

# CIREC

## MONTHLY NEWS

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

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

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### ***Features from the March 2003 issue***

- The Polish anti-monopoly commission has granted approval for the jv between PKN Orlen and Basell which went ahead as from 1 March. PKN Orlen will contribute the existing LPDE plant and olefin complex to the jv. The joint cost of the development programme will amount to \$750 million in total, with roughly about \$500 million for the construction of polyolefin units under Poliolefiny Polska, and \$250 million for the expansion of the olefin complex under II Olefiny.
- In 2002, TVK Group's profit prior to tax, extraordinary items and minority interests totalled Ft 2,636 million. 2002 proved to be a difficult year for TVK Rt, with the margin between polymer products and feedstock prices declining significantly. Low polyolefin prices were caused partly by the weak state of European economies, with HDPE having a particularly bad year. Especially in Q4 2002, the strong Forint also had a negative effect on margins. In 2002, the average €/Ft exchange rate was 242.8 as opposed to 256.6 in 2001.
- Tomsk Petrochemical Combine ran at full capacity in 2002 at many of its units. The polypropylene unit produced almost 96,000 tons, or 19% up on 2001, with the output of 17 new marks of polypropylene introduced for applications in hot and cold water supply, blow-moulded 4.5-litre flasks, and for nonwoven materials, etc.
- In 2002, Tobolsk-Neftekhim started the much delayed butyl rubber project based on the company's existing production unit of 83,000 tpa of pure isobutylene. The new butyl rubber plant is being developed using equipment retrieved from the Sovbutital jv that went bankrupt in the 1990s. The capital needed for the project is estimated at something in the range of \$53.9-70 million.
- YUKOS has acquired 100% of Angarsk Polymer Plant from Angarsk Petrochemical Combine (ANKhK). The contract of sale and purchase between the oil company and ANKhK was made on 15 January and YUKOS became effective on 20 February.
- During 2002 Polief stated that it made considerable progress in the construction of the PTA plant at Blagoveshchensk. This year Polief plans to put on-stream the first Russian polyester unit, construction of which has been funded from the Bashkortostan republic budget. The project is well advanced but Polief may not see any PTA until 2004. By the end of 2004 the company hopes to be able to supply Russian light and food industry plants with PET.
- Bidding for the largest Belarussian petrochemical plants will probably take place in March or April this year. The initial prices for the stakes are being set as high as reasonably possible. The decision to sell these companies is seen as a moral breakthrough for Belarus, where the economy is still run largely along Soviet-era command lines and where the president often personally intervenes in the running of major state companies. The government hopes that as the result of the tenders something in the range of \$1 billion could be accrued in the 2003-2005 period.

**CENTRAL EUROPE**

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**Czech Republic**

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**(Czech crown, Kc, Mar 6, \$1 = 28.99, €1 = 31.80)**

**Unipetrol 2002**

Unipetrol's subsidiaries Kaucuk, Paramo and Benzina ended 2002 in the black, while Chemopetrol, Spolana and Ěeská rafinérská (ĚeR) all sustained losses, according to preliminary unconsolidated data released by Unipetrol. Unipetrol generated a net profit of Kc 649 million in 2002, against Kc 2.22 billion in 2001, and a pre-tax profit of Kc 319.3 million compared to Kc 2.36 billion.

Kaucuk's gross profit rose five times to Kc 318.7 million on a 6% drop in sales. Paramo's profit was half the 2001 figure, Kc 134.7 million, whilst Benzina's profit fell from Kc 40 million to Kc 1 million with sales falling Kc 800 million to Kc 13.3 billion.

Chemopetrol ended 2002 with a Kc 135 million loss before taxes, against a Kc 504 million gross profit in 2001. Sales fell by 25% to Kc 16.4 billion. Chemopetrol reported the highest profit of the Unipetrol subsidiaries in 2001, but this position was taken over by Kaucuk in 2002. Spolana increased losses by more than double in 2002 to a total of Kc 489.72 million against Kc 220.41 million in 2001.

Spolana suffered considerable damage during last year's flooding. The company's operational loss amounted to Kc 343.28 million in 2002, compared to profit of Kc 19.05 million in 2001.

In 2002, Unipetrol's refining division Ěeská rafinérská produced 12% more end products than in 2001 and significantly increased its deliveries to both domestic and foreign markets. Financially, the company incurred a loss of Kc 926 million due to extremely low refining margins and the strong Czech crown.

**Unipetrol tender**

The executive committee of the National Property Fund (FNM) cancelled the public tender for a financial adviser for the sale of Unipetrol. The committee decided to launch a new tender in mid-March. If the timetable is the same as it was for the first tender, the deadline for bids could be mid-April. The FNM would then decide within a period of three months. Interest in the role of adviser has been expressed by 17 companies.

**Spolchemie**

Spolchemie reported an operating profit of Kc 5 million last year, down 97% from Kc 160 million in 2001. Sales fell by 22% to Kc 2.4 billion from 2001. The company exports about 70% of its output and its results were affected by the stronger Czech currency and a fall in product prices.

The August floods also had an adverse effect on the result, having interrupted the company's operation at Usti nad Labem for ten days. December sales were affected by November's fire at the company, which affected the unsaturated polyester resin plant. This now needs to be reconstructed. Spolchemie's principal shareholders are state-controlled company Ceska financni with 53.72% and the National Property Fund with 12%.

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**Slovakia**

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Slovnaft has decided to use Unipol technology for a new 255,000 tpa polypropylene plant to be built by 2005. Homo and copolymers of polypropylene will be produced.

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**Hungary**

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**(Hungarian forint, Ft, Mar 6, \$1 = 223.23 €1 = 244.86)**

**TVK 2002**

In 2002, TVK Group's profit prior to tax, extraordinary items and minority interests totalled Ft 2,636 million. 2002 proved to be a difficult year for TVK Rt, with the margin between polymer products and feedstock prices declining significantly. Low polyolefin prices were caused partly by the weak state of European economies, with HDPE having a particularly bad year. Especially in Q4 2002, the strong Forint also had a negative effect on margins. In 2002, the average €/Ft exchange rate was 242.8 as opposed to 256.6 in 2001.

Despite negative external factors, and the environmental provisions that were outlaid by the company, TVK still managed to record a profit. In terms of investment TVK's petrochemical development project is progressing on

schedule. To recap, this will include a new ethylene plant (Olefin-2) of 250,000 tpa, a new HDPE Plant (PE-4) of 200,000 tpa, and an expansion of the newest polypropylene plant (PP-4) by 40,000 tpa.

