

CIREC

MONTHLY NEWS

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

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

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

Issue 161, 4 May 2004

Features from the May 2004 issue

- The Czech cabinet agreed on Wednesday, 28 April 2004, to approve the sale of 62.99% in Unipetrol to PKN Orlen for its bid of \$480 million. PKN offered Kc 11.3 billion (\$414 million), or Kc 98.9 per share. Orlen also acquires a 9.76% stake in Spolana, in addition to receivables towards some of the companies of the Unipetrol Group owned by Ceska konsolidacni agentura (CKA). The transaction is expected to be completed by the end of the third quarter of 2004.
- Ceska financni (CF), a subsidiary of the Czech bailout agency Ceska konsolidacni agentura (CKA), has cancelled a tender for a 53.73% stake in Spolchemie which was called firstly on 28 January 2004. The main criteria for the sale were the final solution of CF's financial obligations to the creditor Fores, and the value of the offered price.
- BorsodChem posted net profits of Ft 5.91 billion on sales revenues of Ft 35.31 billion in first quarter in 2004. Sales rose 3.1% on the same period last year and net profit increased sharply 103.2%. A rise of net profits came from a Ft 1.43 billion exchange rate gain as opposed to Ft 1.15 billion losses in the first quarter of 2003. The operating profit dropped 29.0% in 2004 to Ft 3.25 billion and the EBITDA slipped 19.2% to Ft 5.43 billion in January-March 2004.
- At the beginning of April, the Federal Antimonopoly Service (FAS) initialled legal proceedings to liquidate the United Trade Company (ETK), which now controls almost 80% of caustic soda sales in Russia. ETK has no ownership ties to producers and plants, but controls important contracts. On the surface, ETK looks like a caustic soda cartel having been founded in 2003 after China had levied an 80% anti-dumping duty against Russian PVC producers.
- Russian commodity production for 2003 shows a marginal increase in volumes over 2002. Methanol saw the largest increase due to the combination of higher utilisation rates, in response to better export opportunities, and the introduction of new capacity at Novomoskovsk and Togliatti. Products such as PVC and caprolactam, which had both encountered anti-dumping measures on exports to China, increased volumes over 2002. This was partly to the emergence of alternative merchant markets and partly due to increased captive needs. Of the main monomers isoprene saw the largest proportional increase due to continued technical improvements by Nizhnekamskneftekhim. At the same time ethylene surpassed the 2002 number merely by 82,000 tons, reflecting capacity saturation.
- The Metafrax-Dynea JV, MetaDynea, aims to start up the new resins plant at Gubakha in the third quarter this year. The plant will have capacity to produce 200,000 tpa of resins. The Gubakha plant will produce urea and melamine resins, based on Dynea technology, for the rapidly growing woodworking industries of Russia and its neighbouring countries.
- After failing to reach agreement with German companies for the Surgutpolymer project Surgutneftegaz has now reached an agreement with Mitsubishi, Mitsui and Itochu as partners for the possible construction of a gas-chemical complex. The project concept is much the same as two years ago when Surgutneftegaz said that something in the range of \$600-800 million was required to finance construction.

CENTRAL EUROPE

Czech Republic

(Czech crown, Kc, Mar 27, \$1 = 26.84, €1 = 32.68)

Unipetrol

The Czech cabinet agreed on Wednesday, 28 April 2004, to approve the sale of 62.99% in Unipetrol to PKN Orlen for its bid of \$480 million. PKN offered Kc 11.3 billion (\$414 million), or Kc 98.9 per share. Orlen also acquires a 9.76% stake in Spolana, in addition to receivables towards some of the companies of the Unipetrol Group owned by Ceska konsolidacni agentura (CKA). The transaction is expected to be completed by the end of the third quarter of 2004. Orlen has agreed to Kc 1.0 million for CKA's 9.76% stake in Spolana and approximately Kc 1.7 billion for CKA's receivables, with a total nominal value of Kc 3.1 billion, €9.5 million and \$4.9 million as of 1 April 2004. A large portion of the funds for the financing of this transaction is already provided in the form of the currently available credit facilities. The reminder will be arranged within the time periods indicated in the payment schedules relating to the transaction. The banks have already offered PKN Orlen their assistance in financing the transaction in question.

Following the acquisition of the stake in Unipetrol, and in accordance with Czech law, Orlen will launch a mandatory tender offer to acquire the interests of minority shareholders in Unipetrol and its listed subsidiaries. Orlen has agreed with ConocoPhillips Central and Eastern Europe Holdings B.V. (ConocoPhillips) and Agrofert Holding, for the sale of some of Unipetrol's assets to ConocoPhillips and to Agrofert. This would take place following the successful completion of the privatisation process which would make Orlen the majority shareholder in Unipetrol. Question marks remain over the refinery division Rafinérská and whether or not the Polish company would be prepared to buy out the IOC members.

Orlen had considered placing a joint offer with MOL. However, MOL decided in the end not to place a bid reasons for which are outlined on page 3. From another angle by bidding on its own, Orlen could possibly boost its value ahead of the possible merger with MOL, thus making the value of the two groups comparable. At present, MOL has a higher market value). For both companies the acquisition of Unipetrol was seen originally as a step aimed at preventing possible competition and maintaining a strong foothold in their respective markets.

The Czech government's decision to exclude such companies as Tatneft from the bidding for Unipetrol may have resulted in a lower price, according to the National Property Fund. Tatneft, Penta Holdings, and KazMunaiGaz were eliminated from the bidding in January due to government concerns about strategic interests. The National Property Fund believes that the decision lowered the competitiveness of the process and this will undoubtedly had an impact on the price.

PKN, MOL and Shell had until Easter to complete their inspection of Unipetrol's books, following a one-week extension. In addition to MOL, Shell did not submit a bid after conducting due diligence, the reasons for the lack of a bid are unclear. It could be that the petrochemical facilities presented a problem in that Shell would have had to found a consortium partner.

Orlen will have to hand over 10% of the sum soon, but will be able to finance the rest of the transaction through bank loans over the next few months. According to some views the price Orlen paid is rather high, as Unipetrol needs serious restructuring. However, Orlen believes that the price was not high at all, as it included the company's debt and a percentage of shares in Spolana. Orlen has not committed itself to any investment or social obligations. In September, Orlen will probably announce a call to purchase Unipetrol's remaining shares and may later withdraw the company from the stock exchange.

Unipetrol Q1 2004

Unipetrol posted a net profit of Kc 9.7 million in the first quarter of 2004, up from Kc 1.4 million in the same period in 2003. Sales reached Kc 40.2 million, almost the same as last year. Ceska rafinérská (CeRa) netted Kc 27.5 million in the first quarter, its turnover amounted to Kc 2.067 billion and the refinery processed 1.4 million tons of oil. In the same period in 2003, CeRa showed a net profit of Kc 878 million on turnover of Kc 12.5 billion.

Chemopetrol converted last year's Kc 96 million loss in the first quarter into a net profit of Kc 215 million. Revenues from sales of its own products and services grew 8.1 % to Kc 5.646 billion in the first three months. Kaucuk's net profit topped Kc 55.7 million in Q1, while its operating profit reached Kc 117.4 million. Sales were up 6.5 % at Kc 2.344 billion in January-March 2004.

