

CIREC

MONTHLY NEWS

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

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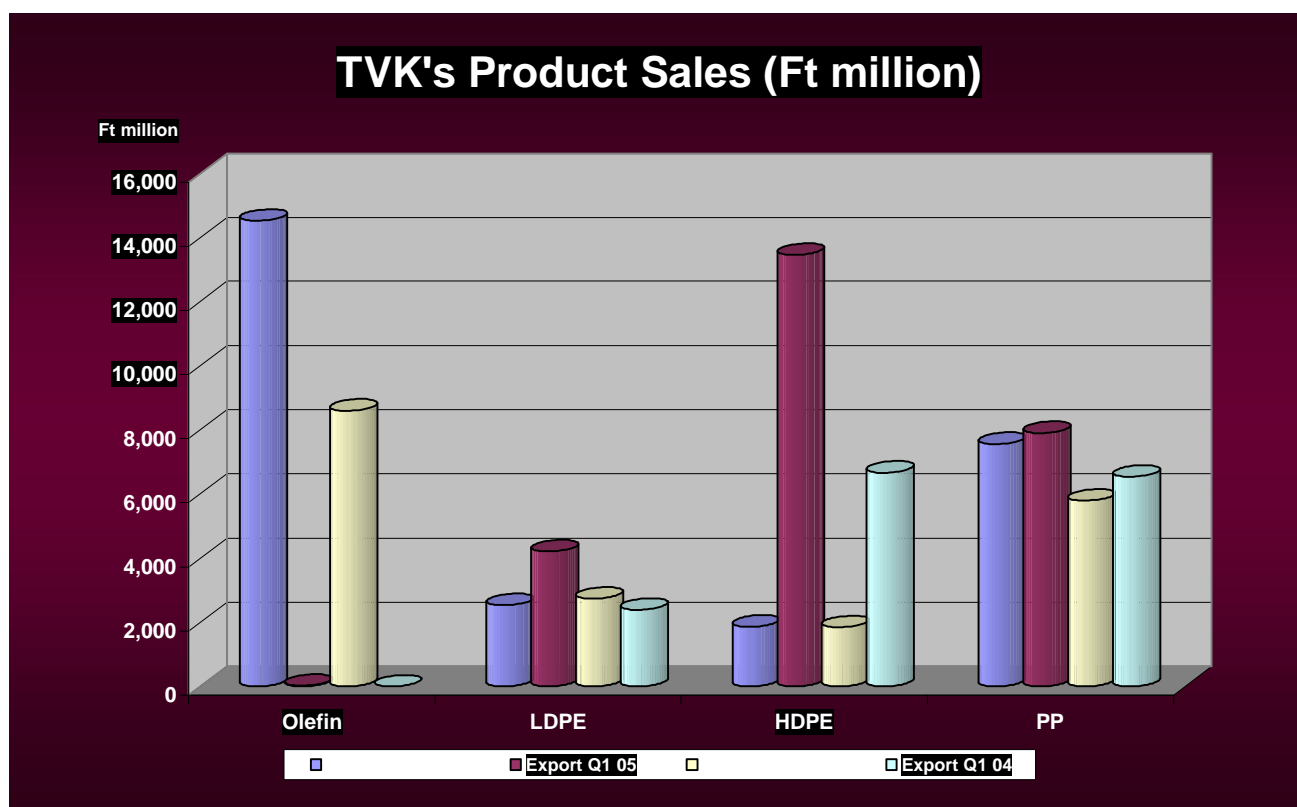
Czech Republic | Slovakia | Hungary | Poland | Bulgaria | Romania | Croatia | Slovenia | Yugoslavia | Baltic States | Russia | Belarus | Ukraine | Transcaucasus | Central Asia | Kazakhstan

Issue 174, 18 May 2005

Features from the sixth issue in 2005

- ? PKN Orlen posted a Q1 net profit of zł.631 million in Q1 2005, which is an increase of 72% compared to the same period of last year. The results are due to a large part attributable to high oil prices, as well as the lowering of operating costs. In the first three months of 2005, savings amounted to zł 216 million, while a year earlier the figure stood at zł.143 million. By the end of May, Orlen should conclude the \$480 million deal to take over Unipetrol. Due to its improving results, Orlen will only need 10% of the funds from external sources.
- ? The government of Belarus plans to introduce the right of golden share at Lakokraska of Lida. The state plans to retaliate upon the shareholders who did not comply with the plans to nationalise the enterprise from within. Lakokraska was privatized in 1992 when its workers were given an opportunity to buy some shares for \$5 each or acquire them in exchange for Property checks.
- ? Plans for a JV for biaxial oriented polystyrene (BOPS) production in Tatarstan have been started at the industrial zone at Alabuga in Elabuga, involving TPX Marta in Moscow, Nizhnekamskneftekhim and the local Tatar company Elaz. Work on the project was started by Marta in December 2004, with equipment selected from Marshall & Williams Plastics in the US.
- ? The Board of directors of the International Finance Corporation (IFC) has approved the grant of a loan facility to the value of \$75 million to Togliattiazot (ToAZ). The IFC's owned funds will amount to \$30 million while the funds of the banks syndicate arranged by IFC will total \$45 million. The purpose of the funds is aimed at developing a second methanol line. After completion the ToAZ plant will increase methanol capacity to 1 million tpa, from 450,000 tpa at present.
- ? In July 2005, Tomskneftekhim plans to undertake a tender for a gas-chemical complex, in which five companies are expected to participate. Linde has already examined the possibility of building a gas chemical complex based on the gas pipeline Nizhnevartovsk-Parabel-Kuzbass from which Tomskneftekhim accesses relatively low cost raw materials for processing. This will be used for producing fuel, monomers and polymers. In the first quarter of 2005, Tomskneftekhim increased polyethylene output marginally over Q1 2004, with olefin production remaining more or less the same.
- ? Svyazinvestneftekhim has blocked an emission of an additional issue of shares in Kazanorgsintez, as a result of which the chartered capital was planned to increase by 3.5 fold up to 7 billion roubles. Svyazinvestneftekhim seems to be suggesting that the main investment strategy be focused on Nizhnekamskneftekhim which could cause problems for the development of olefin and polyolefin plans by Kazanorgsintez.
- ? Bayer Technology Services has won the order from BorsodChem in Hungary to build a drying unit for gaseous chlorine. The Bayer tower design with special internals ensures that the chlorine has significantly lower residual moisture than is possible with conventional processes.

