



Kalashnikov Group to sell 49% stake to private investors

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Press Release

Rostec has proposed selling a 49% stake in Kalashnikov Group to private investors. At the same time the state corporation will retain a controlling stake of 51% of shares. Andrei Bokarev, President and Co-owner of Transmashholding, and Aleksey Krivoruchko, CEO of Aeroexpress and a member of the Board of Directors of Transmashholding, have come forward as investors. The deal amounts to RUB 2.5 billion.

In accordance with the development strategy for the small arms sector lasting until 2020, which has been developed by Rostec together with the Ministry of Industry and Trade, Kalashnikov Group will be responsible for the full product lifecycle from design to disposal. It will also carry out research and development work to create advanced weapon systems. According to the strategy, revenue from the sale of small arms is anticipated to grow by four times to RUB 24 billion, the production of small arms is predicted to grow three times to 1.9 million units per year, and labor productivity is predicted to grow three times to RUB 2.5 million per person.

To implement Kalashnikov Group's strategy, RUB 3.6 billion will be required, 2.5 billion of which will be raised from the private investors Andrei Bokarev, President and Co-owner of Transmashholding as well as Co-owner of Ural Mining and Metallurgical Company, and Aleksey Krivoruchko, member of the Board of Directors of Transmashholding.

“Public-private partnership is an effective model for reforming Russian industry, and it allows for implementing large-scale projects,” said Sergey Chemezov, CEO of Rostec. “In addition to investments, it is especially important to attract investors who have both market expertise along with a responsible attitude to the purchased assets. Since Kalashnikov Group is a strategic company, the main condition was that the deal needed to be absolutely transparent. The new strategy adopted by the corporation will place Kalashnikov on the path of sustainable development. At the same time the state, as represented by Rostec, will retain a controlling interest in the corporation, which is essential to maintaining a balance of commercial and public interest in the enterprise.”

The corporation plans to issue additional stock in order to complete the deal, so that investors' funds can be invested directly into Kalashnikov's authorized capital and contribute to the company's development. In accordance with the terms of the deal, the investors will use their own funds and loans to buy 49% ownership of Kalashnikov Group for RUB 2.5 billion. To achieve this goal, the investors will create a joint venture in which investor ownership will be split 50/50. The amount of RUB 2.5 billion will be invested over the first two years, with RUB 1.3 billion to be invested in the authorized capital immediately. These funds will be used, among other things, to pay off debt as well as to pay the corporation's loans. Rostec has invested RUB 1.2 billion in Kalashnikov Group over the last two years. An independent evaluation of Kalashnikov Group will be completed by the end of October.



Rostec

"The Russian small arms industry has great potential, but in order to realize it we need significant resources and managerial competence," noted co-investor Andrei Bokarev. "Our decision to invest in the Kalashnikov Group was primarily due to financial motivations. We already have experience in creating financially successful hi-tech machine-building companies, and we are ready to apply these competencies to the development of Kalashnikov Group."

The deal to sell a 49% stake to private investors was approved by the Ministry of Industry and Trade, and it has also won the support of Vladimir Putin during his recent meeting with Sergey Chemezov at a presentation by Kalashnikov Group.

Andrei Bokarev and Aleksey Krivoruchko have extensive experience in the arms manufacturing industry. Transmashholding has fulfilled a number of contracts for the Ministry of Defense, including those for the production of "Shilka" self-propelled anti-aircraft weapon systems, tractors, as well as "Thor", "Buk", and "Tunguska" crawler chassis. The company also manufactures diesel engines for submarines, railway platforms for mobile missile systems and shipping containers for missiles.

In 2010, state-owned Rostec was actively engaged in resolving the problems of NPO Izhmash when the Russian small arms industry was in deep crisis. At that time enterprises faced severe financial difficulties and suffered due to a lack of modern technology. Izhmash had an opaque and cumbersome management system: it consisted of 32 legal entities, some of which were in offshore jurisdictions. It relied on illegal methods for withdrawing funds. The company was on the verge of bankruptcy.

The creation of the Kalashnikov Group was the systematic result of a financial crisis bailout program developed under the leadership of Sergey Chemezov. In addition to Izhmash, the corporation includes Izhevsk Mechanical Plant, Vyatsko-Polyansky Engineering Plant Molot, Koshkin Automatic Lines Design Bureau and NITI Progress.

The Kalashnikov Group is an association of the largest companies in the Russian small arms industry, which are subsidiaries of the Rostec State Corporation. The corporation was founded on the basis of Izhmash, Izhevsk Mechanical Plant, Vyatsko-Polyansky Engineering Plant Molot, Koshkin Automatic Lines Design Bureau (Klimovsk) and NITI Progress (Izhevsk). The corporation is the largest Russian manufacturer of military-grade automatic and sniper weapons as well as guided artillery shells. It also produces a wide range of civilian products, including hunting rifles, sporting rifles, machine tools and tools.

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