Chemical Information Resources for East Europe and CIS

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

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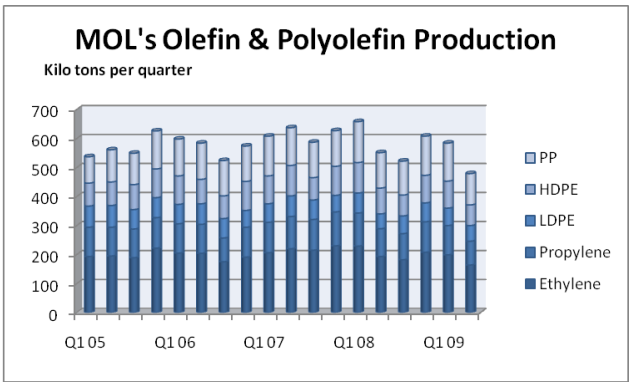
- After halting isoprene monomer production in November 2008, the Novokuibyshevsk Petrochemical Combine has decided against a restart
- Salavatnefteorgsintez registered a trade name SNOLEN at the start of June for output from its new HDPE plant which is scheduled for start-up in the fourth quarter this year
- Synthetic rubber production in Russia totalled 98,763 tons in July, the highest monthly figure for the year to date and only slightly under pre-recession production numbers
- Tatneft has decided to postpone the launch of petrochemical projects at the Taneko complex under construction at Nizhnekamsk and will prioritise crude processing
- Togliattikaucuk started the reconstruction of the isoprene unit, which involves the transition from the two stage process
- Kuiyshevazot's turnover for the first half of 2009 dropped 32% down to 7.2 billion roubles with a net profit of 19.3 million roubles
- Novocherkassk Synthetic Products Plant plans to replace the old methanol plant, recently stopped, with a new low pressure plant with a capacity of 560,000 tpa

CENTRAL & SOUTH EAST EUROPE

MOL-Group, Jan-Jun 2009

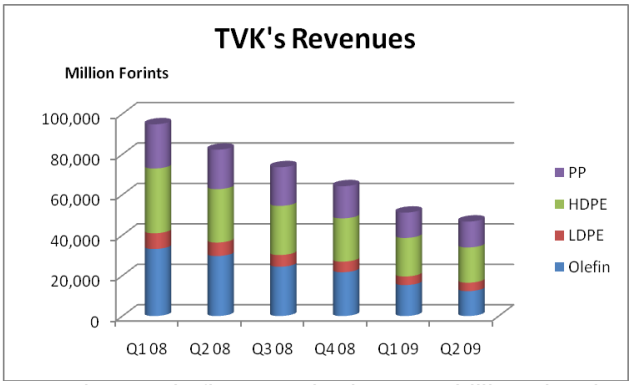
MOL's petrochemical division recorded an operating loss in the first half of 2009 of Ft 13.0 billion (€48 million). The loss has been attributed by MOL to lower integrated petrochemical margins, increased energy prices, and lower sales resulting from the decline in demand for olefins and polymers. Other key factors included maintenance shutdowns at TVK plants during May and June. Margins for the MOL group dropped in Q2 by 12% against Q1, mainly due to a 31% rise in naphtha prices. MOL's monomer and polymer production fell in the first half of 2009 by 14% and 10%, respectively, against the first half of 2008. The maintenance shutdowns at the Olefin-1 and polymer plants of TVK were carried out within the originally planned schedule. LDPE production volumes increased in Q2 2009 against Q2 2008 as Slovnaft Petrochemicals (which provides the larger part of LDPE production in the MOL group) underwent a maintenance shutdown in Q2 2008.



Polymer sales (by revenue) fell 6% in the first half of 2009 for MOL, which might be measured as a relative success. By volume, monomer sales declined by a 37% against the first half 2008. A main reason for the fall in monomer sales was the reduction in sales of ethylene BorsodChem, the main merchant consumer, which dropped 30,000 tons in the first half of 2009. MOL's capital expenditures amounted to Ft 9.7 billion in the first half of 2009, primarily relating to the reconstruction of olefin plants at both TVK and Slovnaft Petrochemicals.

TVK Jan-Jun 2009, Jan-Jun 2009

TVK saw a rapid rise in naphtha prices in the second quarter whilst shrinking demand put pressure on polymer prices. At the same time energy prices increased, while production and sales reduced due to outages. As a result, TVK incurred an operating loss of Ft 7 billion in the second quarter, whilst for the first half year the operating profit of the group was almost Ft 5 billion less than in the first half of 2008. The main drivers of the profit drop were the 15% lower petrochemical margin, higher energy costs, and lower production and sales' volumes. Maintenance shutdowns in the second quarter and falling demand were also factors. In order to counterbalance the profit fall, significant working capital optimisation action was initiated. As a result, the operating cash-flow was positive both in the second quarter and the first half of 2009.



Overall capacity utilisation for TVK dropped by 19% against first half of 2008. The short supply of feedstock in the first quarter was followed by the turnaround of Olefin-1 plant. Other overhauls included the HDPE-1, LDPE-2 and PP-3 plants and for the annual stoppage of the HDPE-2 and PP-4 plants for cleaning. The Olefin-1 plant stopped for reconstruction and overhauling works on 3 May, and the work lasted 53 days.

Polymer production and sales were 17% and 14% lower, respectively, than in the first half of 2008. Operating cash flow reached Ft 3.5 billion despite of the negative EBITDA, which is mainly due to the reduction of the working capital. TVK Plc did not have to resort to bank loans to preserve its liquidity. The net losses of the group amounted to Ft 8,996 million in the first half of 2009. The TVK parent company only incurred the liability to pay industry tax and the company was not subject to either corporate or special tax.

Slovnaft, Jan-Jun 2009

Slovnaft's petrochemical division, although accounting for only 20% of the Slovak company's turnover, saw an increase operating profits in the first half of 2009 to €17.3 million. Polymer sales' volumes increased by 20,600 tons for the second quarter in 2009 against 2008, and totalled 105,200 tons. Export sales increased by 36.9%, while domestic sales fell by 19.3% compared to the same period in 2008.

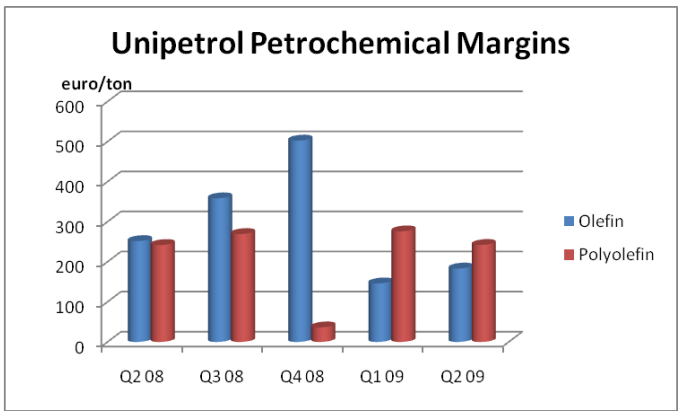
PKN Orlen dismisses report of Unipetrol sale

PKN Orlen has dismissed a report stating it was looking to sell Unipetrol and was in talks with an unspecified Russian oil company over the sale of its 63% stake. Other speculation includes the suggestion that the Czech government had approached Warsaw over the possibility of repurchasing Unipetrol, but this has been refuted by PKN Orlen. The only thing that can be confirmed is that Czech government officials have stated they are in intensive negotiations over Unipetrol, but possibly over the intended future of the company rather than specific plans to re-purchase the shares. In April, PKN Orlen reached a deal with its banks over breached debt covenants, agreeing to pay more for its loans and keep a lid on investments. Although PKN Orlen is facing restrictions on finance and may need to sell some of its assets, Unipetrol has become part of the group's core strategy and its sale would seem improbable in the present economic climate. In order to help short term liquidity, PKN Orlen has recently issued short term bonds to Anwil worth around zl 30 million.

Polish Chemical Production (unit-kilo tons)		
Product	*Jan-Jul 09*	*Jan-Jul 08*
Caustic Soda	39.9	47.6
Soda Ash	517.0	607.9
Ethylene	280.0	310.4
Propylene	199.0	208.0
Butadiene	27.3	31.4
Toluene	51.6	77.0
Phenol	18.2	25.5
Caprolactam	76.4	81.0
Polyethylene	184.0	197.2
Polystyrene	72.7	55.9
PVC	143.0	145.6
Polypropylene	147.0	140.8
Synthetic Rubber	75.3	68.1
Pesticides	15.6	20.6

Unipetrol, Q2 2009

As regards to its second quarter performance, Unipetrol was affected by the planned maintenance shutdown at the Kralupy refinery (April-June), the increase in the price of crude oil and its derivatives, and the stronger Czech crown against the dollar. Olefin demand was relatively good in the second quarter but still below traditional levels. Olefin prices rose moderately resulting in improved margins, but polyolefin margins have been weakened due to increasing feedstock costs and low demand. From the start of the second quarter, Unipetrol introduced a new system for calculating petrochemical margins. The new model equals revenues from products sold (100% products=40% ethylene+20% propylene+20% benzene+20% naphtha) minus costs (100% naphtha). The polyolefin model equates to revenues from products sold (100% products=60% HDPE+40% polypropylene) minus costs (100% input = 60% ethylene+40% propylene); products prices according to quotations.



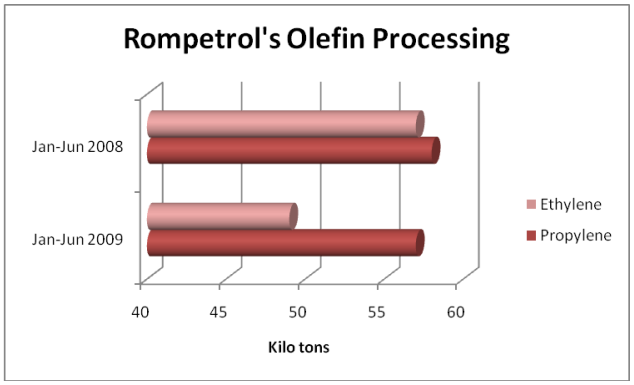
Unipetrol posted a net loss of around Kc 500 million at the end of the first half of 2009, extending the loss from the first quarter of the year reported at Kc 185 million. In the first half of 2008, Unipetrol made a profit of more than Kc 700 million. Sales dropped by 37% in the first half of 2009 to around Kc 31 billion. Production shutdowns alone accounted for an EBIT-level loss of Kc 132 million in the second quarter from Kc 300 million expected in total for this period. For the third quarter, Unipetrol expects a certain increase in margins whilst also hoping to start seeing the impacts of restructuring.

