



Министерство промышленности и энергетики
Удмуртской Республики



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Izhevsk Motorcycle Production Revival The Concept

The Ministry of Industry and Energy of the Republic of Udmurtia
Kolesnikov, Sergey I.
Phone: +7 (3412) 935 475
ksi.minprom@gmail.com

Address by the Minister of Industry and Energy of the Udmurt Republic

Dear investors,

The Udmurt Republic has a long history of motorcycle production in Izhevsk. First motorcycles of the Izh brand were produced in 1929. However, there was no large-scale motorcycle production in Udmurtia (only prototypes were manufactured in small quantities) until 1946, when it was launched at the Izhevsk Machine Building Factory (Izhmash), and was a big step forward in this area. Izhmash was selected due to a well-developed machine building industry in Udmurtia, vast experience and high skill of Izhevsk workers, and the proximity of supplies of raw materials. The local school of motorcycle design was born simultaneously. With time Izhevsk became the principal manufacturer of motorcycles in the Soviet Union. By late 1970s its assembly lines released up to 350 thousand motorcycles per year. Its family of motorcycles — Izh-Yupiter, Izh-Planeta and Izh-Planeta-Sport won well-deserved universal recognition. The line of Izhevsk motorcycles included sporting motorcycles designed for on-highway and cross-country races.

In spite of its significant achievements in motorcycle design and manufacturing, the Izh-Moto plant had to discontinue production in 2008 (due to an unfavorable situation in the economy), close down its production facilities for an undetermined time and sell equipment to obtain money to pay for its debts.

However, today the Udmurt Republic is still sincerely interested in the revival of motorcycle production under a brand universally known both in Russia and abroad.

We have reasons to hope for a success of this endeavor: the Udmurt Republic has retained its highly skilled workforce, while market data demonstrate a significant growth in the demand for such products (motorcycles, snowmobiles, quadricycles, lawn mowers, snow blowers, etc.).

The Udmurt Republic, in its turn, is ready to grant a most favored status to the motorcycle revival production in Izhevsk project.

Oleg Radionov

Minister

History of Motorcycle Production in Izhevsk

Motorcycle production in Izhevsk was started thanks to Pyotr Mozharov. A highly talented engineer and a motorcycle enthusiast, Mozharov, in fact, became the organizer of mass production of motorcycles in the Soviet Union.

In the spring of 1928 Mozharov officially put forward a proposal the motorcycle production be organized at Izhevsk Steel Factory. Soon a motorcycle design bureau headed by Mozharov was established at factory. First Izhevsk motorcycles were designed, manufactured and tested under his guidance.

In 1932 a special commission for motorcycle production was established with the People's Commissariat for Heavy Industry. According to an order issued by the commission, Izhevsk Motorcycle Plant was to be launched on the basis of pilot workshops of the Izhevsk Steel Factory, where the first Izh-1 and Izh-2 models had been assembled. As soon as in 1933 the plant began to manufacture the Izh-7 model — in fact, it was a version of the German L-300 improved by Mozharov. Some units still exist today.

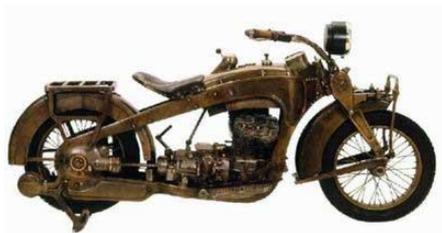
Mass production of motorcycles started in 1946, at the Izhmash. Immediately after the Second World War, in 1945, a motorcycle design and technology group was formed in Izhevsk. Soon, drawings and manufacturing documentation for the DKW NZ 350 motorcycle were brought there from Germany, and, with practically no alterations, its production was started under the brand name of Izh-350. After a serious modernization the motorcycle was named Izh-49.

And then Izhevsk became the principal manufacturer of motorcycles in the Soviet Union. By late 1970s its assembly line could deliver to 350 thousand motorcycles per year. Later production of sporting motorcycles began for on-highway and cross-country races.

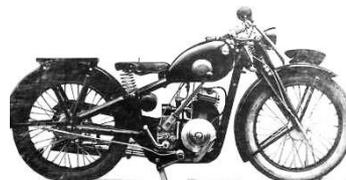
The Izh brand won universal recognition with the appearance of the family of “Izh-Yupiter”, “Izh-Yunker”, “Izh-Planeta” and “Izh-Planeta-Sport” motorcycles.

Today, when the market offers to motorcycle fans products of leading world manufacturers, Russian motorcycles with their inferior parameters and design can hardly compete with them. However, Izhevsk motorcycles known for their relatively low price, simplicity of design and easy availability of spare parts, are still favored by the people.

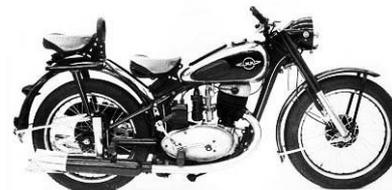
Model Line History (Basic Models)



Izh-1 designed by Pyotr Mozharov



Izh-9



Izh-49



Izh-56



Izh-Planeta-Sport



Izh-Yupiter



Izh-Yunker

Prerequisites for Motorcycle Production

- The market of motorcycle-class machinery in Russia has demonstrated significant growth rates. In 2011 the volume of sales grew 73%, in 2012 —56%. However, the growth rates have occurred mostly due to an increase in the import of such vehicles. Overall increase of sales over seven years amounted to over 9 times, with average growth volume of 38%.
- This happens due to the growth of Russian population's disposable income, and the potential of consumer demand. Transportation problems in large cities are a factor supporting this trend.
- Russian producers account for about 13% of the total market volume in Russia, the principal model being the Ural motorcycles manufactured at the Irbit Motorcycle Plant. Only 6% of motorcycles manufactured in Russia are sold abroad.
- Growing demand for lawn mowers, snow blowers, etc. can significantly support the development of motorcycle production.

