



BP in Azerbaijan
Sustainability Report 2005

About this report By sustainability BP means the capacity to endure as a commercial organization by renewing assets, creating and delivering better products and services that meet the evolving needs of society, delivering returns to our shareholders, attracting successive generations of employees, contributing to a flourishing environment and retaining the trust and support of BP customers and the communities in which BP operates.

This report covers BP's business performance, environmental record and wider role in Azerbaijan during the calendar year 2005. It is our third integrated annual report focusing on Azerbaijan and reflects the feedback we have received about our previous Sustainability Reports covering the years 2003 and 2004.

These earlier publications, which are still available from our offices in Baku and at www.bp.com/caspian, contain detailed information about BP's approach, methodology and definitions which has not been repeated in this report. Instead our focus is on our performance in 2005 and the issues we faced.

BP is currently the only oil company in Azerbaijan that publishes a country Sustainability Report.

Unless specified otherwise, references in this report to "us", "we" and "our" shall mean references to BP Azerbaijan Strategic Performance Unit (BP Azerbaijan SPU). Specific references to "BP" and the "BP group" shall mean BP p.l.c., its subsidiaries and affiliates and, unless otherwise stated, the text does not distinguish between the operations and activities of BP p.l.c. and those of its subsidiaries and affiliates.

A message from Ernst & Young

We have reviewed the contents of the *BP in Azerbaijan Sustainability Report 2005* in order to provide assurance to BP management that the data, statements and assertions made regarding the sustainability performance of BP in Azerbaijan are supported by evidence or explanation. Our scope of work and conclusions can be found on *page 56*.

On the cover The field of crops in Mashadi-Garalar, a village in Goranboy region which we and our partners have invested in as part of the BTC/SCP Community Investment Programme.

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A shared future

2005 was an exciting and challenging year for the BP Azerbaijan Strategic Performance Unit (BP Azerbaijan SPU). The highlight was the delivery of first oil from the Central Azeri production platform and its flow via the newly expanded Sangachal Terminal into the BTC (Baku-Tbilisi-Ceyhan) pipeline. This achievement was celebrated at a major event in May when we welcomed the Presidents of Azerbaijan, Georgia, Turkey and Kazakhstan, HRH the Duke of York, BP group Chief Executive Lord Browne and many international dignitaries to Sangachal for a first oil ceremony that received television coverage around the world.

Production from the Chirag and Central Azeri production platforms averaged 261,000 barrels a day throughout the year – around 15% higher than forecast. The Compression and Water Injection platform was safely installed and linked to Central Azeri. West Azeri commenced oil production in December, four months ahead of schedule. Filling of the BTC pipeline with oil continued with the goal of loading the first tanker at the Ceyhan Terminal in Turkey in mid-2006. And over the course of the year we delivered around 1.88 billion standard cubic metres of associated gas to Azerbaijan.

We remained on track with other major projects. The East Azeri jacket (a pile steel platform) was completed and topsides construction proceeded ahead of schedule. The Deepwater Gunashli project made good progress with fabrication of both the drilling-utilities-quarters platform and the production-water injection-utilities platform well underway.

Our existing production operations continued to perform well. Since 1997, the Chirag field has produced 328 million barrels of oil with few interruptions and we have successfully exported these volumes via the Early Oil Project Terminal and the Northern Route and Western Route Export pipelines.

The Shah Deniz (SD) project team worked hard to ensure that 2006 will be a landmark year with the delivery of first gas to market set on schedule in the third quarter. The TPG500 platform neared completion at the Zykh yard and hydrotesting commenced on the South Caucasus Pipeline which will supply SD gas to Azerbaijan and export it to Georgia and Turkey.

Sangachal, our biggest onshore facility, had a very successful year. The second phase of the Terminal's expansion programme was almost completed with the commissioning well underway by year-end, ready for start-up in the second quarter of 2006.

We recorded a number of significant safety achievements in 2005 but, unfortunately, the year was overshadowed by three fatalities – two of which occurred in direct support of our operations. We deeply regret this loss of life and aim to strive in every way possible to ensure that everyone working on our various projects is safe.

One hundred and eighty one new national staff were recruited in Azerbaijan and we continued to run one of the largest graduate recruitment and development programmes in BP's world-wide Exploration & Production segment – a central element in our drive to establish a distinctive Caspian presence. During 2005, we also started to reshape our internal organizational structure to reflect the shift from a project-driven organization to one that is focused on operations.

Another key component of our long-term commitment is to create a sustainable business. In 2005, we set an ambitious new target to double within five years the value of goods and services procured locally. This will involve spending an additional \$250 million a year in Azerbaijan by 2010.