Around 70% of the value of goods had been ordered by the end of the year for the Olefin-2 project. In late 2002 an environmental licence for the PE-4 project was obtained from the authorities, whilst a request for a water license was submitted.

### **Sales performance**

In 2002, TVK Rt's sales amounted to Ft 130,297 million, while the sales of the TVK Group (which includes non-core subsidiaries) amounted to Ft 135,223 million. Thus, TVK Rt accounted for around 96% of TVK Group sales. Both TVK Rt and TVK Group sales were down on 2001, by 10% and 13% respectively.

TVK Rt's main difficulty in 2002 was the cost of feedstocks. The average market price of naphtha went up by \$9/ton (4%), although gas oil was down by \$8/ton (4%) compared to 2001. Profits fell against 2001 as polymer price movements did not follow feedstock price changes. As opposed to the average prices of 2001 LDPE film grade prices were down by 1% and HDPE blow moulding grade prices down by 10%. The fall in absolute terms was \$6/ton for LDPE and \$70/ton for HDPE.

Despite weak polymer demand volume sales exceeded 2001 levels. Volumes sold during the year comprised 115,500 tons for LDPE, 197,200 tons for HDPE and 288,200 tons for PP. These represented increases of 4%, 5% and 9% over 2001 respectively. The volume sales of the olefin complex were 419,000 tons (against 437,000 tons in 2001), of which 83,000 tons of ethylene was sold to BorsodChem (88,000 tons in 2001). Domestic sales accounted for 50% of TVK Rt's total sales, although polymer exports are higher. For the distribution of exports, the most important destinations in 2002 were Germany (22%), Italy (17%), Poland (14%), UK (7%), and France (5%).

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

	Domestic	Export	Total
Olefin	26,811	2,224	29,035
LDPE	9,169	9,696	18,865
HDPE	6,803	24,321	31,124
PP	18,231	29,053	47 284

Apart from relatively minor outages, no significant shutdown occurred at Tiszaújváros in 2002. In Q3 2001, the polyolefin units underwent a planned shutdown which affected production volumes. In October 2002, the development of the PP-4 plant was completed successfully, which provided an opportunity to shut down the least effective

polypropylene plant (PP-2), without causing any subsequent reductions in polypropylene production. Following the introduction of the PP-4 plant TVK Rt also needs to supplement its own propylene supply with purchases from MOL's refinery at Szazhalombatta.

In terms of material costs, the costs of naphtha and gas oil accounted for 68% of the company's total expenditure. Other operating costs increased from Ft 7,101 million to Ft 8,555 million, of which provisions for environmental costs amounted to Ft 2,100 million, i.e., around 25%.

TVK Group's operating profit (EBIT) amounted to Ft 464 million as opposed to Ft 6,933 million in 2001, which shows a 93% decrease. From the Ft 6.4 billion group profit decline, TVK Rt.'s operating profit was down by Ft 6.6

#### **TVK's Capital expenditures (Ft million)**

	2001	2002
<b>Petrochemical project</b>	<b>2,398</b>	<b>19,100</b>
New Olefin-II. Plant	1,733	8,641
New PE-IV plant	18	4,805
Expansion of PP-4 Plant	639	2,026
Supplementary facilities	8	1,063
Other expenditures	-	2,565
<b>Other investments</b>	<b>4,090</b>	<b>3,040</b>
<b>TOTAL</b>	<b>6,488</b>	<b>22,140</b>

billion compared to the same period of the previous year. Without the Ft 1.4 billion required for the provisions for environmental costs, the profit reduction would have been Ft 5.1 billion on the EBIT level. Falls in polyethylene margins were a major cause behind the operating losses.

### **Capital Expenditures**

In 2002, the capital expenditure by TVK Rt. totalled Ft 22,140 million, which is more than three and a half times higher than in 2001. The increase was due to the Petrochemical Development Project, the

cost of which comprised 86% of the total capex.

The total capex of the project amounts to €430 million, of which €74 million was spent before the end of 2002.

### **Environmental Protection**

With EU accession around the corner TVK Rt is spending more time and money on environmental issues. The management has assessed measures and investments that are needed in order to meet the new domestic

environmental protection requirements. Many of the new measures have been introduced on the basis of the EU Directives. Thus, in the second half of 2002 an assessment started of underground pollution in local areas where environmental decontamination has been detected.

A similar survey was carried out in 1996, prior to the privatisation of the company. This was focused on assessing the overall environmental status of TVK. The company afterwards created provisions for anticipated expenses for decontamination. However, a full-scale assessment has not been carried out since then and provisions were annually updated based on management estimations.

Following the results of the status assessment carried out in the second half of 2002 by a specialised company, TVK made Ft 2,100 million available for environmental provisions. It is thought that additional costs will occur during the decontamination work that needs to be completed by 2010, but these costs cannot be estimated at the moment. The company is aiming to comply with new requirements by solving environmental problems inherited from the past.

<b>TVK's Petrochemical production figures (unit-kilo tons)</b>						
		<b>Q1-Q4 2002</b>			<b>Q1-Q4 2001</b>	
	Capacity	Prod	Cap rate%	Capacity	Prod	Cap rate%
Ethylene	370	364.8	98.6	370	359.1	97.1
LDPE	120	113.2	94.3	120	107	89.5
HDPE	200	193.7	96.9	200	184	92.2
PP	290	278.1	95.9	290	260	89.8

#### **Marcus Evans Central & East European Petrochemical Conference, 18-19 Feb 2003**

The second event held by Marcus Evans on the chemical and petrochemical industries of Central and East Europe was well attended and focused on topical issues that are affecting the region at present. EU accession, environmental concerns and joint ventures, coupled with macro-economic assessments and forecasts, were all issues for consideration by the various speakers and during the networking sessions. From a global perspective SABIC argued that its abundance of ethane, combined with geographical advantage, gives Middle East producers a serious edge over other regions, including Central Europe and Russia, for cost-effective export opportunities.

