

**STRATEGY PREPARATION FOR PRIVATIZATION OF
LARGE INDUSTRIAL ENTERPRISES OF AZERBAIJAN REPUBLIC
INSTITUTION BUILDING TECHNICAL ASSISTANCE, LOAN NO. 27690AZ**

COMPANY PROFILE – JSC “MINGICHEVIR GLASS FIBER”

June 2003

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The content of this report is subject to and does not override the terms and conditions of our appointment as set out in the Contract of February 17, 2003.

ã Ernst & Young 2003



ABBREVIATIONS

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AZM	Azerbaijan Manats
USD	United States of America dollar
WIP	Work-in-Progress
Q	Quarter of the year
The Company	Joint Stock Company “Mingichevir Glass Fiber”
EBITDA	Earnings before interest, tax, depreciation and amortization
K	Thousands
B/S	Balance Sheet
P&L	Profit and Loss Statement
AGAAP	Azeri Generally Acceptable Accounting Principles
FSs	Financial Statements
IAS	International Accounting Standards
GOA	Government of Azerbaijan Republic
IVS	International Valuation Standards
MED	Ministry of Economic Development of Azerbaijan Republic
MoL	Ministry of Labor of Azerbaijan Republic
SWOT	Strengths, Weaknesses, Opportunities and Threats
TOR	Terms of Reference
GBV	Gross book value
AD	Accumulated depreciation
NBV	Net book value

Overview of Business and Operations

General

JSC Mingichevir Glass Fiber was built to provide the former USSR with glass fiber tape. The Company was commissioned in 1965 and during early years of its operations has been satisfying 80% of the USSR' demand in fiberglass tape. Over years the Company specialized in production of the following materials:

- Electrical insulation fiberglass fabrics;
- Electrical insulation fiberglass tapes;
- Unidirectional fiberglass tapes;
- Heat-insulation fiberglass materials; and
- Non-woven (bonded) fiberglass fabrics.

In the recent times the Company had supplied electrical insulation fabrics and tapes to over four hundred customers located in large industrial centers across the former Soviet Union, including Saint-Petersburg, Moscow, Yekaterinburg, Kiev, Kharkov, Novosibirsk and etc. In the past the largest orders for electrical insulation fabric had been made by JSC Mingichevir Izolit (former Azerelectroizolit Factory). Other products had been exported to CIS countries. However, JSC Mingichevir Glass Fiber faced with sales difficulties a few years ago when the major customer suspended its activities. Current domestic demand in fiberglass fabric is very low. In order to fully utilize production capacities the Company needs to secure customers in CIS countries.

The Company's facilities are located 5 km away from the railway station and 40 km away from the nearest airport. The major reason for construction of the Glass Fiber Plant in Mingichevir was the large demand in fiberglass materials from Mingichevir Izolit, commissioned in 1963.

Up until late 80s the Company was actively producing various fiberglass tapes and fabrics by employing services of over one thousand workers.

After disintegration of the Soviet Union the Company faced difficulties with finding the markets for sale of its output. Disruption in supplies has also contributed to the Company's severe distress.

Plant and equipment

The overall area of the factory is 25.68 hectares, of which 8.28 hectares are allotted for production facilities. The production facilities consist of two major workshops and four auxiliary facilities, including:

1. Electrical Stoves Workshop
2. Weaving Workshop (unreeling and reeling sections, beaming section, weaving and backwind sections)
3. Local Water Cleaning Facilities;
4. Heating Facilities;
5. Compression and Cooling Facilities;
6. Repair Workshop.

Initial fiberglass is manufactured via two-stage method at the electrical stoves workshop. The section facilities were designed to produce fiber of 6-13 micron in diameter and of 9.2-240 tex in line density. The total area of the Electrical stoves section is 2,940 m², of which 2,300 m² is the production area and 640 m² is the service area. The planned production capacity of the section is 3,200 tons of fiberglass per annum.

Fiberglass from the Electrical stoves sections is delivered to the Weaving section where the finished products are made. The total area of the Weaving section is 15,342.5 m², including 12,500 m² of production area and 2,842.5 m², used as a service area. The planned production capacity of the Weaving section run in three-shifts is:

- 8 million running meters of electrical insulation fiberglass fabric EZ-200P; and
- 200 million running meters of electrical insulation fiberglass tape LECP.

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Water is supplied to the Company's facilities via two water pipelines. One is run from a pump station installed at the River Kura, while the second is connected to Mingichevir municipal water pipeline.

The factory is connected to two 110/35/6 kV power supply lines.

The Company has 1,980 meter-long railway connection to the town railway network.

