

CIREC

MONTHLY NEWS

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

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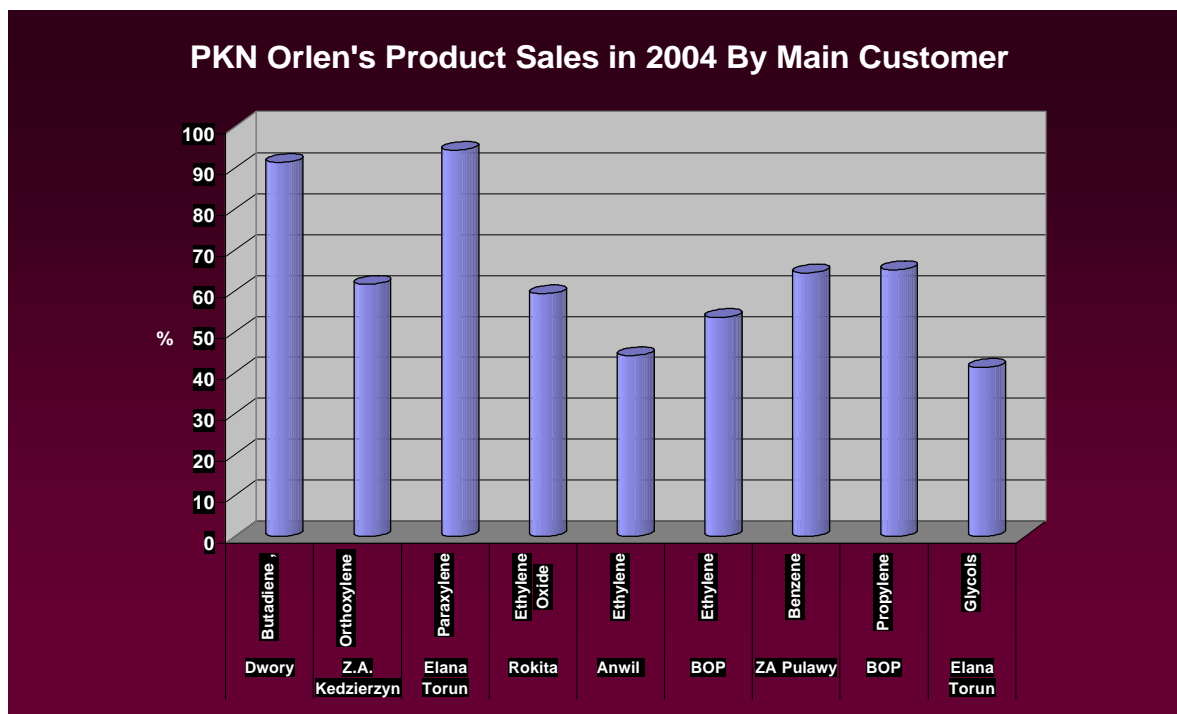
Features from the fifth issue in 2005

- Sales of petrochemical products by PKN Orlen fell slightly in 2004 over 2003 by 0.6%. In 2004, the company noted a fall in sales of paraxylene due to lower demand on the domestic market, whilst ethylene and orthoxylene also fell. The amount of petrochemical products exported by Orlen is determined after domestic demand has been satisfied, and thus exports are not considered a priority. The sale of plastics was ended by PKN Orlen after the conclusion of the transfer PE and PP production to BOP.
- Dwory has suggested that it is planning to acquire a chemical producer from Central and South East Europe in the first half of 2005. According to the company's CEO, Dwory is looking for a potential target in Romania, the Czech Republic or even Germany, and the transaction will be worth hundreds of millions of zlotys. The company's revenue from sales in 2004 was zł 1.04 billion (€230 million), and net profit levelled out at zł 52 million. Dwory is planning to increase its sales in 2005 to zł 1.2 billion (€300 million), and net profit to zł 57 million (€14.3 million).
- Honeywell has announced a \$7 million contract with Oltchim to use the Experion Process Knowledge System and field instrumentation (transmitters, control and motorised valves). The project is scheduled to be completed in 2006, with the first unit start up during the fourth quarter of 2005.
- LUKoil and Gazprom have signed a general agreement for a strategic partnership for the period from 2005 to 2014. Agreements have been signed before on joint exploration projects and co-operation on gas condensate deliveries, etc. However, possibly the distinguishing and important aspect of this agreement that both companies have adhered to a programme of long-term joint programme for production of rubber, plastic and other petrochemical and gas chemical output.
- Grodno Khimvolokhno will start the production of high-strength polyester industrial thread in May-June 2005. The new product will have a capacity of 5,500 tpa. In February, Grodno Khimvolokhno started the installation of the moulding machine by Barmag, whilst also equipment and technology supplied by Buhler will be introduced soon. The new capacities are to be launched in the second quarter.
- After a long layoff, hydrogen production resumed at the Kaprolaktam division of SIBUR-Neftekhim. On 23 March, the first consignment was supplied to Sintez. The hydrogen production line at Kaprolaktam was suspended 18 months ago due to a lack of demand. Previously, hydrogen produced delivered via a pipeline to Sintez and Aviabor at Dzerzhinsk.
- Nizhnekamskneftekhim has completed work on the development method for processing propane-propylene-butane-butylene fractions (PPBBF) at the divinyl plant. The programme has been designed to provide additional volumes of feedstocks for the first and second industrial zones of the complex. PPBBF will be directed to the olefin unit with the aim of propylene production, whilst butane will be used for the production of butyl rubber. The raw material flows of PPBBF will start at the end of April in volumes of 11,000 tons per month.

