

EAST EUROPE & C. I. S CHEMNET

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• Some of the main features in the September 2000 issue

- Unipetrol has become the first Czech company to acquire export financing, in the form of a twelve-year Kc 1.3 billion Citibank loan, without the necessity for a state guarantee. The funds, guaranteed by US Ex-Im Bank, will be used to finance licenses (granted by Univation and Amoco for the production of polypropylene and polyethylene) at Chemopetrol's Litvinov complex. Other projects under review by Unipetrol include an expansion of ethylbenzene capacity at Litvinov. Chemopetrol is predicted to post around a Kc 961 million profit this year following a 1999 loss of Kc 659 million.
- In the first half of 2000 TVK's expanded cracker of 360,000 tpa produced 180,300 tons of ethylene, compared to 115,200 tons in the same period last year. After the fire on January 1 the cracker and associated units ran at a 97-101% of capacity from early February. Any excess propylene was consumed in the new polypropylene plant. Oriana at Kalush provided TVK with 16,100 tons of ethylene in the first six months, 34% less than in the same period last year.
- BorsodChem produced better than expected second-quarter revenues and income due to good margins. Also the company has continued to increase its shareholding in TVK Rt. Having generated Ft 53.77 billion revenue in the first six months, BorsodChem posted Ft 8.3 billion in net profits, a 130.2% increase compared to the same period last year. Revenues grew 60.9%, and operating profits jumped 168.6% to Ft 8.96 billion.
- LUKoil-Neftochim at Bourgas recorded a profit of DM20.7 million for the first half of this year measured against a loss of DM79 million registered for the same period last year. The company says that profits this year were due to the good work and discipline at the complex. LUKoil-Neftochim is planning a major modernisation of the Bourgas complex with a view towards increasing capacity for foreign markets such as Turkey and Yugoslavia.
- In the first half of 2000 Kazanorgsintez increased turnover by 2.3 times compared to last year, reaching 3.3 billion roubles. The company's gross profit increased to 1.1 billion roubles against 0.4 billion roubles in 1999. Increased profits have been due mainly to good polyethylene sales and margins.
- 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.
- Eastman Chemical and Pepsico are trying to sell their stakes of 25% each in the Belpak PET joint venture at Mogilev which has aroused interest from several Russian companies. The other 50% in Belpak is owned by the two Mogilev based companies Khimvolokhno (45%) and Motoleks (5%). Interest in the joint 50% stake of Eastman and Pepsico has come from Itera-Bel, SIBUR and Sibneft. The Omsk administration contacted the Belarussian government to say that if it were given the shares in Belpak it would guarantee that the Naftan refinery would be provided with 100% of its crude requirements allowing the aromatic units to operate at higher capacity. However, owing to its expertise in the PET bottle sector Itera-Bel is considered in some circles as the best applicant for the stake.
- Uzbekistan plans to complete construction of the Shurtan gas chemical complex (Kashkadarinsky region) by December this year. State-owned Uzbekneftegaz is sponsoring the project, costing over \$1 billion. Financing is being provided by the Japanese Bank for International Cooperation (over 40 billion yen); the Export-Import Bank of the US (about \$200 million); German commercial bank loans insured by Hermes (about DM70 million); and a credit from the National Bank of Uzbekistan and from internal Uzbekneftegaz funds.

CENTRAL EUROPE

Oil refining

PKN's pre-tax profit amounted to PLN 372 million in the first six months of the year, 3.0% down on its 1999 pro-forma results. This was due principally to higher debt servicing costs. The company's debt grew to PLN 2.4 billion at the end of June, from the PLN 1.8 billion at the end of the year. The company's gearing, or the measure of the extent to which its capital is provided by foreign funding, grew to 37.2% at the end of June, from 34.1% at the end of the first quarter. The main reason behind the increase in gearing is the need for larger working capital, resulting from higher crude prices and a weaker zloty in the first half of 2000.

Central Europe-currencies Aug 16th 2000

Country	Currency	\$1=	EURO =
Czech Republic	Koruna	38.7330	35.3769
Hungary	Forint	285.794	261.031
Poland	Zloty	4.32370	3.94900
Slovakia	Koruna	46.6090	42.5704

The PKN group showed a fall in net profit in the second quarter after creating a special PLN 40 million reserve for a fine levied on the company in August. The net profit for the quarter stood at PLN 126 million, which was 4.7% lower than in Q1. Poland's antimonopoly watchdog fined PKN PLN 40 million in

July for 'abusing its monopoly of the oil by-product market'. As a result PKN's net profit for the first six months fell 8% in January-June 2000 to PLN 257 million. This is despite the group's revenues for the first half of the year reaching at PLN 11.5 billion, or 44% higher than its pro-forma result for the first half of 1999.

PKN imports virtually all its crude, with around 30% of crude purchased spot, allowing the company to partially capture the changes in the crude price. The remaining 70% is tied to long-term contracts less sensitive to current price changes. In the first half of the year PKN processed 5.9 million tons of crude, showing a 4% increase over the same period last year. The group continues a \$2 billion investment programme aimed at increasing its crude-processing capacity and reducing its fixed costs by around \$28 million over the next two years.

MOL's first half net income doubled due mainly to rising crude prices. The group's net income, including special items, rose to Ft 35.3 billion in the first half from Ft 17.5 billion in the same period last year. Profitability was helped by greater refining efficiency in the first half of 2000, and also improvements in the product slate involving higher LPG sales and chemical feedstock sales. Refining and marketing contributed Ft 48.0 billion gross after strong performance from chemical, lubricants and LPG products and retail shop sales.

MOL's losses at its gas division remain a concern. MOL has been in dispute with the government since the cabinet imposed a 6% gas price cap for this year on January 1. Although MOL is now only 25% state-owned after its privatisation, there have been calls to re-nationalise the natural gas business. MOL said it needed to lift its gas prices by 30-40% due to a sharp rise in the cost of imported gas in recent months. MOL's gas unit made a second-quarter operating loss of Ft 33.1 billion.

Unipetrol's financial highlights for 1st half of 2000 (Kc 000)

(As of Aug 16 \$1 = Kc 38.7330, 1 euro = Kc 35.3769)

	30/06/00	30/06/99
Production value	29,957,16	15,226,74
Production consumption	24,652,92	12,065,23
Materials/energy usage	22,522,207	9,539,396
Services	2,130,713	2,525,838
Added value	6,060,994	3,928,693
Operating profit	3,303,592	1,112,566
Profit (loss) financial	-562,675 -	612,036
Ordinary income	2,261,077	154,761
Pre-tax profit (loss)	2,897,090	812,008
After tax profit (loss)	2,310,820	505,869

Unipetrol's consolidated after-tax profit for the first half of 2000 grew to Kc 2.31 billion, from Kc 0.51 billion in the same period last year. The results were influenced mainly by rising margins in the company's subsidiaries. "Unipetrol's excellent first half results reflect the positive developments in the performance of its four main subsidiaries," the company stated. "The growth in profits compared to last year was caused by higher margins in oil refinery and fuel production". Total sales in the group jumped to Kc 34.57 billion, from Kc 22.21 billion in the same

period a year earlier. Sales of its own goods and services yielded Unipetrol Kc 29.29 billion, almost double the first half numbers for 1999.

Unipetrol predicts that its consolidated pre-tax profit will continue to surpass 1999 levels and that sales for this year could reach around Kc 60 billion. The trends of the second half are showing already that the pre-tax profit results may be higher by Kc 200 or Kc 300 million than the forecast. The company has forecast its

mid-term plan for the gross consolidated profit to grow to Kc 4.8 billion in 2002, with sales' turnover achieving around Kc 68 billion. Unipetrol posted a Kc 3.88 billion pre-tax profit for 1999.