Petrohemija-restart mid September

The Serbian government stated during August that production would restart at Petrohemija by the middle of September. The Ministry proposed to the Serbian government that it offers to help Petrohemija resume production and provide assistance to its social programme by providing funds of €10 million. The government is set to take steps to re-programme Petrohemija's debts to both LUKoil and NIS, and will help the company formulate new long term contracts for the supply of naphtha. Agreement has already been reached with NIS concerning the reprogramming of the existing debt and new deliveries of naphtha at a price 20% lower than before. An agreement has also been reached with LUKoil, to which Petrohemija owes €23 million, to supply naphtha at almost half the previous price according to reports. Petrohemija is now looking to make contracts concerning the supply of more than 30,000 tons of naphtha per month.

Petrohemija's total debt amounts to €224 million, which is larger than its overall assets. Petrohemija reported a net loss of 1.973 billion dinars ($26.9 million) in 2008, while the company also lost €35 million in the first quarter of 2009. 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 initially at the start of May, after NIS suspended crude oil deliveries to the company, and then again after a brief restart.



Rompetrol Petrochemicals, Jan-Jun 2009

Revenues for Rompetrol's petrochemical division dropped 47% in the first half of 2009, although physical volumes of processed ethylene and propylene remained similar to last year. Propylene is produced from Rompetrol's refinery division whilst ethylene is sourced from other producers. In addition to producing polyolefins, the company has started selling other products such as PET which it does not produce. Polymer sales from Rompetrol's own production totalled 120,000 tons in the first half of 2009 against 117,000 tons in the same period in 2008.

BorsodChem, Jan-Jun 2009

BorsodChem has seen a positive shift in Q2 results due to a drop in prices and increases in sales' volumes of TDI and PVC. The company states that both products have been on a stable upward curve for the past three months. In addition, the first results of a cost-cutting and efficiency improvement programme, which was launched last November, have started to play a noticeable part in the company's operations. This will result in savings of more than €15 million for 2009 for the company, which has been achieved without the need to axe any jobs. Despite the suspended investment programmes, the company claims it is able to satisfy all of its ongoing payment obligations with a smoothed time schedule.

BorsodChem is in continuous talks with the Hungarian government regarding the support strategy that was agreed in principle back in February. These negotiations, in which BorsodChem's lenders are also involved and involve debts of up to up to €1 billion, are expected to be finalised in the near future BorsodChem has estimated that it could sustain a 15-20% decline in revenue in 2009 compared to 2008, when the company generated turnover of €1 billion. However, the company expects revenue to rebound to around €1 billion in 2010. BorsodChem has added that it would like to complete the expansion of its MDI plant this year in spite of a freeze on lending that has delayed other investments.

RUSSIA

Russian Chemical Production (kilo tons)		
Product	Jan-Jul 09	Jan-Jul 08
Ethylene	1273.8	1381.2
Benzene	572.2	712.7
Styrene	288.2	359.0
Phenol	82.5	142.0
Polyethylene	804.5	763.8
Polypropylene	328.6	296.4
PVC	310.8	359.6
Polystyrene	146.4	152.2
Butanols	149.2	158.3
Methanol	1204.3	2129.3
Syn Rubber	500.1	734.2
Caustic Soda	630.2	754.7
Soda Ash	1304.5	1718.4
Ammonia	7448.5	7756.0

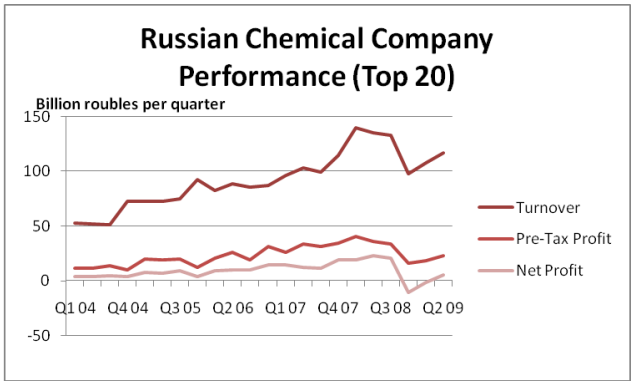
Russian chemical production & demand

The production of plastics and resins in Russia fell 7.9% to 2.4 million tons in the first seven months of 2009, whilst synthetic rubber dropped 33.4% to 500,000 tons. Although synthetic rubber has been affected heavily by the low consumption from tyres, production levels have been gradually improving this year and the July output volume of just under 99,000 tons was the highest monthly figure since August 2008. Mineral fertiliser production fell 21.9% in the period January-July 2009 against 2008, totalling 8.1 million tons. Ammonia fell 4.7 % to 7.4 million tons, soda ash 24.1 % to 1.3 million tons, and caustic soda by 16.9% to 630,000 tons. Polyolefin production continues to exceed last year's results due to increased capacity and less plant outage time. Both polyethylene and polypropylene have seen an increase in export activity and reduced imports so far this year.

Second quarter financial results for Russian chemical companies are almost inevitably well down on previous years. Nearly all companies show inferior net profits for the first half of 2009 against 2008, and some companies have reported fairly large losses such as Nizhnekamskneftekhim and Metafrax. Whereas the outlook for both of those companies is positive, mainly due to the level of integration and focused investment strategies, other producers are more exposed to the effects of the economic downturn.

Trends for the largest twenty chemical companies indicate an upturn in turnover and profitability in the second quarter measured against the previous two quarters. At the same time, rising raw material and energy costs could restrict increases in profits for the remainder of the year. Ethylene and propylene prices in Russia have been on the rise recently, influenced by European trends. Prices of ethylene have risen in recent weeks by about 10-15% and further increases are expected. Thus, in view of the weak demand outlook rising costs could hamper a recovery in financial stability for some companies. Possible closures, temporary or permanent, are feasible for some of the less efficient plants and several companies have already made announcements of terminations. Other companies have been pushed by the economic climate towards developing alternative strategies and finding new profitable products.

In terms of investments, SIBUR-Holding reports that it aims to revive activity on the Tobolsk polypropylene project following the allocation of government backed bank funds. LUKoil is outlining its plans for the construction of a gas-chemical complex at Budyennovsk whilst Salavatnefteorgsintez hopes to start its new HDPE plant in the fourth quarter this year. In the methanol sector, Novocherkassk Synthetic Products Plant intends to replace its old and now idled plant with a new unit by 2012. As with all projects in Russia at present, finance is the key factor that will determine the completion dates.



Feedstocks

Russian LPG, Jan-Jun 2009 (kilo tons)		
Producer	Production	Export
SIBUR Holding	1606.4	484.7
Gazprom	861.8	152.0
LUKOIL	438.3	3.5
Bashkir group	326.7	1.05
Novatek	354.3	200.7
Others	1575.8	641.95
Russian total	5,163.3	1,070.0

Russian LPG exports helped by reduction in duties

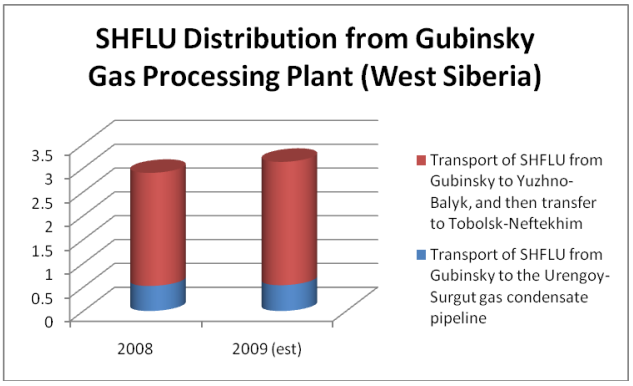
Russian LPG exports rose 46% in the first six months of 2009, boosted by the temporary removal of export tariffs from the start of the year. Exports in the first half of 2009 totalled 1.07 million tons; up from 731,800 tons in the same period in 2008. SIBUR was Russia's largest producer and exporter during the period. Domestic LPG manufacturers won the tariff break after lobbying the government for help during the financial crisis, although the Energy Ministry is now considering restoring the duty from 1 October. At around $90 per ton, the government loses around $15 million a month by scrapping the duty on exports of propane, butane, ethylene, propylene and other liquefied gases. Russian LPG production in the first half of 2009 totalled 5.16 million tons, a 1.4% reduction year-on-year, of which around 20% was exported.

SIBUR to start revamp of second line at Yuzhno-Balyk in September

SIBUR-Holding has completed the reconstruction of the second line at the Yuzhno-Balyk Gas Processing Plant in the Khanty Mansiisk region in West Siberia. The completion of the second line is significant in that it will help to increase capacity for processing associated gas three-fold, from 1 billion cubic metres in 2007 eventually to 3 billion cubic metres. Processing totalled 1.279 million cubic metres in 2008, with 2.0 million cubic metres set for the target in 2009.

The Yuzhno-Balyk Gas Processing Plant is part of SIBURTyumenGaz and is an important hub for associated gas transportation and usage from other gas processing plants in West Siberia. Much of the throughput as SHFLU (wide fractions of light hydrocarbons) is then sent by pipeline to Tobolsk-Neftekhim which produces a large proportion of the feedstocks for the Russian petrochemical industry. In addition to its own production of SHFLU, the Yuzhno Balyk plant should send more than 3 million tons of SHFLU to Tobolsk this year. The map above illustrates the locational relationship of the gas processing industry in West Siberia.

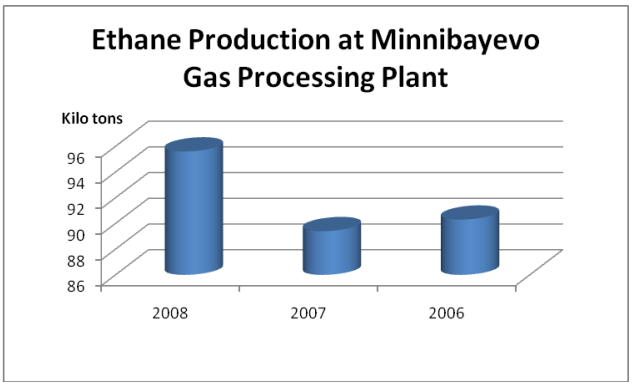
SIBURTyumenGaz has completed the reconstruction of the propane-butane fraction unit at Nyagan, raising capacity from 90,000 tpa to 200,000 tpa. SIBURTyumenGaz plans to invest in other gas processing plants prior to 2011, including the Gubinsky and Noyabrsk plants in the Yamal-Nenets region. The modernisation of compressors at Gubinsky will facilitate an increase in processing of associated gas by around 25% which will provide more SHFLU for Tobolsk-Neftekhim. The construction of the Vyngapur gas processing plant and the expansion of the Vyngapur compressor will enable the acceptance of associated gas from Gazprom-Neft and Rosneft from deposits in the Yamal region. However, the gas processing plant at Vyngapur with a capacity of 3 billion cubic metres per annum has been rescheduled due to financial restrictions. The project will eventually include a product pipeline for SHFLU and reconstruction of Vyngapur compressor station.