CENTRAL & SE EUROPE

Poland

(Polish zloty, z³, Apr 25, \$1 = 3.2822, €1 = 4.186)



PKN Orlen 2004

The above chart illustrates the major Polish customers for petrochemicals produced by PKN Orlen in 2004. In most cases there is one main consumer for each product, although for ethylene there are two main customers, Anwil and BOP. Nearly all the butadiene and paraxylene is delivered to Dwory and Elana respectively. A large share of the benzene production at Plock goes to Pulawy for caprolactam production.

Polish Chemical Production		
Product	Jan-Feb 04	Jan-Feb 05
Oleum	34.4	36.4
Caustic Soda	11.9	14.6
Soda Ash Light	67.8	61.2
Soda Ash Heavy	136.7	133.0
Ethylene	52.0	54.8
Propylene	43.0	42.9
Butadiene	7.3	8.2
Toluene	16.9	12.1
Phenol	9.0	9.0
Caprolactam	26.1	26.2
Polyethylene	27.8	25.4
Polystyrene	17.2	14.4
PVC	46.7	40.2
Polypropylene	24.6	24.2
Synthetic Rubber	16.5	18.4
Pesticides	6.0	6.2

Sales of petrochemical products by PKN Orlen fell slightly in 2004 over 2003 by 0.6%. In 2004, the company noted a fall in sales of paraxylene due to lower demand on the domestic market, whilst ethylene and orthoxylene also fell. The amount of petrochemical products exported by Orlen is determined after domestic demand has been satisfied, and thus exports are not considered a priority. The sale of plastics was ended by PKN Orlen after the conclusion of the transfer PE and PP production to BOP.

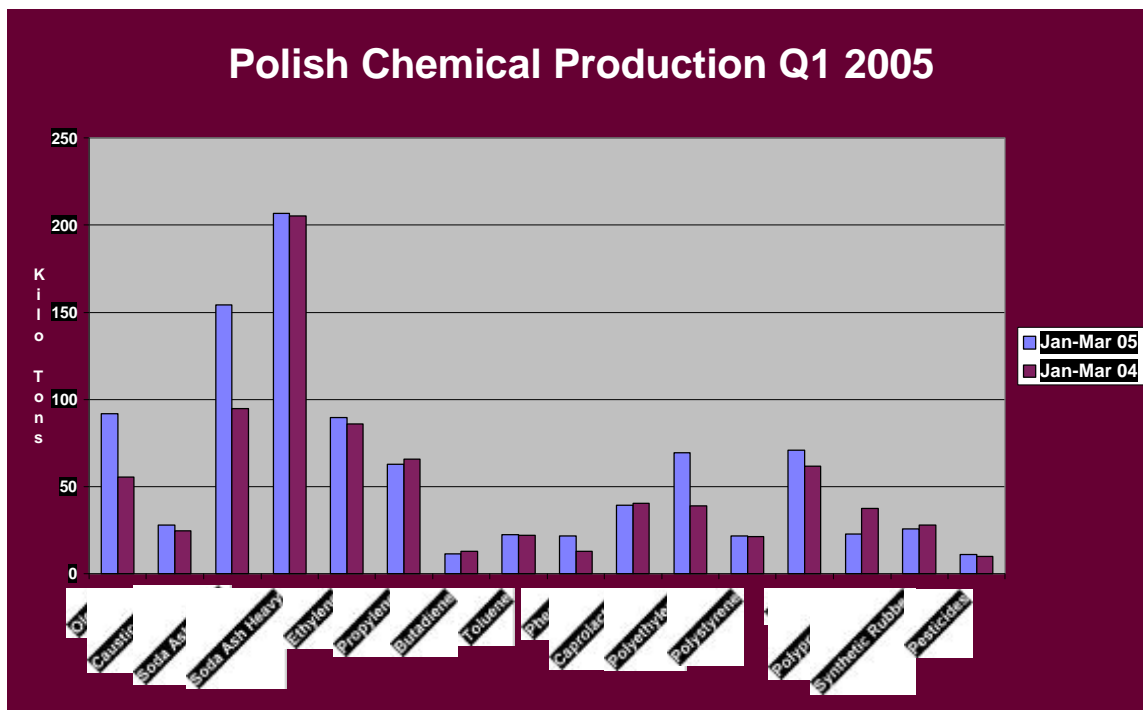
In terms of feedstocks, the entire crude oil supply bought by Orlen in 2004 was provided to Plock from Russia. This year will be very important for Orlen in view of the Unipetrol acquisition and the start-up of Olefin 11 which will help to support the new polyolefin plants at Plock.

PKN Orlen acquisition/expansion plans

The board of PKN Orlen has given further examination to the budget of chemical sector based investments intended for acquisitions and on chemical projects in 2005, and has taken the decision to participate in the privatisation of Zakłady Azotowe Tarnow and Zakłady Azotowe Kedzierzyn. The combined debts of Tarnow

and Kedzierzyn to PGNiG comprise nearly \$100 million for raw materials delivered in previous years. Nafta Polska has offered PKN Orlen an option of privatisation for these two companies.

PKN Orlen has started to outline its plans for the development of an Olefin 111 complex, to add to the existing cracker and the cracker project which will be completed this year. Olefin 111 would have an ethylene capacity of 600,000 tpa to add to the 660,000 tpa from the combined Olefin-1 and Olefin-11 plants. At this stage it is not clear on which derivatives this extra monomer capacity would be targeted.



Dwory

Dwory has suggested that it is planning to acquire a chemical producer from Central and South East Europe in the first half of 2005. According to the company's CEO, Dwory is looking for a potential target in Romania, the Czech Republic or even Germany, and the transaction will be worth hundreds of millions of zlotys. The company's revenue from sales in 2004 was zł 1.04 billion (€230 million), and net profit levelled out at zł 52 million. Dwory is planning to increase its sales in 2005 to zł 1.2 billion (€300 million), and net profit to zł 57 million (€14.3 million).

