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 this issue

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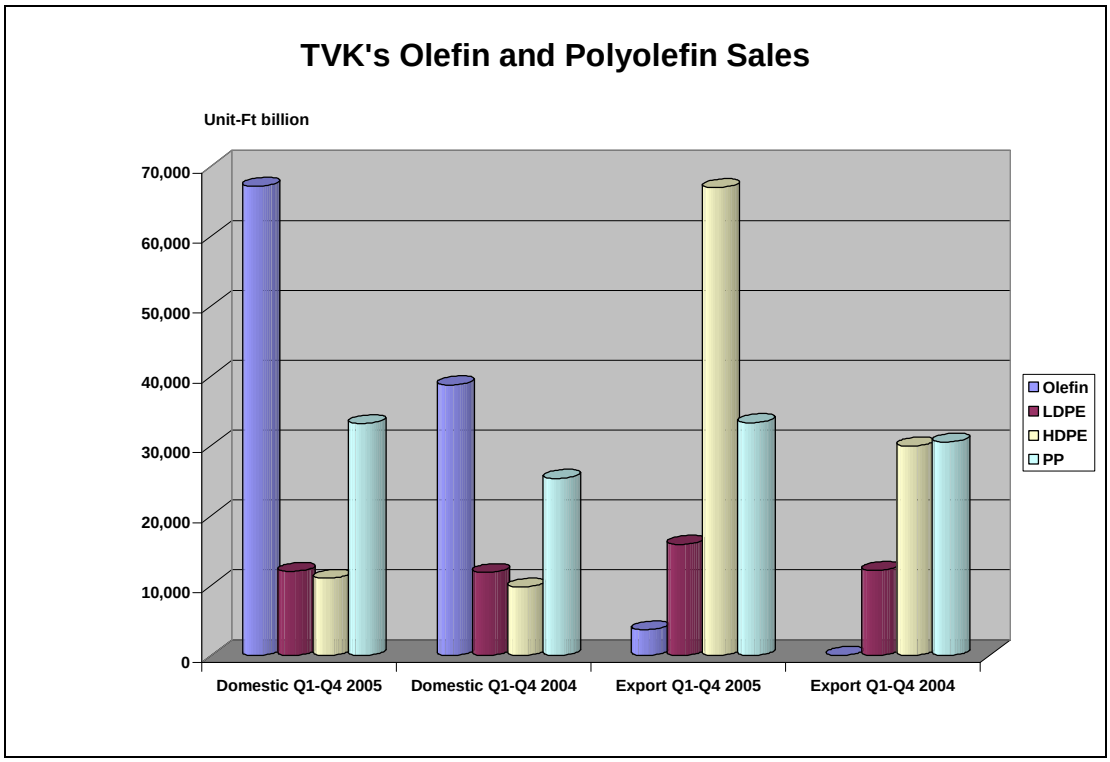
? SIBUR Holding plans to invest around $4 billion in new projects and modernisation in the 2007-2012 period. As a result of these plans, the main production base of the holding will be developed at Tobolsk and Tomsk, close to the sources of raw materials. Until the restructuring capitalisation programme took place in 2005, which resulted in the emergence of SIBUR Holding, the group was preoccupied with the debt burden of 65 billion roubles. With this major problem resolved, SIBUR Holding is now in a position to consider important investments into new projects in gas processing and petrochemicals.

? In 2005, Kuibsyhevazot's turnover increased 34.4% to total 13.6 billion roubles. Growth in prices accounted for 9.1% of the higher turnover, but for the most part it was the result of higher production. Exports accounted for 10.1 billion roubles of total turnover, rising 26% over 2004, whilst domestic market sales increased 27% to 3.3 billion roubles.

? In the autumn of 2006, the Omsk refinery is scheduled to start the modernisation of the paraxylene plant, which will increase the quality of the product to 99.9%. Currently, preparation work is underway, with the involvement of the Italian company Eurotechnica Contractors and Engineers. Union Oil Products of the USA is supplying the technology.

? At the end of 2005 Karpatneftekhim started to see the benefits of investment in its olefin technology. Due to technical upgrades in 2005, ethylene production was down against 2004. The results of the changes have meant that the output of ethylene will rise from one ton of raw material will increase, whilst at the same time the cost price of production will fall.



TVK 2005

After the investments in the past two years TVK's production of HDPE increased by 162,000 tons of polyolefins more in 2005 than in 2004, of which 158,000 tons was provided by the new HDPE-2 Plant. LDPE and polypropylene sales remained much the same as in 2004. The graphic above illustrates the impact of HDPE exports in terms of revenue, whilst domestic market sales of HDPE hardly changed. LDPE and polypropylene revenues were higher mostly due to higher polymer prices.

It also shows the huge increases in revenues from olefin sales in the domestic market. Both ethylene and propylene production more than doubled over 2004 due to the new Olefin-2 Plant. In 2005, ethylene production capacity grew by 68% and polymer production capacity by 33%. In 2005, the sales' revenue at TVK Rt. reached Ft 250,196 million, up 53% and 42% respectively, compared to 2004. During 2005, TVK Rt made 48% of its sales revenue from export sales, which represents a 4% increase compared to 2004. TVK Group's material costs amounted to Ft 196,989 million in 2005, a 69% increase being caused by the rise in costs of feedstock and energy costs. The consolidated operating profit (EBIT) of the TVK Group reached Ft 13,127 million in 2005, as opposed to Ft 12,292 million.

Total capital expenditure of TVK Group reached Ft 6,827 million in 2005, which includes the Ft 324 million loss of the Olefin-2 test production in 2005. The HDPE-2 Plant and the off-site facilities were activated at the end of 2004, and Olefin-2 Plant was activated on 30 September 2005.

CENTRAL EUROPE

Czech Republic

(Czech crown, Kc, Feb 17, $1 = 23.884, €1 = 28.384)

BorsodChem-MCHZ

BorsodChem-MCHZ recorded a gross profit of Kc 253 million in 2005, up 79% against 2004, and its sales grew by 12% to Kc 4.2 billion. Aniline production increased by 18% to 132,550 tons, and new investments have helped the company further raise capacity to 150,000 tpa. Labour productivity at the company rose by over 18%, and average monthly wage was up 6.6% at Kc 27,865. BorsodChem MCHZ invested Kc 750 million in a new plant and in 2005; the company also sold a license for aniline production to Japan. The company exported more than 97% of its output, a large part to its parent company BorsodChem in Hungary. In November 2005, BorsodChem announced that it had signed a share purchase agreement with Aliachem to

purchase 2.4997% stake of BorsodChem-MCHZ at Ostrava. As a result, BorsodChem is now the 100% sole stakeholder of BorsodChem-MCHZ.