CENTRAL & SE EUROPE



MOL Q1 2005

In the first quarter of 2005 MOL's operating profit in the petrochemical division was Ft 9.6 billion, which represents a 156% increase on 2004. The increase was due largely to increased sales' volumes and according to the company continuously improving operational efficiency. The price spread between PE products and feedstocks increased by a range of 38-50%, while in the case of polypropylene the margin increased by 13-17%. In Q1 2005, polymer sales' volumes increased by 4% to 224,000 tons, compared to 2004. The most significant growth was in HDPE, mainly as a result of the new HDPE plant start-up at TVK at the end of 2004. The portion of HDPE sales rose to 30%, whilst LDPE stayed at 30% and polypropylene at 40%. Hungarian polymer sales fell by 7,000 tons to 52,000 tons, and the estimated MOL Group market shares were 45%, 41% and 69% in the Hungarian LDPE, HDPE and polypropylene markets respectively.

In Slovakia polymer sales decreased by 3,000 tons and our estimated market shares were 68% and 37% in LDPE and polypropylene markets. Aside developments at TVK in the MOL Group, Slovnaft completed the mechanical test in the first quarter of the new 255,000 tpa polypropylene plant, and the test run is now in progress.

Czech Republic

(Czech crown, Kc, May 17, \$1 = 23.852, €1 = 30.132)

Unipetrol

Unipetrol saw an increase in first-quarter pre-tax profit at most of its key units compared to 2004. Its unconsolidated earnings data showed only the two smaller of Unipetrol's three refining units posting losses, in part due to scheduled maintenance outages. Unipetrol Rafinerie recorded a Kc 239.9 million loss in January through March, compared with a gross profit of Kc 43.6 million in the same period of 2004. Unipetrol's largest refining unit, Ceska Rafinérská, increased its gross profit to Kc 88.6 million in the first quarter from Kc 66.6 million in the first quarter of 2004.

Spolana stood out amongst Unipetrol's units, as it increased its gross profit to Kc 168.5 million in the first quarter, from Kc 23.3 million a year earlier, despite a drop in demand for PVC. Restructuring has helped Spolana improved its performance in the past two years.

The European Commission has cleared under the EU Merger Regulation the proposed acquisition of the Unipetrol by PKN Orlen. The Commission concluded that the operation would not significantly impede

Unipetrol First Quarter Results (Kc)		
Product	2005	2004
Ceska Rafinérská		
Revenue	2.1 billion	2.0 billion
Chemopetrol		
Pre-tax Profit	1.1 million	265.1 million
Revenue	7.0 million	5.9 million
Kaucuk		
Pre-tax Profit	58 million	56 million
Revenue	2.9 million	2.3 million

effective competition in the EEA or any substantial part of it since the activities of the two companies did not overlap to a significant extent.

The Commission conducted a market investigation, which focused on the markets for non-retail sales of gasoline and diesel, soda lye and bitumen. Due to the limited overlaps of the parties' activities in Poland and the Czech Republic, and the presence of multinational competitors, the Commission has decided to clear the transaction. PKN Orlen has already stated that it wants to sell Conoco-Philips one third of the 313 gasoline stations owned by Unipetrol.

PKN Orlen is now heavily focused on the acquisition and integration of the Unipetrol holding. The company has developed the personnel and organisational backbone of the integration project and a detailed action plan for the first 100 days of the process. A management model has also been outlined, and the principles of the Partnership Programme by establishing Polish-Czech value creation teams.

The deal is planned for closure between 20–30 May 2005, at a price of Kc 13 billion. After that the process of integration will start, including offers for the minority shareholders of Unipetrol, Spolana and Paramo. Cooperation with the experts responsible for the valuation of the Unipetrol Group. As from 1 July 2005, Unipetrol will become part of PKN Orlen's capital group.

Slovakia

(Slovak crown, SKK, May 17, \$1 = 30.970, €1 = 39.115)

Novacke Chemicke závody (NCHZ) reported total sales of SKK 1.402 billion for the first quarter of 2005. This represents a growth of 12% from the same period in 2004. During the first three months of the year NCHZ earned a net profit of SKK 36.9 million compared with a loss of SKK 5 million in 2004. The company generated added value of SKK 244.8 million during the first quarter of 2005.

Hungary

(Hungarian Forint, May 17, \$1 = 199.56 €1 = 252.04)

BorsodChem Q1 2005

BorsodChem's operating profit jumped nearly 50% in the first three months of 2005. Improved demand for its core products, and a favourable chemical cycle, were the main drivers of growth. Operating profit rose to Ft 5.7 billion, up from Ft 3.3 billion in Q1 2004, although the January–March net profit was 12% below the same period of 2004. Average prices of PVC resin rose to €947/ton in the first quarter, from €751 from the same period in 2004. Ethylene prices rose to €740 a ton from €580, pulling BorsodChem's price margin up 21% to Ft 207.

Sales rose 19% to Ft 41.9 billion in the first quarter, but the company has said sales and earnings growth will probably slow this year. BorsodChem has also outlined future acquisition and expansion plans for the coming years, pinpointing Oltchim and Zachem as likely targets whilst the company will expand capacity in Hungary. The company also plans to use its rights to the MDI technology to expand production in Hungary and to set up an MDI plant in an as yet unnamed country.

The increase in sales' revenues was established by the capacity expansion made last year, a favourable demand-supply condition in the product markets, consequently improving margins as well as a sales policy built on steady customer relations. EBIT and EBITDA increased by 60% and 35%, respectively. The strong cash generating capacity, the record level quarterly EBITDA has made a significant contribution to financing the company's investment programme in 2005 without the company incurring excessive debts.

In Q1 2005, BorsodChem increased its sales' revenues by 18.9% compared to Q1 2004. Again, the

increase in sales' revenues is mainly attributable to the period's export sales expansion. The 4.2% increment in the sales' revenues of PVC resin was coupled with a 10.3% decrease in sales' volumes and a significant growth in sales' prices. Sales of PVC compounds dropped by 9.6% due to decreased volumes sold in export markets. Sales' prices increased alongside PVC resin price; however, the price increase could not offset the lower volume effect. Sales' revenues of MDI rose by 31.4% mainly resulting from the significant increase in sales' prices.

