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MONTHLY NEWS

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

Edited by **Andrew Sparshott** | Tel **+44 (0)20 8669 5126** | Email **enquiries@cirec.net** | Web **www.cirec.net**

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

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Features from the September 2003 issue

- Greenpeace has again taken action against Spolana in protest against dioxin, mercury and PCB levels. Greenpeace wanted to persuade the Spolana management to accept its responsibility for the toxic contamination of the plant's surroundings. They also want the Spolana to compensate all afflicted people.
- MOL will be required to pay an additional \$30 million for the 30% stake it bought in Slovnaft after the Slovakian Financial Supervision rejected MOL's appeal against a higher share price. This was lodged after a local investor group drove up the price immediately before MOL made its bid. MOL will have to pay Sk 1,380 instead of Sk 1,200 per share. Although the appeal council of the supervision will also inspect the case, the outcome is thought likely not to favour MOL.
- Chemical and petrochemical production in Russia showed a 4.7% increase for the first seven months of 2003. The Russian Ministry of Industry and Science has revised its output forecasts upwards for nearly all sectors and this level of 4.7% is expected to continue for the rest of 2003.
- Basell will sell Nizhnekamskneftekhim the license for manufacture of polypropylene based on Spheripol technology and the contracting company Tecnimont will undertake the feasibility report and will deliver the equipment. Nizhnekamskneftekhim is expected to take the credit from European banks under guarantees of Italian state insurance agency SACE. The Russian banks will not participate in this circuit of crediting. Tatneft also will not finance the project.
- Production increased at Tobolsk by 18% in the first half of 2003. The production of butadiene increased by 7,000 tons and isoprene by 4,000 tons. Tobolsk Petrochemical Combine has faced problems of deliveries through the railway system. An absence of rolling stock in the future could slow the production rates and development of the combine. This problem will be assessed by the administration of area together with SIBUR.
- At the end of July a working group started examining scope for cooperation between Gazprom and the chemical plants located in Bashkortostan. The main producers such as Salavatnefteorgsintez (SNOS) are included in the working group. SNOS is particularly interested to see how Gazprom can help its petrochemical expansion plans up to 2010. The immediate priority for SNOS is to complete the ethylbenzene and styrene monomer projects.
- Lukor is now running normally after the problems with the local railways disturbed deliveries and affected utilisation levels. In June of this year the management of the Lvov railway blocked shipments of production of Lukor, ostensibly due to the unsatisfactory condition of access tracks to the complex.
- Azerkhimya is holding talks with EximBank of Japan to grant Azerbaijan a credit for the construction of a chlorine plant. The company hopes to receive in the range of \$50-\$60 million. To agree the size of the credit, however, it is necessary to prepare a feasibility study for the project and to establish the approximate volume of chlorine production. Depending on finance, project construction could start in 2004.

Czech Republic

(Czech crown, Kc, Aug 18, \$1 = 28.62, €1 = 32.12)

Spolana

Greenpeace has again taken action against Spolana in protest against dioxin, mercury and PCB levels. Greenpeace wanted to persuade the Spolana management to accept its responsibility for the toxic contamination of the plant's surroundings. They also want the Spolana to compensate all afflicted people.

Spolana revenues and net loss, 2000-2002

(in millions of Kc)

	2002	2001	2000
Revenues	3,690	6,572	8,065
Net loss	491	700	251

Spolana has stressed that the company has already started the programme of liquidation of dioxin and mercury. Greenpeace,

together with the Arnika organisation, ranks among the most active critics of Spolana. They have been pointing to contamination by dioxin, mercury and other toxic substances in the area for several years already.

Perhaps slightly predictably, although the results are hard to dispute, the pollution has been proved by Greenpeace's measuring not only in the plant's premises, but also in its surroundings.

SITA Bohemia, part of the waste-removal unit of French conglomerate Suez, is undertaking a Kc 3.2 billion contract to eliminate two mercury buildings at Spolana by the end of 2008. SITA Bohemia will enclose both buildings in a capsule with negative air pressure to prevent dust from escaping.

Near the dioxin storehouses is another much larger building contaminated with mercury. This former electrolysis plant has lain in ruins since it was decommissioned in the 1970s. The Czech company TCHAS aims to launch a seven-year cleanup operation of this building this October.

However, the dioxins and mercury continue to haunt Spolana, not least after last summer's devastating floods submerged 90% of the plant. The environmental controversy is only one of the plant's growing burdens. Spolana is losing an average of Kc 445 million a year. The company posted a loss of Kc 313.7 million in the first half of 2003, whilst losing Kc 491.3 million in 2002 and Kc 699.7 million in 2001.

At the end of July Spolana announced that it was stopping production immediately of the poorly performing linear alpha olefin (LAO) unit.

LAO accounted for a quarter of Spolana's revenues, but was losing about a half billion crowns a year. The unit was approved during the communist era, with the Soviet bloc providing a steady market for LAO. However, by the time it went on line in late 1992 the USSR had been dissolved, and with at the same time Spolana's clientele for the product.

The announcement is part of a wider restructuring of Spolana by the majority shareholder Unipetrol. By September, Spolana will have a leaner product portfolio and next year hopes to be able to start turning a profit. Despite Spolana's troubled history, the chemical plant is a vital part of the Unipetrol group. Spolana consumes one quarter of ethylene produced at Chemopetrol. If Spolana closed, production would subsequently have to be reduced at Chemopetrol unless another outlet was unveiled. This would cause a very significant deterioration of Unipetrol as a group.

