



# Southern Gas Corridor

Delivering Azerbaijani Gas to Europe

# Overview of the Southern Gas Corridor

- The SGC Project is one of the world's largest gas sector developments with an estimated investment cost of US\$46 billion, with current reserves of approximately 1.2 trillion cubic meters of natural gas and 2.2 billion barrels of condensate according to BP.
- The Project includes the expansion of gas production in Azerbaijan's Shah Deniz field by 16 bcma and the extension of the pipeline network by 3,167km, linking Caspian Sea gas fields with the European markets.
- SGC will play a key role in diversifying the EU's energy sources by linking Europe to Azerbaijani gas, and potentially other producers in the Caspian Sea. The strategic importance of SGC is underlined by the EU's designation of the Trans Adriatic Pipeline segment as a "project of common interest".
- The Republic of Azerbaijan and its strategic partners have extensive experience in building and operating large scale upstream and infrastructure projects such as the Baku-Tbilisi-Ceyhan Pipeline.

# Overview of the Southern Gas Corridor (Cont.)

## Southern Gas Corridor Projects Overview



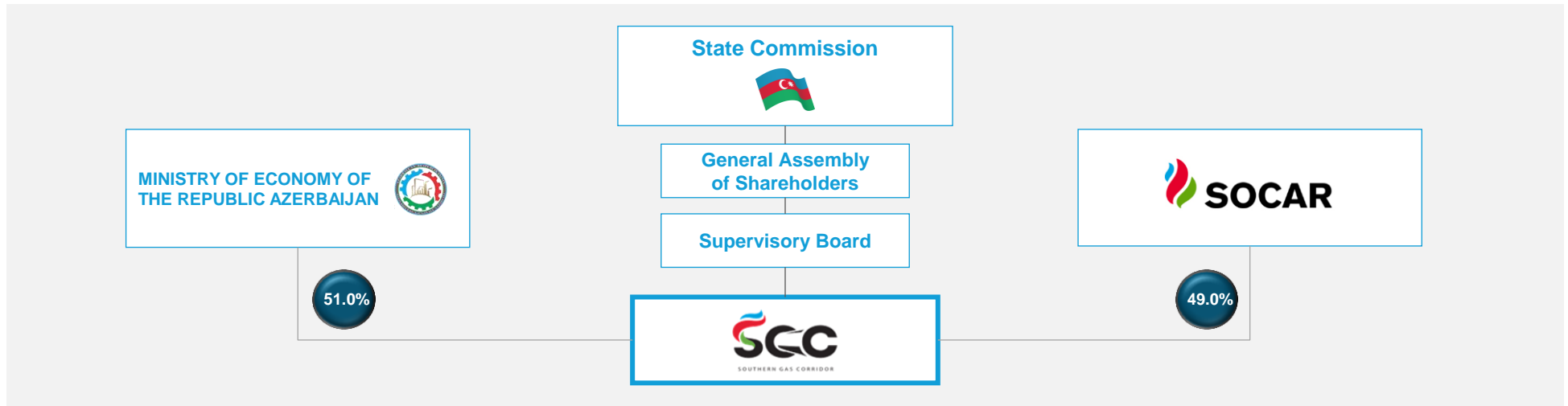
### *The Southern Gas Corridor Consists of 4 Projects*

- 1 The Shah Deniz gas-condensate field ( Stage 1 “SD1” & Stage 2 “SD2”)
- 2 The South Caucasus Pipeline (“SCP”) and its Expansion (“SCPX”) through Azerbaijan and Georgia to Turkey
- 3 The construction of the Trans-Anatolian Pipeline (TANAP) through Turkey to Greece
- 4 The construction of the Trans-Adriatic Pipeline (TAP) through Greece, Albania and the Adriatic Sea to Southern Italy

# SGC Relationship with the State of Azerbaijan

- Southern Gas Corridor CJSC (“SGC”) was created under the terms of a Presidential decree as the vehicle to consolidate, manage and finance the country’s interests in Shah Deniz, South Caucasus Pipeline (SCP), Trans-Anatolian Pipeline (TANAP) and Trans-Adriatic Pipeline (TAP).
- The Republic of Azerbaijan, through the Ministry of Economy owns 51% of SGC’s equity. The remaining 49% is held by the State Oil Company of Azerbaijan Republic (SOCAR), which is itself wholly-owned by the Republic of Azerbaijan.
- The government exerts oversight and control of the company through the State Commission, the Assembly of Shareholders and the Supervisory Board.
- In accordance with the Presidential decree, SOCAR is vested with operational management of the entire value chain on behalf of SGC.

