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MONTHLY NEWS

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

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Issue 216, 27 Nov 2008

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- ✚ Slavneft has confirmed that it will not participate in financing the paraxylene project at Mozyr

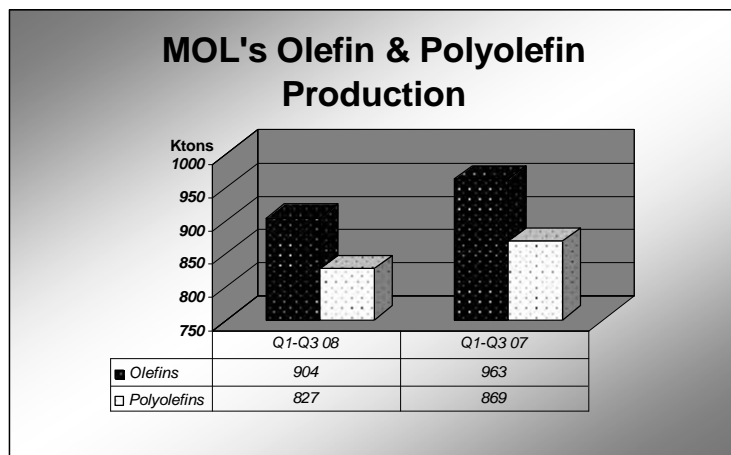
CENTRAL & SOUTH EAST EUROPE

Petrochemicals

MOL Q3 2008

MOL encountered a difficult quarter in Q3 this year, but even so the petrochemical division nearly broke-even with a Ft 0.2 billion operating loss. Operation losses for the period January-September totalled Ft 11.3 billion. Despite an increase in ENITDA in August and the September, the petrochemical division was affected by the significant increase in energy prices, and low utilisation of TVK's units at Tiszaújváros. For the fourth quarter, MOL expects little change in market conditions with the strength of the forint one of the main concerns, although the group does expect to benefit from increased refinery margins.

MOL did see the benefit of higher integrated petrochemical margin in Q3 over Q2 by 59%, as naphtha prices fell by 3%, while polyolefin quotations increased by 12-17% on average. Naphtha prices, which reached a record high in H1 2008, began to fall in August. The trend of rising polymer prices also changed in mid-August, but started to decline thereafter. Despite the improvement in Q3, the integrated petrochemical margin declined by 29% against 2007, as naphtha increased by 49% in dollar terms, not being counterbalanced by polymer prices.



MOL's monomer and the polymer production fell by 15% and 16%, respectively in Q3 2008 compared to Q3 2007, due to shutdowns at TVK's Olefin-1 plant. The majority of TVK's units suffered process interruptions due to issues in the national electric grid on 11 August. Polymer production fell by 59,000 tons in Q1-Q3 2008, as a consequence of the general overhauls carried out in H1, lower market demand and the technical problems, which arose in Q3.

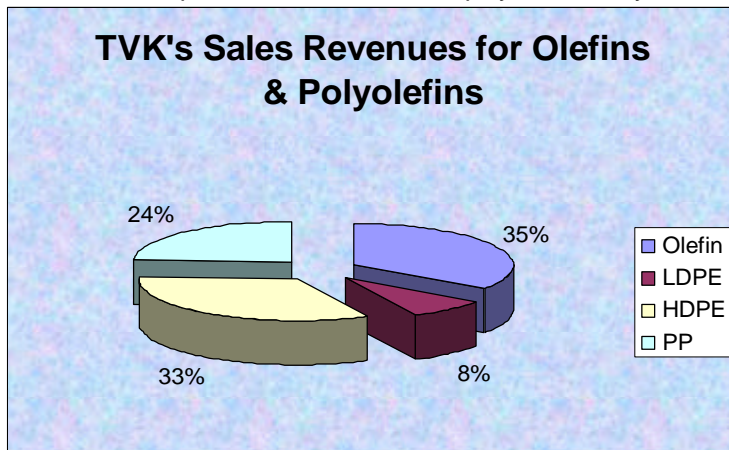
Polymer volumes fell by 42,000 tons in Q1-Q3 2008 due to the lower production and also lower market demand. The ratio of

HDPE grew to 33% of the total and the ratio of PP rose to 46% against the LDPE ratio, which dropped to 21%.

In Q1-3 2008, the Slovnaft recorded an operating profit of SKK 3,285 million, or 44% of the profit generated during Q1-3 2007. The major factors behind this decline were the scheduled general turnaround of the key production units, a strengthening Slovak crown against the dollar and euro and a significant fall in crude oil price. These factors resulted in an inventory devaluation by more than SKK 800 million in Q3 2008 compared to Q3 2007. The positive external effects, especially higher diesel crack spreads, were eliminated by these factors. The petrochemical division of the Slovnaft Group in Q3 2008 benefited from more favourable external environment, reducing its loss generated during the first six months of 2008. This effect was offset though by lower demand for plastics. Slovnaft's polymer sales' volumes dropped by 19,100 tons in Q3 and totalled 86,000 tons. Export sales fell by 20% while domestic sales increased by 11%.

For TVK, the higher prices for natural gas, the shortage of feedstock and shutdowns in the production plants affected profits adversely in Q3. Operating losses incurred at Ft 259 million in Q3 2008. After factoring in the losses of the first six months, the consolidated operating losses of Q1-Q3 2008 amounted to Ft 3.1 billion with EBITDA at Ft 6.7 billion. Overall capacity utilisation for TVK fell by 5% during the first nine months of 2008 against 2007. Thus, whilst TVK saw higher levels of utilisation in the Olefin-2 plant and in the PP plants, the Olefin-1 plant and polyethylene plants saw reduced loads. The reduction of average capacity utilisation was due to the company's refusal after May to process atmospheric gas oil (AGO), which is substantially more expensive than naphtha. The company could not replace AGO with less expensive chemical feedstock. The Olefin-1 was shut down during the third quarter, which also suffered from the scarce availability of olefin plant feedstock. Most of the plants stopped operating for a brief period on 11 August due to power outage caused by the failure in the national electrical transmission network.

The volume of production and sales of polymers fell by 6% and 4%, respectively, against the same period in



2007. Polypropylene sales increased by 4%, as PP products offer a relatively higher margin than polyethylene, and simultaneously reduced the sale of polyethylene products by 8%.

PKN Orlen-Q3 2008

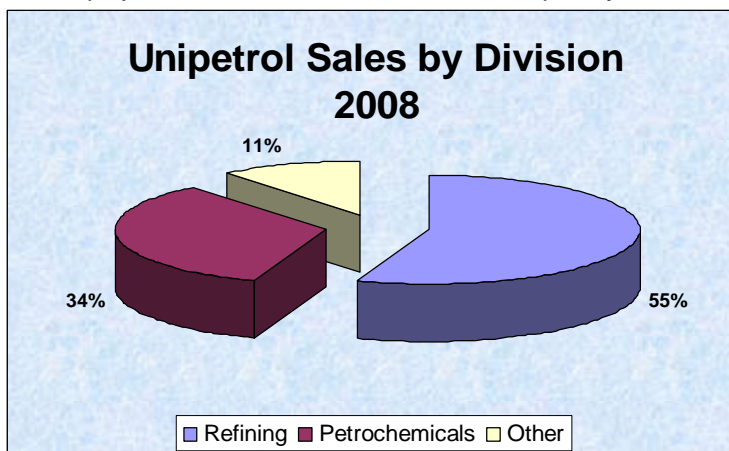
PKN Orlen's petrochemical division recorded a zł 478 million fall in revenue in the third quarter this year, resulting from lower volumes of sales of olefins (by 16.1%) and of polyolefins (by 5.9%). The divisional operating profit for Q3 2008 totalled zł 104 million vs. zł 294 million in Q3 2007. The

drop was caused by a zł 139 million reduction in operating profit at Orlen's Plock complex to zł 18 million, caused mainly by the maintenance shutdown of the olefin unit. Additionally, the fall in the exchange rate of the dollar in the third quarter reduced the operating profit by around zł 60 million. The negative effects of the maintenance shutdown and lower exchange rates were partially offset by higher margins.

A zł 34 million year-on-year drop in operating profit of the Unipetrol Group in Q3 2008, to zł 66 million, caused mainly by economic factors, reduced the operating profit by around zł 70 million. The effects of macroeconomic conditions were partially offset by higher operating efficiency, which raised operating profit by around zł 20 million in Q3 2008. A zł 34 million fall in operating profit was also seen at Basell Orlen Polyolefins (BOP), due to lower margins on polyolefins and the appreciation of the Polish zloty against the euro.

