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MONTHLY NEWS

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

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Features from the February 2005 issue

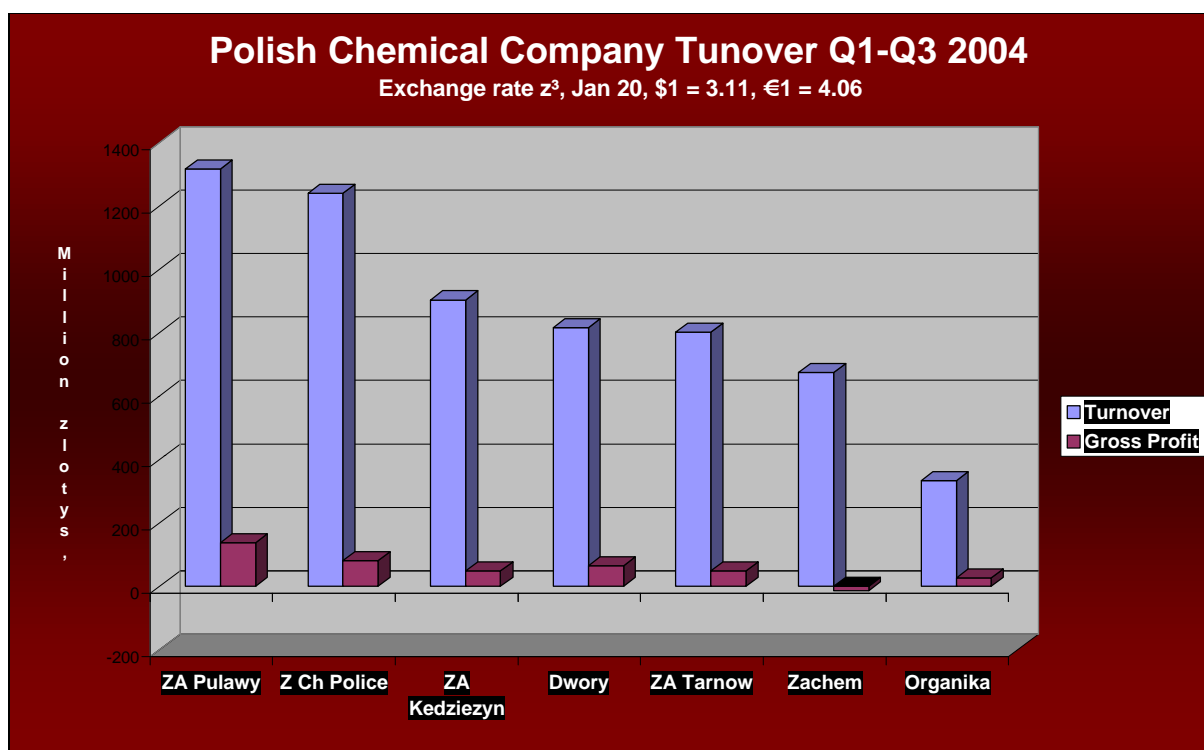
- Central European oil supply may see some changes after YUKOS defaulted on long-term contracts to supply refiners in the region. YUKOS customers include PKN Orlen, MOL and Mazeikiu Nafta. MOL buys around 60% of its crude from YUKOS for its refineries.
- BorsodChem and Dynea Oy will extend together the capacity of the Kazincbarcika plant of majority BorsodChem-owned BCKC Formalin Kft. The investment will cost Ft 1 billion, and the plant will double its formaldehyde production's capacity and triple its MDI capacity by the end of 2005. The company explains the need for growth by the increase of market demand as well as its own marketing strategy.
- ZA Pulawy plans to pay gas debts of around \$25 million to PGNiG before 15 February this year, which is necessary for the company to appear on the stock exchange at some stage during 2005. Annually ZA Pulawy uses 800 million cubic metres of gas and has accrued debts in the last few years as plants have been running at flat out.
- The government of Tuzla Canton has allowed the increase of ISPAT Holding's ownership share in the JVC Global ISPAT Coke Industry Lukavac (GIKIL), established in 2003. Thus, the London-registered company will raise its stake from 51% to 75%, which is stipulated by an annex to the official contract between ISPAT and the Coke Chemical Plant in Lukavac.
- 2004 is best described as a year of consolidation for SIBUR. In the main production levels increased against 2003 with basic operating rates running at higher levels. A number of projects saw some progress and are at varying stages of development. More information about projects will be known after the new strategy, in coordination with Gazprom, is publicised.
- NeftekhimSevilen recorded turnover of 484.4 million roubles in 2004, reflecting an increase of 8.4% over 2003. The company achieved a profit of 50 million roubles. NeftekhimSevilen employs 317 people with average monthly wages of 13,419 roubles. Restructuring at the start of 2004 meant that Sevilen was taken over by Nizhnekamskneftekhim, in terms of 74% ownership, and renamed NeftekhimSevilen.
- The Russian State Property Fund has stated that the 100% sale tender for Polief will be conducted between 31 January 2005 and 31 May 2005. The total nominal value of shares in Polief is 2,746.72 million roubles. The recommended price for the transaction is set at 4,718 million roubles (or around \$175 million).
- Linos plans to increase polypropylene production at Lisichansk in 2005 by 1.6%. Also in the Lugansk region the State Property Fund of Ukraine has set up the new closed stock company at Azot Severodonetsk in conjunction with Worldwide Chemical LLC, divided in a 60/40 split. The founding charter capital of the company was 1.56 billion hryvnia. This contract was set up prior to the Orange Revolution and there are some suggestions that it could even be reversed if there is any sign of shady dealings.

Polish privatisation

The graphic below illustrates the strong profits achieved by Polish fertiliser plants in the first three quarters of 2004. Although Zachem was the only company in the selected group to incur a loss, of zł 13.4 million, it was a reduced loss compared to 2003 when it lost zł 17.7 million in the first three quarters. This is more disappointing than expected, but it is a gradual movement in the right direction. Dwory showed good profits in the first three quarters, as did Police, Tarnów and Kedzierzyn.

A new government strategy for the heavy chemicals sector in Poland provides for a swift privatisation of the leading plants in the near term; four of which are to be sold to a strategic investor, and two floated on the Warsaw stock exchange.

