CIREC MONTHLY NEWS
Chemical Industry News for Central Europe, South East Europe and Eurasia
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Czech Republic | Slovakia | Hungary | Poland | Bulgaria | Romania | Croatia | Slovenia | Yugoslavia | Baltic States | Russia | Belarus | Ukraine | Transcaucasus | Central Asia | Kazakhstan
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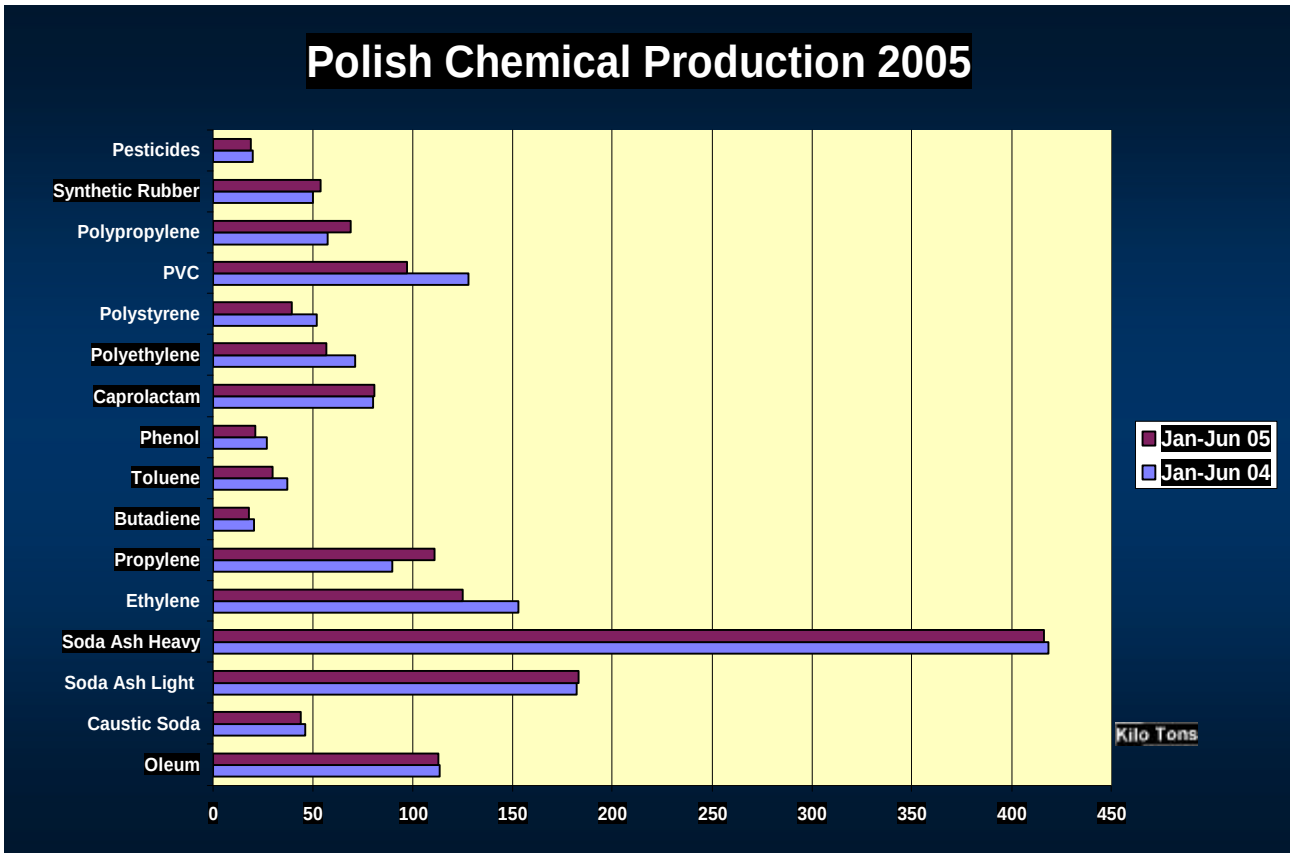
Features from the ninth issue in 2005

- In the first half of 2005, the Unipetrol group raised its consolidated net profit to Kc 1.108 billion from Kc 303.9 million in the same period in 2004. Chemopetrol, Kaucuk, and Spolana and Ceska rafinerska and Unipetrol Rafinerie all posted profits.
- The operating profit of MOL's petrochemical division totalled Ft 13.3 billion in the first half of 2005, an increase of 87% over 2004. This increase was due to the combined effect of a more favourable external environment and the increase in sales' volumes from new capacities.
- BorsodChem increased its sales' revenues by 19.5% in the first half of 2005, but profits were squeezed largely by declining PVC margins. The PVC market saw much lower prices in the second quarter, whilst at the same time the price of ethylene reached €750/ton.
- The development of AKS Holding does not mean any loss of direction for SIBUR's investment programme. For its main feedstock base SIBUR plans to invest 7.740 billion roubles in the first stage of its development of SHFLU processing, and 9.925 billion roubles in the second stage. The programme will allow SIBUR to run its gas processing installations at almost full capacity.
- Kazanorgsintez (KOS) and TNK-BP have reached an agreement over the production of ethane at the Zaykinsk oil field in the Orenburg areas. The two companies have agreed to build a plant for the production of ethane from associated gas, and to build an ethane pipeline of 250 km to link up with the Orenburg-Kazan pipeline (which belongs to Gazprom). The cost of the project is estimated at around $250 million, which Kazanorgsintez plans to cover partially through future Eurobonds.
- On 5 August, Nizhnekamskneftekhim signed a contract with Thomassen Compression Systems for the reconstruction of the compressor for the ethylene plant. Over the next two years, it will be necessary to carry out a large amount of modernisation on the compressor, the process equipment, etc, in order that by 2007 the plant will be capable of producing 600,000 tpa of ethylene.
- Salavatnefteorgsintez has completed its reconstruction of the olefin cracker which started in June 2005. In the revamp, one of the four furnaces has been replaced with the short term aim to replace the other three furnaces.
- PVC consumption in Ukraine increased by an estimated 24% in the first half of 2005 against the same period last year, with the second quarter showing even higher growth of 39%. The imports of suspension PVC grew by 65% in the second quarter, with PVC profiles and panels providing the leading sources of consumption. The main suppliers to the market include Kaustik at Sterlitamak, BorsodChem and the Ukrainian producer Khimprom at Pervomaisk. The market for emulsion PVC has almost doubled in the first half of 2005, with Norsk Hydro being the major supplier.
- The polystyrene plant at Aktau is planned for a restart in late August or September, after initially being targeted for an April/May start-up. On 3 August, the plant received the first 140 cisterms of styrene (equating to 5,642.85 tons), purchased from Nizhnekamskneftekhim.



