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PRESS REVIEW
THE RUSSIAN PETROCHEMICALS SECTOR

SIBUR POSTS NET LOSS OF NEARLY 3 BLN RUBLES IN H1.

18 October 2002 20:32 GMT

Interfax: Investment Report

Russian petrochemicals company Sibur has reported a net loss of 2.911 billion rubles for the first half of 2002, compared to a net profit of 1.171 billion rubles in the same period last year.

Sales in the half fell to 9.728 billion rubles from 24.935 billion rubles in the same period of 2001. Pretax losses totaled 2.658 billion rubles, compared to a pretax profit of 1.829 billion rubles a year earlier.

Loans and credits due within 12 months of the reporting date on July 1 totaled 10.097 billion rubles.

INVESTMENT PROGRAM OF SIBUR-NEFTEKHIM REDUCED BY $390 MILLION.
18 October 2002
WPS: Russian Finance Report

SIBUR reduces the investment program for its SIBUR-Neftekhim subsidiary from $500 million to $110 million, announced President of SIBUR Dmitry Mazepin in Nizhny Novgorod. According to Mazepin, SIBUR considers only two projects in the Nizhny Novgorod Region to be priorities. These are construction of the gas turbine power station in Dzerzhinsk (on the premises of Kaprolaktam) and construction of a plant for high-density polyethylene production on the basis of the Kstovo petrochemical plant.

At the beginning of 2002, SIBUR-Neftekhim in cooperation with SIBUR prepared an investment program for the period between 2002 and 2010 worth $500 million. Among the investment projects the company considered also construction of a polypropylene plant, the plant for production of polyethylene pipes and the plant for production of polyethylene terephthalate for manufacture of bottles.

Reference: Kommersant, October 16, 2002.

Sibur plans to start producing gas condensate by 2005.

18 October 2002
Prime-TASS Energy Service (Russia)

MOSCOW, Oct 18 /Prime-TASS/ - Russia's largest gas refiner Sibur, a subsidiary of Russian gas giant Gazprom, announced Friday it is planning to start producing about three million tonnes of its own gas condensate annually within the next two to three years, attempting to eliminate feedstock shortages.

Gazprom controls 51% of Sibur.

Sibur and Gazprom are expected to jointly produce gas condensate in the Yamal-Nenets Autonomous District, Gazprom's core production base.

The condensate would be carried via a pipeline to a condensate stabilization plant in Surgut and then to Sibur's largely underutilized petrochemical facilities in the Tyumen Region's Tobolsk, the Tobolsk-Neftekhim company.

Sibur President Dmitry Mazepin said the company plans to boost the capacity utilization at Tobolsk-Neftekhim's to 75% in the fourth quarter of 2002.

As Tobolsk-Neftekhim gets enough feedstock, Sibur plans to produce products with more added value there.

Earlier this week, Sibur said it would invest U.S. $20 million to upgrade Tobolsk-Neftekhim's production facilities, which are now operating at only 65% of capacity.

Under the program, Sibur plans to launch production of a high-octane gasoline component, methanol and various types of synthetic rubber.

Tobolsk-Neftekhim is specialized in separating volatile hydrocarbons producing individual fractions, namely propane, butane-i, butane-n, pentane-n, hexane, liquefied hydrocarbon gases for household consumers, butadiene and concentrated isobutilene. End.

JSC "Sibur" to invest USD 20 mln in LLC "Tobolsk-Neftekhim" in 2003.

17 October 2002
SKRIN (Russia)

The planed investment volume in LLC "Tobolsk-Neftekhim" (Tobolsky petrochemical complex) amounted to USD 20 mln in 2003. RUR 80 mln more "Sibur" will invest into the development of infrastructure of gas and sewerage system in the city of Tobolsk. About this the "Sibur" press-service informed to SKRIN. According to the "Sibur" president D.Mazepin, currently the company's capacity is 65% and it is an optimal figure of using the production capacities

Perm region administration and Sibur announced the intention to make an agreement on cooperation.
16 October 2002
Region-Inform (Russia)

The vice-governor of Perm region Oleg Zhdanov and director general of Sibur-Khimprom are to take part in working-out of the agreement.

Sibur owns Uralorgsintez and Sibur-Khimprom, the largest gas and petrochemical complex in Perm region. Sibur-Khimprom includes Perm Gas Processing Plant, Stirol and Butyl Alcohol Plant.

"Zvezda" (Perm), 16.10.02

Sibur plans $110-mln investment in Nizhny Novgorod arm by 2005.

16 October 2002
Prime-TASS Energy Service (Russia)

NIZHNY NOVGOROD, Oct 16 /Prime-TASS/ - Russia's largest petrochemical company Sibur plans to invest U.S. $110 million in the development of its Nizhny Novgorod-based Sibur-Neftekhim division before 2005, Sibur President Dmitry Mazepin told reporters Wednesday.

Of the total, the company plans to invest $70 million in the construction of a polyethylene plant in the town of Kstovo in the Nizhny Novgorod Region with initial projected output capacity of 60,000 tonnes of polyethylene a year. Later the figure is expected to be increased, Mazepin said without elaborating.

The plant's design should be ready by the end of 2003 and the beginning of construction is slated for January-February 2004.

The plant is to become Russia's first producer of heavy-duty polyethylene used in gas pipes with pressure of up to 10 atmospheres.

Another $40-45 million is to be spent on the construction of Sibur-Neftekhim's own power generating facility with projected capacity at 48 megawatts (mW) to supply power to its two Dzerzhinsk-based plants, Kaprolaktam and an ethylene oxide and glycol plant.

The construction of its own power plant will allow Sibur-Neftekhim to halve its power expenses to $1.5 million per month, Mazepin said.

The design stage is to be completed by mid-2003, while the construction itself is expected to take 1-1.5 years. End.

Investment Program for SIBUR NEFTEKHIM Scaled Down from $500m to $110m.

16 October 2002
Novecon

The SIBUR company has scaled down an investment program for its SIBUR-NEFTEKHIM subdivision from $500 million to $110m, SIBUR president Dmitry Mazepin said.

Priority projects by SIBUR include construction of a gas turbine power station at KAPROLAKTAM and the construction of a high-density polyethylene plant at the Kstov petrochemical plant. Both enterprises are based in the Nizhni Novgorod region.

Source: COMMERSANT, October 16, 2002.

LUKOIL NEFTEKHIM Counts on $150m.
04 October 2002
Novecon

LUKOIL NEFTEKHIM plans to borrow $150 million in 2003 for its development projects.

Director for development Sergei Komarov says that a polypropylene production line with an annual capacity of 80,000 tonnes is to be completed at STAVROLEN, sodium cyanide production launched at SARATOVORGSINTEZ and a chlorine production line renovated at LUKOR in Ukraine within the next three years.

Source: VEDOMOSTI, October 4, 2002.

SAKHANEFTEGAZ DELIVERS OIL SHIPMENT CONTRACT WITH SWISS CO.

03 October 2002 12:23 GMT

Interfax: Daily Petroleum Report

YAKUTSK. Oct 3 (Interfax) - Sakhaneftegaz of Yakutia has now delivered an oil shipment contract with Switzerland's Vitol, the company told Interfax.

The company early Thursday loaded a tanker belonging to the Murmansk shipping Company at the with 14,000 tonnes of oil at the seaport of Tiksi.

Sakhaneftegaz has loaded four tankers with a total of 56,000 tonnes of crude during the six weeks or so that shipping lanes have been open this year.

INDUSTRY IN BASHKORTOSTAN.

03 October 2002 12:43 GMT

Interfax: Russian Company News

Manufacturing is the leading sector of Bashkortostan's economy, contributing more than 45% of GRP in 2001. The manufacturing sector employs 405,000 people and provides more than 70% of the region's taxes. The fuel industry makes up 38.1% of industrial production, chemical and petrochemical industry makes up 15.9%, machine building and metalworking make up 13.2%, and the energy sector makes up 10.3%.

Bashneft and Bashneftekhim are among the republic's biggest enterprises and are among the top 10 oil and refining companies in Russia. Other major enterprises include Beloretsky Metallurgical Combine, which produces pig iron, steel, and roll, the Ufa Engine Plant (automobile engines and parts), Aircraft Production Enterprise (Kumertau), Kauchuk (a synthetic rubber producer in Sterlitamak), Neftekamsk Dump Truck Plant (dump trucks and buses), and Salavatnefteorgsintez (mineral fertilizers, synthetic resins, plastics).

According to Bashkortostan's statistics committee, industrial output in the republic last year totaled 156.2 billion rubles, up 6.1% from 2000. The increase was caused by enterprises in oil refining, ferrous metallurgy, machine building and metalworking, the timber complex, construction materials, the glass and porcelain industry, food, medical, and printing industry. Machine building and medicine posted the biggest increase in production on the previous year.

Production of consumer goods totaled 18.5 billion rubles, up 2.1%, which breaks down to 4,500 rubles per resident.

Agricultural production in 2001 topped 36.1 billion rubles, up 13.9% from 2000, including crop growing production of 16 billion rubles, up 19.9%, and livestock production of 20.1 billion rubles, up 8.7%. Production was up due to a larger harvest of crops (except sunflower) and increased livestock production in the individual sector and by small farms. Agricultural enterprises accounted for 43.8% of production, individuals accounted for 54.2%, and farms for 2% (49.4%, 49.5%, and 1.1%, respectively in 2000).

Enterprises and organizations in Bashkortostan made capital investment of an estimated 45 billion rubles. Most investment was used Industrial output in the first half of this year totaled 74.5 billion rubles, up 0.9% year-on-year. Oil production increased by 0.6%, non-ferrous metal production increased 27.7%, machine building and metalworking increased by 36.8%, medicine production increased by 17.8%, printing production increased by 14.6%, and light industry increased by 1.1%. Production of electricity dropped by 2.9%, fuel production was down 6.9%, including oil refinement down 10.2%, ferrous metal production dropped 1.3%. chemical and petrochemical production fell 4.6%, timber, woodworking and pulp and paper production was down 6.1%, and construction materials production slipped 0.9%. OUTPUT OF CORE INDUSTRIAL PRODUCTS

Jan-July 2002 As % of Jan-July

2001

Electricity, Bln kwhrs	13.7	99.8
Oil and gas condensate, Mln tonnes	6.7	100.3
Primary oil refinement, Mln tonnes	14.4	86.7
Ferrous metal products, thousand	244	123.2

tonnes

Mineral fertilizers, thousand tonnes	160	65.5
Synthetic resin and plastic, thousand tonnes	231	96.1
Paint materials, thousand tonnes	5.9	86.8
Synthetic rubber, thousand tonnes	112	86.0
Pharmaceuticals, Mln. Rubles	655	115.2
Special oil equipment, thousand tonnes	4.4	53.7
Metal-cutting tools, units	534	125.9
Buses, units	319	2.2 times
Plywood, thousand cubic meters	55.6	116.5
Fiberboard, Mln sq. meters	6.7	102.0
Cement, thousand tonnes	393	98.4
Reinforced concrete structures and products, thousand cubic meters	383	102.1
Construction brick, Mln bricks	302	106.6
Linoleum, Mln sq. meters	1.3	115.2
Knit products, Mln units	3.4	103.4
Sugar, thousand tonnes	207	98.7
Bread, bread products, thousand tonnes	102	97.7
Vegetable oils, thousand tonnes	4.1	32.9
Ethyl alcohol, Mln dal	1.9	98.3
Meat and category 1 byproducts, thousand tonnes	22.1	118.4
Animal fat, thousand tonnes	6.0	82.3
Whole milk products in milk equivalent, thousand tonnes	111	104.1
Cheese, thousand tonnes	5.1	100.4
Flour, thousand tonnes	104	59.3

Source - State Statistics Committee

The Russian government in late August confirmed a federal program

for the socio-economic development of Bashkortostan to 2006 that will cost 172 billion rubles. The participants of the program will provide 52.09 billion rubles or 30.27% of total financing. They will also borrow 39.605 billion rubles from commercial banks (23.01% of financing), and attract 8.095 billion rubles (4.7%) in foreign loans and financing by international organizations.

