

CIREC

MONTHLY NEWS

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

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

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Features from the June 2003 issue

- After assessments the National Property Fund (FNM) has awarded the tender for the state's investment adviser in the sale of Unipetrol to the consortium McKinsey & Company, West LB and EEIP. The consortium was selected among 13 short listed bidders, with the decisive criteria being the offered price, the ability to draft the privatisation strategy and the time schedule.
- TVK Rt's sales amounted to Ft 33,244 million, with the total sales of the TVK Group totalling Ft 37,430 million. This was 16% and 20% higher respectively than in Q1 2002. The main role in the increase of group sales was played by the higher sales of TVK, and also by the sales of LDPE and PP produced by Slovnaft and sold by TVK's trading subsidiaries. TVK Rt made 55% of its income from domestic sales. Germany (with 26%) took the lion's share of exports, followed by Poland (15%), Italy (14%), UK (5%), France (5%) and Austria (5%). Total operating costs rose by 17% and totalled Ft 37,462 million.
- An antidumping investigation concerning imports of synthetic rubber from Russia and the Czech Republic was finished recently in Poland. The result of the investigation is that a duty has been introduced at a rate of 30.1% for Russian product and 21% for Czech products.
- According to Goskomstat, Russia's output of basic organic chemicals grew by 20.9 % in April 2003 over April 2002 with butanols and phenol seeing big increases. The output of synthetic resins and plastics grew by 10.9% in April on the same period of 2002 up to 248,000 tons.
- Nizhnekamskneftekhim plans to expand the range of ethylene-propylene rubber in cooperation with the Italian company Technopolimer. Industrial tests were done last year, which resulted in mastering of five grades of new rubber under the brand Elastokam.
- The Ministry of Trade of China on 12 May published a decision for establishing antidumping duties on imported PVC from USA, South Korea, Japan, Russia and Taiwan. The Ministry of Trade has established the facts of import of given production of the listed countries under the dumping prices. They have come to a conclusion that these imports are impacting direct damage on Chinese producers of PVC.
- SIBUR-Neftekhim started a shutdown at Kstovo for ethylene and propylene on 28 May and on 30 May at Dzerzhinsk for ethylene oxide and glycols. These shutdowns will last for around a month. The particular aims of maintenance in 2003 include the conversion to a two year cycle of continuous production. At present, annual shutdowns are required for both the petrochemical complex at Kstovo and the ethylene oxide/glycol plants at Dzerzhinsk.
- According to the Belarussian State Property Management Fund no bids have been submitted for the tenders for Naftan, Polymir, Azot and Khimvolokhno. The opening price for Naftan was fixed at the level of \$476 million, Polymir at \$311 million, Azot at \$293 million, and Khimvolokhno \$71 million.
- Construction of a new polyethylene and polypropylene pipe plant has started at Sumgait in Azerbaijan under the ownership of Turkish company Dizayn. The plant should be completed in September-October of the current year with the first output of pipes seen in December. The potential consumers of pipes include Azerigaz and a number of companies involved in water transportation. The cost of the project is placed at \$15 million.

CENTRAL EUROPE

Czech Republic

(Czech crown, Kc, Jun 4, \$1 = 26.640, €1 = 31.206)

Unipetrol

After assessments the National Property Fund (FNM) has awarded the tender for the state's investment adviser in the sale of Unipetrol to the consortium McKinsey & Company, West LB and EEIP. The consortium was selected among 13 short listed bidders, with the decisive criteria being the offered price, the ability to draft the privatisation strategy and the time schedule.

The winner will be assisting the cabinet and the FNM in evaluating the privatisation tender and concluding contracts with the winner of the tender for the 63% stake in Unipetrol.

Ceska rafinérská

Ceska rafinérská has been fined Kc 6 million by the Czech anti-monopoly office UOHS for having interrupted supplies of raw materials to Chemopetrol for approximately 39 hours in May 2002.

UOHS decided that Chemopetrol had no other possibility but to buy from Ceska rafinérská, and thus both petrochemical company and its clients were subsequently harmed. Ceska rafinérská can appeal against the verdict to the corresponding Regional Court and then to the Supreme Administrative Court in Brno.

The dispute, which came to a head when supplies were suspended after disagreements over prices between the two companies, caused interruptions to petrochemical production at Litvinov.

Spolchemie

Spolchemie has announced plans for an investment of Kc 1.4 billion for the renovation of production facilities to replace the production hall for epoxy resins destroyed by fire in November last year. The company expects to receive some insurance benefits to help finance the project.

Deza

Deza a.s., at Valasske Mezirici, increased revenues by 27% (Kc 297 million) in the first quarter this year to Kc 1.393 billion. Exports account for 62% of total revenues, with major markets for the company in China and India.

Deza saw its profit grow by 4.7 % to Kc 181 million last year. The turnover from chemical production grew by 6.7 % to Kc 4.7 billion. The company forecasts that this year turnover will reach Kc 5.3 billion with a profit of Kc 650 million.

In 2002, Deza continued to make large investments. Through its subsidiary Istrodeza it succeeded in the privatisation of Slovak chemical company Istrochem. Deza is majority owned by Agrofert.

BorsodChem-MCHZ

BorsodChem-MCHZ plans to sell its aniline production technology to China and Japan by the end of 2003. To narrow its focus and to concentrate primarily on aniline production, the company will also separate the production of formaldehyde and so-called dukols, which will be bought by Kronospan of Germany.

BorsodChem-MCHZ plans to invest Kc 1 billion by 2005 to expand its aniline and amine production, the main consumer of which will continue to be its parent company BorsodChem

Slovakia

(Slovak Crown, Sk, Jun 4, \$1 = 35.06 €1 = 41.0553)

Slovnaft

A group of minority shareholders of Slovnaft arbitrarily sacked the company's management at an extraordinary general meeting on 17 May. The move followed a dispute that arose among the majority shareholder MOL and a group of minority shareholders led by the J&T financial group, over the price level of compulsory buy-out offer to minority shareholders.

Earlier at the general meeting, shareholders voted down all proposals to distribute 2002 corporate profits via dividend payments. Most shareholders, including MOL, rejected proposals to pay out 25% or 50% of the Sk 2.5 billion profits in dividends. According to MOL, payment of dividends ran counter to further investment plans.

