



Azerbaijan Beyond Oil & Gas

14 November 2013



**PASHA
Bank**

Agenda

10:00

Opening remarks - **Farid Akhundov**, *Chief Executive Officer of PASHA Bank*

10:05

Azerbaijan and its investment opportunities - **Farid Akhundov**, *Chief Executive Officer of PASHA Bank*

10:30

EBRD's operations in Azerbaijan - **Neil McKain**, *Head of the EBRD's Resident Office in Azerbaijan*

10:50

Short Q&A

11:00

COFFEE BREAK

11:15

PASHA Bank as a gateway to Azerbaijan - **Farid Akhundov**, *Chief Executive Officer of PASHA Bank*

11:30

Azerbaijan's corporate climate - **Elshad Rasulov**, *Chairman of the Board at Atropatena* & **Farid Ismailzade**, *Founder and CEO of Golden Pay*

11:45

Panel: Will Azerbaijan ever be beyond oil and gas? - **Alex Nice**, *Editor/Economist, Economist Intelligence Unit*, **Neil McKain**, *Head of the EBRD's Resident Office in Azerbaijan*, **Farid Akhundov**, *Chief Executive Officer of PASHA Bank*, **Elshad Rasulov**, *Chairman of the Board at Atropatena*, **Farid Ismailzade**, *Founder and CEO of Golden Pay* and **Michael Lawrence**, *CEO of Asia House*

12:15

Closing remarks - **Charles Hendry**, *UK Trade Envoy to Azerbaijan*

12:30

LUNCH & NETWORKING

Azerbaijan: At a Glance

Key Facts:

- **Population: 9.37 million**
 - ❑ Rural - 47% and urban - 53%
 - ❑ Median Age: 29.5
 - ❑ Adult literacy level: 99.7%
 - ❑ University student numbers: 152 thsd (2012-2013)
- **Neighbouring counties:**
 - ❑ Armenia (west)
 - ❑ Georgia (north-west)
 - ❑ Russia (north)
 - ❑ Iran (south)
 - ❑ Turkey (south-west)

Country Ratings

- **Fitch: “BBB-” Stable (MAY’10)**
- **Moody’s: “Baa3” Stable (APR’12)**
- **S&P: “BBB-” Stable (DEC’11)**



President Reiterated Commitment to Diversify the Economy

- Ilham Aliyev was re-elected as President of Azerbaijan on 9 October 2013 for a third term with 84.6% of the vote
- The Parliamentary Assembly of the Council of Europe delegation “observed a free, fair and transparent electoral process”, although some international organisations expressed concern over the way the elections were conducted
- During his 10 year governance, Ilham Aliyev’s policies have been instrumental in securing European energy supplies, with the construction of the BTC pipeline of US\$ 3.9 bn among major achievements
- 1 million new jobs have been created in Azerbaijan during Ilham Aliyev’s governance*
- The average monthly salary increased 6.3 times between 2003 and 2012 to US\$502



*Trend.az, Evaluation of President Ilham Aliyev's 10-year activity - the "President of Decade" award fully reflects the reality, 14 July 2013

Economic Reforms Keep Steady Progress



Azerbaijan is:

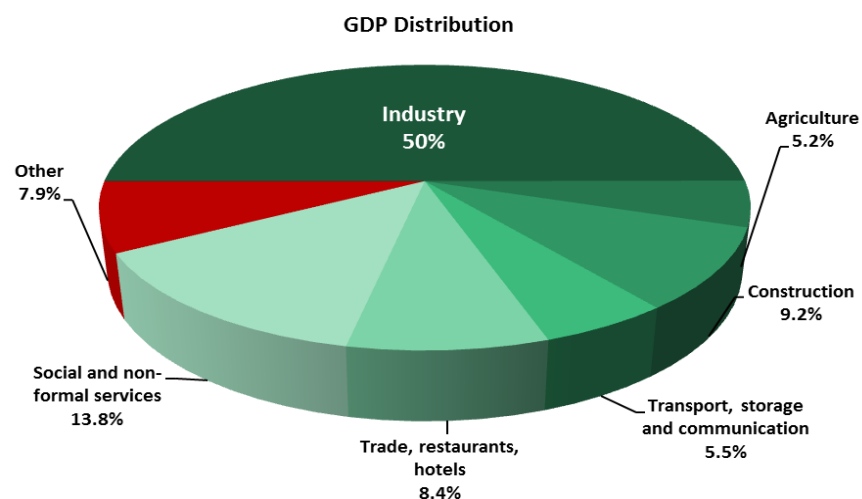
- **67th** among 185 countries in the WB Doing Business Report 2013 with upward dynamics
- **13th** among the 50 economies narrowing the distance to frontier the most since 2005

