



SOCAR'S STRATEGY

ACG, Shah Deniz and beyond...
April, 2017



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Famous Azerbaijan Oil Firsts...



Azerbaijan

A central hydrocarbon producing region since beginning of oil production age. In late 19th century the country produced half of the world's consumption of oil. Azerbaijan's oil production during World War II was crucial to the victory of the Soviet Union over Nazi Germany.

SOCAR

Founded during the Soviet period under various different names. In September 1992, SOCAR was established by the independent Republic of Azerbaijan.

Our vision

is to become a vertically integrated international energy company based on advanced experience in operation efficiency, social and environmental responsibility.

Famous Azerbaijan Oil Firsts...



- First oil well in the world was drilled in 1848 in Baku in Bibi Heybat oil field
- In 1900 Azerbaijan produced more than 50% of world's oil = 11.4 million tons
- In 1897-1907 the 1st largest oil pipeline in the world was built from Baku to Batumi (883 km x 200mm)
- First oil tanker Zoroaster by Branobel Company owned by Ludvig and Robert Nobel was built in 1885 and delivered to the Caspian Sea
- About 80% of oil used during WW II by the USSR was produced in Baku (peak production – 23.5 million tons in 1941)
- First offshore oil production in the world started in Azerbaijan (1924 – Bibi Heybat seaside, 1949 – Oily Rocks – in open sea)

Company Strategic Goals



Maintain position as the leading oil and gas company in Azerbaijan and a key regional player, and become an international oil and gas group with vertically-integrated upstream, midstream and downstream operations.

Through focus on the following priorities:

- Keep stable flow of crude oil production
- Increase production and exports of natural gas
- New infrastructure development and upgrade, modernization and efficient use of existing infrastructure
- Increase and consolidate domestic and regional downstream refining, marketing and petrochemical activities
- Enhance the efficiency of operations
- Increase international activity through expansion of SOCAR's investment portfolio and geography of operations
- Diversification of consumer markets and export transportation routes
- Contribution to the development of Southern Energy Corridor
- Contribute further to the Republic of Azerbaijan's economic development

Factors affecting strategy



- Long term view: the oil and gas industry works in long term price cycles lasting decades:
- Contract of the Century was signed in 1994 : oil price averaged \$12
- BTC pipeline and the South Caucasus natural gas pipeline became operational in 2006: oil averaged \$60
- December 2013, sanctioning of the Southern Gas Corridor: oil price was at \$92
- 220 bln USD invested in Azerbaijan Oil and Gas Industry since 1995
- All Azerbaijani oil and gas projects have been extremely profitable for investors, despite the swings in the oil price
- Azerbaijan's unique geography:
 - Out of 47 landlocked countries in the world, Azerbaijan is one of the only few with substantial oil and gas reserves, so multiple pipelines is the artery for the country

SOCAR's Business Strategy



- “Above the ground” conditions are SOCAR’s comparative advantage:

There is oil and gas in many locations around the globe, but the energy producing regions that are successful over long periods of time are those that possess conducive regulatory frameworks.
- Strong commitment to sanctity of contracts.

Azerbaijan has never attempted to revised conditions of any of the PSAs it has signed.
- Azerbaijan’s parliament adopted these PSA’s as part of national legislation

The structure of PSA’s encouraged foreign companies to come to Azerbaijan, in contrast to many other places where IOCs cannot book volumes.
- Energy as a tool for cementing partnerships but not for creating or exploiting dependence:

Never in its history has Azerbaijan attempted to use energy for other purposes.

CONTRACT OF THE CENTURY



The Production Sharing Agreement signed in September 20, 1994 in Baku by the Government of Azerbaijan and a consortium of 11 foreign oil companies from six nations initiated a rapid period of development which has transformed the country into a major global energy supplier and changed the energy map of Europe. This contract became known as The Contract of the Century, as it represented the first major investment by Western multinational companies in any country of the former Soviet Union in 20th century.

- The contract covered the development of an area that covered three major oil fields in the Azerbaijan sector of the Caspian Sea – Azeri, Chirag and Deepwater portion of the Gunashli field (ACG) containing more than 10 billion barrels of recoverable oil reserves
- Investment in ACG had reached more than \$30 billion by the end of 2016
- More than 400 wells drilled and 1600km of subsea pipelines laid since 1994
- ACG produced a total of 4 billion barrels of oil production since first oil in 1997
- Negotiations to extend the duration of the ACG PSA are ongoing



BTC

- In 2006, the BTC pipeline began operation: supplies oil from landlocked Azerbaijan through Georgia and Turkey, ending in Turkey's Mediterranean port of Ceyhan.
- Landlocked geography makes oil export more complicated than sea abutting state, so multiple pipeline strategy to diversify and lower dependence on a single transit state.