Spolana
Ten investors submitted preliminary bids for Spolana, although Unipetrol is widely expected to sell its 82% stake to Anwil, which is controlled by PKN Orlen. If the takeover goes through, Anwil could then potentially launch a buyout of the remaining Spolana shares. Accordingly, Unipetrol could get around Kc 1 billion for the stake in Spolana. Spolana has been in the black for the last two years after many years of losses, particularly in the 1990s after the start-up of the alpha-olefin plant that has since been closed. Spolana recorded a net profit of Kc 86.2 million and sales worth Kc 4.3 billion in the first three quarters of 2005. The selection of the winner may take two to four months.

Kaucuk
Regarding the sale of Kaucuk, PKN Orlen addressed 26 companies, with twelve expressing an interest before the cut-off date of 8 February. Among the bidders is Agrofert, and Dwory is thought to be on the list. The selection of the buyer could last two-to-four months.

The reason for Kaucuk sale is that the company is not in line with Unipetrol's business strategy, as with Spolana. Unipetrol's main objective is to find a strong partner that would secure further development for Kaucuk. The potential investor will have to preserve cooperation within the Unipetrol group. Kaucuk showed net earnings of Kc 253.6 million on sales of Kc 7.9 billion in three quarters of last year.

Slovakia

(Slovak crown, SKK,Feb 17.766 = 31.489, €1 = 37.424)

NCHZ
Novacke Chemicke Zavody (NCHZ) has launched the production of a new product that should increase its total annual sales by SKK 300 million. NCHZ plans to put out 8,000 tons of the new product with the trade name Novamal, which is used as an alkylation agent in the pharmaceutical industry, and is also a raw material for the production of thioplasts or synthetic rubber.

The production of Novamal means an expansion of NCHZ's consumption of ethylene chlorhydrin. The company has been producing the product for pharmaceutical purposes since 1998. Eximbank largely financed the investment of SKK 151 million for the new product type. NCHZ wants to export the new product in cooperation with Akzo Nobel. NCHZ is investing SKK 400 million in restructuring its business in the period 2006-2008. NCHZ has a jv with CalciTech where there are plans to build a synthetic calcium carbide plant at Novaky. A large tonnage of industrial carbide lime waste has accumulated at Novaky from past production, creating environmental problems. CalciTech's technology is suited to deal with this problem, and it is planned to use this waste in the production of high quality synthetic calcium carbide for use in paper coating applications. Production at the Novaky site will be aimed both at exports and the local market, which is showing increased development in recent years.

Hungary

(Hungarian Forint, Ft, Feb 17, $1 = 211.1, €1 = 251.1)

MOL 2005
MOL's petrochemical division's operating profit (in both Hungary and Slovakia) increased to Ft 19.1 billion ($95.6 million) in 2005, compared to a Ft 18.9 billion ($93.3 million) profit in 2004. The operational result was influenced by the higher sales from the new capacities and also efficiency improvement measures. However, rising feedstock costs impacted in the second half of 2005. In Q4 2005, for example, the integrated petrochemical margin dropped by 14.6% compared to Q4 2004 due to a 20% increase in naphtha prices. These increases were only partly compensated by the increase in polymer prices. The prices of naphtha and chemical gasoil increased by 27-42% compared to 2004 in US dollar terms.

In 2005, MOL's polymer sales' volumes totalled 1,065,000 tons, which represents a 22% increase compared to 2004. The most significant growth was seen in HDPE and polypropylene, mainly as a result of the start up of the new plant at TVK, and the new plant at Slovnaft. As a result, the composition of polymer sales changed, with the share of HDPE sales rising to 33% of the total, with LDPE accounting for 26% and polypropylene

41%. In the last quarter, after the completion of operational tests at new plant of Slovnaft, the sales of polypropylene increased significantly.

Regarding local market sales, Hungarian polymer sales fell by 4,000 tons, but sales of olefins increased by 24% against 2004 due to the start-up of a new olefin plant at TVK. Slovakian polymer sales fell by 9,000 tons.

MOL's capital expenditures in petrochemicals in 2005 fell compared to 2004, as the construction work of new plants was completed. Apart from developments at TVK, the new polypropylene plant at Slovnaft was mechanically completed in the first quarter, and the guarantee test was closed in the fourth quarter. Through these projects MOL Group's ethylene capacity increased by 42% to 839,000 tpa, whilst total polyolefin capacity increased by 41% to 1,281,000 tpa.

BorsodChem 2005

2005 proved a challenging year for BorsodChem in regard to raw material inputs, which the company found hard to pass on to end-users, particularly for PVC. Under the assessment that these costs and price trends are unlikely to change much in the short to medium term, the company has cited growth as the key to future profitability.

BorsodChem's Sales' Revenues
(Hungarian forint, Ft, Feb 17, $1 = 211.1 €1 = 251.1)

Product	*2005 (Ft mil)*	*2004 (Ft mil)*
PVC resin		
Domestic	6,215.7	5,671.9
Export	41,707.8	36,564.3
Subtotal	**42,236.2**	**47,923.5**
MDI products		
Domestic	604.8	117.9
Export	29,073.5	22,042.6
Subtotal	**29,678.3**	**22,160.5**
TDI products		
Domestic	1,330.2	1,154.2
Export	26,961.6	23,995.9
Subtotal	**28,291.8**	**25,150.7**
Caustic soda		
Domestic	3,206.2	2,030.5
Export	3,338.7	1,630.6
Subtotal	**6,544.96**	**3,661.1**
Aniline		
Export	**12,995.7**	**10,604.6**
Other products		
Domestic	16,959.30	15,857.10
Export	31,246.50	28,002.50
Subtotal	**48,205.800**	**43,859.60**
Total sales		
Domestic sales	28,316.2	23,726.0
Export sales	145,323.8	122,840.5
Total	**173,640.0**	**147,672.7**

In addition to the high cost of raw materials in 2005, the company's other main focus was on the capital expenditure programme, totalling Ft 48.9 billion. Of the total sum Ft 5.3 billion was spent by consolidated subsidiaries. Increases were seen in VCM capacity at Kazincbarcika, which led to a major increase in production volumes, and also MDI. As the MDI plant was introduced towards the end of the year it did not have a major effect on sales. However, the new plant in February 2006 was running at 60% of capacity, and after a stoppage in the second part of the month is expected to achieve 80% in March. BorsodChem sold 9,000 tons of MDI in both January and February, and is expected to exceed 10,000 tons in March which is around double the volume from March 2005.