Slovakia

(Slovak Crown, Sk, Aug 18, \$1 = 37.50 €1 = 42.09)

Slovnaft

MOL will be required to pay an additional \$30 million for the 30% stake it bought in Slovnaft after the Slovakian Financial Supervision rejected MOL's appeal against a higher share price. This was lodged after a local investor group drove up the price immediately before MOL made its bid. MOL will have to pay Sk 1,380 instead of Sk 1,200 per share. Although the appeal council of the supervision will also inspect the case, the outcome is thought likely not to favour MOL.

Slovnaft netted Sk 1.8 billion from January-June 2003, up 21 % over the same period last year when the company reported net income of Sk 1.5 billion. Operating profit rose to Sk 1.88 billion in the first half of this year, a 34 % improvement over the same period in 2002. The company attributes the higher profit to a wider difference between the prices of products and the prices of oil.

Slovnaft was satisfied with the results as the company had carried out extensive overhauls of the most important production units in the refinery and petrochemical divisions during the first half of the year. Sales of refinery products grew by 7.7% to Sk 23.10 billion and sale of petrochemical products by 9.3 % to Sk 5.13 billion.

Petrochema

Slovak chemical producer Petrochema showed a profit of Sk 12.2 million in the first half of 2003, a decline of over Sk 4 million from the same period last year. The decline was due mainly to the developments in world oil prices and the strengthening Slovak crown. Petrochema's sales fell to Sk 923.5 million in the first half of the year, down from Sk 990 million in the same period in 2002. Exports accounted for 55% of the company's sales and were worth Sk 450 million.

Petrochema produces heating oil, motor fuel and industrial detergents, including sulphonates. This year, the company expects revenues to total Sk 2.13 billion yielding a profit of Sk 30 billion.

Hungary

(Hungarian forint, Ft, Aug 18, \$1 = 230.69 €1 = 258.93)

MOL, Jan-Jun 2003

In the first half of 2003 MOL's net income fell 69% to Ft 12.3 billion, due primarily to a deterioration in the gas business result and the adverse affect of currency movements on foreign currency denominated debt. Nevertheless, the company's EBITDA was almost stable at Ft 72 billion (up 18%), reflecting the strong cash generation of our underlying businesses.

In the first six months MOL's operations were influenced by several external factors. The Iraqi conflict in March impacted on oil prices whilst demand grew slowly in Central Europe. Exchange rate movements also influenced MOL's results. MOL's reported figures for 2003 ere also significantly influenced by the full consolidation of Slovnaft from the beginning of Q2 2003.

Refining contributed an operating profit of Ft 26.0 billion, a 6% increase over the first half of 2002. MOL's petrochemical sector's operating profit was Ft 4.8 billion, compared to a Ft 3.2 billion profit in the first half of 2002. The significant improvement is due largely to improved feedstock mix and favourable Forint strength against the US dollar. Improvements in efficiency continued as recurring controllable costs (which includes operating expenses less depreciation, oil and gas purchases and taxes and fees) excluding Slovnaft, decreased slightly in real terms. Slovnaft is now an integral part of MOL.

TVK, Jan-Jun 2003

In the first half of 2003, the TVK Group recorded Ft 3,923 million as a consolidated operating profit (EBIT) in the first half of 2003, compared to Ft 1,859 million in the same period last year. From the Ft 2,064 million profitability rise, TVK Rt.'s operating profit rose by Ft 1,785 million.

TVK Rt's sales by petrochemical division in H1 2002 (in Ft million)			
(Hungarian forint, Ft, Aug 18, \$1 = 230.69 €1 = 258.93)			
	Domestic	Export	Total
Olefin	15,943	576	16,519
LDPE	4,460	5,403	9,863
HDPE	3,012	12,218	15,230
PP	9,925	13,665	23,590

	Domestic	Export	Total
Olefin	15,943	576	16,519
LDPE	4,460	5,403	9,863
HDPE	3,012	12,218	15,230
PP	9,925	13,665	23,590

TVK Group's profit before tax in the first six months reached Ft 2,619 million. Net receivables, in relation with the sales increase, were up by 5% and reached Ft 24,903 million, while the level of inventories was stable compared to 2002.

The sales of TVK Rt totalled Ft 67,374 million out of a total of Ft 75,873 million for the TVK Group. These

totals were 7% and 16% higher, respectively, compared to the same period in 2002. The main role in the increase of group sales was played by the higher sales of TVK Rt, and by the sales of LDPE and polypropylene produced by Slovnaft and sold by TVK's trading subsidiaries. The sales of parent company made up 89% of group level sales.

TVK's Petrochemical Production (unit-kilo tons)						
Product	Capacity	Jan-Jun 2003			Jan-Jun 2002	
		Prod	Cap rate %	Capacity	Prod	Cap rate %
Ethylene	370	180.5	94.4	370	186.2	97.4
LDPE	120	55.3	90.6	120	57.5	96.6
HDPE	200	94.5	91.5	200	98.7	99.5
PP	290	133.9	92.5	290	140.4	96.1

Feedstock costs have been the main factor affecting profits for TVK Rt in the first half of 2003. In the first quarter, feedstock prices increased significantly over Q4 2002 and Q1 2002.

These changes were partially compensated by increasing product prices, but still took their toll on profits. In the second quarter, prices of feedstocks fell compared to the first quarter, but at the same time polymer prices also dropped. Overall, TVK Rt saw a fall of 3% in profitability levels against 2002.

The average price of naphtha was up by 31% in the first half of 2003, and that of gas-oil by 29%. In the first quarter the average price of naphtha rose by \$118/ton, and gas-oil by \$129/ton compared to Q1 2002. In the second quarter feedstock prices decreased by 27-30%. Compared to the first half of 2002 margins decreased by 3%.