## Ownership Structure & Government Control





# SGC Relationship with the State of Azerbaijan (Cont.)

## Legal Status

- Southern Gas Corridor CJSC was incorporated in March 2014, pursuant to a Presidential decree dated February 25th, 2014

## Description of the State Commission

- The State Commission was established following a decree signed by the President in October 2013 with the purpose of overseeing and providing state support to the Southern Gas Corridor Projects

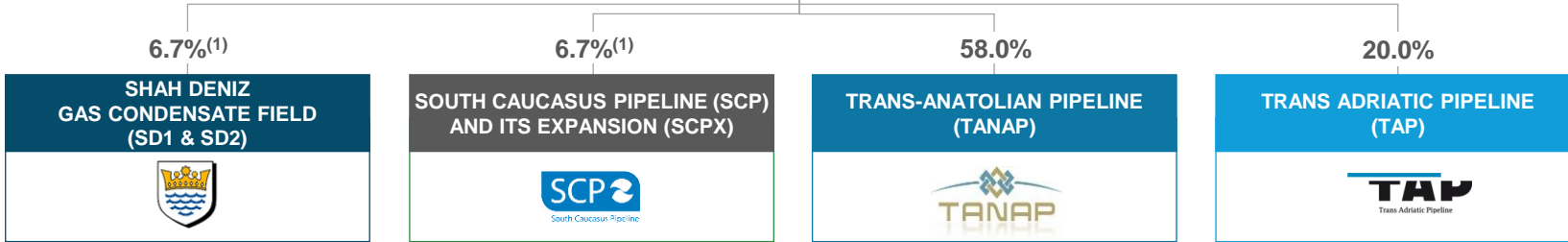
## Members of the State Commission:

- **Chairman:** *The First Deputy Prime Minister*
- *The Assistant to the President of the Republic of Azerbaijan, Deputy Head of the Presidential Administration of the Republic of Azerbaijan*
- *The Minister of Energy*
- *The Minister of Economy*
- *The Minister of Finance*
- *The Minister of Ecology and Natural Resources*
- *The President of the SOCAR*
- *The Executive Director of the State Oil Fund of the Republic of Azerbaijan*

## Members of the Supervisory Board

- **Chairman:** *The First Deputy Prime Minister*
- *The Minister of Energy*
- *The Minister of Economy*
- *The President of SOCAR*
- *The Executive Director of the State Oil Fund of the Republic of Azerbaijan*

# SGC Project Components



## KEY CHARACTERISTICS

- Total estimated reserves: 1.2 tcm of gas and 2.2 billion barrels of condensate
- SD1 processing capacity: **10 bcma**
- SD2 will expand production by another **16 bcma**
- SD2 project costs 2014 - 2019: US\$20.5 billion

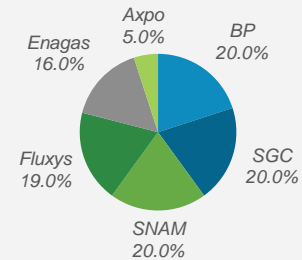
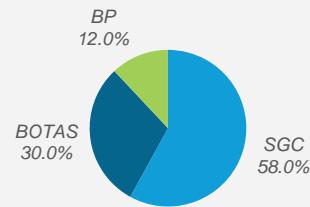
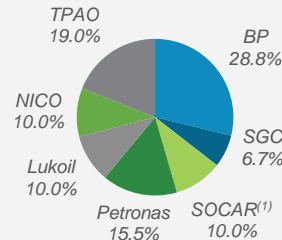
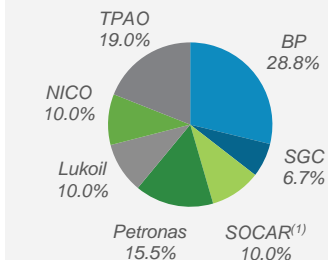
- SCP started gas deliveries to Georgia and Turkey 2006. Current capacity: **7.4 bcma**, length: **692 km**
- SCPX will expand capacity to **23.4 bcma** through a new pipeline that runs alongside SCP for **487 km**
- SCPX total project costs 2014 - 2019: **US\$4.9 billion**

