

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

COMPANY PROFILE – JSC “BAKU MACHINE TOOL”

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	JSC “Baku Machine Tool”
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
CNC	Computer Numerically Controlled

Overview of Business and Operations

General

JSC “Baku Machine Tool” was established in 1975. At that time the Company was leading amalgamation of the three factories that were involved in production of machine tool equipment in Azerbaijan. The Company is located in Baku area on the land plot of five hectares and production facilities of 19 thousand square meters.

The Company was established to produce slotting machines, drilling machines, special application machines and various types of metal spare parts and components. The maximum capacity of the Company was up to 120 tooling machines a year.

The Company underwent through major renovation and re-equipment in 1989, including construction of the new main production hall. The CNC mills-machines were installed at that time.

The main production hall has cracks in roof and supporting structure caused by the earth-quake that took place in Baku two years ago.

Since 1992 the Company was hardly producing any products.

Baku Machine Tool is a producer of various types of machine tool equipment and spare parts for them. The Company itself possesses an impressive number of machine tools (including CNC mills) and can manufacture wide range of parts and components from metal.

The Company used to be a head of the amalgamation that includes apart form Baku site as well factories in Agdam, and Ali-Bairamli. The amalgamation broke apart in early ninetieths and currently there is no legal or any other connection between the three entities.

The Company is able to manufacture almost all parts of tooling machines except for electric motor and electric components. The Company is possessing equipment for gears manufacturing.

The factory site is located at the undulating ground and hardly have any potential for the expansion.

Geographical Markets

When initially established Baku Machine Tool was the sole producer of slotting machines of the medium class supplied to the customers which where located at the whole territory of the Soviet Union. The Company was also supplying its machines to Turkey, Czech Republic and Poland.

According to the management the Company has completely lost its presence at these export markets. It is hardly possible for the Company to supply machines to Russia, because the Russian Government is highly protecting its own machine tools industry with tariff barriers.

According to the management return to the export market would require significant expenditures for the advertising and promotion activities.

Industry Overview

Baku Machine Tool and its former branch in Ali-Bairamli are the only producers of the machine tool products in Azerbaijan at the moment. In the Soviet times the similar machine tools were produced at Krasni Proletari (Moscow), Ryazan Machine Tool (Ryazan, Russia) and Sterlitomakski Machine-Tool (Stelitomak, Russia). The factories in Ryazan and Sterlitomak are currently well functioning.

The local market for machine tooling equipment is almost not exist in Azerbaijan at the moment.

1. OVERVIEW OF BUSINESS AND OPERATIONS

The export potential is doubtful due to low quality, outdated technology and market penetration barriers.

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 realisation of similar projects in Russia the minimum cost to restart the Company at the original capacity would be as follows:

Investment	Value 000' USD
Repair of the main production buildings	500
Construction of the new buildings for auxiliary production	500
Cleaning of the territory	500
Investment in new equipment and quality system	1,000
Total Estimation	2,500 to 3,500

It is worth mentioning that the factory site is located at the hillside. After the strong earthquake that took place in Baku couple years ago the Company site is under the danger of earth fall. Therefore, the additional investments would be required for the hillside reinforcement.

Privatisation developments

The Company was sporadically manufacturing some parts for various customers. The management believes that the new developments in the oil industry of Azerbaijan oil industry might increase their numbers and one of the oil related companies could be interested in purchasing the Company.

However, according to the management none of the potential investors have expressed their interest in purchasing factory.

Organizational Structure, Management and Personnel

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

Remuneration and Personnel

The Company employed 850 persons at its best years. Currently officially Company employs 90 persons approximately 50% of whom are workers that can be recruited from their current jobs if the Company has a customer order. The rest 50 are representing management and other auxiliary workers.

The Company has 90 employees, 63 of which are active and are on the Company's payroll. Salaries are paid irregularly. However, based on the company's balance sheet the total payables to employees decreased by US\$6 K by the end of the year. Therefore, the company has paid off 2002 liability and started paying off accrued liabilities to the employees. The Company's monthly payroll expense is approximately US\$1 K.

The Company's other liabilities as of 1 January 2003 are US\$28 K payroll accruals.

Summary SWOT Analysis

Strengths

- The Company has experience in machines tool production;
- The Company possesses comprehensive park of machines tools;
- The Company is situated at the plot of land that has good rail and automotive link.

1. OVERVIEW OF BUSINESS AND OPERATIONS

Weaknesses

- The Company lost majority of skilled labour force;
- The majority of the equipment is hardly usable for modern machine tools production;
- The Company's production facilities were dormant for almost ten years.

Opportunities

- Get the orders from the oil industry;
- Sell off the assets that are not in use (buildings and equipment);

Threats

- The Company cannot be going concern without support of the State;
- There are no export potential for the products produced by the Company;
- The companies with similar abilities are far more proactive in getting well-paid oil industry generated contracts.

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.