The strategy, drafted by Nafta Polska has been endorsed by the Treasury and approved by the cabinet. It provides for transferring up to 69% stakes in the Tarnów, Kedzierzyn, Zachem and Organika Sarzyna plants to Nafta Polska, which would then be expected to find a buyer for them. The Police and Pulawy nitrogen plants would be floated on the Warsaw stock exchange.



The new strategy replaces a previous plan that provided for consolidating the plants into a group strong enough to survive on its own on the single EU market. That, however, would require offering the heavily indebted plants massive debt relief, something that the EU would not approve. Under the new strategy, Nafta would be supposed to sell the stakes in the four plants by end-September 2005. The Police, Pulawy, Kedzierzyn, and Tarnów could be offered to their creditors as part of a debt-for-equity deal. Their largest creditor is PGNiG, the state gas importer, but it has declared in several occasions that it is not interested in buying the nitrogen plants.

The converted stakes in Tarnów and Kedzierzyn would be sold to a trade investor selected through an invitation to bid procedure. The fundamental reason why there is a different procedure for the Tarnów and Kedzierzyn plants and the Police and Pulawy plants is one of debt.

The latter two plants carry relatively little debt, so the stakes creditors would receive as a result of debt conversion would be relatively small, unlike with Tarnów and Kedzierzyn.

CENTRAL & SE EUROPE

Central European Oil Supply

Central European oil supply may see some changes after YUKOS defaulted on long-term contracts to supply refiners in the region. YUKOS customers include PKN Orlen, MOL and Mazeikiu Nafta. MOL buys around 60% of its crude from YUKOS for its refineries. MOL agreed in 2003 to buy 7.2 million tpa of oil for ten years from YUKOS, replacing a three-year agreement for 2.4 million tpa. MOL has already announced that it will buy crude to supply its refineries at home, and in Slovakia, from LUKoil. The Hungarian company will purchase 5 million tpa of oil a year from LUKoil over five years.

PKN Orlen and Lotos both buy around 40% of its crude from YUKOS. Orlen said then that it will buy more from other producers if supplies from YUKOS are disrupted. Both Lotos at Gdansk and Orlen assured their clients that they would not be affected by supply shortages. Poland is dependent on Russian oil due to its low price as compared to oil from other countries. It is not known when, or if, YUKOS will recommence its supplies. The transfer of the key subsidiary, the Yuganskneftegaz unit, for YUKOS to a state-owned buyer has caused no production problems so there is no simple reason for the default. State-controlled Rosneft purchased the unknown company that won the auction, marking the climax of a politically charged legal assault on the company and the former CEO Mikhail Khodorkovsky.

LUKoil looks set to be the most likely beneficiary of the reduced oil supplies to Central Europe by YUKOS. LUKoil has stated that it can become a big supplier of oil to Poland if the market will open up. The Russian company would like to sell its product on the basis of a long-term contract, which is unacceptable for PKN Orlen. Orlen currently buys oil on the basis of spot transactions, which are often very beneficial in terms of price.

Czech Republic

(Czech crown, Kc, Jan 20, \$1 = 23.093, €1 = 30.125)

Unipetrol

PKN Orlen expects to receive permission in February from the European Union Commission's antimonopoly office for Unipetrol. Orlen plans to submit a formal application to the EU's antimonopoly office by the end of January. The EU body will have 25 days to rule on the issue.

Concerns are tending to grow that Orlen may find itself paying more for Unipetrol than it had planned originally. The main part of the transaction is payment for a 62.99% stake in Unipetrol, including part of its liabilities and 9% of the shares in its subsidiaries, all of which amounts to z³ 1.78 billion. However, according to the contract stipulations, the figure might increase by up to 15% due to Unipetrol's positive financial results in 2004. Furthermore, Orlen will have to acquire the remaining public shares of Unipetrol, whose value may equal up to \$1 billion, and remaining stakes in subsidiaries of the company.

In the first three quarters of 2004, Chemo petrol's economic pre-tax result achieved was Kc 1.032,7 million against Kc 210.6 million in 2003. Chemo petrol's product sales of Kc 19.2 billion represented an increase of Kc 5.3 billion against the same period in 2003. The full utilisation of new PE and PP production unit capacities in 2004 helped turnover substantially, in addition to higher product prices.

In 1999, the company started an extensive investment into a new polypropylene unit and the modernisation and capacity increase of the polyethylene unit. Next to these key production units, Chemopetrol is gradually increasing the capacity of its ethylene unit. The petrochemical unit produces ethylene, propylene, C4-, C5- and C9-fractions and benzene. A final stage of this project, an increase of its annual capacity to 560,000 tpa of ethylene, is under review.

Hungary

(Hungarian Forint, Ft, Jan 24, \$1 = 188.54 €1 = 245.91)

MOL-TVK

With the start up of the new cracker TVK is now the largest producer of ethylene in Central Europe, most of which will be used captively and the remainder sold to BorsodChem. TVK Rt has paid back ahead of maturity a €280 million syndicated loan, which the company took out in February 2002. This was to finance

its €430 million Petrochemical Development Project. The repayment was made possible by a five-year, €280 million loan agreement with MOL that TVK signed in December 2004.

Regarding MOL, the partial sale of its midstream natural gas division to E.ON Ruhrgas International (ERI), means that the company frees itself from what it sees as a non-core business and gathers a significant amount of cash that it plans to invest in both upstream and downstream oil assets. MOL might use some of the cash to buy more of INA. It paid \$505 million for a 25% stake in 2003 and hopes to obtain a majority. Other targets in the region could include NIS in Serbia.

BorsodChem

With a market value at the time of the transaction of €388 million, the sale by Vienna Capital Partners (VCP) of its 67.9% stake in BorsodChem Rt was the largest private equity deal in the region to date. The primary purpose of the treasury share purchase programme is the short-term optimization of the company's capital structure. Beyond temporarily improving the capital structure of BorsodChem, the company may use the shares as a basis for an employee share option programme which is currently being constructed.

These developments have placed BorsodChem in a position where one, if not more acquisitions, could be possible in the near to medium term. Poland and Romania appear potential countries for investment, with companies such as Zachem and Chimcomplex being possible targets. BorsodChem currently needs to buy chlorine to supplement domestic production and Chimcomplex would thus provide a good fit.