In 2006, BorsodChem plans to spend a further total of Ft 55 billion on capital investments at its three sites of Kazincbarcika, Ostrava and Kedzierzyn-Kozle. At Kazincbarcika, the major investment will be focused on technology conversions and capacity expansions for the chlorine/caustic chain. This will lead to an extra 40,000 tpa of chlorine coming on stream by September 2006, and 44,000 tpa of caustic soda. TDI capacity will be increased from 80,000 to 90,000 tpa, whilst PVC capacity will be raised from 300,000 tpa to 400,000 tpa. Small scale investments are taking place at Ostrava, whilst Ft 10 billion will be invested into Petrochemia Blachownia in Poland with the aim of improving toluene quality. At present, toluene produced by Petrochemia Blachownia is not of sufficient quality for the production of TDI at Kazincbarcika.

BorsodChem's % Production Changes 2005 vs. 2004

PVC	VCM	MDI	TDI	Aniline
6.7	48.3	9.3	13.8	17.5

In 2005, the BorsodChem Group expanded its sales' revenues to Ft 173.6 billion, or 17.6% up compared to 2004. The operating profit of Ft billion signified a 42% rate of growth. The capacity utilisation of production lines continues to be high within the group. The increases in production volumes were made possible by capacity expansions, as well as higher

production time in 2005 due to a new maintenance policy.

Poland

(Polish zloty, zl,Feb 17, $1 = 3.1749, €1 =3.7735)

Z CH Police
The Polish gas transport monopolist PGNiG restored the delivery of gas in February to Zaklady Chemiczne Police (ZCh Police), which the company uses for the production of ammonia. ZCh Police does not expect that the January stoppages of gas will influence the annual financial results. PGNiG reduced gas deliveries by more than by 30% to the most important industrial users of Poland due to frost and the curtailment of the deliveries of natural gas from Russia. During this period, ZCh Police reduced the production of ammonia by around a quarter. For sales of ammonia, the company was forced to declare force majuere.

Natural gas comprises about 30% of the raw-material base of the company. This is important enough for ZCH Police to currently considering participation in the construction of a liquid natural gas (LNG) terminal in Poland.

ZAT
PCC AG has received the exclusive right of purchase of 80% of shares in Zaklady Azotowe Tarnow (ZAT), and can use this right till 10 March. If all conditions are satisfactory, signing of the contract is expected to occur in the first half-year. PCC AG has offered the most attractive conditions for finding the right of exclusive negotiating for the shares in ZAT.

Regarding current production levels at ZAT since the start of the year, a supply crisis in ammonia forced ZAT to reduce production of caprolactam and fertilisers. From the middle of January, the company was using only its reserves of ammonia. In the middle of February supplies of ammonia for ZAT from Polish suppliers restarted, after several weeks of stoppages due to Russian gas cuts. Anwil and ZA Kedzierzyn restored deliveries of ammonia by 15 February. From the time of delivery of the first ammonia supplies it requires seven days to restart the production cycle.

ZAT produces caprolactam, polymers and fertilisers. It is one of the most important users of gas in Malopolska voivodeship of Poland. Consumption composes 24,000 cubic metres of gas an hour, imported from Russia, and additionally 7,200 cubic metres of Polish domestic gas.

Serbia

Methanol
Serbia's production of methanol and acetic acid were completely stopped in January, as the country could not afford to pay the high Russian natural gas prices. MSK at Kikinda operates a 200,000 tpa methanol plant, and 100,000 tpa acetic acid plant. Stoppages are not uncommon; in mid-May 2005, for example, the Kikinda methanol/acetic acid facilities restarted following a 3-month shutdown to all operations.

HIP Azotara Pancevo
The Serbian Privatisation Agency has stated that a number of bids have been received in the tender process for the privatisation of HIP Azotara at Pancevo. The Commission concluded that five offers were submitted on time, including Agrofert, Nitrogenmuvek, Farmakon, Arvi, etc. Financial and legal advisors of the Agency will, within 30 days from the opening of bids, make an assessment of the offers submitted. The final assessment will be presented at the following session of the tender commission for HIP Azotara.

Romania

Oltchim
Oltchim's profit in 2005 fell 70% against 2004, a fall that was attributed to high oil prices. Preliminary results show a net profit of 24.8 million lei (€6.9 million). The company's turnover increased up to €398 million, by 17.4% in euro terms. The main causes of the decline in profit in 2005 were high oil prices and a slight increase in the company's output prices. For 2006, Oltchim has forecast sales of 1.7 billion Lei (€470 million) sales and 44 million Lei (€12 million) in profits.

Forthcoming Events

17-19 May 2006, London

Petrochemical Focus Conference and Workshop

CMAI will present the 2006 Petrochemical Workshop and Petrochemical Focus Conference at Royal Garden Hotel, London. Please visit http://www.cmaiglobal.com for details, or use the link from www.cirec.net.

Other events in the near future include the following, and a full list can be seen at www.cirec.net

