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MONTHLY NEWS

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

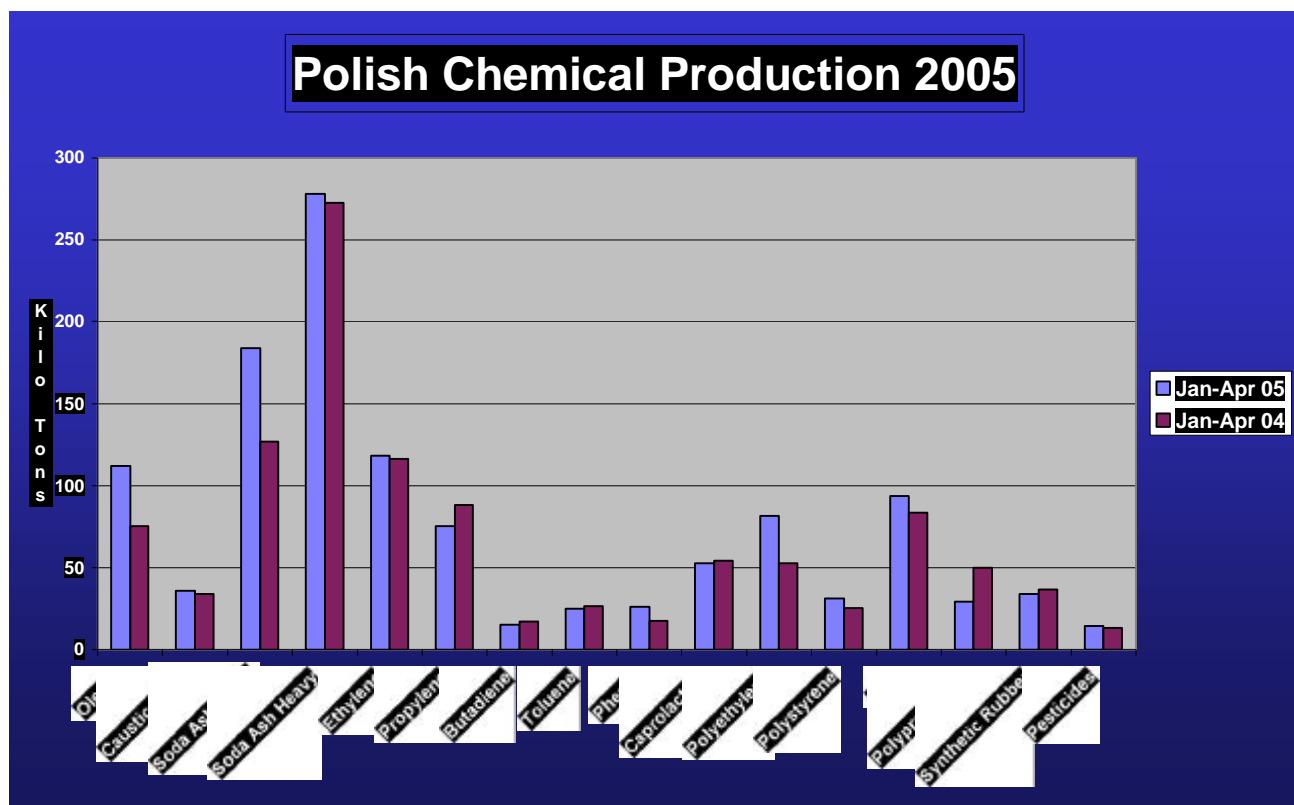
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Czech Republic | Slovakia | Hungary | Poland | Bulgaria | Romania | Croatia | Slovenia | Yugoslavia | Baltic States | Russia | Belarus | Ukraine | Transcaucasus | Central Asia | Kazakhstan

Issue 175, 21 June 2005

Features from the seventh issue in 2005

- ? PKN Orlen has concluded its takeover of 62.99% of the shares in Unipetrol, which it had been negotiating since June 2004. PKN Orlen paid Kc 11.3 (zł.1.56) billion for the stake, along with another Kc 1.7 (zł.0.23) billion for receivables in companies of the Unipetrol group. The company paid for the stake with 90% of its own funds and 10% from loans. PKN Orlen is now awaiting the completion of a review of the company's finances, the results of which will determine the final price of the stake.
- ? SK Chemicals has now opened its 140,000 tpa PET plant at Wloclawek. The Korean group is also studying the feasibility of adding a second PET unit with a capacity of 200,000 tpa. The new €70 million PET facility has 78 employees and is operated by SK Eurochem, a joint venture in which SK Chemicals holds 64% of the shares.
- ? SIBUR's turnover in January-March 2005 grew to 24.340 billion roubles from 19.39 billion roubles in the same period in 2004. This represented 25.7% growth against the same period in 2004, whilst the profit rose 61% to 4.45 billion roubles.
- ? Last month it was reported that Crompton Chemicals had sent a delegation to Kazan and were particularly interested in expanding the ethylene-propylene unit at Nizhnekamsk. Dow Chemical has recently been in talks with Nizhnekamskneftekhim over possible co-operation in the sphere of the petrochemical industry, and this could offer great potential as Dow in terms of technology licenses and general knowledge of the global petrochemical industry.
- ? In the near future Tatneft will issue a tender for the construction and financing of a second refinery to be built in Tatarstan with a capacity of 7 million tpa. The project is estimated to require around \$3 billion. This new project is planned to replace the now defunct project with LG.
- ? Kazanorgsintez will become the first Russian petrochemical or chemical company to issue international bonds on the global capital markets for supporting its large-scale investment plans. This decision was taken at the company's recent board meeting which was supported by the government of Tatarstan. Finance will be attracted for the strategic programme running up to 2011, by which time the company hopes to have expanded its annual turnover to \$1.2 billion with profit levels of around \$500 million per annum.
- ? Akron plans to invest up to \$1.5 billion in the next decade in the expansion and modernisation of existing capacities. Product focus will be on organic products including the construction of a new formaldehyde plant, new units for urea-formaldehyde resins, and also several stages in the development of methanol capacity.
- ? The Ukrainian cabinet has cancelled a resolution of the previous government on the sale of a 47.93% stake in Lukor to Naftogaz Ukrainy in the second half of 2004, owned by the state company Oriana. Naftogaz Ukrainy, which was actively collecting assets and trying to form the basis of a Vertically Integrated Oil Company (VIOC). posed a threat to LUKoil of losing its control over Lukor.



