

EAST EUROPE & C. I. S CHEMNET

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ISSUE NUMBER: 118

1ST OCTOBER 2000

• Some of the main features in the October 2000 issue

- Dow announced on September 22 that it is conducting an in depth evaluation to build an ethylene pipeline between Stade in Niedersachsen and Teustchenthal near Halle in Sachsen-Anhalt. An environmental impact assessment for the 365 km pipeline was started in June. The pipeline will provide additional ethylene to Dow's Buna Sow Leuna Olefinverbund GmbH in central Germany. The planned pipeline will allow for the bi-directional transport of both ethylene and propylene. It will also interconnect Dow's salt dome storage caverns in Ohrensen, near Stade, and Teustchenthal.
- An Irish company Milford Holdings Ltd., which previously held 0.66% or 80,000 shares of BorsodChem's stock, increased its holding on September 5 to 24.82%, or 2.99 million shares. Initially there was some uncertainty over who was the backer to Milford Holdings until Gazprom was confirmed as the investor. This purchase has taken place at what is a very dynamic time in the ownership restructuring of the Central European petrochemical industry. It is also evident that local investors are wary of Russians moving into the market as Hungary strives to become a more western oriented economy.
- One of the main reasons why Gazprom invested in BorsodChem was to gain access to control of TVK and to extend the chain of vertical integration. TVK is key link in the chain with its pipeline network and large demand for petrochemical feedstocks, including 1 million tpa of naphtha. However, as soon as Gazprom's motives became clear MOL started to instigate its own agenda to improve downstream integration and to strengthen its presence in TVK.
- On September 23 MOL announced that it had bought a 7% stake in TVK, valued at around \$21 million, from BorsodChem. This was aimed at heading off Gazprom to take control of the company. After this transaction MOL states that it had boosted its stake in TVK to almost 30%. This would mean that although Gazprom has the largest shareholding in BorsodChem, BorsodChem no longer had the controlling influence in TVK. In addition to BorsodChem selling a 7% stake in TVK to MOL, a 7.9 % stake went to commercial bank MKB.
- The sale of AliaChem was expected to be finalised by the end of September. Agrobohemie, the joint venture between Unipetrol and Agrofert, is seen as the leading candidate for the 49.25% stake. Chemapol Group's bankruptcy administration had stated that US based Orion Capital Investment wanted to buy the 49.25% stake in AliaChem. Orion claimed that it would invest Kc 2 billion into the chemical group. However, Orion failed to convince the bankruptcy administration that it would be a suitable partner.
- On August 1, Gazprom signed an agreement between Bashkortostan and SIBUR for plans to create a subsidiary company for a new 120,000 tpa polyethylene plant at the Salavatnefteorgsintez complex. The Bashkortostan share holding in Salavatnefteorgsintez (53.9% of the charter capital), which is owned by the Property State Committee of Russian Federation, was passed under Gazprom's management trust in 1998. Gazprom in turn has passed the management trust to OAO AK "SIBUR" which has restructured the management is now focusing on upgrading the petrochemical facilities at Salavat.
- In September Air Liquide started supplying SIBUR with equipment for the production of liquid nitrogen. This is part of SIBUR's investment programme of around \$20 million in the development of OAO "Uralorgsintez", including energy supply and steam at the complex.
- For the period January-August this year Russian chemical production increased by 16.6% against the same period last year, according to the Russian Ministry of Economy. Ammonia production increased to 7.2 million tons, an 18% increase over 1999, soda ash 1.4 million tons, a 12% increase, synthetic resins and plastics 1.7 million tons, a 17.7% increase, and synthetic rubber 531,000 tpa, a 13.3% increase. The largest increase has been seen in synthetic fibres where production has increased to 114,000 tons, a 39.9% increase over 1999.

CENTRAL EUROPE

Dow announces plans for ethylene pipeline

Dow announced on September 22 that it is conducting an in depth evaluation to build an ethylene pipeline between Stade in Niedersachsen and Teustchenthal near Halle in Sachsen-Anhalt. An environmental impact assessment for the 365 km pipeline was started in June.

The pipeline will provide additional ethylene to Dow's Buna Sow Leuna Olefinverbund GmbH in central Germany. The planned pipeline will allow for the bi-directional transport of both ethylene and propylene. It will also interconnect Dow's salt dome storage caverns in Ohrensen, near Stade, and Teustchenthal.

To quote Dow "the growing markets in Central Europe, as a result of their revitalised economies, have boosted the demand for plastics. The connection with our site in Stade and our sites in central Germany gives us a world class integrated platform for actively satisfying our customers growth needs".

The pipeline will help to feed the BSL complex with olefin supply to support plastics' production. At present additional ethylene to BSL is provided by Chemopetrol via the pipeline from Litvinov. However, the expansion of captive requirements at Litvinov in the next two to three years means that BSL will need an alternative source of supply. This is part of the reasoning behind the pipeline concept being assessed by Dow.

Struggle for control in Hungarian petrochemicals

The pace of change in consolidation in the Central European petrochemical industry took on a new dimension in early September with the emergence of Milford Holdings as the largest shareholder in BorsodChem. This event has shaken up the Hungarian petrochemical sector and developments have moved rapidly over the past few weeks. The following pages provide an overview and bring matters up to date at the time of print.

The event sparking the struggle

An Irish company Milford Holdings Ltd., which previously held 0.66% or 80,000 shares of BorsodChem's stock, increased its holding on September 5 to 24.82%, or 2.99 million shares. Some sources report 24.7% as the stake. Milford is reported to have bought the shares from BorsodChem's two biggest owners, investment funds Croesus Group and Templeton Developing Trust, which had a combined stake of 23.27%. Initially there was some uncertainty over who was the backer to Milford Holdings until Gazprom was confirmed as the investor. This purchase has taken place at what is a very dynamic time in the ownership restructuring of the Central European petrochemical industry. It is also evident that local investors are wary of Russians moving into the market as Hungary strives to become a more western oriented economy.

The other largest stake is reported to be held by 25-21 Northern Boulevard Corporation with 24.96%. Other agents or shareholders with stakes greater than 5% include the Bank of New York (8.65%), and the EBRD (8.61%).

Impact of Gazprom move

The dramatic move by Milford took the market by surprise having a negative effect on BorsodChem's stock price. Buying shares in BorsodChem do not guarantee board representation, but as an important shareholder it may be worth speculating that the new investor is unlikely to remain a silent partner for long. In fact, by the middle of September Milford said that it had initiated an extraordinary general meeting at BorsodChem "to ensure a management able to identify with (Milford's) strategic investment aims."

For timing the purchase in BorsodChem was probably just about perfect. This was due to the concurrent low share values of Hungary's major petrochemical companies, and also the fact that BorsodChem has made several steps in consolidation this year. Most importantly this involves TVK.

Gazprom purchase described as "unfriendly"

This lack of reluctance to hand over control of the Hungarian petrochemical industry to a foreign investor, particularly one from Russia, degenerated into a head to head battle as the month of September went by. By September 22 BorsodChem was describing the purchase of its shares by Gazprom as "unfriendly" and threatened legal action.

