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MONTHLY NEWS

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

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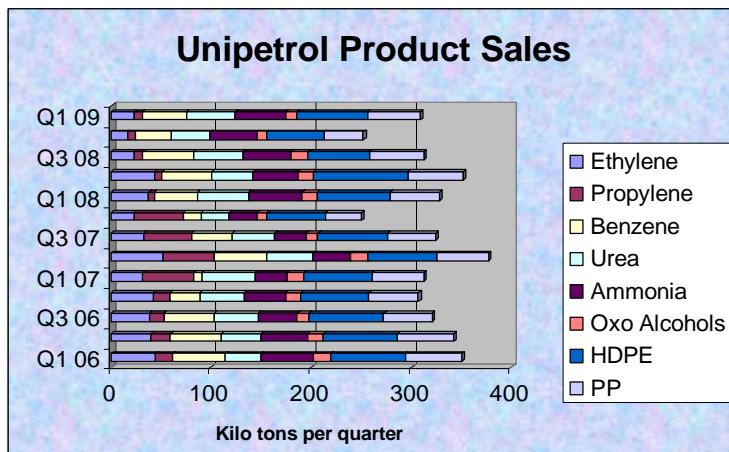
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- ✚ SIBUR-Holding and Nizhnekamskneftekhim have proposed the creation of a system for transporting raw materials for the petrochemical industry
- ✚ Tomskneftekhim achieved its highest production volumes in its 35-year history in 2008, despite weaker demand in the latter part of the year
- ✚ Kazanorgsintez has restarted the production of polycarbonate in recent weeks, after closing the plant at the end of December
- ✚ Lanxess and the Russian company Galopolymer have entered into a distribution agreement for fluororubbers
- ✚ Metafrax saw a fall in net profit in the first quarter of 2009 by 2.7 times set against the same period in 2008 to 246 million roubles, largely due to lower methanol prices

CENTRAL & SOUTH EAST EUROPE

PKN Orlen-Q1 2009

PKN Orlen expects first quarter earnings to be down, and operating profit to be cut by zł 150 million due to the revaluation of provisions for costs and risks. At the end of April, PKN Orlen SA signed agreements with banks allowing the company to provide temporary breach debt covenants at the cost of higher credit margins. The company has been negotiating with creditors since early this year after its foreign-currency denominated debt rose above the net debt-to-earnings ratios defined in credit agreements. Under the new agreements, PKN Orlen agreed not to exceed budgeted capital expenditures in 2009 and not to recommend dividend payment to shareholders before the debt falls to required levels.

Unipetrol is expected to report an operating (EBIT) loss in the first quarter although it will be smaller than in the



fourth quarter in 2008. The price of crude oil and derivatives, the weaker Czech crown against the dollar and a narrowing Brent-Ural price differential are the main reasons for the loss. Faltering demand along with currency and crude price fluctuations have been weighing on Unipetrol's performance for some time. Earnings for the period were also hit by low refinery margins and low demand for fuels.

As for Unipetrol's petrochemical division, the results from the first quarter have been hit by weak demand and low prices. The main factors seen by Unipetrol were a slump in olefin margins, whilst at the same

time polyolefin margins recovered from the fourth quarter low but still remained under historical levels. Other factors included customers' stocks falling to historical lows, and the change to monthly contracts for olefins.

BorsodChem planning sale of PVC business

BorsodChem is reported to have put its PVC operations up for sale to enable the group to focus on its more promising isocyanates business. BorsodChem is also reported to be in talks with its banks and has hired Houlihan Lokey to negotiate with its lenders. The lenders include Royal Bank of Scotland PLC (RBS), Unicredit SpA (UNCFF) and Lehman Brothers International Holdings. Permira bought BorsodChem at the height of the "bull market" for around €1.63 billion in December 2006, using a €1.15 billion loan. Since then the credit squeeze and a deteriorating economic outlook has hit performance across all sectors, particularly automotive and construction industries which represent main outlets for BorsodChem. One option would be for Permira to inject more equity into the business but this is thought unlikely as Permira has already written down the value of its equity in BorsodChem to zero.

BorsodChem is said to be in talks with potential buyers of the PVC division, which it does not consider as a strategic business in the long term. In contrast, the isocyanates market is viewed as possessing long term growth potential in terms of value. Despite the recent slowdown, the isocyanates sector is forecast to expand at a higher rate than Hungary's gross domestic product (GDP), based on its growth performance over the past decade. BorsodChem announced in March that it was abandoning plans to lay off 550 employees, chiefly at its main Kazincbarcika industrial complex as part of its restructuring programme. This decision followed the intervention by the Hungarian government which is discussing forms of support for the group. BorsodChem is owned by private equity companies Permira and Vienna Capital Partners.

BorsodChem to shut down MDI plant

BorsodChem has announced that it will idle one of its MDI plants at Kazincbarcika for an indefinite period due to lower demand. The MDI plants have been running at just below the economically minimum level since the start of the year, and hence the company has taken the decision to shut down one of the production lines temporarily. The shutdown of the unit was expected to begin in the last week of April. The decision was after there were no indications of a pick up in market activity, despite the onset of the traditional peak season in the construction industry. BorsodChem states it will continue to monitor markets closely, so that the capacity can be brought back on stream when conditions improve.

ZA Pulawy –caprolactam contracts

After seeing falls in production volumes in Q1 2009 and Q4 2008, ZA Pulawy has undertaken to supply caprolactam to the Asian market with the two contracts valued at around \$20 million. These contracts have allowed plant utilisation at Pulawy levels to reach 100% of the 65,000 tpa capacity. At the end of 2008, ZA

Polish Chemical Production (unit-kilo tons)		
Product	Q1 09	Q1 08
Caustic Soda	17.8	23.3
Soda Ash Light	0.0	87.0
Soda Ash Heavy & Light	247.0	303.6
Ethylene	126.0	163.0
Propylene	88.1	106.6
Butadiene	10.3	16.4
Toluene	23.7	39.6
Phenol	6.3	13.7
Caprolactam	30.8	41.1
Polyethylene	83.4	103.7
Polystyrene	27.7	31.8
PVC	62.6	70.1
Polypropylene	66.3	67.1
Synthetic Rubber	27.4	33.3
Pesticides	8.0	12.3
*Please note updated soda ash volumes; both heavy and light product are aggregated		

Pulawy reduced overall production capacities by approximately 30%, whilst for caprolactam the collapse in the market led to a 50% cut. This reduction was not as low as some other caprolactam producers in Europe, due largely to the capability of ZA Pulawy to produce flakes which can be sold in the Asian market.

Ciech could switch from Anwil to Police

The Ciech led consortium PKCh may purchase Zakłady Chemiczne Police instead of Anwil should PKN Orlen decides against selling. If in several months PKN Orlen does not start to indicate it wants to sell Anwil, Ciech has indicated that it could start to put in place a different investment scenario involving the Police complex. PKN Orlen has to date been unable to decide a suitable price for Anwil, and in view of its other financial obligations may be forced to accept a lower valuation.

Ciech financial trends

Ciech reported a net profit in the first quarter of 2009 due to rising sales, despite a loss on currency options. Sales in the first three months of the year rose significantly against the fourth quarter.

The Ciech Group's net consolidated revenue from sales for 2008 was zł 3,792,258 thousand, 11% up on 2007.

The increase was mainly due to revenue generated by the Soda Deutschland Ciech Group that joined the Ciech Group in December 2007. Another positive contribution to revenue in 2008 resulted from agrochemical products and high prices of fertilisers in the first eight months of the year. Ciech's revenue from sales was affected negatively by the falls in prices of organic chemicals, especially TDI.

Ciech's Percentage Breakdown of Revenues		
Product	2008	2007
Dense soda ash	22.7	16.9
Light soda ash	6.9	5
Salt	3	3
Sodium bicarbonate	2.1	1.5
Calcium chloride	0.6	0.6
TDI	12.6	16.9
Resins	6.3	6.8
Plastics	6.1	8.6
EP!	1.8	2.7
Fertilisers	10.5	9.3
Plant protection agents	3.5	5
Phosphorous compounds	2.6	1.8
Sulphur	1.5	1
Caustic soda	1.1	1.2
Sodium tripolyphosphate	0.7	1.7
Glass blocks	2.4	2.5
Potassium water glass	1	0.1
Sodium water glass	0.5	1.4
Pharmaceuticals	1.4	1.5
Petrochemicals	1.3	1.1
Power generation	0.9	0.6
Other operations	11.5	10.8

The most significant investment tasks undertaken by Ciech last year and for 2009 are related to soda ash and the organic chemical division. One of the main projects in 2008 included Soda Deutschland Ciech Group, which started an increase in capacity of the soda ash plant from 460,000 tpa to 510,000 tpa. The Soda Matwy Group in Poland underwent investments related to the modernisation of the power plant (steam boilers and turbogenerators) and soda ash plants, where lime-kilns and carbonating columns are being modernised.