Hungary

(Hungarian forint, Ft, Jun 4, \$1 = 216.8700 €1 = 253.9667)

TVK Q1 2003

TVK Rt's sales amounted to Ft 33,244 million, with the total sales of the TVK Group totalling Ft 37,430 million. This was 16% and 20% higher respectively than in Q1 2002. The main role in the increase of group sales was played by the higher sales of TVK, and also by the sales of LDPE and PP produced by Slovnaft and sold by TVK's trading subsidiaries. TVK Rt made 55% of its income from domestic sales. Germany (with 26%) took the lion's share of exports, followed by Poland (15%), Italy (14%), UK (5%), France (5%) and Austria (5%). Total operating costs rose by 17% and totalled Ft 37,462 million.

**TVK Rt's sales by petrochemical division
in Q1 2002 (in Ft million)**

(Hungarian forint, Ft, May 10, \$1 = 266.9250 €= 243.9161)

	Domestic	Export	Total
Olefin	7,843	576	8,419
LDPE	2,800	2,532	5,332
HDPE	1,518	5,052	6,570
PP	4,976	6,889	11,865

The main reason behind the Ft 5,470 million (26%) rise in material costs was the price level for petrochemical feedstocks (accounting for an extra Ft 4,402 million). Further cost increases amounting to Ft 1,311 million were due to the 4,400 tons of merchant propylene purchased.

Despite the slight drop in petrochemical margins, and besides cost-efficiency improvements, the TVK Group achieved a Ft 481 million operating profit in Q1 2003.

This is Ft 917 million higher than a year earlier and significantly higher (Ft 4,603 million) than the last quarter.

In the first quarter the TVK Group's profit before tax, extraordinary items and minority interests amounted to Ft 311 million with a consolidated net profit totalling Ft 246 million. Net receivables, up by 21% reached Ft 26,338 million. The reason for the increase was partly the higher price level of sales and partly the new sales activity for Slovnaft's polymer products, which affected TVK Group data.

Capital expenditures

Capital expenditure by the TVK Group in the first quarter totalled Ft 5,590 million, which is more than eight and a half times higher than in Q1 2002. The increase was mainly due to the "Petrochemical Development Project", the cost of which comprised 99% of the total capex. The total capex of the project is €430 million, of which €92 million was outlaid by 31 March 2003. By the end of March more than 500 people were working on the site.

**Capital expenditures at TVK Rt
(Ft million)**

	Q1 2003	Q1 2002
Petrochemical Project	5,511	497
New Olefin-II Plant	4,313	248.1
New PE-IV plant	693	0.6
Expansion of PP-IV plant	10	2
Supplementary facilities	183	-
Other investments	391	318
TOTAL	5,590	664

Design engineering for the Olefin-2 project is progressing on schedule with more than 80% of the value of equipment already ordered. Pipe materials and fittings and cracking furnaces have been delivered with the basic engineering and construction already started. The PE-4 project is also following a similar pattern.

Regarding the off-plant facilities the foundations for the ethylene storage tank and building of the electrical power supply for the Olefin-2/PE-4 plants

has been started. The ethylene tank is being constructed by Uhde with a capacity of 6,000 tpa.

Market environment

During the course of the first quarter feedstock costs were excessively high with the average price of naphtha up by 31% and gas oil by 29%. The average market price of naphtha rose by \$118/ton (167%), and gas oil by \$129/ton (171%) compared to Q1 2002.

Polymer prices were higher, although the increase of HDPE did not keep pace with LDPE and polypropylene. Against Q4 2002 LDPE prices rose 29%, or by €184/ton on average, PP homopolymer raffia also by 29%

(€176/ton), whilst HDPE blow moulding grades rose only 9% (€56/ton). The capacity utilisation of the HDPE plant fell slightly due to the low profitability of HDPE sales.

The expansion of the PP-4 plant was successfully finished in October 2002 with a capacity increase of 40 ktpa. The PP-2 plant was shut down in November 2002, resulting in a 50,000 tpa capacity decrease.

TVK's Petrochemical Production (unit-kilo tons)

	<i>Capacity</i>	<i>Q1 2003</i>		<i>Capacity</i>	<i>Q1 2002</i>	
		<i>Prod</i>	<i>Cap rate %</i>		<i>Prod</i>	<i>Cap rate %</i>
Ethylene	370	89.5	94.1	370	88.9	97.5
LDPE	120	29.2	96.3	120	28.1	95.1
HDPE	200	44.3	86.2	200	48.1	97.5
PP	290	70.4	97.8	290	66.4	91.3

Karsai

Plastics manufacturer Karsai Holding Rt has signed a three-year contract to deliver truck cooling system components worth €10 million per year to the German Seeber group. The production line will be based at a plant Karsai will build in Körmend, western Hungary. Deliveries for Seeber will start this year and could boost the group's revenues by 20% compared to last year's Ft 8 billion.

MOL

MOL has forecast that profit growth will slow during the rest of the year, after net income more than doubled in the first quarter due to increased demand for heating oil in Europe and fuel in the US. The company's net income rose to Ft 22.8 billion from Ft 10.2 billion a year earlier.

Operating losses at MOL's natural gas unit, which narrowed to Ft 3.5 billion from Ft 6.7 billion from a year earlier, will probably increase as the world price of natural gas rises and government price caps curb profitability.

Operating profit in the refining and marketing division jumped to Ft 13.8 billion in the first quarter from Ft 3.4 billion a year earlier. The petrochemicals unit, which includes Hungary's largest chemicals maker TVK Rt, posted Ft 1.2 billion operating profit after Ft 200 million a year earlier.

An unusually cold winter drove up demand for natural gas, boosting sales to 5.6 billion cubic metres, one billion cubic metres more than in the same period of 2002. MOL imported three-quarters of the gas it sold and a rise of the forint against the dollar helped curb costs and narrow losses caused by price caps. The forint's average rate to the dollar was 18% stronger in the first quarter than a year earlier, reducing MOL's import costs.

Fuel sales in Hungary, where MOL has an 80% share of wholesale and a 41% share of retail petrol sales, decreased as fewer people drove in the cold weather and heavy snowfall. Higher prices also led to fuel sales falling 8% from the first three months of 2002.