TVK Rt yielded 53% of its income from domestic sales. As in the previous years, Germany (23%) represented the lion's share of exports, followed by Poland (17%), Italy (16%), UK (6%), France (5%) and Austria (4%). Total operating costs rose by 14% to Ft 73,015 million, mainly due to the increase of feedstock costs and goods purchased for resale. The main reason behind the Ft 1,810 million (4%) rise of material costs was the cost levels of pyrolysis feedstock cost and purchased propylene used for the polypropylene division.

The effective capacity utilisation of the petrochemical units fell slightly as the company changed the method of calculation of utilisation. The base of the calculation was changed from the calendar daily value of the annual nameplate capacity utilisation to the daily effective capacity.

Capital Expenditures

TVK's Olefin-2 project, which will take total ethylene capacity at Tiszaujvaros to above 600,000 tpa, is progressing

Capital expenditures at TVK Rt (Ft million)		
Investment area	H1 03	H1 02
Petrochemical Project	5,511	497
New Olefin-II Plant1	1,668	407
New PE-IV plant	1,231	509
Expansion of PP-IV plant	262	19
Supplementary facilities	1,527	5
Other investments	1,650	690
TOTAL	16,941	2,460

generally faster than expected and orders have been issued for 96% of the equipment. Almost all the construction capacities needed for the project plans have been contracted. The deliveries of piping materials, fittings and cracking furnace elements have already started.

The shell erection of the ethylene storage tank has begun, with the pipe rack construction and piping assembly also having been undertaken. A power supply system to the new Olefin-2 subproject has already been built.

The total Capex or capital expenditure in the TVK Group in the first half of the year reached Ft 16,941 million, which is almost seven times higher than in 2002. The increase was mainly due to the cost of the petrochemical project, the cost of which made up 95% of the total capex.

The total planned capex of the project is €430 million, from which €123 million was outlaid prior to 30 June 2003. An €8.7 million prepayment value is waiting for accounting in relation with the implementation of the projects.

BorsodChem, Jan-Jun 2003

Despite negative market conditions the BorsodChem Group increased its sales revenues in the first half of 2003 by 11.2% and its operating profit by 3.6% compared to 2002. From the Ft 67,800 million total in sales' revenues it reached Ft 7,608 million operating profit, i.e. 11.2%. The net profit of the company was Ft 3,181 million. The increase in sales' revenues was due in part to the increase in TDI sales.

In the total sales' revenues the share of PVC resin dropped from 27.8% to 24.4%. The revenues from PVC compounds increased by 1.9%, with an increase of 3.4% in physical volume. MDI revenues increased by 12.2%, with an 8.9% increase in volume. The revenues for TDI grew by Ft 4,458.3 million, which reflects is a 47% increase. In fact, the share of TDI in total sales has grown to 20.5%, thus representing the second biggest revenue-producing product behind PVC. Aniline sales from the Ostrava plant in the Czech Republic increased by 35.7%, with an increase of 4% in volumes. Benzene cost fluctuations have been a major factor in the price of aniline.

A total of 83.8% of BorsodChem's sales' revenues originated from export sales, 3% higher than in 2002. The geographical breakdown of sales is comprised of domestic, Central and East Europe combined 48.5%, and West Europe 47.5%.

BorsodChem's Sales' Revenues (Hungarian forint, Ft, Aug 18, \$1 = 230.69 €1 = 258.93)		
Product	Q1 03 (Ft mil)	Q1 02 (Ft mil)
PVC resin		
Domestic	1,737.3	2,279.6
Export	14,747.5	14,658.7
Subtotal	16,484.8	16,938.3
PVC compounds		
Domestic	424.3	407.0
Export	1,809.9	1,786.5
Subtotal	2,234.2	2,193.5
MDI products		
Domestic	37.6	105.5
Export	10,120.2	8,951.8
Subtotal	10,157.8	9,057.3
TDI products		
Domestic	559.6	436.3
Export	13,381.1	9,046.1
Subtotal	13,940.7	9,482.4
Caustic soda		
Domestic	1,378.7	1,829.6
Export	1,059.7	1,302.3
Subtotal	2,438.4	3,131.9
Aniline		
Export	2,892.3	2,131.4
Plastic semi-finished and finished products		
Domestic	2,458.6	2,178.9
Export	2,804.8	2,875.5
Subtotal	5,040.4	5,054.4
Other products		
Domestic	4,412.8	4,460.0
Export	9,975.7	8,497.6
Subtotal	14,388.5	12,957.6
Total sales	67,800.1	60,946.8
Domestic sales	11,008.9	11,696.9
Export sales	56,791	49,249.9

PVC production at Kazincbarcika was reduced due mainly to lower demand. The recession in the building-construction industry in West Europe continued, which was also seen in the Hungarian building-construction industry. Profitability levels fell significantly in Q2, resulting from high ethylene prices. BorsodChem thus reduced its chlorine, VCM and PVC production to help avoid incurring further losses. The devaluation of Hungarian Forint caused exchange loss exceeding Ft 3.4 billion to BorsodChem.

Investments performed by the company in H1 2003 totalled Ft 3.3 billion, out of which Ft 0.4 billion were invested in the subsidiaries involved in consolidation. The MDI expansion at Kazincbarcika will start in October 2003, with the capacity to be expanded from 60,000 tpa to 120,000 tpa. BorsodChem signed a contract in November last year for a €100 million seven-year syndicated loan. In addition to supporting the MDI expansion the loan will be used to finance BorsodChem's VCM project which will be expanded to 250,000 tpa from the current level of 180,000 tpa. The VCM project is intended to be completed in conjunction with TVK's olefin expansion. Eventually the aim is to increase VCM capacity to 320,000 tpa.

