



Localization as a Partnership

BCG Proposal

PREPARED FOR FUAD MUSAYEV (VP PROCUREMENT AND HSE, SOCAR) • JUNE 2026

Messages from BCG's Global Leaders



"We believe this program can create lasting economic value, strengthen local capabilities and contribute to Azerbaijan's long-term development...Done well, this can position SOCAR and Azerbaijan at the forefront of a new generation of industrial development programs...You have my personal commitment that we will bring the very best of BCG to support this journey."

Christoph Schweizer
BCG CEO



"We do not see this as a traditional consulting project. We see this strategic partnership focused on creating lasting economic value building local capabilities for SOCAR and Azerbaijan...Davide and I will personally sponsor these efforts. We will remain actively involved, and we will ensure that the right expertise, the right senior attention, and the right support is mobilized wherever it is needed."

Matthias Tauber
MDSP (EMESA region chair)

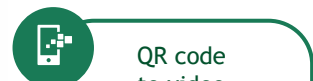


"We align ourselves with governance. Our commercial model links a substantial portion of our economics to the value created through additional cash flow, investment, and broader economic impact...Our focus is outcomes. We will relentlessly work to create localization opportunities, attract investment, establish partnership and joint ventures, and build lasting capabilities with SOCAR and Azerbaijan."

Davide Di Domenico
MDSP (EMC system leader)



Link to video



QR code to video



BCG proposes to SOCAR a partnership to empower localization team in return for a share in localization value

? SOCAR'S CHALLENGE

- Multi-billion AZN operational spend with only ~25% local content; direct procurement from manufacturers remained below 50%, while AZN 1.14B was routed through intermediaries (2018-2022)
- Major investment cycle ahead across upstream, downstream, gas, renewables, and industrial infrastructure
- Five workstreams: capacity development, service localization, JV creation, investment support and institutional enablement
- Localization team needs ramp-up fast

💡 BCG's proposition

- BCG is not a consultant, but part of the delivery team, working under shared KPIs with SOCAR
- AI-powered Control Tower from Day 0: one intelligence layer across SOCAR spend, imports, suppliers and policy levers
- 30+ senior partners - no junior staffing - and subject-matter experts, tailored to each project phase as the focus shifts from analytics to execution
- Hands-on coaching for the localization team: AI handles routine work, experts provide judgment, SOCAR makes decisions

↑ RESULTS TO BE ACHIEVED

In 1 Year:

- 4-5 MoUs signed by YE 2026
- >\$100M quick-win value captured by the end of 1H 2027 across OCTG, hydraulic fracturing, drilling, intermediaries, etc.
- Capability transfer completed, with 2+ workstreams fully owned by SOCAR by the end of 1H 2027

In 3 Year:

- >\$300M quick-win value captured by the end of 1H 2029
- Localization rate increased across SOCAR's core spend, with quick-win categories converted to local content
- Localization team independently runs workstreams, with AI embedded as operating system

Our proposal combines AI Control Tower, expert time, and on-the-ground coaching

	1 year to end-H1 2027				2 years to end-H1 2029
Activities	SPRINT 1 Analytics heavy	SPRINT 2 Analytics + matching	SPRINT 3 Execution: MoUs	SPRINT 4 Execution + handover	FULL SCALE Execution + handover
01 AI-augmented Control Tower	<ul style="list-style-type: none"> MVP already built – Day-0 ready Developing See, Decide, Execute engines - Version 1.0 	<ul style="list-style-type: none"> AI engine expanded with deep-dives, reports Supplier/JV pipeline tracker activated, cadenced 	<ul style="list-style-type: none"> Expand AI engine with contract intelligence Track supplier negotiations, MoUs and implementation status 	<ul style="list-style-type: none"> Scale control tower across additional categories and business units 	<ul style="list-style-type: none"> Full institutionalization of AI control tower Continuous sourcing, supplier risk and contract optimization engine
02 Expert panel 30+ senior partners	<ul style="list-style-type: none"> AI / data science (A. Aristov, L. Zhukov, Caspian AI Institute) Procurement & op model (Tishkov, Kosach) 	<ul style="list-style-type: none"> Industrial Goods + EMC leadership (Davide Di Domenico) Topic specialists: Drilling, Cables, Steel, Subsea, Wireline, etc. 	<ul style="list-style-type: none"> Expert support supplier negotiations and MoU preparation 	<ul style="list-style-type: none"> Support selected strategic workstreams and supplier scale-up 	<ul style="list-style-type: none"> Transition expert support into periodic strategic reviews Maintain access to global category expertise for major sourcing events
03 Coaching on the ground	<ul style="list-style-type: none"> AI Trainings to SOCAR Vision/Mission, branding workshops 	<ul style="list-style-type: none"> Claude coding training 	<ul style="list-style-type: none"> Coach teams through negotiations and MoU conversion Create playbooks for supplier engagement 	<ul style="list-style-type: none"> Coach category owners on negotiation, supplier management and execution governance 	<ul style="list-style-type: none"> SOCAR team independently runs control tower, sourcing waves and supplier execution
Output	<ul style="list-style-type: none"> OM blueprint defined 50+ categories screened 10-15 priority opportunities shortlisted 	<ul style="list-style-type: none"> 5 categories deep-dived top-20 suppliers shortlisted 5-7 use cases ready 	<ul style="list-style-type: none"> 4-5 MoUs signed Enablers defined with AIH/MoE/MDDT 	<ul style="list-style-type: none"> 2+ workstreams owned by SOCAR 2nd opportunity wave scale-up ready 	<ul style="list-style-type: none"> Localization rate increased across SOCAR's core spend

