Litvinov saw minor improvement in demand and margins compared to the second quarter. Petrochemical margins increased significantly for olefins and to a lesser extent polyolefins, but were still lower than in the same period last year. Sales' volumes were lower than in 2008 due to the termination of oxo-alcohol production and an unplanned shutdown of a steam cracker in September. The positive EBIT Kc 219 million for petrochemicals was achieved mainly due to savings, especially in fixed costs.

The net result for the Unipetrol Group was Kc 35 million in Q3 compared to a profit of Kc 557 million achieved in the same period in 2008. The third quarter was difficult for the refinery sector whilst petrochemicals saw better results due to improved margins. The Group has managed to save more than Kc 600 million in fixed costs this year mainly as a result of improvements in operational efficiency.

In the fourth quarter, Unipetrol expects to continue facing unfavourable external conditions for petrochemicals. Whilst the petrochemical division has noted higher demand for olefins and polyolefins recently, it is too early to judge how long these trends will continue.

MOL Q3 2009

MOL's petrochemical division achieved an operating profit of Ft 1.4 billion in the third quarter of 2009, against a loss of Ft 9.3 billion in the previous quarter**.** The main reasons for the improved performance were higher petrochemical margins, higher production and sales' volumes. The integrated petrochemical margin grew by 30% vs. Q2 2009, although overall for the period Q1-Q3 2009 fell 17% against last year**.** Whilst **t**he dollar naphtha price increased by 23% in Q3 2009, it was offset by an increase in euro terms of 19-28% for polymer prices combined with the weakening dollar against the euro. The fall in energy prices also had a positive impact on the results.



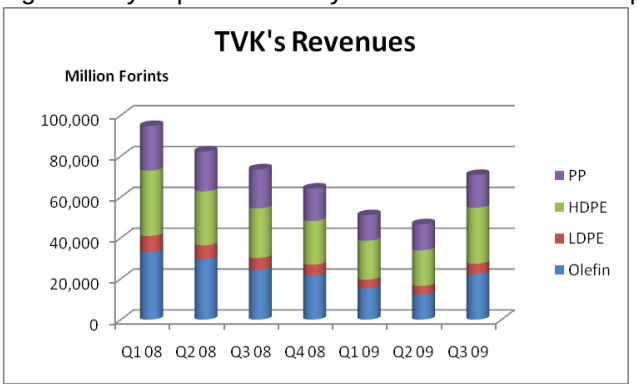
TVK increased its production in the third quarter after shutdowns were undertaken in the second quarter. In Q3 2009, in addition to the positive EBITDA and operating cash flow, MOL's petrochemical division continued its stringent working capital management involving cost-cutting. Despite the improved performance in the third quarter, MOL's petrochemical division recorded an operating loss of Ft 11.7 billion in the first three quarters of 2009, 3% down on last year. The fall against 2008 was quite modest partly helped by currency factors; i.e. the strong Forint worked against the group last year but the weak exchange rate has in 2009 been more beneficial.

Monomer production for MOL dropped by 4% in the first three quarters compared to the same period of last year, due mainly to the maintenance shut-downs undertaken at TVK. Polymer production for MOL fell only by 2,000 tons due to higher capacity utilisation of the HDPE units. Monomer sales declined by 34% compared to 2008 as TVK reduced ethylene sales to BorsodChem by 37,000 tons in Q1-Q3 2009. This was the key factor in reducing TVK's utilisation of the olefin production capacity from 92% to 88%. MOL's

capital expenditure in the first three quarters amounted to Ft 14.0 billion in Q1-Q3 2009, primarily relating to the reconstruction operations of olefin plants both at TVK and at Slovnaft Petrochemicals.

Slovnaft's petrochemical division recorded an operating loss of €2.6 million in Q3 2009 compared to the profit of €0.6 million in same quarter of the last year. For the first three quarters in 2009, the operating loss of the petrochemical division reached €19.9 million which is not as bad as in 2008 when the loss reached €35.7 million.

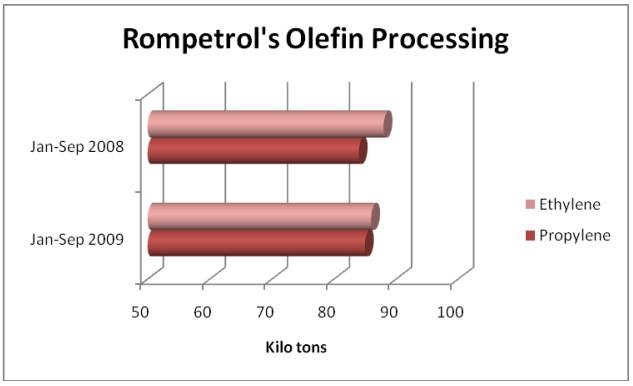
For TVK, the operating results in Q3 2009 turned to positive, and amounted to Ft 2.16 billion. The margins significantly improved mainly due to the fact that the polymer product prices exceeded the price increase of naphtha. Other factors included the strengthening of the euro against dollar and lower energy prices. Production and sales' volumes for TVK rose relatively as production was low in the previous quarter due to the reconstruction and maintenance work.



Despite the operating profit achieved in the third quarter, TVK made an operating loss of Ft 6.2 billion in the period January-September 2009. This was Ft 3 billion more than last year and puts further pressure on the company, although volumes remain good. Capacity utilisation significantly increased in the third quarter and thus polymer production and polymer sales were lower by only 4% and 3% respectively than in the first nine months in 2008. The share of HDPE in polymer sales for TVK increased by almost 4%, whilst LDPE and PP fell by 2% and 1% respectively.

Rompetrol Q3 2009

Rompetrol Petrochemicals increased polymer sales and achieved good margins in Q3 2009, leading to an operational result of $3.06 million for the quarter. The company's loss fell considerably against the same period last year due to improved market conditions. Rompetrol Petrochemicals' gross revenues reached $180.9 million in the first three quarter of 2009.



In order to increase the company's market share and competitiveness, Rompetrol Petrochemicals has started a new strategy to diversify the products portfolio. Besides selling its own products, the company also is carrying out significant trading activity, covering a large variety of petrochemical products which are not produced by Rompetrol Petrochemicals. These include a range of PP, LDPE, HDPE and PET. This strategy complies with the main objective of Rompetrol Petrochemicals which is to obtain a significant market share in polymer sales the Balkans.

Petrom-Q3 2009

Petrom's petrochemical sales dropped by 33% in Q3 2009 compared to last year, as the steam cracker unit at Pitesti remained offline. Petrom's net turnover in the third quarter fell by 25% to 3,530 million lei compared to last year, mainly due to the fall in product prices and lower petrochemical sales. Doljchim's sales' volumes dropped by 19%, due to reduced demand, both domestically and internationally. Market prices for fertilisers and methanol have been low, although Doljchim has recently restarted methanol production.

Petrom is reported to be planning to reduce the number of employees in its *petrochemical* division *Petrochemicals* Arges by the year-end, before selling out the *unit* most likely to Oltchim. The future of the plant has been in doubt for months pending the outcome of negotiations to sell Arpechim to Oltchim. Arpechim has capacities to produce 200,000 tpa of ethylene and 95,000 tpa of propylene. Employees have continued to clock on for normal 8-hour shifts throughout the past year although the plant was idle. If the Oltchim takeover has not been completed soon, Petrom will be forced to impose redundancies. Oltchim has issued

a non-binding offer to acquire the plant where it plans to invest around €100 million to upgrade the petrochemical facility.

Petrohemija-NIS
The problem of promissory notes of Petrohemija to NIS has been settled, according to reports. The parties have signed a package of agreements about debt re-structuring, with total debts estimated at €86 million. The conditions include the transfer of shares in Petrohemija to NIS, which itself is owned by Gazprom-Neft. By clearing the promissory notes, Petrohemija has agreed to pay off the debts by 2014 or otherwise it will fall under the control of Gazprom-Neft. NIS now owns 25.79% in Petrohemija and the agreements have opened the possibility of undertaking an investment programme with Russian participation.

Dioki, Jan-Sep 2009
The Dioki group's weak performance from the first half of the year continued into the third quarter, with net sales dropping almost 60% to HRK 345 million. Even so, the group reduced its net loss in the quarter to HRK 5 million (vs. HRK 22 million in the third quarter of 2008), mostly due to changes in inventories and reduced material costs. For the first three quarters, Dioki's net sales halved to HRK 1083 million, while its net loss doubled to HRK 65 million. The most important products of the group include polyethylene and polystyrene. The poor results have not affected Dioki's business plan aimed at introduction of new production capacities and expansion of existing capacities. The investment cycle, started in 2007, is valued at above €80 million for two locations, i.e. Dioki at Žitnjak and Dina-Petrokemija on Krk Island.

Chemicals

Oltchim, Jan-Sep 2009
Oltchim registered losses of 172.51 million lei (€40.7 million) in the period January-September this year, 6.2 times higher than in the same period in 2008. Turnover has almost halved, to 792.16 million lei (€187.27 million) against 1.6 billion lei during the same period last year. The company's total costs were reduced by 44%, amounting to 956.18 million lei (€226 million). According to the revenue and expenditure budget, Oltchim estimates losses of 151.79 million lei this year. In 2008, Oltchim reported losses of 234 million lei (€63.59 million). In the Oltchim ownership structure, the Ministry of Economy holds 54.79% of the capital, and the German group PCC SE controls over 12.15%. Oltchim has a market value of 85.07 million lei (€19.8 million).

BorsodChem-extension of debt repayments
BorsodChem has asked for a moratorium on its debt repayments to be extended until the middle of January to allow it to reach a final agreement on financial restructuring with all affected parties. The approval of state-owned Hungarian Development Bank (MFB) on the restructuring will be key to the entire process, as the company will be required to pay back a loan from MFB before any its other loans. BorsodChem has to reach an agreement with around 60 banks and other lenders on restructuring of around €1 billion in debt. Part of the debt is mezzanine loans, linked to 19% of BorsodChem shares, purchased recently by the Chinese company Wanhua. BorsodChem's operations improved significantly in Q3, especially its TDI and MDI production, but the debt issue needs to be resolved quickly.

Methanol restarts in South East Europe
Serbian methanol and acetic acid complex MSK Kikinda, 63%-owned by gas monopoly Srbijagas, restarted production at the end of October following a 12-month halt for a technological upgrade. The government has set aside €70 million in subsidies for MSK Kikinda since the start of the year, as part of efforts to help major exporters to cope with the economic crisis. The cabinet expects MSK Kikinda to post around €100 million export revenues annually. The company's exports stood at €86.4 million last year. MSK produces methanol, acetic acid, acetic acid for food purposes, fluid oxygen and fluid nitrogen.