Profit before taxation and minority interest was Ft 3,316 million, which was only 47.7% of the Ft 6,952 million profit achieved in 2002. In 2003, BorsodChem will again meet the conditions for utilising the tax holiday and thus the tax liability is only Ft 119 million. Profit attributable to minority interest holders Dynea Austria and AliaChem amounted only to Ft 16 million. Therefore the net profit totals Ft 3,181 million, which is 46.7% of the result of the same period in 2002.

Pannonplast

Pannonplast slipped deep into the red in the first half of 2003, but has forecast much better second half figures. The company posted a net loss of Ft 917 million in the first six months after a profit of Ft 194 million in 2002. For the second quarter losses of Ft 567 million were incurred after a profit of Ft 15 million. This

was due to weak demand for its key products and also exchange rate losses on its foreign currency debt.

Demand for construction materials, particularly for sewage pipes, fell sharply in the first half of the year as infrastructure projects were delayed, or cancelled. Demand for injection moulded products for the Pannonplast group also remained sluggish both in Hungary and foreign plants. Pannonplast is forecasting a full-year operating profit of Ft 1 billion from expected sales' revenues of Ft 27 billion after Ft 11.86 billion in the first six months. The bottom line, however, will be determined by exchange rate fluctuations, which accounted for the bulk of the first half year loss.

Poland

(Polish zloty, zł, Aug 18, \$1 = 3. 7790 €1 = 4. 4263)

PKN Orlen

PKN significantly improved its financial results in the second quarter with the net profit amounting to zł 160 million, that is zł 45 million over the respective figure for 2Q 2002. In the first two quarters of 2003, consumption of fuels in Poland fell by over 3% compared with the same period last year. Notwithstanding, PKN Orlen's financial results reflect a number of positive changes in various areas of the company's operations. These changes are attributable mostly to the ongoing process of organisation and cost restructuring, as well as to macroeconomic trends that are favourable to the petrochemical sector.

Profits improved by zł 18 million in the petrochemical sector. Significant changes in the sales structure of the petrochemical division were connected with the establishment of Basell Orlen Polyolefins sp. z o.o. The new venture took over the production of and trade in polyethylene and polypropylene on both the Polish and international markets. The key part of Basell Orlen Polyolefins is the project developments involving both polyethylene and polypropylene.

The most important developments of the last quarter having an impact on current and future operations include cancellation by Nafta Polska of the tender for acquisition of a 75% stake in Rafineria Gdańska (currently the Lotos Group). The plans of regional consolidation and the company's role in this process still remain an element of PKN Orlen's strategic planning.

Polish Chemical Output (unit kilo tons)

Product	Jan-Jun 03	Jan-Jun 02
LDPE	79	87
Polypropylene	72	66
PVC	120	120
Caustic Soda	193	191
Nitrogen Fertilisers	835	714
Phosphate Fertilisers	246	246
Synthetic Fibres	50	46

In July, PKN Orlen signed a €500 million long-term double-currency loan agreement. This new source of financing offers more flexibility in shaping the company's financial policies.

It will also come as a source of stability and security for PKN Orlen's cash flow in the nearest future. PKN Orlen's consolidated net profit for the first half of 2003 was reported at zł 515 million.

Anwil

Leading Polish PVC producer Anwil recorded a zł 13.69 million net profit in the first six months of 2003 on its way to meeting plans for a zł 21 million full-year profit. Anwil's sales were zł 588.27 million in the first half of the year. The company had recorded a net profit of zł 18.91 million profit on sales of zł 1.117 billion in 2002. Anwil's shareholders are PKN Orlen (76.3%), employees (15%), the Treasury (5%), and the ZE Torun energy plant (3.7%).

Zakłady Azotowe Pulawy

Zakłady Azotowe Pulawy made a profit of zł 13 million for the period July 2002 to June 2003. This compares against zł 129 million in the period 2001-2002. The company controls about 40% of the Polish market for nitrogen fertilisers. This year the company will complete the new melamine line, which will increase capacity to a total of 64,000 tpa and will strengthen its position as the world's third largest producer of melamine.

SOUTH EAST EUROPE

Romania

Petrom

Romania has extended by three months to March 2004 the deadline to complete the privatisation of SNP Petrom, hoping to lure in more lucrative offers. The long-delayed sale of a controlling stake in Petrom, expected to be worth up to \$1.0 billion, is a key element of the government's accords with international lenders. The government aims to complete the privatisation of Petrom by the end of the first quarter next year.

The delay follows last month's lucrative sale of a minority stake in INA, where MOL outbid OMV in a race to consolidate central Europe's fragmented fuel markets. Last month Romania unveiled its strategy to sell Petrom, saying a strategic investor or a consortium would be able to buy 33-34% outright and should, at the same time, take

part in a share capital increase to raise its stake to 51%. A possible deadline for submitting binding bids in Petrom is 31 January 2004.

Petromidia

The US Trade and Development Agency (USTDA) has awarded a grant to Rompetrol aimed to finance a feasibility study to modernise the Petromidia refinery. The aims are to increase output and to help the refinery achieve EU requirements for fuels using environmentally sound technology. Implementing this project, the Petromidia refinery will be able to increase its annual capacity by 20%.

The grant worth \$331,000 will fund a study to upgrade the existing sulphur recovery and sour water stripping systems at the Petromidia. The study will also include the development and operation of a gas desulphurisation and sulphur recovery system. Petromidia is expected to refine 4.3 million tons this year, up from 3.2 million tons in 2002.

Serbia

MOL has put in a bid for a 79.53% stake in Serbia's state-owned oil company Beopetrol. Beopetrol is Serbia's second-largest fuel retailer, with 179 filling stations that sell 400,000 tons of products a year. Besides MOL, LUKoil, TNK, OMV have shown interest in bidding. BNP Paribas SA is advising the government on the Beopetrol sale. MOL recently purchased a 25% stake INA and holds a majority of Slovnaft.

