Chemical Information Resources for East Europe and CIS

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 no 209, 17 April 2008

Features from this issue

- Oltchim expects to buy Petrom's petrochemical division at Arpechim in two to three months at the latest.
- Unipetrol has launched the re-installation of the coldbox in its ethylene unit.
- Polish natural gas monopoly PGNiG may buy stakes in Zaklady Azotowe Tarnow and Zaklady Azotowe Kedzierzyn after their stock market flotation this or next year.
- The Ciech Group's net consolidated revenues from sales for the four quarters in 2007 were zl 3.418 billion.
- SIBUR-Holding increased revenue by 17% in 2007 to 142.7 billion roubles. Net income increased to a record 22.3 billion roubles, an increase of 4.2%.
- In the first quarter of 2009, Salavatnefteorgsintez expects to start up its 120,000 tpa polyethylene plant.
- The Russian government has heeded the requests of petrochemical producers and abolished the export duty to the polypropylene, which currently stands at 6.5%.
- The major investment at Salavatnefteorgsintez, which needs the help of an organisation or partner such as Gazprom, involves the construction of a 700,000 tpa ethylene plant.
- SIBUR-Holding has confirmed its official interest in Kazanorgsintez by stating it was examining how it could be integrated into the SIBUR structure.
- Mitsui is planning to support Sakhalin authorities to construct a plant for ammonia and methanol production.
- Sayanskkhimplast has signed a contract with Uhde for the modernisation of the VCM unit.
- Biaksplen, which recently purchased plant Grinn-Plastik in the Kursk region, has also started a second line for BOPP production at its main site in the Nizhniy-Novgorod region.
- After purchasing 100% shares in Novocherkassk Synthetic Products Plant from Rusnikor, Agroinvest is now embarking on a $500 million investment into the construction of a new methanol plant.
- Gazprom's Board of Directors has deemed chemicals and petrochemicals to be non-core businesses and has decided to split them up.
- SIIBUR-Khimprom has concluded a contract with Toyo to take responsibility for constructing the new ethylbenzene plant at Perm.
- Lakokraska at Lida will start installation of the new phthalic anhydride plant in May this year.
- Uzbekistan and South Korea have created a jv UzKorGasChemical to take control of the petrochemical project at the Surgil gas field in Ustyurt region.

CENTRAL & SOUTH EAST EUROPE

Petrochemicals

Oltchim-Petrochemical Arges

Oltchim expects to buy Petrom's petrochemical division at Arpechim in two to three months at the latest and outlined plans to invest a total of €1.06 billion (currently $1.7 billion) by 2013 to integrate it into its operations. The dual aims are to maintain incremental rises in the company's turnover, raising it around five times of its current level to reach around €2.5 billion per annum, and to reduce costs. Energy is a key consideration for Oltchim with costs at €6.5 million per annum, and it has recently appointed a new supplier Electrica to replace Energy Holding, which is the largest private energy trader in Romania.

As for Oltchim's own privatisation, seven investment funds are interested in buying shares according to the company sources. Oltchim officials recently indicated they would rather privatise the company by selling stock to investment funds than through a strategic investor. At the start of 2008, PCC Rokita acquired around a 13% stake in Oltchim which it still hopes to expand further. Oltchim's range of products in the polyol range is similar to PCC Rokita. Two lenders, the EBRD and IFC could also become Oltchim shareholders this year, as they have shown interest in buying shares in the chemical plant. Such institutions could help support the investment programme that has been announced. Oltchim remains majority-controlled by the Romanian state, holding 53% of the company's shares.

Unipetrol-coldbox installation

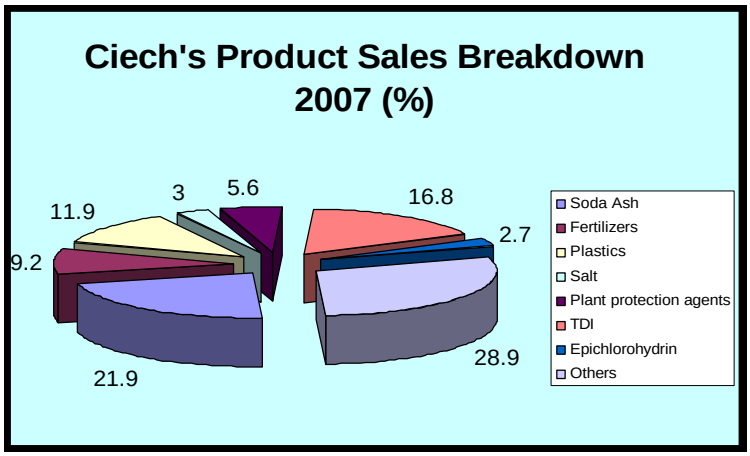
Unipetrol has launched the re-installation of the coldbox in its ethylene unit at Litvinov, and the process should be completed by mid-April. Since December 2007, the ethylene unit has operated without the coldbox, with ethylene production stabilised and benzene production limited to 80% of capacity. Unipetrol stated that the installation will cause no interruption in the production of ethylene, whilst there would be only several days' interruption of benzene production. The main outlet for benzene produced at Litvinov is for the production of ethylbenzene.

Intermediates/Chemicals

Interest in Tarnow and Kedzierzyn starts to broaden

Polish natural gas monopoly PGNiG may buy stakes in Zaklady Azotowe Tarnow (ZAT) and Zaklady Azotowe Kedzierzyn (ZAK) after their stock market flotation this or next year. The group is considering buying 10 to 20% stakes in Tarnow and Kedzierzyn on the bourse. In the next stage, the group would want to invest in a similar stake in Zaklady Azotowe Police. PGNiG is keen to take a stake in local chemical companies in order to prevent other gas distributors from taking control over a market estimated at 2.4 billion cubic metres per annum. ZAT will carry out its initial public offering in June and ZAK plans to float on the Warsaw stock exchange next year. For the fertiliser divisions of the two producers, PGNiG's involvement would provide long term feedstock guarantees.

PKN Orlen is also considering the purchase of a stake in ZAT at the company's initial public offering planned for June. Anwil also wants to take part in the sale of its state-owned peer ZAK, as it sees a great opportunity to build a chemical group. Potentially large economies of scale could be made in terms of products and investments between Anwil and ZAK, and there is a fair amount of product synergy. Although it is 84% owned by PKN Orlen, Anwil retains its independence as a producer. PKN Orlen has repeatedly put off plans to float Anwil, which was expected to have happened in the first quarter this year.



Ciech-2007

The Ciech Group's net consolidated revenues from sales for the four quarters in 2007 were zl 3.418 billion, which represented an increase of zl 1.244 billion, or 57% over 2006. As for overall performance in 2008 Ciech forecasts an increase of consolidated income in the soda ash division by around 63% over 2007, due mainly to the acquisition

in Germany. The company also expects an increase in consolidated income in the organic division, especially in epoxy resins at Organika-Sarzyna due to an improvement in manufacturing capacity.

The increase in 2007 was mainly attributed to sales generated by acquisitions in the fourth quarter of 2006, including Organika-Sarzyna, Zachem and S.C. Uzinele Sodice Govora. Furthermore, the Group noted a market upturn for products, in addition to high organic product prices (mostly TDI). Sales' prices from the soda division were also higher than the previous year.

In 2007, Ciech focused on four fundamental sectors consisting of organic, soda, agrochemical and inorganic. These separate sectors generated a total of almost 89% of the income from the Group's sales. Sales in the organic division in 2007 amounted to approximately 37% of income from the Group's sales, with Zachem being the key player. Whilst Zachem produces TDI and epichlorohydrin, sales of these products are carried out by Ciech. The organic division also covers products from Organika-Sarzyna (mainly resins). TDI sales accounted for 44% of revenues in the organic division in 2007, followed by plastics (40.1%) and epichlorohydrin (7.1%). Revenues in the organic division almost trebled in 2007 against 2006.