PKN Orlen's Petrochemical * Chemical Division Performance (billion zlotys)					
Petrochemicals	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
Revenue	3.401	3.425	3.287	3.428	2.923
Costs	-3.099	-3.389	-3.063	-3.411	-2.818
Operating Profit	295	38	347	26	103
EBITDA	447	218	388	189	255
Capex	169	241	107	247	381
Chemicals	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
Revenue	714	632	737	717	749
Costs	-660	-584	-646	-652	-662
Operating Profit	56	38	91	73	87
EBITDA	97	75	127	108	123
Capex	31	57	20	52	91

Compared with Q3 2007, PKN's capital expenditure in Q3 2008 increased by zł 212 million, to zł 381 million. The main projects under construction include the paraxylene unit at Plock and the PTA plant at Wloclawek. Other projects included benzene extraction and C5 fractions at the Unipetrol Group.

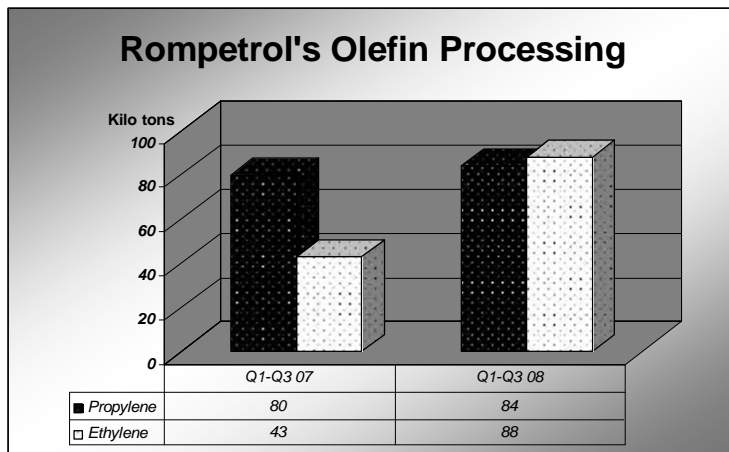


In Q3 2008, PKN Orlen's chemical divisional revenue rose by 4.9%, to zł 750 million, driven by higher sales of Canwil (up by 10.4%) and caustic solution (up by 9.0%). However, the division recorded a fall in sales of caustic soda (down by 47.0%), PVC granulates (down by 21.1%), and PVC (down by 11.4%). Operating profit generated by the division in Q3 2008 was zł 87 million, an increase of zł 56 million in Q3 2007. The division's profit was driven by higher margins on fertilisers, which boosted operating profit by around zł 90 million and higher margins on other products, which increased the operating profit by around zł 10 million.

In Q3 2008, capital expenditure increased by zł 132 million and amounted to zł 163 million. The main projects executed in Q3 2008 included construction of an oxygen plant, increase of the efficiency of fertiliser units and modernisation of production lines at Anwil's PVC plant.

Unipetrol-third quarter increase in profits

Unipetrol saw a 35% growth in sales to Kc 29.9 billion in the third quarter, mainly due to higher oil prices and a larger sales' volume. The Unipetrol steam cracker is again operational after a planned shutdown, which started on 6 October. This was to enable the necessary repairs of the driving turbine in the ethylene-cooling compressor, as the problems were preventing the utilisation of the unit's full capacity. The shutdown of production was also used for performing other maintenance work, which will enable utilisation of the installation's full capacity.



Rompetrol Petrochemicals-Q3 08

The net revenues of Rompetrol Petrochemicals were 61% higher in the period January-September 2008 vs. 2007, although losses increased at the same time. Following the restart of the HDPE plant in November 2007, the company has processed a record quantity of raw materials this year, which the ethylene processed being roughly double than the same period last year. The operational result (EBITDA) was way below the expected target for the first nine months of 2008. Diminishing margins as a result of internal and global market conditions,

combined with the effect of high production costs of the finished products, are the main causes for the losses.

Rompetrol Petrochemicals-reduced operations

Rompetrol Petrochemicals has announced that 130 employees will take temporary layoff as the company plans to cut production of polymers in December 2008 and January 2009. The company stresses it is a temporary measure that has arisen due to market shrinkage, and the focus is not only to re-balance production in relation to demand but also to avert stockpiling polymers. Rompetrol will close its LDPE plant on 10 December, and the HDPE plant from 1 December, with both plants to be closed until 31 January. Rompetrol is the fourth biggest company in Romania in terms of earnings from sales registered in 2007.

The measure will affect employees in production and maintenance sectors, approximately 24% of them following to take a temporary layoff in December-January. Whilst the plants are down, the company will secure the low and high density polyethylene supplies from stocks and will keep the polypropylene plant working, with Rompetrol Petrochemicals being the only polypropylene producer in Romania.

Rompetrol Petrochemicals will carry on its investment plans, particularly for ethylene. According to the company, the low and high density installations have a nominal capacity of 60,000 tpa each.

Arpechim halts olefin production

Petrom has halted activity at the pyrolysis unit of its Arpechim refinery at Pitesti, after Oltchim announced plans to reduce output. Oltchim has said it will cut activity by 20-40% this month as the global financial crisis has affected demand. Petrom has stated that none of the workers would be affected by the shutdown of the unit, which produces ethylene and propylene. The polyethylene plant has also been closed with the olefin unit.

NIS-Gazprom

The acquisition contract between NIS and Gazprom has had to be deferred from its 22 November signing date. One of the main reasons for this delay is that it is still not clear how Gazprom will secure the €500 million needed to modernise NIS. Even though the Serbian negotiating team expected €500 million to be paid in cash and the modernisation to start immediately after the signing of the agreement, this does not appear to be ready to happen. The Serbian negotiating team has asked the Russian partners for the

deadline to be extended to the end of the year, which is in accordance with the NIS Protocol. The Serbian side will use the next negotiations to oblige Gazprom to acquire Petrohemija for between €100 to €200 million.

Chemicals

Central Europe-reduced production levels

ZA Pulawy and ZA Tarnow have taken decisions to limit production in response to sharp fall in demand in Q4. The Police Chemical Plant is currently working at only 30% capacity, with limitations on production having started in September. Anwil has also limited production at its Wloclawek and Neratovice plants to 70% of capacity. Spolana expects to be lowering production at least until the end of the year due to market conditions.

One main factor for Spolana is the weak state of the caprolactam market, which appears to have all but collapsed, whilst high costs are also being faced in the production of PVC. In 2007, Spolana reported a net profit of Kc 129 million, which was nearly Kc 90 million less than in 2006. In the period January-September 2008, Spolana recorded a profit of Kc 75 million.

Polish coal gasification

ZA Pulawy has stated that it plans to build a coal gasification installation worth zł 3 billion (\$1.2 billion) in cooperation with coal mining company Bogdanka. The installation, which is expected to produce 1.2-1.3 million tons of coal, will take four years to build. ZA Pulawy uses about 1 million cubic metres of natural gas per annum to produce fertilisers, and hopes the installation will satisfy about half of that demand. Coal for the installation will be supplied by Bogdanka mine, which produces about 5 million tpa of coal.

Poludniowy Koncern Energetyczny (PKE) and Zakłady Azotowe Kedzierzyn (ZAK) have reached agreement on the construction of a power plant at Kedzierzyn-Kozle. The station will be fired by gasified coal and produce not only heat and electricity but also gas, which will be used by ZAK. The undertaking will require estimated outlays in the region of €900 million. According to project plans, the hard coal fired station would generate 158 MW of electricity, 174 MW of heat and enough synthetic gas to produce 500,000 tpa of methanol.

Ciech Q3 2008

Ciech reported a third-quarter net loss for 2008, mainly due to losses on currency options. The state-controlled company cut its forecast for 2008 net profit before minorities by 60% to zł 88 million, warning that the weak zloty was hurting valuations of its currency derivatives. The company is cautious about next year, highlighting macroeconomic uncertainty, as well as the risk of falling prices and demand for its main products. The group closed 2007 with a net profit of zł 233 million on sales of zł 3.4 billion.

BorsodChem-Linde

The Linde Group has signed a further long-term on-site supply contract for industrial gases with BorsodChem Zrt. The agreement involves the construction of a new air separation unit (ASU) at BorsodChem's Kazincbarcika site for around €26 million. The new air separation plant is due to come on stream in November 2010 and will supply BorsodChem by pipeline with up to 7,000 cubic metres of gaseous oxygen and nitrogen per hour. The plant is also expected to produce liquefied oxygen, nitrogen and argon for the merchant market. With this new investment, Linde will operate two ASUs for the supply of air gases and three steam reformers for the supply of gaseous hydrogen and carbon monoxide to BorsodChem. Linde's total investment at this site exceeds €200 million.

Oltchim announces reduced operating rates

Oltchim has announced that it will reduce production activity by 20-40% of capacity, with no indication how long this would continue. The decision was reached in order to avoid "significant losses" that could arise from piling up finished product stocks. According to Oltchim, the measure is tied with making 550 employees redundant 350 of whom meet the retirement conditions and 200 who already collect both wage and pension. As a company involved heavily in exports, it was inevitable that Oltchim would feel the effects of the international crisis. With global prices plunging dramatically by even as much as 50%, it is impossible for the company to keep production at maximum levels.