In terms of production capacity, Dwory ranks third in Europe after Dow/BSL and Polimeri Europa. The company exports around one-third of its output which makes it one of the largest Polish exporters. In 2003, the share of exports in the company's total sales amounted to 32%.

Polish synthetic rubber is known under the KER brand. Produced by Dwory, KER originated in the 1930s when Poland was the world's third country to develop the industrial process of synthetic rubber production. Dwory is also known as a producer of latex, styrene products and vinyl and acrylic dispersions. Synthetic latex is used in the production of carpets, mattresses, chipboards, adhesives and insulation products in the building industry.

Hungary

(Hungarian Forint, Apr 25, \$1 = 191.96 €1 = 249.54)

BorsodChem

Dynea International Oy and BorsodChem Rt are investing in increased production capacity at their jointly-owned company BCKC Formalin Kft at Kazincbarcika. The plant, based on Dynea's formaldehyde process technology, will double its capacity to 120.000 tpa by the end of 2005.

In 2004, BorsodChem achieved substantial progress in development projects, in particular moving towards mercury-free chlor-alkali technology. As a part of the capacity expansion in the chlorine-vinyl line the company entered into a contract with Chlorine Engineers Corp. Ltd., an affiliate of Mitsui & Co. Ltd. for the basic design of a membrane-celled electrolysis plant. The initial capacity is 80,000 tpa which can be increased up to 160,000 tpa. The new membrane-celled chlorine plant with a capacity of 80,000 tpa will start the test run late in 2005. By the same time two capacity expansion projects had been implemented. PVC capacity increased from 300,000 tpa to 330,000 tpa, while TDI production capacity rose from 60,000 tons tpa to 80,000 tpa.

Developments in VCM/PVC have been dependent on TVK's expansion in olefin capacity. An agreement for ethylene supply exists up to 2013. Equally, BorsodChem has developed an isocyanates business which provides greater value. This year a new MDI plant will start with a capacity of 100,000 tpa, established on a proprietary technological base. This will take total capacity to 160,000 tpa.

MOL 2004

In 2004, MOL's operating profit for its petrochemical division reached Ft 19.0 billion, which represents a significant improvement compared to 2003. This was due to a more favourable market environment, efficiency improvement measures and improved utilisation of available capacities. The main driver in profitability was a 13% increase in the integrated petrochemical margin, as higher polymer prices and the weakening of the dollar against the euro compensated for the negative effect of a higher naphtha price.

The integration of TVK and Slovnaft resulted in further efficiency improvement. In 2004, MOL's polymer sales increased to a total of 872,000 tons, 14% higher than in 2003. This was due to higher polymer production and the consolidation of Slovnaft's petrochemical sales in full year for 2004, against only from Q2 onwards in 2003. The breakdown of polymer sales for MOL by product group consisted of 33% LDPE, 24% HDPE and 43% PP. Total sales fell by 3% to 1,057,000 tons due to a re-classification of some non-olefin and non-polymer product sales at Slovnaft from the petrochemical division to the downstream product-portfolio. Hungarian polymer sales increased by 26% due to both an improvement in market share and a change in consolidation circle.

The MOL Group's market share in Hungary consisted of 64%, 46% and 73% respectively for LDPE, HDPE and PP markets. Polymer sales in the Slovakian market increased by 30% as Slovnaft was consolidated for the full year in 2004, while only from Q2 in 2003. MOL Group's market share in Slovakia was 74% and 41% respectively in LPDE and PP markets. In terms of export markets, TVK is becoming more active in Russia and Ukraine.

In 2004, MOL's capital expenditure fell against 2003, as the construction work in TVK's new plants was completed in 2004. At Slovnaft, construction of the new polypropylene plant is within schedule and budget. Slovnaft plans to invest up to \$134 million in 2005 for the completion of the new polypropylene plant. This will take capacity from 80,000 tpa at present, to 255,000 tpa.

Through these projects MOL Group ethylene capacity will increase by 42% to 839,000 tpa, while total polymer capacity will increase by 41% to 1,281,000 tpa.

Romania

Oltchim

Honeywell has announced a \$7 million contract with Oltchim to use the Experion Process Knowledge System and field instrumentation (transmitters, control and motorised valves). The project is scheduled to be completed in 2006, with the first unit start up during the fourth quarter of 2005.

Oltchim selected the Honeywell solution for its ability to drive high economic returns and achieve major improvements in quality control and plant operations. The deal was also helped due to an attractive financing scheme offered by Honeywell.

Honeywell's overall automation solution will enable Oltchim to increase overall production for some important products such as PVC, propylene oxide and polyols. In addition, the process will help to minimise operating costs. The company is committed to extend the scope of the contract in order to include a real time steam and heat consumption control system.

Other projects include the process control complete revamp of other Oltchim's installations such as monomers, sodium chloride and TDI. The contracts are seen as part of helping Oltchim's competitiveness in the East European chemical market.

The Romanian government is to relaunch the privatisation of Oltchim Ramnicu Valcea in the second half of this year. The government stated that ongoing litigation with minority shareholders needs to be resolved before the privatisation goes ahead.

In the early part of 2005, Oltchim has increased its share capital to 3.55 billion leu in a debt-conversion move which paves the way for its privatisation. The conversion into newly-issued shares of its debt to the State Assets Recovery Authority (AVAS) boosted the Oltchim stake held by Romania's Economy Ministry to 95.75%.

Rompetrol

Rompetrol has announced the completion of the buy back of the 25.1% stake held by OMV in The Rompetrol Group (TRG). The stake reverted to the management of Rompetrol Holding, the parent company, which now controls 100% of The Rompetrol Group.

TRG will continue its international expansion program under the ownership of the management focusing on developing its downstream/upstream business units in the Balkans and the CIS.