The equipment used in the fiberglass production is as follows:

1. Glass-furnace CPA-6C, made in the Russian Federation
2. Unreeler PKC-83, reelers PTKC-88, TKC-132 and UTKC-76, manufactured in Uzbekistan.
3. Unreeler CKP-140S1, CKP-100S1 and reelers CKP-140C2, CKP-100C2, made in Chekhia and Slovakia.
4. Tape weaving loom TLB-40C, produced in the Russian Federation
5. Fabric weaving pneumatic looms PN-110C, P-125C of Chekhian and Slovakian manufacture.
6. Braider MALIMO made in Germany.

Production facilities have been relatively well maintained. Equipment appears to be in operational condition. Most of the equipment is over 20 years old and technologically outdated. According to the management it requires replacement.

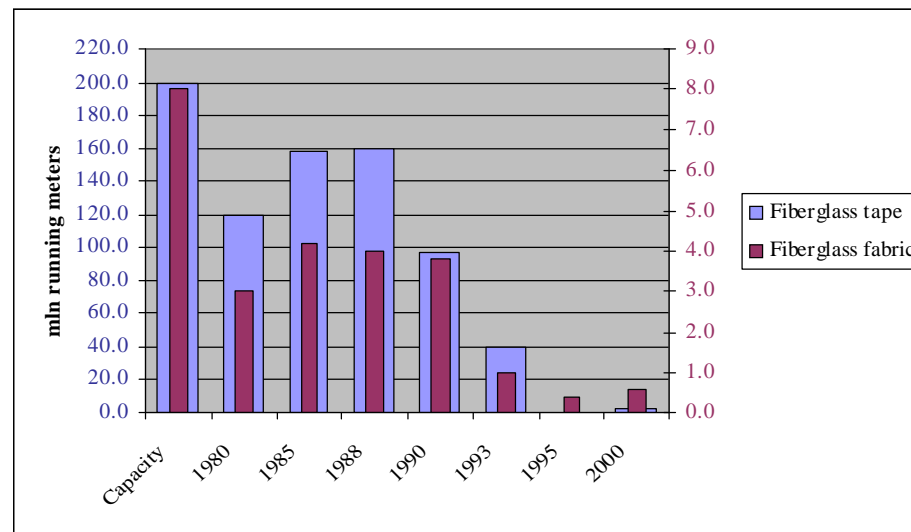
Historic and current output

The Company was put into operation in 1965 to produce at its full capacity a large selection of fiberglass tapes and fabrics. The maximum historic capacity and the actual production by groups of products is as follows:

Table. 1

Product groups	Capacity	1980	1985	1988	1990	1993	1995	2000
Fiberglass tape (mln. running meters)	200.0	120.0	158.7	160.0	96.1	40.0	-	2.6
Fiberglass fabric (mln. running meters)	8.0	3.0	4.2	4.0	3.8	1.0	0.4	0.6

Picture 1. Output by major groups



Due to centralized placement of orders by Soviet authorities the Company has experienced a stable growth of its output from commissioning time up to late 1980s. Disintegration of the USSR resulted in considerable decrease in orders placed and subsequently in significant reduction of the output. At present the output of fiberglass fabric constitutes 7.5% of the original planned capacity while the amount of fiberglass tape produced is less than 1.5% of the plant

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capacity. In 2002 total sales amounted to AZM 282 million. According to the management the current amount of orders received makes operation of the plant's equipment and facilities uneconomic. To be economically feasible, the Company should produce at least ten million running meters of fiberglass tape annually.

Major Suppliers

Raw materials used by the Company, including glass pellets, vaseline, stearin, fixing agent DSU, technical paraffin, agent OC-20, are supplied mainly from Russia. These materials are produced in Ukraine as well, but Russian manufacturers offer lower prices. Dependence on foreign supplies puts the Company in competitive disadvantage compared to the similar producers in Russia, Ukraine, Belarus and Latvia. According to the management, Russian competitors enjoy lower prices on the raw materials.

According to the management, production of glass pellets, the main raw material used by the Company, is not possible in Azerbaijan. The management does not believe that the local share of supplies can be significantly increased.

Geographical Markets

Originally the Company was established as a leading producer of fiberglass fabric and tape (up to 40 millimeters) in the former USSR. The factory received its orders for products in accordance with the centralized plan established and controlled at the appropriate ministries. In 1970s the Company supplied some 80% of demand in fiberglass fabric and tapes across the Soviet Union.

The Company lost its traditional markets due to interruption of orders, disintegration of supplies and gradual entrance of competing producers (predominantly Russian) in to the market. According to the management's estimates, demand for fiberglass fabric and tape in the traditional markets of the former Soviet Union reduced by ten times at least.

Local market has always been very limited: Azerelectroizolit Factory (currently JSC Mingichevir Izolit) was the only large customer in the former Soviet

Azerbaijan. At present the Company sells small amounts of its products to local construction companies but unless JSC Mingichevir Izolit resumes its operations the Company will not have sizeable orders.