MOL started production at a west Siberian oil field this year, in a joint venture with YUKOS. The company expects to produce 600,000 tons of crude at the field this year.

Poland

(Polish zloty, zl, Jun 4, \$1 = 3.7790 €1 = 4.4263)

PKN Orlen Group

(exchange rate \$1= zl 4.1269 in Q1 2002 and \$1= zl 3.9017)

	<i>Q1 2003</i>		<i>Q1 2002</i>	
	<i>zl mil</i>	<i>\$ mil</i>	<i>zl mil</i>	<i>\$ mil</i>
Sales revenue	4,962	1,272	3,502	849
EBITDA ²	900	231	453	110
Operating profit	590	151	179	43
Net profit	355	91	66	16

In the first quarter this year the production of plastics and resins increased in Poland by 16.4% over 2001. Fibres were up 25% in the first quarter whilst detergents rose 18.1%. Demand on polyolefins in Poland is increasing anything between 8-13% per annum, and approximately half of the demand is met through imports. Hence the need for the jv with Basell for the construction units for 400,000 tpa of polypropylene and 320,000 tpa of HDPE, using technology Basell Spheripol and

Hostalen respectively. PKN Orlen will increase capacities for ethylene from 360,000 tpa up to 600,000 tpa to support the jv.

PKN Orlen Q1 2003

PKN Orlen group's net profit was four times higher in the first quarter this year compared to Q1 2002. The group recorded a net profit of more than zł 355 million which was up 438%. The retail sales of fuels, i.e., gasolines, diesel oil, and LPG amounted to 632,250 tons in the first quarter, 27% higher compared with Q1 2002. This was due largely due to business resulting from PKN Orlen's acquisition of 494 service stations in northern Germany.

In terms of external developments Budimex SA, Alstom Power, Energomontaz Poludnie SA Katowice and Energobudowa SA have joined an agreement with PKN Orlen on cooperation in the possible reconstruction of Iraq. Regarding finances PKN Orlen plans a bond this year to attract finance to support investments. In the first quarter of 2003 PKN Orlen experienced an increase in crude oil prices of 49.3% over last year with an increase in refining margins of 1037%. The increase in product prices and the consolidation of the company's German activities had a significant impact on revenues. A strong increase in profitability was due to full utilisation of higher margins and one-off influence of the jv with Basell.

In spite of the contraction in the fuel market, petrochemicals showed further signs of health (a 6.6% increase in sale volumes). The polyolefin spin-off reflected the shift in the petrochemical sales structure.

In the first quarter this year revenue from the chemical division totalled zł 1,257,924 which was 36.0% up last year's figure of zł 924,000. Whilst costs rose from zł 883,000 to zł 1,047,000 profits rose from zł 41,000 to zł 210,000.

PKN Group and PKN Orlen Turnover Q1 2003

	Q1 2003		Q1 2002	
	PKN Group	PKN Orlen	PKN Group	PKN Orlen
Crude oil throughput (kilo tons)	3,013	2,870	3,180	3,045
Net sales revenue zł 000	6,980,240	5,669,010	5,763,988	5,230,025
Profit on sales zł 000	521,692	472,783	197,984	144,145
Operating profit zł 000	598,692	655,781	182,809	117,056
Pre-tax profit zł 000	513,406	572,197	110,504	49,923
Net profit zł 000	366,712	406,450	68,667	30,914

In an attempt to maintain the position in the domestic market and find opportunities for entering the Central European market, the management has set out to implement a comprehensive profitability improvement programme, covering the entire cost base. This process has been scheduled to last for about two years and will examine all areas of production.

In Q1 2003, the member companies of PKN Orlen's Capital Group, recorded a crude oil throughput of 3,013,000 tons, which represents a fall by 5.3% compared with Q1 2002.

Due to the future quality requirements introduced by an EU Directive, with respect to the content of sulphur in gasoline (10 ppm), PKN Orlen has launched relevant development and investment projects.

The steps taken in the first quarter of this year allowed PKN Orlen to finalise a contract for the purchase of technology and a base design for the gasoline desulphurisation unit. The quality of diesel oils currently produced exceeds the requirements set by Polish and European standards. It also meets the standards set by the EU for 2005.

In terms of projects Uhde is involved in the reconstruction and modernisation of a the aromatics division at Plock. In the second quarter of 2004 Uhde's Morphyllane technology will be completed from which PKN will produce 400,000 tpa of benzene and toluene.

Rafineria Gdańska

The Treasury Ministry will decide at the end of June whether Rafineria Gdanska (RG) will be acquired by a strategic investor or remain independent and consolidate with southern refineries. Gdansk-area politicians are backing the idea to create the Lotos Group, which would use RG as its cornerstone and consolidate small

refineries in Trzebinia, Krosno, and Jaslo. Petrobaltic, a company specializing in oil extraction from the Baltic Sea, would also reinforce this new corporate entity.

RG made a recent announcement that it would sign contracts with Lockheed Martin based on the offset agreements from the country's much publicized purchase of F-16 fighter jets. The contracts would target investments in facilities that exploit heavy waste from the petrochemical industry. Kellogg Brown & Root and Royal Dutch/Shell are also to be involved in €435 million-€783 million (\$500 million-\$900 million) of investments, which would increase RG's business capacity.

Should this become reality, Lotos Group would compete with oil giant PKN Orlen, which, along with Britain's Rotch Energy, tried to participate in a tender to buy RG. The tender was eventually cancelled.

Dwory

An antidumping investigation concerning imports of synthetic rubber from Russia and the Czech Republic was finished recently in Poland. The result of the investigation is that a duty has been introduced at a rate of 30.1% for Russian product and 21% for Czech products.

Dwory first brought the complaint against the importers of synthetic rubber from Russia, Romania and the Czech Republic on the results of 2001, when volumes of import grew by 120%. The decision of the Ministry of Economics of Poland means for Dwory that it can successfully compete with other producers of rubber.

BOPP

A South American producer of BOPP is looking for a distributor in Central Europe to cover Poland, the Czech Republic, Hungary and Slovakia. Please contact CIREC for further information.