For the ZACHEM division, work continued on the expansion of the TDI plant from 60,000 tpa to 75,000 tpa, although the project completion is now being delayed due to changes in economic conditions. ZACHEM is also expanding its polyurethane foam plant to 25,000 tpa, with completion expected in 2009.

For epichlorohydrin, investment is underway to reduce losses in the power distribution network. Organika-Sarżyna is constructing a new line for the production of unsaturated polyester resins, increasing total capacity to 25,000 tpa.

ZACHEM-polyurethane improvements

ZACHEM at Bydgoszcz is starting to see improvements in financial performance from foam production after the investments undertaken in the 2007-2009 period. Production volumes have increased by two thirds since the

investment was completed and supported by Ciech. Capacity was increased from 15,000 tpa to 25,000 tpa. Long-term development of the company depends on the completion of the TDI expansion and the construction of the TDA facility.

Financial challenges for CE chemical producers

Shareholders of Chemko Strazske in Slovakia voted to enter the company into bankruptcy proceedings at their annual general shareholder meeting. The decision was taken by unanimous vote. Chemko Strazske recorded a turnover of €30.76 million for the first three quarters of 2008, with profits of €1.759 million. Losses started to be seen from September onwards. Chemko was founded in 1996 and focuses on organic and inorganic chemistry. In Slovakia, Air Products wants to chiefly supply companies involved in the chemical, petrochemical, metallurgical, glass and electrical engineering industries.

Spolchemie at Usti nad Labem is facing difficulties meeting its short term financing obligations. The company owes around Kc 2.9 billion, of which Kc 2.2 billion consist of short term loans. As export sales have been affected in recent months, Spolchemie has found it much harder to meet its obligations. Spolchemie has recently completed an investment to modify the use of an existing plant to produce phenolic powder coating hardeners. Whilst in the US, Spolchemie is reportedly currently the fastest growing importer of epoxy resins, and as a result has thus decided to install a bulk tank in Texas. The new 180 ton tank being installed will allow Spolchemie to improve service to US customers. One of the US distributors Bech Chem will provide administrative and logistic support for business from the bulk tank.

Czech carbon black producer CS Cabot generated sales worth Kc 2.618 billion in the 2007-2008 fiscal year ending in September 2008, up by 11.9%. However, the company's net profit dropped from Kc 392.8 million to Kc 200.3 million due to high raw material prices, and by firming of the crown against the dollar and the euro. Around 60% of the firm's production goes for export, and is sold in euros and so the weakening of the crown should benefit results for 2009. CS Cabot produces carbon black for tyres and technical rubber at Valasske Mezirici. The company was established in 1991 and is owned by Deza and Cabot International Capital Corporation.

Derivative & application news

BASF is planning to construct a polyurethanes plant in the Walbrzych Special Economic Zone in south-west Poland at a cost of roughly zł.17 million. The project is expected to be concluded by the middle of 2010, with construction expected to begin within the next few months. Last month, BASF Construction Chemicals announced it was investing several million euros into the establishment of a dry mortar factory at Srem near Poznan.

A new plastic pipes plant was opened in Latvia in March at Elgava. The plants specialises in the production of polyethylene and polypropylene pipes with a capacity of 14,000 tpa. The investment has cost around €15 million, with aims of becoming the largest supplier of pipes to the Baltic region.

US automotive glass and parts manufacturer Guardian Industries is planning to construct a new car plastic components plant at Boleslawiec in Poland. SRG Global will operate the new facility, due to make a range of plastics trim products in the Walbrzych Special Economic Zone, Guardian Industries newly formed trim subsidiary. The unit, due for completion by late 2012, ultimately will employ 160.

Czech automotive components moulder BTV Plast is expected to close one its two production plants. The shutdown of the plant in Havlickuv Brod is part of a consolidation plan introduced by Benson Oak Capital which acquired BTV in 2008. In June 2007, the investor acquired Czech tier two plastics auto parts supplier Plastkov MR, Liberec, and ETA, a supplier of small domestic appliances and plastic car components.

Michelin Polska has sent up to 400 employees of the branch producing truck tyres home for a whole month. They will receive around 70-80% of their salary. The stoppage is only temporary and does not threaten the existence of the plant. Longer term, Michelin is planning to invest around €30 million to expand production at its tyre plant and adjacent logistics centre in Poland. The group has received the formal go-ahead for its plan to extend its operations in the Warmia-Mazury special economic zone. The existing Olszyn facility already makes all group tyre brands including Kleber, Michelin, BF Goodrich, Taurus and Kormoran for car, truck and agricultural vehicles. In addition, it manufactures compounds, textile reinforcing and curing moulds.

RUSSIA

Market outlook

Russian Chemical Production Q1 2009 (unit-kilo tons)

Product	Q1 09	Q1 08
Ethylene	533.4	616.5
Benzene	234.6	323.5
Styrene	120.8	162.6
Phenol	35.5	65.4
Polyethylene	342.0	343.2
Polypropylene	138.2	155.2
PVC	129.6	155.5
Polystyrene	59.9	67.5
Butanols	66.0	73.9
Methanol	495.9	934.5
Synthetic Rubber	174.2	325.0
Caustic Soda	261.0	337.8
Soda Ash	485.5	752.9
Ammonia	3268.9	3398.0

Details of individual plant performance can be viewed on the Statistical Database at www.cirec.net

Russian chemical production Q1 2009

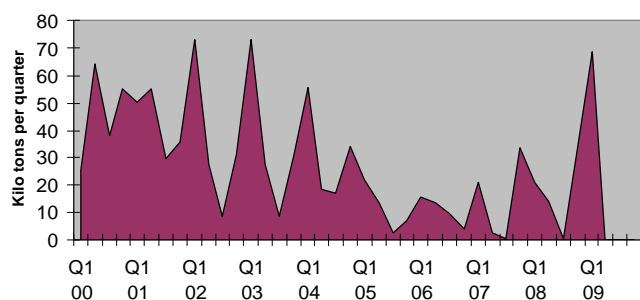
First quarter production statistics for Russia show substantial falls for methanol, synthetic rubber and soda ash with nearly other products showing a decline to some degree. The polymers have performed relatively well by volume, although profitability is expected to be way down on last year. Producers that were already incurring losses before the global financial crisis are most affected by market conditions and some are asking for government support in order to stave off bankruptcy. However, not all companies qualify for federal government support. A number of products are under review regarding an increase in export duties. Products include MEG, HDPE, polypropylene, and butadiene-styrene rubber. Conversely, PTA duties are unlikely to be changed in the view that it would make conditions difficult for PET manufactures such as SIBUR-PETF and Senezh Polymers.

SIBUR and Nizhnekamskneftekhim are advising the government that it needs to develop a much better infrastructure if petrochemical plants are to be built in Siberia and other parts of Russia. SIBUR continues to further the cause of the Kstovo

and Tobolsk projects, whilst Tatarstan is active in promoting its industrial zones as a means of increasing local polymer consumption. Equipment imports for the chemical industry are expected to be way down in 2009, as credit lines remain tight but some projects are progressing as planned.

The amount of extrusion equipment imports into Russia in 2008 fell 23% against 2007, which is expected to impact on growth trends for 2010-2011. Even so, it should be noted that 2007 was a record year for equipment purchases and such volumes would be unlikely to be repeated often. China and Finland were the only countries in 2008 to increase equipment exports into Russia, with Chinese companies occupying around half of the market. Imports from South Korea fell in 2008, whilst other falls were noted from Italy and Austria, Germany and Turkey. Extruders were delivered on the domestic market mainly for manufacture of a film, plastic pipes, PVC panels and profiles, cable isolation, manufacture of polymeric raw materials.

Russian Polyethylene Exports to China



Data for Russian exports to China can be seen on the Statistical Database at www.cirec.net.

Imports of polymers into Russia have dropped due to lower demand and the devalued rouble, with PVC imports totalling only 1,540 tons in March 2009 against 29,080 tons in March 2008. Imports of PVC from China dropped from 53,863 tons in Q1 2008 to 347 tons in Q1 2009. Overall, chemical industry imports were down by around 40% in the first quarter. At the same time, exports of organic chemicals and polymers from Russia to China increased sharply in the first quarter against recent quarters as producers attempt to maintain production rates. Polyethylene exports rose to their highest quarterly total since 2003.

