CIREC MONTHLY NEWS
Chemical Industry News for Central Europe, South East Europe and Eurasia
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Czech Republic | Slovakia | Hungary | Poland | Bulgaria | Romania | Croatia | Slovenia | Yugoslavia | Baltic States | Russia | Belarus | Ukraine | Transcaucasus | Central Asia | Kazakhstan
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Features from the September 2004 issue

- Unipetrol saw a consolidated profit rise in the first half of 2004, up from Kc 727.3 million in the same period last year. The group's total sales topped Kc 34 billion, with sales of its own products and services amounting to Kc 30 billon, while sales from other goods reached Kc 4.1 billion. Unipetrol group's total assets reached Kc 72.6 billion at the end of June.
- In the first six months of 2004, the TVK Group's EBITDA was up 14% compared to 2003, and reached Ft 8.8 billion. The growth was triggered by the increase in the volume of olefin and polymer sales, in addition to positive effect of exchange rate changes. Capital expenditure reached Ft 25,357 million in the first six months of 2004, representing an increase of 48% compared to 2003.
- In the first half of 2004, raw material costs for benzene and toluene affected BorsodChem's performance. Prices for non-cyclical products such as MDI and TDI were increased at the end of Q2 to cover the increases in costs. PVC product prices have been increasing gradually from month to month due to strengthening demand and higher costs.
- In the first seven months of 2004 ZAT increased caprolactam production by 1.3%, cyclohexane based on phenol on 6.4% and cyclohexane from oxidized from benzene by 13%. The growth of cyclohexane production was due to the higher consumption requirements for caprolactam. Prior to the end of 2004, ZAT SA plans to introduce a system of DCS management for the cyclohexane unit.
- LG International Corp will present its feasibility study for the petrochemical complex and a refinery at Nizhnekamsk by November 2004. The first stage of the project will cost $1.5 billion and will include the EPS expanded polystyrene production facility (with a capacity of 40,000 tpa), the polyethylene facility (with a capacity of 200,000 tpa) and an oil refinery (with a capacity of 7 million tpa.).
- Lidalakokraska at Lida will increase phthalic anhydride capacity from 26,000 tpa up to 36,000 tpa as part of a $4 million project. The company is looking for investors to implement it and has considered an option of an additional equity issue in order to provide a potential investor a participation share in the company. This project is the most significant in the company's development programme up to 2010. Other projects include an $8 million programme for the implementation of a number of power saving programmes.
- Since June, Chernigov Khimvolokhno has reduced the production of kapron fibres from 1,800 tons per month to 1,000 tons per month. The reduction has been caused by the hikes in raw material costs for caprolactam. In January 2004, for example, the company bought caprolactam from Cherkassy at a price of $950/ton, but the price has since risen to around $1850 per ton due to high benzene costs. In the cost price of kapron production, raw materials account for around 60% of the total. Recent rises cannot be passed on in full to the end-user which means that Khimvolokhno has been forced to cut back production.
- On 4 August, the Arbitration Court in Moscow approved the appeal of the United Trade Company (ETK) by cancelling the decisions and instructions of FAS (Federal Antimonopoly Service). The FAS had showed that the price for caustic soda of 6,000 roubles per ton (VAT and transport costs not included), set by ETK starting from 1 January 2004, surpassed the last year's price by as much as 1,5-2 fold.

Russian Production Statistics (unit kilo tons, taken from online database			
Product	2003 Q4	Total for 2003	2004 Q1
Acetic Acid	44.90	**160.6**	36.5
Acetone	33.2	**126.5**	36.3
Ammonia	2714.9	**11085.7**	3197.3
Aniline	12.7	**50.7**	13.7
Benzene	290.4	**1055.4**	297.2
Butadiene	114.9	**369.9**	90.7
Caprolactam	72.6	**268.5**	72.3
Carbon Black	167.9	**616**	152.6
Caustic Soda	286.7	**1087.1**	279.8
Cumene	159.8	**528.5**	159.7
Ethylene	603.0	**2096.2**	597.2
Isoprene	128.1	**388.6**	97.4
Methanol	739.8	**2896.1**	797.9
Orthxylene	53.2	**190.8**	52.7
P Anhydride	25.2	**90.8**	25.7
Paraxylene	42.9	**153.1**	40.2
Phenol	59.9	**198.2**	59.9
Plasticizers	44.6	**149.7**	40.8
Polyethylene	383.1	**1323.8**	378.4
Polystyrene	37.8	**131.2**	37.6
Propylene	270.6	**1041.7**	297.9
PVC	149.2	**546.8**	147.6
Soda Ash	652.9	**2386**	638.5
Styrene	121.3	**428.5**	142.4
Syn Rubber	284.9	**1066.3**	298.2
VCM	120.5	**463.5**	127.7
Aggregate	**7,615.9**	**28,900.2**	**8,116.2**

Salavatnefteorgsintez Production Statistics (unit kilo tons) taken from online database			
Product	2003 Q1	Total for 2003	2004 Q1
Benzene	47.7	**125.3**	54.5
Ethylbenzen	10.5	**67.5**	38.1
Ethylene	74.1	**234.8**	73.6
P Anhydride	3.0	**13.1**	3.5
Polyethylene	11.5	**45.2**	12.6
Polystyrene	12.3	**47.2**	11.6
Propylene	32.5	**126.4**	33.0
Styrene	11.5	**51.9**	41.9
Aggregate	**203.1**	**711.4**	**268.8**

New online monitoring service for Russian Production Statistics

A new interactive online service for Russian production statistics has been launched at www.cirec.net/chemical-reports which is a user-friendly method of finding Russian production data quickly, either by product or by producer. The production numbers are recorded quarterly, starting from Q1 1998, and are updated as data becomes available. The tables above and left illustrate how the system operates, with sample quarters taken from Q4 2003 and Q1 2004. The service is fully interactive. Thus, taking the example of ethylene in both tables above and left one click of the mouse will provide a link to a full table of ethylene production broken down by producer and the individual quantities. In the list, it is possible to click on one of the producers, such Salavatnefteorgsintez, to see the full list of products at that company as shown above. As the list consists a diverse range of products, it will be possible to subscribe to specific groups such as olefins and aromatics. If you would like further details of this service or register your interest please send an e-mail to als@cirec.net.

CENTRAL EUROPE

Czech Republic

(Czech crown, Kc, Aug 23, $1 = 25.663, €1 = 31.867)

Unipetrol

Unipetrol saw a consolidated profit rise in the first half of 2004, up from Kc 727.3 million in the same period last year. The group's total sales topped Kc 34 billion, with sales of its own products and services amounting to Kc 30 billon, while sales from other goods reached Kc 4.1 billion. Unipetrol group's total assets reached Kc 72.6 billion at the end of June.