The BorsodChem statement ran "it is the unanimous decision of the board that Milford's purchase of a stake in BorsodChem is unfriendly and unsolicited". In its statement, BorsodChem said it would not necessarily comply with a request by Milford to call an EGM, or another request by Milford that BorsodChem not sell its substantial stake in TVK. This effectively represented Gazprom's chief target.

BorsodChem said its board is "investigating all possibilities available, including appropriate legal action" if it is proven that 'lock up agreements' limiting selling of BorsodChem shares have been breached". There seem to be question marks over how Milford's stake in BorsodChem could have been purchased from the investment funds Templeton Asset Management Ltd. and Croesus Central European Corporate Restructuring Fund. Both funds, along with Morgan Grenfell, were involved in a share exchange in May in which the fund companies sold shares in TVK to BorsodChem in exchange for BorsodChem shares.

Gazprom initially responded by saying if its blocked from entering the Hungarian market it might retaliate by getting Russia to reduce Hungarian pharmaceuticals and food product purchases. "If Gazprom's interest will not be taken into consideration in the purchase of a stake in the chemicals industry, then we will reconsider our meat, vegetable fruit and drugs purchases in Hungary," said Gazprom's chief representative.

In an interview with Hungarian public service television, Gazprom also threatened legal action against the companies that are resisting. "It's unacceptable that in Hungary there are slogans saying everyone is treated equally, while they decide at board meetings during the night about the sale of BorsodChem shares".

Control at TVK

One of the main reasons why Gazprom invested in BorsodChem was to gain access to control of TVK and to extend the chain of vertical integration. TVK is key link in the chain with its pipeline network and large demand for petrochemical feedstocks, including 1 million tpa of naphtha. However, as soon as Gazprom's motives became clear MOL started to instigate its own agenda to improve downstream integration and to strengthen its presence in TVK. The main downsides were the doubts that MOL may not have had sufficient financial resources to buy the entire company.

Another interesting twist to the story came from the unconfirmed news that, in addition to the Milford Holding purchase in BorsodChem, in September Gazprom was linked to a secretive purchase of shares in TVK. After this move TVK share values jumped to over Ft 4,000 on September 11 from Ft 3,440 two days earlier. Local brokers said the volume was generated by the purchases made by one major buyer which was Gazprom. If accurate it meant that Gazprom was forging a two pronged attack on TVK through direct shares and through shares in TVK's main shareholder BorsodChem.

Hungarian counter-measures

The first sign of resistance to these manoeuvres occurred on September 19 when Gazprom clashed with BorsodChem for the control of TVK. One way of thwarting Gazprom's expansionist strategy was for BorsodChem to offload its stake in TVK to another domestic company to which it shared alignment and common interest. However, Milford Holdings expressed its concerns over BorsodChem's alleged plan to sell its stake in TVK "below price." "BorsodChem's already largest shareholder (Milford) is deeply worried that, according to available information, the management of the company (BorsodChem) is organising the withdrawal of sizeable assets or their disadvantageous restructuring," Milford said in a statement.

On September 19 the Budapest Stock Exchange took the unprecedented step to suspend trading in shares of MOL Rt, BorsodChem and TVK at the requests of the three companies for a maximum of three days. There was no official word from the companies on why they had requested the suspensions, but the Gazprom moves were almost certain to be behind the decision.

Due to the suspension of BorsodChem, TVK and MOL shares on the bourse, the central depository and clearing house Keler Rt announced on September 21 that, as a provisional measure, it would significantly raise the base margins for the three companies' futures from September 20. The base margin for MOL futures has been raised from Ft 35,000 to Ft 50,000, for BorsodChem from Ft 75,000 to Ft 90,000, and for TVK from Ft 35,000 to Ft 45,000. These measures will help to defend against further share purchases.

It seems that this hold on share dealings coincided in a secret deal for the sale of some of BorsodChem's TVK shares, the buyer of which was MOL. On September 23 MOL announced that it had bought a 7% stake in TVK, valued at around \$21 million, from BorsodChem. This was aimed at heading off Gazprom to take control of the company. MOL already had a 20.1% interest and won two seats on two TVK boards at the August 29 EGM. This was something that it had failed to do whilst the major shareholders in TVK were the investment funds Croesus and Templeton. At the August EGM the head of MOL's chemical division became a member of the board of directors, while MOL's legal director was elected to TVK's supervisory board.

After this transaction MOL states that it had boosted its stake in TVK to almost 30%. This would mean that

although Gazprom has the largest shareholding in BorsodChem, BorsodChem no longer had the controlling influence in TVK. In addition to BorsodChem selling a 7% stake in TVK to MOL, a 7.9 % stake went to commercial bank MKB.

These two stakes constitute nearly half of BorsodChem's 29.9% which it held in TVK prior to Milford entering the scene. Of the remaining shares BorsodChem has agreed to allow MOL to purchase half of that remaining stake in TVK within two years, and entered a "conditional agreement" to sell the other half to TVK's foreign financing arm.

MOL has already announced it will borrow \$350 million in a five-year multi-currency revolving syndicated loan to finance the TVK deal, plus supporting the purchase of 36.2% in Slovnaft. The loan, arranged by DG Bank, The Fuji Bank Ltd, ING Barings and Austria's Raiffeisen Zentralbank, bears an interest of LIBOR plus 40 basis points and a commitment fee of 20 basis points.

Other counter-strikes involved the decision of BorsodChem's Chairman and CEO to resign as Chairman of TVK. This was despite only taking up the appointment on August 29. He said he would start negotiations with Milford about a buyback of the 24.7% stake it holds in BorsodChem. "We hope that Milford will be a partner so that we could work out an appropriate co-operation strategy in the coming period," the Chairman said. Various aspects of the deal remained unclear, including what (if any) impact there was from a widely reported behind-the-scenes role by Hungary's centre-right government. The new TVK Chairman elected was the MOL representative who had been appointed to the board on August 29.

Reasons for Gazprom's interest in Central Europe

One of the main reasons reported from Gazprom for interest in the Hungarian chemicals sector "is for the purpose of creating an ethylene pipeline". More specifically, the short term objective was that Gazprom and a Gazprom-owned company (i.e., SIBUR or SIBUR-Neftekhim) could be at both ends of a pipeline which runs from TVK to Oriana. No decision has yet been made on Oriana by the Ukrainian government, but it could be possible that SIBUR and LUKoil could become founding members in the new venture being created. This venture has been devised as a way of overcoming the debt problem facing Oriana.

A general strategic aim of the Gazprom advance is the creation of a pan-European ethylene pipeline which would include Russia, Ukraine, Hungary and some other European countries". No further details have been provided regarding the cost or technical aspects of the pipeline.

MOL's emergence in TVK puts barriers in the way of these grandiose plans. Gazprom is not likely to receive too much sympathy as they entered BorsodChem by stealth rather than by transparency, and even denied involvement in the first place.

Gazprom has been active in the petrochemical industry in Russia over the past two years through its daughter company SIBUR. Apart from taking control at several petrochemical complexes it has also developed its interests in the tyre and fibre industries through acquisitions. Integration has benefited many of the production units. The Dzerzhinsk region, for example, has witnessed much higher volume output due to improved raw material flows from SIBUR and its subsidiary SIBUR-Neftekhim. Simultaneously, numerous Russian projects are being revived by SIBUR including ethylene and polyethylene at Kstovo, and ethylene oxide and glycol at Dzerzhinsk.