Our all-round emphasis on the long-term sustainability of our business was acknowledged within the BP group with two finalists in BP's annual Helios Awards – one recognizing the support we gave during the year to Azerbaijan in its successful efforts to become the first country in the world to join the Extractive Industries Transparency Initiative, and the other for a project undertaken by our Drilling & Completions team to make our wells produce even more oil and gas.

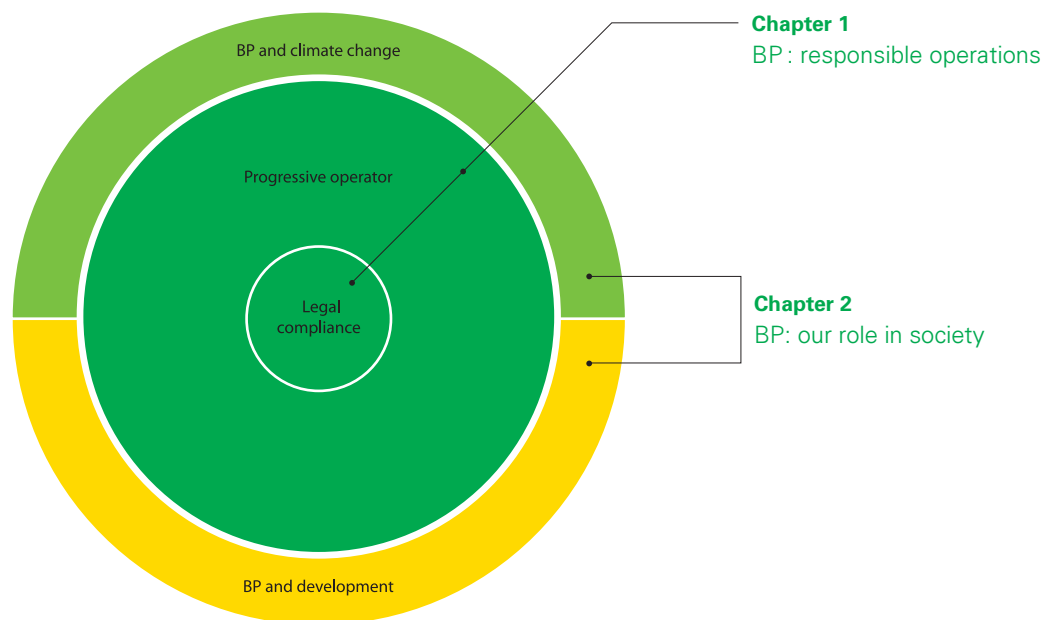
A handwritten signature in black ink, appearing to read 'David Woodward'. The signature is fluid and cursive, with a prominent flourish at the end.

David Woodward

President, BP Azerbaijan SPU

What responsibility means for BP

This report reflects the framework we use to describe our view of what responsibility means for BP and why it matters for the long-term sustainability of our business. At the core of this framework are all of the activities that we control. We are accountable for these operations and we must run them responsibly. Only by operating responsibly can we also legitimately gain recognition for the social benefits we generate through the supply of products and services, tax revenues, jobs and shareholder wealth. We also have a wider role to play in activities we can influence but do not control, because responsibility is shared with others.



Sphere of control: responsible operations

Operating responsibly has two levels. At its core it involves compliance with the law. This can be difficult enough, especially in jurisdictions where laws either do not exist or are inconsistently applied. At a second, higher level, a company with aspirations to succeed in the long term must have universal standards of individual and collective behaviour that are applied in every activity, everywhere around the world. In a large, diverse organization such as BP, this continues to be our primary challenge. Chapter 1 reports on our performance in respect of responsible operations during 2005.

Sphere of influence: our role in society

Beyond our operations we seek to have a positive influence over issues that affect our business and where we have the capacity to make a contribution. First among these are the challenges of climate change and social and economic development. BP's role in addressing climate change goes well beyond minimizing our own emissions. It involves contributing to the policy debate, supporting research and developing new, cleaner technologies in power and transport. In 2005, BP achieved a milestone when it launched a major business, BP Alternative Energy, dedicated to generating and marketing low-carbon power. In terms of social and economic development BP's main contribution to developing countries is typically in the form of government revenues, jobs, skills and products. BP also has a wider role to play in promoting sound governance and contributing to the progress of our host communities. Chapter 2 describes our progress in these areas in 2005.

Achievements and challenges

On this page we summarize the key achievements and challenges of 2005, concentrating on those with implications for the sustainability of our business in Azerbaijan and that of the communities and environment in which we operate.

