

CIREC

MONTHLY NEWS

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

Edited by **Andrew Sparshott** | Tel **+44 (0)20 8669 5126** | Email **enquiries@cirec.net** | Web **www.cirec.net**

Czech Republic | Slovakia | Hungary | Poland | Bulgaria | Romania | Croatia | Slovenia | Yugoslavia | Baltic States | Russia | Belarus | Ukraine | Transcaucasus | Central Asia | Kazakhstan

Issue 198, 28 May 2007

Features from this issue

- ✚ MOL's income of \$236.6 million for the first quarter of 2007 showed a 65% increase over the first quarter of 2006. This was due to a one-off sale of MOL's gas storage and wholesale business, and the benefit from a tax holiday.
- ✚ PKN Orlen witnessed an improvement in EBITDA in the first quarter of 2007 (zl 995 million against zl 983 million in Q1 2006), despite an operating loss at the Mazeikiu Group. The Mazeikiu Group reported a loss of zl 334 million, due to the consequences of the fire, which took place in October 2006.
- ✚ Romanian oil company Petrom is currently in the process of setting up a new petrochemical company, by splitting petrochemicals from its refinery operations. The spin-off, Petrom Petrochemicals Arges, will operate as a self sufficient company.
- ✚ Spolana has been instructed that it must terminate mercury-based chlorine production by 2014, having received a deadline from the Central Bohemian Regional Office.
- ✚ Chimcomplex has selected Bertrams Salt Plants Ltd as the supplier for the basic engineering and key equipment for the 12,000 tpa calcium chloride plant (flakes and pellets) at Onesti.
- ✚ PKN Orlen is keen to follow its acquisition of Mazeikiu Nafta in Lithuania by working closely with chemical company Achema at Jonava.
- ✚ Despite a relatively successful year for the Russian petrochemical industry in 2006 coupled to a positive investment climate, Russian petrochemical producers have been facing mounting challenges over feedstock and energy costs.
- ✚ SIBUR-Holding and Orenburggazprom have been in further talks regarding the possible construction of a polyolefin complex in the Orenburg region by 2015-2016.
- ✚ Kazanorgsintez has started the process of initiating the first equipment of the bisphenol A project. Construction was started on the reactors in readiness for the intake of phenol for the production of bisphenol A. The two reactors will each require around three weeks of work before they are ready.
- ✚ Hexion Specialty Chemicals and Shchekinoazot have announced the formation of a joint venture company to manufacture resins for the forest products and construction markets.
- ✚ Nizhnekamskneftekhim has indicated plans to increase ethylene capacity up to 1.6 million tpa as a key part of the company's development programme for 2007-2012.
- ✚ An increase in the demand for chlorine has been seen in the past few years in Russia, with consumption reaching 1.092 million tons in 2006, 4.4% higher than in 2005.
- ✚ Uzbekneftegaz and Korean gas company Kogas are assessing project plans to construct a gas-chemical complex in Uzbekistan. The project is being at completion by 2010-2011, and estimated at a cost of \$1.5 billion.
- ✚ Construction of the new petrochemical complex in Kazakhstan is expected to start in December 2007. Investments of up to \$5.2 billion will be directed towards the construction of plant facilities.

CENTRAL & SOUTH EAST EUROPE

Petrochemicals

MOL Q1 2007

MOL's income of \$236.6 million for the first quarter of 2007 showed a 65% increase over the first quarter of 2006. This was due to a one-off sale of MOL's gas storage and wholesale business, and the benefit from a tax holiday. Excluding the one-off sale out of the figures, income fell 51% against the same period last year. MOL's overall operating profit fell in Q1 2007 by Ft 13.5 billion to Ft 58.7 billion. However, the petrochemical division's operating profit reached a new record of Ft 12.6 billion (\$65.5 million) in Q1 2007, up by Ft 9.0 billion vs. 2006. This was due to favourable market trends and improved utilisation of the new production capacities. For 2007, MOL expects a similarly healthy crack-spread environment that it experienced in 2006.

Hydrocarbon output for MOL fell in the first quarter of 2007 against 2006, although the company sees this as a short-term trend. In terms of subsidiary ownership, MOL purchased an additional 42.25% in TVK, increasing its influence in the company to 94.86%.

MOL's Hydrocarbon Output		
Oil Production (unit-kilo tons)		
	Q1 07	Q1 06
Hungary	206	215
Russia	317	338
Natural Gas Production (million cubic metres)		
	Q1 07	Q1 06
Hungary	641	851
Pakistan	15	11

MOL's integrated petrochemical margin improved by 27% in Q1 2007 against 2006. Monomer and polymer production surpassed the volumes achieved in 2006, due to better capacity utilisation of new plants. Olefin product sales increased by 11% in Q1 2007 compared to Q1 2006, whilst polymer sale volumes fell by 3% to 289,000 tons. This was due to a low inventory level, mainly in HDPE and LDPE product groups while PP sales increased 1,000 tons. The composition of polymer sales changed in favour of polypropylene

(46%), while HDPE and LDPE accounted for 32% and 22%, respectively.

MOL's petrochemical strategy has been to integrate the petrochemical operations of TVK and Slovnaft into its holding structure, in order that the company is speaking with one voice. For TVK, MOL has sought to optimise olefins production by providing sufficient feedstocks and selling by-products. The addition of Slovnaft to MOL after July 2006 brought together two former competitors, who are now working together and achieving synergies. Due to increased utilisation of olefin capacities, higher quantities of propylene are available for TVK which have been sold to Slovnaft Petrochemicals.

MOL's Olefin & Polyolefin Sales		
(unit-kilo tons)		
Product	Q1 2007	Q1 2006
Ethylene	206	205
Propylene	105	101
LDPE	64	67
HDPE	96	98
Polypropylene	137	127

Whilst TVK and Slovnaft are not linked by pipeline, TVK sells ethylene to BorsodChem. In 2006, sales of ethylene via this pipeline amounted to 137,000 tons against 117,000 tons in 2005. HDPE sales from TVK also increased in 2006, rising from 165,000 tons to 183,000 tons.

TVK-Q1 2007

In the first quarter of 2007, TVK's EBITDA increased 34% against the same period in 2006, due mainly to higher polymer prices and other factors such as lower energy costs. TVK Group's operating profits amounted to Ft 11.2 billion in Q1, which is more than three and a half times higher than in the first three months of 2006.