Nearly all the emphasis by Gazprom and SIBUR has been on Russia, although elsewhere in the CIS SIBUR has been keen on acquiring stakes at the PET venture at Mogilev in Belarus and also Oriana. Irrespective of the latest MOL share purchase in TVK if the Gazprom group manages to acquire Oriana, combined with BorsodChem it would become a very large producer of PVC. BorsodChem needs VCM and this is part of Gazprom's thinking about the connections with Kalush.

In addition to the ethylene and VCM/PVC links Gazprom would also be acquiring BorsodChem's MDI production capacity of 60,000 tpa at Kazincbarcika and a new TDI unit which is scheduled to start next year. However, the TDI project may not be completed. There is a clause in Mitsui's license contract allowing it to withdraw its license if a strategic investor acquires a stake exceeding 20% in BorsodChem. Mitsui has expressed that it could withdraw the technology license for TDI plant if Gazprom was able to sack BorsodChem's current management.

Gazprom fights its corner

The prospect that Gazprom might try and use its shareholding position to reverse BorsodChem's sale of TVK shares started to become more likely in late September. Milford Holdings said on September 26 that it would take legal action to annul the sale TVK by BorsodChem. Gazprom said it would seek

the dismissal of certain members of BorsodChem's board of directors at an extraordinary meeting of shareholders.

The situation has become very tense and provocative. The BorsodChem Chairman said the TVK deal was lawful and served the interests of BorsodChem shareholders. The TVK shares were sold for a higher price than the price BorsodChem had bought them for earlier this year. BorsodChem has also secured its ethylene supply from TVK for the long-term by an extension of an earlier agreement between the companies, and thus it was compensated for the loss of control over TVK. To quote the BorsodChem Chairman "we did not want control over TVK, we wanted ethylene, and now we have got it".

The board of BorsodChem sent a letter to their shareholders explaining the company's recent TVK share transaction. The letter asked shareholders to support the company's management, but did not mention the ownership change or the likely extraordinary general meeting. There are suggestions that BorsodChem's management will visit the company's major shareholders in the beginning of October to prepare them for the EGM. BorsodChem at the end of September then said that it plans to call a shareholders' meeting in the second half of November, at Gazprom's request. Gazprom had originally asked for a shareholders meeting by October 31 to make changes to the board in BorsodChem and to discuss strategy.

More Central European restructuring

Although the main focus is on Hungary the outcome of the present developments may have an important influence over other targets in Central Europe. At the moment PKN Orlen in Poland is a strong advocate of mergers in the Central European refining and petrochemical sector and has suggested that it could try to take shares in other companies in the region.

These plans may be upstaged by OMV which has said it is in talks with MOL on forming an alliance that may lead to it buying a stake in MOL. Earlier this year MOL purchased a 36.2% stake in Slovnaft. This transaction is still awaiting approval from the Slovak authorities.

A state owned 63% stake is up for sale in Unipetrol, but the Czech government is still not decided over what should be done, i.e., whether to sell the holding company as a sole entity or to be broken down into constituent parts such as Chemopetrol and Kaucuk. Spolana could be even be integrated into Unipetrol prior to privatisation. Thus, there is much speculation over potential scenarios for further restructuring. This year BorsodChem has already bought a majority take in the aniline producer MCHZ from AliaChem. Whether the Czech government would have approved this move had it been known Gazprom would enter BorsodChem is debatable.

TVK EGM

Some of the changes made at the EGM for TVK on August 29 are now subject to alteration, notably the change in Chairman. The EGM saw the replacement of all but one member of the company's two boards, in addition to the replacement of its most senior managers TVK's shareholders replaced six of the company's seven-member board of directors, and voted for three new members out of the five on its supervisory board.

The new board discussed changes in TVK's strategy put forward by BorsodChem, including its organisational structure, raw material purchasing practices, financial controlling and increased safety and environmental protection awareness. The new board reiterated that TVK will proceed with the sale of its plastics' division, a move planned by the previous management.

As minority owner of TVK, MOL Rt acquired two seats on TVK's two boards, one of which included the head of MOL's chemical division. These positions have become more important since MOL became the largest shareholder in TVK.

Unipetrol

The Czech Cabinet held discussions on September 27 regarding the future of the country's chemical sector. There are some calls for AliaChem, Spolana and Cepro to be incorporated into Unipetrol but there is not unanimous agreement on this strategy. Officials have stressed that the privatisation of a 63% stake in Unipetrol would not occur this year although the Industry Ministry is keen for matters to move quickly. The Industry Ministry estimates the proceeds from the Unipetrol sale at anything between Kc 7.4-16 billion, and believes that the state should sell Unipetrol stakes in stages and keep an 11% stake. Selling less than 50% would require the agreement of International Oil Consortium (IOC), including Shell, Conoco and Agip, and controls 49% of Unipetrol's most profitable subsidiary, Ceska Rafinerska.

Ministers are expected to debate plans for the sector, including the selection of an adviser for the process, in the coming weeks. An adviser could be chosen by the end of the year, according to the Finance Ministry's head of industrial privatisation. The Trade Ministry advocates to sell the holding as it exists to a single

investor. Other ministries have said they would like to see strategic investors enter some of Unipetrol's subsidiaries, including Kaucuk and Chemopetrol and the retail chain Benzina, before selling the company.

The key attraction in the petrochemical sector is Chemopetrol which plans to invest around Kc 2.6 billion over the next two years into the construction of a new polyethylene unit supplied by Linde. Chemopetrol, which says recent investments will create 2,000 new jobs, "intends to double production and become a leader in the petrochemical industry in Central Europe".

MOL

MOL has opened a Ft 7.3 billion hydrogen plant at Szazhalombatta as part of a Ft 50 billion refinery upgrade. MOL continues to negotiate with the government over gas subsidies and there is more optimism now that concessions will be made. MOL will hold an EGM on October 20 to discuss the restructuring of the gas business and whether or not to spin off gas trade, transport and storage into separate units.

Hungary's Competition Office has approved MOL's acquisition of a stake in Slovnaft, but the deal is still subject to Slovakian anti-trust clearance. MOL signed an agreement to become a strategic investor in Slovnaft on March 31, 2000. Under the agreement MOL will acquire an initial stake of up to 36.2% in Slovnaft for a total sum of approximately \$262 million. The deal will be partly executed through a \$150 million increase in Slovnaft's equity and the purchase of existing shares.

Crude Supply

Poland has reached agreement with Azerbaijan to supply up to 10 million tpa of oil from the Caspian region via a new pipeline through Ukraine. The Polish Economy Minister reached a preliminary agreement on the supply of oil in September with the Azerbaijan government. Azeri oil from the Caspian Sea would be carried by pipeline from Baku to the Georgian port of Supsa on the Black Sea, and then by tanker to Odessa in Ukraine. Polish companies are to invest in the construction of a \$330 million oil terminal at Odessa and the Odessa-Brody-Gdansk pipeline. The Ukrainian section of a pipeline to Gdansk is expected to cost \$340 million, and the 740 km Polish section \$830 million. The pipelines could begin to carry Azeri oil to Poland and the Baltic Sea for further transit to western Europe in three or four years. The pipeline could also potentially carry oil from Kazakhstan's Tengiz field. On the Ukrainian side 70% of the network has already been completed, while on the Polish side work has not yet begun. The current objective is to create a consortium in Poland, and by the end of 2000 in Ukraine.