Achievements



Operations By the end of 2005, the Chirag platform produced 328 million barrels of oil. First oil was delivered from the Central Azeri platform. Delivery of associated gas to Azerbaijan totalled 1.88 billion cubic metres for the year. In December 2005, four months early, West Azeri production began. Well production rates from the Azeri field ranked among the highest in BP worldwide (*pages 13-14*).

Pipeline construction Both the BTC and SCP (South Caucasus Pipeline) construction projects have broken new ground in the achievement of high environmental and social standards, including achieving high-quality land reinstatement and restoration once the pipelines were completed. According to the Lenders' Independent Environmental Consultant report (June 2005) "in general, reinstatement was found to be of a high quality, with only few exceptions" (*page 14*).

National NGOs monitoring programme in Azerbaijan and Georgia Funded by BP Azerbaijan SPU and its BTC/SCP partners, this programme made a significant contribution to raising the capacity of local NGOs in Azerbaijan and Georgia. The programme was recognized by the Caspian Development Advisory Panel as a "good example of how the company can use its presence in the region to achieve long-term development goals" (*pages 11-12*).

Revenue management The Azerbaijani government issued reports of Oil Fund revenues in accordance with the Extractive Industries Transparency Initiative (EITI). We engaged in various ways with government and civil society to enhance transparency in revenue management and took the decision to disclose our individual company payments to the Azerbaijan government (*page 39*).

Challenges



Fatalities The year was overshadowed by the deaths of three people who were working on our projects. Two contract workers died while directly supporting our activities in Azerbaijan and Georgia. A third contractor, not directly under our control^a, was killed in Turkey during land reinstatement work. We deeply regret these deaths and have sought to learn from them to reduce future risks (*page 19*).

BTC delay Poor winter weather conditions and the performance of construction contractors resulted in a delay in the completion of the BTC pipeline (*pages 14 and 34*).

Labour relations In November 2005, national employees at the Azerbaijan International Operating Company's construction contractor for East Azeri and Deepwater Gunashli platform topsides (McDermott Caspian Contractors Inc, (MCCI)) refused to work and demanded an immediate salary increase. The dispute was settled and a number of working groups set up to address other issues raised by MCCI employees (*pages 30-31*).

Waste management We invested further significant resources to ensure the effective management of the waste we generated during 2005, but the lack of waste management facilities in Azerbaijan and Georgia capable of meeting European Union standards continued to create difficulties (*pages 24-25*).

^a Not all of the work being performed is under our direct control. In some areas, we only provide influence and support. The portion of the work being conducted in Turkey falls into the 'influence' category.

Report scope and process

This is the third Sustainability Report for Azerbaijan and covers the calendar year 2005. It has been prepared by the Communications & External Affairs team in BP Azerbaijan SPU which is based in Baku.

The report provides an account of our business activities in Azerbaijan during the year and a description of our economic, environmental and social performance over the same period.

Two chapters form the framework of the report in line with BP group reporting guidelines. The first focuses on our performance in Azerbaijan during 2005. This is followed by an account of our role in society during the past year including investments we made in communities, the promotion of local enterprise and the support we gave to regional sustainable development. This year we have also added a separate section on climate change as this issue was at the top of the global policy agenda in 2005. Performance data is set out within the individual chapters and also in a section at the back of the report covering the years 2003, 2004 and 2005.

Where appropriate, BP's activities in Georgia and Turkey are outlined reflecting the international character of the majority of BP major Azerbaijan-based projects and partnerships.

Throughout the report we highlight links to other sources of information about BP and the wider context of BP operations. External assurance is provided by the BP group auditors, Ernst & Young, who are charged with ensuring that figures, statements and assertions in this report can be supported by

documentation or explanation; testing whether BP Azerbaijan's process for determining the key issues to be included in the report has been applied.

In preparing this report we have tried to ensure the widest possible coverage. Our approach has been to combine key issues as defined internally with the perspective of external observers. To do this, we have identified those issues with the potential to affect the delivery of our strategy. Others were identified through risk management – a standard part of our operating processes.

