

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

Issue 205, 7 January 2008

Features from this issue

- ✚ PKN Orlen has applied for a €300 million subsidy with the European Investment Bank to help with the PTA project.
- ✚ Gazprom signed a memorandum of understanding with Dow Chemical, outlining plans for potential cooperation, including projects in Russia and Germany.
- ✚ Indorama Holdings Ltd (IRH) and Indorama Polymers (IRP) will jointly acquire some assets in Europe of Eastman Chemical.
- ✚ SIBUR-Holding has reached the decision that it should exit the market for methanol and fertilisers and has decided to make a step by step withdrawal from the sector.
- ✚ SIBUR-Neftekhim has reached agreement regarding the expansion of ethylene capacity at Kstovo up to 430,000 tpa, under which it will invest a total of 5.401 billion roubles.
- ✚ Salavatnefteorgsintez increased turnover by 17.2% in the first three quarters of 2007, due mainly to higher oil product sales
- ✚ Sayanskkhimplast is revisiting the idea to utilise Kovytko gas for ethylene production, which seemed to have been thwarted due to the loss of the license over the field by TNK-BP.
- ✚ The construction of the propylene and polypropylene plant at Tobolsk will start in May 2008, with the preparation for the site having started in December.
- ✚ As an extension of the RusVinyl JV, SIBUR-Holding could invest 1.9 billion roubles in the processing of PVC at Dzerzhinsk, which would be part of a chemical industry cluster in the region.
- ✚ Ineos Nova has concluded a JV for a new polystyrene plant in Romania.
- ✚ Mitsubishi Heavy Industries and Sojitz Corporation will take part in the construction of several chemical plants in Tatarstan, to the value of \$800 million
- ✚ Akron Holding would like to sell around 20% of its shares in an IPO in 2008, with the aim that the company will raise the proceeds necessary to undertake its investment programme.
- ✚ Russia will sell natural gas to Belarus at \$119 per thousand cubic metres in the first quarter of 2008, 19% more than in 2007.
- ✚ Ukraine and Russia agreed in December on gas prices for 2008, concluding at \$179.5 per thousand cubic metres.
- ✚ Azot plans a restart polyethylene production using agrarian raw materials, which has been under review for some months.
- ✚ Plastics production rose in the first eleven months of 2007 in Ukraine by 13.2% to 464,000 tons, whilst fibres rose 2.2% to 33,300 tons.

CENTRAL & SOUTH EAST EUROPE

Petrochemicals

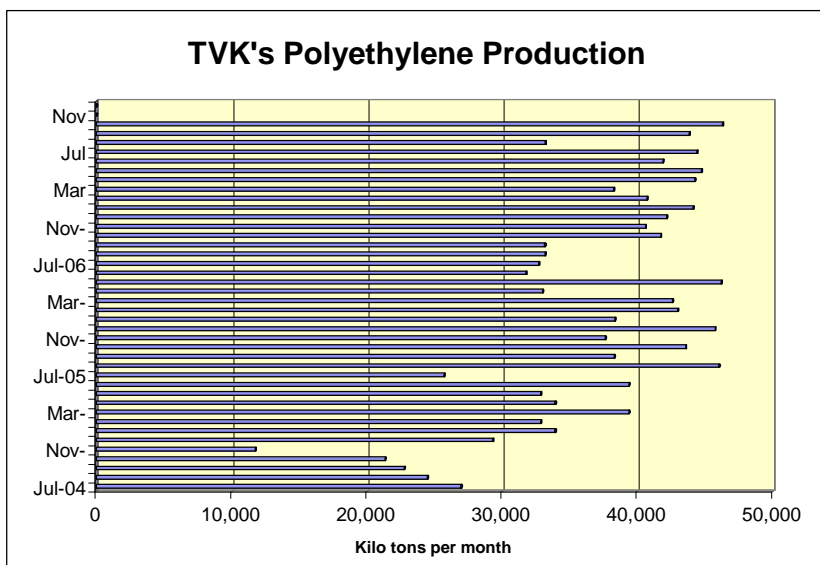
TVK-2007 record year

TVK experienced a record year in 2007, and used most of the profits to repay the loans incurred in the 2004-2005 period for investments into the petrochemical development project. Demand for polymer products was high in 2007, and polyolefin prices remained strong for most of the year. The market for TVK's main polyolefin HDPE is expanding, and whilst global competition is starting to be seen from the Middle East TVK does not feel that its regional market share is under threat.

TVK's Product Sales Q1-Q3 2007 (Ft million)			
Product	Domestic	Export	Total
Olefin	68,951	6,593	75,544
LDPE	10,413	11,271	21,684
HDPE	8,385	77,108	85,493
Polypropylene	26,645	30,008	56,653

At Ft 28.1 billion, TVK's EBIT in the first three quarters of 2007 not only almost tripled against 2006, but also beat the company's all time record of operating profits. This significant profit growth was fuelled by the growing output volumes due to higher capacity utilisation at the new production units, and additional improvements of internal efficiency. Other factors included the rise of polymer prices and the exchange rate changes.

TVK increased the volume of polymer output by 7% in Q1-3 2007 against 2006, owing mainly to the higher rate of production from the HDPE-2 plant. During the first nine months of 2007, the company increased the volume of monomer production by 14% and also managed to improve the rate of monomer recovery. The output of the Olefin-2 plant surpassed pro rata nameplate capacity.



In the first nine months of 2007, TVK achieved 51% of its sales' income from exports. The main markets were Germany with 19%, Italy with 17%, Poland with 14%, and the UK with 5%.

Unipetrol-capacity reduction until May

Unipetrol expects a temporary reduction in capacity utilisation at its ethylene cracker to last for another five months. The company has stated that a repaired coldbox will be installed in the unit in May 2008 during a 14-day shutdown. Production of benzene in at Litvinov is currently running at less than 80%

of its 210,000 tpa capacity, while ethylene production has been stabilised at 512,000 tpa.

PKN Orlen-finance support for paraxylene and PTA plants

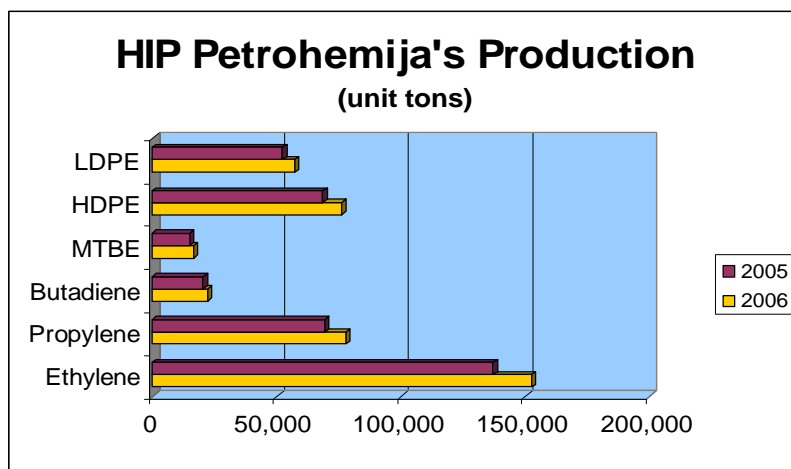
PKN Orlen agreed a €300 million subsidy in December with the European Investment Bank to help with the PTA and paraxylene projects. The company hopes that bank would finance half of the investment, as it has done with a number of other Orlen projects. Orlen estimates that global demand for PTA will grow by 8-10% per annum over the next few years, and plans to have completed the installation at Wloclawek by 2011 with a capacity of 600,000 tpa.