PKN

A decision on whether PKN Orlen can participate in the privatisation of Rafineria Gdanska should be made within the next month. PKN has sent a letter of intent to the holding company Nafta Polska saying it is ready to buy shares of Rafineria Gdanska. If the transaction happens, the new entity would control 80% of the liquid fuel market in Poland. However, the government may not approve of such a strong position being held by one player. PKN Orlen has taken a PLN 65 million loan from the Bank Ochrony Srodowiska (BOS) after signing an agreement on a \$200 million consortium loan with ABN Amro.

PKN Orlen has recently stated that it wants to lead a consolidation of the oil and petrochemical companies in Central Europe. PKN Orlen could exchange minority stakes with oil companies although these moves would have to be approved by PKN shareholders. These plans tend to be speculative at present. The priority initially is the further privatisation of PKN of which the Treasury holds 10.4% and Nafta Polska 18%. The Polish government might consider allowing a foreign company to buy a minority stake in PKN Orlen, thus reversing an earlier strategy. Poland has floated 71.6% in PKN since November 2000 and plans to complete the sell-off through a flotation by the end of 2001.

Paramo

Following advice by the Czech Finance and Industry ministries the Cabinet has selected Unipetrol as the winner of the tender for the state's 71% stake in the Paramo refinery. The Industry Ministry supported Unipetrol based on the transparency of its offer. Canadian concern Norex Petroleum was placed second on the ministries' list. Unipetrol will pay Kc 141.4 million for 942,617 Paramo shares.

Norex Petroleum has questioned the outcome, stating that the government's decision to ignore an independent recommendation to name it the winner of a tender for the state's 71% stake in the Paramo refinery suggests behind-the-scenes politicking. The Cabinet chose Unipetrol, even though it bid less than half as much as Norex. The latter says it will demand compensation, as the decision cost it over Kc 400 million. Norex has been supplying Paramo with over 50% of its crude oil, representing Kc 6 billion in annual sales that it may lose when Unipetrol takes over the refinery. Representatives of Pardubice have voiced concern under the assumption that Unipetrol would not secure further development of the Paramo refinery.

Unipetrol spokesman countered, however, saying a slowdown of production at Paramo is not in Unipetrol's interest.

PVC BorsodChem has been drawing VCM supplies from Wacker in Germany and Oriana at Kalush in Ukraine to supplement its production at Kazincbarcika. PVC production at the BorsodChem complex was 134,527 tons in the first half of this year compared to 107,787 tons of VCM, hence reflecting the imbalance. PVC production is up by about 10% on last year. In Poland production is also up due to better feedstock availability. Anwil is in the process of upgrading its VCM/PVC complex. Volumes of West European PVC have been sold in Poland recently, leaving Polish producers needing to export more product than normal.

Fertilisers The Polish State Treasury has sold 80% of shares in the Superfosfat fertiliser company at Szczecin to a consortium formed by two Polish chemical companies. The deal will provide PLN 4.7 million for new investments over the next three years. Employment at the company will not be reduced. The company produces 50,000 tpa of fertilisers.

Citibank subsidiary Citicorp Securities has acquired a 35% blocking stake in the fertiliser producer Lovochemie from liquidated firm Proferta Lovosice. Lovochemie is investing Kc 1 billion into a new plant to produce nitric acid using French technology. After last year's Kc 54 million loss, it has already sold out its entire 2000 production and expects sales to exceed Kc 2 billion this year.

Aniline BorsodChem-MCHZ is seeking the views of the Ostrava population regarding its planned expansion of the aniline plant. A public hearing will be held in October. BorsodChem anticipates some objections to these plans considering that the aniline plant is located close to the city centre.

Plastics As high raw material costs have spread through the industry plastic converters in Central Europe are being forced to downgrade their profit expectations for this year. The Hungarian company Pannonplast stated in September that its 2000 profits would not meet its target as high oil prices have impacted on costs. Pannonplast's prediction of operating profits of more than Ft 3 billion for 2000 now looks highly improbable after the cost of PVC, polyethylene, and polypropylene increased as much as 80% in the last 12 months, according to the company.

Polish Chemical Output (unit kilo tons)		
Product	Jan-Jul 00	Jan-Jul 99
LDPE	75.6	92.0
Polypropylene	69.9	65.3
PVC	160.4	150.7
Caustic Soda	230.0	191.6
Nitrogen Fertilisers	910.0	804.0
Phosphate Fertilisers	294.9	340.8
Synthetic Fibres	57.4	44.6

Crude oil prices have gained 80% since the start of the year, pushing the price of a kilo of PVC to DM1.84 in June, compared with DM1.04 in the same month a year ago. A kilo of high-density polyethylene rose 69% to DM1.98 during the same period, while a kilo of polypropylene rose 56% to DM1.65.

Even if the fourth quarter did see a dramatic fall in polymer prices (considered unlikely) the first half of the year was so bad for Pannonplast that the company is not expected to recover ground. Second quarter costs increased 42%, to Ft 4.5 billion, driven largely by PVC prices. While Pannonplast's profit is suffering, sales in the first half of 1999 rose 32% to Ft 11.6 billion. Total sales for the year will likely reach the company's target of Ft 26 billion.

Company news The sale of AliaChem was expected to be finalised by the end of September. Agrobiohemie, the joint venture between Unipetrol and Agrofert, is seen as the leading candidate for the 49.25% stake. Chemapol Group's bankruptcy administration had stated that US based Orion Capital Investment wanted to buy the 49.25% stake in AliaChem. Orion claimed that it would invest Kc 2 billion into the chemical group. However, Orion failed to convince the bankruptcy administration that it would be a suitable partner.

The government has acknowledged that the Chemapol Group's bankruptcy administrator would likely sell the stake in AliaChem to Agrobiohemie for Kc 815 million. The bankruptcy administrator confirmed the success of Agrobiohemie against state workout bank Konsolidacni Banka had been approved by Chemapol's creditors committee in early September.

The Ministry of Industry and Trade has been pushing for more state help for AliaChem. According to the proposal, expected to be discussed by the Cabinet, Konsolidacni should provide AliaChem with subsidies of about Kc 1 billion. "We're trying to convince Konsolidacni to restructure the financing because there is still a duty to take care of the company." Konsolidacni Banka would prolong a standstill agreement which keeps other creditors from initiating bankruptcy procedures against AliaChem until at least until the end of the year. In particular this covers loans to AliaChem currently held by bank CSOB. CSOB, majority-held by Belgium's

KBC, acquired the loans when it swallowed failed rival IPB bank in June. The amount of the AliaChem's debts to be transferred to Konsolidacni has not been stated. .