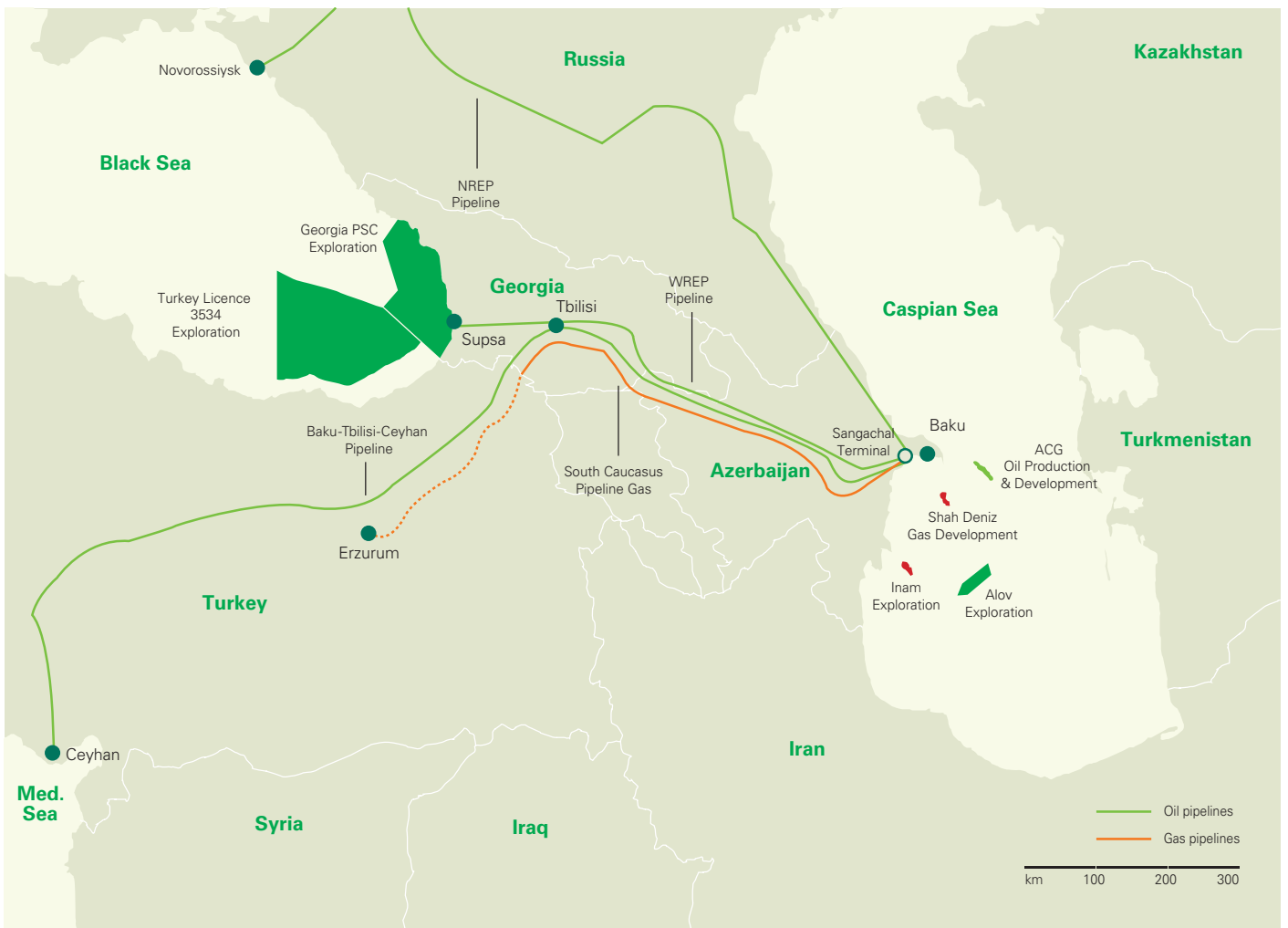
We have also considered issues that were highlighted in local and international media coverage or raised during our engagement with interested parties in the country in 2005.

BP's objective in producing individual country sustainability reports across the BP group is to provide clear and transparent insight into the quality of BP's assets and operations worldwide and to report openly on how BP manages its business. BP seeks a constructive dialogue with interested parties and a distinctive approach to the management of corporate responsibility issues.

www.bp.com/sustainability
www.globalreporting.org
www.accountability.org.uk



BP Azerbaijan SPU interests



1



Sangachal Terminal, Baku.

Chapter 1. BP in Azerbaijan – responsible operations

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- 1.4 Our projects and operations
- 1.5 Operating responsibly
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- 1.8 People; health; compliance and ethics
- 1.9 Georgia and Turkey – operational performance summary
- 1.10 Key statistics