Polish Chemical Production (unit-kilo tons)

Product	*Jan-Feb 08*	*Jan-Feb 07*
Ethylene	108.3	100.0
Propylene	70.7	67.9
Butadiene	10.9	8.5
Toluene	25.2	22.5
Phenol	9.1	7.6
Caprolactam	27.7	27.4
Polyethylene	68.1	67.0
Polystyrene	20.2	15.0
PVC	45.9	47.6
Polypropylene	43.9	61.1
Syn Rubber	20.9	21.0
Pesticides	8.0	7.0

In the four quarters of 2007 the soda division generated 28% of the Group income. The parent company, Ciech SA, plays a key role in sales' operations, processing the total sales of the output from subsidiaries Soda Matwy and Janikosoda. Also in the fourth quarter of 2006, Ciech acquired .S.C. Uzinele Sodice Govora in Romania, which helped to increase sales by 17% in 2007. The main product group is dense soda ash, which accounts for approx. 60.6% of the total soda ash sales. The agrochemical division generated 16% of Ciech's total income in 2007, whilst the inorganic division generated 8% of the Group's sales. Having sold the Petrochemia Blachownia SA in 2006, Ciech withdrew from petrochemicals and petrochemicals accounted for only 3% of sales in 2007.

Ciech-TDI expansion

Following the agreement in September 2007 between Zachem and Mostostal Pulawy SA concerning expansion of the TDI system at Bydgoszcz, Ciech has allocated an investment budget of zl 90,521,050 to support the project. The target is to increase the current capacity of 60,000 tpa to 75,000 tpa. BorsodChem is the only other producer of TDI in Central Europe.

Synthos-coal usage

Synthos (formerly Dwory) is taking part in a feasibility study to assess the value of constructing a coal based plant at Oswiecim, which could eventually involve the construction of a new methanol plant. Coal resources are located nearby on the River Vistula, and Oswiecim is considered to provide the cheapest location. This project falls under the mantle of governmental projects, and if the business plan shows that it is profitable, then Synthos expects to participate. Within a distance of around 10 km of Oswiecim there are 3 mines, and even under the old Dwory site there are coal seams. The scientific analyses estimate that a complex at Oswiecim could produce 1.2 million tpa of gasoline and around 370,000 tpa of various chemical substances based on 6 million tpa of coal. Apart from synthetic fuels, methanol could be produced for which there is a growing demand in Poland and would reduce the dependency on imports.

Other Central European news

Italian moulder the Ostan Group is constructing a new plant in Poland to manufacture a range of semi-finished products and plastic and rubber parts for the automotive and domestic appliance sectors. Newly formed subsidiary Gimplast Polska is building a 6,000 square meter moulding facility in Sosnowiec in the Katowice Special Economic Zone, which is due to start up before the end of 2008. The €6.53 million facility will employ up to 80 staff. Other Gimplast moulding plants are already operating at Judetal Maramures, Romania and Kosina, Slovenia. Swedish company Arla Plast is building a new factory for polycarbonate multiwall sheets at Kadan in the Czech Republic. Arla Plast AB is one of Europe's leading suppliers of extruded sheets.

Polish crate and pail moulder PTS Plast-Box is preparing to expand its product portfolio through a planned merger with one of the country's largest transit packaging groups later this year. Growth in the Russian market is attracting Plast-Box's attention, and there could be attempts to construct a plant following the

planned start-up of a Ukrainian plant in mid-2009. Around a third of output from the new Plast-Box plant in Ukraine is expected to be exported to Russia.

Polymeri-investments and capital hike

Polimeri at Devnya has earmarked €60 million for expenditure on a membrane electrolysis project that will pare production costs by 35%. Funding has also been allocated for investment in a hydrochloric acid installation, the reconstruction of the EDC installation and the construction of an ethylene storage facility.

Polimeri will seek 50 million levs ($38.8 million) in a capital hike. The company was established originally in 1961, is located in northeastern Bulgaria and has a share capital of 5.32 million levs. In July 2006, the company approved a €186.5 million ($283.8 million) investment programme to replace its ageing equipment and catch up with the European Union's energy and resource efficiency standards by 2011. Polimeri turned to a net loss of 4.4 million levs in 2007, from a net profit of 1.2 levs a year earlier.

Adriachem fails to receive any bids

The Croatian Privatisation Fund has not received a single offer for the purchase of 81.67% in plastics producer Adriachem, and the deadline for offers is close to expiry. This represents the fifth attempt at selling Adriachem and the third offered under special conditions i.e. at the starting price of just a single kuna. Adriachem, located at Kastel Sucurac, was renamed from Jugovinyl in 1991 and is focused on PVC sheeting, etc. PVC facilities, previously part of Jugovinyl, were transferred to other companies in Croatia.

RUSSIA

Russian government strategy and policy towards the chemical industry up to 2015

At the start of April, the Russian government outlined an extensive list of priorities and aims for the Russian chemical industry up to the period 2015. Whilst large parts of the document failed to provide a master plan that the industry is desperately seeking, it did at least outline some degree of understanding of the main challenges and hurdles to investment into modernisation and expansions.

The government's view of strategy is that it should be supporting major investment projects, stimulating new projects, managing trade policy to benefit Russian producers, and investments in infrastructure. This last theme is probably the most important, as the lack of infrastructure in Russia is a major challenge for the chemical industry (and other parts of the economy) due to under-investment in recent decades. Regarding trade policy, the government states that it should reduce export customs duties for chemical products which require a high degree of processing.

Russian Government Priority Projects for the Chemical Industry to 2015

Project	*Location*
Caspian Gas Chemical Complex	Budyennovsk
Associated gas processing	West Siberia
Taneko	Nizhnekamsk
RusVinyl	Kstovo
Tobolsk-Polymer	Tobolsk

As for specific projects, the government has cited five main areas of investment, all of which previously have been well documented. The Caspian Gas Chemical Complex is being managed by LUKoil-Neftekhim, and aims to use Caspian ethane for expanding petrochemical production at Budyennovsk, but this project may even be surpassed by other producer such as Salavatnefteorgsintez or Nizhnekamskneftekhim.

Another priority area is associated gas processing. Increases in investment in associated gas processing in West Siberia is important on the one hand for environmental reasons, to reduce the problems caused by flares, and also trying to convert these flares into monetary value. Other key project areas include the Taneko refinery and aromatics complex at Nizhnekamsk which is set to start in 2010-2011, to be followed by the respective PVC and PP projects at Kstovo and Tobolsk.

Regarding prospective projects and future investment, the government has put forward proposals for changes in the rates of import customs duties for equipment for the chemical and petrochemical industry. The rates would apply to equipment not produced in the Russian Federation and in theory that should encourage modernisation. The main area though where the government can play a role in encouraging investments is on roads and rail, and attempting to improve links between large cities and regions and to make inaccessible locations easier to reach. The Kremlin has embarked on ambitious plans for a £250 billion road building programme, the type of strategy that would help to support some of the chemical projects that are being

reviewed and assessed. The plan includes tunnels, bridges and motorways between big cities and to borders with neighbouring countries.

Petrochemicals

SIBUR-Holding, financial performance 2007

SIBUR-Holding increased revenue by 17% in 2007 to 142.7 billion roubles, due largely to higher product prices. Net income increased to a record 22.3 billion roubles, an increase of 4.2%. This year further increases are expected in turnover and profit, whilst beyond 2010 the group can look forward to a range of new projects that are likely to add substantially to financial performance.

SIBUR-Holding's Financial Indicators 2007		
Billion roubles	2007	2006
Revenue	142.7	121.9
Operating profit	28.9	28.2
Net income	22.3	21.4
Total equity	86.7	72.5

A constant rise in revenues over the past few years should not conceal that there are some key issues facing SIBUR. The shape and direction of the holding company needs to be clarified, not only for the benefit of the group subsidiaries and production plants, but also for the benefit of the Russian petrochemical industry. SIBUR's presence throughout the petrochemical industry in Russia means that it is capable of controlling the majority of its competitors, insofar it possesses unique resources and many plants depend on SIBUR. In its current format, the group is considered too diverse and there have been calls for sometime for restructuring, and even divesting.