Chemopetrol recorded a gross profit of Kc 651 million, triple its 1H 2003 profit. The first-half result was influenced by favourable petrochemical margins, and the high volume of production and sales. The increase in polyolefin production volumes has contributed to the company's improved profits. Propylene was in surplus at Litvinov prior to the start-up of the new polypropylene unit, but since 2003 monomer supply has been in balance. The oxo

alcohol unit is expected to be closed by around 2008, if not before, which will help to free up some propylene monomer. Kaucuk made a gross profit of Kc 118 million in the first half of 2004, a 15% fall against 2003. Sales grew 15% to Kc 4.857 billion. Kaucuk plans to add 20,000 tpa of EPS to take capacity to 70,000 tpa. The GPPS plant has a capacity of 25,000 tpa.

Ceska rafinérská (CeRa) saw its gross profit fall by one third to Kc 231 million, whilst sales were also down at Kc 4.5 billion. The results are not directly comparable as CeRa was a production and trading unit until 2003, and this year became a reprocessing refinery. Ceska rafinérská, which processes roughly 6 million tpa of oil, receives more than 50% of its annual oil supply from Russia, although YUKOS accounts for just 5% of overall oil imports. Purchases of oil for Ceska rafinérská have been the responsibility of its shareholders, including Unipetrol and the IOC.

Unipetrol Subsidiary Unconsolidated 1h 2004 Results (in Kc million)

Subsidiary	1H 2004 Gross	1H 2003 Gross	1H 2004 Sales	1H 2003 Sales
CeRa	231.1	372.4	4,475	22,447
Chemopetrol	650.7	182.9	12,537	10,257
Kaucuk	117.6	140.7	4,857	4,169
Spolana	50.6	-313.7	2,465	2,659

Slovakia

(Slovak crown, Kc, Aug 23, $1 = 32.515, €1 = 40.084)

Slovnaft

Slovnaft's sales' revenues were 9% higher (in SKK terms) compared to H1 2003, driven by higher export sales volumes and prices. EBITDA in H1 2004 reached SKK 6.58 billion, 83% higher than in the same period last year resulting from better operational performance. Sales of refined products added over 10% to SKK 25.4 billion. Petrochemical sales were up nearly 20% to SKK 6.05 billion. The growth was driven primarily by higher demand on the Czech market in light of the planned closure of domestic refineries at Litvinov and Kralupy, along with rising demand for low-sulphur diesel oil in Germany, Poland and Austria, according to Slovnaft. The company processed 2.79 million tons of oil, an increase of 4.5% over 2003.

Slovnaft invested SKK 3.65 billion in the first half of 2004, or SKK 1.8 billion more than first half of 2003, with most of that going to the construction of new diesel oil desulphurisation unit and the new unit for polypropylene.

Problems at YUKOS could cause some disruptions in Slovnaft's crude supplies after August. This is the last month for which YUKOS has reportedly prepaid its transport tariffs to Russian pipeline monopoly Transneft. Slovnaft may face additional issues as YUKOS controls 49% of the Slovakian crude pipeline owner and operator Transpetrol.

The latter delivers virtually all of Slovnaft's supplies, although disruptions are not currently foreseen. Should some CEE refineries be forced to import non-Russian oil to replace lower imports from Russia, for example Brent from the North Sea or light African blends, this may affect their competitive cost advantage based on price and transport cost differentials, although light product yields would increase.

NCHZ

Novacke Chemické zavody (NCHZ) posted a SKK 12.6 million loss in the first half of 2004, after recording a profit of SKK 4.1 million in the same period a year in 2003. The management attributed the loss to higher energy prices. Sales of its own products and services fell by SKK 57 million to SKK 2.3 billion. Exports accounted for 82.5% of total sales. Investments fell by SKK 384 million as the company withdrew from a contract to buy shares in the Slovak salt manufacturer, Solivary Presov.

Hungary

(Hungarian forint, Ft, Aug 23, $1 = 203.75 €1 = 251.18)

TVK H1 2004

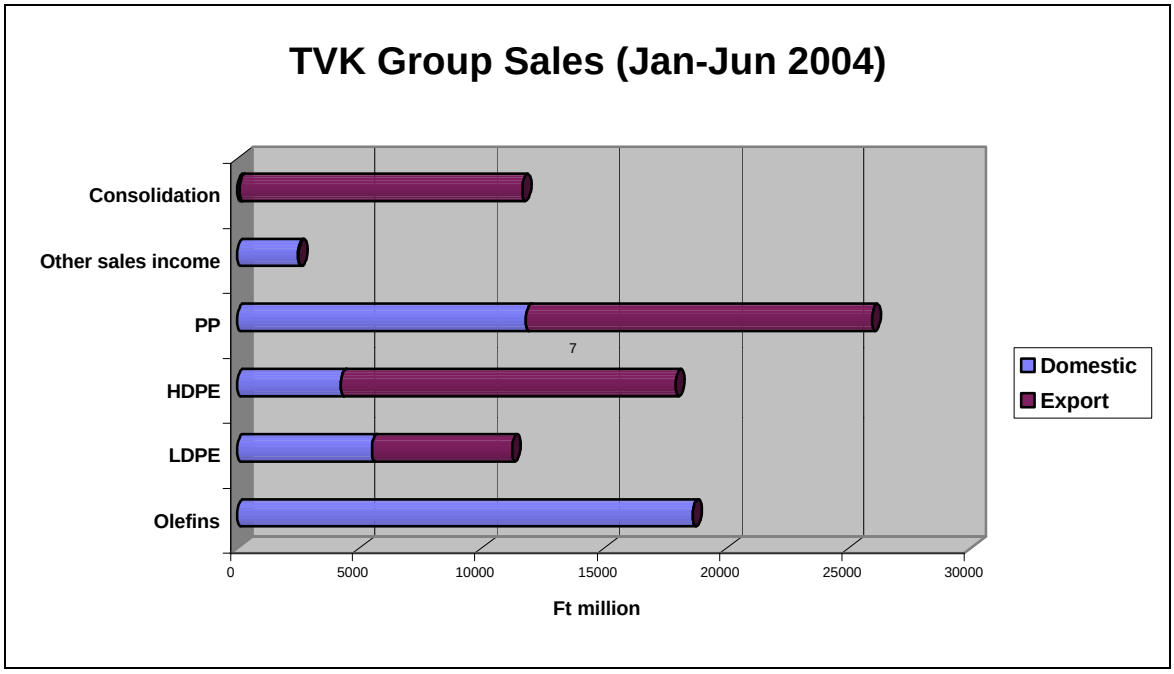
In the first six months of 2004, the TVK Group's EBITDA was up 14% compared to 2003, and reached Ft 8.8 billion. The growth was triggered by the increase in the volume of olefin and polymer sales, in addition to positive effect of exchange rate changes. Capital expenditure reached Ft 25,357 million in the first six months of 2004, representing an increase of 48% compared to 2003.