1.1 BP Azerbaijan SPU at a glance

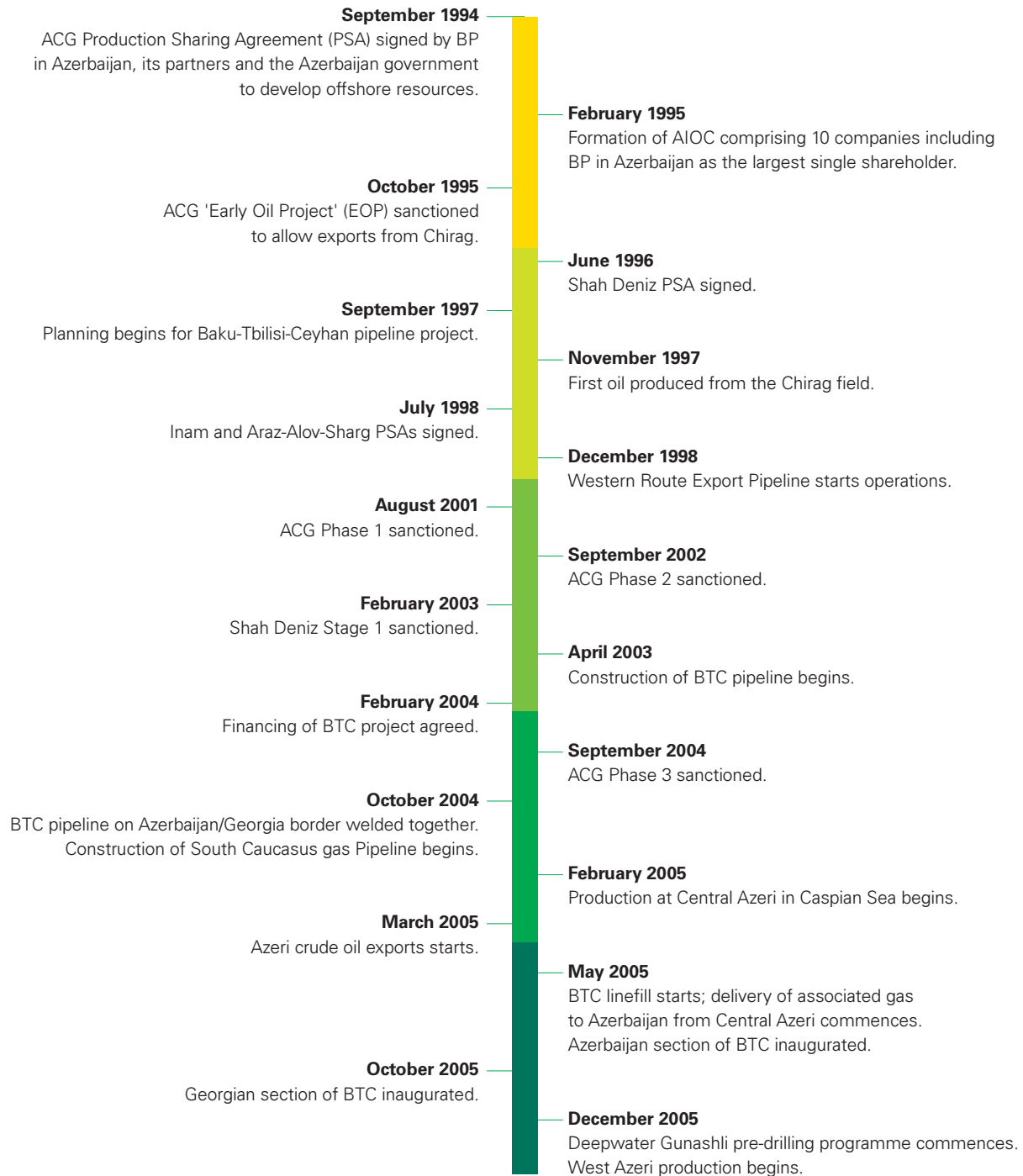
Our structure, organization, assets and history.