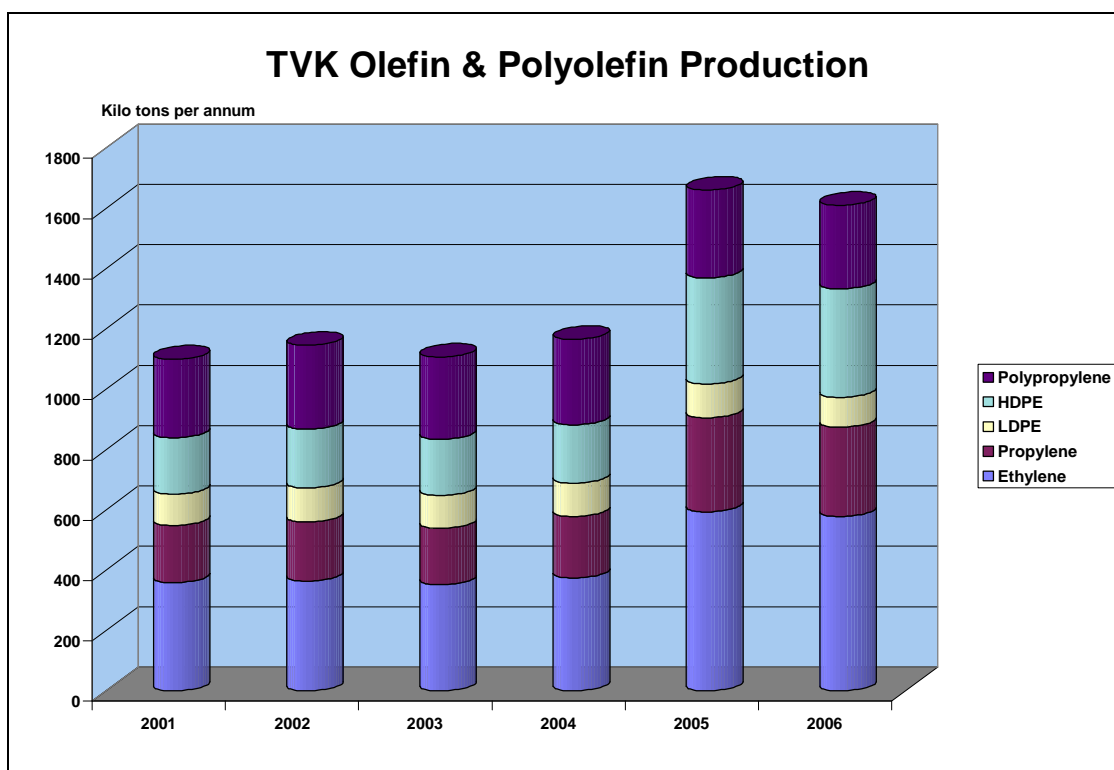
TVK's Product Sales Q1 2007 (Ft million)			
Product	Domestic	Export	Total
Olefin	21,986	1,833	23,819
LDPE	3,620	3,581	7,201
HDPE	2,514	23,928	26,442
Polypropylene	8,403	10,452	18,855

Polyethylene production at TVK totalled 123,128 tons in the first quarter of this year, compared to 123,975 tons in 2006. Polypropylene production showed an increase of more than 10,000 tons due to improved utilisation. In terms of prices, polyethylene rose in the range of 7-11% against more moderate increases for polypropylene.

In US dollar terms, the prices of naphtha rose by 5% against the previous quarter, whilst there was a 4% downturn in the price of gas oil. The net impact of fluctuations in polymer prices and feedstock costs resulted in net profits for TVK Rt of Ft 11.194 billion against Ft 3.071 billion in 2006. In the first quarter, TVK paid off a

large part of the debts that were incurred for the new petrochemical complex. This has brought the outstanding debt balance down to Ft 41 billion.

In Q1 2007, TVK achieved 51% of its sales income from exports, with countries such as Germany accounting for 18%, Italy 16% and Poland 15%.



PKN Orlen-Q1 2007

PKN Orlen witnessed an improvement in EBITDA in the first quarter of 2007 (zł 995 million against zł 983 million in Q1 2006), despite an operating loss at the Mazeikiu Group. The Mazeikiu Group reported a loss of zł 334 million, due to the consequences of the fire which took place in October 2006. As a result, the Mazeikiu Refinery operated in the first quarter at approximately 50% of capacity. At present, the refinery's entire crude oil requirement is satisfied with oil delivered by sea through the port at Butinge, which generates higher costs compared with the traditional supply source.

Polish Chemical Production (unit-kilo tons)

Product	Jan-Apr 2007	Jan-Apr 2006
Ethylene	202.7	206.2
Propylene	129.8	134.2
Butadiene	19.0	21.7
Toluene	41.8	48.9
Phenol	16.8	17.7
Caprolactam	55.5	54.7
Polyethylene	135.3	122.7
Polystyrene	33.4	31.5
PVC	101.8	91.3
Polypropylene	101.9	100.2
Synthetic Rubber	43.1	38.3
Pesticides	15.3	12.7

In Q1 2007, PKN Orlen's chemical and petrochemical divisions recorded a drop in revenue by 13.1%, largely as a consequence of lower PVC sales by 27,100 tons against the first quarter of 2006. Ammonium nitrate sales saw a fall of 12,800 tons, or 8.5%, whilst caustic soda sales fell by 5,100 tons or 42.6%. PVC sales were adversely affected by fierce price competition from Chinese producers, in addition to BorsodChem on the Polish market. The Group also encountered certain problems involving logistics, which rendered impossible the river transport of fertilisers and caused difficulties with ammonia collection by road transport.

On the plus side, demand was strong in the first quarter. The continued upswing in the investment goods and

construction markets in Poland translated into a rising demand for PVC and granulates, lifting their prices by 9.7%. In addition, caustic soda and caprolactam markets were strong. Anwil is operating profit in Q1 2007 rose by zł 34 million year on year, reaching zł 83 million. As a result of the profit growth reported by Anwil, the entire chemical division's profit for Q1 2007 improved by 45.4%.

In PKN Orlen's petrochemical sector, the performance of Basell Orlen Polyolefins (BOP) improved in Q1 2007 to zł 48 million. This was on the back of 11% higher polyolefin sales, coupled with price increases. The favourable situation in the petrochemicals sector contributed to Unipetrol's operating profit, totalling zł 224 million. Expenditure on property, plant and equipment and intangible assets in the first quarter was reduced by zł 35,539,000. In the same period, the implementation of the OPTIMA programme generated divisional savings of zł 20,338,000.

Butadien Kralupy

PKN Orlen registered the company Butadien Kralupy a.s. on 9 May, which was then followed by the purchase of 100% shares by Kaucuk. Butadien Kralupy will be involved in the construction and operation of a new butadiene unit with a capacity of 120,000 tpa, on the basis of an agreement signed by Unipetrol, Dwory, Chemopetrol and Kaucuk. One of the reasons behind Dwory's purchase of Kaucuk this year was due to the lack of butadiene production in Poland, currently running at around 60,000 tpa. The new plant is expected to come onstream in 2009.

Unipetrol-Q1 2007

Unipetrol posted net earnings of Kc 1.564 billion in Q1 2007, an improvement from a Kc 786 million profit in the same period in 2006. Sales stood at Kc 20.64 billion, and were 2% higher than last year's Kc 20.26 billion. On the one hand, increases in sales' turnover were restricted by the loss of Spolana, whilst the profit growth was influenced by lower oil prices and better refining and petrochemical margins.

