

EAST EUROPE & C.I.S CHEMICALS BRIEFING

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Some of the main features in the November 2000 issue

- The Czech Cabinet agreed on October 4 to sell a majority stake in Unipetrol. No schedule has been given for the planned sale, but the state is expected to keep an 11% stake or a golden share in the company after the sale. The government holds 63% in Unipetrol. The Cabinet has decided that prior to privatisation the state would incorporate AliaChem, Spolana and the Paramo refinery into Unipetrol's structure.
- Agreements for co-operation between the east German Lander of Sachsen-Anhalt and the Polish Mazowiecki region have yielded the possibility of joint development programmes for BSL and PKN. In the first place a new twin project will be undertaken under the guidelines of the EU Special Preparatory Programme. As part of this structure an association between BSL and PLN could represent the first step in a cross-border chemical grouping. Conceivably, this could also include Chemopetrol at Litvinov in what might be termed a "Central European chemical triangle".

BorsodChem may have decided in late October not resist Gazprom and try to buy the shares back that Milford had bought in September. BorsodChem will strive to seek the best possible deal for shareholders and the best strategic alliance. BorsodChem shares have dropped since the TVK sale to MOL and MKB despite the fact that BorsodChem collected more than Ft 20 billion for the joint 14.9% stake. Despite the share price fall it could mean a financial profit for BorsodChem in the range of Ft 5 billion which will reflect well on third quarter financial results. A possible turning point in this volatile affair may have been LUKoil-Neftekhim's successful bid for a stake in Oriana.

- MOL announced in September that the Slovakian Anti-Monopoly Office (Protimonoplny Urad) had approved the MOL-Slovnaft partnership on September 22. The transaction was approved with the condition that MOL and Slovnaft shall not increase the total number of filling stations held jointly in Slovakia, currently 333, until the end of 2004. If a new filling station is opened, Slovnaft and MOL are bound to sell or close filling station(s) with the same capacity within half a year.
- There is talk that one of the major uncompleted "Soviet" chemical projects, the acrylic acid and acrylate complex at Dzerzhinsk, may be given yet another lifeline. The company set up to operate the complex, Akrlat, is now majority owned by one of its major creditors Sberbank. Sberbank is keen that the project is completed and is considering various proposals. However, it would need about \$40 million finance to fulfil construction requirements.
- A serious fire erupted at SIBUR-Neftekhim's EP-300 cracker at 03.45 hrs on October 12, the third fire to be encountered at the Kstovo cracker since September 9. There was fire in another part of the complex affecting benzene output in this period to add to those three. The fire on October 12 started at the pyrolysis unit (no 51) linked to the cracker before spreading to other parts of the complex. One worker is reported to have died from the effects of the fire whilst two others have required hospital treatment. Managerial changes have already been made in SIBUR-Neftekhim as a result of the accident. Production of petrochemicals was stopped for just over a week with a restart taking place on October 20.
- In the near future the Russian government will hold an auction on sale of a 38.5% stake in Sayanskkhimprom in the Irkutsk Oblast. A block of 5,279,901 common shares in the company is being put on sale. The share par value is 1 rouble. The starting price of the stake is \$2 million. The Russian Federal Property Fund originally sought November 24 as the auction date but has since rescheduled to December 7. The winner of the auction is to fulfil a \$13 million investment programme.
- On October 23 it was announced by the Ukrainian State Property Fund that LUKoil subsidiary LUKoil-Neftekhim had won the tender for new joint venture which will control Oriana. According to the privatisation plan, a 92.53% stake in Oriana was auctioned off by a united share block. LUKoil-Neftekhim is now expected to create a joint-stock company, under which it will own a 50% stake, and the other 50% will be owned by the government.

CENTRAL EUROPE

Petrochemicals

Unipetrol

The Czech Cabinet agreed on October 4 to sell a majority stake in Unipetrol. No schedule has been given for the planned sale, but the state is expected to keep an 11% stake or a golden share in the company after the sale. The government holds 63% in Unipetrol.

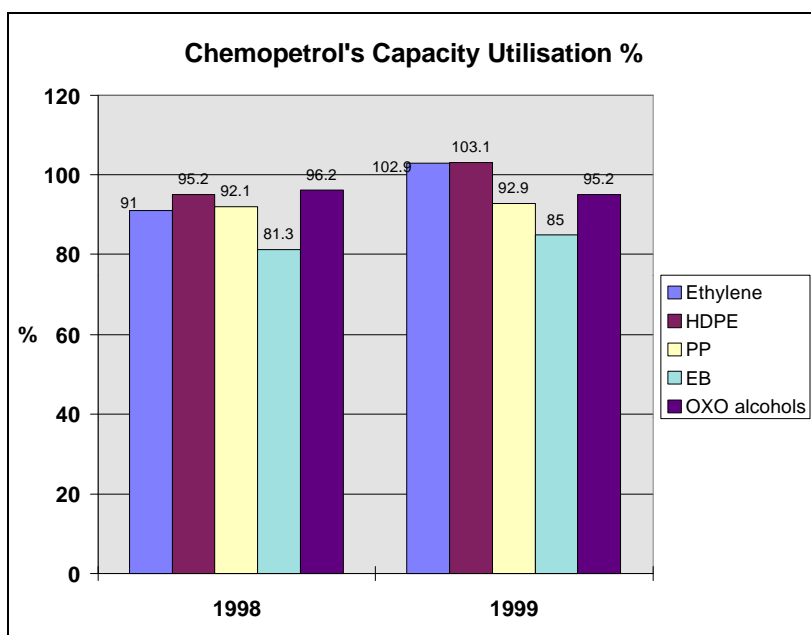
The Cabinet has decided that prior to privatisation the state would incorporate AliaChem, Spolana and the Paramo refinery into Unipetrol's structure. According to the government "by the end of the year the Finance Ministry, along with Industry Ministry, will submit criteria for a tender". It is expected that Unipetrol, through Agrofert joint venture Agrobohemie, will acquire a 49.25% stake in AliaChem by the early part of November. Unipetrol is also scheduled to take over Spolana from Konsolidacni Banka subsidiary Ceska Inkasni. Although from a regional perspective Unipetrol will remain a minor player, by contrast it will hold a monopoly position for large parts of the Czech chemical industry.

The government plans to retain enough of its 63% stake in Unipetrol to enable it to call general meetings, and will sell the rest to one investor. A date for the sale in Unipetrol, expected to bring anything between Kc 7-16 billion, has not yet been determined. One source suggested that "a bigger company does not necessarily mean bigger revenue as the buyer will likely want to turn around and sell off certain parts of the group".

Whilst this process is being implemented the City of Pardubice has decided to hold onto its 3.73% stake in the Paramo refinery rather than sell at around Kc 150 per share in the planned mandatory buyout. The local administration feels that a higher price could stem from the government's plan for Unipetrol to become Paramo's majority owner prior to the Unipetrol privatisation.

Although the government's efforts to bring in foreign strategic investors are broadly welcomed there is scepticism over the merits of state-organised consolidation compared to policies driven by market forces. In short, there are doubts whether Unipetrol can be sold as a single entity.

Unipetrol plans to streamline production from six divisions in four sectors consisting of petrochemicals, agrochemicals, oil processing and fuel distribution. The petrochemical holding is to abandon unprofitable production units, representing 10-20% of total activity. The key to Unipetrol's petrochemical sector is Chemopetrol which looks set to tighten its links with Spolana if the government's integration plan is carried out. Spolana buys ethylene from Chemopetrol for VCM and alpha olefin production. Combining Chemopetrol, Spolana and Kaucuk would mean that Unipetrol offers a diverse product range. Chemopetrol is currently divided into four divisions consisting of two divisions focused on production and two others focused on power, utilities, service, etc. The production divisions consist of ethylene, propylene, polyethylene, polypropylene, benzene, ethylbenzene, C4, C5, C9-fractions, OXO-alcohols, ammonia, urea, solid and liquid carbon dioxide.



The company's strategy is oriented strongly towards the expansion of olefin and polyolefin production facilities. In 1999 Chemopetrol's existing olefin and polyolefin production units significantly increased

production, with the volumes of ethylene and polypropylene the highest in the company's history. This was due primarily to the improved reliability of the control system at the petrochemical complex. In 1999 Chemopetrol produced 91,000 tons of urea, 73,000 tons of liquid carbon dioxide, 51,000 tons of OXO-alcohols, 23,000 tons of ethanol, and 114,000 tons of ethylbenzene. The ethylbenzene is sent to Kralupy for styrene.