The increase in group-level sales from Ft 38.443 billion in 2003 to Ft 46.983 million in 2004 represented growth in the income from commercial subsidiaries from sales of LDPE and PP produced by Slovnaft. The sales income of the parent company, i.e., TVK Rt, represented 87% of the group level sales. TVK Rt's sales revenue was Ft 40,419 million in Q2, which is 18% higher than in Q2 2003. The group sales' revenues of Ft 46,983 million in Q2 2004 exceeded Q2 2003 by 22%.

The volume of polymer products sold in the first half of 2004, was 30,000 tons higher than in 2003. Compared to 2003, the improvement of by-product hydrogenation unit of the cracker introduced in the third quarter of 2003 resulted in a better match between the co-products offered by TVK for sale and market demand.

TVK, as a member of the MOL Group is an active participant in the integrated operation involving petrochemical business areas, i.e. production and trade since 1 January, then functional areas since 1 July. This integrated operation provides a facility for MOL, Slovnaft and TVK to exploit mutual benefits, to increase efficiency with the aim of improving competitiveness.

Naphtha prices for the first six months were 12% higher compared to the second half of last year. On average in the price of naphtha was $312/ton the first half of 2004, whilst gas oil was $310/ton and these prices were 24% and 15% higher respectively than in 2003. The prices quoted for polymer products in the European markets rose by 11-14% on average of the first six months. In the first six months of 2004, TVK Rt's polypropylene division produced 15,100 tons more than in 2003, HDPE was 11,700 tons up and LDPE was 3,100 tons up. The cost of goods sold for the TVK Group increased by 25% in the first half of 2004 due to the growing sales of polymers produced by Slovnaft.



TVK's Capital Expenditure

Total capital expenditure in the first half of 2004 for the TVK Group reached Ft 25,357 million, which was up 43% on 2003. The increase was due to the costs of the Petrochemical Development Project, which accounted for 96% of the total capital expenditure. The total cost of the project is estimated at €430 million, of which €339 million was outlaid before 30 June 2004. In total, Ft 913 million was spent on maintenance and rehabilitation projects.

TVK's Capital Expenditure (Ft million)

Sector	*H1 03*	*H1 04*
Petrochemical Project	16,095	24,352
Construction Olefin-2 plant	11,668	14,911
Construction HDPE-2 plant	1,231	7,959
Other expenditures	3,196	1,482

Regarding the Olefin-2 project, there are still signs that start-up will dovetail the start-up of the HDPE plant. During the second quarter this year the mechanical fitting of cracking furnaces was completed, whilst internal fitting of columns and appliances saw progress. The main construction was finished for the HDPE-2 project, with the license required to commence the test run currently underway. The ethylene tank has been

insulated, and the preparation works for the test operation have been started.

MOL Q2 2004 Operating Profit (Ft million)

Sector	Q2 2003	Q2 2004
Exploration and Production	11,193	12,866
Refining and Marketing	12,182	32,217
Natural Gas	(9,652)	11,333
Petrochemicals	3,554	3,376
Corporate and other	(11,599)	(10,328)
Intersegment transfers	(5,386)	(3,342)
TOTAL	**292**	**46,122**

MOL

The positive results posted in the first half of 2004 by MOL were helped by strong refining margins and the new regulatory environment in the company's Natural Gas sector. Together, the downstream and gas sectors accounted for Ft 43.5 billion of MOL's total operating profit of Ft 46.2 billion. Refining and marketing contributed Ft 32.2 billion to the group's overall operating profit, up 164% due mainly to favourable crack spreads as well as the consolidation of Slovnaft, which provided Ft 16.8 billion of the sector's operating profit.

Operating profit in the petrochemical sector was down 5% compared to a year earlier, due to the unfavourable petrochemical market environment where naphtha prices increased by 59% in dollar terms, while polymer end-product prices were up only 2-14% in euro terms. TVK Rt, accounted for more than 25% of MOL's first-half operating profit, not including earnings resulting from synergy between the companies.

BorsodChem Production (unit-kilo tons)

Period	*PVC*	*VCM*	*MDI*	*Aniline*	*TDI*
H1 03	128.7	80.8	30.5	48.4	30.1
H1 04	141.2	87.8	30.1	57.7	31.2

BorsodChem H1 2004

In the first half of 2004, raw material costs for benzene and toluene affected BorsodChem's performance. Prices for non-cyclical products such as MDI and TDI were increased at the end of Q2 to cover the increases in costs. PVC product prices have been increasing gradually from month to month due to strengthening demand and higher costs.

The BorsodChem Group achieved a 7.8% increase in sales' revenues compared to the first half of the previous year. Total production capacity was utilised with the exception of MDI. Besides sales' revenues of Ft 72,565 million, the company achieved an operating profit of Ft 6,768 million, or 9.3% in proportion to sales' revenues. The major output of products by BorsodChem Group in the first half of 2004 are listed above.

In the markets, PVC was listed at an average price of €819/ton in Q2 of 2004, whilst ethylene was listed at €607/ton. The profitability of PVC improved compared to the first half of 2003, the average listing price of PVC was €80/ton higher in Q1 of 2004, along with an increase of €19/ton in ethylene prices.

The profitability of MDI was affected by a significant increase in the benzene price in Q2 2004. For example, in Q1 2004 benzene was listed at a price of €444/ton, whilst Q2 of this year saw a benzene price of €595/ton. Compared to isocyanate prices in Q1 2004, the price of TDI fell slightly in Q2, whereas the price of toluene increased from $511.72/ton to $550/ton during the quarter.

In the first half of 2004 BorsodChem increased its sales' revenues by 7.8% compared to the first half of 2003. The 7.8% increase in sales' revenues took place along with 10.2% increase of domestic sales' revenues and 7.3% of export sales' revenues. In total, the share from PVC sales rose in total sales from 24.4% up to 29.7%. The 30.8% increase in sales' revenues was the result of an 8.9% increase in volumes and significant growth in sales price.

Sales of PVC compounds rose by 28.7%, along with a 24.9% increase in volume. The volume of sales was successfully increased in export markets. Sales of MDI products rose by 6% , along with a 4.1% increase in sales volumes. Sales of TDI dropped by 11.7% despite the increase in volume of 1.9%. The reason for the drop in sales' revenues was due to the significant decrease in sales prices compared to those of the base period. It should be noted that TDI price reached historical highs in 2003.

Sales of aniline products rose by 59.6% along with a 38.7% increase in sales' volumes, resulting in revenue increase of Ft 1,722.7 million. The regional breakdown in sales consisted of domestic and Central-East Europe accounting for 47.3% of sales, West Europe 43.1% and the Far East 2.1%.

In the first half of 2004, BorsodChem achieved an operating profit of Ft 6,768 million, which is 87.1% of the profitsachieved in 2004. The fall in profit was caused by higher energy prices and lower profitability from TDI sales due to product oversupply.