Recent reports have emerged that prior to Unipetrol's privatisation, anticipated for some time next year, the holding company is to be expanded to include Paramo, Spolana and Cepro. Currently, the state holds a 63% stake in Unipetrol with its five subsidiaries. If it transfers some of the Spolana and Cepro shares into Unipetrol the figure will grow to over 70%. The sale of a 71% stake in the Paramo refinery is some way from being settled by the Czech government, although the Industry Ministry favours its incorporation into Unipetrol. The competition for Paramo is seen broadly between Unipetrol and the Canadian company Norex Petroleum.

Petrochemicals Unipetrol has become the first Czech company to acquire export financing, in the form of a twelve-year Kc 1.3 billion Citibank loan, without the necessity for a state guarantee. The funds, guaranteed by US Ex-Im Bank, will be used to finance licenses (granted by Univation and Amoco for the production of polypropylene and polyethylene) at Chemopetrol's Litvinov complex. Unipetrol has been negotiating the loan for two years and plans to invest around Kc 8 billion into its petrochemical divisions up to 2003. Other projects under review by Unipetrol include an expansion of ethylbenzene capacity at Litvinov. Chemopetrol is predicted to post around a Kc 961 million profit this year following a 1999 loss of Kc 659 million.

Eastman Chemical has increased its stake in Chemicke zavody Sokolov a.s. (CHZS) to 97% after buying an 18% stake from Chemapol subsidiary C.H. Chem and 5% from minority shareholders. CHZS posted a 1999 loss of Kc 283.6 million.

TVK Production (unit-kilo tons)		
Product	Jan-Jun '00	Jan-Jun '99
Ethylene	180.3	115.2
LDPE	53.6	43.1
HDPE	96.6	65.0
Polypropylene	113.8	54.6

In the first half of 2000 TVK's expanded cracker of 360,000 tpa produced 180,300 tons of ethylene, compared to 115,200 tons in the same period last year. After the fire on January 1 the cracker and associated units ran at a 97-101% of capacity from early February. Any excess propylene was consumed in the new polypropylene plant. Oriana at Kalush

provided TVK with 16,100 tons of ethylene in the first six months, 34% less than in the same period last year. TVK sold 43,600 tons of ethylene to BorsodChem which was 45% more than in 1999 due to the demands of increased VCM capacity. As a result of more olefin capacity TVK consumed 440,000 tons of naphtha in the first six months, against 331,000 tons last year, and 91,000 tons of gas oil, against 39,000 tons last year.

Feedstock costs have been much higher this year totalling Ft 40,855 million in the first six months against Ft 30,512 million in 1999. The improvement of the feedstock yield at Tiszaujvaros, down from 3.2kg to 1kg of ethylene in the first six months of 1999 to 2.952/kg this year, meant that the 57% increase in ethylene production required only a 42% increase in feedstock consumption. The costs of energy rose from Ft 3,453 million to Ft 4,408 million. In the first half of 2000 the company's capital expenditures totalled Ft 4,576 million. The main projects included remaining sums for the PP IV plant and the completion of the cracker. Other items included infrastructure, safety technology, environmental protection, information technology, etc.

TVK Rt's Total Sales by Division (Ft million)		
(As of Aug 16 \$1 = Ft 285.794, 1 euro = Ft 261.031)		
Product	Jan-Jun '00	Jan-Jun '99
Petrochemicals	65,901	26,691
Olefin	15,225	4,892
HDPE, LDPE	32,500	15,590
PP	18,176	6,209
Other	4,487	3,589
Total	70,388	30,480

Combining greater output with good margins meant that TVK Rt's profitability in the first half of the year increased to Ft 18,603 million against Ft 10,972 million in 1999. In the first six months of 2000 TVK Rt generated Ft 70,388 million in sales, up by Ft 39,908 million. Price increases accounted for Ft 28,768 million of this increase, while volume increases accounted for the balance of Ft 11,140 million. Longer term, TVK plans to increase its ethylene

and polyethylene capacity, with the aim of borrowing \$300 million to help finance the upgrades. The TVK Group sales increased to Ft 92,348 million from Ft 49,794 million with the change caused mainly by the 131% increase in TVK Rt's revenue.

TVK changes. TVK's chairman resigned in August becoming effective August 29, when the company's shareholders held an extraordinary meeting (EGM). The chairman's resignation follows the CEO who

recently said that he wanted his mandate not to be extended beyond December 31. At the EGM on August 29 a new board of directors was elected, together with a new chairman, following proposals put forward by BorsodChem. BorsodChem has become the largest single shareholder of TVK recently through buying stakes from investment funds Templeton and Croesus and investment bank Deutsche Morgan Grenfell. On August 25, BorsodChem acquired 2,137,940 TVK shares to add to the 5,276,940 TVK shares already owned by the company. After the registration, BorsodChem Rt. has 7,414,880 TVK shares, equal to a 29.9% shareholding. Also on August 25 112,740 TVK shares were acquired by MOL to add to its existing 4,982,846 TVK shares, and thus increasing MOL's stake to a 20.1% shareholding in TVK Rt.

BorsodChem transferred 1.77 million of its own new shares, worth Ft 16.8 billion, to Croesus Central European Fund and Templeton Emerging Market Funds in return for part of the stake in TVK. BorsodChem priced the new shares at Ft 9,510 and swapped one BorsodChem share for every two TVK shares held by the funds. BorsodChem has said that Templeton now has a 17.07% stake in BorsodChem after these deals, whilst Croesus holds 6.2%.

In addition to the outgoing chairman the Croesus Group, which sold its TVK stake to BorsodChem, was expected also leave the TVK board. MOL Rt, which owns 19.6% of TVK, was expected to ask for places on the board at the August 29 meeting.

In the second quarter TVK continued its divestment programme. On May 26, it sold a 40% stake in the carbon black venture Columbian Tiszai Koromgyarto Kft. to Columbian Chemicals Company for Ft 5,434 million. The stake had a book value of Ft 776,000 million. On May 31, 2000 TVK Rt. sold its 99.6% stake in Plast TMK Kft for Ft 65 million to Fanaprint Bt. The book value of the stake amounts to Ft 234 million.

Polyolefins TVK's LDPE plant ran at 89% of capacity in the first half of the year, HDPE at 97% and the polypropylene plants at 85%. The oldest of the three polypropylene plants, the PP II unit, was run at only 17.2% due to profitability considerations with most of the production coming from the PP III and new PP IV units. In addition more polypropylene capacity TVK has also increased its HDPE capacity by 10,000 tpa as the result of introducing an advanced process control system.

Profit margins have been very good for Central European polyolefin producers with polymer prices rising by 43-45% in the first half of the year. TVK Rt's second-quarter profit rose to Ft 9.2 billion, compared with Ft 1.2 billion in the same period of 1999. TVK increased output of ethylene, polypropylene and polyethylene as economic growth across Europe boosted demand. Product prices stayed high, offsetting a rise in raw material costs. TVK protected its domestic sales by not fully applying price increases for polyethylene and polypropylene. TVK's domestic sales overall, notwithstanding, increased by Ft 16,545 million with export sales rising by Ft 23,363 million. Export sales accounted for 57% of petrochemical sales, of which polymers accounted for 71%.

PVC **Spolana.** Strong PVC pricing has helped improve Spolana's financial position. The company posted a first half pre-tax profit of Kc 34 million, compared to a loss of Kc 116.5 million in the same period last year. Sales in the first half of 2000 were Kc 4.3 billion, up 35.8%. Exports accounted for Kc 3.8 billion of first half sales. The recent chlorine leak at the Spolana complex on July 21 has led to added local pressure on the company to improve its environmental record. The chlorine leak occurred due to a cracked weld on the piping. After chlorine was evacuated from the sodium hypochlorite production building the investigation committee began to identify the causes of the accident. The costs will be determined in the near future.

