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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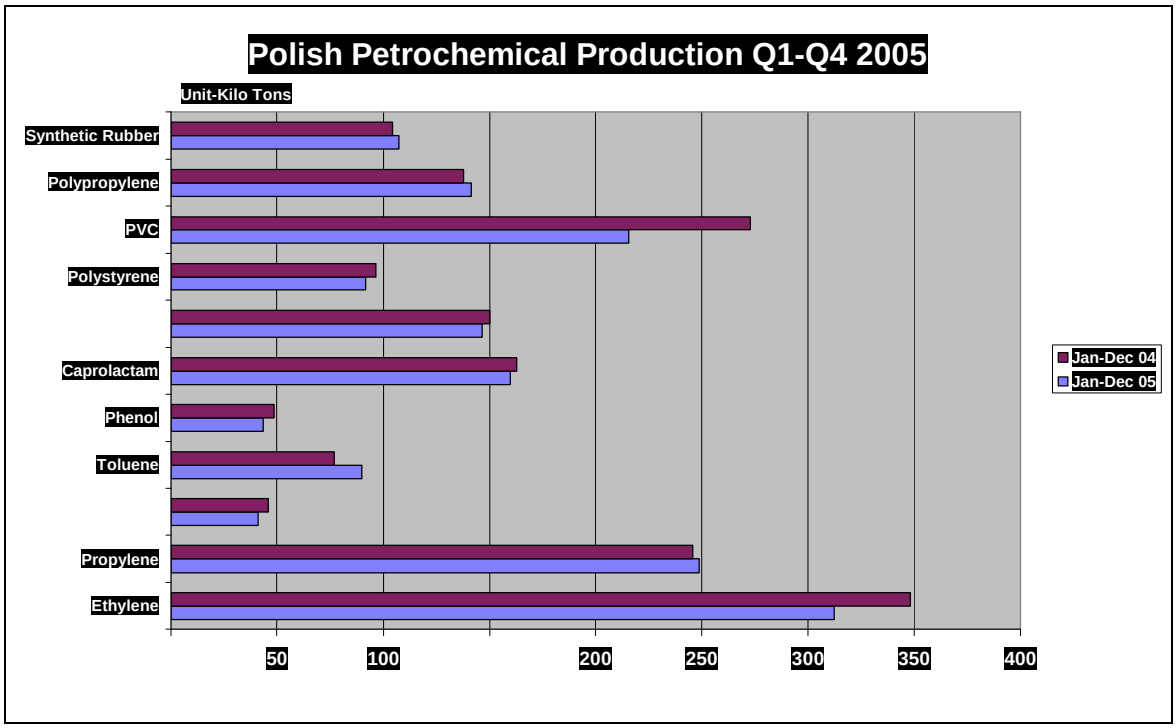
? Total chemical production grew by around 3% in Russia in 2005, although the picture varies quite significantly amongst the different product sectors. Fibre output fell by 17.4%, whilst resins and plastics saw a small drop against 2004. Although the overall increase in chemical industry output was marginal, 2005 was extremely important for the industry in Russia in terms of strategy and development, and the emergence of new players.

? Nizhnekamskneftekhim achieved record levels of ethylene and propylene production in 2005, although further increases in monomer production are required in order to meet the pending demands of the polyolefin plants which are under construction. Full data can be seen at www.cirec.net/report.

? Kazanorgsintez has concluded discussions on the tender with Yokogawa on the creation of a complex automatised system of management of the bisphenol A plant which is under construction. This will be the third plant, after the HDPE and ethylene plants, to use this system. In the 2006-2007 period Kazanorgsintez will increase HDPE capacity from 200,000 tpa to 500,000 tpa and to increase ethylene capacity from 334,000 tpa to 590,000 tpa.

? LUKoil is considering co-operation with Kazakhstan regarding investment into a Caspian gas-chemical complex. The project is based on feedstock supplies from the north Caspian, including the Khvalinsk deposit which LUKoil is developing jointly with KazMunaiGaz. In the first quarter of 2006, the government will undertake a road show for presenting the prospects for the petrochemical industry in Kazakhstan and the establishment of a special economic zone in the Atyrau region.



Poland

Polish Chemical Production
(Unit-Kilo Tons)

Product	*Oct-Dec 05*	*Oct-Dec 04*
Ethylene	123.9	93.2
Propylene	85.7	66.2
Butadiene	15.1	12.3
Toluene	36.1	25.1
Phenol	13.4	13.4
Caprolactam	43.1	40.7
Polyethylene	60.8	37.9
Polystyrene	22.5	20.5
PVC	63.0	68.5
Polypropylene	43.4	39.0
Syn Rubber	28.5	27.2

Ethylene production at Plock amounted to 44,000 tons in December 2005, the highest recorded monthly volume ever achieved at the complex. Ethylene production fell short in 2005 of the total achieved in 2004, but after the extended downtime during the summer months and the final quarter of 2005 did yield 123,000 tons. This quarterly volume is expected to be matched and surpassed in 2006, which would at minimum result in an ethylene production level above 500,000 tons. Due to the introduction of new petrochemical installations (including Olefin 11, Butadiene 11, gasoline dehydrogenation, and pyrotol), and the maintenance shutdown of other units (including Ethylene Oxide I and II, Ethylene Glycol I and II, and Phenol), the production of petrochemical products by PKN Orlen was severely limited in the second quarter of 2005. Ethylene performance in Q4 2005 is duplicated by other petrochemical and polymer products, which apart from PVC all matched and surpassed volumes seen in Q4 2004.

The technical advances in Poland made in 2005 meant that output for most products was down on 2004, but the new technologies at Plock (including the BOP polyolefin projects) suggests that production in 2006 is expected to see major increases.

CENTRAL EUROPE

Czech Republic

(Czech crown, Kc, Jan 25, $1 =23.222, €1 = 28.546)

Unipetrol

Unipetrol has called a tender offering its entire stake in Spolana for sale or 81.78%, with preliminary bids to be submitted by 6 February. In addition, Kaucuk will be put up for sale. PKN Orlen had not indicated any previous signs of wanting to offload the chemical subsidiaries that it had bought under Unipetrol. Even as late at the end of last year and start of 2006, investment plans were devised by Orlen for a new butadiene unit at Kaucuk, and the modernisation of Spolana's PVC plant.