BorsodChem's Sales' Revenues Q1 2005 (Hungarian Forint, May 17, \$1 = 199.56 €1 = 252.04)		
Product	Q1 05 (Ft mil)	Q1 04 (Ft mil)
<i>PVC resin</i>		
Domestic	997.6	999.2
Export	10,041.1	9,594.8
Subtotal	11, 038.7	10,594.0
<i>PVC compounds</i>		
Domestic	185.4	185.8
Export	994.4	1,119.5
Subtotal	5,082.7	4,423.8
<i>MDI products</i>		
Domestic	40.4	18.2
Export	6,958.4	5,308.5
Subtotal	18,955.4	17,072.6
<i>TDI products</i>		
Domestic	322.4	313.8
Export	7,735.9	5,858.3
Subtotal	8,058.3	6,172.1
<i>Caustic soda</i>		
Domestic	765.0	503.3
Export	982.7	471.5
Subtotal	1,747.7	974.8
<i>Aniline</i>		
Export	2,734.2	1,979.6
<i>Plastic semi-finished and finished products</i>		
Domestic	885.6	1,288.4
Export	1,603.4	1,410.1
Subtotal	2,489.0	2,698.5
<i>Other products</i>		
Domestic	2,376.9	2,252.8
Export	5,309.8	3,953.0
Subtotal	7,686.7	6,205.8
Total sales	41,933.2	35,256.8
Domestic sales	5,573.3	5,561.5
Export	36,359.9	29,695.3

Combined sales' revenues of other products, such as ammonia, hydrochloric acid, hypochlorite, polystyrene, pre-polymer, formaldehyde, special amines, etc., increased by 23.9%, mainly due to the expansion of MCHZ's cyclohexylamine production and the full consolidation of BCMC S.r.l. (a trading company in Italy). Export accounted for 86.7% of the group's total sales. This ratio increased by 2.5% compared to the same period in 2004 period, also signifying that export continues to be the focus of group level sales activities. Geographically, total sales were divided between domestic/Central & South East Europe 46.2% and West Europe 49.6%.

New drying unit

Bayer Technology Services has won the order from BorsodChem in Hungary to build a drying unit for gaseous chlorine. The Bayer tower design with special internals ensures that the chlorine has significantly lower residual moisture than is possible with conventional processes. The two drying towers have a total capacity of 160,000 tpa of chlorine. The order is for the engineering and procurement of the treatment system, with commissioning scheduled for late 2005.

TVK Q1 2005

The sales' revenues of TVK Rt. reached Ft 53,547 million in Q1 2005, whilst the consolidated group level sales amounted to Ft 53,778 million, which represent increases of 49% and 31% respectively compared to the Q1 2004. The volume of polymer sales increased by 18,000 tons in the polyethylene division and decreased by 2,100 tons in the polypropylene division. The 71% higher sales revenue from the olefin division is attributable directly to the increase in production volumes.

In 2004, the income for TVK for olefin production increased 24% along with higher output and a 96% capacity utilisation rate calculated for the ethylene plant. TVK sold a total of 72,000 tons of ethylene to BorsodChem in 2004, and imported 17,000 tons from Kalush. The HDPE-2 plant, which was introduced at the end of last year, is able to produce new types of polyethylene, whilst ethylene production capacity increased by 68% and now totals 620,000 tpa. Polymer production capacity has increased by 33% to a total of 800,000 tpa. As from 25 December 2004, BorsodChem has been supplied by ethylene produced from the new Olefin-2 Plant at TVK.

TVK Group's material costs amounted to Ft 41,275 million in Q1 2005, a Ft 15,192 million (58%) increase, primarily caused by the higher feedstock and energy costs. The increase in both the price and quantity of feedstock was moderated in part by the feedstock used during the test operation of the new olefin plant.

In the first quarter of 2005, the average prices of naphtha amounted to \$400/ton, which rose by 15% compared to the December 2004 price. At the average of the first quarter, gas oil was quoted at a price of \$448/ton, which is 8% higher than the December 2004 average. If the average quoted prices of feedstock

for pyrolysis are compared to those in the same period in 2004, they rose by \$107/ton (36%) for naphtha and by \$157/ton (54%) for gas oil.

The rise in energy costs reflect the increased energy consumption due to the higher volume of production from the new olefin and polyolefin facilities, the rise in energy prices, as well as the surplus energy purchased for and re-billed to external consumers.

**TVK's Sales by Domestic and Export
Revenue (Ft million)
(Hungarian Forint, May 17, \$1 = 199.56 €1 =
252.04)**

	2005		2004	
	Dom	Ex	Dom	Ex
Olefin	14,527	24	8,598	-
LDPE	2,537	4,214	2,740	2,394
HDPE	1,869	13,464	1,851	6,670
PP	7,562	7,907	5,795	6,542

The value of material type services used rose by Ft 749 million (40%) mainly because of the increase in the cost of maintenance services, which arose due to the appearance of new technologies and in association with unplanned shutdown that took place at the Olefin 11 complex in March 2005.

In the first quarter of 2005, total capital expenditure funded by the TVK Group reached Ft 85 million, including the result of the Olefin-2 test operation, reducing the loss on test operation incurred in the previous period. Excluding the gain on test operation,

the investments came to Ft 1,549 million, which is 88% lower than in the corresponding period of the preceding year owing to the completion of strategic projects.

Poland

(Polish zloty, zl, May 17, \$1 = 3.3327, €1 = 4.204)

PKN Orlen

PKN Orlen posted a Q1 net profit of zl.631 million in Q1 2005, which is an increase of 72% compared to the same period of last year. The results are due to a large part attributable to high oil prices, as well as the lowering of operating costs. In the first three months of 2005, savings amounted to zl 216 million, while a year earlier the figure stood at zl.143 million. By the end of May, Orlen should conclude the \$480 million deal to take over Unipetrol. Due to its improving results, Orlen will only need 10% of the funds from external sources.

PKN Orlen's petrochemical division saw growth of zl 118 million in the first quarter of 2005, 53.1% up against the same period last year. This was due largely to stronger demand for the key petrochemical products such as toluene, butadiene and orthoxylene.

The petrochemical division's turnover for Q1 2005 reached zl 330.035 billion, which compares very strongly against the total of zl 212.367 million in Q1 2004. Apart from higher petrochemical prices there was also a slight improvement in the volume of sales to external customers (by 0.7%), which was attributable to a stronger demand for the products of PKN Orlen and Anwil SA. In Q1 2005, sales value for the key products of the two companies increased, including ethylene by 5.3%, propylene by 29.6%, benzene by 59.6%, ammonium nitrate by 16.9%, and CANWIL by 12.6%.

Refinery news

From the forthcoming IPO in Poland Lotos wants to sell 35 million B series shares and raise as much as zl.1-1.1 billion from the issue, which it intends to spend on further development of the company. By 2009, Lotos plans to spend zl 5.3 billion on investments and only 35-45% of which will be financed from the company's own resources. The key investments identified by Lotos include a complex technical development of the refinery, which will cost around \$900 million. The debut of Lotos on the Warsaw bourse is scheduled for the first half of June.

Rafineria Trzebinia (RT), part of PKN Orlen group, intends to invest over zl.100 million in a second installation for the production of bio-additives for fuels, this time in Germany. In 2005, the minimum amount of biocomponents in fuels is required to amount to 2% and this figure will increase by 0.75% on an annual basis up to 2010, in line with EU regulations. In order to carry out the investment, the company will apply for subsidies amounting up to 35% of the total investment outlay.