Polimex will construct the plant at a cost of zł 2.3 billion, in addition to undertaking other projects for PKN Orlen including extensions at the Mazeikiu Nafta refinery in Lithuania for zł 4.5 billion. PKN Orlen has five more projects in store (HDS plant, hydrogen plant, cyclohexanol plant, ethylene oxide plant, butadiene plant, and PBT plant), where Polimex is expected to be involved. Apart from increasing profitability and revenues, PKN Orlen is investing in projects to address the €8 billion deficit in Poland's chemical trade balance. Polimex is also very active in other refinery and petrochemical projects in Poland; i.e., Lotos has

plans to build a diesel hydrodesulphurization plant, an oil distillation unit, a hydrogen plant, and an MHC plant. Including these projects, the value of future (2008-2012) investments in the petrochemical industry through Polimex could exceed zl 20 billion.

HIP Petrohemija

HIP Petrohemija announced a public invitation in an open procedure for a tender for the procurement of



naphtha, styrene monomer, methanol, resin and isobutane. Since the middle of 2007, HIP Petrohemija has been supplying ethylene to Dioki in Croatia in exchange for naphtha, but at the same time is open to cheaper feedstock sources. Dioki has its own plant for 90,000 tpa of ethylene at Zagreb, based on ethane, but production has been restricted due to ethane supply. This has led to losses, as Dioki has been unable to maximise polymer production.

Both companies could benefit from a long-term affiliation to help defend regional interests from competition, but how such an affiliation would be affected the eventual privatisation of Petrohemija remains to be seen. Around 80% of the company's stock is state-owned, and the privatisation depends largely on the outcome of the privatisation of NIS, which is currently under review.

Petrohemija produces around 700,000 tpa of petrochemicals worth around €320 million in current prices. It is Serbia's second largest exporter, selling goods worth over €200 million to the European markets. Exports for 2006 and 2005 are shown above.

Intermediates/Chemicals

INEOS Nova-SEEA, polystyrene plant

INEOS NOVA and SEEA Polymers announced in December that they had signed a letter of intent to form a 50/50 joint venture to build and operate a new expandable polystyrene (EPS) plant in Romania. The proposed facility will have production capacity of 100,000 tpa it will be located at Medgidia in the Constanta region and is expected to start operations by late 2009.

SEEA Polymers, which is headed by the former CEO of Rompetrol Petrochemicals, aims to become an important player in the polystyrene market. The Black Sea location of the plant is considered to be strategic from a logistics point of view, allowing a substantial cut in transport costs for both feedstocks and finished products. The plant will produce not only for the Romanian market, but also for export.

Oltchim-privatisation

Oltchim's privatisation is expected to be tried again this year, after acquisitions of raw material suppliers have been completed. Early this year Oltchim hopes to conclude the acquisition of Arpechim or Petrochemicals Arges, which is part of the plan for Oltchim to become an integrated company. The company also wants to participate in the privatisation of the National Salt Company Salrom and the acquisition of the thermal-electric plant CET Govora. In terms of potential buyers of Oltchim, a number of companies have been interested in the past such as LUKoil-Neftekhim, BorsodChem and PCC. At least the first two can be ruled out now, but PCC holds a stake of near to 20%, which could possibly be extended. Although registered in Germany, the company mainly operates in Poland, where the group has taken over several chemical plants within the past few years.

Oltchim plans to invest around €100 million to increase the production capacity at Arpechim. Oltchim's strategy, should the acquisition of Petrochemicals Arges be completed, will involve an increase in the ethylene production capacity from 200,000 to 300,000 tpa. For Oltchim, taking over Petrochemicals Arges would resolve the basic raw material problems and transform the company into a more attractive prospect for privatisation.

Indorama-Eastman

Indorama has created a new subsidiary UAB Indorama Polymers Europe, which will buy and sell PET polymers in the region. In October 2006, Indorama started up a 198,000 tpa PET plant at Klaipeda in Lithuania, operated by subsidiary UAB Orion Global Pet. Indorama has reached agreement to acquire PTA/PET assets from Eastman Chemical, and will incorporate these assets into UAB Indorama Polymers Europe. Eastman Chemical has a total capacity of 340,000 tpa for PTA and 350,000 tpa of PET. The assets comprise a plant and land plot at Workington in north west England, which produces 155,000 tpa of polycondensation and solid state polymerisation, and a plant on long-term leased land at Rotterdam, with a capacity of 200,000 tpa of the same products.

Indorama aims to sell the PTA from the Eastman plant to UAB Orion Global Pet, its subsidiary in Lithuania. The additional PTA and PET resin capacity could help increase Indorama's sales' revenue and once the acquisition is completed, the Indorama Group will be among the world's largest polyester manufacturers, with a capacity of around two million tpa. The acquisition of Eastman's assets will be funded by up to €45 million by way of loans in the subsidiaries, and up to €20 million by way of equity to be injected by Indorama into its new subsidiary, UAB Indorama Polymers Europe.

ZA Pulawy

Zakłady Azotowe Pulawy (ZA Pulawy) will carry out further investment projects in the next two years aimed at increasing its production capacity after the supervisory board approved the ammonia-urea project. The expansion of the oxygen generating plant and the ammonia-urea process line is a project of key importance, and will allow the company to increase urea capacity by 270,000 tpa up to 1,215,000 tpa. Besides its application in fertilisers, urea is important for ZA Pulawy's melamine division.

In the second half of 2006, ZA Pulawy agreed conditions with Aquafil for the creation of a JV for polyamide-6. ZA Pulawy has been considering downstream options for caprolactam for several years, helping to reduce the company's dependency on caprolactam exports. For the company as a whole, it would be another step towards helping to reduce the company's dependence on gas prices, which currently constitute around 30% of the company's costs. Competition for polyamide in Poland mainly comes from ZA Tarnow, which recently expanded its PA6 polymer plant to 45,000 tpa under project management by Zimmer.

Chemko Strazske

Chemko Strazske is planning to install equipment that will dispose of polychlorinated biphenyls (PCBs), using a process without combustion that is more environmentally acceptable. A contract to supply the technology is expected to be signed in the near future. It will cost around \$4 million to acquire the PCB liquidation technology. An additional \$2 million would need to be spent in the second stage to purchase equipment to extract sludge with a high PCB concentration from Chemko to the Laborec River, and process contaminated soil. The purchase and installation of the equipment should take 12 to 16 months.

Central European news

Icelandic moulding company Promens has launched a new plant at Miedzyrzecz in western Poland to produce a range of polyethylene products for markets in East and West Europe. With an initial workforce of 110, the new 108,000 square foot facility is equipped with nine rotomoulding machines that together can process more than 3.3 million pounds of polyethylene resin. Promens foresees adding production modules to meet growing demand.

Saint-Gobain plans to build a plasterboard plant at Malpils in Latvia, starting in October 2008. The company will invest around €145 million in the period 2007-2011, with the new plant expected to start in 2009.