Chemopetrol's Financial Statement 30/09/2000 ('000 Kc) (on Oct 23 \$1 = Kc 42.15, euro 1=Kc 34.92)		
<i>Category</i>	<i>30/09/00</i>	<i>30/09/99</i>
Total Assets	23,373,885	26,823,991
Fixed assets	18,902,810	18,183,784
Intangible fixed assets	1,450,101	1,289,861
Tangible fixed assets	15,852,551	15,188,876
Financial investments	1,600,158	1,705,047
Current assets	4,247,401	8,457,788
Inventory	1,436,527	1,529,237
Long-term receivables	28,718	34,239
Short-term receivables	2,465,048	2,977,570
Financial assets	317,108	3,916,742
Total Liabilities	23,373,885	26,823,991
Equity	11,240,844	10,801,216
Registered capital	10,846,764	10,846,764
Capital funds	260,030	260,030
Profit (loss) of prev years	-336,049	314,923
Profit (loss) of current period	415,559	-681,684
Not-own capital	11,841,684	15,697,323
Reserves	199,068	314,893
Long-term payables	6,368,099	4,478,291
Short-term payables	2,654,214	5,912,743
Bank loans	2,620,303	4,991,396
Long-term bank loans	807,855	2,131,519
Current bank loans	1,812,448	2,859,877
Other liabilities-	291,357	325,452
Revenues from merchandise	147,554	72,794
Cost of goods sold	140,748	66,845
Sale margin	6,806	5,949
Production	15,874,300	11,617,096
Rev'nue from own products	15,963,741	11,867,791
Production consumption	13,728,954	10,164,768
Added value	2,152,152	1,458,277
Personnel expenses	736,065	861,443
Profit (loss) of current period	415,559	-681,684

All four subsidiaries of Unipetrol posted profits in the first nine months, mainly due to a boom on world petrochemical markets. Chemopetrol posted a net profit of Kc 415 million, (a Kc 1.1 billion improvement). Kaucuk posted a Kc 328.3 million net profit after losing Kc 16.4 million last year. Fuel distributor Benzina netted Kc 96.7 million, while refinery group Ceska Rafinerska increased its net profit 73% to Kc 1.76 billion. Despite the good results for the January-September period Chemopetrol reported an August loss of Kc 243 million, attributed to unexpected developments in the dollar exchange rate and crude oil prices. Chemopetrol is still outperforming 1999 results but is unlikely to hit its 2000 profit target of Kc 935 million.

Saxony-Anhalt Polish co-operation

Agreements for co-operation between the east German Lander of Sachsen-Anhalt and the Polish Mazowieckiy region have yielded the possibility of joint development programmes for BSL and PKN. In September this year at the Hannover EXPO 2000 the Sachsen-Anhalt Minister of Economy and the Mayor of the Mazowieckiy region reached an accord on co-operation. The significance of this understanding is that both regions are heavily involved in the chemical industry. Links between the two sides could result in

construction projects which could benefit both BSL and PKN. Moreover, Sachsen-Anhalt could act as a bridge for the Mazowieckiy region into the EU.

In the first place a new twin project will be undertaken under the guidelines of the EU Special Preparatory Programme. As part of this structure an association between BSL and PLN could represent the first step in a cross-border chemical grouping. Conceivably, this could also include Chemopetrol at Litvinov in what might be termed a "Central European chemical triangle".

BSL's production facilities in the Halle region include ethylene with a capacity of 450,000 tpa plus 60,000 tpa, and units at Schkopau for polypropylene at 200,000 tpa of capacity and polyethylene at 210,000 tpa. Dow has also completed this year a 60,000 tpa SBR solution plant at Schkopau using Nippon Zeon technology. One of the main developments taking place at Schkopau is the creation of an industrial or value park where plastics' processors have already established facilities and more are expected to follow. The polyolefins produced by BSL and the PVC produced by EVC thus do not have far to travel to the converter. The economics of this concept are first rate as, apart from the obvious logistical advantages, the polymer producer is not forced to place so much emphasis on trying to sustain long haul market sales.

The main product issue for BSL is to improve the olefin feedstock balance. The plan to build an ethylene pipeline between Stade and eastern Germany goes some way to resolving this shortfall (which at the moment is met through product from Litvinov).

BorsodChem-Milford-SIBUR

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and the best strategic alliance. BorsodChem shares have dropped since the TVK sale to MOL and MKB despite the fact that BorsodChem collected more than Ft 20 billion for the joint 14.9% stake. Despite the share price fall it could mean a financial profit for BorsodChem in the range of Ft 5 billion which will reflect well on third quarter financial results.

A possible turning point in this volatile affair may have been LUKoil-Neftekhim's successful bid for a stake in Oriana. LUKoil is keen to work closely with BorsodChem and TVK from Oriana's Kalush complex. There is a broad understanding that LUKoil's Oriana strategy will grow together with the Hungarian petrochemicals industry. The entrance of LUKoil into the equation may have helped soften BorsodChem's stance towards Milford and it would appear that more co-operative talks have taken place.

The emergence of SIBUR as the probable buyer of Milford shares in the next six months also suggests less secrecy and more transparency about Gazprom's involvement. BorsodChem has said that it is ready to negotiate with SIBUR about finding possible synergies between the companies.

However, there is an emerging view that if BorsodChem is to have a Russian partner then LUKoil is a better option than SIBUR. Gazprom appears to have the upper hand although an alliance with LUKoil could be more advantageous to the Hungarian petrochemical sector. It is probably valid that a LUKoil-Oriana combination would have more to offer to TVK and BorsodChem than SIBUR. SIBUR officials in Budapest have said they see co-operation possibilities in ethylene and VCM supply to BorsodChem, and raw material supply for further developments. Apart from hydrocarbon feedstocks, however, it is difficult to see that SIBUR can offer the Hungarian petrochemical industry more than LUKoil. This is why the Oriana link has been the key factor in the Central European petrochemical supply/demand balance. BorsodChem has already acknowledged that although it is talking to SIBUR about possible synergies LUKoil seems to have more common links with BorsodChem. To quote the BorsodChem CEO "the firm (LUKoil), which has positions in Oriana, will grow together with the Hungarian petrochemicals industry, and will be the most efficient supporter of chemical growth in Hungary".

The European Bank for Reconstruction and Development (EBRD) has told Milford Holdings Ltd to respect the rights of minority shareholders in BorsodChem. The EBRD, which owns an 8.61% share of BorsodChem, said it was concerned about Milford's "failure to clarify its beneficial owners and its intentions" regarding BorsodChem. "The EBRD is particularly concerned that the rights of minority investors be fully protected". "The bank will vote its shares at the BorsodChem EGM (on November 24) in a way that best protects the interests of the company's shareholders as a whole."

BorsodChem said October 30 that the stake of global depository receipt (GDR) holders in the company dropped to 16.7% from the 33.62% recorded on September 22. GDR managers The Bank of New York and 25-21 Northern Blvd Corp, which previously held 8.65% and 24.96% of the company respectively, now owned only 16.7%. This 16.7% stake was held by The Bank of New York, while Northern Blvd no longer owns a stake in BorsodChem. Stakes held by the other two owners remained unchanged with the EBRD at 8.61% and Milford Holdings at 24.58%.

The November 24 EGM was called by BorsodChem to seek approval from shareholders for the recent sale of a stake in TVK and to a planned buyback of its own shares. BorsodChem said in the official bourse gazette it planned to buy back up to 1,218,876 of its ordinary shares at a price to be decided by the EGM. Under Hungarian law, the entire packet may not be bought, as a company may not hold more than 10% of its own shares in its own portfolio.

Initially BorsodChem said that further items on the agenda of the EGM could include the dismissal of board members and appointment of a new board of directors and supervisory board. For a large part of October Milford Holdings was requesting that the BorsodChem EGM examine the legality of the board's decision to sell its holding in TVK Rt. Milford asked the board to report on all its decisions since the company's last shareholders' meeting on June 28 and asked the EGM to review all contracts signed based on such board decisions.