Spolana managed to transform its Kc 123.7 million loss from the first quarter in 2003 into a net profit of Kc 23.3 million in the first quarter of 2004. Its gross margin grew from Kc 164 million last year to Kc 245 million this year. A major reason behind the change was the closure of the alpha olefins plant in the summer of 2003 due to unprofitability. This plant was a major thorn in Spolana's history since the early 1990s.

Spolchemie

Ceska financni (CF), a subsidiary of the Czech bailout agency Ceska konsolidacni agentura (CKA), has cancelled a tender for a 53.73% stake in Spolchemie which was called firstly on 28 January 2004. The main criteria for the sale were the final solution of CF's financial obligations to the creditor Fores, and the value of the offered price.

The tender was cancelled because none of the bidders proposed an acceptable method of handling the possible risks attached to the transfer of assets to the buyer. The bidders included Ceska typografie, Dehtochema Bitumat, and the Via Chem Group. CKA states that CF remains interested in selling the Spolchemie stake to a suitable investor and will make public the method and conditions of the new sale as soon as it makes a final decision.

Spolchemie saw its sales rise 25% to Kc 631 million in the first quarter of 2004 and expects sales overall to rise by 30% this year. The company expects to post a loss of up to Kc 71.5 million, after a profit of Kc 835,000 in 2003, mainly due to the suspension of work at the synthetic resins plant, which was damaged by fire in 2002. The plant is expected by Spolchemie to begin operating again in Q4 this year.

Hungary

(Hungarian Forint, Ft, Apr 27, \$1 = 211.06, €1 = 250.70)

BorsodChem

BorsodChem posted net profits of Ft 5.91 billion on sales revenues of Ft 35.31 billion in first quarter in 2004. Sales rose 3.1% on the same period last year and net profit increased sharply 103.2%. A rise of net profits came from a Ft 1.43 billion exchange rate gain as opposed to Ft 1.15 billion losses in the first quarter of 2003. The operating profit dropped 29.0% in 2004 to Ft 3.25 billion and the EBITDA slipped 19.2% to Ft 5.43 billion in January-March 2004.

Standard & Poor's Ratings Services has assigned its 'BB' long-term corporate credit rating to BorsodChem Rt, reflecting the group's position in various segments of the Central and East European chemicals market. The outlook for the company is considered stable. The rating is constrained by BorsodChem's limited scale in each of its competing markets, its exposure to the cyclical construction industry, and to the cyclical nature of PVC and caustic soda markets. These negative rating factors are partially offset by the group's leading positions in the TDI, and MDI markets in Central and East Europe, and its solid financial profile.

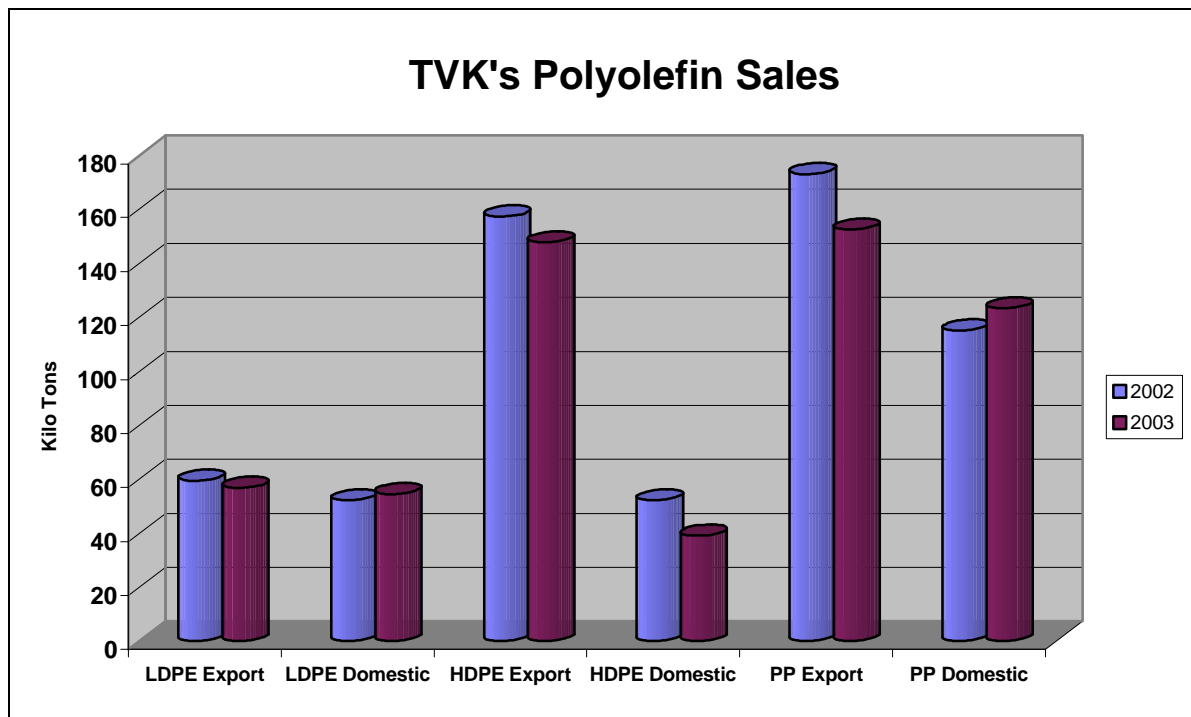
The stable outlook reflects that the group is expected to maintain a solid financial structure, despite the heavy investments planned over the next two years. The group's net debt-to-capital ratio is expected to peak at about 30% at year-end 2005, which remains strong for the rating. Projects include an expansion of VCM and isocyanate capacity. In addition, BorsodChem has signed a contract with Mitsui & Co subsidiary Chlorine Engineers to design a membrane cell electrolysis plant with a capacity of 80-160,000 tpa.

MOL

MOL announced that after a detailed and careful evaluation of the potential merits and risks of the transaction, it decided not to submit a binding offer for Unipetrol. MOL believes that Unipetrol, in its current structure and with the significant risks involved in group restructuring, does not represent an optimal fit to its own integrated oil and gas business portfolio. MOL already has a sizeable presence on the Czech wholesale and retail oil product market through its Slovnaft arm, and is also the second largest player in the wholesale of oil products with a 27% market share.

MOL also saw difficulties in the complexity of the Unipetrol group, and the risk associated with the disposal of the subsidiaries/assets, which are not core to MOL's strategic objectives. MOL's interest in Unipetrol lied solely in its oil assets, whilst the group, through TVK and Slovnaft, is already seen as a regional leader in petrochemicals. It currently has no intention to gain other petrochemical locations, with the focus on investments at TVK and Slovnaft. Substantial investments are being undertaken at both petrochemical complexes, particularly TVK. The graph below illustrates the current mix of TVK's polyolefin sales, divided between exports and domestic sales.

LDPE sales are fairly balanced between exports and domestic sales, whereas exports play a more important role for HDPE and PP. HDPE exports will increase further with the start-up of the new plant.