The reduction in activity will be carried out by the temporary stop on ethylene and propylene purchases from Arpechim, whilst Oltchim has stressed that it will honour all deliveries pledged under contract. The Authority for State Assets Recovery (AVAS) has been examining a support plan for Oltchim to help the company over the financial crisis, and will notify the European Commission about this operation. If necessary, it may also advocate an infusion of capital under the form of loan, or rescue aid as it is called by EU law.

The infusion of capital in Oltchim will depend to a large extent on the renegotiation of raw material contracts. Ethylene, purchased by Oltchim from Arpechim, is quoted at €600 per ton on the European market, but Petrom sells it for €1120 per ton. Thus, if Petrom does not agree to renegotiate, Oltchim will then possibly import from other sources. Oltchim has been in negotiations to purchase the Arpechim petrochemical division from Petrom, and a decision whether to proceed will be taken at the board meeting on 22 December.

South East European news

Bulgaria's Agropolichim and Neochim, leading fertiliser producers in southeast Europe, are halting production as demand has weakened dramatically and prices have fallen. Agropolichim at Devnya has stated that its fertiliser plant will be shut down by 21 November. The first signs for the turmoil, especially in export, appeared as early as the end of September. Neochim increased revenues in the first three quarters of 2008 by 76.7% to 260.55 million leva, whilst the profit rose 28.5 fold. Thus, these producers have been experiencing success until the financial crises erupted and should be well placed to return to normal activity when the market improves.

Hungarian building materials company Masterplast expects a Ft 1.15-billion plant it is building at a greenfield site in Subotica, Serbia, to start operating in the near future. The 6,500-square-metre plant will have capacity to produce 500,000 square metres of EPS boards per annum. Masterplast expects rising energy prices and stricter energy efficiency requirements soon to be introduced for buildings to increase demand for the plant's product.

The Romanian plastics group Teraplast has invested €4.24 million in a new plant for PVC pipes at Saratel, Bistrita-Nasaud. The plant will have a production capacity of 22,000 tpa of PVC pipes, double the capacity of the old production facility. The Teraplast group of companies based in Bistrita is made up of Teraplast, Plastsistem and Politub. Teraplast is Romania's largest PVC processor; Plastsistem manufactures sandwich panels for commercial and industrial structures, while Politub is a manufacturer of polyethylene pipes for gas and water networks. Teraplast has budgeted total investments of €66 million for the next five years, with the largest share of them being underway this year.

Orgachim at Rousse reported a 57% drop of net profit for the first nine months of 2008. The unconsolidated profit shows a fall to 4.4 million leva during the third quarter from 10.4 million leva in 2007. The total operational income is 110.1 million leva and net sales' income reached 109.8 million leva. Operations expenses have increased significantly. Orgachim has spent BGN 105.8 million during the 9-month period. The company has written down BGN 1.261 million.

RUSSIA

Russian production January-October 2008

Production levels for petrochemicals in Russia remained relatively stable in October, although reductions in operating rates have been noted by some companies. As for the first three quarters of 2008, the industry has been performing strongly in terms of financial results. Production increased 0.8% in the period January-October 2008 against the same period last year. Synthetic resin and plastics production showed a 0.7% increase. Polyethylene showed a 5.5% rise to 1.069 million tons in the period January-October, whilst polypropylene dropped 11.3% to 420,800 tons. PVC was down slightly on 2007 at 481,400 tons and polystyrene was down 3.3% to 223,900 tons. The manufacture of plastics and rubber products increased 16.5% in the 10 months of this year, whilst fibres and threads fell 15.3%.

Bulk polymer output has been down this year due to various plant outages. These outages may become more extended in the current quarter, and the next quarter with the possibility of some normality returning by Q2 in 2009. However, the outlook is very uncertain at this stage. The fertiliser producers are the worst

affected in the Russian chemical sector, with a dramatic collapse in pricing over the past couple of months, and most other parts of the chemical industry are feeling some effects if not so acute.

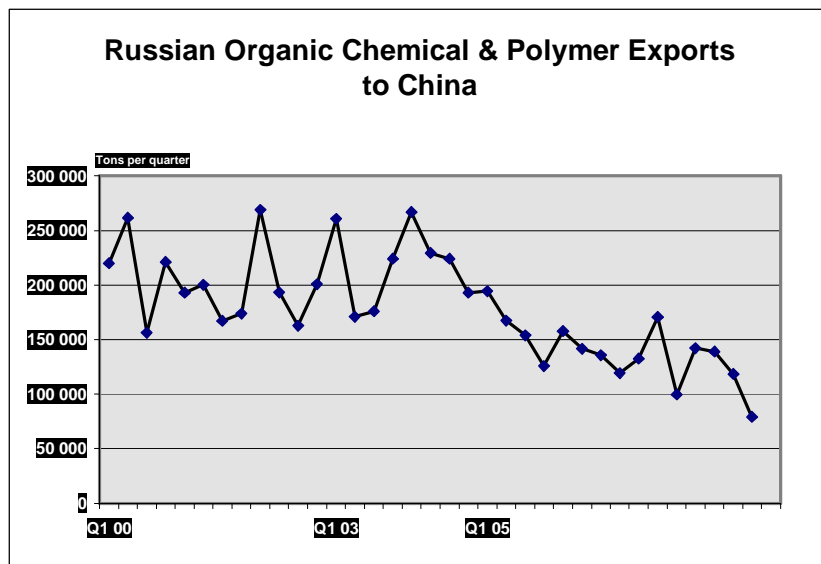
SIBUR has announced a temporary reduction in some products, but hopes to return to normal activity by the spring. Plants and products thus far affected include butyl rubber at Togliattikavsk, which has stopped production, and Plastik at Ust-Izhmorsk, which is reducing styrene by 36% in November. SIBUR-Khimprom at Perm is reducing iso-butanol by 47% to 1,940 tons per month, and 2-EH by 69% to 1,971 tons per month. Kazanorgsintez is thought to have reduced production in some areas; Sayanskkhimplast is said to have reported production 10-15%, whilst Khimprom at Volgograd may also take shutdowns on certain units.

Russian Petrochemical Production (unit-kilo tons)		
Product	Jan-Oct 2008	Jan-Oct 2007
Ethylene	1974.39	1773.1
Benzene	1006.5	998.2
Styrene	497.1	510.2
Phenol	191.0	190.8
Polyethylene	1069.2	1012.9
Polypropylene	420.8	474.4
PVC	481.8	482.9
PVC plasticizers	258.5	227.3
Polystyrene	223.4	232.9
Butanols	207.4	202.4
S Rubber	1011.6	996.5
Caustic Soda	1009.1	1064.3
Soda Ash	2433.3	1980.2

Market outlook

Prices for most monomers and intermediates have shown falls in recent weeks, as markets struggle to maintain demand. Many Russian chemical producers have shown good financial results for the first three quarters in 2008, but the sharp turnaround in the economy may expose certain companies. For the most part the industry seems ready to weather a short market shock, with tentative expectations of business resuming to pre-crisis levels by the second half of 2009. Most producers appear to expect that market should start to pick up by around March next year. Symbolically, SIBUR is continuing with its investment strategy and for the most part other major producers are following, although inevitably some projects may be delayed.

In terms of demand, the major areas that have been affected have so far included construction such as PVC for windows, polystyrene foam for insulation, etc. Some areas such as polymer pipes may see continued growth, or at least no decline in consumption, if the government is able to provide the correct form of support. Other areas such as polymer films in food packaging may be less affected.



Demand is being hit not only by the economic crisis, but also the fact that many traders and consumers bought large stocks of polyethylene and polypropylene in the first half of the year in apprehension of higher prices. It may thus take a few months for those stockpiles to disappear, and for solvency to return to the market.

The declining trend of Russian exports in organic chemicals and polymers continued in Q3 2008, due to increases in domestic consumption. The only product that saw an increase in exports was

bisphenol A, due to the start-up of the plant at Kazanorgsintez. Volumes are expected to drop, however, with polycarbonate plant at Kazan already started. Caprolactam exports have been hit by the financial crisis so that will be another product where volumes from Russia to China should be lower in the fourth quarter. Some Russian petrochemical producers may seek to revive or bolster export volumes to China to compensate for the lack of demand at home, but this may be difficult in the current climate.

Government support

The Russian government does not deploy a specific programme on petrochemicals per se, yet there are close linkages with one of the government's main environmental goals such as an increase of efficiency of

use of natural resources. As a result of the connection, the Russian President has undertaken a number of measures aiming to support the petrochemical industry, initially including the refinancing of foreign debts. The second problem involves the guaranteeing credit for companies such as SIBUR which could face difficulties implementing its investment programme without financial support. SIBUR has already approached Vneshekonombank for \$100 million for refinancing external debts, whilst the TAIK group in Tatarstan has made an application for 16 billion roubles (\$60 million). This is largely to support Kazanorgsintez which has over-stretched itself.

The government has allocated a total of 900 billion roubles for next year, with 5.1-9 billion roubles going to LUKoil, and 3.5-4.5 billion to TNK-BP, but the largest sum has been reserved for SIBUR at 134.4 billion roubles. SIBUR requires a substantial sum to finance the construction of new gas processing facilities at Tobolsk, needing around 45 billion roubles.