Poland's Chemical Production 2005

In the first four months of 2005 Polish chemical production for mainstream products increased by 10% against the same period in 2004. Aside a sharp increase in the production of light soda ash most of the commodity polymers saw some sort of increase with the exception of polypropylene. The second half of 2005 is expected to see major changes in Polish polyolefin and olefin production with the start-up of the BOP plants and the cracker expansion at Plock. Recently, SK Eurochem started up its new PET plant at Wloclawek. In the next few years a number of developments are expected to take place in the Polish chemical industry, particularly at PKN Orlen which holds the key to Polish investments.

These developments are important for turning round the major deficit in Polish chemical trade. Smaller companies in the sector are under pressure to adapt to EU regulations and the complications of REACH which tends to suggest that the industry will see fewer players in future.

CENTRAL EUROPE

Czech Republic

(Czech crown, Kc, Jun 17, \$1 = 24.674, €1 = 29.997)

Unipetrol

PKN Orlen has concluded its takeover of 62.99% of the shares in Unipetrol, which it had been negotiating since June 2004. PKN Orlen paid Kc 11.3 (zl.1.56) billion for the stake, along with another Kc 1.7 (zl.0.23) billion for receivables in companies of the Unipetrol group. The company paid for the stake with 90% of its own funds and 10% from loans. PKN Orlen is now awaiting the completion of a review of the company's finances, the results of which will determine the final price of the stake.

PKN Orlen's agreement with the Czech government allows for a downward adjustment in price of 25%, and an upward adjustment of up to 15%. Due to Unipetrol's impressive results last year, PKN Orlen could be forced to pay more, although it could avoid the increase by pointing to the high costs of dealing with past environmental pollution caused by Unipetrol. Transfer of corporate control over Unipetrol is already underway, from the beginning of June. PKN Orlen has been making changes on the boards of directors at the companies that make up Unipetrol, most recently Chemopetrol and Spolana. At Chemopetrol, three people representing PKN Orlen were appointed to the board, replacing Unipetrol representatives. It is too

early to know what sort of changes, if any, will take place but the first priority will be for PKN Orlen to develop and accelerate the process of integration. .

PKN Orlen must now launch a tender offer to acquire the remaining public shares of Unipetrol which is mandatory under Czech law. Unipetrol raised its net profit in 2004 to Kc 3.69 billion, up from Kc 78.6 million in 2003. Sales grew by about 25% to Kc 86.25 billion. By Czech accounting standards, the group netted Kc 3.68 billion on sales worth Kc 85.82 billion last year. Chemopetrol's pre-tax profit amounted to Kc 2.118 billion, whilst Unipetrol Rafinerie grossed Kc 1.478 billion.

EU Commission news

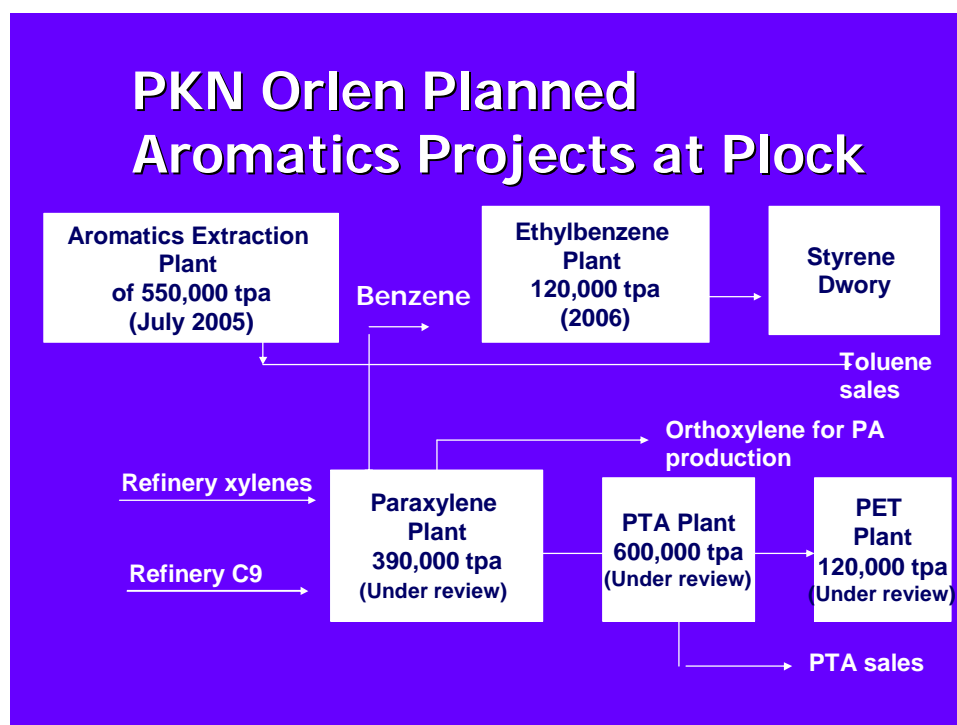
Czech chemical companies may bear the brunt of a cut in the number of carbon dioxide emission allowances that Prague agreed with the European Union. The proposal, which still needs to be discussed with industry leaders and then approved by cabinet, sees a major cut versus the original plan for chemicals, refining, coking, metals, lime, and glass industries. The chemical sector, dominated by Unipetrol, would see its allocation of pollution permits cut to 5 million tpa from an originally proposed 6.4 million tpa. Refining, also dominated by Unipetrol, would see a cut to 1 million from 1.6 million.

Unipetrol would have to find around half a billion crowns per annum to buy extra allowances if the plan goes through. Czech chemical producers and refineries dislike the proposals as they argue that the sector will lose Kc 400 million to Kc 800 million as the companies exceed the emission limits and will have to buy extra permits. PKN Orlen may now intervene with the Czech side due to the permits' redistribution on the government's level.

The European Commission has confirmed it sent a 'statement of objections' detailing competition concerns to a series of synthetic rubber producers accused of operating a cartel. The inquiry concerns alleged price-fixing in butadiene and synthetic rubber. Unipetrol and Dwory were included in the list of companies that had been notified by the commission.

Poland

(Polish zloty, zl, Jun 17, \$1 = 3.361, €1 = 4.0525)



PKN Orlen

Following the successful acquisition of Unipetrol, PKN Orlen has stated that it has further ambitions in mind, possibly in south and East Europe. Other possibilities include Baltic states and the Balkans. The most

probable targets for take over include Petrol in Slovenia, NIS in Serbia, MOH in Greece, and Turpas in Turkey.