The federal budget will provide 34.139 billion rubles, the Bashkortostan budget will provide 28.5 billion rubles, including 3.804 billion rubles in local budget money and 5.856 billion rubles will come from other sources.

The program includes 79 investment projects and 53 social measures in all areas. Projects will be aimed at the efficient use of the republic's unique oil and gas resources by introducing conservation technology and looking for effective methods of recovering residual oil.

Projects in machine building include setting up production of new automobile engines at Ufa Engine Plant and creating a multipurpose helicopter (the Ka-226.50), and a multipurpose passenger helicopter (Ka-32-10) at Kumertau Aircraft Production Enterprise.

The program is aimed at increasing gross regional production in 2007 by 29% from 2001 and generating additional revenue in 2003 - 2006 of 135.9 billion rubles. This article was written by the Interfax Center for Economic Analysis. E-mail: alind@pm.interfax.msk.su.

EARNINGS OF LUKOIL PETROCHEMICAL PLANTS TO TOTAL $700 MLN IN 2002.

02 October 2002 16:26 GMT

Interfax: Petroleum Report

Lukoil petrochemical enterprises expect earnings on sales this year of about $700 million, including $400 million for Lukoil-Neftekhim. Lukoil-Neftekhim General Director Alexei Smirnov said that sales last year totaled $300 million and including sales by the entire petrochemical complex they totaled about $500 million. The company sells 55% - 60% of its product on the domestic market at present, up from about 20% in 1998, he said. Sergei Komarov, director for development at Lukoil-Neftekhim, said the company in 2003 would formulate a program to develop the industry under Lukoil's gas strategy. Komarov said that most exploration drilling would be completed this year and the chemical makeup of oil at fields in the northern Caspian and on the Yamal peninsula (Timan Pechora province) would be evaluated. This will make it possible to decide which area of petrochemical production to pursue - ethanol or methanol, he said.

Lukoil will use up to 30% of the gas it produces for petrochemical production in the first stage and eventually up to 70%, Komarov said. The company might build a plant for the primary refinement of gas in the Caspian and liquefied gas will then be shipped to a plant in Budennovsk for further refinement. If Timan Pechora is actively developed the company will transport liquefied gas for refinement at enterprises in Europe or Russia. Komarov said that investment in the construction of petrochemical plants in Europe is more profitable than in Russia. Lukoil-Neftekhim has thus called for changes in laws on investment in high-cost areas such as petrochemical production, he said. Lukoil-Neftekhim enterprises have capacity for 3 million tonnes of product a year, including 1.05 million tonnes of olefin, 400,000 tonnes of low-pressure polyethylene, and 150,000 tonnes of nitric acrylic acid. Lukoil-Neftekhim controls 40% of the market for low-pressure polyethylene and 20% of the market for phenol. The company includes Stavrolen (Budennovsk), Saratovorgsintez (Saratov), LUKOR (Ukraine), and Vars (Ventspils, Latvia).

SIBUR MAY ENTER INTERNATIONAL CAPITAL MARKETS IN 2 YEARS - MAZEPIN.

01 October 2002 13:52 GMT

Interfax: Daily Petroleum Report

MOSCOW. Oct 1 (Interfax) - SIBUR may make a public share offering on the international markets in two years, company President Dmitry Mazepin said.

"I see the results of my work at SIBUR to be the company's entry onto the international capital markets. Of course, this will not happen immediately, but I think that in two years we will be able to speak of a public placement of SIBUR shares," Mazepin said in an interview published in the newspaper Vedomosti on Tuesday.

Speaking about sources of financing for company projects, Mazepin noted that this role might be played not only by Russian banks, but also by a strategic investor. He said that SIBUR is holding talks with the tire companies Michelin and Bridgestone. The company is also holding talks with BP on joint projects in the area of petrochemicals and possibly in the production of hydrocarbons.

Mazepin added that the amicable settlement reached with creditors involves freeing up packets of shares held as collateral in SIBUR managed companies. "This property may be used to attract new credits," he said.

Mazepin also announced that he would like for Surgut Gas Processing Plant, which was sold to Surgutneftegaz at the end of last year, to be returned to SIBUR, and he plans to hold talks on this issue.

The SIBUR president also said that the company plans to start producing its own condensate and to bring production up to 3 million tonnes within three years. For this, SIBUR plans to set up a joint venture with Gazprom and to receive new licenses in Yamalo-Nenets autonomous district. "This project requires about $250 million in investment," he added.

Sibur president sees international IPO likely in 2 yrs.

01 October 2002
TASS Energy Service

MOSCOW, Oct 1 /Prime-TASS/ - Russia's largest petrochemical company Sibur may carry out an international IPO in two years, Sibur President Dmitry Mazepin said in an interview with Russia's daily business newspaper Vedomosti, published Tuesday.

"I see /Sibur's/ entering the international stock markets as the result of my activities at Sibur," Mazepin said.

He said that major international investment banks such as Morgan Stanley, Dresdner Kleinwort Benson and Credit Suisse First Boston have already expressed their willingness to work on Sibur's IPO.

"I have good experience in this area since I have been preparing Lukoil's ADR issue on London Stock Exchange for two years," Mazepin added.

Previously, Mazepin served as first deputy chairman of Russia's Federal Property Fund and was involved in preparing the sale of a 5.9% state stake in Russian oil major Lukoil on international markets. The project had not yet been completed due to unfavorable market conditions.

Mazepin also said that Russia's gas giant Gazprom has no plans to sell its controlling stake in Sibur at present.

"The sale of Sibur is now out of discussion, because the proceeds from such deal would be contemptibly low," he said.

"When Sibur consolidates its assets, prepares international-standard financials, when it has profits and a transparent borrowing structure, Gazprom may raise the issue of selling its stake," Mazepin added.

He also said Sibur should consolidate its subsidiaries, which are currently owned by Gazprom's investment arm Gazprominvestholding.

Mazepin said those subsidiaries are currently managed by Sibur and Gazprominvestholding may hand over control to Sibur in the future.

"Sibur should become a consolidated holding with control of at least 75% of its petrochemical subsidiaries," he added.

Sibur's creditors approved an amicable agreement on the company's $1.5 billion debt in September.

Sibur recently faced bankruptcy proceedings because it seemed to be unable to pay off its mounting debt. About $1 billion is owed to Gazprom. End.

DRESDNER KLEINWORT WASSERSTEIN CHOSEN AS SIBUR FINANCIAL CONSULTANT.

30 September 2002 15:24 GMT

Eurasian Business Report

Dresdner Kleinwort Wasserstein will be the financial consultant for SIBUR in drawing up a five-year business plan, a SIBUR source told Interfax.

SIBUR said at a press conference that the business plan aims to return the company to profitable operation at the start of next year and then increase production while cutting product cost.

Gazprom Chairman Alexei Miller met with Dmitry Mazepin and SIBUR Chairman of the Board, Gazprom Deputy Chairman Alexander Ryazanov and signed an order to restore SIBUR to solvency and stabilize production.

SIBUR was told to hire an independent consultant and draw up a five-year business plan, which must be approved by the Gazprom departments for economic analysis and pricing, and corporate finance. It would then be discussed by Gazprom management

SIBUR COORDINATING FIVE-YEAR PLAN WITH GAZPROM.

25 September 2002 16:15 GMT

Interfax: Petroleum Report

SIBUR has sent a five-year business plan to Gazprom for approval, Alexander Ryazanov, chairman of the board at SIBUR and a deputy chairman at Gazprom, said in Nadym. Gazprom has done everything possible to persuade creditors to sign an agreement with SIBUR, he said.

If not it will be a very difficult situation, he said. Alfa-Bank has taken the toughest position among creditors, demanding guarantees from Gazprom that SIBUR debt will be paid, Ryazanov said. The bank also insists that the debt be paid in hard currency within two or three years. Ryazanov said Alfa-Bank is a fifth-tier creditor. SIBUR President Dmitry Mazepin in early September met with the heads of SIBUR enterprises and presented the business plan for 2003 - 2007. The business plan aims to return the company to profitable operation and then increase production while lowering costs per unit of product. SIBUR plans to refine 5 million tonnes of raw hydrocarbons a year, including 2 million tonnes of its own resources. It will maximally utilize its core capacity at all stages of production of petrochemical products. SIBUR enterprises were given two months to draw up and approve their own business plans for 2003. Mazepin said that the company was able to reach agreements with most banks to restructure SIBUR debt on base terms that were the same for all creditors.

Following the decision by Gazprom to restructure SIBUR debt and a ruling by the court of arbitration in Salekhard, I think that by September 13 we will be able to hold a meeting of creditors to reach a settlement, he said. We are consistently restoring the entire technological chain and by the end of November will confirm the production plans of all enterprises, coordinating them with the overall business plan, Mazepin said. Gazprom Chairman Alexei Miller met with Dmitry Mazepin and SIBUR Chairman of the Board, Gazprom Deputy Chairman Alexander Ryazanov in late August and signed an order to restore SIBUR to solvency and stabilize production. SIBUR was told to hire an independent consultant and draw up a five-year business plan, which must be approved by the Gazprom departments for economic analysis and pricing, and corporate finance. It would then be discussed by Gazprom management. Dresdner Kleinwort Wasserstein was SIBUR's financial consultant for the business plan.

GAZPROM TO BECOME THE MAIN OWNER OF TOMSK PETROCHEMICAL COMPANY.

20 September 2002
WPS: Russian Oil and Gas Report

Anatoly Gubkin, external manager of the Tomsk petrochemical enterprise (TNKHK), announced that Gazprom would be the main owner of the new company to be established on the basis of assets of the TNKHK. According to Gubkin, the strategic plan for establishment of the new company on the basis of the TNKHK states that SIBUR and Vostokgazprom (subsidiaries of Gazprom and the major creditors of the TNKHK) will be managing companies that control supplies of raw materials to the TNKHK, production of polymers, methanol and other petrochemicals.

Meeting of creditors of the TNKHK will be held in Tomsk by the end of September. During the meeting creditors will discuss procedures of the project in detail. At the first stage shares of the new company will be given to SIBUR, Vostokgazprom and TNKHK. At the second stage shares of the TNKHK will be divided among the main creditors.

Reference: Vedomosti, September 18, 2002

Alfa Bank, Gazprom finalize restructuring Sibur's debt.

19 September 2002
TASS Energy Service

MOSCOW, Sept 19 /Prime-TASS/ - Major private Russian bank Alfa Bank and Russian gas giant Gazprom have signed an agreement on the restructuring of Sibur's U.S. $78 million debt to Alfa Bank that satisfies all concerned parties, Alfa Bank said in a press release Thursday.

Sibur is Russia's largest petrochemical company and is controlled by Gazprom.

Alfa Bank and Gazprom also signed an agreement on strategic cooperation, the press release said.

Under the agreement, Alfa Bank will loan $150 million to Gazprom, further extending its credit limit for the gas giant to $350 million.

The parties agreed on credits until 2004.

According to Alfa Bank President Peter Aven, cooperation with Gazprom is of strategic importance to the bank.

The bank also "seriously considers" offering further credits to Sibur as part of an integrated program on cooperation with Gazprom, Aven added.

Alfa Bank's loans to Gazprom are expected to restore the company's balance of payments.

Gazprom also plans to place free cash flow on Alfa Bank's correspondent accounts.

Alfa Bank's profits in 2001 under international accounting standards were $85 million.

Alfa Bank expects its capitalization to stand at $350 million at the end of the year, compared to $250 million at the beginning of 2002.

