

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

**COMPANY PROFILE– BAKU AUTOMOBILE PRODUCTION FACTORY**

**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.*

*ã Ernst & Young 2003*

## 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 Automobile Production Factory
EBITDA	Earnings before interest, tax, depreciation and amortization
K	Thousands
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
LCV	Light-Commercial Vehicle

## Overview of Business and Operations

### General

Baku Automobile Production Factory is the only potential bus producer in Azerbaijan at the moment. When the Company was operational it was producing the refrigerated cargo vans based on the PAZ-3201 chassis (30 seats midi bus) family for food products transportation. The Company has received the technology and all necessary documentation from PAZ (Currently OAO 'Pavlovsky Avtobus) in the 1975.

#### *Historic and current output*

The Company was established in 1942 and at that time it was purposed to repair automotive engines.

It was significantly enlarged in 1964 by construction of the main production building. Effective from mid sixties Baku Automobile Production Factory was producing spare parts and shock absorbers for automotive and agriculture machinery applications.

In 1975 the Company received technology for refrigerated cargo vans production from PAZ. The first PAZ based refrigerators rolled off the production line in 1980.

The Company's production capacity was further expanded in mid eighties with construction of the new dies and forges and machine tooling shop. Currently, the total area of the factory is over 13.9 hectares of which some 6 hectares are under production buildings and facilities.

Effective from 1995 the Company was hardly producing any products. The past production figures are presented in the table below:

**Table 1: Historic production at the factory**

Model/Year	1991	1992	1993	1994	1995
PAZ-3742-01 (Refrigerated Van)	291	-	-	-	-
PAZ-37421-01 (Cargo Van)	2,932	396	88	8	2
BZSA-4706 (Light Truck)	23	6	6	-	-
BAKAZ-3219 (Midi-bus)	-	744	877	201	9
<b>TOTAL</b>	<b>3,246</b>	<b>1,146</b>	<b>971</b>	<b>209</b>	<b>11</b>

#### *Geographical Markets*

When initially established Baku Automobile Production Factory was designed to supply refrigerated cargo vans and buses to the market of all Soviet Union. According to the management at the moment the potential market for the products of the Company can be Azerbaijan, Turkey and Georgia.

#### *Industry Overview*

Baku Automobile Production Factory is the only potential midi buses producer in Azerbaijan. The demand of the Azerbaijan market for midi-buses estimated by the management is around 2 K of such buses a year.

Currently the market demand is mainly satisfied by the importation of PAZ buses from Russia and ISUZU buses from Turkey. According to the management the price of PAZ buses is in a range of US\$10 K to US\$15 K the price of ISUZU buses is around US\$30 K. The summary of buses importation in Azerbaijan in 2001 is in the table below (the table prepared based on Azerbaijan Statistical Yearbook).

## 1. OVERVIEW OF BUSINESS AND OPERATIONS

Import from CIS countries		Import from non CIS countries		Total Importation	
Quantity	Value '000 USD	Quantity	Value '000 USD	Quantity	Value '000 USD
71	344	127	1,443	198	1,787

The custom tariff for midi bus importation is 15%. There are no restrictions for importation and use at the public passenger routes of used midi buses. That sets the conditions in which any bus manufacturing is not viable due to severe competition with the used buses importation.

### *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.

Based on the experience with the realisation of the similar projects in CIS the cost of the modern midi-buses production can be estimated as follows:

**Table 2: Estimated investment requirements**

Investment	Value 000' USD
Paint shop with manual painting facility including surface preparation and post paint inspection	5,000 to 10,000
Welding line with necessary jigs	1,000
Assembly line	1,000
Buildings repair and sundry expenses	1,000
<b>Total Estimation</b>	<b>10,000 to 15,000</b>

### *Privatisation developments*

The Company has tried to found several Joint-Vetures with different strategic partners.

The Company formed the JV Bak-PAZ with OAO 'Pavlovo Bus' in 1997. The parties agreed to invest 100 K USD as a payment to charter fund. 'Pavlovo Bus' was planning to pay its contribution in buses and Baku Automobile Production Factory was going to invest asset (mainly production equipment and buildings). The JV was not operating and was liquidated by mutual agreement of the sides in 1998.

In addition, the Company was advised by the Azerbaijan Ministry of Economical Development to provide one of its buildings for the assembly of ISUZU midi-buses (Turkish branch). The Company has only 1% stake in the newly established enterprise.

The original plan envisaged assembly of the buses from the parts imported from Turkey. According to the management the JV has not assembled a single bus due to the fact that locally assembled bus would be 20-30% more expensive than the bus imported from Turkey, mainly due to the requirement to pay custom duty and VAT for each component imported for assembly.

Although the government of Azerbaijan has decided to liquidate the JV some years ago the JV is still in control of one production building. The JV is not paying Baku Automobile Production Factory for the rent of the building and not providing the management with any of its operational results.

In addition the management informed us that the Company has various contacts about possible co-operation with several potential strategic partners namely KamAZ, Daewoo, Isuzu, Iran Hodru and others. However none of the contacts lead to the further co-operation.

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

The Company key management are represented in the chart at Attachment 2.

### *Remuneration and Personnel*

The Company employed 1,500 persons at its best years. Currently officially Company employs 698 persons 558 of whom are in unpaid leave and 80 persons still working full or part time. According to the employees of the company they have not received their salary for over two years.

## **Summary SWOT Analysis**

### *Strengths*

- The Company has experience in production of buses;
- The Company owns relatively new pressing equipment with impressive capacity;
- The Company is recognised by the Government as the only national bus manufacturer.
- The Company owns valuable infrastructure and facilities.

### *Weaknesses*

- The Company lost majority of its skilled labour force;
- The majority of the equipment is hardly usable for the busses assembly/production;
- The Company's production facilities were dormant for almost ten years.

### *Opportunities*

- Production of light commercial vehicles (LCV);
- Request the Government for the tariff protection of the market;
- Consider opportunities of the other products manufacturing utilizing existing equipment and machinery;

### *Threats*

- The local market for the buses is quite limited in size and the export potential is doubtful.
- The Company cannot be a going concern without support of the State;
- Low custom tariff for buses and vehicles importation as well as no restrictions for used buses importation would make any bus production business not viable in Azerbaijan for the moment;
- There are no/insignificant barriers to new entrants;

**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.**