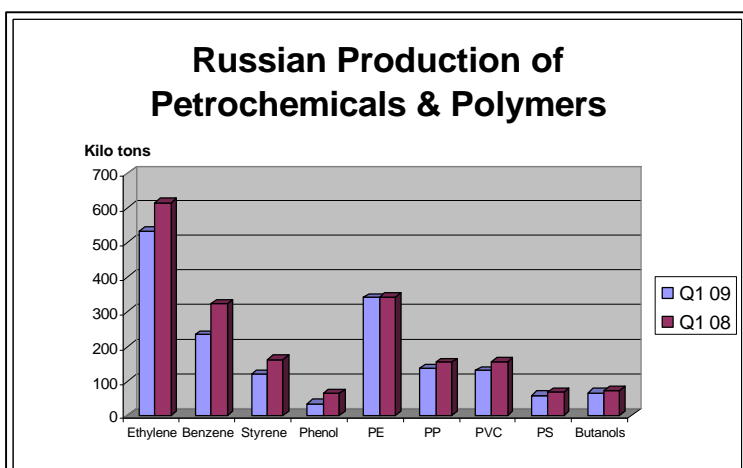
Feedstocks & Petrochemicals

SIBUR Nizhnekamskneftekhim calls for infrastructure investments

SIBUR-Holding and Nizhnekamskneftekhim have proposed to the government that it should focus heavily on the creation of a system for transporting raw materials for the petrochemical industry. Both companies agree that building new petrochemical plants is not feasible economically until the proper infrastructure for transporting raw

materials has been put into place. Leaders of both companies state that other competing countries in the petrochemical industry, such as China, India and the Middle East, receive governmental support which is not evident in Russia.

As most of the new petrochemical projects planned for Russia are targeted on West and East Siberia, major investments are necessary in the near future if these projects are to become viable and cost-effective. Not only pipeline construction is required to move feedstocks, but also better links for moving equipment to sites, improvements in labour availability, etc, in order to make such projects work economically. An alternative scenario to moving feedstocks within Siberia and the Volga-Urals is to transport raw materials to the Pacific coast and construct petrochemical plants based on providing export opportunities to the markets of East and South East Asia. Whilst this might provide good monetary returns, it would not provide much help in the economic development of Siberia or use the raw materials for developing the Russian economy. In reality, feedstock capability is sufficient to serve both the development of the Russian economy and to exploit export possibilities in Asia.



As leading companies in the Russian petrochemical industry, SIBUR and Nizhnekamskneftekhim are advocating that the government needs to act if it wishes to make economic use of the associated gas, most of which is currently flared into the atmosphere. Moreover, investments in new pipeline connections are seen as essential by Nizhnekamskneftekhim if it is to proceed with the construction of a 1 million tpa cracker. Thus, it has been made clear to the government that utilisation of associated gas requires public sector investments across the board before large-scale petrochemical projects are to be executed.

SIBUR TNK-BP, East Siberia associated gas processing

SIBUR Vostok and TNK-BP Management have signed a memorandum of intentions for associated gas processing in the Irkutsk region. The document provides the possibility to consolidate efforts of both companies for the launch of gas processing site in the region. SIBUR has already started to carry out a pre-feasibility study for the construction of gas processing and gas chemical production in East Siberia and Far East.

SIBUR and TNK-BP have successful experience of cooperation for gas processing in West Siberia, but East Siberia has to now been largely ignored. The JV Yugrazgazpererabotka in West Siberia, between SIBUR and TNK-BP, consolidates processing of Nizhnevartovsk GPP and Belozern GPP with 8 billion cubic metres per annum capacity. Moves into the eastern part of the country will depend on state participation in the creation of required infrastructure. It also requires the availability of long-term associated gas supply contracts between the project operator and subsurface users before the construction can start.

SIBUR-Holding Financial Results 2008		
(billion roubles)	2008	2007
Revenue	173.5	142.7
Operating profit	34.3	28.9
EBITDA	40.7	33.2
Net income	16.0	22.6
Net debt/EBITDA	0.95	0.46
Total equity	83.8	86.5

SIBUR-Holding, 2008 results

SIBUR increased revenue by 21.6% in 2008 to a record 173.5 billion roubles, but at the same time net income fell by 29.2% to 16.0 billion roubles. EBITDA increased by 22.6% to 40.7 billion roubles. The key factors that caused the net income reduction were an increase in the overall tax burden, higher interest charges as well as losses from operations linked to foreign currency exchange rates.

Total capital expenditure for SIBUR-Holding in 2008, involving the expansion and upgrading of facilities, comprised 33.6 billion roubles. The expansion of Nizhnevartovsk and Belozern gas processing plants in West Siberia were among the largest completed projects. The design work for the production of polypropylene at Tobolsk, the PVC plant at Kstovo and the increase in capacity at the Yuzhno-Balyk gas processing plant started and is still underway.

SIBUR petrochemical plants

After the market difficulties faced in the previous 3-4 months, all of the units belonging to Tobolsk-Neftekhim had achieved full production by the first half of April. The butadiene plant restarted at the beginning of April.

Tomskneftekhim has continued experimental work on the hydration reactor using a G-58 catalyst provided by Sud-Chemie. The catalyst possesses high selectivity and will be used on the EP-300 cracker. It is expected that ethylene production could increase 1.5% over the year, resulting in additional ethylene output of 3-3,500 tpa. Other advantages of the G-58 catalyst include a lowering of costs for energy consumption and an increase in the running time of the reactor between regeneration cycles. Tomskneftekhim has been paying higher energy costs based on the old catalyst due to a lack of selectivity. The experimental run on the G-58 catalyst was undertaken in December 2008.

Tomskneftekhim, 2008-2009 performance

Tomskneftekhim achieved its highest production volumes in its 35-year history in 2008, despite weaker demand in the latter part of the year. Production included 114,200 tons of polypropylene (98.6% of plan), 224,600 tons of LDPE (100.2% of plan), ethylene 234,200 tons (101.4%), propylene 111,700 tons (98.6%), whilst heavy pyrolysis resins and fractions of liquid pyrolysis products both exceeded the plan by 6%. In comparison to 2007, polypropylene increased 3.9%, LDPE by 7.8% and ethylene 8.7%.

After a difficult start to the year, Tomskneftekhim is now running at close to 100% of capacity, partly due to new clients being found by SIBUR-Holding to compensate the loss of business elsewhere. For the first quarter, polypropylene production at Tomsk was up 3.1% on Q1 2008, LDPE 2.1%, ethylene 4.75%, and propylene 2.1%. Tomskneftekhim in its current format was founded in 2003, based on the previous four-structured base of Tomsk Petrochemical Plant, Tomsk Petrochemical Combine, ZAO Benzol and ZAO Methanol.

Due to weaker economic conditions, Tomskneftekhim expects to reduce investments in 2009 and may only spend around 450 million roubles compared to 630,000 million roubles outlaid in 2008. Some projects have been put on hold, but could be revived as soon as credit conditions improve. For the short term, only projects which are believed to be capable of providing an immediate economic impact, i.e., up to a year, will be completed. Despite the 200 million-rouble upgrade in 2008 aimed at allowing plants to take a maintenance shutdown every two years, Tomskneftekhim has revised its plans to include an annual outage for this year. Thus, in principle the next planned maintenance should take place in 2012, depending on economic circumstances.

Tomskneftekhim is currently in negotiations with Russian Railways for the reconstruction of the infrastructure station Kopylovo which adjoins the tracks of the petrochemical complex. If negotiations are successful, it will allow the direct loading of containers which could save the company around 4 million roubles. At present, the containers need to be moved by lorry to the railway platform. Tomskneftekhim sells around 20% of its production through container shipments, but this could rise to around 40% by September 2009 if these changes are made.

Employees at Tomskneftekhim total 4,700-4,800 at present, with average monthly salaries in 2008 of 24,400. Efforts are underway to help the development of small businesses on its site and the Tomsk Special Economic Zone, with the aim of providing outlets for products produced by Tomskneftekhim. Last year, the company halted the production of household products as part of the strategy to withdraw from non-core areas, and to allow the emergence of small to medium sized businesses to concentrate on polymer processing.