SIBUR is aiming to process up to 18 billion cubic metres of associated gas by 2013. It has concluded jvs with TNK-BP, Rosneft and Gazprom-Neft for processing, in the effort to meet government targets. Whilst most of the focus has been on West Siberia, SIBUR has extended its interest to East Siberia where it is considering possibilities for a gas-chemical complex in conjunction with Gazprom. Lacking an infrastructure base means that such a regional concept is restricted to some extent, but investment scenarios are under assessment.

Taneko-pipeline & Minnibayevo reconstruction

Tatneft has started building its main oil pipeline between Kalekino and Nizhnekamsk, which will provide the feedstock for the new Taneko refinery. The Taneko refining complex is scheduled for start-up in December 2010. The total length of the pipeline is 118 km, with 47 km of pipelines already supplied to the company. The pipeline is an important part of the infrastructure financed from the Russian Federation's Investment Fund. Priority goals for Taneko in the next few months include underground engineering networks and the building of roads needed for maintenance of the refining complex.



Tatneft is starting the reconstruction of the Minnibayevo Gas Processing Plant as part of its investment programme to utilise associated gas. The plant is located near the town of Almetyevsk in Tatarstan and the revamp includes introducing cryogenic technology. It will facilitate the increase in production of ethane for Kazanorgsintez to supplement the purchase of gas from Orenburg. In 2008, the Minnibayevo Gas Processing Plant processed 683.8 million cubic metres of associated gas, 285,600 tons of SHFLU (wide fraction of hydrocarbons) 95,600 tons of ethane, 1.692 million tons of nitrogen, and 126,120 tons of oxygen.

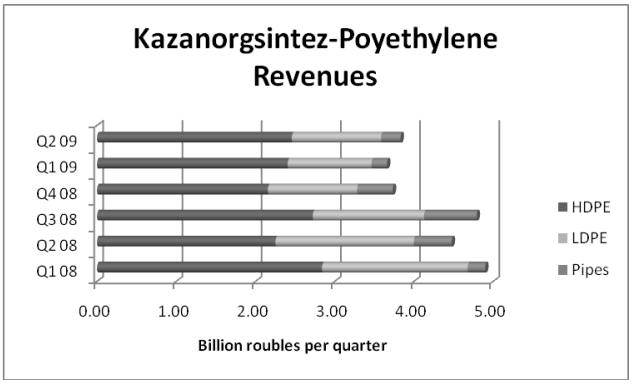
The processing of associated gas at Minnibayevo could be of particular interest to Nizhnekamskneftekhim, although it would depend on the construction of new product pipelines to deliver SHFLU. At present, feedstocks from West Siberia meet the full demand for Nizhnekamskneftekhim but in the event of new capacities (such as 1 million tpa of ethylene); the company would require more feedstock sources.

Petrochemicals

Kazanorgsintez-debt restructuring continues

Discussions and debate continue over the future of Kazanorgsintez due to its financial position, with TAIF trying desperately to maintain its control over the company. SIBUR has been thought of as a potential owner, but may not be able to secure ethane at a better price than it is currently receiving from Gazprom. The FAS anti-monopoly service has demanded the inclusion of a tolling arrangement for ethane for Kazanorgsintez under a long term agreement, as one of the conditions set out for the 15 billion roubles of state support required to keep the company from falling into bankruptcy. For 2008, Kazanorgsintez processed 410,620 tons of ethane, including Gazprom 315,000 tons and Tatneft 95,620 tons. In the first

half of 2009, Gazprom supplied 184,947 tons of ethane to Kazanorgsintez and Tatneft supplied 47,975 tons. Other feedstocks purchased in the first two quarters included 90,810 tons of propane-butane, over which 50% was supplied by SIBUR-Holding, and 124,730 tons of ethylene sourced almost entirely from Nizhnekamskneftekhim.

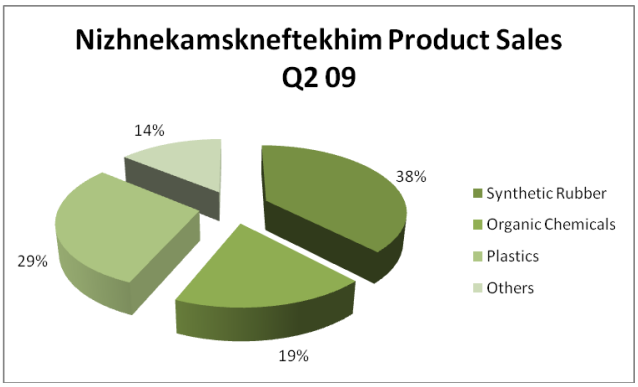


Kazanorgsintez produced 410,000 tons of ethylene in 2008, 203,000 tons of LDPE, and 321,000 tpa of HDPE. Turnover of the company totalled 23.4 billion roubles that was 2 billion roubles higher than in 2007, but at same time incurred losses.

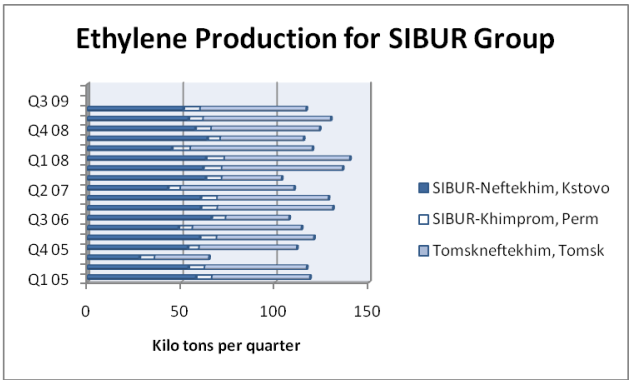
In the first seven months of 2009, Kazanorgsintez increased production by 7.3% against the same period last year. Increases in HDPE production, coupled with polycarbonate, are the main factors of note and as the graphic opposite illustrates, HDPE sales' revenues have held up relatively well through the economic downturn. By contrast, revenues from LDPE sales have dropped. In the second quarter this year, LDPE accounted for 20% of total revenues for Kazanorgsintez against 29% in the same period last year. The real issue for Kazanorgsintez is how to resolve the problem of ethane supply and pricing, and whether or not it can achieve this goal without sacrificing its independence.

Nizhnekamskneftekhim, Jan-Jun 2009

Turnover dropped 25% for Nizhnekamskneftekhim in the second quarter against the same period in 2008 to 14.593 billion roubles. Despite a fall in raw material costs in 2009, pre-tax profits for the quarter dropped 51% to 2.222 billion roubles. The introduction of new polyethylene facilities at the end of the first quarter, combined with increases in polystyrene production, has helped to increase the share of plastics in the company's revenues. Other developments include the advancement of the one-stage process at Nizhnekamskneftekhim for isoprene monomer production, enabling lower costs of output and increase in capacity.



The major challenges stressed by Nizhnekamskneftekhim include continuing expansion of the product range and reductions in the cost prices of raw materials. The main advantage of the company over its competitors in Russia, it argues, is the possibility to export in large volumes through the rented coastal terminals in Finland to West Europe, Asia and the USA. The company produced 372,000 tons of ethylene in the period January-July and 181,000 tons of propylene. A planned maintenance will start on 12 September at the cracker where work will be undertaken on the furnaces.



SIBUR records losses in second quarter

SIBUR-HOLDING recorded net losses of 3.036 billion roubles in the first half of 2009 against net profits of 12.98 billion roubles in the same period last year Turnover dropped 1.5 fold to 46.953 billion roubles, whilst the total pre-tax profit of the company was reduced 2.5 times to 9,5 billion roubles. The long-term obligations of the company have increased by 13.980 billion roubles to 161,680 billion roubles. Physical volumes remained slightly down on 2008, with synthetic rubber the worst affected area. Petrochemical production for SIBUR-Holding's plants, by individual product, can be seen on the Statistical Database at www.cirec.net.

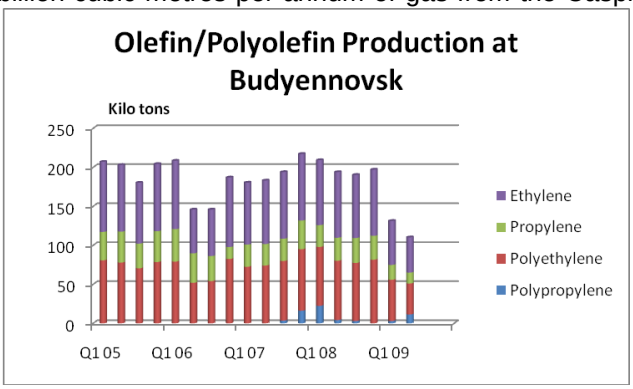
SIBUR has concluded the acquisition of the Austrian petrochemical trading company Citco Warenhandel

after approval from the European Union. This will help to provide direct and increased marketing possibilities for SIBUR. Citco has established strong links with other petrochemical producers in Russia, and trades in LPG sales to Europe amongst other products. Through the acquisition of the Citco, SIBUR has eliminated the need to sell products through Gazprom-Export and has not extended its contract. Gazprom-Neft has acted as SIBUR's export trading company for petrochemicals and LPGs for several years.

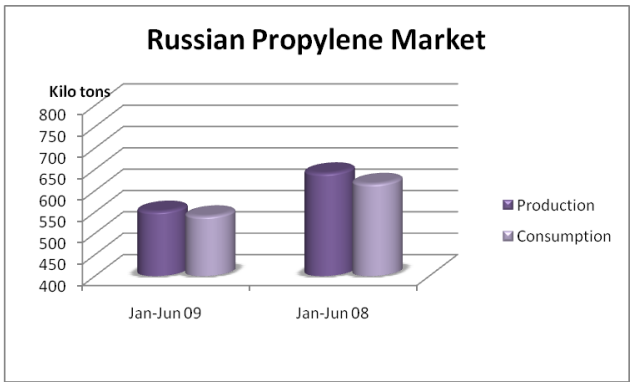
LUKoil-Budyennovsk project

LUKoil's Budyennovsk petrochemical project is likely to proceed in stages, according to LUKoil-Neftekhim, with the group expecting to encounter difficulties in finding finance to support the investment. At the same time, the group is hopeful that the first stage of the complex should be completed by the first quarter in 2012, even if that might appear optimistic. The investment programme primarily consists of a gas processing plant and a new cracker with a capacity for ethylene of 600,000 tpa. The aim is to complete the project in full by 2014, with total investments required in the range of around $5 billion. The largest part of the investment includes $3 billion for the gas processing plant, either to be located in the Republic of Kalmykia or closer to the production location at Budyennovsk.

The most likely prospect is that the gas processing plant will be established as planned at Kalmykia, and will be connected to Budyennovsk by a feedstock pipeline. The Kalmykian complex could handle more than 14 billion cubic metres per annum of gas from the Caspian Sea, and 600,000 tpa of condensates. In addition to the 600,000 tpa cracker for ethylene, LUKoil wants to build plants of 450,000 tpa for HDPE and 200,000 tpa of ethylene glycol.