Things have moved on since then, in particular SIBUR has been granted the right to acquire Milford's 24.7% shareholding in BorsodChem. SIBUR stated that it had signed the appropriate agreement with Milford Holdings on October 25. Almost immediately the tension that surrounded the stealth move by Milford gave way to pragmatism. SIBUR gave an impression that it was about to try a different approach to Milford by trying to seek future co-operation with BorsodChem.

By late October Milford Holdings was offering to share control of TVK with MOL. Milford, which was

considering legal action against the BorsodChem board in connection with the TVK sale, stated on October 26 that it would not seek to replace the company's management. With the pending transfer of Milford shares to SIBUR imminent, SIBUR said that it wants to form a partnership with BorsodChem Rt and supply it and also TVK with raw materials.

According to a letter from Milford, dated September 19, the aim of Gazprom's original investment was to create a chain from Gazprom's Russian sites producing benzene, VCM and propylene to Hungarian processing sites that use the raw materials. Both VCM and propylene are important in Hungary but benzene demand in Hungary is very small with no styrene or cyclohexane production. A key link in Gazprom's grandiose plans is Oriana, for which SIBUR was bidding against LUKoil and several other companies. Milford's letter said that Gazprom would increase Oriana's ethylene capacity to 320,000 tpa, mainly to satisfy Hungarian demand.

However, LUKoil-Neftekhim was awarded the tender offered for the new Oriana joint venture, half owned by the Ukrainian government. It would seem therefore that the Gazprom strategy was undermined by this decision, but the position at the moment is far from finalised. Prior to the emergence of LUKoil-Neftekhim and SIBUR there was a speculative theory (amongst many) that if Milford failed to gain control of BorsodChem, it could conceivably decide to sell its shares back to BorsodChem for a financial profit of its own. Should that happen BorsodChem would need another investor to help pay the sale price due to the legal reasons outlined. Another more recent suggestion is that SIBUR hands over its shareholding in BorsodChem to LUKoil-Neftekhim which may have won for the contest for Oriana. However, recent statements by SIBUR indicate that this is unlikely.

Co-operation or confrontation?

A lot will depend in the next few weeks how the two camps co-operate that will determine the mood of the EGM on November 24. The apparent improvement in relations between Milford-SIBUR and BorsodChem could be affected by LUKoil-Neftekhim's appearance in the picture. Milford could find itself being pushed aside and renew its aggressive strategy to secure more influence in BorsodChem. In order to do this it will have to join forces with other shareholders. BorsodChem's corporate charter limits any one shareholder's voting rights to a maximum of 25% of all votes, regardless of the size of the stake. After recent deals it could well be that Milford and the other Gazprom affiliates may jointly have much more than 25% of all voting rights.

In the event of confrontation large investment funds with stakes in BorsodChem may support the current management which has been in place since 1992. These funds consider the Russian investor a threat to BorsodChem even if they disprove of the sale in TVK. The EBRD has implicitly said it would counteract Milford. BorsodChem has been seeking the support of the company's other shareholders in a road show which kicked off on October 4, managed by CA-IB Securities Rt. Letters to BorsodChem shareholders have also been sent detailing the benefits of the deal with MOL Rt.

If Gazprom did increase its shares in TVK the problem is that BorsodChem and MOL, with their total 45% holding in TVK, would be impossible to block. The only Gazprom strategy could be try to cancel BorsodChem's stake sale deal with MOL. Via BorsodChem's 15% in TVK and with shares bought on the market it could attempt to take control of TVK. The possibility of this happening seems to be unlikely which may help to explain the new approach. The difficulties faced by both sides in the tactical battle suggest that some form of compromise might prove to be the most practical way of preserving interests and identity.

Hungarian Ethylene Supply/Demand Balance

Hungarian Ethylene Balance (unit-kilo tons)		
	<i>Jan-Jun 00</i>	<i>Jan-Jun 99</i>
TVK's Production	180.3	115.6*
Purchases from Oriana	16.1	24.5
Total Supply	196.4	140.1
TVK Captive	150.2	108
Sales to B-Chem	43.6	31.1
Total Consumption	193.8	139.1
*extended outage in second quarter		

BorsodChem's aim in acquiring a stake in TVK in the first place was to ensure its supplies of ethylene. The main concern in selling the stake in TVK to MOL was that the loss of shareholder influence did not endanger that supply. BorsodChem has in fact managed to extend its supply agreement with TVK for another ten years, until 2013, in a side contract. Under the new extended contract with TVK, BorsodChem will receive 80,000 tpa of ethylene in the next three years, up from this year's 66,000 tons.

With VCM expansions in mind Hungary needs more ethylene supply. At the moment there is no real ethylene alternative to Oriana as a supplementary source of ethylene for Hungary. The Oriana factor should start to play a more important role if LUKoil-Neftekhim's

involvement proves successful. If TVK needs to supply 80,000 tpa to BorsodChem then it will some product from Kalush as shown by the following table. As can be noted TVK's cracker expansion has boosted output at Tiszaújváros.

BorsodChem-Mitsui

BorsodChem is likely to maintain its license to produce TDI if Milford's take-over attempt fails. According to the original agreement Mitsui would withdraw the patent for the TDI license if a strategic owner gained more than 20% in BorsodChem. If the \$110 million plant is completed BorsodChem would be Central Europe's only TDI producer. Mitsui has confirmed that the license is endangered only if Milford takes over the management. Other sources have questioned this theory saying that the license will not necessarily be revoked if Milford gains control of BorsodChem. BorsodChem reported that it had received an expression of support from Mitsui which read "it is our intention that we will not exercise our right stipulated in the Section 15 of our License Agreement as long as the current management team of BorsodChem stays as it is now in place under the new development of shareholders". Mitsui is preparing a draft for a long-term off-take contract of TDI from BorsodChem. "We would like to continue our good relationship with the current management of BC in the urethane business".

MOL-Slovnaft

MOL has announced that the Slovakian Anti-Monopoly Office (Protimonoplny Urad) had approved the MOL-Slovnaft partnership on September 22. The transaction was approved with the condition that MOL and Slovnaft shall not increase the total number of filling stations held jointly in Slovakia, currently 333, until the end of 2004. If a new filling station is opened, Slovnaft and MOL are bound to sell or close filling station(s) with the same capacity within half a year.

With this approval the most significant condition was met for MOL to become a strategic investor in Slovnaft before the completion of the financial transaction. The first stage of the transaction can be completed before the end of 2000 if further conditions will be met. MOL managers are already preparing to take over some functions at Bratislava before the end of the year. The Hungarian Regulator approved that MOL and the two management companies, Slovintegra a.s. and Slovvena a.s., could gain joint control of Slovnaft effective as from September 1.

MOL signed an agreement to become the strategic investor in Slovnaft on March 31 this year. Under the agreement, MOL will acquire an initial equity stake of up to 36.2% for a total consideration of approximately \$262 million. After eight full quarters MOL will have an option to become the major shareholder of Slovnaft. The deal will be executed through a \$150 million increase in Slovnaft's equity and the purchase of existing shares.

MOL-OMV

OMV announced on October 11 that it had bought 9.3% of MOL through the stock market, but that it had "for the time being" no intention to buy a bigger stake. In the wake of the purchase, MOL said it wanted to adopt "significantly stricter" rules for the purchase of its shares. MOL's article of association was thus modified at the proposal of the Board of Directors. The acquirement of more than 2% of the company's shares has to be announced, as opposed to the former minimum level of 5%. Affiliated companies also have to be taken into consideration by the calculation of ownership ratio. If a group of shareholders provides misleading information, their voting rights can be suspended.

MOL has been seeking clarification from OMV about its intentions after OMV. MOL stated "despite expressing its intentions to co-operate with MOL to date OMV has not entered into an agreement which would provide adequate comfort to MOL that its shareholders' interests will be appropriately protected". MOL also said it would eye OMV for any signs of hostile moves. "MOL is still ready to learn the real intentions of OMV, especially in light of that OMV is MOL's competitor in the region". The appearance of a shareholder owning around 10% does not influence the independent strategy and decision making of MOL. It also does not impact on any of the announced or ongoing strategic initiatives in the Central European region, including the implementation of the Slovnaft partnership.