According to the WB Doing Business Report 2013

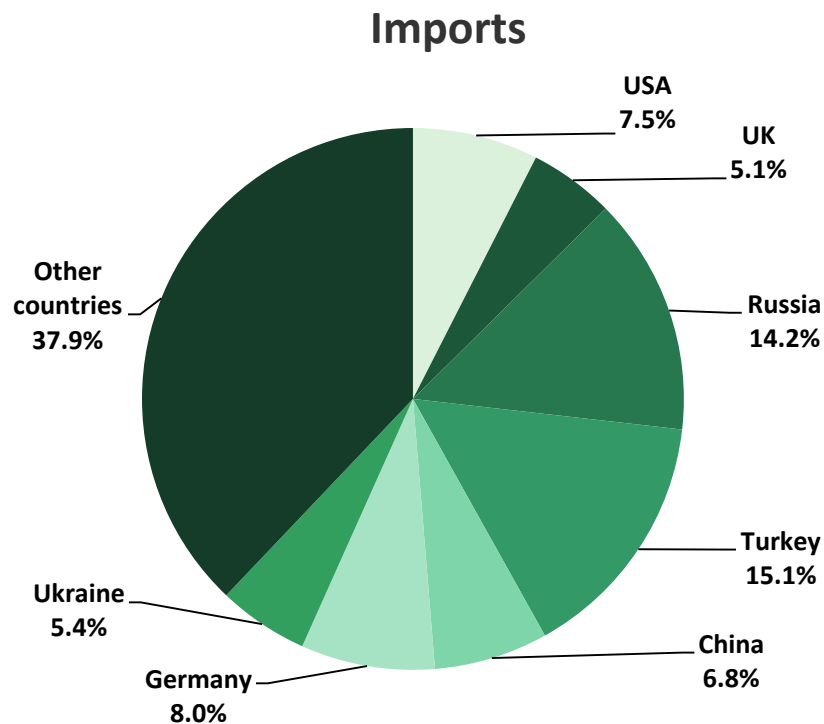
Macroeconomic Summary: Private Sector Share Increasing

- In FY12, GDP expanded 2.2% and reached US\$69.2 bn, while in 1H13, GDP grew 5.0%
- GDP per capita of US\$7,500 (2012) with more than 10-fold increase from 2001
- FDI totalling US\$46.8 bn from 1995 to 2012
- 15% increase in private sector investments
- External debt stood at US\$5.7 bn in FY12
- Global Competitiveness Report 2012-13 – 1st among the CIS countries for the fourth consecutive year
- Ease of Doing Business 2013 – ranks 70th out of 185 economies, outperforming the Russian Federation, which ranked 92nd

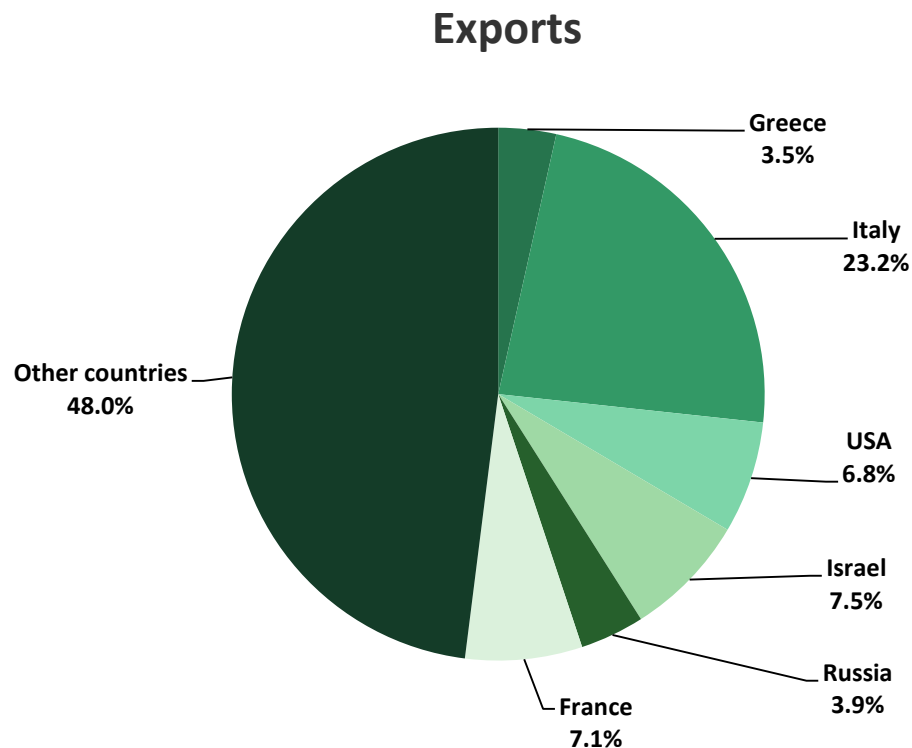
Investments (US\$,bn)	25.7
External debt	10.6% of GDP
Inflation	1.1%
Strategic currency reserves (US\$, bn)	46.0
Budget balance	+3.6% of GDP
Population income growth	13.8%
Unemployment	5.2%