Brenntag opened a new facility for feed additives located at Kedzierzyn-Kozle on 4 December 2007. Brenntag Polska is well established in the feed sector and serves clients in the Central and East European market. With a production capacity of 25,000 tpa, the new facility complies with standards for the environment, quality and safety. The main product range covers formulations based on organic acids and salts/acidifiers, as well as mould and salmonella inhibitors/antioxidants. Additives are produced both in dry and liquid form. With the blending facilities Brenntag can tailor products exactly to the needs of its customers.

South East European news

Orgachim at Rousse exported 52.24 million leva worth of products for the first nine months of 2007, jumping

13 million leva against 2006. The main markets of the Bulgarian company are Turkey, Greece, Egypt, Central Europe, the Middle East and the former Soviet republics. Orgachim also sold goods and services to the total value of 19.2 million leva to its Romanian partner, Policolor. The main shareholder in both companies is Whitebeam Holdings of Malta. Orgachim's domestic sales in January-September 2007 amounted to nearly 43 million leva. The total sales for the first nine months of 2007 exceeded 95.23 million leva.

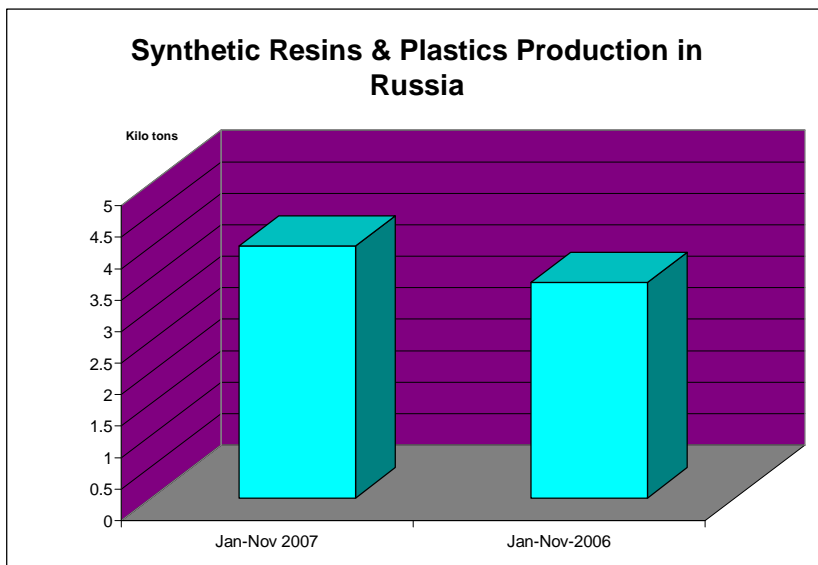
Austrian company HTI High Tech Industries is launching a new plastic injection moulding offshoot in Romania, primarily to serve the automotive sector. HTI High Tech Industries has set up the new subsidiary, SC HTI in Brasov. Initially, the unit will manufacture injection moulds, but within six months it is due to add a moulding line. HTI already operates a component moulding plant in Vrblé, Slovakia, serving the country's growing automotive manufacturing cluster. Increasing demand led the company to expand capacity in Vrblé.

Greek chemicals group Neochimiki has bought the Serbian fertiliser producer IHP Prahovo for €5.0 million. Japanese tyre and rubber products manufacturer Yokohama Rubber is aiming to set up a plant in the Calarasi region of Romania, to the east of Bucharest. Calarasi lies between the Danube and the motorway linking Bucharest with Constanta, a port on the Black Sea.

RUSSIA

Russian chemical production-trade

Oil refining in Russia increased 3.9% in the period January-November 2007 to 188 million tons, whilst gasoline production rose 2.2% to 31.9 million tons. Mineral fertiliser production rose 9.1% to 16.1 million tons in the period January-November 2007, whilst the most significant increase was seen in resins and plastics which rose by 16.8% to 4.0 million tons. Car tyre production rose 6.5% to 39.6 million pieces.



The increase in resins and plastics was fuelled in 2007 by a number of new start-ups. Kazanorgsintez increased polyethylene capacity at the start of the year, and mainly as a result of this expansion Russian polyethylene production rose 20.1% in the first three quarters. At the same time, ethylene production rose only 3.4% indicating the necessity to invest more in cracker upgrades and expansions. Polypropylene production was boosted by the full operation and volumes from the Nizhnekamskneftekhim plant, which started in October 2006, and also the LUKoil-Neftekhim plant which started in 2007 at Budyennovsk.

Polystyrene production rose 8.4% to 67,500 tons in the third quarter of 2007, whilst styrene rose 6.4% to 138,500 tons. Benzene rose 8.38% to 265,600 tons, although Q3 2006 was affected by a number of cracker shutdowns.

Petrochemicals

Gazprom-Dow memorandum

Gazprom signed a memorandum of understanding with Dow Chemical towards the end of 2007, outlining plans for potential cooperation, including projects in Russia and Germany. Gazprom stated that the two companies would consider creating a joint venture based on Dow's petrochemical facilities in east Germany and cooperating in refining gas from Russia's Yamal-Nemets autonomous region, in addition to studying other possibilities. The companies plan to create a working group to determine whether a joint venture was economically viable and to draft an agreement on further research. Gazprom has used offers of

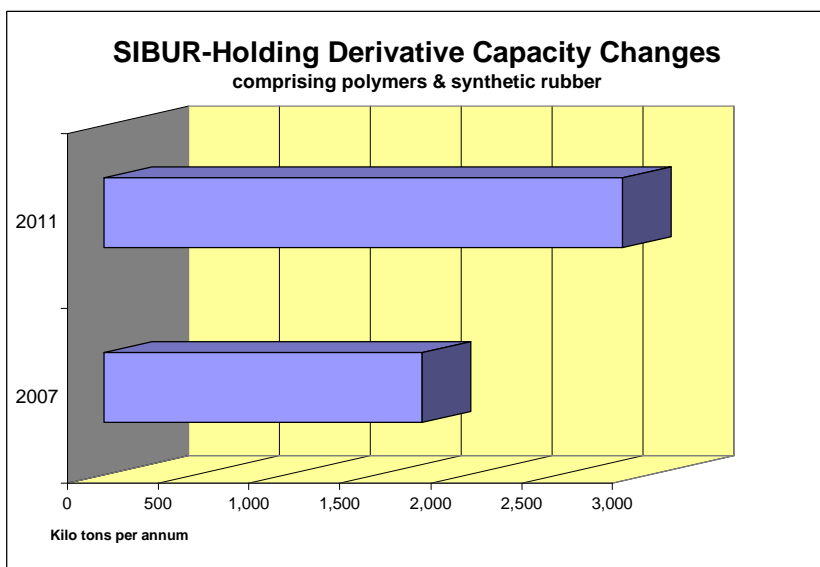
participation in projects in resource-rich Russia to secure deals that expand its presence in gas refining and distribution in Europe.

Dow already has two jvs in Russia, including Izolan at Vladimir and also polymer materials in the Moscow region. However, the new memorandum introduces a new kind of relationship that starts to make use of Russia's feedstocks for Dow's plants at Boehlen and Schkopau and also opens the possibility for projects in petrochemicals at a later stage in Russia. Gazprom already has a JV with BASF for gas field development, and there seems considerable potential in working with major petrochemical companies. Dow has been linked before with the idea of a possible JV with Gazprom or SIBUR, and so the latest development indicates progress.

