

EAST Europe & C.I.S CHEMICALS BRIEFING

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Some of the main features in the April 2000 issue

- TVK has signed a contract with Linde to construct a 310,000 tpa ethylene plant to add to the current plant of 350,000 tpa. The main aim of the new cracker is to meet the demands of more polyethylene capacity at Tiszaujvaros, and also to raise propylene production levels.
- MOL stated on March 30 that it had sold its 21.4% stake in the polystyrene venture Dunastyr to EniChem Spa.
- AliaChem was hoping to form a joint venture with BorsodChem by the end of March. The project, reportedly worth \$55 million, will include Moravske chemicke zavody's (MCHZ) aniline plant at Ostrava which falls under the ownership of AliaChem subsidiary. AliaChem cut 1999 losses to Kc 677 million from Kc 1.86 billion in 1998 and is preparing a strategic plan through to 2003, aimed at halving current debts of Kc 4.7 billion
- Degussa-Huls is in the process of buying a carbon black plant and attached power station from Nafta Polska and Rafineria Jaslo for DM13.5 million. Located at the Jaslo oil refinery in the south east of Poland, the production units will operated under the mantle of a newly formed company Carbon Black Polska Sp z.o.o.
- The latest auction for a 51% stake in the chlorine producer Chimcomplex at Onesti was closed on March 13. However, with only one bid received and that bidder looking for an extension of 15 days, the Ministry of Finance decided to delay the auction by another 60 days. The share stock owned in Chimcomplex by the State Ownership Fund (SOF) is being put to sale by the Ministry of Finance in exchange for the company's debts.
- Recent reports indicate that Russia will receive seven million Euros from the European Union to help it proceed with destruction of its chemical weapons. The funds will be provided through the Tacis technical assistance programme, and will be spent on two projects. Four million Euros will be devoted to dismantling the Kaprolaktam mustard gas units in the Dzerzhinsk region.
- OAO "Sibneft" has increased its ownership of shares in its Omsk oil refinery OAO "Sibneft-Omsk NPZ" to 78.51%. Sibneft exports approximately 33% of its crude production, the remainder is sent to its refinery. First established in 1955 with a capacity of 3 million tpa, the Omsk Refinery now has a capacity of 19.5 million tpa making it the single largest refinery in Russia. With the shutdown of the atmospheric vacuum crude unit in 1997, the refining capacity has been reduced to 19.5 million tpa.
- SIBUR-Neftekhim is considering building a polyethylene plant in Kstovo during the next five years. The project, to cost around \$200 million, will process some of the ethylene made at the company's petrochemicals plant in Kstovo, expand the company's product range and increase exports.
- The much delayed PTA project in Bashkortostan has been receiving more attention recently, the main strand of which involves the United Nations Industrial Development Organisation (UNIDO). UNIDO was requested by the Bashkortostan government to promote the Polief polyester complex at Blagoveshchensk, in addition to polycarbonate project at the Ufakhimprom site. UNIDO's objective is to try and find potential investors.
- The delayed sale of the Crimean soda ash producer OAO "Crimean Soda Plant" has been revived with a recent announcement that an 89.47% stake in the company will be offered. The State Property Fund said in a statement that bids would be accepted until May 30. An international consortium led by Commerzbank AG of Germany is the financial adviser to the sale. The fund said it would tender 161,985,756 ordinary shares with a nominal value of one Hryvnia each. The starting price should be no less than the nominal value of the stake which is \$29 million.

CENTRAL EUROPE

Oil refining

Important questions are continuing to mount over the future ownership of refineries in Central Europe. Slovnaft in Slovakia and the Gdanska refinery in Poland represent key targets for a take-over should the right investor be found. To add to these refineries the Czech government is considering the sale of its 63% stake in Unipetrol, whilst in Poland Nafta Polska is seeking to sell more of its shares in PKN.

Slovakia

Reports emerged in late March that MOL Rt could be awarded the tender for a majority stake in Slovnaft, although confirmation is awaited and even if true there are still several stages to go through. Other bidders include OMV and PKN. Brokerage firm Cashline Securities reported that MOL promised more than other competitors and more than the present market value of Slovnaft. The winner can gain a majority stake in the Slovak company by raising the capital by a minimum of \$50 million, gaining 15-20% of the stock, and then by buying 33.9% of the stock from Slovintegra for around \$100 million.

For several weeks PKN has been expected to emerge as a frontrunner in the sale of a 15-20% stake in Slovnaft. However, there has also been a view that MOL would get first option. Reservations prevail over whether MOL will have the funds to pay the price. Should those talks not yield results, PKN could still be in a good position to take advantage.

MOL's activities in upstream oil exploration and production integrate well with Slovnaft's refining capacity. Furthermore, MOL is keen to move into the petrochemical sector and the Slovnaft petrochemical complex thus provides a good entry. From PKN's perspective, the purchase by MOL would add to the competitive edge in the gasoline market in southern Poland. This is one of the reasons why PKN has shown interest in buying the Slovnaft stake, which could help to lock out Central European competitors from the region. Southern Poland remains relatively untapped apart from a few independent retail gasoline operators, which operate not more than four stations each.

PKN would have more to gain than just protecting its southern market. Slovnaft is upgrading many of its refinery operations to be able to compete with other oil companies in the region. Furthermore, in terms of petrochemicals there is the significance of PKN being able to acquire more olefin and derivative capacity which could help to serve the southern Polish markets, plus other parts of Central Europe.

Poland

Polski Koncern Naftowy SA (PKN) plans to change its company and brand name to Polski Koncern Naftowy ORLEN SA. PKN shareholders will vote on changes to the company's statute, including the change of the name, at a meeting on April 3. Nafta Polska plans this year to issue 20-30% of shares in PKN, in addition to last year's 30%.

In late March PKN commissioned a new PLN 970 million complex for the chemical processing of soft asphalt. A complex for hydro-desulphurisation of soft asphalt (HOG) was commissioned at the Plock refinery. The investment will increase the refinery's output of gasoline and diesel oil, and reduce the emission of sulphur dioxide. Another three installations will be put on stream in June and July at the Plock refinery. The HOG installation was built by Snamprogetti.

The Polish government cleared the way on March 21 for the pending privatisation of Rafineria Gdanska with an increase in capital and a suggestion of a possible flotation on the Warsaw bourse. Gdanska's privatisation is expected to be completed in late 2000 or early 2001, but the size of the offered stake or the sell-off method have not yet been announced.

The government's potential scenarios for Gdanska's sell-off, advised by JP Morgan, include a sale to a strategic investor, a group of investors, and a flotation on the bourse. Gdanska's privatisation is managed by Nafta Polska, the state company supervising the privatisation of Poland's oil sector. A sole strategic investor may be picked and this company would then participate in the sale of the remainder of Gdanska. If no strategic investor is selected, Nafta Polska will either sell the company to investors or float it. Gdanska lacks the strong retail distribution network that is the backbone of PKN, but it has invested heavily in modernising its facilities to increase crude processing capacity to around 4.5 million tpa later this year.

Czech Republic

The Czech Finance Ministry stated in March that it was considering at least three alternatives for the privatisation of Unipetrol. However, the sale of the state's 63% stake in the company, planned for the end of 2000 or early 2001, is only in its early stages. A sale to a strategic investor, or the floating of

Unipetrol shares in a global offering are the two privatisation methods favoured by the government. The Industry Ministry would prefer that the 63% stake be sold to a single foreign interest, or consortium. This Ministry also hopes that the PVC/alpha olefins' producer Spolana and state-owned distribution network Cepro to become part of the holding prior to the sale.

However, should the option of selling the stake as an entity not be feasible the state could divide and sell the group in separate parts. The broad consensus is that Unipetrol's privatisation is crucial for the company to stop losing its share in the domestic refinery market and complete heavy investments in its refinery and petrochemical divisions. The Finance Ministry also stated that it was testing investors' appetite for the Czech oil sector with a tender for the small refinery Paramo a.s., to be concluded by end of April.

In the gasoline sector Ceske Rafinerska started the production of lead-free gasoline in February, previously imported, and wants to eliminate leaded gasoline by 1 January 2001. It plans to increase its domestic market share from 50% to 57% this year and increase sales by 150,000 tpa. Ceska Rafinerska a.s stated in March that its net profit dropped to Kc 1.69 billion crowns in 1999 from Kc 2.13 billion in 1998 as the domestic recession cut margins. Other factors which had helped cause the lower profit included sharpening competition from refineries in Central Europe.