The process of selling the 49.25% share of AliaChem has already led to disputes within the Cabinet, particularly between the Finance Ministry and the Ministry of Industry and Trade. While the Finance Ministry supported the bid for AliaChem from Konsolidacni, the Ministry of Industry and Trade reportedly lobbied for Agrobohemie.

Agrobohemie claims to have financing in place to support the purchase. Unipetrol showed revenues last year of Kc 51.8 billion and a Kc 1.9 billion profit, and is expected to fund the acquisition from its own resources. Agrofert, with 1999 revenues of Kc 17.4 billion and a profit of Kc 1 billion, said it would provide the joint venture with the capital injection from its subsidiary Deza, which in the first half of this year reported a net profit of Kc 52 million on Kc 3.15 billion in sales. AliaChem itself reported a 1998 loss of Kc 1.86 billion on revenues of Kc 11.4 billion, which improved in 1999 to Kc 694 million on Kc 9.5 billion in turnover. In the first seven months of this year AliaChem posted a Kc 251 million operating profit, up Kc 145 million against the same period last year. Turnover grew 5.6% to Kc 5.7 billion.

SOUTH EAST EUROPE

Refining/petrochemicals

In Romania, the State Ownership Fund stated on August 2 that four letters of intent had been received for the take-over of Petromidia at Constanta. According to the SOF, Petromidia is 'bound to be privatised this year'.

Croatian Chemical Output (unit-tons)		
<i>Product</i>	<i>Jan-Jun 00</i>	<i>Jan-Jun 99</i>
Ammonia	205,226	222,728
Nitric Acid	168,845	167,621
Other Inorganic Acids	147,563	141,760
VCM	48,419	20,435
Carbon Black	16,838	8,675
Plant Protection Agents	4,900	3,996
Urea	185,824	191,161
Compound Fertilisers	266,786	260,401
Polyethylene	83,007	82,050
Synthetic Resins	23,503	47,433
Detergents	22,945	20,967
Printing Inks	433	346
Other coating materials	12,937	12,509

In the first six months of this year the Romanian oil and petrochemical company Petrom continued to show strong financial growth. Although turnover in 1999 the company's turnover was higher at 33,617 billion lei compared to 24,793 billion lei this year, the gross profit increased from 877 billion lei to 1,526 billion lei. Domestic sales have been accounting for more of total turnover. In the first half of 2000, Petrom exported oil products worth around \$72 million and petrochemicals worth \$83 million, compared to \$120.3 million and \$82 million respectively last year. The petrochemical complexes belonging to the Petrom group include Arpechim and Petrobrazi. The major export products include acrylonitrile and glycols.

LUKoil has reaffirmed plans to invest \$150 million in Bulgaria over the next three years to modernise the Bourgas refinery and develop a fuel marketing network in the region. LUKoil paid \$101 million for a 58% stake in Neftochim complex in 1999. Plans are being formulated also for petrochemicals.

PVC

The forced stoppage at the Polymeri EDC plant at Devnya due to ethylene supply problems has continued through September. The plant has now been down for the past four months and there are no signs of a restart being made. The reason for this stoppage is the lack of agreement between LUKoil-Neftochim and the owners AKB Corporation for the long-term supply of ethylene. LUKoil-Neftochim requires ethylene produced at Bourgas for captive requirements and thus has little surplus for sale. The Romanian PVC producer Oltchim at Rimnicu Valcea has increased its share capital by 19.667 billion lei, aimed at providing more funds for day to day operations. Oltchim achieved a net profit of 98.8 billion lei in the first six months of the year, considerably more than the profit of 21.8 billion lei in the same period in 1999. For the whole of 1999, the company obtained a net profit of 6.6 billion lei from a turnover of 3,130 billion lei.

Phthalic anhydride

The Bulgarian producer Orgachim at Rousse is focusing heavily on exports, particularly for phthalic anhydride which is currently short in supply. Due to the Kosovo crisis and the Russian economic crisis investment plans for Orgachim were delayed for up to two years. The investment climate has since improved which has led to funds being channelled into the complex.

Chlorine

The Romanian chlorine producer Chimcomplex recorded only a 487 million lei profit in the first seven months of this year, way down on expectations. Large interest payments faced by the company combined with the differences in the exchange rate affected the company's results. Chimcomplex achieved a turnover of 482 billion lei in the first seven months (60% more than

during the same period in the same period in 1999), but profit was affected by high raw material costs. Thus, the net profit of the company was of only 478 billion lei, the same as the profit from last year.

Fertilisers The Bulgarian Privatisation Agency is negotiating to sell a di-calcium phosphate unit, an isolated part of the Agrobiokhim complex at Stara Zagora. A company called Sipo Trading Ltd has been earmarked as the preferred buyer of the unit. The deadline for the signing of the contract is September 8.

A contract for the export of 115,000 tons of phosphates has been signed between Agropolychim of Devnya and the Jordanian National Phosphate Company. This marks the re-entry of Bulgarian fertiliser producers into the Middle East market. Part of the shipments will consist of sodium tripolyphosphate. Agropolychim recently agreed another contract with Syria for phosphate delivery. The company also exports liquid nitrogen and ammonium nitrate. Acid & Fertilisers purchased a 63% stake in Agropolychim last year.

Efforts to sell the assets of the Romanian fertiliser producer Azochim Savinesti through a public auction by the Banking Asset Capitalization Agency (AVAB) have failed. The assets up for sale include buildings and production areas, in particular the facilities for the production of ammonium nitrate and ammonia. The leading fertiliser in Romania is Azomures which plans to produce more than one million tons in 2000.

Fibres The Romanian State Ownership Fund (SOF) has still received no bid for the privatisation of the fibre producer Polirom Roman, with the deadline for submitting bids having finished on July 4. Although the Romanian American Company Nicoren Group bought the task book, it did not proceed with the 70% purchase due to concern over Polirom's debts.

Similarly, the Bulgarian Privatisation Agency has received no interest in buying the rubber and fibre producer Vidachim as a sole entity. The Bulgarian Ministry of Economy has stated that there seems to be no prospect that an offer for the company's whole capital will be submitted by the start of October. The Ministry of Economy had been expecting an offer from the Italian company Marangoni, but no confirmation has been received. The price, that Marangoni offered for the company as a whole was 3 million leva, but this is viewed way below the company's value.

Detergents The Bulgarian detergent producer Ficosota Synthesis at Shoumen has recently been supplied with a modern Italian unit for the production of powder and granule cleansing and washing products. The assembly will be installed by a company called Vodno Stroitestvo at Shoumen. This is the only automated equipment of this type in Bulgaria which should help to substantially improve production quality.

COMMONWEALTH OF INDEPENDENT STATES

Russia

Gazprom's move into Hungary as the largest shareholder in BorsodChem is a part reflection of the extra revenue that Russian hydrocarbon companies have been accumulating in the past year. High oil and gas prices could result in Russia recording a trade surplus in the range of \$50 billion in 2000. In the chemical sector output continues to push upwards as the economy improves and the process of sectoral consolidation and co-operation expands.