PKN Orlen has unveiled ambitions to construct a world-scale PTA plant at Plock of 600,000 tpa to feed to growing demand for PET. In the near future a new aromatics complex will be started up at Plock that will help to provide the feedstocks for the new ethylbenzene unit. This will serve Dwory's styrene monomer plant at Oswiecim. There are also plans to build a 120,000 tpa PET plant at Plock. Tight supplies of aromatic feedstocks mean that these investment plans have strong justification. Longer term, PKN Orlen plans to construct an Olefin 111 complex with a capacity of 600,000 tpa are part of a long term vision of the company.

Nafta Polska

Nafta Polska has increased its charter capital, having received shares in four chemical plants from the government. These companies include ZA Kedzierzyn, ZA Tarnow, Zachem and Sarzyna, which should be privatised according to government directives. Nafta Polska will invite investors to participate in talks over privatisation.

The process of privatisation started at the end of 2004 and should be completed at the autumn of 2005. Nafta Polska plans to sell up to 85% of shares in each company. For two of the plants, Tarnow and Kedzierzyn, debts are still outstanding to the gas supplier PGNiG. For Kedzierzyn this amounts to \$59 million.

In the oil sector, Nafta Polska has decided not to sell its 8.9 million shares in Polish oil group Lotos during Lotos' initial public offering (IPO). This has reduced the available shares by 20% and enabled Lotos to raise the share price to zł.29. Following modernisation undertaken by Grupa Lotos at Rafineria Gdanska, refining capacity has increased from 4.5 to 6 million tpa. Grupa Lotos will be increasing its consumption of Russian oil from the Urals to increase production levels. Currently, Russian crude is significantly cheaper than light crude from Libya or the Caspian Sea, but EU ecological directives state that light crude consumption should grow at the expense of heavier crude.

Nafta Polska, PKN Orlen, Grupa Lotos and PGNiG have created a consortium for the production and distribution of oil and gas. The basis of the consortium is to look at developing gas deposits in the Middle East. Kazakhstan and other locations.

ZA Pulawy

The Polish Securities and Stock Exchange Commission has cleared Zaklady Azotowe Pulawy to trade on the Warsaw bourse. ZA Pulawy, which earlier said it wants to issue zł.350 million worth of new shares in an initial public offer to finance expansion, is one of two major chemicals companies that the government wants to privatise before September's general elections. The company has annual revenues of zł.1.68 billion and wants to issue 5.5 million new shares in the IPO, which would make up nearly 30% of the company's increased share capital.

SK Chemicals

SK Chemicals has now opened its 140,000 tpa PET plant at Wloclawek. The Korean group is also studying the feasibility of adding a second PET unit with a capacity of 200,000 tpa. The new €70 million PET facility has 78 employees and is operated by SK Eurochem, a joint venture in which SK Chemicals holds 64% of the shares. The remaining shareholders are PKN Orlen with 17% of shares, LG International 10%, and the EBRD 9%. Over 60% of the Wloclawek plant's output will be exported. Poland currently imports over 40% of its PET resin requirement, with Germany as the largest supplier. The PET plant is SK Chemicals' first PET facility in Europe and the largest ever Asian investment in Poland's chemical industry.

SOUTH EAST EUROPE

Romania

Oltchim is striving to attract more than €25 million from investment funds to boost its production capacity in the construction material division, and also finance investments in chemical production. Oltchim is considering plans to set up joint ventures with the investment funds it hopes to bring into its business. The company is looking to produce PVC profiles to be used in floatglass windows and the thermo-insulating

panels produced by Oltchim, in addition to construction materials and polyesters used in producing PET bottles.

BorsodChem has stated that if the new Romanian government privatises Oltchim in 2006 it will make a single offer, bearing in mind the presence of the Romanian company on the Mediterranean market. BorsodChem could make other acquisitions, at the end of 2005 or in 2006. Having lost out in the acquisition of Spolana, which has helped the Orlen group become a more important player in the PVC market, buying Oltchim would help to re-establish BorsodChem's position.

Bulgaria

(Bulgarian Lev, Jun 17, \$1 = 1.50 €1 = 1.9558)

Polimeri AD has been given the go-ahead to buy electricity directly from power producers. Polymeri is one of the three companies which have signed contracts with NETC and have been duly registered by the operator. EFT Bulgaria will resell electricity supplies to eligible local consumers and broker power exports abroad. Other Bulgarian chemical and refining companies Agropolychim, Neochim and LUKoil Neftochim are included in the list of other consumers eligible to engage on the deregulated segment of the local power market.

The Bulgarian Privatisation Agency (PA) is offering 231,366 shares, representing 8% from the capital of Vidachim. The stake will be sold through a public open-bid auction against non-monetary payment means. The initial price has been fixed at 21,000 leva, with an increment of 2000 leva. Vidachim is majority-owned by Pristagroup – Vodno Stroitelstvo (70%). The state controls 25.1% of the company, which is a producer of resins and fibres, car tyres, electricity and heating energy.

Slovenia

Slovenian resin and coating producer Helios increased volume sales in 2004 by 29% to 92,802 tons. The company that it had improved performance despite fierce competition, and also high prices of raw materials. Helios increased turnover by 30% in 2004, to €168.2 million, whilst the net profit was €14.2 million). PPG-Helios, a joint venture between PPG Industries and Helios, recently signed a five-year contract with AutoVAZ in Russia, which will become effective from July 2005. This will provide the vehicle manufacturer with chemical management for its new paint shop at Togliatti in Russia.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

(Rus rouble Jun 17, \$1 = 28.526, €1= 34.646)

For the period January-May 2005 Russian industry increased total physical output by 3.6%, whilst in May the increase was only 1.4% higher than in May 2004. In the petrochemical sector, synthetic resins and plastics totalled 1.4 million tons for the first five months of 2005 which was 3.6% down on the same period in 2004. Aside the fact that no new polymer capacity has come on stream in the past year, production of polyethylene was down by more than 30% at Kazanorgsintez due largely to modernisation and expansion. Fibre output was down 11.1% at 71,200 tons. Synthetic rubber, by contrast, totalled 500,000 tons in the first five months of 2005, 7.7% up on 2004. Investments in the synthetic rubber sector in Russia are more advanced and significantly are based on domestic r&d which means that the expansion of capacity is ongoing. However, the polyolefin and other commodity plastics are dependent on imported technology which makes the process of expansion slower, but the investments in these products which are underway at present will start to take noticeable effect by 2006/2007.

SIBUR/Gazprom

SIBUR's turnover in January-March 2005 grew to 24.340 billion roubles from 19.39 billion roubles in the same period in 2004. This represented 25.7% growth against the same period in 2004, whilst the profit rose

61% to 4.45 billion roubles. In 2004, SIBUR's share of total Russian production of LPGs amounted to 37%, synthetic rubber 44%, tyres 38%, polyethylene 18% and polypropylene 36%. In total, SIBUR produced 11.298 million tons of petrochemicals in 2004 against 10.304 million tons in 2003. Dry gas production reached 10,261 million cubic metres against 9,348 million cubic metres.