The bank has more than 35,000 corporate clients and more than 80 branches across Russia. End.

BUSINESS STRATEGY OF RUSSIAN CHEMICAL AND PETROCHEMICAL COMPANIES CONFERENCE.

11 September 2002 15:15 GMT

Interfax: Petroleum Report

- A conference entitled Business Strategy for Russian Chemical and Petrochemical Companies is to take place on September 18 in the Marriott Grand Hotel in Moscow. The conference will include three sessions: State Policy for Developing the Petrochemical and Chemical Complex; The Outlook for the Petrochemical and Chemical Market in the Next Five Years; and Strategy for Success of Russian Petrochemical and Chemical Companies. As part of the conference it is planned to discuss a possible strategy for developing the chemical and petrochemical industries in connection with integration into the world economy and to formulate the necessary state measures to further stimulate growth in production in the petrochemical and chemical sector and to highlight effective mechanisms for the successful implementation of concrete business projects. Speakers include First Deputy Minister of Industry Andrei Svinarenko, Deputy Economics Minister Yuri Beletsky, Bashneftekhim General Director V. Gantsev.

Nizhnekamskneftekhim General Director V. Busygin, Kazanorgsintez General Director N. Yusupov, and Lukoil-Neftekhim General Director A. Smirnov. For additional information call (095) 251-16-66, or fax 251-86-11.

SIBUR, VOSTOKGAZPROM SUBMIT PLANT FOR TOMSK PETROCHEMICAL REORGANIZATION.

09 September 2002 14:15 GMT

Eurasian Business Report

Tomsk Petrochemical Combine creditors SIBUR and Vostokgazprom have submitted their plan to reorganize the plant to the Federal Service for Financial Recovery and Bankruptcy. The plan involves the formation of a new company at Tomsk Petrochemical Combine, which is in external management, SIBUR said in a press release. Tomsk Petrochemical Combine shareholder capital would be gradually reorganized under the plan. During the first stage SIBUR, Vostokgazprom and Tomsk Petrochemical Combine would hold shares in the new company, but the share held by the Tomsk combine would be redistributed among all creditors during the second stage. A new company will ultimately be formed that will have the optimal shareholder capital and production ties, according to the press release. The companies would settle with the state using money from the sale of the Tomsk Petrochemical Combine shares and from the sale of the company's assets that will not be part of the new company.

Assets not related to core activities will most likely not be transferred to the new company. Creditors are to meet in mid-September following approval by the bankruptcy service to confirm the technical details of the plan. Apparat Upravleniya holds 67.94% of Tomsk Petrochemical Combine. Alliance Group recently announced it acquired 82% of the company from Siberia Chemical Combine, which is a major creditor of Tomsk Petrochemical Combine.

RUSSIAN FIRMS INTERESTED IN PARTICIPATING IN KUWAITI OIL, GAS PROJECTS.

04 September 2002 15:14 GMT

Interfax: Petroleum Report

Russian companies are interested in cooperating in Kuwait in the area of oil and gas production, and also in electricity, according to a press release prepared for the first session of a Russian-Kuwaiti intergovernmental commission for trade and economic cooperation in Moscow. According to the Russian side, Russian companies and organizations have significant possibilities to expand supplies of power equipment, machinery and equipment for the oil, gas and petrochemical industries, and also steel roll, metal goods and timber to Kuwait. Russian Energy Minister Igor Yusufov is heading the Russian delegation at the meeting, while the Kuwaiti delegation is headed by acting Oil Minister Sheikh Akhmed as-Sabakh. Participants in the commission include representatives from the Russian Foreign Ministry, the Economic Development and Trade Ministry, Gosstroi, Vneshtorgbank and also management from Transneft, Lukoil, Rosneft, Sibneft Zangas, Energomashkorporatsia, Neftegazstroi and Alfa-Eko.

The commission is meeting for the first time, after the governments of both countries signed an agreement in 1994 to set it up. Russian oil companies will take part in the development of oil fields in Kuwait, Energy Minister Igor Yusufov said. First and foremost, there are plans to develop four oil fields in the country's north, he said. Sibneft "has passed the preliminary qualifications for taking part in the development of oil fields in north Kuwait. Lukoil is going through the same qualification process," the minister said. Russia hopes to draw Kuwaiti capital in various industries, Yusufov said. When asked about the situation in the Middle East, Yusufov said, "Kuwait is a key country in that region, and our states will hold consultations proceeding from the concrete political situation in the region." Yusufov was quoted in the press release as saying that during the meeting the sides should agree on concrete steps to set up favorable conditions to develop cooperation between the two countries. Trade between Russia and Kuwait in 2001 amounted to $18.7 million. Trade with Kuwait is carried out mainly based on once-off contracts. Exports from Russia include trucks and cars, timber and metal roll. Imports from Kuwait include aviation fuel. In turn, as-Sabakh said that Kuwait is striving to expand bilateral cooperation with Russia both as a member of OPEC and outside the framework of the oil cartel.

We want to support Russia's efforts to develop dialogue and our relations as part of cooperation with OPEC and outside that organization, he said, adding that Russia occupies a significant place on the world oil market.

We are hoping to review the possibility of investment and other cooperation between our countries, the Kuwaiti minister said. He proposed to set up a working group to ensure continuous cooperation between Russia and Kuwait. Commenting on cooperation between Russia and OPEC, he noted that the stabilization of oil prices in 2002, achieved as a result of a joint reduction in oil production by OPEC and independent producers, led to growth in Kuwaiti revenue.

Although there were some forces that hoped for a breakdown in the Cairo agreement, our successes are great, as-Sabakh said. The decision to reduce production by 1.5 million barrels per day from January 1, this year was reached at an OPEC conference in Cairo in December 2001. In turn Russian Energy Minister and head of the Russian delegation Igor Yusufov said at the meeting that the situation on the world oil market, which suits producers and consumers of oil, prepared the positive nature of the current dialogue. Thanks to the general efforts with OPEC, we have managed not only to stabilize the situation on the oil market, but also to set up conditions to develop further dialogue, the minister said.

I consider that it is important to continue further this constructive dialogue between Russia and OPEC countries, Yusufov said. It is expected that after the work of the commission the sides will sign a protocol, which will include an agreed statute on the commission.

SIBUR COSTS TOO MUCH.

26 August 2002
WPS: Russian Oil and Gas Report

Consolidated financial statements of Gazprom according to international accounting standards for 2001 showed for the first time the costs of operations of subsidiary petrochemical holding SIBUR for Gazprom. Now analysts call SIBUR a "black hole." In 2001, net loss of SIBUR amounted to 20.6 billion rubles and liabilities exceeded the assets almost by 100%.

Gazprom bought a 51% stake in SIBUR in January 2001 for 2.6 billion rubles. According to financial statements of Gazprom for 2001, net loss of SIBUR amounted to 20.6 billion rubles, long-term liabilities to 40 billion rubles, short-term liabilities 4.3 billion rubles, sales revenue 49.7 billion rubles, fixed assets 6.7 billion rubles and current assets 20.1 billion rubles.

At the end of 2001, SIBUR bought 75% of shares in Kemerovo Azot, 100% in Kauchuk, 51% in Uralorgsintez and Volzhsk nitrogen plant and 42% in SIBUR-Tumen and Stirol from IT company for 6.49 billion rubles.

Analyst Steven Dashevsky of Aton says, "For the first time financial statements according to Western standards gave a notion of what SIBUR was really like, and this was a big black hole. I was simply shocked by the value of losses of SIBUR, because in financial statements according to Russian standards they were estimated at approximately $100 million."

The analyst notes that inclusion of results of SIBUR into financial statements of Gazprom had a negative influence on financial results of the gas monopoly. "In 2001, SIBUR had turnover of $1.6 billion and liabilities of $1.5 billion, exceeding the value of its assets by $582 million. This means that during bankruptcy of SIBUR creditors will be able to receive not more than 60 cents on an invested dollar," says Dashevsky.

Analyst Pavel Kushnir of United Financial Group explains the huge value of net losses of SIBUR, saying that "the company has always been non-public," and its former management "had a significant influence and economic interest there." "They used various methods including internal prices to hang as many liabilities on the holding as possible. It is possible that the management of SIBUR used this situation for its own benefit," adds Kushnir. Legal action against former President of SIBUR Yakov Goldovsky and his deputy Yevgeny Koshchits, charged with power misuse and theft, is not over yet.

Analysts emphasize that, even knowing about the bad financial condition of SIBUR, Gazprom was spending money on return of assets to the holding that had to belong to it anyway. "In December 2001, SIBUR bought stakes in some petrochemical companies for $215 million, and it was not a secret that these acquisitions were made on the money of Gazprom. These companies had to belong to the holding a long time ago. Gazprom, which has actually paid $215 million, still cannot say for sure if IT company, which has sold these shares to it, is not affiliated with the former management of SIBUR. I hardly believe that IT bought controlling stakes in the petrochemical companies by chance," comments Dashevsky. "Most likely IT company is really allied with the former management of SIBUR," presumes Kushnir. "It is not clear why details of the deal were revealed only after publication of financial statements. Gazprom usually announces return of assets," concludes the analyst.

A source in the company close to Gazprom says that in the future SIBUR may cost much more than the gas monopoly has paid for it. Ivan Mazalov of Commerzbank says, "Gazprom stated that SIBUR has been unprofitable because the management was draining assets, and with a new approach business of the holding will be efficient. I think in the next financial statements we will see more optimistic financial results of SIBUR."

Reference: Vedomosti, August 19, 2002.

SIBUR TO DECIDE ON INVESTMENT IN KEMEROVO AZOT AT END OF 2002.

19 August 2002 12:12 GMT

Eurasian Business Report

SIBUR will reach a decision on investment in Azot (Kemerovo) based on the company's performance in 2002, SIBUR President Dmitry Mazepin said.

According to the Azot development plan for this year, sales revenue will increase from 5 billion rubles in 2001 to 5.6 billion rubles in 2002. Capacity utilization at the plant will be increased to 97% from 95% at present.

Mazepin also said that the company plans to transfer work at Azot to a tolling scheme. He also stressed that this will affect other companies in the holding company also. The aim of crossing over to a tolling system is to set up a vertically integrated system, he said, adding that this scheme will help the company's firms operate more effectively.

The introduction of tolling will not affect the amount of taxes paid by the enterprises or social programs the company is carrying out at enterprises and in the regions, he said.

SIBUR owns 74.6% of Azot.

Azot production in the first half of the year totaled 3.133 billion

rubles, up 9.1% from the same period last year.

The company produced 52,319 tonnes of caprolactam (down 2.6%),

238,285 tonnes of carbonide, up 3.3%, 431,330 tonnes of ammonia, up 19.8%, 430,674 tonnes of ammonium nitrate, up 87.6%, and 2,200 tonnes of dimethyl formamide, down 1.3%.

SIBUR-NEFTEKHIM COULD TAKE PART IN A NUMBER OF PROJECTS IN PERSIAN GULF COUNTRIES.

14 August 2002
Russian Oil & Gas Report

During negotiations between industrialists of the United Arab Emirates (UAE) and the management of the company SIBUR-neftekhim, a decision was taken to compose a joint plan for the implementation of advanced Russian technology in enterprises of the Persian Gulf nations. A protocol was also signed, defining fundamental lines of cooperation in production of sealants and "synthanols" (the basis for preparation of synthetic detergents) on the basis of SIBUR-neftekhim. The leader of the delegation, chairman of the group of companies Ghantoot Transport & Gen. Cont. Est., Ali al Belushi, was especially interested in the possibility of foundation of a joint venture for formation of a pool of transportation modules for transfer of petrochemical products along the international "North-South" corridor.

At the end of July 2002, Vladimir Kartsev, who has spent a long time working in the UAE, where he headed the Propan-butanovy holding, became a director of SIBUR-neftekhim.