Foreign Trade Shifts Away From Traditional Sources and Markets

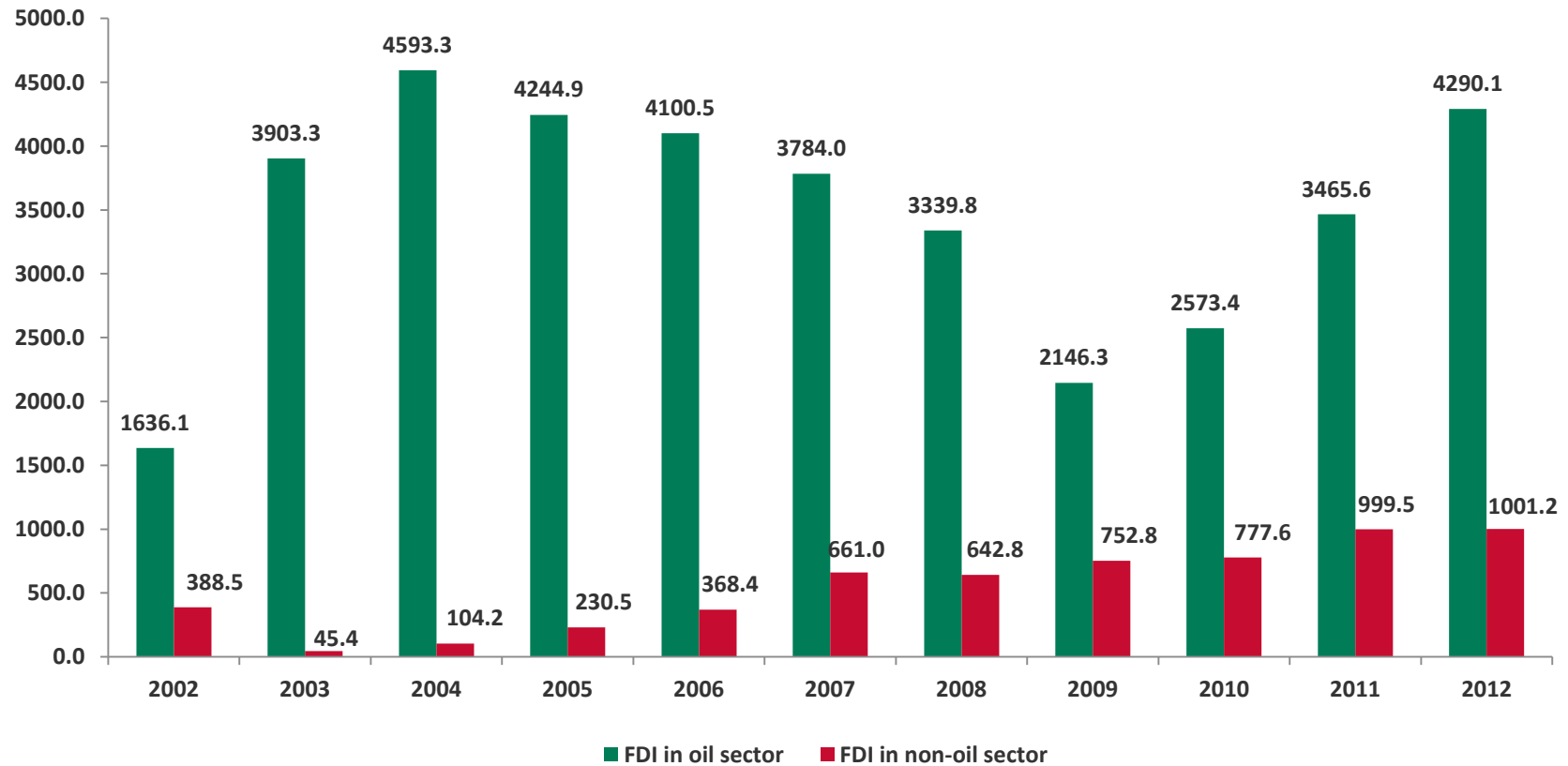


Imports (2012): **US\$9.6 bn**



Exports (2012): **US\$34.2 bn**

Foreign Direct Investment



- FDI in the non-oil sector has been increasing following the 2008 global financial crisis
- Oil FDI tends to exceed non-oil FDI due to the large capex involved in energy projects
- Non-oil FDI's share of total FDI has been steadily increasing over the years. Share of non-oil FDI in the total FDI was 18.9% in 2012, compared to 1.1% in 2003

Modern Silk Road: Times Change, Neighbours Remain

- Azerbaijan is one of 12 countries dedicated to reinstating the Silk Road route
- The TRACECA countries signed an agreement at a Baku summit in 1998 aimed at facilitating the development the Europe-Caucasus corridor
- The modern Silk Road is set to transform Azerbaijan into a major international trade hub, connecting Asia to Europe
- A new port is already being built in Alat (70km southwest of Baku) to replace Baku’s ageing port terminals
- Legislation is being amended to enable the seamless flow of goods across the transportation corridor