Taneko-project revisions

GS Engineering & Construction Co (South Korea) stated in April that the agreement with Taneko had been cancelled for the construction of several units at the new Nizhnekamsk refinery. Taneko signed contracts with GS Engineering & Construction in June 2008 for the construction of units for the production of kerosene, diesel fuel and aromatics. The Italian group Marie Tecnimont was also included in the consortium with GS Engineering & Construction. However, the project costs have been deemed too expensive and thus Tatneft has now decided to try and seek cheaper suppliers.

Initially, Taneko planned around 50 separate units for the new Nizhnekamsk complex, but due to financial restrictions it has shelved some of the investment plans. The 7 million tpa refinery is expected to start in 2011.

Tatneft will aim to seek alternative cheaper suppliers of equipment and construction in the shortest amount of time possible, as the project schedule so far has not been revised to allow for license-contractor changes. The contract with GS Engineering & Construction was worth around \$400 million. Other cancelled contracts include Tecnimont Russia, Tecnimont Italy, Saipem Italy and Tekfen Construction (Turkey). Tatneft has stressed that there is no problem with project financing, although that does not fully explain the need for cheaper contracts. According to Taneko, the purchase of materials for the general contractor required for construction of the complex will be carried out with use of electronic auctions via the Internet. This is aimed at lowering the cost of the goods and materials. Possibly the same contractors could win the contracts back if they dropped the prices, but this option seems unlikely. Taneko is 40% owned by Tatneft, with Furman Holdings Limited ? Halflein Enterprises holding 25.5% and Svyazinvestneftekhim 9%.

Nizhnekamskneftekhim-Q1 2009

Nizhnekamskneftekhim reported falls of 39% in total production for the first quarter of 2009. This follows recorded losses in the fourth quarter of 2.373 billion roubles, after achieving a net profit of 4.136 billion roubles for the first three quarters of 2008. Overall, the net profit for 2008 was 1.763 billion roubles which was 2.3 times lower than in 2007. Nizhnekamskneftekhim started maintenance on its two ethylene oxide units in March, including most of the equipment apparatus. The MEG plant will also close for comprehensive maintenance. Nizhnekamskneftekhim invested in the propane unit last month for the production of polyethylene. The propane contains methanol which needs to be cleaned before being used for the production of polyethylene. Previously the propane unit was used for the production of hexane based solvents.

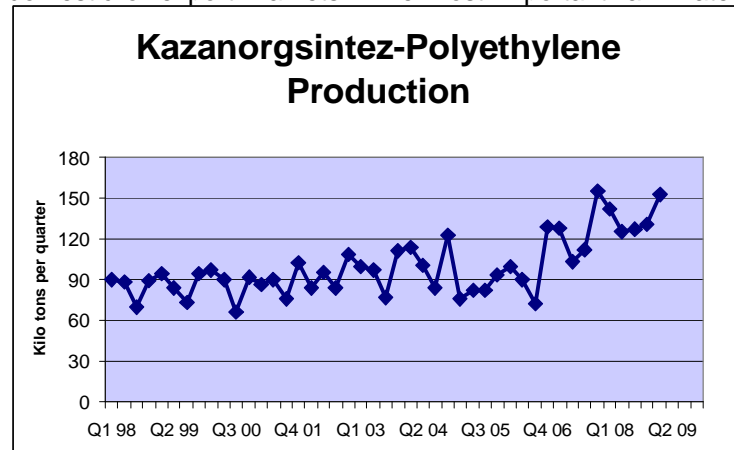
Kaustik-Nizhnekamskneftekhim, ethylene-caustic disputes

Kaustik has succeeded in securing reduced transport costs for ethylene deliveries from Nizhnekamskneftekhim for 2009, after appealing to the Russian anti-monopoly service FAS. In August 2008, Kaustik won a case against Nizhnekamskneftekhim regarding tariffs and won 7.9 million roubles rebate for the first quarter of 2006. The FAS has since been involved in price agreements between the two companies over ethylene supplies. Nizhnekamskneftekhim had offered a tariff of 1,380 roubles per ton (or 176 roubles more than 2008) for ethylene through the 760 km pipeline that transits Nizhnekamsk, Kazan, Ufa, Sterlitamak and Salavat. Despite believing this rate favourable, Kaustik appealed through the FAS and has managed to secure a lower rate. Nizhnekamskneftekhim argues that the new costs do not take into account inflation, particularly for energy costs which have risen.

Kaustik is claiming a total of 71 million roubles from Nizhnekamskneftekhim for what it perceives to be high ethylene transit costs charged in the 2005-2006 period. The case is under review in the Supreme Arbitration Court of Russia. Nizhnekamskneftekhim has a counter-claim worth 70 million roubles against Kaustik regarding caustic soda sales through the United Trading Company (ETK). The basis of this argument is that Nizhnekamskneftekhim was prevented by Kaustik from concluding direct contracts for caustic soda in 2004, having being told it was necessary to buy through ETK. The price difference was considered 2,000 roubles a ton higher from buying through this route. Effectively both companies are claiming that they have been over-charged for product sales for ethylene and caustic soda, and commercial relations have reached a low point.

Kazanorgsintez-cost pressures continue

Kazanorgsintez continues to face market challenges in relation to costs and product prices, both in the domestic or export markets. The most important raw materials for the company include propane-butane



fractions and benzene, with the former leading to close co-operation agreements with Gazprom and SIBUR. This year Kazanorgsintez plans to refinance short-term loans worth around \$450 million. Negotiations are currently underway with foreign banks over extending loans.

Kazanorgsintez recorded a net profit of 2.798 billion roubles in the fourth quarter of 2008, having achieved a net profit of 1.6 billion roubles in the first three quarters of the year. However, profitability declined five-fold in the fourth quarter against the third quarter, aided to some extent by the

fall in the value of the currency which affected debt repayments.

Kazanorgsintez has constructed a new base for storing oxygen, with the equipment provided by Linde-Dresden. Linde is interested in further co-operation with Kazanorgsintez, where in the near future it will install new pyrolysis furnace and ethylene unit.

Bulk polymers

Tobolsk-Polymer-environmental check

Branan Environment has completed the environmental and social impact assessment of the future polypropylene plant at Tobolsk according to the international standards. This includes the requirements of the International Financial Corporation (IFC), World Bank, European Bank for Reconstruction and Development (EBRD), as well as EQUATOR principles. Based on the assessment results, a conclusion made by Branan Environment provides that the environmental impact of the future plant is expected to be of positive assistance to the local area and will also provide a considerable increase in the budget revenue of the Tyumen Region from tax proceeds. The assessment report implies that SIBUR may rely upon a successful financing of the project through Vneshekonombank. This includes the attraction of credits from foreign financial institutions on the security of export agencies of the countries involving the suppliers of the equipment for new plant. The polypropylene project, when completed, is expected to provide a major impetus to the economic development of the Tobolsk region. Thus, despite the uncertainties the local administration is determined to see the project through to completion.

RusVinyl increases investment

RusVinyl has increased the amount of investment from 22.5 billion roubles to 30 billion roubles for the Kstovo PVC project. The new plant is to be sited on an area of 1300 square metres at Kstovo which will require the construction of the necessary infrastructure. This will involve railway links and other transport connections which will cost a total of 900 million roubles, 45% to be provided by the RusVinyl JV and the remainder from loans. RusVinyl should receive tax advantages of around 2.8 billion roubles for the construction of the PVC plant from the local Nizhniy Novgorod administration. The investment appraisal team is scheduled to meet next on 4 June to assess the project, which is expected to take a total of 136 months to complete and to create 475 new jobs at the plant alone. As stressed throughout, the 330,000 tpa PVC plant is dependent on the expansion of the Kstovo cracker.

Kazanorgsintez-polycarbonate restart

Kazanorgsintez has restarted the production of polycarbonate in recent weeks, after stopping the plant at the end of December. The stoppage was due to the reduction of steam following an accident at the Kazan CHHP-3 power station. The loss of steam forced both the bisphenol A and the polycarbonate plants, the latter having only started-up initially on 3 September 2008. The polycarbonate plant is reported to be running at around 70% of the 65,000 tpa capacity, which is based on non-phosgene technology provided by Asahi Kasei Chemicals.

Russian PET Market

Since the start of 2009, demand for PET in Russia has recovered from the weak finish to last year and has now reached the point where the market has tightened. The falls in demand in early January have been reversed leading to increases in prices over February and March to levels of around 48,000-50,000 roubles per ton. Prices in April continued to rise to 51-52,000 roubles per ton. The increase in seasonal demand has not been accompanied by increased imports, however, due largely to currency factors. In 2008, imports accounted for only around 66% of total consumption, which was down on previous years due to expansion of domestic capacity particularly at Polief.