23-24 February 2006, Beijing 3rd Phenol/Acetone & Derivatives Markets

8-9 March 2006, Budapest 2nd CEE Chemical and Petrochemical conference

25 26 May 2006, Prague 2nd Russia, Central & Eastern Europe EDC- VCM -PVC

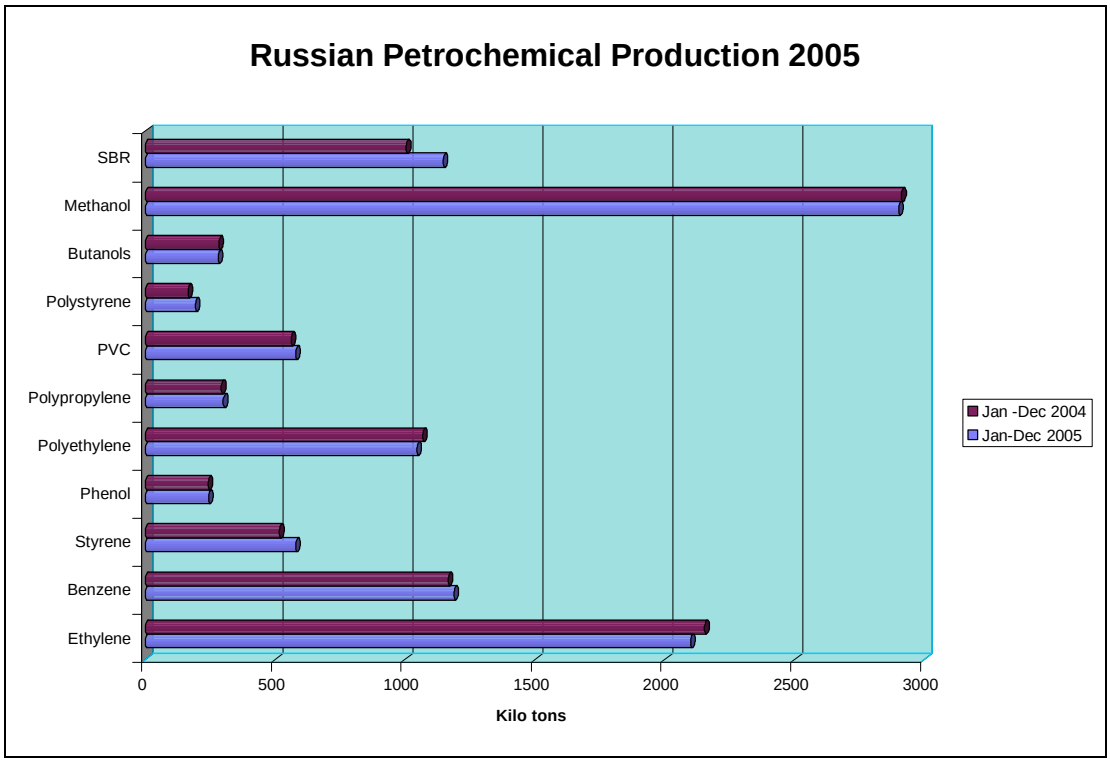
EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

(Rus rouble Feb 17, $1 = 28.465, €1= 33.833)

Russian chemical output 2005

End of year statistics have shown that physical production volumes reflected an increase of 1.4% in 2005 over 2004, with ethylene production fractionally down on 2004. Thermoplastic production was down by 7.7%, due largely to feedstock constraints. However, polystyrene production rose by 16%, following the introduction of new capacity at Nizhnekamsk.



The total production of synthetic resins and plastics fell 0.6% to 3.3 million tons. Whilst thermoplastic production changed very little over 2005, the production of plastic finished products increased 10.2%. In the

first quarter of 2005 production fell by 10% on Q1 2004, but the market proved very dynamic after May, and growth was recorded for the second, third, and fourth quarters at 3.7%, 10.9%, and 13.4% respectively. Regarding synthetic rubber production, there was an increase of 2.7% to reach 1,147 million tons, whilst tyres increased by 4.7% to 41.3 million.

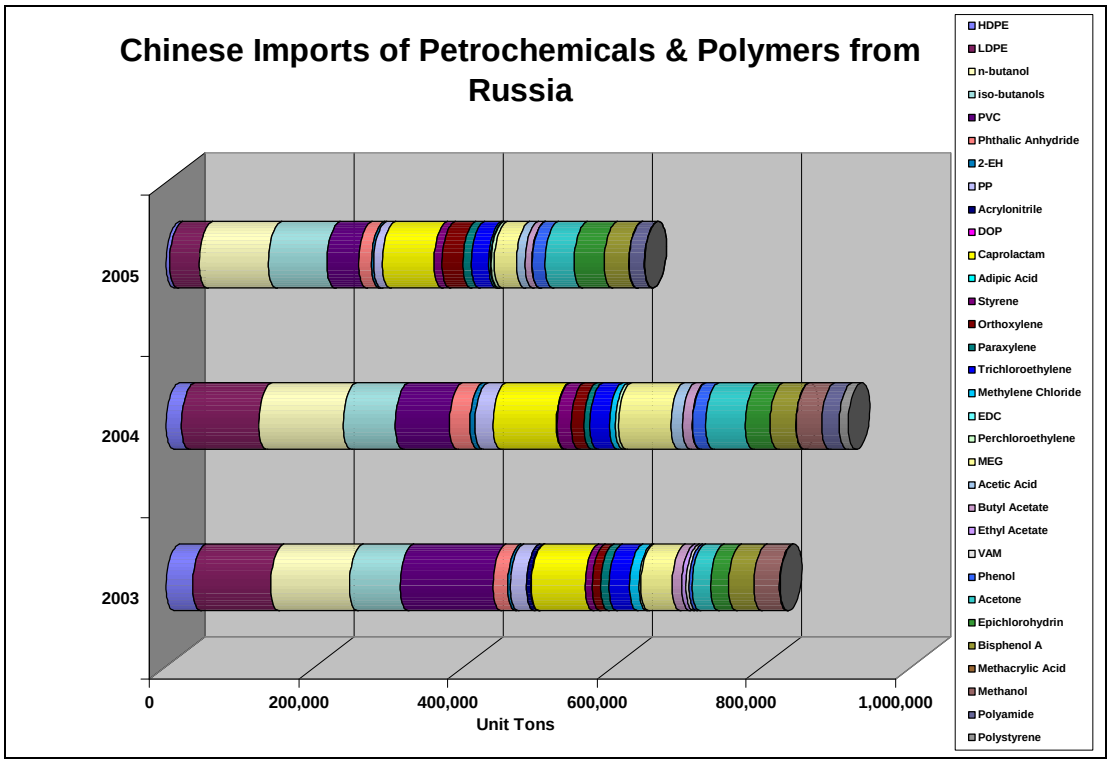
The production of polymer films in Russia totalled 274,000 tons, 26.1% higher than in 2004. Production of sheets from thermoplastics grew 10% to 11,800 tons, and pipes by 21% to 91,300 tons. PVC plasticizers grew by 35.4% to 135,400 tons, glass-fibre by 45.1% to 23,500 tons.

As the graphic illustrates above, production trends in petrochemicals were more or less similar in 2005. Downstream demand is growing faster than monomer production levels which are acting as a stimulus to investment considerations.