One criticism is that the holding group has not been able to convert its potential into a clear-cut development strategy. SIBUR has to date invested very little, although that situation has started to change. The RusVinyl project, developments at SIBUR-Khimprom, Tobolsk Polymer and Tomskneftekhim all provide examples of progress, but despite this there is a consensus that things should be moving quicker or in a different direction. Ultimately, much will depend on the decisions of Gazprom.

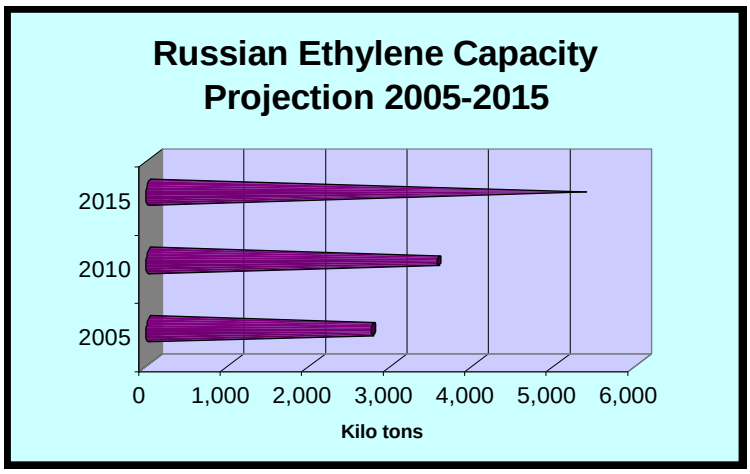
Gazprom chemical division restructuring

Gazprom's Board of Directors has taken the decision to deem chemicals and petrochemicals as non-core businesses and has decided to split them up. Although it is far from confirmed the expectation is that the division will be split into methanol and fertilisers, on the one hand, and petrochemicals on the other. Vostokgazprom and Mezhregiongaz would oversee the methanol consolidation and SIBUR Holding would continue to be responsible for petrochemicals. Gazprombank currently controls 70% and Gazfond has 25% plus one share in SIBUR Holding.

Gazprombank has described SIBUR Holding as a non-core business and is considering selling its stake in the holding. In time, a large block of shares in SIBUR Holding might be sold on the market in some form, but SIBUR itself would have been restructured and reshaped before that happened. So at this stage it would be unlikely to see SIBUR issue an IPO, but eventually this seems to be an inevitable part of its future path.

Gazprom plans major investments into ethylene at Salavatnefteorgsintez

The President of Bashkortostan and Gazprom have reached agreement regarding future gas supplies and the development of Salavatnefteorgsintez. The aims at Salavat are to increase both capacity and product quality, whilst at the same time reducing production costs.



In the first quarter of 2009, Salavatnefteorgsintez expects to start up its 120,000 tpa polyethylene plant, which is based on the Hostalen process. In other product areas, Salavatnefteorgsintez plans to upgrade the ammonia plant in 2008 and to continue the modernisation of the urea plant which started in 2007. In addition, the company plans to develop its oxo alcohol division by adding other derivatives such as butyl acetate.

The major investment at Salavatnefteorgsintez, which would need the help of an organisation or partner such as Gazprom, involves the construction of a 700,000 tpa ethylene plant. Gazprom has stated that it wants to invest 105 billion roubles into Salavatnefteorgsintez between now and 2015, with the new ethylene plant requiring around 75 billion roubles. The ethylene plant is being targeted eventually for expansion up to 1 million tpa. The other 30 billion roubles will be used for modernising the refinery at Salavat.

The announcement for a large ethylene plant at Salavat may have come as a slight surprise, as it was commonly assumed that Nizhnekamskneftekhim would be the first Russian producer to build a world scale cracker. That still could happen but until now Nizhnekamskneftekhim has been unable to reach a decision about adding a 1 million tpa cracker. It therefore seems that Salavatnefteorgsintez through Gazprom has stolen a march and if the plans are fulfilled it could become one of the largest ethylene producers in Russia in a few years time. More importantly, being on the pipeline system, Salavatnefteorgsintez could become a major donor to other plants in addition to expanding its own captive consumption. Kaustik at Sterlitamak and Kazanorgsintez would be natural beneficiaries of a surplus in merchant based ethylene, and would be able to implement large-scale investments based on the knowledge of additional availability. As the graphic above shows, ethylene capacity looks set to double between 2005 and 2015 if the Salavat proposals are included. Full ethylene production numbers and capacities can be seen at www.cirec.net/report.

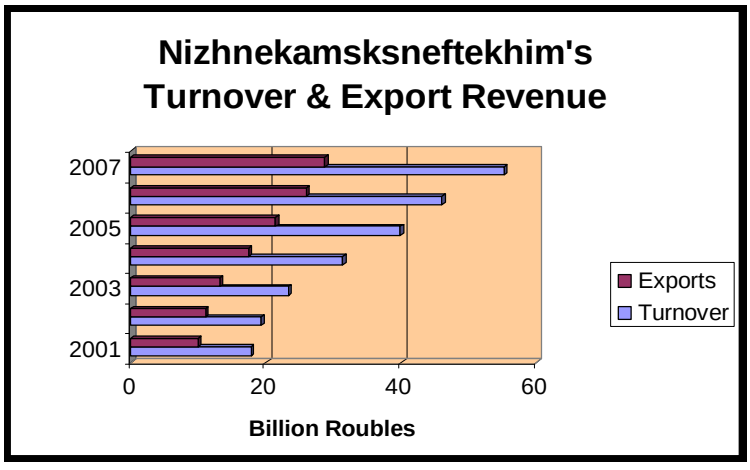
Taneko-financial package

A $2 billion syndicated loan for the Taneko project at Nizhnekamsk has been slightly oversubscribed. The 25-month senior secured loan will finance the construction of the first phase of the refinery and petrochemical complex at Nizhnekamsk. The loan is guaranteed by Tatneft and International Petro-Chemical Growth Fund, with BNP Paribas acting as the original sole arranger. BNP Paribas then expanded the arranging group to include book runners ABN AMRO, Citigroup, Sumitomo Mitsui Banking Corp, UniCredit and WestLB, which launched syndication of the deal in February.

Currently, around 1200 people are working on the construction of the refinery and petrochemical complex, from a total of 27 organisations. The main project manager is local company Kamaglavstroy which has attracted workers for the project from all over Russia. One of the first projects is constructing the ELOU-AVT-7, which is planned to be ready by 2009. The next most important task is the construction of reservoirs. The total amount of investments going into the Taneko in 2007 was 12.122 billion roubles, whilst this year investments could reach 28 billion roubles, with the total cost of the project has been estimated at 130.3 billion roubles. The first part of the 7 million tpa refinery is expected to be completed by the end of 2009.

Other news in Tatarstan

Petrochemical companies collectively in Tatarstan increased production by 28.5% last year, with Nizhnekamskneftekhim seeing the largest growth to 54.8 billion roubles followed by Kazanorgsintez to 21.7 billion roubles. Just over half of Nizhnekamskneftekhim's turnover stems from exports, with the domestic market slowly increasing its share over the past few years. In 2007, exports accounted for 51% of total turnover against 56% in 2001. The Republic of Tatarstan holds ambitious plans, which should see turnover continue to rise. Aside the development of the Taneko complex, both Nizhnekamskneftekhim and Kazanorgsintez are both adding new capacity for a wide range of products.



Nizhnekamskneftekhim plans to increase ethylene production around 11-13% in 2008, to reach in the range of 570,000-580,000 tpa. The company does not expect the full 600,000 tpa capacity to be reached until 2009.

Kazanorgsintez plans to increase turnover in 2008 to 28 billion roubles, which would be 29% higher than last year. The forecast is based not only the addition of new products, such as bisphenol A and polycarbonate, but also the expansion of polyethylene facilities. The company invested 10.6 billion roubles in 2007 into these projects, in addition to starting the modernisation of the ethylene facilities and the

construction of the Butene-1 and CO2 units. For 2007, the company achieved a turnover of 21.358 billion roubles which represented a 28.5% increase over 2006. TAIF owns 52.05% of shares in Kazanorgsintez, with another 28.4% owned by the Tatarstan government.