Reference: Kommersant, August 12, 2002.

SIBUR NEFTEKHIM Establishes Cooperation with UAE Companies.

13 August 2002
Novecon

SIBUR NEFTEKHIM (Russia) and GHANOOT TRANSPORT & GEN CONT EST, LIWA PETROLEUM EST and EAWIN INVESTMENT companies (United Arab Emirates) reached an agreement on August 9 to implement two projects to turn out petrochemical products at SIBUR NEFTEKHIM enterprises in the Nizhni Novgorod region.

Production of detergents (syntanols) will be set up at a ethylene and glycol enterprise in Dzerzhinsk (Nizhni Novgorod region). KAPROLAKTAM in Dzerzhinsk will produce pressurisers. According to a preliminary agreement, the foreign party will invest $10m in syntanol production and $4m in pressuriser lines.

Source: SKRIN EMITENT, August 12, 2002.

UAE COMPANIES PLAN TO INVEST $20 MLN IN SIBUR-NEFTEKHIM PRODUCTION.

12 August 2002 13:09 GMT

Daily Petroleum Report

NIZHNY NOVGOROD. Aug 12 (Interfax) - Companies from the United Arab Emirates - Ghanoot Transprotr & Gen. Cont. Est, Liwa Petroleum Est, and Eawin Investment plan to invest $20 million in joint projects with SIBUR-Neftekhim (Nizhny Novgorod region), Vladimir Kartsev, general director of the Russian company, told journalists.

Under the conditions of an agreement signed on Friday for the implementation of three projects for the production and transportation of petrochemical products based at SIBUR-Neftekhim, $10 million will be invested in the production of syntanol, $4 million - in the production of hermetic products and $6 million - in setting up a joint venture.

He said that the agreement is for three years and involves the setting up of production of detergents (syntanol) based at the Ethylene and Glycol Cleansing Plant (Dzerzhinsk), hermetic sealant - at Kaprolaktam (Dzerzhinsk) and also the setting up of a joint venture to transport petrochemical products along the St. Petersburg - Persian Gulf transport corridor.

During the implementation of the projects, which will begin in September, SIBUR-Neftekhim plans to increase the volume of production of hermetic sealant and syntanol at its companies 100%.

Kartsev explained that the joint venture being set up would transport crude oil being exported from the UAE by rail and also SIBUR-Neftekhim products being imported by the UAE.

H1 OUTPUT IN RUSSIA'S CHEMICALS, PETROCHEMICALS INDUSTRY UP 1.9%.

02 August 2002 14:48 GMT

Investment Report

Output volume in Russia's chemicals and petrochemicals industry in the first half of this year expanded 1.9% over the same period of last year, Economic Development and Trade Ministry documents indicate. First-half automobile tire production was up 1.3%, that of mineral fertilizers 2.6%, of sulfuric acid 2.3% and of soda ash 2.2%.

But the sector's total profits less losses in the first four months of the year plunged by almost two thirds year-on-year. The heaviest effect on sector financial re-sults was produced by reduced export revenues because of lower export prices and smaller export volumes.

The ration of investment in the chemicals and petrochemicals sector to overall investment in basic capital in the first quarter slipped to 1.9% versus the 2.3% in first-quarter 2001 and 2% in first-quarter 2000.

Direct foreign investment in the sector in January-March of this year dropped $7 million against the $12 million of the same quarter last year. its share of overall direct foreign investment was down from 1.2% in this period last year to 0.8% in first-quarter 2002.

RUSSIA: An international consortium is expected to be established by the end of 2002 in order to undertake the development of a large-scale offshore natural gas field that could require a total investment of $25,000,000,000 over the life of the project, ROSSHELF [Russia] & TOTALFINAELF [France] - Order #: 087202.

01 August 2002
WWP-Report on Oil, Gas & Petrochemicals in the Developing World

PROJECT OVERVIEW:

According to France-based TOTALFINAELF (TFE) an international consortium that is aiming to develop a large natural gas field in Russia's Barents Sea is expected to be in place by the end of the year 2002. The Shtokmanov field in question is located in 350 meters of water. The deposit could reportedly hold 100 trillion cubic feet of natural gas.

As things currently stand, TFE hopes to acquire a 25% interest in the consortium formed to develop the field. In so doing, $10,000,000,000 is anticipated to be needed in the first phase of development. As a result, some 22 billion cubic feet of gas per year are expected to be produced. In addition, a further $15,000,000,000 is likely to be invested to complete the project.

ROSSHELF, a subsidiary of Russian gas giant GAZPROM, is the license holder for the Shtokmanov field.

GAZPROM, Russia's largest company, employs a total staff of 300,000 and operates through 40 subsidiaries. It is said to produce some 94% of the country's natural gas as well as control 23% of world production.

ROSSHELF is a newly established company that is proposing to build a new seafloor-based oil and gas production complex operating at a depth of 500 meters. The undertaking will reportedly involve the design and technical cooperation of several Russian organizations.

TFE employs a total workforce of approximately 70,000 active in over 100 countries. The company operates through 3 major divisions consisting of upstream, downstream and chemicals.

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RUSSIA MOVES TO ADOPT INTERNATIONAL SYSTEM FOR CLASSIFYING HYDROCARBON RESERVES.

31 July 2002 15:25 GMT

Petroleum Report

Russia's Ministry of Natural Resources will work with specialists from the Russian Academy of Sciences and geological bodies to develop plans for a new system of classifying hydrocarbon reserves. The new system "will take into account the condition of Russia's market economy and allow it to use world standards for estimating the commercial potential of reserves and resources, particularly risk evaluation," the ministry's press center said. There are currently over 150 systems worldwide for classifying energy reserves and resources, all based on various principles and signifying different concepts with the same terms. For that reason the European Economic Commission has recommended development of the UN's International Framework Classification for reserves and resources of subsurface hard fuels, uranium and hydrocarbon crude. The information from the classifications of these major energy resources can be used by all interested parties to compute worldwide reserves.

The UN classification system employs a three-dimensional lattice, where the axes are geological data, commercial value and the technical stage of development. (The axes are labeled "G," "E," and "F.") In order to classify reserves, a number is assigned to each of the axes. For example, "first" signifies the highest level of commercial value on the E-axis or the highest level of confidence on the G-axis and F-axis. The reserves at a given field are determined based on the position of the three coordinates in the cube. The UN system was approved by the European Economic Commission in March 1997 and recommended for adoption throughout the globe. The issue is a vital one for Russia, which possesses so many different energy resources. Firstly, it makes it possible to evaluate the benefits of using one or another resource in a given region. Secondly, participation in international organizations requires application of adequate standards and systems for calculating reserves.

NIZHNEKAMSKNEFTEKHIM to Buy FINA TECHNOLOGY Equipment.

26 July 2002
Novecon

FINA TECHNOLOGY transnational corporation has completed deliveries to NIZHNEKAMSKNEFTEKHIM in Tatarstan of its equipment for polystyrene production, which has a capacity of 50,000 tonnes annually.

The plant is presently under construction. The project is worth $30 million. The plant's first stage is to start operating in mid-2003, its projected capacity is 120,000 tonnes annually.

Source: KAMA PRESS, July 25, 2002.

Le Premier ministre russe à Paris pour défendre la coopération énergétique.

03 July 2002
Les Echos

Le Premier ministre russe en visite à Paris, Mikhaël Kassianov, a déclaré que son pays, un des principaux producteurs mondiaux d'hydrocarbures, a l'intention d'accroître sa coopération énergétique avec la France et l'Union européenne. Après un entretien d'une heure avec le président Jacques Chirac où ont aussi été évoquées les questions agricoles et la candidature russe à l'OMC, il a souligné que « d'ici à 2020, les besoins des pays de l'Union européenne en matière énergétique vont doubler et ce n'est que grâce à la Russie que ces demandes pourraient être satisfaites ». Il a aussi cité des perspectives de renforcement de la coopération bilatérale dans l'aéronautique et les télécommunications.

Foreign investment bonanza fuels boom

Guy Norton
01 June 2002
Global Finance

With wells gushing cheap oil, Russia's oil companies are turning to the West for investment.

There has arguably never been a better time to be a Russian oil company. A combination of political and economic factors has produced a near-ideal funding environment for Russian oil companies, leading to a massive increase in the number of firms seeking capital abroad.

That's a far cry from the dark days following August 17 1998 when the ruble was devalued and the Russian government defaulted on $40 billion of debt and announced a 90-day moratorium on $4 billion of commercial debt-effectively choking off offshore funds for the country's capital-intensive oil industry.

Less than four years later the international bond, equity and loan markets are once again open to Russian oil companies, which have been among the prime beneficiaries of the rehabilitation of Russia in the global financial community since the accession of Vladimir Putin to the Russian presidency in 2000.

"Vladimir Putin has stabilized the Russian economy since he came to power," says Howard Cooper, president and chief executive of Teton Petroleum, a Steamboat Springs, Colorado-based oil and gas exploration and production company operating in Russia.

He adds that following the September 11 terrorist attacks there has been a huge rise in the geo-political significance of Russian off. "People realize that right now for the United States to have a continuous source of oil, it needs to get it from Russia," he says. Cooper points out that political and economic problems in the Middle East, Latin America, Southeast Asia and Africa have all helped to highlight the position of Russia as a reliable source of oil and an alternative to exports from OPEC. What's more, he adds, unlike in many other emerging market countries, the Russian oil industry is largely in private hands, making it less vulnerable to government interference than the state-owned firms in the Middle East and South America.

The growing importance of Russian oil was demonstrated in April when BP agreed to pay $375 million to increase its stake in Russian oil company Sidanco from 10% to 25%. John Browne, group chief executive of BP, said the share purchase underlined BP's confidence in Russia and its improving business environment. "BP's participation in Sidanco will help to increase the value of the company," says Alex Knaster, general director of Sidanco. He adds: "BP under John Browne is seen as a visionary company, and its participation in Sidanco will make people sit up and notice the Russian oil industry. I am sure it will act as a catalyst for further acquisitions."

As a result of the improving finances of the Russian oil industry, the syndicated loan markets have reopened to Russia, and there has been a resurgence in borrowing by Russian oil companies. A growing appetite among bank lenders has meant that firms have been able to increase both the size and tenor of the loans they are able to secure. SCORECARD .Russian Loan Boom

For example, HypoVereinsbank and BNP Paribas are currently arranging a $150 million three-year loan for Tyumen Oil-three times larger and twice as long as a $100 million 18-month facility it secured via ING in March 2001.

Peter Kennedy, global head of origination, syndications and new issues at Standard Bank London, says that according to the bank's own estimates the capex requirement of the Russian oil industry is in the region of $100 billion, meaning that there will be almost insatiable appetite for debt funding from Russian oil companies for the foreseeable future. He believes that the best Russian oil companies-those with US GAAP or IAS accounts and good corporate governance track records-will be able to secure longer-dated funding this year, with margins below the current 300 basis points over LIBOR benchmark. He adds that, given the political crises in the Middle East and South America,"Russia overall is seen as a relatively safe haven, and people are more relaxed about the risks attached to Russian oil companies than they were "As a result, Kennedy says, there will be a move toward less structured lending, with less onerous covenants attached to loan agreements.

Unsecured Financing Becomes More Available

Russian oil companies have also been able to secure unsecured financing in the international bond markets. State-owned oil company Rosneft kicked things off last year with a $150 million five-year bond and has since been followed by privately opened Sibneft, which launched a $400 million five-year issue this year. As Global Finance went to press,TNK was preparing a $500 million five-to-seven-year transaction. Rafael Biosse duPlan, co-head of emerging market debt origination at Citigroup/SSSB, says that at present Russian oil company eurobonds are principally sold to dedicated emerging market investors, but he expects that the improving economic backdrop for Russian oil firms will see their bonds increasingly snapped up by generalist global bond funds and oil fund specialists.