Forthcoming events

4th Conference on Central Europe, Russia & CIS PET markets, 11-12 June 2003

Location: Renaissance Hotel, Moscow

Conference organiser: Centre for Management Technology, Singapore

2nd Conference on Central Europe, Russia & CIS Coatings Markets, 18-19 June 2003

Location: Renaissance Hotel, Moscow

Conference organiser: Centre for Management Technology, Singapore

Web links for the events can be found at www.cirec.net

SOUTH EAST EUROPE

Slovenia

(Slovenian Tolar, SIT, Jun 4, \$1 = 199.05 €1 = 233.1473)

Slovenian company Helios has become majority owner of the Serbian producer of paints and lacquers Zvezda at Gornji Milanovac by acquiring a 52.38% stake. Slovenia's largest paints producer, which already opened its own distribution centre in Serbia last year, has thus continued its strategy of developing the Serbian market. Helios believes that Zvezda is among the top coatings producers in Serbia and that it has excellent production potential.

Helios's revenues last year amounted to SIT 26.3 billion (€113.3 million), which is 22% more than in 2001. One of the main reasons behind the successful results was the incorporation of Croatian paints producer Chromos into Helios.

Romania

SNP-Petrom has announced plans to invest around \$100 million in the Petrobrazi refinery for the construction of an energy station and to automatise the running of the complex. South Korean companies will be involved in the project.

Romania's government will start to assess the privatisation strategy of SNP Petrom following the feasibility study which should be completed in the near future. The government plans to launch the privatisation announcement

officially by end of June and expects bids from investors by end of September. It also hopes to sign the Petrom privatisation by end of the year to comply with demands of western lenders under loans agreements.

Serbia

TNK-BP is looking at the possible purchase of the Beopetrol filling station chain in Serbia.

A delegation from the Italian Ministry of Preservation of the Environment visited Pancevo, to the sites of the oil refinery Rafinerija Nafta, Petrohemija and the mineral fertiliser plant Azotara. The purpose of visit was finding out the level of environmental contamination in the city and preparation of the project on elimination of consequences of bombardments which the complex has undergone in 1999.

Petrohemija at Pancevo is still trying to attract investments to support the continuing clean-up campaign and for also modernisation of the production facilities. The VCM plant was destroyed in the bombing and the company is keen to revive this unit.

Bulgaria

Chimco

Chimco together with Lavalin will build an urea line and re-forming line for ammonia and will be exported in the free zone of United Arabian Emirates Sharja. At the site construction will start on a new plant for nitrate fertilisers with a capacity of 400,000 tpa.

Sviloza

Sviloza has developed a programme for the harmonisation of its production with EU environmental standards. Up to 2007, the year when Bulgaria hopes to enter the EU, the chemical plant will invest €50 million into the modernisation and for an improvement in ecological conditions in the local region. The new programme will start from the beginning of 2004.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

(Rus rouble Jun 4, \$1 = 36.0172, €1= 30.7550)

According to Goskomstat, Russia's output of basic organic chemicals grew by 20.9 % in April 2003 over April 2002 with butanols and phenol seeing big increases. The output of synthetic resins and plastics grew by 10.9% in April on the same period of 2002 up to 248,000 tons.

Russian Production (unit-kilo tons)

Product	Apr-03	Apr-02
Polyethylene	93.8	85.0
Polypropylene	18.3	9.6
PVC	42.1	38.6
Polystyrene	5.4	6.1
Plasticizers	7.2	6.4
Ethylene	188.0	159.7
Benzene	93.4	65.2
Styrene	29.3	27.1
Methanol	231.0	185.4
Butanols	16.5	11.4
Phenol	18.2	12.2
Ammonia	990.0	911.6
Calcium carbide	7.5	13.9
Sulphuric Acid	712.0	680.7
Soda ash	198.0	195.9
Caustic soda	87.1	93.8

A pressing question posed at the end of the Frankfurt conference on the Central European and CIS chemical industries was who, or which organisation, would take responsibility for "masterminding" of the development of the Russian chemical industry.

The economic impact of the post 1998 bounce has been recognised to have almost expired in terms of physical increases on the supply side. Sustaining production increases is recognised as almost impossible without investment and thus without injections of capital numerous projects will remain purely in the concept stage.

Oil refining/feedstocks

In the first quarter YUKOS increased refining volumes by 32.1% to 9.3 million tons. The increase of oil refining has taken place largely as a result of inclusion in the operational results YUKOS of

Mazheikiu Nafta. The Lithuanian refinery's processing in the first quarter of 2003 totalled 1.7 million tons.

SIBUR/Gazprom

In 2002 SIBUR's turnover totalled 27.8 billion roubles with losses incurred of 5.6 billion roubles. SIBUR's reasons for the losses are past debts and the fact that some companies are simply uncompetitive. SIBUR was also compelled to pay penalties under the delayed credits from Gazprom, amounting to 2.2 billion roubles.

The signs that the losses have been stemmed started to emerge in the latter part of last year. In the first quarter this year SIBUR recorded a net profit of 322 million roubles, which was only small but was positive. From the start of June the company started the introduction of a new mechanism of selling of production through open tenders. For instance, in June buyers will make bids for supplies of LDPE and polypropylene produced at Tomsk, in total for around 3,700 tons. Six traders were invited to co-operate with SIBUR and these measures are hoped to simplify the selling process.

In SIBUR's business plan by 2010 turnover is aimed at being increased to 52 billion roubles. This is quite an ambitious target, representing almost a doubling of turnover.

The previous management of SIBUR recognized that despite a growth of turnover proceeds, it will be very difficult for holding to operate on a profitable level resolving the debt problem.

Azot

Gazprom and the agrochemical corporation Azot have agreed to return 40.12% of the corporation shares to Mezhhregiongaz, a Gazprom affiliated company. Gazprom plans to buy out the remaining shares of Azot and obtain the full control over the company.

Azot corporation owns 42% of the Perm-based Mineral Fertilisers, 25% of Azot at Berezniki, 25.15% of Kirovo-Chepetsky Chemical Plant, 53.19% of the Kropotkin Chemical plant, 51% of Northern Gas Processing Plant, and 50% of Cherepovets Azot.