Petrochemicals

Feedstocks

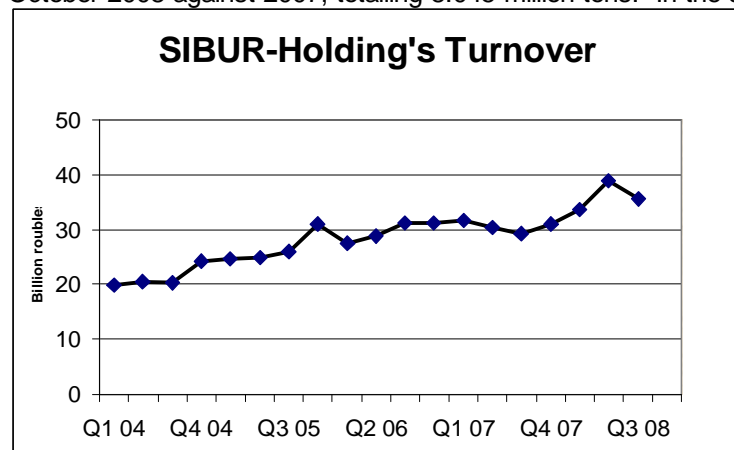
SIBUR has announced plans to build a new gas processing plant in the Yamal-Nenets region of West Siberia, with a capacity of 3 billion cubic metres per annum. The project also includes investment into the local infrastructure that will facilitate the transportation of liquid gas to the processing plant.

Gazprom and BASF are in talks on joint projects in East Siberia that will focus principally on gas refining. Gazprom has extensive plans to create a single system of production and transportation of gas in East Siberia, and the develop petrochemical projects. The four locations under review include Sakhalin, Irkutsk (based on Kovytko), Yakutia, and Krasnoyarsk.

The new Purovsk gas condensate line has been opened officially by Novatek in West Siberia, which adding to the first line now means a total capacity of 5.0 million tpa. Novatek manages the plant based on its own feedstocks. The capacity of the second line is 3 million tpa of gas condensate, adding to the first line with a capacity of 2 million tpa. Novatek is the second largest gas producer in Russia after Gazprom, aiming to produce 45 billion cubic metres in 2010 and 4.6 million tons of liquid products, rising by 2015 to 65 billion cubic metres of gas and 8.9 million tons of liquid products.

The Angarsk refinery, which is owned by Rosneft, increased crude processing by 6.51% in the period January-October 2008 against 2007, totalling 8.045 million tons. In the same period the Angarsk refinery, has produced

39,800 tons of butanols, 22,000 tons of methanol, 6,750 tons of amines and 6,000 tons of MTBE.



SIBUR Q1-Q3 2008

SIBUR-Holding's net profit rose by 69.6% in the period January-September 2008 over 2007 to 22.9 billion roubles (\$827 million). Turnover rose 18.4% to 108.02 billion roubles (\$3.94 billion), with gross profit at 38.9 billion roubles (\$1.41 billion). This was 63% higher than in 2007. Short-term obligations for SIBUR in the nine months of this year have fallen to 3% in comparison with the start of

2008. SIBUR completed its registration of products in November, as required by the regulations of REACH. A total of 77 products were listed that could possibly be sold to the EU area.

SIBUR strategy Q4 2008

SIBUR's main strategy of increasing gas processing and developing polyolefins remains intact amidst the financial crisis, although spending in some less critical areas will be reduced or scaled back in the coming months. Long term, SIBUR could become heavily involved in East Siberia under the government framework of TransValGaz. However, the lack of a local infrastructure and the lack of any sizeable regional market would mean that exports would be the main pretext for constructing petrochemical plants in East Siberia. It will

probably be more sensible to extend the feedstock pipelines to the Pacific coast where gas-chemical complexes would be able to export to North East Asia with relative ease. That seems to be the longer term view, with priority over the next few years focused on the expansion of gas processing capacity in West Siberia. This has a double-edged sword in that it compiles with the government strategy to increase the processing of associated gas flares up to 95% by 2015, whilst providing SHFLU feedstocks for further processing into petrochemicals.

In terms of foreign trade, Gazprom Export is responsible for exports from SIBUR, as there is no internal division dealing with foreign customers. However, SIBUR sells most of its output to the domestic market and thus relies much less on exports. SIBUR remains involved in fertilisers, but it may be that assets could at some stage be transferred to Gazprom where there is more of a natural synergy. Rising gas prices over the next three years will affect profitability for fertiliser sales, and ideally these assets should be somehow offloaded or exchanged.

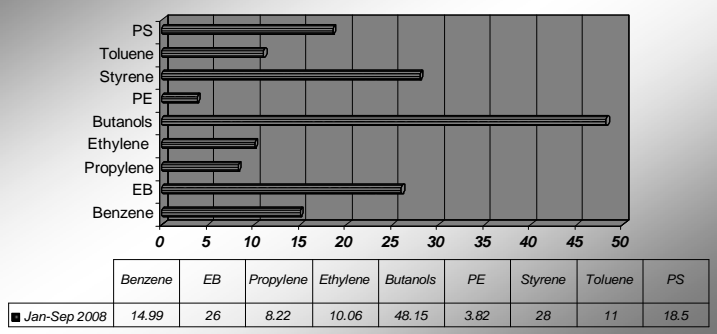
Main Raw Material Sources for Salavatnefteorgsintez Q3 2008

Feedstock	Region	Supplier	% of total feedstocks
Gas Condensate	Orenburg, Astrakhan & Surgut	Gazprom-Neft	19.6
Oil	West Siberia	LUKoil	28.8
Oil	West Siberia	Surgutneftegaz	16
Oil	West Siberia	Shell Trading	12.3
Oil	West Siberia	TNK-BP	9.6
Oil	West Siberia	Gazprom-Neft	9.6

SIBUR views Salavatnefteorgsintez as possessing potential for expansion. The capacities of Salavatnefteorgsintez can be divided into three groups, oil refining, petrochemicals and fertilisers, each of which require substantial investment. SIBUR plans to co-operate in the

sphere of petrochemicals, by delivering SHFLU from Orenburg. SIBUR also views Astrakhan as important based on ethane feedstocks, although finance may be a restriction on this project happening in the near term.

% Share of Production at SNOS in Russia (Jan-Sep 2008)



Salavatnefteorgsintez Q3 2008

The net profit for Salavatnefteorgsintez (SNOS) in Q3 2008 totalled 1.6 billion roubles, which was 3.5 times higher than in Q3 2007. Production rose 18% in Q3 2008 to 29.623 billion roubles. A large part of the company's production stems from the refining sector, but it is still one of the major petrochemical producers in the Russian market as indicated by the graphic. In terms of feedstocks, the complex is dependent on gas condensate from Gazprom and crude supplies from West Siberia. Salavatnefteorgsintez saw a 13.5% increase in oil costs in Q3 2008 against 2007, whilst gas condensate and SHFLU

prices rose 17.7% and 30.3% respectively. An incident took place in the monomer division on 20 November, which may have forced a temporary stoppage but no details are yet available.

Tobolsk-Neftekhim Q1-Q3 2008

In the period January-September 2008, Tobolsk-Neftekhim processed 2.099 million tons of SHFLU representing a 2.2% increase against 2007. The full year processing target has been set for 2.850 million tons. In the petrochemical division, the Tobolsk plant produced 145,000 tons of butadiene in the first three quarters of 2008, a 3.5% rise over last year whilst MTBE increased 9.5% to 78,832 tons. The largest increase at the complex was seen in isobutylene production, rising 35.9% above the planned target. Isobutane-isobutylene fractions also increased 29.2% to 15,640 tons.

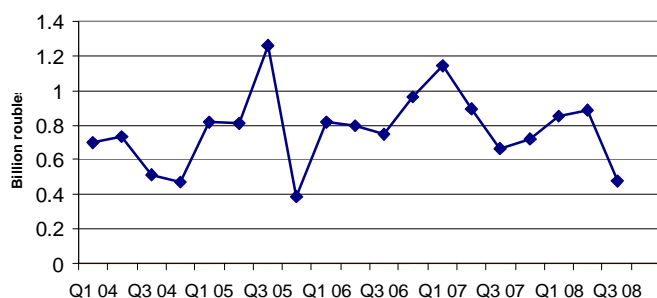
Tomskneftekhim, transport and research

Tomskneftekhim has introduced experimental containers for transporting products to customers, as the company's long term policy is to reduce the dependency on rail transport. Earlier this year Tomskneftekhim began studying the possibility of increasing product sales through road transportation. Rail costs have increased over the past few years making it a less profitable form of transport, and alternatives are thought to be necessary. To help ship product by lorry, Tomskneftekhim is taking part in the construction of a road

that will connect Tomsk with Khanty-Mansisk and Perm. Aside increased tariffs, delivering by rail is often ineffective in terms of time and cost.