15 cities with population over 1 million

Москва (11,6 млн. чел.)
 С.-Петербург (4,95 млн. чел.)
 Новосибирск (1,5 млн. чел.)
 Екатеринбург (1,38 млн. чел.)
 Н.-Новгород (1,25 млн. чел.)
 Самара (1,17 млн. чел.)
 Казань (1,16 млн. чел.)
 Омск (1,16 млн. чел.)
 Челябинск (1,14 млн. чел.)
 Ростов-на-Дону (1,1 млн. чел.)
 Уфа (1,07 млн. чел.)
 Волгоград (1,02 млн. чел.)
 Пермь (1,0 млн. чел.)
 Красноярск (1,0 млн. чел.)
 Воронеж (1,0 млн. чел.)

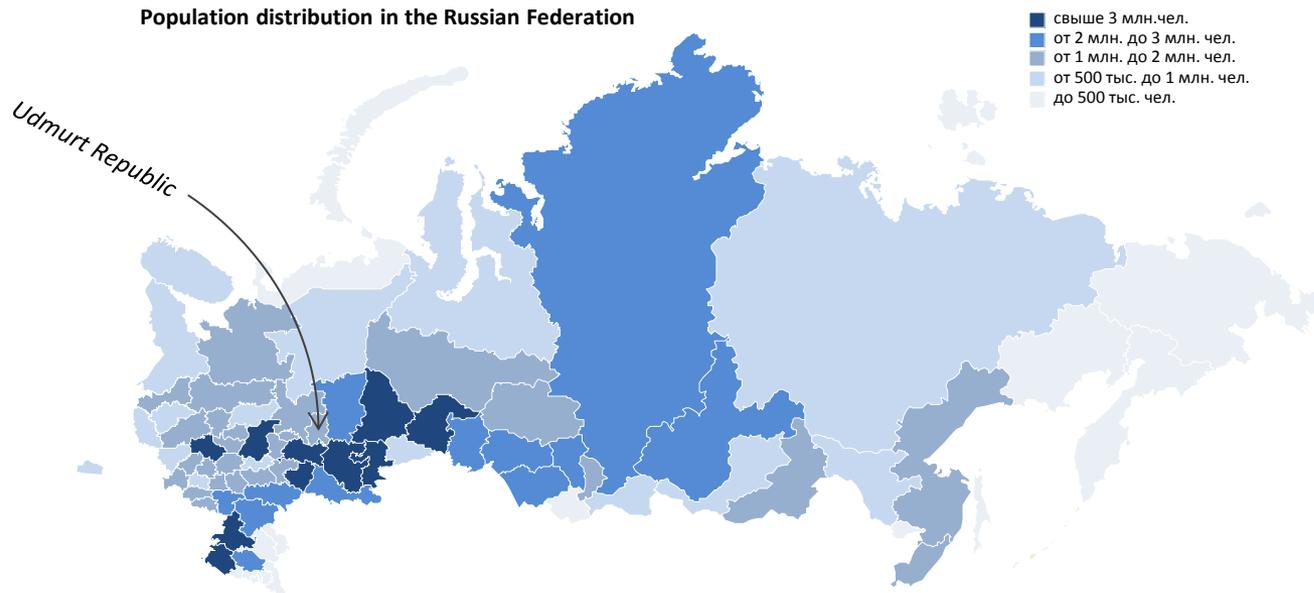
22 major cities, from .5 to 1 million citizens

Саратов (836,9 тыс. чел.)
 Краснодар (763,9 тыс. чел.)
 Тюмень (719,6 тыс. чел.)
 Ижевск (629,5 тыс. чел.)
 Барнаул (621,7 тыс. чел.)
 Ульяновск (614,4 тыс. чел.)
 Тюмень (609,7 тыс. чел.)
 Иркутск (606,1 тыс. чел.)
 Владивосток (597,5 тыс. чел.)
 Ярославль (595,2 тыс. чел.)
 Хабаровск (585,6 тыс. чел.)
 Махачкала (574,3 тыс. чел.)
 Оренбург (554,7 тыс. чел.)
 Новокузнецк (549,6 тыс. чел.)
 Томск (539,2 тыс. чел.)
 Кемерово (536,3 тыс. чел.)
 Рязань (525,9 тыс. чел.)
 Астрахань (525,4 тыс. чел.)
 Пенза (520,0 тыс. чел.)
 Наб. Челны (516,6 тыс. чел.)
 Липецк (516,6 тыс. чел.)
 Тула (501,1 тыс. чел.)

37 large cities, from 250 to 500 thousand citizens

91 large cities, from 100 to 250 thousand citizens

Population distribution in the Russian Federation



Concept



Competency in a joint venture in the Udmurt Republic



Proposal:

- Revival and further development of motorcycle production in Udmurtia jointly with an international motorcycle manufacturer.

Project's basic parameters:

- First stage: organization of production, in a short time, as a CKD assembly, acquisition of state-of-the-art technologies and finished product, establishment and development of cooperation ties;
- Second stage: revival of the Izh brand and creation of a model line, with an option of transferring all rights to the foreign partner;
- Third stage: joint promotion of the revived Izh brand at the international market.

Production volume: 50-100 thousand units per year.

Sales volume: to \$90 mln per year.

Marginal profitability, GP/VC — to 250%, where GP is gross profit; VC is variable cost.

Advantages:

- Localization of a company's own production in Russia, in the conditions of a dynamically developing international market;
- Optimization of operations;
- Economy of time and resources;
- Distribution of joint efforts by most appropriate capacity areas.