<b>BorsodChem's Sales' revenues (Ft million)</b>		
<b>Product</b>	<b>2001</b>	<b>2002</b>
<b>PVC resin</b>		
Domestic	5,450.8	4,489.7
Export	30,060.8	31,362.6
Subtotal	35,511.6	35,852.3
<b>PVC compounds</b>		
Domestic	1,478.7	809.8
Export	3,389.4	3,614.0
Subtotal	4,868.1	4,423.8
<b>MDI</b>		
Domestic	337.5	155.8
Export	18,022.2	16,916.8
Subtotal	18,359.7	17,072.6
<b>TDI</b>		
Domestic	159.9	980.6
Export	2,410.0	19,747.8
Subtotal	2,569.9	20,728.4
<b>Caustic soda</b>		
Domestic	5,106.3	2,897.4
Export	3,349.3	2,335.9
Subtotal	8,455.6	5,233.3
<b>Aniline</b>		
Export	5,257.2	<b>4,813.0</b>
<b>Plastic semi-finished and finished products</b>		
Domestic	4,984.1	5,388.2
Export	6,010.2	5,791.2
Subtotal	10,994.3	<b>11,179.4</b>
<b>Other products</b>		
Domestic	10,440.7	8,799.2
Export	23,123.4	16,592.4
Subtotal	33,564.1	<b>25,391.6</b>
<b>Total sales</b>	<b>119,580.5</b>	<b>124,694.4</b>
Domestic sales	27,958.0	23,520.7
Export sales	91,622.5	101,173.7

The primary regional focus of the conference was on those countries preparing to join the EU in 2004. TVK discussed not only the potential for sales in the EU area, but also the requirements to spend more money on environmental concerns to meet EU directives. MOL examined the possibilities for consolidation in Central Europe and the structure required for a successful polyolefin company over the long term.

In South East Europe, Arpechim at Pitesti confirmed plans to introduce a new HDPE plant, for which Stone & Webster is undertaking a feasibility study, and to increase ethylene capacity to 300,000 tpa from 200,000 tpa. LUKoil-Neftekhim suggested that companies from Central and South East Europe should be ready to embrace Russian oil and chemical players. As known SIBUR was until the end of 2001 trying to create a proactive strategy for Central Europe, which disintegrated due to SIBUR's internal problems. LUKoil-Neftekhim is keen to try and continue part of that strategy. As for inside Russia, LUKoil-

Neftekhim stated that it is open to JV proposals from foreign companies where LUKoil provide the infrastructure.

Following the success of the event Marcus Evans is planning to stage another conference in 2004, with the location to be decided at a later date.

**BorsodChem Rt 2002**

High energy and fuel costs, combined with the average strengthening of Ft, affected BorsodChem's performance in 2002. Electricity prices in Hungary for large consumers were almost 30% higher than for their European competitors last year.

Despite weak economic conditions in 2002 BorsodChem achieved a net profit of Ft 12.119 billion (€49,949.9 million) against sales of Ft 124,694 million (€513.2 million) of sales. Operating profit was Ft 11,308 million, 57.8% higher than in 2001.

<b>BorsodChem Production (unit-kilo tons)</b>					
<b>Year</b>	<b>PVC</b>	<b>VCM</b>	<b>MDI</b>	<b>Aniline</b>	<b>TDI</b>
2001	266.9	219.6	50.5	84.7	7.1
2002	275.1	190.01	53.6	93.3	50.4

In the period between 2003 and 2005 BorsodChem is planning further capacity investments, including VCM and a by-product incinerator for environmental reasons. These investments will require significant financing from Q2 of 2003.

**Analysis of the business activity of 2002**

Due to the weak economic climate product prices fell in each product group, with the exception of PVC. The company increased its sales' revenues by 7.2% in 2002 due to increasing sales of TDI in spite of the strengthening of Ft and the recession.

Comprising the total sales' revenues of the company the share of PVC dropped from 30.5% in 2001 to 28.8% in 2002. Sales' revenues of TDI increased by Ft 18.159 billion, thus comprising 16.6% of total sales' revenues. Sales of aniline fell by 5% despite a 9.5% increase in volumes. A total of 81.1% of the sales' revenues came from exports, which is 3% higher than the same figure in 2001. Sales to domestic markets and Central and East European accounted for 50.2% of BorsodChem's total sales in 2002, with West Europe accounting for 45.2%.

In 2002, BorsodChem Rt. achieved the required level of sales' revenues that allows the company to receive a tax credit. The major shareholders at the end of the year were CE Oil & Gas Beteiligung und Verwaltung AG with 59.23%, and MILFORD Holdings Ltd with 27.96%. Minority interest holders include Dynea Austria GmbH and AliaChem. Total shareholders' equity is Ft 90,909 million, which is 12.9% higher than in 2001.

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**Poland**

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(Polish zloty, zl, Mar 6, \$1 = 3.90 €1 = 4.28)

**PKN Orlen 2002**

PKN Orlen raised its net profit by 13.8% in 2002 with full-year earnings of zl 428 million after it made net profit of zl 71 million in the last three months of the year. The fourth-quarter earnings jumped 78% over the same period last year as market conditions improved at the end of the year, but the result was hit by one-off costs.

The 2.8% drop in the fuel consumption seen in Poland in 2002 was set off by a considerably better performance of the refining sector (up by 38.7%) and the petrochemicals sector, where net profit rose by 6.4% over 2001.

For the entire year the company processed 13.04 million tons of crude, 1.3% higher than in 2001. The diversification of crude oil supplies with Russian partners such as YUKOS, involving long-term contracts, was an important development for PKN Orlen in 2002.

**PKN Orlen-Basell jv**

The Polish anti-monopoly commission has granted approval for the jv between PKN Orlen and Basell which went ahead as from 1 March. Each company has a 50% stake in the jv and had agreed initially to contribute zl 50,000 to create the new company. At the end of February the shareholders increased their stakes to a value of zl 907,398,000 each through an issue of new shares.

PKN Orlen will contribute the existing LPDE plant and olefin complex to the jv. The joint cost of the development programme will amount to \$750 million in total, with roughly about \$500 million for the construction of polyolefin units under Poliolefiny Polska, and \$250 million for the expansion of the olefin complex under II Olefiny.

The jv is currently in the process of registering its name. The shareholders intend that the new company will operate under the name of Basell Orlen Polyolefins sp. z o.o.

The new company's strategy provides for leveraging the economies of scale, focusing on the P³ock plant's position on the dynamically growing Polish market, exporting a portion of the production output through Basell's distribution network and establishing a leading position on the polyolefin market in Central Europe.

The terms of the JV stipulate agreements for PKN Orlen's supplies of feedstocks for the production of ethylene and propylene. Under these agreements, PKN ORLEN is obliged to supply to the JV with ethylene and propylene produced at the existing plant and future monomer installations to be launched in P³ock.