Polish Production (unit-kilo tons)		
Product	2002	2001
Ethylene	370	308.3
Propylene	256	227.9
Butadiene	51.4	37.9
Toluene	102	64
Methanol	0.4	1
Phenol	50.7	51.3
Acetic acid	8.7	6.6
Caprolactam	153	148.6
Acetone	31.8	32
Nitric acid	1689	2060
Ammonia	788	898.2
Chlorine	392	334.6
Sulphuric acid	1847	1845.4
Caustic soda	396	347.5
Polyethylene	170	155
Polystyrene	87.2	92.5
PVC	249	225.6
Epoxy resins	6.9	10
Polypropylene	144	122.9
Acrylic polymers	2.5	1.5
Polyamides	46.9	47.3
Pesticides	23	23.9
Chemical fibres	100	93.4

Japanese-French auto-parts manufacturer TBMECA Poland will invest about €10 million to restructure a plant in the Legnica Special Economic Zone that will produce plastic components for car engines. The main clients for the components will be two Toyota plants, also located in south-west Poland, as well as the Toyota Peugeot Citroen jv in the Czech Republic and two Toyota plants in the UK and France.

ZA Tarnów has signed three contracts worth \$40 million for the export of polyoxymethylene (POM) production technologies to China. The first Chinese plant that could utilise this technology, built in 2002, was itself the product of a 50-50 jv between ZA Tarnów and a local Chinese partner. The Chinese party has until the end of

Poland

(Polish zloty, zl, Apr 27, \$1 = 4.02 €1 = 4.78)

Polish privatisation

PKN Orlen has stated that it intends to make investments in the Polish chemical industry through Anwil, as it wishes to stay focused mainly on monomers and intermediates and also the BOP jv. Anwil, as an Orlen subsidiary, will compete directly in Poland with BorsodChem to acquire such plants at Zachem and Tarnów. The Orlen subsidiary is also awaiting the final value assessment of companies controlled by the state and has already accepted four strategies concerning acquisitions, of which two depended on whether Orlen will take over Unipetrol. Now that seems going ahead, this may help to give Anwil a stronger bargaining position. The second half of the year is expected to see some progress regarding the sale of state assets in the Polish chemical industry.

Other Polish news

June to carry out the transaction, with regard to choosing the location for the construction of the installation. As a result of this, it is possible that one of the contracts may yet be cancelled.

The Polish State Treasury, which owns 52% of Ciech's shares, wants the company to present a clear strategy concerning the final shape of the share issue later this year. Furthermore, the deputy State Treasury Minister, is seeking talks with Ciech's executive board to discuss the contentious issue of spinning off its Alvernia chemical plant. This unit does not fit in with the new profile that Ciech wants to adopt, viz the production of soda ash and phosphate fertilisers.

By the end of April, Brenntag is expected to conclude the purchase of Orlen Polimer, a PKN Orlen company, which trades raw materials used in the production of plastics. Orlen decided to dispose of the enterprise after it agreed to create the jv with Basell to produce polyolefins, and thus avoid creating internal competition. After receiving all necessary approvals, Orlen Polimer will now be incorporated by Brenntag. The purchase price is estimated at €2 million and will allow Brenntag to become a leader in plastics distribution in Poland.

SOUTH EAST EUROPE

Bulgaria

(Bulgarian lev Apr 27, \$1 = 1.64 €1= 1.95)

LUKoil

The net profit of LUKoil-Neftochim for the first three months of 2004 fell by over tenfold to 1.242 million leva, in comparison with 13.229 million leva in 2003. The net sales were also lower by 5% to 82.4 million leva in comparison with 86.8 million leva. The drastic drop of profits was due largely to currency factors. LUKoil-Neftochim provided a quarter of all tax revenues in Bulgaria last year, accounting for 9% of the country's GDP. The taxes paid by the company amounted to more than a billion leva.

Other Bulgarian news

Agropolychim is raise its capital by 9.466 million leva to support investment. The shares will be paid and listed by the major shareholder Acid & Fertilisers that holds 97.8% of the capital and the minority shareholders. The amount of the investment is \$10 million.

The state-owned share of the Vidin-based company offered for sale is 24 per cent. The majority owner of Vidachim, Pristagroup-Water Construction, holds 70% of the company's capital. It managed to help the company get on its feet after it had been in insolvency procedures for four years. Vidachim posted 16.5 million leva in proceeds from sales last year, and even ended 2003 with a profit of 21,000 leva. Vidachim and the Turkish company Petlas are currently negotiating the joint production of tyres for light and heavy vehicles. The contract with Petlas will be finalised by the end of 2004 under a jv, with the Turkish company providing the equipment and training.

Orgachim at Rousse expects that the net profit for 2003 will be in the range of 5 million leva. Around 60% of the profits came from sales of paints and lacquers, where there was 20% growth in the production of these products. In 2004, Orgachim will receive the quality certificate ISO 14 000.

Frigoglass has announced the finalisation of the transfer of its Bulgarian plastics subsidiary IPOMA A.D. to a subsidiary of ATHEX-listed Thrace Plastics. The decision is part of the ongoing restructuring of the Frigoglass' plastics division. The transfer was realised via the sale of the 99.94% stake in IPOMA of Trierina Trading Ltd., a holding Frigoglass group company.

The Bulgarian government, as well as private investors, hold the remaining stake in IPOMA. The value of the transaction stood at EUR 4 million. IPOMA employs approximately 60 people, while it recorded turnover of EUR 3 million in 2003.

In 2003, 780,000 tons of cargos were processed at the only liquid chemical processing terminal in Bulgaria at Devnya. Increases in volumes were due to the growth in the production of Umicore Med. Oiltanking Bulgaria which currently operates solely for the needs of the Pirdop-based company. It imports ore (copper concentrate), and exports sulphuric acid.

Romania

Petrom

From the eleven companies selected last year for the Petrom stake only three OMV, MOL and Occidental Petroleum submitted binding bids. The initial deadline for the Petrom sell off was the end of the 2003, but was extended until the end of March 2004 and once again by 7 April and 16 April. Currently, 7% of Petrom's shares are floated on the Bucharest Stock Exchange. The government owns the remaining 93% stake and plans to reduce its holding by selling a 33.34% stake to foreign investors. The winning bidder would raise its interest to 51% by taking up an additional share capital increase

MOL's geographical proximity means that the Romania is seen as a core market in its corporate strategy. MOL's primary objective is not only acquiring a significant stake in the partner company, but also providing the partners with a similar attractive opportunity to share the upside of a successful group. MOL believes that Petrom, and the MOL/Slovnaft/INA Group should be concluded in the proposed close alliance. Instead of a simple, one-sided acquisition MOL states that the proposed transaction should include the participation of Romanian partners in the MOL Group, and indirectly to MOL's significant regional assets and markets.

Petromidia

Petromidia halted its activity for 10 days in April to perform technological upgrades which would increase the refining capacity of the Black Sea based capacity. The upgrading works have been scheduled since January, aiming to increase the Petromidia annual refining capacity to four million tons from 3.2 million at present. Following the upgrading, the Petromidia refinery will be able to produce EURO 4 gas fuel.