BorsodChem and Dynea Oy will extend together the capacity of the Kazincbarcika plant of majority BorsodChem-owned BCKC Formalin Kft. The investment will cost Ft 1 billion, and the plant will double its formaldehyde production's capacity and triple its MDI capacity by the end of 2005. The company explains the need for growth by the increase of market demand as well as its own marketing strategy.

Poland

(Polish zloty, z³, Jan 20, \$1 = 3.11, €1 = 4.06)

Ciech

Ciech hopes to collect around z³.230 million from its IPO planned for the end of January. The company is expected to be spent on investments, amongst others in caustic soda production and phosphate production.

This year the management board plans to increase sales' revenues to z³.4 billion, which is almost double the figure for 2004 (z³.2.2 billion). This could be possible if Ciech manages to acquire the controlling stake in the Police Chemical Plant that the Treasury Ministry wants to privatise through the stock exchange. One of the proposals is to take over the stake before the proposed IPO. Ciech is also considering buying caustic soda sector companies in Ukraine and buying a stake in Organika Sarzyna chemical plant and Bydgoszcz-based Zachem. This would turn the company into a serious player in the regional caustic soda market. Competition for the Polish producers could come from BorsodChem.

Polish gas consumers

ZA Pulawy plans to pay gas debts of around \$25 million to PGNiG before 15 February this year, which is necessary for the company to appear on the stock exchange at some stage during 2005. Annually ZA Pulawy uses 800 million cubic metres of gas and has accrued debts in the last few years as plants have been running at flat out. As a result of its appearance in the stock market ZA Pulawy plans to secure investment in the range of \$250 million which will help further expansion in the production of melamine, etc. Around 75% of shares in the company will be taken up by new investors.

The gas concern PGNiG plans to start direct deliveries from its own deposits to Zakłady Azotowe w Tarnowie-Moscicach. The contract between PGNiG and ZA Tarnowie-Moscicach SA has been signed for ten years. For PGNiG the signature of the contract signifies the effective usage of gas deposits from deposits at Tarnow-2 and Lenkavitse. For ZA Tarnowie-Moscicach SA this agreement will facilitate a reduction in production costs for fertilisers and ammonia. ZA Tarnowie-Moscicach SA consumes around 200 million cubic metres of gas per annum, and the new agreement will increase domestic sources from around 14% to around 27%.

ZA Police is considering several investment projects would be undertaken after the company's debut on the

stock market. The projects include the modernisation of the titanium white plant with an increase of capacity by 14,000 tpa. The cost of this project will be \$210 million. Other projects involve the construction of a terminal for the shipment of phosphoric acid at a value of \$20 million, and the introduction of a new methanol plant at a cost of \$50 million.

Investment capital will come partly from the sale of shares on the Warsaw Stock Exchange in the third quarter of this year, the proceeds of which range from \$68 to \$83 million. In 2004, ZA Police achieved a gross profit of around \$31 million against \$27 million in 2003.

BOP's role in polyolefin markets

The development of a technology and production park concept, adjacent to the new BOP project at Plock, is seen as a dynamic potential outlet for plastics production. The so called Special Economic Zones (SEZ) in Poland have been developed in order to stimulate investment. BOP is in close co-operation with the City of Plock and PKN Orlen SA to attract new companies to a special zone called the Plock Industrial and Technological Park. The aim of the Plock project is to develop its own downstream plastics region based on the Basell polyolefin venture with Orlen. The park is to be based on three fundamentals, production, technology and science and is part of the so-called Lisbon strategy of the EU.

Plock officials are providing infrastructure and land incentives for companies from the petrochemical, polyolefin, industry, manufacturing and technology sectors, as well as other companies with complimentary interests.

The new BOP plants are scheduled to start commercial production in August 2005. Only 60% of BOP's production is targeted for consumption on the local market, with the remaining 40% to be taken off by Basell and sold in Central Europe, EU and other markets. The original motive for Basell's entry into the joint-venture was to find a cheaper working base for its European plastics division, which is now outsourced entirely to Basell-Orlen.

The biggest challenge for Basell-Orlen is the need to encourage local clients to convert to modern methods and materials. Hence the intensive marketing campaign currently, being waged by Basell in this field. Orlen, meanwhile, is doing all it can to attract state-of-the-art converters to a P³ock technology and industry park.

Sectors such as packaging industry and the automotive sector will provide important outlets for polyolefins. For packaging companies being close to commodity providers lowers the costs and limits risks, making prices more stable.

According to TVK figures, Poland is currently the Hungarian polyolefin producers' third biggest foreign client, yearly consuming plastics worth z³.196.8 million (€40.9 billion). Poland buys abroad, largely because the Basell-Orlen's plant's predecessor plants, owned by PKN Orlen, were out of date, a fact which was the driving force behind Orlen's search for a partner in a new venture that would lure back local buyers, as well as attracting new buyers.

Coperion Werner & Pfleiderer, based in Stuttgart, Germany, was awarded a contract to build a line for pelletizing the polypropylene at Plock. The system is designed to have a throughput rate of 55t/hr to 60t/hr. The system is based on a twin-screw Megacompounder ZSK 380 (380mm) extruder from Coperion Werner & Pfleiderer with a motor exceeding 14MW. There is an automatic non-stop screen changer and a PP-specific underwater pelletizer with an intensively heated die plate.

Romania

(Romanian Lei Jan 20, \$1 = 29., 525, €1 =38, 1826)

Oltchim

For 2004, Oltchim estimates that it will achieve a gross profit of approximately 600 billion lei, 17 times higher than the pre-year estimate of 35 billion lei level. This has largely been the result of production from new units combined with an increase in export prices. The forecast is that Oltchim's income will reach 15,255 billion lei in 2005 (approximately €380 million), while expenses will amount to 14,673 billion lei. Revenue from exports will comprise more than two thirds of the company's total income, reaching more than 11,380 billion lei.

LUKoil-Neftekhim has been linked with a possible acquisition of Oltchim, primarily to provide an outlet for VCM produced at Kalush. There is no sign, however, of any agreement being reached with the Romanian government. Apart from the PVC facilities, other assets belonging to Oltchim that could induce interest include chlorine and oxo alcohols. The oxo facilities were converted in 1997 from cobalt to rhodium catalyst, by Davy McKee.