Bulk Polymers

Russian government to allow polyethylene exports without tariffs

The Russian government has approved the decision taken by the Russian Ministry of Economy to remove export duties on all types of polyethylene, currently standing at 6.5%. The government has apparently responded to lobbying from SIBUR, in advance of the major changes expected in Russian production capacity over the next few years. Although current polyethylene exports from Russia are insignificant, the removal of export duty will allow SIBUR to continue with its planned capacity expansions and also it is alleged that this change will increase the possibility of SIBUR acquiring Kazanorgsintez.

The new policy on duties will be introduced from the start of May. The largest consumers of Russian polyethylene in 2007 included Ukraine (74,200 tons) China (51,600 tons), Turkey (21,200 tons) Kazakhstan (16,600 tons) and Belarus (14,500 tons). Russia produced 645,600 tons of LDPE last year and exported 124,600 tons. HDPE production totalled 600,600 tons in 2007 and exports amounted to 106,000 tons. SIBUR holding, through Tomskneftekhim, is the main Russian producer of LDPE and accounted for 45% of total exports last year. SIBUR does not yet produce HDPE.

The cancellation of duties, at least in theory, should slightly increase the attractiveness of investments into polymer production and ultimately strengthens the competitive ability of Russian companies on foreign markets. Whether Russian producers can ever compete successfully against Middle Eastern producers is highly questionable. The government has the authority to remove tariffs and organise trade policy, but is very limited in how it can influence rail costs. Despite being relatively cheap, internal transport costs are continually rising which will help to erode profit margins on exports. Therefore, there are counter-balancing arguments over polyethylene projects which are located remotely and whether or not they can compete in global markets.

Gazprom, Kazanorgsintez & SIBUR-Holding

The sale of shares in Kazanorgsintez to Gazprom is expected to take place in the near future. Meetings in mid-April between the Tatar Prime Minister and Kazanorgsintez confirmed that the transaction is pending. Although no details are confirmed, the common view is that blocking shares in Kazanorgsintez will be sold to Gazprom plus 1% for somewhere between $300-400 million.

The objective of the deal for Tatarstan is integration and long term guarantees of raw material supply for Kazanorgsintez, together with investments into expanding capacities. After the transaction is completed, Kazanorgsintez will cease processing ethane on a tolling basis and operate exclusively on conditions of buying and selling. Last year, a raw material conflict erupted between the two sides due to the unwillingness of Kazanorgsintez to process ethane on behalf of SIBUR-Holding. This led to ethane from Orenburg being stopped and Kazanorgsintez was forced to purchase additional ethane from the Minnibayevo Gas Processing Plant and also extra ethylene from Nizhnekamskneftekhim and Salavatnefteorgsintez.

It now seems that the conflict was the prime catalyst in stimulating discussions over Kazanorgsintez, although it is not clear if thought had been given to Gazprom taking over before the conflict started. It is expected that after Gazprom secures control of Kazanorgsintez that SIBUR would take control of the company. SIBUR-Holding is already examining how it could be integrated into the SIBUR structure. Acquiring Kazanorgsintez would integrate the largest Russian producer of polyethylene into SIBUR-Holding, and tighten the ethane feedstock flow between Orenburg and polyethylene production. As far as TAIF is concerned, a stake will be retained in Kazanorgsintez probably through the Tatar fund Svyazinvestneftekhim.

Tatarstan has concluded that there is little alternative and the regional government has been keen to play down any talk of conflict between Gazprom and Kazanorgsintez. The Minnibayevo Gas Processing Plant can only supply ethane to run ethylene facilities at Kazan at 25%, whilst there are limitations to ethylene availability on the Volga-Urals pipeline. Perhaps if a large scale ethylene plant at Salavatnefteorgsintez was constructed it could potentially provide Kazanorgsintez with the necessary feedstock to run its polyethylene facilities at full capacity, but that would be more expensive than processing its own ethane. As for other SIBUR polyethylene projects, circumstances would be altered quite significantly if Kazanorgsintez could be acquired. Talk has been rife of world scale polyolefin plants being constructed at Astrakhan and Orenburg, in

addition to the expansion plans that waiting to be implemented at Tomskneftekhim. Of those three locations, Orenburg seems the likeliest project that would be affected by SIBUR's acquisition of Kazanorgsintez.

SIBUR-Holding, Astrakhan
According to the local authorities in Astrakhan, SIBUR-Holding could start construction of the ethylene-polyethylene complex as early as 2009. The first half of next year could be devoted to project decisions, including the raw material base for the complex (ethane) and organising other matters such as financing. The capacity of the polyethylene plant is expected to be 500,000 tpa.

SIBUR-Holding, Tomsk-Innovene technology
SIBUR-Holding has concluded a contract with INEOS for the use of its Innovene technology for the polypropylene plant at Tomsk. The start of the new unit, which will produce a wide range of homopolymers, is expected to start in 2012. The 200,000 tpa plant will replace the existing unit, which is being scaled up to 130,000 tpa for the next few years. Innovene technology is also being applied in the Tobolsk project.

SIBUR is focusing heavily on Tomsk and has created a corporate research centre called NIOST. NIOST's principal functions will be to analyse the latest international developments in its field; to draw up forecasts and integrated research and development programmes for SIBUR-Holding, etc. Tomskneftekhim has recently introduced new types of polyethylene production, brands of LDPE 15303-003 and 15803-020, which can be used in packaging, pipes, film, fittings and other technical articles.

SIBUR-Khimprom selects Toyo to construct ethylbenzene plant
SIIBUR-Khimprom has concluded a contract with Toyo to take responsibility for constructing the new ethylbenzene plant at Perm. The capacity of the plant, which is to be based on Badger licence, will be 220,000 tpa and is hoped to be ready for start-up by the end of 2010.

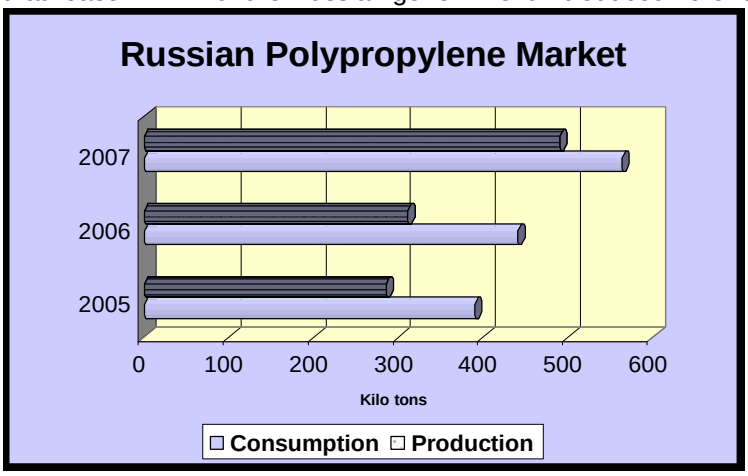
The construction of a new ethylbenzene plant by SIBUR-Khimprom is connected with the planned increases in styrene and polystyrene capacity. SIBUR-Khimprom plans to increase styrene capacity from 100,000 tpa to 135,000 tpa, so that would allow a large surplus for sale on the merchant market. The styrene plant was increased from 42,000 tpa to 100,000 tpa from the start of 2006. Last month, SIBUR-Khimprom signed a contract with Chemieanlagenbau Chemnitz GmbH for the construction and installation of a polystyrene plant at Perm. A 50,000 tpa plant is planned that could later be expanded to a 100,000 tpa plant. Also in the SIBUR group, Plastik is planning an increase in polystyrene capacity from 45,000 to 60,000 tpa.