**Polish Chemical Output (unit kilo tons)**

Product	Jan-Dec 02	Jan-Dec 01
LDPE	168	168
Polypropylene	143	121
PVC	248	226
Caustic Soda	395	346
Nitrogen Fert	1,296	1,499
Phosphate Fert	516	501
Synthetic Fibres	96	91

Relevant agreements also govern PKN Orlen's supplies to the JV, of services, electricity, gas, water, materials and equipment in amounts required to ensure production at maximum rates. Under these agreements, PKN Orlen is obliged to treat the new company at least at par with PKN Orlen's other customers.

The last of the JV conditions was fulfilled on 24 February 2003, when a group of international banks comprising the Bank of Tokyo-Mitsubishi, Ltd., KBC Finance Ireland and Société Générale, signed a mandate and underwriting letter, whereby the banks confirmed the terms on which they undertook to advance funds to the JV.

These funds will be used to finance the project including principally the construction of new polyolefin installations. The new installations will support production capacities of 400,000 tpa for polypropylene produced with the use of the Spheripol technology and 320,000 tpa for HDPE produced with use of the Hostalen technology.

When completed, in the first half of 2005, the project will be Poland's first and only plant producing HDPE. Currently, all HDPE available in Poland is imported.

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**SOUTH EAST EUROPE**

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**Croatia**

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**INA**

Press reports state that Deutsche Bank and PriceWaterhouseCoopers, advisers in the sell-off of INA, have rated OMV's bid of \$380 million for the 25% stake, with 78 points. According to the same reports MOL came a close second with 76 points, while Rosneft offering \$440 million, lagged behind with 64 points.

The Croatian cabinet will now make its own review of the bids and may ask the bidders to improve their terms. If INA does escape MOL, then another potential target is PKN Orlen.

Dioki expressed the need for investors at the Marcus Evans conference in Budapest, but until the INA sale is completed did not expect much progress. There have been suggestions that MOL-TVK could bid for Dioki if the bid for INA proves unsuccessful. The owners of Dioki, the Croatian Privatisation Fund with 49% and a private investment fund with 51%, have been seeking buyers for some time. Dioki's main infrastructural problem is the lack of a cracker at Omisalj to serve the polyethylene facilities. On the other hand the geographical location of Omisalj is seen as advantageous for sales into the Mediterranean markets.

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**Bulgaria**

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(Bulgarian lev, Mar 6, \$1 = 1.78, €1 = 1.95)

**Sviloza**

Around €27 million will be invested in Sviloza up to 2012 for harmonisation its activity with the requirements of the European ecological legislation. Sviloza at Svishtov is the sole producer in the Balkans for fade cellulose and artificial silk from the processing of timber. Sviloza closed 2002 with a profit of 4.8 million leva and a record high sales income of 94.4 million leva, 10.6% up on 2001. The overall output totalled 59.140 tons of cellulose sulphate and 5.63 tons of viscose silk. The result is largely due to the new products introduced by Sviloza, such as fireproof silk. The chemical plant is in the process of expanding its market share in Rumania, Turkey and Greece. An interim warehouse in Germany, taking advantage of the low-cost Danube transportation is on the agenda.

**Agropolichim**

The largest bank in Bulgaria, Bulbank, has agreed to give a \$15 million credit line to Agropolichim and its controlling shareholder Acid & Fertilisers, USA. The credit is aimed at financing both investments in phosphate production and logistics, in addition to increasing the working capital.

## EURASIA, COMMONWEALTH OF INDEPENDENT STATES

### Russia

(Rus rouble Mar 6, \$1 = 31.56, €1= 34.63)

Aggregate production of chemical and petrochemicals in Russia grew 4.6% in January 2003 compared to January 2002. Some of the main petrochemical products such as ethylene and benzene saw marginal increases.

Russian chemical industry exports grew by 2.4% in 2002. Exports included 2.476 million tons of ammonia (\$179.9 million), 1.0558 million tons of methanol (\$116.3 million), 8.9604 million tons of nitrogen mineral fertilisers (\$534.2 million), 5.523 7 million tons of potash mineral fertilisers (\$414.1 million), and 416,600 tons of synthetic rubber (\$367.4 million). China was Russia's main export destination with the following main products shipped.

Russian Production (unit-kilo tons)		
Product	Jan 2003	Jan 2002
Ethylene	174	164
Benzene	88	82
Butanols	27	20
Styrene	35	32
Methanol	230	156
Sulphuric Acid	768	751
Mineral Fertilisers	1,100	1,084
Caustic Soda	93	100
Soda Ash	208	207
Synthetic Rubber	85	76
Paints	26	31

#### Regional performance

Russian chemical production data varies noticeably from region to region and depends on a range of factors such as the policies of the local

administration, market forces for the region's main product areas and geographical location. Hence, regional performance differs considerably.

Chinese Imports from Russia (unit-tons)		
Product	Jan-Dec 02	Jan-Dec 01
HDPE	68,592	48,066
LDPE	114,331	142,275
n-butanol	105,688	94,846
iso-butanols	63,215	39,687
PVC	237,921	249,011
2-EH	12,906	19,341
PP	32,557	38,989
Acrylonitrile	2,258	8,902
Caprolactam	106,570	89,321

In 2002,, chemical production in the Nizhniy Novgorod region increased by 6% over 2001. The chemical industry accounts for 7.7% of the total volume of industrial production in the region.

The Samara region achieved a total of 23.484 million roubles in turnover from chemicals and petrochemicals in 2002, a 1.4% increase over 2001. Mineral fertiliser production grew in the Samara region by 6% in 2002 (totalling 487,300 tons), whilst synthetic rubber production increased by 3% (totalling 182,918 tons).

The Samara region share in Russia's total chemical production consists of 11% of plant protection chemicals, 18% of the synthetic rubber production and 22% of ammonia. The Samara region started 2003 weakly producing the equivalent of 86.7% of the volume achieved in January 2002, and declining by 7.5% compared with December 2002. The decline was caused mainly by the reduced output in mineral fertilisers, ammonia, and plant protection chemicals. The production of mineral fertilisers in January amounted to 24,300 tons (85% against January 2002), while synthetic rubber totalled 16,600 tons (98.4% of the same amount in 2001).

The Perm region in the north Urals recorded a growth of 1.3% in turnover compared to 2001. Physical volumes increased by 2.9%. The share of chemicals and petrochemicals in the region's total industrial production is relatively high at 17%, based on 2002 figures. There are 27 companies in the region involved in the chemical sector, employing around 60,000 people.

