IRAN
Perceptions and Opportunities

SA Oil and Gas Alliance
21 April 2011

From Persia to the Islamic Republic of Iran

- The Pahlavi's 1921
- Tehran Conference and independence 1943
- Nationalisation of Anglo-Iranian Oil Company (later BP) under Mossadegh 1951
- CIA and UK backed coup 1953
- Khomeini's Islamic Revolution 1979
- Iran-Iraq War 1980-1988
- Khatami and the Reformists 1997-2005
- Iran today

Iran in the media

"In my various journeys around the world and in the many interviews I have had, I have realised that Iran is still unknown to the people of many countries. That is to say, inaccurate propaganda has portrayed Iran as worse or better than it actually is."

Shirin Ebadi, Iranian Human Rights Lawyer and winner of the Nobel Peace Prize, 2003

Sanctions – US Pressure?

- 3 different sources of sanctions - UNSC, US and EU
- Deal with weapons and certain dual-use acquisitions
- New focus on limiting investment into the Oil & Gas and Financial Services sectors
- Sanctions largely driven by US, but outlook largely dependent on China and Russia (moderates)
- ‘Biting’ sanctions are not from executive orders, but
  - ‘reputational risk’
  - threat tactics, sometimes “rewards”
  - psychological tactics, including disinformation
  - ‘dissuading’ international banks from doing business with Iran

Impact of sanctions on Iran

- Banking Difficulties
  - No USD transfers
  - LCs problematic
  - Iranians replying with “creative solutions” such as using informal banking channels
- Increase cost and delivery time of **some imports**
  - Estimated 20% price increase
- Major issues for companies
  - Potential problems with USG
  - Time consuming to check added bureaucracy/compliance issues
  - Project finance
  - Unlevel competitive landscape
    - Fewer contractors for every bid
    - Varying risks depending on exposure to the US / nationality of company
  - Due diligence more important than ever before

The basic facts

Area 1 648 000 km^2
Population 74.2m
Currency \$1 = 10 050 Iranian Rials
Time GMT + 4.5 hrs
Head of the State Ayatollah Khameini (Supreme Leader):President Ahmedinejad
Ethnic Groups Persian, Azeris, Kurds, Turks, Afghans

English is commonly spoken in the business environment

Total GDP US\$ 338bn
GDP per capita US\$ 4556
GDP Growth 1.6%
Inflation (CPIX) 11%
Unemployment 14%
Main Exports 80% attributed to Oil
Main trading partners China, UAE, Germany

SA exports to Iran (2010)

HS	TOTAL US$ 000
All Exports	155 883
H7219: Flat rolled S/Steel, 600mm+	37 629
H1005: Maize	33 351
H2809: Diphosphorous Pentaoxide	22 755
H7202: Ferro-Alloys	22 721
H2403: Pipe,Chewing,Snuff Tobacco	4 275
H2602: Manganese Ores/ Concentrate	2 616
H0805: Citrus Fruits Fresh/Dried	2 307
H8802: Aircraft & Spacecraft	2 035
H1512: Safflower,Sunflower Extract	2 007
H4802: Uncoated Writing Paper	1 974

Source: ITC

Iran’s imports 2010

	PRODUCT DESCRIPTION	TOTAL US$		PRODUCT DESCRIPTION	TOTAL US$
1	Non-mixed iron or steel bars	2 115 196 051	11	Soya seed	493 217 676
2	Wheat	1 702 132 279	12	Medicine	479 403 287
3	Gasoline	1 466 239 876	13	Frozen Beef Meat	385 506 973
4	Rice	1 179 828 365	14	Raw Soya Oil	379 353 215
5	Gas Turbines spare parts	773 631 849	15	Super Phosphates	348 685 961
6	Maize seed	746 679 786	16	Raw Gold	345 069 750
7	Other processed and light oils except gasoline	720 272 119	17	Barley	341 323 754
8	Iron and Steel	668 470 599	18	Banana	331 309 788
9	Detached auto spare parts	636 911 019	19	Iron or steel rod	321 177 391
10	Soya seed oil cake	575 227 589	20	Sugar	315 534 813

Source: ITC

Top import destinations

UNSC MEMBERS?