- Capacity: Initial **16 bcma**, expandable to **31 bcma**
- Length: **1802 km**
- Operation start: 2018
- Total project costs 2014 - 2019: **US\$9.3 billion**

- Capacity: Initial **10 bcma**, expandable to **20 bcma**
- Length: **878 km**
- Operation start: 2020
- Total project costs 2014 - 2019: **US\$6.0 billion**
- Will have “**physical reverse flow**” features, allowing gas from Italy to be diverted to South East Europe if needed

## KEY CHARACTERISTICS

## SHAREHOLDING STRUCTURE



## SHAREHOLDING STRUCTURE

# SGC Project Progress & Timeline

## SHAH DENIZ GAS CONDENSATE FIELD (SD1 & SD2)



- SD1 began gas production in 2006 following 7 years of development
- SD2 milestones achieved:
  - Yard upgrades and commencement of fabrication of decks, jackets and subsea equipment
  - Major engineering, construction and supply contracts have been awarded and work has been started
  - 9 out of the 26 gas production wells have already been drilled
- Initial gas exports scheduled in **2018** (Turkey) and **2020** (Europe)
- Development and production timeframe is 40 years, with potential 12-year extension

## SOUTH CAUCASUS PIPELINE (SCP) AND ITS EXPANSION (SCPX)



- SCP project was launched in 2004 and rapidly completed in 2006. First gas delivered to Azerbaijan and Georgia in 2006, to Turkey in 2007
- SCPX milestones achieved:
  - Land for the first 200 km in Azerbaijan right of way acquired, construction of Compressor Station 1 in Georgia commenced, stockpiling of pipes at the first pipe storage yard completed
  - Major contracts awarded and work already started. Commencement of pipe-laying in Azerbaijan and Georgia
- First gas through SCPX targeted late **2018**

## TRANS-ANATOLIAN PIPELINE (TANAP)












- October 14th, 2014: signature of 4 line pipes procurement contracts totalling US\$1.5 billion
- December 23rd, 2014: signature of 3 construction contracts totalling US\$1.9 billion
- March 2015: signature of the Shareholders Agreement; Construction begins in Kars, Turkey
- Commissioning expected to start in **2018**

## TRANS ADRIATIC PIPELINE (TAP)



- February 2013: signature of the Intergovernmental Agreement between Greece, Albania and Italy
- July 2013: TAP receives Third Party Access exemption
- December 2013: TAP shareholders take Resolution to Construct
- December 2015 & March 2016: key construction contracts awarded
- May 2016: groundbreaking ceremony and start of construction
- **2020**: start of operations

# SGC CJSC: Key Offtakers

OVERVIEW OF SHAH DENIZ II GAS BUYER	GAS PURCHASES (BCM PA)
 Shell Energy Europe Ltd	0.95
 GDF SUEZ SA (ENGIE)	2.64
 E.ON Global Commodities SE	1.44
 Gas Natural SDG, SA	0.99
 Hera Trading Srl	0.30
 ENEL Trade SpA	0.48
 BOTAS	6.00
 DEPA Public Gas Corporation of Greece SA	1.00
 Bulgargaz EAD	0.94
 AXPO	1.44
<b>Total</b>	<b>16.18</b>