Doljchim restarted methanol production at Craiova at the end of September due to improved market conditions. Earlier there were reports that Petrom may close Doljchim in Romania, both on a temporary and permanent basis. The size of the methanol plant at Craiova is 230,000 tpa, although it is not running at full capacity. Petrom has been searching without success for a partner to manage Doljchim at Craiova. The chemical plant's sales fell 37% in the first half of the year to 173,000 tons owing to lower demand.

PGNiG-Zaklady Chemiczne Police
PGNiG has decided to dissolve the contract to sell gas to Zaklady Chemiczne Police after the company failed to meet a prolonged deadline for gas deliveries by 15 November. The debt owed to PGNiG amounts

to zl 83 million ($30.3 million), plus interest. Zaklady Chemiczne Police buys around 500 million cubic metres of natural gas per annum. PGNiG reported better-than-expected third-quarter net profit in 2009, which more than doubled due to improved margins on gas imported from Russia. PGNiG, which imports about two-thirds of the gas it sells from Russia, lost money on imports in the previous quarters.

Polish Chemical Production (unit-kilo tons)

Product	*Jan-Oct 09*	*Jan-Oct 08*
Caustic Soda	62.7	73.3
Soda Ash	743.9	1288.4
Ethylene	423.1	451.3
Propylene	294.0	303.8
Butadiene	43.8	48.3
Toluene	75.1	101.3
Phenol	26.8	36.9
Caprolactam	117.4	128.4
Polyethylene	275.2	293.5
Polystyrene	104.9	98.7
PVC	218.8	215.8
Polypropylene	212.9	203.6
Synthetic Rubber	110.6	108.3
Pesticides	18.0	28.6

Bulgarian chemical industry 2009

Total income sales in the Bulgarian chemical industry amounted to 230.25 million leva in the period January-September 2009, compared with 521 million leva in 2008. Listed companies reduced their sales by 55.8% from their nine-month reports. These include Vidachim, Kapitan Dyado Nikola, Kauchuk, Neochim, Orgachim, Petar Karaminchev, Polimeri, Rozachim and now defunct Chimco.

Orgachim‘s sales shrank 26.2% on an annual basis to 81 million leva. Neochim's sales plummeted 76.5% to 61 million leva. The only company that managed to improve its sales for the period was Vidachim, which rose 26.1% to 43.2 million leva. The biggest decrease was booked by Petar Karaminchev (delisted): 87.8% to 2.7 million leva. The nine companies posted total losses of 25.26 million leva for January-September. Neochim contributed the most with a 16.8 million leva loss (down 131% year on year). Polimeri was also among the top loss-makers with a 6.7 million leva negative result and a decrease of 568% on the same period in 2008; when the company logged a 1.4 million leva profit. Four of the chemical producers booked profits; Chimco reported only zeros in its documents. Orgachim saw the biggest profit, 1.75 million leva, but was still down 60.6%.

RUSSIA

Russian market, Jan-Oct 2009

Industrial production in Russia dropped 13.3% for the period January-October 2009 against last year, although the rate of decline has slowed substantially in recent months. Total oil refining fell by 1.1% for January-October 2009 to 195 million tons. The production of mineral fertilisers dropped by 17.2 % to 12 million tons, synthetic resins and plastics fell by 4.3% to 3.5 million tons, and synthetic rubber fell by 25.9% to 774,000 tons. The production of polymer films has risen this year by 8.2% to 392.000 tons.

Russian Chemical Production (unit-kilo tons)

Product	*Jan-Oct 09*	*Jan-Oct 08*
Ethylene	1824.3	1966.2
Benzene	840.4	985.3
Styrene	404.5	496.6
Phenol	134.3	185.0
Polyethylene	1150.9	1058.0
Polypropylene	485.0	423.8
PVC	440.7	481.7
Polystyrene	211.0	220.0
Butanols	211.1	215.3
Methanol	1834.2	2926.9
Syn Rubber	773.7	1013.0
Caustic Soda	915.3	1109.9
Soda Ash	1938.8	2369.6
Ammonia	10665.0	10911.9

Profitability for the third quarter for most of the large Russian chemical producers has shown a degree of improvement against the first half of 2009, but aside one or two exceptions were unsurprisingly way down on results from 2008. Overall, physical production has risen gradually as the year has progressed and although the outlook for 2010 remains tentative, the expectations are for a better year in 2010.

Physical output for many products has actually resumed the normal levels witnessed prior to the “crisis”, but profit margins are broadly lower as product prices have struggled to follow costs. Energy costs provide one of the main short to medium term concerns with rises having been seen this year.

Feedstocks & petrochemicals

Rosneft-access to Gazprom network

Rosneft has filed a complaint alleging that Gazprom limited Rosneft’s access to the Russian main gas pipeline network from April through August. As it was unable to sell the gas, Rosneft stated that it had to flare off associated gas in quantities exceeding the maximum amount permitted by environmental legislation, thus

incurring a fine. Gazprom controls the country's gas transmission network and Rosneft is forced to use the system to transport the gas that it obtains as part of the oil drilling process from its oil fields in East Siberia

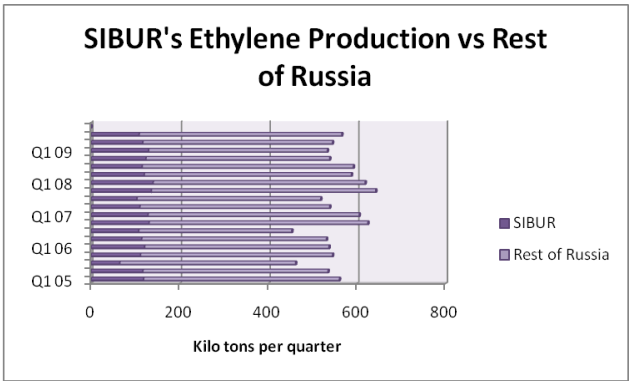
The Russian Prime Minister has re-emphasised the target of 95% utilisation of associated gas for the oil producers by 2012, or will otherwise face the prospect of substantial fines. These fines will be imposed despite irrespective of the argument of a lack of pipeline infrastructure to support increased utilisation levels. The lack of infrastructure has until now affected the capability of the oil companies to execute the four stages of associated gas gathering, preparation, transportation and processing. Whereas investment into the processing capacities remains the sole responsibility of the oil and gas companies, some companies believe that the government has not provided sufficient support in pipeline construction that would allow the 2012 target to be met.

SIBUR-Holding, outlook for 2010

SIBUR posted a net profit of 2.2 billion roubles ($76.7 million) in January-September 2009, dropping by 90% against the same period last year. The group's sales in the first three quarters dropped by 26% to 80 billion roubles. Gazprombank controls 70% minus one share in SIBUR Holding, while 25% minus one share is held by Gazprom's pension fund Gazfond through its managing company Leader.

SIBUR-Holding has stated its intention to double investments in 2010 compared against 2009, aiming at investing around $1 billion into the group's major projects. The final investment strategy will be determined before the year-end, with the main focus to be targeted on the Tobolsk and Kstovo projects, together with the Ust-Luga gas terminal. Other areas of focus for SIBUR include associated gas processing, styrene expansions and the production of geomaterials. In 2008, SIBUR reduced investment expenditure from 40.9 billion roubles to 33.6 billion roubles due to the collapse in product markets and economic crisis in the latter part of the year. This year it has been forced to seek finance from governmental banks and other means in order to keep the main projects active. A gradual stabilisation of the market has been noted by SIBUR in the second half of the year, and although the position remains difficult for some products this improvement has helped financial results in the third quarter.

Since SIBUR exited Gazprom's official corporate structure last year, financial results of the group have ceased to be consolidated in Gazprom's statements. The absence of the joint-stock control from Gazprom does not imply complete independence and the two groups do broadly attempt to interact on a strategic basis. As a provider of raw materials, including associated gas, SHFLU, distillates, etc plus providing the transport system for dry gas, Gazprom is a an important partner for SIBUR. The major difference with the previous relationship is that now all forms of co-operation are conducted on market principles.



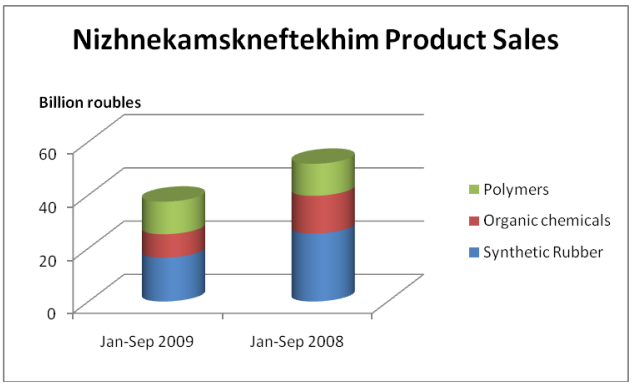
Whilst SIBUR is extending its interests into downstream chemical applications, the group is heavily focused on its feedstock base for associated gas processing. SIBUR has stressed the need for state support in providing investments in logistics and the infrastructure as private companies are unable to resolve these challenges entirely.

SIBUR has created a new section to study business and project concepts, etc. The section will cover hydrocarbon processing, petrochemicals and derivatives, with heavy focus on completion of the investment strategy in the gas processing sector in West Siberia, and joint ventures with oil companies plays a key part in maximising revenues and building new capacity. Whereas SIBUR-Holding remains the largest petrochemical company in Russia, its share of ethylene production remains relatively modest at around only 20% of the Russian total. SIBUR produces ethylene at three plants including at Tomsk, Perm and Kstovo. Salavatnefteorgsintez includes SIBUR on its board, but is not directly owned by SIBUR.

Over the next few years, SIBUR aims to sell more petrochemicals domestically, the market size for some products is not large enough to account for total production from some plants. Thus, exports are likely to remain an important part of the group's marketing strategy for a number of years. A feature of SIBUR's marketing strategy is the increase in petrochemical sales through electronic trading which accounted for 15% of total volumes in the first three quarters of 2009.

Nizhnekamskneftekhim, Jan-Sep 2009

Nizhnekamskneftekhim recorded a net profit of 1.14 billion roubles in the third quarter in 2009, after incurring losses of 406.780 million roubles in the first half of the year. Thus, for the period January-September, the net profit totalled 730.4 million roubles which was 5.7 fold less than in 2008. Energy is on the forefront of concerns for the company with efforts to try and conclude contracts directly with supplier Tatenergo rather than its subsidiary Tatenenergosales. The contract with Tatenenergosales is considered by Nizhnekamskneftekhim to be about 50% higher than it would be through direct contact with Tatenergo.