Oltchim

At the end of April shareholders in Oltchim discussed a proposed splitting up of the company. Under the plan, the company will be divided into three units, Oltchim, Conservil Raureni and Prodavicola Babeni. Oltchim's majority shareholder is the Banking Assets Recovery Agency (AVAB), which controls over 90% in the company. Last year, Oltchim recorded losses of 655.7 billion lei. In 2004, Oltchim has targeted losses of 280 billion lei on a 10,598 billion lei turnover.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

Russian Chemical Production (unit-kilo tons)		
Product	2003	2002
Ammonia	11,085.7	10,508.1
Caustic Soda	1,087.1	1,144.8
Soda Ash	2,386.0	2,368.2
Methanol	2,896.1	2,267.4
Acetic Acid	160.6	154.1
Ethylene	2,096.2	2,014.4
Propylene	1,041.7	999.8
Benzene	1,055.4	958.2
Orthoxylene	190.8	210.5
Paraxylene	153.1	173.0
Styrene	428.5	375.4
Phenol	198.2	163.6
Acetone	126.5	102.2
Phthalic Anhydride	90.8	98.8
Butadiene	369.9	354.0
Isoprene	388.6	332.8
Synthetic Rubber	1,066.3	919.0
Polyethylene	1,038.5	1,000.8
Polypropylene	285.3	261.1
Polystyrene	131.2	108.2
PVC	546.8	527.5
Caprolactam	268.5	263.6
Aniline	50.7	44.8
Plasticizers	149.7	123.6
Carbon Black	616.0	528.6

(Rus rouble Apr 27, \$1 = 28.85, €1= 34.25)

Russian commodity production for 2003 shows a marginal increase in volumes over 2002. Methanol saw the largest increase due to the combination of higher utilisation rates, in response to better export opportunities, and the introduction of new capacity at Novomoskovsk and Togliatti. Products such as PVC and caprolactam, which had both encountered anti-dumping measures on exports to China, increased volumes over 2002. This was partly to the emergence of alternative merchant markets and partly due to increased captive needs. Of the main monomers isoprene saw the largest proportional increase due to continued technical improvements by Nizhnekamskneftekhim. At the same time ethylene surpassed the 2002 number merely by 82,000 tons, reflecting capacity saturation.

The increases in 2003 continued across the chemical industry in the first quarter of 2004. In some of the basic product areas the production of sulphuric acid increased by

6.2% to 2.4 million tons, soda ash increased 10.2% to 639,000 tons, caustic soda increased 1.9% to 280,000 tons and synthetic rubber increased 13.8% to 298,000 tons.

SIBUR

Tyres

SIBUR plans to invest around \$300 million in its subsidiary tyre plants over the period running up to 2008. The tyre business is expected by SIBUR to expand in value terms to around \$1.1 billion per annum by 2008, with production efficiency of between 8-10%. Russia's tyre market, in terms of volume, is expected to grow by around 25% by 2008 over 2003. This will increase output from 37.5 million tyres to 47 million tyres according to SIBUR's outlook. Russia will remain the core market for SIBUR's tyre sales, whilst efforts will be made to try and develop each SIBUR plant to its own specialisation. Yaroslavlshina, for example, will retain its production programme on lorry, automobile and aviation tyres. Automobile tyre capacities will be considerably increased whilst capacities for cargo and tractor tyres will be demounted. A major part of the funds will be directed towards setting up and producing all-metal cord tyres at SIBUR's plants Yaroslavlshina, Omskshina, Voltyre, and Uralshina.

SIBUR-Neftekhim's Production (unit-tons)

Product	Q1 2004	Q1 2003
Petrochemicals	181,747	144,229.2
Ethylene	52,440	42,339
Ethylene Oxide	16,295	9,799
MEG	40,484	39,307
DEG	4,941	4,228
TEG	333	256
Propylene	26,338	25,781
Benzene	18,555	14,555
BBF	12,358	15,010
C5	5,627	6,600
C9	4,139	3,735
EDC	21,128	13,141
PVC	8,775	11,946
Caustic Soda	19,756	27,354
Chlorine	2,771	4,350

SIBUR's subsidiaries

Tobolsk-Neftekhim reduced butadiene production by around 9.7% to 9,300 tons in the first quarter of 2004 due to the unenforced outage in March. However, the company hopes to recover these losses by the end of the year. The butadiene plant restarted at the end of April, with the aim to produce 14,500 tons of butadiene in May and 16,000 tons per month for the remainder of the year.

In March, SIBUR signed another agreement with the Tyumen administration regarding the development of the petrochemical industry centred on Tobolsk. In the first quarter Tobolsk-Neftekhim's overall production increased by 20.6%. SIBUR-Neftekhim increased production by 21.9% in the first quarter of 2004 over 2003. Raw material processing increased by 19%.

Tomskneftekhim increased polyolefin sales in the first quarter of 2004, by 3% to 28,020 tons of polypropylene and by 2% to 45,050 tons of polyethylene. Capacity utilisation was 109% for polypropylene and 120% for polyethylene in the first quarter.

Tatarstan

In the first quarter of 2004 production in the chemical and petrochemical industries in Tatarstan rose strongly, and this trend is expected to continue on the back of investment in the next few years. A targeted programme of \$5.124 billion is planned for investment in the petrochemical industry in Tatarstan in the 2004-2008 period. Financing will be provided from the republic's own resources and supplemented by extra credits from foreign banks.

The first stage of the programme runs up to 2006 involving short-term and intermediate term investment projects. The second stage running up to 2008 will aim to introduce substantial new capacity, with a major focus on Kazanorgsintez.

Tatneft is intending to gradually reduce the deliveries of tyres manufactured by Nizhnekamskshina to AvtoVAZ. Deliveries will be trimmed by 25% overall as Tatneft's subsidiary Kama Trading House is supplying the tyres to AvtoVAZ at the price 20% lower than Nizhnekamskshina. Nizhnekamskshina currently covers 60% of AvtoVAZ's tyre requirements, but this will fall gradually to between 40-45%.

Nizhnekamskneftekhim

In the first quarter of 2004 Nizhnekamskneftekhim increased turnover by 5.3% over the same period in 2003. Isoprene production increased by 20.7%, butyl rubber by 11%, and ethylene-propylene rubber by 2.9%. The ethylene plant underwent through maintenance in the first quarter which meant that production was down on last year. Propylene oxide production increased by 4.6%, whilst ethylene oxide was down 0.7%, and ethyl cellulose

was down 3%. The largest growth was seen in the oligomer division, with trimers increasing 31.6%, and neonols 30.9%.

Nizhnekamskneftekhim's Production (unit-tons)		
Product	Q1 2004	Q1 2003
Isoprene	48,484	40,169
Butyl rubber	20,010	18,011
Ethylene	118,805	130,412
Styrene	68,718	78,445
MEG	34,895	28,051
Simple polyethers	17,338	16,143
Neonols	23,531	18,031

The company is starting to see benefits from the production of new products such as polystyrene, and new types of synthetic rubber. Turnover was 6,485.4 million roubles in the first quarter, 1.2% up on the same period last year. The unit for neonol and simple polyethers production is running very well, bringing in around 40 million roubles of profit per month for Nizhnekamskneftekhim.

Nizhnekamskneftekhim has started its maintenance shutdown period for 2004, with the first outages taking place at the synthetic rubber plant, the central gas fractionating unit, and the divinyl unit.