Chemopetrol was again the most profitable unit in Unipetrol in the first quarter, with sales up 5.6% at Kc 8.9 billion and profit 19.6% higher at Kc 1.1 billion. In the third quarter, Chemopetrol will undertake a major shutdown, which will see ethylene capacity raised to 544,000 tpa. The cracker will be out of action for around six weeks and the polyolefin units will be idle for four weeks. The refinery division of Unipetrol, Ceska rafinerska, saw sales rise 0.5% to Kc 2.25 billion in Q1 2007, and profit fell 31% to Kc 63 million. Unipetrol Rafinerie reversed year-ago loss into profit of Kc 276 million, and its sales grew by 1.6% to Kc 14 billion.

Kaucuk generated sales worth Kc 3.37 billion (+26%) and profit worth Kc 401 million (+90%). Unipetrol expects a slight deterioration of its performance in the second half of the year due to temporary shutdowns at Ceska rafinerska, Chemopetrol and Paramo. The main question facing Unipetrol's future profitability is what will be the impact of Kaucuk's sale on the group's sales and profit. Kaucuk has been acquired by Dwory and the transaction will be settled in a couple of months.

PKN Orlen-Achema

PKN Orlen is keen to follow its acquisition of Mazeikiu Nafta in Lithuania by working closely with chemical company Achema at Jonava. Negotiations are still in the early stages, but PKN Orlen is looking to develop areas of petroleum chemistry. Achema is focused on syngas chemistry, having first been created in 1962 for the production of nitrogen fertilisers. In the organic sector, Achema produces methanol (75,000 tpa), formaldehyde (105,000 tpa) and polyvinyl dispersions (2,500 tpa).

Belneftekhim-Poland

Belneftekhim may open a sales outlet in Poland due to improving market share in fibres and other chemical products. Poland purchased around \$300 million of petrochemicals from Belarus in 2006. The opening of Belneftekhim in Poland is part of a marketing strategy to increase volume sales into the EU.

Petrom-Oltchim

Romanian oil company Petrom is currently in the process of setting up a new petrochemical company, by splitting petrochemicals from its refinery operations. The spin-off, Petrom Petrochemicals Arges, will operate as a self-sufficient company. Petrom has decided to outsource its petrochemical activities and is currently in negotiations with Oltchim which could result in Oltchim taking over the cracker at Pitesti. Although several other European companies could be interested in Petrochemicals Arges, Petrom sees Oltchim as a preferable partner due to its pipeline link with Pitesti. In the first quarter of 2007, Petrom sold 87,900 tons of petrochemicals, but since being taken over by OMV has not represented a strategic focus of the group.

Rompetrol-Q1 2007

Rompetrol Rafinare has closed the first three months of 2007 with net losses of \$3.26 million compared with net losses of \$23 million in the first three months of 2006. Results include those of the Petrochim refinery and its other subsidiaries: Rompetrol Petrochemicals, Rom Oil, Rompetrol Downstream and Rompetrol Logistics.

The company's revenues reached \$664.25 million, an increase of 32% on the results posted in the first three months of 2006.

Romp petrol plans to invest nearly \$800-900 million over three years to upgrade the Serbian oil company Naftna Industrija Srbije (NIS) if it wins the race for its privatisation. The finance needs to be invested to upgrade NIS production systems to European standards. The privatisation process for NIS will be resumed in May and last between four and six months.

Intermediates

Oltchim-Q1 2007

Oltchim doubled net profit to 5.6 million leu in the first quarter of 2007, and increased overall revenues 11.3% to 478.7 million (€144 million). Oltchim increased total expenditures in the first quarter of 2007 by 10.8% to 473 million, as the company moves ahead with its development strategy. For the whole of 2006, the company recorded 1.8 billion in revenues and 13 million in profits.

Spolana-chlorine

Spolana has been instructed that it must terminate mercury-based chlorine production by 2014, having received a deadline from the Central Bohemian Regional Office. Spolana has already stated that 2014 is a realistic deadline for the plant and expects to have completed the conversion by then. The Arnika environmental association had originally wanted the company to stop using mercury by 2010, which would have meant no time for introducing an alternative method of production.

The change to another technology will cost up to Kc 3 billion. Financing of the project will be achieved through higher production revenues, although it is not clear from which product area, and an additional loan. According to Arnika, Spolana could leak around 2.5 tons per annum of mercury over the next five years.

Spolchemie-2006

Spolchemie has decided not to pay dividends on 2006 results, as a large part the profits will be used for covering losses from the previous years, with the remainder going to the reserve fund. Spolchemie made a Kc 81.79 million profit in 2006 and its sales reached Kc 4.34 billion. Profit of the entire group, which also includes Epispol, Synpo, Polyspol and MetalTech, was worth Kc 111.66 million.

Spolchemie invested Kc 604 million in 2006 and plans to spend Kc 843 million in 2007. The company expects a Kc 220 million profit on Kc 4.49 billion sales this year. Spolchemie's majority owner is the Via Chem Group, which also controls oil and biofuel producer Setuza.

Ciech-new strategy

Ciech plans to present a new strategy in June, after it has been accepted by the management and the supervisory board. Initially, plans were being based on a net profit of zł.167 million set against revenues of over zł 3.4 billion. However, these provisions have changed as Ciech's Q1 result was better than the expected. Moreover, Ciech plans to issue bonds worth around zł 751 million which will support investment plans. Ciech signed a contract with Procter & Gamble in April 2007 for the delivery of dense and light soda ash for 2007 and 2008. The total value of the contract is estimated at around zł 63 million.

South East European company news

Chimcomplex has selected Bertrams Salt Plants Ltd as the supplier for the basic engineering and key equipment for the 12,000 tpa calcium chloride plant (flakes and pellets) at Onesti. Chimcomplex produces chloralakil, inorganic chlorides, organic solvents, synthesis intermediaries, alkyl amines, disinfectants from Romania. Chimcomplex is heavily focused on finding new ways to make the existing plants more profitable, to reduce production costs and to identify investment targets.

Dye and polish producer Dyo Balkan estimates turnover of €5-7 million in 2007, representing a 75% increase on 2006 of €4 million. The company owns a plant in Oltenita in Romania, which was opened in 2003 and will invest this year around €1 million to expand the production capacity from 6,000 tpa to 10,000 tpa.

Bulgarian cellulose and fibre producer Sviloza at Svishtov increased net profits in the first quarter to 421,000 leva compared with an 822,000 leva loss in the same period in 2006. Sviloza netted a 1.544 million leva profit

for 2006. Net sales of the company increased to 16.328 million leva for the first quarter of 2007, up from 7.292 million leva in 2006. The good results are due to the increase in production.

Sviloza has incorporated a wholly-owned subsidiary (Sviloza-BIO) in Romania which will engage in timber supply and trade. Sviloza-BIO will supply timber to the Sviloza plant in Svishtov, on the Danube river, where it also operates a port facility.