Spolana has since issued statements reaffirming its adherence to the Responsible Care Policy. Thus, the company sees no reason why PVC production and chlorine should be stopped, and that environmental groups do not fully understand the measures taken already over the past few years. Spolana signed a contract in March 1994 with KTI Rome and Klöckner Duisburg, for construction of a thermal processing facility for gaseous and liquid wastes from VCM/PVC production.

In July 1997, the contracted facility was put into trial operation which was extended to December 1998 in order to resolve technical problems. Its permanent operation began in June 1999 with the construction costing more than Kc 1 billion. Permission to start permanent operation was conditional partly on-observing the dioxin limit of 0.1 ng/m3.

The company states that between February 1998 and March 1999 an independent laboratory took six dioxin measurements with a maximum taken value of 0.039 ng/m3 and with an arithmetic mean of 0.0192 ng/m3. Thus, thermal waste processing launched at Neratovice now conforms to international standards. Spolana

points out that environmental protection is in the interest of "all of us", not only a certain group of people. The company argues that its management is professionally competent and capable, and can handle problems in a qualified manner.

ZAT. Environmental pressures have led to plans in Poland for Zakłady Azotowe Tarnów (ZAT) to 'scrap and build' its vinyl facilities. The company intends to scrap its existing PVC and VCM plants and replace them with a 100,000 tpa stand alone PVC plant. Krupp Uhde has been selected to build the plant with the project appearing to be associated with the privatisation of the company. What is unclear is from where the merchant VCM is to come?. Any West European supplier is likely to insist that ZAT supply its own railcars. This would be a response to the generally bad experiences in the past where railcars have been returned late and often in a dirty condition.

Polish Chemical Output (unit kilo tons)		
Product	Jan-Jun '00	Jan-Jun '99
LDPE	62.9	83.6
Polypropylene	58.7	57.6
PVC	138.4	137.4
Caustic Soda	197.4	174.9
Nitrogen Fertilisers	804.0	748.4
Phosphate Fertilisers	255.9	291.8
Synthetic Fibres	51.2	39.1

ZAT's current VCM unit, nominally of 100,000 tpa, is based on old acetylene technology and its operation is said to be leaky and to have been environmentally dangerous. Of the original three PVC reactors, two have already been closed. How the new plant can compete with other regional PVC producers without VCM integration is questionable. One possibility might be to add value by producing semi-specialty window frame compounds, a market that is growing

rapidly and may not be provided for by other producers. However, Germany's Vinnolit is very interested in this market so there will certainly be strong competition. PVC exports out of Poland would suffer the logistic penalty of freight on bought in VCM and freight on exported PVC which is unlikely to be an economic proposition. Two further questions relate to VCM, cost and availability. Companies in West Europe are unlikely to make a long term commitment to supply VCM, which is the sort of commitment bankers are likely to require before agreeing any funds.

Possibly companies such as Wacker/Vinnolit and Dow BSL at Schkopau (which recently started a new VCM train) might have some spot in a few years time, but that is about all. Oriana at Kalush could have some product but it is difficult to predict exactly where the company is going. There is also the fact that any supplier from West Europe is likely to require ZAT to provide its own railcars. Even if they do it adds to the cost of PVC, with VCM shipment from Belgium, say, up to DM150/ton.

BorsodChem. BorsodChem produced better than expected second-quarter revenues and income due to good margins. Also the company has continued to increase its shareholding in TVK Rt. Having generated Ft 53.77 billion revenue in the first six months, BorsodChem posted Ft 8.3 billion in net profits, a 130.2% increase compared to the same period last year. Revenues grew 60.9%, and operating profits jumped 168.6% to Ft 8.96 billion. Operating profits in Q2 were more than the total operating profits for the whole of 1999. BorsodChem's pre-tax profit and income for Q2 before minority interest was Ft 8,525 million, exceeding income of Ft 3,702 million of Q2 last year by 130.3%.

As a result of capacity expansions of VCM and MDI last year, production increased as shown. The production of aniline at Ostrava started only from April 27, 2000 after the acquisition of MCHZ. The main reason for the increase in BorsodChem's profits and turnover is due to the PVC price. During the second quarter the list price of PVC resin increased by 74.2% in comparison to Q2 last year. Raw material costs have also been higher with the price of ethylene going up by 79.4% in the same period. According to BorsodChem the average list price of PVC was DM1.82/kg in Q2, an 8.3% increase over Q1. In Q2 the price of ethylene increased by 18.1% to DM1,339.7/ton, which is more than the price increase of PVC.

PVC sales increased in value by 96% in the first six months, despite the fact that the physical volume of raw PVC sold by BorsodChem dropped by 2.1%. The share of PVC in the company's total sales rose to 45.7% from 37.6% in the corresponding period last year. Of the company's sales' revenues which totalled Ft 53,776 million, domestic sales amounted to Ft 10,726 million, or 19.9% of total sales' revenues. Exports amounted to Ft 43,050 million, or 80.1% of total sales.

BorsodChem's Production (unit-tons)			
Period	MDI	PVC	VCM
Jan-Jun 2000	26,214	134,527	107,787
Jan-Jun 1999	21,392	123,347	94,685

Of the company's other products outside PVC nearly all saw an increase in sales' revenues during the second quarter. Only caustic soda experienced a downturn in income. The geographical breakdown of the BorsodChem's sales in Q2 2000 was divided between the combined region of domestic Hungarian, Central

and East Europe comprising 46.2%, West Europe 52.3%, and other regions 1.5%. Against Q1 sales to West Europe fell at the expense of sales to Central and East Europe.

BorsodChem recorded a 24.2% growth in the costs of sales in the second quarter. This was due mainly to the increased volume of exports where the cost of logistics and packaging paid in foreign exchange also went up. General and administrative costs went up by 17.5%, 7.7% of which was due to the consolidation of BC-MCHZ into the group.

As a result of the investment activities, BorsodChem has gradually become a borrower from its previous status as a depositor. BorsodChem has borrowed \$45 million from two Hungarian banks to finance its purchase of the stake in TVK. BorsodChem said it took on the debt August 1.

BorsodChem's Product Income (Forints)		
As of Aug 16 \$1 = Ft 285.79 euro = Ft 261.031		
	Q2 '99	Q2 '00
	Million Ft	Million Ft
PVC resin		
Domestic	1,658.6	3,663.7
Export	10,889.8	20,936.5
Subtotal	12,548.4	24,600.2
PVC compounds		
Domestic	988.1	1,079.3
Export	1,115.1	1,456.5
Subtotal	2,103.2	2,535.8
MDI products		
Domestic	54.2	121.6
Export	7,750.5	8,824.5
Subtotal	7,804.7	8,946.1
Caustic soda		
Domestic	1,427.8	1,137.7
Export	1,054.1	1,121.3
Subtotal	2,481.9	2,259.0
Aniline		
Export	0.0	980.5
Plastic semi-finished and finished products		
Domestic	1,704.6	2,039.7
Export	1,535.1	2,287.5
Subtotal	3,239.7	4,327.2
Other products		
Domestic	2,048.3	2,683.9
Export	3,203.0	7,443.2
Subtotal	5,251.3	10,127.1
Total sales	33,429.2	53,775.9
Domestic sales	7,881.6	10,725.9
Export sales	25,547.6	43,050.0

BorsodChem's expansion. The first half of 2000 has been very active for BorsodChem with the take-over of MCHZ's aniline unit at Ostrava, through the 97.5% stake in BorsodChem-MCHZ s.r.o, and also expanding its stake in TVK Rt. The two transactions have had a major impact on the balance sheet of BorsodChem Rt. Total assets of the company have increased by 96.9% to Ft 107,059 million compared to the same period last year. Among the assets, the stock of current assets increased by 79.1% equalling Ft 18,497 million. The net amount of stocks went up by Ft 5,927 million, or 103.9%, caused by higher raw material prices in addition to the increase in the production cost of stocks produced. The Ft 4,542 million increase of other current assets has arisen from advances paid for investments, the TDI licence fee and the growing amount of VAT to be refunded.