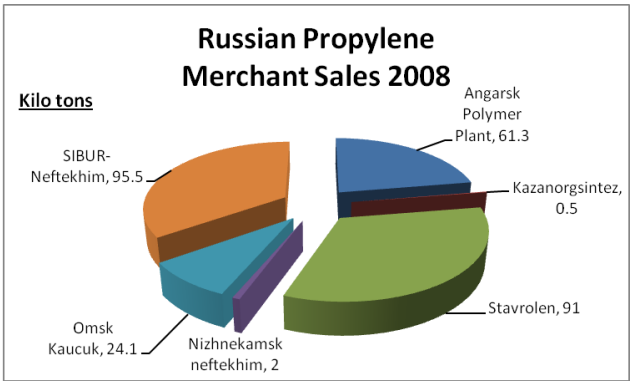


Production has been in slow decline at Budyennovsk over the past few years despite the start-up of a 120,000 tpa polypropylene plant in 2008. Aside economic factors that have affected volume sales in recent months, LUKoil's main problem at Budyennovsk has been meeting feedstock requirements. The construction of the new gas processing plant is therefore vital for the long term survival of the site. Ethylene capacity currently totals 350,000 tpa and HDPE 320,000, both of which are running just over 50% of capacity.



Russian propylene market

Propylene consumption in Russia declined in 2008 for the first time since 1998 and has continued to soften into the first half of 2009. The fall has not been as significant as in some other sectors of the petrochemical industry, and are attributed largely to lower phenol production which was down 40% in the first half of 2009. Other factors have included lower demand for butanols in the early part of the year, which affected propylene production at Salavatnefteorgsintez and an outage at the Budyennovsk cracker in March. Overall, propylene production in Russia dropped 14% in the first half of 2009 (individual plant data available on the Statistical Database at www.cirec.net) and totalled 551,400 tons.



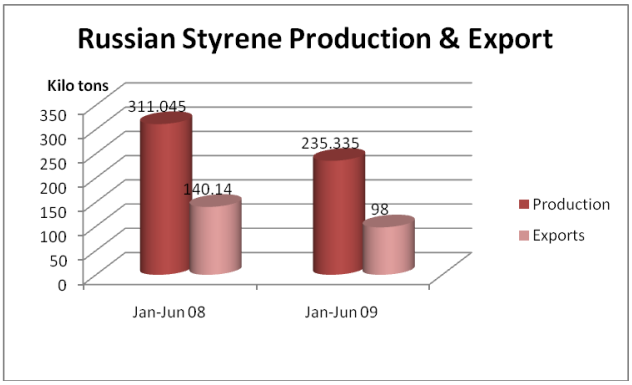
Around 74% of propylene consumed in 2008 was captive. Lower usage by Salavatnefteorgsintez explained the 2% fall in consumption against 2007. This year the lower production of acrylonitrile and phenol at Saratovorgsintez, part of the LUKoil group, has reduced demand for propylene. The merchant market sales of propylene dropped 26% in the first six months of 2009, down to 107,600 tons. Saratovorgsintez is the main consumer of merchant

market propylene in Russia, normally processing around 160,000 tpa, and accounting for 60% of total merchant sales.

The Stavrolen plant at Budyennovsk, also part of the LUKoil group, is traditionally the main supplier of propylene to Saratovorgsintez. Due to the accident in March at the Budyennovsk cracker Saratovorgsintez has been forced to seek other sources of propylene, and bought material from SIBUR-Neftekhim which is the largest supplier in Russia. Nizhnekamskneftekhim previously held this position, but since the start of polypropylene production in 2006 now uses nearly all propylene for captive outlets.

Russian styrene exports fall in 2009

Styrene exports from Russia dropped 43% in the first half of 2009, down to 98,000 tons. The main cause for lower volumes was reduced demand in Europe. Other important factors included the reduction of export volumes from Nizhnekamskneftekhim following lower production this year and increases in polystyrene production. The company runs three lines, and has increased polystyrene production by 22% in the first half of 2009. As a result, Nizhnekamskneftekhim exported only 23,700 tons of styrene monomer in the first half of 2009 which was 70% down on the same period last year.



To compensate lower exports from Nizhnekamskneftekhim, Salavatnefteorgsintez increased exports to 48,000 tons in the first half of 2009 and accounted for 49% of total Russian styrene exports. The main merchant buyers of styrene in Russia are PG Prof (previously known as Penoplex), Omsk-Polymer and Voronezhsintezkaucuk. Merchant market sales of styrene dropped 26% in the first half of the year which helped promote exports.

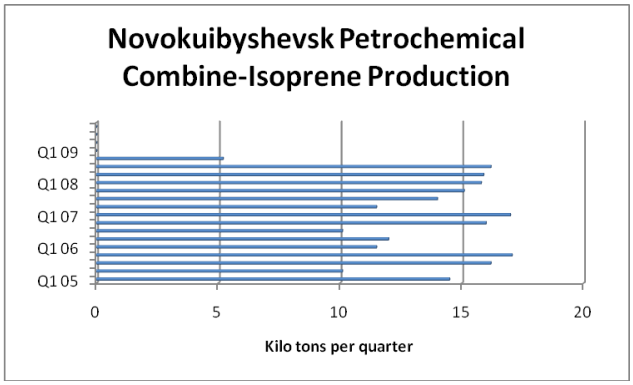
Nizhnekamskneftekhim could halt styrene sales for both exports and the domestic market completely in 2010. The withdrawal from the domestic market should help to create opportunities for other producers resulting in lower export activity. At the same time, it indicates that Nizhnekamskneftekhim will become the most important player in the styrene-polystyrene chain in Russia.

Russian isoprene market

Isoprene monomer consumption in Russia fell 40% in the first half of 2009 against the same period last year, down to 127,100 tons. Production dropped 36% to 142,300 tons whilst exports rose 79% to 15,200 tons. As exports remain relatively small, monomer producers largely depend on SKI isoprene rubber production which itself was 44% down in the first six months.

Isoprene Market in Russia (unit-kilo tons)

	2008	2007	H1 09	H1 08
Production	430.1	434.4	142.3	222.344
Exports	12.1	16.1	15.2	8.5
Marker Balance	418.0	418.3	127.1	213.9



Nizhnekamskneftekhim is the only producer in Russia to use the one-stage process, although Togliattikaucuk is undertaking a similar conversion from the two stage process which should be completed in 2014. Aside increasing capacity, production per ton requires less energy through the one-stage process whilst also emissions are substantially reduced. The one–stage process at Nizhnekamskneftekhim accounted for more than 15,000 tons in June, with output consumed mostly in the nearby SKI-3 isoprene rubber plant. However, overall isoprene from the one-stage process dropped 14% in the first half of the year to 57,000 tons.

Lower consumption this year has led to increased export activity. Nizhnekamskneftekhim has been the main exporter, accounting for 66% of the 18,600 tons shipped in the first seven months of 2009. Exports have been shipped through Latvia (93%) and Finland (7%). Under current trading levels, exports could total around 30,000 tons by the end 2009.

Novokuibyshevsk Petrochemical Combine decides against restarting isoprene monomer production
After stopping isoprene monomer production in November 2008, the Novokuibyshevsk Petrochemical Combine has decided against a restart and instead the equipment will be used to produce other products. The complex is part of the SIBUR-Holding group, and has elected to cease isoprene production due to losses. Rosneft owns the adjacent Novokuibyshevsk refinery and was keen to see isoprene production restarted. However, the continued operation of the plant has been under review for some time, and the global financial crisis has provided the pretext for closing production.

At present, other isoprene plants in Russia are running at around 70-75% of capacity, and there seems to be no immediate sign that the market is ready to resume pre-October 2008 demand levels. Novokuibyshevsk Petrochemical Combine produced 53,100 tons of isoprene monomer in 2008, most of which was used by neighbouring Togliattikaucuk to supplement its own isoprene for SKI-3 rubber production.

Bulk polymers

Tobolsk-Polymer-project update
SIBUR states that it is ready to start active construction of the polypropylene unit at Tobolsk in September, after the Vnesheconombank (VEB) loaned the company over $1 billion. The bank became involved in the project in May this year after SIBUR confirmed it was unable to finance the project alone. The outline of the project is to complete the construction of a 450,000 tpa polypropylene plant by the third quarter in 2012, which will then be increased to 500,000 tpa at the same time as the company looks to start polyethylene production. The capacity of the polyethylene plant is proposed at 450-500,000 tpa, for which SIBUR claims to have already concluded contracts for the purchase of equipment. Polypropylene capacity in Russia currently stands at 630,000 tpa and polyethylene 1.45 million tpa, so both these projects are proportionally significant to the supply/demand balance. The polyethylene plant is expected to require 52 billion roubles, but there still little detail available over the schedule, and type of technology planned, etc.

The VEB granted SIBUR a sum of $1.4 billion as part of the first tranche of the government credit to support the construction of the Tobolsk project. The total amount of credit agreed to SIBUR is $2.1 billion which is to be used by the company for both the Tobolsk polypropylene and Kstovo PVC projects. Broken down, $1.441 billion is intended for Tobolsk and $710 million for Kstovo. The bank has been able to provide the credit to those countries which are supplying the equipment for these projects, including Belgium and France.

Russian polypropylene market
Nizhnekamskneftekhim is undertaking a shutdown at the polypropylene plant in September, which should last two weeks. Nizhnekamskneftekhim accounts for around 30% of Russian polypropylene production and thus an outage is noticed in the market. Tomskneftekhim restarted polyolefin production on 16 August after starting a shutdown on 21 July. The shutdown included the polyethylene, polypropylene and monomer plants. During the shutdown at Tomsk, the polypropylene unit is reported to have introduced the first stage of the titanium catalyst process making it the first plant in Russia to use this system.

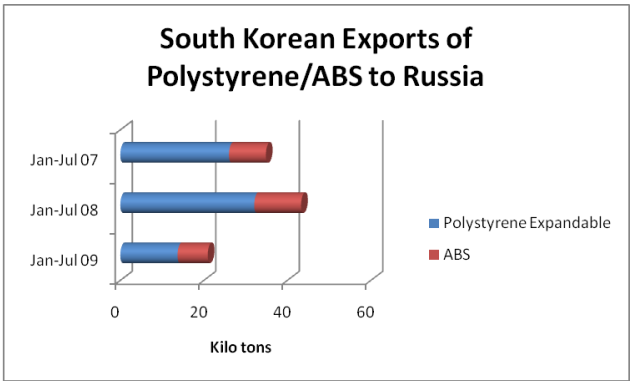
Russian Polypropylene Market (unit kilo tons)		
	Jan-Jul 09	Jan-Jul 08
Production	328.6	296.4
Imports	45.5	61.4
Exports	62.1	34.6
Market Balance	312.0	323.2

Polypropylene imports into Russia totalled 7,970 tons in July, a 14% rise on the same month in 2008. A large proportion of the imports arrived from the Lisichansk plant in east Ukraine, which is owned by TNK-BP. Other sources of imports included the Turkmenbashi refinery in Turkmenistan, which is used mostly for the manufacture of tape and threads. In total, Russia imported 45,510 tons of polypropylene in the first seven months of 2009, 35% down on 2008. Ukraine accounted for 25% of total imports, Turkmenistan 23% and Poland 13%. Exports of polypropylene from Russia totalled 62,110 tons in the period January-July 2009, 79% higher than in 2008, with China being the main destination. Over 29,000 tons of polypropylene were exported from Russia to China in the first seven months of 2009, against 1,040 tons in the same period last year.