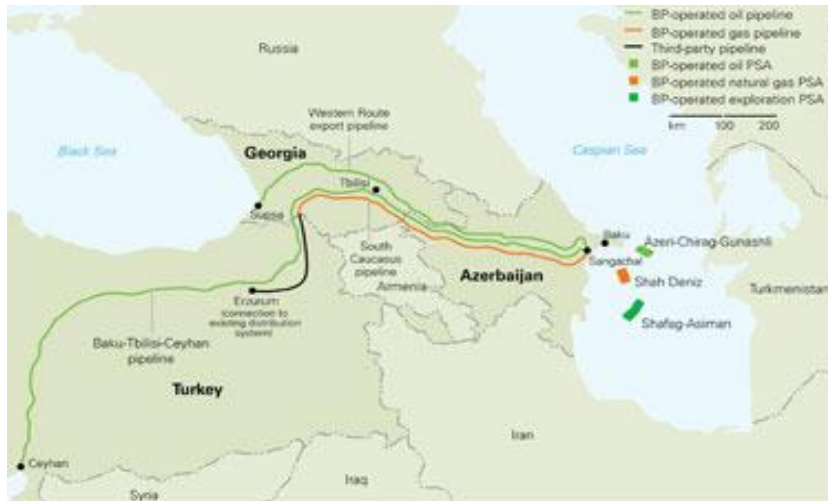
Member-states of the “Basic Multilateral Agreement on International Transport for Development of the Europe-the Caucasus-Asia Corridor”

Azerbaijan	Moldova
Armenia	Romania
Georgia	Tajikistan
Iran	Turkey
Kazakhstan	Ukraine
Kyrgyzstan	Uzbekistan