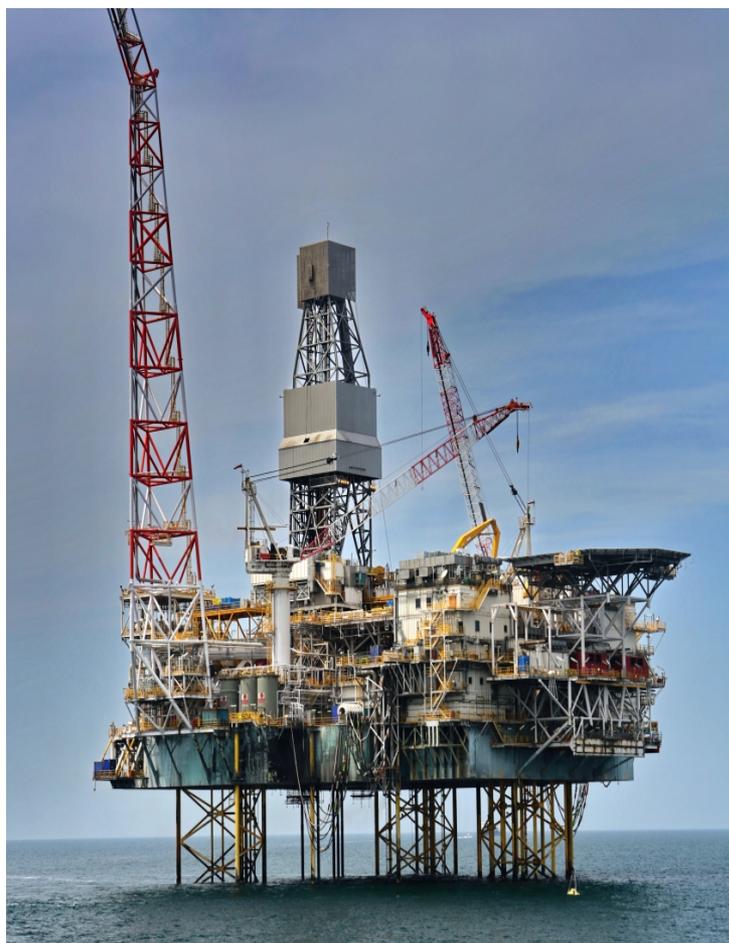
Shah Deniz – Securing Azerbaijan’s robust position as an international gas supplier



Current annual production:

Gas – over 10 billion cubic meters

Oil – over 2.5 million tons



- 1999 Discovery of Shah Deniz one of the largest gas condensate fields in the world.
- The FID on the Shah Deniz 2 took place in December 2013
- In 2006 South Caucasus Pipeline “Baku-Tbilisi-Erzurum” become operational and Azerbaijan evolves from gas importer to gas exporter.
- World-class reservoir with 6,000meters depth below sea level
- 14,000 psi reservoir pressure with technology available limit of 15,000 psi (*imagine balancing the Eiffel Tower on the roof of the car – that is what 14,000 psi looks like*)
- Deepest exploration well drilled in the Caspian –7,300 meters
- 4,000 km to the destination point of the final product
- Additional 16 billion cubic meters of annual production coming on stream at the end of 2018 with the commissioning of Shah Deniz Bravo platform (2nd phase of development of Shah Deniz field) – delivering gas to Azerbaijan’s internal market, Georgia, Turkey and South Eastern Europe

2000s: Gas production and export



Since 2006 Azerbaijan has proved to be a reliable regional supplier of gas

Instead of selling to local markets, SOCAR decided to embark on a “mega project” to export gas to the Europe

- A project that transits 7 countries
- Deals with six regulatory systems
- Involves 12 investing companies
- Includes 12 gas buyers
- Costs 40 (45) billion dollars

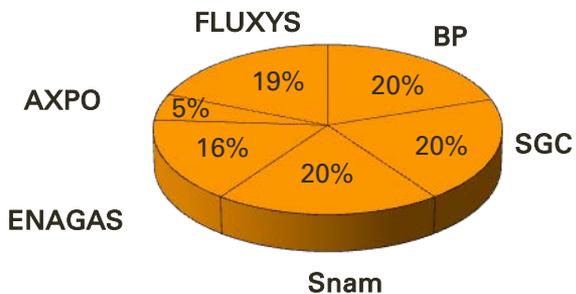
New gas supply for Europe

- A superhighway that can facilitate the transport of gas from different sources, not only Azerbaijan but also Central Asia, Iraq, and East Med
- Can reach additional markets in Europe, such as the Balkans
- Built with double the capacity and can be scaled up
- The first project in decades to introduce new gas supplies into Europe rather than simply re-routing existing supplies, thus diversifying sources

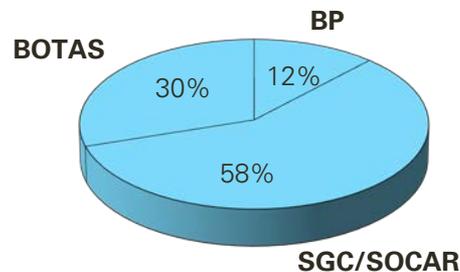
The Southern Gas Corridor



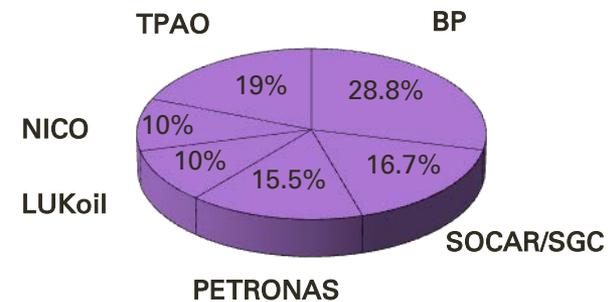
Trans-Adriatic Pipeline (TAP)



Trans-Anatolian Pipeline (TANAP)



Shah Deniz 2 and SCP Expansion (SCPX)



Azerbaijan and European Energy Security



- As part of the SD 2 FID decision, Azerbaijan extended the PSAs on the Shah Deniz field to 2048
- This together with the extension of ACG lengthens the presence and involvement of major International companies in Azerbaijan
- SOCAR is engaging in connecting “energy islands” to the center of Europe
- There is a large security of supply gap between Europe’s center and its periphery and this project aims to enhance the security of the more vulnerable markets.
- It is a historic choice for Azerbaijan and the Caspian because it will for the first time connect the resources of the land locked region directly to the heart of Europe.

Thank You



SOCAR