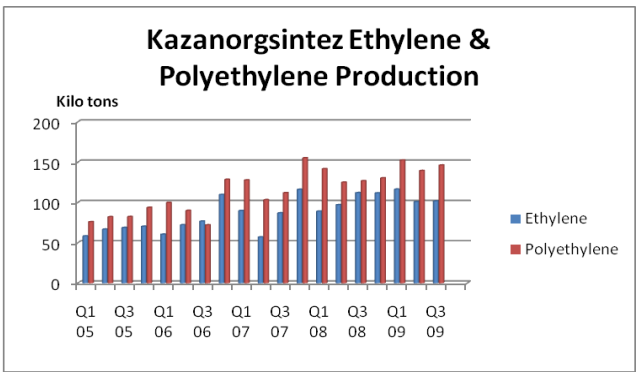
As part of the demand for more energy consumption by Nizhnekamskneftekhim and the requirements of building a second industrial zone, reconstruction is being undertaken at one of the four substations GPP-1 at Nizhnekamsk. By improving the equipment, it will help to reduce the prospect of energy interruptions for Nizhnekamskneftekhim, Nizhnekamskshina and the Nizhnekamsk Technical Carbon Plant. The substation GPP-1 was introduced in 1975, and after completed modernisation attention will move to the second substation GPP-2.

As part of ongoing improvements at the ethylene cracker at Nizhnekamsk, a new SRT-V1 furnace has been started which can use either naphtha or butane. A co-dehydrogenation process of butane and isobutane has been introduced at Nizhnekamskneftekhim's subsidiary NKNK-Divinyl as part of the programme for increasing isobutylene for the production of butyl rubber. This process utilises its own fractions: butane-butylene and total butanes, as well as imported fractions. In the process of dehydrogenation, it converts into divinyl and isobutylene fractions providing the feedstock for production of butyl rubber.

Nizhnekamskneftekhim hopes to achieve zero rating for propylene tetramer exports for 2010, as domestic demand in Russia is small. Currently sales of tetramer, which amount to around 400 tons per month, are unprofitable as they incur duties of $170-200 per ton. Import duties for propylene trimer and tetramer have been established at 5% for 2010.

Kazanorgsintez-debt guarantee linked to ethane contract

The government has approved allocation of state guarantees of to Kazanorgsintez and TAIF on 10 billion roubles and 7.5 billion roubles respectively. Guarantees should help to re-structure debts of Kazanorgsintez until the end of the year, as it needs to repay 27.9 billion roubles to the banks and Eurobonds worth $200 million. On the basis of 17.5 billion roubles of state guarantees, Sberbank is ready to lend 35 billion roubles to Kazanorgsintez. The credit is intended to be divided on two parts, firstly for Kazanorgsintez and secondly for TAIF.



The credit from Sberbank will suffice for refinancing of the debt of Kazanorgsintez, but to serve such a debt the company would need to earn a minimum of $400 million EBITDA per annum. This is higher than is feasible for the company. Kazanorgsintez has been required to sign a contract for ethane deliveries for a five year period.

Around half of ethane supplies from Gazprom to Kazanorgsintez in the past few years has been sold at pre-set prices and the other half under processing agreements. The credit from Sberbank has been granted on the basis that the processing agreements are phased out, as they caused direct losses worth 2.96 billion roubles for Kazanorgsintez in 2008. The feedstock relationship with Gazprom for Kazanorgsintez can be seen as a direct legacy of the Soviet era when industries and companies were intertwined and largely interdependent.

The ethane price has been a major stumbling block between Kazanorgsintez and SIBUR, with TAIF seeking 6,500 roubles per ton and SIBUR 8,500 roubles per ton. The FAS suggested a price of 6,319 roubles per ton, whilst unconfirmed reports indicate that the two sides have signed agreements at a price of 6,750 roubles per ton

pre-VAT and pre-delivery cost. Unclarified aspects of the new arrangements remain, in that Gazprom and Kazanorgsintez are both working on the basis of 270,000 tpa and 390,000 tpa respectively of ethane being shipped from Orenburg to Kazan. Kazanorgsintez wants to increase its ethylene production to reduce dependency on ethylene purchases from Nizhnekamskneftekhim, and thus is keen to increase ethane purchases.

Debts of Kazanorgsintez started to accumulate after 2005, in conjunction with the large-scale modernisation programme. The first phase of the modernisation was completed in 2008, costing 35 billion roubles. The second phase, which is about to start, also requires around 35 billion roubles. The largest creditors of Kazanorgsintez include Sberbank, VTB and VEB. Kazanorgsintez is also facing other issues such as incorrect calculation between January and May 2009, where the company incurred about 400 million roubles of losses. This year energy costs have risen by around 20% and another 5% is expected in 2010.

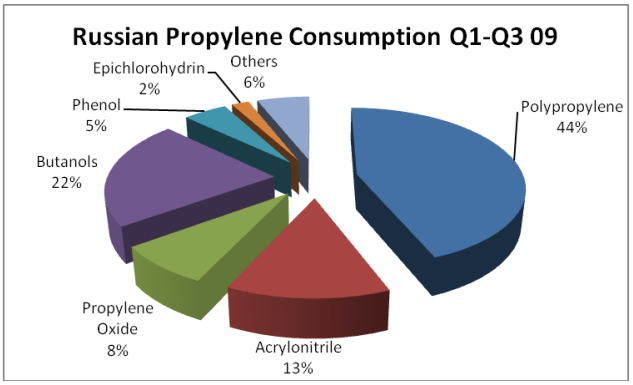
Salavatnefteorgsintez-Gazenergoprombank

Salavatnefteorgsintez saw turnover reduced from 90 billion roubles in the first three quarters of 2008 to 44 billion roubles in the same period this year. Refinery throughput accounts for around two thirds of the company's turnover. In the petrochemical division, production and sales were only down marginally against last year by volume but fell in terms of profits. Overall, the company recorded a net loss of 3.71 billion roubles against a profit of 7.57 billion roubles in the first three quarters in 2008. Debts have risen two fold this year to 14.8 billion roubles.

Gazenergoprombank has awarded Salavatnefteorgsintez financing for 2 billion roubles for a period of two years. The finance will be directed on re-structuring of debts and current activity. The company is trying to improve the efficiency of processing before the expansion of ethylene capacity at Salavat to 380,000 tpa, and is working closely with Technip in creating an optimal model for pyrolysis processing of hydrocarbon raw materials. The start-up of the new HDPE plant at Salavat has been delayed officially from November to December, although is unlikely to be active in the market until the first quarter next year.

Merchant propylene availability in decline

Propylene production in Russia fell 8% in the first nine months of 2009, down to a total of 836,900 tons. The fall in production was caused largely to the unplanned outage at Stavrolen in March and downtime at SIBUR-Neftekhim. Stavrolen sold 30,900 tons of propylene in the period January-September, twice less than in 2008. Shipments of propylene from SIBUR-Neftekhim for nine months of this year fell by 7% and totalled 69,800 tons. Furthermore, Neftekhimya at Novokuibyshevsk produced only 145 tons in the period January-September. At the same time, Omsk Kaucuk and Angarsk Polymer Plant increased propylene sales on the home market by 9% and 3%, respectively.



Consumption of propylene in Russia has also been affected this year, dropping 5% to a total of 823,400 tons. Amongst the derivatives, only polypropylene has seen an increase this year rising 17%. Tomskneftekhim and Ufaorgsintez have increased propylene production by 8% and 6% respectively, with Nizhnekamskneftekhim increasing 2%. Propylene availability in the merchant market has become much tighter this year, in particular due to the increases in polypropylene production at Budyennovsk which previously shipped monomer to Saratovorgsintez and other consumers. Propylene availability declined 16% in the period January-September, down to 171,800 tons.

The main consumer of merchant propylene in Russia is Saratovorgsintez for acrylonitrile and phenol/acetone, but due to lower phenol production this year consumption at Saratov has dropped 10% to 105,000 tons. Shipments of propylene to Usolyekhimprom, for the production of epichlorohydrin, have moreover dropped from 17,100 tons to 5,500 tons. In total, propylene used for the production of epichlorohydrin in Russia was down 39% this year. In terms of market shares, polypropylene accounted for 44% of total propylene consumption in the period January-September this year whilst butanols accounted for 22%.

SIBUR-Neftekhim-EO/EG expansion

SIBUR-Neftekhim is to enter the second phase of reconstruction in 2010 of the ethylene oxide and glycol plants at Dzerzhinsk. The aim of the project is to increase the capacity of the ethylene oxide plant to 264,000 tpa. The second stage of reconstruction is to include a modern high selectivity catalyst and to replace and modernise

sections of the equipment. The first stage of reconstruction was undertaken by SIBUR-Neftekhim in 2003–2005, which increased ethylene oxide capacity from 180,000 tpa to 240,000 tpa and ethylene glycol from 150,000 to 220,000 tpa.

Earlier this year, SIBUR-Neftekhim completed its planned maintenance, which included maintenance on the ethylene pipeline between Kstovo and Dzerzhinsk supplied to the ethylene oxide and glycol plant. During the shutdown, work was completed on a number of small projects, which could only be undertaken when the equipment was idle. This included the modernisation of the columns supplying propane-propylene fractions and another stage in the modernisation and expansion of the glycol plant at Dzerzhinsk to 230,000 tpa.

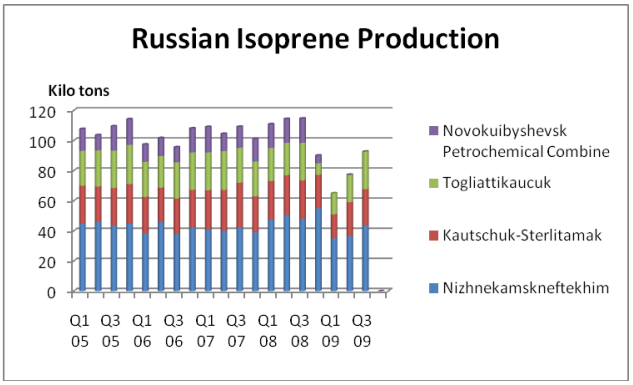
SIBUR-Neftekhim's strategic investment programme includes the expansion of its ethylene cracker to eventually to 430,000 tpa, in addition to propylene moving from 114,000 tpa to 180,000 tpa and benzene from 75,000 to 81,000 tpa. Around 7 billion roubles in total has been targeted for the investments into the Kstovo petrochemical complex, with completion of the first phase in 2012-2013.