Oil & Gas: Foundation of Azeri Economy

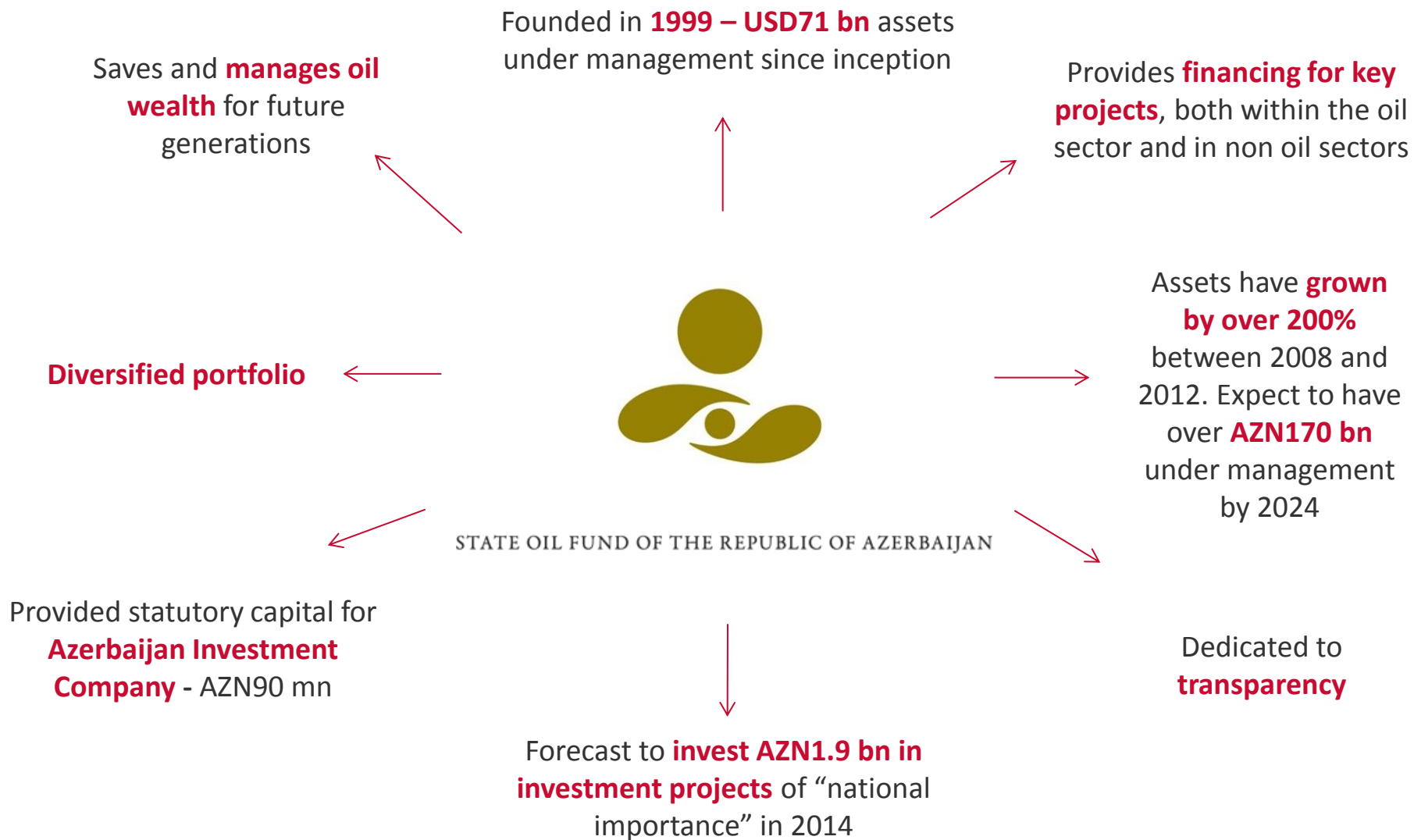


- One of the world's oldest oil producing countries
- Fundamental part to Azerbaijan's economy - 47% of GDP
- BP-led BTC pipeline transformed Azerbaijan's oil industry
- Azeri-Chirag-Guneshli (ACG) is the largest oil field in the Azerbaijan sector of the Caspian basin
- Shah Deniz, discovered in 1999, is one of the world's largest natural gas and condensate fields.
- SOCAR signed an agreement to provide gas from the second phase of the Shah Deniz field with nine international energy firms in September 2013 (TAP)



US Energy Information Administration, <http://www.eia.gov/countries/cab.cfm?fips=AJ>

State Oil Fund (SOFAZ)



Azerbaijan Investment Company (AIC)

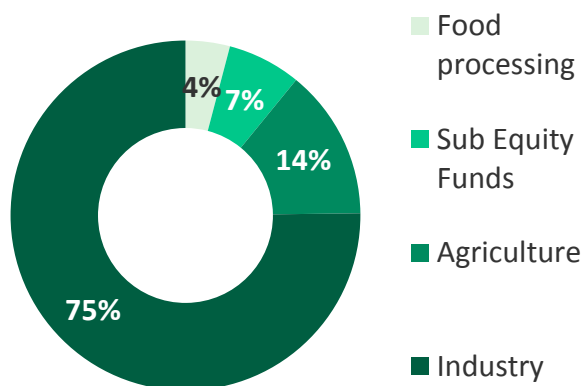
- A state-owned equity fund, founded in 2006 with funding from the State Oil Fund (SOFAZ)
- Supports the development of the non-oil sector via equity-injection into greenfield and brownfield projects
- Aims to attract both foreign and local investments
- Promotes best practice corporate governance
- Priority sectors: agriculture, alternative energy, food processing/packaging, industrial production, technology, logistics/transportation, tourism.

AIC in Numbers

Projects completed	9
Investments to date	US\$200 mn
Cumulative project value	US\$1.1 bn
FDI attracted	US\$450 mn