Regarding technical research, Tomskneftekhim now works closely with the institute NIOST at Tomsk. NIOST is a resident of the northern platform of the Tomsk special economic zone (OEZ) and in 2009 will start two new pilot installations for carrying out of full-scale chemical research. This will include the manufacture of titanium-magnesium catalysts in the use of super high-molecular polyethylene. The new installations will expand the possibilities of scientists for experimentation. SIBUR-Holding reached agreement with the Tomsk administration in October regarding the efforts into research and innovation, ultimately to the benefit of Tomskneftekhim. The group aims to increase propylene capacity by 230,000 tpa to cover the addition of new polypropylene capacity.

Net Profit for Nizhnekamskneftekhim to Q3 2008



rising to 11,862 billion roubles against 8.803 billion roubles. billion roubles.

Nizhnekamskneftekhim record production

Production at Nizhnekamskneftekhim in October achieved the highest monthly figure for sales, which totalled 6.1 billion roubles. Production turnover was 9.7% higher than planned. The company made 62.6 billion roubles in commodity output in the first ten months of 2008.

The main goal of Nizhnekamskneftekhim in the current economic environment is to maintain full utilisation, which may mean the need to be flexible on price with certain buyers. In the first three quarters, the total profit was 1.3 times higher than in 2007, Turnover increased from 43.4 billion to 56.1 billion roubles.

Kazanorgsintez faces debt problems

In the period January-September 2008, Kazanorgsintez increased turnover by 3.464 billion roubles or 22.7% over 2007, totalling 18.755 billion roubles. However, profits before tax dropped 438.841 million roubles to 4.321 billion roubles due largely to higher costs of raw materials. Gas prices have been a major factor this year. The net profit for nine months of 2008 totalled 1.608 billion roubles against 2.257 billion roubles in 2007.



Kazanorgsintez is reported to be facing debt problems, which has led to Standard and Poors lowering its long-term corporate rating of the company to negative. In the opinion of Standard and Poors, the possibility of default for Kazanorgsintez has increased in recent months with debts exceeding \$1 billion, which is around seven times the current EBITDA. In reality, the possibility that

Kazanorgsintez could be declared bankrupt is extremely remote, but the company has encumbered itself with a large-scale debt which may become more difficult to service in the weak global economic climate.

Whilst the debt ratio has been increasing since the end of 2006, Kazanorgsintez has sought to repay these debts through increases in turnover and particularly EBITDA. However, with falling product prices and weaker demand this outlook scenario has been affected.

The main challenges for Kazanorgsintez in the short term will be to secure funding or extensions on maturing debt obligations and obtain a new waiver from noteholders and, potentially, bilateral lenders on the expected covenant breach. Operating performance in 2009 is likely to fall short of the levels anticipated when the

company launched its four-year debt-funded capacity expansion programme. The current debt ratio for Kazanorgsintez has been caused largely by the investment programme in the 2004-2008 period, which is now all but complete. This included an expansion of ethylene capacity from 430,000 tpa to 630,000 tpa; an expansion of HDPE capacity from 197,000 tpa to 510,000 tpa; the construction of bisphenol A and polycarbonate plants with respective capacities of 70,000 tpa and 65,000 tpa; and the modernisation of the existing phenol unit.

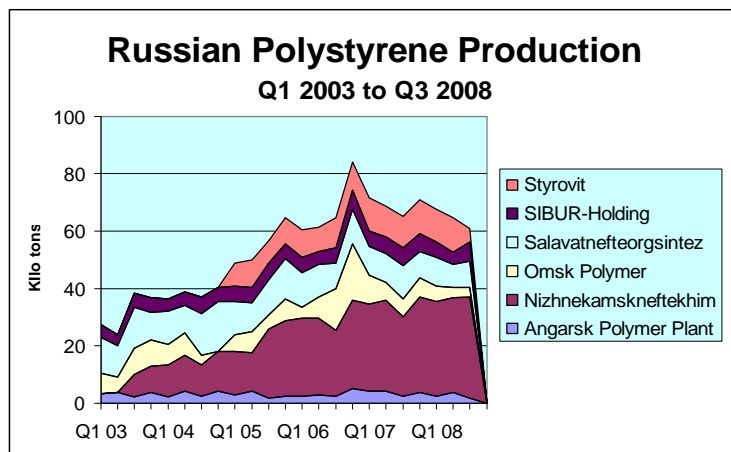
The next phase of development planned for the company covers the 2008-2012 period, although at this stage it is difficult to see the goals being achieved on time. The main part of the next investment programme consist of the construction of a new ethylene plant with a capacity of 600,000 tpa, and the construction of a 200,000 tpa propylene plant. A 350,000 tpa bimodal polyethylene plant is also planned.

Bulk polymers

Russian polystyrene market

Polystyrene production fell by 5.2% in the first three quarters of 2008 against 2007, totalling 196,000 tons. Production peaked in Q4 2006 at 86,000 tons, but during 2007 and 2008 there has been a gradual decline in output levels. Nizhnekamskneftekhim is the only producer to have increased production in this period. The polystyrene division at Nizhnekamskneftekhim reached 500,000 tons of production in November since start-up of the first line in 2003. The division now operates three lines producing HIPS and GPPS. The fall in output this year is due to extra plant maintenance in part, and the difficulty of the smaller and older plants to compete against imports.

Demand for polystyrene is growing strongly in Russia, partly influenced by the demands for insulation. The



adverse economic conditions at present will most probably slow the growth rate for a while, according to converters, but only on a relative scale. New capacity is being added at SIBUR-Khimprom at Perm to meet the growing demand in the marketplace. Nizhnekamskneftekhim has been seeking an increase in import duty for polystyrene to between 10-20%, but the government is unlikely to approve the proposal due to the fact that Russia does need polystyrene.

In the processing sector, Styrovit has become the main player in Russia that producing its own polystyrene. Other

competitors in the polystyrene market include Technonicol which has plants at Kostroma and Minvody. Large players include Promkhimplast, Tepleks, and Eksprol are all dependent on polystyrene purchases in the market and mostly from Nizhnekamskneftekhim.

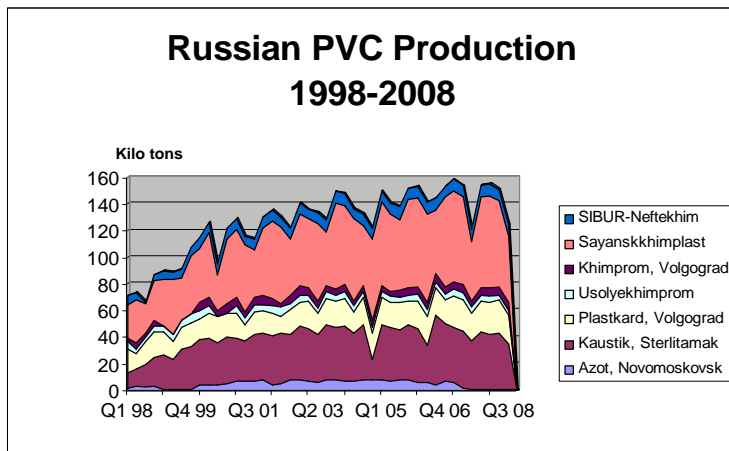
In the Russian EPS market, import competition stems from Dow (Styrofoam), BASF, and Ursa (Ursa XPS). While polystyrene production at Nizhnekamsk is considered to operate on the latest technology, not all producers of EPS believe the product is the best available. Most consumers see the product as not sufficiently stable and prefer to buy product from Styrovit at Kirishi. The key distinction between Nizhnekamskneftekhim and Styrovit is the dependence on styrene.

In 2009, Styrovit will start a 50,000 tpa plant for general purpose polystyrene. In November 2008, Styrovit started the production of a new type of polystyrene in November entitled Penopor. The product includes improved insulation characteristics and the capacity will be 24,000 tpa in 2009. This means that the owner of Styrovit, Penopleks, has increased its total processing capacity to 70,000 tpa which will mean that additional polystyrene will need to be bought on the open market.

Polyethylene imports rise in October

Despite the expectations of lower demand for polyethylene in October, Russia saw imports over the month of 40,200 tons representing a 50% increase on September. Around 70% of imports were based on the specifications from Borealis and Ineos, in usage for cables and extruded materials. Kazanorgsintez resumed

production of HDPE 276 grade in mid-October, whilst restarting LLDPE in November after stopping in September. Information on Stavrolen is mixed; on the one hand it has been difficult to meet demand for HDPE and on the other a lack of orders have reduced output in parts of the complex.



PVC

PVC production in Russia totalled 431,000 tons in the first three quarters of 2008, which was 0.6% down on 2007. Imports of PVC suspension dropped 10% in October as the result of the economic conditions, and only amounted to 40,400 tons. In fact, imports have been falling slowly since May-June this year, and the financial crisis simply took this trend to a new level. China is the main source off imports into Russia. Whilst imports of PVC suspension have been in decline, PVC paste imports actually rose in October, taking the full year total to date to around 70,000 tons (19.6% up on 2007).