The small Polish refineries are currently seeing a deficit of crude due to restrictions in Ukraine. To date in 2005, Ukraine has shipped to Poland only 300,000 tons, representing less than 2% of all imports. However, this quantity is important for the small refineries located in the south of the country, at Czechowice and

Trzebinia. The Ukrainian government has explained a suspension of export of oil and mineral oil from the country need to brake growth of retail prices at fuel stations of Ukraine. Annual oil extraction in Ukraine comprises around 4 million tons, whereas Ukrainian oil refining capacity stands at more than 50 million tpa.

Petrochemi? Blachowni?

Ciech is introducing a new unit for extraction distillation at Petrochemi? Blachowni? which is planned to be completed in the third quarter of 2006, increasing benzene capacity from 69,000 to 90,000 tpa and toluene from 13,000 tpa to 21,000 tpa. Owing to new technology the company aims to eliminate the need for extra purchases of benzene. Benzene from Petrochemia Blachownia is bought currently by ZA Pulawy SA and BorsodChem. The company also processes it in ethylbenzene and is the main supplier of this product to ZA Dwory at Oswiecim.

By increasing capacity Ciech can increase deliveries in ZA Pulawy SA and also find new consumers. Ciech, together with PKN Orlen, is working on the new ethylbenzene plant at Plock.

Polish Chemical Plant News

In the first quarter of 2005 ZCh Police SA achieved a profit of \$10 million on a turnover of \$130 million, which is a radical turnaround from the company's performance several years ago. In 2001, the company recorded losses of \$18 million, and in 2002 \$51 million. Changes took place in 2003 when the company saw a profit of \$5 million and then in 2004 this increased to \$31 million. At present the company is preparing for its debut on the stock market and it is also hoping to attract finance in the range of \$68-83 million from a charter capital increase which will be use for modernisation and new projects. Methanol has been considered as there is no domestic production at present.

Henkel Polska announced its plans in 2005 to open a modern division at Racibórz to produce chemicals for laundry detergents, and a number of other cleaning agents. As a result, Henkel Polska will become the only supplier of this semi-finished product to all plants belonging to the group in Central and East Europe. The total cost of the project has been estimated at €4.5 million.

At present, Henkel Polska's plant at Racibórz exports 35% of its output to Baltic states, the Czech Republic, Spain, Romania, Ukraine and other countries. The company exports both finished products-laundry detergents and soaps-and semi-finished products to be used in further processing, including chemicals used in the production of laundry detergents. The new division will enable the company to double production and increase exports from the Racibórz plant by 30%. Henkel's total investment spending in Poland was \$25 million in 2004, a rise by over 45% against the previous year. Over the past 15 years Henkel invested \$107 million in Poland to build five plants producing household and construction chemicals.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

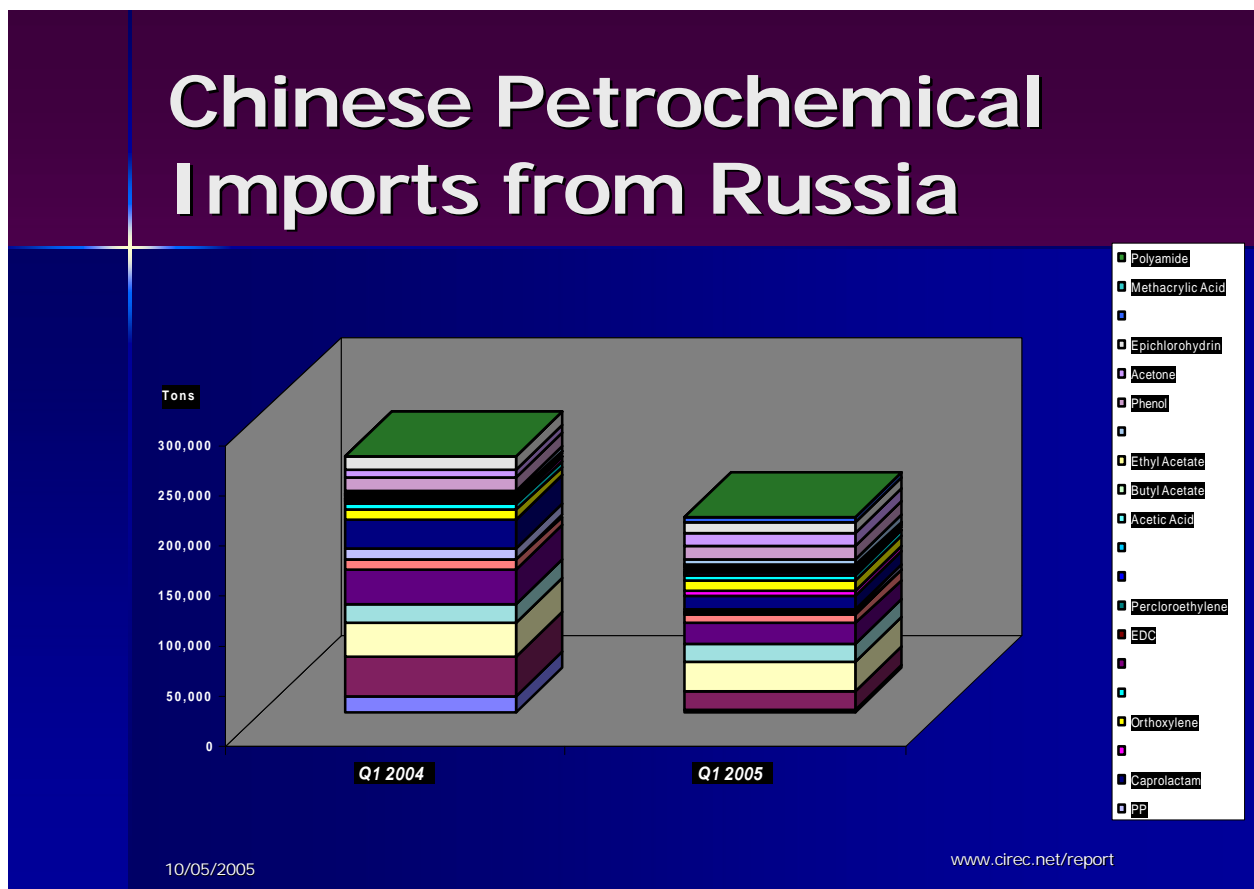
Russia

(Rus rouble May 17, \$1 = 27.993, €1= 35.355)

Russia's exports to China of organic chemicals and polymers fell by over 20% in the first quarter of 2005 against the same period in 2004. Falls were noted in the main polymer groups, in particular. Russia stands in 10th place worldwide in terms of exports of organic chemicals to China, and is probably expected to drop one or two places in the next year due to increasing domestic demand and tightening availability in the Russian market. However, with a number of projects planned for completion in the next few years Russia may regain surplus positions in certain product areas and China represents the most logical destination for excess volumes. Competing on a large scale against producers from the Middle East may be outside the capability of Russia's petrochemical industry, but there are still plenty of opportunities for Russian producers.