BorsodChem's Sales' Revenues
(Hungarian forint, Ft, Aug 25, $1 = 203.75 €1 = 251.18)

Product	*Jan-Jun 04 (Ft mil)*	*Jan-Jun 03 (Ft mil)*
PVC resin		
Domestic	2,377.4	1,737.3
Export	19,184.2	14,747.5
Subtotal	**21,561.6**	**16,484.8**
PVC compounds		
Domestic	355.8	424.3
Export	2,518.8	1,809.9
Subtotal	**2,874.6**	**2,234.2**
MDI products		
Domestic	59.9	17.6
Export	10,708.5	10,120.2
Subtotal	**18,955.4**	**17,072.6**
TDI products		
Domestic	681.3	559.6
Export	11,623.5	13,381.1
Subtotal	**12,304.8**	**13,940.7**
Caustic soda		
Domestic	1,063.7	1,378.7
Export	794.9	1,059.7
Subtotal	**1,858.6**	**2,438.4**
Aniline		
Export	**4,615.0**	**2,892.3**
Plastic semi-finished and finished products		
Domestic	2,765.0	2,458.6
Export	3,220.0	2,804.8
Subtotal	**5,985.0**	**5,263.4**
Other products		
Domestic	4,649.9	4,254.1
Export	7,947.0	9,673.7
Subtotal	**12,596.9**	**13,927.8**
Total sales	72,564.9	67,339.4
Domestic sales	11,953.0	10,850.2
Export sales	60,611.9	56.489.2

BorsodChem Investment Programme
BorsodChem Rt continues with its Ft 70 billion investment programme launched in September 2003 and financed partly by a syndicated loan of €100 million, with another part ficanced by the company's internal cash flow. As a part of total capex programme and following the maintenance and investments, currently in progress, the TDI capacity will increase by 33% , i.e. from 60,000 tpa to 80,000 tpa in September. PVC capacity is to increase by 10%, from 300,000 tpa to 330,000 tpa. Furthermore, VCM capacity will increase from 185,000 tpa to 250,000 tpa. As of September 2004. BorsodChem will need to take additional ethylene supplies after the TVK's completed expansion of its cracker.

The test run of the MDI Plant of initial capacity of 100,000 tpa will start in Q4 2005. The test run of Phase II of the VCM project, which will increase BorsodChem's VCM capacity from 250,000 tpa up to 350,000 tpa, will be launched together with the membrane cell chlorine plant in the end of Q4 2005 and beginning of Q1 2006.

Poland

(Polish zloty, zl, Aug 23, $1 = 3.6153 €1 = 4.4569)

PKN Orlen
PKN Orlen retained strong profitability in the second quarter due to high refining margins, its new German operations and positive inventory effects caused by rising oil prices. The company benefited from high a Ural/Brent differential (a price differential of nearly $3 per barrel) and increase of refinery margins to $6/barrel from $4/barrel in Q1 2004. PKN Orlen generated its highest ever quarterly net profit of zl 668 million in the second quarter of 2004 (317.5% higher than in 2003). The positive oil and petrochemical environment, combined with results of the cost cutting programme and the increased profitability of the business segments, were the main contributors to 2Q 2004's good performance.

The group's sales' revenues for petrochemicals rose 17.4% to zl 1.22 million. This was on the back of higher demand for petrochemicals, mainly for products sold by Anwil. Petrochemical output for the Orlen group was 507,288 tons, down 12.7% against the same period in 2003. The petrochemical sector witnessed a profit increase of zl 35 million in the second quarter of 2004 against 2003. As with the other sectors, cost cutting initiatives made an important contribution to the sector's improvement. Orlen's crude oil throughput fell 0.6% to 3.04 million tons in the April-June period in 2004 against the same period of 2003. Refining output was 2.54 million tons and refining product sales totalled 3 million tons.

Zaklady Azotowe w Tarnowe-Moscicach
In the first seven months of 2004 ZAT increased caprolactam production by 1.3%, cyclohexane based on phenol on 6.4% and cyclohexane from oxidized from benzene by 13%. The growth of cyclohexane production was due to the higher consumption requirements for caprolactam. Prior to the end of 2004, ZAT SA plans to introduce a system of DCS management for the cyclohexane unit.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

(Rus rouble Aug 23, $1 = 29.212, €1= 36.013)

Russia's aggregate chemical, petrochemical production increased 8.6% in the first seven months of 2004. Caustic soda production rose 5% to 665,000 tons, soda ash 12% to 1.5 million tons, whilst synthetic rubber fell 2.2% to 639,000 tons.

Chemical prices in Russia rose 1.8% in July due largely to higher feedstock costs. The rate of Russian export duty on benzene, toluene, xylenes, butane, ethylene, propylene, butylene and butadiene, etc, from the start of August was increased to $45.4/ton from $37.5/ton. Since 1 August, the export duty for oil from Russia was raised by 68% to $69.9/ton.

SIBUR/Gazprom

SIBUR's net profit was 758 million roubles in the first half of 2004, against a loss of 2,911 million roubles in 2003. Revenues from production rose 43.5% up to 40,071 million roubles against 27,918 million roubles in 2003, with both domestic and export sales showing a strong increase. SIBUR's main focus is on the domestic market.

SIBUR invested 789 million roubles in the first half of 2004 and plans to increase investments to 2.025 billion roubles in the second half of the year, with the focus on modernisation and support of production at existing subsidiaries. In order to promote short and long term goals SIBUR plans to try and attract finance from external sources and to re-invest its own profits. For the strategically important projects SIBUR has developed a scheme of structured financing along with the participation of western banks set against national export insurance agencies.

Some of the projects currently under review include SIBUR Khimprom at Perm where styrene output is expected to increase to 60,000 tons in 2004. In the Tyumen region Mitsui is interested in constructing synthetic rubber and polypropylene plants at Tobolsk. Other projects of interest to Mitsui at Tobolsk include iodine bromine and formaldehyde resins.

SIBUR-Neftekhim's Production (unit-tons)

Product	*Jan-Jul 2004*	*Jan-Jul 2003*
Feedstocks	371,850	280,948
Ethylene	117,029	83,942
*Ethylene Oxide	36,074	24,528
MEG	88,971	72,526
DEG	11,092	7,831
TEG	758	467
Propylene	58,157	46,934
Benzene	41,567	27,513
BBF	29,331	23,423
C5	12,011	13,162
C9	8,178	6,185
EDC	52,054	43,239
PVC	19,657	18,208
Caustic Soda	50,074	48,470
Chlorine	8,390	10,048
Ethylene chlorohydrin	6,961	5,374

*Surplus product above glycol requirements

Voronezhsintezkaucuk

Voronezhsintezkaucuk plans to invest a total of 240 million roubles over 2004 which will allow the company to develop its project for "green tyres", with some of the funds going towards ecological projects. This year the company will produce around 220,000 tons of synthetic rubber and latexes against 204,000 tons in 2003. A total of 44.7% of the company's production was exported.