Capacity utilisation in Russia was for most plants close to 100% in 2005. In addition to rises in domestic demand, exports also experienced a good year in 2005, particularly for fertilisers, ammonia, synthetic rubber and polypropylene. However, in spite of efforts to move towards higher value added export commodities, it is taking time to bear fruition. In the whole of 2005 export turnover nearly reached $10.5-11.0 billion, or 6-11% higher than 2004.

Russian chemical exports to China

Exports of bulk polymers from Russia to China fell by 49% in 2005 over 2004, as a combination of domestic demand and difficulties in competing in the Chinese market reduced volumes for Russian producers. Not all reductions in Russian shipments to China led to more consumption at home; caprolactam exports, for instance, simply shifted from China to Taiwan. For the most part however, reduced exports to China translated into increased domestic sales. Further details of the numbers can be seen at www.cirec.net/report



SIBUR Holding

Investment Strategy of SIBUR Holding

SIBUR Holding plans to invest around $4 billion in new projects and modernisation in the 2007-2012 period. As a result of these plans, the main production base of the holding will be developed at Tobolsk and Tomsk, close to the sources of raw materials. Until the restructuring capitalisation programme took place in 2005, which resulted in the emergence of SIBUR Holding, the group was preoccupied with the debt burden of 65

billion roubles. With this major problem resolved, SIBUR Holding is now in a position to consider important investments into new projects in gas processing and petrochemicals.

In 2006, the holding plans to invest around 12 billion roubles, and in 2007 this will increase to 40 billion roubles. One of the first new grandiose plans is to create a large petrochemical complex on the site of Tomskneftekhim. The goal is to create new facilities for the production of polyethylene (with a capacity of 350,000 tpa) and to increase the production of polypropylene. In conjunction with the expansion of polyolefin capacity, SIBUR Holding plans to build a new gas processing plant, designed for processing 6.5 billion cubic metres of gas. The entire cost of this project (including the cost of constructing a pipeline conduit from the main gas pipeline to the Tomsk combine) is assessed approximately at around one billion dollars.

The second major petrochemical project will be undertaken on the site of Tobolsk-Neftekhim, where polyolefin capacity will also be developed. This project, which is estimated in cost terms at between $0.7 and $1.3 billion, will be based on feedstock links between Tobolsk-Neftekhim and the gas-processing plants in the Tyumen Oblast, belonging to SIBUR. A priority project involves the expansion and the modernisation of the processing plants, in which the company is prepared to invest heavily in the next few years.

The strategy seems to be focused on shifting the concentration of the company from the European part of Russia to the Urals and West Siberia. SIBUR unites more than twenty petrochemical plants, spread from the Tyumen Oblast (West Siberia) to Tver (near Moscow), and the geographical dispersion has a major effect on logistics costs.

In future, the Tobolsk and Tomsk petrochemical complexes are planned to become the production nucleus for SIBUR Holding. Investments into SIBUR-Neftekhim at Kstovo and Dzerzhinsk will still be undertaken, involving the development of PVC capacity with a capacity of 200,000 tpa and an increase in ethylene capacity from 250,000 tpa to 430,000 tpa. The cost of this programme is expected to be about $750 million.

The sources of finance for these major investments will include internal funds and loans. Furthermore, SIBUR Holding is prepared to make a debut for the market for eurobonds, and does not exclude the possibility of including strategic partners into the separate projects.

The new strategy intends to establish SIBUR Holding as the major polyolefin producer in Russia, although there is strong competition from Kazanorgsintez, Nizhnekamskneftekhim and Salavatnefteorgsintez. In contrast to the competitors, SIBUR Holding possesses a sufficiently strong raw material base. Until now, however, the holding has remained largely reserved about expansion plans allowing companies such as Kazanorgsintez and Nizhnekamskneftekhim to take the lead.

Finance
ABN Amro Bank and Citigroup will soon begin a syndicated loan to SIBUR Holding for $200 million. The lean should start at the latest from early March 2006, and will be used in the support of the SIBUR investment programme. SIBUR Holding was created on 8 July 2005, originally under the name AKS. Gazprom owns 25% plus 1 share and 75% minus 1 share is owned by Gazprombank. SIBUR Holding unites 26 petrochemical plants, located in 21 regions of Russia.

Tomskneftekhim
Tomskneftekhim's olefin and polyolefin production in 2005 showed only a small change against 2004. Formaldehyde increased 8.07% to total 118,967 tons, whilst urea-formaldehyde production increased 25.1% to 113,930 tons. The production of butane-butylene fractions at Tomsk was up 11.52% to 62,323 tons.

In February, Tomskneftekhim produced its millionth ton of polyethylene since start-up of the plant, whilst 24 February 2006 marks 25 years since the first petrochemical production was recorded at Tomsk.

SIBUR-Khimprom
SIBUR-Khimprom increased gas processing by 6% in January 2006, against January last year, reaching 26,400 tons. The major increase was seen in styrene production which increased by 45% against January 2005 to reach 7,000 tons. Propylene from propane-propylene fractions grew threefold to reach 2,100 tons whilst cracker based propylene amounted to 4,730 tons. 2-EH production rose 18% against January 2005.

Metafrax
SIBUR Holding has consolidated 33.46% of shares in Metafrax, which is a major addition to the group. The shares were previously owned by ZAO Investfinance-M (Moscow, 19.48%) and ZAO Expocity-XXI (Moscow, 13.95%). The other shareholders of Metafrax, excluding SIBUR, are OOO Metex (Perm, 20%), OOO Megafrax (Moscow, 17.8%) and OOO Intrexbusiness (Moscow, 14.17%). Metafrax at Gubakha was originally formed in 1955, and is currently the largest producer of methanol in Russia. Until now, SIBUR Holding has not held a production position in methanol.

Metafrax's Production 2005 (unit-kilo tons)

Product	*2005*	*2004*
Pentaerythitol	12.3	10.9
Urea-formaldehyde resins	147.9	64.3
Utropine	15.6	15.6
Formaldehyde	199.6	178.5

Metafrax increased its turnover by 37% in 2005 to 5.4 billion roubles against 2004, and net profits increased by 1.5 times to 1.4 billion roubles. Production of methanol increased 19.8% over 2004, whilst pentaerthyitol increased 11.9% and urea-formaldehyde resins by 2.3 times. Exports account for around 45-50% of production.