Another sign of tightening availability in the Russian petrochemical market is the recent hike in customs' duties. Russia increased customs duties on petrochemicals to an all-time high from 24 April, in an effort to try and control exports of valuable raw materials. The export duty rate for benzene, toluene, xylene, propane, butane, ethylene, propylene, butylene, and butadiene, will amount to \$81.4/ton. Previously, customs duties on the above products amounted to \$68.2/ton. In opinion of the State Monopoly

Commission, lower duties on chemicals stimulate their export and provoke higher prices in the home market. Certainly for most petrochemical monomers Russia is just about in balance, although propylene and benzene are under extreme pressure.



There are also clear indications from the central authorities that Russia plans to keep the export duties on petrochemicals after joining the WTO. The process of entry is pending and under review at present. The WTO sets certain requirements for the chemical companies that they must adopt the goal of gaining maximum sales earnings, and a company with a state interest must provide the equal purchasing and sale rights to both the Russian and the foreign producers and consumers. Effectively, that means that forms of trade protection such as customs duties are not welcomed by the WTO, but more than likely it will not create too many problems.

As a result of the governmental order of the Russian Federation on 29 April, a number of small chemical plants and institutes have been included on the list of state property to be privatised in 2005. How open these share sales are is another matter and for the most part the shares represent only minority stakes. Among them include 52.11% of shares in Moscow Khimreaktiv, 50.8% of shares in Perm Halogen, 38% of shares in the Ural factory of rubber products, 25.5% of shares in the Volgograd Research centre Khimprom with an experimental plant, 20.59% of shares in Berezniki Soda Plant, 20% of shares in Kaprolaktam, 20% of shares in the Moscow Synthesis Institute and 10% of shares in Omsk Kaucuk.

SIBUR/Gazprom

Gazprom intends to obtain the first dividends of the new company founded on the liquid assets of SIBUR by 2007. It is expected that the capitalisation of the new oil and chemical company is to amount to around \$3 billion by 2008, with a subsequent positive impact on the gas monopoly's securities. The new company's establishment is scheduled to be completed by Q3 2005 after a programme of transition and adjustment.

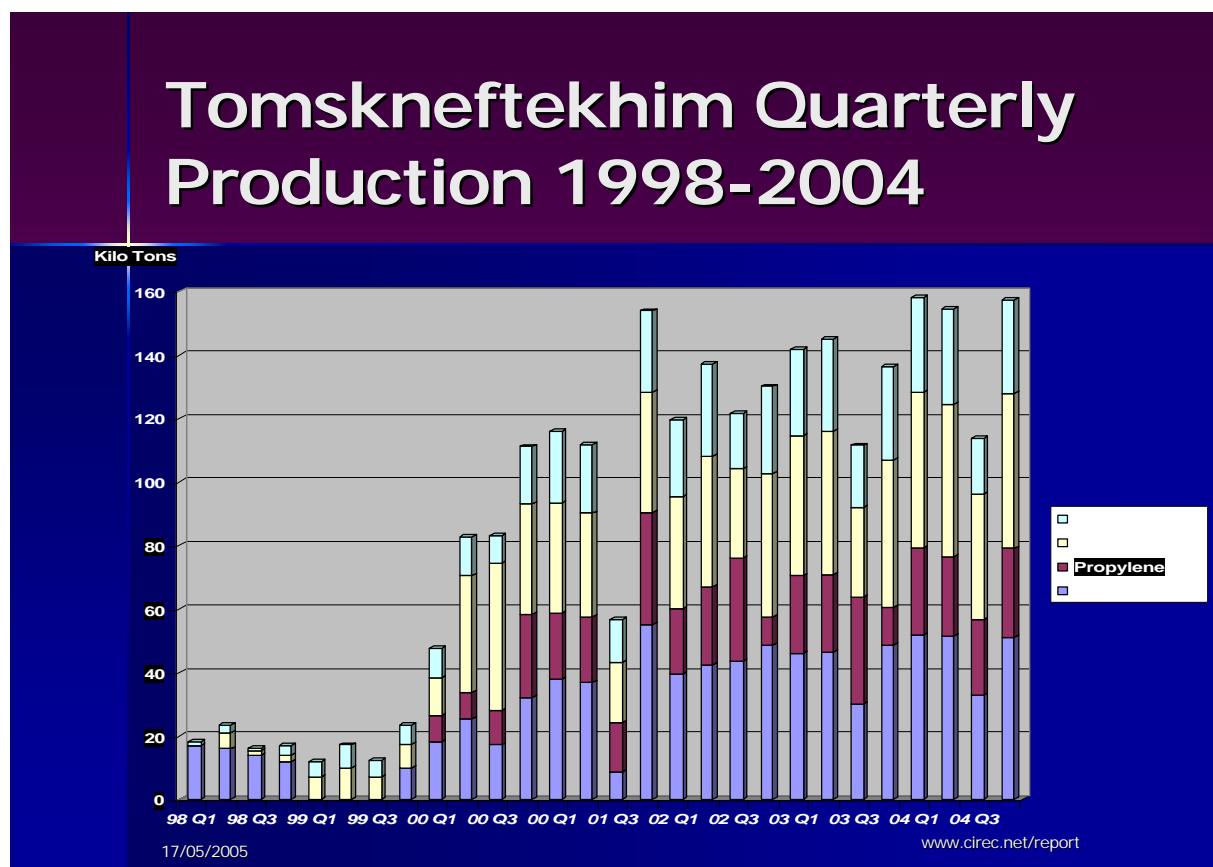
Investment plans

SIBUR plans in the period 2005-2006 to invest \$110 million in Azot at Kemerovo in modernisation of existing facilities, including caprolactam and the fertiliser division. Located in the Kuzbass, the Azot complex is arguably not well placed to meet European Russian demand.

In July 2005, Tomskneftekhim plans to undertake a tender for a gas-chemical complex, in which five companies are expected to participate. Linde has already examined the possibility of building a gas chemical complex based on the gas pipeline Nizhnevartovsk-Parabel-Kuzbass from which Tomskneftekhim accesses relatively low cost raw materials for processing. This will be used for producing fuel, monomers and polymers. In the first quarter of 2005, Tomskneftekhim increased polyethylene output marginally over Q1 2004, with olefin production remaining more or less the same.