SIBUR-Holding expects to exit methanol-fertiliser business and to focus on petrochemicals

SIBUR-Holding has reached the strategic decision that it should exit the market for methanol and fertilisers and has decided to make a step by step withdrawal from the sector. The gas-chemistry sector is seen not part of SIBUR-Holding's traditional business of petrochemicals, rubbers and polymers, and that it is not possible to maintain the required investment flows for products such as methanol and fertilisers. Little synergy is seen between the development of plastics, which is the main focus of SIBUR-Holding, and the production of methanol and fertilisers.

SIBUR-Holding intends not to offload its assets at any price and options are being studied for how the relevant shareholdings in methanol and fertilisers could be exchanged within the Gazprom group. These product areas are viewed as being far more compatible with Gazprom's production of natural gas, and Gazprom is expected to submit a strategy in the near future. Another question to be reviewed is whether or not Salavatnefteorgsintez, which Gazprom holds a managing interest, should be allowed to develop fertilisers at the same time as petrochemicals and oil refining.



At the end of 2006, a sub holding SIBUR-Mineral Fertilisers was formed a 100% subsidiary of SIBUR-Holding, to optimise the management structure of the mineral fertiliser assets. The main assets are located at Kemerovo, where both Azot and Orton are located. Azot produces a range of organic chemicals, such as caprolactam, which SIBUR-Holding will be keen to hold on to so it could mean a break-up of the complex. For methanol, SIBUR's main interest is at Tomsk, and this could easily be transferred to another part of Gazprom, whilst it has already announced plans to offload its 33% stake in Metafrax.

SIBUR-Holding Main Petrochemical Projects 2008-2011				
Product	Division	Start-up date	Capacity (ktpa)	
Ethylbenzene	SIBUR-Khimprom	2010	220	
Ethylene	SIBUR-Neftekhim	2011	+120	
Ethylene Oxide	SIBUR-Neftekhim	2008	+20	
Isoprene	Togliattikauchuk	2010	+20	
MEG	SIBUR-Neftekhim	2008	+10	
PET	Domestic Polymers, Polief	2011	+280	
Polypropylene	Tobolsk-Polymer	2011	500	
Polystyrene	SIBUR-Khimprom	2011	100	
Propylene	Tobolsk-Polymer	2011	510	
PTA	Domestic Polymers, Polief	2011	+350	
VCM/PVC	RusVinyl	2011	330	

SIBUR-Holding's key projects over the next couple of years involve largely the expansion of its feedstock base and the construction of polymer plants. The strategy is to focus efforts on in-depth processing of light hydrocarbons and production of high-value polymers, and the changes in capacity to 2011 are illustrated above. Some of the major investments include the construction of Phase 2 of the Yuzhno-Balyk

gas processing plant, of new gas processing plants near Vyngapurovsk (Yamal-Nenets Autonomous District) and Yuzhno-Priobskoye field (Khanty-Mansisk Autonomous District), and of rail loading racks at Noyabrsk and Nyagan. In addition, there are plans to increase the capacity of the central gas fractionation unit at Tobolsk-Neftekhim and build a marine terminal for transshipment of LPG at Ust-Luga in the Leningrad Region.

Development plans in the plastics sector include the construction of a propylene and polypropylene plant in Tobolsk, the expansion of the pyrolysis unit and a new PVC facility at Kstovo, a polystyrene plant at SIBUR-Khimprom in the Perm region, and modernisation and construction of new plastics production units at Tomskneftekhim.

In the tyre sector there are project plans for a new metal-cord freight-vehicle tyre production facility and a wider range of light freight tyres at the Yaroslavl site by SIBUR-Russian Tyres' subsidiary Yaroslavl-Investments. However, SIBUR-Holding is also known to be considering the exit from the tyre business which it considers too close to consumption than the group's main product area of petrochemicals. Much will depend on the offers placed for the assets before deciding whether or not to sell.

SIBUR-Neftekhim, ethylene expansion

SIBUR-Neftekhim has reached agreement regarding the expansion of ethylene capacity at Kstovo up to 430,000 tpa, under which it will invest a total of 5.401 billion roubles. The plant is being expanded in the first phase to 360,000 tpa, which is scheduled to be completed by the third quarter of 2010. The second stage of the project will see ethylene rise to 430,000 tpa, at the same time the PVC plant is expanded to 500,000 tpa which could take place by around 2013 depending on the market situation. Solvay has been considering plans for a PVC plant in Russia for several years, and has until now been prevented by the lack of a domestic petrochemical partner.

In terms of processing projects, SIBUR-Neftekhim is considering the construction of a PVC cable plasticizer unit at Dzerzhinsk. The company is starting the reconstruction of the existing unit at Dzerzhinsk in the early part of 2008 which will see capacity raised to 45,000 tpa by 2009. The larger 80,000 tpa plant is being considered as an outlet for the PVC produced at RusVinyl. In 2007, SIBUR-Neftekhim's net profit increased between 1-4% over 2006. In 2008, SIBUR-Neftekhim plans to increase ethylene oxide capacity from 240,000 tpa to 260,000 tpa and MEG from 220,000 to 230,000 tpa.

SIBUR-Neftekhim was formed just over eight years ago from the combined assets of ZAO "Neftekhim" at Kstovo and Kaprolaktam at Dzerzhinsk. Today, the company operates as three separate sub-divisions, including Kaprolaktam at Dzerzhinsk, the petrochemical plant at Kstovo and the ethylene oxide/glycol plants at Kstovo.

Salavatnefteorgsintez Petrochemical Capacities	
Product	Capacity (ktpa)
Benzene	118
Butanols	50
Ethylbenzene	200
Ethylene	262
Ethylene Oxide	67.6
Ethylhexanol	50
Phthalic Anhydride	14.8
Polyethylene	41.2
Polystyrene	108.4
Propylene	184

Salavatnefteorgsintez

Salavatnefteorgsintez increased turnover by 17.2% in the first three quarters of 2007, due mainly to higher oil product sales. Such is the diversity of operations at the complex, ranging from oil refining to fertilisers, thought is being given to splitting up the assets into separate groups, although it could pose threats to the interests of minority shareholders. The future investment strategy for the complex was reviewed in December by Gazprom and the government of Bashkortostan.

It has been suggested that Gazprom could choose to offload Salavatnefteorgsintez, particularly the petrochemical division where it has no direct Christmas. The main owner of Salavatnefteorgsintez is the Gazprom subsidiary by Lider Management Company with 54.2%, with other shares being held by

Gazfond Pension Fund.

However, the two main owners could resolve to split the Salavat-based company into several standalone entities in accordance with the existing sectors, i.e. into a refinery, petrochemical and fertiliser producing units. In the event such separation indeed takes place, Salavatnefteorgsintez's refinery could be assigned to Gazprom Neft and the petrochemical division will could be exchanged for SIBUR-Mineral Fertilisers. Thus, there a wide range of options under review that could see the complex divided and re-organised.