MOL-TVK

Following the acquisition of TVK shares from BorsodChem MOL has committed itself to expanding into petrochemical operations. An EGM for TVK will be held on November 3. However, until BorsodChem's EGM takes place the question of TVK's share composition will be subjected to a question mark, even if there are signs of an accord being reached. There is nothing new in MOL's interest in TVK, it has been a long term goal of the company to seek closer ties between naphtha and ethylene. TVK informed its shareholders on October 12 that 1,738,515 TVK shares were acquired by MOL.

This shareholding was registered to the TVK Rt's Share Register with the date of the transaction thought to

be September 29. After the registration MOL now has a total of 6,721,361 TVK shares, increasing its share from 20.1% to 27.1%. In total, BorsodChem sold 3,697,258 of TVK shares with the other 7.9% going to the commercial bank MKB. BorsodChem now has 3,717,622 shares, equating to a 15% stake.

MOL-Gas

MOL said on October 20 that it would spin off its gas division for possible sale at a later date, as part of a far-reaching restructuring plan. The company would set up three separate 100% MOL-owned divisions for the storage, delivery and sales of gas. MOL may make a complete sale at a later date but this would depend on the Hungarian government which controls 25% plus one vote. For the time being the decision to divest the gas business into three divisions establishes the legal distinction of activities demanded by the EU gas directives. The separation of the gas division follows a government approval in October to raise the price of industrial gas by up to 43% from November 1, although prices for private customers must track inflation. Thus, MOL can cut its loss on the gas division by Ft 20 billion this year due to the 43% increase. But even with that move MOL expects to lose Ft 80 billion from the gas division this year.

PKN

PKN Orlen stated on October 24 that the recent purchase by OMV of a minority stake in MOL may force PKN to seek closer ties with the Hungarian company. PKN stated that stronger co-operation between PKN and MOL could protect the companies against hostile moves from other oil groups. Thus, OMV's move has added to the regional consolidation process in Central Europe which came to life with Gazprom's purchase of BorsodChem's shares in September. PKN's free float of 72% makes the company particularly vulnerable to hostile take-overs. Thus, some sort of counter-measures are required to protect the company.

PKN is still planning to bid for Rafineria Gdanska. A 75% stake in the refinery is expected to be sold to strategic investor early next year. The Polish Competition and Consumer Protection Office (UOKiK) has said it would block the possible take-over of Rafineria Gdanska by PKN Orlen. UOKiK said the new company would dominate the market. PKN produces 60% of Poland's oil and Rafineria Gdanska controls 20% of domestic demand.

Unipetrol and Agrofert have been given the go-ahead by the Czech Cabinet to pursue their Kc 815 million bid for AliaChem, and the deal is expected to be completed in November. There have been question marks that the Anti-Monopoly commission might oppose the deal as combining Agrobohemie's Lovochemie with AliaChem's Synthesia could create a monopoly position in certain product areas. Agrobohemie has been preferred by the Industry Ministry as ministers preferred a strategic owner, rather than middlemen such as Konsolidacni Banka. AliaChem is a broad based chemical company centred on the Synthesia intermediate complex at Pardubice. Plastics' processing is prominent within the AliaChem group, with one of the major companies being Technoplast. Technoplast produces 4,000 tpa of BO PET, around 90% of which is exported to West Europe.

Plastics Pannonplast has confirmed its purchase of Punch Manufacturing Hungary Ltd at Székesfehérvár from the Belgian company Punch International NV. The Székesfehérvár plant has started its operation under the name of "Moldin 2000 Manufacturing Ltd." As from October 9 it is operating as an affiliate of Moldin Ltd, Szombathely. The budgeted turnover of the new plant is Ft 4.5 billion for 2001, and the expected number of employees is 300. The main customer is Philips Assembly Centre Hungary Ltd, also located at Székesfehérvár.

Pannonplast's strategic goal is to significantly increase its co-operation as a component supplier. In the next business year the value originating from the manufacturing of components for information technology and entertainment electronic products will exceed 30% of Pannonplast Group's consolidated sales' revenues. Pannonplast has recently taken on a medium term loan of 17 million euro from West European banks. Out of the loan Pannonplast and its subsidiary Moldin will utilise around 10 million euro.

Another Pannonplast subsidiary Polifoam Kft is increasing its registered capital from Ft 238 million to Ft 754 million whilst its ownership structure will also change following the transaction. Majority owner Pannonplast's 60% stake will decrease to 51%, with the stake of HT Troplast AG of Germany increasing to 47%. Small investors will hold the remaining 2%. One of the founders, Furukawa Electric Co. of Japan, sold its total 17.7% to HT Troplast. Polifoam Kft was established in 1984 as the first Hungarian-Japanese joint venture; its revenue is expected to reach Ft 1.8 billion this year.

Fibres Spolana is looking for a buyer for its viscose fibre unit at Neratovice. The unit has a capacity of 40,000 tpa but has not operated since December 1999. After failing to agree on the lease of the premises to restart the viscose fibre operation the company decided to sell the equipment and materials of the plant. The aim of the project is to sell as many equipment items and materials as possible under the most favourable financial terms and conditions. Spolana would prefer a complete solution, i.e., a complete

sale of equipment including disassembly and transport. However, Spolana might welcome offers for a partial purchase. The final proposals are scheduled to be assessed by the end of January 2001.

Logistics On October 13 Westway Terminal Company Inc officially opened a new chemical and liquid product storage facility at the Port of Gdynia. The division Westway Terminal Poland sp. z.o.o will manage the facility. The terminal, which is being developed in three phases and where new tanks are currently under construction, will have a projected capacity in excess of 45,000 cubic metres upon completion.

The terminal currently consists of two tanks (capacity 5,500m³) which were modernised during the 1999/2000 winter. New tanks are being built to provide additional storage space for handling agricultural products and liquid chemical products. This second phase of construction will be completed by the end of 2000. The third stage of construction will be completed in the summer of 2001 providing more new tanks for the storage of chemicals and petrochemicals.

As the only public liquid storage facility in Gdynia and the 'first specialist for hire terminal' in the area Westway terminal Poland will provide a vital link for European distribution and trade. Its strategic deep-water location on the Baltic coast, close to Gdansk, facilitates cost-effective logistics and trading opportunities.

Other news Precheza, the largest Czech producer of titanium and ferric pigments, posted first half sales of Kc 944 million, up 26% on the same period last year. Spolchemie has sold its subsidiary Spobyty, with a basic capital of Kc 300 million, as part of its programme to sell off companies outside its core activities.

Brenntag has suggested that it will most likely take over the second largest chemical distributor in Poland, Holland Chemical International (HCI). If the transaction goes through Brenntag could control nearly 50% of the Polish chemicals' distribution market. Brenntag has already submitted an offer to purchase the shares of HCI worth euro 545 million. All that remains is for HCI shareholders to approve the deal. Earlier this year Brenntag bought the Austrian chemical distributor Neuber which is already present in Poland under the name IXO Neuber.

Polish Chemical Output (unit kilo tons)		
Product	Jan-Aug 00	Jan-Aug 99
LDPE	89.5	95.6
Polypropylene	81.2	68.9
PVC	182.6	165.8
Caustic Soda	262.4	216.7
Nitrogen Fertilisers	1,029.0	886.7
Phosphate Fertilisers	347.5	392.8
Synthetic Fibres	65.9	51.7

Polish fertiliser producers have rejected charges of dumping from the European Fertiliser Manufacturers Association (EFMA) with regard to urea supplies. An antidumping procedure was instituted against three Polish manufacturers by the European Commission but all have three rejected the charges as groundless. Zaklady Chemiczne Police, one of the firms accused of dumping urea, has already asked the Ministry of

Economy to take action in defence of the Polish manufacturers.

BorsodChem Rt has sold its 40% holding in Framochem Kft to the French company Sofigexi SA. Framochem, now wholly French-owned, produces raw materials for pharmaceuticals, preservatives and cosmetics. Framochem was set up by BorsodChem and the French state-owned Societe Nationale des Poudres et Explosifs (SNPE) in 1993 to produce phosgene. SNPE holds 47.55% of Framochem, which had pre-tax profits of Ft 1.7 million on turnover of Ft 2.8 billion last year.