PCC Rokita-energy

PCC Rokita at Brzeg Dolny is investing zł 107 million in a new EC3 class industrial power station, which will provide PCC Rokita with electric energy and heat steam. On 6 February this year, PCC Rokita signed an agreement with Polimex Mostostal SA to act as general contractor for the investment. The new heat power station is expected to be put into use by July 2008.

The new energy plant will replace two old and inefficient heat power stations which are currently operating. The main stimulus for investing in the project is ecological issues. Construction of a new plant will make it possible to reduce the emission of dust, sulphur dioxide and also nitrogen compounds. For PCC Group, the investment at Brzeg Dolny is the first step in building a business area in the local area, and would follow the company's other interests in chemical production and logistics.

MMA-Leuna

The Quinn Group expects to start its new MMA plant at Leuna in the first quarter of 2008. Quinn Chemicals GmbH, a subsidiary of Quinn Plastics will manage the plant. At full capacity the new plant will produce approximately 100,000 tpa of MMA, requiring an investment of more than €150 million. The investment is being subsidised by the development grants of the local region Saxony-Anhalt. Quinn Chemicals GmbH will introduce a highly advanced, modern continuous direct oxidation and etherification production process.

RUSSIA

Feedstocks

Feedstock goals

Despite a relatively successful year for the Russian petrochemical industry in 2006 coupled to a positive investment climate, Russian petrochemical producers have been facing mounting challenges over feedstock and energy costs. Nearly all producers seem to be affected to some degree by higher costs and need to adapt to cost cutting in other areas in order to stay profitable and competitive.

Chemical exports were valued at \$13.2 billion in 2006, which was 16.8% up on 2005 and totalled 4.6% of total export revenues. The financial and economic status of the majority of chemical companies saw improvements in 2006. This included increases in profits across the board of around 25% on 2005.

Feedstocks represent one of the main challenges facing the day to day operations, and with the other two categories listed below provide the major areas requiring strategic decisions in the near to mid term.

Russian Petrochemical Sector Areas Requiring Change or Investment

- ? Feedstocks, prices and supply
- ? Intellectual, financial, technical and political possibilities for improving feedstock resources
- ? Government regulation of environmental issues, social guarantees and legal ownership

For the past two years, a number of major petrochemical projects have been announced, but this year to date has seen something of a cooling off period as producers and investors take stock of objectives. Decisions on plant size continue to be complicated by the relatively small scale of domestic consumption in certain product areas, at least in comparison to regions such as North America, West Europe and North East Asia.

Thus, it is difficult to establish new large scale plants with full market allocation in the domestic economy. Logistically, Russian companies are not well placed to compete in export markets and so this leaves the possibility of plants being under-utilised.

Production costs in Russia are already estimated to exceed those of the Persian Gulf or China by 20-30%. Costs could be made more competitive with investments into hydrocarbon production and logistics, but these are essentially long-term projects. The creation of infrastructure for collection and processing of associated gases also provides a key priority.

In addition to feedstocks, prices on rail transportation and electricity are rising quickly, often in the range of 15-20% per annum. Other areas of concern are customs duties as Russia will eventually become part of the WTO and this will require modifications of existing regulations.

Illustrations of fully integrated investment projects are limited, aside the construction of the new Tatneft complex at Nizhnekamsk. This involves creating a full chain from oil refining to petrochemicals and products. This is expected to be a successful project, and could act as the stimulus for similar project developments.

Petrochemicals

Nizhnekamskneftekhim First Quarter Results

<i>Financial category</i>	<i>Q1 07</i>	<i>Q1 06</i>
Turnover, Billion roubles	14.243	10.972
EBITDA, Billion roubles	3.238	4.244
Net Profit, Billion roubles	1.237	0.816
Profit as a % of sales	15.0	14.0

Nizhnekamskneftekhim-Q1 2007

Nizhnekamskneftekhim has forecast an increase its turnover to 55 billion roubles in 2007, with a profit level of around 7.6 billion roubles. Average wages will rise to 18,200 roubles per month, whilst at the same time the number of employees will remain the same. First

quarter results for Nizhnekamskneftekhim showed a sharp rise over 2006, due largely to higher polystyrene production and new polypropylene capacity. However, the company's EBITDA showed a marked fall which was attributed to the rises in costs for straight run gasoline (naphtha) and energy. Net earnings were higher in the first quarter, thought mainly due to tax reasons.

Nizhnekamskneftekhim investment projects

Nizhnekamskneftekhim has indicated plans to increase ethylene capacity up to 1.6 million tpa as a key part of the company's development programme for 2007-2012. In September this year, Nizhnekamskneftekhim should have completed the current expansion of the ethylene cracker thereby increasing capacity to 600,000 tpa. Nizhnekamskneftekhim recently launched the new furnace SRT-VI at the ethylene complex. Subsequent plans involve the construction of a new cracker, initially with a capacity of 700,000 tpa and rising eventually to 1 million tpa. Although plans are far from being finalised, feedstocks for the plant are expected to be naphtha or straight run gasoline. TAIF-NK provides Nizhnekamskneftekhim currently with 1.5 million tpa of naphtha.

A new product at Nizhnekamsk to come out of petrochemical production is hexene-1. Furthermore, Nizhnekamskneftekhim is discussing with foreign partners the possible creation of a JV for the production of polybutene. If the project goes ahead, it would make Nizhnekamskneftekhim the first producer of polybutene in Russia, as with hexene-1. The dialogue has focused on the foreign partner providing the technology and

SIBUR Holding feedstock suppliers By percentage

<i>Associated gas</i>	<i>Q1 06</i>	<i>Q1 07</i>
TNK-BP	61	53
Rosneft	17	23
Gazprom Neft	10	10
Rusneft	7	6
Others	5	8
 <i>Hydrocarbons</i>	 <i>Q1 06</i>	 <i>Q1 07</i>
Gazprom	47	55.2
Surgutneftegaz	31	30.5
Others	22	14.3
 <i>Gasoline fractions</i>	 <i>Q1 06</i>	 <i>Q1 07</i>
Gazprom Neft	98.9	98.2

Nizhnekamskneftekhim providing the base and location. If the two sides agree, the project could involve 30-40,000 tpa of polybutene.