Legal structure	BP operates within a number of legal entities in Azerbaijan reflecting the evolution of its involvement in the country and the region since 1992. The principal legal entity is BP Exploration (Caspian Sea) Ltd. Other legal entities exist which are linked to our projects.
BP Azerbaijan Strategic Performance Unit (SPU)	The Azerbaijan SPU is the BP organizational entity which operates in Azerbaijan under a number of Production Sharing Agreements (PSA) and a Host Government Agreement (HGA) signed with the government of Azerbaijan. In Georgia and Turkey, it operates under HGAs that cover export pipelines and terminals, and in Turkey Black Sea under Licence 3534.
Office headquarters	BP Azerbaijan SPU is located at Villa Petrolea, 2 Neftchilar Prospekti (Bayil), Baku, Azerbaijan. Telephone: + 994 12 497 9000. Fax: + 994 12 497 9602.
Employees	At the end of 2005, the total number of individuals directly employed by BP in BP Azerbaijan SPU was 2,162. The number of employees of Azerbaijan/Georgian/Turkish nationality was 1,562 (72% of the total number of employees in BP Azerbaijan SPU). There were 519 expatriate staff and 81 UK-based employees. 36 Azerbaijani employees were working in BP centres overseas.
Offshore production assets	Azeri-Chirag-Deepwater Gunashli ^a (ACG) – an oil field from which BP Azerbaijan SPU and its partners first produced oil in 1997 and is now undergoing full field development; Shah Deniz (SD) – a gas and condensate field currently undergoing first stage of development with a target of first production in the late-summer of 2006.
Offshore facilities (by the end of 2005)	Chirag 1 platform, Central Azeri platform, Compression and Water Injection platform, West Azeri platform.
Estimated reserves	ACG – recoverable reserves of 5.4 billion barrels; SD – recoverable reserves of 22.1 trillion cubic feet of gas and 750 million barrels of condensate.
Storage and transportation	Western Route Export Pipeline – a 830km pipeline with eight manned pump stations linking Sangachal Terminal to Supsa on Georgia's Black Sea coast. Northern Route Export Pipeline – a 231km pipeline with pump injection and metering stations, linking Sangachal Terminal to the Russia border. ^b Sangachal Terminal: an oil and gas processing terminal on the Caspian shoreline south of Baku. Supsa Terminal: an oil storage and shipping terminal. Baku-Tbilisi-Ceyhan pipeline – a 1,768km oil pipeline (443km in Azerbaijan, 250km in Georgia, 1,075km in Turkey) including eight pump stations, three intermediate pigging stations and 87 valve stations, linking Sangachal Terminal to Ceyhan Marine Terminal on the Mediterranean coast in Turkey. South Caucasus Pipeline – a 690km natural gas pipeline between Sangachal Terminal and the Georgia/Turkey border running parallel to the BTC pipeline.
Exploration activity	Inam – a large geological structure south of Shah Deniz; Araz-Alov-Sharg – a frontier exploration area; Eastern Black Sea – Licence 3534 in offshore Turkey and Blocks APC-IIA, IIB and III in offshore Georgia.
Committed capital expenditure	About \$22 billion on the ACG, BTC, SD Stage 1 and SCP projects.
Oil production	AIOC 1997 – 2005: 371 million barrels in total.

^a Shallow water Gunashli is developed by the State Oil Company of the Azerbaijan Republic.

^b Transneft operates the continuation of the Northern route to Novorossiysk on Russia's Black Sea coast.

History



1.2 BP Azerbaijan SPU in perspective

Our management framework, strategy and vision.

Management framework BP operates in more than 100 countries today and is an organization of diverse cultures – not only national, but also those derived from recently-acquired firms in a number of countries and from differing areas of expertise. A clear management framework and good governance are regarded as crucial building blocks if the global organization is to perform in a focused, cohesive and consistent fashion.

The BP group management framework, laid out in 2004, is based on four concepts: governance; clarity of roles; functional excellence; and the overarching importance of BP as a single cohesive organization. Contained in a single point of reference known as the *BP Management Framework*, it sets lines of accountability from the most senior to the most junior levels.

In October 2005, some important management changes were introduced within BP Azerbaijan SPU reflecting the increasing scale and importance of the operational side of our business.

Two operational Performance Units (PU) were created – an Offshore Operations PU which will run all the offshore operational facilities; and an Onshore Operations PU which will run Sangachal Terminal and the export pipelines. Working closely together, these PUs will function as a fully integrated production, processing and export operation designed to maximize value from our world class assets.

In addition, a Renewal PU has been established, incorporating the previous

Exploration PU, to help to provide a sustainable business for the years ahead by assessing long-term development and production renewal options – one of the key elements of our business strategy.

Our strategy BP in Azerbaijan is the operator of major projects in the Azerbaijan sector of the Caspian and trans-Caucasus region. As operator, we are responsible for investment, project development and operational delivery on behalf of the various project partnerships (comprising national and international energy companies) in line with agreed management frameworks. This involves extensive consultation with a wide range of external organizations. Our partners provide invaluable input, challenge and support as part of this process and have contributed greatly to our overall success in the region to date.

Our strategy in Azerbaijan reflects, in the first instance, the BP group strategy. This is to seek out large, world-class oil and gas development opportunities. In pursuing this strategy we are committed at all times to acting responsibly in order to build trust, strengthen our corporate reputation and create a sustainable business based on mutual benefit and delivery of contractual commitments.

Our vision Our vision in this region is to be a distinctive and sustainable business that delivers competitive returns to the BP group, to our partners, to host



governments and to communities in those areas in which we operate.