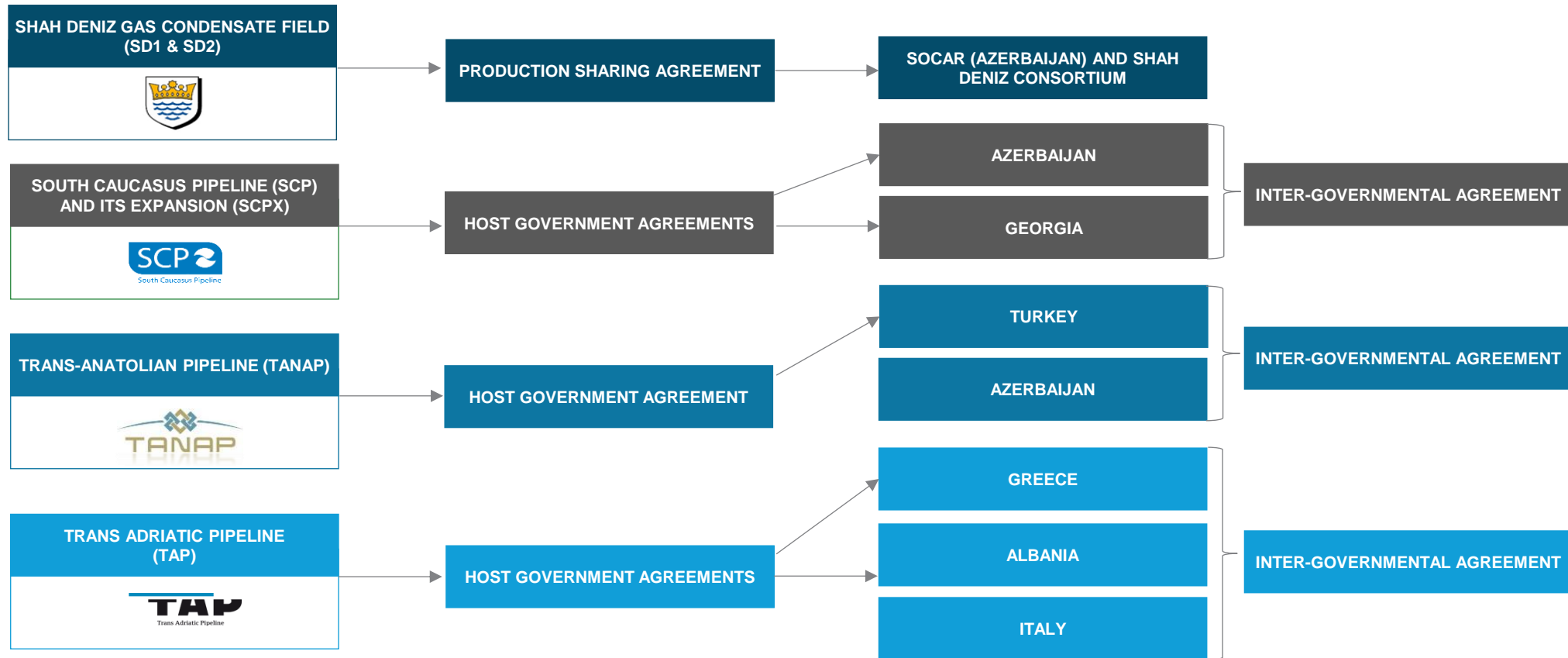
*Wholly or partially state-owned*

- In October 2011 Shah Deniz Consortium entered into a Gas Sales Agreement with BOTAS for delivery of around 6 bcma of gas to Turkey, followed by a conclusion of Gas Sales Agreements with 9 European buyers in September 2013. As a result, all 16 bcma of gas to be extracted as part of SD2 is contracted to be sold for a period of up to 25 years upon TANAP and TAP becoming operational.
- Gas Transportation Agreements linking the different sub-components of value chain and allowing Shah Deniz Consortium to ship gas from the shores of the Caspian to Italy has already been signed between a designated gas marketing entity of Shah Deniz Consortium with each of SCP, TANAP and TAP Project companies.
- SCPX and TANAP projects will contribute to securing gas supply in Turkey, while TAP project will enable direct access to the Italian and Greek markets. From there, Caspian gas can be further transited to Spain, France, Germany, Switzerland, and the United Kingdom by using existing pipelines and Bulgaria through a new interconnector between Bulgaria and Greece.