SIBUR's board of directors has approved the purchase of a 7.3% additional share in Tomskneftekhim, and to increase in the size of its controllable package in SIBUR-Neftekhim up to 92% of the authorized capital by purchase of a share holding at a rate of 16.4 % of the authorized capital. In the tyre sector, Omskshina intends to transfer its 50% share in Matador-Omskshina joint venture to SIBUR-Russian Tyres. The decision is expected to be approved by shareholders at an annual meeting to be held on 3 June 2005. Matador-Omskshina founded in 1995, is a joint venture of Matador Holding (Slovakia) and Omskshina.

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, whilst the profit rose 61% to 4.45 billion roubles.



Tatarstan

Tatneft, Nizhnekamskneftekhim and Kazanorgsintez on the enterprises of republic deliver in total almost 2 million tpa of hydrocarbon and chemical raw material in a year, not including deliveries of oil on Nizhnekamsk NPZ.

Tatneft will supply to Nizhnekamskneftekhim in 2005 1.1 million tons of naphtha and 81,000 tons of pentanes, whilst it will send 86,000 tons of ethane to Kazanorgsintez. In addition, within the confines of

intra-republican co-operation Tatneft is also delivering to Nizhnekamskneftekhim wide fraction of light easy hydrocarbons, and to Kazanorgsintez propane and butane. In turn, Nizhnekamskneftekhim supplies alpha-olefins to Nefis at Kazan, additional ethylene for Kazanorgsintez and NeftekhimSevilen, and divinyl rubber for the lorry manufacturer Kamaz and also the Kazan Plant for Synthetic Rubber. Other republican deals involve the supply of isoprene and butyl rubber from Nizhnekamskneftekhim to the tyre producer Nizhnekamskshina. In the first four months of 2005 Nizhnekamskshina produced 3.508 million tyres which was 0.1% up on the same period in 2004.

Nizhnekamskneftekhim

Crompton

US company Crompton Corporation has signed a memorandum of understanding concerning cooperation in Tatarstan. Crompton is considering several joint venture ideas and potential projects that may involve Nizhnekamskneftekhim, Nizhnekamskshina, Kazan Synthetic Rubber Plant (owned by Tatgazinvest) and Khiton, Kazan. In particular, negotiations are underway regarding the expansion of ethylene-propylene rubber production at Nizhnekamskneftekhim, and also the production of thermoplastics has been discussed.

BOPS

Plans for a JV for biaxial oriented polystyrene (BOPS) production in Tatarstan have been started at the industrial zone at Alabuga in Elabuga, involving TPX Marta in Moscow, Nizhnekamskneftekhim and the local Tatar company Elaz. Work on the project was started by Marta in December 2004, with equipment selected from Marshall & Williams Plastics in the US. The line will have a capacity of 15,000 tpa and will be dependent on the polystyrene facilities at Nizhnekamskneftekhim. This project will facilitate the production of high quality product at minimum cost, enabling it to establish itself as a leading player in the thermoforming packaging sector. The total cost of the project is placed at \$15.5 million, with start-up planned for the start of 2006.

At present, BOPS is imported by Russia from Europe, South America and China. The main application area is in food packaging. In 2004, Marta, as an importer of BOPS-films, created ViroPlast and turnover of the company in 2004 was \$258 million.

By 2007, Marta plans to create a joint venture with Nizhnekamskneftekhim, with the aim of utilising the polyethylene and polypropylene that will be available from the new plants currently under construction.

Synthetic rubber

At the synthetic rubber division Nizhnekamskneftekhim has recently started work on two units for the production of polybutadiene rubber and the synthesis of diisobutyl-aluminium-hydride (DIBAG) which is used in the production of butyl rubber. Until now this product has been imported, but by producing it internally the company can save money. By 2006, Nizhnekamskneftekhim expects to increase butyl rubber capacity up to 100,000 tpa.

Kazanorgsintez

In the first quarter of 2005 Kazanorgsintez achieved production turnover of 3.19 billion roubles compared to 2.94 billion roubles in 2004. Pre-tax profits increased from 599 million roubles to 617 million roubles. TAIF controls 46.95% of shares in chartered capital. In 2004, Kazanorgsintez achieved 11.78 billion roubles which was 35.1% higher than in 2003. The balanced profit was 2.66 billion roubles, which was 8.2% compared to 2003. The production plan for 2005 includes an increase of 3% for polyethylene pipes, and 7% for phenol and acetone. Turnover is forecast to increase 24.4% to 14,468 billion roubles.

Svyazinvestneftekhim has blocked an emission of an additional issue of shares in Kazanorgsintez, as a result of which the chartered capital was planned to increase by 3.5 fold up to 7 billion roubles. Svyazinvestneftekhim seems to be suggesting that the main investment strategy be focused on Nizhnekamskneftekhim which could cause problems for the development of olefin and polyolefin plans by Kazanorgsintez.

However, TAIF as the main shareholder has already approved the plans for Kazanorgsintez and also the extra emission of shares. If the blocking of the vote by the minority shareholder SvyazinvestNeftekhim means that Kazanorgsintez cannot create the charter capital required for the expansion it may be necessary to resort to other ways of attracting finance.

Nizhniy Novgorod

Plastik

Plastik at Dzerzhinsk soon plans to start the production of a seven-layer barrier film for packaging food and with a long period of storage. Production is planned for the Russian market. In May the platform for the project will be established based on Canadian extrusion equipment and the German machine for film. Cost of the equipment is above \$2 million. By 2010, the enterprise aims to increase capacity up to 32,000 tpa. The seven-layer film allows an increase in periods of storage, thus damage of the goods is reduced to a minimum.

LUKoil- Nizhegorodnefteorgsintez

LUKoil-Nizhegorodnefteorgsintez plans to complete the construction of new catalytic cracking unit at Kstovo, based on UOP licence. Other projects include MTBE and concentrated propylene. Construction of the complex at Kstovo started 10 years ago, but was stopped due to financial problems. Construction restarted in 2002 after LUKoil took over the plant.

Evrokhim

Novomoskovsk-based Azot is preparing for the large-scale reconstruction of the Urea-3 plant, planned for June 2005. The parent company Evrokhim appropriated 85.1 million roubles for this project, whilst another 95.5 million roubles will be paid from the repairing fund of Azot.

During this year's summer shutdown, the urea unit will be modernised not only by replacing the worn-out equipment, but also by introducing substantial improvements to the process control and management system. This will facilitate an increase in production at the Urea-3 unit by 10%, reaching a production level of 500,000 tpa by August 2005. Urea-3 was launched originally in 1979.