Poland

In the first half of 2005 the production of ethylene, polyethylene, PVC and polystyrene fell noticeably in Poland measured against the same period in 2004. The main reasons for these falls were due to the shutdown at Plock and the expansion of olefin petrochemical capacity. A downturn was seen in profitability in the second quarter by PKN Orlen partly to the shutdown, and partly due to high feedstock costs which affected the sector in general. However, the second half of the year is expected to see an increase in production volumes following the start-up of new facilities at Plock. BOP is expected to start production of polyolefins in the not too distant future, coupled with ongoing expansions by PKN Orlen. Butadiene production was down at Plock in the first six months of 2005, as were the aromatic streams which affected toluene in particular. Important investment decisions that have been implemented will help to change the output levels in the coming months.

CENTRAL EUROPE

Czech Republic

(Czech crown, Kc, Aug 15, $1 = 23.6135, €1 = 29.399)

PKN Orlen-Unipetrol

In the first half of 2005, the Unipetrol group raised its consolidated net profit to Kc 1.108 billion from Kc 303.9 million in the same period in 2004. Chemopetrol, Kaucuk, and Spolana and Ceska rafinerska and Unipetrol Rafinerie all posted profits.

Chemopetrol, the group's most profitable arm, raised its net profit by Kc 995 million to Kc 1.573 billion in the first half due to a market upswing. Spolana made an after-tax profit worth Kc 162.4 million, while its sales rose by Kc 0.5 billion to Kc 2.996 billion due largely to margins on some products. Kaucuk netted Kc 142 million against Kc 118 million in 2004. Unipetrol Rafinerie and Ceska rafinerska posted net profits worth Kc 83.5 and Kc 144 million, respectively.

Regarding the new ownership, PKN Orlen has increased its mandatory buyout offer to minority shareholders of Unipetrol. The Polish company raised its offer to Kc 135 a share from the previous offer of Kc 103 a share, and Kc 155 to Spolana's minority shareholders against Kc 100. The earlier bids were turned down by

the Czech Securities and Exchange Commission, which has to approve minority shareholder buyouts. According to media reports, PKN Orlen has delayed plans to sell off assets in Unipetrol. As one of the main buyers of the assets Agrofert has claimed that the delay may hit plans for regional consolidation of the chemicals sector. PKN has said it was seeking a new deal with Agrofert. There is talk that PKN Orlen wants to pay a penalty fine for breach of the original deal with Agrofert which was reached in 2003, but the latter would prefer a new deal altogether than receiving the fine. Agrofert has been banking on Kaucuk at Kralupy becoming a key asset, which would be linked to plans for the rubber industry on subsequent Polish privatisation projects, but failure to take control would have an impact on strategy.

Hungary

(Hungarian Forint, Aug 15, $1 = 196.02 €1 = 243.83)

MOL Jan-Jun 2005

The operating profit of MOL's petrochemical division totalled Ft 13.3 billion in the first half of 2005, an increase of 87% over 2004. This increase was due to the combined effect of a more favourable external environment and the increase in sales' volumes from new capacities. In the first half of 2005, the dollar naphtha price increased by 31%, but this was compensated by the 21-25% growth in euro quoted polymer prices and also the strengthening euro against the dollar. As a result, MOL's petrochemical margin, from its combined operations, in Hungary and Slovakia increased by 24%. The overall position tends to conceal the downturn in the second quarter when prices of polymers fell against Q1, whilst naphtha prices simultaneously continued to rise.

MOL's Petrochemical Sales in 2005 (combined Hungary and Slovakia, unit kilo tons)

	Q1 04	*Q2 04*	*Q1 05*	*Q2 05*
Olefins	46	54	54	57
Polymers	215	228	224	272

In H1 2005, MOL's polymer sales reached 496,000 tons, an increase of 12% compared to the same period of 2004. The most significant growth was seen in HDPE, mainly as a result of the new HDPE plant start-up at TVK. The structure of polymer sales has subsequently changed, with the share of HDPE sales in total sales rising to 32%, with LDPE accounting for 29% and polypropylene 39%. The start-up of new polypropylene plant at Slovnaft did not have a significant impact on MOL's sales' figures. The test run on the new plant was in progress and the filling up of commercial stocks had only just begun.

MOL Group's export sales increased by 68,000 tons largely due largely to the new capacities. The sales of olefin products also increased by 11%, due to the start-up of the new olefin plant at TVK.

In H1 2005, MOL's capital expenditure fell compared to 2004, as the construction of new plants was for the most part completed. At the end of 2004, the test run of the Olefin 2 plant in TVK was started and the HDPE 2 plant was put into operation. At Slovnaft, the new polypropylene plant was mechanically completed in the first quarter, and the test run is in progress. Through these projects MOL Group ethylene capacity has increased by 42% to 839,000 tpa, while total polymer capacity has increased by 41% to 1,281,000 tpa.

TVK Jan-Jun 2005

TVK recorded a net income of Ft 1.55 billion in the second quarter of 2005, a fall of 17% compared to 2004. Following a strong first quarter, net income for the year to date was still up 62% to Ft 6.9 billion. TVK was affected in the second quarter by an increase in raw material prices, whilst at the same time prices of the company's products declined.

Notwithstanding, TVK was still able to increase its sales' revenues by nearly 30% due mostly to the new capacities that came online in late 2004. The price level of feedstock for pyrolysis continued to rise during the second quarter; with naphtha and gas oil were 4% and 10% higher respectively against the first quarter.

In the first half of 2005, the integrated petrochemical margin calculated in Ft and in € increased by 20% and 24% respectively, compared to 2004. In Q2 2005, the integrated petrochemical margin declined significantly against Q1 following the increase in pyrolysis feedstock prices and the simultaneous fall in polymer product prices. In H1 2005, the volume of polymer products produced was 49,000 tons higher than in 2004. The volume of olefin products produced in house and sold grew by 136.000 tons owing to the start of production in the new Olefin Plant. In the second quarter, under full cover of monomer demands of the polymerisation units, the sale of merchant propylene started.

TVK's Sales by Domestic and Export Revenue (Ft million)
(Hungarian Forint, Aug 15, $1 = 196.02 €1 = 243.83)

	2005 *Domestic*	2005 *Export*	2004 *Domestic*	2004 *Export*
Olefin	31,205	1,609	18,636	0
LDPE	5,344	7,964	5,511	5,724
HDPE	4,831	29,062	4,240	13,695
PP	15,313	16,081	11,803	14,158

The sales' revenues of TVK Rt. reached Ft 113,919 million in H1 2005, which represented an increase of 49% compared to 2004. The sales income of the parent company (TVK Rt) represented the majority of TVK group level sales. In H1 2005, the unconsolidated sales of TVK Rt. rose by Ft 37,639 million compared to 2004, including increases of Ft 23,464 million and Ft 13,638 million in the polymer and olefin divisions respectively. Polyethylene sales grew by 53,900 tons whilst polypropylene fell by 5,300 tons.