Halobutyl rubber

On 8 April 2004, Nizhnekamskneftekhim started the commercial production of halobutyl rubber (HBR) from its new 30,000 tpa plant. This is the first HBR plant in Russia, the output of which will be targeted on tyre production. In addition to HBR, the company has started capacities to produce 5,000 tpa of brombutyl rubber (on 13 March) and 25,000 tpa of chlorobutyl rubber (on 2 April). The total cost of the HBR project was \$65 million.

New processing jv formed at Nizhnekamsk

A new jv was registered in Kazan in April called ÆÑÑ-250 (a construction company between Tatarstan and the South Korean company POSCO E&C). The plant will have a capacity of 250,000 cubic metres per annum. POSCO E&C will hold the controlling packet,, with a block packet being owned by the Tatarstan Parliament.

POSCO E&C is ready to invest \$300 million in this project in the period 2004-2008. The project is seen by POSCO as falling under the minimal risk strategy, with guarantees from the Tatarstan government. POSCO will supply the equipment and the technologies necessary for manufacture of blocks from suspension polystyrene and other materials. The new unit should be completed on the Nizhnekamskneftekhim site by 2007.

Kazanorgsintez

Kazanorgsintez Production (unit-tons)		
Product	2004 Forecast	2003
Ethylene	394,000	370,400
Polyethylene	386,000	383,200
PE pipes	38,000	26,900

In July this year Kazanorgsintez plans to start the reconstruction of three ethylene units which will increase capacity from 334,000 to 590,000 tpa. The reconstruction is expected to be completed in the fourth quarter of 2006. The first target is to reach a total of 480,000 tpa which would reduce the need to buy product from Nizhnekamskneftekhim. Additional ethylene will be required above the 480,000 tpa capacity if the LLDPE (250,000 tpa) and bimodal polyethylene (200,000 tpa) projects go ahead as planned. Other

plans for Kazanorgsintez include a new unit for bisphenol-A which would be directed towards the production of polycarbonate.

Samara

NOVATEK

A German bank consortium led by Commerzbank has given the preliminary consent for financing the civil-engineering design of a petrochemical complex in the Samara area at Novokuibyshevsk. The cost of the project is estimated in the range of one billion euros, and is being developed by NOVATEK which is the largest independent manufacturer of gas in Russia.

Under the terms of the contract around 15% of the total cost of the project will be financed by NOVATEK, and will involve credit resources from Russian banks. Linde has undertaken a feasibility study for the project and is expected to build the complex on a turnkey basis.

The payback period from the investments would be in the range 7-8 years. NOVATEK plans to sign the credit contract with the German banks in mid-2004 which could mark the largest syndicated credit in history of Russian companies. As the raw material for the complex condensates will be used from the Purovsk plant in the Yamal region, which will be incorporated into NOVATEK in the first quarter of 2005.

Under the project plans the new petrochemical complex will have capacities for 300-400,000 tpa of polyethylene, 135,000 tpa of propylene and 100,000 tpa of benzene. A polypropylene unit may also be constructed which would provide the raw materials for the BOPP plant, which is under construction and is expected to be ready by the beginning of 2005.

The NOVATEK project can to some extent be seen as a revival of a concept first considered at the start of the 1990s, under the acronym Deruko. Deruko, short for Deutsche-Russische Kooperation, aimed to construct a polyethylene facility at Novokuibyshevsk in 1992, but the project was the victim of Russia's economic transition to a market economy. The major question about the NOVATEK project is so much not finance, but whether the management is capable of implementing the plans.

Kuibyshevazot

Kuibyshevazot is more than keen to see the NOVATEK project implemented, particularly in regard to the question of benzene supply. The market balance was tight enough already last year, but the start-up of the ethylbenzene plant at Salavat applied extreme pressure to market availability. Kuibyshevazot has, in principle, the alternative of using phenol as a feedstock for caprolactam production, but this route is less cost-effective than benzene.

Kuibyshevazot has talked closely with Novafininvest which is administering the Novatek project. A letter of guarantee has been signed that states that Kuibyshevazot can consume all of the 100,000 tpa benzene planned to be produced by NOVATEK. Kuibyshevazot currently consumes around 130,000 tpa which is expected to rise to 150-160,000 tpa with the expansion of caprolactam capacity. NOVATEK also offered Kuibyshevazot gas supplies, but the gas is approximately 30% more expensive than Gazprom.

As regards Kuibyshevazot's own plans the company is benefiting from the introduction of the polyamide-6 plant, which has to some extent compensated for the anti-dumping duties imposed by China on Russian exports of caprolactam. In addition to polyamide-6, Kuibyshevazot has entered a JV with the Moscow company Plastik and the Togliatti company Visa prospects for the production of engineering plastics. Composites based polyamide and polypropylene are being developed, which are intended solely for a relatively small domestic market.

For polyamide-6 the company has a capacity of 22,000 tpa, which can be sold completely in the domestic market, and engineering plastics for a capacity of 10-12,000 tpa. Kuibyshevazot has been in talks with Dupont over an expansion of engineering plastics production.

Kuibyshevazot plans to expand polyamide capacity by up to twice its current level. China is seen as a potential market, with total imports of around 10,000 tons per month.

On 22 April, Kuibyshevazot started up the new unit for the production of technical threads and cord fabrics, using equipment supplied by Noyvallesina (Radici Group). Raw materials for this production is polyamide-6 which started up in December 2003.

Togliattikauchuk

Kuibyshevazot and Togliattiazot are trying to secure supplies of natural gas from Gazprom's trunk pipeline and circumvent the need of having to purchase gas indirectly. This will enable the companies to save an estimated 55 million roubles and 158 million roubles respectively. Kuibyshevazot has already applied to Gazprom for permission to build a pipeline connection. The project payback period is considered not to be more than two years, but it will enable important savings through direct gas supplies at the Samararegiongaz rates. In addition, the gas pipeline will permit the producers to obtain gas at higher pressure and that pressure can be also used for electric power generation.

Togliattikauchuk has proceeded to sign an agreement with Kuibyshevazot for the supply of nitrogen at a price 1.5 times lower than before which will save more than 30 million roubles per annum. For 2004 Togliattikauchuk plans to produce around 244,200 tons of synthetic rubber.

LUKoil-Neftekhim

Stavrolen

Stavrolen is undergoing modernisation its complex at Budyennovsk, including the reactors for polyethylene, as a part of implementation of LUKoil-Neftekhim's investment programme. Preparation for the installation of equipment of the new "B" polyethylene pre-packaging line is already underway, with equipment having arrived at the plant. An automatic compressor control and protection system, S4001, has also been purchased. The design

of reconstruction of the synthesis plant control system has been completed, whilst more investment has been undertaken regarding feedstock flows and the reduction of gas oil in the feedstock balance. The company is designing liquefied hydrocarbon gas storage facilities, with the focus on using cheaper feedstocks for olefin production.

Saratovorgsintez

Saratovorgsintez is constructing a unit for the clearing of emissions from phenol and acetone production. In 2003, the company spent 2 million roubles on this unit, with 4 million roubles planned for this year. Over the period 1999-2003, a total of 45 million roubles was invested by LUKoil-Neftekhim on improving ecological safety at Saratovorgsintez.