Bosnia & Herzegovina

The government of Tuzla Canton has allowed the increase of ISPAT Holding's ownership share in the JVC Global ISPAT Coke Industry Lukavac (GIKIL), established in 2003. Thus, the London-registered company will raise its stake from 51% to 75%, which is stipulated by an annex to the official contract between ISPAT and the Coke Chemical Plant in Lukavac. Parallel to the acquisition, ISPAT obliges to take over the remaining liabilities of the coke plant. The holding is also obliged to launch works on the re-mounting of the IV coke battery and employ 400 new workers.

The Global ISPAT complex consists of two coke oven batteries, with an annual capacity of 1400,000 tons. The Industrial Explosives Plant consists of production unit for industrial explosive called 'info Lutex 1'. The plant has design capacity of 3,000 tpa. The AMK Plant consists of a malefic anhydride unit, licensed from Scientific Design. The process is based on catalytic oxidation of benzene to malefic anhydride that is purified. The maleic plant has a capacity of 10,000 tpa and is based on benzene feedstock. The Benzene Recovery Plant produces benzene from the gaseous fractions of the coke oven. It has a capacity of 8,000 tpa.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

(Rus rouble Jan 20, \$1 = 27.9991, €1= 36.523)

Industrial output increased in Russia by 6.1% in 2004 over 2003. Chemical and petrochemical production saw growth of 7.4% in total over 2003, but for some mainstream products little or no increases were seen. Polyethylene output increased by 5%, PVC by 2.4%, polypropylene by 5.3% and styrene by 26%. Styrene was increased by the full operation of the Salavat complex. Synthetic rubber output increased 2.5%, caustic soda 3.9%, lorry tyre output by 3.3% and automobile tyre output by 2.9%. Due to a growth in export prices in 2004, export revenues from chemicals increased 8.5% over 2003 reaching a total of \$7.4 billion.

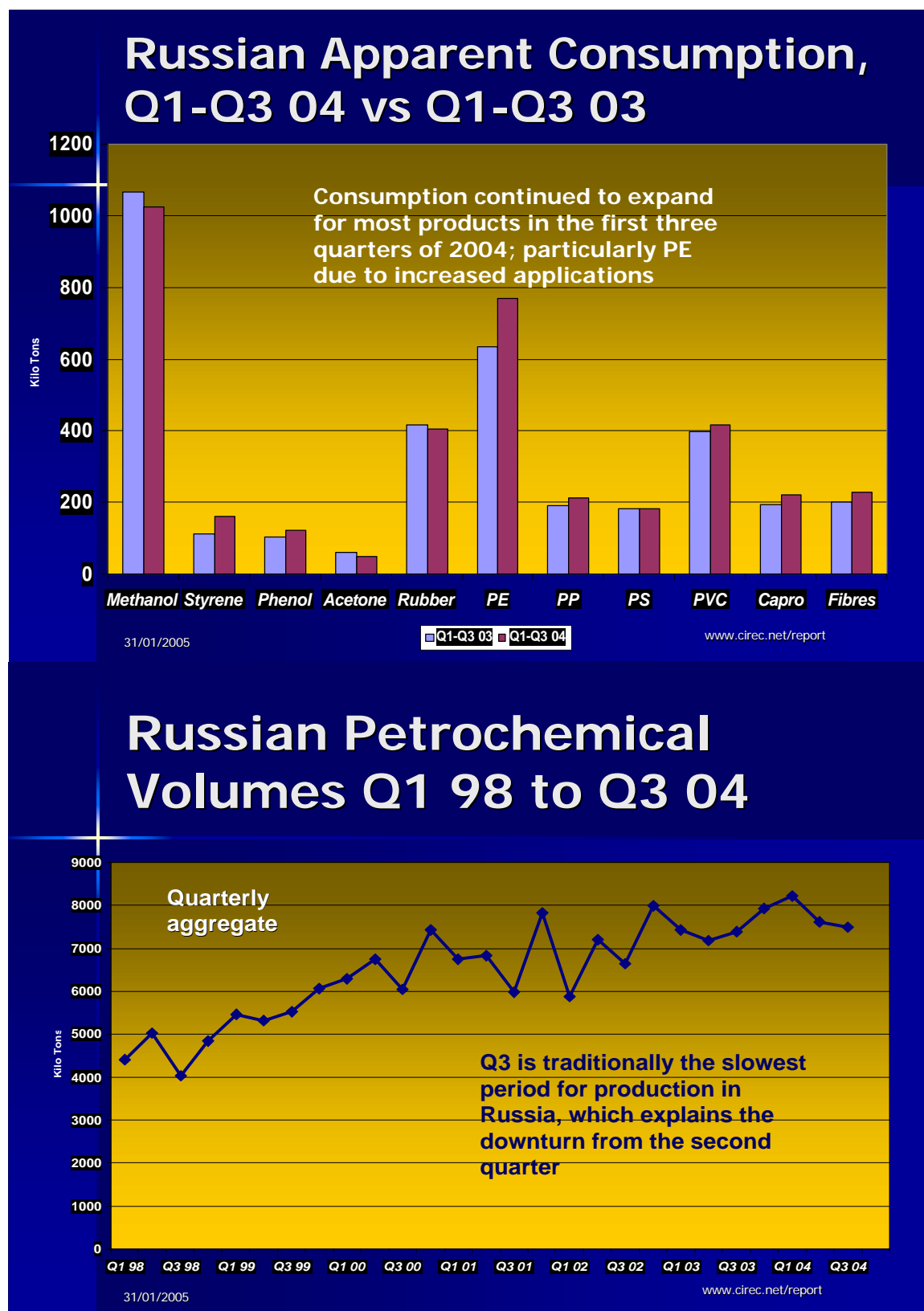
SIBUR/Gazprom

SIBUR-Neftekhim

In December 2004, SIBUR-Neftekhim completed a trial run of the revamp of the EP-300 plant, which includes an expansion of capacity in order to meet the demands of the new polyethylene plant under planning. The ethylene cracker will be also modernised to make greater use of different types of raw materials and to reduce the dependency on naphtha. The expansion is planned to take place during the maintenance period during 2005, with capacity rising to 360,000 tpa. This is expected to expand later to 480,000 tpa.