Explosion at Budyennovsk polypropylene unit
An explosion took place at the polypropylene plant at Budyennovsk on 4 April, leading to three fatalities and three other workers being sent to hospital. The causes of the accident were cited as burning in the reactor of polymerisation. The plant has temporarily halted polypropylene production, although other units at Stavrolen are reported to be working as normal. The incident caused neither environmental damage nor leakage of oil and oil products, LUKoil stated. A few days before this incident, a fire broke out at LUKoil's largest refinery at Nizhniy Novgorod, causing no damage or reduction in output. The polypropylene plant at Budyennovsk has only started up in the past few months and thus the accident reflects poorly on the site management. The temporary absence of polypropylene production at Budyennovsk was expected to have an upward impact on regional pricing.

Russian polypropylene market
Russian consumption of polypropylene rose by around 27% in 2007, and despite the sharp increase in capacity imports still played a key role. Production rose 57% over 2006 due to mostly to the first full year's operation of the plant at Nizhnekamskneftekhim. This was the main factor in reducing Imports from 155,000 tons in 2006 to 114,000 tons in 2007. Prices were expected to rise in March and April this year, and that expectation is now greater following the Budyennovsk outage. The Budyennovsk plant is expected to be undergoing repair until the end of May at earliest, and thus the supply/demand balance is tighter than anticipated. In addition, the Moscow plant has been down in April for planned maintenance, whilst Ufaorgsintez embarked on a short stoppage in the second half of the month.

If anything, the Stavrolen outage may have taken some saturation out of the market for the next couple of months. Russian capacity for polypropylene currently stands at 606,000 tpa, only marginally above the estimated consumption figure for 2007 of 565,000 tpa. Exports are still minimal, mostly finding their way to China. For the next 1-2 years capacity should stay reasonably balanced against demand, probably allowing some imports particularly for more specialised grades. After the introduction of new plants at Omsk,

Nizhnekamsk and Tobolsk, that situation is likely to change with supply vastly exceeding consumption. With that reason in mind. the Russian government introduced zero rating for polypropylene exports from the start of this year. Although it is aimed principally at the new capacity in future, it means that current producers can export freely if domestic demand should soften.



Titan-polypropylene project

The next new plant to start up for polypropylene in Russia is expected to be Titan's plant at Omsk. This project, however, could be hampered over feedstock supply and Titan may be forced to purchase propylene on the open market. At the start of the project in 2005, Titan agreed with Novatek on creating a partnership for the polypropylene plant and other products, but this alliance seems to have been affected by Novatek's subsequent agreement with SIBUR-Holding regarding the polypropylene plant at Tobolsk. As a result, despite ongoing construction through Tecnimont, and the credit line having been opened with the Italian bank Inteza, the project at Omsk is facing a hurdle.

The total cost of the project is $160 million, with the plant capacity of 180,000 tpa. In view of the potential surplus of polypropylene in the Russian market by 2010, and the impact of supply over domestic prices, Novatek seems to have indicated that it is not ready to support both projects at Omsk and Tobolsk with feedstock supply. Novatek's memorandum with Titan was signed in 2005 and provided for the development of a modern petrochemical facility and the expansion of Titan's existing capacity. The petrochemical facility, to be developed by Novatek and Titan, was to produce polypropylene, butadiene and synthetic rubbers through deep processing of liquefied petroleum gas.

PVC/Chlorine

Sayanskkhimplast signs contract for VCM unit

Sayanskkhimplast has signed a contract with Uhde for the modernisation of the VCM unit. The contract is worth around one billion roubles and will be financed mostly from the company's own resources. The new 200,000 tpa unit will use Vinnolit technology. This differs significantly from the current technology used by Sayanskkhimplast as it is based on gas fuel. The application of this technology will make it possible to increase the nonstop path of the furnace over the long term to 2 years (currently no more than three months), and considerably reduce the consumption of energy resources through the use of thermal energy.

Furthermore, the new system of cracking meets the contemporary requirements of safety. The new plant is expected to be ready for start up in 2010 and represents the first stage in the reconstruction of the PVC plant at Sayanskkhimplast. Longer term, the company is focused on the expansion of VCM capacity to 400,000 tpa (see last month's issue on ethylene plans at Sayanskkhimplast) and a complete overhaul of the current production infrastructure.

Russian chlorine market 2007

Market consumption for chlorine in 2007 totalled 1.088 million tons in Russia, which was a 2% increase over 2006. Consumption showed a 3% increase in the first two months of 2008 against 2007, reaching 188,000 tons. The problems in selling caustic soda is the main factor limiting the development of the chlorine sector, and as a result chlorine production increased only modestly in 2007 by 4%. PVC producers produced more than 50% of Russian chlorine last year. A fall was noted in the delivery of merchant chlorine, falling 26% against 2006 to 139,000 tons. Even in the first two months of 2008, consumption dropped 6% against the same period in 2007 down to 19,000 tons. These falls are due largely to reductions in demand in application areas such as pulp & paper. The important suppliers of commodity chlorine for the domestic market include Ilimkhimprom (Bratsk), Kaustik (Volgograd) and Khimprom (Kemerovo). These three plants accounted for around 65% of merchant chlorine.

Chlorine exports to other CIS countries increased to 34,000 tons in 2007, 3.5 fold greater than in 2006. Ukraine was the main recipient of Russian chlorine exports, accounting for 57%. The increase in imports from Russia was forced by the reduction of output at Karpatneftekhim's Kalush plant due to a revamp. Kazakhstan and Azerbaijan also saw increases. The average level of the export prices of Russian chlorine was in 2007 $209 per ton DAF/FOB

Russian border. Whilst chlorine sales on the open market have been in decline, captive consumption is expected to see major increases over the next few years due to increased PVC capacity.

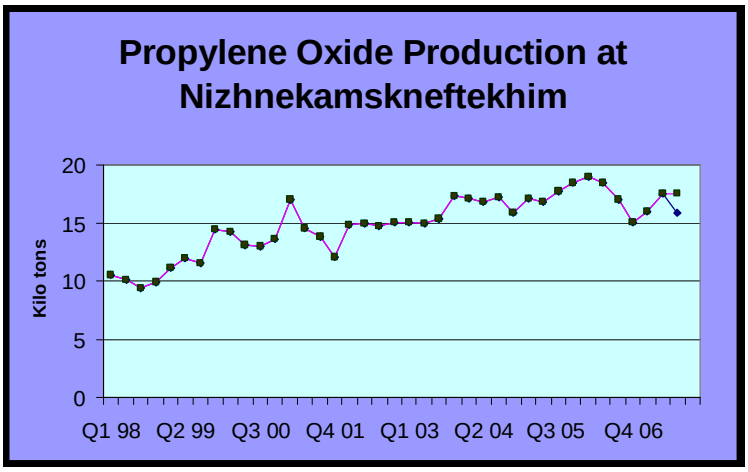
Organic Chemicals

Kazanorgsintez-bisphenol A plant reaches full capacity

Kazanorgsintez has signed a certificate concerning start-up guarantees for the bisphenol A plant with its Japanese licensor Idemitsu. The plant capacity is 70,000 tpa, which was installed by Toyo (Japan), and his will be followed by a 65,000 tpa polycarbonate in the next few months. Construction of the bisphenol A plant started in 2005 and was completed in 2007, and after a slow start it is now running at its design capacity. The technology will not only allow Kazanorgsintez to convert phenol and acetone into a valuable product, but also it will be managed fully by using internally produced raw materials.

SIBUR-Holding-Evonik, propylene oxide examination

Evonik and SIBUR-Holding have entered into a feasibility study regarding the possible construction of a propylene oxide plant and a hydrogen peroxide plant in Russia intended for the Russian market. After completing the feasibility study the two sides will reach a decision over the capacity and location of the project. The new unit will utilise the HPPO process, which consists of the oxidation of propylene by hydrogen peroxide, thus facilitating the production of propylene oxide. This technology is developed Evonik together with Uhde. Evonik is considered to be the only producer capable of developing the whole process for the production of hydrogen peroxide and propylene oxide.