Spolana posted a Kc 92 million loss for the period January to September this year, a Kc 228 million improvement against 1999. Sales grew 24% to Kc 6 billion. Chemicke Zavody Sokolov (CHZS) posted a Kc 114.9 million loss for the first three quarters, compared to a loss of Kc 74 million in the same period last year. This year's loss was attributed to high fuel prices and one-off restructuring costs. Plastics' processor Fatra, which is an AliaChem subsidiary, increased its nine-month profit by 53% to Kc 60.2 million on sales of Kc 1.28 billion, up 11.3%. Fatra predicts a Kc 130 million profit this year on revenues of Kc 1.66 billion.

SOUTH EAST EUROPE

Oil refining Former Yugoslavia

The lifting of EU oil sanctions on Yugoslavia, following the change in regime in Belgrade, is already having positive effects on trade and industry in South East Europe. EU foreign ministers agreed on October 9 to lift an oil embargo imposed against Yugoslavia. INA and the Adria crude pipeline operator Janaf have stated that they hope to benefit from a lifting of the oil trade embargo against Yugoslavia. INA has spare capacity to produce between 1.5-2.0 million tpa of oil derivatives and some, or all, of it could be

delivered to rump Yugoslavia. Tanker trucks have already been dispatched from Croatia to Belgrade. Larger deliveries could start up once a payment system between the two countries is in place.

Nato's 1999 air campaign impaired Yugoslavia's capacity to refine crude oil. Until these facilities are fully repaired there seems to be an economic logic that Serbia should fill the gap with imports from the closest possible location, i.e., INA's plant at Sisak.

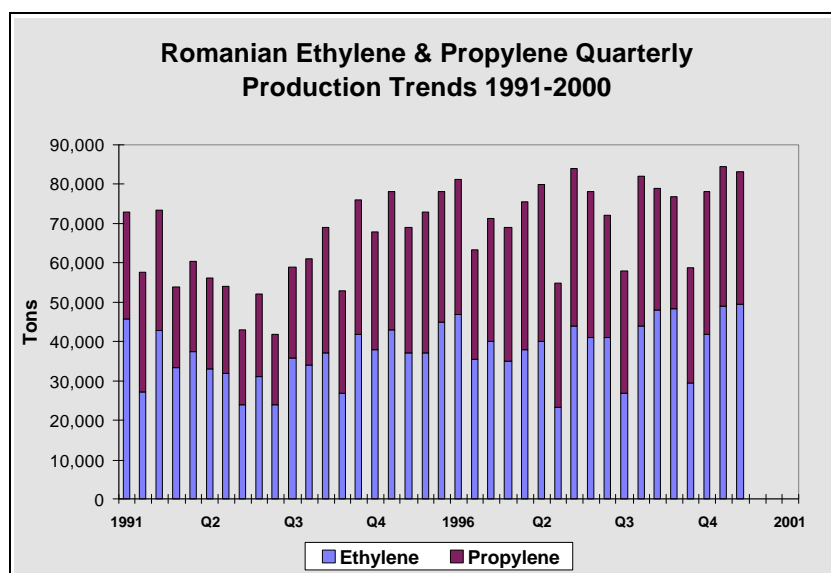
For future supplies Janaf argues that the Adria is the cheapest, simplest and ecologically soundest way for Serbia to purchase crude oil from the world market. The pipeline is in technical order and Janaf could start shipping crude oil to Novi Sad and Pancevo immediately, in principle. The pipeline's capacity to deliver 12 million tpa of crude to Serbia was "much, much more than they need and can pay for at the moment." Janaf resumed business with Serbia after the 1991-95 war, delivering crude oil from the northern Adriatic port of Omisalj to the Pancevo refinery, but stopped the shipments again when the international community imposed the oil embargo against Belgrade regime for the second time in 1999.

Romanian Chemical Production (unit-kilo tons)		
<i>Product</i>	<i>Jan-Jul 00</i>	<i>Jan-Jul 99</i>
Synthetic Pigments	2,507	2,022
Hydrochloric Acid	88,673	94,092
Sulphuric Acid	84,248	133,247
Caustic Soda	213,033	167,648
Soda Ash	231,966	279,678
Ethylene	113,966	104,779
Propylene	79,650	67,405
Polymers	194,976	179,904
Nitrogen Fertilisers	495,925	267,193
Phosphate Fertilisers	50,330	60,987
Synthetic Rubber	9,567	11,343
Pesticides	2,853	1,706
Varnishes & Paints	19,087	17,483
Detergents	45,394	33,556
Synthetic Fibres	17,393	17,121

LUKoil-Neftochim responded after the EU lifted the oil embargo to the by stating that it hoped to increase fuel exports from Bourgas to Yugoslavia. The refinery has so far exported its products to private companies in Serbia, and now hopes to sell to state companies.

LUKoil has also been outlining strategic goals in the Balkans and is considering buying the Novi Sad refinery which was destroyed by Nato bombing last year. Although it is now operational, output has been minimal due to scarce crude imports. This position is changing with the removal of sanctions. LUKoil is also looking at Croatia after a sealing a joint venture with INA Nafta Industria for re-exporting oil to third countries and oil processing. Another

Russian company YUKOS has signed an agreement with Janaf to integrate the Adria and Druzhba pipelines, allowing Russia to pump crude to the Adriatic port of Omisalj. The first stage of the agreement envisages upgrading Omisalj's export capacity to 5 million tpa.



Romania

Romanian refinery Rafo and UNOR GAS from Moldova have set up a joint venture to build an oil products' terminal in north-east Romania. The new terminal will allow transfer of oil products from Romania to Moldova. The terminal, to be built near Romania's border town of Ungheni, will have a capacity of 30,000 tons/month of oil products to Moldova.

The State Ownership Fund has said that it has started negotiations with Rotterdam-based Rompetrol Group BV as the successful bidder for a 69% stake in Petromidia. Rompetrol Group BV is owned by Romania Fund Investment, based in Luxembourg. The sale of Petromidia was relaunched earlier this year. In May, a

Romanian commercial court cancelled a \$725 million contract signed with the Turkish company Akmaya Sanayi Ve Ticaret for the purchase of 65% in Petromidia.

Ethylene LUKoil recently stated that the pygas unit at Bourgas will be put into operation when there are "normal economic relations with the whole ethylene complex. Romanian ethylene production is gradually improving with volumes starting to surpass those seen at the start of the 1990s when the country started its post revolution recession. Propylene is also increasing. Ethylene output in the first half of this year totalled 98,434 tons which was the highest level since 1990.

Polymeri at Devnya was expected to completely stop operations from the end of October due to the lack of an ethylene supply contract with LUKoil-Neftochim. According to the Director of LUKoil-Neftochim on April 10 four alternatives were offered to Polymeri but no agreement could be reached. The EDC plant stopped work at the beginning of the summer when ethylene deliveries were halted LUKoil-Neftochim refused to sign a ten year agreement for delivery with Polymeri's majority owner AKB Corporation. Polymeri's management was accordingly ready for a deal including the property of the plant set against long-term ethylene deliveries from LUKoil-Neftochim. This goal failed to materialise, however.

PET The Spanish companies Technopet and Betalak are expected to establish a joint venture with ITD at Suedinenie in Bulgaria for the manufacture of plastic bottles and pre-forms. The official contract was expected to be signed in October. The Spanish companies will invest DM10 million in machines and technologies, and ITD will provide the buildings and stores.

The Romanian fibre producer Polirom is being put out to sale again. Foreign companies showing interest include Kord SA of Turkey, Betarek of Turkey and Romital of Italy. The most interested company is Betarek, although Kord is in the strongest financial position. The final offers for the acquisition of the 70% of the shares were to be opened by the negotiation commission on October 27.

Fertilisers Romanian private fertiliser producer Azomures at Targu Mures reported a net profit of 126.6 billion lei for the first nine months of 2000, up from 120 billion lei in 1999. Turnover was 783 million lei higher on the year-ago reaching 1.9 trillion lei. .

The sale of the fertiliser producer Azochim will be executed by the Bank Assets Capitalization Agency (AVAB) through the sale of the company's assets for the recovery of credits amounted to \$30.7 million granted to Azochim by Bancorex. AVAB is putting out to sale no less than 27 buildings and spaces at a price of \$4.66 million, in addition to 36 Azochim goods for \$7.99 million. In 1999 nearly all the Azochim debts to Bancorex were taken over by AVAB. The value of the credits, penalties and interests amounted to \$30.7 million.