BALTIC STATES

Omsk Chemical Company has started the construction of a new plant for the production of polystyrene household products at Klaipeda. This is a joint Russian-Lithuanian project which should be completed at the end of 2005 at a cost of 370 million roubles.

Continental plans the construction of new tyre plant in Lithuania with a capacity of 10 million tyres per annum. At the end of 2004, Continental confirmed that it was undertaking a new jv plant with the Moscow Tyre Plant with a capacity of 3.4 million tyres per annum, start-up planned for 2006.

LUKoil agreed to supply oil to Mazeikiu Nafta, which saw crude from Russia stopped halted at 1 April, and is forced to process oil from the previously accumulated reserves. In accordance with the agreement signed between LUKoil and Mazeikiu Nafta, 600,000 tons of Russian oil will be supplied to the complex quarterly.

The Lithuanian Government is considering take-over bids for the oil complex, run by YUKOS. The discussion concerns buying out the first and second options, whole share holding in the company and the proposals received by YUKOS.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

(Rus rouble Apr 25, \$1 = 27.744, €1= 36.011)

In the first two months of 2005 Russia's exports of nitrogen fertilisers fell 10.4% to 1.562 million tons over the same period in 2004. However, cash earnings increased 20.4% to reach \$204.4 million. Exports of synthetic rubber grew by 5.8% to 114,600 tons equating to a 48% increase in cash earnings to \$172.1 million.

Methanol exports fell by 27% in the first two months of 2005 to 218,000 tons, whilst earnings increased 6.5% to \$38.9 million. Ammonia exports totalled 430,200 tons, representing a 15.7% fall against 2004.

Production volumes for Russia were up overall in 2004 over 2003. Although ethylene remained largely the same, propylene output saw an increase of around 90,000 tons and benzene by over 100,000 tons. Production data for all the main petrochemicals for Q4 2004 and the full year is available on the online CIREC database.



SIBUR/Gazprom

LUKoil-Gazprom partnership

LUKoil and Gazprom have signed a general agreement for a strategic partnership for the period from 2005 to 2014. Agreements have been signed before on joint exploration projects and co-operation on gas condensate deliveries, etc. However, possibly the distinguishing and important aspect of this agreement that both companies have adhered to a programme of long-term joint programme for production of rubber, plastic and other petrochemical and gas chemical output.

Some of the SIBUR projects underway in 2005 include the completion of the reconstruction of the Gubinsk gas processing plant which will facilitate the production of wide fractions of light hydrocarbons. Other projects include the modernisation of the LDPE plant at Tomsk and the reconstruction of the styrene plant at Perm.

Polief

A new player came from virtually nowhere to beat SIBUR and LUKoil for Polief, with suggestions of Chechem backing. It was widely expected that SIBUR and LUKoil-Neftekhim would compete for the ownership of Polief, or even unite to make a joint purchase and create a jv. The PTA unit at Blagoveshchensk, when completed, could be extremely valuable for Russia and SIBUR's PET plant at Tver. However, SIBUR considered that a price of above \$100 million was not effective from the economic point of view and wanted to pay a much lower price.

SIBUR and LUKoil-Neftekhim have submitted a claim to the arbitration court in Moscow regarding recognition of the sale transaction of 100% shares in Polief to Selena. The arbitration court of Moscow will review the deal on 17 May.

Togliattikauchuk

In the first quarter Togliattikauchuk produced 69,600 tons of synthetic rubber against 71,900 tons in the same period last year. Changes have been brought into the commodity programme of Togliattikauchuk by SIBUR with the aim of achieving higher added value. Thus, the share of synthetic rubber as a part of total commodity output of the plant has been reduced.

Tomskneftekhim

In the first quarter of 2005 Tomskneftekhim increased the production of olefins and polyolefins by 2% against the same period in 2004. Full production numbers are available in the database at www.cirec.net/report. The company increased formaldehyde production by 42% to reach 27,294 tons, whilst urea-formaldehyde resin production increased 52% to 24,868 tons.

The emphasis of the company is on an improvement in quality and on the replacement of outdated equipment, and also on some large investment projects. In particular, construction is underway to increase polyethylene capacity eventually up to 220,000 tpa.

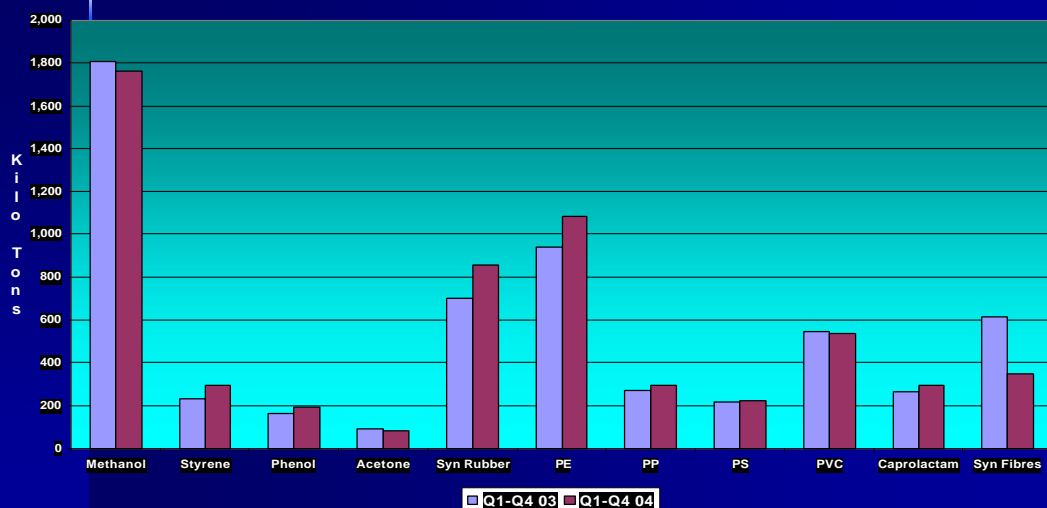
SIBUR-Neftekhim's Production (unit-ktons)