Two years ago, we set out to refresh our thinking about the future. Specific areas of our strategy were identified to achieve our challenging goal of creating a sustainable business. They included creating an organization which would see the progressive nationalization of staff to meet operational needs and increase local content in our supplier and contractor spend. To help deliver these goals we have created an SPU 'best in class' programme, setting annual targets to achieve business performance which is consistently within the top quartile of the international oil and gas industry. We are also putting in place an integrated wells strategy and have already seen benefits from our work in the acceleration of new project start-ups such as West Azeri.

In 2005, we published a booklet for employees that outlined our priorities for the next five years. Seven objectives were defined:

- Continued improvement in our Health, Safety, Security and Environmental (HSSE) performance.
- Completion of our four major projects offshore and onshore.
- Effective management of new facilities to increase gross oil and gas production to more than one million barrels of oil equivalent per day.

- Reliable operation of our offshore facilities at an efficiency level of more than 90%.
- A fully operational terminal at Sangachal working at maximum capacity.
- Development of local employees into key roles across our organization.
- Delivery of financial returns and margins that are among the best in the BP group.

By the end of 2006, we aim to have six operating oil and gas platforms, one of the largest terminals in the world, and four export pipeline systems up and running – effectively, a material business here in the Caspian.



1.3 Dialogue and engagement

How we interact with wider society in Azerbaijan.

The principle of mutual advantage lies at the heart of our approach to all relationships. It is our belief that our activities should generate economic benefits and opportunities for all, that our conduct should be a positive influence and that we should be as open and accountable as possible. This applies wherever BP is represented.

As the leading foreign investor in Azerbaijan, we engage with many parties on a number of levels and in varying ways. Our regular contacts include government, regulatory agencies, community representatives, the media, national and international non-governmental organizations (NGOs), multi-lateral organizations (including lenders and project sponsors) and national civic groups.

One of our key social aims is to ensure that any support we provide meets local needs. We seek to work with the community and local NGOs to prioritize their needs and identify in an open, accountable manner projects on which we can co-operate.

Dialogue and engagement in Azerbaijan during 2005 took place on many levels.

With interested parties in general

- A quarterly Lenders' Report on the environmental and social aspects of the BTC pipeline project was produced and distributed widely to those interested in the project – one of half a dozen external reports about these projects issued regularly and available on our website www.bp.com/caspian

- The Caspian Development Advisory Panel continued to monitor the BTC project. Its reports and BP's responses are available on www.bp.com/caspian and www.caspsea.com
- For the first time in our engagement with the local community we presented the *BP Azerbaijan Sustainability Report 2004* formally to media, students, local NGOs and our employees.
- A monthly bulletin was produced by BTC and distributed by email to a peak of more than 1,500 subscribers.
- We participated in Azerbaijan's annual Oil Show and used the opportunity to strengthen local industry relationships and share information about our projects' activities and progress.

With employees

- We conducted quarterly 'townhall' information meetings for our staff hosted by BP Azerbaijan SPU leadership.
- We updated our internal website and re-launched and re-designed our monthly employee magazine 'Compass'.
- We carry out a group-wide 'people assurance survey' (PAS) for employee opinion every two years. The last PAS was held in 2004.

With government

- We held several meetings with the President of Azerbaijan and other high-

ranking officials to provide business updates on our activities in the country.

- We organized visits by the President of Azerbaijan to our operations and projects such as the ATA construction yard, the gas Compression and Water Injection platform and the Central Azeri platform.
- We held a number of meetings with the Ministry of Ecology and Natural Resources (MENR) to discuss issues relating to Environmental and Social Impact Assessments (ESIAs), environmental monitoring, waste management and NGO monitoring.
- We worked with the Ministry of Culture on various projects. A book on the Gobustan Reserve was translated into English and a film about Gobustan rock art was translated into Russian and French for distribution.
- During parliamentary elections in Azerbaijan we consulted with the Central Election Commission on election procedures relating to offshore and onsite voting.

With non-governmental organizations

- Meetings with national NGOs discussed a variety of issues including tender processes, cultural protection and environmental awareness.
- Local NGO monitoring continued in Azerbaijan and Georgia. In this programme (see case study) NGOs



NGO monitoring and audit training

In May 2005, NGO groups involved in the BP Azerbaijan SPU/Open Society Institute (OSI-AF) NGO Monitoring and Audit programme published five reports covering cultural heritage, environment, human rights, local content, and social issues. The programme, established in 2004, contains a significant element of training and capacity building for national NGOs.

Each report was reviewed separately in a 'dialogue workshop' attended by the NGOs, OSI-AF and BP Azerbaijan SPU/BTC. One theme, common to a number of the NGO recommendations, concerned the need to improve communication between BP Azerbaijan SPU/BTC and civil society. While positive examples of communication were noted, opportunities were identified for improved outreach and dialogue.