In total, SIBUR-Neftekhim has nine projects that it is looking to implement in the next few years. The raw material station for LPGs will be completed this year, in addition to a new F-110 pyrolysis furnace. Three other projects are planned to start in 2005, including two new furnaces F-120 and F-130 for the Kstovo complex. SIBUR-Neftekhim plans to undertake the reconstruction of the ethylene oxide and MEG facilities, increasing capacities from 200,000 to 240,000 tpa and 170,000 to 200,000 tpa respectively. Other projects include the construction of the company's own power station at Dzerzhinsk, and the construction of a polyethylene plant with a capacity of 120,000 tpa and a new VCM/PVC complex of 120,000 tpa. There is talk that the VCM/PVC tender could be completed by the first half of the year. Four or five companies are expected to be involved in the tender, including, Technip, Lurgi Life Science, and Uhde. The project is likely

to cost around \$90 million. In the previous tender for the project, which took place in 2001, Lurgi Life Science won the contract.



SIBUR subsidiaries in 2004

2004 is best described as a year of consolidation for SIBUR. In the main production levels increased against 2003 with basic operating rates running at higher levels. A number of projects saw some progress and are at varying stages of development. More information about projects will be known after the new strategy, in coordination with Gazprom, is publicised.

SIBUR Subsidiary Output 2004 (unit-kilo tons)			
Tomskneftekhim			
Product	2004	2003	2002
Ethylene	186.9	172.2	158.6
Propylene	104.4	70.6	88.6
Polyethylene	185.5	163.0	149.3
Azot Kemerovo			
Product	2004	2003	2002
Caprolactam	108.9	102.5	106.6
Urea	446.7	488.4	471.4
Ammonia	805	859.1	822.1
Ammonium nitrate	723.8	784.6	703.7
Ion exchange resins	0.743	0.7	0.6
Tobolsk Neftekhim			
Product	2004	2003	2002
Feedstocks	2,047.0	1760.0	1396.8
Butadiene	176.6	185.6	166.1
Concentrated isobutylene	35.0	33.7	23.4
MTBE	n/a	69.1	59.3
SIBUR-Khimprom			
Product	2004	2003	2002
Propylene	46.2	52.1	40.3
Benzene	n/a	74.0	46.0
MTBE	28.9	22.0	21.0
Ethylbenzene	100.8	96.0	60.0
Butanols	70.6	59.3	n/a
2-EH	46.3	46.7	n/a
Uralorgsintez			
Product	2004	2003	2002
MTBE	85.2	77.3	44.5
Isobutylene	63.8	63.7	33.0
Benzene	28.9	32.0	69.0

In terms of the producers, Togliattikauchuk produced a total of 254,000 tons of various synthetic rubber grades in 2004, which was 2% up and 5,000 tons above the 2003 results.

Also in the Samara region the Novokuibyshevsk Petrochemical Company increased hydrocarbon raw material processing to 561,400 tons in 2004 from 555,600 tons in 2003. For the past two years the Novokuibyshevsk Petrochemical Company has been supplying Togliattikauchuk with isoprene, having supplied 57,700 tons in 2004 against 48,200 tons in 2003. Para-tertiary butylphenol production at Novokuibyshevsk totalled 3,762 tons in 2004 against 3,245 tons in 2003. Catalyst production increased from 12,000 tons to 13,800 tons.

The Novokuibyshevsk complex produced a total of 377,000 tons of various gases in 2004, against 356,000 tons in 2003. This included 62,600 tons of propane (vs 62,500 tons), 108,300 tons of butane (vs 83,100 tons), and 70,700 tons of isobutane (vs. 56,200 tons).

Uralorgsintez in the Perm region of the North Urals processed 639,600 tons of SHFLU (wide fractions of light hydrocarbons) in 2004, against 567,500 tons in 2003. In total, the company's production increased by 30.4%. Isobutylene production totalled 69,400 tons (vs. 63,300 tons in 2003), merchant benzene sold was 28,900 tons (vs. 32,300 tons in 2003). The plant also produced 69,700 tons of propane technical (vs. 54,300 tons), butane 167,700 tons (vs. 148,700 tons), isobutane 130,400 tons (vs. 118,900 tons), and 30,300 tons of isopentane (vs. 24,700 tons).

SIBUR-Khimprom at Perm saw improved production levels in 2004. Liquefied gas production grew by 28,954 tons (9%) against 2003. MTBE production

grew by 5,949 tons (26%), ethylbenzene by 4,830 tons (5%), and butyl alcohol by 11,341 tons (27%).

SIBUR-Khimprom managed to reduce the feedstock consumption rate in the production of propylene, ethylbenzene, styrene and oxo alcohols. In 2004, the overhaul and maintenance investments amounted to 181 million roubles, of which 174 million roubles were spent on the fixed assets recovery and replacement. Styrene capacity has been now expanded up to 60,000 tpa.

Azot at Kemerovo increased production by 2.5% in 2004, with average capacity utilisation rates achieving 89.9%. The plant produced 108,900 tons of caprolactam (vs. 102,500 tons in 2003), 235,900 tons of sulphuric acid (211,500 tons in 2003), 805,000 tons of ammonia (vs. 859,000 tons in 2003) and 446,700 tons of urea (vs. 488,200 tons). During 2004, Azot undertook a number of measures for maintenance and modernisation, spending a total of 930 million roubles. Part of this total outlay was focused on the ammonia unit.

Tatarstan

Tatarstan plans to increase industrial production by 5.5 in 2005 in value terms. Oil production is forecast to rise from 29.2 million tons in 2004 to 30 million tons in 2005, whilst associated gas production is expected to rise from 675 million cubic metres to 678.9 million cubic metres. Synthetic rubber production is expected to rise from 302,500 tons to 312,500 tons and polyethylene at Kazanorgsintez and NeftekhimSevilen from 430,000 tons to 500,000 tons.

Feedstocks

Tatneftekhiminvest-Holding has been reviewing the issue of petrochemical feedstocks for the new Nizhnekamsk refinery and petrochemical complex, which is being constructed under the Tatar-Korean JV. In 2005, Tatneftekhiminvest-Holding plans to develop internal co-operation in the sphere of raw material supplies for both Nizhnekamskneftekhim and Kazanorgsintez.

Kazanorgsintez and Nizhnekamskneftekhim will start to use a greater share of available ethylene for the production of polyethylene in the coming years as both companies develop new projects. In order to support the growing demand for ethylene a new gas condensate plant is being constructed at Nizhnekamsk with a capacity of 1.2 million tpa.