BorsodChem's Sales' Revenues H1 2005
(Hungarian Forint, Aug 15, $1 = 196.02 €1 = 243.83)

Product	***H1 05 (Ft mil)***	***H1 04 (Ft mil)***
PVC resin		
Domestic	2,384.8	2,377.4
Export	19,995.3	19,184.2
Subtotal	**22,380.1**	**21,561.6**
PVC compounds		
Domestic	536.1	355.8
Export	2,098.6	2,518.6
Subtotal	**2,634.7**	**2,874.6**
MDI products		
Domestic	165.5	59.9
Export	15,137.3	10,708.5
Subtotal	**15,392.8**	**10,768.4**
TDI products		
Domestic	560.4	681.3
Export	14,449.5	11,623.5
Subtotal	**15,009.9**	**12,304.8**
Caustic soda		
Domestic	1,737.1	1,063.7
Export	1,627.9	794.9
Subtotal	**3,365.0**	**1,858.6**
Aniline		
Export	**6,271.7**	**6,271.7**
Plastic semi-finished and finished products		
Domestic	2,154.3	2,765.0
Export	3,616.6	3,220.0
Subtotal	**5,770.9**	**5,985.0**
Other products		
Domestic	5,021.5	4,649.9
Export	10,971.4	7,947.0
Subtotal	**15,992.0**	**12,596.9**
Total sales	86,728.0	*72,564.9*8
Domestic sales	12,559.7	11,953.0
Export	74,168.3	60,611.9

BorsodChem Jan-Jun 2005

BorsodChem increased its sales' revenues by 19.5% in the first half of 2005, but profits were squeezed largely by declining PVC margins. The PVC market saw much lower prices in the second quarter, whilst at the same time the price of ethylene reached €750/ton. The MDI market continued to be demand driven with prices of both crude and pure MDI reaching record levels. This was due to limited supply. A reverse trend was seen in the TDI market, where the slight oversupply situation resulted in lower prices.

In addition to petrochemical feedstock cost rises, high electricity and natural gas prices in Hungary have been creating a competitive disadvantage for BorsodChem. The capacity utilisation of BorsodChem's production lines was high in the first half of the year, and the capacity expansions completed last year resulted in substantial increases in the production of VCM, PVC and TDI. The only fall was seen in MDI production, which ran at 93% of the 60,000 tpa plant capacity, in the first six months of 2005.

BorsodChem noted that the price of ethylene was €745/ton on average in H1 2005, which represented an increase of €151/ton against H1 2004. The price of PVC resin was €878/ton on average, which is €93/ton higher than in the same period of 2004 and meant that the margin between PVC and ethylene prices fell by €58/ton compared to 2004. This is despite the strong performance in Q1. Aniline prices followed benzene prices which on average were €178/ton higher at €698/ton.

Financial performance

In H1 2005, the BorsodChem Group increased sales' revenues by 19.5% up to Ft 86,728 million compared to the same period in 2004. Q2 sales' revenues reached Ft 45 billion, with increased sales' revenues being driven by higher MDI sales' prices. TDI and PVC capacity expansions also contributed to the sales. Sales' revenues from aniline rose by 35.9%, along with 16.4% growth in sales' volumes. Combined sales' revenues of other products increased by 27%, mainly due to the expansion of BC-MCHZ's cyclohexylamine production.

The Group attained a gross margin of Ft 24,366 million, which is 26.5% more than in 2004. Gross margin ratio improved to 28.1% from 26.5%. The company's EBIT margin exceeded 10% in H1, whilst the EBITDA margin was 16.6%. This was in spite of a steady fall in PVC prices within the quarter. As the company had expected and indicated beforehand, repeating the outstanding Q1 performance was not possible due to the changes in the product market.

The BorsodChem Group achieved a Ft 9,388 million operating profit in the period January-June 2005, although Ft 5.7 million of that total was achieved in the first quarter. In total, the first half year's operating profit was up 10.8% compared to 2004. Second quarter performance in 2005, showing an operating profit of Ft 3,707 million, through high capacity utilization and cost-saving business activities. Other factors included a spectacular improvement in MDI and caustic soda margins.

Exports accounted for 85.5% of total sales in the first half of the year. The geographical breakdown of BorsodChem's sales was divided between domestic/Central & East Europe combined 46.7%, West Europe 49.1%, and others 4.2%. By contrast to last year, sales to the Far East accounted for less of the total.

Capital Expenditure Projects
The main focus of BorsodChem in the first six months of this year were centred on plant investment. This included work on the new MDI Plant, the VCM capacity expansion, the PVC capacity expansion, and the new chlorine Plant which is expected to be completed by Q1 2006. In H1 2005, the company's capital expenditure amounted to Ft 20.5 billion, Ft 3.0 billion of which was undertaken through consolidated subsidiaries. Following a successful trial run on 30 June, BC-MCHZ's aniline capacity expansion was completed, rising from 110,000 tpa to 150,000 tpa. BorsodChem's aniline facility is able to supply feedstock to the 100,000 tpa capacity new MDI plant on a trial run.

Other BorsodChem news
After BorsodChem analysed the financial situation at the Polish company Zachem for privatisation, it has decided not to take the matter further. The Polish government wishes to complete Zachem's sell-off by the end of 2005. Zachem produces 60,000 tpa of TDI, covering 10-12% of Poland's demand.

BorsodChem announced that from 1 August 2005 that it had terminated its 10,000 tpa expandable polystyrene unit. BorsodChem stated that the unit was considered to be inefficient, whilst at the same time its long term plans do not include investment into styrene or polystyrene.

A small fire and a gas leak occurred at the BorsodChem-MCHZ plant at Ostrava in early August, which will cost around Kc 500,000 to repair. The amount of gas that escaped was not dangerous and the accident will not alter plans for the aniline-producing plant.

Poland

(Polish zloty, zl, Aug 15, $1 = 3.2537, €1 = 4.4073)

Nafta Polska

By 25 August, offers will be finalised by Nafta Polska for the purchase of shares in four Polish state chemical companies. The next stage will be to create a list of companies which will move forward to the final process of privatisation.

A total of 17 offers were received by Nafta Polska,, of which six were for Zachem SA, four for ZCh Organika-Sarzyna SA, three for ZA Tarnow-Moscicach SA and four for ZA Kedzierzyn SA. BorsodChem elected not to take Zachem further, and Ciech could possibly now be the favourite bidder for this complex and also ZCh Organika-Sarzyna SA.