It has been agreed that Serbia should give goods in exchange for part of its debt for the Russian natural gas, at the value of about \$260 million, plus interest rates. A new \$50 million plant opened in July at Krusevac for the production of automotive and industrial lubricants, operating as part of NIS.

Petrohemija Production (unit-tons)		
Year	Ethylene	Polyethylene
1997	159.4	110.2
1998	159.5	113
1999	55.3	46.4
2000	89.1	87.2
2001	113.9	110.2
2002	117.3	116.6

The situation in the Serbian oil industry NIS should be cleared up between September and the end of the year, including a separation of its basic and auxiliary activities and improving its competitiveness. In restructuring NIS, the state will keep control of the

supply of basic fuels, while activities unrelated to its basic activity will be placed on the market.

Petrohemija helped appease concerns over an accident in which tankers carrying VCM overturned at Belgrade station in August, in transit from Ukraine to Macedonia. Three tankers carrying vinyl chloride, carbon disulphide, and oil derivatives were on their way to the Ohis complex at Skopje for the production of PVC and other products.

BALTIC STATES

(Lith Litas Aug 18, \$1 = 3.14, €1= 3.54)

Į žėikiu Nafta

In the first six months of 2003 Į žėikiu Nafta reported a net profit of 74.068 million Litas, compared to a 135.7 million Litas loss for the same period last year. The results reflect stable operations of the refinery, Butinge Terminal and the Birzai Pipeline. Į žėikiu Nafta refined over 2.8 million tons of crude and other feedstocks during the first six months, which is almost 300,000 tons less than in the same period last year. This was due to the full turnaround at the refinery that took the facilities out of operation for over a month.

The Butinge Terminal loaded 5.86 million tons of crude during the first-half year 2003, compared to 1.94 million tons in the same period of 2002. The Birzai pipeline transhipped 10.72 million tons of crude and diesel in the first six months, compared to 12.17 million tons of crude in 2002.

Lifosa

In January-July 2003 the Lithuanian producer Lifosa AB produced 410,900 tons of DAP, which was 33.58% higher than in 2002. Sulphuric acid production in the first half of this year amounted to 585,600 tons, which was 41.83% higher, whilst phosphoric acid production was up 42.78% to 220,600 tons.

High rates of growth of manufacture at Lifosa AB are the result of integration into Evrokhim. In the first few months of 2002 the production facilities of Lifosa AB were idle due to the lack of feedstock supply. Only when deliveries of apatite concentrate and ammonia from other Evrokhim companies started was production re-established.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

(Rus rouble Aug 18, \$1 = 30.32, €1= 34.33)

Chemical and petrochemical production in Russia showed a 4.7% increase for the first seven months of 2003. The Russian Ministry of Industry and Science has revised its output forecasts upwards for nearly all sectors and this level of 4.7% is expected to continue for the rest of 2003.

Chinese Imports from Russia (unit-tons)		
Product	Jan-May 2003	Jan-May 2002
HDPE	24,794	36,847
LDPE	68,447	52,896
n-butanol	41,425	45,109
iso-butanols	27,890	27,701
PVC	88,260	116,156
2-EH	3,768	5,306
PP	10,215	20,292
Caprolactam	27,180	52,620

In the period January to July this year mineral fertiliser production reached 8.1 million tons, 0.9% up on 2002, synthetic rubber was 603,000 tons, 16.2% up, whilst caustic soda production fell 4.7% to 628,000 tons and soda ash was down 1.7% to 1.3 million tons.

In the first six months of the year, Russia imported 12,600 tons of plant protection agents at a value of \$108 million, and

32,800 tons of natural and synthetic rubber (\$25.9 million).

Oil refining/feedstocks

The Anti-Monopoly Ministry has formally confirmed last night that the YUKOS-Sibneft merger has been approved.

SIBUR and Sibneft have suspended the joint venture project at the Noyabrsk has processing plant, which is part of SIBUR-Tyumen. In January SIBUR and Sibneft reached an agreement to set up a joint venture. The parties signed a memorandum according to which SIBUR would get 51% of the JV and Sibneft 49%, while the profits were to be shared on a 50/50 basis. The companies did say that they are waiting to proceed with the joint project until after the establishment of the new merged company YUKOSSibneft has been completed.

Russian exports Jan-Jun 2003		
Product	Kilo tons	\$ million
Calcium phosphate	488.5	56.5
Ammonia	478.2	158.3
Methanol	769.5	115.4
Nitrogen Fertilisers	853.8	269.5
Potassium Fertilisers	892	233
Synthetic rubber	241.5	236

Another reason for the project suspension was the commencement of the bankruptcy proceedings against SIBUR-Tyumen, which includes Noyabrsk GPP among others. At the moment an affiliated company SIBUR-TyumenGaz is being

established into which all the bankrupt assets will be transferred. The property is to be sold but since SIBUR owns actually 65% of the debts the holding hopes that the assets will remain with the same owner.

SIBUR/Gazprom

The sales turnover for SIBUR for the first six months of 2003 totalled 27.919 million roubles, or 8.191 million roubles more than for the same period in 2002. Total gross profits of SIBUR increased by 2.874 million roubles and reached 3.979 million roubles. SIBUR posted a net profit of 758 million roubles in the first half of 2003, compared with losses of 2.91 billion roubles in the same period of 2002

There are good signs that the company is starting to emerge from the crisis that affected performance in the first half of 2002. Due to the resumption of deliveries of raw materials in the first half-of 2003 SIBUR managed to increase production of the main products to a total of 4.6 million tons. This represents 2.715 million tons more than for the same period of 2002. For the first half of 2003 SIBUR produced 239,000 tons of liquid monomers and 237,000 tons of synthetic rubber.