Olefins Anticipated rises in olefin prices during the second quarter should help to improve company profitability amongst the Central European petrochemical companies. Although ethylene is not considered tight, high feedstock costs are pushing up prices. Propylene in West Europe remains in short supply, and this has ramifications for Central Europe where there is a shortfall of propylene for derivative production.

First quarter performance for the petrochemical companies in Central Europe has been badly affected by the astronomical costs of feedstocks, which cannot be passed on to customers immediately. The price of naphtha rose 40% in February and March, while the price of derivatives such as polyethylene and polypropylene changed little. However, with expectations that feedstock costs may have peaked whilst petrochemical prices have been strengthening the major producers expect a good year overall.

TVK reaffirmed in late March that petrochemicals are key to future profit growth and it will sell its plastics' division. Though talks with Pannonplast Rt collapsed last month, TVK claimed to be in negotiations with a number of interested buyers and its shares rose 4.2% to Ft 4,890 on March 21.

Olefin Projects The shortages of olefin monomers are helping to inject project activity in Central Europe. The Chemopetrol ethylene cracker expansion has been well documented in previous issues, but this is now being joined by other projects in Hungary and possibly Poland. Plans for Hungary are at a more advanced stage, but there seems a good prospect that PKN will make some sort of decision in the not too distant future. As for co-operation between the respective producers in the region there is plenty of support. Pipeline ideas have been discussed in detail, but there are reservations about these ideas making much progress whilst companies in the region remain separate entities. If the cracker projects proceed as thought ethylene capacity in the first wave of Central European EU entrants will increase from 1,160,000 tpa in 1999 to 1,820,000 tpa by about 2003-2004, representing a 57% increase.

| Phase 1 EU Entrants Ethylene Capacity (unit-kilo tons) | | |
|---|--------------|----------------------|
| <i>Country</i> | <i>1999</i> | <i>2003-2004 (?)</i> |
| Czech Republic | 450 | 560 |
| Hungary | 350 | 660 |
| Poland | 360 | 600 |
| Total Capacity | 1,160 | 1.820 |

Hungary

TVK has signed a contract with Linde to construct a 310,000 tpa ethylene plant to add to the current plant of 350,000 tpa. The main aim of the new cracker is to meet the demands of more polyethylene capacity at Tiszaújváros, and also to raise propylene production levels. The recent start-up of the new polypropylene unit has increased TVK's propylene requirement to 280,000 tpa which it cannot meet from its own

production and purchases from MOL. The new cracker is scheduled at this stage to be completed in 2003.

A chief priority at present is to arrange finance. This contract is a central part of TVK's strategy in the next few years. As determined at the board's meeting in January 2000 one of the main aims of the company is to lay the foundation for further petrochemical expansions between 2003 and 2007, pending favourable market conditions. Other objectives include the construction of a 10,000 tpa ethylene and 10,000 tpa propylene storage facility.

An 180,000 tpa capacity polyethylene plant is planned for construction with an option for further expansions. The new polyethylene plant will target the manufacture higher value added polyethylene grades currently absent from the TVK product range. The recently completed PP Plant IV could be expanded by about 40,000 tpa. TVK is in negotiations with potential raw material and process equipment suppliers for the

expansions. By the middle of 2000 the company should have reached, or be at least close to decisions on new projects.

Poland

In Poland, PKN is in the process of assessing major expansion plans for petrochemicals at Plock, including a new 600,000 tpa cracker coupled to other derivative units. These plans have been on the table for some time, at least since the middle of 1998 (see issue no 92, August 1998). To a large extent plans have been delayed by the privatisation of Petrochemia Plock S.A. and its merger with CPN, which was completed last year.

The new capacity is designed to meet the growing demand of petrochemical products in Poland with domestic demand far outweighing domestic production. Derivative projects that could be considered include HDPE and polypropylene. Capacities have been suggested at levels of 300,000 tpa of HDPE and 240,000 tpa for polypropylene, but the final details have not been decided. Poland produces only LDPE at present at PKN and at Zaklad Tworzyw POLI-CHEM Blachownia Sp z.o.o at Kedzierzyn-Kozle. Additional ethylene is also required for supporting Anwil's expansion of VCM capacity at Wlowlawek, linked to Plock by pipeline.

The options for the ethylene cracker consist of either upgrading the existing 360,000 tpa capacity to 600,000 tpa, or to build an entirely new cracker initially of 400,000 tpa with a later expansion to 600,000 tpa. The outcome of PKN's assessment of the best option will be made public this year.

PVC Pressure is mounting to resolve the issue of who should own Spolana. Shareholders of Spolana a.s. decided at the start of March to decrease basic capital from Kc 2.8 billion to Kc 1.8 billion through a 65.5% reduction in nominal share value to cover accumulated losses from the past few years. At the same time, the company approved a subsequent Kc 3.1 billion increase in basic capital through a share subscription to be paid for by bank claims on the chemical producer. It thereby hopes to get rid of debts before searching for a strategic partner.

If Spolana wants to stay in the PVC market finding a new owner quickly is very important. The major PVC players in Central Europe, Anwil and BorsodChem, are not standing still whilst EVC is now becoming a factor with its expansion programme at Schkopau in eastern Germany. Spolana has 2,620 employees and its shareholding is broken down into Chemapol Group 44.5%, C.H.Chem (a Chemapol subsidiary) 31.1%, and the National Property Fund 1.35%. The major creditors consist of Komerční Banka, Investiční a Poštovní Banka, and the state-owned body Česká Inkasni. The only real potential investor is viewed as being Unipetrol whereby it would benefit from closer ties with Chemopetrol. This is an option favoured by the Industry Ministry.

BorsodChem anticipates a record year in 2000, largely on the pretext that PVC prices remain strong. A forecast has been made that BorsodChem's turnover may reach Ft 13 billion this year. However, this theory is based on the continuing level of high feedstock costs to which PVC and MDI are linked. The first half of the year is viewed as being the best period for BorsodChem, with PVC prices reaching a high by the latter part of the second quarter. MDI prices are also expected to stay strong in the first half of the year before returning to their long run historical average.

In the past two years BorsodChem has been placing considerable emphasis on integration in order to try and reduce unit costs of production. The VCM division has been pursuing goals of maximum capacity utilisation, whilst also preparing for the next phases of capacity expansion, including adaptation of oxygen-based technology. In the past year the upgrades have involved improving control instrumentation and the installation of new field equipment for direct production of EDC. The quality of EDC and VCM considerably improved after the installation of an EDC stripper and new vacuum column. This modification also had a positive effect on various stages of the technology, it helped the polymerisation process in addition to improving PVC product quality. Finally, the number of emission sources decreased with certain components (chlorine, hydrochloric acid, vinyl chloride, EDC) becoming less noticeable.

Olefin derivatives Competition for acrylate esters is intensifying in Central Europe as Eastman and Celanese take strategic positions. The privatisation of Chemicke závody Sokolov a.s. (CHZS) was completed with the transfer of ownership taking place on 31 March 2000. In addition to Eastman paying Kc 150 million for the stake, its subsidiary Lawter International Luxembourg paid a further Kc 1.12 billion for CHZS's claims at the state-owned Konsolidacni Banka (KoB). Eastman will announce a tender to buy out minority shareholders at Kc 112 per share before increasing CHZS basic capital in May. However, shareholders say the price is too low. Prior to privatisation, CHZS stated that Eastman had undertaken talks with Chemapol about its 18.7% stake in CHZS.

There have also been developments in the acrylic acid sector in eastern Germany. At the start of the year, three new plants for the production of crude acrylic acid, pure acrylic acid and butyl acrylate came on stream at the BSL Bohlen chemical complex. The plants have been constructed on a co-operation basis between Buna Sow Leuna Olefinverbund GmbH (BSL) and Celanese Chemicals. Dow Chemical Company has an 80% share and the Bundesanstalt für vereinigungsbedingte Sonderaufgaben a 20% share in BSL.

The technology is the same used at the Celanese plant at Clear Lake, Texas. Celanese Chemicals manages the operation of the plant for BSL and is the sole external marketer of the products. Dow will take about 50% of the output for its downstream derivatives such as superabsorbents and emulsion polymers. For Celanese Chemicals this start-up represents a further step toward strengthening its presence in Europe and expanding in the acrylic acid and acrylates' sector.

In the marketplace Rexon Group Corporation is looking to buy 2-ethylhexanol in quantities of around 500 tons per month for delivery to the Czech Republic. Further details: Dmitriy Gitelman, Rexon Group Corporation, Tel +49 331 812 038, Fax +49 331 863104, E-mail: mhg-potsdam@t-online.de. 2-ethylhexanol in Europe is generally being restricted by a limited availability of propylene.