Capital investment totalled 2.439 billion roubles in 2004 against 841 million roubles in 2003, with the largest sum of 499 million roubles being targeted on the modernisation of the styrene plant at SIBUR-Khimprom.

The major changes at SIBUR involve the creation of the new AKS-holding, and also the issuance of new charter capital for the 20 or so petrochemical companies belonging to the holding. SIBUR's existing brand name will be not phased out in the short to medium term. Gazprom will transfer assets of SIBUR to a new company and then sell a stake in it. Gazprom, which controls about 99% of SIBUR, plans to offer part of the new company, AKS-Holding, either through an exchange or to a strategic investor in about two years.

Gazenergo

Gazprom subsidiary Gazenergo is reported to be considering petrochemical projects based on liquid gases. Gazenergo is the only operator of Gazprom for LPGs in the domestic Russian market. Gazenergo is already a long term supplier of gases to the Russian petrochemical industry, but is now keen to develop its own production. No further information is available at this stage.

SIBUR-Neftekhim

SIBUR plans to start the modernisation of the ethylene oxide and glycol plants at Dzerzhinsk during the planned shutdown in August 2005. The modernisation will take around two months to complete and will increase MEG capacity from 160,000 to 200,000 tpa. Currently the MEG plant is running at 100% of capacity. SIBUR-Neftekhim will receive advantages from the local administration for the project which is being financed by SIBUR.

In 2004, SIBUR-Neftekhim achieved a profit of 515.7 million roubles compared to losses of 196.5 million roubles in 2003. In 2004, turnover increased 26.2% to 5.4199 billion roubles compared to 4.2937 billion roubles in 2003. The improvement seen in 2004 was due to in part to the improved feedstock base at Kstovo, and also an increase in production volumes at all the plants.

SIBUR-Neftekhim has recently carried out important investments in the past two months in production facilities. In April, work was carried out on the cleaning the rectification columns for EDC and VCM, and also maintenance was carried out on the ethylene chlorohydrin unit. In May, the caustic soda plant underwent modernisation.

Uralorgsintez

In May the Japanese company Yokogawa Electric successfully introduced the CENTUM CS 3000 system of management at the isobutylene unit at Uralorgsintez. SIBUR has been active with investments at Uralorgsintez, which is located in the Perm region, since it took over the plant several years ago. These investments include a programme of new production capacity and the production of nitrogen with the use of cryogenic technology. The main aim of the nitric installation facilitates the production of isobutylene and in the future isoprene.

Tobolsk-Neftekhim

Tobolsk-Neftekhim increased volume production in the period January-April 2005 by 12% over 2004, to reach a total of 657,000 tons. Processing of wide fractions of hydrocarbons increased by 13.9% and butadiene production increased by 47.9%. Agreements have been reached with Surgutneftegaz and SIBUR regarding deliveries of wide fractions of hydrocarbons and compressed associated gas for Tobolsk-Neftekhim in 2005, and 2006 and 2007. The main source of gas supply is deposits in the Tyumen region through SIBUR-Tyumen. Vneshtorgbank has issued a credit to Tobolsk-Neftekhim worth \$53 million towards the development of new production facilities, in particular butyl rubber. In 2004, Tobolsk-Neftekhim increased processing of liquid gases and wide fractions of hydrocarbons by 16.4% over 2003 to reach a total of 2.047 million tons.

Other news

SIBUR-Khimprom increased the output of liquefied gas by 2% in May 2005 up to 30.130 tons versus the same period a year ago. The production of propylene increased 19% up to 1,460 tons, the production of ethylbenzene rose 28% to reach 10.500 tons, whilst styrene output climbed 5% up to 5,000 tons.

Tatarstan

Tatneftekhiminvest-holding has stated that investments in Tatarstan's chemical and petrochemical sectors will increase this year by 150% to 14 billion roubles (\$499 million), and will for the first time exceed investments in the fuel industry. Nizhnekamskneftekhim will invest 6.7 billion roubles in the production of polystyrene, polypropylene and new types of rubber. In 2004, investments in the company totalled 2.6 billion roubles. Kazanorgsintez will increase investments for the production of bisphenol-A and polycarbonate from 1.4 billion roubles in 2004 to 6.7 billion roubles.

Tatarstan continues to seek partners

There are five or six important regions in Russia for the petrochemical industry, the most dynamic and forward thinking of which is Tatarstan. A series of efforts have been made by Tatarstan in the past few years to court relations with foreign partners, to use their experience, technology and possibly financial support for developing the local chemical sector. Although initial efforts to form jvs proved unsuccessful, or turned out unbeneficial for both sides, this has not deterred Tatarstan from seeking further alliances.

Last month it was reported that Crompton Chemicals had sent a delegation to Kazan and were particularly interested in expanding the ethylene-propylene unit at Nizhnekamsk. Dow Chemical has recently been in talks with Nizhnekamskneftekhim over possible co-operation in the sphere of the petrochemical industry, and this could offer great potential as Dow in terms of technology licenses and general knowledge of the global petrochemical industry.

Whilst the TKNK projects with LG (see below) seem to have stalled Tecnimont and its Italian partners are establishing a foothold in the republic with a slightly different approach. Tecnimont is already building the 180,000 tpa polypropylene project, whilst agreements have been reached between Tatarstan and a number of Italian investors regarding co-operation in medium and small businesses. A Russian-Italian working group has been organised to study possibilities for further co-operation in Tatarstan, in connection with the new industrial region set on the basis of Nizhnekamskneftekhim. One particular agreement involves Nizhnekamskneftekhim, the Tatar company Elaz and Italian investors the creation of ZAO Elabuga Plant for Oriented Polystyrene, which will produce BOPS.

Another Tatar-Italian contract exists between Nizhnekamskneftekhim and Ballestra for the supply of equipment for the LAB project with a capacity of 40-45,000 tpa. Italian companies Evroboy and Tecnimont have signed an agreement with Khay Tek and Nizhnekamskneftekhim over the production of polymer composite materials such as Spanbond.

Second refinery project at Nizhnekamsk

In the near future Tatneft will issue a tender for the construction and financing of a second refinery to be built in Tatarstan with a capacity of 7 million tpa. The project is estimated to require around \$3 billion. This new project is planned to replace the now defunct project with LG.