Outlook for LUKoil-Neftekhim

LUKoil is the only Russian vertically integrated oil companies that can be said to own large-scale petrochemical production facilities. YUKOS and Sibneft both own facilities at Angarsk and Omsk respectively, but neither company owns dedicated chemical plants in the same category as LUKoil through its subsidiary LUKoil-Neftekhim.

Although LUKoil-Neftekhim has established itself as a mid sized player in the Russian chemical sector, the company's strategy is unclear. The plants it owns are primarily distant from one another which precludes any real advantages of integration. The possibilities for further acquisitions to bolster the company seem remote and so growth is expected more along organic lines and jvs. LUKoil-Neftekhim has made recent announcements to invest in new plants to produce end consumer products, based on petrochemical materials that would be supplied by LUKoil-Neftekhim.

To increase efficiency LUKoil-Neftekhim is aiming to convert ethylene production to lighter and cheaper raw materials. Gas oil is already declining in Stavrolen's feedstock mix, with naphtha and liquefied associated gas accounting for another 40% and 20% respectively. Liquefied associated gas is delivered to Budyennovsk in tank-cars, and the share of the liquefied gas is expected to increase in the next several years to 30-40% for total ethylene production.

LUKoil-Neftekhim's interest or attraction stems from its mother company LUKoil. Upstream developments could conceivably open doors for petrochemical projects, possibly in Yamal or more likely the Caspian fields. The sizeable chunk of oil and gas produced by LUKoil (10-15% and 50%, respectively) is intended for LUKoil-Neftekhim plants. Currently, the petrochemical plants of this vertically integrated oil company process around 5% of hydrocarbons recovered by LUKoil. Both the parent company and its subsidiary consider this business area a promising area, as the profitability of producing ethylene from gas is several times higher than from liquid hydrocarbons.

If the ethane contents at North-Caspian LUKoil's gas fields is high enough (6-7%) LUKoil-Neftekhim could base its ethylene production on this gas. The core division for implementing these plans will be Stavrolen that already has the required infrastructure and, which more important, is closely located to the perspective North-Caspian gas fields.

Evrokhim

Novomoskovsk

Azot Novomoskovsk Production (unit-tons)		
Product	Q1 2004	Q1 2003
Methanol	73,400	82,800
Liquid Chlorine	10,700	10,152
Caustic Soda	19,600	18,508
Calcium Chloride	1,400	560
VCM	7,500	7,212
Acetylene	3,660	3,550
Tetrachloroethane	2,410	2,005
Ammonia	332,800	351,055
Urea	142,900	116,084

In the first quarter of 2004 Azot reduced production due to unscheduled stoppages in February at the two ammonia shops, the urea shop and the methanol plant due to the failure on a federal main gas main and the impact on gas supplies. In addition, the ammonia plant underwent maintenance.

Evrokhim plans to invest over \$27 million into its Novomoskovsk subsidiary during 2004. In 2003, overall investments into the plant amounted to \$23.5 million, which resulted in

starting up the new 300,000 tpa methanol facility. The largest of the projects in 2004 include the upgrade of the Ammonia-2 plant, which will increase capacity from 1,360 tons up to 1,650 tons per day. Investments

into this project amount to \$1.4 million. \$5.3 million will be spent on continuing the upgrade of the urea installations which will allow a gradual increase of daily production from 750 up to 1,200 tons by 2005. Water and power consumption will also be substantially reduced.

Irkutsk

DME

By the middle of 2004 TNK-BP expects to complete a preliminary feasibility report concerning the civil-engineering design for a dimethyl ether plant at Sayansk. Gas from the Kovytko deposit will be used as the raw material base for the new plant which will be directed to Sayanskkhimplast by pipeline, and also onto the Angarsk petrochemical complex. TNK-BP is conducting negotiations with the Japanese company JFE for the purchase and construction of the plant.

Another DME project is underway in Russia based on a JV between Evrokhim and the Moscow local administration. The aim is to produce fuel for municipal motor-vehicle transport. Two other DME projects are under review, including TNK-BP and also Vostokgazprom.

Sayanskkhimplast

Sayanskkhimplast reduced exports from total PVC production in the first quarter of 2004 to 43.3% as market orientation switched to domestic sales. In the first quarter last year exports accounted for 89.6%. Aside the issue of Chinese anti-dumping measures, demand in the domestic market is growing very quickly with new converting capacity being installed.

The main strategic programme of development of Sayanskkhimplast for the next six years envisages the reconstruction of the PVC plant to increase capacity to 350-370,000 tpa, and then eventually up to 500,000 tpa.

Usolyekhiprom

In 2004, Usolyekhiprom is aiming to raise the level of product profitability by up to 15-20%. For 2003 the company achieved profitability levels of around 10%, but changes in the sales structure will help to increase profits. At present, sales are heavily oriented towards the Chinese market but the aim in the next couple of years is focus more on the Russian market. Core products of the company include epichlorohydrin, trichloroethylene, emulsion PVC, calcium hypochloride, caustic soda, hydrogen peroxide, and methylcellulose. A total of 57% of the company's output last year was sold to China.