Product	Q1 05	Q1 04
Petrochemicals	175.5	181.7
Ethylene	57.8	52.4
Eth Oxide (merchant)	20.6	16.3
MEG	42.0	40.5
DEG	4.5	4.9
TEG	0.3	0.3
Propylene	27.8	26.3
Benzene	20.1	18.6
BBF	15.8	12.4
C5	5.2	5.6
C9	2.5	4.1
EDC	23.9	21.1
PVC	8.3	8.8
Caustic Soda	23.9	19.8
Chlorine	3.9	2.8
Plasticizers	7.0	7.1
Ethylene chlorohydrin	4.2	2.7

SIBUR-Neftekhim

After a long layoff, hydrogen production resumed at the Kaprolaktam division of SIBUR-Neftekhim. On 23 March, the first consignment was supplied to Sintez. The hydrogen production line at Kaprolaktam was suspended 18 months ago due to a lack of demand. Previously, hydrogen produced delivered via a pipeline to Sintez and Aviator at Dzerzhinsk. These plants stopped buying hydrogen due to different reasons; Aviator built its own hydrogen facility whilst Sintez stopped using the substance due to changes in production plans. However, Sintez has now renewed its demand for hydrogen and in 2004 agreed with SIBUR-Neftekhim to resume hydrogen supply. From April, in compliance with the Sintez's demand, hydrogen supply increased to 1,200 cubic metres an hour.

Mainstream Russian Petrochemical Output 2004



26/04/2005

www.cirec.net/report

Tatarstan

Tatenergo

Tatenergo is to equip a number of power stations with installations that will allow a reduction in energy cost prices by one around and a half times current levels. This strategy will firstly include the Kazan thermal power station-1 and the Nizhnekamsk the thermal power station-1, the latter of which is predicted to have a total capacity of nearly 210-230 Megawatts by 2009. There are also plans together with Kazanorgsintez to re-equip the Kazan thermal power station-3 in the order of 100 megawatts .

Kazanorgsintez

Kazanorgsintez expects to increase production turnover in 2005 by a quarter to reach 14.468 billion roubles, with the main product increases seen in polyethylene pipes and phenol and acetone. In 2004, the company increased turnover by 35.1% over 2003 to reach 11.8 billion roubles. Last year's gross profit was 2.7 billion roubles, with total taxation of 1.84 billion roubles. Average wages rose 40% in 2004 to 12,180 roubles per month.

At the end of April Kazanorgsintez will convene a special meeting for discussing a potential increase the authorised capital of the company. It currently stands at 1.904 billion roubles. The additional issue of shares of 5.55 billion roubles value is planned, which will mean that the authorised capital will expand by more than 3.5 times and will surpass 7 billion roubles. The shares are to be distributed among the shareholders by the closed subscription at 1 rouble per share.

TAIF, the major shareholder, controls 51% of Kazanorgsintez. The additional issue of shares is needed for attracting funds for the modernisation and increasing of the ethylene and HDPE capacities. In April 2004, the Kazanorgsintez board of directors adopted a \$900 million modernisation programme up to 2011, including the increase of the company's capital. A credit arrangement of \$64 million has been agreed with Sberbank.

In near future Kazanorgsintez will launch three palletizing and stacking Mellar machines for polyethylene. New lines will pack the end products into compact stacks on Europallets, which will allow a substantial reduction of commercial product losses from bags rupture in transit and storage. Apart from the new machines, Kazanorgsintez already operates three Italian filling and packaging lines.

Nizhnekamskneftekhim

Nizhnekamskneftekhim has completed work on the development method for processing propane-propylene-butane-butylene fractions (PPBBF) at the divinyl plant. The programme has been designed to provide additional volumes of feedstocks for the first and second industrial zones of the complex. PPBBF will be directed to the olefin unit with the aim of propylene production, whilst butane will be used for the production of butyl rubber. The raw material flows of PPBBF will start at the end of April in volumes of 11,000 tons per month.

In 2005, Nizhnekamskneftekhim plans to achieve a turnover of 35.3 billion roubles, coupled with a gross profit of 5 billion roubles. In the investment programme for the period between 2004 and 2008 a total of thirty projects are involved.

This year the main projects are focused on the expansion of the butyl rubber plant to 100,000 tpa; the start of the second polystyrene line; the continued work for the one stage synthesis process for isoprene taking capacity to 160,000 tpa in 2006; the start of the construction of the DSSK rubber plant with a capacity of 100,000 tpa and the continued upgrade of the ethylene complex.

On 13 April 2005, Nizhnekamskneftekhim's ethylene output surpassed 10 million tons after starting in 1976. In 2004, for the first time, maximum operating capacity was achieved and 450,133 tons of ethylene was produced. The plant is currently undergoing reconstruction which will increase capacity up to 570,000 by 2007.

Most of the projects will serve the development of small and medium size businesses for the Nizhnekamsk industrial zone, which was created on the basis of Nizhnekamskneftekhim in 2004. The creation of the Nizhnekamsk industrial zone facilitates between the local petrochemical complex and the polymer converters.

When the new polypropylene plant starts up in 2006 Nizhnekamskneftekhim aims to produce polypropylene for manufacturing films, fibres, various kinds of packaging, and for the automobile industry. One goal is that for the most part production of polypropylene will be processed further to add value in Tatarstan.

NeftekhimSevilen

NeftekhimSevilen at Kazan produced 28,895 tons of polyethylene in 2004, 10% more than in 2003. Nizhnekamskneftekhim owns 51% of NeftekhimSevilen, having taken the stake in 2003 from Sevilen. 2004 saw record production volumes for NeftekhimSevilen.