In 2005, Metafrax completed the project for a urea-formaldehyde plant with a capacity of 180,000 tpa. Capital expenditures into the project amounted to $34 million. In 2006, Metafrax plans undertake large investment projects, including an increase in methanol capacity to 1 million tpa and the construction of a large unit for the production of formaldehyde 37% with a capacity of 270,000 tpa,. The cost of these investments amount to €10.9 million and €15.5 million respectively. The company is also expected to start the foundations for a complex for the production of industrial resins, under the MetaDynea joint venture, and to increase capacity for pentaerythitol to 18,000 tpa.

Tatarstan

In 7 February, following approval of new shares by the Russian Fund Bourse (RTC) the capitalisation of Nizhnekamskneftekhim exceeded $2 billion. Thus, the market cost of company continues to grow, in line with the rest of the petrochemical industry in Russia. For Nizhnekamskneftekhim, the rise in capitalisation helps to formulate the company's financial transparency, whilst raising the level of the confidence of investors.

In 2005, Nizhnekamskneftekhim recorded a turnover of 39.9 billion roubles which was 8.5 billion roubles higher (or 27.3%) than in 2004. Growth in prices amounted to 10.2%, but a large amount of the increase in turnover was due to the production of higher added value products. Record production levels were achieved in the production of butyl rubber, ethylene, propylene, styrene and simple polyethers. More detail is available in CIREC's review of Nizhnekamskneftekhim 2005-2006.

Kazanorgsintez
From 1 January 2006, Kazanorgsintez stopped the production of PE-63 pipes and redirected all capacities towards the production of PE-80 pipes. In May 2006, Kazanorgsintez will start the production of PE-100 pipes. In 2005, Kazanorgsintez produced 29,557 tons of pipes for gas pipelines, and 24,610 tons for water systems, drainage, etc. It also produced 56,800 tons of fittings. The pipe division recorded a turnover of 1.214 million roubles, with a profit of 402.7 million roubles.

Bashkortostan

Kaustik
Kaustik (Sterlitamak) plans to invest a total of 151.520 million roubles in modernisation in 2006, not including the costs of purchasing equipment for repairs. Reconstruction of the biological clearing unit is being undertaken, where 33.2 million roubles is being invested. The company's total turnover reached 7.341 billion roubles in 2005, which was up 10% from 2004. Exports accounted for 1.182 billion roubles of sales in 2005, or 16% of turnover. Production numbers for Kaustik for 2005 can be seen at www.cirec.net/report.

PTA
Polief concluded a contract for PTA supplies to Turkey and China, in volumes of 4,000 tpa. SIBUR-PET at Tver has started receiving deliveries of PTA from Polief; in December it took 700 tons and in January and 2,000 tons in January.

n March 2006, Polief will start preparations for the launch of the second PTA line with a capacity of 115,000 tpa. At present, the design-assembly construction has been concluded and the preparation is currently

underway for testing the equipment. The first PTA line was started in November 2005, and is now running at full capacity.

Nikos

Kaustik and Plastkard of Volgograd, subsidiaries of the Nikos Group, were taken over by Nikoskhim LLC in late 2005. Agreements to transfer authorities of the companies' executive power to Nikoskhim were approved by the boards of Kaustik and Plastkard on 7 November 2005.

Kaustik (Volgograd) increased turnover by 4% in 2005, up to 3.145 billion roubles. Caustic soda production increased 3% and chlorine by 8% after the introduction of new technology for the production of liquid calcium chloride. In addition, the company increased production in all types of chlorinated paraffins.

In the third quarter of 2005 Khimprom (Volgograd), also part of Nikos, started an anti-crisis programme which helped to start addressing the serious question of debts. On sales of 3.414 billion roubles in 2005, the company's losses were 198 million roubles against 231 million roubles in 2004 on sales of 3,291 billion roubles. Losses have been helped by a packet of measures regarding the purchase of electric power in the wholesale market and to adjustment of contacts to independent suppliers of raw materials. Other aspects have included a revision of marketing policy and an increase in capacity utilisation for the main products.

Evrokhim

Azot Novomoskovsk

Azot undertook large scale investments in 2005 which resulted in large scale increases for ammonia and urea, but methanol production remained much the same as in 2004. Methanol production is expected to see growth in 2006, and should exceed 400,000 tons. In other product areas, Azot saw growth in nitric acid of 23.2%, and VCM by 4%. Amongst the company's new products, dimethyl ether production saw an increase of 236.7% against 2004, amounting to 470 tons.

Azot Nevinnomyssk

Azot at Nevinnomyssk achieved a turnover of 12.9 billion roubles in 2005, 500 million roubles higher than in 2004. Ammonia production grew by 5% to 1.139 million tons and urea 8% to 881,000 tons. Methanol production rose 4% and acetic acid by 3%. Azot at Nevinnomyssk started the reconstruction of its methanol unit in 2005 with the aim of reducing expenditure on electricity by two fold, and heat energy by 5%. This will reduce overall costs by 20%, whilst at the same time capacity will increase from its current level of 350-360 tons per day by 20%. The modernisation of the methanol unit is being carried out by the Italian company Methanol Casale S. A.

Omsk

Polypropylene

Novatek and SIBUR Holding have been in discussions regarding the creation of a jv for the construction of a petrochemical complex at Omsk. Novatek has been attempting to enter the petrochemical production for the past year or two, and has thrown up some interesting ideas. In addition to Novatek and SIBUR Holding, other partners that might be included in the jv are Titan and Gazprombank. Novatek and Titan have already agreed in 2005 to construct a polypropylene plant. The equipment will be delivered in 2006, with the construction process aimed to be completed by the first quarter of 2007.

Polystyrene

Omskpolimer plans to increase polystyrene processing, and has attracted credit from the Kazakh bank TuranAlem. Currently, the plant produces 2,500 tpa of polystyrene, which is to be increased to 4,000 tpa in 2006 and then up to 6,000 tpa later. The Kazakh bank TuranAlem, which is the main shareholder, is investing around $100 million in Omskpolimer. The company was previously part of the bankrupt group Omskkhimprom. Omskpolimer still faces debts of 2.3 billion roubles, but credit from the Turan Alem bank means that the company is well placed to repay the debts and to invest in its future development.

The Omskpolimer business-plan will be focused initially on the increased manufacture of polystyrene and plastic disposable utensils. The production of ion-exchange resins and phthalic anhydride will be restored

later for the manufacture of paint and varnish products. The company hopes to achieve turnover of $70-80 million in 2007, rising to $120-130 million in 2008. Within the approved business-plan the company would have paid all debts off within ten years.