For the period January-August this year Russian chemical production increased by 16.6% against the same period last year, according to the Russian Ministry of Economy. Ammonia production increased to 7.2 million tons, an 18% increase over 1999, soda ash 1.4 million tons, a 12% increase, synthetic resins and plastics 1.7 million tons, a 17.7% increase, and synthetic rubber 531,000 tpa, a 13.3% increase. The largest increase has been seen in synthetic fibres where production has increased to 114,000 tons, a 39.9% increase over 1999. Monthly output has been increasing steadily; for instance, fibre production was 15,500 tons in July 2000, 18.8% higher than in July 1999. SIBUR's fibre subsidiary Volzhskiy Khimvolokhno anticipates that output will continue strongly to grow next year. The primary reason for this growth is the revival of idle capacity, coupled to investments at the fibre plants. In particular, SIBUR plans to invest \$15 million in upgrading the Volzhskiy polyamide and spandex units. Modernisation of one production line was already started in the first part of the year.

Other products recording noticeable increases in the first eight months in Russia included synthetic dyestuffs and paints. Growth rates, impressive as they may be, still remain slightly artificial if one takes into account the decline recorded throughout the 1990s. Publicly Putin recognises the 'short termist nature' of high oil prices, and the fact that for industrial output to continue growing economic reform of a fundamental

magnitude is required. Whether he can overcome the institutional and bureaucratic resistance to reform remains to be seen.

Russian expansion

As more information has become available there is a broad based perception that the share purchase by Gazprom in BorsodChem and interest in Oriana is part of a planned acquisition campaign by OAO "SIBUR Neftekhim".

Other developments which suggest Russian companies are taking on a more expansionist strategy involve talks between SIBUR and LUKoil on the possibility of joining forces in the field of petrochemicals. On September 29 LUKoil SIBUR announced they had signed a co-operation agreement extolling the benefits of integration regarding joint development of their gas refining, gas and petrochemical capacities. Entering into partnership, the companies will seek to heal their differences. In particular, the parties will co-ordinate their annual production of associated gas in order to ensure the maximum utilisation rate of their gas refining capacities located in Langeepas, Nyagan and Surgut.

The companies intend to consider the cost-effectiveness of their involvement in the investment project aimed at upgrading and expanding the Krasnoleninsky gas refinery in the Tyumen region. SIBUR has expressed its readiness to supply up to 200,000 tpa of liquefied gas to LUKoil and to ensure deliveries of natural and dry gas. LUKoil from its part will ensure associated gas supplies to gas refineries owned by SIBUR. The parties also agreed that SIBUR would transfer a shareholding in ZAO Permneftegaspererabotka owned by OAO "Permsky GPZ" to LUKoil. In return, LUKoil will transfer a shareholding in OAO SIBUR-Neftekhim owned by ZAO Neftochim to SIBUR.

Although most of the published statement on September 29 referred to domestic assets there is a perception the agreement also involves foreign goals. No further mention has been made about Oriana but it is possible that both groups could join to take over the complex. Theoretically, SIBUR could represent both Gazprom and LUKoil in its expansion in Russia and Central Europe.

This web of intrigue conjures up a number of theories in relation to Oriana and TVK and possibly beyond. Following the purchase of shares in BorsodChem in September events have spiralled over the past few weeks leading to Hungarian resistance and TVK share transfers to MOL. This has put an obstacle in SIBUR's grandiose strategy of possessing a single vertical transportation and sales channel to West European markets.

Should LUKoil become closer to SIBUR it would create a very strong force in the market. LUKoil already has acquired petrochemical assets in Russia and South East Europe. Both Gazprom and LUKoil share a common goal of moving downstream into added value production which means petrochemicals. The main drawback of regional expansion into Central Europe is that there are political and nationalist factors that could stand in the way of Russian investors. However, this resistance is unlikely to deter Gazprom which is currently in a battle to reassert BorsodChem's 29.9% stake in TVK.

Oil refining The Russian Energy Ministry said on September 22 that it had decided to increase supply of crude oil to domestic refineries by three million tons during the fourth quarter from the previous quarter. This government measure has been introduced to prevent a fuel crisis developing.

YUKOS and the new owners of the Angarsk petrochemical complex RINKO (Rosinvestneft) have signed a co-operation agreement, for the creation of a joint venture "RINKO-YUKOS". The main role of the new company is focused on the organisation and management of production at Angarsknefteorgsintez (AKNKH), and also supply companies situated in Irkutsk Region and Buryatiya Republic. Each of two founders will receive an equal share in the charter capital of a new company. YUKOS has agreed to supply to AKNKH 500,000 tons/month of crude, in addition to providing back-up support. There are also plans to supply naphtha to Angarsk from the Achinsk refinery, to be delivered by rail.

By the middle of September RINKO had transferred the right of YUKOS to take over the management of the Angarsk complex, the first time YUKOS has been actively involved in petrochemicals. The refinery is the main priority but the petrochemical divisions are expected to receive attention with emphasis on export opportunities to China.

YUKOS increased its deliveries of crude to domestic oil refineries by 1.7% to 14.75million tons (including supplies to Angarsk) in the first seven months of this year. Supplies to YUKOS's own refineries totalled 12.5 million tons. Production of petroleum products (including Angarsk) grew by 300,000 tons compared to last year, reaching 13.3 million tons. The output of gasoline grew by 10,000 tons to 2.6 million tons, and of diesel fuel, by 380,000 tons to 4.58 million tons.

YUKOS is constructing a 15 km new link between the Kuibyshev and Novokuibyshevsk oil refineries in Samara which will be finished in the early part of next year. YUKOS is the owner of both refineries. The underground pipeline that had been in service for 45 years is no longer functional. YUKOS allocated 168 million roubles for the construction of the new pipeline, which was started in 1996. At the Kuibyshev refinery YUKOS plans to increase production quality to international standards. YUKOS possesses 90.06% of stocks in the Kuibyshev refinery.

OAO "Tyumen oil company" (TNK) and Texaco have put into operation a new line for motor oil packaging. Production capacity of new line amounted to 3,000 tons/month of packaged motor oil. The new line cost an estimated \$1.5 million. In 1999 TNK's total investment at the Ryazan refinery amounted to \$25 million. Oil refining this year is expected to total around 12.5 million tons.

In the Russian Far East the catalytic reforming unit is scheduled to be re-opened in December this year at the Komsomolsk refinery. Modernisation work on the unit started last October. Together with the Khabarovsk refinery the Komsomolsk refinery processed around 5 million tons of crude in 1999. The total for 2000 expected to reach 6.1 million tons.

Petrochemicals In the first half of 2000 production at the Nizhnekamskneftekhim complex increased by 7.7%. The main products that saw an increase were styrene and glycols. A significant aspect of business this year is the increase in cash payments. In 1999, cash sales accounted for 56% of sales whilst in the first half of this year this had risen to 90%. Export revenue has increased sharply this year totalling \$194.7 million for the first six months, \$141.8 million more than in the same period in 1999. Nizhnekamskneftekhim discussed in September the possibility of developing a vertically integrated company, of which the new refinery would play a key role. Polystyrene is mentioned as an important downstream project but there is no news regarding licensors, capacity, etc. At present Nizhnekamskneftekhim is focusing on expanding its liquid capital which is hoped will help investment programmes.

OAO "Nizhnekamskneftekhim" held a meeting on September 26 with investment companies that belong to members of the securities commission NAUFOR. The meeting was held for increasing the market capitalisation for Nizhnekamskneftekhim. The outcome has not yet been published.