BorsodChem's long term liabilities have also grown by Ft 10,263 million mainly due to the acquisition of the TVK shares. Due to the acquisition of BorsodChem-MCHZ and the investments in TVK, the company's total liabilities grew by Ft 41,193 million, i.e. by 330.4% against 1999. Total shareholder equity in BorsodChem is Ft 53,017 million, 27% more than in 1999.

The acquisition of MCHZ by BorsodChem had only a minor impact on second quarter results. MCHZ's revenues outside the BorsodChem group amounted to Ft 980.5 million, which is only 1.8% of sales of the group level. On the other hand, BorsodChem's report shows that the value of the company's long-term credits grew by Ft 22.97 billion due to the acquisitions,

while the burden of interest payments grew by Ft 267 million in the first six months.

BorsodChem's Financial Highlights		
As of Aug 16 \$1 = Ft 285.79 euro = Ft 261.031		
	Q2 '99	Q2 '00
	Million Ft	Million Ft
Sales revenues	33,429	53,776
Operating profit	3,336	8,960
Profit before taxation	3,702	8,525

Other company developments in the second quarter included an increase of registered capital of the subsidiary Polimer Kft to Ft 64.5 million from a contribution of Ft 50.5 million; and an increase of registered capital of the subsidiary of Grafol Kft by Ft 265.18 million. On 1 July 2000 BorsodChem sold its 40% stake in Framochem Kft to the majority owner.

Company news Agrofert anticipates that its revenues this year will reach around Kc 40 billion, with profit levels in the range of Kc 1-1.25 billion. Agrofert posted first half sales of Kc 20.2 billion, up 53% on the same period last year. Lovochemie at Lovosice, which belongs to Agrobohemie a.s, has forecast a total profit for 2000 of Kc 200 million. This is after posting a first half pre-tax profit of Kc 133 million on sales of Kc 1.35 billion, up 27%. Lovochemie plans to expand production of nitric acid. The

company has signed an agreement with the Czech engineering contractor Chemoprojekt to build a new production facility.

The Czech government has rejected a Finance Ministry proposal to release Kc 1.4 billion to Konsolidacni Banka to enable it to purchase the 49.25% stake in AliaChem being sold by the Chemapol Group bankruptcy administrator. The decision leaves Agrobchemie as the most likely candidate to acquire the stake in AliaChem, created from the core chemical subsidiaries of the Chemapol Group. Agrofert and Unipetrol control 50% stakes in Agrobchemie, which reportedly bid Kc 815 million for AliaChem. The Finance Ministry's support of Konsolidacni Banka was opposed by the Industry Ministry which has given its backing to Agrobchemie. The government is now considering the options and whether the inclusion of AliaChem into Agrobchemie will be beneficial. Creditors of the Chemapol Group stated at the end of August that a 49.25% stake in AliaChem should be offered to Agrobchemie under the condition that it pays for the stake within ten days of signing the contract. AliaChem generated a first half year net profit of Kc 140 million, down from Kc 263 million in the same period of 1999. First half year revenues totalled Kc 2.7 billion, up 22%.

In Hungary, the pending sale of Nitrokemia 2000, with September 20 as the deadline, will require bidders to make a declaration on environment-related commitments. In 1997 the APV Rt split the former Nitrokemia into two companies, Nitrokemia Rt and Nitrokemia 2000 Rt. Environmental damages, which amount to an estimated Ft 5-10 billion after having accumulated over the decades, remained at Nitrokemia Rt, the original company's legal successor which is also state-owned. Nitrokemia 2000, on the other hand, started operations with a clean environmental record.

Plastics processing TVK has invited an extensive range of companies to bid for its plastics' division as it seeks to raise funds for its core petrochemical business. The company split its plastics' division into eight separate companies, effective April 1, after it failed to sell the business to Pannonplast Rt earlier this year. Analysts have valued the division widely with a broad range of Ft 10 billion-Ft 20 billion. TVK is seeking bids by the end of September so it can complete the sale this year, ahead of a planned \$450 million upgrade to increase olefin capacity. The plastics' companies, which include plants in Romania and Austria, have represented the TVK's strategic direction in the mid to late 1990s. However, the company's strategy has changed in the past year with efforts to withdraw from plastics. Unterland lost Ft 411 million in the first half of this year, compared with a net profit of Ft 16 million in the same period of 1999. In July, TVK sold a 50% stake in TiszaTextil Kft, to Ibiscus Trading Co and TTEX Invest Kft for Ft 895 million.

Reflecting the effects of higher raw material costs feeding through to higher polymer prices the plastics' processing group Pannonplast increased its first half-year sales' revenues by 32.5% over 1999, reaching Ft 11.6 billion. In comparison with the first half of 1999, there was a strong demand the market for infrastructure based and plastic foam products. However, Pannonplast's sales to the domestic Hungarian market for consumer packaging have stagnated due to the impact of strong competition. Raw material cost increases impacted on the company's gross margin ratio which was reduced to 32%, 3% lower than in 1999. Even so, the gross profit amounted to Ft 3,715 million, an increase of 21% year on year.

Pannonplast's investment programme over the first six months totalled Ft 1.8 billion, including a Ft 300 million capital increase in the expansion of capacity at the injection moulding division Moldin. This was aimed at manufacturing plastic components for Hewlett Packard desktop printers. At Unical Ltd., the Romanian subsidiary of Pannonplast, the 1,700 m² new production hall was completed in the second quarter. The transfer of the machines will be finished in the third quarter and the first phase of the capacity increase in line with the market requirements will take place until the end of the year. In this year the introduction of the ISO 9000 quality assurance system and the preparation for the audit of the food industry requirements will begin.

The Belgian company Punch International has agreed to sell its Szekesfehervar metal and plastic parts unit to Pannonplast Industries Plc. The plant produces plastic and metal parts for Dutch electronics company Philips. Punch had not intended to sell the Szekesfehervar plant but Pannonplast made a very good offer. By selling the Szekesfehervar plant Punch receives a considerable amount of cash and generates a profit for further strategic acquisitions and projects, presently under study. Punch plans to make at least two investments in the Czech Republic and Slovakia of similar size and structure to Szekesfehervar.

Industrial gases Czech operations of Linde Technoplyn and Swedish firm AGA are to merge on January 1, 2001, following Anti-Monopoly Office approval. The new entity will retain the Linde name and control a majority market share in the production of technical gases. Linde controlled 37% of the Czech market last year with AGA holding 14.6%. The move stems from the German company's recent take-over of the AGA parent company.

SOUTH EAST EUROPE

Refining/petrochemicals

LUKoil-Neftochim at Bourgas recorded a profit of DM20.7 million for the first half of this year measured against a loss of DM79 million registered for the same period last year. The company says that profits this year were due to the good work and discipline at the complex. LUKoil-Neftochim is planning a major modernisation of the Bourgas complex with a view towards increasing capacity for foreign markets such as Turkey and Yugoslavia. Regarding the second refinery in Bulgaria, Plama at Pleven, a Bulgarian state commission will question the new owners in early September about their plans. The refinery's largest creditor is the Austrian Central und Vexel Bank with a debt of around \$9 million.

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'.

South East Europe-currencies Aug 16th 2000			
Country	Currency	\$1=	EURO =
Bulgaria	Lev	2.1305	1.9459
Croatia	Kunar	8.3266	7.60510
Macedonia	Dinar	66.6507	60.7721
Romania	Lei	22,350	20,413.4
Slovenia	Tolar	228.870	209.039
Yugoslavia	Dinar	11.6095	10.6036
Yugoslavia	New Dinar	12.1789	11.4122

In Slovenia, a gas fired electricity plant is one of the numerous projects being considered for Nafta Lendava. One of Nafta's two majority owners Petrol has been in favour for this project which contrasts with the view taken by the Slovene Ministry of Economic Affairs. Other projects under assessment at Lendava include a formaldehyde plant and adhesives unit. Potential investors are reported to have been found for a DM20 million upgrade of the methanol plant at

Lendava.