AI engine has three main components

AI engine helps SOCAR see, decide, and execute faster across the localization journey

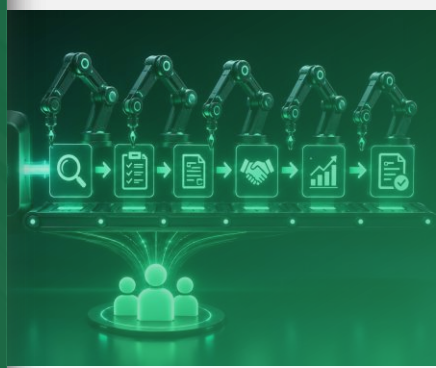


- 1 See | Obsidian-like opportunity layer**
 - RAG¹-enabled knowledge layer linking SOCAR spend, AZ imports, projects, suppliers, partners, and policy enablers
 - Full, live linkage across projects, associated demand (for services, equipment, materials, workforce, documentation), supply gaps, and generation of localization hypotheses for both short-term¹ and long-term opportunities



- 2 Decide | Localization control tower**
 - Single-point view of value, MoU readiness, risks, etc.
 - Deep-dive review capability (opportunities, bottlenecks, projects, pending decisions, etc.)
 - Real-time transparency for SOCAR leadership and key stakeholders

 Demo available

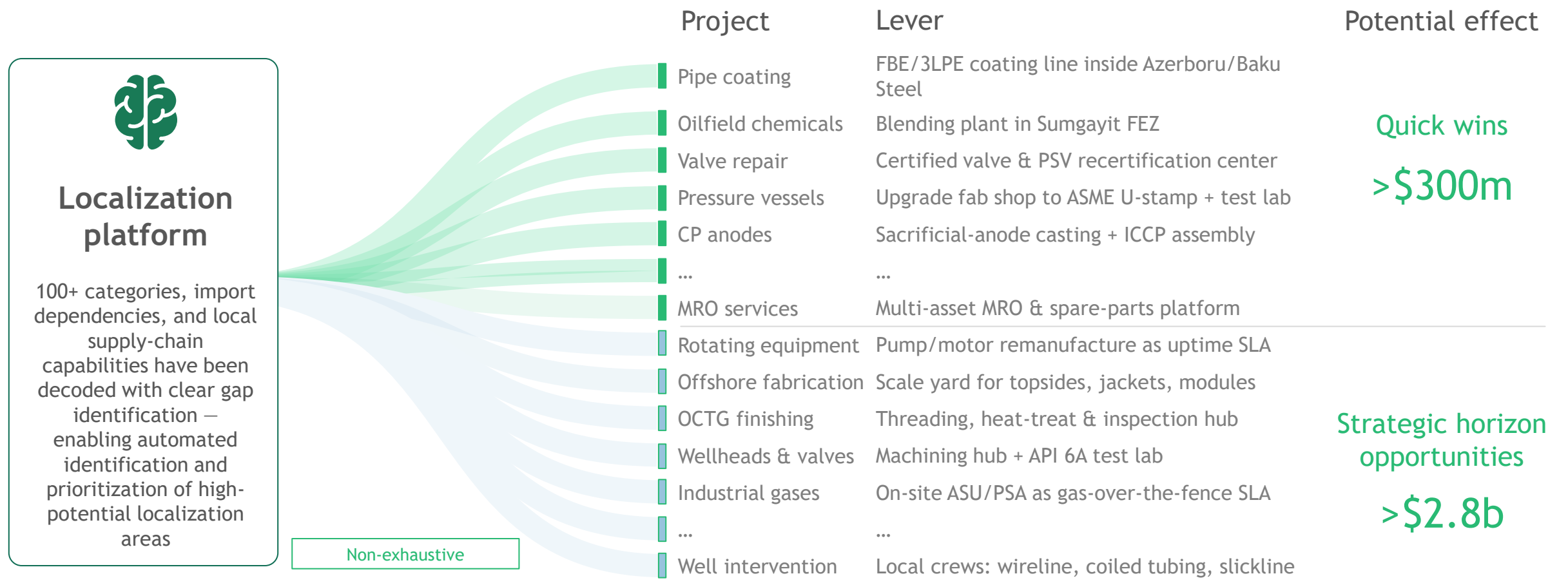


- 3 Execute | Automation layer**
 - Automation of repetitive work, including supplier mapping, risk checks, meeting prep, follow-ups, drafting of documents (e.g., opportunity cards, business cases, MoU / JV paths)
 - Guiding of junior team members through best-practice workflows and next-best actions