Nevinnomyssk Azot produced its one millionth ton of acetic acid in February, having started production in 1995. Up to 2000, the plant was constantly under-used due to poor sales, but since then consumption levels have grown to the point where production reached full capacity in 2003. Apart from increases in consumption the purchase of Azot by Evrokhim was a major factor in helping to stabilise production levels. In the first quarter of 2005, Azot increased acetic acid production by 20.7% (see online database www.cirec.net/report for numbers) over the same period last year. Methanol increased 21.2% in the same periods.

Omsk

A new heat and electricity plant has been launched in the Omsk region that will help to reduce costs in the petrochemical industry, particularly for Omsk Kaucuk. It will also supply electricity to the Ekoil MTBE plant at Omsk. After the start of the first stage of the energy plant it will be possible to produce 352 tons of steam per hour and this which will increase to 539 tons after the second stage is introduced.

Tecnimont's project to construct a 180,000 tpa polypropylene plant at Omsk is valued approximately at \$100 million and includes the grant of licence, the supply of basic and detailed engineering services, equipment and materials, and the supervision and assistance during the construction. The plant will use the Spheripol technology licensed by Basell. The project will be financed by an Export Credit from Italy.

Bashkortostan

In 2004, Ufaorgsintez achieved a turnover of 5.346 billion roubles against 4.289 billion roubles in 2003. Tax before profit was 0.878 billion roubles against 0.211 billion roubles. Full production numbers for 2004 back to 1998 can be found on the online database.

Salavatnefteorgsintez has undertaken a small share issue worth 3 billion roubles to help support the construction of the new catalytic cracking unit. The complex is controlled by Gazprom through a complex arrangement with the Bashkortostan government.

On 29 April, Kaustik at Sterlitamak transferred its management to the new holding Bashkiriya Khimya created by the Bashkortostan government. The official transfer will take place in July. Being part of Bashkiriya Khimya, it will help the company decide strategic directions which it may be unable to perform itself. Also Soda at Sterlitamak was also transferred to the holding at the same time.

Kaustik controls around 20% of the Russian market for caustic soda, 30% PVC, 25% for plasticizers, and 50% of the market for epichlorohydrin. It is the sole Russian producer of synthetic glycerine and perchloroethylene. The charter capital of the company is 99,694 million roubles, with the largest shareholder being ING Bank with 78.21%, with the Bashkirian Ministry of Industry holding a 5.68% golden share.

Soda is the largest producer of soda ash in Russia, controlling 55% of the market. The capacity of the plant is 2.045 million tpa. The charter capital of the company is 796.880 million roubles, with 61.65% of shares owned by the Federal Budget, and 19% under the Ministry of Industry in Bashkortostan.

Samara

Kuibyshevazot and the IFC have now signed a credit agreement under which the Samara based plant will invest \$15 million, as has been reported by past issues of CIREC Monthly News (November 2004 and March 2005). Credit for Kuibyshevazot will go on refinancing of short-term internal bonds and supporting the programme of capital investments. This programme includes modernisation and expansion of existing units and the construction of the new capacities, and also the expansion of the local industrial park.

Volgograd

Kaustik at Volgograd has concluded a contract with the Chinese trading company OCEAN Commerce for the supply of 3,300 tons of PVC resins up to the end of 2005, required for food films. The contract is worth around \$6 million, with a view towards increasing volumes in 2006. Kaustik started producing PVC resins in 1975. Having agreed contracts with several Chinese plants, Kaustik at the end of 2004 delivered a trial lot of resin. Kaustik is part of the NIKOS group and will be managed in future by the centre.

Perm

Uralkhimplast

Uralkhimplast has held negotiations with KINGFA, a Chinese plastic compounder, for the sale of polyphenylene oxide supplies. The annual usage of KINGFA is 150,000 tpa and it is interested in increasing purchases from Russian engineering plastic producers. Uralkhimplast is the sole Russian producer of polyphenylene oxide. Taking into account the co-operation proposals from the Chinese party, the leaders of the holding are considering the possibility of reconstruction of the polyphenylene oxide unit idled by Uralkhimplast at the end of the 1990s owing to the lack of demand in the domestic market. In addition with the reconstruction, Uralkhimplast intends to improve end product quality.

Product/Company News

Akron

Akron at Novgorod enjoyed a strong first quarter in 2005 due partly to internal structuring measures. Formaldehyde and urea resin production exceeded 10,000 tons in March, representing a record for the company. In the first quarter, urea production totalled 106,200 tons (+1.6% up on 2004), ammonia reached 274,000 tons (0.3% up) and methanol increased by 0.4%.

Akron is currently investing in the construction of a new formaldehyde and concentrated urea-formaldehyde plant with a capacity of 75,000 tpa. The plant is being constructed by Haldor Topse. The technology purchased facilitates usage of excess methanol available at the facility and ensures compliance of the product quality with world standards. A more thorough conversion of methanol and urea produced at Akron into concentrated urea-formaldehyde will substantially increase the profitability of the enterprise.

Plastics

In the third quarter 2005 the Koros group of companies plans to open the first plant in Russia for the production of three-layer polyolefin films. This will be located at Toropets in the Tver region. The Italian

company Polytech has provided the equipment which will use LLDPE and polypropylene copolymers, with supplies coming from Dow or Basell. The new plant, which will be managed by Profupak, opens a new area of food packaging in Russia. Previously, PVC films were used in these applications but were replaced by polyolefin films due to health concerns and also greater tightness which allows longer storage of products.

On 19 May, the German company Rehau has scheduled a launched of a new plant in Russia to produce PVC-profiles for windows, doors and facade structures. The new plant is to meet the demand for the company's product and solve the problem of supplying the local distributors. The plant is located in Ramenskoye district of the Moscow region. Construction of the plant started in 2003.

Methanol

The Board of directors of the International Finance Corporation (IFC) has approved the grant of a loan facility to the value of \$75 million to Togliattiazot (ToAZ). The IFC's owned funds will amount to \$30 million while the funds of the banks syndicate arranged by IFC will total \$45 million. The purpose of the funds is aimed at developing a second methanol line. After completion the ToAZ plant will increase methanol capacity to 1 million tpa, from 450,000 tpa at present.

In addition, the company could process up to 160,000 tons of carbonic gas via the production of ammonia. Currently ToAZ is the largest producer of ammonia in Russia with a capacity of 3.5 million tpa and one of the largest in the world accounting for 7.6% of total production based on 2004. Urea production stands at 1 million tpa and formaldehyde capacity at 37,000 tpa.