PVC

More than a thousand workers from the Polymeri plant at Devnya were reported to be to going on strike in the latter part of August. The workers insisted upon an extraordinary meeting with the government and the representatives of Polymeri's owners the AKB Corporation and the Bulgarian Holding Company. The syndicate members from KNSB and KT Podkrepa requested that a representative of LUKoil-Neftochim should also participate in the meeting in order that the misunderstandings around the contract for ethylene supply from the Bourgas cracker should be resolved. The chief problem is that LUKoil-Neftochim needs nearly all the ethylene produced at Bourgas for captive requirement, thus meaning that Polymeri has no feedstock source. Consequently, a solution needs to be found for the company's future as an EDC producer.

Soda ash

Solvay-Sodi signed a contract recently with the local thermoelectric power plant at Devnya (TEZ) for the construction of a second electric filter at the power station in exchange for steam deliveries. Solvay-Sodi has thus far invested more than DM6 million in the improvement of the power station's performance. The first filter was commissioned on May 12 this year and has helped to reduce the volume of harmful emissions into the atmosphere. These investments are part of Solvay-Sodi's programme targeted on the Devnya region.

To ensure stable energy and raw material supply Solvay-Sodi has taken a 77% stake in the steam and power supplier TEZ Devnya which was finalised at the start of August. Other acquisitions by Solvay-Sodi have included 78% of the salt brine supplier Geosol and 80% of the limestone supplier Limestone Extraction Works. However, Solvay-Sodi could return the unfinished salt works at Provadia to the Bulgarian state. Notwithstanding, Solvay-Sodi has pledged to invest 30.7 million leva in these companies in the Devnya region over the next three years. In product terms, Solvay-Sodi is considering switching soda ash production solely to dense product by 2001.

Intermediates

Romanian paint manufacturer Policolor returned to profit in the first half of this year after streamlining output and implementing new marketing policies. Policolor stated that it had posted a 5.5 billion lei net profit over January-June from a turnover of 230.4 billion lei, but it was 10% down in real terms as the company had stopped production of non-profitable products. The second quarter gain erased a 14 billion lei loss in the first quarter. Policolor reported a 5.4 billion lei loss in the first half of 1999 from a turnover of 180.8 billion lei.

Profitability has been generated by halting production of less profitable products, the better selection of clients and improved outstanding bills' collection. Policolor said in its statement that it had enough products to cover demand in the third quarter and that it had increased its working capital to face seasonal demand. The company also plans to diversify its products by the end of the year.

Policolor's main shareholders include a number of investment funds and the Bank of Bermuda. Policolor started a restructuring plan after privatisation in 1997. The restructuring programme also covers the Bulgarian plasticizer and phthalic anhydride producer Orgachim, which joined the same Policolor shareholding group in 1998. Investment has been undertaken in Orgachim and Policolor over the past year in the range of \$20 million. The shareholder structure of Policolor is as follows: Romanian Investment Fund (29%), Romanian-American Fund (27%), SG Romanian Fund (11%), and RIC - Cyprus (10%). At the end of July 1998 Policolor finalised the purchase of a 51% stake in Orgachim, combined with pledges of investment of around \$5 million in the company over the next three years.

BALTIC STATES

Baltic States-currencies Aug 16th 2000

Country	Currency	\$1=	EURO =
Estonia	Kroon	17.2858	15.6482
Latvia	Lats	0.6070	0.5462
Lithuania	Litas	4.0035	3.8187

Mazeikiu Nafta processed 2.9 million tons of crude oil and other raw materials over the first seven months of 2000, down 7.6% from the same period the previous year. The refinery's output increased 11.5% in July. The Birzai-based pipeline company, owned by Mazeikiu Nafta, transported a total of 14.7 million tons

of oil and oil products in the period January-July.

COMMONWEALTH OF INDEPENDENT STATES

Russia

Russia's economic recovery remains on track, with gross domestic product rising at least 7.3% in the first half of this year. The economy has been helped by high world market prices for the country's main energy and commodity exports in recent months and by devaluation. For the whole year a GDP figure of 5.5% has been forecast after 1999's 3.2%. To put higher oil and gas prices into perspective Russia earned \$10.569 billion from crude and gas exports in the first quarter this year, or 46% of Russia's total export revenue of \$23.069 billion. By contrast, in the first quarter of 1999 crude and gas exports yielded \$5.252 billion, about of this year's first quarter revenue, and 35% of Russian total export revenue at \$15.149 billion.

In the first seven months of 2000 the chemical industry increased output by 17.9% against the same period in 2001. Amongst the products caustic soda saw a 14.9% increase, fibres 44.1%, and synthetic resins and plastics 20.6%. Of the polymers polystyrene production increased by 43.3% as more styrene monomer was channelled into domestic consumption.

Russian production of synthetic rubber increased by 15.7% in the first seven months of 2000 compared to 1999. In July, Russia produced 59,900 tons of synthetic rubber, or 17.5% more than in June. The production of bulk organic chemicals increased 27.2% on the period January-July last year, with methanol seeing the most significant increase of 45.6%. Carbon black increased by 22.9%, with July yielding 36,700 tons - 14.4% higher than June.

Major chemical producing regions continue to show good results. In the first half of the year Bashkortostan increased caustic soda production by 21% against the period January-June 1999, 41% more PVC, 17% synthetic rubber, and 23% plant protection agents. In the Dzerzhinsk region the eleven companies involved in the chemical industry saw aggregate turnover increase by 27% in the first half of the year. Not all companies increased production, however, with Orgsteklo seeing 21% less in revenue. Zarya was able to increase production due to improved raw material flows from SIBUR-Neftekhim.

Oil refining

In the first half of 2000 Russia refined 5.9% more crude than in 1999. The Russian Deputy Prime Minister announced recently that a state company would be set up by the end of August in Chechnya to develop the republic's oil industry, ravaged by the effects of war. The enterprise would re-invest its money in the republic with its aim of reviving the Chechen oil and gas sectors. The government is deciding currently whether the enterprise will be partly privately-owned.

OAO "Sibneft" has signed an agreement with Technip for the reconstruction of Sibneft-Omsk refinery. The total cost of the project is estimated at \$12 million. The development programme for the Omsk refinery for 2000-2005 also includes the reconstruction of the catalyst production unit, the only such unit in Russia and the CIS. The Omsk refinery plans start to produce isopentane in the near future. Slavneft plans to create a joint venture with BP Amoco to produce JT-1 fuel for aeroplanes at the Yaroslavlnefteorgsintez refinery. The joint venture is expected to produce about 100,000 tpa of fuel.

Petrochemicals

The Alliance Group has been issuing statements recently highlighting its plans to

invest a substantial amount of finance over the next five years in the petrochemical and refining plants where it has a stake. This includes Tomsk Petrochemical Combine, the Khabarovsk refinery in the Far East and the Kherson refinery in Ukraine. A sum of \$60 million has been proposed for investment at Tomsk for the olefin and polyolefin division. Alliance seems to favour the view that Tomsk Petrochemical Combine should be developed more downstream. This would allow value to be added sufficiently to cover transport costs. Greater outline of the future ownership structure of the Tomsk facilities is expected to be known in the near term.