It now seems that Spolana and Kaucuk do not form an integral part of the business strategy of PKN Orlen. At the same time, Orlen is thought to want to retain Spolana in the group, and so Anwil may be encouraged to buy the stake. The market value of the stake in Spolana is currently Kc 917 million. Kaucuk may present another challenge, however. Dwory could be the logical bidder as for many years synergies have been cited between the two companies, both focusing on synthetic rubber and polystyrene. Spolana made a profit of Kc 86.2 million and sales worth Kc 4.3 billion in January-September 2005. Kaucuk showed a profit for the same period of Kc 253.6 million on sales of Kc 7.9 billion.

If successful in selling these subsidiaries, Unipetrol will most probably use the money it receives for further investments, but it may also decide to pay dividends. PKN Orlen still has large-scale investment plans for Unipetrol, which consist of a steam cracker expansion at Chemopetrol although it remains too early to speculate about proposed capacity numbers.

Privatisation
The lower house commission of the Czech parliament has for the past few weeks been undertaking an investigation into the privatisation of Unipetrol. The investigative commission is to clarify also the role of the government and private entities in the restructuring and privatisation of Czech chemical industry since the late 1990s. The commission is to focus mainly on the circumstances accompanying the Unipetrol privatisation, and the team is set to submit the results of its work by the end of January. Early indications have not revealed a reason why the government eliminated three of the six bidders for the privatisation of Unipetrol.

Slovakia

(Slovak crown, SKK, Jan 25, $1 = 30.367, €1 = 37.307)

Novacke Chemicke zavody (NCHZ) at Novaky increased sales by 7% to SKK 5.7 billion in 2005. Sales failed to maintain the strong performance of the first quarter in 2005, which rose 12% over 2004 to reach SKK 1.402 billion. Overall, it was a very successful year.

Hungary

(Hungarian Forint, Ft, Jan 25, $1 = 202.99, €1 = 249.42)

BorsodChem
BorsodChem stated in January that the transaction regarding the 100% acquisition Petrochemia-Blachownia has been approved by the competition office of Poland (OPCC). In line with the provisions of the agreement the share transfer was completed on 10 January 2006, and Petrochemia-Blachownia consequently became a fully owned company of BorsodChem Rt. Other potential acquisitions for BorsodChem remain Oltchim SA. Such an acquisition could help to make BorsodChem a regional player. It is not clear yet if the pending sale of Spolana is of interest to BorsodChem.

Regarding current operations, Hungary's natural gas imports from Russia still remain an estimated 20-25% below required levels. A few concerns have been raised about gas supplies affecting CO and hydrogen production, which are needed for the polyurethane business. However, BorsodChem has reassured the market that CO and hydrogen production would not be affected by potential limitations in gas supply, which in any case is only likely to be a short term position. BorsodChem has said that even a 50% reduction in gas supply would still allow for uninterrupted CO and hydrogen production.

Poland

(Polish zloty, zl, Jan 23, $1 = 3.3461, €1 =3.8046)

PKN Orlen 2006-2009
At the start of January, PKN Orlen outlined its investment strategy for the period 2006-2009. Developments in 2005 were far-reaching for the company, including the start-up of the Olefin II plant which has meant a doubling of ethylene and propylene capacity. Other projects included the modernisation of the aromatics extraction plant, which is providing more aromatic monomers. Currently, PKN Orlen is working on a major plan for the development of the polyester chain through the construction of the paraxylene plant and the PTA plant.

PKN Orlen Planned New Aromatic Capacities 2006-2009	
Product	***Capacity (ktpa)***
Paraxylene	400
PTA	600
PET	120
Benzene	80
Orthoxylene	40

In the medium future, PKN Orlen plans to modernise the butadiene unit and to install a new ethylbenzene unit. Plans also exist to expand Anwil's production of PVC and storage capacity. For Unipetrol, investment plans consist of a steam cracker expansion at Chemopetrol, and until news of the subsidiary sale a butadiene unit at Kaucuk, and modernisation of Spolana's PVC plant.

The largest investment project of PKN ORLEN, involving capital expenditure of around zl 2.3 billion, involves the entry into the PET and PTA markets. In addition to constructing its own plants for paraxylene and PTA, PKN Orlen is studying the opportunity for close cooperation with SK Eurochem which started up its PET plant at Wloclawek in the first half of 2005. SK Eurochem is a jv between Anwil and SK Chemicals of South Korea, and the start of the PET plant has substantially helped the mother company SK Chemicals. As a result of the plant, reported a ratio of 70% exports in total sales for 2005.

In terms of other acquisitions, PKN Orlen is making an offer for the Mazeikiu Nafta refinery in Lithuania this month but is also interested in the Petrol refinery in Slovenia and the NIS refinery in Serbia.

Ciech

After gaining rights to negotiate the purchase of Zachem, Ciech has now also received exclusive rights for negotiations to buy 80% of Organika-Sarzyna from Nafta Polska. The offer can be made in the period between 23 January and 3 March. At the beginning of December, Ciech received exclusivity for buying Zachem, with the negotiating period running up to 2 February. According to estimates, the 80% stake may be worth zl 120-130 million (€31.6-34.2 million).

Ciech has started talks with trade unions over Zachem, but is reported to have run into difficulties over a social package involving the employees. It seems that Ciech was not aware of the responsibilities that it might face as a new owner of Zachem. Other concerns of the unions are related to whether Ciech will be prepared to invest in modernising Zachem's chlorine plant. The cost of modernising the facility was estimated in 2004 at zl 200-220 million.

Organika-Sarzyna is larger than Zachem, and the value of the transaction could reach around zl 300 million. Ciech is expected to pay for the stakes from its own funds, amounting to zl 400 million. For 2005, Ciech will probably achieve a net income of zl 104 million. Ciech's main rival to acquire both Zachem and Organika-Sarzyna is Petro Carbo Chem, which is waiting in the wings to see if Ciech concludes talks on the acquisitions prior to the respective closure dates. Nafta Polska is negotiating with Petro Carbo Chem in over the sale of the Tarnow and Kedzierzyn plants.

In addition to acquisitions, Ciech plans to spend zl.200 million on investments on existing facilities inside the company. For 2005, Ciech expects to meet its 2005 net profit projection, and profit could surpass financial projections by several million. The chemical company projected it will close 2005 with revenues of zl.2.2 billion, but after the first three quarters revenues were only zl.1.67 billion, down by 3.5%.

Romania

Oltchim

Oltchim is aiming to double gross profits in 2006 in order to support Oltchim's investment plans, which involve spending €194.9 million by 2008, mostly in company upgrades.

Romania sought to sell Oltchim in 2004 in an effort to attract bids from Rompetrol, LUKoil and Vienna Capital Partners (VCP), but the tender was delayed to give the government time to complete the sale of Petrom. Romania has not yet determined when it plans to put Oltchim up for privatisation, but there are hopes that it could take place some time in 2006.