SIBUR-Holding, new petrochemical products in the Nizhniy Novgorod region

SIBUR-Holding is seeking a site in the Nizhniy Novgorod region for construction of a number of intermediate plants in the organic chemistry sector. Concepts are being evaluated for the production of acrylic acid and superabsorbents, propylene oxide and polyols (with a capacity of 115-140,000 tpa), and isocyanates, including both MDI and TDI, in the capacity range of 100-150,000 tpa.

The general project completion target has been set at 2015, although the TDI-MDI units could possibly be completed by 2012 if the right location is found quickly and construction is achieved in the expected 30-32 month period. The main aim for SIBUR is to produce organic products for the domestic market, which is dependent for nearly all of its isocyanate consumption through imports from West Europe. Both Korund and Renova-Orgsintez have given consideration to projects in isocyanates in the past couple of years, but in neither case have plans been taken forward.

The idea to build new acrylic acid capacity in the Nizhniy Novgorod region would be combined at the same complex as the propylene oxide plant, to make use of the propylene inventory requirements. The propylene would be made available from the expansion of the cracker at Kstovo, which is taking place in conjunction with the RusVinyl JV for VCM/PVC. In addition, LUKoil is expected to start the production of propylene at its Kstovo refinery in the next two years. SIBUR-Holding has not considered purchasing Aktilat at Dzerzhinsk, which is the only current Russian producer of acrylates, but the construction of a new acrylic plant would make market conditions very difficult for Aktilat and as a result may need to diversify. Korund is another company in the Dzerzhinsk region, which is involved in polyurethane derivatives, but SIBUR has also not shown interest in purchasing assets in this company. Isocyanate consumption in Russia is being fuelled by high rates of polyurethane production growth, and total isocyanate consumption is currently between 80-90,000 tpa of which 99% of supply comes from imports.

Sayanskkhimplast-Kovytko

Sayanskkhimplast is revisiting the idea to utilise Kovytko gas for ethylene production, which seemed to have been thwarted due to the loss of the license over the field by TNK-BP. Although the transfer of the license to Gazprom meant that the proposed gas pipeline to Sayansk was to be shelved, Sayanskkhimplast is now more confident that it will be able to secure the ethane supply for an ethylene plant. The Angarsk Polymer Plant is only capable of supplying 120,000 tpa of ethylene, which would be insufficient for a 400,000 tpa plant for PVC. Sayanskkhimplast would need initially to construct a gas processing plant for helium and ethane.

The investment project has been boosted by the completion of the 112 km gas pipeline from the Kovytko gas-condensate field to Zhigalovo in the Irkutsk region, which is not very far from Sayansk. As a result, the pipeline requires only a minor extension. East Siberian Gas Company is the main operator of the pipeline and expects now that it can extend the pipeline to Sayansk.

Polyolefins

Taneko, polypropylene plant

OMZ Naftagas Projects (Izhorskiye Plant) from St Petersburg has won the tender and contract with Taneko for the supply of equipment for propane, propylene and C5 storage at the new Nizhnekamsk complex. The contract is worth 1.3 billion roubles. With capacity of up to 600 cubic metres, the gas-holders are designed for storage of long distillates of hydrocarbons (such as propane, butane, etc). Two similar gas holders were installed at Kazanorgsintez in 2006, and the new units at Nizhnekamsk should be completed in 2009.

Taneko secured a \$2 billion credit facility in December for the complete refinery and petrochemical project, which is available for 25 months. The loans received will be used to finance engineering, construction and procurement works, as well as the purchase of materials and equipment for the complex. The facility has been secured by a corporate guarantee of Tatneft.

Tobolsk-Polymer, polypropylene construction to start in May 2008

The construction of the propylene and polypropylene plant at Tobolsk will start in May 2008, with the preparation for the site having started in December. Around 30 billion roubles is being invested in the entire project, with the polypropylene plant scheduled to start in 2011. Fluor is managing the overall project, with several other groups involved including VNIIneft as the project contractor. Tecnimont has been selected

to take charge of the propylene dehydrogenation unit which will have a capacity of 510,000 tpa and will be based on technology UOP Oleflex™. Linde-KCA-Dresden has been selected to take charge of the polypropylene unit, which will have a capacity of 500,000 tpa and will be based on INEOS license.

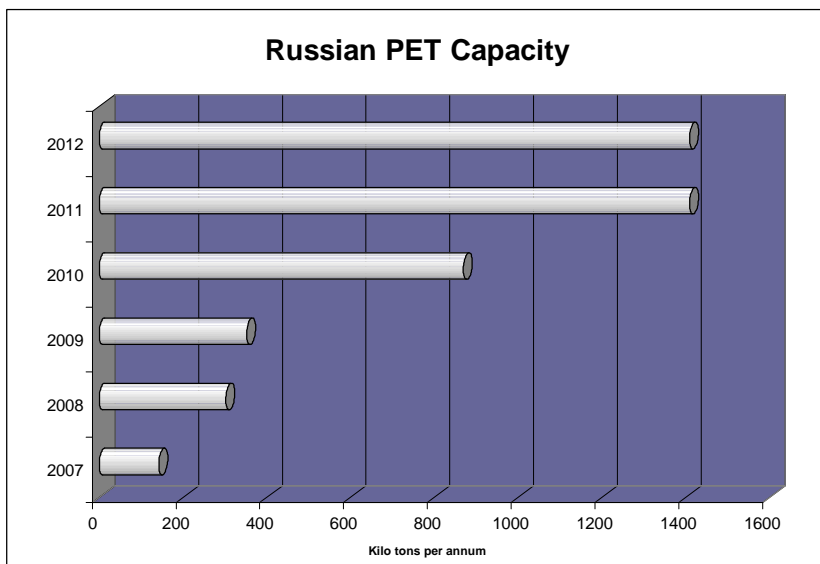
Tobolsk-Polymer was founded in April 2006 as an offshoot of Tobolsk-Neftekhim. Fluor was selected in January 2007 to manage the project, with technology licenses being decided later in the year. The project idea dates initially back to the 1980s following the start-up of the gas fractionation unit. It went through several failed attempts in the 1990s, before SIBUR became a force and decided to fulfill the plan. Before deciding on the Tobolsk project, SIBUR travelled internationally and studied other major polypropylene plants, particularly the large plant under construction in Saudi Arabia where Fluor is also involved. The main aim the Tobolsk project is to add value to the gas fractionation plant, which processed 2.65 million tons of hydrocarbons in 2007. In 2008, the aim is to process 2.8 million tons.

Kazanorgsintez-new polyethylene grades

Kazanorgsintez has introduced three new forms of LLDPE to the market for packaging film applications, involving production of an additional 5,000 tpa. These products have been developed with new high-performance licensed catalysts. In July 2007, the company started the production of bimodal HDPE pipes (PE 100), with grades PE2NT11-9 and PE2NT11-285D for which the technology was supplied by Univation Technology. The potential area of application of PE2NT11-9 is pressure pipes, especially for gas supply systems with pressure up to 12 bar and water supply systems.

In future, new HDPE grades PE2NT22-12 and PE2NT21-13 are expected to replace traditional grade 277-73, used for injection moulding processing, and PE2NT26-16 will replace 276-73 grade, which has been produced for many years and is used for blow moulding processing. The first grades of LLDPE were produced after the first retrofit stage at the end of 2005 and during the past two years Kazanorgsintez has seen interest grow in these grades. New technical documentation was made available from the beginning of December 2007.