Product news

Caustic soda sales

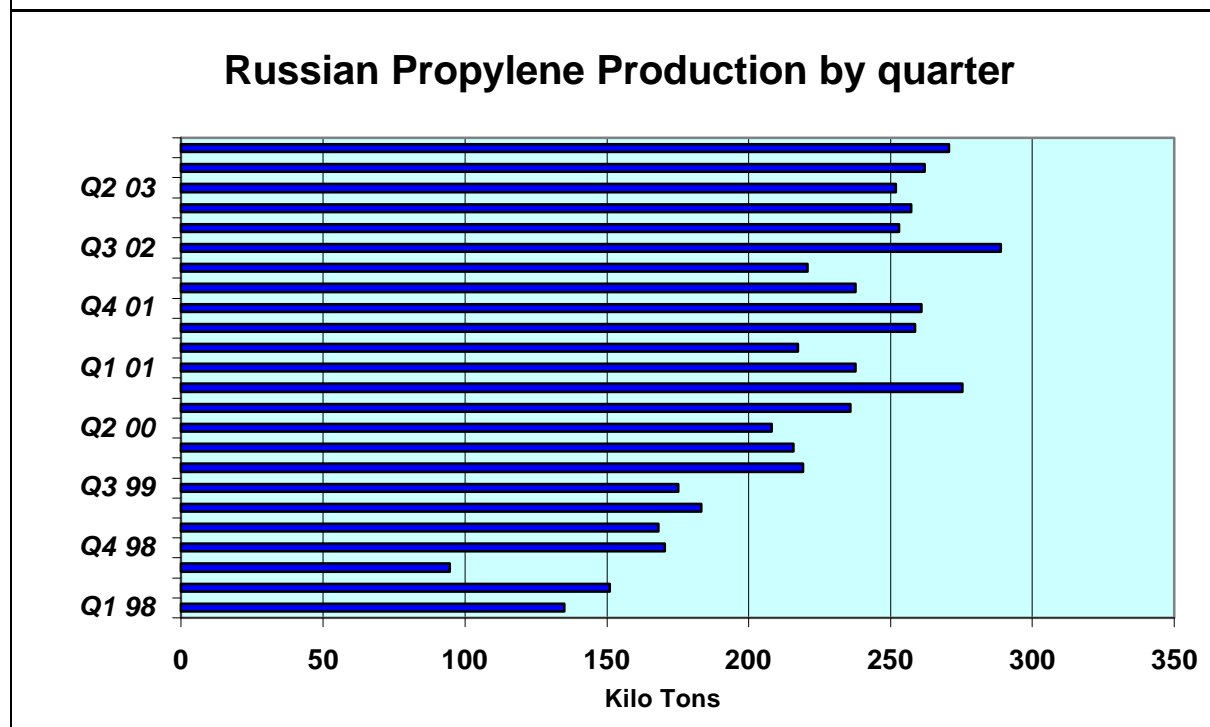
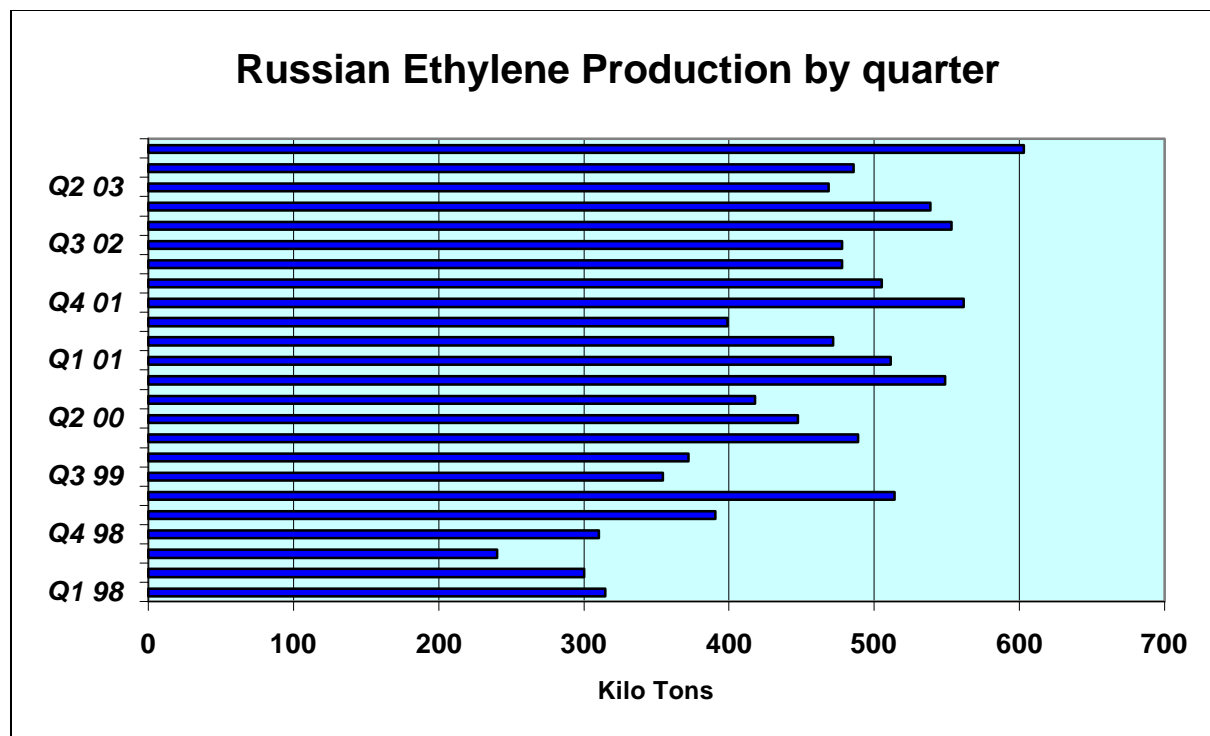
At the beginning of April, the Federal Antimonopoly Service (FAS) initialled legal proceedings to liquidate the United Trade Company (ETK), which now controls almost 80% of caustic soda sales in Russia. ETK has no ownership ties to producers and plants, but controls important contracts. On the surface, ETK looks like a caustic soda cartel having been founded in 2003 after China had levied an 80% anti-dumping duty against Russian PVC producers. The main Russian exporter Sayanskkhimplast had only one option, which was to move its supplies to the European part of Russia. This helped tear the market to pieces and started a price war. As the result, the idea of ETK was developed which was aimed at leading towards the stabilisation of domestic market prices. ETK claims that caustic soda prices rose last year, not because of cartel arrangements but raw material costs.

Russia produces much more caustic soda than it consumes domestically, but the main infrastructure for exports disappeared after the break-up of the USSR. The specialised terminal in the Caucasus has been refitted for oil, for example, as has the terminal at Vyborg. As a result, competition in the domestic market is under pressure with the same producers chasing the same market. This is ETK's explanation of the price inflation that has been seen in the past year.

At the same time the actions on anti-trust legislation violations against ETK have yet to have an impact on domestic prices. As a result, the management of Kuibyshevazot, Volzhskiy Orgsintez, Kazan Synthetic Rubber Plant and a number of large industrial companies in the pulp and paper, aluminium and automotive sectors, are concerned about the caustic soda market situation. They recently applied with an open letter to the Russian President Vladimir Putin calling attention to the fact that despite the actions of the RF Antitrust Ministry against the ETK no changes have yet been seen in the price situation.

Olefins

Ethylene production peaked at 600,000 tons for the fourth quarter in 2003, the first time these levels have been seen in Russia under market economy conditions. The increase in ethylene in the fourth quarter was due to the fact that nearly all the plans ran uninterrupted, with some modifications also taking effect. Even so, production was only up marginally for the year and 2004 is unlikely to see much change from the 2.1 million tons produced in 2003. Propylene tells a similar story with the general trend upwards, but at a relatively slow speed.



Resins

The Metafrax-Dynea JV, MetaDynea, aims to start up the new resins plant at Gubakha in the third quarter this year. The plant will have capacity to produce 200,000 tpa of resins. The Gubakha plant will produce urea and

melamine resins, based on Dynea technology, for the rapidly growing woodworking industries of Russia and its neighbouring countries.

MetaDynea also has plans to build another urea and melamine resin production unit in Russia by the end of 2006. This plant will have a planned capacity of over 120,000 tpa of urea and melamine resins. MetaDynea's future plans also include the production of phenolic resins for a broad range of industrial applications, including insulation and impregnation.

Methanol

Metanol at Tomsk increased methanol production from 188,000 to 211,000 tons in the first quarter of 2004. The plant is running at record operating levels. Aside exports, production is being sold largely in the Urals and Siberia, with Gazprom being the most important consumer. Metanol was transferred to the control of Vostakgazprom in the middle of 2000 in exchange for the debts that had been run up for raw materials by the Tomsk Petrochemical Combine. Vostakgazprom now owns 78.1% of the shares in Metanol, with the remaining 21.9% owned by Tomskneftekhim.

Polyethylene

NefteKhimSevilen produced 27,900 tons of polyethylene in 2003, with profits increasing 55.3%. The significant improvement of NeftekhimSevilen's financial position is due to the close integration with Nizhnekamskneftekhim.