**Numbers correct as of November 2013*

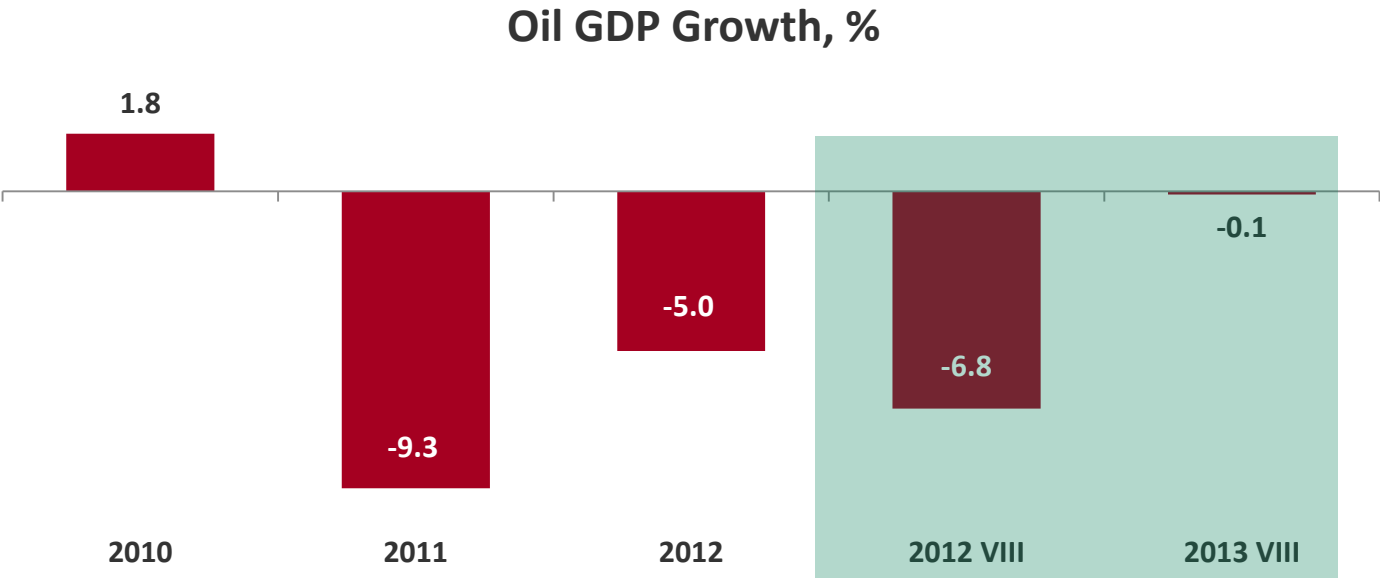
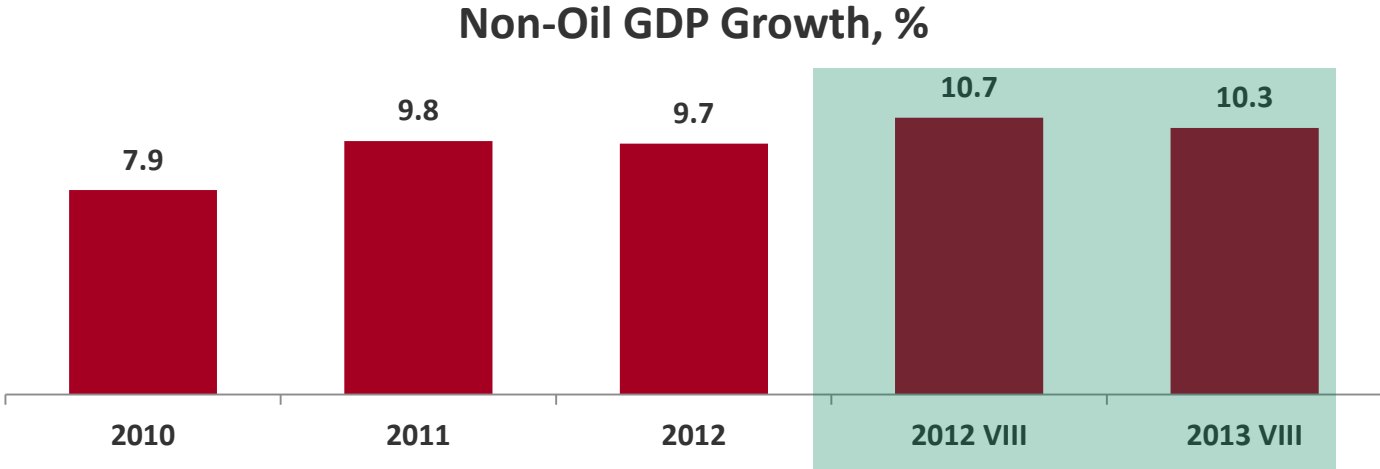
Portfolio Breakdown



Selected Projects

PROJECT	PROJECT VALUE	PURPOSE	STRAEGIC CO-INVESTORS
Baku Shipyard Company	US\$470 mn	Constructing modern shipyard and ship repair facility on Caspian Sea	SOCAR, Keppel Corporation (Singapore)
Holcim-Azerbaijan	€300 mn	Constructing a new cement plant	EBRD, Holcim Ltd (Switzerland)
Milk Pro LLC	US\$12 mn	Construction of a modern milk processing plant	EBRD