Synthetic rubber

Togliattikaucuk

Togliattikaucuk has reduced butyl rubber production due to lower demand. The product was being used in China for preparations for the Olympic and Paraolympic games in Beijing in 2008. The completion of the events has reduced orders for Togliattikaucuk, which have not been replaced by other customers and the company has thus decided to reduce operating rates to a minimum. Other cost reductions are being examined by the company in response to the weaker economic environment, and this could consist of job cuts of anything up to 1,500 people. Butyl rubber production is expected to restart in the spring. To date in 2008 the butyl rubber plant had produced a total of 37,800 tons, which by the year-end will be 23% less than planned.

In the third quarter, Togliattikaucuk exported 6,440 tons of butyl rubber from the total 12,900 tons produced. Togliattikaucuk also produced 29,670 tons of isoprene rubber in Q3, of which 12,960 tons was exported. Other reductions in petrochemical output in the SIBUR group include Plastik at Uzlovaya, which is reducing styrene by 36% in November, SIBUR-Khimprom at Perm, which is reducing iso-butanol by 47% to 1,940 tons per month, and 2-EH by 69% to 1,971 tons per month.

Voronezhsintezkaucuk

Voronezhsintezkaucuk, also part of SIBUR, reduced production in October and expects the next 3-4 months to be most difficult for the company. Deliveries to both internal and export markets have been lowered, and improvements are not really expected until around the March next year. The company produced a total of 59,337 tons of synthetic rubber in the third quarter, and this should be lower in the fourth quarter.

Amongst the products, 28,980 tons of polybutadiene was produced in Q3 of which 83% was sold on the domestic market. In October, Voronezhsintezkaucuk produced 17,586 tons of synthetic rubber of which 51.9% was exported. This included 10,701 tons of polybutadiene and thermoelastomers 1,051 tons. For the period January-October 2008, the company produced 191,573 tons of synthetic rubber of which 42% was exported.

Other rubber plants

Efremov Synthetic Rubber Plant has not been running since September due to the lack of butadiene supplies. The company has not seen deliveries from Nizhnekamskneftekhim since a maintenance shutdown took place in the third quarter. Production was intended to restart on 15 September, but has not been possible due to the butadiene shortage. Normally the company purchases 5-6,000 tons per month from Nizhnekamsk, but it is thought that the opening of a new plant by Nizhnekamskneftekhim has increased captive consumption.

Discussions are underway between the Tula and Tatarstan regions to avert the closure of the Efremov rubber plant. Some butadiene was purchased from Iran, but this was not enough to keep the plant running. In July and August, the company exported 2,210 tons of synthetic rubber and sold 2,440 tons on the domestic market.

Kautschuk at Sterlitamak reduced export shipments by 65% in September this year due to market conditions. In the third quarter, the company produced 28,920 tons of isoprene rubber of which 10,380 tons were exported. In addition to reduced exports, domestic demand has also been affected.



11,260 tons (exporting (81.3%).

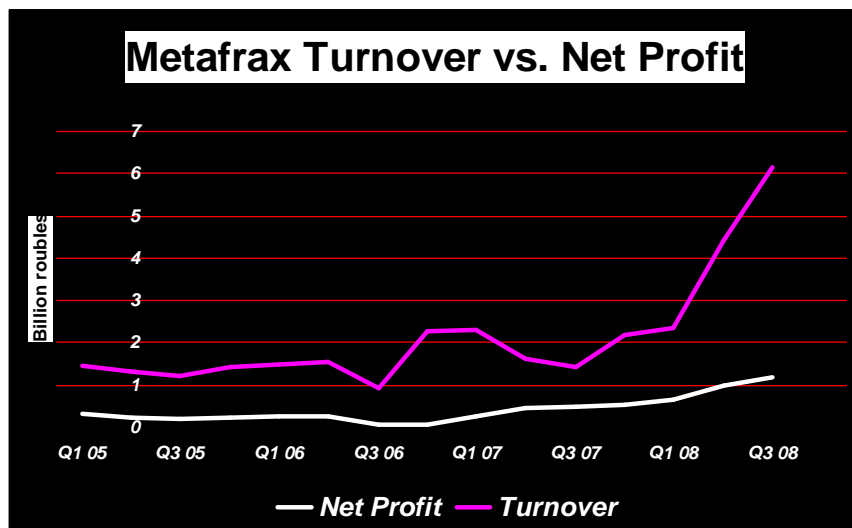
Nizhnekamskneftekhim

Nizhnekamskneftekhim may also suspend production of butyl rubber, but possibly only for a normal maintenance turnaround. Production dropped 18.4% in September against August down to 9,600 tons with exports dropping 27.4%. The company produced 32,920 tons for the third quarter, of which 18,890 tons was exported. For isoprene rubber, a total of 57,850 tons were produced in the third quarter of which 43.7% was exported. Other products included polybutadiene rubber, of which Nizhnekamskneftekhim produced 33,500 tons in Q3 (exporting 78%) and HBR

Methanol & gas based chemicals

Metafrax maintains investment plans for 2009

Metafrax is not planning to alter its investment targets for 2009, despite the current economic confusion. At the same, it is unlikely to adopt any new plans until the economic climate becomes more stable. All projects



which have already been started will be completed. These include the completion of the new urotropin plant with a capacity of 20,000 tpa, an increase in polyamide capacity to 3,000 tpa, and the completion of the gaseous nitrogen plant with capacities for nitrogen and compressed air. Metafrax signed the contract with Air Liquide for the gaseous nitrogen plant which will cost around €7 million. I

Projects likely to be affected included proposals for urea and

ammonia, which Metafrax mentioned a few months ago. This whole project would cost in the range of \$400 million, including around \$15 million for the construction of a paraformaldehyde plant with a capacity of 20-30,000 tpa. These projects will be held until the economy improves, but in the meantime the company seems relatively well placed to weather a downturn. However, as nearly half of production is exported, it seems turnover should be affected to some degree or another. Turnover and profits have been growing quickly in the past few years as demonstrated by the graphic above, but the company is bracing itself for both lower turnover and profits in the fourth quarter.

Evrokhim-modernisation

Evrokhim plans to invest 2 billion roubles in the reconstruction of Azot at Novomoskovsk, involving the urea-

3 unit, with a transition to granulated production and increase in capacity by 2,000 tons per day. Reconstruction is expected to finish in Q1 2009. Azot at Nevinnomyssk is looking closely at improving its environmental record on production. Emissions of ammonia have been reduced by 195 tons per annum, with methanol falling by 11 tons per annum.

Azot Nevinnomyssk-Evrokhim (Kilo tons)		
<i>Product</i>	<i>Q3 08</i>	<i>Q3 07</i>
Ammonia	290.26	229.46
Urea	133.86	112.05
Methanol	33.28	34.78
Acetic Acid	43.86	44.62
Acetaldehyde	10.76	11.72
Butanol	5.37	5.35
VAM	4.597	4.23
Butyl Acetate	5.59	6.3
PV Alcohol	0.168	0.143

Evrokhim is continuing to invest in Phosphrit and plans to spend 400 million roubles on a new sulphuric acid plant. The furnace start will be made after a stop for major repairs and start of the new equipment in the middle of December. The second stage of reconstruction of manufacture of sulphuric acid will allow an increase in capacity by 2010 from 700,000 tpa to 1 million tpa.

Potash fertilisers

Silvinit and Uralkali have reduced production of potash fertilisers due to lower global demand. Uralkali expects fourth production volumes to fall by 500,000 tons, with the company expecting a final year total of 4.9 million tons in 2008 which would be 4.3% down on last year. Silvinit has started the reconstruction of its railway station at Solikamsk, as part of the

company's programme to improve its infrastructure. This will eventually allow traffic of 300 wagons a day. Uralkali plans to launch its second potassium chloride line with a 1.5 million tpa capacity in early 2010 as part of the investment programme. Commissioning of the second line will follow the major overhaul of the first line.

Russian ammonia market

Akron has cut output by up to 50% temporarily at its plants in Russia and China due to lower demand from agricultural producers. The global liquidity crisis has affected the financial position of agricultural producers; and many of them are experiencing difficulties with obtaining debt financing. Akron, which sold 4.4 million tons of fertilisers last year, has stated it would reduce ammonia output at its Novgorod facility by 30%, mineral fertiliser output by 50% and organic chemicals by around 20%. The company's Drogobuzh subsidiary in the Smolensk region is cutting ammonia output by 15% of total capacity and reducing ammonium nitrate output by 50%. Hongri Akron, based in China's Shandong province, is cutting complex fertiliser output by 50%.

Russia increased ammonia production by 2.5% in the period January-September 2008 compared against 2007, totalling 9.91 million tons. Togliattiazot increased production by 5.8% to 1.703 million tons; whilst Akron increased 2.9% to 793,500 tons.