From the sale of four companies Nafta Polska expects to receive substantial funds. Each of the four companies possesses a unit or units which are of special interest to bidders, such as oxo alcohols at Kedzierzyn, caprolactam at Tarnow, or TDI at Zachem. Zachem's Bydgoszcz 30,000 tpa epichlorohydrin unit is also of interest. The unit was closed in April for a major revamp to coincide with the Orlen cracker outage and expansion. The Zachem epichlorohydrin plant sources its propylene feedstock from the Orlen cracker.

PKN Orlen Jan-Jun 2005

PKN Orlen's petrochemical division achieved a turnover of zl 205.333 million in the second quarter of 2005, compared against zl 142.709 million in the first quarter. The revenue on petrochemicals dropped by zl 146,938 thousand (11.4%) with a decline in the volume of sales to external customers (by 13.4%), which was attributable to a maintenance shutdown of Olefin II. The shutdown was necessary due to the upgrade which is doubling the plant's capacity. Ethylene and propylene production need to be increased to meet the demand which will be posted by the new polyethylene and polypropylene plants currently being developed by BOP.

PKN Orlen's Production (unit-tons)

Product	*Jan-Jun 05*	*Jan-Jun 04*
Propylene	63,181	65,322
PVC	79,702	105,552
Ethylene Glycol	40,897	50,199

ZCh Police

In the second quarter of 2005 ZCh Police SA recorded a profit of $33 million, together with a net profit of $8.8 million. Sales amounted to $145 million. The company has been involved in discussions with the Polish company Prochem on how to modernise the titanium white facility. This project is considered of strategic significance for the company, and is valued at around $80 million. Capacity will be increased to 65,000 tpa as a result of the investment which should be completed in the middle of 2008.

Total costs of all projects for ZCh Police amounts to around $163 million, of which around $50 million is intended for a new methanol plant. Methanol is not produced domestically in Poland and imports amount to around 300,000 tpa. The main aim of the investment programme of the company is the increase in capacities, with a simultaneous depreciation of production and reduction of harmful influence by an environment.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

(Rus rouble Aug 15, $1 = 28.310, €1= 35.215)

In the first half of 2005, exports from the chemical and petrochemical sectors comprised 5.9% of the total $109 billion that Russia achieved through exports. Most of the exports in the chemical sector consisted of fertilisers. Methanol exports fell by 16.1% to reach a total of 746,800 tons, ammonia fell by 1.3% to 1.511 million tons and synthetic rubber exports amounted to 314,100 tons. Imports for the first half of 2005 comprised 18.9% of the total $42.5 billion.

In the first seven months of 2005 Russia produced a total of 1.9 million tons of plastics and resins, which was 3.5% lower than the same period in 2004. Possibly the main reason for this slight fall has been the tight feedstock situation at Kazanorgsintez. Synthetic rubber production increased by 4.5% to 668,000 tons, whilst fibre output fell by 18% to 94,000 tons.

SIBUR/Gazprom

SIBUR Jan-Jun 2005

In the first half of 2005, SIBUR processed a total of 5,916 million cubic metres of associated gas against 5,419 million cubic metres in the same period of 2004. The holding processed 1,341,000 tons of wide fractions of light hydrocarbons (SHFLU) against 1,523,000 tons in the first six months of 2004. In total, the SIBUR group produced 5,882,000 tons of various chemical products, which represented a 4.9% increase over 2004.

SIBUR's turnover increased to 48,171 million roubles in the first half of 2005 against last year's 40,072 million roubles (a 20.2% increase on 2004). The domestic market accounted for 70% or 33,746 million roubles of the company's total sales (29,639 million roubles in 2004). SIBUR's gross profit totalled 10,820 million roubles in the first six moths, reflecting an 88.6% increase over 2004 (5,736 million roubles).

New company AKS Holding

The new company AKS Holding was founded on 1 July 2005 by SIBUR and a number of its subsidiaries, as part of the capitalisation of SIBUR's debt to Gazprom. The new company will receive all of SIBUR's liquid assets in exchange for a write-off of its debts to Gazprom affiliates, which amounts to 40.1 billion roubles.

SIBUR Total Production Jan-Jun 2005

Production	*H1 05*	*H1 04*
Monomers & Monomer Fractions	957	949
Polymers	431	373
Synthetic Rubber	235	233
Organic Chemicals	420	376

As from 1 January 2006, the assets and also the economic activity of SIBUR will be transferred to AKS Holding. Gazprom will take 100% of its stock, and the only guarantee its creditors will have of receiving payment will be the goodwill of Gazprom. Under current thinking SIBUR will sell its contracts to AKS Holding on 31 December 2005, and transfer the credits drawn under them. The next loans will be taken out by AKS Holding.

Feedstock Investments

The development of AKS Holding does not mean any loss of direction for SIBUR's investment programme. For its main feedstock base SIBUR plans to invest 7.740 billion roubles in the first stage of its development of SHFLU processing, and 9.925 billion roubles in the second stage. The programme will allow SIBUR to run its gas processing installations at almost full capacity. By 2010, the capacity for SHFLU is planned to increase to 5.35 million tpa, from 4.05 million tpa in 2004. In addition to an increase in the production of SHFLU there will also be an increase in the capacity of gas fractionation facilities, for which 1.159 billion roubles has been allocated. At Tobolsk, one of SIBUR's main feedstock locations, gas fractionation capacity will increase from 2.1 million tpa to 2.5 million tpa.

SIBUR on 15 July 2005 started a new compressor station at its Yuzhno-Balyksky gas refinery that will boost capacity 50% to 1.5 billion cubic metres per annum. It will also allow Yuzhno-Balyksky to sell to new customers as the refinery is now capable of injecting gas into Gazprom's pipeline network. Until now, the refinery has only been able to sell gas to the Surgut power plant, which needs less of the fuel than the Yuzhno-Balyksky refinery can produce.

The project will allow SIBUR to start processing petroleum gas from the Priobskoye field operated by Yugansk-neftegaz, which pumps more than 10% of Russia's oil. Yugansk was taken over by Rosneft in December 2004 after the government confiscated the unit from YUKOS. SIBUR also started running a liquefied petroleum gas unit at its Gubkinsky gas refinery in Siberia on 14 July. The new unit will allow production of 300,000 tpa of LPG.

Tobolsk-Neftekhim

Tobolsk-Neftekhim is considering plans to undertake the construction of a polypropylene project, following two years of close review and assessment. Initially a feasibility study will be required before the project can progress to the stage when tenders and contracts might be considered. The construction of a polypropylene plant would seem to be in he interests of not only Tobolsk-Neftekhim, but also SIBUR and the local Tobolsk administration.