A similar trend has already occurred in the equity markets. Johnny Beveridge, head of equities at Renaissance Capital in London, says, "In the early part of this year we have seen significant inflows from global equity funds, with the selling of stocks in mature western oil companies in favor of Russian oil companies like Yukos and Surgut."

New issue activity on the equity front is also picking up as oil companies have sought to take advantage of improving investor sentiment to both Russia in general and oil companies in particular.

In February this year YUKOS Universal launched a $147 million accelerated sale of a 1% stake in its 65% owned subsidiary YUKOS, Russia's second-largest oil company. The deal, lead managed by UBS Warburg and Credit Suisse First Boston, was more than twice oversubscribed at an issue price of $6.55 per share.

More Opportunity for All

It's not just the giants that have been able to raise equity financing. Last year, for example,Teton Petroleum, the only US publicly traded oil and gas exploration company in Russia, raised $2 million through a private placement of stock. It has secured a further $3 million this year. "We're seeing more high-net-worth individuals and institutions that realize the value of investing in Russia," says Teton's Cooper. Teton has used the proceeds of its equity issuance to boost production at its oilfield in western Siberia from 500 barrels per day to 5,000 barrels. As a result it has seen its share price more than double, from $0.20 last year to $0.50 currently. "Russia has proved it's a reliable place to put your money over the past two years," Cooper says.

He adds that there is still considerable upside in the company's share price: It's trading at the equivalent of $0.35 per barrel of proven reserves when it is able to export oil at $22 per barrel. He says that an equivalent company based in Texas would be valued at $5 per barrel of proven reserves.

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KPMG TO BECOME STRATEGIC CONSULTANT OF SIBUR.

31 May 2002
Russian Oil & Gas Report

The management of the Siberian-Urals Oil and Gas Chemical Company (SIBUR) and KPMG group signed a protocol of cooperation. The document says that KPMG will be a strategic consultant of SIBUR for restructuring of debts, development of business strategy and improvement of production processes, and will also provide services in the area of corporate governance, internal audit and risk management.

The main goal of cooperation is establishment of transparent and efficiently operating holding. According to experts, experience of experts of KPMG will allow improvement of effectiveness of operations of SIBUR divisions, optimization of interaction of partner enterprises and increasing capitalization of SIBUR.

Reference: Finmarket agency, May 28, 2002.

SIBUR EXPORT REVENUE UP 48% IN 2001.

14 May 2002 13:09 GMT

Weekly Business Report

MOSCOW. April 26 (Interfax) - SIBUR forex revenue from exports amounted to $316.7 million in 2001, up 48% year-on-year, the company said in a press release.

The company exported 867,160 tonnes of petrochemical products and 116,300 tires to 44 countries in the CIS and further abroad last year, the statement said.

Most export revenue came from China - $93.7 million; Finland - $53.8 million; and the Baltic states - total of about $45 million, the press release said.

SIBUR exports several dozen types of petrochemical products, including synthetic rubber, polymers, monomers, tires, liquefied gas and methyl tributyl ether.

The press release noted that last year there was a significant drop in exports of raw materials and of products in early stages of processing and an increase in exports of finished goods.

Exports of rubber increased 150%, with tire exports up 700% - in monetary terms these exports amounted to $106.7 million and $8.7 million respectively in 2001.

The main buyers of the company's rubber were China, Slovakia and South Korea and for tires - Iraq, Ukraine and Armenia.

The share of large groups of goods in overall exports remained the same: polymers - 26.2% of total exports; liquid chemicals - 17.8%; and liquefied gas and methyl tributyl ether - 13.3%.

Pretax profit at SIBUR amounted to 540 million rubles in the first quarter this year, company President Vyacheslav Skvortsov said at a press conference in Moscow.

He did not state the amount of profit earned in the same period last year, but said that this year's is less.

He said that profit could have been higher, but "January and February were very bad months, for reasons beyond the control of current management, and most profit was earned in March."

Skvortsov noted that the average profit margin at the company in the reporting period was 32%, and per month this was as follows: January - 0%, February - 12% and March - 84%.

He added that companies within the SIBUR production cycle would work with profit margins of not less than in the first quarter, for the rest of the year.

In response to questions from journalists, the SIBUR president said that of companies within the production cycle, SIBUR controls 74.6% of shares in Azot (Kemerovo), 57.4% of shares in Angaragaz, 56% of shares in Butyl Alcohol Plant and over 51% in Kurganmashzavod. SIBUR does not currently have controlling shares in other companies in the production cycle.

PETROLEUM REFINING

LUKOIL seeks to buy Polish refinery.

18 October 2002 11:48 GMT

Reuters News

MOSCOW, Oct 18 (Reuters) - Top Russian oil producer LUKOIL said on Friday it would independently seek to buy up Poland's Rafineria Gdanska, the country's second largest fuels group, after its joint bid with Britain's Rotch Energy failed.

But Polish authorities were quick to say they considered LUKOIL's efforts futile.

"We have sent a letter (to Poland's energy privatisation agency Nafta Polska) stating that we confirm our interest in buying the refinery," Dmitry Dolgov, a LUKOIL spokesman, told Reuters.

He added that LUKOIL was ready to buy Rafineria Gdanska on the same conditions it had proposed jointly with Rotch.

LUKOIL and Rotch had offered $273 million for a 75 percent stake in the 85,000 barrels per day Baltic-coast refinery and $330-million-plus in investments.

Rotch Energy - which along with Hungary's oil and gas group MOL was shortlisted by Nafta to buy Gdanska's stake - earlier this month dumped its Russian partner paving the way for a joint bid with top Polish fuels group PKN Orlen. Nafta Polska officials have said before that any independent bids from the Russian firm would not be considered, unless the government decides to scrap the current tender and open Gdanska privatisation proceedings for the third time.

"The only way LUKOIL could be involved in the current tender is to bid in a consortium with one of two bidders we have shortlisted for the stake, which is Rotch or MOL," Nafta Polska's spokesman Krzysztof Mering told Reuters.

"As long as the tender is where it is, any declarations from LUKOIL are just exchange of mail and not any form of an official offer that we could consider," he added.

Meantime, Nafta Polska said it was still awaiting an official bid from a consortium of Rotch Energy and PKN Orlen, which has said it would submit an official offer after the one placed by Rotch and Lukoil expired on Thursday.

MOL communications director Gyorgy Felkai told Reuters on Friday it was still interested in acquiring Gdanska, but gave no details. (Additional reporting by Marta Karpinska in Warsaw).

Economic Co-operation with Saudi Arabia Announced

Dario Thuburn
16 October 2002
WMRC Daily Analysis

Russia's attempts to upstage the US, by welcoming those countries discarded by it, are becoming increasingly apparent. Yesterday Russia's Energy Minister Igor Yusufov addressed a Russian-Saudi inter-governmental commission on the benefits of deepening economic cooperation between the two countries. Yusufov said Russia would be particularly interested by Saudi investment in the development of oil refineries in remote parts of eastern Siberia, or in the modernisation of oil and gas installations. The Saudi delegation to the meeting included the country's Finance Minister Ibrahim al-Assaf, as well as businessmen, property and investment specialists. However, beyond the rhetoric there is little economic co-operation to speak of. Last year trade between the two accounted for just US$66.7m.

RUSSIAN EXPORTERS MASTER A NEW TACTIC ON WESTERN MARKETS - THEY BUY BUYERS OF THEIR PRODUCTS.

14 October 2002
Russian Business Monitor

Oil companies were the first. The largest Russian companies started buying refineries in Europe to provide for stable sales markets for oil, production of which was rapidly growing. LUKoil purchased refineries in Bulgaria, Romania and Ukraine, YUKOS in Lithuania, TNK in Ukraine. Russian oil companies keep cherishing plans to acquire refineries in the Czech Republic, Germany, former Yugoslavia and Greece. These refineries are often unattractive on their own. For example, the refinery bought by YUKOS in Lithuania has been unprofitable for many years and is burdened with large debts. Now metallurgical companies are mastering experience of the oil companies.

The Novolipetsk metal works (NLMK), one of the largest Russian steel manufacturers, acquired control over the bankrupt Danish Steel through its Swiss trader. The Danish business on its own probably is not interesting for the Russian company because it generates losses because of the high environmental payments, energy prices and wages. However, this business enables the NLMK to sell its steel in Europe. Steel slabs will be supplied from Novolipetsk to Denmark, and Danish Steel will transform them into products with the label Made in Europe. Presence of such label will enable the NLMK to avoid stringent quotas for Russian steel imports introduced by European Union. LUKoil supplied its oil to Ukraine allegedly for processing into petroleum products to avoid stringent quotas for oil export from Russia, and then re-exported this oil to non-CIS countries in a similar way. LUKoil even managed to obtain a document from scientists confirming that the oil was processed, although the same oil with a better quality was a product of processing.

Absurd schemes look quite logical and even very attractive in conditions of absurd regulation of markets by state officials. Introduction of quotas for steel imports from Russia did not save European Union from reduction of personnel of the Danish plant and from Russian steel supplies, but forced the Russian company to pay unnecessary expenditures, for which clients from European Union would have to compensate the NLMK, because Danish steel will cost them more than the steel from Novolipetsk.

Reference: Vedomosti, October 08, 2002.

Russia's Lukoil Names Karplus Head Of Strategic Planning

11 October 2002 08:45 GMT

Dow Jones International News

MOSCOW -(Dow Jones)- OAO Lukoil (R.LKO), Russia's largest oil producer, said Friday it has appointed Richard Karplus head of strategic planning.

Karplus joins from ConocoPhillips (COP), where he was responsible for formulating new business development in Russia.

The appointment is intended, among other things, to help present Lukoil to international markets as a company in which to invest, the company said in a statement.

"We believe that Richard Karplus will strengthen our strategic planning team and bring new understanding of Lukoil's perspectives to the invesment community," Lukoil President Vagit Alekperov said in a statement.

Lukoil has struggled to improve its image abroad this year, despite appointing two internationally respected external directors to its board.

The company fulfilled its plans to list American Depositary Receipts on the London Stock Exchange, but the move was soured by the abortive sale of the government's remaining 5.9% stake in it at the same time.

That was followed in September by the kidnapping of its chief financial officer Sergei Kukura in circumstances that are still unclear and are being investigated by police.

Company Web site: http://www.lukoil.com

-By Geoffrey T. Smith, Dow Jones Newswires; (+7 095) 974 8055; geoffrey.smith@dowjones.com

Nouvelle découverte pétrolière en Mer Caspienne.

Par lbollack.
10 October 2002
Les Echos.fr

542051180 FR0000120271 12027 TOTAL FINA ELF action paris30 Paris jour 3

Finalement, la Mer Caspienne tient ses promesses pétrolières. Du brut vient d'être découvert dans le secteur kazakh, par un consortium associant l'italien Eni (opérateur), le français TotalFinaElf, l'américain ExxonMobil, l'anglo-néerlandais Royal Dutch/Shell, le britannique BG (16,67% chacun), un autre américain, ConocoPhillips, et le japonais Inpex (8,33% chacun). Le premier puits foré sur le champ de Kalamkas, à une profondeur totale de 2.360 mètres, a produit un débit de 2.300 barils par jour de pétrole. Ce champ se situe à environ 80 kilomètres au sud-ouest du très important gisement de Kashagan.

The Conoco oil company (US) might consider participating in the project to construct an oil terminal ...
10 October 2002
SKRIN

The Conoco oil company (US) might consider participating in the project to construct an oil terminal in Murmansk, JSC LUKoil president Vagit Alekperov told journalists.