Paraxylene
In the autumn of 2006, the Omsk refinery is scheduled to start the modernisation of the paraxylene plant, which will increase the quality of the product to 99.9%. Currently, preparation work is underway, with the involvement of the Italian company Eurotechnica Contractors and Engineers. Union Oil Products of the USA is supplying the technology.

Akron

In 2005, Akron's total production grew 3.2% to 9.8 million tons, with ammonia reaching record levels. Total production of methanol and urea-formaldehyde resins increased 4.2% to 360,000 tons.

Akron intends to invest $1.5 billion in buying new assets both in Russia and abroad, with the first deals under the project to be announced in the first quarter of 2006.

Akron Holding comprises Akron Co at Novgorod, Drogobuzh at Smolensk and the Hunjii-Akron plant in China. The group produce nitrogen and phosphoric fertilisers, methanol, ammonium nitrate, ammonia and some other chemical products. Other members of the holding are Nordic Rus Holding (49% owned by Norsk Hydro through Hydro Agri Russland AS), Akron-Trans transport company and Agronova trader.

Late last year Akron acquired equipment of an idle chemical enterprise of Italy for its Drogobuzh chemical plant in a move to double ammonia output and start producing urea by 2008. The project budget totals $150 million, a tenth of production investment planned by Akron. In late 2005, the Drogobuzh plant entered into a contract for buying a portion of the equipment, facilities for producing 400,000 tpa of ammonia and 350,000 tpa of urea, all reported to be in good condition.
The equipment from the Italian company enterprise has bow been dismantled and is scheduled to be put into operation at Drogobuzh in 2008. Reinforced by the new assets, Drogobuzh will be producing as much as 850,000 tpa of ammonia, nearly two fold up vs. current output, and will also start producing urea.

Irkutsk

Angarsk Petrochemical Company
Angarsk Petrochemical Company processed 8.274 million tons of crude in 2005, which was 6% less than in 2004. The lower volumes resulted from the emphasis on lighter products with added value. In 2006, the company plans to process 8.4 million tons of crude, of which around 60% will be supplied by YUKOS and the remainder from Rosneft. In the organic chemical division, the Angarsk Petrochemical Combine produces butanols and methanol; production figures can be seen at www.cirec.net/report.

Samara

Samaraorgsintez
Phenol-acetone producer Samaraorgsintez (Etanol) has undergone major reconstruction in the past two years, including the creation of storage warehouses for hydrocarbons. The company has now started the design works of another warehouse, this time for inflammable liquids. 2005 was a successful year for the company, notwithstanding raw material shortages (propylene and benzene) in the first quarter.

Samaraorgsintez has already received new equipment based on new technology for an upgrade of the phenol plant. The current technology produces around 230 kg of waste for every ton of phenol produced, whilst the new technology will reduce that amount by at least 50 kg per ton of phenol production. The new technology will be in place prior to 2010, and will increase phenol capacity from 47,000 tpa to 90,000 tpa. The modernisation of the phenol unit will facilitate an increase in production capacity and a simultaneous reduction in the emissions of harmful substances. The company's management cites technical progress as vital for survival, under the premise that plants with old, heavy technology simply die. Apart from technical questions, consumption of phenol in Russia is expected to grow in 2007-2010 due to increased demands for the production of phenolic resins, and also investments in bisphenol A at Kazan.

At present, Samaraorgsintez is finding it difficult to meet contractual obligations. To some extent it has become dependent on phenol exports, through Finland, whilst on the other hand it is faced with the need to supply phenol to local customers. Currently, it supplies phenol in Russia to nearby Kuibyshevazot, Tokem at Kemerovo, Uralkhimplast at Nizhniy Tagil, etc. Even though global phenol supply is structurally long, product is required for an emerging domestic market.

Kuibyshevazot

Kuibyshevazot and Berstoff have reached agreement on the supply of equipment to Kuibsyhevazot's Chinese subsidiary at Shanghai. The equipment is scheduled to be delivered by September 2006. Kuibyshevazot plans to supply up to 7,000 tpa of polyamide-6 to Shanghai, which will be converted to 9,900 tpa of plastic compounds based on the new equipment being supplied by Berstoff.

In 2005, Kuibsyhevazot's turnover increased 34.4% to total 13.6 billion roubles. Growth in prices accounted for 9.1% of the higher turnover, but for the most part it was the result of higher production. Exports accounted for 10.1 billion roubles of total turnover, rising 26% over 2004, whilst domestic market sales increased 27% to 3.3 billion roubles.

Ammonia production fell 17% following modernisation, whilst urea production fell 5% to 232,500 tons. Caprolactam increased production by 6% (see www.cirec.net/report) whilst polyamide-6 production increased 32% to total 23,600 tons. Polyamide threads totalled 3,600 tons and cord fabrics 1,000 tons. In 2005, capacity for granulated was introduced for the production of technical threads and cord fabrics.

In 2006, the company plans to invest 1.43 billion roubles, of which 1.16 billion is intended for maintenance of existing units. The Russian bank Zenit has organised a new share issue for Kuibyshevazot worth 2 billion roubles.

Kuibyshevazot's second line for polyamide-6 is under construction and will have a capacity of 150 tons/day, or 50,000 tpa. For the reconstruction of the caprolactam plant equipment has been introduced which reduces the consumption of ammonia and oleum. Work on the hydrogenation of phenol has been undertaken and the cyclohexane unit has been modernised. This has helped to reduce raw material consumption, especially benzene by 2%. At the end of 2005 the company introduced a new hydrogen plant with a capacity of 30,000 Nm3/hr. The increase in hydrogen has become necessary for the increased requirements in both the production of caprolactam and polyamide-6.

The second polyamide-6 unit (2.4-2.8) is scheduled to start in the first half of 2006, after an investment of around one billion roubles. The first polyamide-6 line has a capacity of 22,700 tpa and was introduced at the start of 2004. Production ran at maximum capacity in 2005.

Togliattiazot

Togliattiazot plans to start the construction of the first line of its Taman port, in the Krasnodar region, with a capacity for shipping 2 million tpa of ammonia. By 2008, the capacity will have increased to 6 million tpa and by 2010 to 10 million tpa. At the present time, a railway siding is under construction with a length of 36 km for the delivery of loads into the port. Two storage tanks are also under construction for ammonia, with a capacity of 30,000 tons each, and a gas pipeline with a length of 12 km.