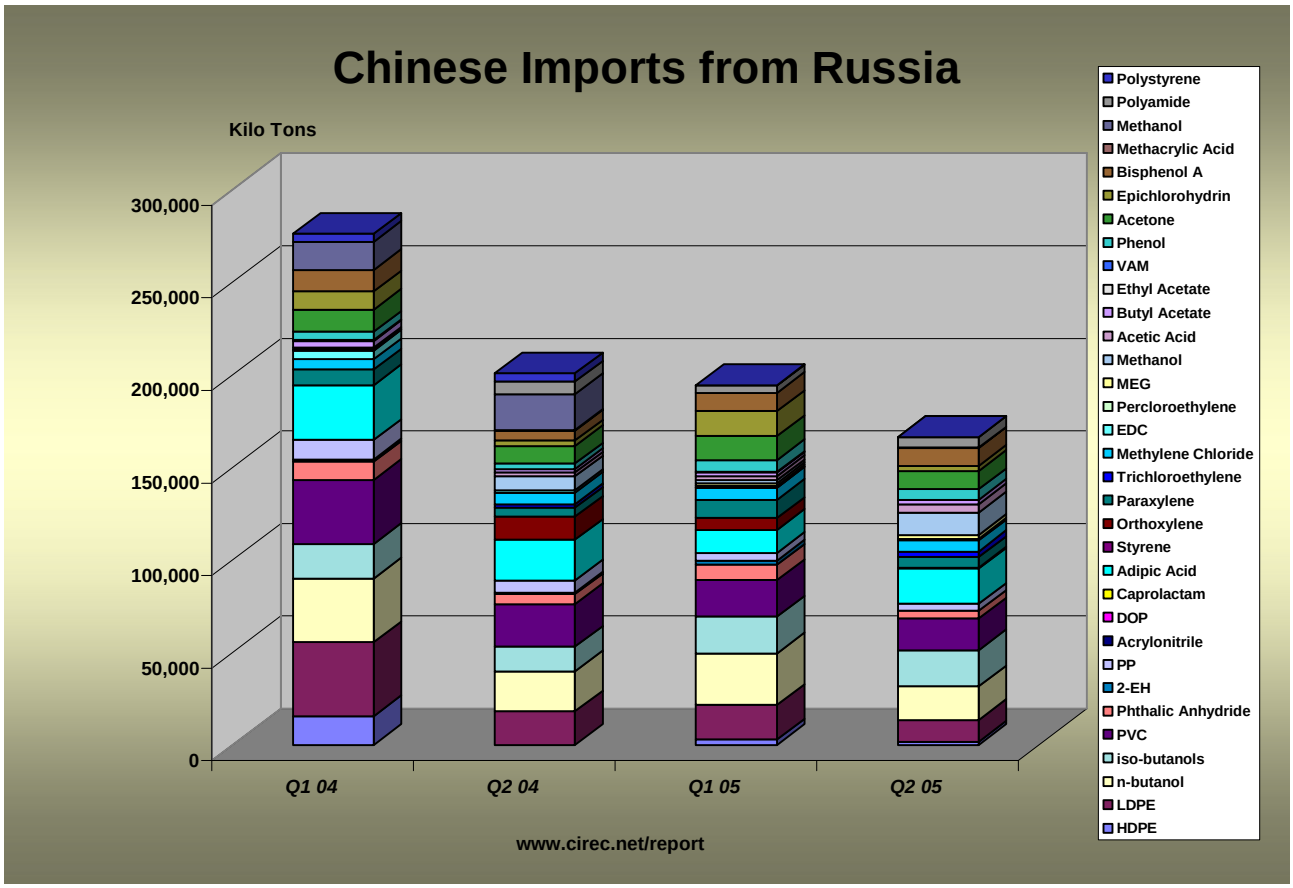
Polypropylene has long been considered as an option at Tobolsk, particularly since the early 1990s in various disguises, but until now such a project has been faced with the main problem of producing propylene on purpose. However, there are new ideas to construct a pyrolysis unit for ethylene and propylene production, which would lead to new capacities for polyethylene and polypropylene. Capacities have been suggested at 400,000 tpa and 150,000 tpa respectively. These projects are currently being evaluated by institutes, with a general cost estimate in the range of $700 million.

SIBUR subsidiaries

Major subsidiaries SIBUR-Khimprom and SIBUR-Neftekhim showed steady increases in production volumes in the first half of 2005 against the same period last year. SIBUR-Khimprom increased production by 11%, with ethylbenzene and styrene production which increased 17% and 6% respectively. SIBUR-Neftekhim increased feedstock processing by 8.5% in the first half of 2005, reaching a total of 341,743 tons of hydrocarbons. Ethylene production at Kstovo increased by 13.6%, propylene by 11.3% and benzene by 13.1%. Merchant ethylene oxide production from Dzerzhinsk increased by 33.5%, but falls were noted in chlorine production of 2.2% with PVC and plasticizer production falling by 1.2% and 17.8% respectively. These falls were due to maintenance outages. Production numbers are available at www.cirec.net/report.

Tyres
SIBUR–Volskhiy has developed an investment project for the production of polyester cords for the tyre industry. The capacity of the new plant is planned for 11,000 tpa and the investment decision has been taken due to the fact that the Russian tyre market is growing at a level of around 8% per annum. This is seeing a strong growth in usage of polyester cords, which are about a third less expensive than polyamide cords.

SIBUR has now officially launched the new Cordiant line which is supposed to be SIBUR's new flagship brand. SIBUR expects Cordiant to lay the foundation stone for the future success of the new tyre holding company which is due to be founded by the end of this year. SIBUR also plans to use its modified brand strategy to focus more closely on the European markets, with the first successful step having already been taken in East Europe.