Russian Polyethylene Production (unit-kilo tons)				
Producer	2000	2001	2002	2003
Kazanorgsintez	345.2	354.8	371.0	384.3
Ufaorgsintez	91.8	84.9	74.5	80.3
Stavrolen	252.6	246.5	267.2	264.1
Angarsk Polymer	72.5	72.2	71.0	71.2
Tomskneftekhim	129.7	124.9	149.3	163.0
NefteK'Sevilen	15.4	21.4	21.0	28.0
Salavatn'sintez	32.3	42.1	44.3	45.2
Plastik (Angarsk)	0.0	0.0	2.4	2.4
Other	0.2	0.1	0.0	
Total	939.7	946.9	1,000.8	1,038.5

After failing to reach agreement with German companies for the Surgutpolymer project Surgutneftegaz has now reached an agreement with Mitsubishi, Mitsui and Itochu as partners for the possible construction of a gas-chemical complex. The project concept is much the same as two years ago when Surgutneftegaz said that something in the range of \$600-800 million was required to finance construction. The concept is still in the hypothetical stage and would possibly include the production of both HDPE and LDPE. Raw materials for polymer production will be sourced from the gas processing plant at Surgut which also needs some investment.

The advantage for Surgutneftegaz in building a new polyethylene plant at Surgut is the company's abundance in liquefied gas reserves. The problem with Surgut as a location, however, is the distance from the main markets, either domestic or export. Therefore, as an alternative it has been suggested that it may be better for Surgutneftegaz to construct a plant closer in the European part of Russia.

Risks in the project will be divided 50/50 between the partners. The foreign partners will bring to Surgutpolymer not only funds, but also know-how. The project seems unlikely to be implemented quickly due to the number of questions that need to be asked.

Belarus

Belarus has been cited as a potential location for Surgutneftegaz's proposed polyethylene project. The geographical position of the Belarus is obviously much better than Surgut for access to West Europe and the Baltic ports. In addition, enormous differences exist between wages in Belarus and the Surgut area where pay is much higher.

However, Surgutneftegaz has not had much response from its negotiations with the government of Belarus over the privatisation of the refining and petrochemical assets. The government has made efforts to privatise Naftan, Polymir, Azot and Grodno Khimvolokhno, but these efforts have been largely unsuccessful due to potential investors not being offered control packages. Surgutneftegaz was considered as the most probable applicant for purchase of shares in Naftan as is the supplier of raw material to the plant, but price proved a deterrent which ended any possibility of a deal being done. The Belarussian government has revived efforts recently with the aim to reach an agreement with Russian partners but it still refuses to budge in price.

Ukraine

(Ukrainian hryvnia, Apr 27, \$1 = 5.33, €1 = 6.33)

Refineries

Linos will take a planned shutdown in May which will include the polypropylene plant. The restart will take place in June. Regarding the cracker at Lisichansk TNK-BP has no plans at present to restart production which effectively rules out the restart of the LDPE plant at Severodonetsk. In the first quarter of 2004 Linos processed 36% more crude than in 2003, totalling 1.88 million tons.

Chinese Imports from Ukraine (unit-kilo tons)		
Product	Jan-Feb 04	Jan-Feb 03
Adipic acid	2,930	468
HDPE	3,062	5,921
PP	750	-
Caprolactam	6,071	8,296

In December 2003, Ukratnafta signed a contract with LG International to develop a feasibility study for upgrading the Kremenchug refinery. Ukratnafta is part owned by Tatneft, which has started to become involved with LG in the past few months.

Following the study LG International Corp will suggest a summarised plant upgrade programme. In 2003,

Kremenchug NPZ reduced oil refining by 3.67% to 6.286 million tons.

Other Ukrainian news

LUKOR plans to start the construction of a unit for processing C4-C5 streams at the end of 2004 that will increase ethylene output at Kalush by around 1.2%.

Rivneazot has restarted full production after the limited outage forced by the benzene/ cyclohexanone explosion in March. New catalysts for ammonia production have been installed at Rivneazot by Topsoe. Rivneazot has been purchased by the Austrian company RAAM at the end of 2003. The plant is paying back its debts, whilst over \$5.50 million has been invested into development.

Sumykhimprom plans to invest 12 million hryvnia in the packaging and casing of titanium dioxide. The planned reconstruction of the sulphuric acid capacities at Sumy will allow an increase in capacity by a third up to 406,000 tpa, and also the capacity of oleum by 40%.

Transcaucasus

An agreement has been signed in Yerevan for the sale of a controlling stake in synthetic rubber producer Nairit to the Russian company Volgaburmash. Volgaburmash has already undertaken the reconstruction of the butadiene plant at Nairit at a cost of \$5 million. This stake has been transferred from Armsvyazbank which took control of the plant from the previous owner Ransat, itself taking control in 2002. The British company did not meet its investment and production commitments before the government and pulled out of its own accord. The priority of the new owners of Nairit, Volgaburmash, will be the restoration of the company's market position in synthetic rubber sales in Russia. In the 1980s, Nairit produced around 70,000 tpa of synthetic rubber but capacity is well short of that level these days.

Central Asia

Uzbekneftegaz is assessing a tender for the construction of a \$47 million liquefied gas plant at the Shurtan Gas Production Complex in the Kashkadarya region. The project involves the construction of a unit to produce propane-butane mixes with a capacity of 180,000 tpa of liquefied gas and 100,000 tpa of gas condensate. The deadline for submitting tender bids was 5 April 2004.

Production of liquefied gas last year in Uzbekistan increased 31.2% to 166,100 tons, with compressed gas production down 16.2% to 12.705 million cubic metres. The Shurtan Gas Production Complex (Shurtanneftegaz) is one of three gas processing plants belonging to Uzbekneftegaz. These plants process about 11 billion cubic metres of gas per annum, and also polyethylene.

Contents Issue No 161

CZECH REPUBLIC	2
Unipetrol	2
Unipetrol Q1 2004.....	2
Spolchemie.....	3
HUNGARY	3
BorsodChem.....	3
MOL	3
Poland.....	4
Polish privatisation	4
Other Polish news.....	4
BULGARIA.....	5
LUKoil.....	5
Other Bulgarian news	5
ROMANIA	6
Petrom.....	6
Petromidia	6
Oltchim	6
RUSSIA.....	6
SIBUR	7
Tyres	7
SIBUR's subsidiaries	7
Tatarstan	7
Nizhnekamskneftekhim	7
Halobutyl rubber	8
New processing jv formed at Nizhnekamsk	8
Kazanorgsintez	8
Samara.....	8
NOVATEK	8
Kuibyshevazot	9
Togliattikauchuk.....	9
LUKoil-Neftekhim	9
Stavrolen	9
Saratovorgsintez.....	10
Outlook for LUKoil-Neftekhim.....	10
Evrokhim	10
Novomoskovsk	10
Irkutsk.....	11
DME	11
Sayanskkhimplast.....	11
Usolyekhimprom	11
Product news.....	11
Caustic soda sales.....	11
Olefins.....	12

Resins	12
Methanol.....	13
Polyethylene.....	13
Belarus	13
UKRAINE	14
Refineries	14
Other Ukrainian news	14
Transcaucasus.....	14
Central Asia	14