Tomsk Petrochemical Combine has been shut for maintenance in the past month, it has not been confirmed when the plant will return to production. A major revamp also started at the Angarsk petrochemical complex in late August which will involve in the replacement of all the equipment at the styrene plant (which has a nominal capacity of 40,000 tpa) with new Swiss/Italian equipment, and work on the EP-300 cracker and HDPE unit. As a result of the programme lasting over the next few weeks the company should be able to reduce its costs in polymer production.

In the first half of 2000 Kazanorgsintez increased turnover by 2.3 times compared to last year, reaching 3.3 billion roubles. The company's gross profit increased to 1.1 billion roubles against 0.4 billion roubles in 1999. Increased profits have been due mainly to good polyethylene sales and margins.

Nizhnekamskneftekhim. Nizhnekamskneftekhim has received a license for seven years for chemical, oil and gas refining operations. The previous license expired this summer after a five year period. In August Surgutneftegaz and Nizhnekamskneftekhim started to examine the possibility of creating a joint venture which would combine feedstocks with petrochemicals. Other developments involving Nizhnekamskneftekhim include the possibility that the company could join forces with "Tatenergo" in order to avoid monopoly pressure from electricity producers. The main aim of the partnership is to install energy conservationist technologies and to produce electricity and steam for Nizhnekamskneftekhim.

Nizhnekamskneftekhim Ethylene Sales			
(unit-tons)		Jan-Jun	Jan-Dec
Customer	Location	2000	1999
Kaustik	Sterlitamak	14,400	1,987
Sintezkautschuk	Togliatti	-	480
Ufaorgsintez	Ufa	251	5,095
Kazanorgsintez	Kazan	32,854	29,563
Others		-	7,191
Total		47,505	44,316
Nizhnekamskneftekhim Propylene Sales			
(unit-tons)		Jan-Jun	Jan-Dec
Customer	Location	2000	1999
Moscow NPZ	Moscow	1,976	3,217
Orgsintez	Volzhskiy	2,968	6,784
Kaustik	Sterlitamak	10,894	16,478
Ufaorgsintez	Ufa	3,115	16,692
Saratov'gsintez	Saratov	-	2,988
Orsk'orgsintez	Orsk	392	4,079
Kazanorgsintez	Kazan	-	250
Styrol	Perm	4,429	-
Others		542	937
Export		17,896	13,377
Total		44,828	95,110

For petrochemical project plans a credit line of about \$100 million, opened by "Ak Bars" Bank for Nizhnekamskneftekhim last year is (according to local sources) starting to feed through. The total amount of funds necessary for the complete modernisation of Nizhnekamskneftekhim is estimated at around \$90 million. One the main issues is increasing cracker capacity for captive needs and for regional customers in the Volga-Urals region, supplied by pipeline.

In the first half of this year Nizhnekamskneftekhim has invested in improving the top of the naphtha storage reservoir which had been previously emitting into the atmosphere. The project has completely stopped the leaking of hydrocarbons from the reservoir. The company has estimated that it could save up to 17,000 tpa of naphtha supplies as a result of these measures.

Nizhnekamskneftekhim's turnover in 1999 totalled \$490.1 million, increasing by about 33% over 1998. The net profit amounted to \$99.7 million, or 474% higher than the previous year. The share of exports in for 1999 increased by 23.1% to 43% of total turnover. Nizhnekamskneftekhim estimates on the basis of 1999 data that it produced 12.7% of the world market for isoprene, 7.1% of alpha olefins, and 6.7% for butyl rubber. The company hopes to increase polyisoprene capacity to 14% of the world market and butyl rubber to 7.8% with the introduction of new units.

For 2000, Nizhnekamskneftekhim forecasts a growth in sales of 13-15% over 1999. In the first half of the year sales totalled 8.936 billion roubles (around \$320 million), of which 67.8% came from exports. If the second half proves as successful as the first half revenue could be around 30% higher than in 1999. The substantial rise in export revenue has resulted from the high prices seen for petrochemicals, i.e., styrene.

Nizhnekamskneftekhim has licensed its PO/SM technology to Dow Chemical which it will use for the construction of a new complex on the US Gulf.

In the first half of this year Nizhnekamskneftekhim sold a total of 121,259 tons of styrene monomer compared to 220,353 tons in the whole of 1999. Export sales have been higher this year with the emphasis focused on taking advantage of high world prices. At the same time there is more styrene available from other plants in Russia relieving some of the pressure on Nizhnekamskneftekhim. In 1999 the company exported 144,831 tons and in the first half of this year the figure was proportionally much higher at 99,689 tons. Of the domestic consumers falls were seen to Salavatnefteorgsintez from 20,348 tons in the first half of 1999 to 8,594 tons in first half this year, and Voronezhskintezkautchuk from 8,653 tons to 2,600. Omskhimprom purchased 1,877 tons in the first six months this year against 100 tons in the same period in 1999, for the polystyrene joint venture at Omsk formed with Nizhnekamskneftekhim.

SIBUR. 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 October this year SIBUR-Neftekhim will hold a tender for licensing companies for the construction of a new polyethylene plant at Kstovo. The amount of investment required for the project is estimated at \$150 million. The winning company for the tender will be expected to assist in finding an investor for part of the project. Potential contractors include Elenac and Japanese companies.

Chinese Polyolefin Imports from Russia (unit-tons)		
Product	Jan-Jun '00	Jan-Jun '99
HDPE	12,299	15,003
LDPE	36,509	59,323
Polypropylene	842	3,014

In April this year SIBUR-Neftekhim signed an agreement with Uhde Krupp concerning co-operation, in which the German company will formulate a business plan for the construction of the polyethylene unit, which is targeted for a 2004 start-up. The product will be HDPE with an initial capacity of 120,000 tpa and possessing the possibility for

expansion later. The intention is that gas pipelines will be manufactured from the HDPE with a diameter of up to 1 metre, in addition to various other products such as PE films.

Of equal significance is SIBUR-Neftekhim's plans to revamp the EP cracker at Kstovo in the next two years. The plan is to increase production from a current limit of around 120,000 tpa, or possibly slightly more, to around 255,000 tpa.

The main issue that needs to be tackled before these projects can progress is the confusion over equity control of the Neftekhim complex at Kstovo. A contract was concluded on June 29 by Neftekhim and three Moscow companies Filial-M and Rinako-M worth 524,991,530 roubles for the sale of SIBUR-Neftekhim's common nominal shares. This contract has since been disputed and in late August the Moscow Arbitration Court has started to assess the lawsuit claiming to declare the sale of the stake in SIBUR-Neftekhim invalid.

To recap Neftekhim is a joint venture formed in 1997 between NORSI and Kaprolaktam at Dzerzhinsk, whilst SIBUR-Neftekhim was formed in December 1999 between Neftekhim and SIBUR (Gazprom). SIBUR is the majority partner in SIBUR-Neftekhim with more than 50%.

The sale by Neftekhim of SIBUR-Neftekhim's shares was challenged by the Neftekhim board of directors. The former management concluded the deal but did not have permission from the board. Neftekhim has since filed a suit with the local prosecutor's office, the regional organised crime department and the Moscow Arbitration Court cancelling the sale of its stake in SIBUR-Neftekhim. A decision on the outcome is likely to be announced in September.

The Neftekhim Kstovo complex is a promising petrochemical production facility which has drawn equal interest from LUKoil and Gazprom. LUKoil had initially wanted to reverse the establishment of SIBUR-Neftekhim, as it feared that its creation would lead to the loss of NORSI's control over Neftekhim's assets. For the time being at least it seems that both LUKoil and Gazprom are prepared to co-operate through one side controlling the Kstovo complex and the other supplying part of the feedstock balance.

SIBUR has won an open tender for Volzhskiy Khimvolokhno against Azot at Kemerovo which was interested in the Khimvolokhno plant as a destination for caprolactam sales. The starting price was set at 149, 651,000

roubles and SIBUR exceeded this level by 4 million roubles. Earlier this year Kaustik at Volgograd had taken a majority stake in Volzhskiy Khimvolokhno but this transaction was later declared invalid by the local arbitration court. Kaustik did not participate in the latest tender.