	SOURCE COUNTRY	TOTAL US$
1	China	8,163,428,066
2	United Arab Emirates	6,615,766,818
3	Germany	5,728,088,000
4	Rep. of Korea	4,342,555,102
5	Russian Federation	3,291,208,965
6	Italy	3,103,646,638
7	France	2,674,657,165
8	India	2,335,908,441
9	Kazakhstan	2,039,529,725
10	Turkey	2,029,706,209

	SOURCE COUNTRY	TOTAL US$
11	Japan	1,885,945,871
12	Brazil	1,133,379,111
13	Argentina	1,081,973,568
14	Ukraine	859,226,790
15	Switzerland	786,297,439
16	United Kingdom	758,983,170
17	Malaysia	733,442,199
18	Sweden	707,175,333
19	Belgium	703,185,880
20	Indonesia	697,367,947

Source: COMTRADE

ABB PETRONAS

Tefal

KIA Henkel SCANIA Coca-Cola

Tetra Pak EDISON INTERNATIONAL® PEUGEOT TOTAL Schneider Electric

HYUNDAI Safmarine HUAWEI sasol reaching new frontiers

Agip

MTN everywhere you go

Nestlé®

RIO TINTO

ALCATEL

BASF The Chemical Company

DAEWOO

Iran Oil & Gas Industry Overview

- Oil has been the main industry in Iran since the 1920s.
- Iran was the world's fourth largest producer of crude oil and the second largest exporter of petroleum at the peak of its oil industry in the mid-1970s.
- The oil industry was nationalized in 1951 as part of the nationalization process, the government formed the National Iranian Oil Company (NIOC).
- In 1961, Iran joined other major oil producing countries to form OPEC.

National Iranian Oil Co. (NIOC)

- The **National Iranian Oil Company**, a government-owned corporation under the direction of the Ministry of Petroleum of Iran, is an oil and natural gas producer and distributor was established in 1948. NIOC ranks as the world's second largest oil company, after Saudi-Arabia's state-owned Aramco.

- The NIOC is exclusively responsible for the exploration, extraction, transportation and exportation of crude oil, as well as sales of natural gas and liquefied natural gas (LNG).

- NIOC controls all upstream and downstream oil and gas activities.

NIOC Reserves & Capabilities

- NIOC's oil and gas in place reserves are 137 billion barrels and 28.17 trillion cubic meters, respectively which gives it a unique status on the global energy supply map.
- Over 4 million barrels of crude oil and in excess of 437 million cubic meters of natural gas per day.
- NIOC produces 60-70% of its industrial equipment domestically including refineries, oil tankers, oil rigs, offshore platforms and exploration instruments.
- The vast majority of Iran's crude oil reserves are located in giant onshore fields in the south-western Khuzestan region near the Iraqi border. Overall, Iran has 40 producing fields – 27 onshore and 13 offshore. Iran's crude oil is generally medium in sulfur and in the 28°-35 ° API range.

Oil & Gas Industry Economics

- Iran will account for 23.16% of Middle Eastern (ME) regional oil demand by 2015 and provide 16.34% of supply.
- Iran’s economy relies heavily on oil export revenues, which represent some 80-90% of total export earnings, 40-50% of the government budget, and 10-20% of GDP.
- In 2009, Iranian Government earned $78 billion form oil revenues.
- In 2009, sector accounted for 60 percent of total government revenues and 80 percent of the total annual value of both exports and foreign currency earnings.
- Iran plans to invest $500 billion in the oil sector until 2025.

NIOC Subsidiaries & Affiliated Companies

- Iranian Offshore Oil Company (IOOC)
- Central Iranian Oil Fields Company
- National Iranian Gas Export Co.
- National Iranian South Oil Co.
- National Iranian Central Oil Co.
- Petroleum Engineering and Development Co.(PEDEC)
- Pars Oil and Gas Co. (POGC)
- Pars Special Economic Energy Zone Co.
- National Iranian Oil Terminals Co.
- National Iranian Drilling Co. (NIDC)
- National Iranian Tanker Company

Continued

- Exploration Service Company (ESC)
- Kala Naft (London) Ltd.
- Naftiran Intertrade Co. (NICO) (Switzerland)
- Petropars
- Iran Petro Development Co. (aka Petro-Iran or PEDCO)
- Iranian Oil Company (UK)
- Iranian Offshore Engineering and Construction Company (IOEC)
- Research Institute of Petroleum Industry (RIPI)

Foreign Players in Iran Oil & Gas

- French **Total** has a 40% stake in Phases 2 and 3 of the South Pars gas project.
- Dutch **Shell** has a buyback contract for the development of the offshore Nowrooz and Soroosh oil fields. It also has a JV that produces industrial lubricants. The firm withdrew its interest in Phases 13 and 14 of the South Pars development.
- Iran has awarded Phase 12 of South Pars gas project to **Indian** and **Angolan** companies, replacing Austria's **OMV**.
- Italian **Eni** is a partner in the Dorood oil field. It is also has stakes in the developed fourth and fifth phases of the South Pars project.
- Norwegian **Statoil** has frozen its investments in Iran. It holds a stake 37% of South Pars phases 6-8 but its involvement in the project.