The Sverdlovsk region in 2002 saw production of chemical and petrochemicals increase by 5.8% against the level of 2001. Compared to 2001 chemical plants raised the production of synthetic resins and plastics by 25%, polymer films by 35.5%, and mineral fertilisers by 3.8%. On the other hand the production of glass fibre resins fell by 31.3%.

Bashkortostan had a weaker year in 2002 with chemical and petrochemical output down by 8%, totalling 22.9 billion roubles in revenue. The production of hydrochloric acid, soda ash, synthetic resins and plastics grew throughout the year. However, the paint sector produced only 86.7% of the volumes achieved in 2001. Production of sulphur, sulphuric acid, caustic soda, mineral fertilisers, ammonia and rubber all saw falls.

### SIBUR

On March 4, a special meeting of SIBUR shareholders approved the exchange of shares for debts to Gazprom,

aimed at guaranteeing the restructuring of the SIBUR's debt to the banks. This will increase Gazprom's stake in SIBUR from 51% to 85%, and follows a decision by SIBUR's Board of Directors on 12 February to convert its debt to Gazprom into shares.

The current value of SIBUR's debt to Gazprom is placed at 31.6 billion roubles (about \$998.25 million). According to the 2003-2010 business plan, adopted at SIBUR's Board of Directors meeting, SIBUR is to pay Gazprom 49.2 billion roubles (about \$1.55 billion), with interest on the debt and dividends taken into account.

After the conversion of debts into shares, assuming that this process goes through, SIBUR hopes to build and intensify its concept of a vertically integrated petrochemical company. This was the rationale, or *raison d'être*, behind its foundation originally in 1995. The remit was to maximise the economic return from feedstocks right through to the finished product.

### **Q4 2002**

In Q4 2002, SIBUR achieved a turnover of 13.1 billion roubles with a gross profit of 1.9 billion roubles. In the third quarter turnover totalled 6.5 billion roubles with 916.6 million roubles of gross profit. A growth in petrochemical production was seen by SIBUR in the second half of 2002 after the arrival of a new team of managers.

### **Strategy for 2003**

SIBUR is aiming ambitiously to increase its operating rate across the board from 55% to 69% in 2003, and also to increase the production turnover by 3.9 billion roubles. These increases will be accompanied by a cost reduction of 5% over 2002, down to 9.7 billion roubles. According to the business plan, increases in production will be achieved raising labour productivity from 290,900 roubles per man in 2002 to 336,200 roubles in 2003.

The company is aiming for increasing production through the centralisation of feedstock and commodity flows, "aggressive innovation" and investment policy.

A substantial growth in power costs from regional sources is anticipated in 2003. Thus, SIBUR will continue to develop its independent power programme with the aim of keeping costs at a minimum. The programme is based on launching power generation plants and power saving technologies. The company plans to develop its own power structure by launching gas-turbine power plants (GTPP). A plant of this type already operates at SIBUR-Khimprom. Furthermore, the development of a GTPP is close to completion at the site of the ethylene oxide and glycol plant at SIBUR-Neftekhim.

### **SIBUR-Tyumen**

SIBUR-Tyumen's gas-processing enterprises are planned to produce a total of 2.3 million tons of petrochemical feedstocks in 2003. SIBUR-Tyumen includes seven gas-processing complexes: Nizhnevartovsk GPK, Belozerny GPK, Lokosovsk GPK, Yuzhno-Balykskiy GPK, Noyabrsk GPP, Gubkin GPK, and Nyagangazpererabotka. These plants processed 8.34 billion cubic metres of associated oil gas and produced 1.3 million of hydrocarbons in 2002. The fourth quarter of 2002 was especially good for production.

This year SIBUR will embark on its \$50 million production development programme for SIBUR-Tyumen. The aim of this programme is to increase both the production and processing of hydrocarbons. Preliminary calculations made by SIBUR indicate that the development of current oil deposits will yield an additional 4 billion cubic metres of associated oil gas. This could be processed by the Gubkin, Muravlenkov, and Krasnoleninsk gas-processing plants, and also the Vyngapur compressor station.

### **Voronezhsintezkauchuk**

At the end of January SIBUR subsidiary Voronezhsintezkauchuk met with tyre producers Voltyre, Omskshina, Uralshina and Yaroslavlshina to discuss new types of rubbers. This year SIBUR will begin the production of "ecologically safe rubber" at Voronezh, including high regular polybutadiene rubbers SKD-ND and soluble butadiene-styrene. The aims are to produce tyres from non-polluting rubber, which do not contain harmful oligomers.

Such production standards would enable SIBUR to fully comply to world levels of quality and ecological safety. High regular polybutadiene rubbers and butadiene-styrene accelerators are considered to be more safe environmentally, and also to offer better quality. In 2002, the tyre plants belonging to SIBUR produced about 50% of Russia's total output.

### **Synthetic rubber**

In 2002, SIBUR produced 313,200 tons of rubber, of which 233,000 tons was processed in Russia. The volume of production is expected to grow in 2003. SIBUR accounts for around 40% of the synthetic rubber market in Russia.



Production dropped last year after from 464,000 tons in 2001. Production started to recover in the second half of 2002 and in the fourth quarter the holding company produced 118,000 tons. Of the total 331,000 tons produced in 2002 the main categories consisted of polyisoprene (22% of the total), and polybutadiene (51%).

**Tobolsk-Neftekhim**

In 2002, Tobolsk-Neftekhim started the much delayed butyl rubber project based on the company's existing production unit of 83,000 tpa of pure isobutylene. The new butyl rubber plant is being developed using equipment retrieved from the Sovbutital JV that went bankrupt in the 1990s. The capital needed for the project is estimated at something in the range of \$53.9-70 million.

In Q1 2003, Tobolsk-Neftekhim has set out plans to process 446,300 tons of hydrocarbons, which would represent an increase of 39.4% over the same period in 2002. The increase in raw materials will be facilitated through more product from SIBUR-Tyumen. Feedstock throughput is expected to continue increasing in the next few years and is planned to reach 2 million tpa at Tobolsk in 2005.

In 2002, the company processed 1,396,300 tons of hydrocarbons (91.4% of the 2001 level). Butadiene production totalled 166,700 tons (100% compared to 2001), liquefied gas 278,800 tons (96%), and MTBE 60,600 tons (66.5%).

**SIBUR-Neftekhim**

SIBUR-Neftekhim processed 47,020 tons of hydrocarbons at Kstovo in January 2003. For ethylene and butylene-butadiene fractions production the company met its targets, but at the same time targets were not met for benzene, C5s and C9s. In January, the company lowered consumption in both natural gas and electric power.