The only producers of propylene oxide in Russia are Nizhnekamskneftekhim with a capacity of 70,000 tpa, and Khimprom at Novocheboksarsk with a capacity of 4,000 tpa. Production performance for Nizhnekamskneftekhim is shown opposite. The aim of the Evonik-SIBUR project is to meet the demand from the Russian polyurethane industry in Russia. Consumption in Russia is rated currently at around 100,000 tpa, with the market growing at roughly 8-9%. Although the capacity of the new plant is not yet known, it is not expected to be lower than 50,000 tpa. It will facilitate the production of propylene oxide in a low-cost and environmentally friendly manner. If the construction of the plant receives approval, Evonik and SIBUR will assess the creation of a jv.

A possible candidate for the location of the new plant could be Nizhniy Novgorod, namely the same area where the RusVinyl jv has been formed. Propylene would be sourced from SIBUR-Neftekhim at Kstovo, whilst some of the technology used by Akrilat at Dzerzhinsk could be used. SIBUR-Neftekhim is already the largest producer of ethylene oxide in Russia. The Nizhniy Novgorod region has been cited by SIBUR-Holding as a location for investment into organic chemical production. The Evonik-SIBUR project could require in the range of $300 million, but more precise information could become available after completion of the feasibility study.

Methanol/gas chemicals

Novocherkassk methanol project

After purchasing 100% shares in Novocherkassk Synthetic Products Plant (NSPP) from Rusnikor, the new owner Agroinvest is now embarking on a $500 million investment programme, including the construction of a new methanol plant with a capacity of 500,000 tpa. The current methanol plant at Novocherkassk has a capacity of only 150,000 tpa. The technical and economic conditions of the project are expected to be completed in the next few months. As with the previous owners, the new owners have assessed the current equipment for methanol, formaldehyde and other organic products to be very outdated and inefficient to operate. As a result, the state of the equipment is widely believed to be behind the company's losses which in

2007 amounted to around 80 million roubles. Although the technology of the new plant is yet to be announced, the goal is to use the new methanol facilities for developing a new range of methanol derivatives.

Shchekinoazot-methanol project

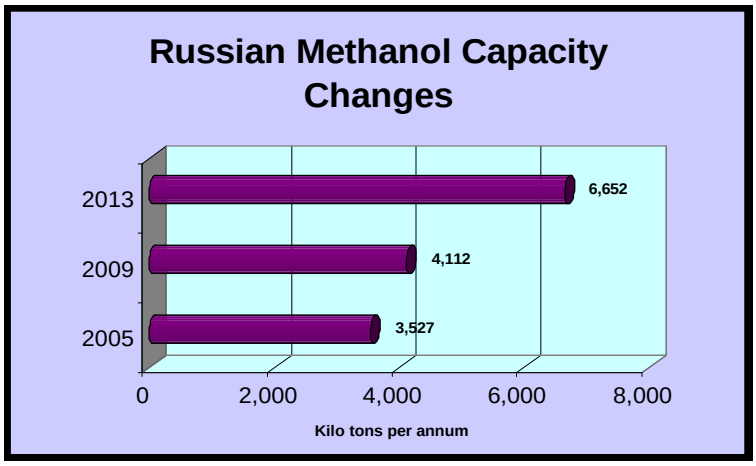
Shchekinoazot has agreed finance with Sberbank for the construction of its new methanol plant which will have a capacity of 450,000 tpa compared to the existing plant size 370,000 tpa. The project is receiving support from other financial circles, including domestic and foreign banks. The total cost of project is evaluated at €143 million, with Haldor Topsoe responsible for the technology. Apart from a larger capacity, the new plant will see reductions in natural gas consumption by 17% per ton of methanol compared to the existing plant, and electric power as much as 94%. The methanol project will take place at the same time as the construction of the formaldehyde plant, which will provide the feedstock for the jv with Hexion focused on phenol-formaldehyde resins.

The area for installation of the new M-450 plant is ready, with all the necessary surveys having been completed. Deliveries of the pumping facility, instruments, etc, have been already made. The main contractor for the project is Russian company Promfinstroy, with support from the institutes Giprokauchuk and Khimtechnologiya at Severodonetsk. The latter institute helped introduce the current plant at Shchekinoazot.

In terms of ownership, the majority shareholders Nitro Industries intends to increase its shareholding in Shchekinoazot to 100% from its current level of 90.4%. The total capital value of Shchekinoazot is placed at 898.8 million roubles (about $38 million), which is considered very low.

Yakutia methanol project

Following last month's announcement that Haldor Topsoe had won the license and equipment contract for the Yakutia Gas Chemical Complex, St Petersburg based OMZ has signed a contract for the construction of the plants for ammonia and methanol complex. As stated, the size of the methanol plant is expected to be 450,000 tpa, with the ammonia plant having a capacity of 200,000 tpa. It represents the first chemical project for OMZ in Russia, although the company is also involved in the Taneko refinery project at Nizhnekamsk.



The Yakutia Gas Chemical Complex will be based in South Yakutia at the town of Zhatay on the river Lena. Although the Lena River is not connected to the ports of the Russian Far East, it is expected that methanol could be transported by rail to the Far East ports. The region pf Yakutsk is better placed for export projects than some other potential locations in East Siberia or the Far East. The gradual installation of a gas-chemical complex at Zhatay between 2009-2015 will, however, ultimately be dependent the construction of a railroad connection and a third gas pipeline. The main interest will be to focus on exports to East and South East Asia, in particular, to countries such as Japan, South Korea, Taiwan and mainland China. Apparently, two preliminary agreements for the deliveries of methanol to Asia have already been made.

Longer term, the methanol plant capacity at Zhatay could be expanded beyond 1 million tpa, but much would depend on how the initial plant runs and the infrastructure available for exporting product.

Mitsui-Sakhalin 1 million tpa methanol project?

Mitsui has indicated its support to the Sakhalin authorities to construct a plant for ammonia and methanol. Currently, there are two natural gas projects on Sakhalin, Sakhalin-1 and Sakhalin -2, with number 1 likely to become the site for a plant for methanol and ammonia production on the north of the island. The plus points for the project include an energy base already in place. The minus points for the project include the cost of transport from the north of the island to the ports, which are located on the south of the island.

Mitsui owns 12.5% in the Sakhalin II oil and gas project, controlled by Gazprom. Sakhalin I, the sister project of Sakhalin II, is controlled by Exxon. The region is currently negotiating gas supplies for conversion with the Sakhalin

I project operator. Recoverable reserves at Sakhalin I have been estimated at 2.3 billion barrels of oil and 485 billion cubic metres of natural gas. Besides Mitsui's support for methanol and ammonia, both Exxon and Gazprom have shown interest in the construction of petrochemical facilities on Sakhalin. Gas from Sakhalin-1 is delivered only to the Khabarovsk region, which accounts to a maximum of 2.5 billion cubic metres per annum compared to 5-6 billion that is available.

Proposed capacities for the Sakhalin-1 project include 1 million tpa of methanol and 660, 000 tpa or 250,000 tpa of ammonia. Proximity to raw material sources and at the same access to Asian markets suggests a profitable basis for such a project, and would complete against product from countries such as Saudi Arabia and Iran. The graphic above illustrates the sharp rise in methanol capacity in Russia in the period 2005-2013, and this graphic does not include the proposed project for Sakhalin. Thus, should the 1 million tpa project go ahead with Mitsui's support, and should the Yakutia project also expand to over 1 million tpa Russia's total capacity for methanol would reach over 8 million tpa by 2013.

Synthetic Rubber

Russian SR market 2007

Total production of synthetic rubber fell by 3% in Russia in 2007 to 11.190 million tons. The volumes of production failed to increase in 2007, partly due to the slow growth from the main application users. The best performing rubber in 2007 in Russia were butadiene rubbers, where production rose 10.5% over 2006. The largest share of synthetic rubber production came from isoprene rubber, which equated to 409,000 tons and was almost exactly the same as the previous year. Methylstyrene rubber production fell by 11.5% in 2007.

Russian Synthetic Rubber Production (unit-kilo tons)

	2007	2007/ 2006
Production	1210	99%
Export	653	100%
Import	65	107%
Apparent Consumption	634	100%

Export prices for Russian rubber rose by around 50% in 2007 due to demand and the cost of raw materials. China was the main export destination for deliveries from Russia. Regarding imports, a 7% increase was noted in 2007 over 2006 although the total remains small at 65,900 tons. Imported forms of synthetic rubber were also more expensive than in the previous year, in the range of 30-40%.