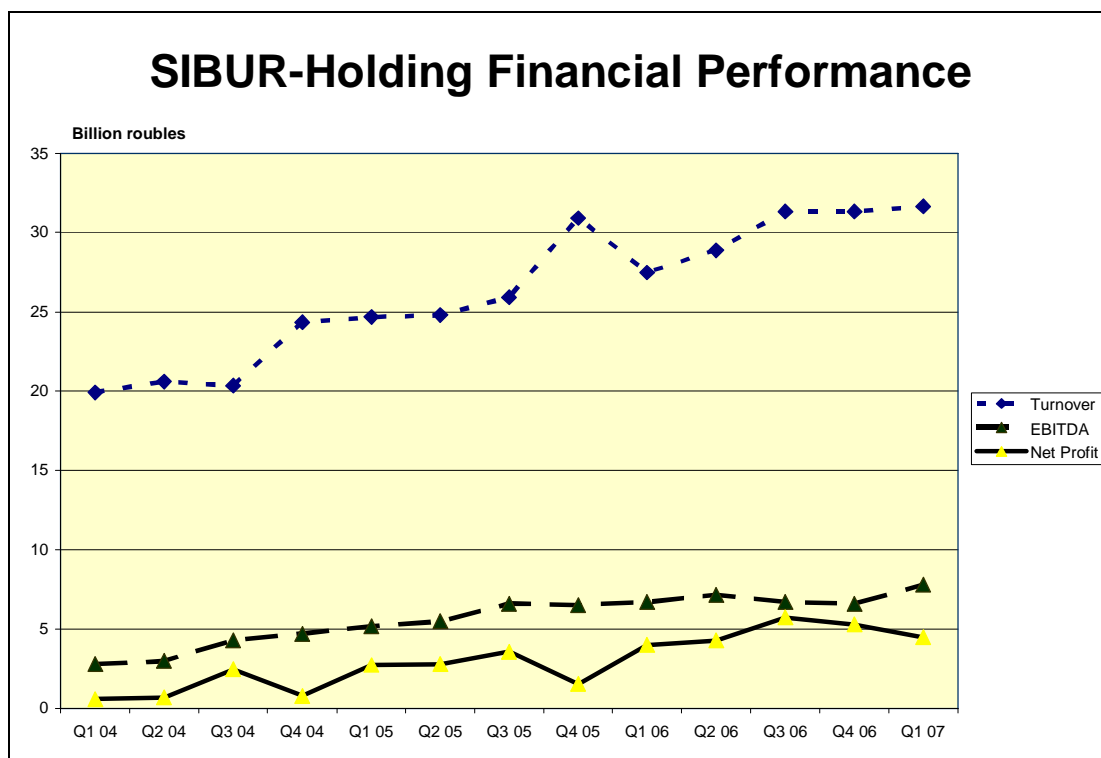
Nizhnekamskneftekhim has been recently undertaking a revamp on the butane column at the divinyl and hydrocarbon complex. By the first quarter of 2008, Nizhnekamskneftekhim plans to finish construction of a new butadiene-styrene rubber unit. Also, a plant for ABS resin and a third line for general purpose polystyrene should be completed in the first half of 2008. Agreements for constructing the ABS project were signed by Nizhnekamskneftekhim in September 2005, with a capacity of 50,000 tpa.

SIBUR-Holding Q1 2007

SIBUR-Holding increased revenues in the first quarter of 2007 by 15% to 31.63 billion roubles. Increases were put down largely to higher prices, coupled with marginal rises in production. Net profits increased by around 9% to 4.58 billion roubles, which meant that profitability on sales declined from 16.16% to 14.5%.

This compares against negatively Kazanorgsintez, which increased profitability from 14.2% to 21.3%. SIBUR-Holding's reduced profitability was attributed to higher costs for hydrocarbons and energy, coupled with the strength of the rouble. Notwithstanding, the company is becoming more transparent, which lays the foundations for the planned IPO in the future.

Regarding SIBUR-Holding's plants, Tobolsk-Neftekhim will shut for maintenance between 1-26 June. SIBUR-Holding is planning to increase its stake in Uralorgsintez from 88% to 95%, which would allow it to take full control of the company. Uralorgsintez became part of SIBUR-Holding in 1999.



Kazanorgsintez Raw Material Suppliers

Q1 2007

Raw Material	Supplier	Tons	% purchases
Ethane	Gazprom	64,684	74
	Tatneft	22,151	26
	Total	86,835	100
Ethylene	Nizhn'eftekhim	17,258	34
	Salav'orgsintez	33,957	66
	Total	51,215	100
Propane-Butane	SIBUR-Holding	33,743	50
	Imexneftekhim	21,600	32
	Others	12,298	18
	Total	67,641	100
Benzene	Belis	3,054	16
	SIBUR-Holding	4,573	24
	Megapride	1,012	5
	Severstal	1,321	7
	Kinef	1,822	9
	Others	7,595	39
	Total	19,377	100

Kazanorgsintez-Q1 2007

Kazanorgsintez increased turnover in the first quarter of 2007 by 43% to total 5.462 billion roubles, with net profits rising 4.5 fold to 1.161 billion roubles. Sales from polyethylene totalled 4.089 billion roubles, or 75% of total turnover. The expansion in polyethylene production was the chief factor behind the growth in revenues.

The first quarter report of the company says that Kazanorgsintez received 64,700 tons of ethane from Gazprom in the first quarter. Gazprom contends that it was only 33,500 tons, for which it did not receive the 21,000 tons of polyethylene as stipulated in the contract.

Kazanorgsintez has approved the credit from Sberbank for the sum of 840 million roubles. The funds will be guaranteed against Kazanorgsintez and will support the investment into expanding the ethylene complex. Other projects that are targeted

for investment include the bisphenol A and polycarbonate plants, which are scheduled for start-up in the second half of 2007. The only other producer of bisphenol A in Russia is Ufakhimprom, whilst polycarbonate is only produced in very small quantities and dependent mostly on imports.

Angarsk Petrochemical Company

On 3 May 2007, Rosneft subsidiary Neft-Aktiv was declared the winner of an auction for the YUKOS assets being sold in connection with the company's bankruptcy proceedings. The auction consisted of stakes in 37 enterprises, the largest of which includes 100% of Tomskneft-VNK; 70.78% of East Siberian Oil and Gas Company; 100% of Angarsk Petrochemical Company; 100% of Achinsk Refinery; 100% of Angarsk Polymer Plant; and 100% of Strejevskoy Refinery. Other entities in the Tomsk region were also included.

Rosneft has no prior experience of petrochemicals so it will be interesting to see if it maintains control over Angarsk Polymer Plant. As for the refinery Angarsk Petrochemical Company looks to have been a prime target. Primary refining capacity at Angarsk is 16.4 million tpa, although in 2006 the refinery processed only 8.7 million tons of oil. The Angarsk refinery plays an important role in the Siberian oil products market, it provides a feedstock base for the Irkutsk region, and is the ninth largest producer in Russia.

Salavatnefteorgsintez-Gazprombank

Gazprombank, a part of Gazprom Group, purchased 53.92% in Salavatnefteorgsintez (SNOS) in May. It is not much of a surprise as Gazprom has been operating the company for several years, and had made it clear that it had an intention of purchasing general interest in SNOS.

Salavatnefteorgsintez stated in its first quarter report of 2007 that feedstock costs represent the main problem facing Russian petrochemical producers. Domestic suppliers have increased prices in the past 12-18 months in line with world prices. There are also concerns over a lack of liquidity in the domestic market, despite the strength in demand.