New ammonia plant for Caspian region

Vietnam is to invest \$1.5 billion in the construction of an ammonia and nitrogen fertiliser plant in Kalmikya on Russia's Caspian coast. Construction is expected to begin in 2009 and the facility could start production in the first half of 2013. The plant is expected to produce 850,000 tpa of ammonia and 750,000 tpa of nitrogen fertilisers. Around 1 billion cubic metres of natural gas extracted from the Caspian Sea is planned to provide the feedstock for the new plant. The plant will be built through a joint Russian-Vietnamese venture, which will function on a parity basis.

Aromatics derivatives

Kuibyshevazot-reduction in caprolactam production

Kuibyshevazot achieved turnover of 16.5 billion roubles for the first three quarters of 2008, 34% higher than

Kuibyshevazot Financial Performance	Q1-Q3 08	Q1-Q3 07
Turnover (billion roubles)	16.514	12.326
Gross Profit (billion roubles)	5.744	3.688
Net Profit (billion roubles))	2.997	1.362
Profitability vs. Capital%	29.98	19.83
Profitability vs. Shares%	15.32	9.65
Profitability on Sales%	27.26	18.73

in 2007. Gross profits rose 95% to 4.5 billion roubles and net profit rose 2.2 fold to 3 billion roubles. This makes Kuibyshevazot one of the most profitable companies in the Russian chemical industry. Despite Kuibyshevazot proving to be one of the fastest growing chemical companies in Russia, the fourth quarter should see much lower results. In October, the caprolactam and polyamide plants ran at only 50% of capacity, whilst fertiliser sales have been hit and production stopped temporarily. It may be not until next year that demand resumes at rates seen in the first seven or eight months of 2008. On the

plus side, benzene prices which are a major drain on the company's resources have fallen against the third quarter.

Kuibyshevazot is progressing with construction of its fourth line for polyamide-6 production, with a capacity of 50,000 tpa. After commissioning, total capacity for polyamide production at Kuibyshevazot will rise to 150,000 tpa. Other projects at Kuibyshevazot include the expansion of ammonia capacity to 1.8 million tpa, and the jv MMK Benzol which will have a capacity of 50,000 tpa of benzene.

Azot at Kemerovo reduces caprolactam

Azot at Kemerovo has reduced operating rates for nearly all of its products in response to lower demand. In October, the company reduced its production of caprolactam by 35%, ammonium nitrate by 20% and ammonia by 10%. The decision to slow down producing chemicals has been taken due to decline of demand from the major clients in South East Asia.

Plastics & Additives

Russian PET capacity update

PET capacity in Russia stood at 142,000 tpa at the start of 2008, equating to roughly 25-28% of current consumption levels. The large majority of imports continue to come from China, South Korea, and India, but that picture is changing as new Russian capacity is introduced. If all of the capacity plans materialise in the near future, Russia should start to see a surplus available for export. At the start of the year, SIBUR-PETF (52,500 tpa) and Evroplast (90,000 tpa) were the only two producers in Russia, but Polief has since added its two lines of 60,000 tpa. Evroplast is expanding 220,000 tpa, although there is no news when that will be completed, whilst Polief aims to increase capacity to 400,000 tpa by 2011-2012. SIBUR-PETF is increasing capacity to 90,000 tpa, and KP Bars in Tatarstan is building a new 300,000 tpa plant. In addition to these projects, a 150,000 tpa plant is

Retal's PET Consumption				
	2005	2006	2007	2008 ^
Consumption (kilo tons)	121.5	129.7	148.5	89
Import %	87	95	90	84
<small>^ Jan-Sep 2008</small>				

planned for Kaliningrad to add to the plants that have already been constructed at Klaipeda (Lithuania). The Neo Group and Indorama plants are together producing around 500,000 tpa, some of which is being channelled back into the Russian market. Retal, the largest PET bottle manufacturer, is part of the Neo Group and intra-company purchases are counted as imports. This keeps the import ratio of Retal high as shown in the table, but the trend is downwards and the company

expects imports to decline as new capacity comes onstream.

Russian PET preform market

PET preform consumption in Russia has slowed down this year after a period of robust growth. Average growth rates in the past few years have varied between 8-12%, but 2008 is expected to see zero growth. Consumption totalled 415,500 tons in the first three quarters of 2008, or the equivalent of 9.9 billion preforms. Imports remain insignificant due to a large production base in Russia, with Retal as the market leader. The high level of

Russian PET preform market (unit-kilo tons)				
	2007	2006	Q1-Q3 08	Q1-Q3 07
Production	514	467.3	420	420
Imports	13.1	18.7	5.2	10.2
Exports	16.3	4.5	9.7	13.9
Market Balance	510.8	481.5	415.5	416.3

competition in the Russian preform market has led to many manufacturers working closely with the main end-users in order to ensure continued sales. Demand is seasonal so that the winter period is the slowest period for consumption. South Korea is still the dominant supplier of PET to Russian preform manufacturers, but market is

declining with the rising volumes of domestic PET production. Signs of a slowdown in growth in preform consumption were evident in the past two quarters, and this trend seems likely to continue raking into account the current economic volatility. The increases in PET capacity in Russia in the next two to three years are, however, likely to see a further intensification of the preform market.

SIBUR-PETF, Coca Cola agreement

Coca-Cola IBS Eurasia has approved the use of PET from SIBUR-PETF at Tver for its plants in Russia, Ukraine and Belarus. The quality of PET produced at Tver now corresponds to the standards required by Coca Cola for usage in soft drinks. SIBUR-PETF was the first Russian PET plant in 2003, based on technology supplied by Zimmer, and currently the company is expanding its capacity from 52,500 tpa to

70,000 tpa. This is expected to take effect in the next few months. This year, the secondary processing of PET has started at Tver, which can be used in outlets for PET films, packaging, etc.

Rohm & Haas opens new Moscow plant

Rohm and Haas launched a new manufacturing facility in the Ramenskoye region of Moscow in November. The plant was developed from a greenfield site with close proximity to key customers and with access to local and imported raw materials. Manufacturing at the plant will be focused on additives for paint and coatings materials and adhesives. The plant has been designed with the capability to make a wider range of polymers for coatings and detergents at a later date.

The new plant will have an ultimate capacity of 70,000 tpa, upon completion of the final stage. The plant is the company's largest investment in Russia to date and will be wholly-owned by Rohm and Haas. This manufacturing site will enable the company to deliver products faster to the local domestic Russian market and to the neighbouring markets of Ukraine, Belarus, Kazakhstan, and the Baltic States.

Russian PE pipe market

Production of polyethylene pipes increased 15% in Russia to 144,000 tons in the period January-August 2008. Around 25% of all pipes go into gas pipes and 65% for water pipes. Most of the producers of polyethylene pipes in Russia are relatively small with the main market leaders being Polyplastik. The rate of growth has started to slow this year, with a 15% rise in consumption recorded for the period January-August 2008 against a 34% rise for the same period in 2007. The reasons for this lower growth are partly due to the impact of the global financial crisis and partly due to the fact that growth rates of above 30% are rarely sustainable over the longer term. Manufacturers are experiencing lower demand already, and may need to endure a difficult few months.

Demand in 2008 has been lower than in 2007. The market for water pipes range from a diameter of 110 mm to 500 mm, whilst Russia currently lacks pipes of the larger diameter from 800 mm to 1200 mm. Probably the strongest growth has been noted for gas pipes in the diameter range from 110 mm to 225 mm. Russia produces PE-53, PE-80 and PE-100, which can be broken down in terms of consumption into 2%, 68% and 30% respectively. PE-80 and PE-100 are both good for work under pressure and high temperature, but PE-100 is growing at the expense of PE-80. The geography of PE pipe sales is changing in favour of Siberia and south-eastern Russia caused by realisation of various municipal programs. The main users include the building companies and the organisations financed from the state budget. Many pipelines are being replaced in Russia, although the lack of finance is a stumbling block.

Other plastics news

Three Russian producers of sheet plastics, Kronos, Karboglas and Polyalto have signed a memorandum of mutual understanding to work together in future. Market conditions for cellular plastics in Russia are the main reason for the companies looking to co-operate, mainly in relation to quality requirements.

Simplex, is one of Russia's main domestic distributor of polymers, has opened a new warehouse in the Saratov region to serve the regional market. The modern system of the storage is completely automated process and covers products HDPE, LDPE, polypropylene Abs, polyamides, polystyrene, etc.

A new polypropylene bag plant was officially launched on 24 October at Shadrinsk in southern Russia. This is the first Russian-Chinese joint enterprise in the Kurgan Region. Equipment for the plant was purchased and delivered from China. The capacity of the new facility is for 10 million polypropylene bags per annum.