Russian Synthetic Production by Producer (unit-kilo tons)

Producer	*2007*	*2007/ 2006*
Nizhnekamskneftekhim	385,6	109%
Sintez-Kauchuk	147,4	78%
Voronezhsintezkauchuk	217,7	92%
Efremov SR Plant	54,8	99%
Kazan SR Plant	11,7	89%
Krasnoyarsk SR Plant	35,8	104%
Omsk Kaucuk	92,5	109%
Sterlitamak Petrochemical Plant	0,8	28%
Ufaorgsintez	3,0	109%
Togliattikaucuk	260,2	104%
Total	**1209,5**	**99%**

Due to expected low utilisation levels, product shortages are possible in Russia this year and prices, moreover, are likely to be affected by world trends. Isoprene rubber has been cited as one product area where there could be a tight balance between supply and demand in Russia, and prices are expected to rise accordingly.

SIBUR-Holding to construct new thermoelastomer plant at Voronezh

SIBUR-Holding plans to construct an additional plant at Voronezhsintezkaucuk for the production of thermoelastomers, to the value of 2.5 billion roubles. Construction of the new plant is expected to start in 2009 and be completed in 2010. Voronezhsintezkaucuk is the only producer of thermoelastomers, having started 17 years ago. Capacity this year was increased from 28,000 tpa to 35,000 tpa, whilst the new plant to be constructed will have a capacity of 50,000 tpa. Demand is being noted for thermoelastomers for manufacturers of roofing and moisture-proof materials, and also road building companies.

Kauchuk-Sterlitamak

Kauchuk at Sterlitamak has been put up for sale at 1.541 billion roubles, forced due to bankruptcy proceedings. Kauchuk is the major producer of synthetic rubber in Bashkortostan, producing isoprene monomer and rubber, butadiene-methylstyrene rubber, etc. According to the bankruptcy commissioner, this represents the third attempt to sell the Bashkirian plant and the starting price has thus fallen by 10% compared to the first attempt in 2005. The government of Bashkortostan previously planned to sell Kauchuk

to Gazprom, but this attempt was unsuccessful. Kauchuk is currently using customer-owned raw materials supplied by SIBUR. The government of Bashkortostan holds a 25% share in Kauchuk's registered capital, and also has a golden share in this company.

Tyre news
Nokian Tyres plans to invest €250 million by 2011 in the expansion of car tyres at its Vsevolzhsk plant in the Leningrad region. Even by the end of 2008, the company plans to increase production 2.5 times to 10 million tyres per annum. By 2014, Nokian aims to have reached 15-16 million tyres per annum

SIBUR Holding is currently considering a deal with the Russian-Dutch tyre manufacturer Amtel Vredestein. SIBUR is assessing both the purchase of Amtel's additionally issued shares in exchange for a stake in SIBUR and the acquisition of a stake in Amtel. Such deals were possible only if Amtel paid off its debt. As stated before, SIBUR-Holding does not rule out the possibility of selling its subsidiary SIBUR-Russian Tyres.

Plastics

Uralkhim-Galopolymer
Uralkhim plans to create a polymer division in the near future at Perm based on the Galogen plant and called Galopolymer. PVC production is being considered by the group as part of an investment programme worth $450 million.

Biaksplen-introduction of second line
BOPP producer Biaksplen, which recently purchased plant Grinn-Plastik in the Kursk region, has started a second line for BOPP production at its main site in the Nizhniy-Novgorod region. Currently the new line is making the final adjustments before production can start. The new line will produce around 40 forms of film, and will serve the domestic and export markets.

Russian producers have to date not been able to meet full consumer demand for polymer films and thus consumers have been forced to purchase imports. The new line at Nizhniy Novgorod can produce a wide range several types of films, including BOPP, BOPET, OPS, BOPE, etc. Moreover, the transfer process from one product to another can be achieved quicker than on other systems. The possibility to produce OPS (oriented polystyrene) films is an important asset for producing shrink sleeve labels. Russia currently produces around 150 tons per month of shrink sleeve labels from PVC, but OPS could provide a better alternative.

The BOPP market in Russia is thought to be in the range of 120,000 tpa at present, and probably growing around 7-8% per annum although higher growth rates have been cited. The market is being driven by demand for heat-shrink barrier films, vacuum films for the packaging of different articles, etc. Mosimpeks Servis Ltd, a subsidiary of Biaksplen, purchased Grinn-Plastik earlier in the year. The company has been renamed Biaksplen Kursk. Grinn is a multi-faceted company and started its first BOPP production line in 2005. The capacity was initially 17,500 tpa, which was later doubled to 35,000 tpa by the introduction of a second line in 2006. The equipment, established at both plants at Nizhniy Novgorod and Kursk, it is identical, but when Biaksplen purchased Grinn-Plastik differences in management of the process were noted. These differences have since been ironed out so both plants are running on the same lines.

Russian PET prices
Russian PET prices were reduced in March by €15 per ton, with prices now standing at $1250 per ton. The fall has been influenced by good supply availability. MEG prices have also been falling, but rising PTA prices seem set to drive PET prices back upwards. Longer term into next year competition is expected to intensify in view of the higher capacity levels.

Penopleks rename to PG
The group of companies Penopleks has changed its name on PG, covering all subdivisions of group. The new name has come from the wish partly to simplify communications with the foreign partners and the view that Penopleks did not reflect the whole group. PG (Penoplex Group) is the largest Russian producer of construction and polymeric materials, having started in 1998 with a production line for thermal insulation materials from extrusion polyfoam. It currently manages four plants in Russia (Kirishi], Novosibirsk, Perm' and Taganrog). Production capacities as of the end of 2007 facilitate production of 1.8 million cubic metres per annum of production.

Veka-PVC profiles

The Russian subsidiary of Veka AG, located at Novosibirsk, plans to construct the second of three stages for the production of PVC profiles at a cost of €15 million. Veka Rus currently produces 15,000 tpa of profiles for which demand in Russia is rising rapidly. Expansion will result in capacity of 22,000 tpa. Veka's Moscow plant produces profiles for the European parts of Russia, whilst the Novosibirsk plant produces for the Urals and further east. Around 25% of window profiles produced go towards replacing old windows, but the majority is used in new construction.

Ukraine

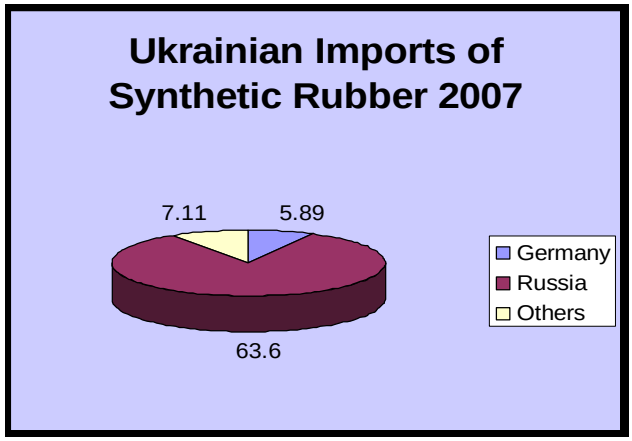
Azot Severodonetsk

Azot at Severodonetsk is carrying out an annual maintenance shutdown at its acetic acid unit. The plant shut down on 29 March and is be restarted on 22 April. Important tasks involve the repair of reforming furnace and also the replacement of the interlock systems for accident-prevention. In the first three months of 2008, the acetic acid plat ran at 111% of capacity.

Adipic acid production at Severodonetsk has been running at higher than design capacity due to strong demand. The company is currently building a unit for storing benzene in order to maintain the production process.