Domestic producers will face more competition in 2010 with the start-up of the Omsk plant, which will have a capacity of 180,000 tpa. The project is costing in the range of $160 million, with Tecnimont undertaking construction. The availability of polypropylene in the Omsk region is expected to open opportunities for small and medium sized businesses involved in producing plastics.

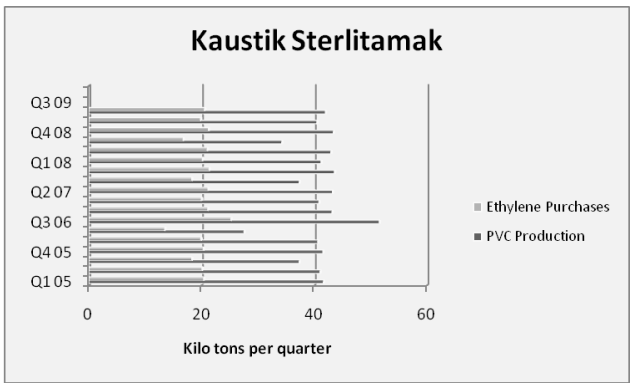
Russian polystyrene imports fall

Imports of polystyrene into dropped 45% in the first half of 2009 down to 52,160 tons. Imports of polystyrene suspension dropped 47%, whilst imports of block polystyrene dropped 39%. South Korea is the main traditional exporter to Russia of polystyrene and related products and has seen a fall in volumes by over 50% in the first seven months of 2009. Expandable polystyrene and ABS exports from South Korea to Russia, as shown in the graphic opposite, have dropped quite significantly this year.



Kaustik increasing PVC capacity

Following the completion of planned maintenance at Kaustik at Sterlitamak in October, the company will increase PVC capacity by around 25% to 18,000 tons per month. The maintenance turnaround is expected to be completed by 20 October. Maximising capacity will, however, depend on ethylene availability from Salavatnefteorgsintez, which itself is introducing a new HDPE plant in the fourth quarter this year.



Although attached to the Volga-Urals 640 km ethylene pipeline system, Nizhnekamskneftekhim is the only other alternative source of ethylene. In view of recent court battles over prices between the two companies, it could make purchasing difficult. Ethylene accounted for 48% of all raw material purchases by Kaustik in the first half of 2009, sourced entirely from Salavatnefteorgsintez. It also buys DOP from Salavat for PVC plasticizers.

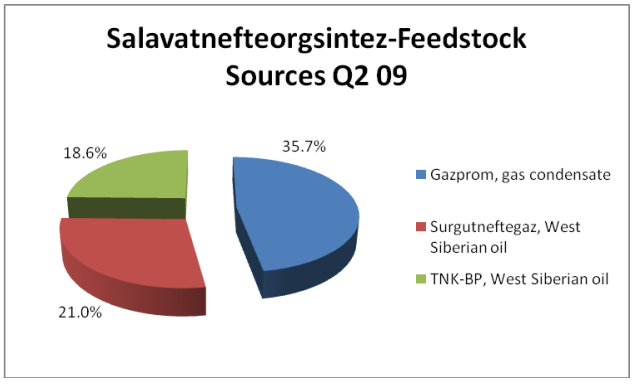
Sayanskkhimplast, Jan-Jun 2009

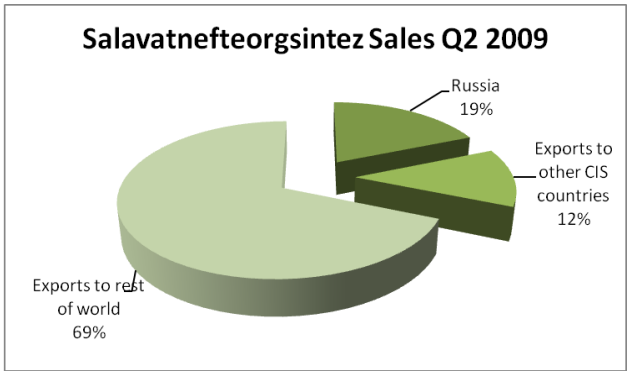
Sayanskkhimplast reduced PVC production 25.3% in the first half of 2009 down to 100,200 tons. Aside a shutdown, the main causes of lower production were weak demand, particularly from the construction sector which has seen a dramatic drop in activity this year. Turnover for Sayanskkhimplast in the first half year totalled 8.4 billion roubles, of which 77% stemmed from PVC sales.

In 2010, Sayanskkhimplast plans to start a new furnace for PVC feedstocks. Uhde is expected by December 2009 to have completed the design of a new EDC and VCM unit, with a capacity of 200,000 tpa. Construction is expected to take place in 2010, with completion and start-up by the end of the year. The new unit will be based on Vinnolit technology based on gas feedstocks.

Salavatnefteorgsintez-HDPE

Salavatnefteorgsintez has invested 4.6 billion roubles in project investment in the first half of 2009, with heavy on the new HDPE unit. The 120,000 tpa plant is scheduled to come onstream in November this year, with further expansions in ethylene capacity at the same time. The addition of HDPE production is estimated to be capable of adding around 4 billion roubles to the turnover of Salavatnefteorgsintez.





The main sources of raw materials for Salavatnefteorgsintez include gas condensate from Karachaganak in Kazakhstan, processed through Orenburg and Astrakhan, and West Siberian oil. Prices for raw materials largely adhere to export prices for oil refining production. In the second quarter of 2009, prices for oil were 23% lower against the same period in 2008 and gas condensate was 26% lower.

Most of the loans borrowed by Salavatnefteorgsintez are owed to Western banks, and thus interest rate combined with currency fluctuations can have a major effect not only the ability to service debts but also to attract additional investment finance. Lower production and turnover for Salavatnefteorgsintez have been the main factors affecting tax revenues for the Bashkkortostan government in the first half of this year.

Aromatic derivatives

Russian PTA capacity insufficient to meet PET demand

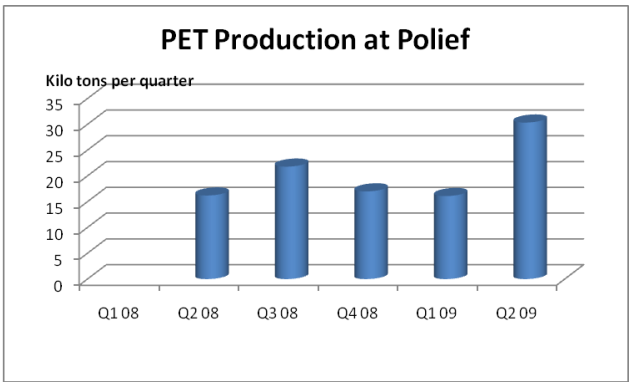
The Russian government has left the import duty rates unchanged for PTA and PET, standing at 0% and 5% respectively. Earlier in the year there were suggestions that the duty could be raised to protect domestic supply. However, the market position has changed. Although Polief produces PTA, by the time it takes its captive requirements there is not enough PTA available to meet the demand from other Russian PET producers SIBUR-PETF and Evroplast (Senezh Polymers).

Prior to the start-up of the PET facilities at Blagoveschensk, Polief had been able to sell product to the domestic PET producers. This had reduced volumes of imports, which previously had come mostly from South Korea. However, with the expansion of PET capacity in Russia, particularly for Polief, Russia has started to see shortages of PTA and the need to resume import activity. The consumption of PTA in the production of PET in Russia rose 3.5 fold against the first half of 2009, putting pressure on supply from Polief. Whilst imports were not seen in the first quarter, the second quarter saw around 10,000 tons coming into the country of which 7,053 tons came from South Korea.

Polief's Sales' Revenues (Billion roubles)			
Turnover	**2008**	Q1 09	Q2 09
PTA	3.7	1.1	1.1
PET	1.6	0.6	1.4
Total	5.3	1.6	2.5

Polief, Jan-Jun 2009

Polief witnessed substantial raw material cost increases in the second quarter this year compared against the first quarter. Paraxylene prices rose 46% on the quarter, isophthalic acid by 11% and ethylene glycol by 20%. PET production at Blagoveshchensk totalled 30,951 tons, including 420 tons exported to Kazakhstan and the remainder consumed domestically. The rise in PET production is the main factor behind the decline in export activity for PTA. In the first quarter this year, Polief exported 33% of PTA production whilst only 15% was exported in the second quarter. Other factors explaining the fall in PTA export activity included lower production in the second quarter. Revenues from PET exceeded PTA revenues for the first time, with PET accounting for 54% and PTA 44%.



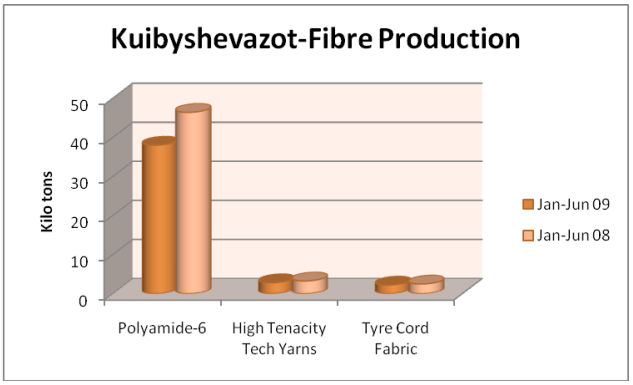
With regional and federal government backing, Polief is creating its own technopark in order to simulate downstream consumption around the polyester industry. A group called EnergoResource will manage the technopark, with support from the government of Bashkortostan. Small companies will be encouraged 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 designed 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.

Kuibyshevazot, Jan-Jun 2009

Kuiyshevazot's turnover for the first half of 2009 dropped 32% down to 7.2 billion roubles with a net profit of 19.3 million roubles. Production volumes and profit margins have both been affected this year by both export and domestic sales' opportunities. The company is progressing with the construction of the fourth line for polyamide-6, with the installation of equipment and pipeline construction to the caprolactam plant already underway. In June 2009, the company added a new line for the production of high-strength technical thread increasing its capacity to 12,500 tpa. Polyamide-6, technical yarns and tyre cord fabric all saw lower volume output in the first half of 2009 compared to last year. Exports to China are likely to sustain production levels for Kuibyshevazot for the remainder of the year.