1. Retrieval-Augmented Generation

1. A high-level list of short-term opportunities is provided on the next slide

A preliminary AI engine opportunity analysis identified levers that could unlock up to \$300M in the short term and ramp up to \$2.8B over the strategic horizon



Localization platform

100+ categories, import dependencies, and local supply-chain capabilities have been decoded with clear gap identification – enabling automated identification and prioritization of high-potential localization areas

Non-exhaustive

- Quick win opportunities
- Strategic horizon opportunities

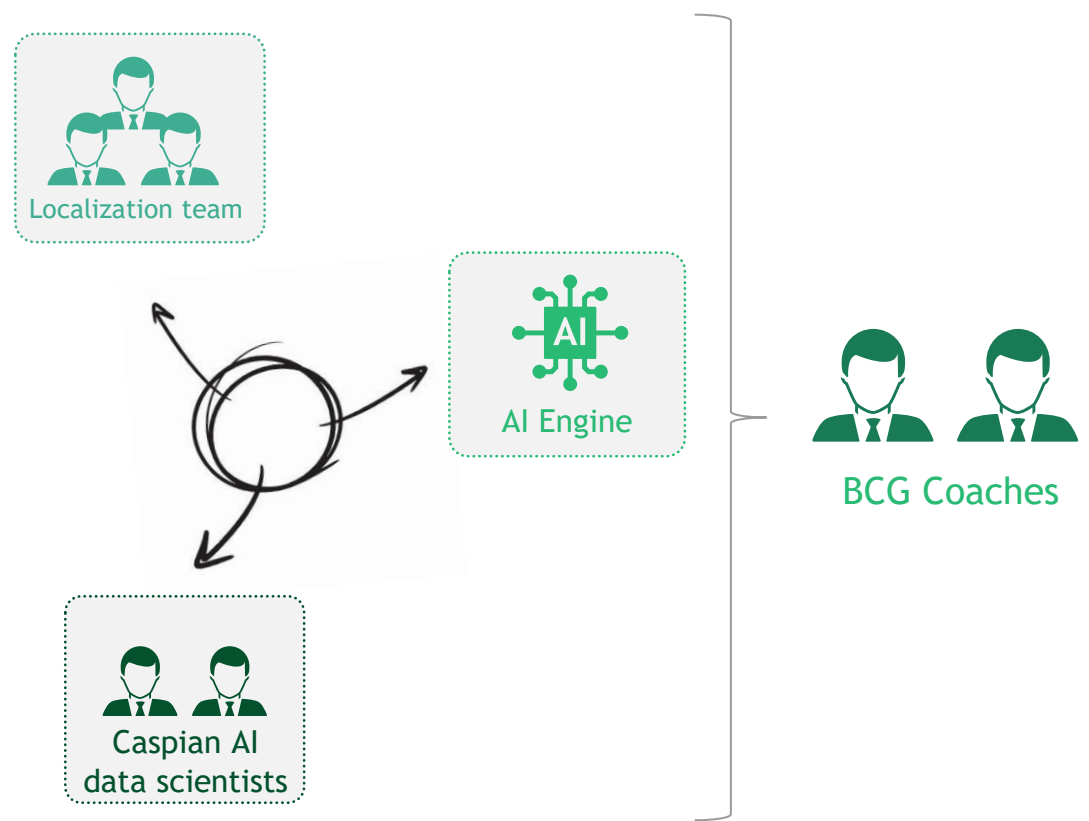
Note: FBE = fusion-bonded epoxy; 3LPE = three-layer polyethylene; FEZ = free economic zone; PSV = pressure safety valve; ASME U-stamp = American Society of Mechanical Engineers certification for pressure vessels; CP = cathodic protection; ICCP = impressed-current cathodic protection; MRO = maintenance, repair and operations; OCTG = oil country tubular goods; API = American Petroleum Institute; ASU = air separation unit; PSA = pressure-swing adsorption
Source: BCG analysis