SIBUR-Neftekhim

SIBUR-Neftekhim started a shutdown at Kstovo for ethylene and propylene on 28 May and on 30 May at Dzerzhinsk for ethylene oxide and glycols. These shutdowns will last for around a month. The particular aims of maintenance in 2003 include the conversion to a two year cycle of continuous production. At present, annual shutdowns are required for both the petrochemical complex at Kstovo and the ethylene oxide/glycol plants at Dzerzhinsk. The cost of this conversion is estimated at 147 million roubles, but in 2004 the company will be able to save around 90 million roubles purely as the result of continuous production. During the current shutdown period at the ethylene oxide/glycol plants Shell catalysts will be introduced.

In May, SIBUR-Neftekhim switched to the "vapour on vapour" regime at Kstovo which means that the company can balance heat consumption and provide a sufficient reserve of heat in case of an emergency. In April, one of the seventeen furnaces at the petrochemical plant was switched to the heat generation regime. This step enabled the cessation of purchases of high-pressure vapour from the Novogorkovskaya power plant which belongs to Nizhnovenergo. It resulted in a decrease the vapour consumption rate by 20 tons/hour saving 4.5 million roubles/month.

SIBUR-Neftekhim still buys insignificant quantities of vapour from the LUKoil-Nefteorgsintez refinery at Kstovo in order to fulfil its responsibilities with minor consumers.

Tobolsk-Neftekhim

SIBUR plans to undertake the overdue butyl rubber project at Tobolsk with the financial support of Vneshtorgbank (VTB). The project requires around €109 million. This project was first developed in 1988 under a Soviet-Italian joint venture in the Tyumen region. The capacity of the plant was 90,000 tpa.

The partners in Sovbutital were Tobolsk Petrochemical Combine and the Italian company Pressindustria with a 31.3% stake. In 1994, Pressindustria ended its involvement in the project.

In order to complete the construction of the plant SIBUR had to resolve the question of ownership over the joint venture. In the period January to March this year discussions were conducted with VTB regarding the sale of property of Sovbutital. In addition, the question on the additional financing necessary for construction of the plant has been reviewed with VTB. The plant is 60-70% completed and could be finished within a period of around 18 months. This is a cost-effective investment project with a quick payback, and its implementation will allow the

start of production of a product that is new for the region and very much demanded in the market. It will also result in a growth of tax payments to the budget of the Tyumen region and Tobolsk.

Tobolsk-Neftekhim is a key enterprise in the SIBUR integration chain. By the end of this year, SIBUR expects to reach a capacity utilisation level at Tobolsk of 65%, which will mean about processing 1.8 million tons of feedstocks.

Other projects being considered by Gazprom at Tobolsk include gasification of the south of the Tyumen region, and also propylene and polypropylene production. This is nothing very new but merely a revival of projects that had been placed on the shelf.

Evrokhim

In the first four months of 2003 Azot at Nevinnomyssk produced 264,200 tons of mineral fertilisers, which was 44.3% more than in the same period last year. Urea production totalled 107,600 tons which was 27.3% up, ammonia totalled 342,500 tons which was 2.9% up and methanol was 37,600 tons or 23.1% up. Acetic acid production totalled 47,800 tons, 8% down on last year.

Tatarstan

Nizhnekamskneftekhim

EPDM

Nizhnekamskneftekhim plans to expand the range of ethylene-propylene rubber in cooperation with the Italian company Technopolimer. Industrial tests were done last year, which resulted in mastering of five grades of new rubber under the brand Elastokam.

Polystyrene

Nizhnekamskneftekhim concluded most of the construction on the polystyrene unit on 22 May. The trial runs of the equipment will be performed in the near term. Currently, the final stages of the project has begun, including the building facade finishing and of painting the metal structures and pipelines.

Ethylene oxide

Nizhnekamskneftekhim has now started installing its system of process control and emergency protection for the ethylene oxide unit. The process control system is supplied by Emerson, a leading developer and manufacturer of distributed control systems. The system will run the entire technological process, thus simplifying the work of operators. In the process of system modernisation old control consoles will be replaced by nine work stations, each consisting of a keyboard and a display to monitor all process parameters. The ethylene oxide plant is a highly fire hazardous object, therefore a critical control system produced by "Triconex" was selected for installation. The system has three degrees of protection and requires no human participation when dealing with emergency situations.

Kazanorgsintez

In 2002, Kazanorgsintez achieved 7.134 billion roubles in turnover against 7.135 billion roubles in 2001. The company's production costs grew by 4% up to 4.085 billion roubles. As a result, the 14% sales profit were down to 1.019 billion roubles.

Kazanorgsintez Production (kilo tons)

Product	2002	2001
Ethylene	336	337.1
Propylene	28.6	31.3
Polyethylene	371	358.8

The total profit tax payments and other similar mandatory payments also shrank from 184 million roubles to 154 million roubles. As a result, the net profits of Kazanorgsintez as of the end of 2002 amounted to 688 million roubles having fallen by 34% from 2001.

Last year the company's non-current assets grew by 22% and reached 4.4 billion roubles. At the same time the company's current assets fell by 14% down to 1.86 billion roubles. In 2002 they fell by 24% down to 1 billion roubles and by 21% down to 557 million roubles correspondingly.

Kazanorgsintez wants to expand its ethylene capacity, not only to meet the needs of a new polyethylene unit but also to reduce the dependency on supplies from Nizhnekamsk. In addition to polyethylene the company also needs ethylene for glycol production.

Bashkortostan

In Q1 2003 the petrochemical sector in Bashkortostan increased production levels over Q1 2002 by 14.5%. However, last year was not particularly good for the region and thus performance is seen more of a recovery than real growth.

As compared to Q1 2002 the republic increased synthetic resin and plastics production by 13.4%, benzene by 35.3%, phenol by 16%, and butyl alcohols by 13.1%. Physical production at producers Salavatnefteorgsintez and Kaucuk at Sterlitamak increased by 5.7% and 0.7% respectively.

Salavatnefteorgsintez recorded a first quarter net profit. The Salavatnefteorgsintez first quarter net profit amounted to 582.2 million roubles (compared to 275.4 million roubles in the 1st quarter of 2002). A considerable improvement in petrochemical markets and more efficiency in company operations were the reasons behind the higher numbers. An amount of 500 million roubles has been made available as the first tranche of veksel (a system of loans) to Salavatnefteorgsintez. The finance will be used for maintenance.