Nefis

Nefis-Cosmetics has adopted an investment programme including the completion of three projects before the end of 2007. The first project includes the modernisation and launch in 2005 of the third unit of the liquid detergent plant with an increase in capacity from 250 million bottles to 500 million bottles by 2006. The total investment is €25 million.

The second project (costing €30 million) involves the launch of a new synthetic detergent plant in January 2006. It is scheduled that the plant will have a capacity of 210,000 tpa. The third project is the construction of the oily seeds processing plant in 2006-2007. The planned capacity is to be 125,000 tpa. The projects are to be completed using the loans provided by Sberbank. As a result, Nefis-Cosmetics' total turnover will grow in 2007 by three times over 2004, up to 10.5 billion roubles.

Nizhniy Novgorod

Korund

Korund has been in talks with BC-MCHZ over proposals for technology and equipment and also the construction of an aniline plant. The development of an aniline plant is part of the vertical chain being developed by Korund. Results of the first stage of co-operation will be already known in May 2005.

BC-MCHZ specialises in technology and catalysts for the production of aniline. BC-MCHZ, for the most part, exports aniline to large companies, such as Bayer and BASF. Recently the company won a tender for the construction of an aniline plant in Japan.

Korund is already in talks with Chematur Engineering and Ñ.Ñ.Ñ for the development of an isocyanates plant at Dzerzhinsk, including MDA-MDI and TDA-TDI. Another project involves the construction of a PVC processing plant in conjunction with LRS Ltd. As a result, Korund will be capable of producing PVC pipes for manufacturing with a diameter from 90 to 500 mm, sewage pipes with a diameter of 50 to 315 mm, and also window systems.

Akrilat

Akrilat has developed a three stage plan for the development of the complex at Dzerzhinsk in the period between 2005 and 2014. The first stage of the programme has started which is to concentrate on the production of methacrylic acid and ethers. In the period 2005-2009, in the second part of the programme, Akrilat plans to spend around \$150 million in the expansion of acrylic acid up to 60,000 tpa. The third stage of the company's development programme, in the period 2009-2014, involves the construction of a PTA plant at a cost of \$160 million. This is envisaged to be based on Mitsui technology whilst Mitsubishi Heavy Industries will also be involved.

Bashkortostan

Polief

The Russian Federal Property Management Agency announced in March that Polief had sold 100% of its shares to a little known Moscow region-based Selena group, rather than SIBUR or LUKoil-Neftekhim as had been expected in the auction. There are claims that Polief has been sold at an artificially high price and the deal will be examined in May 2005 by the Moscow arbitration court. Certainly, it seems difficult to comprehend Selena's decision to take a loan of \$300 million to complete the PTA plant. Moscow IRS bank, controlled by a Chechen banker Ibragim Bashaev, finances a number of the group's projects.

The Russian Federal Property Management Agency presented 100% of Polief's stock for the auction in late January. The initial price was estimated at 4,718 billion roubles, with the minimum price set at 1,638 billion roubles. The federal property agency later raised the minimum price to 2,338 billion roubles which may have deterred SIBUR. Despite the fact that PTA is required for PET production at Tver SIBUR felt that the price conditions were set too high.

However, the Russian Federal Property Management Agency would not cut the price and as a result the company's stock was bought by OOO Zavod Selena from Korolev (Moscow region) which had previously not been on the list of the claimants. The enterprise filed the application for the participation in the auction on 25 March and consented to buy Polief at 3,038 billion roubles.

OOO Zavod Selena is a part of Selena group composed of the companies which sell polyethylene, polystyrene, polypropylene, paints and inks, cable and shoes plasticizers, etc. The group is headed by Anatoly Bondarchyk who owns it jointly with Vladimir Kaniber. Anatoly Bondarchyk extensively discussed the future of Polief with the republic's president Murtaza Rakhimov in 2004, although the Bashkortostan's government thought that either SIBUR or LUKoil-Neftekhim would purchase the enterprise.

The new proprietor will be obliged to complete the construction of the complex and install its production capacity by July 2007 at the latest. Selena has no links with Gazprom or with any oil industry companies, and does not plan to collaborate with them in future. At the same time the head of Selena promises to fulfil all investment conditions and make the plant operate at capacity within two years.

SIBUR was surprised at the results of the auction and does not know how this trade group is going to supply Polief with raw materials. The point is that the project involves economic and technical risks. It is also unclear from where a totally unknown group managed to get more than 3 billion roubles. The group is reported to have already transferred 3,038 billion roubles to the Bashkortostan state coffers.

Kaustik

In 2004, Kaustik at Sterlitamak achieved a turnover of 6.678 billion roubles against 5.4 billion roubles in 2003. In 2005, the company plans to complete the revamp of the cable plasticizers plant at a cost of 160 million roubles. In 2004 and 2003, this unit produced 33,940 tons and 26,000 tons respectively and will after the revamp be capable of producing 42,000 tpa.

Investment plans of the company up to 2007 include a revamp of the PVC plant and an increase in capacity of up to 300,000 tpa at a cost of \$90 million. A reconstruction is planned of the caustic soda plant taking capacity up to 365,000 tpa, at a cost of \$35-45 million.

Bashkirian Chemical

Sterlitamak based plants Kaustik, Kautschuk and Soda will form part of holding Bashkiria Khimya which has been developed by the Bashkortostan. The creation of the holding will not affect the normal functioning of the three companies.

SNOS

Following maintenance at the Orenburg helium plant tests started in April for ethane supplies on the reconstructed pipeline to Salavatnefteorgsintez (SNOS) at a rate of 10-12 tons per house. Repair work at the gas processing plant and the helium plant, which exploded last August, and the linear part of the condensate pipeline have been completed.