PVC From August 1 OAO "Sayanskkhimprom" stopped PVC production and started annual maintenance which was to last for 30 days. Third quarter output should be down due mainly to this outage by about 15,000 tons against the second quarter. The company also lost about 1,300 tons of output at the end of July following two accidents at the Novo-Zima power station on July 28 and July 31. It meant that the PVC unit at Sayanskkhimprom was down for two days. Sayanskkhimprom intends to negotiate with Irkutskenergo upon reimbursement for damages that it incurred.

Sayanskkhimprom needs around \$52 million to implement an upgrade project for the PVC unit, which would allow it to transfer from using mercury in the chlorine production process. This project came under review by Sayanskkhimprom's board on August 23. Sayanskkhimprom also plans to implement a project for PVC waste utilisation with the pilot plant expected to be installed this year. The company seeks to attract \$5.8 million for the project.

Fertilisers Gazprom has reached an agreement on the development of local gas processing facilities in the Saratov region for regional farmers' demand in chemical products. In the first half of 2000 Azot at Berezniki in the Perm Region increased fertiliser production by 42% compared to 1999. The company has undergone a period of revamping production units which has helped boost output levels for ammonia, urea and nitric acid. Azot's main creditor is Gazprom which has drawn up a rescheduling programme for outstanding debts.

On July 28, the general director of OAO "Azot" at Kemerovo announced that the company's first AGM since it re-established its creditworthiness will be held on September 15. On the agenda is the main question of electing an observation council for OAO "Azot". This year Azot is undertaking maintenance at the units for nitric acid, sulphuric acid, urea, and is also building a new unit for crystallising caprolactam. The amount of investment in the nitric and sulphuric acid plants will amount to \$1-1.5 million. The new unit for crystallising caprolactam will cost around \$400,000 with a capacity of 1,000-1,500 tons/month.

CIS- currencies Aug 16 2000

Country	Currency	\$1=	EURO =
Azerbaijan	Manat	4378	3961.21
Belarus	Rouble	989,500	895.300
Kazakhstan	Tenge	142.725	126.138
Russia	Rouble	27.7380	25.0594
Ukraine	Hryvnia	5.4388	4.8229
Uzbekistan	Sum	775.0	701.220

Apatit produced 1,420,000 tons of apatite concentrate in the first six months of 2000, up by 130,000 tons against the target and up by 78,000 tons against the same period of 1999. Apatit revived nepheline deliveries to the Pikalevsk Alumina plant in the St-Petersburg region after settling a conflict over price. 90,000 tons of nepheline/month are now being delivered to Pikalevsk Alumina. A contract has been

agreed for five years the value of which is estimated at around \$50 million. The price has not been disclosed although it is unlikely to be as high as \$28/ton sought by Apatit and as low as \$14.1/ton sought by Glinozem.

Methanol OAO "Metrafrax" at Gubakha in the Perm region has now entered the group of 200 Russian companies whose annual turnover exceeds 1 billion roubles. The company is operating its production facilities at 100% and will probably continue to do so taking into account the tight global position for methanol. Other products produced by Metrafrax include pentaerythritol, formaldehyde and resins. Export margins for Metrafrax are rated at 20% and domestic sales' margins 30%. For the first half of the year the company's gross profit amounted to 219 million roubles (\$7.96 million). Debts of about 200 million roubles still exist for gas supplies. Metrafrax is building a new column which will help it to reduce its atmospheric emissions. An upgrade of the methanol plant is also planned which would increase production by about 10%.

The success of Metrafrax this year has been to some degree influenced by the world market for methanol with the US market having become extremely tight leading to better prices. High gas prices seem to have driven a number of important players from the US market creating excellent opportunities for Russian exports. In the first quarter this year Russia produced 438,800 tons of methanol compared to 266,400 tons in the same period in 1999. Exports totalled 160,600 tons in the first three months of 2000 against 53,900 last year. High methanol prices may also been the stimulant for helping to push through Gazprom's methanol project plans for in Arkhangelsk.

Propylene derivatives On August 18 100% of shares in the acrylate producer ZAO "AkriLat" at

Dzerzhinsk were transferred to a new fund, mainly with the aim of attracting outside investors for the construction of the acrylic acid plant. Akrilat was set up in 1991 with this project based on Japanese technology as the sole interest. The MMA producer Orgsteklo is a major partner in the venture with Sberbank also influential. At present about 60% of the acrylic acid plant has been completed with an estimated \$50 million required for the remainder.

PET Eastman Chemical and Pepsico are trying to sell their stakes of 25% each in the Belpak PET joint venture at Mogilev which has aroused interest from several Russian companies. The other 50% in Belpak is owned by the two Mogilev based companies Khimvolokhno (45%) and Motoleks (5%). Interest in the joint 50% stake of Eastman and Pepsico has come from Itera-Bel, SIBUR and Sibneft. The Omsk administration contacted the Belarussian government to say that if it were given the shares in Belpak it would guarantee that the Naftan refinery would be provided with 100% of its crude requirements allowing the aromatic units to operate at higher capacity. However, owing to its expertise in the PET bottle sector Itera-Bel is considered in some circles as the best applicant for the stake.

Eastman wishes to sell its stake in Belpak as its involvement at Mogilev is no longer viewed as important to the company's interests. Russian based Itera-PET and its Belarussian partner Itera-Bel have already developed an investment programme for Belpak of around \$20 million. This would increase capacity to 90,000 tpa of PET from the current level of 36,000 tpa. This is important to reduce the amount of CIS import dependency for PET resin, i.e., in the first six months Russia imported 66,830 tons from South Korea. Belneftekhim, which controls the Naftan refinery and will have some influence over the final decision, might favour the Sibneft approach. It may even be that Itera forms a joint venture with Sibneft whose interest in PET stems from its supply of paraxylene to Mogilev.

Itera-PET processes approximately 2,500 tons/month of PET resin at its Moscow plant and 900 tons/month at Minsk. Preforms were imported largely from Poland until the development of internal processing capacity. Imports reached their peak in 1997 with Belarus providing the main source of product. Russian preforms are now exported to other CIS countries such as Ukraine and Kazakhstan. There are 22 specialised producers of PET preforms in Russia including Itera Corp, Master Corporation, Europlan, Alpla, etc. In 2000, Russia is expected to produce around 90% of its own preforms. The largest outlets are for CSD and mineral water.

Plastics At OAO "Chelyabinsk tube-rolling plant" in the south east Urals has recently started testing polymeric coverings for oil and gas pipes produced by such companies as Borealis, Dupont, BASF, etc. The company plans that after testing it will be able to announce a tender for polymeric material supply for large diameter pipe coverings.

The St. Petersburg RIM R&D group from the TROYARD holding is setting up the first Russian specialised production of plastic tubes for perfumery production. Investments in the project are expected to reach \$15 million within the next four years. A contract for the delivery of the requisite equipment has already been signed and its installation should be completed before the end of this year. Equipment is being supplied by Breyer of Germany, Aisa of Switzerland, Polytype of Switzerland and CER ERM of France. The first line is due to go into operation in early 2001. It will have a capacity of 2.5 million tubes/month, which could meet about a fifth of total demand for tubes from Russian cosmetic producers.

At Voronezh a Russian-Czech joint venture for plastics' processing has been created, being officially opened August 10-11. The main aim of the venture is to produce polyethylene films for helping to protect fibre optic cables. The partners in the venture are the Czech company Sitel, and the Russian companies Strastroy-1 from Voronezh and OOO "Telinzhiniring" from Moscow. The production operations will be the first of its kind in Russia. In addition to polyethylene films polypropylene based pipes will be manufactured for hot and cold water, and for sewerage.