Russian PET Market 2008 (unit-kilo tons)				
	2008	2007	Jan-Feb 09	Jan-Feb 08
Production	182.0	159.6	27.0	23.3
Exports	13.0	6.3	2.0	0.0
Imports	330.0	388.2	15.0	42.9
Market Balance	499.0	541.6	40.0	66.1

Around 95% of PET granules go towards the production of PET preforms in Russia, with the fibre sector still in the infant stages of development. In the fourth quarter of 2008, PET demand dropped sharply leading to a decline in total consumption of 8% against 2007. The volume of Russian PET exports

doubled in 2008, although still only 13,000 tons. Consumption was down 2.5 times in Q4 against Q3 2007, whilst imports in the past four to five months have been affected by the fall in the value of the rouble against

the dollar and euro. Prices of domestically available PET have been affected by rising raw material costs, which showed a rise of around 35% between January and March.

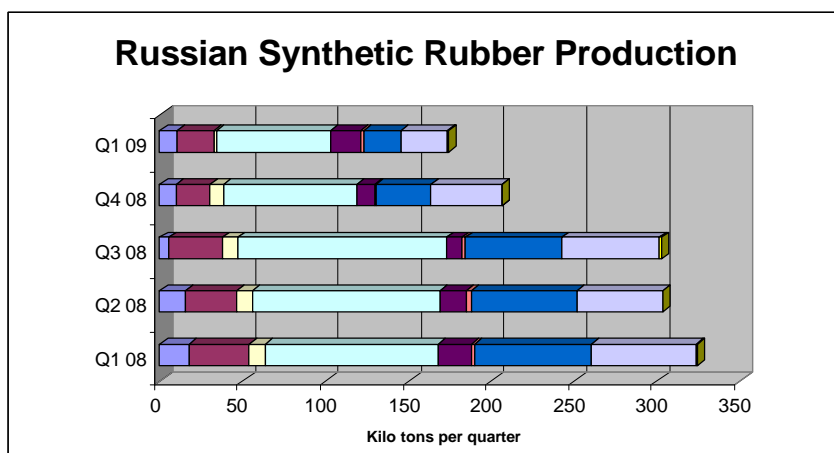
In 2008, SIBUR-PETF increased PET capacity to 70,000 tpa whilst Polief introduced two lines with a capacity of 120,000 tpa. Senezh Polymers is yet to complete its expansion of its Moscow based plant from 90,000 tpa to 180,000 tpa, whilst question marks hang over the Alko-Naphtha project at Kaliningrad. The two projects in Tatarstan are still on course, although delays in start-up maybe inevitable. Some of the engineering contracts for the Taneko project at Nizhnekamsk are under revision at present, although the company claims that this will not affect project schedules. Some of the major preform manufacturers in Russia are based in the Volga-Urals region, which is advantageous for PET sales from Polief but less so from SIBUR-PETF and Senezh.

Synthetic rubber

Russian synthetic rubber production Q1 2009

Whilst synthetic rubber production increased in March against February and January 2009, volumes for the whole quarter were 35.9% lower than in Q1 2008. Voronezhskintezkavkuk reduced production by 56.1%, to 27,580 tons, Efremov ZSK by 40.3%, to 10,680 tons, whilst Nizhnekamskneftekhim cut back volumes by

34.3% to 68,790 tons. Full details of other producers can be viewed on the Statistical Database at www.cirec.net.



SIBUR's rubber plants

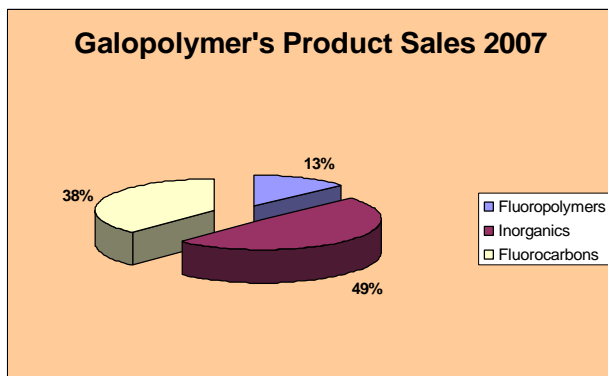
SIBUR-Holding plans to invest 1.8 billion roubles in the development of Krasnoyarsk Synthetic Rubber Plant and expanding the capacity for synthetic rubber production from 34,400 tpa to 56,000 tpa. Around 80% of production from Krasnoyarsk Synthetic Rubber Plant is exported to China, with

the remainder sold domestically. The new butadiene-nitrile powder plant, which has a capacity of 2,000 tpa, is already exporting some product to China and the USA.

Togliattikavkuk will receive around 57 million roubles in 2009 to invest in improvements, including a special hydraulic engineering construction for storage of catalyst used for manufacture of butyl rubber and isoprene rubber. The company has been awarded an ISO 9001:2000 for the isoprene and isoprene rubber divisions, in addition to other sections in the company, after inspection from an external examiner.

Lanxess-Galopolymer partnership

Lanxess and the Russian company Galopolymer (or Halopolymer) have entered into a distribution agreement for fluororubbers, a product area with a global market volume of more than 20,000 tpa. Lanxess is expected to sign a contract on the global distribution of this special-purpose rubber. In the medium term, Lanxess plans to market a considerable proportion of this product under the name Levatherm F. In addition to the existing Lanxess sales' network, a team of experts specializing in marketing and technical service has been put in place. Galopolymer will serve the Russian market as it has done until now.



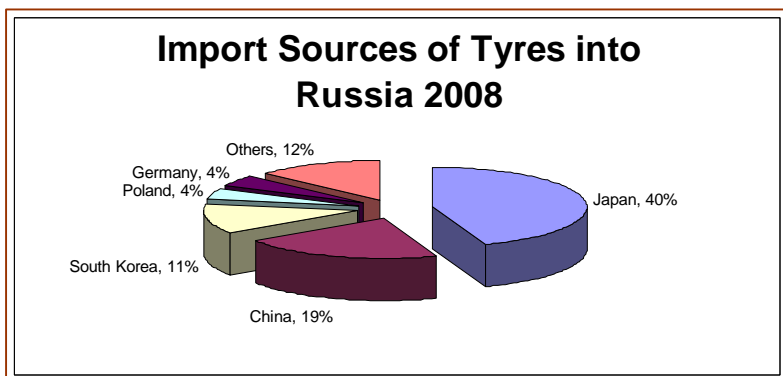
Galopolymer claims to possess nearly 10% of the global fluoropolymer market and is the sole Russian supplier of Freon and fluoropolymers. The investment programme for Perm based Galopolimer amounts to \$213 million over the next five years, with the main emphasis on fluoropolymers but also including a transfer from mercury to membrane technology for the production of chlorine. The West Ural branch of Sberbank has become the financial partner for the

investment programme of Galopolymer, under which it will invest 2.5 billion roubles into the development and expansion of the holding's production capacities.

Galopolymer is part of the Uralkhim group which was created by former SIBUR CEO Dmitry Mazepin. This has merged several Russian chemical and mineral fertiliser producers, including Kirovo-Chepetsk Chemical Combine (KChKhK) and Galogen at Perm. In 2007, Galopolymer produced 12,500 tons of fluoropolymers, 4.5 tons of freons, and over 300,000 tons of inorganic chemicals. Around 30% of total sales were exported. Galopolymer's strategy is aimed at development of specialized polymers, including fluoroplastics and fluoroprenes.

Russian tyre market

Tyre production in Russia was revived in the second half of the first quarter, following the collapse of the car market in the latter part of 2008. Tyre production fell 12% in 2008 against 2007, and fell by 83% in January 2009 against January 2008. Despite the fall in production in 2008, consumption is estimated to have risen 1% for tyres to 56.1 million. Imports of tyres increased by 25% in 2008, accounting for 46% of the total domestic market. Japan was the major importer of tyres in 2008, accounting for 40% of the total 7.88 million imports. However, overall imports were 25% lower in 2008 than in



2007. Despite the growth of the Russian tyre market in recent years, domestic tyre producers have been faced with mounting import pressures. The change in economic direction since late 2008 may, paradoxically, have provided the chance to reclaim some market share. The devaluation of the rouble has aided domestic manufacturers although some companies claim that the effect is insignificant.

Russian Tyre Market 2008 (thousand pieces)		
	2008	2007
Production	38,030	43,216
Exports	7,880	10,507
Imports	25,930	22,746
Market Balance	56,080	55,455

In January-February 2009, Russian tyre production was 56.1% lower than in the same period in 2008 at 2.540 million pieces. Lorry tyre production fell 79.6% to 352,400 pieces, light tyres fell 51.1% to 2.106 million pieces and agricultural tyres fell 73.7% to 80,300 pieces. Nizhnekamskshina reported that its first quarter 2009 tyre production was 48.5% lower than in 2007, after producing 1.505 million tyres.