Russian tyre manufacturers have been forced to press forward with modernisation and restructuring due to strong competition and more varied consumer requirements. Voronezhsintezkaucuk is the third largest producer of synthetic rubber in Russia in terms of volume. The company is focuses on the manufacture of high-quality production in close co-operation with suppliers of raw materials and the consumers of production. This means following trends in availability and also prices of raw materials, including monomers, solvents, catalysts, etc.

Increasing regulations mean that new types of rubber need to be developed taking into account such factors as viscosity, molecular-mass distribution, vulcanisation characteristics, and the minimal influence on the

environment. New butadiene-styrene rubbers (DSSK) and butadiene rubber have been developed by the company this year.

SIBUR-Neftekhim
The tender for the reconstruction project of the ethylene oxide and glycol plant at Dzerzhinsk has been won by Scientific Design. The plant was first constructed in 1981, and the investment project assumes the reconstruction of the hydration and synthesis stages with an increase in capacity up to 240,000 tpa and MEG up to 200,000 tpa. Financing of the project is being carried out by SIBUR. Dzerzhinsk-based Uhde, (a subsidiary of Krupp Uhde) which will be the prime contractor in the project.

A conversion of a dry-cargo ship especially for the transportation of MEG from Dzerzhinsk will help SIBUR-Neftekhim's exports to Rotterdam. The tanker is owned by Volzhskiy Shipping with carrying capacity up to 2,700 tons.

Togliattikauchuk
The start-up of a new butadiene-styrene rubber unit at Togliattikauchuk has taken place on 19 August 2004 which will allow an increase in synthetic rubber production. SIBUR allocated 50 million roubles for the project. Togliattikauchuk has also recently decided to proceed with its own thermal power station which will provide the plant with a heat and electric energy, thus reducing costs in petrochemical production.

Togliattikauchuk stared out life as Sintezkauchuk in 1961, focused on the production of butadiene-methylstyrene rubber. In 1964, the plant started the production of isoprene rubber. Over the past few years Togliattikauchuk has undergone re-structuring and due to increase in the hydrocarbon raw material deliveries from SIBUR, capacity utilisation has increased. In the first half-year of 2004 synthetic rubber production increased by 11% over the first half of 2003.

Tatarstan

LG International Corp will present its feasibility study for the petrochemical complex and a refinery at Nizhnekamsk by November 2004. The first stage of the project will cost $1.5 billion and will include the EPS expanded polystyrene production facility (with a capacity of 40,000 tpa), the polyethylene facility (with a capacity of 200,000 tpa) and an oil refinery (with a capacity of 7 million tpa.).

Tatneft taken has made the decision to construct new ELOU-AVT-7 unit which is a primary part of the petrochemical and oil refining complex within the framework of the Tatar-Korean petrochemical project. The construction of unit is divided into two starting complexes, first of which is planned to finish by the September 2005, the second in 2006.

Nizhnekamskneftekhim Projects
Nizhnekamskneftekhim's investment programme includes a total of 27 projects at a total cost of $940 million. The most expensive project, which is estimated at $195 million, is the reconstruction of the ethylene cracker, with the simultaneous modernisation of the benzene unit. As a result, ethylene capacity will increase by 150,000 tpa (up to 600,000 tpa), propylene by 55,000 tpa (up to 253,000 tpa), benzene by 53,000 tpa (up to 220,000 tpa), and butadiene by 10,000 tpa (up to 67,000 tpa). By 2005 it is planned to increase capacities for general purpose polystyrene and shock-resistant second-order by 50,000 tpa, thus taking total capacity to 100,000 tpa.

Other projects at Nizhnekamskneftekhim include the polypropylene plant at 120,000 tpa, with an opportunity of expansion up to 180,000 tpa will appear. Also it is planned to master release of suspension polystyrene up to 40,000 tpa, and ABS plastics (50,000 tpa).

Other news at Nizhnekamskneftekhim
In the first half of 2004 Nizhnekamskneftekhim pumped 145,000 tons of ethylene through the Kazan-Ufa-Salavat-Sterlitamak pipeline, which extends 760 km through the Volga-Urals region.

Neonol production is increasing at Nizhnekamsk in correlation with higher demand. The design capacity of the neonol plant at Nizhnekamsk, the only plant in Russia, is 250,000 tpa. Previously, demand for neonols was insufficient to run the plant at full capacity, but increased consumption levels in recent years have pushed up production rates up to 400 tons/day. In August, the company plans to produce 12,000 tons, and in September this will be increased to 18,000 tons.

Bashkortostan

Polief
In the next 3-4 months, or at least before the end of 2004, Polief expects finally to start the production of PTA at Blagoveshensk, near Ufa. The Polief PTA project dates back to 27 September 1984 when the Autonomous Republic of Bashkiria approved the plan to construct a PTA/PET complex. The equipment and licensing was bought from Kobe Steel, Nissho Iwai and Mitsui Engineering. The PTA project concept was based on the availability of paraxylene from Ufaneftekhim, MEG from Salavatnefteorgsintez and Nizhnekamskneftekhim and acetic acid from Saratov and Gubakha (although these acetic acid units have since been closed).

Sakhalin

The Sakhalin Administration has been examining ways of how to dispose of a large share of the gas production planned under the Sakhalin-2 project. The project will produce between 0.7 up to 1 billion cubic metres per annum of gas, but that is vastly more than required by Rosneft for the needs of the whole Khabarovsk region. Three options have been put forward, including the use of gas as fuel for electricity, the production of polystyrene or the production of dimethyl ether (DME). The use of a fuel seems the most uneconomic option, with DME as the most economic option with high demand in Japan, the USA, and South Korea, etc.

Nizhniy Novgorod

Dzerzhinsk Orgsteklo
Due to the strong annual growth in the Russian polymethylmethacrylate (PMMA) sheet market, estimated somewhere in the range of 7-10%, Dzerzhinsk Orgsteklo has purchased a new extrusion line. The line is planned to be completed in the third quarter of 2004, and will lead to an increase in production capacity to 5,500 tpa by 2006.

In the first quarter this year DOS produced 3,722 tons of MMA and 641 tons of PMMA. DOS controls about 25% of the Russian MMA market. The market for methacrylic acid is growing roughly at rates of 10% in Russia.

Akrilat
The outstanding Akrilat project at Dzerzhinsk looks set to be completed in the near future due largely to the finance that was provided by Sberbank and Sarovbiznesbank in an agreement dating back to 2001. Return on credits will be guaranteed by the sale of acrylic acid and ethers. Nissho Iwai concluded that the equipment, purchased twenty years ago, was obsolete and thus modifications were required before start-up. The main creditor of the enterprise was the Petrokommerts bank which allocated $51 million towards completion.