BALTIC STATES

Mazeikiu Nafta closed its refinery for maintenance in late September, running until October 16. The last occasion when a maintenance shutdown took place was in 1997. Mazeikiu Nafta is a combined refinery, oil terminal and pipeline transportation system. The Butinge terminal's crude export capacity is 8 million tpa. The controlling owner of Mazeikiu Nafta, Williams International, is still negotiating with Russian oil companies LUKoil and YUKOS concerning regular long term oil supplies to the refinery. Mazeikiu Nafta is currently involved in talks with LUKoil on long-term oil supplies and setting up a joint venture to trade oil products in the Baltic states, Poland and the CIS.

YUKOS is also involved, having signed an agreement with Williams on September 8 for a five-year deal to send 4 million tpa of crude exports through the Butinge terminal. YUKOS has already exported 2 million tons of oil via Butinge this year. From July 1999, when the terminal started operations on the Baltic coast, 3.25 million tons of oil, including 2.6 million tons from YUKOS, were exported and 0.4 million tons were imported.

COMMONWEALTH OF INDEPENDENT STATES

Russia

Gazprom's gas sales increased in the first half of 2000 to 247.75 billion roubles compared to 183.95 billion roubles in the same period last year. Pre-tax profit more than tripled to 70.86 billion roubles. Sales could have been higher but for stable low gas prices on the heavily regulated domestic market. Gazprom continues to subsidise domestic customers through low gas prices and slow repayment of debts for delivered gas. In the chemical sector Gazprom continues to try and secure control in the Hungarian petrochemical industry, but has modified its stance since LUKoil-Neftekhim won the tender for Oriana. SIBUR has also been facing a serious question of safety at the Kstovo complex following several fires.

Feedstocks

Slavneft and SIBUR have signed a co-operation agreement on associated petroleum gas utilisation. The agreement is aimed at the integration between the two sides in oil, gas and petrochemicals. According to the agreement all associated petroleum gas produced by Slavneft will be delivered to SIBUR subsidiary Nizhnevartovsk NPZ, located in the Khanty-Maninsk Region.

The Russian Deputy Minister for Anti-Monopoly Policy stated (unofficially) on October 23 that no restrictions would be placed in the way of Gazprom taking a controlling stake in SIBUR. Heads of both companies were expected to meet at the end of October to consider strengthening ties between the organisations. The fact that the Anti-Monopoly commission has not yet reached an official decision throws up some uncertainty. The issue is the careful examination of the effects of Gazprom becoming the majority holder in SIBUR. SIBUR controls the a large part of Russia's gas processing industry including the group Sibneftegazpererabotka (SNGP). SNGP has a virtual monopoly in the processing of associated gas which is directed into the production of synthetic rubber, plastics, etc. Gazprom buys from SNGP up to 10 billion cubic metres of dry gas for producing gas based electricity.

SIBUR intends to increase its control over Perm gas processing plant at company's EGM on November 13. Shareholders will approve SIBUR's share purchases being placed by close subscription. In the past few months SIBUR has established itself as the major player in the Perm region with the integration of the gas processing plant with the styrene and OXO alcohol units.

YUKOS will start supplying the Angarsk refinery/petrochemical complex with 100,000 tons/month of gas condensate from the start of November. This will add to the levels of 500,000 tons/month of crude that have been arriving at the complex during the period of April to October. This follows that were reached earlier this year between YUKOS and the new owners Rinco.

The Russian Ministry of Energy has decided to offer an 85.36% stake in the NORSI refinery at an auction. These shares are currently owned by NORSI-Oil and the other shareholders include Tatneft with 8.41% and LUKoil with 6.01%. The size of debts facing NORSI is the major obstacle to the transaction, but LUKoil is the most likely buyer of the 85.36% stake.

The main objective of the new owner is to try and revive oil refining at NORSI which has been in decline this year. SIBUR-Neftekhim has been processing gas condensate for petrochemical production but would like the option of running crude at Kstovo. SIBUR is currently striving to tighten links with the NORSI refinery, although it is not expected to participate in the bidding.

Sibneft is seeking to supply oil refineries in Russia, Ukraine and Belarus with oil cracking catalysts which reduce the production cost of high-octane gasoline up to 30%. The Sibneft-owned Omsk oil refinery has the only catalyst production plant in the CIS, with a capacity of 4,500 tpa. At present, the plant is operating on a pro-rata basis of 2,300 tpa of catalysts, with most of the output consumed captively. The remaining oil refineries in the CIS purchase catalysts from companies such as Grace Davison of the USA and Engelhard of Holland. Russian demand for catalysts is currently estimated at 9,000 tpa.

Tatneft hopes by the end of the year to hold a tender for companies wishing to participate in the Nizhnekamsk refinery project. Tatneft has taken the decision to attract a western consulting company which has experience of working in Russia. This company will take charge of refinery project management. According to Tatneft, the aim is have the first and second stages of the project in operation by the latter half of 2001. In the first stage the plant will produce diesel fuel and structural bitumen, and the second gasoline.

The Nizhnekamsk refinery will become "the only plant in Russia which can process deep high-sulphur oil crude and produce oil products of high European quality." The project requires around \$150 million of investment over the next five years. Tatneft is the general project's investor and co-ordinator, owing 63% shares in the refinery.

Petrochemicals

Nizhnekamskneftekhim has recently installed a new automatic system of gas control at the petrochemical complex. This is part of the company's programme targeted on reducing energy consumption and improving efficiency. Nizhnekamskneftekhim has also announced an increase of competitiveness in the production of butyl rubber. Laboratory tests have shown that the application of the antioxidant Vingstei L in the production process enables higher quality output. About 85% of the output is exported outside of Russia.

In the Dzerzhinsk region SIBUR-Neftekhim's output for the period January-September 2000 totalled 374,700 tons, or 163% measured against the same period of 1999. Benzene and butylene-butadiene fractions recorded more than twice the production seen in the first three quarters of last year. The main export commodity for SIBUR-Neftekhim, MEG, saw an increase in production of 54.4%, totalling 89,300 tons in the first three quarters.

The dispute over the sale of shares in SIBUR-Neftekhim by Neftekhim to two Moscow based funds Frial and Rimako has been settled in favour of the funds. The Moscow Arbitration Court originally gave the verdict that the sale of shares in SIBUR-Neftekhim was "unsatisfactory", but this verdict has now been reversed. Neftekhim, a joint venture between Kaprolaktam and NORSI, sold its shares in SIBUR-Neftekhim under its former management. The new management of Neftekhim has been trying to change the sale and reclaim the shares. Despite the decision of the Moscow Arbitration Court representatives of Neftekhim will continue to challenge the share transfer under the principle that they were sold illegally.

SIBUR-Neftekhim suffers another fire

A serious fire erupted at SIBUR-Neftekhim's EP-300 cracker at 03.45 hrs on October 12, the third fire to be encountered at the Kstovo cracker since September 9. There was fire in another part of the complex affecting benzene output in this period to add to those three. The fire on October 12 started at the pyrolysis unit (no 51) linked to the cracker before spreading to other parts of the complex. One worker is reported to have died from the effects of the fire whilst two others have required hospital treatment. Managerial changes have already been made in SIBUR-Neftekhim as a result of the accident. Production of petrochemicals was stopped for just over a week with a restart taking place on October 20.

SIBUR-Neftekhim believes that the main reason for the fire was the long period of non-maintenance when Kstovo was under the management of ZAO "Neftekhim". On October 18, SIBUR-Neftekhim announced that it would introduce the most stringent standards for working practices and technical safety at the Kstovo complex. It was acknowledged that there are too many unsatisfactory ways of running production units and that a completely new attitude is required to avoid further accidents occurring. The lack of trained specialists has been cited as an important factor behind the recent spate of accidents. It is too early to say if the fires were caused by terrorist attacks although it is good to keep an open mind.

The problems at Kstovo have led to the creation of a commission by the local Nizhniy Novgorod administration to examine the activities at the complex. Tensions have been raised between the local authorities and SIBUR-Neftekhim. As the result of the fires since September two people have been killed and four have received serious injuries. The Nizhniy Novgorod Gubernator stated the view that the petrochemical complex is potentially very dangerous and that measures need to be implemented to improve its record. The commission will consist of the managers from NORSI-oil and the local energy company Nizhnoenergo.