SIBUR-styrene modernisation

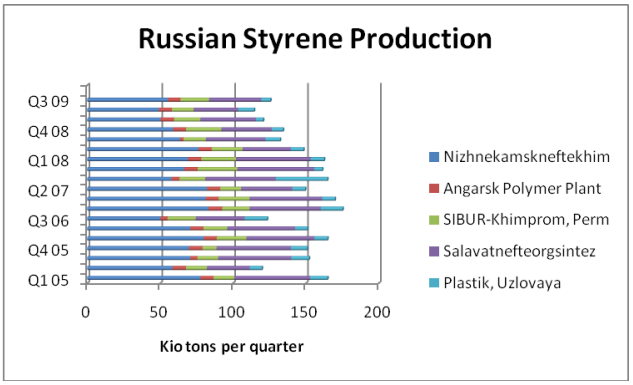
Plastik at Uzlovaya, which is part of SIBUR-Holding, is investing in the expansion of its styrene plant and increasing capacity to 60,000 tpa. The project is planned to start in 2010, which will also include the installation of modern automation system supplied by the Japanese company Yokogawa. The automated process will help to improve output and control of the facilities, in addition to reducing energy consumption. SIBUR-Khimprom is also expanding its styrene and ethylbenzene capacities at Perm and has been required to undertake measures to safeguard the environment for its projects. The company has made improvements this year in raw material consumption on the EP-60 plant, and the benzene and ethylbenzene units.

Russian synthetic rubber monomers

Isoprene production in Russia increased 4% in September against August, totalling 29,200 tons. Togliattikaucuk saw an increase of 16% in September. Despite recent increases, for the period January-September 2009 isoprene production dropped 33% to 235,000 tons. The key factor behind the fall this year has been the closure of the Novokuibyshevsk plant, which stopped production initially on a temporary basis and a decision followed later to make the closure permanent. In the first three quarters of 2009, Russian consumption of isoprene fell by 40%, leading to a sharp rise in exports even allowing for the fall in production. Exports totalled 22,700 tons in the period January-September, 2.5 fold higher than in 2008. Nizhnekamskneftekhim exported 14,700 tons and Togliattikaucuk 8,000 tons, most of which went to Latvia.



Russian butadiene production totalled 281,700 tons in the first three quarters of 2009, 27% down on last year. Production was lower due mainly to weak demand for butadiene rubber. All of the butadiene producers were affected, with the exception of Titan at Omsk which increased by 13%.



Russian styrene sales

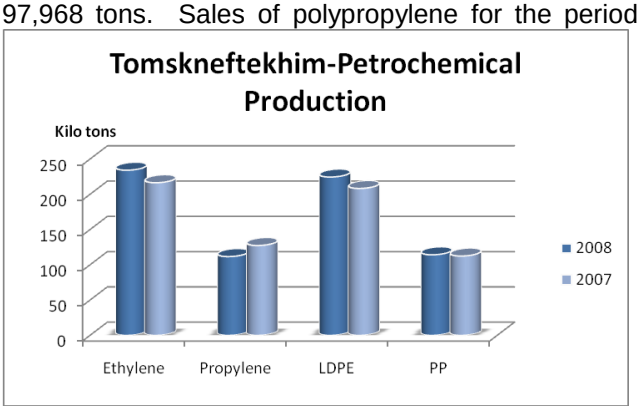
Styrene sales on the Russian domestic market dropped 4% in the period January-September 2009 to 65,300 tons. The main sellers of styrene merchant in the domestic market are SIBUR-Khimprom and Salavatnefteorgsintez, accounting for 29,000 tons and 20,000 tons respectively in the first three quarters this year. The main outlets for styrene consumption in Russia include polystyrene, ABS plastics and butadiene-styrene rubber and latexes. In May this year, Sterlitamak Petrochemical Combine started to produce butadiene-styrene rubber, having previously used alpha-methyl styrene fraction.

Total Russian styrene production in this period totalled 328,600 tons, which was 18% lower than in 2008. The

two companies that saw the largest falls in production included Plastik at Uzlovaya (26% down) and Nizhnekamskneftekhim (24% down). Angarsk Polymer Plant was the only company to record an increase in styrene production (24%) due largely to export opportunities to China. Overall, however, exports of styrene have been lower this year dropping 32% in the first nine months of 2009 and down to 175.000 tons. The fall in export deliveries has been caused by lower production and to some extent by the growth in consumption in the domestic market. Nizhnekamsknekhim reduced exports twice to 50,900 tons, whilst Salavatnefteorgsintez reduced by 23% to 67,000 tons. SIBUR-Khimprom reduced exports by 5% to 30,600 tons whilst Angarsk Polymer Plant saw an increase of 18% to 8,000 tons. Bulk polymers

Tomskneftekhim-polypropylene production increase

Tomskneftekhim increased polypropylene production by 7.2% in the period January-October 2009, totalling 97,968 tons. Sales of polypropylene for the period totalled 98,852 tons, which was 8.9% up on 2008.



Polyethylene production at Tomsk rose 4.9% in the first ten months of 2009 up to 198,227 tons with sales rising 7.6% to 195,402 tons. These results follow record production volumes achieved by Tomskneftekhim in 2008.

Tomskneftekhim to start PP production using titanium-magnesium catalysts

Tomskneftekhim is to convert polypropylene production in December to titanium-magnesium catalysts. This conversion, the first of its kind in Russia, will result in approximately a 20% expansion of capacity from 108,000 tpa to 130,000 tpa, in addition to an increase in quality and a reduction in energy consumption. Trials on titanium-magnesium catalysts started in July 2008, through a trial plant of 250 tons.

The trials and experiments proved successful, leading to a reduction in catalyst wastage and reagents. The increase in quality has been a major improvement as it means that Tomskneftekhim can compete, in theory at least, with the higher grades of polypropylene. With the aim of reducing risks in the conversion to the new technology, technical personnel from Tomskneftekhim visited Hipol in Serbia to assess that company's conversion to TMK in 2003. This conversion resulted in a 16% increase in Hipol's capacity from 30,000 tpa to 35,000 tpa.

Novy Urengoy Gas Chemical Project, update

Construction of the Novy Urengoy Gas Chemical Complex is currently focused on power platforms, premises for transport, etc. Nine project support facilities have been undertaken this year, with a further six to be initiated in 2010. In 2011, warehouses for inflammable liquids, acids, alkalis and methanol will come into operation. The ethylene and polyethylene plants are intended to be started simultaneously in 2012. In addition to polyethylene production, the gas-chemicals complex will produce SHFLU (wide fractions of light hydrocarbons) which it will deliver to consumers by rail. Methane fractions in volumes of 1 million cubic metres per annum will be delivered to the main gas pipeline. In September 2009, the Russian state bank VTB allocated $400 million to Gazprom for the completion of the Novy Urengoy project.

Polyethylene news

Russia exported 5,000 tons of LLDPE in the period January-September 2009, 6.5 fold higher than last year. The start-up of the plant at Nizhnekamskneftekhim has started see LLDPE exports rise, which is likely to be expanded further in 2010 after the start-up of the Salavatnefteorgsintez plant.

Ufaorgsintez has started a new packaging-palletising line provided by Topas-Mollers for granulated LDPE. The old equipment could only package 3 tons per hour whilst the new equipment can achieve 15 tons. At the same time, there is full automation on the new line allowing easier control for seasonal fluctuations. Investments into the new line have totalled 38 million roubles, financed by Ufaorgsintez, with equipment to be paid off in roughly three-four years. The new line is capable of packaging 360 tons of LDPE per day.

PVC news

Kaustik at Sterlitamak is currently undergoing an investment programme for the expansion of VCM and PVC facilities, which is targeted for completion by 2012. The total amount of investments into the programme in the period 2008-2009 has comprised 2.6 billion roubles. The capacity is to be raised to 400,000 tpa from 200,000

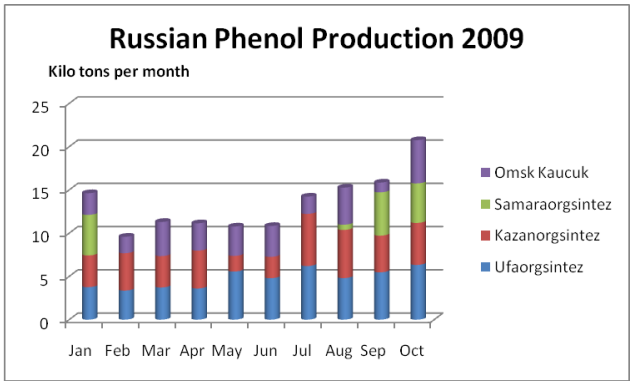
tpa, in addition into diversifying into processing activities for PVC. As part of the introduction of a new innovative technology for the synthesis of VCM a new EDC furnace will be added helping to reduce energy consumption.

Plastkard has taken the opportunity of the economic downturn this year to expand its range of PVC grades, including the introduction of PVC S-6149. The new grade is intended for converters in extrusion, calendaring, moulding, etc with final products going into drainage and sewers, floor coverings, etc. The new product has been purchased by consumers such as KBE, Trocal, Veka, Rehau, Proplex, etc.

Aromatics & derivatives

Russian benzene production

Benzene production in Russia increased in October as nearly all of the producers, except Kirishinefteorgsintez, the Ryazan refinery and Gazprom-Neft at Omsk. Production for October totalled 96,700 tons which is 28% more than September. For the period January-October, Russia produced a total of 840,400 tons of benzene which was 17% less than in 2008. Increases have been noted at the Ryazan refinery, owned by TNK-BP, rising 19%, Chelyabinsk Metallurgical Combine which increased 17% and Angarsk Polymer Plant which increased by 4%. However, most of the major benzene producers have reduced production this year, with styrene, phenol and caprolactam output all impacting on the demand for benzene.