The Conoco oil company (US) might consider participating in the project to construct an oil terminal in Murmansk, JSC LUKoil president Vagit Alekperov told journalists. According to Alekperov, only Russian companies have displayed their interest in the project so far, the Sibneft oil company, the Yukos oil company and the JSC Tyumen Oil Company among them. The construction of the terminal was initiated by JSC LUKoil in May, 2002.Alekperov pointed out that, as Conoco was a participant in the project to explore oil deposits in the north of Russia, it could be interested in using the Murmansk terminal as a starting point for transporting its oil. However, the feasibility study for building an oil terminal has not been prepared yet. After it is developed, one will be able to specify the participants in the project more precisely, Alekperov pointed out. As for settling exports of Russian oil to the US, the oil tycoon said that the capacities of the Caspian Pipeline Consortium could be used for oil exports. IA Rosbalt informed about it.

PRIMARY OIL REFINEMENT UP 1.7% IN JANUARY-AUGUST.

09 October 2002 16:46 GMT

Interfax: Petroleum Report

Primary oil refinement in Russia totaled 121.558 million tonnes in the first eight months of the year, up 1.7% from the same period last year, the State Statistics Committee said. Lukoil enterprises refined about 22.105 million tonnes in the period, up 14.12%. Yukos (not including East Oil Company) refined 20.579 million tonnes, up 7.67% year-on-year, and Bashneftekhim refined 12.370 million tonnes, down 11.2%. Tyumen Oil Company refined 10.196 million tonnes of oil, down 3.95%, Surgutneftegaz refined 9.915 million tonnes, down 7.43%, and Sibneft refined 8.930 million tonnes, up 1.19% year-on-year. Moscow Oil Refinery, one of the 10 largest refineries, processed 6.117 million tonnes of oil, down 6.57% from the same period last year. PRIMARY OIL REFINING IN RUSSIA IN JAN-AUGUST 2002 (`000 tonnes)

Company	August,2002	January-August,2002	% of January-August, 2001
RUSSIA, total	16017.20	121558.10	101.70
LUKOIL	2962.40	22105.00	114.12
Norsi	981.00	6740.00	153.90
LUKOIL-Permnefteorgsintez	949.30	7254.70	103.22
LUKOIL-Volgogradneftepererabot ka	695.40	5567.70	101.40
Uhta Refinery	317.60	2410.90	128.93
Kogalymneftegaz	15.30	103.50	95.13
Uraineftegaz	3.80	28.20	112.35
YUKOS	2761.00	20579.00	107.67
Angarsk Oil Chemical Co.	671.00	5616.00	116.28
Novokuibyshev Refinery	591.20	4837.90	106.05
Kuibyshev Refinery	598.20	3850.70	118.29
Achinsk Refinery	450.50	3327.60	104.60
Syzran Refinery	450.10	2946.80	89.69
Bashneftechim	1725.70	12369.60	88.80
Ufa Refinery	690.00	4655.80	87.36
Ufaneftechim	568.00	4227.40	97.00
Novoil	467.70	3486.40	82.19
Tyumen Oil Co.	1368.80	10195.90	96.05
Ryazan Refinery Co	934.80	1789.50	0.00
Orsknefteorgsintez	313.30	2605.40	96.67
Nizhnevartovsk NPO	107.40	863.00	107.49
Krasnoleninsk Refinery	13.30	92.50	109.86

Ryazan Refinery	0.00	4845.50	68.89
Surgutneftegaz	1286.00	9858.80	92.43
Kirishinefteorgsintez	1286.00	9858.80	92.43
Surgutneftegaz	0.00	56.30	127.38
Sibneft	1249.20	8929.70	101.19
Sibneft-Omsk Refinery	1249.20	8929.70	101.19
Slavneft	1066.80	7887.40	101.92
1045.50	7742.40	102.91	

Yaroslavlnefteorgsintez

Yaroslavl Refinery	18.40	108.10	67.23
Ulyanjvsknefteotdacha	2.20	24.40	80.26
Varyeganneft	0.50	6.30	52.94
Megionneftegaz	0.20	6.20	49.60
Central Fuel Co	593.60	6116.70	93.43
Moscow Refinery	593.60	6116.70	93.43
Rosneft	600.40	5586.30	112.93
Komsomolsk Refinery	258.50	2877.20	109.47
Tuapse Refinery	341.90	2676.40	116.90
Purneftegaz	0.00	32.70	112.37
SIDANCO	460.00	3015.30	121.46
Kreking	460.00	3015.20	121.45
Saratovneftegaz	0.00	0.10	0.00
Gazprom	557.90	4362.90	125.32
Astrakhangezprom	229.00	1846.60	126.03
Surgutgazdobicha	286.50	2223.50	130.52
Urengoigazprom	39.90	275.60	93.52
Kanevskoye Gas	2.50	17.20	96.09

Authority

Salavatnefteorgsintez	429.30	4150.50	101.23
Khabarovsk Refinery	229.70	1848.60	103.15
Krasnodareconeft	87.00	684.10	69.54
Mariyskiy Refinery	32.90	242.60	98.22
Eastern Oil Co.	20.90	194.40	97.25
Strezhevoi Refinery	20.90	194.40	97.25
Tatneft	524.90	2947.70	76.90
Tatneft	12.00	172.00	86.35
Nizhnekamsk Refinery	512.90	2775.70	0.00
Trading House of	0.30	8.00	0.00

Kalmykiya

Tatnefteprom-	3.80	38.00	143.94

Zyuzeevneft

Neftepromservice	4.10	29.60	112.12
Taas-Yuryach-Neft	2.70	21.20	316.42
Profit-4	3.00	56.30	157.70
Yakutgazprom	2.70	45.60	102.47
Krasnodarnefteprom	2.20	14.30	90.51
Tatnefteprom	2.30	15.50	58.27
Chimokam	10.50	10.50	0.00
Kabalneftetopprom	0.60	3.60	52.17
Petrosakh	0.30	21.80	49.10
Caspiy-1	0.00	6.50	0.00
Norilskgazprom	0.00	3.60	66.67

Source: State Statistics Committe.

Fuel Sector Scenarios Take Shape
Gavin Knight
08 October 2002
WMRC Daily Analysis

WMRC Perspective
Significance PKN Orlen's supervisory board has given it the go-ahead to buy shares in the Gdansk Refinery, Rafineria Gdanska (RG).
Implications Restructuring is under way to push this move through. The consolidated company will expand abroad, maybe merging with Czech and Hungarian neighbours.
Outlook This Central European stronghold would be a hub for Russian oil and a buffet against the expansion of Western European majors.

The consolidation scenario has long been talked about, and, given the general reluctance in Poland with regard to privatisation of any kind, it seemed very unlikely that the country would allow a Russian oil major, such as LUKoil, grab its key strategic refinery in Gdansk, even if the Russians were going to use UK's Rotch Energy as a Trojan horse to acquire it (see Poland: 28 August 2002: Greens Try to Block LUKoil Refinery Bid). If Poland has to sell off key national assets to the Russians then the country will want to get 'top rouble', and this desire is what is pushing the current consolidation scenario forward.

Consolidation Adds Value

Russian	Oil Exports - Jan-August 2002 (million tons)
Germany	13.98
Italy	11.45
Netherlands	11.17
Poland	9.9

Poland is Russia's fourth-largest oil export market after Germany, Italy and Netherlands. PKN Orlen and RG import most of the oil. Revenues from Russian exports in 2002 fell 3.4% to US$17.15bn in the first eight months of 2002. The Polish government now realises that a consolidated company would have a much higher value and could be sold - to a company such as LUKoil - for a much higher price. That money could help to plug the government's yawning budget deficit. Consolidation is also important so that Poland can close the European Union (EU) accession negotiating chapter. New legislation needs to be swiftly prepared in order to allow one concern to dominate the domestic market and free PKN Orlen up for foreign expansion (see Poland: 30 September 2002: PKN Orlen New Favourite for Unipetrol Privatisation).

Steps Underway to Facilitate Consolidation

PKN Orlen's supervisory board gave the company the go-ahead to buy shares in RG on 20 September. PKN Orlen's president, Zbigniew Wrobel, said that the company was able to pay the US$274m for a 75% stake in RG, matching LUKoil's original bid. In other regions, the signs that this scenario will be followed through are emerging. If PKN Orlen and RG merge, then they will have to lose majority control of Naftoport, the fuel terminal. Fuel sector planners may only allow PKN to buy into RG if it conditionally sells off its shares in Naftoport to PERN, Poland's oil pipeline operator. The Treasury could also buy the shares, allowing for a capital increase and diluting PKN Orlen's control. PKN currently has a 45% stake in Naftoport, RG owns 25% and PERN 18%. Naftoport's processing capacity is 33 million tons of oil per year, and it was built as an alternative to Russian crude sources.

Outlook and Implications

At last the Treasury seems to have put together a strategy that makes sense. Consolidation will add value to the companies and bring in more money for the government. Privatisation at the moment is not a good idea, with the capital markets and refining margins hitting rock bottom. Also, this move will allay fears of Russian domination and the deep-seated reluctance of Poles to sell key strategic assets. WMRC predicts that the Polish government will move swiftly on this new front, and the move will not drag on interminably, as the previous failed attempts to privatise PKN Orlen and RG have done.

Elsewhere in the fuel sector, Czechowice, one of the 'southern refineries', will create a special purpose vehicle (SPV) with a foreign partner for a US$200m investment into petrochemicals. PKN Orlen is co-operating in modernising this refinery in order to give it advanced technology. The investment will be spread over 2003-2005, with the SPV starting in Q1 2003. Nafta Polska, the state-owned fuel sector holding and privatisation vehicle, which holds 75% of the refinery, has approved the strategy. The other southern refineries are Jaslo and Gorlice. In the original schedule the first refinery was to be sold off in 2001, but nothing happens very fast in Poland, especially when privatisation is involved. This may now change as, like the French and the Germans before them, the Poles are rubbing their hands at the prospect of having their own national energy champion.

WMRC Contact Gavin Knight (gavin.knight@wmrc.com)

LUKOIL TO INCREASE PETROCHEMICAL PRODUCTION 6.5% IN 2002.

08 October 2002 14:35 GMT

WPS: Weekly Business Report

It is expected that production at Lukoil petrochemical companies in Russia will increase 6.5% this year, according to a report from Nikolai Shashkin, head of the company's petrochemical development department, at the conference Business Strategy of Russian Chemical and Petrochemical Companies.

Production at Lukoil petrochemical companies in Rusia in 2001 amounted to 820,000 tonnes or 7.4 billion rubles.

According to the report, Lukoil's plans to develop its petrochemical industry in Russia are linked with the development of acrylate production, and in the long-term - with the setting up a large gas chemical complex to process hydrocarbons from the northern Caspian region.

The development of acrylate production is tied to company projects in Saratov and Dzerzhinsk. Work is being carried out jointly with the German company Degussa to prepare documentation for the modernization of existing metylmetacrylate production in Saratov, so as to produce clear polymers. Investment in the construction of a production unit for granulated polymetylmetacrylate with a capacity of 20,000 tonnes per annum will amount to EUR 36 million. It is planned to export half of the product produced to Asia and to sell the second half on the domestic market, according to the report. In addition, in Dzerzhinsk Lukoil will restart construction of a large acrylate complex.

The report also states that Lukoil is orienting itself towards a fuller use of natural and associated gas resources in the Pechora region, Siberia and the Russian sector of the Caspian. According to the company's strategy, most of the gas will be used in the Russian fuel and energy sector. However, according to calculations, it is also profitable to use natural and associated gas in the chemical industry. With this in mind, it is planned to build a large complex to produce polyolefins and ecologically clean fuel based on new technology.

In addition the development of new hydrocarbon resources will allow the company to optimize the replacement of oil with gas in the traditional production of olefins.

According to the report, the foreign sector currently accounts for 50% of all petrochemical products produced by Lukoil.