Plans were agreed between Tatarstan and LG at the end of 2003 to construct not only a refinery, but also to be involved in other petrochemical projects at Nizhnekamskneftekhim such as an additional polystyrene unit with a capacity of 40,000 tpa. LG was not able to develop the feasibility report for the development for the new refinery which has forced the change in plans.

The Tatar-Korean Petrochemical Company (TKNK) was set up on the basis of the shareholding percentage, Tatneft 45.45%, Nizhnekamskneftekhim 36.37%, Svyazinvestkhim 9.09% and LG International Corp 9.09%. In September 2003, TKNK, Tatneft and LG International Corp signed an agreement regarding the main conditions for the refinery project, whilst the Korean Eximbank agreed a credit line of \$1.5 billion. However, it has not been possible to transform these grandiose plans into reality.

TKNK offered LG various possibilities to LG for the feasibility report for financing and construction of the project, but none of these proposals were approved. Thus, TKNK has not signed any sort of contract, whilst the Korean Eximbank has not opened any financing. The main aims of the Tatar-Korean Petrochemical Company were to build a refinery with a capacity of 7 million tpa, to build an ethylene cracker of 600,000 tpa, a 200,000 tpa polyethylene plant and a foam polystyrene plant of 40,000 tpa. It seems that these projects will go ahead anyway, with or without the Koreans, although they may take longer to finalise as project costs could total around \$3 billion.

The Tatar President Shaymiev has been unhappy over the lack of progress in this project, and thus the republic has decided to not wait any more for offers from the South-Korean company. It has been decided to declare an open tender for construction of the second refinery.

Tatneft will be the major financial sponsor of this project what the company will declare in the near future. The first two projects will start at Nizhnekamsk this year and are planned for completion by 2009. It is not yet clear whether TKNK will be kept intact, and whether the structure of its shareholders will change. It may seem an irrelevance if there is to be no Korean involvement, but it is not inconceivable that LG will participate in the new tender.

Extruded polystyrene

At the end of May the AK Bars bank gave a first tranche credit of 134 million roubles to the Chemical Plant L.R. Karpov in Tatarstan, which will be used for constructing an extrusion polystyrene foam unit. The equipment is being supplied by the Italian group Akkagroup, which concluded a contract worth €3.2 million in December 2004. Nizhnekamskneftekhim will supply the raw material polystyrene and n-butane to Akkagroup. After start-up, the polystyrene foam capacity will amount to 55,000 tpa.

BOPS

For the BOPS project in Tatarstan, the Moscow holding company Marta has concluded an agreement with Marshall Williams Plastics for the supply of equipment at a price of \$7.5 million. The equipment will be used by the Elabuga Plant for Oriented Polystyrene, a joint venture created between Nizhnekamskneftekhim, local company Elaz and the Italian investment group Investitore Internazionale. The BOPS plant will have a capacity of 15,000 tpa, with the total project cost estimated at \$15.5 million.

Kazanorgsintez

International capital

Kazanorgsintez will become the first Russian petrochemical or chemical company to issue international bonds on the global capital markets for supporting its large-scale investment plans. This decision was taken at the company's recent board meeting which was supported by the government of Tatarstan. Finance will be attracted for the strategic programme running up to 2011, by which time the company hopes to have expanded its annual turnover to \$1.2 billion with profit levels of around \$500 million per annum. The issue of the bonds will take place in September 2005 which should involve no more than \$200 million. As understood, Kazanorgsintez S.A will be formed to act as the issuer of the bonds and will then loan the money to OAO Kazanorgsintez. The Bank of New York will be involved in the foundation of Kazanorgsintez S.A., with the bonds being placed on the Luxembourg stock exchange.

Sberbank

In October 2004, TAIF, Kazanorgsintez and Sberbank signed a general agreement regarding co-operation in the framework of which Kazanorgsintez and Sberbank concluded discussions over a credit line of \$194 million for the reconstruction of the HDPE plant. This will increase capacity from 190,000 tpa to 510,000 tpa by March 2006 (although this date has not been confirmed) with further plans for expansion to 600-610,000 tpa. Another \$250 million will be directed towards the new bisphenol A plant at Kazan with a capacity of 70,000 tpa and the new polycarbonate plant with a capacity of 65,000 tpa.

Sberbank will receive from Kazanorgsintez a mortgage of 35.9% of shares from the authorised capital of Kazanorgsintez. These shares belong to the affiliated company TAIF, Telekom-Management, which owns 46.87% of shares in Kazanorgsintez. In April 2005, the Kazanorgsintez board approved the use of a \$64 million credit from Sberbank to be used to modernize ethylene and polyethylene production.

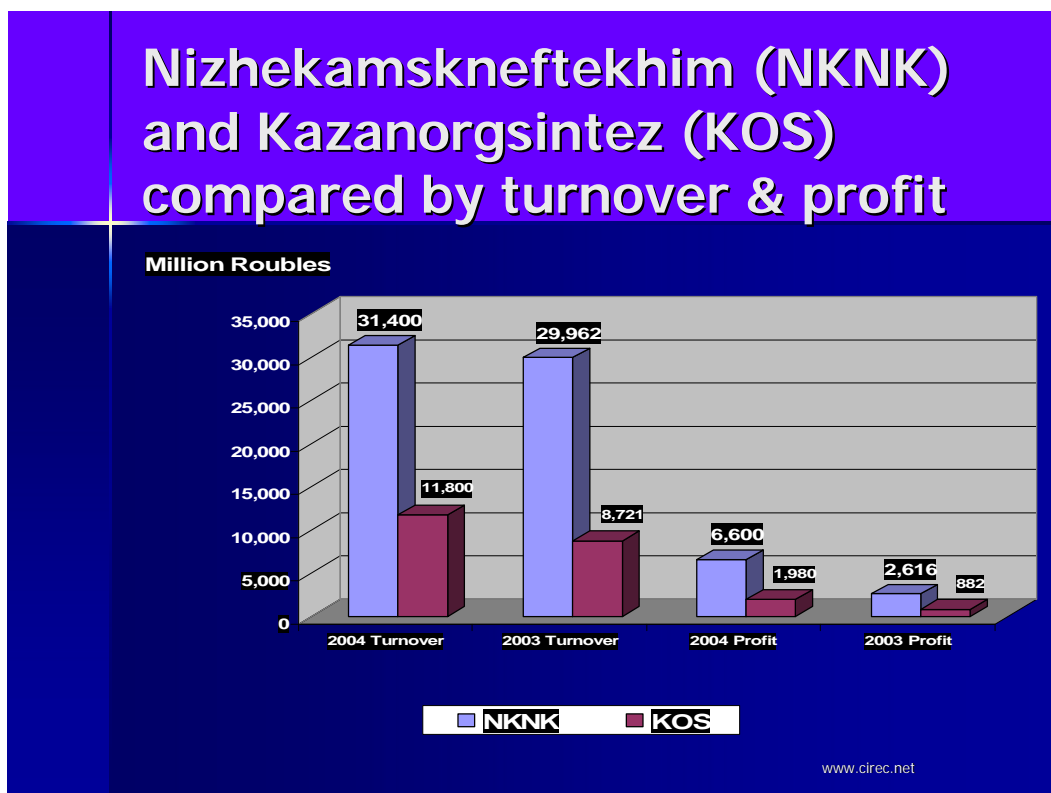
Sberbank will provide a total of \$740 million in credits to Kazanorgsintez according to the agreement reached in October 2004. In April 2005, the Kazanorgsintez board approved the use of the first \$64 million credit from Sberbank.