Oltchim was the first company to implement and apply the certified environment management as early as 1996, in keeping with the ISO 14001 requirements. The share of exports in the company's turnover has increased from 45-47% in the 2000-2001 period to 70% in 2004, and then to 73-75% in 2005.

Bulgaria

Romanian coatings manufacturer Policolor and the Bulgarian producer Orgachim, which are both majority-owned by Malta-registered Whitebeam Holding, will likely extend their existing framework agreement by one year at its 9 February meeting. The meeting is expected to approve the relocation of the production of alkyd and polyester resins to the site of the Bulgarian company. Orgachim has opened a trade office in Turin as part of the company's strategy to gain a foothold on the European markets. Phthalic anhydride and resins account for over 90% of Orgachim's exports.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

(Rus rouble Jan 23, $1 = 27..964, €1= 34.358)

Total chemical production grew by around 3% in Russia in 2005, although the picture varies quite significantly amongst the different product sectors. Fibre output fell by 17.4%, whilst resins and plastics saw a small drop against 2004. Although the overall increase in chemical industry output was marginal, 2005 was extremely important for the industry in Russia in terms of strategy and development, and the emergence of new players. Most importantly, the investment cycle is on the upward curve Most existing capacities have reached their optimal production levels whilst at the same time equipment is generally quite old. At the end of 2005, a Russian auditing commission estimated that around 60% of Russia's petrochemical products are still not competitive in on the world market.

Top Twenty Russian Chemical Producers, based on turnover

Company	Turnover 2004 *mil roubles*	Turnover 2003 *mil roubles*
Nizhnekamskneftekhim	33,882.2	24,860
Salavatnefteorgsintez	33,692.7	18,544.3
Apatit	20,229.7	18,856.3
Akron	17,708.3	14,322.6
Kazanorgsintez	11,905.7	8,934.6
Togliattiazot	11,904	7,938.9
Uralalkali	11,685.1	8,356.9
Ufaneftekhim	10,711	8,957
Silvinit	10,332.6	8,299.3
Kuibyshevazot	10,116.5	6,590.8
Novomoskovsk Azot	10,045.4	6,476.2
Nevinnomyssk Azot	8,309.8	5,276.6
Ammofos	7,767.4	3,917.6
Soda (Sterlitamak)	6,884.9	5,243.7
Kaustik (Sterlitamak)	6,768.3	5,243.7
Minudobreniya	6,574.7	5,027.1
Kirovo-Chepetsk Combine	6,457.3	5,620.7
Ufaorgsintez	5,995.7	4,873.7
Balakovoresintechnika	5,910.6	5,239.5
Togliattikauchuk	5,751.5	6,112

This rather blunt analysis was backed up by claims that the low level of technical development is holding the industry back from producing higher quality products. So the goals of the industry are two-pronged; firstly to produce products in line with world standards and secondly to increase capacity levels to meet the rapidly growing consumption levels.

2005 was significant for growing interest in the chemical industry from the financial institutions in Russia. After many years of largely non-interest from the finance centres in Moscow, it now seems that the major financial and industrial holdings are ready to embark on investments in the chemical industry. The chemical sector accounts for around 6% of total industrial production in Russia, standing in fifth place in terms of size behind the fuel industry, and sectors for energy, metallurgy and machine-building. Many companies are showing improved profit levels, whilst at the same time the competition for ownership stakes is bringing new sources of capital and feedstock sources.

Other aspects that have furthered the cause of the industry in the past twelve months have been the increases in the charter capital for many large petrochemical companies, such as Salavatnefteorgsintez and Nizhnekamskneftekhim. This process is important for raising capital for modernisation, which is seen as essential in view of the age of the equipment and technology.

The top twenty Russian chemical companies, in terms of turnover for 2004 and 2003, are listed below. The list shows different company types, but fertiliser producers appear to dominate with eleven of the top twenty

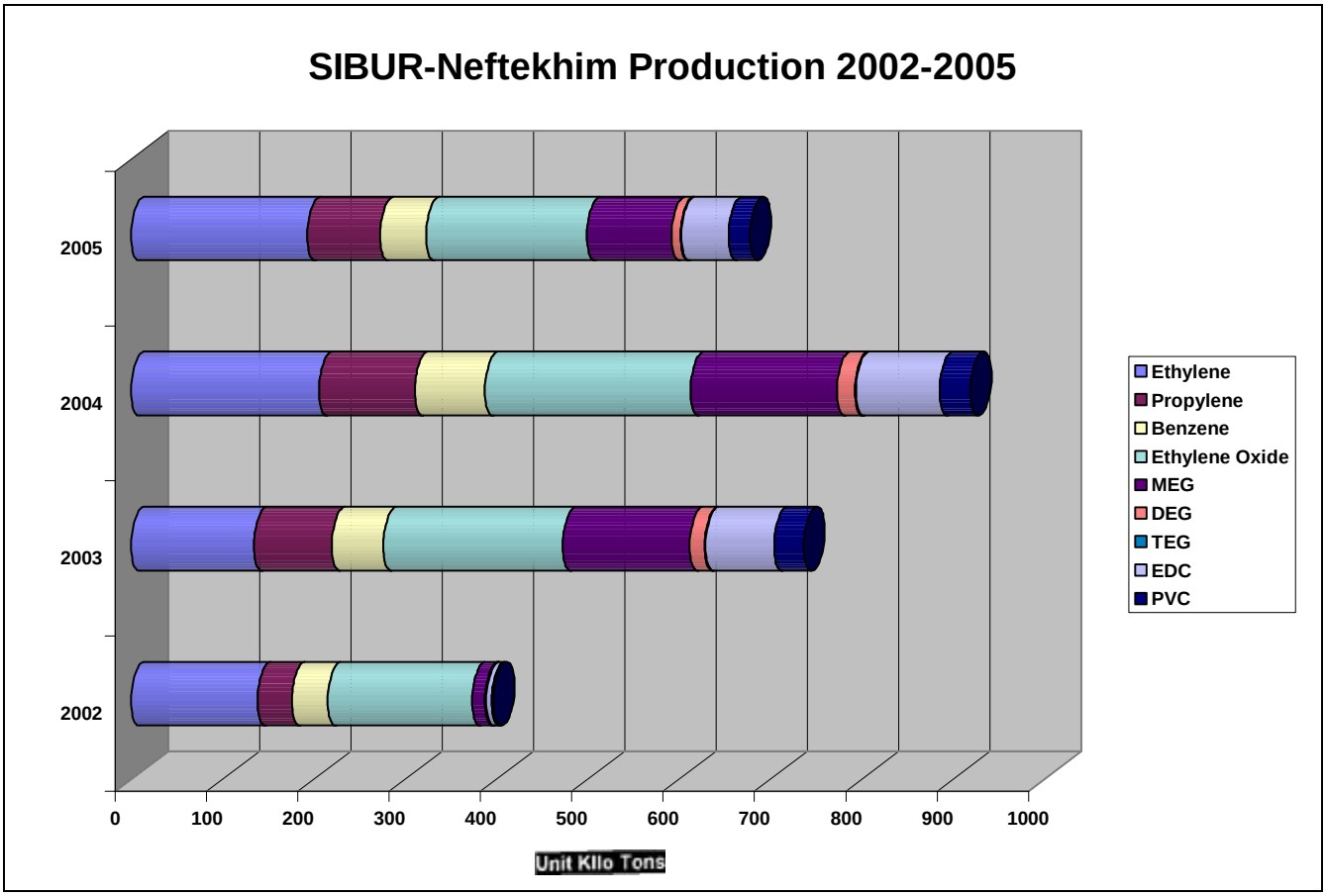
focused on this product area. The list is expected to see major changes in the coming years as petrochemical producers climb the table. Turnover is increasing rapidly due to higher prices and capacity expansions.