Plastics Reports were surfacing at the end of March that TVK is expected to sell its plastics' division to the Greek company Maillis SA. Maillis was established in 1968 and it holds plastic industrial capacities in Greece, Spain and the UK. The company has opened offices in the Central Europe. However, TVK has denied any negotiations about the sale and inform the 30 applicants, and possible partners, in one announcement. The process of the sale may, however, last several months. TVK will reorganise its plastics' division into separate companies, as the management foresees that future buyers are rather interested in smaller separate divisions than as a complete package.

To support this strategy TVK will transfer its plastics' activity to a wholly owned subsidiary starting 31 March 2000. The main aim of the sale is to raise money to invest in TVK's core petrochemical business. The decision to cancel the original sale arrangement with Pannonplast was announced at the end of February. The statement by Pannonplast read that "during the period since the signing of the Agreement with TVK in January Pannonplast has completed the legal, financial and business due diligence of 4 subsidiaries (two of them in foreign countries) and 5 internal units of TVK's plastic processing business. As a result of the investigation Pannonplast came to the conclusion that its valuation of the plastic processing division deviates from that of TVK, therefore Pannonplast withdrew from the transaction". The management of TVK was advised of this decision on the 28 February 2000."

TVK's units could have tripled Pannonplast's revenues, making it the third largest plastics' manufacturer in Europe. It is not inconceivable that Pannonplast could buy one or more of the separate units from TVK, but not as a whole division. Pannonplast felt the risks were too great to take on the TVK purchase. The company has decided to focus on other goals such as expanding its production capacity at existing facilities in Romania and Ukraine.

The reasons for TVK selling the plastics' division in separate parts stem from concerns over its viability as a total unit. The two most attractive units in the division include BOPP, a raw material for packaging materials, and units of Austrian plastic firm Unterland AG, which TVK purchased in November 1998. There is consensus of opinion that the planned sale would make TVK a more attractive acquisition target for an investor, such as MOL.

Also in Hungary plastic parts' manufacturer Robust Plastik Kft announced that it will open a new factory in Győr this year, probably in the city's industrial park. The company was founded at the end of last year and expects at least a Ft 33.5 billion turnover this year.

Czech Republic

AliaChem plastics processor Fatra Napajedla last year returned plastics' processor to a profitable situation, grossing Kc 69 million after a 1998 loss of Kc 114 million. Operating profit amounted to Kc 138 million, on sales of Kc 1.577 billion, down Kc 182 million on 1998. Ongoing restructuring and specialisation of the firm were among the reasons for a fall in production.

Exports comprised 24% of sales last year, 2% more than in 1998. Most of the exports went to Austria, Poland and Slovakia. Productivity per employee of the company grew 26% to Kc 442,000, up from Kc 350,000 the previous year. In the future, Fatra plans to specialise in plastics for the construction and packaging materials, which now already make up 70% of sales. Restructuring of the production line will be completed within three years. This year, Fatra plans to increase sales to Kc 1.75 billion, mainly due to packaging materials, and to recruit more employees.

Rubber industries

Degussa-Huls is in the process of buying a carbon black plant and attached power station from Nafta Polska and Rafineria Jaslo for DM13.5 million. Located at the Jaslo oil refinery in the south east of Poland, the production units will operated under the mantle of a newly formed company Carbon Black Polska Sp z.o.o. Plans exist for Degussa-Huls to invest another DM10 million to upgrade and expand the carbon black unit at Jaslo to 25,000 tpa by 2002. This will be then be augmented by a further expansion taking the plant capacity to 50,000 tpa by 2003-2004. The investment is seen as viable due to the increasing demand for rubber carbon black in the Central and East European region, stimulated by the rising number of cars.

Central Europe-currencies Mar 20th 2000

| Country | Currency | \$1= | EURO = |
|----------------|----------|---------|---------|
| Czech Republic | Koruna | 36.7360 | 35.5635 |
| Hungary | Forint | 265.440 | 250.167 |
| Poland | Zloty | 4.0725 | 3.9448 |
| Slovakia | Koruna | 43.0280 | 41.6664 |

In Poland Firma Chemizcne Dwory S.A. at Oswiecim is reported to be seeking investors and potential partners for the upgrade of the production facilities. Around PLN 70 million is estimated to be required for modernisation this year. A major objective of Firma Chemizcne Dwory is to start butadiene rubber

production. Dwory's majority owner Foksal National Investment Fund might withdraw from the privatisation programme which could leave Dwory to conceivably form a new company with an external partner.

Financial performance

TVK Rt has reported that 1999 earnings were worse than earlier stated. TVK said 1999 profit fell 31% to Ft 8.14 billion, or Ft 327.62 per share, from Ft 11.84 billion, or Ft 535.7 per share, in 1998. The company previously reported full year profit of Ft 8.26 billion, or Ft 363.6 per share, excluding Unterland in its consolidated result.

Henkel Magyarorszog Kft, increased its turnover by 20% to over Ft 30 billion in Hungary last year. Export sales amounted to Ft 7 billion. The company spent Ft 1.2 billion on investments. The management plans a further 20% increase in turnover in 2000.

In the Czech Republic financial performance of chemical companies over the past twelve months has been variable, in part due to market factors but also in part due to the transitional phase affecting many companies. The bankruptcy of Chemapol has had a substantial impact on the industry, not solely on the direct subsidiaries. But measures are being taken; AliaChem cut 1999 losses to Kc 677 million from Kc 1.86 billion in 1998 and is preparing a strategic plan through to 2003, aimed at halving current debts of Kc 4.7 billion.

The major producer in the Czech Republic Unipetrol posted a preliminary unconsolidated net profit of Kc 1.096 billion in 1999 after a Kc 2.519 billion loss the previous year. Consolidated profits at Unipetrol grew to Kc 2.1 billion in 1999, up fivefold on 1998, on a Kc 3.7 billion jump in total sales to Kc 53.6 billion. Results were strongly influenced by rising oil prices. However, breaking the results down by division both Chemopetrol and Kaucuk experienced weak performance in 1999 due primarily to the poor margins for petrochemicals in the first half of the year.

One bright note is that Deza at Valasske Mezirici posted a preliminary 1999 net profit of Kc 52.3 million, up more than Kc 23 million against 1998. However, sales amounted to Kc 3.15 billion, down nearly Kc 100 million. Sales for Chemicke zavody Sokolov a.s. (CHZS) in 1999 were Kc 2.546 billion against Kc 2.808 billion in 1998. Exports amounted to Kc 2.083 billion. Losses of Kc 270 million in 1999 were posted by the company compared to Kc 79.6 million.

In the dyestuff sector Spolchemie posted an audited profit in 1999 of Kc 20.7 million on preliminary sales of Kc 2.75 billion, down 20% on 1998. The company lost Kc 2.7 billion over the previous two years. Ostacolor Pardubice announced a loss of Kc 144 million last year, compared to a Kc 3.6 million profit in 1998, on revenues of Kc 2.5 billion. Ostacolor attributes the loss to a sudden forced payment on loans to foreign banks after AliaChem became the majority owner.

Synthesia Pardubice, part of the AliaChem group, posted a Kc 240 million 1999 loss even though this was better than in 1998. The Kc 860 million improvement is credited to added labour productivity and the dismissal of 10% of staff. Revenues were Kc 4.5 billion, down Kc 1.1 billion, after bankruptcy was filed against the Chemapol Group, AliaChem's biggest shareholder, in 1998.

Restructuring/Ownership changes

Czech Republic

Chemopetrol has stated that it plans to lay off 1,200 of its 3,450 employees by the end of 2004 in order to compete in European and world markets.

Apart from this venture with MCHZ the future of the other divisions in AliaChem remains unclear. The number of employees involved is 7,000 whilst the main shareholder is Chemapol Group, Investicni a

Postovni Banka 47%. The main creditors are Konsolidacni Banka, IPB, Komerčni Banka, and Credit Lyonnais. The major shareholder, Chemapol Group, was declared bankrupt on January 27, 1999.

The Eastman acquisition of CHZS at Sokolov is now complete. At the end of last year, CHZS cut its share capital to Kc 1.25 billion in order to settle accumulated losses of Kc 564 million. CHZS will reduce its board of directors from nine members to four and its supervisory board from eight to three. Eastman hopes to buy out other shareholders in CHZS. Similarly, Agrofert Holding which owns 50.13% in Deza a.s., has begun a mandatory buy out of minority shareholders.

As part of Spolchemie's restructuring programme a contract has been signed to sell subsidiary Enaspol with the buyer to be named after the transaction takes place. Spolchemie, which sold majority stakes in five subsidiaries last year, is reportedly also looking to sell its 54% share in Colorlak. In terms of raw material supply and product marketing Spolchemie plans to change the organisation of purchase and sales, and to improve the efficiency of these departments based upon available market information, etc.