Ufaneftex achieved a 15% increase in the first quarter turnover for 2003, totalling 1.71 billion roubles. The prime cost of production increased by 5% up to 1.32 billion roubles. Ufaneftex produces benzene, orthoxylene, paraxylene, fatty synthetic alcohols and acids, toluene, petroleum, diesel fuel, oils and bitumen. The increase in the first quarter was due partly to the focus of the company on more profitable areas of production.

In the first quarter Ufakhimprom's turnover was 36% lower than in the same period last year. Ufakhimprom produces bisphenol A, epoxy resins, herbicides, etc.

Bashkortostan has agreed with the Spanish company SA Reverte to create a joint venture for the production of technical soda ash. The Spanish company has visited the Abzelilovsky area of republic where they examined marble deposits. The joint venture could cost over \$30 million to construct, including an automatic line for converting solids into powder. The government of Bashkortostan is keen to encourage more joint ventures in chemical production.

Omsk

The Omsk regional department of the Russian Federal Property Fund (RFFI) has opened up a public offer of 10% for Omsk Kautschuk's equity.

Omsk PET packaging manufacturers have plans to participate in the financing of a project to collect and reprocess plastic waste. This initiative will start to address the problem of plastic waste and to send the valuable raw material for reprocessing. Companies Omsk Mineral Water Bottling Plant, Omskvinprom, Sprint, Rosar, and Osha have all supported the project.

Nizhniy Novgorod

An interdepartmental working group is studying the status of the petrochemical enterprises in the Dzerzhinsk region and is analysing measures proposed by the government of Nizhniy Novgorod in order to help those enterprises overcome their current crisis. The work of the interdepartmental group will be supervised by the Minister of Industry and the local administration.

Korund

The auction for Korund has been cancelled due to a lack of buyers. Korund went into receivership on 12 February 2002 with the company owing 1,479 million roubles, including about 660 million roubles owed to the budget and non-budget funds, 380 million roubles owed to the power company Nizhnovenergo. On February 4 this year the receivership term was extended until 12 August 2003.

Sintez

In April, Sintez at Dzerzhinsk secured a five year license from the State Mining and Technical Supervision Authority for the operation of chemically hazardous and explosive hazardous facilities. Sintez has two hazardous production facilities registered with the State Register and eligible for declaration.

Dzerzhinsk Orgsteklo

Dzerzhinsk Orgsteklo (DOS) at Dzerzhinsk has started the production of pipes extruded from PMMA. In the first stage of production pipes with a diameter of 68 mm diameter will be produced, with glass at 5 mm wall thickness. The line was provided by the German company Reifenhäuser which allows the production of different pipe sizes depending on demand. Pipes from acrylic materials have been made for more than ten years at Dzerzhinsk and had applications in food and milk, industry and agriculture.

In June, the line will reach its project capacity and will produce the tubes of diameters of 18, 20, 40 and 50 mm and 3 m length. The modernisation undertaken by Dzerzhinsk Orgsteklo has raised the quality of the home produced organic glass close to European quality standards.

The plans for DOS in 2003 are to produce new types of glass for the Russian market, products which are comprised 50% polymer and 50% filler. These products will be used for furniture and construction materials, etc, and also non-inflammable shock resistant materials for a wide range of applications.

Irkutsk

Chinese imports from Russia (unit-tons)

Product	Q1 2003	Q1 2002
HDPE	17,524	5,178
LDPE	30,948	20,355
n-butanol	29,843	27,307
iso-butanols	16,199	14,710
2-EH	3,276	1,511
PVC	61,065	79,662
PP	12,462	6,674
DOP	424	-
Caprolactam	18,233	33,473

In the first quarter, petrochemical companies in the Irkutsk region produced commodities worth 2,248,301,000 roubles, which was 18,4% up on the same period last year. Plastics production totalled 82,227 tons which was 6% lower than last year.

The consolidated indices of prices in the chemical industry in the period of January-March 2003 amounted to 101,55% on the January-March 2002 period. Usolyekhimprom reduced PVC production by 12.3% in the first quarter of 2003 to 4,900 tons.

Sayanskkhimplast

Sayanskkhimplast reduced PVC production in the first quarter by 11.3% to 52,300 tons caused by the reduction in ethylene supply from Angarsk. Sayanskkhimplast produces around 40% of Russian PVC and is responsible for about 65% of total exports.

The problem the company now faces is the volume of exports to China. China announced recently that it was introducing temporary anti-dumping measures on imports of PVC as Chinese producers to increase production volumes. From 12 May China confirmed these anti-dumping duties would take effect on imports from Russia, Japan, South Korea, and Taiwan in a range from 10% to 115%.

Product News

Urea-formaldehyde

Metrafrax has signed an agreement with Perstorp in Sweden for the supply of equipment for the second urea-formaldehyde concentrate plant at the complex. The time period and construction costs of the second urea-formaldehyde concentrate plant are lower than the previous installation as the auxiliary facilities (including urea storage, container storage, pump house, service rack, central control, laboratory, etc) were built for two urea-formaldehyde concentrate plants.

Both plants are identical. The capacity of each, in terms of 37% formaldehyde solution, is 100,000 tpa or 300 tons per day, and in terms of 85% urea-formaldehyde concentrate 60,000 tpa or 185 tons per day. The company plans to complete the construction and installations on the first urea-formaldehyde concentrate plant as soon as possible and to start commissioning in June.

Methanol

Novocherkassk Synthetic Products Plant (NSPP) has started its conversion from being a federal state-owned unitary enterprise (FGUP) into a public joint stock company. The privatisation of the company will be conducted through public tender. The company currently holds 10-15% of the Russian methanol market, which is mostly exported through Odessa. Gazprom is the most likely future owner of NSPP, being owed 50 million roubles by the company.

PVC

The Ministry of Trade of China on 12 May published a decision for establishing antidumping duties on imported PVC from USA, South Korea, Japan, Russia and Taiwan. The Ministry of Trade has established the facts of import of given production of the listed countries under the dumping prices. They have come to a conclusion that these imports are impacting direct damage on Chinese producers of PVC.