Ethylene Pipeline

At the end of December 2004 Nizhnekamskneftekhim convened a meeting of companies involved in the buying and selling of ethylene via the Volga-Urals ethylene pipeline for Tatarstan and Bashkortostan. This pipeline connection provides the main heart of the Russian petrochemical industry. The meeting included Kaustik at Sterlitamak, Kazanorgsintez and Salavatnefteorgsintez, in addition to the main player Nizhnekamskneftekhim. Consumption of ethylene for 2005 for the two republics is forecast to total 1.17 million tons, with polyethylene being the main outlet followed by ethylene oxide and ethylbenzene. Nizhnekamskneftekhim expects to produce 452,000 tons of ethylene this year.

Nizhnekamskneftekhim

Nizhnekamskneftekhim's book profit grew in 2004 by 13% and amounted to 5.26 billion roubles. Turnover in 2004 was 31.5 billion roubles or 35.4% above the same level in 2003. In 2005, turnover is forecast to increase to 35 billion roubles, with a book profit of 5 billion roubles. Around 60% of production will be exported. Production of isoprene is forecast to increase from 181,000 tons to 185,000 tons; styrene will rise from 251,000 tons to 270,000 tons, and ethylene-propylene rubber from 10,000 to 12,000 tons.

Regarding non-production issues Nizhnekamskneftekhim purchased a first fire engine at the end of 2004 to deal with internal incidents. Over 2003-2004, the company spent 87.8 million roubles on its environmental management programme. Nizhnekamskneftekhim soon plans to start the issue of a four year issue worth 1.5 billion roubles to help support investment. The loan is being arranged by Troika Dialog and MDM Bank.

In 2004, Nizhnekamskneftekhim produced 450,133 tons of ethylene, the highest ever volume achieved by the company. The forecast for 2005 is 452,000 tons. The ethylene EP-450 complex was originally designed on the basis of naphtha, but reconstruction and the replacement of worn out naphtha furnaces has resulted in the capability to process any kinds of raw material, from naphtha up to wide fraction of light hydrocarbons. Ethylene capacity is expected to reach 600,000 tpa by 2010, although there is physical room at the site to expand much closer to 1 million tpa.

In 2004, the company also achieved record volumes in several other product areas, including 81,400 tons of butyl rubber, 59,300 tons of propylene trimers, 22,400 tons of propylene tetramers, and 122,000 tons of neonols. The halo butyl rubber facility produced 8,500 tons since its start-up earlier in the year. New cooling equipment was installed at the butyl rubber on 18 January which is the first part of the expansion project taking capacity to 100,000 tpa. It is not yet known when the project will be completed.

Kazanorgsintez

Kazanorgsintez achieved a turnover of 11.6 billion roubles in 2004, 35.4% higher than in the same period last year. Production of polyethylene pipes increased by 3% in 2004, whilst phenol and acetone production increased by 7%. The profit level for 2004 was 2.7 billion roubles, which was 111% higher than in 2003. The company employs 7,050 people with an average salary of 11,759 roubles per month. For 2005,

Kazanorgsintez is forecasting a turnover of 14.5 billion roubles, with an increase of around 400 million roubles in profit.

Kazanorgsintez and TAIK are in the negotiations with Gazprom on the construction of a new unit for 90% extracting of ethane from processed gas (currently this number is 33%) at the Orenburg helium plant (part of Orenburggazprom). The unit will be based either on the Japanese or German process.

The accident that took place on 21 August 2004 destroyed four out of the five units at the helium plant at Orenburg. Two of them will be repaired in February-March 2005, and the rest by summer. All the ethane produced by the helium plant was supplied to Kazanorgsintez (400,000 tpa of 475,000 tpa). After the explosion accident last year the supplies are being compensated by ethylene from Salavatnefteorgsintez and Nizhnekamskneftekhim.

In September 2004, Kazanorgsintez and Orenburggazprom prepared a protocol specifying investment plans into the reconstruction of the two units at the Orenburg helium plant and the construction of a conversion plant based on Kazan-made polyethylene (i.e., pipes, film, and packaging).

NeftekhimSevilen

NeftekhimSevilen recorded turnover of 484.4 million roubles in 2004, reflecting an increase of 8.4% over 2003. The company achieved a profit of 50 million roubles. NeftekhimSevilen employs 317 people with average monthly wages of 13,419 roubles. Restructuring at the start of 2004 meant that Sevilen was taken over by Nizhnekamskneftekhim, in terms of 74% ownership, and renamed NeftekhimSevilen.

Nefis Cosmetics

Tatneftekhiminvest-holding has confirmed a programme for development for Nefis Cosmetics at Kazan in the 2005-2007 timeframe, at a cost of €100 million. The programme focuses on three main projects, the first of which involves the start-up of a liquid detergent plant in 2005 which will increase capacity from 250 million bottles in 2004 to 500 million bottles in 2006. The project is costing around €25 million.

The second project involves the start of a new synthetic detergents plant in January 2006, with an increase in capacity from 160,000 tpa to 210,000 tpa by 2007. The cost of this project is around €30 million. The third project consists of an oil extraction plant with a capacity of up to 300,000 tpa. As a result of these projects the total turnover of Nefis Cosmetics will increase in 2007 by three-fold to 10.5 billion roubles compared to 2004.

Nefis Cosmetics is one of Russia's mid ranking producers of cosmetics and household chemicals. Its shares belong to its management and it controls around 10-11% of the Russian market for washing powders and 13-14% of the toilet soap market. The detergent sector in Russia is dominated by Novomoskovskbitkhim at present, but these developments will put Nefis in first place.

LUKoil-Neftekhim

Polypropylene

In January LUKoil-Neftekhim restarted the construction of the polypropylene unit at Stavrolen. The construction of the polypropylene plant first started as long ago as in 1986 and after several stop-start efforts halted all progress after 1995.

In July 2004, LUKoil-Neftekhim purchased 87.42% of shares in Stavropolpolimerproduct through the Moscow Industrial Trade Centre for Integration and Development. The plant is based on Unipol technology. Propylene produced by Stavrolen will be shipped to the new unit nearby by pipeline.