Ukrainian Chemical Output (unit-kilo tons)

Product	*Jan-Mar 08*
Acetic Acid	43.69
Adipic Acid	8.365
Ammonia	1,404.9
Caprolactam	10.44
Caustic Soda	29.1
Ethylene	55.202
Methanol	54.915
Polyamide	8.304
PV Acetate	2.861
Polyethylene	24.951
Polypropylene	24.6
Polystyrene	9.96
Propylene	24.451
T Dioxide	34.149
Toluene	1.705



Ukrainian synthetic rubber market

Ukraine imported 76,700 tons of synthetic rubber in 2007, 1% lower than in 2006. The main sources of imports were Germany and Russia (63,300 tons). The main type of rubber imports into Ukraine in 2007 consisted of isoprene rubber and methylstyrene rubber, which accounted for 34% and 33% of the total respectively. The third placed rubber was butadiene rubber with 19%

Ammonia exports set to fall in 2008

The export of ammonia from Ukraine is expected to fall this year due to rising gas prices from Russia. Ukraine is about the only country in the world that exports ammonia on imported gas, and with Russia gradually hiking up the prices of gas it has become harder to export ammonia profitably. It could be more advantageous for Ukraine, for example, to process the ammonia into urea or ammonium nitrate. Although gas prices have been rising in Ukraine in the past two years, high ammonia prices in the world market have helped offset any losses. Prices for ammonia were 10% higher in 2007, whilst urea was up 35%. This is why an increase in the cost of Russian gas from $90 to $130 did not entail the mass stoppage of Ukrainian plants.

Longer term, it would be beneficial to possess a stable gas supply, both as a feedstock and a fuel for the chemical industry. Due to very recent gas supply conflicts between Russia and Ukraine suggestions are emerging that Gazprom could be well placed to take control of one or more Ukrainian chemical producers. Companies such as Rivneazot, Crimean Titan and Crimean Soda have been forced to reduce production recently due to lower gas supplies from the Russian-Ukrainian organisation RosUkrEnergo. As RosUkrEnergo has strong links to Gazprom, if it secured stakes in Ukrainian chemical producers it is widely thought that some of the problems to uninterrupted supply could be resolved.

Conversely, it is argued that should RosUkrEnergo run into conflict with Gazprom, such as Itera, the gas supply could be disrupted and thus Ukrainian chemical plants will be once again deprived of feedstock. So for Ukraine to win in the sale of chemical company shares to RosUkrEnergo, it would be necessary to form at least a ten-year understanding with Gazprom, on how much gas would cost, etc.

Belarus

Phthalic anhydride expansion at Lida

Lakokraska at Lida will start installation of the new phthalic anhydride plant in May this year. Currently work is being carried out on providing electricity for the new plant, whilst the equipment for which is being supplied by Maveg. The capacity of the new plant is 24,000 tpa, with associated lines for packaging and crystallization. The plant is expected to be completed by the end of 2008, and by 2010 capacity will be further increased to 48,000 tpa. In 2007, Lakokraska produced 13,565 tons of phthalic anhydride, of which 9,090 tons were exported to countries such as Poland, Russia and Ukraine. In the first two months of the year the company produced 2,581 tons.

Polymir project needs government support

Polimir's petrochemical project at Novopolotsk will require government approval, as recently announced by Belneftekhim. The new complex is being targeted on the production of 250,000 tpa of HDPE, and 100,000 tpa each of polypropylene and MEG. By investing around $800 million into the project Belarus is attempting to reduce the dependency on imported polymers. As with the paraxylene project at Mozyr, however, there are dissenting opinions about the economic viability embarking on such a project.

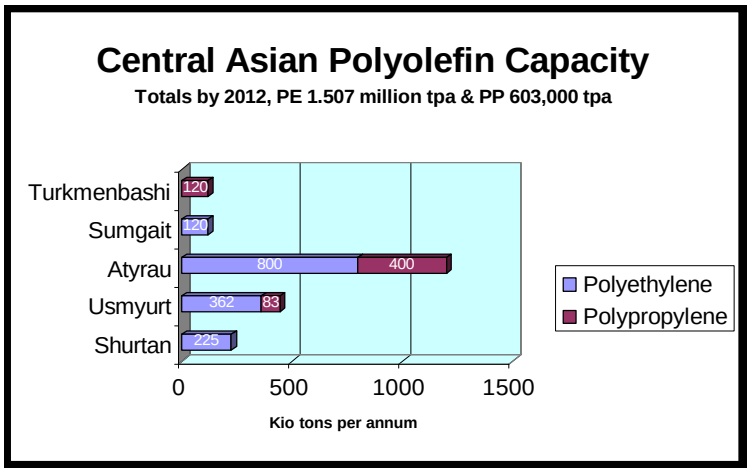
Central Asia/Transcaucasus

Azot Rustavi to build methanol plant

Moscow based group Energy-Invest plans to invest approximately $50 million in the construction of a new methanol plant at its Georgian subsidiary Azot at Rustavi. A key part of the project is to construct a special transfer terminal for methanol at one of the Black Sea ports. Energy-Invest is the daughter enterprise of Vneshtorgbank and owns 90% of the Rustavi plant, which it took over at the end of 2005.

Samarkand Chemical Plant

An Uzbek commission has approved the tender for the sale of 100% in Samarkand Chemical Plant. The starting price for tenders, to be submitted by 28 May, has been set at $20.506 million, with pledges of investment required to be at least $7.3 million. Samarkand Chemical Plant was established in 1954 and produces mineral fertilisers, mainly focused on nitro-potassium phosphate.



Shurtan expansions

Uzbekneftegaz plans to construct a unit for propane-butane feedstocks at the Shurtan gas field at a value of around $130 million. As part of the project, Uzbekneftegaz will process around 6 billion cubic metres of natural gas per annum and produce up 104,000 tpa of propane-butane, or 56,000 tpa of propane and 48,000 tpa of butane, in addition to 44,000 tpa of stable gasoline. Financing for the project will be attracted from foreign banks, with discussions currently being undertaken with potential investors. An agreement for co-operation has already been signed with the IPIC.

The Shurtan gas condensate field is located in the south of Uzbekistan and started production in 1980. It produces 15 billion cubic metres per annum of natural gas, representing around 35% of total production in Uzbekistan. The Shurtan Gas Chemical Complex was introduced in 2001, consisting of 125,000 tpa of polyethylene, 137,000 tpa of LPGs and 130,000 tpa of non-stable condensate. Uzbekneftegaz is currently planning an expansion of LPG production to 586,900 tpa by 2010-2011.

For polyethylene, capacity is set to rise from 125,000 tpa to 225,000 tpa, based on ethane feedstock which is supplied by pipeline from the Shurtanneftegaz installation to the Shurtan Gas Chemical Complex. Additional output will be focused on the domestic and regional markets, with some exports into other countries such as China.

UzKorGasChemical

Uzbekistan and South Korea have created a jv UzKorGasChemical to take control of the petrochemical project at the Surgil gas field in Ustyurt region. The jv is led between KOGAS and Uzbekneftegaz to construct a gas chemical complex worth around $1.8 billion. The chartered capital of UzKorGasChemical is established at $600 million. The consortium of Korean companies for the jv included KOGAS (17.5%), Lotte Daesan Petrochemical Corp (17.5%), LG International, SK Gas and STX Energy (5% each).

UzKorGasChemical aims to construct an infrastructure in the Surgil region, including installation for preparing the natural gas together with the construction of gas chemical complex. This investment programme will run from 2008 to 2012, and will result in the processing of 4 billion cubic metres of natural gas per annum and production of 362,000 tpa of polyethylene and 83,000 tpa of polypropylene. The project is to be financed by the funds from the Uzbek side, an investment consortium of Korean side and foreign credits. The broad project goal is to produce added value products from natural gas containing ethane.

Relevant Currencies

(Czech crown, Kc, $1= 15.609, €1 = 24.740): (Hungarian Forint, Ft, $1 = 158.79, €1 = 251.76): (Polish zloty, zl, $1 =2.1524, €1 =3.4126): (Romanian New Lei, $1 = 2.2803, €1= 3.6132), (Ukrainian hryvnia, $1 = 4.9500, €1 = 7.4850): (Rus rouble, $1 = 23.431, €1= 37.148)

Contents Issue No 209