# Legal Framework

- The Projects are underpinned by a strong legal and contractual framework:



- Various Cooperation and Framework Agreements between the respective Project Companies and Operators are in place.
- In October 2013, TAP received PCI status from the EU Commission and EU member states. PCI status was reconfirmed in November 2015.
- TAP enjoys exemptions from certain provisions of the EU Gas Directive (2009/73/EC) which was granted by European Commission in 2013 and are valid for 25 years from the commercial operation date (2020):
  - Third Party Access (TPA) – Initial capacity of 10 bcma exempted from TPA. Expansion Capacity to be offered to the market.
  - Regulated Tariff
  - Ownership Unbundling – Subject to certification of TAP as Independent Transmission Operator (ITO) before start of construction (Obtained in April 2016 from national regulatory authorities of Greece, Albania and Italy).

# Financing of the SGC CJSC

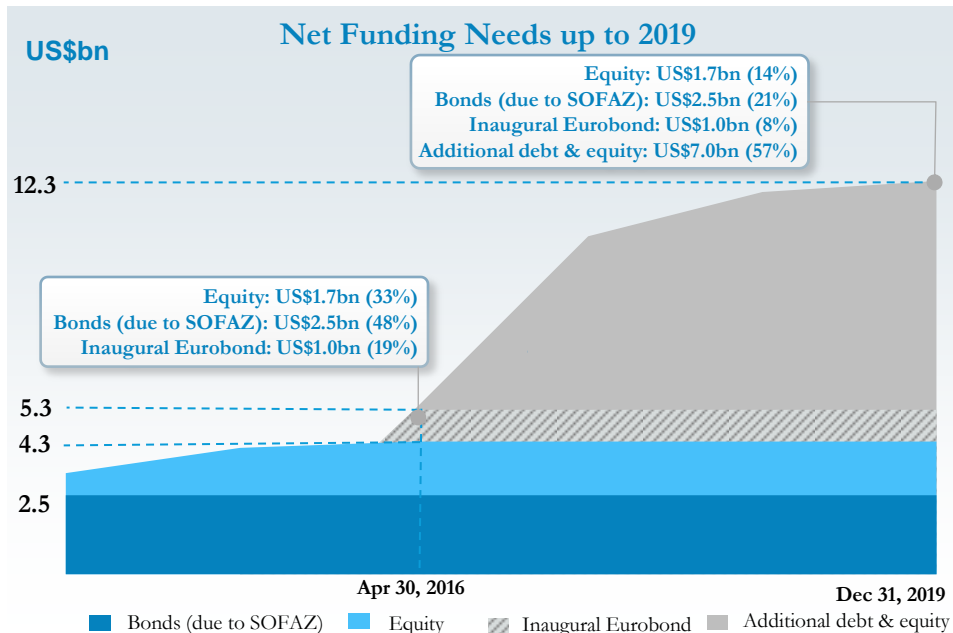
Total cost of constructing the Southern Gas Corridor is estimated to be US\$46 billion. SGC's share is US\$13.3 billion<sup>(1)</sup>, of which US\$4.7 billion has been spent as of 30 April 2016.

## Financing of The Projects

- SGC looks to finance its investments via the mixture of funding sources comprising of State, IFIs, Commercial Banks and Debt Capital Markets
- The debts associated with this financing will be senior unsecured and rank pari passu among themselves and with SGC's bonds due to SOFAZ
- The Republic of Azerbaijan, acting through its Ministry of Finance, will back the debt financing by providing an explicit sovereign guarantee.

## SGC Financing to Date

- As of 30 April 2016, the funding of SGC's stake in the Projects was carried out through three vehicles:
  - Issuance of bonds by SGC to SOFAZ, for a total amount of US\$2.5 billion
  - Equity injections from the Ministry of Economy and SOCAR for a total amount of US\$1.7 billion to date
  - Placement of an inaugural Eurobond in the amount of US\$1.0 billion in March 2016
- SGC is willing to raise debt financing to fund its committed capital investments to the Projects until 2019. The net funding need amounts to US\$7.0 billion.



## Net Capital Expenditures Schedule (US\$ Millions)