Production trends

Kazanorgsintez produced 98,959 tons of polyethylene in the period January-April 2005, which was 34.6% lower than in the same period last year. For the whole of 2004, Kazanorgsintez achieved a profit of 1.98 billion roubles in 2004, the highest profit in the company's history. The result would possibly have been better had it not been for the raw material problems caused by the explosion at the Orenburg helium plant

last August which affected ethane supply. Ethylene production at Kazanorgsintez fell as a result of the ethane shortages. In total, petrochemical production at Kazanorgsintez in 2004 totalled 1.210 million tons which was 1.4% up on 2003. Exports amounted to 122,000 tons in 2004 against 118,000 tons in 2003, which in value terms was \$104.8 million against \$71.54 million.

In the first half of 2005 Kazanorgsintez achieved a turnover of 6.6 billion roubles, of which 4.9 billion roubles was from the internal Russian market, where it sells to 64 of the 89 juridical regions. This is measured against a total turnover of 5.5 billion roubles in the first half of 2004 and 4.1 billion roubles of domestic sales. The company is the leading producer of polyethylene and polyethylene pipes in Russia and will consolidate this position in the next few years in light of all the expansions taking place. The main regions for product sales include Tatarstan, Moscow and the Moscow region.



Nizhekamskneftekhim

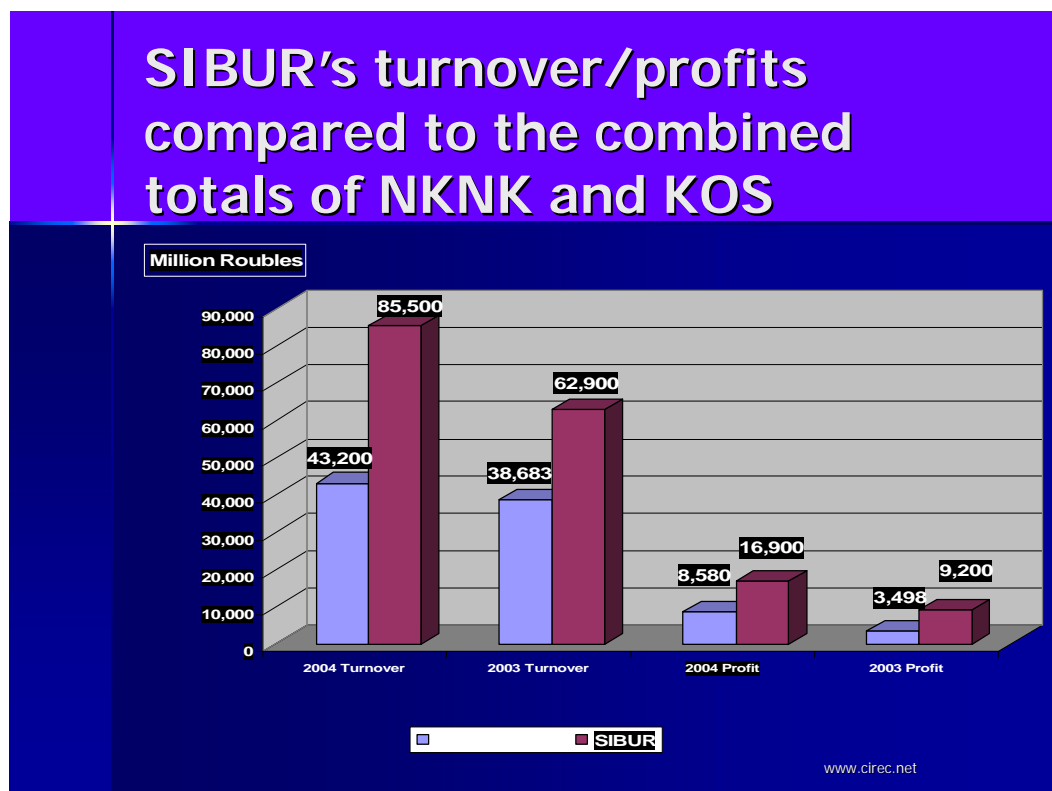
At the beginning of June, Nizhekamskneftekhim announced in a press release that it has started talks with Dow Chemical to consider possibilities for co-operation in the sphere of petrochemical and polyolefin production. Several years ago Nizhekamskneftekhim purchased a technology license from Dow. On paper at least, there seems to be good potential for both sides to develop a successful alliance.

Nizhekamskneftekhim and ??? Lummus Global have finalised plans for the expansion of the cracker from 450,000 to 600,000 tpa, through the supply of SRT-VI furnaces. A capacity of 600,000 tpa is expected to be reached by 2008. In 2002, the company was talking about increasing its capacity level to 1 million tpa, but this expansion is only likely to happen after derivative projects have been detailed and are known to be definitely going ahead.

In 2004, Nizhekamskneftekhim exported around 500,000 tons of petrochemicals to Finland for local consumption at a transit cost of \$300 million. Finland represents one of the main export destinations for Nizhekamskneftekhim and accounted for 45% of the total. In comparison to 2003, the volume of styrene, ethylbenzene, neonols, alpha olefins and synthetic rubber grew by 26.5%. Nizhek Scandinavia is responsible for Nizhekamskneftekhim's sales in Finland.