In an effort to reduce costs Bochemie Bohumin will dismiss 40 of its 436 employees in April. The chemical producer posted a 1999 gross profit of Kc 43 million on sales of Kc 562 million.

AliaChem was hoping to form a joint venture with BorsodChem on the basis of one of its best subsidiaries by the end of March. The project, reportedly worth \$55 million, will include Moravske chemické závody's (MCHZ) aniline plant at Ostrava which falls under the ownership of AliaChem subsidiary.

Hungary

MOL stated on March 30 that it had sold its 21.4% stake in the polystyrene venture Dunastyr to EniChem Spa. The stake was sold for Ft 452.5 million. MOL said the transaction was the first step in its divestment programme, in line with a new strategy announced in October 1999. Dunastyr posted net sales of Ft 15.8 billion in 1999.

Sipcam Inagra S.A. has bought a 34.34% stake in Budapest Chemical Works (BVM). BVM incurred losses of Ft 1.3 billion last year against revenue of Ft 3.6 billion. This year the company expects a turnover of Ft 4.2 billion, due mainly to agreements with new export partners. Sipcam Inagra is owned by Sipcam Nederland Holding N.V. and Oxon Italia.

SOUTH EAST EUROPE

Oil refining The Croatian media has expressed concern over the proposed merger of INA with MOL due to its ownership composition which it believes to possess Russian influence.

In Romania, Petromidia has resumed crude processing for the first time this year, after finding funds to pay for the imported crude. A shipment of 70,000 tons of crude oil was received from Russia in early March. Petromidia has a monthly refining capacity of 280,000 tons of crude. Processing at Petromidia was halted several times last year following an acute shortage of funds and the collapse of a \$725 million privatisation deal with the Turkish company Akmaya.

| Croatian Chemical Output 1999 (unit-tons) | | |
|--|------------|------------|
| Product | Jan-Dec 99 | Jan-Dec 98 |
| Ammonia | 387,162 | 301,770 |
| Nitric Acid | 251,201 | 220,511 |
| Other Inorganic Acids | 158,168 | 209,291 |
| VCM | 62,245 | 41,085 |
| Carbon Black | 17,568 | 22,075 |
| Plant Protection Agents | 6,407 | 7,250 |
| Urea | 360,427 | 279,378 |
| Compound Fertilisers | 459,417 | 456,557 |
| Polyethylene | 163,526 | 148,479 |
| Synthetic Resins | 91,639 | 123,151 |
| Commercial Medicines | 1,171 | 1,326 |
| Detergents | 36,187 | 40,630 |
| Printing Inks | 796 | 1,071 |
| Other coating materials | 26,556 | 27,516 |

The offer for the privatisation of the Rafo refinery at Onesti is planned to be re-launched by the State Ownership Fund (SOF) in April. In the meantime the SOF has been presenting the refinery to the foreign investors from Kuwait. Every attempt to privatise Rafo has thus far failed, but the SOF still claims that there are interested investors for Rafo. The chief problem is refining over-capacity in Romania. Furthermore, Rafo depends on domestic produced crude which has been in decline in the past decade. Rafo was supposed to have restarted production in March but the financial backers the Paribas bank noticed that the business plan already approved might lead to considerable losses for the refinery. The bankers noticed that there were big differences

between the external and the internal prices on the Romanian crude oil market, and this would have caused Rafo major financial problems.

After receiving five bids already Petrom has been opened to more potential bids for the first privatisation stage. In case of no further offers, Petrom might undertake another privatisation

procedure with the aim of selling a minority stake. The companies interested in the Petrom privatisation include Hellenic Petroleum; ENI; OMV; MOL; and a Romanian consortium which includes tyre producer Tofan and financial company Gelsor. The advisor for the Petrom privatisation process is ABN Amro-Rotschild. The first privatisation stage means a 30% increase in the company share capital and the second an IPO on the domestic and international markets.

The main issue facing the two oil refineries in Serbia is raw material supply. Serbia needs to import at least 75,000 tons of crude per month to meet its needs. Around 75,000 tpa from domestic sources is sufficient to meet 40-45% of market requirements. Serbia extracts crude from its northern province of Vojvodina and from an oilfield in Angola. In 1998, Serbia's two refineries processed 3.3 million tons of crude and produced 2.9 million tons of derivatives. Figures for 1999 are not available.

Serbia has been subject to an oil embargo since spring 1999, when the international community imposed the ban during the Nato bombing to keep the Yugoslav army away from Kosovo. The Belgrade government has been trying to negotiate crude imports as part of a debt settlement both with Russia and Iraq, but reported no progress so far.

Privatisation The latest auction for a 51% stake in the chlorine producer Chimcomplex at Onesti was closed on March 13. However, with only one bid received and that bidder looking for an extension of 15 days, the Ministry of Finance decided to delay the auction by another 60 days. The share stock owned in Chimcomplex by the State Ownership Fund (SOF) is being put to sale by the Ministry of Finance in exchange for the company's debts. However, the only bidder Petron Sciencetech asked for more time beyond March 13. Petron Sciencetech offered \$6.5 million for the entire stock, but the minimum amount required by the Ministry of Finance is \$7.5 million.

Petron Sciencetech Inc is an American division of the Indian concern Petron Engineering Construction, and is a breakaway from Scientific Design. Efforts by the SOF to privatise Chimcomplex have been made since 1996 with BorsodChem coming closest to a deal last year. Chimcomplex share capital is 179 billion lei; the debts to the state budget are 34 billion lei, the credits of 372 billion ROL, and the debts to the suppliers are 176 billion lei. The company has 2,072 employees at present.

Chimcomplex is one of the most important producers of chlorine-soda products in Romania and East Europe.. The company has undergone modernisation in recent years by introducing the so-called Soda M installation process, which involves hydrolysis with ion diaphragm. Partly as a result this process Chimcomplex has achieved a dramatic reduction in electricity consumption, has increased the quality of the products and improved environmental protection.

South East Europe-currencies Mar 20h 2000

| Country | Currency | \$1= | EURO = |
|------------|-----------|---------|---------|
| Bulgaria | Lev | 2.0096 | 1.9461 |
| Croatia | Kunar | 8.0227 | 7.7508 |
| Macedonia | Dinar | 59.8500 | 57.9087 |
| Romania | Lei | 18277.5 | 18688.3 |
| Slovenia | Tolar | 208.315 | 202.701 |
| Yugoslavia | New Dinar | 12.1789 | 11.7623 |

The State Ownership Fund (SOF) and the Ministry of Transportation signed on March 14 the contract for the take over of the privatisation process of 62 large companies in Romania, including Carom Onesti. According to the plan, the companies in this programme would start their privatisation from July till September. Carom was also included in the second programme co-ordinated with foreign finance, the RICOP programme which helps to support the social effects of the privatisation process. The Onesti combine is in a difficult economic situation, needing an injection of capital.

Environmental issues The Iasi region of Romania could receive more than \$250,000 for financing of a project for the recycling of plastic PET residues. This project requires the installation of a technical line to convert plastic bottles into granules and has received American government financing through the so-called Ecolinks Project. The Ecolinks Project is aimed at supporting measures that aid the environment in East Europe. In April the PET collection process will start with bins being distributed through Iasi. The project is receiving co-operation from soft drink manufacturers such as Unirea, Coca-Cola, and European Drinks.

A leak from the Romanian fertiliser plant at Turnu Magurele in March actually reached the Bulgarian town of Nikopol. The level of ammonia measured in the cloud was 4.57 times higher than the limit and the concentration of hydrogen sulphide was twice more than normal. Concerns about environmental safety in chemical production have been made more public since the cyanide leak into the Tisza river this year.

Intermediates Fibrex Savinesti will have a new general manager starting with July. The Fibrex Administration Board is made up of three members, all involved in the management of Radici Group. In January 2000, Radici bought 51% of the Fibrex shares on the

Rasdaq Secondary Market. Later on Radici bought the Fibrex shares owned by the Financial Investment Company (SIF).

Fertilisers In Romania, Azochim Savinesti has arranged a contract for the production and export of 20,000 tons of fertilisers which has justified the re-start of the ammonium nitrate installation that was closed in May, last year. The export contract accounts for almost all production.

Synthetic rubber Goodyear is in the process of preparing transmission belt production at Brdo pri Kranju in Slovenia. The project is being conducted on a joint venture basis with the Slovene company Sava. The agreement to create the venture was signed by Goodyear and Sava in late 1997.