For the production of methanol, Uralkhimash has delivered more 300 tons of equipment to Togliattiazot and two heaters. This is the part of the large order, entered in Uralkhimash from Togliattiazot. The deliveries of equipment for Togliattiazot will be continued to the end of May. The Separator V -1201 is intended for separation of liquid methanol- from synthesis gas.

Product/Company News

PVC

In 2005, Sayanskkhimplast sold 83% of its PVC production to the domestic market. In 2006, the company plans to invest 739 million roubles in reconstruction (and this sum excludes the gas based investments). Already new centrifuges have been introduced, whilst the company is starting the development of its own power station and the modernisation of the VCM/PVC facilities with a simultaneous increase in capacity. The conversion of the chlorine plant to the membrane method will be completed by July-August 2006.

Design and engineering work is underway for the helium project at Sayanskkhimplast. The cost of the project is estimated at around $32 million, and is expected to be synchronised with the start-up of the gas processing plant at Sayansk. Other plans in 2006 include maintenance on the 102 km ethylene pipeline from Angarsk

Plastics
In late January Koros announced the opening of new plastics tube plant at Noginsk. Extrusion equipment was installed by the German and Austrian companies. The capacity of the plant is 37 million tubes per annum. Consumption of tubes in Russia is around 200 million per annum, and plastic tubes have only been produced domestically since 2001. The first producer was RiM, which belongs to the Troyard group. In addition to RiM, Softpak abd Truboplast are the other main producers.

Galogen
Synttech Group, which is owned by Viktor Vekselberg, has bought 49% of shares in Galogen at Perm. The controlling share is held by the Construction Bureau (owned by ex-President of SIBUR, Dmitry Mazepin. Galogen specialises in photo plastics.

Belarus

Mogilevkhimvolokno
In 2005, Mogilevkhimvolokno increased production in value terms by 6.3% to $250.2 million. Production totalled 87,200 tons of chemical fibres and threads, and 118,600 tons of PET. Exports in 2005 fell by 6.7% to $126.2 million. Investments into modernisation amounted to $28.4 million.

From 1-15 January 2006 the company was forced to stop the production of PET due to a lack of movement of product already stored in the warehouses. The company restarted PET production on 16 January, but production continued to be stored in warehouses.

In the 2006-2007 timeframe Mogilevkhimvolokno plans to introduce a new polycondensation PET line with a capacity of 80,000 tpa. The cost of the project is €46.5 million, with a 5 year pay back period. The PET will be used captively by Mogilevkhimvolokno. At the same time as the PET plant is introduced plants for technical threads and biocomponents will be installed, with capacities of 2,500 tpa and 14,000 tpa, respectively. Finance for the projects will be supplied by Belneftekhim, and further share emissions of Mogilevkhimvolokno. These shares are expected to be bought by the Naftan and Mozyr refineries, which helps to a tight reign of the government over equity stakes in the chemical sector.

Ukraine

(Ukrainian hryvnia,Feb 17, $1 = 5.0572, €1 = 6.0107)

Karpatneftekhim
At the end of 2005 Karpatneftekhim started to see the benefits of investment in its olefin technology. Due to technical upgrades in 2005, ethylene production was down against 2004. The results of the changes have meant that the output of ethylene will rise from one ton of raw material will increase, whilst at the same time the cost price of production will fall. The raw material ratios for the ethylene are now 348,3 kg per ton and propylene 160.4 kg per ton. The C4/C5 unit has already started to help production.

At the start of 2006, the company faced difficulties in natural gas supply that led to a temporary shutdown of the caustic soda plant. In terms of exports, Karpatneftekhim exported less than 10,000 tons of ethylene in 2005 whilst propylene exports were over 85,000 tons, or almost all of the production.

Ukrainian polymer consumption
Ukrainian consumption of large tonnage polymers totalled around 700,000 tons in 2005, which was around a quarter higher than in 2004. Polyethylene consumption rose by 20%, whilst polypropylene rose by 23%. The volumes of the consumption of polystyrene increased 17%. The only producer of polystyrene in Ukraine, Stirol, continues to produce predominantly suspension polystyrene. For the most part though, Ukraine is dependent on polystyrene imports, accounting for 76% of consumption last year. The greatest import ratio is down to three suppliers: EniChem-Dunastyr in Hungary, Dow and Nizhnekamskneftekhim.

PVC consumption in Ukraine rose at an estimated 29%, with the main growth being seen in profile products. Domestic production amounted to only 10,000 tons from the Pervomaisk plant, but most of the market was met through imports from suppliers BorsodChem, Kaustik at Sterlitamak, Sayanskkhimplast and Anwil.

The Ukrainian PET market in 2005 grew at 33% against 26% in 2004. The market is served solely by imports, which mainly come from South Korea.

Other Ukrainian news

In 2005, the Odessa Priportniy Zavod (OPZ) processed 3.659 million tons of urea. Crimean Titan produced 87,153 tons of titanium dioxide in 2005, which was 9,270 tons higher than in 2004. Following modernisation 2006 is expected to see around 91,000 tons produced with 120,000 tons being achieved by 2010. In 2005, the company increased sulphuric acid production from 455,300 tons (in 2004) to 536,500 tons. In 2006, Crimean Titan will start a new project for the construction of a sulphuric acid plant.

Transcaucasus

The Organic Synthesis plant of Azerkhimya increased turnover by 46.4% in 2005 over 2004. AAzerkhimya produced 11,518 tons of propylene oxide and 6,414 tons of polyether. Production of propylene oxide was increased to 60 tons daily. The company plans to start production of epoxy tar in the plant and negotiations are currently on for purchasing raw materials from Russia.

On the downside, the Ethylene-Polyethylene (EP) plant of Azerkhimya may be forced to close permanently due to a lack of sales. Although activity of the plant (which had stopped its operation following a fire in November 2005) was reinstated in January 2006, the plant has been running at a very low capacity. The administration of Azerkhimya appealed to the government of the country in connection with the problem.

Central Asia

Under the framework of Turkmenistan's programme for industrialisation the Turkish company Erku International gas secured an order for the construction of a pipe plant at Ashgabat. The owner of the new plant is Turba Pipe, and average diameter of polyethylene pipes will be 20-315 mm for applications in gas and water supply systems.

Polypropylene pipes with diameters of 50-160 mm will also be manufactured. In the extrusion unit eight lines will be used, five of which will be supplied by Cincinnati Extrusion GmbH.

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