SIBUR-TyumenGaz

Under the external management programme, SIBUR-Tyumen has transferred the stocks and shares of its seven subsidiaries to the new SIBUR-TyumenGaz balance. Stocks of 100% in Nizhnevartovsk Gas Processing Complex, Gubkinsk Gas Processing Complex, South Balyksky Gas Processing Complex, Belozerny Gas Processing Complex and also 100% stakes in Tobolsk-Neftekhim, SIBUR-Geotextil, Nyangangazpererabotka have been transferred. SIBUR-TyumenGaz was set up on the basis of bankrupt SIBUR-Tyumen. The stock capital stands at 10.1 billion roubles.

SIBUR-Neftekhim

For July 2003, SIBUR-Neftekhim achieved a net profit of 13.2 million roubles, the first time in two years the company has made a profit.

SIBUR-Neftekhim's Production at Kstovo & Dzerzhinsk (unit-tons)

Product	Jan-Jul 2003	Jan-Jul 2002
Ethylene	83,402	73,281
Ethylene Oxide	24,530	23,941
MEG	72,525	57,937
DEG	6,441	3,375
TEG	426	341
Propylene	44,044	31,160
Benzene	27,514	12,824
BBF	23,423	14,568
C5	13,171	6,392
C9	6,275	2,618
Chloroethane	1,635	1,073
Coagulents	1,698	229
EDC	43,599	40,564
PVC	18,208	15,773
Caustic Soda	40,832	50,442
Chlorine	10,545	12,898
Plasticizers	18,192	14,597

Tobolsk Petrochemical Combine

Production increased at Tobolsk by 18% in the first half of 2003. The production of butadiene increased by 7,000 tons and isoprene by 4,000 tons. Tobolsk Petrochemical Combine has faced problems of deliveries through the railway system. An absence of rolling stock in the future could slow the production rates and development of the combine. This problem will be assessed by the administration of area together with SIBUR.

Despite difficulties facing Tobolsk Petrochemical Combine the company continues to review possibilities for serious expansions. Credits of \$53 million have been made available by SIBUR, which could be focused on butyl rubber.

Azot Kemerovo

In the first 7 months of 2003 Azot increased production by 0.6% compared to the same period in 2002. The utilisation rate has grown in 2002 from 85.6% to 87.2%. In August, Azot will undertake repair works according to scheduled plans and approved schedules to complete the overhaul programme of 2003.

A shutdown overhaul of large-scale ammonia-a vessel started on August 6 and will continue until 5 September, and starting from 24 August one stage of shops No 13 and 15 each will be stopped. When these facilities are restarted in September Azot's maintenance campaign for 2003 will have been completed. As agreed with SIBUR, Azot has decided to make a 10% salary increase for the Azot staff.

Nizhnekamskneftekhim

Polystyrene

The opening of the polystyrene plant at Nizhnekamsk is seen as significant as it is the first time Nizhnekamskneftekhim has introduced a new major unit for 14 years. The last major unit at the site to be installed was the oligomer unit. Secondly, it is the company's first polymer plant to be constructed after years of planning. The plant now produces up to 130 tons/day of polymer which is delivered almost immediately to consumers.

In addition to the new Fina licensed plant Nizhnekamskneftekhim is planning with BASF to build more polystyrene capacity. This will result in styrene monomer capacity of 240-245,000 tpa being fully captive. The first part of the new plant consists of 50,000 tpa capacity, but the eventual aim is to expand capacity eventually to 180,000 tpa. The next stage involves the construction of a shock-resistant polystyrene unit with a capacity of 80-90,000 tpa. The third stage of the plant will be focused on the production of suspension polystyrene.

Polypropylene

Basell will sell Nizhnekamskneftekhim the license for manufacture of polypropylene based on Spheripol technology and the contracting company Tecnimont will undertake the feasibility report and will deliver the equipment. Nizhnekamskneftekhim is expected to take the credit from European banks under guarantees of Italian state

insurance agency SACE. The Russian banks will not participate in this circuit of crediting. Tatneft also will not finance the project.

Up to 1 October this year the project budget documentation will be finalised and then it is planned to conclude contracts. The cost of the civil-engineering design of the polypropylene unit is estimated at \$120 million. The plant could be constructed within three years, by 2006. Its capacity will make 120,000 tpa polypropylene with an opportunity of expansion up to 180,000 tpa. The product will be used mainly in the aircraft and motor industries.

Other developments

Recently, Nizhnekamskneftekhim started to produce neonol with a high content of ethylene oxide. Already the plant is producing it at 30 tons per month. A record amount of neonols were produced in June, taking the total for the first half year to 9,655 tons. Due to the high demand for ethylene oxide Nizhnekamskneftekhim is taking steps to increase capacity.

At Nizhnekamskneftekhim oligomer plant efforts have been made to use hexene in the production of trimers thus reducing costs.

Synthetic rubber

Nizhnekamskneftekhim has decided to look into adjusting synthetic rubber production to meet variations in consumer demand. The company has also decided to set up production of divinyl and divinyl styrene rubbers to satisfy in-house requirements.

Bashkortostan

At the end of July a working group started examining scope for cooperation between Gazprom and the chemical plants located in Bashkortostan. The main producers such as Salavatnefteorgsintez (SNOS) are included in the working group. SNOS is particularly interested to see how Gazprom can help its petrochemical expansion plans up to 2010. The immediate priority for SNOS is to complete the ethylbenzene and styrene monomer projects.

Other areas being reviewed include ways of improvement of quality of production, uninterrupted maintenance and the delivery of petrochemical raw materials to Salavat. Besides SNOS, other companies involved in the working group include the Polief venture for PTA at Blagoveshchensk, Kaucuk at Sterlitamak, and the Orenburg gas processing plant. A programme of co-operation is being planned for the next five years. Gazprom will take part in search of sources of financing and raw materials for the development of the companies in the republic.