In 2001 foreign investment in the petrochemical and chemical industries in Russia amounted to about $90 million and is expected to drop this year (foreign investment in the first quarter amounted to $7 million).

EXXONMOBIL EYES RUSSIAN CRUDE FOR GLOBAL REFINERY SYSTEM

07 October 2002
Octane Week

ExxonMobil sees Russia playing an important role as an oil supplier in the immediate future, and the U.S. super-major is interested in an improved delivery system that could supply its refineries worldwide, a company executive said in a speech at Wednesday's U.S.- Russia Commercial Energy Summit in Houston.

"With interests in 46 refineries around the world, we are the largest private refiner of crude oil," Rex Tillerson, ExxonMobil's senior vice president told conference attendees. "That makes us very interested in understanding ways to improve the delivery infrastructure for Russian crude supplies and to have those supplies available for optimum placement in the market.

-Jeremy Glunt

PubVol: Vol. 17, Issue: 39

Russian Companies Aim To Be Big Oil Suppliers To US

04 October 2002 12:00 GMT

Dow Jones Energy Service

(This story was originally published Thursday.)

By Michael Rieke
Of DOW JONES NEWSWIRES

HOUSTON -(Dow Jones)- Recent shipments of Russian crude oil have had little impact on the U.S. market, but Russia could become a big supplier to the U.S., a well-known energy consultant said.

Russia could become one of the top 10 U.S. oil suppliers in the next five years, exporting at least 500,000 barrels a day to the U.S., Daniel Yergin, chairman of Cambridge Energy Research Associates, told Dow Jones Newswires.

Yergin was in Houston this week for the U.S.-Russia Energy Summit.

Yukos Oil Co. (R.YUK), Russia's second-largest oil producer, sent the first shipment of Russian crude oil directly to the U.S. in early July. By the end of this month, it will have shipped 8 million barrels of Urals blend, valued at $175 million, to U.S. Gulf Coast.

ExxonMobil Corp. (XOM) bought most of that oil with a small amount going to TotalFinaElf SA (TOT).

"We're roughly shipping 1 million barrels a month," said Mikhail Khodorkovskiy, chief executive of Yukos, speaking to the media through an interpreter at the energy summit.

The oil Yukos is shipping comes out of the Black Sea in two tankers, is transferred to a supertanker in the Mediterranean then shipped to the U.S.

The company wants to get financial data from an entire year of shipments before it makes further plans to participate in the U.S. market, he said. One factor Khodorkovskiy is looking at is the difference between prices in the summer and the winter.

Yukos will likely face competition from another Russian oil company in the U.S. market next year.

Marathon Oil (MRO) and Rosneft Oil (R.RNF) have signed a letter of intent to create a new venture, Urals North America Marketing, to transport and market Russian crude in North America.

If they can reach a definitive agreement and get the needed approvals from the U.S. and Russian governments, their long-term venture would begin in the third quarter of next year.

The companies plan to ship oil to the Louisiana Offshore Oil Platform, a deepwater facility in the Gulf of Mexico.

Urals crude oil now goes mostly to European markets, where demand is static and competition is increasing from supplies out of Africa, said Dennis Francis, director of Eurasia business development for Marathon.

The companies will have to lower costs enough to make shipments to the U.S. profitable. Currently, the U.S. market price minus the shipping cost gives a lower netback price than Russian crude shipments to Europe.

With that kind of mathematical problem to overcome, why are Russian oil companies interested in the U.S. market?

Russian companies want security of demand because there is a crude oil surplus in Russia, said Joseph Stanislaw, president and chief executive of CERA. By diversifying their markets, they can lower their taxes and get better deals.

Russian crude is compatible with refineries in many countries so it can earn a premium in those markets, he added.

The economics of exports to the U.S. can be improved, however.

"It all depends on export facilities, especially in the North," said Yergin. "Russian needs to rethink how oil flows in the country. The strategic route to the U.S. market is through the North."

The Russians already are planning to open that northern route with the development of a new deepwater shipping facility in Murmansk, on the Barents Sea in northwest Russia, said Igor Yusufov, the Russian energy minister. Although Murmansk is above the Arctic Circle, it's ice-free all year.

Studies have shown that the Murmansk facility would be very profitable, especially for shipping crude oil to U.S refineries, Yusufov said.

As reported, Yukos is negotiating to build the Murmansk facility that could load directly into supertankers. Khodorkovskiy said the facility would probably be operating by 2007, possibly starting with shipments of 400,000 barbells a day.

The U.S. market could eventually handle 2 million b/d of Russian crude out of its import requirement of 9 million b/d, he said.

Yukos hasn't spoken to prospective U.S. investors about the Murmansk crude oil shipping project but there's big interest among producers, Khodorkovskiy said. When the time comes to finance the project, he's "absolutely confident" there will be more than enough capital to proceed.

The Murmansk shipping facility would require a new pipeline system to move crude oil to Murmansk from production fields in Siberia. It would take two to three years to complete the pipeline project, which would cost about $2.5 billion.

-By Michael Rieke, Dow Jones Newswires, 713-547-9207; michael.rieke@wsj.com

Western Oil Companies Press Russia for Guarantees on Development Projects.

By Michael Davis, Houston Chronicle.
02 October 2002
KRTBN Knight-Ridder Tribune Business News: Houston Chronicle

Oct. 2-Russia must offer long-term deals locking in terms and taxes owed by foreign oil companies or risk losing the billions of dollars it needs to develop its oil and gas reserves, the chairman of ConocoPhillips warned Tuesday.

Western companies have long demanded production-sharing agreements, commonly known as PSAs, before they invest in major projects, but Russia has been reluctant to grant such deals.

Certainty about taxes and tariffs over the life of a project will enable Western companies to project how much they will be able to earn if the field produces as expected. Under current conditions in Russia, foreign investors are subject to often-changing legal conditions and taxes.

ConocoPhillips chairman Archie Dunham said companies have learned from experience the need for commitments. Before its merger with Phillips, Conoco had done business in Russia since the late 1980s. The company's Polar Lights joint venture with two Russian companies has produced more than 90 million barrels of oil since its inception in 1991.

But despite its production, Polar Lights has been only marginally profitable due to tariffs that seemed to change almost daily and tax laws that seemed to change by the month, Dunham said.

"ConocoPhillips is eager to do more in Russia as soon as the administrative and commercial basis for our cooperation can be strengthened," Dunham said. "In particular we need to see the adoption of a consistent and comprehensive production-sharing agreement framework."

A proposed law that would streamline the process for issuing PSAs is pending before the Duma, Russia's legislative body. German Gref, Russia's minister of economic development and trade estimated Tuesday that the energy law that contains the production-sharing guidelines could pass late this year or early next year, depending on the debate over the budget.

Dunham's remarks came during the opening session of the U.S.-Russia Commercial Energy Summit being held at the James A. Baker III Institute for Public Policy.

Other oil industry leaders voiced a message similar to Dunham's.

Peter Robinson, vice chairman of ChevronTexaco, said there is a role for international oil companies in mature fields, but ChevronTexaco's focus will be on frontier areas.

In mature fields, the economics can support an investment under the current tax and license structure, Robinson said, because the company would see revenues almost immediately. But in frontier areas with the most potential, such as Sakhalin Island and the Arctic Shelf, a company must make huge investments before seeing meaningful revenues.

"PSAs have the ability to attract large amounts of capital that not only can open up the frontier but will build infrastructure that will facilitate the further development of Russia's continental shelf," Robinson said.

Under current laws, each PSA is negotiated by a commission created for the task. Dunham suggested that four or five permanent commissions be established each representing a region of the country.

Dunham cited a project named Northern Territories as a good example of a major development that has been on hold while the company has attempted to negotiate a PSA. The fields in the project are believed to hold more than 1 billion barrels of oil and 2 trillion cubic feet of gas.

Production of those reserves could add $25 billion to Russia's economy over the life of the project, expected to require a $1 billion investment in the first five years, Dunham said.

"We have been `working on' this project since March of 1998, when Conoco signed a memorandum of understanding with Lukoil," Dunham said.

U.S. Secretary of Commerce Don Evans briefly referred to the PSA legislation in his opening remarks, saying, "This important legislation needs to be passed soon so there can be certainty in Russia's oil and gas investment climate."

It is projected, Evans said, that the Russian oil sector will need $10 billion a year or more to increase its production, and about $8 billion a year to maintain it.

Also on Tuesday, Koch Industries said it will deliver the first shipment of Russian crude oil to the U.S. Strategic Petroleum Reserve this month. Koch Supply & Trading will deliver 285,000 barrels to the reserve next week. The shipment is part of a contract with Koch to supply 8 million barrels of crude oil to the reserves from October through April.

Russia's Jukos Wants European Refineries.

02 October 2002
Polish News Bulletin

Russian consortium Jukos Oil is interested in the purchase of the assets of PKN Orlen and German refineries. The consortium needs new markets for its oil. Jukos is interested in plants that process Russian oil, transmitted by the "Przyjazn" (friendship) pipeline. Jukos hopes for long-term contracts for oil supply. For the time being, however, Jukos has no chance to buy PKN Orlen shares, as these are only available to firms have been invited to the tender - Hungary's MOL and Austria's OMV. The main Jukos' competitor in this part of Europe is Lukoil, which has already taken over Bulgarian and Romanian refineries and wants to purchase the assets of the Gdansk Refinery. ikja 2 October issue of Rzeczpospolita, p. B3.

MARATHON IS PREPARED TO INVEST UP TO $1 BILLION IN RUSSIAN OIL AND GAS PROJECTS.

25 September 2002
Russian Oil and Gas Report

On September 20, Senior Deputy Chair of the Federation Council, Valery Goreglyad, met with representatives of Marathon Oil and MV Capital group. David Loran, Senior Vice President and General Director for development of business in Russia, represented Marathon.

Loran informed the officials of the Federation Council about condition of investment projects in Russia and about intentions of the company to buy Russian oil assets. Loran emphasized positive experience of participation of Marathon in the oil and gas projects on the Sakhalin seabed. Loran also stated that in 2003 Marathon would be ready to invest up to $1 billion in Russian oil and gas projects.

Officials of the Federation Council spoke about condition and further development of the Russian legislative basis regarding attraction of foreign investments, especially in the oil and gas sector, as well as about the mechanisms and guarantees included into the legislation.

Reference: TIA Ostrova, September 23, 2002; Finmarket agency.

PROFITABILITY OF EUROPEAN REFINERIES FALLS TO LOWEST LEVEL OF LAST 15 YEARS.

20 September 2002
WPS: Russian Oil and Gas Report

Moody's published a study of financial condition of the oil refining sector in Europe, in which it negatively estimated its condition and prospects. In the first half of 2002, profitability of European refineries fell to the lowest level of the last 15 years, and the margin of the refineries fell almost to zero. The main reasons for lamentable condition of the industry include low speed of economic development, high crude oil prices due to the so-called war bonus and an unusually warm winter. The "Russian factor" or growth of oil and petroleum products export from Russia aggravated the situation too.

The report of Moody's portrays a sad picture of condition of the European oil refining industry, saying that its profitability is moving towards zero and medium-term and long-term prospects are bad. If Europe does not regain the speed of economic growth and oil prices remain on a high level, European refineries will not become profitable.

Reference: finiz.ru, September 18, 2002; rusenergy.com, September 18, 2002

Russia: French oil company TotalFinaElf is close to sealing a deal of the Vankor oil and gas field.(Brief Article)
30 April 2002
Inzhenernaia Gazeta

Russian Federation: French oil company TotalFinaElf (France) is close to sealing a deal of the Vankor oil and gas field development. Already Europe's largest refiner and buyer of Russian oil, it is chasing a 52% stake in the Vankor field in Siberia from the British independent Anglo Siberian Oil (UK). Found in 1988, Anglo Siberian's Vankor project is estimated to hold 900 mil barrels of recoverable oil. Royal Dutch Shell (UK, Netherlands) had a joint venture on the field in the late 1990s but pulled out $30 mil worse off as it focused its attention on a new offshore project off Sakhalin. However the inhospitable environment and lack of existing infrastructure make this a field not for the light hearted. According to Deutsche Bank (Germany), meaningful production is not expected for 7 to 10 years. Onshore development costs could reach $2.5 bil, with a further $300-500 mil for as many as five ice-breaking tankers.