SIBUR-Neftekhim's Production (unit-kilo tons)		
<i>Product</i>	<i>Jan-Sept 00</i>	<i>Jan-Sept 99</i>
Ethylene	100.4	70.2
Propylene	52.9	31.7
Benzene	28.2	11.9
Ethylene Oxide	85.0	55.95
MEG	89.3	57.85

It might be worth commenting that the Kstovo complex is quite old now, and that it might not be capable of running at the levels of utilisation sought by SIBUR-Neftekhim. The company has invested large sums in the maintenance shutdown that took place in May and June this year, but otherwise very little has been spent in the past few years. The following table shows the increase in production levels this year against 1999. SIBUR-

Neftekhim only took full control of the Kstovo/Dzerzhinsk facilities in February this year, before which they were owned by Neftekhim.

LUKoil

On October 3 LUKoil's Management Board made announcements about the company's latest moves in the area of petrochemicals. It has been decided to restructure the subsidiary ZAO "LUKoil-Neftekhim" and to increase LUKoil's interest from 60% to 100%. LUKOIL-Neftekhim currently owns assets of Stavrolen at Budyennovsk, Saratovnefteorgsintez at Saratov, Stavroplast at Mineralnye Vody, and over 51% in the Vars terminal at Ventspils. On October 23 (see Ukraine) LUKoil-Neftekhim added Oriana to this list.

In 1999 LUKoil-Neftekhim produced 1.423 million tons of products with a value of 8.6 billion roubles. Under the main guidelines for the development of LUKoil's petrochemical sector until 2005, approved by the board in September 1999, the total petrochemical throughput is predicted to reach 5 million tpa by 2005. No further details are available how these goals might be achieved.

Acrylic acid

There is talk that one the of major uncompleted "Soviet" chemical projects, the acrylic acid and acrylate complex at Dzerzhinsk, may be given yet another lifeline. The company set up to operate the complex, Akrilat, is now majority owned by one of its major creditors Sberbank. Sberbank is keen that the project is completed and is considering various proposals. However, it would need about \$40 million finance to fulfil construction requirements. Other creditors are also keen that the project goes through, but Sberbank will only decide to proceed if the Japanese company Nissho Iwai can provide a satisfactory technical audit and that there is a proven market for product sales from the complex.

The intended capacities include 25,000 tpa for acrylic acid, 40,000 tpa of acrylic dispersions, and 35,000 tpa

of emulsions. The project could be completed in two and a half years from the date of financial approval. Nissho Iwai has stated that the technical audit will be completed in the next two months so a decision may be forthcoming before the end of the year.

Aromatics Nizhnekamskneftekhim has signed an agreement with Toyo Engineering of Japan for increasing the company's benzene capacity by 60,000 tpa. The current capacity stands at 200,000 tpa which is linked to the cracker. The increase will allow the company to fully meet its own benzene requirements. At the moment Nizhnekamskneftekhim needs to buy additional product from other Russian plants, with Salavatnefteorgsintez as the main supplier.

Russian exports of caprolactam are expected to be down during the fourth quarter due to a tightening of domestic benzene supply. Sibneft, which from the Omsk refinery, supplies the three Russian caprolactam producers has been down for maintenance from September until the end of October. This has put a squeeze on supply. The other main benzene producers include Nizhnekamskneftekhim, Ufaneftekhimi and Salavatnefteorgsintez, all of which either have captive or contract requirements. Russian caprolactam producers have apparently informed buyers in the north east Asian region of shortages in supply this quarter. The main destinations for Russian caprolactam include China, South Korea and Taiwan. Russian exports to China attract only 50% of the regular VAT and import duties.

Despite the foreseen slowdown in the fourth quarter Azot at Kemerovo increased caprolactam production in the period January-September 2000 to 77,900 tons. This was 44.6% higher than the 53,700 tons produced in the same period last year. In the fertiliser sector Azot also increased production in the first three quarters with ammonium nitrate totalling 284,000 tons, up 23.7% on 1999, urea 244,200 tons, up 39.1% on 1999, and ammonia, up 40.9% on 1999.

For October the management of Azot expected a reduction in caprolactam production due to the shortages in benzene supply. In addition to Sibneft's shutdown the SIBUR-Neftekhimi complex was also affected by a fire at the end of September whilst the Ufaneftekhimi plant has been short of crude supply.

Chlorine In the near future the Russian government will hold an auction on sale of a 38.5% stake in Sayanskkhimprom in the Irkutsk Oblast. A block of 5,279,901 common shares in the company is being put on sale. The share par value is 1 rouble. The starting price of the stake is \$2 million.

The Russian Federal Property Fund originally sought November 24 as the auction date but has since rescheduled to December 7. The winner of the auction is to fulfil a \$13 million investment programme. This is aimed at expanding the company's product range over a period of ten months. Applications for the bids will be accepted until December 4. The contact phone for further information is +7 095 236-70-90.

Sayanskkhimprom confirmed on October 19 its strategic goal of modernising the chlorine and caustic soda production units by converting from the current mercury method to membrane. The company's management sees the introduction of membrane as important not only for quality improvement, but also resolving the environmental problems caused by the mercury route. The project costs for technology conversion by far exceed the company's own resources and thus there is a need to attract investors.

The sale of shares, mentioned above, will therefore be crucial to pushing through the project and investment conditions are attached to the winning bid. The winner will be required to invest at least \$13 million in Sayanskkhimprom in the ten months following the share sale conclusion.

The current management of Khimprom at Novocheboksarsk is hoping to attract \$2.5 million from investors for the 24.59% share package in the company currently up for tender. The funds, if achieved, will be used for improving environmental standards at the complex. The share package is up for sale through the State Property Fund of Chuvashia. The company Promkhimindustriya, which has been talking about its intentions to create a vertically integrated chemical grouping, may bid for Khimprom's share package.

In addition to Khimprom's expansion of hydrogen peroxide capacity at Novocheboksarsk, mentioned last month, the company is also working on a project to introduce a new unit for the production of monochloroacetic acid (MCA). The capacity of the unit would only be in the range of 5,000 tpa, but it would help to meet some of the deficit in this product area in Russia. Khimprom would be required to buy raw materials acetic acid and acetic anhydride for MCA production, but chlorine is produced internally and MCA would provide an outlet for greater captive consumption.

In the first nine months this year Khimprom produced 42,232 tons of hydrogen peroxide, 28.5% more than in the same period in 1999. Plasticizer production totalled 7,323 tons for the period January-September 2000, 66.7% more than last year. Khimprom's total turnover amounted to 1,199.5 million roubles in the first nine months, 55.4% higher than last year.

Kaprolaktam at Dzerzhinsk held a creditors' meeting on October 30 where a creditor committee was re-elected and a new management formed based around five representatives of SIBUR-Neftekhim. The General Director appointed was the SIBUR-Neftekhim General Director, Petr Niktin. SIBUR-Neftekhim controls the right to more than half of the outstanding debts owed by Kaprolaktam, some of which it bought from former Kaprolaktam creditors. Kaprolaktam is a large consumer of SIBUR-Neftekhim's raw materials and in the near future SIBUR plans to develop a financial strategy for the company. In particular, Kaprolaktam is in need of modernisation in many of its production units. An investment programme will only be fully possible, however, if the company's external management plan is modified. The period of external management is scheduled to last until 2008, but SIBUR would hope to take control of Kaprolaktam well before then.

Plastics A new PVC profile production unit has just been completed at Voskresensk. At a total cost of \$3 million the project has been financed by HT Troplast AG of Germany. The new unit looks set to take the lead on the Russian PVC profile market. Trocal profiles from HT Troplast AG have hitherto been imported into Russia from Germany. The series 900 profiles to be made in Voskresensk have successfully passed tests in Siberia at temperatures of up to -60C. The product has been certified by the Russian State Architecture and Construction Committee to a new state standard requiring plastic windows in Russia to have a service life of at least 40 years. The enterprise will produce 3,000 tpa of profiles at the initial stage, rising eventually to 12,000 tpa when all three lines at the plant attain their design capacity.

At the Plastik plant at Syzran, in the Samara region, a joint venture with Henkel has started the production of polyurethanes for the automobile industry. The costs of constructing the new unit were roughly 3.5 million euro. With 55 employees the joint venture expects to generate sales of around one million euro over the first three years. Although the venture has been formed on a 50/50 basis Henkel will manage the company.