BALTIC STATES

Mazeikiai Nafta is in the process of seeking deals with Shell and BP Amoco for the sale of oil products in international markets, whilst also speaking to Statoil and Fortum (part of Neste) over local market sales. However, a main priority is to improve the feedstock supply position with Russian oil companies. Despite the opening of the Butinge terminal on the Baltic coast it remains more cost effective to buy crude from Russia. Moving into the international arena is part of the agenda established in the purchase of an equity stake by Williams in Mazeikiai Nafta. The aim is to try and dominate the Estonian and Latvian fuel markets, in addition to creating some sort of market share in Poland. In 1999 Mazeikiu Nafta suffered losses of 130.9 million litas compared to 93.2 million litas. The losses were incurred last year due to the plant standing idle for 56 days, which cost an estimated 47.7 million litas. Other factors included the freezing of financial funds at the Litimpeks bank, which went bankrupt (17.6 million litas), bad debts of the clients (59.6 million litas), and the loss-making operation of Butinge oil terminal.

| Baltic States-currencies Mar 20h 2000 | | | |
|---------------------------------------|----------|---------|---------|
| Country | Currency | \$1= | EURO = |
| Estonia | Kroon | 16.1591 | 15.6475 |
| Latvia | Lats | 0.5909 | 0.5751 |
| Lithuania | Litas | 4.0008 | 3.8744 |

The Latvian Privatisation Agency (LPA) has acknowledged that the privatisation of the Daugavpils company Tolaram Fibres (TF) was one of LPA's major failures. The impact of the Asian economic crisis on the Daugavpils plant was substantial with company now facing the bankruptcy procedure. The last owners of TF

were the Singapore company Tolaram Group, whose enterprises in Lithuania and Estonia are still continuing operations. The LPA and the government have agreed on the procedure for payment of salaries and social tax debt for the workers at the plant. Currently, debts to TF workers total about 490,000 lats.

COMMONWEALTH OF INDEPENDENT STATES

Russia

The appointment of Vladimir Putin as the new President will be looked upon as a potential turning point in Russia's transition to a fully fledged market economy. A key question is whether Putin can push through enough economic reform to stimulate GDP growth essentially from internal factors rather than related to the price of crude oil? If oil prices stay high then modest growth rates for GDP can be anticipated, but for more substantial growth major changes in the running of the economy will be necessary.

Enterprise restructuring is a term broadly used and it is widely acknowledged that companies need to reduce their workforce numbers that would give them a leaner and more effective cost based structure. Thus, although there has been a procession of positive 1999 results emerging from Russian chemical companies this trend should not be an excuse for complacency. There is no straightforward panacea; simply making large numbers of people redundant without alternatives could represent political suicide. Reforms and policies are therefore necessary to be targeted on promoting new jobs whether they result from investment or other means. In line with these objectives a first priority may be to try and revive foreign investor confidence which has been noticeably absent since the August 1998 economic crisis.

Recent reports indicate that Russia will receive seven million Euros from the European Union to help it proceed with destruction of its chemical weapons. The funds will be provided through the Tacis technical assistance programme, and will be spent on two projects. Four million Euros will be devoted to dismantling the Kaprolaktam mustard gas units in the Dzerzhinsk region. The remainder would go towards creating a monitoring system at a chemical plant at Gorny, located further down the Volga, which is one of seven plants capable of destroying chemical weapons' stockpiles.

Russia, which is believed to own the world's largest chemical weapons' stockpile, has stated that it lacked the funds to destroy this stockpile. Russian government experts said late last year that about \$110 million was

needed to convert the 24 sites across Russia capable of producing chemical weapons, but Moscow could only pay 10% of the bill. When Russia ratified an international ban in 1997 on chemical weapons, officials estimated the destruction would cost \$5 billion over ten years.

Oil refining In the first two months of 2000 Russia refined 28.1 million tons of crude compared to 26.3 million tons in the same period last year. January output was 14.2 million tons and February was 13.9 million tons. YUKOS and VNK processed 3.738 million tons, LUKoil 3.721 million tons, Surgutneftegaz (Kirishi) 3.371 million tons, Bashneftekhim 2.790 million tons, and Sibneft (Omsk) 1.986 million tons. Also of some significance Gazprom refined 853,600 tons.

Kinef at Kirishi plans this year to start construction of a new hydrocracking unit. However, the completion of the project will depend on Russian government state guarantees.

AO "Sibneft" has increased its ownership of shares in its Omsk oil refinery AO "Sibneft-Omsk NPZ" to 78.51%. Sibneft exports approximately 33% of its crude production, the remainder is sent to its refinery. First established in 1955 with a capacity of 3 million tpa, the Omsk Refinery now has a capacity of 19.5 million tpa making it the single largest refinery in Russia. With the shutdown of the atmospheric vacuum crude unit in 1997, the refining capacity has been reduced to 19.5 million tpa. Its throughput was 13.1 millions tons in 1998 or roughly 8% of Russia's total throughput, which puts Omsk Refinery at fifth place in Russia by the volume of refining. The plant is located at the junction of Transneft's two major pipelines, one leading to Novosibirsk in the East and the second to Ufa in the West.

Generally, Russian refining throughputs since the early 1990s have declined due to Russia's economic recession and the inability of customers to pay for products. Since 1994 the utilisation rate at Omsk has increased mainly due to the reduction of actual capacity of primary refining units while the throughput has remained stable at the level of 310 thousand barrels per day. Since the end of 1998 all the products of the refinery have been fully sold out. A breakdown of Omsk historical throughput and capacity and a comparison of Omsk and average Russian refining utilisation rates are as follows.

| Omsk Refinery Processing | | | | | | | |
|---------------------------------|------|------|------|------|------|------|------|
| | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 |
| Refined crude (million tons) | 12.5 | 13.1 | 16.2 | 16.2 | 15.7 | 16.5 | 15.7 |
| Capacity (million tpa) | 19.5 | 19.5 | 19.5 | 22.1 | 25 | 26.2 | 28.2 |
| Utilisation rate (%) | 64 | 67 | 83 | 83 | 71 | 66 | 60 |
| Average Russian Utilization (%) | n/a | 54 | 57 | 51 | 61 | 62 | 74 |

LUKoil-Perm has arranged a contract with Pricewaterhousecoopers to introduce an integrated management system aimed at improving efficiency throughout the company. LUKoil-Perm refines oil and produces petrochemicals.

Efforts are underway to increase the throughput at the Kstovo refinery in the Nizhniy Novgorod region. LUKoil plans this year to increase the workload of the NORSI refinery by approximately one third. Deliveries of oil were increased to NORSI to 300,000 tons in February compared to 180,000 tons in January. More than 300,000 tons were agreed for March and also for April delivery. As for the possible merger between NORSI-Oil and LUKoil may only be possible after resolving the issue NORSI's huge outstanding debts.

In addition to LUKoil increasing its deliveries of crude SIBUR has agreed to increase the deliveries of gas condensate to the company NORSI-Oil for the NORSI refinery, starting in April. The goal is to supply between 600-650,000 tons until the end of this year (against 168,000 tons in 1999). SIBUR will deliver gas condensate by railroad. For SIBUR's own petrochemical development plans the main constraint is the lack of its own reservoirs for raw materials storage. Until SIBUR builds its own raw storage facilities it will have to depend on using NORSI's reservoirs.

The Russian bank Sberbank has opened a \$300 million credit line for Tyumen Oil Company (TNK) to finance investment and production projects. Sberbank and TNK, which is Russia's sixth largest oil producer, have also agreed to discuss additional credits of \$200 million to finance development of big oil and gas deposits and upgrading and expansion of oil refineries.

Petrochemicals On March 31, 2000, the Russian Property Fund was scheduled to sell 9,500,814 (14.78%) common shares of OAO "SIBUR" (Siberian-Ural petrochemical company). SIBUR was founded in 1995, as a holding company for the Russian gas refining industry. The company has a close relationship with Gazprom, seemingly controlled via affiliates Bonus-Invest

and Liechtenstein-based GNK, which won two share auctions, held in 1998. Bonus-Invest obtained a 20.22% stake for 108 million roubles, whilst GNK bought 50% plus one share for 408 million roubles.

SIBUR controls major natural gas refineries and chemical plants among which the most valuable are Tobolsk Petrochemical Combine, Voronezhskintezkauchuk, and Kemerovo Azot. Complications over the ownership of Tomsk Petrochemical Combine still prevail, but could also fall under the SIBUR umbrella. In 1999, SIBUR obtained control of a number of Russia's largest tyre manufacturing plants (Yaroslavl, Moscow, Omsk). The deadline for participants to commit their claims was set at 4:00 PM on March 28. The initial price was set at a 150 million rouble level (\$5.2 million) or 15.78 rouble (\$0.55) per share with a 0.008 rouble nominal value. There are no restrictions for foreigners to participate in the auction, but it seems questionable whether the stake will be bought by an independent investor, which would like to step into this Gazprom-related business.