The financial position of most companies has improved substantially in 2005 with rising profit levels. In the first half of 2005, profits from the industry increased by 4.3 billion roubles, or by 19.5% to reach 26.4 billion roubles. Investments in energy saving techniques have been one of the main areas helping to increase profitability, and this trend is expected to continue in 2006.

SIBUR Holding

Under the new title of SIBUR-Holding, investment plans will continue unaffected in 2006 with general goals being improvements in productivity, and a simultaneous reduction in raw material and energy consumption. Solely through cost cutting measures, the company hopes to save 7.3 billion roubles in 2006. Other areas of planned investment include gas processing where the SIBUR Holding plans to increase its capacity at the Gubkinsky and Yuzhno-Balkisk plants. The Gubkinsky plant is located in the Yamal-Nenets region, and the Yuzhno Balkisk plant is located in the Khanty-Mansisk region. At the Yuzhno-Balkisk plant a new compressor station was introduced in July 2005, which increased processing capacity of associated gas up to 1.5 billion cubic metres per annum. After investments, the Gubkinsky gas processing plant will see its capacity increased to 1 billion cubic metres per annum.

Regarding SIBUR's LPG exports, the Russian company Zapruzhneft plans to construct an oil port complex at Ust-Luga for transportation. The project will require around $150 million to complete and will have a capacity of 5.45 million tpa with further plans for expansion to 10 million tpa. Construction of the terminal will start in the spring of 2006.



Regional developments

In January, SIBUR-Holding signed an agreement regarding co-operation with the Kemerovo region that will involve investments of around $1 billion by SIBUR into the Azot complex. This finance will be used for the reconstruction of the ammonia and urea plants, in addition to gas supplies, caprolactam and a new hydrogen unit. In 2005, SIBUR invested 1.2 billion roubles in the modernisation of Azot's caprolactam plant at

Kemerovo, which means that the company expects to produce 116,000 tons in 2006 compared to 108,000 tons in 2005. In 2006, Azot plans to reduce the volume of emissions into the environment by 5-7%.

Other developments expected to progress this year involve the construction of the gas processing plant at Astrakhan, which will be based on reserves of 50 billion cubic metres per annum. Petrochemical projects under review for construction at Astrakhan include methanol, polyethylene, and polypropylene.

SIBUR-Khimprom
In 2005, SIBUR-Khimprom processed 359,889 tons of gases, 7% up on 2004, whilst most petrochemicals also saw rises. The largest increase was seen in propylene from propane-propylene fractions, rising 74% or by 6,084 tons, although cracker propylene production only increased 5% (2,478 tons) over 2004. In 2006, styrene production at SIBUR will increase after the expansion was completed in the second half of 2005. Total physical production for SIBUR-Khimprom increased by 5% in 2005.

SIBUR-Neftekhim
SIBUR-Neftekhim noted falls in its production in all product areas in 2005 over 2004 due to plant shutdowns and upgrades, mainly in the third quarter. Raw material processing fell 10.2% to reach 584,536 tons, whilst ethylene and propylene fell 6.3% and 10.5% respectively. Full data can be seen at www.cirec.net/report. The ethylene oxide and glycol plant processed 165,287 tons of ethylene, which was 5.9% lower than in 2004. Maintenance and upgrading took place between August and October 2005, during which very little production was seen.

In the course of 2006, SIBUR-Neftekhim plans to invest around $60 million in total in developing its own gas turbine power station at Dzerzhinsk, and also by installing automatised management of production units including glycols.

Uralorgsintez
In 2005, Uralorgsintez achieved a total turnover of 829.4 million roubles, which reflected a 6.8% rise over 2004. Physical production volumes increased by 21%, including increases in MTBE by 9.6%, isobutylene by 2.2% and benzene by 38.6%. Production of benzene from coal fell by more than two fold, but at the same time the reconstruction of the refinery benzene unit facilitated an increase of more than 30,000 tons in 2005. Uralorgsintez has embarked on a modernisation of its gas processing unit, and also the reconstruction of the isobutylene reactor. New catalysts were bought in 2005 for the MTBE unit, whilst also the company has started the financing of a new project to produce isoprene.

Azot Kemerovo
Azot saw increases in most production areas in 2005 following large scale modernisation in 2004. Ammonia production increased by 9.5%, urea grew by 6.5%, and sulphuric acid by 3.5%. A new area for the company involved the production of polyethylene pipes, which amounted to 276 tons and was 273.3% higher than in 2004. Diaphen production increased by 3% to reach 114 tons, whilst nitric acid increased 10.9% to total 63,503 tons.

Capacity utilisation for the complex overall was 93.8% for the year, 3.9% higher than in 2004. Capital outlays in 2005 involved more than one billion roubles. In 2006, the company aims to continue the process of modernisation, including the reconstruction of the ammonia-2 plant and the ammonium nitrate plant. In total, expenditure on modernisation, including the replacement of old equipment, will amount to more than 2 billion roubles this year. The main aims will be focused on reducing energy costs, entering new product markets and increasing productivity and safety in production. Modernisation of the sulphuric acid unit will be completed leading to more finished product, whilst the synthesis column at the caprolactam plant will be revamped resulting in an extra 8,000 tpa of capacity. It is not yet clear, however, when this project will be completed.