Regarding the domestic market, the Russian government has introduced an 11.6% antidumping duty on polyamide threads imported from Ukraine. The duty is to apply for four years and covers polyamide, including the tex range of 29 to 250, starting on 25 September. The antidumping investigation was initiated at the request of Khimvolokno at Shchekino, and supported by Kuibyshevazot, Khimvolokno Amtel-Kuzbass and Kurskkhimvolokno. The anti-dumping duties will affect the sole producer of polyamide threads in Ukraine, Chernigov Khimvolokno.

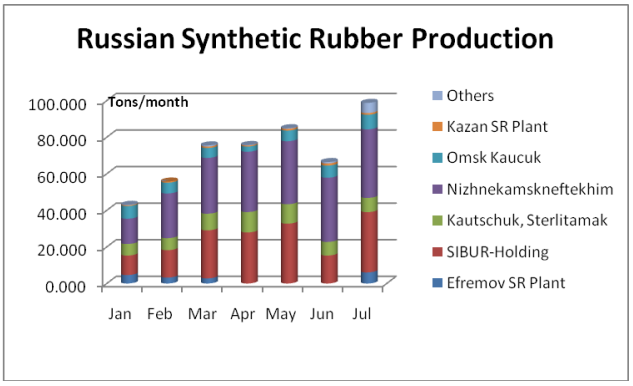
Orthoxylene exports rise

Russia exported 9% more orthoxylene in the period January-July 2009 against the same period last year, totalling 60,200 tons. Due to lower demand for orthoxylene in the production of phthalic anhydride and solvents, two of the producers have been forced to increase export activity. Kirishinefteorgsintez increased export volumes by 21% to 23,700 tons whilst Ufaneftekhim increased by 81% to 4,400 tons. Exports from the Omsk refinery, owned by Gazprom-Neft were reduced in the first seven months by 4% to 32,000 tons.

Phthalic plant closes permanently in Russia

Zapadno-Siburski Metallurgical Combinat has halted the production of phthalic anhydride permanently after concluding that the plant was not profitable to manage. The plant capacity of 8,000 tpa has been running at close to full utilisation in recent years, but the management evaluated that demand and prices were unfavourable.

Synthetic rubber



Synthetic rubber production in Russia totalled 98,763 tons in July, the highest monthly figure for the year to date and only slightly under pre-recession production numbers. Most plants were running at reasonable utilisation rates. Production of polybutadiene rubber restarted at Efremov Synthetic Rubber Plant in July, after a three month market induced shutdown for maintenance, providing competition for Nizhnekamskneftekhim and Voronezhsintezkaucuk. Due to lower production in the first half of the year synthetic rubber exports from Russia fell 27.1% and totalled 266,900 tons. By value, exports totalled $419.4 million which was

39.6% lower than last year. Most of the exports were shipped outside of the CIS.

Togliattikaucuk has introduced a third automatation system for the production of butyl rubber. The system was supplied by Yokohama Rubber at a cost of 6 million roubles. The aim is to control the flow of raw materials more efficiently and to reduce energy costs. Omsk Kaucuk started a maintenance shutdown at its rubber plant and also phenol and acetone plants in the latter part of August. The shutdown is scheduled to be completed in the early part of September, although is not expected to affect the market balance. Omsk Kaucuk produces around 8% of Russian synthetic rubber with a capacity of 128,000 tpa. Production reached its lowest point this year in April but for the first half of the year only showed a 4% decline against 2008, totalling 33,620 tons.

Organic chemicals

Russian MEG exports fall due to higher domestic demand

Russian MEG exports dropped 44% in the first seven months of 2009, totalling 50,600 tons, due mostly to lower global demand but also an increase in domestic consumption. SIBUR-Neftekhim is the main exporter of MEG from Russia and recorded a 20% drop to 37,300 tons. Whilst all producers recorded lower output for the first seven months of the year, Polief's increased PTA production has resulted in a substantial increase in domestic sales.

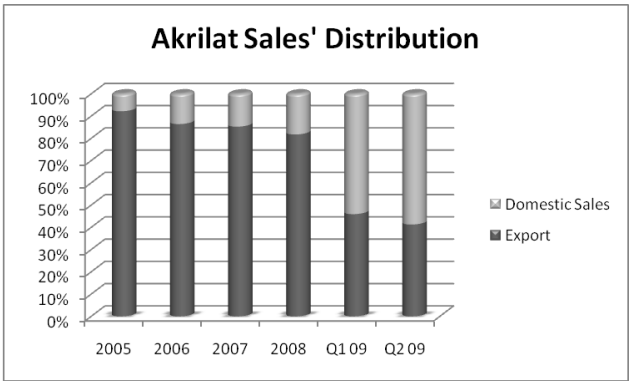
Metafrax-pentaerythitol duties

Pentaerythitol production was restarted in May by Metafrax, and in July the government instructed an increase in the import duty. Previously the import duty for pentaerythitol was 5%, but the new rate has been changed to a limit of no less than €70 per ton. The duty has been introduced for the next nine months and will help to some extent in protecting Metafrax in the marketplace. In 2010, Metafrax plans to produce around 24,000 tons of pentaerythitol of which around 80% will be sold on the domestic market. The main source of imported pentaerythitol is from China.

Akrilat's domestic sales benefit from weaker rouble

Akrilat at Dzerzhinsk recorded a net loss of 187.118 million roubles in the first half of 2009, which was 2.8 fold more than in 2008. The major cause of losses has been the revaluation of the company's debt from investment credit after the heavy devaluation of the rouble. The currency devaluation has, however, at the same time helped the company expand its domestic sales at the expense of exports. The share of acrylate ester and acrylic acid sales until last year were divided into roughly 70% exports and 30% domestic sales, whereas now the shares are divided broadly 50/50. Aside currency factors which have made ester imports much more expensive, the emulsions industry has been developing quickly in Russia in recent years opening new sales' opportunities. Despite the falls in paint production in Russia this year, growth has been rapid in recent years stimulating demand for acrylic acid and esters. From a virtual zero base 7-8 years ago, several paint producers have grown to the levels where they could justify in producing emulsions thus requiring raw material purchases from either Akrilat or imported sources.

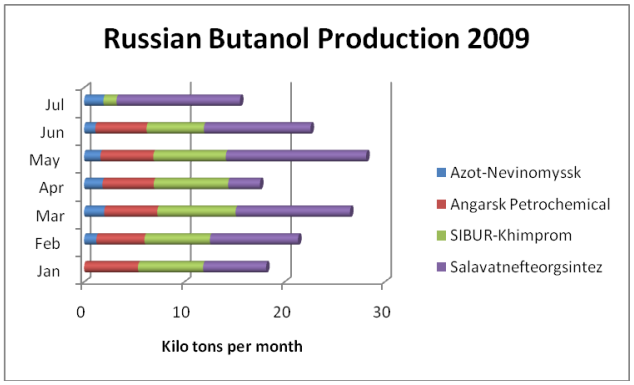
Production for Akrilat in the first quarter was very low, but operating rates were increased in April. By the end of the second quarter, raw material prices had already exceeded numbers seen in November last year. Further rises are expected in the next few months. During the second quarter Russian consumers for acrylate esters became more active; in April, Akrilat shipped 700 tons to Russian customers and this increased to 1100 tons in June. For the whole of the second quarter, the domestic market accounted for 47.5% of shipments and 59% of turnover. Plans exist for the creation several new large plants for emulsions that should help expand the Russian market for acrylic acid and esters. Rohm & Haas, now part of Dow Chemical, has recently started a new emulsions unit at Ramenskoye region in Moscow. Although the plant is not running at full capacity, Akrilat has already started product shipments to the site. The new plant will have an ultimate capacity of 70,000 tpa, upon completion of the final stage.



Some of the other end-user projects are likely to be delayed due to financial restrictions but the long term potential for Akrilat's sales to the Russian market remains positive. Akrilat still suffers from grey imports, those products imported that avoid the

correct customs' duties although the problem is declining. Many of the Russian customers buy only small volumes of product, quite often less than 10 tons per month, and the largest no more than 200-400 tons per month.

The main uncertainties for Akrilat focus on costs for propylene and butanols, with the company's profit margins depending on these two products. Whereas butanol supply in Russia exceeds demand, propylene merchant market availability in Russia is much tighter particularly as a result of the growth in polypropylene production. The main supplier of raw materials to Akrilat in the first quarter was SIBUR-Holding, which accounted for 93% of propylene and butanols. In the second quarter, raw materials were also bought from the ATEK group which supplies from Salavatnefteorgsintez.



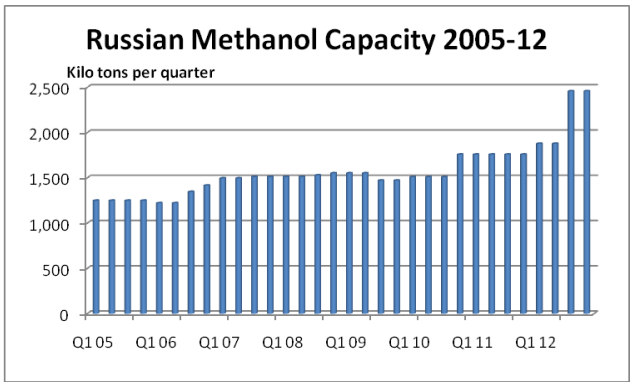
Butanols production drops 2% in Jan-July 2009

Russian butanol production dropped 2% in the period January-July 2009, down 149,200 tons. Only SIBUR-Khimprom recorded an increase, surpassing the same period in 2008 by 10% to 42,500 tons. Angarsk Petrochemical Combine has seen the largest fall of 7%, dropping to 31,000 tons, whilst Azot at Nevinomyssk reduced output by 6% to 9,700 tons. The largest Russian producer Salavatnefteorgsintez saw a 5% fall in butanol production to 66,700 tons. Production dropped in July at Angarsk and SIBUR-Khimprom both due to plant maintenance.

Methanol & gas chemicals

Novocherkassk Synthetic Products Plant-new methanol unit

Novocherkassk Synthetic Products Plant (NSZP) has confirmed its intentions to replace its old methanol plant, recently stopped, with a new low pressure plant with a capacity of 560,000 tpa. The construction of the new plant is expected to start before the end of the year, or at least the preliminary preparations are to commence, and completion and start-up is being targeted for the second half of 2012. In the context of the Russian methanol market, the new plant is scheduled to come on stream in the same period as the Nizhniy Tagil project (UralMetanolGroup) and the Mendeleevsk project in Tatarstan. Should these projects combine to meet their projected deadlines, Russian methanol capacity could rise to 9.8 million tpa by the end of 2012. Whilst this will lead some exports, the long-term emphasis for methanol producers is aimed at the domestic market.