From 12 May importers from the named countries are required to pay the appropriate monetary deposit in customs to the Chinese authorities. The list includes Russian companies Kaustik and Sayanskkhimplast.

Kaustik at Volgograd will become one of the first Russian chemical companies to possess its own power sources after announcing plans to construct a station. Kaustik is one of the most power-intensive enterprises in region and is included in the Nikos group. Electric power accounts for around 35-38% of the total costs of production. Kaustik is part of Nikos, as is also Plastkard. Both companies will benefit from the construction of the new station. At the moment the local electricity company Volgoradenergo charges prices which both companies have

Acrylic acid

In 2002, Akrlat received about 75 million roubles in finance to complete the construction of acrylate production facilities at Dzerzhinsk. The funds were spent on purchasing the missing equipment, the construction of the production premises, communication lines, integrated security system, and design works completion. In total, Akrlat will invest approximately \$5 million over the period 2002-2003.

In May, Akrlat was planning to sign a credit agreement with Petrocommerce Bank (Moscow) to grant a credit facility in the amount of \$46 million for 7 years for the purpose of completing the acrylate complex.

Aromatics

The Russian market continues to experience shortages of benzene caused by production problems. Production at Stavrolen was suspended for overhaul from late May through to late June thus meaning that LUKoil-Neftekhim has no benzene for sale.

Ufaneftekhimi plans to start up its xylene plant no earlier than August as the company is currently producing products that are easier to market.

In the longer term the Russian benzene market is expected to see growing consumption on the back of new derivative projects. In 2002, Russian benzene consumption totalled 934,000 tons of which an estimated 37.4% was used in the production of styrene. Caprolactam accounted for an estimated 32.7% of consumption and phenol 18.9%.

Salavatnefteorgsintez is planning to introduce a new ethylbenzene unit of 230,000 tpa and styrene unit of 200,000 tpa at the end of this year, whilst longer term Nizhnekamskneftekhimi is planning to increase styrene capacity to 550-600,000 tpa to cater for the requirements for polystyrene.

SIBUR-Khimprom at Perm is increasing styrene capacity in 2003 up to 100,000 tpa, in 2004-2005 up to 200,000 tpa. In the caprolactam sector Shchekinoazot is increasing capacity up to 80,000 tpa whilst KuibyshevAzot is increasing caprolactam capacity to 135,000 tpa in the next three years and up to 150,000 tpa by 2007. All these projects will require more benzene and it is not clear yet where this extra product will come from.

Phenol

Phenol production increased by 15% in the first quarter over Q1 2002, but there are still shortages in the Russian market. The largest producer in Russia, Ufaorgsintez, continues to operate on long-term contracts. From the start of May three of the Russian plants started maintenance shutdowns.

PET

The PET project at Vladimir planned by Itera is still in doubt whilst the SIBUR project at Tver is close to producing its first material. The project for the construction of a PET plant at Vladimir, with a capacity of 200,000 tpa, was first announced in August 2001 when Itera took a 15% stake in the Vladimir Chemical Plant (VCP). Itera holds 80% of shares in Itera-Polyester which is responsible for the PET project at a cost of \$150 million.

The project, however, ran aground due to disputes over the way Vladimir Chemical Plant was being managed. Recent changes at management level have added to the opposition to the project with allegations of SIBUR being behind these moves.

SIBUR started work on the uncompleted PET project at Tver in 2000, it was finished last year and should start production very soon. The capacity of the project is 52,000 tpa with aims of expanding to 140,000 tpa. The delays in the start-up have been due to some technical problems resulting from the equipment having been standing around idle in warehouses for some time. The capacity planned by Itera, is almost 4 times larger than the plant constructed by SIBUR at Tver. Russia needs PET and both plants could easily sell all their output in the domestic market.

Plastics

Karbolit in the Moscow region increased turnover by 8.7% in 2002 over 2001. The company produced a total of 76,200 tons of resins and plastics, 24.4% more than in 2001. Notwithstanding the increases, the production of plastics at Karbolit was restricted by steep rises in prices for energy and petrochemical feedstocks. Karbolit increased investment by 5.6% in 2002, part of which included the launch of a new production unit designed for manufacturing of 16,500 tpa of phenol and urea-formaldehyde resins.

Plastik in the Tula area started a modern line for the manufacture of composite polymeric materials at the end of April. Products include ABS and polycarbonates with a capacity of 7,500 tpa. Cost of the new equipment was about \$700,000. The line includes German equipment supplied from Rokschedt (extruder), Werner Koch Maschinentechnik GmbH (a drying, feeding and dosing line), and Librawerk Maschinenfabrik GmbH (packaging line for granulated plastics).

The automotive industry is the main consumer of ABS and polycarbonate compounds, which are used for making dashboards, door panels, etc. ABS and polycarbonate based structural materials feature higher impact strength, thermal resistance and toughness as compared with ABS plastics. At present, almost all Russian car manufacturers purchase ABS and polycarbonate abroad.

Plastik is currently producing pilot lots of different ABS and polycarbonate compounds (by extrusion, injection moulding and super injection moulding), while getting ready for batch production in the second half of 2003. Plastik is a part of SIBUR.

Polyurethanes

The Chemical Physics Institute of the Russian Academy of Sciences has managed to develop a new shockproof polyurethane based on blocked polyisocyanates which can be processed using the free moulding technique with no solvents. The new polymer is considered 5-8 times more impact-resistant than existing polymer products.

Ukraine

(Ukr hryvnia Jun 4, \$1= 5.5500, €1= 6.2488)

In January-April, Ukrainian chemical and petrochemical production was up 14.5% over the same period last year. Since the beginning of the year plastics processing has grown by 17%, whilst rubber goods production shrank by 20.1%.

Styrol

In the first quarter of 2003, Styrol recorded 41.172 million hryvnia (\$7.72 million) in net income, which constituted nearly a 16-fold upturn over 2.59 million hryvnia (\$0.49 million) achieved in the same period last year. Over the first three months this year Styrol has almost doubled its sales, bringing it up to 341.36 million hryvnia (\$63.99 million).