NKNK's 2004 performance

Nizhnekamskneftekhim's (NKNK) turnover in 2004 totalled 31.4 billion roubles, which was 4.8% up on 2003. Exports accounted for 55.7% of total turnover, totalling 17 billion roubles against 13 billion roubles in 2003. Thus, the complex contrasts with Kazanorgsintez which focuses mainly on the domestic market. Domestic sales increased from 10 billion roubles to 14 billion roubles in 2004. In 2004, NKNK started the production of chlorinated and brominated butyl rubber and started the modernisation of the divinyl division. Between 1999 and 2004, the company invested 14.623 billion roubles in modernisation, which represents 2.4 billion roubles per annum on average for the five year period. In terms of feedstocks, the main supplier of naphtha Tatneft provided 838,000 tons at a cost of around 3.5 billion roubles. In terms of the ownership structure, the main shares include 28.6% is owned by Svyazinvestneftekhim, and TAIF 25.6%.



In 2005, Tatneft plans to supply 1.1 million tons of naphtha to Nizhnekamskneftekhim in 2005 and 81,000 tons of pentanes. As part of the intra-republican co-operation Tatneft supplies Nizhnekamskneftekhim with wide fractions of light hydrocarbons and Kazanorgsintez propane and butane. NKNK then supplies ethylene to Kazanorgsintez and NeftekhimSevilen, alpha olefins for Nefis, and pyrolysis resins for Nizhnekamsk Carbon Black Plant. Other republican trade arrangements include divinyl supplies for Kamaz, polyisoprene and butyl rubber for Nizhnekamskshina, and polybutadiene for Efremov Rubber Plant in the Tula region (which is owned by Tatneft).

Styrene division

Nizhnekamskneftekhim (NKNK) has received credit from the Citigroup for the sum of \$45 million for a period of seven years, with the purpose of financing of construction of the second polystyrene unit. Citigroup states that 50% of the credit is guaranteed by the US government. In December, 2004, Citigroup organised financing for NKNKH for the sum \$14.5 million. The construction of the polystyrene plant at NKNKH is nearly completed and the plant will start in the near future.

At the styrene and polyether resin plant at Nizhnekamskneftekhim technical research has been made into catalyst degradation and the use of methylphenyl-carbinol. The use of a new method of degradation has increased the output of styrene for the merchant market.

Evrokhim

Evrokhim has invested 284 million roubles on a new rail-transport park for Azot at Novomoskovsk. In addition to the purchase of new rail cars together with colleagues from St Petersburg and Mariupol in Ukraine projects have been started to repair and re-equip over a hundred worn out tanks for use in the transportation of methanol. For this purpose it has allocated 27 million roubles. It is expected that methanol capacity at Novomoskovsk will increase by 15% after the maintenance shutdown, which is planned for August this year.

The Moscow region power failure that decimated life in the capital for at least a day on 25 May resulted in a power cut at the Azot plant at Novomoskovsk. The plant restarted quickly and the chlorine and acetylene producing facilities, which are in the beginning of the technological chain, were partially restarted. The loss calculations on the plant are not finished yet, but it might be around \$6-\$7 million.

Bashkortostan

SNOS

Salavatnefteorgsintez bank loan liabilities amount to 12.4 billion roubles after the first quarter of 2005. The company attributed the borrowings to the need for funds to buy raw materials, against the background of a sharp increase in global oil prices, production growth and intensive capital development. The funds were used in part for a new EPS production line (the line was opened in March 2005 at the Monomer plant), a catalytic cracking unit, and for the reconstruction of the pyrolysis furnace reconstruction at the Monomer's EP-300 installation. This will help to increase output of ethylene and its derivatives.

Currently, Salavatnefteorgsintez is considering mulls a number of investment and innovation projects. In the near future, it is planned to build plants to produce butyl acetate, biethylhexanoic acid and orthoxylene and to launch new catalysts. Short-term objectives of the investment development programme include: building a catalytic cracking unit of 1 million tpa capacity and reconstruction of the PS plant. The medium-term goals include building a PE plant of 120,000 tpa. In the first quarter of 2005, proceeds of Salavatnefteorgsintez reached 13.922 billion roubles, the gross profit was 4.242 billion roubles, and net profit 1.61 billion roubles. The first quarter earnings amounted to 9.847 billion roubles.

Polief

At the May meeting of Polief's shareholders, a new board of directors was elected that includes three representatives from the Selena group. In March, Selena won a tender to 3 billion roubles (\$107 million). SIBUR and LUKoil-Neftekhim, which lost the tender, filed a complaint with the Moscow Arbitration Court, demanding that the results of the bidding be annulled and accusing the Russian Federal Property Fund of engaging in speculation. There is a suspicion that there is a strong chance that Selena does not plan to develop the plant, but will simply seek to resell it.

Preliminary hearings of the claim filed by SIBUR and LUKoil-Neftekhim against the Russian Federal Property Fund (RFPF) and Selena Plant to cancel the sale of 100% stock of Polief will start at the Moscow Arbitration Court on 21 June 2005.

Irkutsk

Angarsk Petrochemical Company

Continuing uncertainty over the fate of YUKOS raises questions about operating rates at Angarsk although until now there has been no sign of a problem. The Moscow Arbitration Court has ordered the Angarsk refinery of YUKOS to pay 9.94 billion roubles (\$359 million) to Liechtenstein-based New Century Securities for an overdue loan. Angarsk Petrochemical Company reportedly borrowed \$58 million from New Century Securities in 1996. That amount has soared due to penalties and fines for non-payment. Angarsk Petrochemical Company., which is based in East Siberia, is the main refinery belonging to YUKOS and is capable of refining 19.18 million tpa. YUKOS is now expected to sell its shares in Angarsk Petrochemical Company, with some interest already shown by Sinopec.

Angarsk Petrochemical Company was registered in 1995 as the result of restructuring in 1993, formed on the basis of the former Soviet complex Angarsknefteorgsintez. In 1994, a controlling packet of shares was transferred to the oil company Sidanko which in 2000 sold it to the holding company Interros. In 2001,

shares were sold to YUKOS which now owns 100% of shares in the company. Angarsknefteorgsintez was divided into two divisions, the Angarsk Petrochemical Company which included units for methanol and butanols and the Angarsk Polymer Plant which took responsibility for the ethylene and ethylene derivatives.

Sayanskkhimplast

For the reconstruction of the PVC plant Sayanskkhimplast has introduced some new German equipment which will facilitate improved quality output and lower production costs for PVC. The replacement of the centrifuge was the first step in the reconstruction of the PVC plant. This year the company expects to run its PVC facilities at full capacity.

Omsk

Omsk Chemical Company

Kazakh bank Turan Alem and the ??Z Consulting group have become the main investors in the Omsk Chemical Company. The main plans of the new investors include modernisation of existing equipment and to create a long term programme of development for the company. Part of the plans include a second gas pipeline, the modernisation of the polystyrene facilities, and the output of petroleum resins.