Irkutsk

Sayanskkhimplast

Sayanskkhimplast has started the chlorine conversion from mercury to membrane which will facilitate a reduction of costs and substantially reduce the impact on the environment. Equipment was scheduled to arrive from Japan in April and after construction will be put into operation by August 2006.

Sayanskkhimplast is Russia's first chlorine producer to introduce membrane technology. Part of the funding has been provided by the Baikal Branch of Sberbank, which in 2003 opened a long-term €40 million line of credit for the company. One of the major problems in the project is connected with the high customs duties for

the equipment imports faced by Sayanskkhimplast. A substantial portion of the €40 million will be used for this purpose. The customs duties can not be avoided, but it is expedient to postpone their payment until the time when the equipment operation begins.

In the first quarter, Sayanskkhimplast produced 63,000 tons of PVC, which was 6% higher than the same period last year. In 2005, Sayanskkhimplast expects to run its PVC plant at full capacity. Around 85% of sales in the first quarter went to the domestic market, with China taking the remaining 15%. The company plans to increase PVC capacity to 400,000 tpa, coupled to the development of its own ethylene facilities based on ethane from the Kovytko deposit.

Usolyekhimprom

Due to improvements in production processes several Usolyekhimprom facilities substantially reduced their costs in 2004. Most of the company facilities reached a new level of feedstock and materials utilisation, and total savings amounted to 11.5 million roubles. The best results were achieved at the epichlorohydrin, trichloroethylene, and calcium hypochlorite facilities.

Product/Company News

Methanol

Azot at Novomoskovsk increased methanol production by 40% in the first quarter; the numbers are available at www.cirec.net/report for subscribers to the methanol section. Plans are being considered for the construction of a methanol plant in the Khanty Maninsk region in West Siberia. In the middle of March the authorities in the Krasnodar region intensified opposition against the project for a methanol and chemical terminal at Taman, serving the interests of Togliattiazot. A conflict over the terminal has been developing since the autumn of 2004. The regional and federal state bodies discovered that Togliattiazot was not observing the laws in the construction of the terminal and further construction was forbidden. Togliattiazot wants to ship around 1 million tpa of ammonia through the terminal increasing up to 6 million tpa.

In August-September 2005, Methanol at Tomsk will undergo a major reconstruction for around 30 days, designed to improve the general qualitative running of the plant. Methanol runs on a JV basis between VostokGazprom and Tomskneftekhim. The most important tasks will be to revamp the reactor based on ICI design, replacing the gas supply system and introducing a new catalyst which is being supplied by Johnson Matthey. During the course of the reconstruction period the plant will consume around 300 cubic metres of gas and 126 tons of catalyst. The costs of construction will be around 100 million roubles.

Polypropylene

Two new projects have come to attention in recent weeks, the first at Omsk which already involves a technology license and the second for Novatek which is yet to decide a location. If both projects go ahead, following on from developments elsewhere, it would transform Russia from a net importer of polypropylene to a large surplus market situation.

Basell has sold a technology licence to Russia's Titan Group to build an 180,000 tpa polypropylene plant at Omsk, using Spheripol technology. Tecnimont has been selected as the engineering contractor.

Titan, established in 1998, is active in synthetic rubber, chemicals and fuel additives, and is a newcomer to polypropylene production. Its new PP unit is scheduled to start up in 2007, with construction starting in six months time. Tecnimont will act as contractors, as part of the project the local companies Sibneft, Titan and Omsk Kaucuk will be involved. This will be the first project to be undertaken in the Omsk region for twenty years.

Furthermore, the Omsk region and Tecnimont have signed contracts regarding further co-operation. Tecnimont wants to expand its contacts with the Omsk region, not only focusing on polypropylene production. Talks have been underway for licensing between Basell, Inteza Bank and Sibneft. The polypropylene project is part of the wider investment plans for the Omsk region.

Novatek is considering the possibility of constructing a polypropylene unit of 250-350,000 tpa at a value of \$270-280 million. It has been proposed that the project be implemented in 2008. As an industrial platform for the project several sites are being considered including Novokuibyshevsk Petrochemical Combine (the

Samara region), Tobolsk-Neftekhim (West Siberia) and the Roshalksy Chemical Plant in the Moscow region. SIBUR has confirmed that talks are underway with Novatek for one of the sites for the project.

Caustic soda

In the Russian caustic and chlorine market EKK has started selling products from the Kirovo-Chipetksiy chemical combine and has emerged in the Russian caustic soda and chlorine market as a new player. In future, it will extend the number of manufacturers that comprise the Group.

The Kirovo-Chipetksiy Chemical Combine and the newly created EKK are managed by ex-president of SIBUR Dmitry Mazepin's structures. Recently, Mazepin has been engaged in forming Constructive Bureau holding, which, alongside with the majority stock of the Kirovo-Chipetksiy Chemical Combine, acquired 35% of Volgograd-based Khimprom's stock and the majority stock of Halogen of Perm. Mazepin is also interested in other suppliers of feedstock for fluoroplastics, including Altaiskkhimprom and Khimprom of Cheboksary.

Earlier, caustic and chlorine sales in the Russian market were handled by the ETK company. Starting from early 2004, the company consolidated 80% sales of the produced commodity volumes. Later, the Federal Antimonopoly Committee accused the ETK of a cartel agreement with manufacturers. The ETK has admitted its infringement of law on competition and will be subjected to penalties, while the manufacturers have been compelled to sell their produce directly to consumers.

Until recently, the EKK quoted its caustic 5% cheaper than the ETK, though slightly (2-4%) higher than independent manufacturers, including Khimprom of Novocheboksarsk.

Ukraine

A 53.86% stake was bought by Raiffeisen Investment AG in 2003 in RivneAzot and since then the company has invested around \$20 million in the modernisation of the production facilities. As part of the investment programme there is a five year project for the construction of a urea plant with a capacity of 500,000 tpa at a cost of \$100 million. Raiffeisen Investment AG considers its investment into RivneAzot to be a portfolio investment. Also the company wants to increase the RivneAzot capitalisation before selling to a strategic investor, although no term of the stake sale has been specified yet.