The output of ammonia grew by 7.3% up to 293,135 tons urea by 29.6% to 229,757 tons, but ammonium nitrate fell by 35.2% to 101,270 tons. Styrol has launched the production of heat-insulated gluing resins made from urea-formaldehyde concentrate and urea. The projected capacity of the new production is 8,000 tpa.

Styrol-owned Styrol Pak has put into operation a new line for the production of foamed polymeric packages. The line, with a capacity for 6 million packages per month, was purchased from the Austrian Engineering Company Kaeler. The new acquisition will allow Styrol Pak to expand its foamed polymer package manufacturing capacities by around 60%.

Azot Severodonetsk

Azot plans to modernise one of its four nitric acid units before the end of 2003. It is planned to reduce the power and feedstock consumption rates and improve the ecological characteristics of the unit.

In 2002, Azot's production of diluted nitric acid fell by 2.6% (9,300 tons) compared to 2001. The company uses the product captively with a small part being sold on the merchant market in 60 ton railroad car tanks and 28 kg glass canisters.

Azot has stopped production at the smaller of two ammonia installations. Ammonia warehouses are almost full which has meant that it is uneconomic to run both plants. The stoppage of the smaller ammonia unit, with a capacity of 400,000 tpa, will allow the company to carry out maintenance during the shutdown. In 2002, Azot produced 629,000 tons of ammonia (14% of the Ukrainian total) with the level of capacity utilisation at 70%.

In 2002, Azot increased production by 7.32% over 2001 up to 645 million hryvnias and exported 63% of its product. Azot's net profit was 28 million hryvnia compared to 26 million hryvnia in 2001.

Linos

From 30 April Linos undertook a shutdown which continued until the end of May. Maintenance was carried out on the ELOU-AVT-2 unit, the catalytic cracking unit and the unit for producing elemental sulphur. Similar maintenance will be carried out at the polypropylene and reforming units.

Normal production after the maintenance programme is expected in the first part of June. There are further stoppages planned before the end of the year.

Krasitel

Krasitel recorded a loss of 4,064 million hryvnias on the first quarter turnover. Losses have been caused by high energy costs and also expenditures on maintenance. Despite the losses in the period January-March Krasitel increased production volumes by 43% in comparison to October-December 2002, up to 15.72 million hryvnias.

In 2002, net losses of Krasitel totalled 22.76 million hryvnia (\$4.27 million), increasing by 60% from the 2001 figure of 14.02 million (\$2.61 million). Losses resulted from increased production activity as the company went through its transition.

Krasitel plans in June to start exports to Belarus of ten plasticizers and stabilisers, particularly thermostabilisers for resins. The company is aiming for sales value of around \$100,000 per month. Krasitel concluded an agreement with Belarussian companies for the necessary procedure for imports, already having supplied Russian companies in Moscow for the past four months.

RivneAzot

RivneAzot incurred a fire at the ammonia plant on 16 May, but it is not clear how the incident has affected the company. In the period January-March 2003, Rivneazot increased its output of ammonia by 5% up to 79,830 tons whilst for the whole of 2002, the company produced 6.3% of Ukrainian ammonia. Over the first quarter of 2003, Rivneazot recorded 16.191 million hryvnia (\$3.035 million) in net losses, with the sales totalling 96.374 million hryvnia (\$18.07 million).

Belarus

According to the Belarussian State Property Management Fund no bids have been submitted for the tenders for Naftan, Polymir, Azot and Khimvolokhno. The opening price for Naftan was fixed at the level of \$476 million, Polymir at \$311 million, Azot at \$293 million, and Khimvolokhno \$71 million.

Surgutneftegaz said in May that it will not participate in auction for Naftan and Polymir as it believes that the Belarussian government is asking for too high a price.

The estimated total requirements, based on current conditions and project ideas, for Belarus has been cited as \$1.790 million, on average requiring \$350 million per annum.

Rosneft has acquired 40% of shares in Slavneftekhim, the Belarussian daughter company of Slavneft. Slavneftekhim processes hydrocarbon raw materials for Polimer at Novopolotsk and Azot at Grodno.

PET

The Belarussian authorities are assessing the problems of utilisation of plastic wastes and the possibilities for recycling of PET bottles. Plastic waste is being viewed as a serious environmental problem and the government

is introducing measures to encourage producers to develop the concept of recycling. Problems include the lack of equipment for collecting PET-bottles. The Gomel company Metalpolimer has developed a technology which provides detergents, drying and the further processing of plastic bottles. However, this process is considered not to be particularly well advanced.

Transcaucasus

Construction of a new polyethylene and polypropylene pipe plant has started at Sumgait in Azerbaijan under the ownership of Turkish company Dizayn. The plant should be completed in September-October of the current year with the first output of pipes seen in December. The potential consumers of pipes include Azerigaz and a number of companies involved in water transportation. The cost of the project is placed at \$15 million.

Central Asia

LUKoil has received an offer to take part in the privatisation of a 49% stake in Uzbekneftegaz. The price has not yet been set. LUKoil has already made its mark in Uzbekistan where together with Itera and Uzbekneftegaz it signed a preliminary agreement in 2001 to develop a prospective gas field.

Ammophos in Uzbekistan is talking to investors regarding the sale of a possible stake. Potential investors are ready to invest in development of the enterprise to increase capacities of the enterprise thus enabling it to begin export of production abroad. Ammophos operates mainly on the basis of local raw materials, processing phosphates although it does need to buy additional phosphates from Kazakhstan.

In the Navoi area of Uzbekistan a new unit for the production of polypropylene bags was started on 9 May. The capacity of the line is 12 million bags per annum with the equipment bought from China. Market research has shown that there is a requirement in the Navoi area of 30 million polypropylene bags per annum.

A Czech consortium, consisting of three companies, has won a tender for the reconstruction of Turkmenistan's existing facilities and the construction of a new facility for producing nitrogen fertilisers with a capacity of 400,000 tpa of urea. The work is to be carried out at the site of Maryazot at Mary. The cost of the contract is \$210 million. At present, Turkmenistan needs to import most of its fertilisers. Construction was started in 2001 of a new urea-producing complex in the town of Tejen in central Turkmenistan. The chief contractor of the project is Turkish Gap Insaat and the planned capacity of the Tejen plant is 350,000 tpa.

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