SIBUR-Neftekhim

A fire took place at the Kstovo petrochemical complex on September 25 with minor effects on production. The fire resulted close to the condensate reservoir and affected the production of benzene. SIBUR-Neftekhim also encountered energy problems in late September. Local power company Nizhnoenergo stopped supply for two days to the Kstovo plant due to unpaid debts of 110 million roubles. These debts were accumulated under the NORSI period of management. Since SIBUR-Neftekhim has been in charge bills have been paid on time. Resumption of energy was expected to occur after agreements were reached between the two companies. Production of nitrogen was stopped for a day which could have threatened the cooling of numerous products in the Dzerzhinsk region, i.e., chlorine, phosgene. Producers Orgsteklo, Zarya, Sintez and Kaprolaktam all experienced forced outages as a result of the energy cuts. There was a concern that if the energy stoppages continued that some of the local population would have had to be evacuated. The hope is that the situation is now under control.

At the EGM of OAO "SIBUR-Neftekhim" in September a decision was approved to sell shares in OAO "SIBUR-Tyumen" owned by SIBUR-Neftekhim to the value of 886 million roubles. The shares will guarantee a large credit, the purposes of which probably relate to project investments. The Alpha Bank has also granted credit to SIBUR-Neftekhim worth \$2.77 million which will be used in part for the purchase of chromatography equipment. Alpha-Bank previously opened another credit line of \$3 million for the company.

The recent share sale in SIBUR-Neftekhim is still under question by the courts which could lead to a reversal of the transaction. At present, the shareholding in SIBUR-Neftekhim comprises a 75% stake owned by the companies ZAO "Lotos-trade", ZAO "Novator-M" and ZAO "Somteks" jointly owned by 75% share in charter capital. 25% shares in "SIBUR-Neftekhim" are owned by ZAO "Neftekhim" at Dzerzhinsk.

SIBUR-Neftekhim Projects	
<i>Project</i>	<i>Period</i>
Revamp & Expansion of EO plant	2000-01
Revamp & Expansion of EG plant	2000-01
Revamp & Expansion of Cracker	2002-05
New polyethylene plant	2002-05

In addition to SIBUR-Neftekhim's investment programme for the upgrade of the pyrolysis resource technologies, the following projects are seen as major priorities for Kstovo and Dzerzhinsk.

In the first eight months of 2000 SIBUR-Neftekhim increased processing levels at Kstovo and Dzerzhinsk

by 67% compared to the same period last year, reaching 317,700 tons. The cracker increased throughput by 68%. MEG production totalled 98,500 tons in the first eight months of the year, 35.4% of total Russian production. SIBUR-Neftekhim expects to export around 130,000 tons of petrochemicals in 2000.

SIBUR-Khimprom

On September 28 SIBUR-Khimprom officially opened its activities at Perm after the company was created in July this year. SIBUR-Khimprom was established as a closed joint stock company based on the production units Styrol and the Butyl Alcohol Factory both located at Perm. The mother company AK "SIBUR" has developed and approved a programme of complex reconstruction and modernisation of these units costing in the range of \$50 million. The first part of the programme will take place in the period 2001-2003, and the second one through to 2005. During the next two years SIBUR will invest about \$14 million to the reconstruction of Perm chemical complex. One of the priorities will be to modernise the boiler houses at the styrene and butyl alcohol units and to increase the amount of styrene monomer produced.

Tomsk Petrochemical Combine

Tomsk Petrochemical Combine finished its maintenance shutdown at the EP-300 complex on September 9. Butane-butadiene fractions and propylene were being produced by September 10 and ethylene a day later. The LDPE and polypropylene units were being gradually run in and were expected to restart by the middle of the month.

Ethylene Maintenance work was conducted in September on the ethylene pipeline linking Angarsknefteorgsintez and Sayanskkhimprom. From its inventory Sayanskkhimprom sent around 500 tons of ethylene down the pipeline which was mixed with product sent up from Angarsk, with the aim of achieving optimal pressure. Some of this ethylene was also sent to Angarsk Polymer Plant whilst the Angarsk cracker was down for maintenance.

Isobutylene In September Air Liquide started supplying SIBUR with equipment for the production of liquid nitrogen. This follows the contract agreed earlier this year between Air Liquide and OAO "SIBUR" for a new nitrogen unit worth \$2 million at the SIBUR subsidiary Uralorgsintez. This is part of SIBUR's investment programme of around \$20 million in the development of OAO "Uralorgsintez", including energy supply and steam at the complex. Also, a plan exists for the construction of an MTBE unit. The liquid nitrogen plant will help Uralorgsintez to revive production at the 80,000 tpa isobutylene unit. To support this target SIBUR recently signed a contract with the Yokogawa company of Japan for providing an automated system for isobutylene supply for Uralorgsintez. The contact price amounted to \$2.5 million. In 2001, plans exist by Uralorgsintez for a revival of the 60,000 tpa unit for isoprene in a one stage process.

At the Tobolsk Petrochemical Combine isobutylene production was reduced in September as the company limited its usage of gas consumption. This was in response to the shortages for domestic use in the south Tyumen region.

Synthetic rubber The holding group Vologokhimprom in the Samara region plans to invest \$12 million in the synthetic rubber producer Togliattikaucuk in by the end of this year. This investment will increase the production of synthetic rubber to 140,000 tpa. In 1999, the Togliattikaucuk plant produced 120,000 tons. A new line for polyisoprene is also being introduced increasing capacity by 5-7,000 tpa by the end of 2000. This new line replaces the old technology. The main competitors to Togliattikaucuk are Nizhnekamskneftekhim and Kaucuk at Sterlitamak.

Rubber and rubber product manufacturers continue to produce good results. Pre-tax profits at the tyre manufacturer Yaroslavshina (YaShZ) in 1999 rose 140% over 1998 to 217.1 million roubles, compared to 92 million roubles. Net profits at the Yefremov Synthetic Rubber Plant rose 5.6% in the first half 2000 to 33.670 million roubles. Despite this improvement in profitability the local arbitration court has taken the decision to liquidate the company in the second half of October. Nizhnekamskneftekhim has been active at the Yefremov plant and may become the eventual owner of the production units.

Chlorine Chlorine producer Khimprom at Novocheboksarsk recorded a 60% increase in turnover compared to the same period last year. In the period January to August the company produced 6,437 tons of plasticizers, which was 67.6% more than in the same period in 1999, dyestuffs increased by 10% to 88 tons, synthetic resins by 0.9% to 2,054 tons, and hydrogen peroxide by 35.6% to 37,121 tons. Khimprom has recently announced that it intends to increase its production capacity for hydrogen peroxide by 2005. This is in response to growing domestic demand. The local Chuvashia Republic is considering the sale of a 24.59% stake in Khimprom.

PVC In the Irkutsk Oblast Sayanskkhimprom restarted PVC production in September after its scheduled one month shutdown for maintenance. September output for PVC was expected by the company to

be around 15,000 tons. The maintenance period lasted 30 days and will represent the company's only shutdown this year, in contrast to previous years when there have been normally two outages.