The main investment in 2005 was the construction of its own steam plant, with a capacity of 300 tons per hour. In spite of the fact that construction passed its deadline, since October 2005 Azot has still managed to reduce steam purchases by around a quarter from the local energy company Kuzbassenergo.

Tobolsk-Neftekhim
Tobolsk-Neftekhim increased the production of propane by 48.7 in 2005 to reach a total of 250,000 tons. The complex processed 2.23 million tons of wide fractions of light hydrocarbons (SHFLU) against a planned volume of 2.115 million tons. MTBE production rose by 18.8% to total 81,800 tons, whilst butadiene rose 5.5%. The butadiene plant started at Tobolsk in 1987 and reportedly produces the best quality product in

Russia. In total, there was a 10.2% growth in the availability of feedstocks available for the Russian market from Tobolsk-Neftekhim.

Novokuibyshevsk Petrochemical Company
The Novokuibyshevsk Petrochemical Company achieved a turnover of 1.889 billion roubles in 2005, 3.7% up on 2004. Processing of wide fractions of light hydrocarbons (SHFLU) totalled 479,157 tons, which was 14.7% down on 2004. Isoprene production totalled 56,995 tons. Improvements were made in 2005 in the quality of isoprene production and thus the plant increased sales of higher grade isoprene to Togliattikauchuk.

Togliattikauchuk
Togliattikauchuk produced a total of 238,000 tons of synthetic rubber in 2005. Production of SKMS-ARKM-15 increased by 26% over 2004 to total 1,600 tons, whilst butyl rubber increased 3%. The production of isoprene rubber (SKI-3S) increased by 14% in 2005. However, total production in the isoprene rubber group amounted to 112,000 tons in 2005, against 130,000 tons in 2004. Production from the butadiene-styrene group increased from 75,000 tpa to 80,000 tpa in 2005.

In accordance with market changes, there was a growth in monomers at Togliattikauchuk in 2005, resulting in more merchant availability. The company was able to sell 5,000 tons of butadiene on the merchant market, against 4,300 tons in 2004. Isoprene merchant sales increased by 81%, although from a small base.

Voronezhsintezkauchuk's Production (Unit-Tons)

Product	*2005 (ktpa)*	*2004 (ktpa)*
Polybutadiene	101,478	90,202
Thermoelastomers	25,265	22,517
Latex	7,178	5,976
SKS	85,265	81,437

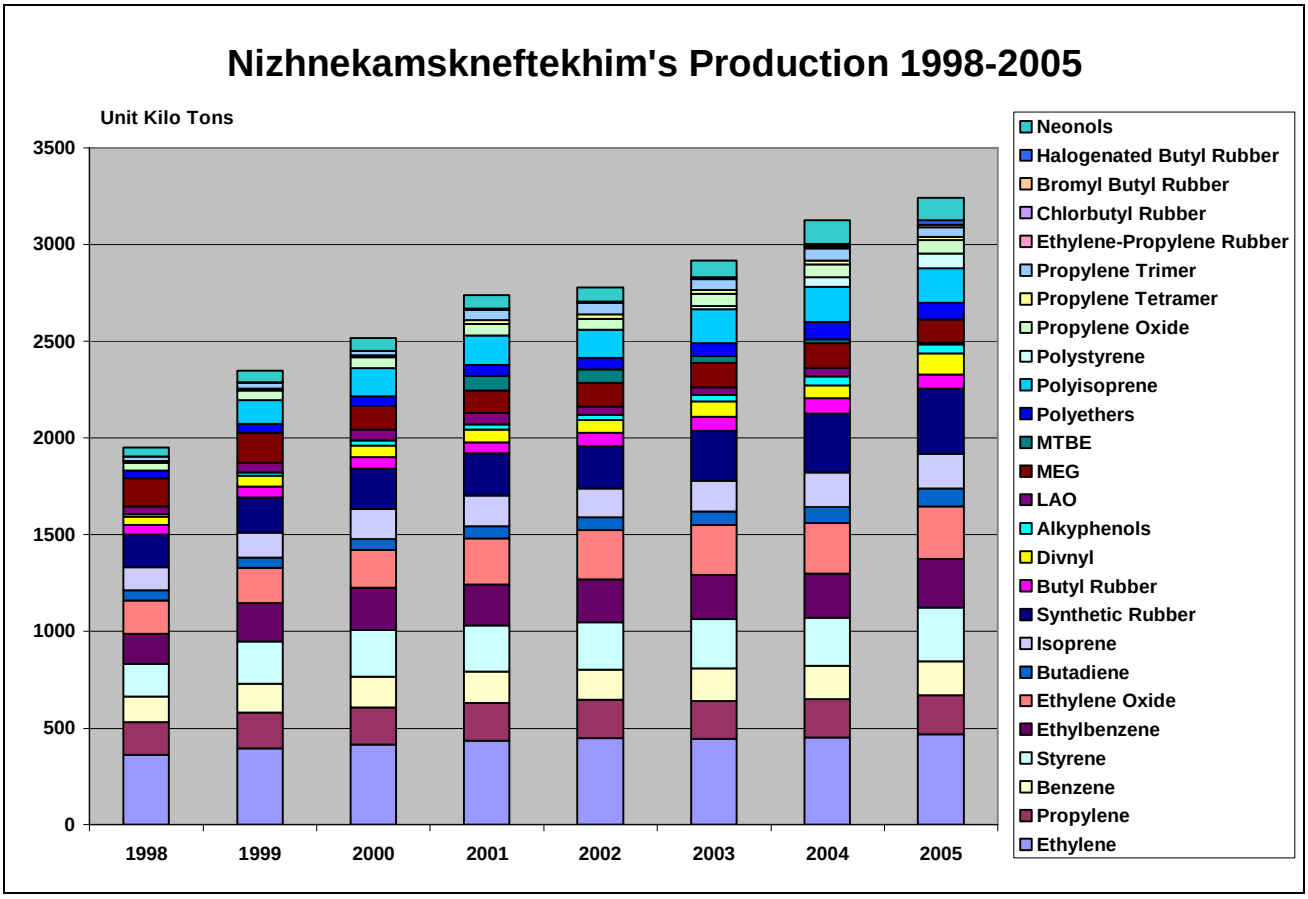
Voronezhsintezkauchuk
Voronezhsintezkauchuk increased synthetic rubber production by 5.3% in 2005 over 2004. Despite the increase, the company fell short of its target of 240,000 tons. During the second quarter the company was forced to reduce production sharply due to varied reasons. Initially, there was a fall in demand from the Chinese and European markets which are the main consumers of Russian synthetic rubber, whilst Voronezhsintezkauchuk was then affected with a number of internal problems, such as raw material shortages. Later in the year an unplanned outage was encountered by the company, at the end of November. All these factors combined to restrain production levels. The important event for 2005 was the start of production of a new generation of SKD-ND (higher butadiene rubber) and DSSK. This new production amounted to 10,964 tons. Exports amounted to 99.863 tons in 2005, which was 46% of the total volume of production.