Chlorine/soda chemicals

Chlorine/caustic market

The main chlorine producer to react to the new economic circumstances is Khimprom at Volgograd which has reduced production at several of its units. Only in the third quarter, Khimprom had assessed a series of investment projects including calcium chloride and hydrochloric acid. A main part of the projects is to improve the environmental standards of production and to expand the capacity. These projects will probably be on hold until the economic climate improves. Khimprom is the sole Russian producer of benzyl alcohol, benzaldehyde, benzyl chloride and numerous other products. Since 2002 the company has faced serious financial difficulties, with a loss of 290 million roubles in 2007. The fact that the company has been

making losses has meant that the current financial crisis affects the operational activity of the plants, and job cuts may be made on a temporary basis. By contrast, neighbouring Kaustik at Volgograd (part of Nikokhim) has been recording good profits for several years. In the period January-October 2008, Kaustik produced 120,385 tons of liquid caustic soda, showing a 4.6% increase over 2007. The company also increased hydrochloric acid production by 4.6% to 215,738 tons. Kaustik increased production in the third quarter, but may slow down in November and December.

Russia produced 956,000 tons of caustic soda in the period January-September, a 0.1% increase over the same period last year. Russian producers supplied 560,000 tons to the domestic market, 6% more than the same period last year. Sayanskkhimplast saw the largest increase in domestic sales of 11% to 117,000 tons, whilst Kaustik at Sterlitamak increased by 2% to 92,000 tons. Imports rose 17% in the first three quarters, but still only totalled 14,200 tons.

Russian soda ash market Jan-Sep 2008

Russia produced 2.2 million tons of soda ash in the period January-September 2008, of which Russian producers shipped 1.513 million tons to the domestic market (5% higher than in 2007). Soda at Sterlitamak increased domestic sales 13.2% to 841,500 tons, the Achinsk plant increased 1.5% to 334,200 tons, and the Berezniki plant increased by 6.1% to 248,600 tons. Russia also imported 243,000 tons in the period January-September, 15% less than in 2007. Most of the imports are sourced from Ukraine, whilst at the same time; exports from Russia dropped 15% to 427,000 tons. Only Berezniki Soda Plant increased exports, rising 75% to 90,000 tons, whilst Soda at Sterlitamak reduced exports 29% to 243,000 tons and the Achinsk plant reduced output 12% to 92,000 tons. In terms of production, the Metachem group saw a fall of 35% at the small Volkhov plant, whilst Soda at Sterlitamak increased production 2.7% to 1.306 million tons.

Ukraine

Ukrainian Chemical Production Jan-Oct 2008 (unit-kilo tons)

<i>Product</i>	<i>Jan-Oct 2008</i>
Acetic Acid	135,809
Adipic Acid	25,338
Benzene (-95%)	213,108
Benzene (+95%)	139,460
Caprolactam	43,082
Caustic Soda	71,800
Ethylene	85,030
Formaldehyde	70,006
Methanol	149,232
Polyethylene	48,412
Polypropylene	73,040
Polystyrene	32,794
Polyvinyl Acetate	8,655
Propylene	37,759
Soda Ash	822,400
Titanium Dioxide	111,761
Toluene	5,709

Chemical output Ukraine

Ukraine has seen a sharp fall in industrial activity since the eruption of the financial crisis, with a 20% drop noted in October. Recession seems fairly inevitable, although for how long it remains too difficult to guess. In the short term, the fertiliser sector seems to be the worst affected in the chemical industry. Caustic soda imports from Russia fell in November, whilst Dneprozot at Dneprodzerzhinsk stopped production in the early part of the month reportedly due to the financial crisis. With Karpatneftekhim already idle, it means that Ukraine has no production of caustic soda.

Stirol-EBRD

Stirol at Gorlovka is to receive a loan for \$75 million from the EBRD which will facilitate an improvement in cost and operational efficiency. This will be achieved through the modernisation of two urea and two ammonia production units, the reduction of N₂O gas emission and implementation of energy efficiency projects. The loan comes with some conditions, one of which includes applying new standards for business conduct. The project is expected to result in significant energy savings in total energy, gas and electricity consumption.

The EBRD might assist Stirol together with the Multilateral Carbon Credit Fund ("MCCF") in the development of a carbon credits transaction and monetise (i.e. sell) the carbon credits or Emission Reduction Units ("ERUs") deriving from the project.

Ukrainian PET market

Hekro PET at Khmelnytsky is preparing to manufacture a new barrier food packaging film by the end of this year. The company is planning to launch its new barrier film, claimed to be the first such product produced. Ukraine currently imports barrier films for use in wrapping meat and other fresh food from West Europe. In 2006, Hekro installed a high speed 5-layer cast stretch film line supplied by Battenfeld Gloucester Europe GmbH.

PET preform consumption has risen sharply over the past few years in Ukraine, although there was a 1% drop this year to 177,000 tons for the first three quarters. Production has dropped due to lower demand. There are twelve PET preform manufacturers in Ukraine, but no PET capacity. In the first nine months of 2008, China accounted for 65% of PET imports into Ukraine, 19% from South Korea and 6% from Malaysia. The market has reached the point of saturation with few possibilities for growth in the short term. Import duties have been imposed to restrict the flow of imports into the country. Uniplast accounts for 74% of PET preforms from Ukraine, Hekro PET 16%, and Pro PET 7%. PET preform consumption is forecast to finish 2008 with a 6% increase over 2007, with most of the products sold from domestic output.

Belarus

Polymir-Naftan merger

A joint general meeting of shareholders of Naftan and Polymir will take place at Novopolotsk on 28 November to consider four issues related to the merger of the two companies based at Novopolotsk. The shareholders are set to decide on the amendment of the Naftan authorised fund, approve the decision on additional issue of Naftan shares and on their distribution among the Polymir shareholders.

As part of Naftan, Polymir is expected to remain an independent structural subdivision with its own settlement account. At first, Polymir will keep independent accounting and statistics. The personnel of Naftan will exceed 11,000 after the merger.

**Belarussian Chemical Production
(unit kilo tons)**

Product	Jan-Oct 2008	Jan-Oct 2007
Ethylene	121.4	105.5
Benzene	76.7	83.2
Caprolactam	105.2	101.2
Phthalic Anhydride	14.1	10.8
Polyethylene	115.8	113.4
PET	191.6	165.7

The reorganisation will help the two companies find a strategic investor for large-scale production modernisation. Polymir and Naftan require in the range of \$1.8 billion and \$600 million respectively to undertake the project programmes. Polymir wants to revamp and expand ethylene capacity, build a polypropylene plant with 120,000 tpa of capacity, an MEG plant of 105,000 tpa, and modernise the acrylic fibre plant (10,000 tpa). Other projects include the construction of an HDPE plant.

Belarus-REACH

A total of 22 Belarusian companies are required to register petrochemical products according to REACH rules for exporting them to the EU. Four of them do not need the registration; Naftan and Polymir have completed the procedures while the remaining 16 companies are vigorously working on it. Failure to accomplish the procedure by 1 December will entail major problems. The exporters will have to pay for the registration individually. The preliminary registration is to ensure the safety of the exports and is not a new trade barrier according to the EU.

Mozyr paraxylene project

Slavneft has confirmed that it will not participate in financing the paraxylene project at Mozyr. Slavneft is a joint owner of the Mozyr refinery, with a 49% stake. The majority stakeholder Belneftekhim will now have to finance the project alone if it wishes to proceed. Slavneft had suggested that it would be better to create new paraxylene facilities either at Naftan or Mogilevkhimvolokno rather than Mozyr. At Naftan there is an existing paraxylene unit, which could be expanded, whilst Mogilevkhimvolokno is building its own PTA plant and there could be advantages for integration.

However, Belneftekhim is not expected to change its strategy. The licensing and project foundations have already been agreed as part of the development of the Mozyr refinery in the 2006-2011 period. The capacity of the paraxylene plant at Mozyr is scheduled to be 120,000 tpa, set against the total requirement for Belarus of around 180,000 tpa.

Central Asia/Transcaucasus

Chemical production increased 43.8% in the period January-October 2008 against 2007, with plastics rising 18.1%. Caustic soda rose 70.9% to 18,700 tons, propylene 51.8% to 27,300 tons, polyethylene 46.7% to 49,900 tons and isopropanol 46.4% to 17,800 tons.

Armenian rubber producer produced 4,604 tons of chloroprene rubber in the period January-September 2008, which is 15.9% less than last year. Around 40 days of production were lost in the first quarter due to raw material shortages from Iran. The plant also operates on the basis of customer orders, which have been lower this year.

Georgia has agreed to hand over the ownership of its natural gas network, which includes the transit gas pipeline from Russia to Armenia, to the Azerbaijan government. Under the November 14 deal, Azerbaijan will satisfy the bulk of Georgia's natural gas needs in 2009-13 at below-market prices. The biggest gas consumers in Georgia, - the Tbilisi electricity network and the Rustavi chemical plant, are owned by Russian companies.

Relevant Currencies

(Czech crown. Kc. \$1= 19.711. €1 = 25.397): (Hungarian Forint. Ft. \$1 = 201.29. €1 = 259.24): (Polish zloty. zł. \$2.9864. €1 = 3.8428): (Romanian New Lei. \$1 = 2.9414. €1= 3.7904). (Ukrainian hryvnia. \$1 = 6.0050. €1 = 7.730): (Rus rouble. \$1 = 27.371. €1= 35.251)

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