The plan for the long-term development of the company for 2002-2010 was initiated at the beginning of 2002 together with SIBUR. The total sum of capital investments, according to this programme, comprises about \$600 million. Some of these projects may not go ahead, or may be modified to some extent, but there has been some modernisation of the furnaces at the Kstovo cracker. In the next year or two the company intends to focus on the modernisation of the ethylene oxide and glycols plants, with a view towards raising MEG capacity to 180,000 tpa. Projects for HDPE and polypropylene are planned for construction up to the period up to 2005, but there is no definite project at this stage.

**Tomsk Petrochemical Combine**

Tomsk Petrochemical Combine ran at full capacity in 2002 at many of its units. The polypropylene unit produced almost 96,000 tons, or 19% up on 2001, with the output of 17 new marks of polypropylene introduced for applications in hot and cold water supply, blow-moulded 4.5-litre flasks, and for nonwoven materials, etc.

Polyethylene capacity at Tomsk stands at 150,000 tpa and full utilisation was achieved in 2002, 16% more volume than in 2001. The production of formaldehyde totalled 103,500 tons, 10% more than in 2001, and urea resins 80,600 tons, 17% up.

The company plans to finish the modernisation of second unit of the formaldehyde line in the first half of 2003. This will result in an annual profit of 100-120 million roubles. The modernisation repayment term is expected to be in the range of 4-5 months due to a high capacity of the modernised formaldehyde unit of 10 tons/hour. The line will be operated throughout the modernisation process, eventually producing 37% formaldehyde without the rectification stage.

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**Tatarstan**

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Tatneftehiminvest-Holding has established an innovation fund for the financing of developments in petrochemical technology, energy and resource saving measures. A sum of 100 million roubles will be put into the fund, which will include oil and petrochemical companies Tatneft, Kazanorgsintez and Nizhnekamskneftekhim.

Tatneft and Nizhnekamskshina are investing in more equipment for tyre production with new facilities to be ready for the third quarter of 2004. Tatneft-Nizhnekamsk-Oil plans to start the production of a range of synthetic oils between October 2003 and March, 2004. This unit will belong to Tatneft, although based at Nizhnekamsk.

In 2002, a sum of 1,900 million roubles was invested in the construction of the Nizhnekamsk refinery, including work on the bitumen production unit, the vacuum gas oil storage facilities, and the hydropurification complex for middle distillates. Orgkhim at Severodonetsk has been one of the main contractors in the installation of these units and facilities. In 2002, the Nizhnekamsk refinery processed 5.1 million tons of oil and this is expected to rise to 5.9 million tons in 2003.

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**Nizhnekamskneftekhim**

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**Polystyrene**

The Tatarstan government will support Nizhnekamskneftekhim's polystyrene project by partly paying the bank credit interest to Sberbank. The project involves production of various grades of polystyrene, including shock-resistant polystyrene with a capacity of 50,000 tpa. Production will consist of two stages, leading eventually to a total capacity of 140,000 tpa. The total cost of construction is 1.641 billion roubles, and more than half of that amount will be obtained as bank credits. Subsidies from the Republican budget will be allocated for paying off the part of the Saving Bank of Russia credit interest for \$25 million. The project's pay-back period is estimated at 4 years.

Sberbank in October 1999 provided Nizhnekamskneftekhim a long-term investment loan worth \$20 million to finance the polystyrene project. Nizhnekamskneftekhim plans in June or July this year to begin producing about 50,000 tpa of polystyrene. The company has invested about \$33 million in the plant so far.

**Medium term investments**

By 2004 Nizhnekamskneftekhim expects to start producing 35,000-40,000 tpa of halogenated butyl rubber and to have increased polystyrene capacity to 120,000 tpa. A project for 120,000 tpa of polypropylene is also under review. Feasibility studies are in progress for some of the projects.

According to the financial plan and production programme for 2003 the company will invest about 2 billion roubles in the construction of new plants and reconstruction of existing units. It will spend around 300 million roubles to modernise the ethylene plant.

In terms of shareholders, the Tatarstan State Property Committee holds 35.2% of Nizhnekamskneftekhim, Nizhnekamskneftekhim & Co holds 15.63%, Tatar- American Investment and Finance holds 10.04%, Nikoil Depository Company holds 7.27%, and Tatknftehiminvest-Holding owns 3%.

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**Bashkortostan**

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**Salavatnefteorgsintez**

A presentation of a first bond issue of Salavatnefteorgsintez took place at the Moscow Interbank Currency Exchange on 10 February. Bank Zenit will act as the bond loan arranger. The registered capital of Salavatnefteorgsintez amounts to 18,550,851 common shares with a nominal value of one rouble. In 2002, Salavatnefteorgsintez raised its profitability index from 16% to 18%, while its consolidated sales went up by 8%, amounting to 16.2 billion roubles. Two thirds of the company assets consist of basic assets and ongoing construction.

The company investment programme for 2003 includes the completion of the ethylbenzene-styrene production complex. Other new projects include the construction of a polyethylene production complex, and the creation of a rolling stock of rail tank cars. Completion of the ethylbenzene and styrene units requires around 30 million roubles, of which 20 million roubles are to be allocated from the internal funds and 10 million will be attracted through the bond issue. The production facilities are being equipped with foreign technology. The styrene will result in meeting demand for the Russian merchant market and also the in-house requirement for styrene for polystyrene.

**Kaustik**

Having found strategic investors for TNK, Russian investment company Sovlink has now entered the chemical industry by taking 19.3% of Kaustik at Sterlitamak. However, the government of Bashkortostan is not pleased about this move of non-local investors and wants to restore 100% regional control over Kaustik.

Kaustik's annual turnover is estimated in the range of \$170 million, of which the main interest is PVC. In December last year 19.3% of Kaustik's shares were bought by Sovlink. However, in the beginning of January Kaustik challenged this deal in the arbitration court of Bashkortostan.

The position of Kaustik is that it insists that the general director of Kaustik-Invest, the management company that sold the shares to Sovlink, has exceeded the powers and has damaged the other shareholders of Kaustik. The demands of Kaustik are now that the shares are frozen and the deal declared void.

Thus, Sovlink has legally bought 19.3% of Kaustik, but can not enter rights of the company. A shareholders' meeting took place on 25 February to consider the position of Kaustik and one of the government targets was that a transfer of shares takes place to Bashneft.