Tyre Holding
SIBUR-Holding has decided to create a new large tyre holding entitled SIBUR-Russian Tyres, which will consist of seven large tyre plants and one technical centre. The creation of the holding will comprise two structures one for trade-marketing and the other for the production of tyres and resin products. The structure system will enable more effective production. Currently, companies that will make up the new holding produce more than 40% of all tyres in Russia. The current tyre company SIBUR-Russki Shini owns 83% of Omskshina, 88% of Yaroslavl Tyre Plant, 82% of Voltyre, 50% of Matador-Omskshina, and 100% of Uralshina. These tyre plants will form the basis of the new tyre holding being formed by SIBUR-Holding. In addition, two resin plants will be included, from Saransk and Chaikovsky. Other companies that could be included in the new holding are Orton and SIBUR-Volzhskiy, which both produce fibres and threads for the production of tyres.

Nizhnekamskneftekhim

Nizhnekamskneftekhim achieved record levels of ethylene and propylene production in 2005, although further increases in monomer production are required in order to meet the pending demands of the polyolefin plants which are under construction. Full data can be seen at www.cirec.net/report. The polypropylene plant is scheduled for completion in the middle of 2006, but there are question marks over propylene availability taking into account the requirements of other derivative plants at Nizhnekamsk. The oligomer division, in particular, is accounting for larger volumes of propylene produced from the cracker. The ethylene position is not quite as urgent. The new HDPE plant under construction will be not completed for another couple of years, which gives Nizhnekamskneftekhim enough time to expand the cracker further. After start-up of the HDPE plant, it will probably mean that any surplus ethylene for sale on the merchant market will be very limited.

The major increases in production levels in 2005 were seen in polybutadiene, polystyrene and halogenated butyl rubber. As part of Nizhnekamskneftekhim's energy programme, a total of 404 measures were introduced in the 2000-2005 period, which according to the company translated into total savings of 607 million roubles. The energy programme has helped to reduce production costs; for example in the first nine months of 2005 energy accounted for 18.2% of total costs compared to 21.1% in the same period in 2004. In the timeframe 2006-2010, the company plans to introduce 111 new energy saving measures, with an economic saving of 757 million roubles.



Ethylene sales

The Federal Antimonopoly Service (FAS) is assessing if prices are too high for ethylene sales from Nizhnekamskneftekhim, for one consumer on the Salavat -Sterlitamak-Ufa-Nizhnekamsk-Kazan ethylene pipeline. Ethylene is being sold to Kaustik at Sterlitamak for VCM production, where there are few alte rnative sources as Salavatnefteorgsintez is very tight for supply. As a result, the FAS is examining the case, the outcome of which should be known on 27 February.

Synthetic rubber

Nizhnekamskneftekhim is working on the construction of the new divinyl -styrene (DSSK) rubber plant, which is located at the isoprene plant . The new unit is expected to be completed in the first quarter of 2006 and start-up is expected in April . DSSK is used in the tyre industry, and will add to the production of polyisopre ne and polybutadiene. Together with polybutadiene and polyisoprene rubber, DSSK will mean that Nizhnekamskneftekhim can offer the com plete set of necessary raw materials for the production of modern tyres. The DSSK unit will have a capacity of 50,000 tp a, and will initially be focused on export activity. In 2006, Nizhnekamskneftekhim expects to increase butyl rubber capacity up to 100,000 tpa.

Emphasis is continuing to be placed at Nizhnekamsk on the development of the one stage process for the production of isoprene , which the company claims is the only technology of its kind. Isoprene has for many years been produced via the two -stage synthesis method which entails high consumption of feedstock and utilities. The efficiency of the one stage proces s being introduced makes it possible to reduce steam consumption by 25%, which is especially important due to utilities price rise. Around 29,000 tpa of isoprene has been produced by the one stage process by Nizhnekamskneftekhim for last three years, and perfection of this method has allowed the company to increase isoprene production gradually.

The ultimate goal is to increase capacity, with a gradual phase out of the older two stage method. For this purpose it is necessary to construct a bigger unit which the company plans to finance from its own reserves. The cost of the project is estimated in the range of 25 -30 million roubles. The isoprene capacity increase will require an increase of the existing formaldehyde capacities. The unit's capacity will be 70,000 tpa of formaldehyde for which a contract has already been agreed for the basic engineering, supply of equipment and reagents.

Kazanorgsintez

In 2005, Kazanorgsintez achieved a gross profit of 2.655 billion roubles, as reported by Tatneftekhim invest-Holding. Whilst profit levels were similar to the 2004 level, the company's turnover increased substantially by 14.8% to total 13.623 billion roubles. Apart from the new large -scale production capacities at Kazan, profitability in the 2006 -2010 period is expected to increase following investments in the energy sector which have been undertaken in recent years. In the 2000-2005 period, Kazanorgsintez undertook a total of 14 important energy measures, investing a total of 5.92 billion roubles. In t he 2006-2010 period, Kazanorgsintez plans to introduce further measures for energy savings which will reduce the cost of production by 3 -4%.

Bisphenol A
Kazanorgsintez has concluded discussions on the tender with Yokogawa on the creation of a complex automatised system of management of the bisphenol A plant which is under construction. This will be the third plant, after the HDPE and ethylene plants, to use this system. In the 2006 -2007 period Kazanorgsintez will increase HDPE capacity from 200,000 tpa to 500,000 tpa and to increase ethylene capacity from 334,000 tpa to 590,000 tpa.

Bashkortostan

Salavatnefteorgsintez
The monomer division of Salavatnefteorgsintez has introduced two new features which is helping to increase the production of ethylene an d propylene onto new levels. The nominal capacity of 300,000 tpa for ethylene production at Salavat has to date never been met since start-up, or for that matter at any other Russian EP-300 crackers. The largest annual amount of ethylene production at Sa lavat to date has been 249,000 tons. The constricting reason for inability to reach 100% capacity utilisation has been due essentially to the inefficiencies of the pyrolysis M -1 compresor.

In order to address the compressor problems Salavatnefteorgsinte z has undertaken investment and research, focusing on lowering the temperature of absorption to 40 degrees whilst at the same time increasing its productivity. Moreover, in October 2005, the Monomer division was able to apply the new absorbents to the process after work was carried out by the Omsk Institute of Problems of Processing Hydrocarbons.