Plant capacity for the polypropylene unit is 80,000 tpa and LUKoil is now saying that start-up could even be late next year rather than 2008 that it had predicted originally. Payback for the project is estimated at six years after start-up, but there are question marks over whether this is a project worth completing.

LUKoil claims that the expansion of petrochemical production is one of the group's main strategic directions, although it is not clear if really is a thought out strategy. The plants that belong to LUKoil Neftekhim have been acquired on a unilateral basis, largely because of good political contacts rather than strategic ambition.

The construction of the polypropylene unit at Budyennovsk may have been a political decision rather than a commercial decision. LUKoil argues that the plant will create 400 jobs in the Stavropol region, as if this is an important goal in itself. The investment in the polypropylene project will cost LUKoil around \$38 million in addition to the \$32 million that it paid for the shares in Stavropolpolimerproduct.

Sodium Cyanide

LUKoil-Neftekhim and Glatt Ingenieurtechnik have signed an agreement for building a new sodium cyanide plant at Saratov. Glatt Ingenieurtechnik will manage the construction project and installation of equipment. Du Pont technology will be used, with a capacity of 18,000 tpa. The project will take around two years to complete at a cost of 600 million roubles. It will mean that some of the by-products produced through acrylonitrile can be used for adding value. Currently, more than half of Russian sodium cyanide consumption is imported. The main consumers of this product will be the gold plating industry.

Evrokhim

Evrokhim has completed the reconstruction of the Novomoskovsk ammonia plant, having increased capacity and reducing costs. The investment project has cost around \$30 million. Production capacity has been increased to 600 tons/day, which should mean that ammonia output will rise from 1.3 million tons in 2003 to 1.5 million tons in 2005. Gas and steam costs are expected to fall 15-20%.

Modernisation of the Azot complex at Novomoskovsk is part of Evrokhim's strategic programme for ammonia and nitrogen fertilisers. Nevinnomyssk Azot is also part of this programme, and the two plants combined will account for \$80 million of investment.

The Phosphorite industrial group, a part of Evrokhim, has completed the first stage of the reconstruction of the second sulphuric acid unit. It has resulted in production capacity rising from 450,000 tpa of monohydrate/year to 570,000 tpa. 330 million roubles was invested in the first stage whilst the end of the second stage is scheduled for the spring of 2005, where another 200 million roubles will be invested. Capacity will be increased up to a level of 700,000 tpa. The reconstruction of sulphuric acid facilities will provide not only an increase in mineral fertiliser production, but also to help the local environment by launching new modern equipment.

In 2004, Azot at Novomoskovsk recorded turnover of 9.3 billion roubles, a 4.5% increase over 2003. Production volumes included 380,620 tons of methanol, a 55% increase, 28,400 tons of resins (2.1% up), 31,800 tons of VCM (2.6% up), and 3,100 tons of TDI (1.1% up). Other products included strong nitric acid which reached 88,300 tons in 2004 (3.9% up) and sulphuric acid 87,100 tons (15.9% up). Chlorine production was 41,800 tons whilst caustic output reached 81,300 tons thus indicating that Azot needs to buy chlorine on the merchant market.

Irkutsk

YUKOS

The dilemma facing YUKOS is creating pressure on the Irkutsk Administration to take some form of action to protect the Angarsk Petrochemical Combine. YUKOS and the management of Angarsk Petrochemical Combine have already stabilised the enterprise in terms of wage payments. Not only is the refinery and petrochemical complex important for Angarsk itself, but also interconnecting chemical plants at Sayanskkhimplast and Usolyekhiprom. In 2004, the Angarsk refinery processed 8.796 million tons of crude which was the highest volume recorded for seven years. The Angarsk Petrochemical Company reduced costs by 106 million roubles last year. In the chemical division the complex produced 55,500 tons of butanols, 10,500 tons of methanol, 11,000 tons of amines and 34,600 tons of sulphuric acid.

Product News

PTA

The Russian State Property Fund has stated that the 100% sale tender for Polief will be conducted between 31 January 2005 and 31 May 2005. The total nominal value of shares in Polief is 2,746.72 million roubles. The recommended price for the transaction is set at 4,718 million roubles (or around \$175 million).

LUKoil Neftekhim visited Ufa on 21 January to confirm that it would participate in the new tender for Polief. The conditions of the tender state that Polief's debts of 7.051 billion roubles will be converted into shares. The main objective of the tender is to complete the construction of the PTA unit of 230.000 tpa and the PET unit of 120,000 tpa within two years. Other potential buyers include Gazprom and a number of foreign companies from Germany, Italy, India and Singapore.

Both LUKoil and Gazprom are interested in Polief mainly for adding value to crude, from paraxylene through to PTA and PET. Gazprom is also interested in obtaining PTA from domestic sources in order to supply SIBUR's PET plant at Tver.

In fact, SIBUR-Neftekhim announced in January that it would postpone the new PET project at Dzerzhinsk until the Polief PTA project is completed. The production of PET has become unprofitable in Russia due to the cost of imported PTA which is almost the same as the PET price.

Methanol

From the start of 2005 Novocheboksarsk Synthetic Chemical Products has started the reconstruction of the methanol plant. This will lead to an increase in capacity up to 30% of current levels, and at the same time lead to a reduction of energy consumption.

VostokGazprom produced 757,000 tons of methanol at Tomsk in 2004 against 733,300 tons in 2003. The company sold 331,500 tons domestically and 380,200 tons was exported. The remainder is presumed to have been used internally. Results for Metafrax are not yet known, but at least for the first three quarters of 2004 the Tomsk plant was the leading Russian producer. Independent gas producer Novatek is considering the construction of a methanol plant. The final decision concerning the investment should be known this year.

Ukraine

Linos plans to increase polypropylene production at Lisichansk in 2005 by 1.6%. Also in the Lugansk region the State Property Fund of Ukraine has set up the new closed stock company at Azot Severodonetsk in conjunction with Worldwide Chemical LLC, divided in a 60/40 split. The founding charter capital of the company was 1.56 billion hryvnia. This contract was set up prior to the Orange Revolution and there are some suggestions that it could even be reversed if there is any sign of shady dealings.