Evrokhim

Novomoskovsk Azot produced 374,700 tons of mineral fertilisers in the first seven months of 2003, 0.3% on the same period last year. Urea production grew 1.7% to 393,900 tons, ammonia 25.13% to 757,500 tons, and methanol up 7.9% to 117,450 tons. Nevinnomyssk Azot increased turnover by 7.2% in the first half of 2003 to 2.31 billion roubles. Urea production increased to 163,300 tons, 18.4% more than in the same period of the last year.

Amtel

Prior to the first half of 2004 Amtel plans to invest €25 million into upgrading the production facilities of one of its subsidiaries Kirov Tyre Plant. Amtel has recently received the approval by the Russian Antitrust Ministry to purchase over 90% stake of Kirov Tyre Plant.

Amtel and Goodyear are considering developing a joint venture on take-off terms envisaging production of goods under Goodyear's brand. Goodyear has also put forward proposals on purchasing Amtel's entire businesses. Amtel currently accounts for around 28% of the CIS tyre market.

LUKoil-Neftekhim

Companies in the group LUKoil-Neftekhim refined about 1.03 million tons of crude in the first half of 2003, which is 16,500 tons more than in the same period in 2002. Production of VCM increased 60%, phenol by 20% and PAN-fibre by 70%. The group's companies sold about \$300 million worth of products in the first half of 2003, up 13% year-

on-year. LUKoil-Neftekhim plans to increase sales revenue 15-20% to \$720-750 million in 2003. Revenue in 2002 amounted to \$600 million, compared with \$400 million in 2001 and thus the company is expanding relatively quickly.

Nizhniy Novgorod

Akrilat

Akrilat and a consortium of Japanese companies, including Mitsubishi Heavy Industries, Nippon Shokubai and Nissho Iwai Corporation, have concluded a contract for the delivery of equipment and chemicals for completing the construction of the acrylate production complex at Dzerzhinsk. The Japanese consortium will also install the equipment and provide training for the Akrilat personnel. The contract is worth \$13 million.

The plant is expected to open in October 2004 based on latest forecasts. The actual construction costs are being funded by a loan of \$51 million from the Russian bank PetroCommercebank for a seven-year period. Eventually the plant will be able to produce 2,600 tpa of acrylic acid, 3,200 tpa of methyl acrylate and 31,100 tpa of butyl acrylate.

Akrilat's authorised capital stock comes to about \$8 million. The new structured company was founded at the beginning of this year and includes the joint venture Lakokraska located at Yaroslavl. The charter capital of Akrilat totals 240 million roubles, which is comprised of 240 million ordinary shares with a face-value of 1 rouble. Nearly 100% of the shares are supervised by the groups close to LUKoil and PetroCommercebank.

The contract for the sum of \$13 million assumes delivery in October 2003-March 2004 of the equipment and chemicals which the basic part make catalysts for oxidation of propylene. Around 50% of the production is intended for export. The initial propylene will be bought from local sources, including SIBUR-Neftekhim.

Dzerzhinsk Orgsteklo (DOS)

DOS at Dzerzhinsk has been producing high quality methacrylates for the export market with the first shipment of tons being shipped to China. DOS was possible to achieve stability of quality of an acid with a purity of 99.7-99.8%. The industrial equipment available allows DOS currently to produce about 60 tons/month. The company plans to introduce a new line with a capacity of 500 tpa. In the first half of 2003, DOS produced 9,577 tons of methyl methacrylate, 87.4% up on 2002, and 2,411 tons of PMMA, which was 8.6% up.

Irkutsk

Angarsk Petrochemical Company

In 2003, the Angarsk Petrochemical Company has targeted a fivefold increase in production of ecologically clean diesel fuels. In the second half of 2002, the company developed production of ecologically clean diesel fuels with a sulphur content of no higher than 0.05%.

Sayanskkhimplast

In the period from January to June 2003, Sayanskkhimplast reduced PVC production by 4.7% to 110,757 tons compared to the same period in 2002. The fall is attributed mostly to the ethylene shortages from Angarsk.

Ukraine

(Ukr hryvnia Aug 18, \$1= 5.33, €1= 5.98)

Lukor

LUKoil-Neftekhim continues to place heavy emphasis on project expansions at Lukor for the next two to three years. By 2005-2006 the company is hoping for an increase in the volume of gas processing for petrochemical production at the expense of naphtha. Olefins and polyolefins are at the centre of the expansion plans and this includes an increase of HDPE capacity from 100,000 tpa to 160,000 tpa.

Lukor reached agreement this year with Linde on the implementation of investment projects in 2003 worth a total of €13 million. In particular, it is planned to start work on the installation of a unit for the hydrogenation of C4 and C5 fractions and to complete this project in 2004. This project will allow the company to save around 20 tons/hour of pyrolysis raw materials.

The company hopes also to sign a contract for the construction of a unit to produce suspension PVC. Other projects include plans to hold a tender to find a company to build a power supply for the plant.

Lukor increased ethylene production 71% on 2002 to a total of 208,292 tons, with polyethylene production up 100% to 99,007 tons. Propylene production increased 76.4% to 91,965 tons, benzene 56.9% to 93,909 tons, and caustic soda 32.8% to 70,390 tons. The company increased the level of processing of pyrolysis raw materials by 67.4% to 749,900 tons.

Lukor is now running normally after the problems with the local railways disturbed deliveries and affected utilisation levels. In June of this year the management of the Lvov railway blocked shipments of production of Lukor, ostensibly due to the unsatisfactory condition of access tracks to the complex.