Russian phenol market

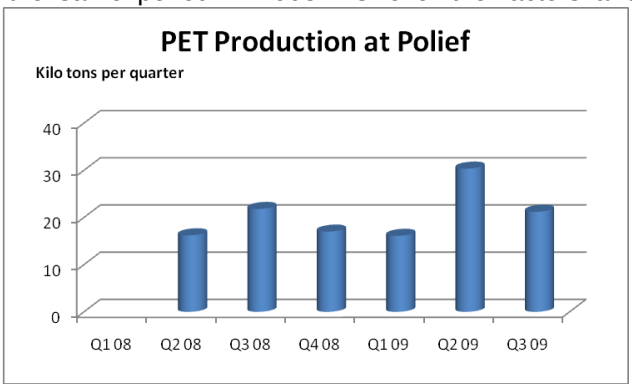
Russian phenol producers have increased their utilisation rates gradually as the year has progressed and are now running close to full capacity. The only exception is Saratovorgsintez which has been idle in 2009. Due to planned downtime at Omsk Kaucuk in September, market availability tightened and overall the Russian market has been tighter this year due to increases in bisphenol A production and phenol-formaldehyde resins. Both these product areas are witnessing good demand, with bisphenol-A at Kazanorgsintez being driven by the adjacent polycarbonate plant. Whilst benzene costs have softened lately, the shortage of phenol in the domestic market has allowed producers to keep the same prices as before.

Russian paraxylene exports

Paraxylene exports from Russia increased 13% for the period January-October 2009 against last year, totalling 164,800 tons. The increase in exports was facilitated by increased xylene production at the Omsk refinery. Gazprom-Neft was able to increase paraxylene exports from Omsk by 31% to 128,500 tons. The other exporter Kirishinefteorgsintez has this year reduced exports due to reduced output levels. In the first ten months of 2009, the plant reduced exports by 20% to 36,300 tons. A 60% increase has been recorded to Finland totalling 131,400 tons. Exports to the second destination Belarus have dropped 45.4% this year to 33,400 tons. This was due to increased production at the Naftan refinery at Novopolotsk.

Polief, Jan-Sep 2009

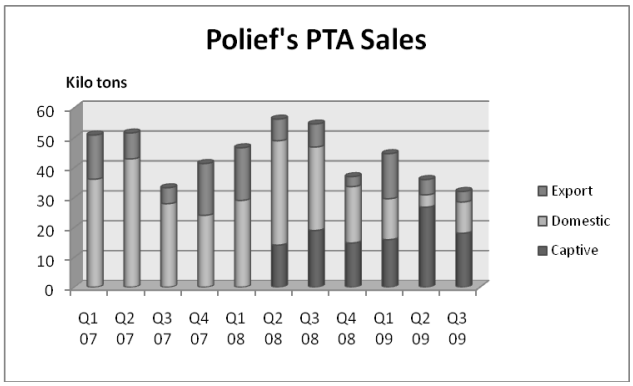
Polief incurred a weak third quarter for 2009, recording net losses against an 11% drop in turnover against the same period in 2008. One of the factors affecting profitability included higher raw material costs.



Paraxylene prices were 11.1% higher than in the second quarter, whilst DEG rose by 32% and MEG 21%. Polief sourced 63% of its raw material supply through LUKoil-Resernefteproduct, a LUKoil subsidiary created early in 2009 to supply products.

PTA sales from Polief were focused mainly on the domestic market with 28,462 tons and exports totalling only 3,528 tons. Exports dropped in the third quarter against the first half of the year. This was due to lower production and increased captive usage by Polief and higher demand from other PET producers in Russia. PTA comprised 53% of Polief's

turnover in the third quarter, with PET accounting for 46%. PET production by Polief in the third quarter totalled 20,735 tons, all of which was sold in the Russian domestic market.

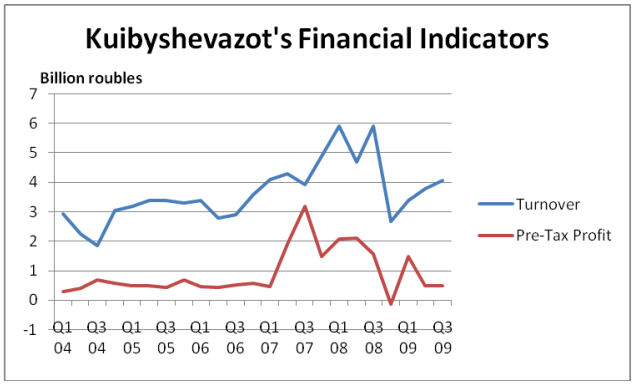


Russian PTA exports

Polief exported 25,800 tons of PTA in the first ten months of 2009, which was 27% lower than in 2008. The main destination for Russian PTA exports is Belarus, which accounts for around 60% of shipments or 15,100 tons. Total volumes of PTA to Lithuania and Poland for 10 months fell by 15% to 10,700 tons. Most of the exports took place in the first half of the year when Polief's second line for PET production was idle due to lower demand. Polief is not expected to export in 2010, having largely stopped deliveries in the third quarter.

Kuibyshevazot, Jan-Sep 2009

Kujbyshevazot's net profit dropped 26.4 times in the first three quarters of 2009 to 113.3 million roubles, although the third quarter showed a dramatic improvement. In the fourth quarter of 2008, Kuibyshevazot made a net loss of 600 million roubles, and this negative trend continued into the first half of the year. The main shareholders of Kuibyshevazot include Kuibyshevazot-Plus with 28.359%, Aktivinvest with 10.419% and Kuibyshevazot-Invest with 4.491%.



This year demand has suffered for all of the company's main products, although demand has started to recover in the past few months. For caprolactam, production was only 4% down on 2008 for the first three quarters, with polyamide-6 dropping 3%, technical threads rising 1% and cord fabrics remaining unchanged. Considering the major problems in the global caprolactam market at the start of the year, Kujbyshevazot's production has been relatively stable helped to some extent by consumption in polyamide and derivatives.

Methanol & gas based chemicals

Methanol project news

The authorities in the Sverdlovsk area have agreed with the State Bank of Development in China (GBRK) for the financing of three projects in the region at a total cost of $1.5 billion. The governor has informed that GBRK is ready to finance the construction of the methanol project at Nizhniy Tagil, which is to have a designed capacity of 600,000 tpa.

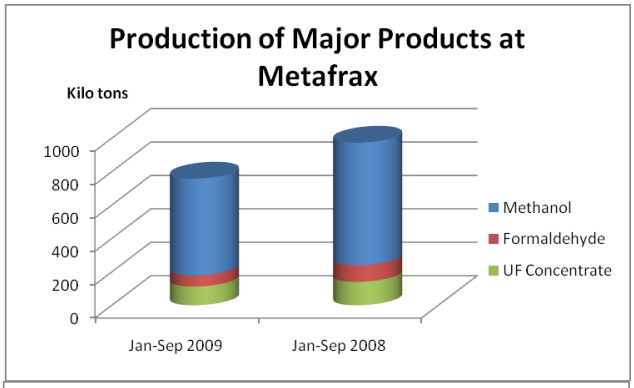
Russian engineering group Metaprocess and Gazprom subsidiary TyumenNIIgiprogas have assessed the technical and economic basis for a proposed methanol project in the Yamburg region of West Siberia. Despite its feedstock potential, the idea of constructing a methanol plant in the Yamburg region has now attracted the same degree of interest as for Yakutsk in the Russian Far East where there are long-term plans to construct three methanol units each of 450,000 tpa. This project is however dependent on investments into the infrastructure.

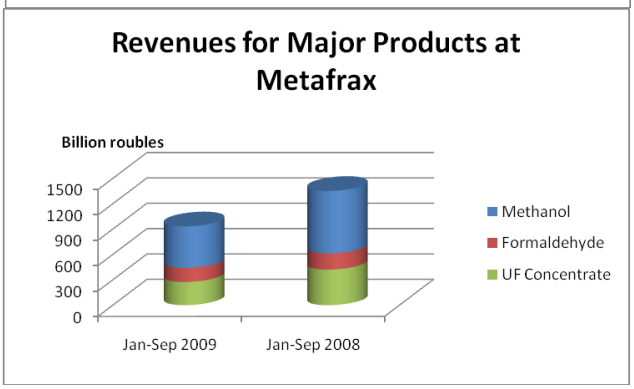
The Mendeleevsk methanol project continues to aim for its 2012 start-up, with Japanese contractors working largely to schedule. Agreements for the construction of the methanol and ammonia complex at Mendeleevsk in Tatarstan were signed in Japan on 12 May 2009, involving investments of around $900 million. The Russian bank VEB is involved in the three agreements which provide the financing of civil-engineering design of a large gas-processing complex, together with several Japanese companies. The project includes 230,000 tpa of methanol, 717,000 tpa of urea, 717,000 tpa of ammonia and 380,000 tpa of ammonium nitrate.

Metafrax, Jan-Sep 2009

The net profit for Metafrax totalled 330 million roubles in the period January-September 2009, a third down from

last year. Turnover of the company dropped 42% to 3.547 billion roubles. The volume of physical output has fallen on average by 25%, whilst costs for natural gas and electricity have affected profitability in the past quarter. Methanol production dropped 21%, or 154,000 tons, against the first three quarters in 2008, whilst formaldehyde dropped by 33% to 33,000 tons, urea-formaldehyde concentrate fell by 20% to 28,000 tons, and utropin fell by 24% to 3,000 tons. The pre-tax profit of Metafrax was 3.83 billion roubles, which was 2.384 billion roubles down on last year. Despite the drop in financial indicators, the company has increased its own capital by 4% to 10.353 billion roubles.





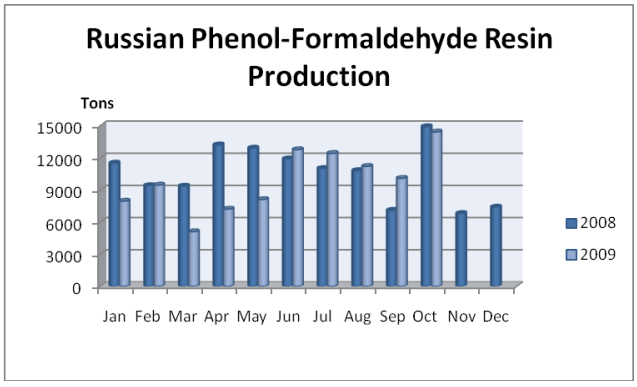
Metafrax has devised targets up to 2015 that includes an increase in turnover to 7 billion roubles per annum. The emphasis of Metafrax is on the domestic market and trying to add value to methanol. In 2008, for example, the company processed around 300,000 tons of methanol which it hopes to increase to 400,000 tpa in the next couple of years. Metafrax plans to put in operation a new polyamide unit before the end of the year and in December-January to start an installation for gaseous nitrogen.