Tatarstan

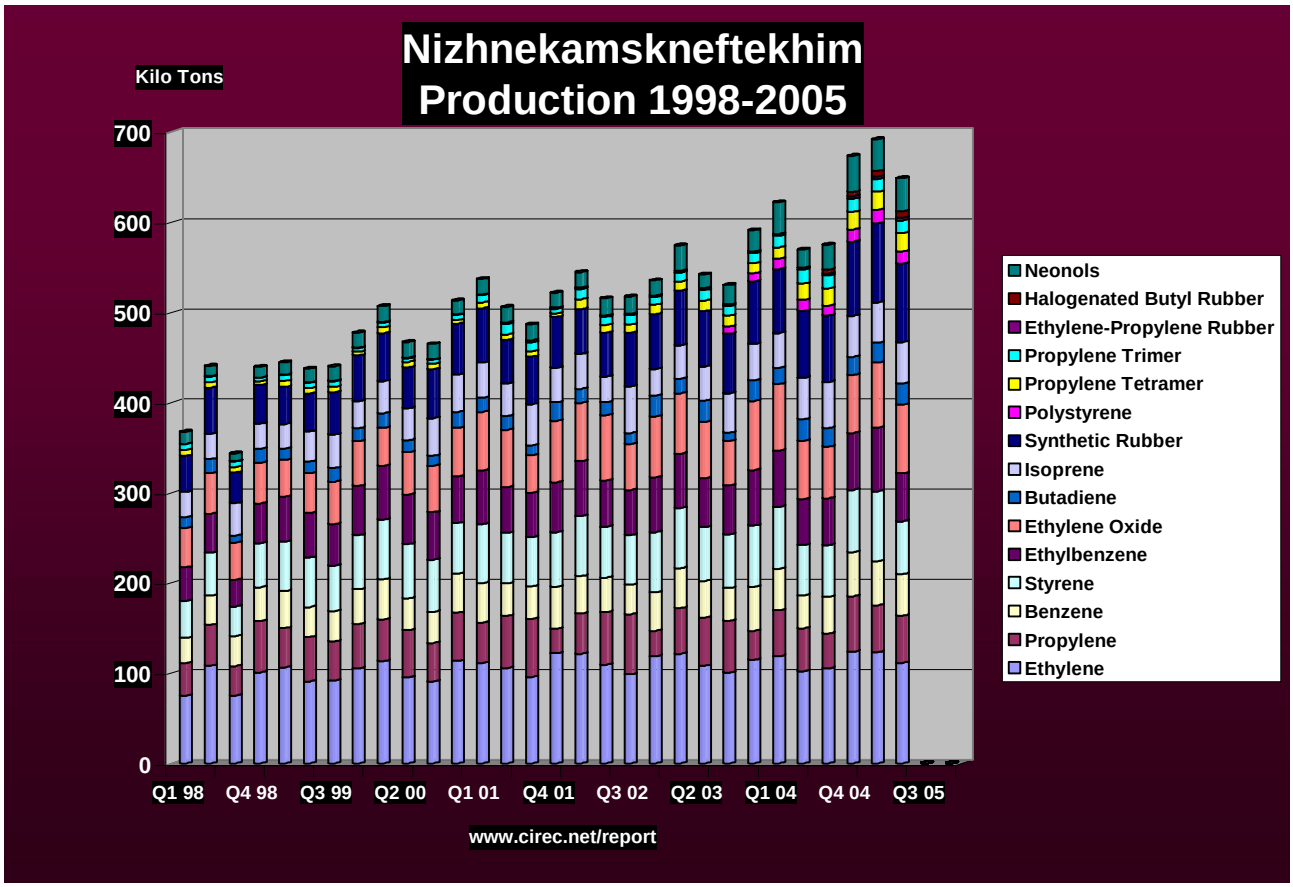
Energy
Nizhnekamskneftekhim, Kazanorgsintez, and Nizhnekamskshina have concluded individual energy-saving programmes for the period 2006-2010. Problems have until now existed in the relations between the local energy monopolist Tatenergo and the large energy consumers, insofar Tatenergo supplies thermal energy at state-approved prices. These prices are mostly too high for large industrial producers.

Thus, major consumers such as chemical producers have been forced into strategies of building their own heat plants, or creating their own sources of energy. This situation will help to reduce the competitiveness of the Tatarstan power supply system, a large part of which was initially intended to meet petrochemical needs. Conversely, individual power plants developed by chemical plants are often less effective than those operated by Tatenergo. This contradiction has been resolved by Nizhnekamskneftekhim though the establishment of a joint venture with Tatenergo on the basis of Nizhnekamsk thermal power plant and equip it with advanced equipment. This project will enable Nizhnekamskneftekhim to buy power at cost price rather than at the tariffs fixed from above. Kazanorgsintez is expected to follow suit.

New refinery/petrochemical complex
In the near future, it is thought that the Tatar-Korean Petrochemical Company will be liquidated following the independent moves by Tatneft to create its own refining and petrochemical complex at Nizhnekamsk.

Tatneft and Svyazinvestneftekhim (SINKH) plan to set up a new company in September to cover this complex. SINKH has confirmed its participation in the new company with Tatneft. The project at Nizhnekamsk includes the introduction of a refinery with a capacity of 7 million tpa, another deep refining unit of 3.5 million tpa and a petrochemical plant with an aromatics capacity of 900,000 tpa. Construction of the refinery is expected to be completed in 2008, with all other projects completed by 2010. The source of finance is expected to come largely from Tatneft.

Nizhnekamskneftekhim



Performance in Jan-Jun 2005
Nizhnekamskneftekhim increased its turnover by 45.7% in the first half of 2005 to reach 19.365 billion roubles. Gross profits rose 66.5% to reach 2,547 billion roubles.

Production of most petrochemicals increased in the first half year, with ethylene rising by more than 14,000 tons compared against the same period in 2004. Production of propylene based chemicals such as tretramers and trimers saw good increases, whilst relatively new products such as polystyrene and halogenated butyl rubber added to the increasing volumes for Nizhnekamskneftekhim. Full data for the first and second quarters of 2005, together with historical data, is available from the database at www.cirec.net/report.

Energy
From 2000 to the first half of 2005, Nizhnekamskneftehim saved 564.3 million roubles due to the corporate power saving programme. For the period, 402 power saving measures allowed the company to save 1.3 million gigacalories of heat energy, 99.78 million kW/h of electric power, and 73,800 tons of fuel equivalent. The ratio of power expenses to product costs fell to 20.1% from 23.1%. so these developments are having a

clear effect on profit margins. New high-tech facilities featuring helping to reduce power consumption have been set up for the halobutyl rubber, polystyrene and polypropylene units.

Nizhnekamskneftehim is the largest power consumer among Tatarstan's manufacturing companies. It consumes 10% of all electric power, and 30% of all heat energy generated by Tatenergo. In 2004, the company consumed 2.2 billion kW/h of electric power, 9.5 million gigacalories of heat energy and 495 million cubic metres of natural gas. Combined costs to buy these power resources totalled 5.7 billion roubles.

Technology Improvements
On 5 August, Nizhnekamskneftekhim signed a contract with Thomassen Compression Systems for the reconstruction of the compressor for the ethylene plant. Over the next two years, it will be necessary to carry out a large amount of modernisation on the compressor, the process equipment, etc, in order that by 2007 the plant will be capable of producing 600,000 tpa of ethylene.

Emerson Process Management has been selected by Nizhnekamskneftekhim to supply its PlantWeb digital plant architecture throughout the complex, after a successful introduction at the styrene and polyether plant. The PlantWeb digital plant architecture will enable Nizhnekamskneftekhim to run plants with reduced supervision by using digital automation. Since the introduction of PlantWeb the yield at the styrene and polyether plant, which had previously experienced quality issues, has had no rejections or quality issues and productivity of the styrene plant has improved by 12%.