Preliminary results of the revamp of the pyrogas unit indicate that the EP-300 complex is finally ready to operate at its de sign capacity. Through technical im provements Salavatnefteorgsintez has estimated it can reduce the cost price of production by 6% , and at the same time increase productivity by 9.8%. Further increases in the capacity of the EP-300 complex will be undertaken in the M onomer division resulti ng from the planned future modernis ation of the pyrolysis unit, and the replacement of the SRT-1 operating furnaces with the SRT-VI furnaces. The first SRT-VI furnace was introduced in Russia in 2003 at Nizhnekamskneftekhim, and Salavatnefteorgsintez completed installation of its own first such furnace in late 2005. Another SRT-VI furnace is planned for installation in 2006 based on pentane feedstocks, which will use Western technology and Russian equipment. This furnace will become operational by Q3 200 6 and will help to push the real capacity of the ethylene complex above 300,000 tpa. The attraction of the SRT-VI furnace to Salavatnefteorgsintez is partly the inclusion of an air separation unit, but also it will help to increase the production of benzene and orthoxylene.

Polief
Having started the first PTA line towards the end of 2005 successfully, Polief is expected to start the procedure for initiating the second line in March. Despite the continuing legal battle over the ownership of Polief, the de facto current owners aim to continue with the construction of the PET plant. The first 700 tons of PTA produced at Blagoveshchensk at the end of 2005 was delivered to SIBUR -PET at Tver, whilst exports have been sent already to China and Turkey. In future the company hopes to export to Klaipeda following the start-up of the PET plant. Also in 2006, Evroplast plans the start -up of a PET plant at Solnechnogorsk in the Moscow region, with a capacity of more than 70,000 tpa. Polief has selected not to conti nue with the projects

for polymer materials, including Spanbond. However, these derivative projects could resurface if the market conditions justify.

Selena has a turnover of around $1 billion per annum; in 2004 the group processed 85,000 tons of polymers and 300,000 tons of other petrochemical products. The Selena group includes Korolevskaya Upackovka which produces 350 tons of films per month

Samara

Kuibyshevazot
On 12 December 2005, Kuibyshevazot introduced a new hydrogen unit that will help the company to reduce costs significantly. Extra hydrogen supply has become necessary for the growth in caprolactam and polyamide-6 production. In the first eleven months of 2005 Kuibyshevazot increased turnover by 39% against the same period in 2004, reaching a total of 12.5 billion roubles. The main stimulant to growth came from new production units. In September 2005, a new unit was introduced for caprolactam. Construction of the second polyamide-6 plant is progressing with start-up planned for the first half of 2006.

Novatek
Novatek-Polymer has decided to seek credit of 1.2 billion roubles. In 2006, the mother company Novatek plans to outlay 6.5-7.0 billion roubles in capital investments. In accordance with its business plan, Novatek includes an increase in gas output in 2006 by 6-8%, with oil and gas condensate output expected to increase 15-17%. The volume of processing of gas condensate at the Purovsk gas processing plant will remain in the region of 2.0-2.1 million tons. Polymer production by Novatek-Polymer is planned to amount to 28,000 tons.

Irkutsk

Sayanskkhimplast
In the twelve months of 2005, PVC production by Sayanskkhimplast fell by 1.5% against 2004. Nearly all PVC production at Sayanskkhimplast in December was sold on the domestic Russian market, which marks a sharp contrast with three or four years ago when most material was exported. PVC exports from Russia have been falling rapidly in recent years, and only 2,000 tons were exported to China in the third quarter. Production is expected to rise in 2006 by 2.8% over 2005. Due to demand, the company expects to increase its production levels for rigid grade PVC. Sayanskkhimplast started the reconstruction of the PVC plant in 2004 with the introduction of new centrifuges, and towards the end of 2005 the construction of a new drying unit was started. The installation of the equipment should be completed by the first quarter of 2006. Ultimately, PVC capacity at Sayanskkhimplast will rise to 400,000 tpa.

Kovytka gas pipeline
The construction of the gas pipeline from Kovytka to Irkutsk is scheduled to start work at the beginning of 2006 by East Siberian Gas Company, and will stretch a distance of 700 km. Construction will last for 15-17 months. Ethane gas will be available for Sayanskkhimplast by 2008, but it may be 2009 before which the company is able to produce ethylene. Usolyekhimprom will also take advantage of the pipeline. Nitol is in discussions with the East Siberian Gas Company for the supply of gas to its daughter company Usolyekhimprom from Kovytka, over a period of 10 to 15 years. The main use for gas at Usolyekhimprom is for heat and the replacement of mazut and anthracite. The company may also use gas in the production cycle.

Sayanskkhimplast and ???-?? created a gas-processing complex on 28 December 2005 for the project in the Irkutsk Oblast. It will provide 2.5 billion cubic metres per annum which will be supplied through the East Siberian Gas Company. The cost of the project is estimated at $412 million. As part of the gas processing complex there will be also included units for the processing of natural gas and ethylene. From the 2.5 billion cubic metres of gas Sayanskkhimplast will take around 85 million cubic metres per annum for its own consumption.

In May 2005, Sayanskkhimplast concluded an agreement with Technip for the development of a project for a gas separation unit which it plans to introduce in August 2009. During 2006, the investment into the complex will amount to $80 million. The construction of an ethylene plant is part of Sayanskkhimplast's expansion of its VCM/PVC facilities. The plan is to expand PVC capacity from 250,000 to 400,000 tpa. Previous difficulties experienced with ethylene supply have pushed Sayanskkhimplast to consider its own ethylene plant, but the

capacity will be quite small at 200,000 tpa. In 2005, the company expects to take 120,000 tons from Angarsk, but this about the maximum monomer that is available.

Toyo Engineering Corporation, Itochu Corporation and East -Siberian Gas Company have signed a memorandum regarding preparations for the master plan for the gasification of the Irkutsk Oblast. The memorandum will study the possibilities for co -operation with the Japanese foreign trade company JETRO. Besides ethane supplies, the master plan will also consider the possibilities for the production of mineral fertilisers and methanol , based on Japanese experience.

YUKOS
In 2006, YUKOS plans to invest $275 million into the modernisation of refineries, of which t he main share of investment will be focused on Angarsk . This will involve the construction of a block for isomerization and the separation of benzene fractions. Other projects include the reconstruction of the diesel fuel unit, and also the continuation of th e FCC project.