The SIBUR president has shown his interest in transferring the controlling stake of the company back to state ownership on several occasions. This view is based on perceptions of restructuring of the petrochemical sector which could require state backing, thus being provided by tax exemptions or direct cash inflows. The mechanics of this capital redistribution are still unclear, but it seems that the property fund will be able to sell significant stakes in SIBUR again in the future.

The pressing issue for Russian petrochemical production is the constraint imposed by a lack of olefin monomer availability. Broadly speaking, much of the olefin capacity in Russia is in a need of modernisation and technical improvement as few plants rarely get close to their design limits. In Tatarstan both Kazanorgsintez and Nizhnekamskneftekhim view the expansion of their ethylene facilities as prime company targets. There is an argument that Kazanorgsintez should replace all of its smaller units with one large cracker. The combined complexes at Kazan and Nizhnekamsk make Tatarstan the most important region for olefin monomers in Russia. Moreover, from Tatarstan's perspective the oil, gas and petrochemical industries account for around 56% of total republican production and provide the budget with 32% of its revenue. For Russia as a whole Tatarstan estimates that it produces around 50% of polyethylene and polyethylene pipes, 30% of ethylene, 97% of styrene and 87% of glycols.

Prices of ethylene in Russia have been climbing in recent months, consistent with international trends. In September last year Nizhnekamskneftekhim was quoting 5,000 roubles per ton, increasing to 5,500 roubles in November. By February prices had risen to 10,700 roubles per ton although some buyers were paying more than these levels.

Polyolefins After Chinese imports of polyethylene from Russia fell back sharply in the fourth quarter last year there has since been a pick up in demand. One of the reasons for the downturn in polyethylene imports last year was due to Chinese agricultural end-users reducing purchases. The fourth quarter recorded only 9,321 tons of polyethylene imports into China from Russia out of a total of 106,442 tons for the full year.

| Chinese Imports from Russia (units-tons) | | | |
|--|---------|---------|--------|
| Product | Q4 1999 | 1999 | 1998 |
| HDPE | 712 | 18,640 | 2,579 |
| LDPE | 8,609 | 87,852 | 54,150 |
| n-butanol | 26,454 | 72,708 | 10,499 |
| other butanols | 11,018 | 33,713 | 9,019 |
| PVC | 47,625 | 184,754 | 47,994 |
| Phthalic Anhydride | - | - | 244 |
| 2-EH | - | 2,995 | - |
| PP | - | 9,718 | 2,130 |
| Styrene | - | - | 1,412 |
| Caprolactam | 22,756 | 76,980 | 31,239 |

SIBUR-Neftekhim is considering building a polyethylene plant in Kstovo during the next five years. The project, to cost around \$200 million, will process some of the ethylene made at the company's petrochemical plant in Kstovo, and will expand the company's product range and increase exports.

In the markets OOO "Volna" is offering polyethylene produced at the Tomsk Petrochemical Combine at 22,500 roubles per ton. Further details: Sergey Grishaev, OOO "Volna", Tel/Fax +7 3822 784616, E-

mail: ooo_volna@mail.ru.

PVC & Chlorine China imported 184,754 tons of PVC from Russia in 1999, constituting 71% of total Russian PVC exports. Khimprom at Volgograd is in dispute with the government over unpaid VAT related to foreign trade. Last year Khimprom formed an offshore PVC company Wharton through which it has been channelling funds. Creditors of Kaprolaktam at Dzerzhinsk have approved amendments and changes to the external administrator's plans for 2000.

OAo "Uralkhimplast" is installing new equipment which will facilitate a 50% increase in PVC plasticizer production. OAo "Uralkhimplast" is located at Nizhniy Tagil in the Urals. The company is installing Italian equipment which is considered more efficient than Russian equipment. At present Uralkhimplast produces approximately 17,000 tpa of PVC plasticizers used in cable industries, medical and shoe industries. After

the purchase of new equipment, which will be installed in May 2000, the capacity will be increased to 23,000 tpa.

In the markets PVC produced by Kaustik at Sterlitamak is being quoted by Khimeks at 20,000 roubles per ton. Further details: Aleksey V. Khorkov, Khimeks, Tel +7 3432 70 72 39, Fax +7 3432 70 72 41, E-mail: chimcom@emts.ru.

ZAO "Tekhresurs" is selling PVC from Sayanskkhimprom in the Irkutsk Oblast at 18,200 roubles per ton, pre-VAT, and PVC from Kaustik at Sterlitamak at 16,800 roubles per ton, pre-VAT. Further details: Eduard Isakov, ZAO "Tekhresurs", Tel/Fax +7 3952 53 33 00, E-mail: eduard@texres-irk.irmail.ru. Tekhresurs also can supply products from Usolyekhhimprom and Angarsk Plant of Polymers at discounted prices. These products include sodium hypochlorite, hydrogen peroxide, caustic soda, methyl cellulose, PVC, and LDPE.

Khimprom at Novocheboksarsk increased output in rouble value by 38.1% in the first two months of this year against 1999. In particular, two of Khimprom's joint ventures performed well, ZAO "Pranovo" and ZAO "Kation". ZAO "Pranova" is a venture with a Hungarian company Abona, and ZAO "Kation" is a venture with a British company Pumice Trading Co Ltd. ZAO "Pranova" produces diphenyl-guanidine whilst ZAO "Kation" produces dyestuffs for the synthetic fibre industry. Khimprom has recently delivered its further shipment of 90 tons of herbicides to the Krasnodar region and plans to expand its sales further throughout Russia. The production of herbicides is a new venture which has been constructed in conjunction with Du Pont.

The external management of OAO "Srednevolzhsky Zavod Khimikatov" has been extended for another year. This decision was taken by the arbitration court of the Samara Oblast following discussions with creditors. The external management was first introduced in the middle of 1998, but as yet has failed to restore the company's creditworthiness.

Olefin derivatives

Pre-tax profits at the ethanolamine producer Sintez at Dzerzhinsk in 1999 rose 24.2% to 41 million roubles, according to preliminary data. Orgsteklo, also at Dzerzhinsk, is faced with the prospect of bankruptcy due to the increase in debts with the main supplier of energy Nizhenergo. Bankruptcy is considered the only option that can save the company as this will precipitate a period of external management. This period would provide the opportunity to rid the debt problem. If the local arbitration court decides upon this action an extraordinary shareholders' meeting will be held by Orgsteklo.

Orgsteklo is the main shareholder in the acrylates' venture ZAO "Akrilat" also based in the Dzerzhinsk region. ZAO "Akrilat" has been under external management since March 24 1998 and as the financial situation in the company has failed to improve efforts are now being made to sell the production units. The major creditors to ZAO "Akrilat" include Sberbank. The company was formed in 1991 and represents a marketable plant in view of its acrylate ester capacity.

Another company facing a difficult financial situation is Interkhimprom-Oxosintez at Perm. The company has run up debts to the tune of around a billion roubles. Interkhimprom-Oxosintez emerged as an independent company four years ago from Permnefteorgsintez. Since then the company's main product, 2-ethylhexanol, has seen a steady decline in global pricing whilst simultaneously production costs have been on the increase. The main problem is the high consumption and costs of electricity at the plant. The introduction of external management has only made matters worse.

The position of Orgsteklo and Interkhimprom-Oxosintez reflects that whilst performance has improved in the chemical industry over the past twelve months there are still major hurdles facing certain companies.

In the markets Neftekhimprom is quoting normal butanols currently at 12,000 roubles per ton, inclusive of VAT. Further details: OOO PKF "Neftekhimprom", Tel +7 3422 27 57 27, E-mail: nchp@imbox.ru. Olmark is quoting acetone from Ufakhimprom at 13,100 roubles per ton. Further details: A Skriyan, OOO "Olmark", Tel +7 3472 230998, 225940, E-mail: uralsib@bashinform.ru. TD Rastro is still offering acetone produced in Ufa at 12,600 roubles per ton, inclusive of VAT. Conditions are based on 100% prepayment with delivery of 7-10 days. Further details: Marina Blishkou, TD Rastro, Tel +7 812 567 56 27, Fax +7 812 567 56 27, E-mail: rastro-comm@mail.vplus.net.