The new Ukrainian government has taken up observation posts at oil refineries and chemical plants to ensure that the necessary supplies are sent to the agricultural sector for the main growing season. Diesel fuel and fertiliser shipments are being watched carefully, and after 1 May these products will have restrictions on how much can be exported.

Crimean Soda plans to produce 638,000 tons of soda ash this year, although the company plans to expand up to 750,000 tpa. There are also plans in 2005 to start the construction of a new 400,000 tpa plant for heavy soda ash. In the first quarter of 2005, Titan in Crimea produced 21,433 tons of titanium dioxide (up 3,522 tons or 19.7% against the first quarter of 2004).

Belarus

In 2006, Gazprom will supply gas to Belarus at the same price as today, whilst Belarus will keep the prices for the Russian gas transit on the same level in return. Both sides wanted to increase prices for their respective contracts, but have come to a compromise. Earlier in March, Gazprom had announced that gas prices for Belarus will be increased to the level set for the trans-Caucasus republics of CIS.

Currently, the gas price for Byelorussia is the lowest among those established by Gazprom for CIS consumers at \$46.68 per thousand cubic metres. 2003 recorded substantial tariff hike when Gazprom increased the price from the Russian fifth level \$29 per thousand cubic metres. That resulted in suspension of Gazprom deliveries in 2004 and last February even caused temporary interruption of transit through Byelorussia. When the gas balance for 2005 was agreed the Belarussian authorities attempted to reduce the price by 18% due to the shift of VAT withdrawal from the country of origin in the union economic area. However, the Gazprom management was firm to retain the contract price of \$46.68.

In April Belneftekhim outlined a number of projects for Belarus. They included multilayer polypropylene films, new low-sulphur gasoline and diesel fuel brands, solid and liquid compound fertilizers, methanol, polyethylene and polypropylene pipes for gas and water supply systems, new types of engineering plastics, high-tenacity viscose and polyamide cord.

The group plants belonging to Belneftekhim have in the past year managed to boost feedstock provisioning volumes for the major petrochemical companies of the republic and consequently to reduce the raw material dependence on foreign suppliers.

Mozyr NPZ

Slavneft is considering its answer to the proposal from the Belarussian government that the Russian company participates in the paraxylene project for Mozyr, in addition to a gasoline alkylation unit. The new benzene unit at Mozyr will have a capacity of 41,200 tpa at a cost of \$26 million, and the plant should be ready by the first half of 2006.

Grodno Khimvolokhno

Grodno Khimvolokhno will start the production of high-strength polyester industrial thread in May-June 2005. The new product will have a capacity of 5,500 tpa. In February, Grodno Khimvolokhno started the installation of the moulding machine by Barmag, whilst also equipment and technology supplied by Buhler will be introduced soon. The new capacities are to be launched in the second quarter.

The company plans to produce a high-quality tyre cord on the base of the polyester industrial thread production. The start of tyre cord production (complying with the international standards) is scheduled by Grodno Khimvolokhno for the middle of 2006 after the launch of modern lines for impregnating and thermal processing of cord fabrics.

Polyester thread and polyester cord production will open new export opportunities because of the high demand for it in both the CIS and the non-CIS markets. Also polyamide cord production is in the process of being launched by Khimvolokhno. Modern equipment with a monthly capacity of 700,000 linear metres of polyamide fabric was installed in 2004. Currently, its utilisation rate is running at around 70%. To increase the operating rates, additional equipment for the production of the thread, cord impregnating and thermal processing is required. For this purpose, Grodno Khimvolokhno scheduled the purchase of another moulding unit for high strength polyamide thread.

Central Asia/Caucasus

Uzbekistan is trying to attract investors for the sale of nine domestic chemical companies, including Navoiyazot, Ammophos, Dzhakplastmass, Elektrokhimsanoat at Chrichik, etc. In recent years the chemical industry in Uzbekistan has seen good growth, in the range of 20% over the 2003-2004 period.

Nairit

A joint Armenian-Chinese enterprise, Shangtsi-Nairit, has been created for the production of synthetic rubber will soon start operations. According to the contract, 60% of the profit will go to the Chinese side and 40% to the Armenian.

With the start-up of the plant in China Nairit has the opportunity to solve many financial problems connected to the state budget of Armenia. Since August 2004 Nairit has stood idle due to energy debts of up to \$30 million. Shares in the plant belong to Armsvyazbank, the largest creditor of the enterprise.

Kazakhstan

Research has been underway by Kazakhstan scientists into a single-stage method of benzene production based on associated gas. At present, there is no commercial production of aromatics in Kazakhstan but research has meant that benzene and its derivatives can be produced based on new catalysts. Hydrogen is also produced simultaneously with benzene hydrocarbons. The feedstock available in Kazakhstan, in particular, zeolites, will be used for production. Using associated gas or methane for benzene production will substantially reduce the costs for commercial production. There is a shortage of aromatics in Kazakhstan for

the production of polystyrene, phenol, etc. Research has been underway into new catalysts and into the production of benzene from methane or associated gas.

There are plans to create a first national petrochemical park in the Atyrau Oblast. processing hydrocarbon raw materials based on Kashagan and Tengiz deposits. Shell Global Solutions has won a tender from KazMunaiGaz to provide the basis for a petrochemical complex in Kazakhstan. A report will be prepared with a consideration of various options ranging on technical and economic parameters, and recommendations for following stages.

At the end of 2004 KMG bought 50% of the shares of Atoll which gave control of the polypropylene complex at Atyrau the polystyrene plant at Aktau, and 86.7% of shares in the Atyrau refinery.

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