Bashneft has concluded a contract with the Izhorskie zavody and shipyard to supplying Bashneft with polymer insulators. The Izhorskie plant has concluded a contract with Bashneft worth \$500,000 for the delivery of 10,000 polymer insulators which are to be delivered before the end of the year. The Izhorskie zavody is also expected to get an order for insulator production for the restoration of Chechen and Yugoslavian destroyed energy systems.

Fertilisers The KOKS coke by-product plant at Kemerovo has commissioned a phosphate cycling unit to trap ammonia from coke-oven gas. This is the first installation of its kind in Russia and will replace the loss-making common utilisation of ammonia using sulphuric acid. The new installation will allow the removal of up to 99% of ammonia from coke-oven gas. The whole process will require not more than 120 tpa of ortho-phosphoric acid in place of tens of thousands of tons of sulphuric acid. The pure ammonia extracted by the new method will be burnt and the heat used in production processes. KOKS estimates that the break-even period for the new installation, worth 37 million roubles, at 20 months. The enterprise used its own funds to build the new unit. Russia's Eastern Coal Chemical Research and Development Institute has developed the technology.

Paints The paint company Pigment in St Petersburg plans to increase its share of the Russian paint market in 2001 up to around 14%. Next year Pigment plans to produce around 30,000 tons of alkyd resins and paints. Full capacity is expected around March after which it would be able to produce around 3,000 tons/month of paints. Pigment is a relatively new company, having only been established in May this year and production only starting in July. Production volumes have been increasing gradually month by month. Pigment's main competitors include Yaroslavl Krasky and Empils at Rostov.

The holding company Novoy Sotruzhestvo (New Co-operation), which owns Empils, has confirmed a similar expansion strategy to Pigment. Empils was bought by Novoy Sotruzhestvo two years ago, and has since received \$3 million of new investment. Empils is amongst the five largest paint production companies in Russia with a theoretical capacity of 122,100 tpa, although last year it only produced 32,700 tons.

Lakokraska at Yaroslavl reported a 20% increase in turnover for the first nine months this year. Part of the increase is attributed to good export sales to other countries in the CIS where demand has been improving. The company is planning to increase the range of products on offer in addition to implementing a technical modernisation programme. Chelak at Chelyabinsk has, by contrast, reported a downturn of 35% for the first nine months of 2000 with production falling from 9,400 tons to 6,000 tons. The major reason for the fall was attributed to a lack of working capital.

Ukraine Oriana

On October 23 it was announced by the Ukrainian State Property Fund that LUKoil subsidiary LUKoil-Neftekhim had won the tender for new joint venture which will control Oriana. According to the

privatisation plan, a 92.53% stake in Oriana was auctioned off by a united share block. LUKoil-Neftekhim is now expected to create a joint-stock company, under which it will own a 50% stake, and the other 50% will be owned by the government. The government plans to sell its 50% stake in the new Oriana venture as soon as Oriana is operating on a stable basis. Funds from share sales will be used to pay off foreign debts which stand at over 1.2 billion hryvnia.

LUKoil-Neftekhim has promised to clear the debts faced by Oriana although the conditions of how this should be done are not clear. The debt issue has been the major stumbling block to finding a solution to Oriana's future. LUKoil has shown no willingness to take care of Oriana's debt in the past so there are question marks over the type of deal that has been struck. One source mentioned that LUKOIL-Neftekhim had pledged to repay 4.0 million hryvnias which would be relatively nothing. Possibly LUKOIL-Neftekhim could reach an agreement to restructure Oriana's debts with Germany's HypoVereinsbank AG, but there are still a few hurdles to overcome.

Debts notwithstanding, LUKoil-Neftekhim has agreed to invest up to \$37 million in a technical upgrade of the production facilities at Kalush. At one stage it was being rumoured that LUKoil would join forces with SIBUR to bid for Oriana, but both companies eventually submitted individual bids. SIBUR had hoped to integrate Oriana with its Hungarian petrochemical interests, but with both sides of that strategy looking unworkable a revised approach was adopted in late October. LUKoil-Neftekhim in the meantime has sent its managers to discuss future co-operation with TVK and BorsodChem. It is not inconceivable that SIBUR could purchase the government's 50% stake when it is eventually sold, but that is purely speculative at this stage.

One of the major technical priorities for LUKoil-Neftekhim at Oriana is to upgrade the ethylene facilities. This will require in the range of \$15 million. There has been very little finance spent on maintenance in the past few years at Oriana and many of the units are in need of modernisation. In the first nine months of 2000 Oriana produced only 7,361 tons of polymers. Thus, another condition of LUKoil's successful bid is to provide between 75,000-80,000 tons/month of raw materials to Kalush. For the first five months of 2000, Oriana's pre-tax losses totalled 38.6 million hryvnia. In 1999, the company's net losses reached 360.6 million hryvnia.

The European Commission has imposed anti-dumping duties on ammonium nitrate imports from Ukraine. The duties have been established at 33.25 euro/ton, whilst at the same time duties of 26.91 euro/ton have been imposed on ammonium nitrate imports from Poland. The position will be reviewed next year.

Refining In the refining sector the Tatarstan government intends to sell its 28.78% stake in Ukratnafta at the Kremenchug refinery. It is felt that the sale could have negative consequences for the refinery's performance. On October 21, a senior official at the Kremenchug refinery was murdered so the waters are rather murky. In 2001, the new owners of the Lisichansk refinery TNK will supply 4 million tons of oil to LINOS in compliance with investment obligations assumed by on purchasing the enterprise.

Ukraine has opened bidding for a 60% stake in the Kherson Refinery at a base price of 29.7 million hryvnia. Bids will be accepted until November 15, and a preliminary winner of the tender will be announced a week later. Kazakhoil, which has been managing the Kherson Refinery for nearly a year, has indicated that it would take part in the tender. Kazakhoil hopes to use the refinery as an inroad into the large Ukrainian market. A perspective buyer should be able to guarantee crude shipments of at least 1.8 million tpa in addition to working out a plan to reschedule the refinery's debts for six months after the sale.

Plastics In November the Ukrainian-German joint venture Zhytomyr-Polysacks will start producing four-loop big bags (woven containers for storage and transportation of loose goods such as mineral fertilisers, cement, and grains) which have not been produced in Ukraine until now. There are projections to produce 40,000 four-loop big bags, 1.5 million polypropylene sacks, 100,000 standard big bags, and 50 tons of polypropylene cord per month. Currently, the company is working at full capacity. For the first nine months of 2000, it increased its production of big bags and polypropylene sacks by 64% and 16% versus the same period of last year, respectively. For the first nine months of 2000, exports accounted for 33% of the company's sales, going both to the CIS and outside. The JV was created at the Zhytomyr man-made fibre plant which was declared as bankrupt and shut down in May 1999.

Paints The Polish paint and varnish company Sniezka has opened a new plant in the special economic zone of Jaworow in Ukraine. The new plant will produce paints and varnishes especially for the Ukrainian market. At first Sniezka will produce solely emulsion paints, but the range of goods will eventually be expanded. Jaworow is just the first step for the Sniezka's further expansion in the CIS market.

Kazakhstan

Kazakhoil is shipping up to 100,000 tons/month of oil to the Kherson refinery in Ukraine at a price between

\$130-140/ton. By comparison it receives \$73/ton for crude supplied to its subsidiary Atyrau plant in Kazakhstan.

The Karachaganak Integrated Organisation has announced that a contract has been signed with Kazakhoil to build a refining complex at the Karachaganak deposit. The project has been estimated to cost up to \$900 million.

A Kazakh government commission is currently developing measures to ensure a systematic supply of feedstock to domestic refineries. One solution under consideration is to require that oil production companies ship a certain quota of crude to domestic refineries. The antimonopoly agency has suggested that the government add one clause to previously concluded government contracts with oil companies that would impose a feedstock quota for domestic refineries, especially during the sowing and harvesting campaigns. For its part, the government would guarantee fixed export quotas for crude oil to oil companies.

The Kazakh Ministry of Energy, Industry and Trade now owns 87% of the Pavlodar oil refinery, following the reclaim of shares from CCL. Already this has had an impact on processing levels with over 200,000 tons refined in August. The main supplier of crude to Pavlodar is Mangistaumunaigaz.