The polyamide plant has a capacity of 1,450 tpa. Other projects at Gubakha include the completion of the utropin expansion in 2010, whilst an assessment of new projects is underway involving the construction of units for 200,000 tpa of urea and ammonia. However, the production of pentaerthythitol is to be suspended in January 2010 until March at least. Consumption is very low presently and the company can serve customers from its warehouse stocks. The plant was idle in the first part of 2009, and then produced 9,800 tons in the period June to October. For period January-October 2009, production of pentaerythitol was 45% down against the same period in 2008.

Russian formaldehyde consumption

Formaldehyde sales on the domestic market in September and October exceeded volumes in the same months in 2008, although overall consumption has been down for most of 2009. Around 70% of formaldehyde production is consumed captively in Russia for urea and phenol formaldehyde resins. The merchant market has been boosted recently by increased demand for phenol-formaldehyde and urea-formaldehyde resins. Trade is largely insignificant, with exports accounting for only 4% of production. Russia exported 9,000 tons of formaldehyde in the period January-August 2009.

The costs of raw materials for formaldehyde production have been rising in recent months, whereas exports have been affected by the decline in orders from Ukraine. The sole exporter to Ukraine was Novocherkassk Synthetic Products Plant, which as a result of the lack of orders has been forced to suspend production since June. Exports of formaldehyde to Ukraine are not expected to resume in the near future, with Ukrainian urea-formaldehyde resin producers being forced by market conditions to depend on using Russian urea-formaldehyde-concentrate.



Russian phenol formaldehyde resins

The production of phenol-formaldehyde resins grew 13% in the third quarter, and totalled 85,000 tons for the period January-September 2009. Overall this showed a decline of 10% against 2008. The main producers of phenol-formaldehyde resins include the Sverdlov plant at Dzerzhinsk, MetaDynea, Tyumen Plastics Plant and Karbolit. These companies account for around 75% of production of phenol-formaldehyde resins.

Demand from the insulation and wood-processing

industries has helped consumption rates for phenol-formaldehyde resins in the second half of the year, particularly since June. In October, production of resins totalled 14,400 tons which was 43% higher than in September. Overall for the period January-October 2009, the production of phenol-formaldehyde resins dropped 10% against the same period last year totalling 99,500 tons. In view of the sharply reduced production in November and December last year, production could be very similar to last year's total if the last two months perform normally.

Imports still play an important part in the Russian market, comprising 26,500 tons in the first ten months of 2009 and 22% of total consumption. Finland is the main supplier to Russia, accounting for 63% of imports in 2009. In conjunction with the development of a paint and varnish industry in Russia imports of phenol-formaldehyde resins have increased, with the sector accounting for 12% of imports in 2009 against 9% last year. Total consumption for resins in October was 17,000 tons, having grown 7% and 21% against September and August respectively.

Evrokhim-melamine project at Nevinomyssk

Evrokhim has begun the construction of a 50,000 tpa melamine plant at its subsidiary Azot at Nevinomyssk at a cost of €184 million. Equipment for the project is being delivered by Lurgi and Urea Casale, with start-up scheduled for early 2011. Melamine is currently not produced in Russia. A project was previously under review in 2007 by Minudobrenya (Mineral Fertilisers) at Perm, but following the takeover of the company by SIBUR was put on hold. The aim was to construct a melamine plant with a capacity of 70-80,000 tpa, adding value to urea production. The construction of the plant at Nevinomyssk will satisfy most of the Russian market thus making it unrealistic to consider further investments in the short term.

Production at Azot Nevinomyssk (unit-kilo tons)

Product	*Jan-Sep 09*	*Jan-Sep 08*
Ammonia	236.8	290.3
Urea	137.7	133.9
Methanol	29.5	33.3
Acetic Acid	43.7	43.9
Acetaldehyde	9.8	10.8
Butanols	4.3	5.7
VAM	4.7	4.6
Butyl Acetate	5.0	5.6
PV Alcohol	0.2	0.2

Novocherkassk Synthetic Products Plant, Q3 2009

Novocherkassk Synthetic Products Plant (NSPZ) recorded a loss of 155.934 million roubles in the third quarter, having increased 5.7 fold against the same period in 2008. Turnover fell 75% against the third quarter in 2008, with methanol and formaldehyde revenues reduced to the minimum. As the methanol plant has been stopped, questions have been raised about the future of the complex and its investment programme. The Novocherkassk petrochemical complex was founded in 1952 and was reorganised into a stock holding company in 2003. It is 74.5% owned by Agro-Invest.

Organic chemicals

Russian MEG exports

Russian MEG exports dropped 33% in the period January-September 2010 against last year to 77,600 tons. All of the Russian MEG producers have reduced export volumes. SIBUR-Neftekhim reduced shipments by 2% to 53,700 tons, whilst Petrokam and Nizhnekamskneftekhim reduced by 42% and 63% respectively. Kazanorgsintez saw the largest proportional fall from 12,700 tons in January-October 2008 to 1,500 tons in 2009. The main destination for Russian MEG exports is Belarus, which took 54,500 tons of the total 77,600 tons exported in 2009. The main factor behind the fall in Russian exports has been the increase in domestic demand from the PET sector.

Akrilat, Jan-Sep 2009

Akrilat at Dzerzhinsk recorded an improvement in the third quarter after a difficult first two quarters in 2009. Whilst demand remains weak, volumes of acrylic ester sales have been better in the second half of the year. Many end-users have reduced purchases, and now seasonal demand is expected to dip between December to February. One of the positive aspects of the economic recession has been the devalued rouble which has increased the import cost of acrylic dispersions and allowed Akrilat to increase sales on the domestic market. Previously Akrilat's domestic/export ratio stood at 30/70 but since the economic crisis has changed to 50/50.

The downside is the presence of grey import of acrylic esters, which although diminishing, continue to undermine domestic sales and force Akrilat to reduce its prices. Another factor in the Russian market is the small size of the average customer, many of whom buy less than ten tons per month and only the largest take no more than 200-600 tons per month. Notwithstanding, Akrilat is targeting the long term development of the domestic market as the key to achieving profitable returns from production. The company spends considerable time in trying to stimulate domestic demand, such as providing discounts for larger purchases.

Raw materials remain the chief concern for Akrilat, as in the third quarter propylene and butanol costs both rose 1.5 times against the previous quarter. Both raw material costs are close to their pre-crisis levels, whilst product prices remain much lower. Akrilat expects a slight reduction in raw material costing for the second half of the fourth quarter, and for Q1 2010.

Other organic product news

Acetic acid production in Russia increased 6% in the period January-September 2009, with Azot at Nevinomyssk accounting for 97% of production and the Sverdlov plant at Dzerzhinsk accounting for 3%. Acetone consumption in Russia totalled 39,100 tons in the period January-September 2009, 23% down on last year. Kazanorgsintez reduced acetone shipments by 26% to 12,800 tons due to increased captive needs for bisphenol A. Ufaorgsintez reduced shipments by 28% to 12,400 tons, whilst Samaraorgsintez reduced domestic sales two-fold to 3,400 tons in the period January-September due to the increase in export activity. Conversely, Omsk Kaucuk increased deliveries to the domestic market 4.5 fold to 9,600 tons, made possible by the fall in exports to Polymir in Belarus which it uses for acetonecyananhydride. Reduced production this year has reduced the need for acetone.

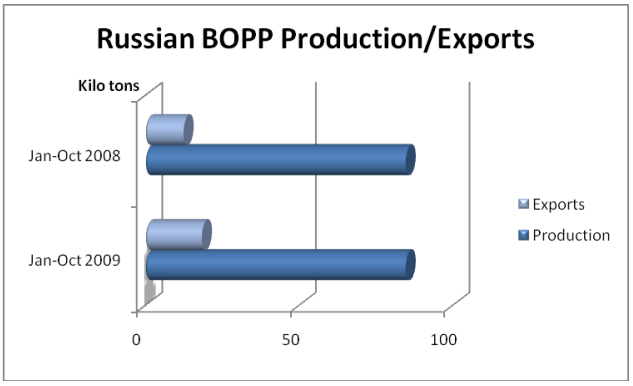
Russian phthalic anhydride consumption dropped 2% in the period January-September 2009, totalling 70,200 tons. Kamteks-Khimprom is the sole exporter of phthalic anhydride from Russia, whilst Salavatnefteorgsintez uses some of its production for the further processing in plasticizers. In the period January-September 2009, Kamteks-Khimprom exported 33,200 tons to China which was 3.4 times more than in the same period in 2008.

Plastics

SIBUR interested in buying Biaksplen

The Russian Federal Antimonopoly Service (FAS) has given preliminary approval for the 50% acquisition of Biaksplen by SIBUR-Holding, which would allow SIBUR to take a major stake in BOPP production in Russia. A final decision has not been reached by the current shareholders of Biaksplen, whilst the FAS needs to make further approvals before the acquisition can take place. Biaksplen was created in 2003 and includes BOPP plants located in the Nizhniy Novgorod region, Moscow, Kursk, and Narzan (Kislovodsk) and from the end of last year RosEvroplast (Moscow Region).

The plants produce more than 40 kinds of films in the thickness from 10 to 120 microns, including food, flower, label and tobacco, and also a basis under an adhesive tape, barrier films and synthetic paper. Total capacity stands at 90,000 tpa, occupying around 60% of Russian production. Exports account for around 30%, with Biaksplen recording a profit in 2008 of $275 million.



SIBUR does not possess its own packaging capacity, but is interested in internal consumption of polypropylene and other polymers. In relation to the RusVinyl project at Kstovo, SIBUR is considering the creation of a centre for processing polymers in the Nizhniy Novgorod region. Although a decision has yet to be reached, the purchase of 50% in Biaksplen would cost in the range of $25 million, and the move would allow SIBUR to enter areas of higher added value.

Russia produced 85,000 tons of BOPP in the first ten months of 2009, which was similar to levels last year. From total production, 22% was exported against 15% in 2008. The most important markets include Ukraine, Poland and Kazakhstan.

Plastik-geogrid production

A new unit for flat geogrid production has been launched by SIBUR at its Plastik division at Uzlovaya. The unit has a capacity of 3,000 tpa and operates under the brand name Apropat. A similar geogrid production unit with a capacity of 3,000 tpa was commissioned in August 2009 at Orton at Kemerovo, another part of SIBUR. In 2010 Orton and Plastik are planning to start production of polypropylene nonwoven geomaterials which are also used in road, oil-and-gas and industrial-and-civil construction. The total capacity of the lines

for nonwoven geomaterials, that have been bought from O.R.V. Manufacturing in Italy, will comprise 18,200 tpa.

