

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

**COMPANY PROFILE – BAKU ELECTRIC MOTORS FACTORY JSC**

**June 2003**

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*The contents 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.*

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## ABBREVIATIONS

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AZM	Azerbaijan Manats
USD	United States of America dollar
RUR	Russian Roubles
WIP	Work-in-Progress
Q	Quarter of the year
The Company	Baku Electric Motors Factory JSC
EBITDA	Earnings before interest, tax, depreciation and amortization
K	Thousands
M	Million
B/S	Balance Sheet
P&L	Profit and Loss Statement
FCST	Forecast
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
US GAAP	US Generally Acceptable Accounting Principles
GBV	Gross book value
AD	Accumulated depreciation
NBV	Net book value

## Overview of Business and Operations

### General

Baku Electric Motors Production Plant is the largest electric motors manufacturer in Azerbaijan at the moment. It is located in the industrial part of Baku on a land plot of some 16 hectares. The production facilities occupy over 80 thousand square meters.

The Company was established in 1946 as the factory for repair of aircraft engines. In late fifties the factory was converted into production of electric motors.

The Company underwent two main reconstructions, one in 1968 and the second in 1978. In late 2001 a new management team was appointed to the factory. The new management arranged for the necessary investments and the Company resumed production. The new team managed to increase Company's turnover 40 times, the motors production increased 9 times, the number of the employees - 8 times.

The Company was mainly specializing on the production of the electric asynchronous motors of 1.5 to 100 kW range. The motors produced by the Company can have the axis lengths of 80, 132, 200 and 225 millimetres. The motors were produced for various applications and various working speeds. The maximum capacity of the Company is 130 K motors per year. Over the last three years actual production was significantly lower than the Company's maximum capacity:

**Table 1: Historic and estimated output**

Period	2001	2002	2003 (estimate)
Electric motors (units)	165	1,700	2,500
No. employees on payroll	25	225	250

Source: Management of Baku Electric Motors

### Plant and equipment

The Company possesses the following main types of the production equipment:

Machines types	Year of installation	Quantity (units)
Metal cutting machines	1977-1978	526
Press equipment	1972-1990	203
Foundry equipment	1972-1990	13
Technological equipment	1979-1994	241
Turning shop	-	20
Lifting and other transport equipment	1979-1988	354

The Company possesses the following main structural production and administrative buildings:

- Main production hall;
- Two auxiliary production halls;
- Modular warehouse;
- Administrative building;
- Turning shop;
- Compressor station;
- Heating station;
- Tools hall;
- Water supply station;
- Medical block; and
- Dining facilities.

In 2002 the Company started to accept orders for electric motors and repair of electric transformers.

### Geographical Markets

During the Soviet times the Company was the only manufacturer of electric motors of the 1.5 to 100 kW range in the entire Soviet Union. The motors were exported into 54 countries of the world.

## 1. OVERVIEW OF BUSINESS AND OPERATIONS

The Company have lost the market of Russia after sharp RUR to USD devaluation caused by Russia's 1998 crisis. Since than Russian manufacturers of electric motors started production of the similar range of the motors in the country.

The local production and import from Russia and other countries satisfied the demand at the main export markets of the Company in Bulgaria and Turkey.

At the moment the Company is trying to return back to the Russian market by trading through the Moscow based company Spetsmontajkomplekt (controlled by the management). According to the management the current motors range manufactured by the Company are not competitive with the similar product from Russia due to low product characteristics, high transpiration costs and tariff barriers.

The management of the Company explores the opportunity in the production of the new range of the products that can be price-competitive such as:

- New generation of electric motors with the power output up to 25 kW;
- Electric diesel generators;
- Transformers up to 100 kVA;
- Oil industry application centrifugal pumps for oil applications; and
- Various electric components for marine applications.

The target markets for the new range of the products would be Russia, Turkey, Iran and Ukraine.

### *Industry Overview*

Baku Electric Motors Production Plant is the largest electric motors producer in Azerbaijan at the moment. The main competitors of the Company are:

- Ukrelectromash (Kharkov, Ukraine);
- Uzelectomash (Uzbekistan);

- Sibelectromotor (Tomsk, Russia);
- ELDIN (Jaroslavl, Russia);
- Elprom Zemad (Sofia, Bulgaria) and others.

All of the companies mentioned above have bigger production capacities than Baku Electric Motors Production Plant.

### *Suppliers*

The Company is receiving 130 out of 145 main electric motors components from the Russian suppliers.

The most important and expensive components used in the motors production are:

- Copper wire;
- Dynamo steel;
- Axe steel;
- Bearings.

According to the management the supplies of the main materials parts and components are made through the Russia based company Spetsmontajkomplekt (related party).

### *Investment requirements*

It is clear that the Company requires replacement of most of its equipment and significant repair works of the production facilities. The existing equipment has not been maintained for many years and it is technologically outdated. The management of the Company believes, however, that some major elements of the existing equipment may be refurbished at minimum cost and used for production.

The management was reluctant to disclose to us the total amount of the investment necessary to introduce new products. However according to the management the investment in the Company to date was approximately 250-350 K USD. This investment enable the Company to produce 1,700 motors in 2002.

## 1. OVERVIEW OF BUSINESS AND OPERATIONS

### *Privatization developments*

According to the management the representatives of German and Italian companies visited the Company's site. The management refused to disclose to us the name of the companies and the results of the negotiations.

### **Organizational Structure, Management and Personnel**

The Company key management are represented in the chart at Appendix D.

### *Remuneration and Personnel*

Currently, The Company employees 220 employees who are active and are on the Company's payroll. At times, the Company's total labor force exceeded one thousand employees.

**Table 1: Historic and current labor force**

Period	2001	2002	2003
No. employees on payroll	25	225	250

Source: Management of Baku Electric Motors

The company has paid 2002 payroll and repays old debts as well. Average monthly payroll is 7,153 USD. The Company also has 93 employees who receive payments for injuries (monthly payments of 1,553 USD).

### **Summary SWOT Analysis**

#### *Strengths*

- The Company has experience in production of electric motors of certain range and the reputation of quality motors manufacturer;
- The Company has equipment and technology to produce electric motors;
- The Company will obtain in the near future ISO-9000 and Russian Marine Register Certification;
- The Company's management is young and energetic.

#### *Weaknesses*

- The Company lost majority of skilled labour force;
- Majority of the equipment is hardly usable for modern high quality electric motors and pumps production;
- Production facilities are designed for mass continual production of electric motors and uneconomical in present market situation.
- Most of the supplies and raw materials need to be imported.

#### *Opportunities*

- Organize production of the new generation electric motors;
- Organize production of pumps, generators and other equipment at the Company's site;
- Get rid of excessive buildings and capacity;
- Return on export markets.

#### *Threats*

- The Company cannot be a going concern without support of the State;
- There is a number of companies in Russia, Bulgaria and Turkey that are producing the same type of products with almost the same cost;
- The domestic market demand is limited.

**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.**