The first tranche of $5 million was spent for the purchase of missing equipment for the plant. It was first planned that Akrilat will start production in 2003, and to pay off with creditors completely in 2008. However, the combination of technical and commercial factors meant that start up was delayed until this year. In 2003, Akrilat was transformed into a joint venture with Yaroslavl Lakokraska and Moscow managing company Akrilat. In the first year or two of production around 50% will be sold domestically. Capacities will include 25,000 tpa of acrylic acid, 40,000 more tpa of easy and heavy ethers and, probably, acrylic emulsions. Acrylate esters will include 3,200 tpa of methyl acrylate and 31,100 tpa of butyl acrylate.

The raw materials for production will be procured from domestic sources, the most important of which will be propylene with most of the supply coming from SIBUR-Neftekhim. Other suppliers will include Kazanorgsintez, Angarsk Polymer Plant, YUKOS, and Ufaorgsintez. In total, Akrilat will consume around 17,000 tpa of propylene. For the production of ethers components such as butanols, methanol, 2-EH and ethanol will be purchased on the Russian market. Oxo products will be bought from Perm and Salavat.

LUKoil-Neftekhim

LUKoil-Neftekhim's investment programme is aimed at the development and reconstruction of particular plants, production lines and units, reducing costs, quality improvement, and raising of the level of operating and ecological safety. Largely as the result of this programme, the group's production was increased in all the chemical in the second quarter.

LUKoil-Neftekhim and the Moscow Industrial and Trade Centre of Integration and Development signed an agreement whereby LUKoil-Neftekhim has become the owner of an 87.42% stake in StavropolPolimerProduct. The stake is worth $32 million, an amount LUKoil-Neftekhim is required to pay in the next seven years. StavropolPolimerProduct is a polypropylene manufacturer based in Budyennovsk and shares production premises with Stavrolen Plant, which belongs to LUKoil-Neftekhim.

According to LUKoil-Neftekhim, the plant can begin production no sooner than the second half of 2005. Around $60 million will be invested in StavropolPolimerProduct. In the past six years, the controlling stake in the enterprise has been the municipal property of Moscow.

Saratovorgsintez
Saratovorgsintez increased production of chemical yarns by 11% in the first half of 2004 to 10,500 tons. For 2003 overall, production of yarns at Saratov amounted to 21,200 tons. Saratovorgsintez is the sole Russian producer and exporter of the polyacrylonitrile yarns and acrylonitrile.

Samara

Kuibyshevazot
In the first half of 2004 Kuibyshevazot managed to overcome the problem of benzene supply shortages for caprolactam production through processing phenol through to cyclohexanol. Further plans of Kuibyshevazot include the expansion of phenol as an alternative raw material to benzene which is in short supply in Russia. The company is currently expanding its caprolactam capacity, with the modernisation of the oxidation process underway and this will be completed in the latter part of the year.

In July, the plant reached the maximum output of 12,000 tons of caprolactam. The modernisation is aimed at providing enough raw material for polyamide-6 production, and at the same time maintaining supplies to the domestic and foreign markets at the current level. In June 2004, the company has started on the construction of the second polyamide-6 unit with a capacity of 150 tons per day.

Togliattiazot
Togliattiazot was included into the list of the investors into the construction of a new seaport at the Zhelezny Rog Cape (Krasnodarsk region). Togliattiazot plans to ship up to 6 million tpa of ammonia via the new seaport and is now in the construction of an ammonia terminal very close to the new seaport location. The ammonia terminal construction will be fully integrated into the construction of the seaport on the Zhelezny Rog cape.

The project of a seaport for transporting liquefied hydrocarbon gases, ammonia and oil products in the Zhelezny Rog bay was developed in accordance with the federal program of the development of the transport network of the South of Russia, North-South corridor and the ports of the Krasnodar region. Its eventual design capacity will be 30 million tpa of oil, oil products and chemicals.

NOVATEK
NOVATEK has won the 25.5% state-run stake in the logistics company Truboizolyatsiya at Novokuibyshevsk. The stocks were sold for 61 million roubles vs. the starting price of 60 million roubles. NOVATEK's BOPP film plant, which is estimated at €40 million in value, is planned for start-up in the second quarter 2005.

Irkutsk

Sayanskkhimplast
Sayanskkhimplast increased PVC production in the first half of 2004 by 9.4% to 118,347 tons, of which 46,019 tons were exported to China. Caustic soda production increased by 5.1%, chlorine by 16.7%, and cable plasticizers by 10.7%.

New Italian equipment, at a cost of about $3.5 million, for the manufacture of profile products was started by Sayanskkhimplast in July. The capacity of the line is designed for processing up to 1,500 tpa of resins in finished articles, in addition to goffered pipes of five standard sizes, cable channels also five standard sizes and glass panels.

Sayanskhimplast finished taking applications on 20 August for participating in the tender for the development of the natural gas processing complex, including the production of ethylene and helium liquid. An applicant company will be provided with the complete package of the tender documentation in five days after submitting an application.

A protocol of intention of the construction of the plant for the conversion of the natural gas from the Kovytka gas-condensate field into the helium liquid on the base of a chemical plant was signed on 24 May 2004 by Sayanskhimplast, Rusia Petroleum, East-Siberian Gas Company and Geliimash (Helium Machines). At present, the US, the EU and the Far-East countries are the main consumers of the helium liquid. In China, annual helium consumption amounts to around 16% at present of the world total.

Sayanskkhimplast has agreed with the Federal antimonopoly service (FAS) to undertake different practices on selling PVC suspension and caustic soda in accordance with the antimonopoly law. The FAS has expressed its satisfaction with Sayanskkhimplast on its efforts to act in a non-cartel manner following the ETK case.

Evrokhim

In the first half of 2004 Evrokhim increased methanol production by 40% over 2003 to 219,000 tons, PVC by 5% to 12,700 tons, acetic acid by 5.5% to 81,000 tons, acetaldehyde by 23% to 21,000 tons and chlorine by 64% at 37,000 tons. The reconstruction of the Ammonia-4 unit is underway at Novomoskovsk which will increase production by 11% to 1,360 tons per day from the start of September. It will at the same time reduce the consumption of natural gas by Azot.

Product/Company News

Plastics processing
In the first half of 2004 Vladimir Chemical Plant increased profits 11 fold compared to the same period in 2003. Vladimir Chemical Plant increased the production of PVC plasticizers by 33% to 17,898 tons and polymer films by 27% to 1,592 tons. The main shareholders in Vladimir Chemical Plant are Moscow companies Kontinent with 19.98%, Konsul with 18.36%, Yutek with 12.83%, and Vladimir based Anna with 19%. Cavendish International Developments (British Virgin Islands) owns 15.89%.

Methanol
The first half-year results of Metafrax saw a reduction in the production of methanol, formaldehyde and resins. One of the reasons for the falls is linked to urea–formaldehyde concentrate, which has also been produced by Metafrax since 2003, tending to replace formaldehyde demand.