Continued

- The **China National Offshore Oil Corporation** (CNOOC) investment deal, valued at $16 billion, to develop Iran's North Pars gas field and to build a Liquid Natural Gas (LNG) plant, was supposed to be signed on February 27, 2008 but has been delayed.
- In June 2009, building work began on a new pipeline from **Iran** through **Turkey** that could supply European markets. The 1,740km Pars pipeline will run from Iran through **Turkey** to **Greece**, then through Italy and onwards to other Western European countries.
- **Iran** and **Syria** have signed a deal for the construction of a natural gas pipeline to run from Iran to Syria through Iraq.
- **Indian** and **Venezuelan** joint investment in the Phase 12 of South Pars for production and export of LNG.
- Pars Oil and Gas Company and **Malaysia's SKS Ventures** signed a US$16bn contract to develop the Golshan and Ferdowsi gas fields in December 2007.

Iran Gas Industry

- The bulk of Iranian natural gas has not been developed, meaning that Iran has huge potential for gas production growth.
- Iran's gas distribution infrastructure is insufficient to meet the country's consumption needs. Iran therefore imports gas from Turkmenistan to supply the north of the country.
- Iran's Gas developments are carried out by the **National Iranian Gas (NIGC).**
- Gas was the dominant fuel in Iran in 2010, accounting for an estimated 57.8% of primary energy demand (PED), followed by oil at 40.4%

Future of Iran Oil & Gas Industry

- Between 2010 and 2020, it is forecasted an increase in Iranian oil production of 12.2%, with crude volumes rising towards 4.70mn b/d by the end of the 10-year forecast period.
- Iran set a goal of increasing its natural gas production capacity to 300 billion cubic meters by 2015 while keeping oil production stable. To achieve this capacity, the government has planned a joint investment worth US$100 billion in the oil and gas industry through 2015.
- An increase in oil and liquids production to 4.45mn b/d in 2015.
- Iran's output in December 2010 was 3.68mn b/d, as the country remains well ahead of its OPEC-agreed allocation (of around 3.34mn b/d).
- Iran would invest US$40bn in the South Pars field and US$25bn in developing North Pars for oil and LNG exploitation.
- Iran is looking to Asia to provide funding for its oil and gas developmental projects.
- Iran intends to invest US$6bn a year in LNG investments though 2013. Despite holding the world's second largest gas reserves Iran's plans to become a significant exporter of LNG.

Continued

- Iran also is in the process of significantly expanding its refining capacity.
- Securing the country's local market demand for fuel.
- Value-added benefit to produce more oil products such as petrochemical products.
- Production competition with regional countries.
- Combating the effects of the sanction on the country’s main industry as well as becoming self-sufficient in using the local technology and expertise.
- To stay at the top of the OPEC member countries for higher productions and exports.

Foreign Investments in the Sector

- There is potentially small downside risk associated with Iranian oil production. While the state continues to aim high, the departure of key technical and financial partners is likely to delay project startups and result in shortfalls against output targets.

- Although the government has committed 3% of Iran’s US$70bn annual revenues to the development of the giant South Pars gas field, the project will require foreign investment and technical know-how.

- Iran needs an annual investment of around US$20bn in the oil and gas industry. The main sources of foreign investment are from Germany, Italy, China and Turkey.

Continued

- Excessive regulation and controls could impose limitations as well as costs on businesses. In addition, Iran’s private sector remains hamstrung by extensive red tape and other market distortions.

- The country’s Foreign Investment Promotion and Protection Act (FIPPA) provides protection to foreign investors and allows relatively good terms for the repatriation of profits.

Iran Oil & Gas Industry Exports

- Iran crude oil export reached $70.7 billion in 2010, forecasted to reach $80 billion in 2015.
- By 2015, Iran will export 39 billion cubic meters of gas, bringing $14.19 billion in revenue.
- Oil & gas exports in 2015 is forecasted to provide the government $94.14 billion in revenue.

Iran Oil & Gas production & Exports

- In 2010: (Oil)
- Iran oil production reached 4.19 million bpd.
- Iran oil refining capacity reached 1.9 bpd.
- Iran oil export reached 2.46 million per day.
- The value of the export was $70.7 billion.

- In 2010: (Gas)
- Iran gas production reached 140 billion cubic meters
- Iran gas export reached $7 billion.
- The value of the export was $1.37 billion.

Opportunities for SA Companies

- Iran's oil and gas industry has huge potential in development of oil and gas fields throughout the country.
- Huge potential for services, maintenance and development of inundated infrastructure.
- Potential in construction of pipeline for transfer of oil and gas; Nabacco Pipeline, Peace Pipeline and etc.
- Drilling and exploration of oil and gas fields in the southern and south-western oil-rich part of Iran.

Continued

- Transfer of advanced technology to Iran for increasing Iran’s refining capacity in order to meet the local market demand as well as increasing the country’s export portfolio.
- Huge potential for mutual cooperation on productions and export of oil products, namely petrochemicals.
- Sasol involvement in Iran since 2003 and JV with Iran’s NPC, formed Arya-Sasol petrochemical plant in Assalyeh, Bushehr province, producing polymers.
- Potential for mutual cooperation with Iranian companies to work on oil and gas development projects in a third country (i.e. CIS countries, African countries, regional gulf states).

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