Aromatics & derivatives



Polief-PET plant start-up

Polief completed the construction of the 120,000 tpa PET plant at Blagoveshchensk in December, and the start-up phase will be conducted through January with possible output by the end of the month. The plant will be served by the adjacent PTA plant, which until now has been selling product to domestic customers and also for export to China, Turkey, etc. Capacity increases to 2012 for Russian PET are shown opposite, although question marks remain over at least one of the projects in the planning stage. PET capacity in Russia by 2011-2012 seems set to

easily exceed domestic demand, but at the same time it appears if there will be a deficit in PTA of sizeable degree unless a new project announcement is made in the near future. .

KP Chemical-Tatarstan PET project

Tatneftkhiminvest-Holding has signed a protocol agreement with KP Chemical of South Korea to construct a PET plant at Alabuga in Tatarstan. The plant is expected to be constructed under a jv arrangement, with the Russian bank AK Bars providing financial support for the project. KP Chemical has been the largest exporter of PTA into Russia over the past few years, but with volumes falling following the start-up of the Polief PTA in November 2005 the company has been attracted to the idea of building its own PET plant. Around \$200 million will be invested in the project. Although final capacity is yet to be decided the Tatar side is keen for up to around 400,000 tpa, whilst the Korean side favours around 200,000 tpa. The lower

figure has been included in the graphic above illustrating the expansion in PET capacity which is planned over the next three to four years.

The bank AK Bars will hold a key role in the jv, which is being constructed at the Alabuga special economic zone in Tatarstan. This gives the possibility to import equipment free of import duties, whilst at the same time enjoying the privilege of low taxation.

The project concept was first revealed in the first half of 2007 following meetings between KP Chemical and the Tatar government, and the bank AK Bars. Initially it was considered that a PTA plant with a capacity of 200,000 tpa would be constructed at the same time as the PET plant, but the difficulties in securing paraxylene effectively ruled out this idea. Moreover, in view of Polief's PTA expansion plans there should be sufficient PTA to cover the PET plant at Alabuga.

CIS Paraxylene Capacity				
Producer	Location	Country	2007	2012
KPI	Atyrau	Kazakhstan	0	235
Kinef	Kirishi	Russia	60	60
Gazprom-Neft	Omsk	Russia	205	240
Mozyr NPZ	Mozyr	Belarus	0	120
Naftan	Novopolotsk	Belarus	60	110
Taneko	Nizhnekamsk	Russia	0	210
Ufaneftkhim	Ufa	Russia	165	165
Total Production Capacity			490	905

CIS PTA Capacity				
Producer	Location	Country	2007	2012
Mogilevkhimvolokno	Mogilev	Belarus	0	320
Polief	Blagoveshchensk	Russia	230	600
Taneko	Nizhnekamsk	Russia	0	210
Total Production Capacity			230	1310

CIS DMT Capacity				
Producer	Location	Country	2007	2012
Mogilevkhimvolokno	Mogilev	Belarus	240	0
Total Production Capacity			240	0

PET has been considered before in Tatarstan by Nizhnekamskneftkhim at the end of 2005, which stated that it wanted to construct a 200,000 tpa plant, but later changed its mind in view of the feedstock requirements. The Tatar-Korean jv hopes to purchase PTA from Polief at Blagoveshchensk, which at the same time will be a major competitor on the domestic market. Thus, should the PET market become over-supplied then Polief may not see the sense in selling PTA to its competitors. Whilst the new Taneko paraxylene-PTA units at Nizhnekamsk will be integrated into PET, there is the possibility that an additional paraxylene plant will be constructed at the third refinery at Nizhnekamsk which could eventually result in more PTA capacity being constructed. It is still in the concept stage and therefore not included in the table of CIS paraxylene expansions above up to 2012, which sees an 84% increase in capacity against 2007.

Third Nizhnekamsk refinery to produce benzene and paraxylene?

The refinery for small oil companies at Nizhnekamsk, being financed by Tatneftkhiminvest-Holding, has been approved by the Tatar government. The project came under review in December following a report by Technip-Italy. Six variations have been put forward, including an additional aromatics complex with benzene and paraxylene. This latter option seems very attractive as both benzene and paraxylene are in high demand in Russia. The main question to be resolved is whether to produce derivatives or to sell monomers. As Tatneftkhiminvest-Holding has direct influence in both the Alabuga PET jv and the third refinery at Nizhnekamsk it is conceivable that there may be a direct link in the feedstock to end-use production chain.

Production from the third refinery complex will be oriented towards export and also the domestic requirements of the Russian petrochemical industry. The plant will be built near the Taneko complex, which will effectively make the construction costs for both projects cheaper. Both refineries will have capacities of 7 million tpa. One other possible new product that is being considered for the Tatneftkhiminvest refinery is PBT, which is not produced in Russia at present.

KuibyshevAzot-third polyamide line

Kuibyshevazot started its third line for polyamide production on 24 December, raising capacity to 96,000 tpa and making it the largest producer of polyamide in Russia. The third line is capable of producing high-viscosity polyamide-6 (relative viscosity 3,4-4), which can be used for the production of high-strength technical threads, films for the food and pharmaceutical industry. The line was constructed by Uhde Iventa-Fischer, with the project costing 615.1 million roubles. Kuibyshevazot is striving to convert as much of its caprolactam production into polymer as possible.

As part of Kuibyshevazot's downstream strategy, the company is close to acquiring KurskKhimvolokhno. The acquisition of this fibre producer corresponds to the long-term strategic programme of KuibyshevAzot in processing higher volumes of caprolactam. It will also help to address the shortage of technical threads and cord fabrics, which has followed the halt in production of Khimvolokno at Kemerovo. Kuibyshevazot is expected to increase in the capacities at KurskKhimvolokhno as part of the investment plan.

Methanol

Rusnikor to sell Novocherkassk Synthetic Products Plant

Rusnikor is selling its stake in Novocherkassk Synthetic Products Plant, having decided not to undertake modernisation of the complex and investment projects due to them being unprofitable. The main reason for this change in attitude from Rusnikor is the sharp rise in gas prices, and also the rising cost of plant equipment.

The Novocherkassk Synthetic Products Plant produces around 80 chemical products, including 160,000 tpa of methanol. For the first three quarters of 2007 the plant recorded a turnover of around 1 billion roubles, but incurred losses of 50 million roubles. When purchasing the owning stake in the company, RusInkor had pledged to invest €500 million in constructing new plants and revamping existing plants, but this has not materialised. Part of the investment programme included the construction of a new 440,000 tpa methanol plant.

Much of the complex needs investment due to the obsolete state of the equipment, but gas and equipment cost increases have undermined investment plans thus leading to the decision to sell. Potential buyers include holding companies such as Renova-Orgsintez, SIBUR-Holding and Evrokhim, set against individual producers that produce methanol such as Metafrax or Togliattiazot.

*Fire at Novocherkassk Synthetic Products Plant

A fire took place at Novocherkassk Synthetic Products Plant on 4 January, killing one worker. A gas leak was the cause of the accident.