In response to higher feedstock costs the emphasis is for Salavatnefteorgsintez is in cost reduction and improving efficiencies in the production process. The main sources of feedstock for Salavatnefteorgsintez come from the Karachaganak gas condensate field, the Orenburg and Astrakhan gas condensate fields and West Siberia.

Aromatics & derivatives

Polief-Q1 2007

Polief incurred losses of 427.703 million roubles in the first quarter of 2007, 64.2% higher than in same period 2006. The bigger losses were due to increased production volumes, thus involving greater costs. It could be some time before Polief will see profits from its PTA operations. Even so, losses were lower in the first quarter than the fourth quarter of 2006, helped by higher average prices of PTA. Prices reached 20,020 roubles per ton (\$781) against 18,736 roubles (\$724). These prices are quoted in the first quarter report of Polief, as prepared for the stock market.

**Polief's main financial indicators
(million (US Dollar))**

	Q1 07	Jan-Dec 06	Jan-Dec 05
Turnover	40.611	82.201	18.256
Gross loss	-9.135	-25.136	-1.764
Net loss	-16.513	-50.792	-11.469

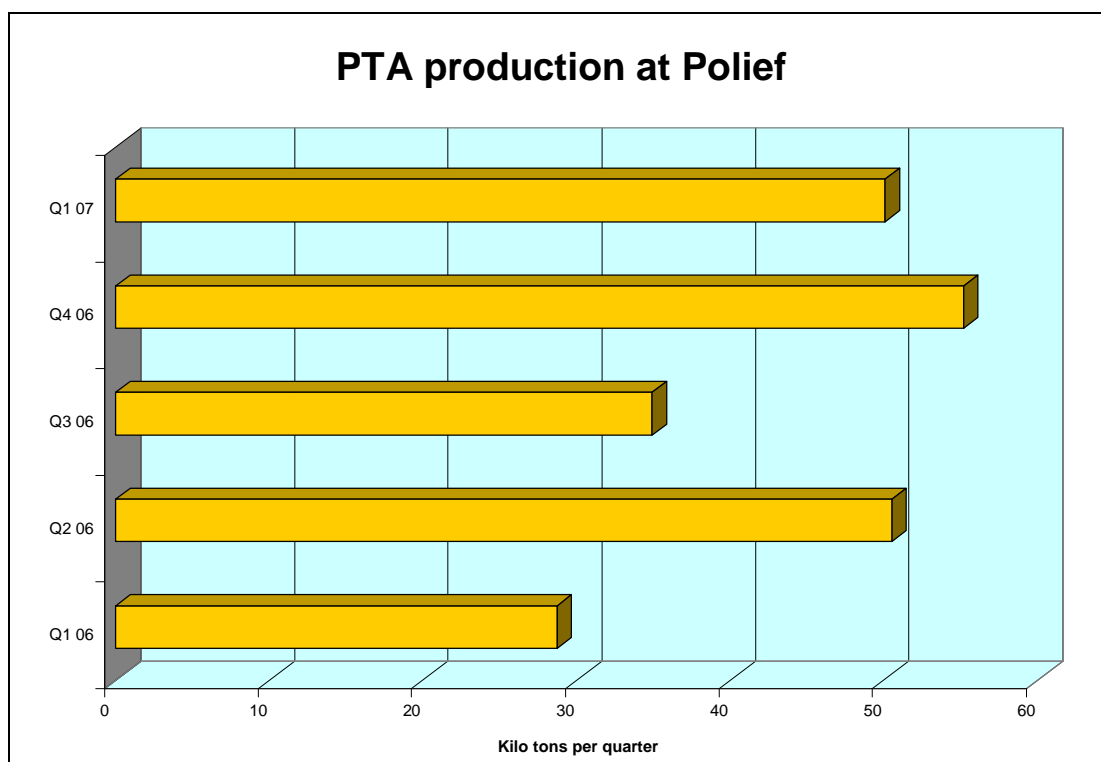
Source: Polief

Polief is well placed in the Russian market to capitalize on growth in PET production. The PET market for 2006 in Russia is expected to reach around 600,000 tons, which could rise to 780,000 tons by 2010. Production of PET in Russia in 2007 is likely to be around 190,000 tons and thus there remain opportunities for imports at least for the present. However, at some stage later this year the new Polief PET plant will be started and from 2008 onwards

imports will start to fall sharply. By 2010, Russia could be producing 880,000 tpa of PET which could even mean a surplus over demand projections.

PTA consumption in Russia amounted to 75,500 tons in 2006 and is forecast to total 666,000 tpa by 2010. The planned expansion by Polief of PTA capacity from 230,000 tpa to 600,000 tpa will be focused primarily on domestic consumption.

Gazprom started selling feedstocks in May, through Salavatnefteorgsintez, to the Ufimsky refinery at Ufa. These feedstocks, after processing, will then be sent to Ufaneftkhim for the production of aromatics, including paraxylene. It is indicative that the purchase of shares in Polief by SIBUR has created the basis for Gazprom to create a full circle from feedstock production to PTA and eventually PET production.



PTA, PET-Tatarstan

South Korean company KP Chemical Corp visited Tatarstan in May to assess possibilities for a PTA and PET project. This may even be in addition to the project already under construction at Nizhnekamsk, but it seems that KP Chemical is keen not to lose its market share in Russia for PET. At the same time, this goal has to be balanced against the risks that come with investments in Russia, which have been reflected in the experiences of Shell with Sakhalin-2 and TNK-BP over Kovytko.

The Korean project, in which discussions are being held with local bank AK Bars, is yet to be finalised and could depend ultimately on paraxylene supply. The proposed capacities include 400,000 tpa of PET and 200,000 tpa of PTA. The Korean side would be involved not only in providing technology, but also providing additional supplies of PTA. If it goes ahead, the proposed PET project could be constructed at Alabuga, which is the location for a special economic zone in Tatarstan and located around 70 km from Nizhnekamsk.

Kazanorgsintez-bisphenol A, polycarbonate

Kazanorgsintez has started the process of initiating the first equipment of the bisphenol A project. Construction was started on the reactors in readiness for the intake of phenol for the production of bisphenol A. The two reactors will each require around three weeks of work before they are ready.

The new plant has already received government approval regarding safety and ecological standards. The technology for the bisphenol A plant has been supplied by Idemitsu Kosan Co, which has also been approved by the government. Kazanorgsintez, together with TAIF, signed purchasing contracts for licenses and design for the bisphenol A and polycarbonate plants in 2004. Polycarbonate technology was agreed with Asahi Glass, with Toyo Engineering providing the design for both plants and Mitsui over-seeing the project in its entirety.

The projects consist of 70,000 tpa of bisphenol A and 65,000 tpa of polycarbonate, and will allow Kazanorgsintez to convert phenol and acetone into the valuable commodity products by a safe and ecologically clean method. The bisphenol A plant is scheduled for start-up in Q3 2007 and the polycarbonate plant in Q4 2007.