Projects at Nizhnekamsk
On 2 August, Nizhnekamskneftekhim and Tecnimont signed an agreement regarding the supply of equipment for the 230,000 tpa project for HDPE. All contracts for the project are expected to be concluded in September. The project will be based on Basell license. Nizhnekamskneftekhim recently announced that it is considering the construction of an ABS plant and a suspension polystyrene plant in conjunction with BASF.

Kazanorgsintez

Ethylene
Technip has been awarded an ethylene capacity expansion project by Kazanorgsintez. The contract involves the modernisation and expansion of capacity of three existing ethylene plants at Kazan. The combined capacity of the three plants will be increased from 400,000 tpa to 605,000 tpa through the combined process of debottlenecking, modernisation and in one of the plants the installation of a new double-cell ethane cracking furnace. Technip is carrying out the basic engineering for the ethylene capacity expansions, in addition to the complete engineering and supply of the new furnace. The capacity of the furnace will be 135,000 tpa.

The expansion of the ethylene plants will be based on Technip's in-house technology and the furnace will be designed using Technip's proprietary SMK®* technology, which is characterised by high selectivity and long on-stream time. Technip's office in the Netherlands will provide the technology for the expansion and perform the engineering and supply of the furnace and provide advisory services for the construction/start-up phase.

From 1 January 2006 Kazanorgsintez will halt the production of PE-63 polyethylene pipes due to changes in global specifications, and will focus more on PE-80 pipes. Kazanorgsintez has started work the introduction of PE-100 pipes which are used for gas pipelines.

Finance
Kazanorgsintez has confirmed plans to issue Eurobonds worth up to $200 million in September or October 2005. The bond will have a maturity of no more than five years and would be issued by Kazanorgsintez, which is registered in Luxembourg. Furthermore, the board of directors has approved modification in the existing credit contract with ABN AMRO in Germany and the Netherlands. The changes brought in the credit contract, provide for additional credit worth €17,780 million. The funds will go towards investment in polyethylene, to support the contracts with Technip Benelux, and to support investments in ethane supply.

Kazanorgsintez increased turnover by 20.6% in the first half of the year to reach a total of 6.669 billion roubles, with a 1% increase in gross profit to reach 1.585 billion roubles.

Ethane developments
Kazanorgsintez (KOS) and TNK-BP have reached an agreement over the production of ethane at the Zaykinsk oil field in the Orenburg areas. The two companies have agreed to build a plant for the production of ethane from associated gas, and to build an ethane pipeline of 250 km to link up with the Orenburg-Kazan pipeline (which belongs to Gazprom). The cost of the project is estimated at around $250 million, which Kazanorgsintez plans to cover partially through future Eurobonds.

KOS is the main ethylene producer in Russia which depends heavily on ethane, but this trend is growing in place of more traditional feedstocks such as naphtha and gas oil. According to KOS, the total potential of the Orenburg region for ethane extraction consists of around 2 million tons per annum. The ethane pipeline to Kazan can currently manage 700,000 tpa but it could be stretched to reach 1.1 million tpa.

The Orenburg helium plant, which suffered a major explosion in August 2004, is not expected to fully restart ethane deliveries to KOS until the end of 2005. Until last year, KOS took 400,000 tpa of ethane from Orenburg of its total requirement of 475,000 tpa. After the explosion ethane supplies from Orenburg to KOS were reduced from 35,000 tons per month to 12-14,000 tons per month. As a result, KOS has been forced to increase purchases of ethylene from other sources.

Evrokhim

In the first half of 2005 Nevinnomyssk Azot produced 469,900 tons of fertilisers which was 11.4% higher than in the same period last year. Urea production increased 11% to reach 306,500 tons. In the organic division butyl acetate increased 19.4% in the first half of 2005, with butanol acetic acid production increasing 6.1%. Acetic acid production remained unchanged.

Another Evrokhim subsidiary Novomoskovsk Azot, increased fertiliser production 22.3% in the first half of 2005, reaching a total of 362,520 tons. Modernisation has been carried out at Novomoskovsk this year, but even so ammonia production increased 20.6% and urea 23.8%.

Methanol production at Novomoskovsk increased 23.3% to total 199,120 tons, whilst nitric acid rose 18% to 484,000 tons. Liquid chlorine production fell 8.5% following the outage in May (due to the Moscow blackout) to reach 18,680 tons, whilst caustic soda fell 0.5%. VCM production increased 7.4%, whilst acetylene rose 2.3% to reach 7,240 tons. The Evrokhim subsidiary produced a total of 13,940 tons of finished plastic products, 7.4% up on 2004.

Bashkortostan

Salavatnefteorgsintez
Salavatnefteorgsintez has completed its reconstruction of the olefin cracker which started in June 2005. In the revamp, one of the four furnaces has been replaced with the short term aim to replace the other three furnaces. Old furnaces of type SRT-1 have been maintained for more than twenty years, and have become expensive to run. Aging equipment has led to raised consumption of power resources and a subsequent fall in the production of ethylene.

The company has selected SRT-VI technology from ABB Lummus Glodal to make the necessary replacements of the three furnaces. The new furnace installed in June has already seen ethylene production rise to 808 tons per day in the first days of work of installation development ethylene has increased to 808 tons day, in addition to reduce energy costs and emissions in the atmosphere.

LUKoil-Neftekhim

LUKoil-Neftekhim produced a total of 1.15 million tons of petrochemicals in the first half of 2005, 4% up on the same period in 2004. This included 210,000 tons of HDPE at the two plants at Budyennovsk and Kalush (11% up), 122,000 tons of VCM at Kalush (4% up), and 14,000 tons of MMA at Saratov.

Stavrolen
Stavrolen has recently completed the reconstruction tests and commissioning of two pyrolysis furnaces which have been converted to ethane. This increases the volume of processing of gas raw materials at

Stavrolen to 90,000 tpa, and subsequently reduces the amount of naphtha used in petrochemical production. The effects will be to reduce costs of ethylene. The total amount of investment into this modernisation programme amounted to nearly 90 million roubles, with a payback of less than two years. Engineering, delivery and the chief-installation of the additional equipment have been carried out by Linde. LUKoil-Neftekhim plans eventually to increase gas processing at Budyennovsk to 360,000 tpa, which would eliminate the need for naphtha completely.

Product/Company News

Propylene/Polypropylene

At the start of August SIBUR and LUKoil-Neftekhim discussed carrying out of joint research on the creation of a complex on manufacture propylene and polypropylene. The two groups have decided to create a working group to study the problem due to perceived and real shortages in the market of polypropylene, and propylene monomer. With the emphasis on new ethylene production in Russia being based on ethane or LPGs, it is not clear which will be the main sources of propylene monomer in future. Thus, both groups have agreed to review the position and to see what possible strategies are required to meet the predicted shortfall.