Besides the methanol project, NSPZ plans to invest in acetic acid facilities whilst also modernising the existing production units. This includes polyimide films, foam products and an expansion of n-methylpyrrolidone (NMP) capacity to 4,500 tpa. NMP is mostly produced worldwide through 1,4 butanediol, but acetylene is used as the starting block at Novocherkassk.

Financial results for NSPZ were extremely negative for the first half of 2009. Turnover fell 2.29 times to 370.314 million roubles, caused largely by the halt of methanol production. Lower product prices, combined with higher costs for natural gas and electricity, have helped to make production unprofitable for methanol and other related products. Formaldehyde production dropped 16% in the first half of 2009, whilst sales overall have dropped 40% against the first half of 2008.

Transport costs applied for methanol producers

Transport costs have been reduced for Russian methanol and fertiliser producers which may help some companies increase profitability and export volumes. The discount offered by the railways for methanol shipments varies between 14-29%, whilst ammonia has been pegged at 15% and ammonium nitrate 20%.

Privileges are given under certain conditions, i.e., ammonium nitrate needs to be transported more than 4,000 km whilst methanol discounts are applied to volumes in excess of 40,000 tons. Thus, only the larger methanol producers can benefit from the arrangements, whilst discounted tariffs will run until the end of the year.

The fertiliser plants likely to benefit include Azot at Kemerovo and the Angarsk Nitrogen Plant. Discounts for methanol transport to Finland have been offered at $18 per ton. The main exporters of methanol in Russia include Sibmetakhim (Tomsk), Metafrax, Azot at Novomoskovsk and Shchekinoazot. The reduced transport costs will not apply to Sibmetakhim, whilst they will amount to 14% for Metafrax and 29% for Azot at Novomoskovsk and Shchekinoazot. Whilst welcomed by the producers, the changes in methanol transportation costs are considered unlikely to affect export shipments which declined 70% in the period January-July 2009 against the same period last year. Demand still remains lacklustre, whilst gas costs in Russia are preventing producers from playing a more competitive part in the marketplace.

Russian formaldehyde market showing stability

Formaldehyde production has risen month by month in Russia since March, after the dramatic downturn over the winter, but still remained substantially down in the first half of this year against 2009. Around 75% of formaldehyde in Russia is directed towards the production of resins, which as with most chemical products have been hit badly in the past 6-9 months. Consumption fell 47% in the first half of the year, with most producers dependent solely on the domestic market for sales. Exports feature only on a small scale, whilst imports are almost non-existent.

Despite a downturn this year, over the long-term formaldehyde in Russia has been seeing stronger demand in the domestic market, including urea and phenol formaldehyde resins, pentaerythitol, utropin, polyacetals, etc. Three quarters of Russian formaldehyde is produced by Metafrax, Akron and Uralkhimplast. Exports are very small, amounting to only 16,000 tons in the first five months of 2009 most of which was shipped to Ukraine and Latvia. The main exporters are Akron and Novocherkassk Synthetic Products Plant, which is close to stopping production.

Togliattiazot started a new line for formaldehyde production in November 2007, with a capacity of 240,000 tpa. The formaldehyde is 37% and is based on technology supplied by Perstorp. Togliattiazot also possess a 62,000 tpa plant for urea-formaldehyde concentrate, of which it consumes around 30-40,000 tpa of formaldehyde.

Metafrax is constructing a new line for paraformaldehyde at its Gubakha site. Meisner is supplying with technology with engineering managed by Porner. The new line will have an annual capacity about of 20-30,000 tpa and is expected to be operational at the end of 2009. For the most part, paraformaldehyde will be sold in Europe although some of the output will be sold in the Russian market.

Phenol-formaldehyde market

The new phenol-formaldehyde resin plant has recently been started at Shchekino, a part of the jv between Hexion and Azot. Whilst both Dynea and Hexion are actively involved in phenol-formaldehyde resins production in Russia, MetaDynea is aiming output mainly at the wood processing industries and the Hexion-Azot jv is producing resins for thermal protection. As a result, there is no direct competition between the two jvs at present although this could change in the event of full operating rates. The new Shchekino plant produced 650 tons of phenol-formaldehyde resins in July from a total volume of 11,840 tons for Russian producers. Thus, the share of the Hexion-Shchekinoazot plant in Russian production was 5% in July, and this will increase in coming months.

At the end of September, MetaDynea is to start a new phenol-formaldehyde resin plant on the Karbodin site at Orekhovo-Zuyevo (Moscow Region). The capacity of the new plant is 60,000 tpa, with output going into insulation materials and plywood. A new formaldehyde plant is also expected to start production on the same site. MetaDynea started the production of phenol-formaldehyde resins several years ago, with the installation of a 35,000 tpa plant at Metafrax's Gubakha location. Current utilisation of the Gubakha plant is estimated at 50-65%.

Karbodin was created in 2006 as a jv between Dynea and the jv MetaDynea, and was based at the Karbolit site principally for the production of formaldehyde resins. Metafrax has recently approved the acquisition of a 45.14% stake in the jv Karbodin at Karbolit for around 500 million roubles. Metafrax has explained that Karbodin lacks the capital stock to allow investment and that it is a much better solution to combine Karbodin with its other jv MetaDynea. Such a merger could take about a year to complete, and represents an expansion of MetaDynea's capacity.

Tyumen Plastics Plant-increase in production

The Tyumen Plastics Plant increased production by 3.4% in the first half of 2009, to 10,439 tons. The company produces a range of resins including phenol-formaldehyde, urea-formaldehyde and melamine. Second quarter results showed an improvement over the first quarter when the company produced 5,002 tons of resins.

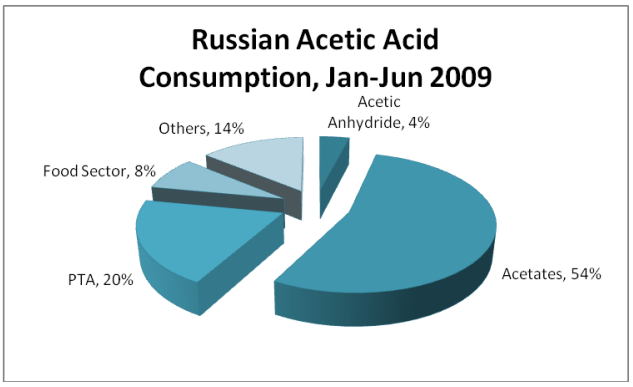
Uralkhimplast-urea-formaldehyde concentrate

In the first half of 2009, the production of urea-formaldehyde concentrate in Russia totalled 125,500 tons which was 25% less than in 2009. Exports of urea-formaldehyde concentrate totalled 15,000 tons in the first half of 2009, mostly going to Ukraine. Due to high gas prices, Ukraine is unable to produce its own urea-formaldehyde concentrate at least on a competitive basis. For the Russian market, demand from the wood processing industries for urea formaldehyde concentrate should be strong until the end of October, after which a seasonal downturn is expected.

Uralkhimplast started a first line for the production of urea-formaldehyde concentrate, with a capacity of 30,000 tpa at the end of last year and expects to add a second line increasing capacity to 50,000 tpa from 2010. Around 50 million roubles will be invested this year into the construction. The production from the plant is being sold to wood-processing companies. The plant uses 50% formaldehyde, which is produced much less in Russia than the traditional 37%, so this may lead to export activity.

Russian acetic acid market, Jan-Jun 2009

In the first half of 2009, the largest outlet for acetic acid consumption in Russia was for acetate solvents which accounted for 53% of the market. PTA has grown in importance and is now the second largest outlet for acetic acid consumption, accounting for 20% of the market in the first half of 2009 compared to 11% in the whole of 2008. This is partly due to the decline in acetic acid usage in paint production, which has dropped sharply this year, and a simultaneous 14.4% increase in PTA production at Polief. Overall, consumption for acetic acid declined 26% in the first half of 2009, whilst production increased 9%. Exports rose to accommodate the lack of domestic sales, whilst imports of acetic acid from Ukraine dropped due to high gas prices and difficulties in production at Severodonetsk. The growth in production has been in response to lower imports from Ukraine and new export contracts. Product this year has been shipped to Italy, Belgium, Turkey and Finland.



Plastics

Dzerzhinsk Orgsteklo-restart of MMA plant

Dzerzhinsk Orgsteklo (DOS) has restarted the production of aviation plexiglass, with the first shipment already delivered to a local aircraft manufacturer in the Nizhniy Novgorod region. This follows financial backing arrangements agreed in May for a restart of the MMA. Agreements were reached between the government of the Nizhniy Novgorod region, the Volgo-Viatsko branch of the Russian bank Sberbank and local chemical producer Korund at Dzerzhinsk. All the parties have a vested interest in seeing DOS operate its MMA and plexiglass plants. Korund depends on hydrocyanic acid purchases from DOS, a by-product of MMA, and needs to buy from other more expensive sources at present.

The total amount of investments into DOS has comprised 420 million roubles, including hydrocyanic acid, MMA and extruded organic glass. The units will all be operational by the end of October according to the

company plans. The production of MMA stopped in 2008 after Gazprom raised the price of sulphur 12 times, making sulphuric acid and oleum too expensive for DOS. The economic recession this year has allowed prices of raw materials to fall sharply which has facilitated the restart of the MMA plant and related units.

Demand for PMMA has been affected by not only lower orders for aviation glass but also the advertising industry. Advertising has dropped 30-40% in Russia this year, affecting demand of PMMA sheets. The car industry is another sector which DOS depends on, and the dramatic fall in car sales this year has hit plastics consumption across the board. As a result of these factors, DOS increased losses in the first half of 2009 by 3.7 fold against the same period last year.

Orton starts geotextile plant

SIBUR subsidiary Orton at Kemerovo has started a new unit for the production of geotextiles, used in road construction. The capacity of the unit is 3,000 tpa and is aimed at import substitution in Russia, providing a domestic alternative for consumers. On 1 May, Orton halted the production of textile fabrics due to losses from sales. The profit margins from the new production line are expected to be much better than textile fabrics and should improve the company's financial situation. Another SIBUR subsidiary Plastik at Uzlovaya is expected to start a similar plant of 3,000 tpa in the autumn this year, and in total SIBUR should be able to take around 20% of the Russian market. Both Orton and Plastik plan to start the production of polypropylene non-woven materials in 2010, also used in road construction.

Russian polycarbonate sheets-Safplast

In the first half of 2009, consumption in polycarbonate sheets dropped 8% to 10,650 tons. Imports have dropped from 44% of the total market in the first half of 2008 to 12% in 2009. Aside the weaker economy, imports have been affected by the start-up of production at Safplast in Kazan and the expansion of several smaller Russian plants. Safplast at Kazan will start a new line for cellular polycarbonate based on equipment supplied through an Italian company Omipa. The capacity of the line is 3,500 tpa and takes the full capacity of the company to 17,000 tpa.