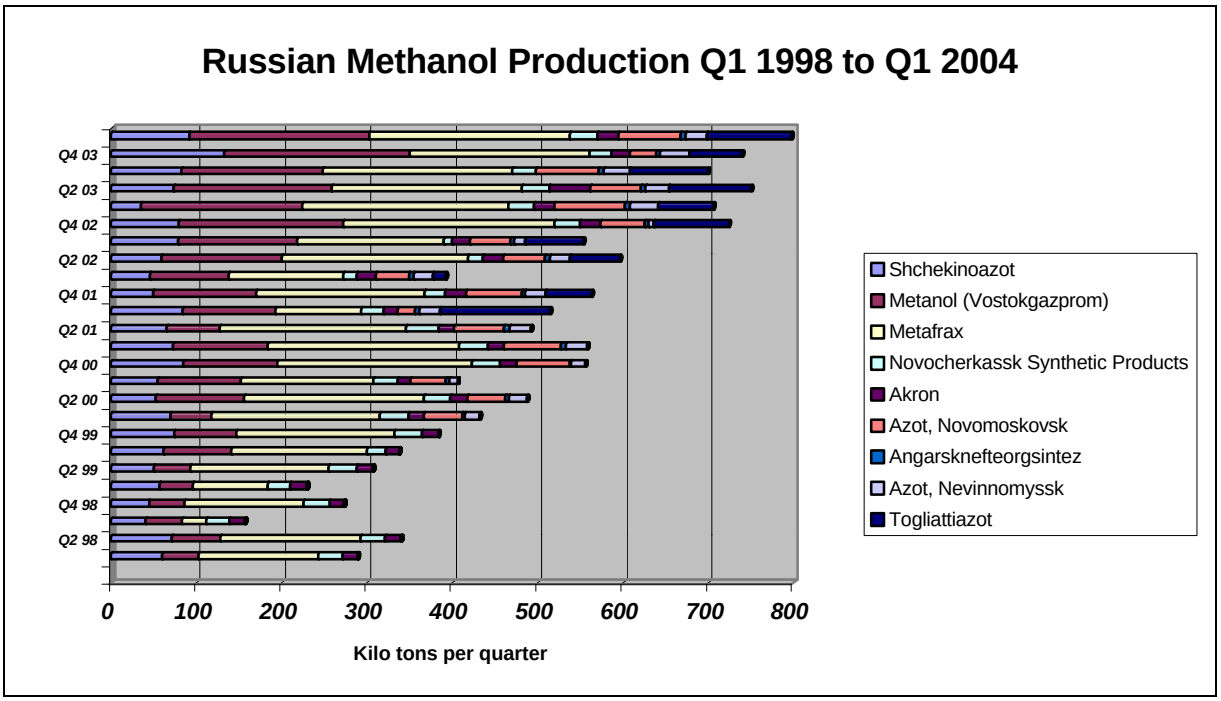
Another factor is the slight fall of the methanol world prices and the increase in feedstock and equipment prices. However, the polyamide department increased its output.

At the end of July, the second urea–formaldehyde concentrate unit was delivered to Metafrax. The third unit arrived on 5 August. These units will be launched by the middle of 2005. The overhaul-connected shutdown of M-750 unit has been underway in August. The company will receive funds in the form of a 6-year credit for $18 million from the EBRD which has approved the project. The first unit was installed in 2003 and cost $12 million. The main shareholder of Metafrax is AKB Ural. Methanol production was 896,500 tons in 2003 of which around 50% was exported.

Caustic soda
On 4 August, the Arbitration Court in Moscow approved the appeal of the United Trade Company (ETK) by cancelling the decisions and instructions of FAS (Federal Antimonopoly Service). The FAS had showed that the price for caustic soda of 6,000 roubles per ton (VAT and transport costs not included), set by ETK starting from 1 January 2004, surpassed the last year's price by as much as 1,5-2 fold.

The FAS Commission considered ETK's activities to represent a violation of the competition regulations and

instructed the producing companies to sign direct contracts on the caustic soda supply with the customers without the mediation of ETK. ETK had to refund to the State the unlawful profit gained by violating the antimonopoly law.



ETK did not accept this situation and filed the cross-action in the arbitrary court against FAS with the demand to cancel the antimonopoly service instructions. The decision by the Moscow court gives ETK the green light to continue selling caustic soda. The FAS has stated that it will continue the struggle for introducing fair competition to the caustic soda market. For obvious reasons the chemical producers were not happy with the Moscow court decision.

Belarus

Lidalakokraska

Lidalakokraska at Lida will increase phthalic anhydride capacity from 26,000 tpa up to 36,000 tpa as part of a $4 million project. The company is looking for investors to implement it and has considered an option of an additional equity issue in order to provide a potential investor a participation share in the company. This project is the most significant in the company's development programme up to 2010. Other projects include an $8 million programme for the implementation of a number of power saving programmes.

The phthalic anhydride unit is the most power intensive part of the company structure and for this reason the capacity expansion is directly linked to reductions in power consumption. The power generating unit will enable more rational utilization of secondary steam generated during production. Besides that, the chemical water treatment project for installation equipment is implemented in the phthalic anhydride shop is implemented, technical upgrading of waterborne enamel production facility is underway and the powdered colours production is deployed.

Belneftekhim

Belarussian chemical and petrochemical companies have been posting higher production volumes since the beginning of the year. In the first half of 2004 Belarus produced 268,000 tons of synthetic resins and plastics, which was 9.4% up on the same period last year, and 108,000 tons of chemical fibres and threads which was 7.2% up. Since the beginning of 2004 inventories have risen on average by 21%, and amounted to about $80 million, or 23% of the average monthly production volume.

The largest product inventories were accumulated at Svetlogorsk Khimvolokhno (157.8% to the monthly production volume), Lida Lakokraska (147.9%), Mogilevkhimvolokhno (74.6%) and Belshina (43.3%).

In the first half of 2004, Belneftekhim allocated funds to allow the Mozyr Oil Refinery to bring on stream the 2 million tpa catalytic cracking installation, and also for Khimvolokhno at Grodno to start-up the upgrade of the polyamide industrial thread and cord fabric facility upgrade. The investments into upgrading the polyester textile thread plant at Svetlogorsk Khimvolokhno amounted to $12 million in the first half of the year, including a $10.5 million loan from the Kuwait Arabic Economic Development Fund, and $1.5 million from the Belneftekhim innovation fund.

According to the power saving programme for 2004-2005 RUP Polotsk Production Union Steklovolokno at Polotsk will implement the standby power source installation project. The standby energy source would enable the production process safety in case of unscheduled congestions in the regional power grid. The company lost profits in February this year due to the underproduction from an emergency power outage. The main source of financing is Steklovolokno own funds.

Steklovolokno is a government-owned company, specialising in glass fibre and glass fibre articles production. Annual production is about 13,000 tons, while the plant design capacity is 17,000 tpa.