The management of the railways also refused to ship deliveries of Lukor on the grounds that the venture was linked to Oriana, which owed considerable sums from the 1990s. The situation has now been resolved after it became apparent and decided legally by the local authorities that Lukor was not responsible for Oriana's debts. Exports have been resumed of products including polyethylene, VCM, propylene and benzene. Other products for export include C4, C5 and C9, whilst ethylene is delivered by pipeline to TVK and BorsodChem Hungary. Lukor has been able in recent weeks to reduce its inventory levels for C5 and C9 fractions.

Stekloplastic

The antimonopoly committee of Ukraine has granted permission to the Austrian company Florhof Handels- and Beteiligungs GmbH to buy 76.2% of Stekloplastik at Severodonetsk. Stekloplastik is the largest Ukrainian manufacturer of glass fibre.

Belarus

Belarus has said that it is prepared to offer stakes in the Mozyr and Novopolotsk oil refineries in exchange for 50% or even 100% stakes in Russian oil deposits. Surgutneftegaz said that the money that Belarus was seeking for its chemical plants was vastly too high and that it would be possible to construct a new plant, or even two factories outright for such funds.

An investment project for a polyester textile thread project at Khimvolokhno Svetlogorsk has been started. The modernisation programme will cost \$7.5 million, the finance provided by the Kuwait Fund of Arabic Economic Development. The project will facilitate the production of multi-filament polyester threads.

In the first half of 2003 Khimvolokhno at Mogilev increased commodity output by 12% more than the same period last year. The production of consumer goods at the company grew by 15%. The main challenge for this year has been raw material costs, particularly for MEG.

The Mogilev plant Zarya will in the third quarter this year start the production of a new type of enamel. This will be used in coatings for radiators and for the protection of metal and wood. The raw material for this production is supplied from both domestic and external sources. Zarya is a joint Czech-Belarusian venture formed in 1946 and specialises on the production of paint and varnish materials.

Transcaucasus

Azerkhimya

Azerkhimya is holding talks with EximBank of Japan to grant Azerbaijan a credit for the construction of a chlorine plant. The company hopes to receive in the range of \$50-\$60 million. To agree the size of the credit, however, it is necessary to prepare a feasibility study for the project and to establish the approximate volume of chlorine production. Depending on finance, project construction could start in 2004.

Nairit-1

Russia's Runa Bank has invested \$2 million in the revival of synthetic rubber production at the Armenian plant Nairit-1. The funds began to be invested in May, when set-up work began at the plant. Nairit-1 is the only producer of chloroprene rubber in the CIS.

Production of rubber was resumed on 23 July after the plant had stood idle since 3 November 2002. The plant is now producing 30 tons/day of rubber per day using acetylene technology. The plant has capacity to produce up to 900 tons/month of rubber. The plant intends to switch to butadiene technology in October this year, which will increase production capacity to 50,000 tpa. Runa Bank plans to independently handle the sale of products with the first batch of rubber being exported to Russia.

Nairit-1 is currently wholly owned by Armsvyazbank, to which the company's stock was transferred after Nairit failed to pay off loans totalling \$14.2 million. In April 2003, the British company Ransat Plc transferred 100% of shares in Nairit-1 to Armsvyazbank. Accordingly, Ransat failed to meet its investment and production obligations to the Armenian government concerning Nairit-1. Ransat acquired Nairit-1 in June 2002 and promised to pay off the plant's debts of \$35 million and invest \$25 million in production by 2005. Runa Bank is now planning to buy 100% of shares in Nairit-1. Last year the plant produced 3,500 tons of rubber, rather than the targeted 6,000 tons.

Vanadzor Chemical Complex

AO Zakneftegazstroi Prometei and ZAO Grand-Holding plan to invest \$1-\$1.5 million this year to restore production at the Vanadzor Chemical Complex in Armenia. The investment will be used to top off working capital and resume production of calcium carbide and other products. The companies expect to sell 2,500-3,000 tpa of calcium carbide on the domestic market with most of the exports going to Ukraine, Iran, and Georgia.

Zakneftegazstroi Prometei bought the Vanadzor Chemical Complex in May 1999. It includes the Vanadzor Chemical Plant, a chemical fibre plant, and the Vanadzor Heat and Power Plant that in 1999 were valued at \$1.5 million. The Russian company has invested nearly \$20 million in the plant and increased capacity to produce ammonia to 20,000 tpa, melamine to 10,000 tpa, and calcium carbide to 15,000 tpa. Despite the investment the company was unable to set up steady production due to the high cost of gas and production was suspended in 2002.

Kazakhstan

(Kazakh Tenge, Aug 18, \$1 = 146.06, €1 = 163.94)

Kazakhstan's government is trying to encourage the earliest possible launching of the third phase of development of the Karachaganak gas condensate field, the stage that is related to petrochemicals. However, the Karachaganak Petroleum Operating (KPO) has stated that the third phase would not start before the alliance has clarified the gas aspect of the project. The shareholders in KPO include ENI and British Gas with 32.5% each, ChevronTexaco with 20% and LUKoil with 15%.

The Kazakh government is keen to see some higher added value in the domestic market rather than pure exports of raw materials. Large-scale petrochemical projects were being planned at the end of the 1980s involving polyolefins and involving the interest of foreign companies, but the collapse of the USSR terminated those projects abruptly. For the longer term there are good prospects for petrochemical projects in Kazakhstan, but any developments will probably tend to dovetail extraction and refining investments.

The Karachaganak field, which lies in the west of the country, is one of the largest in the world, with reserves of over 1.2 billion tonnes of liquid hydrocarbons and 1.3 trillion cubic meters of gas. In 2002, KPO extracted 5,157,874 tons of condensate and 4.833 billion cubic metres of gas (up 29.1% and 26.9% from 2001).

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