Nizhnekamskshina plans to start the production of metal cord tyre by the middle of 2009, with products being available from September onwards. The capacity of the new plant is 1.2 million pieces per annum. Production was originally planned to start in December 2008 but was delayed due to the weak economic conditions. Nizhnekamskshina aims to start the production of 14 new types of light radial tyres in the 2008-2010 period, using technology supplied by Pirelli.

Methanol

Metafrax Q1 2009

Metafrax saw a fall in net profit in the first quarter of 2009, by 2.7 times set against the same period in 2008 to 246 million roubles. Around 140 million roubles of the net profit was achieved from production activity and the remainder from financial dealings. The results were better than the losses that had been expected in the range of 600 million roubles. The methanol plant has been running at around 60% of capacity, with far more product sold on the domestic market than in previous years due to the unprofitability of export sales. Sales on the domestic market increased 1.5 fold to around 30,000 tons per month. The fall in global methanol prices has badly affected Metafrax, which normally exports large volumes of merchant product despite investments in downstream product areas such as formaldehyde and urea-formaldehyde resins. In February, moreover, the company stopped the production of pentaerythritol and utropin at Gubakha.

Itera secures support from new partners for UralMetanolGroup methanol project

After seeking investors to support the UralMetanolGroup jv, Itera has reached agreement with Alta of the Czech Republic and Gail of India to participate in the methanol project at Nizhniy Tagil. Other institutions involved include the Czech Export Bank. The methanol project looked set to face financial restrictions, but Itera will

receive financial support from Gail to undertake construction. The plant capacity is still being adjusted in accordance with perceived captive requirements for Uralkhimplast and export opportunities. The cost of the project is €300 million, of which around 70% will be provided by the foreign investors. Agreements were signed on 8 April, with due diligence currently in process. Should the project go ahead, the UralMetanolGroup plant will add competition for Russian methanol exports, particularly Metafrax which is located relatively closely at Gubakha in the Perm region. Itera claims that already enquiries for methanol purchases have been made in excess of the design capacity.

The methanol project could start construction in the 2009-2010 period on the site of Uralkhimplast, with start-up aimed at 2012. For Uralkhimplast, the plant will provide methanol for the production of formaldehyde which it currently needs to buy from other Russian companies. Around one-sixth of production is intended for captive usage and the remainder for export to East and West Europe and domestic merchant sales. In February 2008, Gail signed a memorandum of mutual understanding on cooperation with Itera in the area of hydrocarbons, and also investigation and a gas production in the CIS. In February 2009, Itera stated that the project would be completed in 2012 rather than the original date of 2011.

Yakutsk methanol project

According to East Siberian Gas-Chemical Company, the proposed chemical complex for central Yakutia is progressing under review. Meetings took place in April involving the representatives from the Russian government, engineering companies, etc, to consider the extraction and development of gas for the chemical sector in East Siberia. The project is geared towards using gas from the Magadan and Kamchatka shelves, and involves the construction of a 450,000 tpa methanol plant for Yakutsk. The plant is targeted for a start-up in 2012, with expansions up to 2015 when a 200,000 tpa ammonia plant will be started.

Novocherkassk Synthetic Products Plant

Novocherkassk Synthetic Products Plant has won a contract from the Ministry of the Russian Federation for Civil Défense, Emergencies for 1,000 tons of foam per month worth around 29 million roubles. The company aims to produce 130,000 tons of methanol in 2009, against 72,491 tons in 2008.

Shchekinoazot

Shchekinoazot is continuing with its petrochemical investments despite changes in the economic fortunes of the company over the past few months. However, only those projects which are considered essential to the strategy of the company will be fulfilled. Until the financial crisis in the second half of 2008, Shchekinoazot had been experiencing record profits for the previous few years allowing the company to devise a number of projects for modernisation. Caprolactam has been one of the worst products affected by the global downturn, followed by methanol, and Shchekinoazot produces both products. At the same time, the company has been able to offset these products losses by high prices for ammonium sulphate.

The total amount of investments in chemical projects for Shchekinoazot for the period 2005-2015 comprises around 11 billion roubles, of which one of the key projects include methanol. A new 450,000 tpa plant is under construction by Haldor Topsoe, which will reduce costs over the existing plant for both natural gas and energy consumption. Around €150 million is being invested in the project, of which around 50% has already been outlaid. The aim of the project is to increase methanol exports, whilst at the same time providing a basis for higher added value products at Shchekinoazot. In 2008, the company started the introduction of a caprolactam unit purchased and shipped from Strazske in Slovakia. The capacity of the plant is 80,000 tpa, allowing a reduction in costs and an improvement in environmental performance. The volume of capital investments into the caprolactam project is around €86 million. Shchekinoazot has formed a JV with Hexion Chemicals for the production of formaldehyde resins. Start-up of new unit will allow Shchekinoazot to expand its presence in the Russian market for wood-processing industries. Other projects include the development of polyamide high-strength technical threads from polyamide-6 with a capacity of 12,000 tpa.

Akron-lower profits

Akron's turnover in the first quarter of 2009 dropped 28% against Q1 2008 to 5.224 billion, whilst gross profits fell 59% to 1.607 billion roubles. Akron recorded a net profit of 771 million roubles in the whole of 2008, with turnover increasing 46% to 45.105 billion roubles from 30.876 billion roubles in 2007. Profits from sales increased 124% to 19.086 billion roubles from 8.527 billion roubles. In March, Akron agreed loans of 3.5 billion roubles in order to support investments in potassium salt deposits and other projects. In 2008, a daughter company of Akron Vernekamsk Potassium Company bought the licence for developing the Talitsk deposit in the Perm region for 16.802 billion roubles. The Akron group includes the production divisions Akron at Novgorod, Drogobuzh and Hunch-Akron at Shandong in China.

Formaldehyde resins-Khanty-Mansisk

Safe Technologies from St Petersburg has agreed the basis for a project to produce formaldehyde resins in the Khanty-Mansisk region. The value of the project is estimated in the range of 1 billion roubles, to be provided by Safe Technologies, the regional authorities in Khanty-Mansisk and a number of supporting companies. The plant is to be constructed at Pit-Yakh in Khanty Mantissa, near a large oil deposit. The capacity of the formaldehyde resin plant is expected to be 50,000 tpa. This will be accompanied by a methanol plant based on associated gas. This achieves two goals with the same investment, by utilising associated gas which would otherwise be flared and producing a valuable chemical raw material for resin production. The equipment for the projects is being purchased from foreign and Russian sources.

According to Rostekhnadzor, Russia extracted 50-60 billion cubic metres of associated gas in 2006. Recycling of associated gas is one of the major issues facing the oil sector in Russia, with around 70% of the gas flared into the atmosphere and only 30% used for economic advantage. With the government setting targets of 95% utilisation by 2012, this is acting as a stimulus to new gas processing projects and the construction of new chemical plants.

Organic chemicals

Akrilat-emulsions project under review

Akrilat is considering the possibility of starting the production of emulsions from butyl acrylate at Dzerzhinsk. A feasibility study is currently underway, with financial backing arrangements being assessed. Whilst the capacity of the plant remains unconfirmed, Akrilat hopes to increase its domestic sales from 15-20% of production at present to around 35-40%. Akrilat restarted acrylic acid and acrylate production on 1 April after a two month stoppage, after the company was affected in February by raw material availability. In order to avoid a long term outage, the downtimes was used for maintenance which should have been undertaken in May. Akrilat now hopes to be capable of producing acrylates at full capacity for the rest of the year. The company produces around 3,000 tons per month of butyl acrylate and 2,500 tons per month of acrylic acid.

The Group Akrilat management group has purchased a greenfield site of 41.2 hectares in the Dzerzhinsk region for a price of 240 million roubles. Decisions on how to use the site are yet to be decided. Group Akrilat owns 99.99% of Akrilat and controls strategy, project investments and export policy.

SIBUR-Volzhskiy

SIBUR-Volzhskiy restarted production on 10 March after stopping operations in December 2008. Despite the economic difficulties, the company is undertaking a project for the production of polyester cord fabrics with a capacity of 12,000 tpa. Around 3 billion roubles has been invested in the project, of which output will be used by SIBUR Russian Tyres in the processing of car tyres at its Voltyre subsidiary. Equipment for the plant will be installed in the second half of the year, with the plant scheduled to start in the first quarter of 2010.