Kuibyshevazot-turnover Q1 2007

In the first quarter of 2007, Kuibyshevazot increased turnover by 20% to reach a total of 4.1 billion roubles. Profits rose 43.3% to 466 million roubles. An increase in turnover is due to the increase in production by 6.7%, and due to higher prices on the world market. The third polyamide unit, currently under construction at

Togliatti, should be completed in the fourth quarter this year. The capacity of the third plant will have a capacity of 23,000 tpa, totalling 95,000 tpa of polyamide-6. A large proportion of production of polyamide-6 is shipped to China for Kuibyshevazot's Shanghai subsidiary.

Metafrax-polyamide

Metafrax and Italian company Persico have signed a contract for equipment for a new polyamide plant at Gubakha. The cost of the plant is €6.5 million, with installation planned for autumn 2008. Plant capacity is 1,550 tpa, thus doubling capacity at Metafrax. The project is part of the company strategy until 2010

PVC-Chlorine

PVC producers

Plastkard at Volgograd, which is part of the Nikokhim group, produced 31,975 tons of PVC in the first four months of 2007. This was 14% higher than in the same period in 2006. A major contract of 15,000 tons was completed in the first part of the year, supplied to Profine Rus, for the production of high strength window profiles.

Kaustik at Sterlitamak saw increased revenues in the first quarter for PVC, fuelled by higher domestic demand and new export opportunities. PVC accounted for 41% of the company's total turnover, followed by epichlorohydrin at 16.6%, plasticizers at 14.6% and caustic soda 11.1%.

Kaustik's main financial indicators (million US Dollar)

	Q1 07	Jan-Dec 06	Jan-Dec 05
Turnover	91.295	376.996	287.153
EBITDA	26.079	130.935	63.150
Net Profit	12.115	111.072	26.733

Source: Kaustik

In the first quarter of 2007, 44% of Kaustik's raw material purchases consisted of ethylene which were purchased from Salavatnefteorgsintez. Also from the same plant Kaustik purchased DOP for plasticizer production. Kaustik is focused on an investment strategy involving an expansion of VCM-PVC to 180,000 tpa in the 2007-2009 period. Plans to expand PVC capacity beyond 180,000 tpa to 400,000 tpa have

been put on hold until the feedstock position can be clarified.

Nizhniy Novgorod PVC project

The Scientific Research and Project Institute for Ecology (NiiPI) in Moscow is reported to have nearly completed the estimation of environmental impact from the proposed PVC project in the Nizhniy Novgorod region. The procedure for environmental approval is quite rigorous, with various bodies involved. Opposition to the plans have been strong, predicated on the experience of the current SIBUR-Neftekhim plant at Dzerzhinsk.

After obtaining all agreements and approvals, SIBUR-Holding plans to finalise the project schedule for constructing the new PVC complex, which is expected to be located at Kstovo. The local administration is very keen for the project to go ahead, and sees the proposed plant as being built as the basis for the major PVC production centre in Russia. It would also help to create around 650 jobs for the local area. The initial size of the plant is expected to be 330,000 tpa, with investments amounting to \$700 million and a completion date of 2010-2011. Longer term plans exist for an expansion of capacity to 500,000 tpa, but this would ultimately depend on feedstock supplies.

Chlorine market in Russia

An increase in the demand for chlorine has been seen in the past few years in Russia, with consumption reaching 1.092 million tons in 2006, 4.4% higher than in 2005. Following the start-up of the new membrane based complex at Sayanskkhimplast in August 2006, around 9% of capacity in Russia is now accounted for by modern technology. The main share, however, is still diaphragm and mercury which create environmental problems, in addition to incurring higher costs.

Total capacity for chlorine production in Russia is rated at 1.502 million tpa, which comprises 2.7% of the global total. Chlorine production in Russia totalled 1.105 million tons in 2006, 3.9% higher than in 2005.

In terms of usage, around 45% of chlorine production in Russia goes into VCM and epichlorohydrin. Around 70% of epichlorohydrin is exported, although Russian consumption is increasing with the development of epoxy resins at Novomoskovsk. Trichloroethylene is produced in Russia by Usolyekhimprom, Khimprom at

Volgograd and Kaprolaktam at Dzerzhinsk. Usolyekhimprom is the largest producer with 42,000 tpa of capacity and has been running at full capacity over the past year due to the strength of demand from China.

The major players in the chlorine market in Russia consist of Nikokhim, Renova-Orgsintez and the Nitol group, all of which have expansion plans. This year, the Nitol group plans to increase caustic soda and chlorine production at its subsidiary Usolyekhimprom by up to 20% with capacity running at maximum loads. Nikokhim and Renova-Orgsintez are both considering investments into PVC capacity and are attempting to widen the integration chain from chlorine into derivatives. Further details of chlorine derivatives can be seen at www.cirec.net/report.

Methanol market

Hexion-Shchekinoazot

Hexion Specialty Chemicals and Shchekinoazot have announced the formation of a joint venture company to manufacture resins for the forest products and construction markets. The joint venture company, Hexion-Shchekinoazot, will produce a wide range of resin systems used in mineral wool insulation, plywood, medium density fibreboard and particleboard.

The company will construct a resin production facility in the Tula region of Russia, which is around 300 km from Moscow and is directly at the Shchekinoazot industrial site. Production is planned to start by the end of 2007. Initially the new resins plant will produce phenol-formaldehyde resins before expanding to the production of urea-formaldehyde resins and other thermoset-formaldehyde derivatives. Shchekinoazot will ensure a reliable and regular supply of raw materials for the new production site through its operating UFC plant and formalin plant. The new resin plant to be constructed by the joint venture company is based on technology from Hexion.

Russian methanol market trends

Methanol capacity in Russia currently stands at around 4 million tpa, with output in 2006 3.1 million tons. The largest producers in Russia consist of Metafrax, Togliattiazot, and Metanol (Tomsk), the first two of which are capable of producing more than 1 million tpa. Around half of Russian production is exported, but domestic consumption is increasing, particularly for the production of formaldehyde. For 2006, methanol consumption can be broken down for Russia as 37.2% for formaldehyde, 20% for drying agents for the natural gas industry, 15% for 15.9% and 11.2% for isoprene.

The main export destinations for Russian methanol exports in 2006 were the EU, accounting for 94.4% of all shipments in 2006. Exports this year could be complicated by the application of REACH regulations from 1 June.

Domestic prices of methanol have risen from \$53 per ton in 1999 to \$315 per ton at the end of 2006. The increases are due to gas prices combined with increased demand. Whilst exports still play an important part in product sales efforts are being targeted towards developing new areas of consumption such as the production of fuel for the power stations, and the conversion of methanol into olefins. Other areas include obtaining dimethyl ether and biofuels for transport, and also possibilities for new chemical syntheses based on methanol.