Promtekhresurs is offering ethyl acetate and butyl acetate at 14,700 roubles per ton, inclusive of VAT. The product is stored at Dzerzhinsk. Further details: OOO "Promtekhresurs", Tel +7 095 259 71 83, Fax +7 095 259 75 35, E-mail: stekprom@cityline.ru.

Synthetic rubber

Novokuibyshevsk Petrochemical Combine in the Samara region, which processes gases with a capacity of 1.5 million tpa, is in the process of assessing the

reconstruction of its MTBE plant and other units. The complex also includes units for isometrization of normal pentane into isopentane with the capacity of 175,000 tpa, butadiene production by method of two-staged dehydrating of n-butane with a capacity of 120,000 tpa (at present its productive capacity is 40,000 tpa); isoprene production by 2-staged method of isopentane's dehydrating with a capacity of 65,000 tpa. Other products produced at the complex include diphenyloxide with a capacity of 4,000 tpa; para-tret-butyoheanol production with a capacity of 8,000 tpa; and bisphenol A production with a capacity of 20,000 tpa.

The prospective project provides reconstruction and redesign of butadiene production workshops to produce MTBE with a capacity of 132,000 tpa using the "Yarsintez" Research technology. The project would help in the process of converting the domestic automobile industry to non-ethylated ecologically friendly gasoline. The total demand of Russian refineries plants for MTBE is estimated to be over 3 million tpa. The total cost of the project is \$13 million with credit of \$5.5 million required. The contracting design is being provided by the Russian company "Giprokauchuk."

| ООО "Togliattikaucuk" (Samara region) | | |
|--|--------------------------------|-----------------|
| | Roubles per ton/Prices pre VAT | |
| <i>Product</i> | <i>01/03/00</i> | <i>01/11/99</i> |
| Butadiene-Alpha-Methylstyrene | 15,000 | 9,583 |
| Polyisoprene | 21,500 | 14,000-18,000 |
| Butyl Rubber | 38,333 | 32,167 |
| TIBA | 78,000 | 60,000 |
| Butadiene | 7,500 | 5,400 |
| Polymer Polyol | 51,800 | 33,903 |

Pre-tax profits at Yefremov Synthetic Rubber Plant in the Tula region rose in 1999 nearly 14-fold to 40.242 million roubles. Amongst the tyre manufacturers Yaroslavlshina (Yaroslavl Tyre Plant) produced 5.86 million tyres in 1999 compared to 3.94

million tyres in 1998. Last year the company's profit margins from production is estimated at 14.5% compared to 6.5% in 1998. Turnover increased by 2.2 fold although direct financial comparisons are reasonably meaningless due to the dramatic devaluation of the rouble. It could be a fair guess that this year's turnover will not increase by the same margin.

The German company Continental plans to complete talks soon with Moscow Tyre Plant (MShZ) on joint production targeted to start by the end of August. Pre-tax profits at Nizhnekamskshina at Nizhnekamsk for 1999 came to 317 million roubles, according to preliminary data. Last year the company made a loss of 143.237 million roubles.

Aromatics & derivatives

In the markets Khimindustriya-Invest was offering toluene in March at 9,900 roubles per ton, inclusive of VAT. Further details: Grigory Likskiy, ООО "Khimindustriya-Invest", Tel +7 095 937-76-84, Fax +7 095 937-76-84, E-mail: mail@cheminvest.ru. Olmark is quoting orthoxylene from Ufaneftekhim at 11,500 roubles per ton. Further details: A Skrivan, ООО "Olmark", Tel +7 3472 230998, 225940, E-mail: uralsib@bashinform.ru.

| INVESTMENT PROJECTS IN BASHKORTOSTAN | | | |
|---|-----------------------|----------------|-----------------|
| <i>Project</i> | <i>Capacity (tpa)</i> | <i>Company</i> | <i>Location</i> |
| <u>PTA/Fibre Project</u> | | | |
| PTA | 230,000 | Polief | Blagoveshchensk |
| Polyester fibre | 60,600 | Polief | Blagoveshchensk |
| Textile auxiliary substances | 80,000 | Polief | Blagoveshchensk |
| <u>Refurbishing Aromatics Facility</u> | | | |
| Benzene | 140,000 | Ufaneftekhim | Ufa |
| Paraxylene | 238,000 | Ufaneftekhim | Ufa |
| Orthoxylene | 200,000 | Ufaneftekhim | Ufa |
| <u>Polycarbonate</u> | 60,000 | Ufakhimprom | Ufa |
| <u>Refurbishing Bisphenol A Plant</u> | 75,000 | Ufakhimprom | Ufa |
| <u>Maleic Anhydride</u> | 30,000 | Avangard | Sterlitamak |
| <u>Polypropylene Compound (PPC) Facility</u> | | | |
| PPC for car bumpers | 6,500 | Ufaorgsintez | Ufa |
| PPC for car dashboards | 1,500 | Ufaorgsintez | Ufa |
| PPC for car interior parts | 2,000 | Ufaorgsintez | Ufa |
| PPC for car heating system | 1,000 | Ufaorgsintez | Ufa |
| PPC for cold water pipes | 1,500 | Ufaorgsintez | Ufa |
| PPC for hot water pipes | 1,500 | Ufaorgsintez | Ufa |

The much delayed PTA project in Bashkortostan has been receiving more attention recently, the main strand of which involves the United Nations Industrial Development Organisation (UNIDO). An agreement between

UNIDO and Bashkortostan was signed last April followed by a seminar in Ufa at the end of September to consider the PTA/polyester projects, together with other plans for the republic. UNIDO was requested by the Bashkortostan government to promote the Polief polyester complex at Blagoveshchensk, in addition to polycarbonate project at the Ufakhimprom site. There has to date been a lack of external interest in the PTA project.

Other projects under review in Bashkortostan include an upgrade of the pesticide technologies at the Ufakhimprom complex, and industrial waste management at Ishimbay chemical plant. Polycarbonate is a key outstanding project at the Ufakhimprom complex, with finance required for purchasing the necessary units and resolving the supply of phosgene. The detailed project report was developed by the Giproplast design Institute in Moscow.

Maleic anhydride has been considered by the Avangard company at Sterlitamak, but it is not clear which feedstock would be used, i.e., n-butane or benzene. A project of great priority in Bashkortostan is the polypropylene compounding unit at Ufa which would be integrated with the polypropylene unit at the Ufaorgsintez site. A large part of the production from this compounding unit would be delivered to the car manufacturer AvtoVAZ.

Fertilisers

Azot at Kemerovo made a profit of 50 million roubles in 1999, and under the external management restored its creditworthiness. The Russian State Property Fund will conduct the sale of a 10% stake in OAO "Shchekinoazot" on April 20. The starting price for the 10% stake will be \$1.1 million. In addition to fertilisers Shchekinoazot, which is located in the Tula region to the south of Moscow, produces methanol and caprolactam.

CIS- currencies Mar 20th 2000

| Country | Currency | \$1= | EURO = |
|------------|----------|---------|---------|
| Azerbaijan | Manat | 4402 | 4252.90 |
| Belarus | Rouble | 934,000 | 905.454 |
| Kazakhstan | Tenge | 141.670 | 137.193 |
| Russia | Rouble | 28.4378 | 27.5392 |
| Ukraine | Hryvnia | 5.4595 | 5.2870 |
| Uzbekistan | Sum | 670.000 | 648.828 |

OAO "Sredneuralskiy Medeplavilnyi Zavod" (Mid-Urals Copper Works) is about to start the production of phosphoric based fertilisers. One of the main raw materials for superphosphate production will be apatite. The whole project will require in the range of \$45 million.

OAO "Apatit" at Kirovsk in the Murmansk region is undertaking a project to build a large-scale phosphoric acid plant which should help to raise sales' turnover. The estimate by the company is that by processing 8-10% of local production of apatite concentrate into phosphoric acid that profitability could increase by 3-4%. The total value of the project, with the plant capacity expected to be 800,000 tpa, is estimated to be in the range of \$131 million. The construction period required will be around 30 months, but no license has been yet awarded.

This year the management of OAO "Apatit" expects an increase in profits, in accordance with cost cutting and improved contracts with raw material suppliers. In 1999 Apatit produced 9.1 million tons of apatit concentrate, an increase of 13.4% over 1998. New equipment to the value of around \$1 million, supplied by the Finnish company Tamrok Drillek, is currently being introduced which will help to increase production levels this year. The new equipment will become operational in about two months' time. In the first two months of this year Apatit's production of apatite concentrate increased 13% on last year to 1.37 million tons. The March figure was aimed at 784,000 tons. Recent reports suggest that a controlling packet of shares in OAO "Apatit" may have been sold to a West European company.