Belarus

Belarussian chemical production

Revenues from chemical and petrochemical sales in Belarus rose 33.3% in the period January-July 2009, totaling 7.038 billion roubles. Paint and varnish production rose 5.3 fold against 2008, totallng 1.386 million tons. The increase is due to the heavy investment programme in solvent production. Fertiliser production fell, particularly for potash fertilisers, which is the main agricultural export product in Belarus. Synthetic resins and plastics production dropped 11.3% in the first seven months of 2009, down to 206,200 tons. Fibres and thread' production totalled 105,300 tons, which was 18.9% down on 2008, whilst tyre output has only been marginally down.

Belarussian Chemical Output (unit-kilo tons)

Fertilisers	***Jan-Jul 09***	***Jan-Jul 08***
Potassium Fertilisers	1299.6	2065.0
Nitrogen Fertilisers	444.5	452.1
Phosphate Fertilisers	102.0	110.1
Ammonia	596.3	602.2
Sulphuric Acid	472.9	487.3
Petrochemicals	***Jan-Jul 09***	***Jan-Jul 08***
Ethylene	84.0	88.6
Benzene	62.9	65.5
Caprolactam	69.8	76.1
Phthalic Anhydride	9.4	10.3
Polyethylene	81.9	84.2
PET	120.8	132.7

Investments at Grodno

Belneftekhim and Nizhnekamskneftekhim have signed an agreement regarding raw material supplies to Grodno Khimvolokno. Considerable sums for the reconstruction of the urea plant at Grodno Azot have been outlined, whilst the modernisation of the caprolactam unit has already started. In order to expand caprolactam capacity to 140,000 tpa a new cyclohexane plant is being constructed with a capacity of 80,000 tpa and should be operational by the end of 2009.

Grodno Khimvolokno signed a contract with Uhde Inventa-Fischer in October 2008 for the supply of the polyamide-6 plant. The capacity of the plant is 91,000 tpa and will produce granulated polyamide-6 for tyre cords and engineering plastics. Uhde Inventa-Fischer is to provide engineering for the project and the supplies of equipment, with start-up planned for 2010. Grodno Khimvolokno was founded in 1971 and currently has a capacity of 50,000 tpa for polyamide-6 and 35,000 tpa of chemical fibres and threads.

Belarussian caprolactam market

Consumption of caprolactam in Belarus totalled 53,200 tons in 2008, which dropped 1% against 2007 whilst further falls have been seen in 2009. The sole consumer of caprolactam in Belarus is Khimvolokno at Grodno which has reduced the production of polyamide granular and threads by around 30% in the first half of this year.

Belarussian Caprolactam Market (unit-kilo tons)				
	2008	*2007*	*H1 09*	*H1 08*
Production	119.7	123.4	59	64
Exports	66.5	70.0	38	36
Market Balance	53.2	53.4	21	28

Production of caprolactam at Azot dropped 3% in 2008 to 119,700 tons, and there have been further small-scale declines in 2009. However, production is now back to normal levels after the maintenance shutdown in May. Due to lower domestic consumption, export activity has increased slightly this year. Exports to Taiwan totalled 6,500 tons in the period January-June, which was 1.6 times higher than in 2008.

Lakokraska at Lida starts new unit for phthalic anhydride

In the second half of July, Lakokraska at Lida started a second new line for the production of phthalic anhydride. With a capacity of 24,000 tpa, this represents a key project for the company which is the leading producer of paints and varnishes in Belarus. In addition to providing phthalic anhydride for captive use, Lakokraska also aims to export product from its total capacity of 48,000 tpa. During the reconstruction of the plant, a new reactor was added and also new equipment for crystallisation. Product is available either in big bags or in 25-30 kg units. The cost of the new line totalled $19.8 million, funded in main from the holding company Belneftekhim. Lakokraska increased exports by 31.3% in the period January-July this year, equating to 24,500 tons.

Ukraine

Ukrainian Chemical Production (unit-kilo tons)		
Product	*Jan-Jul 09*	*Jan-Jul 09*
Acetic Acid	46.5	93.3
Adipic Acid	0.0	18.1
Ammonia	1692.5	3096.8
Benzene (-95%)	100.7	150.9
Benzene (+95%)	30.8	112.9
Caprolactam	10.3	34.8
Caustic Soda	23.5	57.0
Ethylene	0.0	85.0
Formaldehyde	6.1	48.3
Methanol	54.5	105.9
Polyethylene	0.0	48.4
Polypropylene	55.9	57.2
Polystyrene	9.5	24.2
Polyvinyl Acetate	3.2	6.1
Propylene	0.0	37.8
Soda Ash	383.3	574.8
Titanium Dioxide	58.4	82.2
Toluene	1.8	4.5

The Ministry of Industrial Policy in Ukraine expects that domestic chemical production will be assisted from the decision to reduce prices for natural gas. Five producers of fertilisers including Dneproazot, Styrol, Odessa Portside Plant, Azot at Cherkassy and Azot at Severodonetsk will all receive a discount of 16.58% reducing the gas price by 314.85 hryvnia to 1584.40 hryvnia per thousand cubic metres. This equates to €132 prior to transport costs. Partly due to the reduction in gas prices Styrol plans to restart ammonia and urea production at Gorlovka in September.

In west Ukraine at Kalush, Karpatneftehim will carry out the installation of a hydrogen chloride unit in the VCM section, before the end of the third quarter this year. The project has cost $1.14 million, and is already 85% completed. The primary goal of installation is recycling of the hydrochloric acid from burning chloroorganic wastes.

Ukrainian polyolefins

In the first seven months of 2009, imports of polypropylene into Ukraine fell 20% to 25,440 tons. The main sources of imports included Slovakia, Russia and Germany. Linik at Lisichansk (formerly Linos) exported 33,170 tons in the first seven months against 33,310 tons in the same period in 2008. Turkey is the main end-use destination for polypropylene exports for Ukraine, accounting for around 60% of all shipments. Polyethylene imports reached 24,100 tons in July which was 9% higher than in June. However, overall polyethylene imports into Ukraine dropped 19% for the first seven months of 2009 and totalled 153,600 tons. The main source of imports was Russia with 24%, Belarus with 14% and Hungary 9%.

Kazakhstan-Central Asia

Armenia-Nairit restart

Synthetic rubber production at Nairit in Armenia is expected to restart in September, having stopped

production following an accident in May this year. The company specialises in the production of chloroprene rubber, and produced 5,414 tons in 2008. Around 90% of Nairit's shares is owned by Rhinoville Property Limited.

Another Armenian chemical producer Vanadzor-Himprom suffered serious downturn in trade but has now re-emerged with plans to develop the complex in four main directions. The first main development is that the company is to begin the production of nitric fertilisers by the end of 2009 for domestic farmers. The second direction includes the production of building materials which are intended for usage in domestic construction. The third and fourth stages include calcium carbide and corund, which are mainly to be exported. Vanadzor-Himprom currently produces ammonia (105,000 tpa), melamine (20,000 tpa), calcium carbide (30,000 tpa), and synthetic corund (80,000 tpa).

EBRD to consider funds for Azeri methanol project

The EBRD is considering providing financing of up to $120 million to the Azerbaijani methanol company (AzMeCo). The project will be considered by the EBRD in September. AzMeCo requires a total of over $300 million for the purchase, construction and operation of a methanol plant, for which the capacity of the plant has been targeted at 561,000 tpa. The project may also include a CO2 capture unit, whilst AzMeCo intends to include urea and ammonia production in future development phases. AzMeCo is a limited liability company created specifically in 2007 to construct and operate the plant. The EBRD is interested primarily in projects where there is an environmental element, and thus the intention to process carbon dioxide provides a justifiable reason for examining the possibility of providing financial support.

Azerbaijan-petrochemical plans

Azerkimya states that is ready for initiating a project for the construction of a new petrochemical complex in Azerbaijan. In 2008, the company signed memorandums of co-operation with ExxonMobil, Ineos and KBR (UK), Basell, Uhde and Technip for the supply of technologies for a proposed new complex. Azerkhimya wants to develop 19 separate units, in which the main projects would include new plants for 400,000 tpa of HDPE and 130,000 tpa of polypropylene, whilst the current LDPE plant would be increased to 300,00 tpa. There is also the intention to construct a mineral fertiliser plant.

Technip has prepared principal concept of the project on the basis of internal raw materials. The project feasibility study has been conducted, in addition to an analysis of financing and corporate structure being undertaken. The interest in chemicals and petrochemicals in Azerbaijan stems from the wish to reduce dependency on oil & gas, which accounts for over 90% of the country's foreign trade revenues. Previous plans have been devised in the past only to be discarded, or consigned to indefinite hold. The current project development programme consists of three main stages, the first of which includes the construction of a new petrochemical complex comprising of ethylene, propylene, HDPE, polypropylene and benzene. The fertiliser complex is also part of these plans. The second stage includes the construction of units for new products for Azerbaijan, including ethylene glycol, butadiene, ethylbenzene and styrene. The third stage includes the addition of derivatives such as polyols, polyurethanes, and synthetic rubber.

Uzbek gas-chemical project

Uzbekneftegaz has reached agreement with Samsung Engineering for the processing of natural gas for the UzKorGasChemical jv. The Uzbek-Korean jv is located at the Surgil deposits in north Uzbekistan, based at the Ustyurt Gas-Chemical Complex, and includes polymer projects in total of 445,000 tpa. The latest agreement between Uzbekneftegaz and Samsung Engineering defines the authorised capital for the jv and a number of additional measures for the financing. UzKorGasChemical is being designed to process 4 billion cubic metres of natural gas per annum, 362,000 tpa of polyethylene, 83,000 tpa of polypropylene, and 3.7 billion cubic metres of commodity gas. The project will draw on deposits from the Uzbek part of Aral Sea. The Korean-Uzbek jv UzKorGasChemical was created in February 2008 between KOGAS and Uzbekneftegaz. On the Korean side, KOGAS owns 17.5%, of the jv Lotte Daesan Petrochemical Corp (17.5%), LG International, SK Gaz and STX Energy 5%. South Korea is particularly interested in Central Asia as a regional source of energy.

Turkmen BOPP plant

French company DMT has completed the construction of the unit for BOPP films at the Turkmenbashi refinery in Turkmenistan. The cost of the investment amounted to around €40 million including a capacity of 21,000 tpa. The BOPP unit is located next to the polypropylene plant and will allow value to be added before probably being exported.

Relevant Currencies

(Czech crown. Kc. $1= 17.755. €1 = 25.455): (Hungarian Forint. Ft. $1 = 188.205. €1 = 269.828): (Polish zloty. zl. $ 2.8609. €1 =4.1016): (Romanian Lei. $1 = 2.9436. €1= 4.2202). (Ukrainian hryvnia. $1 = 8.443. €1 = 12.1047): (Rus rouble. $1 = 31.5826. €1= 45.297)

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