It is seen as broadly typical for Bashkortostan where the majority of the enterprises are closed and the possibility for outsiders to become involved are extremely limited. However, the idea of participation of Bashneft in Kaustik has economic sense. The privatisation of a fuel and energy complex is planned to second half of year in Bashkortostan and the government believes that if all the companies are housed together the prospects will be better.

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**Samara****KuibyshevAzot**

KuibyshevAzot achieved a turnover of 4.6 billion roubles in 2002. The company produced 478,000 tons of ammonia (87.5% against 2001), ammonium nitrate 295,700 tons (90.2%), urea 191,600 tons (81.8%), ammonium sulphate 297,500 tons (98.4%), and caprolactam 106,300 tons (99.3%).

The sales profit amounted to 377 million roubles (78.2% of the level in 2001), with profitability falling from 10.8% to 8.5%. The fall in production was caused by the shutdown of the ammonia, urea, ammonium nitrate and nitric acid facilities for maintenance. In 2001, there were no shutdowns of this magnitude as the main ammonia reactor operates on a two-year overhaul cycle principle.

Other negative factors included tight gas supplies, problems with the supplies of the benzene for the production of caprolactam, and the increase of the electric power and heat tariffs.

**Polymer-Auto**

On 7 February the protective coating and plastics plant at Polymer-Auto took place at Tolyatti. The new plant uses a modified polypropylene paint process to be utilised at the main production lines of the Volzhsky car plant.

The newly opened paint shop is the downstream unit of the future polymer materials conversion process line. This includes blow and injection moulding, and hot shaping intended to supply AutoVAZ and other car producers. The conversion equipment start-up is scheduled for November 2003. Polymer-Auto's development is being supported financially by the Samara affiliate of Alpha-Bank.

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**Irkutsk****Sayanskkhimplast**

Sayanskkhimplast in 2002 increased total commodity output in physical volume by 23.8%. However, margins were affected by the ethylene price. Ethylene supplied by YUKOS from Angarsk was set at a higher number than the company had expected. The company has entered a period of uneasy negotiations with YUKOS concerning the price for hydrocarbon raw materials.

Sayanskkhimplast produced 212,161 tons of PVC in 2002, a 13.3% increase on 2001. The output of PVC in 2001 was 187,330 tons, or a growth of 11.2%. Sayanskkhimplast exports around 80% of its PVC.

Sayanskkhimplast has started working on a project for the processing of PVC with the purchase of equipment. The aim is to focus on the domestic market which is dominated by German and Chinese products. Three years ago Sayanskkhimplast started the production of plasticizers used in the manufacture of shoes and medical equipment.

The Baikal branch of Sberbank has opened a credit line for Sayanskkhimplast for the modernisation of the chlorine unit and conversion to membrane.

**Angarsk Petrochemical Combine**

In March, a full modernisation of the oxygen and nitrogen units will be completed at the Angarsk Petrochemical Combine. Nitrogen is planned to be used for internal needs at Angarsk whilst the oxygen is needed to solder cylinders and to sell to consumers. The cost of the modernisation is estimated at \$3.5 million.

YUKOS has acquired 100% of Angarsk Polymer Plant from Angarsk Petrochemical Combine (ANKhK). The contract of sale and purchase between the oil company and ANKhK was made on 15 January and YUKOS became effective on 20 February.

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**Product News**

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**Caprolactam**

Chemical Filament Complex (CFC, Barnaul) reports that it has resolved the problem of the feedstock supply needed for the stable operations. This year the company plans to process 1,000 tons of caprolactam per month. In 1999, the company went bankrupt, but survived and kept its traditional core business. In 1998, the plant

reprocessed only 1.5 tons per day of caprolactam, but in 2002 this had risen to 48-52 tons. In 2002, its share of the Russian market of textile yarns reached 15%, whilst the elastic yarns range was widened from 6 to 20 brands.

KuibyshevAzot plans to increase production capacity of caprolactam up to 130-135,000 tpa. The aim of the expansion is to provide the feedstock for the company's new line under construction for polyamide 6 unit, and to maintain caprolactam deliveries at the same level both to the domestic and foreign markets.

The main modernisation goals include the optimisation of the cyclohexane oxidizing units accompanied by a reduction in the consumption rate of benzene, and the introduction of a two-stage scheme of the cyclohexane oxidation at the second caprolactam unit. Other aims are to increase output and stabilisation of hydroxylamine production.

The total project will cost about 250 million roubles, which will be financed through the amortisation fund and direct investments. The rectification stage has already been modernised which will save around 13% on power consumption. The modernisation of the water treatment cycling unit will also decrease the water consumption by 8.1%.

Currently, the hydroxylamine department is being modernised, which already has provided a capacity increase up to 4.67 tons per hour. These efforts resulted in the company reaching of the highest monthly caprolactam output of 10,850 tons in October 2002. Further stage-by-stage modernisation, planned for the period up to 2007, will provide the capacity increase eventually up to a level of 150,000 tpa.

A major objective in 2003 includes the launch of the polyamide-6, technical yarns and cord fabric lines. The construction of these lines cost a total of 783 million roubles in 2002.

### **Polyethylene**

An unplanned shut down of Stavrolen took place on 1 February. According to the reports the plant management increased the operating rate of pyrolysis furnaces, running at a rate of 30% more than the plant's design capacity (9 tons per hour). This was seen as causing the failure of the ethylene plant. According to Stavrolen the shutdown could last up to three months.

### **Methanol**

Metrafrax saw higher production volumes at Gubakha in 2002. Methanol production rose by over 30,000 tons, and formaldehyde resins by nearly 6,000 tons. In 2002, the company balance sheet profit fell by nearly 190 million roubles and amounted to 931.9 million roubles. The company cited a considerable growth in production costs as the reason behind the shrinking profit.

Two investment projects concerning Vostochny Port have been approved for the transshipment of liquefied gas and methanol and a petrochemical terminal. The Russian Minister of Transport and the Primorsk region Governor signed the agreement on 12 February in Vladivostok.

The launch of the first stage of the methanol terminal, providing the transshipment of 400,000 tons, is planned for this spring. It will be the first methanol transshipment complex in the Russian Far East aimed at servicing south east Asian customers. After reaching its full operating rate, the complex will provide the transshipment of up to 1 million tpa of methanol. Contractors involved in this project include Orgkhim at Severodonetsk in eastern Ukraine.

According to Severstaltrans this projects, together with the expansion of the cargo base of port, will facilitate an increase to 10 million tpa being shipped via this route by 2006.