Nitol

Nitol expects to record a net profit of around $4 million in 2005, after a successful year of consolidation and expansion. Turnover reached more than $100 million. Nitol is involved in several industries, but chemicals is the main interest of the group which includes Usolyekhimprom and Novomoskovsk Orgsintez.

Novomoskovsk Orgsintez
Nitol has started the construction of an epoxy resin plant at its Novomoskovsk Orgsintez subsidiary. Earlier, Nitol started a similar plant at Usolyek himprom, where one of the main raw materials for epoxy resins, epichlorohydrin, is produced. The capacity of the new resin plant at Novomoskovsk is 12,000 tpa, with completion expected in the second half of 2007. Novomoskovsk was selected by Nitol as a location for the new plant as it is situated close to the main region for consumption. For the most part, Russian consumption of epoxy resins is met through imports

Usolye-Siberian Silikon
In December 2005, Nitol's subsidiary Usolye-Siberian Silikon star ted work on revamping its production equipment and infrastructural basis. Modernisation will continue until the second quarter when the plant will produce its first batch of trichlorosilane, with an initial capacity of 5,000 tpa. This will increase up to 10,000 tpa by the end of 2006.

Product/Company News

Methanol
At the end of the first quarter of 2006, Mitsubishi Corp and Mitsui will submit techno -economic proposals to the Sakhalin Adminstration for the creation of a complex for processing gas into ammonia and methanol. The Japanese companies have already identified three possible areas on Sakhalin which would be suitable for the construction of a gas chemical complex. These include Ilinskoy in the Tomarinskogo area, Pokrovka in the Dolinskogo area and Suburban in the Korsakovskogo area.

The bids for Novocherkassk Synthetic Products Plant (NSPP) were closed on 18 January 2006. According to the state authorities the new owner of NSPP is the unknown company Rusnikor, but it seems that the purchase of shares might be contested. The shares were sold to a company Orion (representing Rusnikor) for 299 million roubles against a starting price of 244 million roubles. A primary goal of all the competing investors was to increase the capacity of methanol p roduction at Novocherkassk . Prior to the privatisation process of NSPP, Synttech had said that it was ready to invest €600 million. This w as to include the construction of new production lines of methanol (1 million tpa), ammonia (500,000 -1 million tpa) and urea (450,000-900,000 tpa).

Belarus

The investment programme of Belneftekhim up to 2010 is expe cted to comprise around $2 billion , including the modernisation of existing plants and the construction of new plants. Belneftekhim plans to invest a total of $116 million in the construction of a paraxylene plant at Mozyr , and $20.1 million into a benzen e plant.

In 2005, the Naftan refinery processed more than 9 million tons of crude, whilst tne Mozyr refinery increased processing of oil in 2005 by 4.7% to reach 10.7 million tons. In 2005, Naftan produced 70,000 tons of benzene and the new revamped p lant will provide an additional 75,000 tpa. Automobile gasoline production at Mozyr increased 16.1% to 2.23 million tons and diesel fuel increased 0.3% to 2.85 million tons. In the first quarter of 2006 the Mozyr refinery plans to increase oil processing by 9% over the same period in 2005, which will mean monthly processing of no less than 900,000 tons.

Polyesters
In early 2006, Mogilevkhimvolokno plans to start up a new line for polyester production for roofing materials and geotextiles. Construction started in October 2005. The unit will produce 2,500 tpa of threads in addition to the existing 13,000 tpa capacity. New capacity has been created as a result of the growth in tyre production in Belarus, Russia and West Europe. The equipment was supplied by German and Italian companies.

The Belarusian-Dutch company Amipak at Buda-Koshelevo, has increased its capacity for PET films from 900 tons to 1,200 tons per month. Moglievkhimvolokno provides the raw materials for Amipak.

Ukraine

(Ukrainian hryvnia, Jan 23, $1 = 5.0672, €1 = 6.2254)

Polymer Supply/Demand
In the first three quarters of 2005 Ukrainian polypropylene consumption increased by 15.5% against 2004. Due to an increase in production by Linos at Lisichansk, imports into Ukraine fell by 27% in the third quarter of 2005. In 2004, the consumption of PVC suspension rose 46% over 2003 to reach 220,000 tpa. In 2005, growth continued at 25% over 2004.

In the first three quarters of 2005, polyethylene consumption rose 25% over the same period i n 2004. HDPE accounted for 50% of total consumption and LDPE 44%. Polimer in Belarus is the leading LDPE supplier. The growth in pipe demand is fuelling HDPE growth, with Lukor leading the market.

TVK has been expanding market share, particularly for PE-80 pipe production. T VK announced in January that it had founded a new foreign trade company in Ukraine, which will sell polymer products produced both by TVK and Slovnaft.

Whilst demand for polyethylene rose in 2005, Ukrainian polyethylene producti on fell slightly at Kalush. Due to the company legal changes, which took place as the result of dispute over ownership between LUKoil and the Ukrainian government, production was divided between Lukor (which produced 39,755 tons) and Karpatneftekhim which produced 54,490 tons. Collectively between the two companies, the production of ethylene was down 4% against 2004.

Lukor accounted for 85,053 tons of ethylene in 2005, 64% down on 2004, whilst Karpatneftekhim produced 112,750 tons. Together, the total production of ethylene at Kalush in 2005 was 197,803 tons, marking a 15% fall on 2004. As for other polymers, polystyrene production fell by 9% in Ukraine in 2005. The sole producer Stirol at Gorlovka produced 25,902 tons.

Central Asia

In 2005, Turkmenistan produced a total of 86,000 tons of polypropylene against 81,400 tons in 2004. Turkmenistan is considering a project for BOPP at Turkmenbashi, together with the modernisation of the vacuum distillation column. Japanese investors are considering i nvestment into the expansion of the polypropylene plant at Turkmenbashi, and more information should be available in the next two to three months.

Itochu is considering involvement in the reconstruction of the Seidi refinery, located in the eastern part of Turkmenistan.

Kazakhstan

LUKoil is considering co-operation with Kazakhstan regarding investment into a Caspian gas-chemical complex. The project is based on feedstock supplies from the north Caspian, including the Khvalinsk deposit which LUKoil is developing jointly with KazMunaiGaz. In the first quarter of 2006, the government will undertake a road show for presenting the prospects for the petrochemical industry in Kazakhstan and the establishment of a special economic zone in the Atyrau region.

The volume of oil processing in 2005 amounted to 11.17 million tons, broken down into 3.72 million tons at the Pavlodar refinery (24% up), the Shymkent refinery produced 3.95 million tons (12% up) and the Atyrau refinery 3.499 million tons (21% up).

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