BCG is ready to offer a non-standard approach to project delivery, with the work carried out by a large senior team of experts

Localization and AI	Equipment	Materials	Services	Coaching for Team
 <p>Francesco Palmieri MD & Senior Partner Central Asia localization expert</p> 	 <p>Eric Oudenot MD & Senior Partner Subsea expert</p> 	 <p>Ramzi Kassab Product Delivery Lead HDPE expert</p> 	 <p>Francesco Beraldi Partner and Associate Director Engineering expert</p> 	 <p>Anton Kosach MD & Partner Chief Client Officer; 30+ projects with SOCAR</p> 
 <p>Pietro Romanin MD & Partner Europe localization expert</p> 	 <p>Michael Buffet MD & Partner Wellheads expert</p> 	 <p>Marco Moretti MD & Partner Steel expert</p> 	 <p>Ferrante Benvenuti MD & Partner Drilling expert</p> 	 <p>Anton Aristov MD & Partner AI Lead; 20+ projects with SOCAR</p> 
 <p>Joel Kwong MD & Partner Asia localization expert</p> 	 <p>John Goldader MD & Partner SCADA expert</p> 	 <p>Nicholas Philippe Associate Director Coatings expert</p> 	 <p>Martha Vasquez Partner and Associate Director Wireline expert</p> 	 <p>Alexander Tishkov Partner Procurement lead; 15+ projects with SOCAR</p> 
 <p>Tamer Obied MD & Partner Middle East localization expert</p> 	 <p>Christian Peuker MD & Partner Valves expert</p> 	 <p>Davide Di Domenico MD & Senior Partner Cables expert</p> 	 <p>Daniel Feldkamp MD & Partner Materials and Process Industries</p> 	 <p>Alexey Shevchenko Project Leader Midstream lead; 5+ projects with SOCAR</p> 
 <p>Leonid Zhukov Partner & Vice President AI expert, ex-Sberbank AI-lab director</p> 	 <p>Borja Carbonell Manager Electrical & I&C expert</p> 	 <p>Rafael Rilo MD & Senior Partner Cement expert</p> 	 <p>Kike Beintema Associate Director Seismic expert</p> 	 <p>Artem Malafeev Project Leader Upstream lead; 5+ projects with SOCAR</p> 

- Our approach implies that SOCAR mobilizes sufficient resources and leverages AI factory (jointly with Caspian AI Institute)
- Team composition will be flexibly adjusted for each project phase to reflect the capabilities required

AI will enable SOCAR to scale localization impact without adding organizational complexity

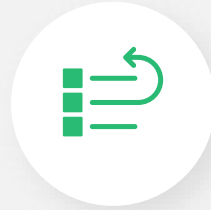


AI expands localization team's capacity
Keeps the fact base live, generates first-pass outputs, and validates numbers / assumptions for human review

SOCAR team focuses on judgment
Lean team spends time on prioritization, stakeholder engagement, negotiations, and decisions – not manual analysis

Senior experts plug in selectively
Experts intervene where structuring, integration, or acceleration changes the outcome

Most of BCG's economics are tied to value created and funded from new money – true partnership model



Reinvestment and value-proof

BCG is ready to reinvest a portion of its economics into subsequent phases of the program, deferring part of its upside until the value generated by the localization initiative has been demonstrated and validated



New-money principle

We believe that only a relatively small portion of the overall remuneration should be associated with establishing the localization capability itself. Most of our economics should be linked to the incremental value created by the program and funded through newly generated economic value



Two remuneration options

We envisage two potential remuneration structures:

- **Option 1** - a higher fixed component combined with a more conservative upside cap, providing greater cost certainty
- **Option 2** - a lower fixed component coupled with a more ambitious upside opportunity, reflecting a greater degree of risk-sharing and stronger alignment with value creation

Our proposal includes two options differing by share of variable part but same risk/return ratio

One year →

2H 2026 - 1H 2027

Two years →

2H 2027 - 1H 2029



Value creation outcome

>\$100M (~€88M)

>\$300M (~€263M)

Project cost

Flat fee

Shared-KPI bonus (4 milestones)

Reinvestment (50% bonus deferred)

Quick-win profit share
(5%/ 10% × \$50-100M)

Option 1

€1.5m

up to €1.32m

- €0.66m

€0.425-0.845m

Option 2

€0.75m

up to €0.66m

- €0.33m

€0.850m-1.69m

Option 1

Option 2

TOTAL Y1 Economics



up to ~€3.005m

up to ~€2.77m

TOTAL Y3 cumulative



up to ~€8.5m

up to ~€11.5m



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