Kaprolaktam at Dzerzhinsk has had its period of external management extended until 2008. This has been forced upon the company by the local administration which estimates that it will require up to eight years to pay off its outstanding debts. The company will be required to pay at least 90 million roubles a year to its main creditor the energy company Nizhnoenergo.

Poly-alpha olefins In Tatarstan, Tatneft and Nizhnekamskneftekhim have formed a venture for the construction of a new poly-alpha olefins plant. This plant will be located at the Nizhnekamskneftekhim complex and will have a capacity of 100,000 tpa. The venture will be co-ordinated under the regional investment group Tatneftekhiminvest Holding. Construction is expected to take two years and Tatneft will hold 74% in the venture. No details have been released on which technology will be used.

Aromatic derivatives According to a credit agreement concluded in September, Saxony Land Bank will allocate DM15 million for financing equipment deliveries to the Salavat complex. This is to support Lurgi which will deliver an ethylbenzene/styrene monomer unit to Salavatnefteorgsintez. The unit is scheduled for start-up in early 2004.

Mezhregiongaz, a subsidiary of Gazprom, has failed to take control of Shchekinoazot in the Tula Region through bankruptcy proceedings. This would have happened if support had been given by the company's creditors to this move. But most creditors spoke in favour of an amicable settlement with Shchekinoazot at their meeting. The debt of Shchekinoazot totals 768 million roubles. Mezhregiongaz will now take another approach to gaining control of the enterprise. At a shareholders meeting on October 12, the company will try to place its representatives on the board of directors at Shchekinoazot. In addition to fertilisers and methanol Shchekinoazot has the capacity to produce 52,100 tpa of caprolactam, the third largest producer in Russia behind Azot at Kemerovo and Kuibyshevazot in the Samara region.

On September 15 Azot at Kemerovo held a shareholders' meeting at which the company was accepted into the Gazprom sphere of influence. The majority of seats on the Azot supervisory board are now held by representatives of SIBUR. Gazprom has already voiced its readiness to help Azot with investments in the form of natural gas supplies. Azot needs between 40-50 million roubles worth of natural gas monthly. The money saved from lower gas prices will go towards renovate production at Azot.

Nizhnekamskneftekhim's increasing output levels this year have required more raw material purchases. Benzene deliveries, for example, increased to 33,933 tons in the first six months of this year compared to 50,927 tons in the whole of 1999. The main supplier of benzene this year has been Salavatnefteorgsintez. Benzene is bought by Nizhnekamskneftekhim to supplement its own cracker based output in the production of styrene. Methanol purchases for the first six months totalled 58,894 tons compared to 87,779 tons for the whole of 1999. The main supplier of methanol was Metrafrax at Gubakha. Other products which Nizhnekamskneftekhim buys on the open market include phenol, isobutane, butane-butadiene, and butane-butylene fractions.

Ukraine

The Ukrainian State Property Fund has been devising investment conditions for a potential founder in the open joint-stock company which is being to be created at the Oriana complex. Following the recent SIBUR-LUKoil agreement on co-operation in Moscow Oriana could be a joint target. However, it will be necessary for investors in the new Oriana venture to restructure a Bavaria Union Bank loan in a 60-day term, guarantee monthly supplies of raw materials in the range of 75-80,000 tons, and preserve the current number of workforce.

According to the Fund, it has already received initial applications from several bidders which are willing to consider possibilities. Earlier, in August, Oriana was reorganised into an open joint stock company. excluded from the list of companies to be sold in 2000. The conditions for debt repayment and maintaining workforce numbers may serve to deter any foreign investor.

SIBUR is very interested in Oriana, particularly after Gazprom's move by stealth into BorsodChem, but is neither able nor willing to offset the debts. Although speculative, there could even potential for a Western partner to become involved with SIBUR in a joint approach towards Oriana. After so many twists and failed privatisation efforts over Oriana a certain amount of caution is required. The Alpha-Group consortium's Ukrainian subsidiary called Alfa-Capital is also interested.

One of the major creditors the German company MG TRADE from Frankfurt is turning to the International Arbitration Court to sue Oriana if it does not repay the debt of \$27.6 million. According to a source in the

government, the German company has sent a letter to President Kuchma of its intentions. The letter states that the company will go to court if all other measures fail. The German side stated the talks with Oriana's management have not yielded any positive results. Previously, Oriana's Vice President stated that Oriana will not pay the debt to the Bavarian united bank until it is restructured. MG is Metallgesellschaft AG which now owns Klöckner. It appears that MG Trade may be intent in obstructing the privatisation process of Oriana until they are paid their money in full.

In the first half of 2000, DniproAzot quintupled its after-tax profit versus the first six months of 1999, bringing it up to 45.4 million hryvnia. DniproAzot attributes the increase partially to the management over the company's financial assets. In the period January to August this year Dniproazot increased its urea production by 3.7% to 412,660 tons; ammonia production grew by 0.85% to 308,500 tons; caustic soda rose by 28% to 34,04 tons; and the output of liquid chlorine and hydrochloric acid increased by 28% and 21%, respectively. The growth in the company's physical production was attributed to increased sales on the domestic market. For the first eight months of this year, exports accounted for 59.1% of the company's sales. Earlier this year, the company resolved not to disburse dividends for 1999, allocating its profit to partly cover losses of past years (reaching over 114 million hryvnia) and to upgrade its production facilities.

Azot at Severodonetsk believes that its exclusion from the list of enterprises of strategic importance for Ukraine will be of some benefit in the privatisation process, rather than disadvantage. According to Azot's financial and economic director the state bodies do not help the strategic enterprises, thus requiring an alternative path of privatisation. Azot's net profit was 28 million hryvnia in the first half of 2000.

Fertiliser and polystyrene producer Stirol at Gorlovka announced its first half pre-tax profit at 88.1 million hryvnia. The company's turnover increased by 42.8%, totalling 361.7 million hryvna. The share of exports increased from 74% to 82% in the company's total sales.

The pre-tax profit of the Crimean Soda Plant amounted to 20.4 million hryvnia in the January-August period. The volume of sales has increased year on year by 27.2% and amounted to 142.6 million hryvnia. The improved results are due to higher production of soda ash, which amounted to 343,000 tons in the first eight months of the year.

In the first eight months of 2000, OAO Sumykhimprom produced 23,000 tons of pigment titanium dioxide, representing a 32.4% increase over the same period in 1999. The growth resulted from the reconstruction of the titanium dioxide unit also including an improvement in quality.

The Cabinet of Ministers has resolved to sell the state-owned stake of 25% + 1 share in the Zatissiansky Chemical Plant. The company is the monopoly producer of zeolite flour in Ukraine. Currently, the plant's 60.59% is held by the state, 14% belongs to the company's employees, and 25.41% is in the hands of physical and legal entities. The management is concerned about the government's intention to split the state-owned stake, as it hoped that the sale of controlling stake would bring a much-needed strategic investor to the company.

Zatissiansky Chemical Plant recently started the production of a test lot of new product baryte, which is used for well-boring and manufacturing paints and rubber goods. The company plans to bring its baryte production up to 20,000 tpa. Ukraine needs nearly 40,000 tpa of baryte with heavy dependency on imports.