

AZPROMO PROJECT PLAN

PROJECT: Oil and Air Filters for Cars

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1) Background and Sector review

Machinery and equipment production in Azerbaijan

Import substitution is a driver for business growth in this sector. The opportunities for investment in the local production of machinery and equipment have increased due to the prices increase of imported equipment since 2014, and the strategic location of Azerbaijan next to large markets of the CIS and West Asia.

Machinery and equipment production is the fast growing industry. Machinery for oil and gas industry constitutes 25% of total production, whilst the remaining 75% of production consists of consumer, agricultural and automotive equipment.

The Oil and Gas Machinery sector is well developed with more than 150 years experience. Today this sector has growing export potential, to serve demand in neighbouring, regional markets.

Azerbaijan has a number of centres of machinery production. Baku is a centre of radio-electronics production. The Baku Shipbuilding Plant produces small back-up vessels, and the Automobile Plant in Ganja, produces tractors and special trucks. The Nakhchivan Automobile Plant was put into operation in 2010, and manufactures the Chinese "Lifan" brand of automobiles.

Regional demand

Domestic and regional demand is largely met by imports. According to the UN comtrade. In Azerbaijan, on average US\$3.3 Million of Oil and Air filters is imported every year. In Kazakhstan, an average of US\$35 Million is imported annually, and in Georgia an average of US\$4 Million is imported annual.

Access to relatively cheap energy gas in Azerbaijan

A large cost component in production of oil filters are energy costs. This puts Azerbaijan in a relatively advantageous position, due to its location near the Shah Deniz Natural Gas field, which is one of the largest natural gas fields in the world. The Sumgait Industrial Chemical Park (SCIP) is near this field, only 30kms from Baku.

2) Project Objective

- To establish an Oil and Air Filters production facility to serve the domestic and regional market.

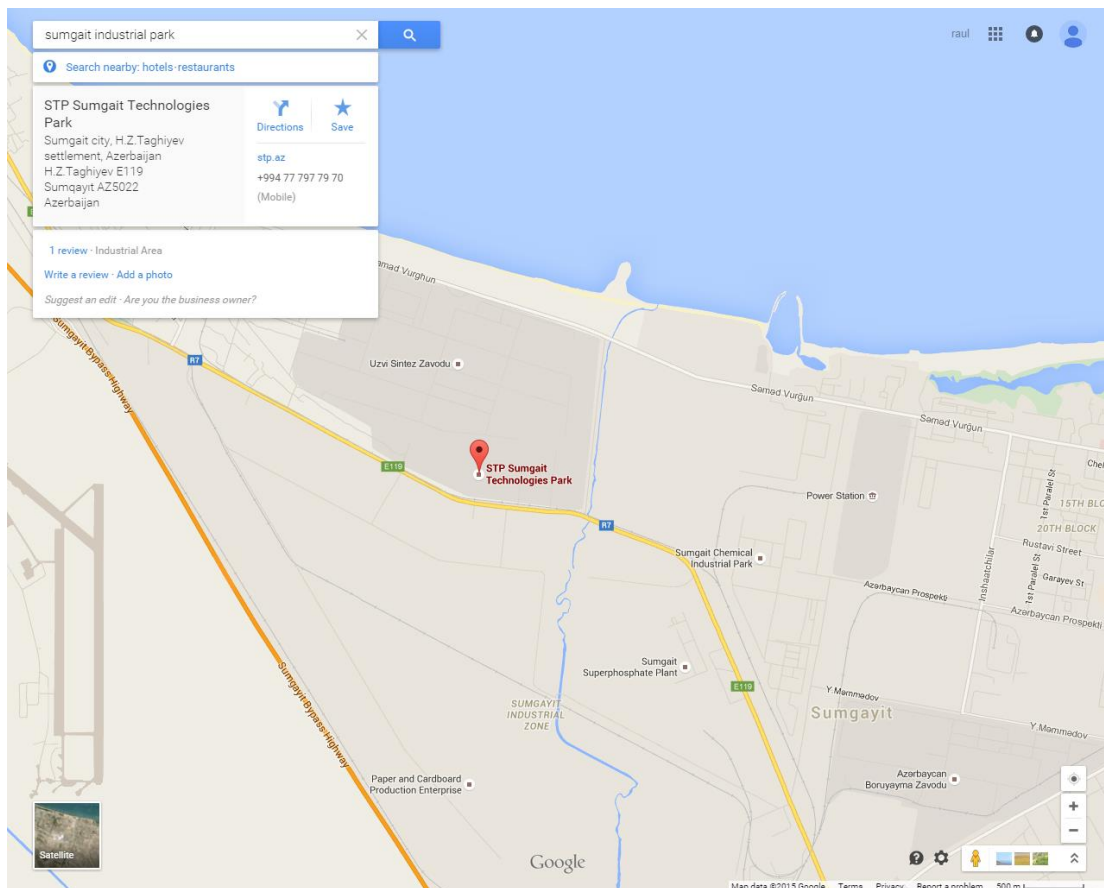
3) Project Description

To create an Oil and Air filter production facility in Sumgait Chemical Industrial Park. This is near the main inputs to the production process of a power station. Its strategic location on the Caspian Sea, and access to transport links (the Elat Sea Port, and Baku- Tbilisi-Kars railway), will give the proposed facility access to raw materials, and buyers in regional markets.

4) Location Description: Sumgait Chemical Industrial park

Sumgait Chemical Industrial Park.

The map below shows the park is close to a power station for the supply of cheap energy, has good transport links, and for the supply of raw materials.



Incentives: Residents of the park are exempt, for 7 years from property tax, land tax, corporate income tax and VAT on imported equipment for up to 7 years.

For more details see <http://www.scip.az/index.php?lang=en>

5) Marketing Strategy

Market Size: The regional market of Central Asia and the Caucasus is worth about US\$40Million. The market in Turkey is US\$124 Million.

Key Customers: The main consumer in Central Asia is Kazakhstan (importing US\$34 Million in 2015).

Key Competitors: The main regional supplier is Turkey.

Competitive Advantage of Azerbaijan: A key advantages for Oil and Air filter production in Azerbaijan is:

- 1) its proximity to the key customers of Turkey and Kazakhstan, through the opening of the Baku -Tbilisi-Kars railway,
- 2) access to large suppliers of cheap energy.

6) Production, Manufacturing Operations Overview

The production process will conform to ISO TC70 standards

7) Project Management and Organization Structure

The Project will be led by the Sumgait Industrial Park.

The proposed financial scheme and share distribution is negotiable. The project envisages the majority of the financing, and share ownership will be from the investor.

8) Project implementation schedule

The project will take up to 3 years to be realized/

Project Implementation				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Project Team				
Location review and acquisition				
Site operations construction				
Asset and Equipment Procurement				
Asset Testing				
Marketing				

9) Estimated Budget and balance sheet

The assets focus on the capital expenditure for equipment, whilst the main liabilities relate to energy costs.

Oil and Air Filter Estimated Project Balance Sheet			
	Year 1	Year 2	Year 3
Assets US\$ Million			
Cash	1	1	1
Land	1	1	1
Building	2	2	2
Equipment	21	21	21
Total Assets			

Liabilities	0	0	0
Owners Equity	25	25	25



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