Kazan Synthetic Rubber Plant-silicon project

Kazan Synthetic Rubber Plant plans to construct a new sub-division Kazan Silicon, in which it will build a 25,000 tpa plant for dimethyldichlorosilane followed by a silicon plant. The respective costs of each plant are \$47 million and \$15 million. Construction is expected to start in early 2010. The Tatar government is providing financial support for the project to the value of \$27 million, as part of the republican strategic programme for investing in higher added value materials.

Nitol receives equipment for polysilicon project

Nitol received its first tranche of credit in April from the Russian Corporation of Nanotechnology (Rosnano), worth 3 billion roubles, to support the construction of the polysilicon plant at Usolye-Silicon in the Irkutsk region. Rosnano and Alpha-Bank plan to arrange loans of up to 12 billion roubles in total for the project. Usolye-Silicon is located on the site of Usolyekhimprom, with the project for 3,600 tpa expected to start in early 2010.

Financial effects of economic downturn on mid-sized chemical companies

Kamteks-Khimprom has repaid in full its credit granted to the State bank VTB, which it borrowed in the 1990s to retain ownership of the company. Volzhskiy Orgsintez has started the process of bankruptcy after running up debts of around 80 million roubles. The bankruptcy court needs to decide how the company will repay these debts. Sterlitamak Petrochemical Plant has reached agreement with the Uralsib bank for a loan of 1 billion roubles for operating capital. The loan has been taken out for a period of 60 months.

Plastik at Syzran recorded net losses of 4.76 million roubles for the first quarter of 2009 against net profits of 30.840 million roubles in the same period in 2008. The losses were incurred from lower sales. Plastik produces plastics products for car producers VAZ, GAZ, YAZ and KAMAZ, which account for more than 30% of the company's sales.

Kaustik at Volgograd reduced turnover by 12.5% in the first quarter of 2009 to 1.329 billion roubles. In the first quarter of 2009, Kaustik reduced the production of liquid chlorine by 34% to 8,801 tons, liquid caustic soda by 14.5% to 49,794 tons and solid caustic soda by 2.4% to 20,501 tons.

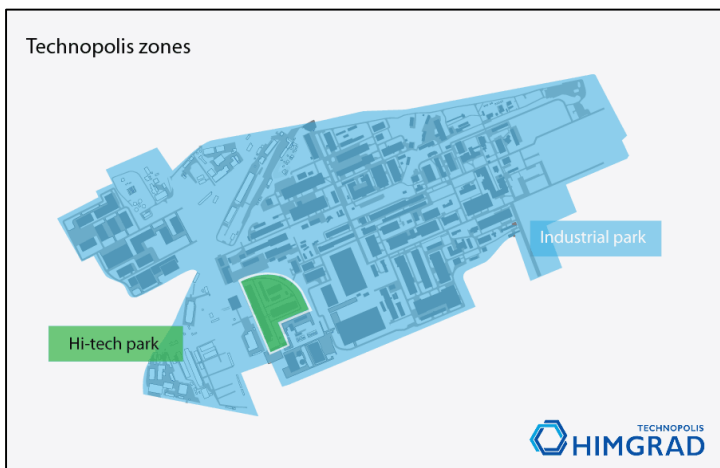
Plastics

Dzerzhinsk Orgsteklo reviews MMA production

Dzerzhinsk Orgsteklo (DOS) wants to restart the MMA plant due to the decline in raw material costs, which has made production cost-effective. Sulphuric acid and oleum prices rose dramatically at the start of 2008, making MMA production at DOS unprofitable. As a result, DOS stopped MMA production in the middle of 2008. However, with the fall in prices in sulphur, raw material costs have dropped significantly making a restart feasible. In addition to the old plant, negotiations are currently underway for the civil-engineering design of a new unit based on modern technology, but this will ultimately depend on finding investors. The new plant would take 2-3 years to construct, and the company hopes to restart the old plant until the modern project is completed.

Since stopping the MMA plant last year, the company has been facing mounting financial challenges. The company has run up debts of around 400 million roubles, caused by power consumption and the growth of tariffs for utilities. This has led to reduced production of PMMA, whilst also imports of MMA have become less cost-effective after the heavy devaluation of the rouble. The main drawback to DOS for restarting the plant is a lack of funds.

From a national perspective, without the MMA, DOS is unable to produce the PMMA for the flexiglass required by the local aircraft manufacturers. DOS is the sole producer of flexiglass for the Russian automobile and aviation industry, and also the military-industrial complex. As a result, the regional government is considering providing means to ensure that the company does go into bankruptcy, whilst also the company could take some support from some of the aircraft construction companies. The head of the Nizhniy Novgorod region has not excluded that DOS could be included by the Ministry of the industry and trade of the Russian Federation in the list of the enterprises applying for state support. The regional administration has already promised 100 million roubles. DOS was registered in 2001 on the basis of the original company that was created in 1939. The capacities of the plant include 22,500 tpa of MMA and 8,400 tpa of sulphuric acid.



industrial park near Frankfurt.

Khimgrad Industrial Park-Kazan

The first module in the Technopolis Khimgrad industrial park at Kazan is expected to open in May. This represents the first of many resident small and medium sized companies to establish themselves on Khimgrad. Khimgrad residents are expected to receive preferences for land, transport, property and income taxes.

The industrial park covers an area of 130 hectares, and includes 47 square metres technopark for the development of high technologies in the chemical industry. It has been based on the model of the Hoechst

The industrial infrastructure of the Technopolis Khimgrad industrial park is being developed with the help of budget allocations and private investments. Future residents are being lured by such incentives as not having to pay anything for the access to electrical power. The Tatar government intends that after developing industrial and special economic zones, that the Republic will be capable of consuming up to half of the petrochemical output from Kazanorgsintez and Nizhnekamskneftekhim.

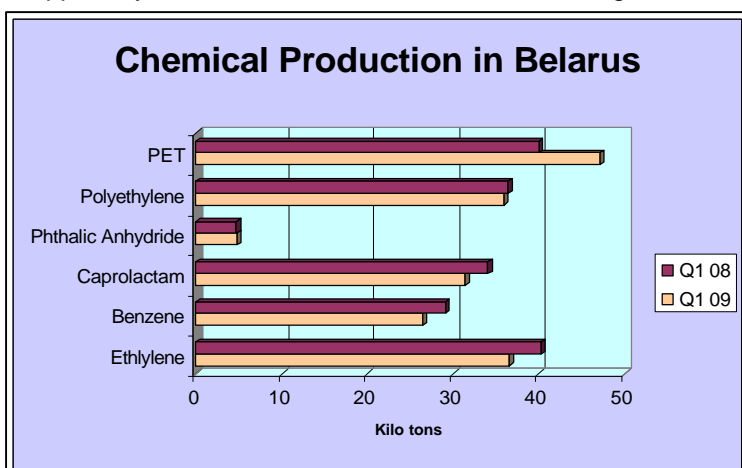
Kama Fields Industrial Park

In late March, Nizhnekamskneftekhim and Tatspetsneftekhimstroy started the installation of two industrial modules at the Kama Fields industrial Park which is located around 40 km from Nizhnekamsk. Kama Fields thus provides an additional outlet for processing polymers produced by Nizhnekamskneftekhim. The two main areas for processing include the Alabuga Special Economic Zone and the Nizhnekamsk Industrial District. The two new polymer processing units being installed at Kama Fields will process more than 10,000 tpa and should start up later in 2009. Products to be processed include polypropylene, polyethylene and polyurethanes.

Belarus

Belarussian chemical production Q1 2009

Chemical production in Belarus increased 29% in the first quarter of 2009 in turnover due to increases in production in several sectors. The production of paints rose 10.6 times in comparison with the same period in 2008, due to the introduction of new facilities for solvents, and totalled 485,600 tons. Potassium fertiliser dropped by 59.1% to 579,500 tons, whilst nitrogen fertiliser output fell 4.7% to 193,400 tons. The



production of synthetic resins and plastics dropped 14.2% to 89,400 tons, with chemical fibres and threads dropping 26.9% to 43,500 tons. Tyre output fell 13.7% for light tyres to 792,900 pieces, with a fall of 5.9% lower for truck tyres (227,100 pieces) and a 4.4% drop for agricultural tyres (130,500 pieces).