The start of the new lines will enable SIBUR to increase its market share in Russian production output of geosynthetic materials up to around 20%. Due to commissioning of the new units for production of geogrids and nonwoven geomaterials earnings of Plastik may increase by 2012 by 1.1 billion roubles. The final processing of plastics is intended, among other things, to stimulate the demand for products made from polypropylene, production of which will multiply due to commissioning of new capacities by the company in the coming years. Geosynthetic materials are in short supply in Russia, with imports dominating the market.

Other plastics news

A new line for the production of PVC cable plastic compounds has been introduced at the Kaprolaktam division of SIBUR-Neftekhim, with a capacity of 18,000 tpa or 2.25 tons per hour. The line has replaced the dismantled out-of-date unit which had a capacity of 3,200 tpa which has been in operation since the 1970s.

Plastik at Uzlovaya produced only 4,950 tons of ABS plastics in the period January-October 2009, 58% down on last year. The plant was idle between April and August due to low demand. Domestic consumption has risen in recent years at the expense of exports. Tyumen Plastics Plant increased plastics processing by 3.6% in the period January-September over last year, totalling 16,325 tons. However, turnover dropped 16.2%.

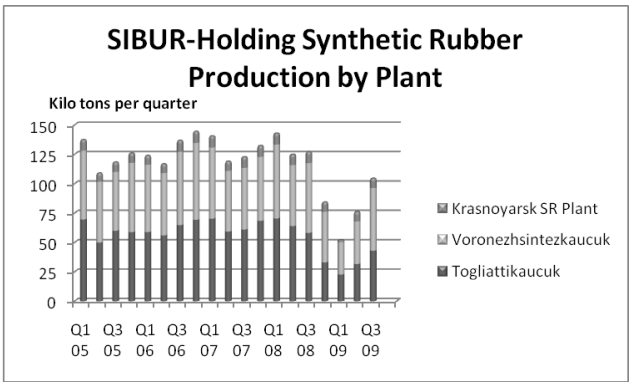
For the period January-October 2009, Kazanorgsintez exported 17,660 tons of polycarbonate. Whilst exports are expected to soften over the winter period, volumes are expected to recover in 2010. Imports for the first ten months of 2009 totalled 24,510 tons, which was 38% down on 2008 due to the combined start-up of the Kazanorgsintez plant and lower demand.

Kronos at Omsk has finished a third line for the production of polycarbonate products, which is expected to start before the end of the year. The introduction of the third line will increase capacity to 18,000 tpa, as part of the company's regional programme of industrial expansion.

Synthetic Rubber

SIBUR's synthetic rubber plants

SIBUR has introduced a new strategy of business management for its synthetic rubber division, in response to market pressures and projected competition from new global capacities under construction. To maintain SIBUR's position in synthetic rubber, the group has identified that it needs to expand its range of higher added value products and to focus more on quality in compliance with the needs of the customer. In the near future, a control system of quality will be introduced at both Togliattikaucuk and Voronezhsintezkaucuk aimed at improving the management of resources in production and marketing.



Voronezhsintezkaucuk recorded a pre-tax profit of 2.855 billion roubles in the period January-September 2009, 7% lower than last year. Whilst last year a net loss of 102.4 million roubles was recorded, this year the SIBUR subsidiary made a net profit of 247.2 million roubles. Profitability has been aided this year by lower raw material costs. However, there is a suggestion that SIBUR may have altered its costing system for raw materials, taking more costs at the centre. This would allow Voronezhsintezkaucuk to show a profit in 2009 what has essentially been a worse year for trading than in 2008.

Togliattikaucuk has invested 58 million roubles on improving the cooling process for the production of butyl rubber. Butyl rubber is considered to be one of the most profitable product areas for the company and accounts for around a fifth of total revenues. The new cooling equipment, installed by TMMM of Nizhnekamsk, will help to reduce production costs and to increase production volumes. Further investments in the water systems are expected to be made in the 2010-2011 timeframe, for the butadiene, MTBE and polyisoprene plants. Togliattikaucuk has recently received a patent for a new method of producing 1,4-polyisoprene and isoprene rubber SKI-3ND. The new method involves a new catalyst based on neodymium improves the quality of

production. This is to replace the current catalyst based on titanium and aluminium both of which are sensitive to a moisture and air. This is the second patent awarded to Togliattikaucuk in 2009, the first being given for the catalyst for the polymerisation of isoprene. In terms of current operations, Togliattikaucuk incurred an accident on 7 November at its shop for triisobutylaluminum production.

Belarus

Belarussian chemical industry performance

In the period January-October 2009, Belneftekhim increased physical chemical production by 11.6% against last year. Paint and varnish production increased 4.1 times in Belarus in the period January-October 2009, due to the addition of new solvent plants. At the same time the production of synthetic resins and plastics fell 13.2% to 292,500 tons whilst cord fabrics fell 33.1% to 49.1 million square metres. Chemical fibres and threads totalled 161,300 tons which was 15.3% down on the same period last year.

Belarussian gas processing is expected to increase following the creation of a new terminal for SHFLU, dry gas, etc, supplied mostly by SIBUR. According to agreements, SIBUR will direct more than 600,000 tons of SHFLU to Belarus over the next three years. Belarusneft and SIBUR are now studying the prospects of further cooperation. The Belarus gas-processing factory was placed in operation in 1976 and is a part of Belarusneft.

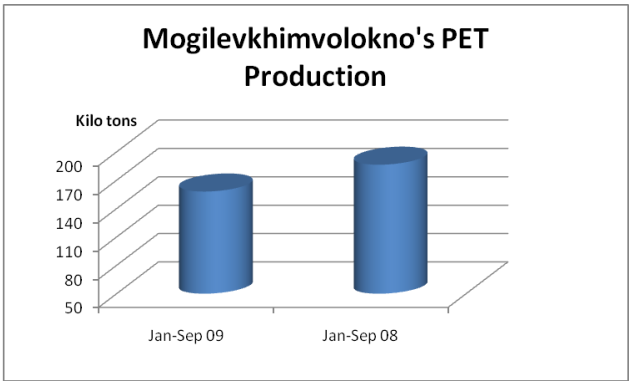
Investments in the Belarussian chemical industry have increased 12.7% this year, with a number of new units being introduced. A total of nine projects currently exist for the chemical industry in Belarus worth around $118 million, designed to reduce imports into the country. An investment programme for the petrochemical industry in Belarus will be published in the first quarter of 2010.

The most important unit in the organic chemical sector this year has been into the phthalic anhydride unit at Lakokraska at Lida. In other areas, Azot at Grodno has also introduced a new gas pipeline installation. Ongoing projects include the Gomel Chemical Plant which is concentrating on cost reductions and production efficiency increase. The company is also expanding phosphoric acid capacity to 230,000 tpa.

Under a credit agreement signed between Belarusbank and Vseobecna Uverova Banka, the Slovak bank will finance the supplies of Slovak equipment to Grodno Azot for the expansion in capacity for caprolactam production from 120,000 tpa to 140,000 tpa.

Mogilevkhimvolokno-new PET plant

Mogilevkhimvolokno is seeking investors for installation of a new PET plant for food grade packaging, included into the programme of development up to 2012 and designed to replace an existing plant. The project is in the advanced evaluation stage and consists of a plant with a capacity of 120,000 tpa, following the introduction of a continuous polycondensation 80,000 tpa plant in 2008. The project covers purchasing and installation of equipment for PET (bottle grade) production from PTA, combined with post-polycondensation. This will ensure bottle-grade PET production bypassing stages of pelletizing and post-polycondensation at the SSP plant.



PTA has been selected as a feedstock instead of DMT, which is currently used by the company. The total cost of the project is estimated at €63.1 million, with €53.7 million expected to come from loans. The project is planned to be completed by 2012 to replace the currently functioning polycondensation plants at Mogilevkhimvolokno, which were built in 1978 and were based on Uhde technology. Quality indices of PET polymer produced at these plants do not comply with the world standards and investments have been deemed essential. A new bottle-grade PET plant using modern technology will make it possible to reduce the consumption of materials and energy in the polyester production process.

Mogilevkhimvolokno, Jan-Sep 2009

Mogilevkhimvolokno increased production by 26.2% in turnover in the first three quarters of 2009, up to 724.9 Belarussian roubles. Growth has been aided in part by the commissioning of a new line for the production of

biodiesel fuel with a capacity of 300,000 tpa. The first part was installed in January 2009 and the second in August. The company has also increased polyester production with a focus on exports, and has run the DMT facilities close to full capacity in recent months. Reduced production costs this year have resulted in a net profit of 1.3 billion Belarussian roubles, with profitability rated at 2.4%. Mogilevkhimvolokno is active on diversification of markets and in the past twelve months has sought sales outside of Europe. Even so, exports have been slower for the company this year.

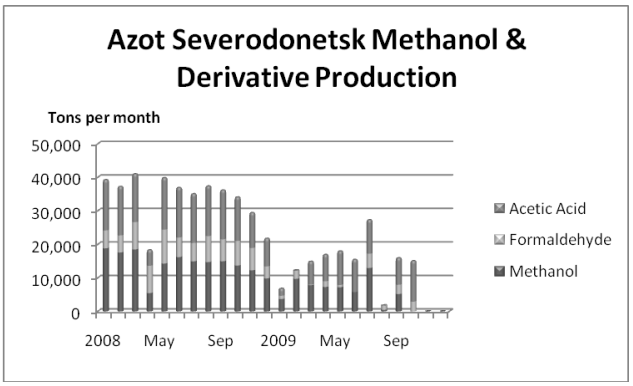
Khimvolokno Svetlogorsk, new unit for polypropylene processing

Khimvolokno at Svetlogorsk is close to completion for the project for the production of non-woven materials, with equipment supplied by Reifenhauser. Polypropylene will be used as the raw material for manufacturing low-density synthetic fabric. The capacity of the new plant, which was officially opened in November 2009, is 5,000 tpa. The output from the plant is to be targeted on the medical sector covering a wide spectrum of applications. The launch of the plant represents an important factor for the company, expected to raise output by around 10% with sales focused heavily on the export market. In due course, Khimvolokno plans to double the capacity of the line to 10,000 tpa.