Omsk Chemical Company's polystyrene plant stands at 60,000 tpa. Recently a new unit has been introduced that helps to expand polymer production for utensils and packaging.

The varnish and paint production division of the company has developed dramatically in the past few years. The company has secured positions in the Siberian, Urals and Central Asian markets. The Omsk Chemical Company has recently completed the development of a cheap alkyd lacquer, modified by petroleum polymer resin, with a capacity of 350 tons per month. One of the plasticizer production lines was used for launching the unit, thus reducing costs. The unit capacity will amount to 120 tons per month. The production of the first batch of petroleum polymer resin was scheduled for June 2005.

Product/Company News

Polypropylene

Novatek's recent board meeting reiterated the company's desire to increase processing of raw materials, with reference to producing petrochemicals. There is talk that Novatek will construct a 250,000 tpa polypropylene plant, although no there are no further details available at the moment. Novatek has just introduced a new unit at the Purovsk plant (ZPK) for the processing of gas condensate. The Purovsk plant is located 140 km from Novy Urengoy and started production in October 2003.

The new BOPP plant at Novokuibyshevsk is reported to be completed with the start-up of the plant planned for the near future. Construction started in July 2003, with the capacity of the plant rated at 25,000 tpa.

The Moscow refinery restored polypropylene operations at the end of May following the energy crisis that affected Moscow in on 24/25 May. Total losses for the enforced refinery outage are estimated at 3 billion roubles.

Methanol

The construction of the Taganrog methanol terminal is now reported to be completed and ready to ship methanol, and other chemical products.

At Tomsk, Vostokgazprom plans to expand the methanol facilities by another 50,000 tpa, taking the plant capacity to 800,000 tpa. This expansion is part of the company's investment programme which also includes an increase in the output of hydrocarbons. The long term aim is to increase methanol capacity up to 1 million tpa. However, this expansion may be jeopardized by a liberalisation of gas prices in the Russian market which is expected to happen as Russia enters the WTO. At present methanol from Tomsk is competitive in the European market due only to gas costing practically nothing, and probably the only cost is the logistical rail cost from Tomsk to Europe.

However, the domestic price for gas in Russia is increasing, whilst new more cost-effective capacities in other parts of the world could mean that it is more difficult for Russian methanol to compete. The cost price

of production at the new plants is very low. In 2004, Vostokgazprom made 2.720 billion roubles from methanol sales against 2.125 billion in 2003.

The start-up of the new MetaDynea urea-formaldehyde plant at Gubakha, a jv between Metafrax and Dynea, was scheduled to start up on 24 June. The capacity of the plant is 60,000 tpa with the main aim of the unit being the processing of methanol. Before the end of 2005 MetaDynea plans to develop an additional plant of 30,000 tpa.

Akron

Akron has consolidated 50.5% of its shares in the Hunji-Akron company in the Shandun province in China. In March 2005, Hunji-Akron started the construction of a new methanol unit of 100,000 tpa at a value of \$30 million. Output will start in July 2006. In 2004, Hunji-Akron's sales amounted to \$126 million (17% year-on-year growth). It is planned to increase the sales by 25% to \$160 million in 2005.

The Akron Group includes also two major Russian fertiliser producers, the main company Akron at Novgorod and Dorogobuzh at Smolensk. Integration of three major fertiliser producers permits Akron to operate in two biggest global markets accounting for more than a half of the world's fertiliser output, and to regulate the product distribution depending on market changes due to seasonal or other reasons.

Akron plans to invest up to \$1.5 billion in the next decade in the expansion and modernisation of existing capacities. Product focus will be on organic products including the construction of a new formaldehyde plant, new units for urea-formaldehyde resins, and also several stages in the development of methanol capacity. The company also plans to increase the production of fertilisers and further develop ammonia facilities. A new completely direction includes the opening of a melamine plant which would be the first in Russia. This is targeted for the 2009-2010 timeframe. A new formaldehyde plant will open at Akron in November 2005.

Polyamide

Khimvolokno-Amtel-Kuzbass plans to invest about \$14 million into its polyamide capacity expansion. The investment is expected to facilitate an increase of monthly polyamide output from 720 tons in April 2005 to 1,000 tons in July and up to 1,500 tons by September. About \$6 million has been invested into the project since December 2004.

Belarus

Kazakhstan has made it known that it could take part in the privatisation of Belarussian petrochemical plants. Belneftekhim and Belenergo are considering the possibility of building an energy unit at Naftan by 2010 at Novopolotsk. Naftan was founded originally in 1963, and its total refining capacity is 10 million tpa.

In the 2005-2011 timeframe Mozyr NPZ plans to invest \$400 million in reconstruction. Part of this investment programme involves the completion of the new benzene plant with a capacity of 41,200 tpa. The cost of this project is placed at \$26 million and should be completed in 2006. Mozyr Refinery was started in 1975, and since 1994 it has been part of Slavneft.

Ukraine

(Ukrainian hryvnia, Jun 17, \$1 = 5.030, €1 = 6.3529)

Political changes in Ukraine at the turn of the year have culminated in a major revision of past privatisation deals and the new government has made it clear that it will not be rushed in this process. In terms of the chemical industry, a number of companies are currently under review such as Azot at Severodonetsk, RivneAzot at Rovno and the Lisichansk refinery which is now owned by TNK-BP. The Lisichansk refinery for example was sold to TNK several years ago for \$9.8 million, when its real value is now considered to be around \$1.5 billion. The Oriana privatisation is also being considered as shown below.

Lukor

The Ukrainian cabinet has cancelled a resolution of the previous government on the sale of a 47.93% stake in Lukor to Naftogaz Ukrainy in the second half of 2004, owned by the state company Oriana. Naftogaz

Ukrainy, which was actively collecting assets and trying to form the basis of a Vertically Integrated Oil Company (VIOC). posed a threat to LUKoil of losing its control over Lukor.

LUKoil, the owner of a 52.07% stake in Lukor, responded to the Yanukovych government's resolution, set up a closed joint-stock company Karpatneftekhim. The petrochemical assets of Lukor were then transferred to the new company. As a result of the creation of Karpatneftekhim (LUKoil owns 76% of shares), the Kalush petrochemical complex fell under the ownership of a private company. In the aftermath of the Orange Revolution efforts are being made to not only to reverse the decision on Naftogaz Ukrainy, but also to question the legal existence of Lukor which was set up in 2000. This all of course does not help in repaying Oriana's debt to Bayerische Vereinsbank for the construction of the polyethylene plant in the 1990s. The new government is examining various options, possibly one of which includes selling the state share in Lukor to LUKoil.

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