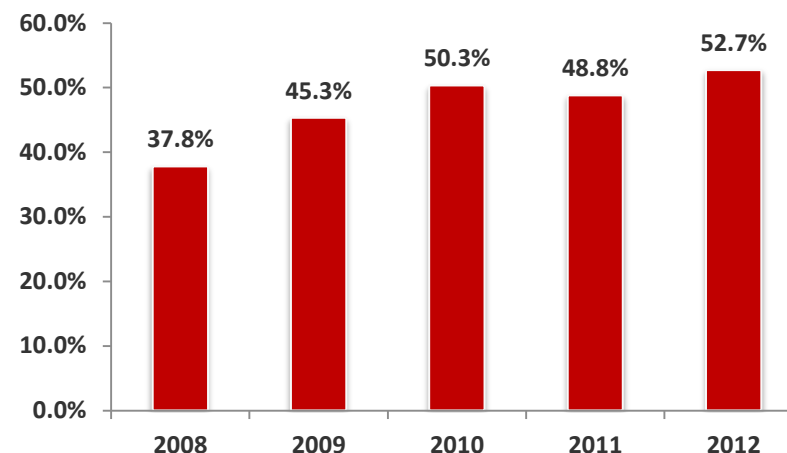
Non-Oil Sectors Now Driving Growth



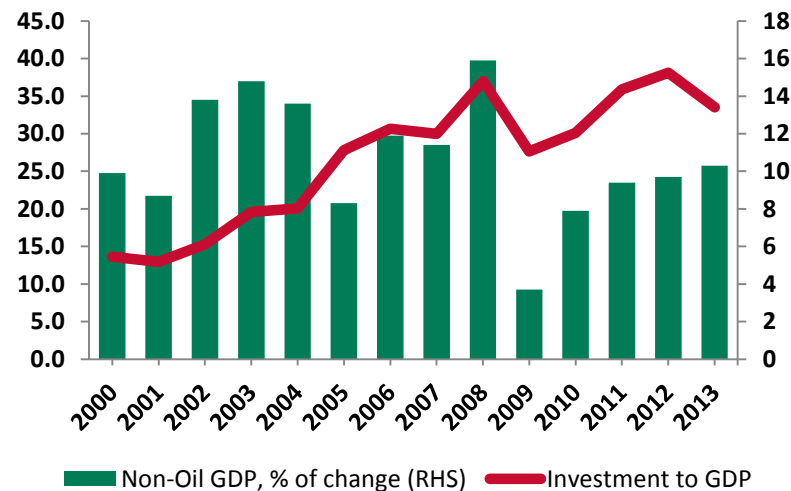
The Non-Oil Sectors are Key Drivers of Growth

- Growth of the non-oil sectors is at the centre of the government's strategic development programme
- Non-oil GDP was US\$36.2 bn in 2012
- Non-oil sector grew by 10.9% in first half 2013 with the construction sector making the largest contribution, growing 35.5%
- These sectors attracted US\$475 mn of FDI in 1H13, 16% of total investment
- The government and agencies such as AZPROMO are supporting the non-oil sectors and are promoting FDI into Azerbaijan

Share of non-oil sector in total GDP (2012)



Non-Oil GDP and Total Investments



Beyond Oil & Gas

Agriculture



Construction



Tourism



Technology



Finance



Agriculture - the Largest Employer

- The most important non-oil sector, employing **39% of the population**
- Accounts for **25% of total non-oil exports**
- Annual average growth rate of **more than 10% since 2003**, one of the highest sustained growth rates registered
- Government committed to developing agriculture:
 - Tax free environment benefiting the sector
 - State Program on the Reliable Provision of Food Products (2008-2015)
 - Agricultural Competitiveness Improvement Project (December 2013)
 - Azerbaijan Investment Company's investments
- **Government subsidies** for the purchase of fuel, fertilisers and seeds



Key Agricultural Figures 2012

Share of agriculture in GDP	5.2% (US\$3.5 bn)
Agricultural land	4.8 mn ha
Arable land	1.6 mn ha.
Gross output of agriculture	US\$6.2 bn (increased 3.9 times since 2001)
Food production	US\$3.3 bn (increased 3.7 times since 2001)
Main export partners in agri-food industry	CIS, Central Asia, Middle East, EU

Capital Investments in Agriculture (AZN, mn)

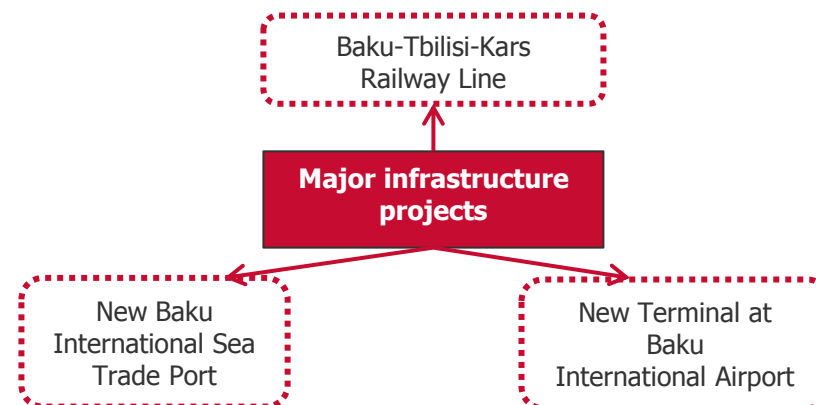
2009	266.6
2010	431.0
2011	437.3
2012	583.5

Construction - the Largest Contributor to GDP

- Made largest contribution to non-oil sector GDP growth in the first half of 2013, **increasing by 35.5%**
- Sector expanded by **nearly 40 times over last 15 years**
- Construction booming ahead of Baku 2015 European Games
- **“Baku White City”**, a large commercial and residential district built entirely on an ecologically reclaimed industrial zone, is also under construction



Key Construction Figures 2012	
Share in GDP	9.2% (US\$6.3 bn)
Volume of construction work	US\$9.6 bn (increased 4.8 times since 2005)
Implemented construction work by type	New construction 72%
	Capital repair 14%
	Current repair 2.4%
	Other 11.6%
Private companies' share in construction work	76.1%
Volume of total investments:	US\$12 bn (increased 24 times since 2001)
Number of issued construction permits	1, 667