Analyst United Financial Group (Moscow, Russia) felt it 'too early' to give predicted production figures of 250 K bpd within five years, given the reserve uncertainties and absence of infrastructure.

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ENERGY PRESS DIGEST - RUSSIA/CIS - POWER ENGINEERING, October 11, 2002 (part 2).

11 October 2002
NOVECON: Russian Energy Digest

MOSENERGO PRESS SERVICE, October 11

- MOSENERGO and French ELECTRICITI DE FRANCE (EDF) discuss the possibility of building three new units of the TETS 27 thermal power plant, said Arkady Evstafyev, general director of the Moscow energy company. The three units will make it possible to ensure stable energy supply in Moscow and the Moscow region. The main obstacle to project implementation is the investment return mechanism, on which the French company insists.

- MOSENERGO has no immediate plans to borrow funds by issuing ruble bonds and Eurobonds, said Arkady Evstafyev. Evstafyev recalled that the power utility has an open EBRD credit line worth $70 million to restructure the company and finance investment projects to boost the efficiency of generating capacities. The EBRD also intends to act as an organizer of a $35m syndicated loan for MOSENERGO.

ABN, October 10

- LENENERGO is considering cooperation with GENERAL ELECTRIC POWER SYSTEMS, according to the press service of the energy company. The companies discuss ways to introduce and operate computer-aided management systems for the transmission and distribution of electricity on the basis of GIS technologies.

KOMIINFORM, October 10

- An investment of $10 billion is required for the stable and effective performance of Komi's energy sector, said energy minister Vyacheslav Bibikov. In the first place, funds are required for the retooling of energy generating capacities in the republic and the construction of power transmission lines to enable the region get electricity from other regions. Funds will be used to build the Inta thermal power plant. Negotiations will soon be held with one of the possible project investors from the United States.

UKRAYINSKI NOVYNY, October 9

- The economic court of the Kherson region will examine a 0.6-million-hryvnias suit of Kiev's OBESPECHENIE on the bankruptcy of the Kherson thermal power plant. The installed thermal capacity of the thermal power plant is 560 GCal, electric capacity - 80 MW.

BELTA, October 9

- Belarus's fuel and energy system, primarily power industry, needs to be reformed, said Belarussian energy minister Vladimir Semashko. First steps have been made, he noted. This year tariffs on heat and electricity supplied to Belarussian enterprises were significantly lowered enabling enterprises to save over 330 billion Belarussian rubles. At the same time payment for energy also improved. Whereas in 2001, consumers paid only 85% of products sold by BELENERGO, this year this index increased to 96%. At the same time, the sector faces an acute problem of wear and tear of fixed assets.

Lukoil's Efforts in Oil Field Are Litmus Test for Russia --- Foreign Firms Are Wary, but Interest Increases

By Jeanne Whalen
11 June 2002
The Wall Street Journal Europe

VARANDEI, RUSSIA -- On the frigid shore of the Barents Sea, OAO Lukoil's shiny new terminal is well-positioned to ship crude to nervous U.S. and European refineries, which have been calling the Russian company with offers to buy.

There is just one problem: "We tell them there isn't any oil, yet," says Igor Narko, Lukoil's regional director.

Lukoil's ambitions to tap virgin oil fields on this sliver of Arctic ice will be a good test of Russia's promise to the West: that it can crank up exports and reliably offset any shortfalls from Persian Gulf producers for many years to come. With unrest in both the Middle East and oil-rich Venezuela, the U.S. and Europe have watched approvingly as Russia's oil industry has rebounded in recent years, repairing wells damaged by the collapse of the Soviet Union and developing two giant new fields in Siberia.

Output is rising 8% a year, but questions remain about how long Russia can keep up the pace. So far, growth has come at relatively low cost during a period of high oil prices. To keep production growing, Russia needs to do much more. As some of Siberia's biggest Soviet-era fields decline in coming years, oil producers will have to risk more money to forge into more costly, risky and hostile new oil provinces.

How much they will risk ultimately depends on a tricky question: How much oil does Russia actually have? Estimates of its reserves vary wildly, from one-fifth of Saudi Arabia's to about half. The state says its own estimate is a secret.

Foreign companies are showing wary but growing interest in Russia. So far they have remained on the sidelines, confined mostly to providing technology for a fee rather than directly investing in oil-development projects and reaping the rewards of expanded production. Conoco Inc., of the U.S., made a preliminary offer to invest $800 million (847.5 million euros) to help develop the Arctic, for instance, but bureaucratic squabbling has held up the proposal.

On Monday, BP PLC, of London, said it was considering exploiting remote Siberian reserves with OAO Yukos, Russia's second-biggest oil producer. But the deal is very tentative, and the project is a risky one. Tapping the oil would cost as much as $4 billion, while building an export pipeline to China, the most likely market for the oil, will cost $2 billion more.

Striding along a catwalk in the blinding northern light, Mr. Narko lists all of the barriers that await in the Arctic: There are no roads, pipelines or power cables to speed work on the remote permafrost. Extreme winds blow thousand-ton supply barges out to sea in the middle of the night. Local political tempers, too, knock plans off-course. Lukoil has invested $300 million so far, but billions more are needed before crude will come gushing to export. Today, one small tanker a month docks at Varandei to fill up with oil from a handful of new wells nearby.

Anxious for more Russian crude, Washington is considering issuing government-backed loans from the Overseas Private Investment Corp. to speed work in the Arctic, according to Lukoil. OPIC declines to comment.

Other Western governments are watching, too. As Mr. Narko shows off his terminal, a team of bureaucrats from the Swedish Energy Agency touches down in a Soviet military helicopter. Paul Dixelius, an energy consultant advising the Swedes, says Stockholm's main aim is to find new oil flows to replace declining production in Norway. The Middle East, he says, is also a worry. "You don't want to end up in the same situation as in 1973," he says. "We're interested in where this region will be in 10 years."

Timan-Pechora, Russia's second-richest oil province, went relatively untouched in Soviet times as central planners focused on the larger fields of West Siberia. Lukoil, Russia's biggest oil company, snapped up many of the oil-production licenses in the late 1990s, convinced that the region's proximity to export markets made it valuable.

"While the U.S. is conducting rather firm policies in the Persian Gulf region, it must be confident that it has some alternative sources of oil," says Leonid Fedoun, vice president of Lukoil in Moscow. "One of the alternatives is Timan-Pechora."

So far, Lukoil has built a fleet of ice-breaking tankers, started oil production on three small fields and begun exploring several others. In the dog-eared regional capital of Naryan-Mar, Lukoil's redbrick office towers over the sagging clapboard houses. But as the company attempts to push deeper into the tundra, it has hit some snags.

A former snowmobile mechanic now serving as regional governor has declared war on the Moscow-based oil company, accusing it of trying to minimize local tax payments and impose its will. Governor Vladimir Butov, Lukoil says, won't award it new oil-field licenses or sign off on its plans to build pipelines. Even a small cafe Lukoil built in Naryan-Mar has sparked a feud: "He told us to bulldoze it," says Sergei Gorodnichev, Lukoil's head of operations.

Repeated attempts to reach Mr. Butov on the phone and in person failed. His assistant said Monday that Mr. Butov was ill and unreachable.

Then there is money. Developing the whole of Timan-Pechora will take 10 years and $10 billion. Lukoil, which had an estimated profit of $3 billion last year, says it can put up half of the money, but is counting on partners to provide the rest. Conoco's money is vital to developing the three biggest fields and helping to build an export pipeline to the sea, but the U.S. company doesn't trust such a sizable investment to Russia's wobbly laws. It wants to develop the project under a production-sharing agreement, a government-issued contract that guarantees tax breaks and stable investment terms over the life of a multibillion-dollar investment project. Such agreements are common in countries in which oil companies make sizable investments in oilfields but don't actually own the fields themselves.

Lukoil is backing the request for the production-sharing agreement, but the government has repeatedly postponed signing off on it. Most of Russia's oil producers, flush with cash from two years of high oil prices, haven't wanted to open their market to foreign competition and have lobbied to quash the contracts. The state has awarded only three to date.

When the Soviet Union collapsed, state financing for the oil industry went with it and Russia's production gradually was halved from a high of 11.5 million barrels a day in 1987. Privatization of the industry in the mid-1990s did little to help -- most of the politically connected tycoons who bought the oil wells stashed their profits in the bank rather than investing them in production.

Now, with political stability under President Vladimir Putin, Russia's tycoons have started investing. From a low of $2 billion in 1999, capital expenditure is expected to reach $6.1 billion this year.

So far, that money is fueling strong growth. On the banks of the yawning Ob River in West Siberia, Yukos is exploiting a giant, water-flooded field that the Soviets discovered in the early 1980s but never had the technology to develop. Yukos originally planned to tackle it with Amoco Corp., now part of BP, but when that partnership fell apart, the Russians simply hired foreign consultants to help them do the job. Three hundred kilometers north, OAO Sibneft has opened the taps on a big field that it once planned to mine with France's Elf, now part of TotalFinaElf SA. Together, these two fields will pump close to 400,000 barrels a day this year, accounting for much of Russia's growth.

Located next to export pipelines and already fully explored by Soviet geologists, these reserves were relatively affordable and easy to develop. Investment to get them going ran into the hundreds of millions of dollars.

But Russia is running out of such easy pickings, and developing thinly explored reserves far from infrastructure will be much more costly. In a report on Russian energy published in March, the Paris-based International Energy Agency, warned that many of Russia's biggest Siberian fields were in decline, and that the country's long-term output would depend on sustained investment in further-flung reserves.

The government has declared top-secret all data on oil reserves. BP estimates proven reserves at 48.6 billion barrels, or 5% of the world's total, counting only oil owned by Russian companies and audited to western standards. Russia "cannot become a long-term replacement for Saudi Arabia or the members" of the Organization of Petroleum Exporting Countries in global oil markets, a former Mobil executive in Russia and an analyst with the Brookings Institute, a Washington-based think tank, wrote in a research paper published last month. "It simply does not have the oil reserves."

But the International Energy Agency and other western analysts estimate that total reserves are at least twice the BP figure, though they aren't certain that all of it is economically recoverable.

When it comes to risky projects, some Russian companies are starting to drop their hostility to foreigners. Mikhail Khodorkovsky, chief executive of Yukos, says he is interested in "sharing risks" as his company attempts to tap new reserves in East Siberia and help build an export pipeline to China. BP spokesman Peter Henshaw says the company scouted the region earlier this year and is considering teaming up with Yukos, but is still analyzing exploration data to determine whether the project is "technologically feasible and economically attractive."

Back in Varandei, Lukoil's early work illustrates how tough this next phase of Russian oil development will be. Sipping tea in a wooden shack as sharp winds howl down the Arctic coast, Mr. Narko recalls that when he first began construction of the oil terminal, there was nowhere to dock a supply boat. So his workers brought their barges in close to the shoreline, waited for the tide to go out, and quickly rolled up a pair of cranes to unload the cargo onto the naked shore. "We were given the assignment of proving that it's possible to work here, to produce oil here, and we've shown this," he says.

Conoco says it's eager to get started but still doesn't trust Russia's investment climate enough to tackle the job without a production-sharing agreement. The U.S. company hopes the Russian government will look more favorably toward these deals when options for increasing output in Russia's traditional areas of oil production run low.