In the markets ZAO "Khimenergo" is offering methanol (up to 1,000 tons) and formaldehyde produced by Tomsk Petrochemical Combine, at current prices of 1,200 roubles per ton and 1,000 roubles per ton respectively. These prices include VAT, but exclude transport. Further details: Igor Ilin, ZAO "Khimenergo", Tel +7 095 784 6492, E-mail: hel@aport.ru.

Plastics

Over the past year there has been strategic manoeuvring in the Russian pipe market, largely between LUKoil-Neftekhim and Kazanorgsintez. In 1999 LUKoil-Neftekhim and Fina Research S.A. of Belgium signed a licensing agreement in Moscow on November 24 to obtain the Belgian company's latest know-how to produce polyethylene pipes for gas pipelines. LUKoil-Neftekhim is planning to capture a large part of pipe polyethylene market in CIS as a result of this agreement with Fina Research. According to the terms Fina must stop exporting pipe polyethylene to Russia and LUKoil-Neftekhim will take its place in the market. However, Fina will be an official distributor of the Russian company's products on the international market.

LUKoil-Neftekhim estimates that its production costs for polyethylene pipe will be 10-20% more than Russian equivalent product due to its higher quality corresponding to international standards. The samples of the products are going through the final tests that will be completed in spring of 2000. The agreement enters into force immediately upon signing and valid for five years.

Also last year OAO "Kazanorgsintez" started the large scale production of a new type of polyethylene pipe intended for application in gas pipes. The official identification "PE-80" was received at the end of January from a joint commission of the Russian Federation State standard, the Tatarstan centre of standardisation, metrology and certification, Gosgortekhnadzor of the Russian Federation, and leading institutes involved in developing polyethylene and gas pipes.

Paints Akzo Nobel was scheduled to meet its Russian partners at the end of March to finalise plans to invest an initial \$10 million into construction of production facilities in the town of Balashikha, located on the outskirts of north-east Moscow. Akzo Nobel and the Roskhimneft oil company have registered the Akzo Nobel Dekor joint venture in Moscow. Akzo Nobel will own 60% of the new company, with the rest belonging to Roskhimneft. The Balashikha plant will produce mid-priced high quality paints, which account for about 30% to 50% of the decorative paint market. The plant has a planned output capacity of 10 million litres per annum, or 14,000 tpa.

Ukraine

The delayed sale of the Crimean soda ash producer OAO "Crimean Soda Plant" has been revived with a recent announcement that an 89.47% stake in the company will be offered. The State Property Fund said in a statement that bids would be accepted until May 30. An international consortium led by Commerzbank AG of Germany is the financial adviser to the sale. The fund said it would tender 161,985,756 ordinary shares with a nominal value of one Hryvnia each. The starting price should be no less than the nominal value of the stake which is \$29 million. The nominal share capital, or charter fund, of the company, is 181.06 million Hryvnia. The plant, located in Krasnoperekopsk in the special economic zone Sivash in southern Ukraine, produced over 400,000 tons of soda ash in 1999.

Torgovliy Dom "Azot" is offering caprolactam in liquid form for sale in the CIS. The caprolactam is produced at Cherkassy. Further details: Vladimir Nebotov, Torgovliy Dom "Azot", Tel +380 572 14 37 51, Fax +380 572 14 37 74, E-mail: vladimir@htk.kharkov.ua.

In February the Ukrainian Cabinet of Ministers ordered that the national gas company Naftohaz Ukrayiniy was to supply 1.5 billion cubic metres this year to the fertiliser industry on a tolling basis. The fertilisers will be handed over by the plants to Naftohaz Ukrayiniy which will then take responsibility for selling the product to the agricultural sector. Naftohaz Ukrayiniy is also instructed to supply the domestic fertiliser producers with electricity. With the 1.5 billion cubic metres of gas, at least 300,000 tons of fertilisers should be produced for farmers which will be a boost for the economy. It will require, however, that all parties involved in the agreement fulfil their obligations.

Transcaucasus

Propylene oxide from Sumgait is being offered by Agacis. Further details: G Sakhrab, Agacis, Tel +994 12 973211, Fax +994 12 973210, E-mail: agacis@azdata.net. The petrochemical feedstock situation has been affected in Azerbaijan by tight oil supplies. Fuel oil has been in extreme shortage, not only in Azerbaijan but in other parts of the CIS. Oil companies have been far more interested in exporting crude to take advantage of the high world prices rather than refining product. Despite reports of gas oil being delivered to Ukraine the state oil company SOCAR states that no product is moving. The Ukrainians seem to be under the impression that an agreement has been made for 50,000 tons of gas oil per month (out of the Batumi or Poti ports) at a price of \$345 per ton to the Ukrainian border.

Central Asia

The commissioning of a new hydrotreating and catalytic reforming equipment at the Turkmenbashi refinery in Turkmenistan has facilitated the production of high octane gasoline grades 96-98. The capacity of the new unit is 600,000 tpa with the equipment supplied by Chiyoda Corporation and using a UOP license.

Krebs-Speichim has been awarded a contract to construct a nitrocellulose plant near Tashkent in Uzbekistan. The project is worth \$59.3 million and was contracted by the Uzbek company Uzprommashimpeks. The project has recently started and is scheduled for completion in 2002. The new plant is part of a government programme to find new outlets for the Uzbek cotton industry.

Kazakhstan

KazTransOil transported through 25 million tons in 1999, an 895,000 ton increase over 1998. This year, the company expects to transport some 28.8 million tons of oil. KazTransOil will also continue to pursue certain projects such as the modernisation of the Atyrau-Samara pipeline. This project involves boosting the pipeline's throughput from 11 to 15 million tpa. The reconstruction of the Karakoin-Atasu section of the Pavlodar-Shymkent oil pipeline is also planned for this year. The company is focused on supporting promising new projects including the Aksay-Bolshoy Chagan-Atyrau oil pipeline, the Western Kazakhstan-Western China pipeline and the CPC project.

Kazakh refineries need to receive at least 9.5 million tpa of crude oil in order to produce enough gasoline to meet domestic demand. The country's three refineries located at Atyrau, Pavlodar and Shymkent have the capacity to refine 19 million tpa. The Pavlodar refinery is geared to process oil produced at Russian fields in Siberia. It was idle for much of 1999 due to shortages of crude.

Since the government resolution was passed in early 2000 guaranteeing feedstock supply to domestic refineries, the Atyrau Refinery has seen a small rise in production, but is still operating at only half of its capacity. The Atyrau Refinery management hopes that companies will increase crude shipments to the plant prior to the agricultural spring planting campaign. The \$450 million loan from Marubeni that had been earmarked for renovations at the Atyrau refinery will no longer be available since the project had been not included in the state investment programme for the year 2000. Absent from the investment program, the state will not provide guarantees for the loan. However, the feasibility studies for the refinery's renovation project have already been undertaken and that these will be outdated if the project is put aside until next year.

Shymkentnefteorgsintez produced 486,600 tons of gasoline in January and February, a 26.3% increase over the same period last year. The plant is currently operating at 60-65% capacity, a level which is characterised as a "stable enough operation" at the plant. The optimum processing capacity of the refinery is 6-7 million tpa of oil. The planned merger with Hurricane Kumkol Munay could be concluded soon. Hurricane Hydrocarbons has said it will pay \$51 million and an undetermined number of shares to purchase Shymkentnefteorgsintez. Hurricane, which operates the Hurricane Kumkol Munay oil enterprise in Kazakhstan, entered bankruptcy almost a year ago after defaulting on its debt amidst low oil prices.

Mangystaumunaygas shipped about 112,000 tons of oil to the Pavlodar Refinery in March which is the third shipment of crude oil supplied to the plant under the quota set by the government. In December and January, the plant received similar volumes of feedstock. A government resolution mandated crude oil shipments to local refineries by oil producers, helping to stabilise prices on the domestic oil product market. Prices for diesel fuel fell from \$190 to \$160 per ton, just in time for farmers' spring planting season.

At an auction in March, the international firm Petrokaz Ltd won the right to purchase the South Kazakhstan tyre manufacturer Shymkentshina, beating the Kazakh firm Accept. The main assets of the plant were offered as a single lot and sold for KZT 176.5 million. The initial asking price for the plant's major facilities was KZT 1.62 billion. Petrokaz committed to create 2,000 jobs and to allocate KZT 300 million for social-development projects in the South Kazakhstan region. The JSC Shymkentshina declared bankruptcy in January 1999. Last year, the enterprise's turnover was valued at KZT 226 million which was only 41% of its 1998 production level.