A new unit of POLI PAK in the Samara region, a company which produces polypropylene packing materials, was started up recently adding to domestic demand. The plant's designed capacity is 7 million polypropylene sacks per annum. The plant's capacity could eventually be increased up to 30 million sacks.

Other news In the first seven months of 2000 Khimprom at Novocheboksarsk produced 5,436 tons of plasticizers, 63% higher than in the same period last year; 31,321 tons of hydrogen peroxide - 35.6% higher; and 1,769 tons of plastics - 5.7% higher than in 1999. Total turnover for the company increased dramatically by 61.6% to 964.072 million roubles, although the physical volumes were up only 9.8%. Representatives of Phillips and Navartis have assessed the possibility of luminophor production at Altaikhiprom. Phillips intends to invest around \$500,000 in luminophor production at the site.

Navartis and Altaikhimprom have been developing a number of joint projects on herbicide and pesticide production.

OAO "Usolyekhimprom" has approved financial results for the first half of 2000 during which the production volume increased by 6.1% against the same period last year. The volume of export amounted to 50.7% from total sales. The company will hold an auction for outstanding debts of 88 million roubles on September 15. Novomoskovsk Orgsintez in the Tula region, which produces maleic anhydride, fumaric acid, etc, issued workers notice in August that the company expects to be liquidated in the next three months.

Paints Nizhniy Novgorod car manufacturer AO "Gaz" has been in negotiations with the Yaroslavl paint plants "Lakokraska" and "Victory of Workers" regarding co-operation in the development of new car enamels. In the first half of this year the Yaroslavl plants supplied Gaz with 2,000 tons of various paint materials, 1,000 tons of which were enamels. The increase in quality and widening the range of products offered is a main objective of the Yaroslavl plants. From the start of this year Gaz began receiving a new generation of enamels ML 1300 conforming to international standards. Overall, the Yaroslavl plants increased output by 25% in the first six months compared to 1999.

Ukraine

Following last month's news that a new company is to be created to repay Oriana's German credit, worth DM212.5 million, the State Property Fund and Ivano-Frankivsk regional administration has announced a competition to determine a co-founder. Both Oriana and its partner will need to invest 50% each in the joint venture's statutory fund.

The following table illustrates the leading companies in Ukraine in the chemical sector. The main point is that can be drawn is that the fertiliser sector dominates the industry in Ukraine.

Ukrainian Chemical Company Output by Volume 1st half of 2000. (1999 positions in brackets)		
Position	Company	Location
1.	Odessa Port Plant (3)	Grygorivka
2	Styrol (2)	Gorlovka
3	Azot (8)	Cherkassy
4	Azot (4)	Severodonetsk
5	Dniproshina (1)	Dnepropetrovsk
6	DniproAzot (6)	Dneprodzerzhinsk
7	Oriana (11)	Kalush
8	Sumykhimprom (4)	Sumy
9	RivneAzot (7)	Rovno
10	Titan (9)	Crimea

For the first half of 2000, Stirol at Gorlovka produced 515,600 tons of ammonia (against 683,800 tons in the first half of 1999), 412,800 tons of urea (370,850 tons in 1999), and 11,400 tons of polystyrene (8,400 tons in 1999). Some styrene monomer was supplied to Gorlovka from Nizhnekamskneftekhim. The company's sales in the first six months of 2000 grew 42.8% over the corresponding period in 1999 to 361.675 million hryvnia. Exports accounted for 82.12% of the company's sales, compared to 73.57% in the first half of 1999.

The Ukrainian State Property Fund is expected to soon announce new conditions for a second attempt

to sell shares in the Crimean Soda Plant, and also conditions for the sale of shares in OAO "RivneAzot". An 89.47% stake is available for the Crimean Soda Plant with the value of shares placed at 161,985,756 thousand hryvnia. The 53.86% stake in RivneAzot at Rovno is valued at 45,832,28 thousand hryvnia. The price for the Crimean Soda Plant is expected to be reduced due to the unsuccessful effort to privatise the company at the end of June.

The international consortium Flemings will assist the State Property Fund in preparing and holding an open tender for the sale of OAO "RivneAzot". The tender is scheduled to take place in the fourth quarter of 2000. RivneAzot produces liquid synthetic ammonia, sulphuric and nitric acid, ammonium nitrate, and phosphate fertilisers. The State Property Fund is also intending to put up for sale a 25% stake in the chemical producer Dniprokoks via commercial competition by the end of the year. According to preliminary data, the stake's starting price has been set at 2.8 million hryvnia. Dniprokoks is located at Dnepropetrovsk and produces coke, ammonium sulphate, benzene, etc. The other 75% holding in the company has been already sold.

Central Asia

Uzbekistan plans to complete construction of the Shurtan gas chemical complex (Kashkadarinsky region) by December this year. State-owned Uzbekneftegaz is sponsoring the project, costing over \$1 billion. Financing is being provided by the Japanese Bank for International Cooperation (over 40 billion yen); the Export-Import Bank of the US (about \$200 million); German commercial bank loans insured by Hermes (about DM70 million); and a credit from the National Bank of Uzbekistan and from internal Uzbekneftegaz funds. The plant is currently undergoing a phased startup and final installation work. This involves the gas purifying plant and the ethylene unit which has a capacity to produce 125,000 tpa.

This is in addition to by-products 137,000 tpa of liquefied gas (propane and butane fractions) and 130,000 tpa of volatile condensate. The \$600 million turnkey portion of the complex is being built by ABB (ABB Lummus Global and ABB Soimi), and three Japanese companies: Mitsui & Co, Toyo Engineering and Nissho Iwai Corporation. Local companies are undertaking the other \$400 million in general construction work. Uzbekistan currently consumes about 60,000 tpa of polyethylene. Output will be delivered to the domestic market and exported, primarily to other Central Asian republics.

Transcaucasus

With the restart of chloroprene by the Armenian producer Nairit in March, the company has increased turnover substantially over the past few months. For June and July a 24.1% increase was recorded compared to June-July 1999. Nairit is negotiating market openings in the Volgograd region and with Chinese rubber companies. Nairit has incorporated a three year programme for debt rescheduling, including energy debts and outstanding wages.

Kazakhstan

The BG Group (British Gas) announced on 28 July that it would more than double its investment to develop the Karachaganak oil and gas field in the next three years. Financing for the additional spending will come from the company's own reserves. BG has spent \$320 million at Karachaganak since it took over the project in 1997. The company had planned to spend another \$367 million before 2003, but the need for more infrastructure at the site has prompted BG management to revise the figure upwards to \$860 million. Company officials hope that spending the money now will reduce maintenance drilling expenses in the future, keeping the project's total cost low.

Karachaganak, which has estimated reserves of 2.4 billion barrels of oil and gas condensate and 16 trillion cubic feet of gas, currently yields 150,000 barrels of oil equivalent a day. This amount is expected to double in three years, with oil and gas condensate to account for 180,000 barrels a day of it. BG currently sells Karachaganak oil at \$12/barrel, while world price for Brent crude are clearly well above this level. The Karachaganak field remains a very cheap field to run, with production costs running around \$3.50/barrel, well below the industry average of \$8/barrel.

The Orenburg gas refinery in the south Urals processes annually about 2 billion cubic metres of gas and 1.9 million tpa of condensate from the Karachaganak deposit. The Astrakhan and Orenburg plants cut down the expenditures for imported reagents used in sulphur production by around four times (up to \$2 million). The plants have opened their own production of methyldiethanolamine, synthetic zeolite, and catalyzers.

The Kazakh government passed a decree in August enforcing domestic oil companies to provide 688,000 tons/month of oil, about a quarter of the country's output, as guaranteed feedstock to domestic refineries. The government has pointed to falling volumes in feedstock supply resulting in a crisis situation in the domestic oil product market this summer.