In early March a meeting took place in Azov to consider the environmental consequences of the construction of the methanol terminal. There are claims that the terminal construction has been conducted without a proper ecological consideration, and that measures would be required to improve the safety of the site before any further developments take place.

Nevinnomyssk Azot has finished reconstruction of its methanol plant which has allowed the company to reduce electric power consumption and thermal energy usage. Production costs overall have been reduced by 20%. The design capacity of the plant is 350-360 tons per day, which mostly is used for the production of acetic acid. The revamp was carried out by Methanol Casale S. A. of Italy with the 32 million roubles in finance provided by Azot's owner Evrokhim.

### **Polyester**

During 2002 Polief stated that it made considerable progress in the construction of the PTA plant at

Blagoveshchensk. This year Polief plans to put on-stream the first Russian polyester unit, construction of which has been funded from the Bashkortostan republic budget. The project is well advanced but Polief may not see any PTA until 2004. By the end of 2004 the company hopes to be able to supply Russian light and food industry plants with PET.

Consumers from Russia and Central Europe are expected to be the main consumers of the PTA produced by Polief. In 2002, the PTA facility was equipped with heat utilities and the conditions to perform work under winter conditions were established. The PTA facilities are now reported to be at the final stage of installation.

The PTA facilities have been equipped with state-of-the-art control and emergency protection system based on Centum NS-3000 from Yokogawa and Siemens. This system will ensure that PTA production shall comply with international quality, reliability and process safety requirements including gas discharge monitoring.

### **Tyres**

The largest Russian tyre manufacturers are trying lower costs through mutual competition. SIBUR, Amtel, and Nizhnekamskshina are expected to sign an agreement on coordinating price policies for the domestic Russian market in an effort to thwart dumping from imports. SIBUR, Amtel and Nizhnekamskshina together produce more than 90% of total Russian tyre output.

SIBUR has offered Amtel and Nizhnekamskshina new feedstock arrangements and has also proposed that the producers co-ordinate their activities with the dealers. Until now, SIBUR has been competing with the other Russian companies for market share with the same buyers.

However, such sorts of "clubs" could attract disapproval from the Ministry on Antimonopoly. It is too early to say whether it contravenes Russian legislation.

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### **Ukraine**

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**(Ukr hryvnia Mar 6, \$1= 5.33, €1= 5.8503)**

### **Krasitel**

In 2002, dyestuff producer Krasitel at Rubezhnoye managed to increase production by 665% compared to the 2001 result, reporting turnover at 16,244 million hryvnia. Having stood idle over the first half of last year, the company recommenced its operating activity in July with the output of 29 product items. This year, the company aims at a further expansion of production activity and has estimated a potential a

increase by up 440% to 88.0 million hryvnia.

### **Oriana**

The State Property Fund proposes to withdraw the potassium producing plant from the Oriana's property, and to create a state-owned enterprise. The transfer would enable the plant to become a subject to the state's subsidy worth 10 million hryvnia, provided for development of the state-owned potassium producers.

<b>LUKOR production (kilo unit-tons)</b>		
<b>Product</b>	<b>2002</b>	<b>2001</b>
Ethylene	208.3	122
Polyethylene	99.1	46
Propylene	92.0	52.1
Benzene	93.9	60.0
Caustic Soda	70.4	53.0

For 2002 LUKOR achieved 1.13 billion hryvnias in turnover, which was 83.5% more than in 2001. The company increased the volume of pyrolysis processing by 67.4% to 749,900 tons. Due to the use of new technology this allowed the production of diesel fuel, and also naphtha and butane. This has helped

to reduce the costs of ethylene and propylene production.

### **Stirol**

Stirol will soon start work on the upgrade of one 450,000 tpa ammonia plants which will enable the company to reduce power consumption and production costs. The modernisation is to be started in March, and will be undertaken over a one month period. In 2002, Stirol produced 1.25 million tons of ammonia, accounting for 27.9% of Ukrainian production. Stirol also last year introduced heat-insulated and adhesive resins, with a capacity of 8,000 tpa. The company is planning to start the facilities within the next couple of months.

### **Azot Severodonetsk**

Azot at Severodonetsk wants to construct a melamine plant, with a capacity of 15-17,000 tpa, with the intention of selling product in the local and CIS markets, including Central Asia. A large part of the preparations have been laid for the project and the final construction requires an estimated \$19.37 million. Azot is able to use the existing infrastructure for sebacic acid production, a unit that was constructed in 1994 by Orgkhim at Severodonetsk.

The aim is to cover the requirements of building, food processing, paint and varnish industries in Ukraine and CIS. There is considered to be a deficit of melamine in this region and could produce profits of around \$6.5 million per annum, according to estimates made by Azot. The project would take an estimated 2 years to construct with an estimated payback period of 3.5-4 years.

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### **Belarus**

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Bidding for the largest Belarussian petrochemical plants will probably take place in March or April this year. The initial prices for the stakes are being set as high as reasonably possible. The decision to sell these companies is seen as a moral breakthrough for Belarus, where the economy is still run largely along Soviet-era command lines and where the president often personally intervenes in the running of major state companies.

The government has said that Belarus would sell stakes of 40-44% in a dozen large companies in the refining and petrochemical industries, but Lukashenko has warned that buyers would have to "pay well". Belarus wants to use the funds to upgrade production.

The government has set the initial price of 43.27% of the charter capital of Naftan at \$476 million, Polymir's 43.19% at \$311 million, Grodno Azot's 43.08% at \$293 million, and Grodno Khimvolokno's 43.66% at \$71 million.

Azot at Grodno needs about \$50 million in foreign investment for modernisation purposes. Belshina at Bobruisk also needs foreign investment for modernisation, with equipment worth \$72.2 million needed from Germany, Slovakia, Czech Republic and Japan for the completion of three projects to produce different types of tyres at Belshina.

The social conditions of sale of shares require the preservation of an average number of workers, and environmental protection, etc. The government hopes that as the result of the tenders something in the range of \$1 billion could be accrued in the 2003-2005 period, how realistic are those hopes is quite another matter.

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### **Kazakhstan**

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This year the long outstanding concept of a petrochemical complex in the west of Kazakhstan could finally start to get off the ground, at least that is the view being propounded by the government. The Kazakh-Russian investment project, investment programme KRIP envisages an ethylene unit based on ethane, close to a projected gas processing plant near Atyrau. The gas processing plant, based on the Karachaganak deposit, will have an annual capacity of between 5-10 billion cubic metres.

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