Ukraine

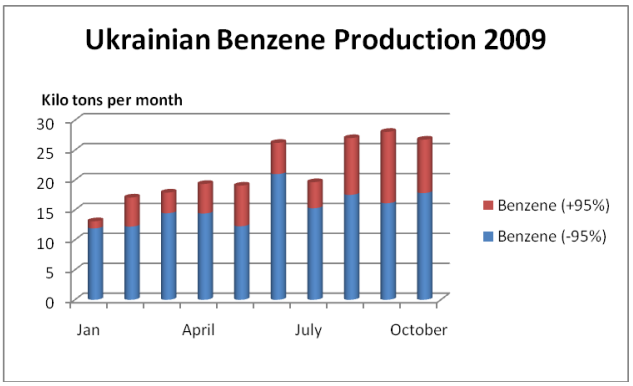
Ukrainian methanol production

Due mainly o high gas costs, Azot at Severodonetsk has reduced methanol operating rates this year resulting in less product made available for the merchant market. Only 73,000 tons of methanol was produced in the period January-October 2009, against 149,000 tons in same period in 2008. Nearly all the methanol produced by Azot is being consumed captively in the production of urea-formaldehyde resins, acetic acid and formaldehyde. As a result of reduced merchant availability from Severodonetsk, Ukrainian methanol consumers have been forced to import largely from Russia where gas costs and methanol prices are significantly lower.



In the first ten months of 2009, Ukraine imported 38,000 tons of methanol, which is 25% higher than in 2008. The main supplier to the Ukrainian market is Shchekinoazot, particularly since the halt in production at Novocherkassk earlier this year.

Gas costs for Ukraine are expected to rise in 2010, which is expected to impact again on fertiliser and methanol production. Forecasts for mid 2010 suggest levels of around $325 per thousand cubic metres. The main increase will take place in January that will see a 25% hike in pricing to between $295-$315, against $208 in the fourth quarter. The transition of chemical producers from gas to coke could help to resolve the problem of high gas costs, but is not able to substitute gas in full. Some chemical companies in Ukraine could take advantage of a new scheme for importing half-finished products from the Russian Federation for the further processing. In the first quarter of 2009, Russian gas was delivered to Ukraine at the price of $360 per thousand cubic metres, falling to $270.95 in the third quarter before dropping to $208-209 in the last quarter. In the first nine months of 2009, Ukrainian gas supplier Naftogaz imported 16.8 billion cubic metres of natural gas from pre-planned targets of 32 billion cubic metres.



Ukrainian aromatics supply

Exports of benzene from Ukraine fell four times in the period January-October 2009 down to 10,700 tons. The main factor behind the fall is the stoppage at Karpatneftekhim at Kalush in the middle of 2008, as part of the cracker shutdown. Another factor is the lower demand for Ukrainian benzene in Europe, particularly as the largest share of production is produced at lower purity. Exports to Russia have been helped to some extent by the succession of shutdowns this year at Budyennovsk, Kirishi, Omsk, Yaroslavl and Kstovo. As a result, there was a shortage of benzene for caprolactam and phenol production for

Kuibyshevazot and Samaraorgsintez respectively. Kuibyshevazot purchased benzene from Zaporozhkoks, and Samaraorgsintez purchased from Yasinovsky Coke-Chemical Plant.

Toluene is produced in Ukraine solely by Ukrtatnafta at Kremenchug and Yasinovsky Coke Chemical Plant, with only the latter operating this year. Only 2,300 tons was produced in the period January-September 2009, 54% down on the previous year. The main toluene user in Ukraine is the company Yuzhniy which produces paint and varnish, but has reduced consumption this year for the production of nitrotoluene. Other users include producers of solvents which have reduced purchases this year. Imports have fallen 81% in the first three quarters, down to 1,300 tons whilst overall consumption has fallen 70% to 3,700 tons.

Ukrainian organic chemicals

Acetic acid production in Ukraine totalled 66,600 tons in the period January-October 2009, 51% lower than in 2008. Most of the production is exported, with the remainder consumed in VAM. Ethyl acetate production in Ukraine totalled 14,800 tons in the period January-October 2009, 40% down on last year. Solvent producer Kirovogradsky Raiagrosnab reduced output by 3% whilst Perechinsky Wood Chemical Combinat reduced by 45%. From the total of 14,800 tons production, 10,400 tons was exported against 22,608 tons in 2008.

Lisinvest at Rubezhnoye reduced utilisation for phthalic anhydride production in September due to low demand. The company produced only 330 tons in September, and this was followed by a plant shutdown in October. The plant is not expected to restart until January 2010. The company restarted production in June and prior to the halt for maintenance had produced 4,800 tons for 2009.

Ukrainian urea-formaldehyde concentrate

Consumption of formaldehyde in Ukraine is down significantly on last year and imports of formaldehyde have been stopped from Russia. The high cost of gas and the production of methanol and urea has impacted on the production of urea-formaldehyde concentrate in Ukraine, resulting in a large increase in imports from Russia. Shipments of formaldehyde from Russia to Ukraine combined with lower formaldehyde output at the sole Ukrainian producer Azot at Severodonetsk has also reduced the amount of concentrate production. With gas prices expected to rise in Ukraine in 2010, imports of urea-formaldehyde concentrate are expected to remain high.

Ukrainian Chemical Production (unit-kilo tons)		
Product	*Jan-Oct 09*	*Jan-Oct 08*
Acetic Acid	66.6	135.8
Adipic Acid	0.0	25.3
Ammonia	2480.5	4363.8
Benzene (-95%)	153.1	213.1
Benzene (+95%)	61.1	139.5
Caprolactam	12.7	43.1
Caustic Soda	37.1	71.8
Ethylene	0.0	85.0
Formaldehyde	17.4	70.0
Methanol	72.6	149.2
Polyethylene	0.0	48.4
Polypropylene	82.6	73.0
Polystyrene	17.5	32.8
Polyvinyl Acetate	4.1	8.7
Soda Ash	556.6	822.4
Titanium Dioxide	84.9	111.8
Toluene	3.4	6.2

Ukrainian polymer/rubber markets

Stirol at Gorlovka has raised its operating rates for polystyrene production steadily through the course of 2009, although for the period January-October total volumes were less than half against 2008. Imports of polystyrene into Ukraine have increased in the past few months but still only totalled 1,820 tons in the period January-October or 77% lower than in 2008.

Stirol restarted foam polystyrene production on 18 November after a five months stoppage for modernisation. Capacity has been increased to 12,500 tpa, although is not expected to reach full capacity until the market improves. Stirol will be now able to compete with product sold by Nizhnekamskneftekhim.

Ukraine exported 47,000 tons of polypropylene in the period January-September 2009, 13% more than in 2008. Exports were shipped to Turkey (51%) and Russia (41%). The share of exports in production of Linik at Lisichansk is 57%. Ukraine imported 18,280 tons of polypropylene films in the period January-October 2009, 29% less than last year. More than 50% of the imported films are bought from Biaksplen in Russia. Other suppliers include Novatek-Polymer and Isratek (both Russia) and Mogilev Plant of Artificial Fibres (Belarus), all of which share around 9% of the market.

PVC film imports totalled 11,290 tons in the period January-October 2009, 24% lower than in the same period in 2008. Lower demand and liquidity from customers was the reason for reduced purchases. Imports originated largely from Turkey, Poland, Germany and South Korea.

Synthetic rubber imports into Ukraine totalled 31,820 tons in the first ten months of 2009, 42% down on the same period in 2008. Imports fell due to reduced demand from the tyre and rubber industries, although production levels are starting to return to some normality. Volumes of synthetic rubber being imported into the country are expected to increase in the early part of 2010.

Central Asia

Transcaucasus news

Nairit in Armenia restarted chloroprene rubber production at the end of October, after being idle since 14 May this year. The capacity of the plant is 10,000 tpa, with nearly all output exported. The plant suffered an accident in May, which resulted in four fatalities, and production was halted accordingly. The court case has recently been completed, in which Nairit was heavily criticised for infringing on safety rules and warned of its future performance. A company called Rhinoville Property owns 90% of Nairit with the Armenian government owning the remainder 10%. At the beginning of 2009, the Polish company PBG signed the contract for $252 million for the reconstruction and modernisation of Nairit.

Chemical production in Azerbaijan dropped 43.3% in the period January-September 2009, although the rate of decline has slowed in the second half of the year. Caustic soda totalled 4,800 tons for the period, 71.2% down against 2008, propylene 13,100 tons (44% down), polyethylene 25,100 tons (40.8% down) and isopropanol 5,900 tons (63.5% down).

Uzbekneftegaz, Petronas and GTL project

The contract for construction of the new GTL project in the Kashkadarya region in Uzbekistan is scheduled to be concluded in early 2010. The plant is being designed to produce synthetic liquid fuels on the basis of purified methane at the Shurtan Gas Chemical Complex. The jv documentation has been prepared between Uzbekneftegaz, Petronas and Sasol, with the $2.5 billion financing to be funded through the companies, in addition to bank loans. The project will produce about 1.3 million tons of diesel fuel, kerosene, naphtha and liquefied petroleum gas per annum for sale on the domestic market and for export. Broken down, this would consist of 672,000 tpa of diesel fuel, 278,000 tpa of aviation kerosene, 361,000 tpa of naphtha and 63,000 tpa of liquid gases. The feasibility study is to be completed by June 2010, with start-up expected in 2014.

The agreement to build a GTL plant based at the Shurtan Mining and Chemical Combine was signed by Uzbekneftegaz and Petronas in May 2008. Sasol joined the project in April 2009 with the technology which will produce GTL-products. Shurtan Gas Chemical Complex was introduced on the basis of Shurtan field in Kashkadarya region in late 2001. The capacity of the complex includes 3.9 billion cubic metres of gas and produces 125,000 tpa of polyethylene, 137,000 tpa of liquefied gas and 130,000 tpa of unstable condensate. Uzbekneftegaz is considering the possibility of increasing polyethylene capacity to 225,000 tpa, based on ethane supplied by pipeline from ShurtanNefteGaz to Shurtan Gas Chemical Complex.

Relevant Currencies
(Czech crown. Kc. $1= 17.369. €1 = 26.128): (Hungarian Forint. Ft. $1 = 180.780. €1 = 271.9805: (Polish zloty. zl. $1=2.755. €1 =4.1422): (Bulgarian leva . $1 = 1.3009. €1= 1.9565). (Romanian Lei. $1 = 2.8438. €1= 4.277). (Croatian Kuna HRK. $1 = 4.8752. €1= 7.3322 (Ukrainian hryvnia. $1 = 8.005. €1 = 12.0394): (Rus rouble. $1 = 29.2036. €1= 43.9218)

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