Omsk Kaucuk reports that it will soon start the construction of the new polypropylene plant, following the agreement signed between Omsk company Titan and Tecnimont in April 2005. The main issue is propylene supply which is available at Omsk, and the company's own power resources. At least the latter problem has been resolved Omsk Kaucuk has put into operation its own thermal power station.

The new polypropylene plant at Omsk is planned to have a capacity of 180,000 tpa, with the aim of producing shock-resistant and heat-resistant polypropylene. The cost of the project is estimated at $160 million with a project completion date planned by the end of 2006. Titan was created in 1989 and is part of the structure Ekoil which produces MTBE at Omsk Kaucuk.

Omsk based group Titan has signed an agreement for the construction of a polypropylene plant in China, in the Harbin region. The company also plans to build a synthetic rubber plant, although no details have been decided yet.

Caprolactam

Azot at Kemerovo undertook a maintenance programme in July which included work on the gas pipeline, whilst the most important project involved work on the units for DMFA and caprolactam. Azot Kemerovo is considering a 10-year programme of investment which includes three main targets. These involve supporting current production capacities, cutting the heat and electrical energy costs and new facilities construction. The estimated investments required to implement the programme amount to $60-80 million. In order to cut the energy costs, the programme assumes the construction of the company's own steam boiler and revamp of the power-intensive shop where hydrogen used for caprolactam production is produced.

The programme also provides for construction of new facilities to produce melamine (used to make polymer resins. The construction is expected to begin in January 2005. The construction period is likely to last for 3 years; the first products are to go out in 2007. 1.114 billion Roubles are expected to be spent in 2005 out of the total amount of capital investments. Benzene supply for Azot's caprolactam production largely comes from the West Siberian metal works which supplies around 4,000 tons/month, with Azot's total monthly demand at 4,500 tons.

In the first half of 2005. Kuibsyhevazot's turnover increased by 57.6% over 2004 to reach 6.65 billion roubles. The increase was due to the introduction of new products and the higher prices for existing commodities. Gross profits grew 1.6 fold to reach 1.07 billion roubles. Profitability at the complex increased to 18.4% against 17% in the same period last year. Kuibyshevazot increased caprolactam production by 9.1% in the first half of 2005 (see data at www.cirec.net/report). Polyamide-6 production increased 46.2% over 2004.

Ammonia production fell due to the modernisation shutdown that took place in February. Since the start of 2005 Kuibyshevazot has been involved in the modernisation of the caprolactam unit with the aim of reducing costs and stabilizing quality. The construction of the second polyamide-6 plant which started in June 2004 is expected to be completed by the first half of 2006. In response to the growing production of caprolactam

and polyamide-6, and also to the requirement of external buyers, Kuibyshevazot has been forced into an increase in the development of technical gases and the supply of hydrogen.

Belarus

In the first half of 2005 chemical and petrochemical production in Belarus increased by 5.9% over the same period last year. A total of 278,700 tons of synthetic resins and plastics were produced, which was up 4% on 2004. Fibre and thread output increased by 4.7% to 113,200 tons, whilst paint materials increased 0.3% to 20,700 tons.

Polimir
Belneftekhim has proposed the construction of a new MEG plant at the Polimir complex at Novopolotsk. This project is seen as part of the development of the country's own raw material base for the fibre sector. Together with paraxylene, MEG is the main raw material required by Mogilevkhimvolokno, for which at present there is almost exclusive dependence on Russian suppliers.

In addition to the MEG project, Polimir is considering the construction of a polyethylene and polypropylene plant based on the existing EP-250 cracker. The total cost of the construction of new polyolefin plants and the new MEG plant has been estimated to cost a total of around $840 million. Polimir has developed a modernisation programme for the 2005-2015 period. The programme involves the creation of new polymer plants and the reconstruction of the energy sources for the complex.

Ukraine

(Ukrainian hryvnia, Aug 15, $1 = 4.970, €1 = 6.1822)

Karpatneftekhim
At the end of July the Kalush District Court of the Ivano-Frankovsk region issued a ruling about the arrest of the assets belonging to Oriana. These assets are part of Lukor and its new company name Karpatneftehim. The court decision was made after the local branch of Internal Ministry charged that Lukor brought economic damage to Oriana in amount of $3.6 million. LUKoil-Neftekhim and Lukor have assured that they know nothing about the charges. The government has doubts about legitimacy of transferring Oriana assets to Karpatneftehim immediately before the change of leadership took place in Ukraine.

The arrest of assets will not stop the production, but at the same time it will not allow LUKoil-Neftekhim to sell or rent out the enterprise to a third party. The main goal of this political activity is directed towards making LUKoil-Neftekhim to show profit and make them to take care about social development of Kalush.

Polymer Consumption
PVC consumption in Ukraine increased by an estimated 24% in the first half of 2005 against the same period last year, with the second quarter showing even higher growth of 39%. The imports of suspension PVC grew by 65% in the second quarter, with PVC profiles and panels providing the leading sources of consumption. The main suppliers to the market include Kaustik at Sterlitamak, BorsodChem and the Ukrainian producer Khimprom at Pervomaisk. The market for emulsion PVC has almost doubled in the first half of 2005, with Norsk Hydro being the major supplier.

Polyethylene consumption increased by around 5% in the first half of 2005. Tomskneftekhim and Polmir in Belarus are the main suppliers of LDPE to the Ukrainian market, whilst HDPE suppliers include Lukor, Chemopetrol and TVK. The market is assessed as LDPE comprising 41% of total consumption, whilst HDPE amounted to 48%. The largest increase was seen in LLDPE consumption, although from a very low base. The main supplier of LLDPE to the Ukrainian market is the Shurtan plant in Uzbekistan.

Kazakhstan

The strategy of development of the petrochemical industry in Kazakhstan has been estimated to require around $0.5 billion per annum for the next fifteen years, according to government figures. The main strand of this strategy involves Kazakhstan using more petroleum gas to produce petrochemicals such as polyethylene, polystyrene, polypropylene, phenol, SBR and methanol.

Atyrau/Aktau

In terms of current developments the possibility of producing benzene at the Atyrau refinery is being examined by Marubeni Corporation, at a cost of $500,000. The polystyrene plant at Aktau is planned for a restart in late August or September, after initially being targeted for an April/May start-up. On 3 August, the plant received the first 140 cisterms of styrene (equating to 5,642.85 tons), purchased from Nizhnekamskneftekhim. A contract has been agreed between SAT, which owns the Aktau Plastics Plant, and Nizhnekamskneftekhim for regular supplies of styrene. The unit for expandable polystyrene production is now ready for start-up.

The Aktau Plastics Plant expects to produce 30-50,000 tons of polystyrene this year. Most of the production will be exported to East and West Europe as consumption in Kazakhstan is very small. The Aktau plant was stopped in August 2003, but was restarted under the new owners Sat&Company.

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