In December 2004, ToAZ took credit from the EBRD in the range of \$160 million for the modernisation of the ammonia facilities and an increase in capacity. In 2001, the company took credit from the EBRD in the range of \$40 million for the construction of an ammonia pipeline and the transshipment sea terminal in the Temrjukskom area of Krasnodar territory. In 2003, ToAZ also addressed in EBRD and IFC with the application for credits for completing this project, but it has been rejected on the basis that it is recognised as dangerous for the environment. ToAZ is a relatively new player in the Russian methanol market and the expansion plans will make it larger than plants at Tomsk and Gubakha at current levels.

Forthcoming studies

Short reports that will available in the next few months include the Russian Benzene and Russian Polystyrene Markets. For a full list of reports for 2005 please visit <http://www.cirec.net/special-reports.shtml>.

Belarus

Grodno Azot

Grodno Azot plans to invest \$35 million in 2005, with one of the main projects being the revamp of the caprolactam plant and the cyclohexane plant. Other projects include the urea-3 and the ammonia-4 plants. In 2005, Grodno Azot plans to produce 624,400 tons of mineral fertilisers, 936,000 tons of ammonia, 56,000 tons of methanol, and 107,100 tons of caprolactam. Capacity utilisation is planned to reach 96.6% against 97.7% in 2004. Profitability is planned to be in the range of 8%.

Based on results for 2004, Azot achieved turnover of \$268 million, 0.5% higher than 2003. Exports increased by 20.2%, whilst profitability on production in 2004 reached 22.9%. Grodno Azot's main buyer is Grodno-Khimvolokhno, which consumes around 30% of the total caprolactam production with the remainder exported. Grodno Azot accounts for about 5% of world production.

Polymir

Polimir is currently developing new agricultural films which will be ready for sale for the main growing season in 2006. The company is heavily focused on new applications such as into the development of hothouse films, films for waterproofing, with antistatic and electrospending properties, etc.

At the end of May Polimir will lead a series of tenders for delivery of raw materials for the period June-August 2005. Deliveries will include gaseous hydrocarbons for olefin production, normal butane, sulphuric acid, ammonia, etc.

Lida

The government of Belarus plans to introduce the right of golden share at Lakokraska of Lida. The state plans to retaliate upon the shareholders who did not comply with the plans to nationalise the enterprise from within. Lakokraska was privatized in 1992 when its workers were given an opportunity to buy some shares for \$5 each or acquire them in exchange for Property checks.

Lakokraska's indebtedness under credits amounts to \$1.25 million and payments for interest on credits reached \$1.7 million in 2004. Due to a shortage of operating assets the production capacities of Lakokraska are running at only 39%, with phthalic anhydride being the most profitable product offering an 11% margin. The product output is 15,000 tpa from a current capacity of 25,000 tpa and will be increased to 36,000 tpa after modernisation. The production of water dispersed paints is another promising direction for the company. The potential output of this product is estimated at 2,000 tpa, while only 150 tpa are manufactured at present.

The enterprise needs \$3.2 million to quickly update its production facilities. For about the past year, Lakokraska has been unsuccessfully trying to find investors promising them a stock in the company capital. Options include the creation of a joint venture with Naftan, the only domestic producer of orthoxylene, and the attraction of a foreign investor. In February 2005, a proposal to create a joint venture was sent even to SIBUR, but there was no response.

Ukraine

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

LUKoil-Neftekhim

LUKoil-Neftekhim has approved the investment programme for Lukor into ethylene. However, the vice-premier of Ukraine has declared that there a review is underway by the Ministry of Internal Affairs to check up legality of creation of Lukor in 2000. In addition, it has been entrusted to check up on the creation of Karpatneftekhim. In both cases the Ukrainian authorities suspect that there could have been infringements of legislation. Some of the major privatisation contracts for chemical plants that were concluded before the Orange Revolution are now coming under review by the State Property Fund

In November 2004, the cabinet of Ukraine decided to sell 47.9% of shares in Lukor to Petrogas of Ukraine, although LUKoil repeatedly declared its interest in the package and promised to invest in development of Lukor up to \$200 million. In November, the Dutch daughter of the company LUKoil Chemical and Lukor have created a new company called Karpatneftekhim under which it was planned to transfer the capacities of Lukor. However, this attempt failed and the Ukrainian Fund of state property has challenged transfer of shares to the economic court of Ivano-Frankovsk. Thus, Lukor is threatened with its future survival, which could be determined by one signature in an effort to repatriate assets in Ukraine.

PVC

In 2004, Ukrainian PVC consumption increased by 26% to reach 76,600 tons, with an increase of 20-22% forecast for 2005. Suspension PVC sales totalled 46,000 tons in 2004, with the largest share provided by Kaustik at Sterlitamak and BorsodChem in Hungary. From October 2004, Khimprom at Pervomaisk restarted PVC production and produced 3,050 tons before the end of the year. The largest share of PVC consumption in Ukraine goes into profiles and panels, which are seeing the fastest growth. The next largest sector is for compounds. The main importers for PVC are BorsodChem and Kaustik at Sterlitamak.

TVK Rt announced plans to liquidate Chemopetrol Kft, a not fully consolidated subsidiary that trades in raw materials for the chemical industry in Hungary and across the border in Ukraine. TVK has a 66.66% stake in Chemopetrol, whilst the other owner is Ukraine's state asset management fund. The company will be wound up because its activities can be more efficiently operated by TVK itself.

Central Asia/Caucasus

Several agreements have been signed regarding development of the chemical sector in Turkmenistan. Possibly the most important is the creation of a new shareholding company, broken down into ownership of 51% for the Turkmen government and 49% for the Turkmen Ministry of Industry. At the end of March 2005 at Tedzhen a new urea plant of 150,000 tpa was started.

The Georgian Ministry of Economy completed on 3 May acceptance of privatisation bids for Azot at Rustavi. According to the Ministry of Economy seven companies are bidding for Azot, including two Russian companies Itera and Seled, Kazakh Dala-Trans, three Georgian companies and British-based Frank Oil.

Kazakhstan

In April-May, the Aktau Plastics Plant revived production of polystyrene and expects to produce 30-50,000 tons this year. Most of the production will be exported to East and West Europe as consumption in Kazakhstan is very small. The Aktau plant was stopped in August 2003, but was restarted under the new owners Sat&Company.

Sat&Company has unveiled plans to construct a plant for the production of plastic pipes at Atyrau. The planned capacity would comprise 300,000 tpa of polyethylene and 300,000 tpa of polypropylene pipes. At present, negotiations are underway with foreign companies and banks for financing of the project, the delivery of the necessary equipment, and also an establishment of partnership to have an opportunity to use existing marketing networks in large companies. The first priority is to resolve the main question over deliveries of natural gas for the production of ethylene and propylene. The main commodity markets to be targeted as part of the development plan are China and Russia.

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