Perechinsk Wood Chemical-Combine is the largest producer of ethyl acetate in Ukraine. The company has reached an agreement with Belarus over the supply of ethyl spirit, which will help ethyl acetate exports to Central Europe. In October 2004, the company produced 996 tons of ethyl acetate and 11,666 tons of urea-formaldehyde resins. Perechinsk Wood Chemical-Combine is located 150 km from the Polish border, and 50 km from the Hungarian border

Polystyrene consumption in Ukraine amounted to 38,000 tons in 2004, against 35,000 tons in 2003. Currently, polystyrene consumption per capita is 0.7 kg in Ukraine compared against 15 kg in West Europe. Total polymer consumption in Ukraine in 2004 was around 500,000 tons.

Belarus

In the first eleven months of 2004 the chemical and petrochemical industry in Belarus saw growth of 9.3% over 2003. Fertiliser production was the main driver with an 11.7% increase to 5.075 million tons, including 4.348 million tons of potassium fertilisers which reflected a 12.1% increase. Sulphuric acid production increased 9.3% to 589,000 tons, whilst synthetic resin and plastics production rose 2.7% to 449,500 tons. Fibres and threads production increased 1.5% to 184,000 tons. Paints and lacquer production fell 2.8% to 38,000 tons.

Grodno Azot

At the end of 2004, Grodno Azot called for an open tender for providing 600 cubic metres of gas in 2005, in an attempt to find an alternative supplier to Gazprom. This has not proved successful, with only one bidder for the business, and so Azot may start another tender. The batch of 600 cubic metres of natural gas would

account for around 40% of the company's annual consumption rate, or about five months of stable operations.

Only one Russian company, an affiliate of Gazprom, Gasoil, submitted its tender proposal of supplying gas to Azot in 2005. This tender call was the biggest in the recent years as Grodno Azot is the major industrial consumer of natural gas in Belarus. The share of natural gas supplied to Belarus used for the production of urea and caprolactam amounts for 10% of gas.

In total, 19.11 billion cubic metres of gas will be supplied to Belarus in 2005. The price for per thousand cubic metres agreed by the Belarus government and Gazprom is \$46.68 (the same as in 2004). In its turn, Belarus has agreed with the price of the gas transit across its territory being \$0.75 for pumping 1.000 cubic metres via the Beltransgaz lines and \$0.46 via the Yamal-Europe pipeline.

Central Asia

Turkmenistan

Czech company Etif has started reconstruction of a mineral fertiliser plant at Mary Azot in Turkmenistan. The aim of the reconstruction is the increase in production of both urea and ammonia. The total cost of the project is \$210 million. Etif will construct new installations capable of producing 400,000 tpa of urea and 200,000 tpa of ammonia, and the project is planned to be completed by the end of 2007. As a payment for the construction Etif has acquired the right to export almost all of the production until the costs have been reimbursed. Etif is currently negotiating with some consumers regarding the export of a urea and ammonia.

The Turkmenbashi refinery produced 86,100 tons of polypropylene in 2004, against 75,500 tons in 2003.

The Turkmen government has authorised a Turkish company to build a pipe plant in Turkmenistan. Erku will construct a pipe plant on a turnkey basis that will produce polyethylene, polypropylene, fibreglass and reinforced steel wire thermoplastic pipes for domestic and industrial use. The plant is to be located in Ruhabat district near Ashgabat. The plant should be ready to start production by October 2005.

Uzbekistan

Gazprom sees LUKoil as a potential partner in production sharing agreements for oil and gas projects in Uzbekistan which could provide the basis for any future petrochemical projects. Co-operation between Gazprom and Uzbekneftegaz could expand to co-operation with LUKoil also. Uzbekneftegaz has already approved a project to develop the Kandym oil and gas field, under a production sharing agreement with LUKoil.

In June 2001, LUKoil and Itera signed a preliminary agreement with Uzbekneftegaz for the development of the Bukhoro-Khivinsky oil and gas region and the exploration of the Kungrad block in the Ustyurt region under a production sharing agreement. The total cost of the project is estimated at \$930 million, including foreign direct investment of \$760 million.

However, Itera withdrew from the Kandym project in the middle of last year. Following a proposal from the Uzbek side the Itera stake was divided between Uzbekneftegaz and LUKoil, increasing their stakes to 30% and 70% respectively. According to LUKoil, expected gas reserves in the Bukhoro-Khivinsky region are estimated at 250 billion cubic metres, with 90 bcm of confirmed reserves and 10 million tons of gas condensate. The largest field is Kandym, with over 100 bcm of gas. Production is forecast to reach a maximum of 8.8 bcm per annum.

The project will involve the construction of a gas-chemical complex with a capacity for 6 bcm of gas per annum, at a cost of about \$250 million, in addition to two compressor stations and 200 km of trunk gas pipeline. The possibilities do exist to develop petrochemical capacity at a later stage, with the Chinese market in mind.

China is already becoming important for Uzbek polyethylene exports, with 13,115 tons produced at Shurtan being shipped in the first ten months of 2004 against 590 tons for the whole of 2003. Local market consumption is also growing, albeit from a relatively low base, and thus at some stage in the future new projects will come under consideration. Possibly there is not room for projects in both Uzbekistan and Turkmenistan, and thus much will depend on the determination of either government to take the leading role

in the petrochemical sector. Possibly even more of a threat is Kazakhstan which is currently assessing prospects for building a major petrochemical complex.

Transcaucasus

Vanadzor chemicals complex

The Slovakian company SLZ, part of the Dividend Group, may clinch a deal for stock in Armenia's Vanadzor chemicals complex with its owner Zakneftegazstroj Prometei of Russia in December. A preliminary agreement has already been reached and a deal could be signed during this meeting. The Slovakian company is seeking at least 51% of the chemicals company stock.

The Vanadzor chemicals complex comprises the Vanadzor Chemical Plant, a chemical fibre plant and Vanadzor TES. The Russian company is has invested around \$20 million in developing the enterprise, which has stood idle since 2002.

Nairit

Nairit started production of synthetic rubber on 20 January 2005 based on its new management and ownership structure. The plant had been idle since August 2004 due to debts having been accrued for energy. These debts continue to be restructured and due to the management changes the plant could be running at full capacity soon. Shares in the plant belong to the Armenian Svyaz Bank, the largest creditor of the enterprise.

At the same time Nairit is working in conjunction with the Chinese whereby a new plant is being constructed in China. In 2006, supplies of technology and equipment will be shipped at a cost of \$15-\$20 million.

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