Currently some of the CIS countries, including the Russian Federation, Ukraine, Belarus and Latvia have their own large manufacturers of similar products with productive capacities exceeding those of JSC Mingichevir Glass Fiber. Currently, there are more than ten enterprises across the CIS capable of producing similar output. Yet the management believes that the CIS market represents certain potential for the Company. However, in order to compete with local manufacturers in the CIS countries the Company needs support from Azerbaijan government with regards to setting favorable customs fees and taxes, directing oil contractors to the Company and etc.

As to other foreign markets, in order to be able to enter them, the Company has to obtain international licenses for its products, introduce proper packaging and renew equipment and machinery.

Industry Overview

There were 13 manufacturers of similar products in the former USSR.

Current major competitors of JSC Mingichevir Glass Fiber are the following:

1. JSC Tverstekloplastik, Tver, Russia (approximately similar size);
2. Sudogodskoye Steklovolokno, Krasny Khimik, Vladimirsky region, Russia;
3. Stupinsky Fiberglass Factory, Stupino, Russia;
4. JSC Stekloplastic, Severodonetsk, Ukraine.

Investment requirements

In general, the Company requires replacement of most of its existing equipment, it has not been replaced for many years and is technologically outdated.

The Company's management estimates that about USD 2-3 million would be required to renovate the equipment and resume production at the factory's full

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capacity. However, according to the management, small domestic market and absence of local raw materials do not justify to resumption of production of fiberglass insulation materials at the Company at full capacity.

Privatization developments

The management believes that unless Azerbaijan government reduces customs fees on raw materials imported from Russia or the Company finds other suppliers offering similar raw materials at lower prices the Company will not be able to compete with Russian fiberglass manufacturers even within the CIS markets.

According to the law on privatization, employees are allowed to buy out 15% of shares at discounted price, however, only 1.8% were acquired by the existing and former employees of the Company. Such trend is common among other state-owned enterprises undergoing privatization.

According to the management, there was no real interest of local or foreign investors in the past to acquire the Company. Investors that may be potentially interested to acquire the Company are the ones that have access to the Company's traditional markets, i.e. Russia. However, according to the management, Russian producers of similar products have significant spare capacities to meet any increase in demand of their market.

Organizational Structure, Management and Labor

While gradually reducing its output to becoming practically inoperative, the Company shed almost all of its 1,200 employees since collapse of the Soviet Union and is currently employing services of sixty management and security personnel. The following table demonstrates sliding dynamics in the labor force of the Company:

Year	1985	1995	2000	2001	2002	2003
No. of employees, including	1,200	731	403	346	310	279
Workers	n/a	n/a	n/a	n/a	n/a	n/a
Administrative personnel	n/a	n/a	n/a	n/a	n/a	n/a
Average salary ('000 AZM)	n/a	n/a	154	249	213	230

According to the management, the Company has not paid salaries since January of 2003. Currently, average monthly salary at the Company is AZM 230K (approx. USD46). Payments are also outstanding to certain groups of former employees, including the ones on unpaid leave and those who have been injured at the Company

Currently, average monthly salary at the Company is AZM 230K (approx. USD46). Total amount of outstanding salary payments is AZM 36,512K.

The Company maintains records of 5 former employees who were injured at work and therefore eligible for regular compensation by the Company. In addition the Company provides support to 5 families of Karabakh war martyrs.

SWOT Analysis

Strengths

- Technical and technology knowledge;
- Availability of qualified, experienced and cheap labor resources;
- Proximity to power and water resources;
- Access to railroad transportation routes;
- Logistics and infrastructure;
- Favorable climatic conditions.

Weaknesses

- Raw materials are supplied from Russia;
- Factory equipment is technologically outdated;

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- Spare parts for equipment and machinery are imported;
- Domestic market is too small, thus the Company depends on the CIS market;
- Products are not competitive at foreign markets since they do not meet international standards;
- Significant tax burden imposed on excessive property (which has been substantially overvalued by MED) and land.

Opportunities

- The management believes that an opportunity exists to enter foreign markets should the Company be able to secure sufficient funding for replacement of its equipment capable of producing western standard products compliant with the specific licensing requirements;
- If Mingichevir Izolit, the major customer of the Company restarts its operation, the Company would be able to regain its large customer;
- Possible state support including reduction of customs duties and taxes, directing domestic contracts to the Company.

Threats

- Strong competitors in Russia and other CIS countries.
- Experienced and qualified employees are leaving the country.
- Production involves processes, which are dangerous and harmful for health of employees.

Additional information and data including Reformatted Financial Statements and Financial Performance materials are available upon request.

When writing to AIPAF please provide a short background on your company activities and plans about the project.