Mozyr paraxylene project cancelled

The project to construct a paraxylene plant at the Mozyr refinery in Belarus has been cancelled. After months of deliberation, the supervisory board has decided that it is cheaper to import paraxylene for DMT/PTA

than to build the plant at Mozyr. Project financing for the project was suspended in late 2008 due to changes in global lending, and now the decision has been reached that it would be not cost-effective to proceed with the project. A licence agreement was made with UOP in 2007 to use the Parex technology, but there were always question marks over the 120,000 tpa capacity of the plant which was considered to be too small to achieve economies of scale. There is already a small paraxylene plant in Belarus at Novopolotsk, but this is insufficient to meet current and projected requirements for Mogilevkhimvolokno. Belarus has traditionally imported paraxylene from Russia, but in future may need to diversify its sources.

Mogilevkhimvolokno-PET capacity modernisation

Mogilevkhimvolokno will complete the modernisation of the PET facilities in May, including two lines of PET bottle capacity with a capacity of 80,000 tpa. Mogilevkhimvolokno has transferred its PET fibre plant, with a capacity of 80,000 tpa, to PET food grade resin from the second half of April. This decision was taken due to the increase in demand for PET performs. Consumption has been rising for beer and food packaging in Belarus, particularly on a seasonal basis. Prices for PET resin have been rising in recent weeks after the big falls seen in the latter part of last year and reached €790-800 per ton FCA Mogilev in April.

Belarussian PET Supply/Demand Balance (kilo tons)			
	Jan-Dec 08	Jan-Dec 07	Jan-Dec 06
Production	226.0	204.0	172.9
Export	57.0	58.0	53.9
Import	4.0	2.0	3.6
Balance	173.0	148.0	114.7

In 2008, PET consumption rose in Belarus by 16% to 172,000 tons despite the downturn in demand in the latter part of the year. Consumption rose 27% in 2007 over 2006. In 2008, Mogilevkhimvolokno increased PET production by 11% over 2007. Production dropped 21% in January 2009 against January 2008, but rose again in February. The main

external consumer of Belarussian produced PET in 2008 was Russia around two thirds of total exports. However, exports to other regions have been helped by the devaluation of the Belarussian currency. Imports of PET into Belarus account for only 2% of market share and usually consist of grades not produced by Mogilevkhimvolokno.

Mogilevkhimvolokno has become the first chemical company in Belarus to introduce an integrated system of management (ISM). The system conforms to ISO 9001:2000, including the management of the environment ISO 14001:2004 and the management of labour safety OHSAS 18001:2007. The integrated system of management will allow the company to solve complex problems and to improve quality of production, which will be particularly helpful for dealings with export partners. In 2008, Mogilevkhimvolokno increased turnover by 12.3% to 855.7 billion Belarussian roubles.

Borisov Plastics Plant

Borisov Plant for Plastics Products in Belarus expects to be able to produce three-layer polyethylene films at the full capacity of 3,000 tpa at some stage during 2009. The extrusion equipment was installed by the Brazilian company Carnovali at the end of 2008. The company aims to supply films to the Ministry of Agriculture and Food Production in order to help with grain storage. In the first two months of 2009, the Borisov plant produced 263 tons of films and in March 240 tons, and thus full capacity could be reached by the middle of the year. Other potential customers include Coca-Cola in Belarus.

Ukraine

Ukrainian Chemical Production Q1 09 (unit-kilo tons)		
Product	Q1 09	Q1 08
Acetic Acid	8,964	43,870
Adipic Acid	0	8,365
Ammonia	757	1,405
Benzene (-95%)	9,497	51,726
Benzene (+95%)	36,673	43,403
Caprolactam	10,440	18,940
Caustic Soda	9,500	28,600
Ethylene	0	55,202
Formaldehyde	3,647	18,613
Methanol	21,250	54,944
Polyethylene	0	27,083
Polypropylene	23,852	24,596
Polystyrene	2,910	9,960
Polyvinyl Acetate	1,540	2,857
Propylene	0	24,541
Soda Ash	159,400	237,900
Titanium Dioxide	21,167	34,149
Toluene	426	1,695

Azot Severodonetsk, PE plant restart once again considered

Azot at Severodonetsk has revived the idea of restarting the idle polyethylene plant which closed in 1994 due to a lack of ethylene. The plant was dependent on ethylene supplied by pipeline from nearby Lisichansk, but this cracker stopped operating due to a combination of market and technical factors. In December 2004, the FGI and Worldwide Chemical LLC (daughter company of IBE Trade Corp) created new company for the production of polyethylene at Azot. Worldwide Chemical controlled 60% of the new company and the FGI the remainder. As the plant has not been restarted in this period, the contract has now been cancelled allowing Azot to examine other possibilities of securing ethylene.

For 2008, Azot recorded net profits of 22,485 million hryvnia, having increased turnover by 33.76% to 945.019 million hryvnia. In the first two months of the 2009, Azot reduced production by 62% in turnover compared to the same period in 2008, whilst capacity utilisation was only 47%. Some plants were stopped altogether, such as VAM and acetylene, whilst others such as ammonia and methanol ran at much reduced rates. The company has making losses due to the high prices of gas from Russia which cannot be passed on to the end-users. Azot is striving to apply anti-crisis measures in order to reduce costs and reduce losses.

Urea expansion at Severodonetsk

Azot is planning an expansion of its urea capacity by 25% from 1200 tons per day to 1500 tons. A contract has been signed with the Russian institute NIIK to revamp and expand the current production facility. Work is expected to start this year, with the project outline ready by June. The revamping of the urea plant at Severodonetsk first started in 2005, which allowed the increase in capacity by 15% to the current level of 1200 tons per day. The pending modernisation is aimed at reducing costs for gas and energy in addition to increases in volume production.

Imports of methanol from Russia

Azot reduced methanol production in the first quarter of 2009 due to the hikes in the gas price from Russia at the start of the year. As a result, the rise in gas prices led to a reduction for domestically produced methanol and has led to imports from Russia at cheaper prices. Russian producers have been able to compete through direct contracts to consumers such as Stirol at Gorlovka, Lisichansk refinery, KarpatSmol, etc. The Russian produced methanol is used mainly by Ukrainian consumers by manufacture of urea-formaldehyde resins and for servicing oil and gas pipelines.

Yuzhnyi Chemical Plant-nitrobenzene

The chemical plant Yuzhnyi at Rubezhnoye started the production of nitrobenzene at the end of March. The unit is small and cost only around \$1 million, but it will remove the necessity to purchase product on the

open market. The major producer of nitrobenzene in Russia, Volzhskiy Orgsintez, has provided the financial backing for the project. The nitrobenzene plant is the first in Ukraine and represents the first stage in the development of GP Kh3 Yuzhnyi chemical complex, which is 100% owned by the state. Nitrobenzene has been started due to demand for aniline in east Ukraine. The next stage of the investment programme involves the start of crude benzene production.

Central Asia

Methanol project Azerbaijan

The Iranian Bank of Export Development has granted a loan of €21 million to Azerbaijan for the construction of a methanol plant. The new plant will take two years to construct and will be located in the Garadagh region, and will have a capacity of 500,000 tpa. Most of the output is expected to be exported through the Black Sea ports. The EBRD is also involved in the project, which will be constructed by Dappolonia and Jacobs.

Chemical production in Azerbaijan rallied in March and April after falls to very low levels in January and February, with totals down even on 2007 (when production plummeted due to tax reasons). Output of chemicals and related products fell 79.7% in the first quarter, whilst the production of rubber and plastics rose by 54.6%.

Nairit restart of production

Armenian rubber producer Nairit restarted production in the second half of April after stoppages caused by the economic downturn in November 2008. Nairit is 90% owned by Rhinoville Property Limited and 10% by the Armenian government. The company suffered an accident in the warehouses in early April. Nairit produces chlorinated rubber, latexes, liquid chlorine and monocarbonic acid. The chlorinated rubber capacity stands at 10,000 tpa, where reconstruction to the butadiene method is continuing. This technology should be in usage by the end of 2009 helping to reduce costs and increase the product range.

Polish engineering and construction firm PBG has signed a \$252 million contract with Nairit to rebuild and modernize the complex. The Nairit Plant project is envisaged to be completed in 30 months.

Navoiazot-new products

Navoiazot plans to start the production of nitrogen-phosphate fertilisers in the third quarter of 2009, whilst the company is also revamping the methanol unit with an increase in capacity from 7,000 tpa to 12,000 tpa. Sales of methanol from the revamped plant will be sold on the domestic market in Uzbekistan, in addition to other countries in Central Asia. In 2010, Navoiazot plans to start the production of pentaerythritol. Currently, construction is underway to develop a plant with the capacity of 900 tpa.

Relevant Currencies

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

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