Uralkali-2006

Uralkali's net profit for 2006 fell 2.1-fold against 2005 and totalled \$142.48 million. This was attributable to the accident in October 2006 at the company's mine, and delays in export contracts with potassium chloride consumers. Nonetheless, the company ensured contracts in 2006 with consumers on supplies of its products in advance, and accelerated implementation of its production development programme, which will help offset losses. The accident at the mine led to the mine's shutdown and output was reduced by 1.25 million tons for the whole year. Uralkali has responded well this year, by cranking up potassium chloride output by 14% in the first two months to 804,000 tons. In 2006, the company financed new facilities as part of the investment programme: construction of the fourth technological unit in the third ore administration. A new production facility with 440,000 tpa of capacity is to be commissioned in 2007. These achievements suggest that the company will be able to gradually restore output and produce around 5 million tons of potassium chloride in 2007. Uralkali increased production of calcium chloride by 30% in the first four months of 2007, totalling 1.7 million tons.

Belarus

Belarussian oil supply

The volume of Russian oil deliveries into Belarus fell 23.4% in the first quarter of 2007 compared to 2006. Oil deliveries from Iran, Azerbaijan and even Venezuela have been negotiated, but prices are higher than Russian prices.

Polimir at Novopolotsk has been running normally since the start of the year, despite the crude problems. In 2006, the company increased production by 6% over 2005. At present, the focus is on trying to reduce costs and optimising production in response to an increase in the cost of energy. Polymir plans to direct nearly \$800 million towards the construction of a new petrochemical complex over the next 5-6 years.

Belarussian production

In the first four months of 2007 Belneftekhim produced 78,500 tons of chemical fibres and threads, which was 8.5% higher than in 2006. Grodno Khimvolokhno increased the production of technical polyamide threads from 2,900 tons to 4,100 tons, whilst Svetlogorsk Khimvolokhno increased polyester textile threads by 34.5% over 2006 to 8,300 tons. Moglievkhimvolokno also increased production by 11.6%, fuelled by the new production facilities for high textile threads. Exports of petrochemicals worth \$210 million were made by Belneftekhim in the first four months of 2007.

Moglievkhimvolokhno concluded tenders for the purchase of 30,000 tons of PTA in May. Mozyr NPZ is increasing refining capacity to 12 million tpa by 2011 from 10.560 million tpa, and will produce around 60,000 tpa of benzene and 120,000 tpa of paraxylene. This will follow other stages in development including the construction of the alkylation complex.

Grodno Azot-biofuels

Grodno Azot plans to introduce a new unit in 2007 for the production of biofuels based on oils and methanol. Construction is currently in the first phases for a plant with a capacity of 2,000 tpa. MTBE will be the resultant product. The cost of the project is about \$1.5 million.

Central Asia

Uzbekistan-ethylene project

Uzbekneftegaz and Korean gas company Kogas are assessing project plans to construct a gas-chemical complex in Uzbekistan. The project is being at completion by 2010-2011, and estimated at a cost of \$1.5 billion. The two companies are seeking to create a JV and to start construction in 2008. The plant would be based on the processing of gas from the Surgil deposit in the in Ustyurt region, which is in the west of Uzbekistan. The Surgil deposit contains the equivalent of 84 million tons of dry gas.

Project plans include the construction of units of 360,000 tpa of polyethylene and 80,000 tpa of polypropylene. Kogas could provide up to \$1 billion for the construction. Uzbekistan, after Turkmenistan, is the most important producer of natural gas in central Asia. Tashkent develops collaboration with China and Russia in several major projects on the search, output and transport of hydrocarbons.

Other Uzbek news

Uzbekistan expects to start the export of soda ash before the end of this year from the Kungrad plant. The capacity of the plant is 100,000 tpa, with the plant producing around 30,000 tons last year after start-up. Full utilisation rates are expected by this August.

Ferganaazot in conjunction with the Uzbek project institute Uzkhimesanoat is developing a project for the reconstruction of the ammonia plant. This will facilitate an increase in the production of ammonia and also mineral fertilisers.

Kazakhstan

Kazakhstan Petrochemical Industries

Construction of the new petrochemical complex in Kazakhstan is expected to start in December 2007. Investments of up to \$5.2 billion will be directed towards the construction of plant facilities. The project will be

financed mainly by KazMunaiGaz (KMG) and SAT & Company, which have created the company KKazakhstan Petrochemical Industries to manage the complex. The capacity will total around 1.2 million tpa, including ethylene, polyethylene and polypropylene. The project is directed toward processing of the natural gas from Tengiz in the first stage and Kashagan in the second. Strategic partners involve Basell International Holdings and HSBC Bank. Agreements for raw material supply guarantees were signed in May by KazMunaiGaz for Kazakhstan Petrochemical Industries. Propane and dry gas will be delivered to Atyrau in specified volumes and prices.

Currencies

(Czech crown, Kc, \$1 = 21.078, €1 = 28.388)
 (Hungarian Forint, Ft, \$1 = 186.52, €1 = 250.77)
 (Polish zloty, zl, \$1 = 2.8327, €1 = 3.8084)
 (Bulgarian leva, \$1 = 1.4537, €1 = 1.9544)
 (Ukrainian hryvnia, \$1 = 5.0300, €1 = 6.726)
 (Rus rouble, \$1 = 25.889, €1 = 34.807)

Contents Issue No 198

Petrochemicals	2
MOL Q1 2007	2
TVK-Q1 2007	2
PKN Orlen-Q1 2007.....	3
Butadien Kralupy	4
Unipetrol-Q1 2007	4
PKN Orlen-Achema	4
Belneftekhim-Poland.....	4
Petrom-Oltchim.....	4
Romp petrol-Q1 2007	4
Intermediates	5
Oltchim-Q1 2007	5
Spolana-chlorine.....	5
Spolchemie-2006.....	5
Ciech-new strategy	5
South East European company news	5
PCC Rokita-energy.....	6
MMA-Leuna.....	6
Feedstocks	6
Feedstock goals	6
Petrochemicals	7
Nizhnekamskneftekhim-Q1 2007	7
Nizhnekamskneftekhim investment projects.....	7
SIBUR-Holding Q1 2007	7
Kazanorgsintez-Q1 2007	8
Angarsk Petrochemical Company	9
Salavatnefteorgsintez-Gazprombank	9
Aromatics & derivatives	9
Polief-Q1 2007	9
PTA, PET-Tatarstan	10
Kazanorgsintez-bisphenol A, polycarbonate.....	10
Kuibyshevazot-turnover Q1 2007	10
Metafrax-polyamide	11
PVC-Chlorine.....	11
PVC producers	11
Nizhniy Novgorod PVC project.....	11
Chlorine market in Russia.....	11
Methanol market	12
Hexion-Shchekinoazot.....	12
Russian methanol market trends.....	12
Uralalkali-2006	12
Belarus.....	13
Belarussian oil supply	13
Belarussian production	13
Grodno Azot-biofuels	13
Central Asia.....	13
Uzbekistan-ethylene project.....	13
Other Uzbek news	13
Kazakhstan.....	13
Kazakhstan Petrochemical Industries.....	13