Tatarstan-Mitsubishi methanol project

Mitsubishi Heavy Industries and Sojitz Corporation have agreed to take part in the construction of several chemical plants in Tatarstan, to the value of \$800 million. The projects will be undertaken at Mendelevsk and will comprise 717,000 tpa of ammonia, 717,000 tpa of urea and 230,000 tpa of methanol. Tatgazinvest will supply 800 million cubic metres of gas to the complex, with production of fertilisers being directed towards the domestic market, and methanol being sold to Nizhnekamskneftekhim for usage in isoprene production.

Akron, IPO

Akron Holding would like to sell around 20% of its shares in an IPO in 2008, with the aim that the company will raise the proceeds necessary to undertake its investment programme. Based on Akron's current market valuations, this stake is valued at \$350 million. The holding is also considering other options to use its stake in Silvinit, including joint bids in auctions to tap potash blocks in the Perm region and also the sale of the stake to Silvinit in exchange for signing a long-term agreement on potash chloride supplies. Akron plans to invest \$700 million over the 2007-2011 period that would see urea capacity to rise to 515,000 tpa, methanol to 300,000 tpa and urea-formaldehyde resins to 100,000 tpa, in addition to the construction of a terminal in Estonia.

SIBUR-Holding possibly to sell stake in Metafrax

SIBUR-Holding could authorise the sale of its 33% stake in Metafrax in January, due to the fact that production at Metafrax does not form part of SIBUR's strategic programme. The holding company has decided to focus on polymers and petrochemicals, and methanol is not considered part of the strategy. Shares in fertiliser plants are also expected to be sold by SIBUR-Holding to other groups within Gazprom, as SIBUR-Holding moves away from gas based chemicals. It is likely that the 33% stake in Metafrax will be transferred to Vostokgazprom, which already controls Metanol at Tomsk.

Chlorine

Khimprom Volgograd

From the start of 2008 Khimprom at Volgograd will start to examine its strategy for reducing costs in energy consumption by around 140 million roubles per annum, whilst at the same time not affecting production volumes. The connection of the plant to a new transmission line could provide cheaper sources of electricity, which will in turn contribute not only to an improvement in the financial and economic situation at the company, but also to an increase in competitive capability. Khimprom is one of the most energy intensive companies in the Volgograd region, using around 800 million kilowatts per annum. This represents around 30% of the average cost of production, with some products such as calcium carbide, chlorine, caustic soda and sodium chlorate being accounted for up to 60% in cost. Khimprom has been hit badly by increases in electricity prices in recent times; for example a 27% increase was seen in 2007 over 2006, mainly caused by the transport cost involved in the total price.

At present, Khimprom with the active support of the Russian Ministry of Energy (Minpromenergo) is preparing to undertake large-scale project for the construction of new transformers with the delivery of electricity from the Volga GES and Rostov AES. Apart from reducing costs on current production volumes, the need to review energy consumption has been forced by the company's investment programme, which will see the introduction of new capacity. A major project involves the replacement of the current chlorine and caustic plants, which are based on mercury, with membrane technology. Other projects involve PVC, probably based on acetylene sourced VCM, and polycrystalline silicon. This latter project will facilitate the production of trichlorosilane and silicon tetrachloride, and has been initiated by the company's owners Renova-Orgsintez.

Plastics

SIBUR-Holding, PVC project and Dzerzhinsk

As an extension of the RusVinyl jv, SIBUR-Holding expects to around 1.9 billion roubles in the processing of PVC at Dzerzhinsk, which would be part of a chemical industry cluster in the region. This would include the likes of Korund, Dzerzhinsk Orgsteklo, and Plastik. In parallel with the construction of the new RusVinyl PVC plant, the company aims to expand processing capacity at Dzerzhinsk. The Dzerzhinsk Mayor still proffers the view that Dzerzhinsk would represent a better location for such a project, as taking place at Kstovo, and that the location of Kstovo will actually incur higher costs. However, the reasons for not choosing Dzerzhinsk have been well documented and the PVC plant will be constructed at the Kstovo site where previously a polyethylene plant was considered in the 1990s. RusVinyl will utilise the latest technologies for suspension and paste PVC, whilst output will be targeted on the CIS markets.

Korund-PVC pipes

Korund at Dzerzhinsk plans to invest 1.1 billion roubles in several projects over the next few years. One of the main projects involves the construction of PVC pipes, which will require around 280 million roubles and will have a capacity of 15,180 tpa. In April 2007, Korund attracted credit from the Volga-Vyatsky branch of

Sberbank to the value of 487 million roubles for the production of PVC pipes and the expansion in the production of enamels and lacquers. The company was taken over in 2004 by Orgsininvest, a group funded by the former CEO of SIBUR. PVC pipes will be targeted at import substitution in Russia and used in housing and other consumer applications. For enamels and lacquers, Korund is aiming to increase capacity to 25,000 tpa.

Basell-Tatneft PP compound jv

Basell's planned jv with Tatneft in the special economic zone at Alabuga will be ready for operation by the end of 2008 and will have a capacity of 45,000 tpa of plastic compounds. The project will cost around €36 million, in which the first stage will involve a line of 20,000 tpa. Around 60% of the polypropylene will be supplied from Nizhnekamskneftekhim in the first phase until the new Taneko plant at Nizhnekamsk is completed in 2011.

Sayanskkhimplast-fourth extrusion line

Sayanskkhimplast signed a contract in late 2007 with the Italian company Bausano for the delivery of equipment for the fourth extrusion line for plastics. The equipment should be ready for start-up in June 2008 and it will make it possible not only to increase capacity, but to reduce production costs. The cost of project will amount to around 50 million roubles.

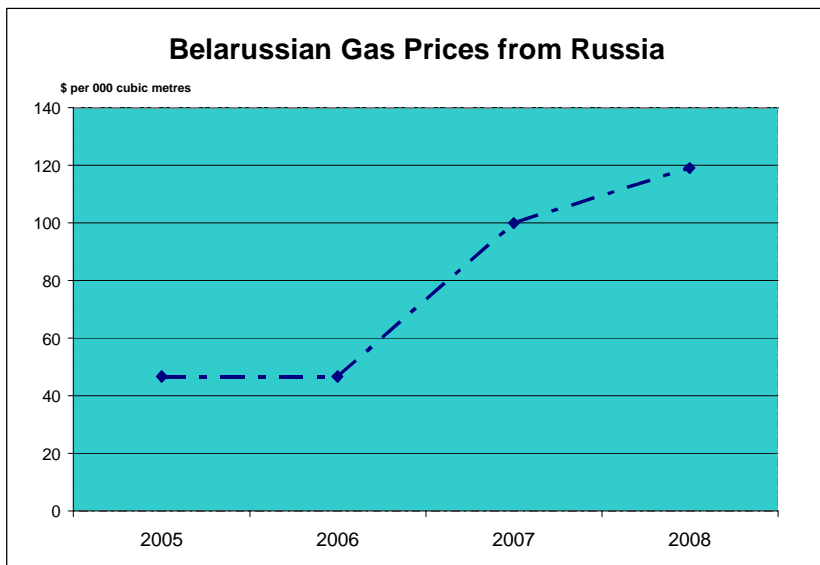
Penoplex

At the end of 2007, Penoplex started the production of roll roofing and moisture-proof polymeric materials under the trade mark Plastfoil. Production has been started at Kirishi and provides Russia's first line for PVC membrane from extrusion. The volume of investments into the project amounted to €15 million. Penoplex also plans to invest approximately €15 million in the construction of thermal insulation boards' production site in Kazakhstan. The plant, with a capacity of 200,000 cubic metres per annum of thermal insulation boards, will use extrusion-grade expanded polystyrene as a raw material. With the completion of the project, total Penoplex capacity will touch 1.8 million cubic metres per annum. The production facility will occupy a territory of 5 hectares at Kapshagai, which is near Almaty, to be completed in spring 2009.