Mogilevkhimvolokhno will have to undertake a revision of prices for sales into the EU, the result of an antidumping investigation into the sales of high-strength polyester threads by Belarus. The investigation was initiated by the International committee on viscose and synthetic fibres (CIRFS). Last year, a similar investigation was made concerning imports of Belarussian polyester staple fibres.

Ukraine

(Ukrainian hryvnia, Aug 23, $1 = 5.302, €1 = 6.537)

Since June, Chernigov Khimvolokhno has reduced the production of kapron fibres from 1,800 tons per month to 1,000 tons per month. The reduction has been caused by the hikes in raw material costs for caprolactam. In January 2004, for example, the company bought caprolactam from Cherkassy at a price of $950/ton, but the price has since risen to around $1850 per ton due to high benzene costs. In the cost price of kapron production, raw materials account for around 60% of the total. Recent rises cannot be passed on in full to the end-user which means that Khimvolokhno has been forced to cut back production.

Since the purchase of the control share in Crimean Soda the new owner RSI Erste Beteiligungsgeselschaft GmbH has already invested 10 million hryvnia, which has led to a growth of 26-30% in production levels for the first half-year. Plans of the new owner include an expansion of capacity up to 800,000 tpa of soda ash (at present the capacity is 500,000 tpa).

Ukrainian company Brom plans to restructure hydrobromic acid and methyl bromine production. The aim of the programme is additional profit from the sale of the new products and full utilisation of capacity for Brom and an increase in competitiveness.

In the Kkarkhov region the local administration believes that Russki Alumini will help Khimprom at Pervomaisk by increasing its demand for caustic soda which it uses for the production of glinozem. If Russki Alumini plans to increase the capacity of glinozem at Nikolaev Glinozem Plant up to 1.6 million tons, this will mean that caustic demand will rise to 75,000 tpa. Khimprom's capacity is only 40,000 tpa at present, but modernisation of the chlorine plant to 70,000 tpa will lead to more capacity.

Transcaucasus

Armenia

In the first half of 2004 the chemical industry in Armenia increased production value by 4.9 fold over the same period in 2003. The increase was due mainly to renewed operations at Nairit-1 for chloroprene rubber production, which was 17-fold higher than in the previous half year.

The Armenian government is striving to attract foreign investors to help solve the problems of the chemical industry. Nairit-1 was the only large plant to begin production in the middle of last year, but this was sufficient to increase total production in the first few months of 2004 after dropping 17.5% in 2003. Before the collapse of the Soviet Union the chemical industry played a major role in Armenia's economy. The industry was affected by the

Karabakh conflict and the environmental movement that arose in 1988. The collapse of the USSR led to a closure of the Armenian chemical industry for an extended period, with some enterprises idle for more than ten years. Nairit, the Vanadzor complex and Yerevan Tyre Plant, will continue to form the backbone of the industry.

Prometei-Khimprom
Prometei-Khimprom combines three enterprises, including the Vanadzor chemical plant, the Vanadzor plant of chemical fibres and the Vanadzor CHP (combined heat and power station). The Russian owner Zakneftegastroy Prometei invested about $20 million in the complex., which as a result has increased ammonia capacity up to 20,000 tpa, melamine up to 10,000 tpa, calcium carbide up to 15,000 tpa, and acetate films up to 3,500 tpa. After 13 years of standing idle the Vanadzor complex resumed production in November 2001. However, high prices for gas and changes in market trends forced the company to suspend production in 2002.

Negotiations are undergoing between the Russian company Zakneftegastroy Prometei, which owns the Vanadzor company Prometei-Khimprom, and the Slovak Divident Group for the majority stake. The Slovak company is applying for at least 51% of shares of the complex.

Nairit-1
Nairit-1 is one of six companies worldwide that produce chloroprene rubber and the only producer in the CIS. The Russian market is estimated at 5,000 tpa of chloroprene rubber, the European market at 50,000 tpa, the USA at 100,000 tpa, East Asia at 100,000 tpa, and the entire world market is about 300,000 tpa. Nairit can produce between 30,000-35,000 tpa of rubber and needs to produce 20,000–25,000 tpa for production to be profitable. Nairit sells to Russia and the former Soviet republics, but periodic shut downs have resulted in a loss of the market and the company was able to restore its position only last year.

Earlier this year, Armenia began preparing the chemical plant for sale to a Russian investor, a company called Volgaburmash, which includes Runa-Bank and Samarsky Credit, 14 plants that produce drilling equipment, and 11 construction divisions. The deal to sell 100% of Nairit to Volgaburmash was signed on 16 April 2004.

The new investor plans to introduce butadiene technology for production of rubber instead of acetylene technology. Volgaburmash will invest $5 million in the plant soon. The first production line using butadiene technology should be launched later in 2004. Switching to this technology will increase production and profitability. Capacity will increase to 25,000 tpa from about 10,000 tpa, using acetylene technology.

Volgaburmash also plans to install a new packaging line, to produce 50 kinds of chloroprene rubber and obtain certification to US and European standards. Volgaburmash has said that state support is needed to rehabilitate the plant, which will involve substantial costs. Nairit consumes around 10% of Armenia's gas and 5% of electricity.

Itera
Itera as owner of 90% in Rustavi-based Azot, intends to build another chemical plant in the western part of Georgia. A new plant is scheduled to be constructed near Poti or Batumi, depending on a decision to be taken by the Georgian government. The new plant will have a capacity of 1 million tpa of urea at a cost of $250 million.

Central Asia

In the first seven months of 2004 Turkmenistan produced 35.2 billion cubic metres of natural gas, 1.1.% lower than in the same period in 2003. 25.5 billion cubic metres of the gas was exported, 1% more than in the same period last year. Oil refining increased by 6% to 4 million tons in the first seven months, whilst polypropylene grew by 24% to 48,200 tons.

A new PET bottling plant will open in Turkmenistan in September 2004. The new Turkish-Turkmen joint venture can produce PET bottles in different sizes and bottles mineral water and carbonated drinks. Situated in the resort town of Archabil (formerly Firiuza), the plant is a joint venture between Turkish company Erku and Turkmen state corporation Turkmenneftgazstroi. Equipment and technology from Italy and Turkey has been used in the plant. The integrated unit has the capacity to mould 10,000 bottles per hour. In the past couple of years, the Turkmen capital Ashgabat has been switching increasingly to bottled water for domestic consumption.

Kazakhstan

Gas supplies from the Karachaganak field in Kazakhstan to Orenburg Gas Processing Plant will increase from 7 billion cubic metres to 8 bcm from 1 January 2005. Orenburg Gas Processing Plant processed about 5.5 bcm of gas and 4.5 million tons of unstable gas condensate from Karachaganak in 2003, and plans to process 7 bcm and 3.1 million tons respectively in 2004.

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