Figures from "Catalogue of Investment Projects in Azerbaijan", AzPromo, images from heydaraliyevcenter.az

Tourism is Gaining a Stronger Position

- **2.5mn visitors in 2012** compared to 2.0mn in 2010*
- Foreigners visiting Azerbaijan **increased 9.9%** in the first half of 2013*
- Visitors from the EU **rose 22.9%** in the first half of 2013*
- Income from tourism **increased by nearly four times** in the last three years
- World Tourism Organisation has **ranked Azerbaijan second in the world** for percentage growth of tourist inflows in 2011**
- Total contribution of Travel & Tourism to Azerbaijan's employment is **forecast to rise by 5% annually**, rising to 375,000 jobs (8.3%) by 2021
- **E-visa system introduced** in March 2013 to streamline the visa process and reduce costs in a bid to promote tourism
- **First European Games to be held in Baku in 2015** will improve hospitality standards and infrastructure and visitor numbers



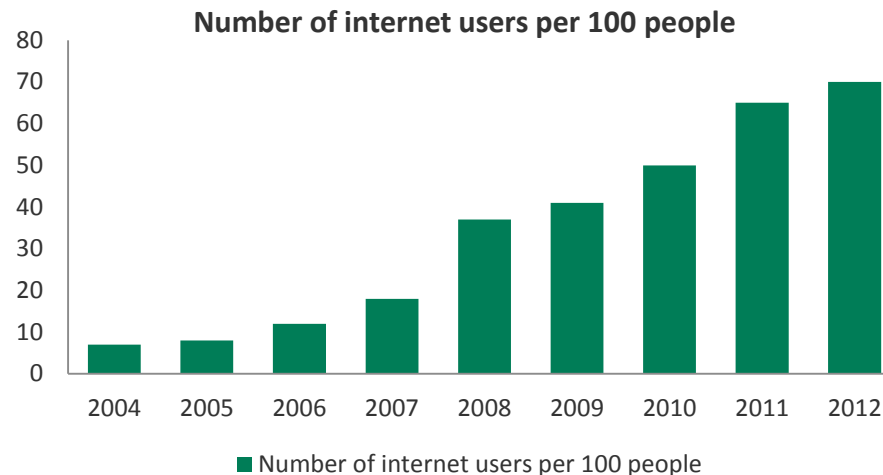
Images from Azerbaijan Tourism Board, www.atoz.az



* bne: Invest in Azerbaijan October 2013, ** World Tourism Organisation figures, November 2011

ICT - the Fastest Growing Non-Oil Sector by Revenues

- Azerbaijan has one of the world's most rapidly growing ICT sectors
- The **sector grew by 9% in 2012** compared to a 6.7% growth rate in 2007
- State Oil Fund allocated over US\$130 mn this year for **developing broadband internet**, and the whole country is expected to have high-speed access by 2017
- Azerbaijan launched its **first communications satellite – Azerspace-1** – in February 2013, with two more launches planned for 2015 and 2016
- A new High Technologies Park was established in Sumgait in November 2012, which is a research hub for ICT. It offers tax and other incentives for companies operating there
- An ICT University was established in 2013



Dynamics and growth rate of ICT total income, US\$, mn

	2007	2008	2009	2010	2011	2012
Total income (US\$ mn)	60.2	53.5	77.8	104.4	153.1	164.8
Growth Rate (%)	6.7	6.7	5.6	6.8	9.2	9.0

Volume of investments in the sector, US\$, mn

	2007	2008	2009	2010	2011	2012
Volume of investments (US\$ mn)	195.1	196.9	172.9	254.2	525.5	414.4

Finance Sector – Room for Development

Finance & Banking

- Azeri banking system kept its credibility during the global economic crisis by maintaining stable portfolio and revenue growth
- The banks continued to expand their structural networks and improve customer access to financial services

Insurance

- One of the most dynamic areas of the Azeri financial market
- Strong support provided by the government – introduction of mandatory insurance

Capital Markets

- Baku Stock Exchange established in 2000 and provides trading, depositary, clearing and consulting services.
- Instruments currently traded on BSE are stocks, corporate bonds, government bonds and bills, Notes and Repo's.

Number of banks	44
Number of banks with foreign capital	22
Total assets of banks	US\$26 bn
Bank credits	US\$16 mn
Bank deposits	US\$14 mn
Number of insurance companies	28
Types of insurance products	47 (16 mandatory, 31 voluntary)

Revenues of insurance companies	US\$453.3mn
Total aggregate capital of insurers	US\$440.3 mn
Total insurance premiums	US\$439.1 mn
Corporate securities market	US\$1.3 bn
State securities market	US\$8.1 bn
Total securities market	US\$9.4 bn

Figures for 2012, "Catalogue of Investment Projects in Azerbaijan", AzPromo

Why Invest in Azerbaijan?