Tula-PVC compounds

In the middle of 2008 the construction of a new PVC compound plant will start in the Tula region, with installation being undertaken by Polymer-Chemie. All production from the plant will be directed towards the Russian market, with initial capacity starting at 20,000 tpa and rising to 50,000 tpa in 2009. Polymer-Chemie is also investing in a logistics centre at the plant.

Belarus

**Belarus gas prices**

Russia will sell natural gas to Belarus at \$119 per thousand cubic metres in the first quarter of 2008, 19% more than in 2007. Belarus had feared prices of around \$150 for 2008, but with Moscow needing good relations with Minsk the price has been increased only marginally and to around \$60 less than with Kiev. Belarus enjoys the cheapest price among ex-Soviet countries for Russian gas, but still disputed the rise in 2007 to \$100 from \$50 in 2006. The higher prices will affect profits on fertiliser and methanol production at the Grodno complex in particular.

Mogilevkhimvolokno-project programme

Over the next three years a major investment programme is planned at Mogilevkhimvolokno, involving investments of \$440 million and including the construction of a PTA plant. The creation of a new PTA complex at Mogilevkhimvolokno will facilitate an estimated reduction in production costs of around 20-25%.

The project is, however, dependent on the expansion of paraxylene capacity at the Naftan refinery at Novopolotsk and the construction of a new paraxylene plant at Mozyr.

The import of paraxylene is too expensive and unreliable to maintain the PTA plant running at full capacity. Even already, paraxylene prices from domestic producer Naftan are lower than those given by Russian producers. Naftan is increasing its paraxylene capacity as part of its investment programme covering the 2005-2010 period. It plans to increase the capacity for the production of sulphuric acid from 75,000 tpa to 150,000 tpa, in conjunction with the increase in gasoline production and refining levels to 12 million tpa.

Mogilevkhimvolokno stopped its new 80,000 tpa polyester polycondensation plant from the start of January, only three months since its start-up. Technical problems were encountered in the first few weeks of production which need to undergo attention. The plant was installed by Uhde with output to be used in the textile industry.

Mozyr paraxylene tender

In 2008, the Mozyr NPZ plans to put out a tender for the construction of a turn-key paraxylene production facility, after signing an agreement with Neftekhimproekt Co from St. Petersburg for developing an architectural design of the plant. The design work should be completed by May 2008 after which Mozyr NPZ will calculate the construction cost, and then should be capable of establishing a tender. A license agreement has already been concluded with UOP, which will also act as a developer of the engineering design of the new plant.

The construction of the paraxylene unit is one of the most important projects of the programme on promoting inter-branch cooperation of Belneftekhim. The funding of the Union State programme on the development of equipment to produce chemical fibres in the period 2008-2011 will total 715 billion Belarussian roubles, of which 250 million roubles will be provided by the Belarus government.

The capacity of the new paraxylene facility will be 120,000 tpa; and the construction is targeted for completion by 2010, although at earliest 2011 is seen as the most likely date. As soon as Belneftekhim carries out the project the Mozyr and Novopolotsk refineries will be able to fully meet the demands of Mogilevkhimvolokno for paraxylene.

Despite the positive sides of the project, the minority shareholder in the Mozyr refinery Slavneft opposes it on the basis of it not being economically viable. Slavneft has focused on the cost of the project of \$175 million and the returns from the paraxylene plant, and are concerned that the plant needs to be constructed using credits which ultimately raise the cost of construction. In addition to Slavneft's caution, Belneftekhim has not concluded an agreement with a South Korean partner as previously thought and would need to find an investor for the project.

Ukraine

Ukraine market trends

Plastics production rose in the first eleven months of 2007 in Ukraine by 13.2% to 464,000 tons, whilst fibres rose 2.2% to 33,300 tons. At the same time caustic soda production fell 26.2% to 127,000 tons (due to the reconstruction at Karpatneftekhim) and ammonia fell by 0.4% to 4.669 million tons.

Ukraine and Russia agreed in December on gas prices for 2008, concluding at \$179.5 per thousand cubic metres. This is the price to the Ukrainian border, and has risen from \$130 in 2007. The signing of this agreement guarantees the stability of transit through Ukraine and of supplies to European consumers. The price for Ukraine had been under negotiation for several weeks and whilst Ukraine was hoping to pay around \$150 per thousand cubic metres, the higher price is seen as acceptable by the government.

Karpatneftekhim-investment plans

LUKoil-Neftekhim has cited investment plans of about \$1 billion in setting up a new facility to process plastics and raw petrochemicals at Karpatneftekhim at Kalush. This amount does not include the \$600 million that the company is investing in the construction of new products chlorine, caustic soda and PVC. PVC capacity is being constructed with a capacity of 350,000 tpa, and will provide the basis for plastics development. The aim is that the Kalush site will become a unique industrial facility for the further

processing of plastics and raw petrochemicals. Karpatneftekhim currently exports these raw materials to Romania, Hungary and Poland.

After further processing, they are brought back to Ukraine in the form of construction materials and this chain that LUKoil-Neftekhim is trying to integrate. Karpatneftekhim aims to produce plastics for windows and aluminium window profiles. Ukraine does not currently produce these products. One of the outstanding issues preventing LUKoil-Neftekhim from undertaking some investments is the question over the share package in Oriana. The company claims that Investment in the region is being hindered by the lack of a decision on this issue.

Azot Severodonetsk-polyethylene

Azot is looking further into plans to restart polyethylene production using grain. Ukraine possesses a huge agricultural surplus and is thought to be capable of yielding enough ethanol to maintain production of the polyethylene plant at Severodonetsk. Around 400,000 tpa of ethanol would be required to produce 250,000 tpa of ethylene, and this would meet the demands of the polyethylene plant. The issue now is to find an appropriate technology for this conversion process. If the polyethylene plant was restarted, around 25-30% of output could be made available for sale in the domestic market, with the largest share shipped for export.

The majority owners of Azot, which is IBE Trade Corp with a 60% stake, sees the production of ethanol and polyethylene as attractive commodities in Ukraine, and would help to reduce the dependency of the complex on fertiliser profits which are connected to the price of gas from Russia. For 2008, the price for natural gas from Russia will cost \$179.5 per thousand cubic metres at the border which will affect profits across the board.

Relevant Currencies

(Czech crown, Kc, \$1= 18.050, €1 = 26.784): (Hungarian Forint, Ft, \$1 = 173.46, €1 = 257.39): (Polish zloty, zł, \$1 =2.4832, €1 =3.6848): (Romanian New Lei, \$1 = 2.4380, €1= 3.6130), (Ukrainian hryvnia, \$1 = 5.0450, €1 = 7.4863): (Rus rouble, \$1 = 24.329, €1= 36.102)

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