One NGO group recommended that a telephone hotline be provided so that community members would have additional means to raise issues and concerns. This was agreed by BP

Azerbaijan SPU/BTC. Another group felt that BP Azerbaijan SPU/BTC could provide more material in the Azerbaijan language. This recommendation, too, was accepted.

A second round of the BP Azerbaijan SPU/OSI-AF NGO Monitoring and Audit programme focusing on the SCP project, was launched in August 2005. Like the first round, the new programme was intended to promote transparency, strengthen civil society and identify opportunities for improvement in our management of the environmental and social aspects of our investments in Azerbaijan. In September/October 2005, an independent expert provided participants with hands-on training regarding each stage of audit preparation.

The 2005 programme included six university students in order to broaden our interaction with other members of civil society. Participants in the first monitoring round were selected to mentor these students as well as other new participants.

review how BTC/SCP project activities have performed in a number of areas.

With communities

- Public meetings continued to be held (42 in the fourth quarter alone) by the BTC/SCP pipeline contractor CCIC at which BTC/SCP land-related issues were also raised.
- Meetings were held on a variety of other topics including community safety and infrastructure issues.

With the media

- Regular press briefings were conducted for local and international journalists by the team leaders of our various projects.
- BP Azerbaijan SPU president held quarterly media briefings for local and international journalists.

- Field trips were arranged for newspaper and television media representatives to several locations. They included the BTC/SCP pipeline right of way, Sangachal Terminal, BTC/SCP construction camps and the Shah Deniz construction and community investment sites. In spring/ summer 2005, we arranged visits to the Borjomi region in Georgia for Azerbaijani journalists and to Ceyhan Marine Terminal in Turkey for Azerbaijani and Georgian journalists.

With other interested parties

- We hosted numerous site visits, field trips and workshops for interested parties. Visitors included heads of state, ambassadors, ministers, international agency representatives, parliamentarians, chief executives,

representatives of local and international NGOs and others.

- We co-operated with our partners on work designed to create a Regional Development Initiative.
- We held meetings with international financial institutions to discuss our sustainable development activities.
- We accompanied an Azerbaijan parliamentary delegation to Belgium and Denmark to introduce the Azerbaijani authorities to European Union (EU) environmental standards.
- We continued to broadcast a 20-minute bimonthly feature programme about the company's activities in the country, BP in Azerbaijan, which was shown on national television.

1.4 Operations and projects

How we performed in 2005.

Overview In 2005, as in previous years, we invested in projects in Azerbaijan on schedule and in line with BP group commitments. Our major projects represent the largest foreign direct investment in Azerbaijan.

Azeri-Chirag-Deepwater Gunashli (ACG)

Overview ACG, an offshore asset in the south Caspian Sea, is the largest oil field under development in the Azerbaijan sector of the Caspian basin. Lying about 100km east of Baku, it is being developed by BP in Azerbaijan as operator of the Azerbaijan International Operating Company (AIOC).

ACG production began in November 1997 from the Chirag 1 platform. Development of Azeri (Phases 1 and 2) followed, and Phase 3 will develop deepwater Gunashli. We anticipate that ACG full field development will result in production of about one million barrels of oil a day by 2009.

2005 milestones Production from the Chirag 1 platform totalled 52.4 million barrels of oil or about 7 million tonnes. By the end of the year, the Chirag 1 platform had produced 328 million barrels (over 44 million tonnes) since the commencement of development drilling and first oil production in 1997, with minimal interruptions.

In February, production began from the Central Azeri (CA) platform and by the end

of 2005, production had topped 42.8 million barrels (about 6 million tonnes). Oil from the CA platform is being brought ashore via a new 30" subsea pipeline to Sangachal Terminal where it is processed for onward delivery to market via existing export routes.

The Terminal maintained an operating efficiency rate approaching 100% in 2005 while undergoing a major expansion programme known as the Sangachal Terminal Expansion Programme (STEP). Construction of STEP progressed on schedule. One of the more visible signs of these changes in the Terminal are three new crude oil storage tanks with a combined volume of more than 2.7 million barrels. They are now in operation.

Associated gas from the Chirag platform continued to be routed to a compression station at Oil Rocks, owned

by the Azerbaijan state oil company SOCAR, via an existing 16" subsea gas pipeline. In total, we delivered more than 1.03 billion standard cubic metres of gas from Chirag in 2005.

Gas to Azerbaijan from CA was delivered from Sangachal via a new gas export pipeline that connects the Terminal gas processing facilities to Azerigas's national grid system. In all, 0.846 billion standard cubic metres CA gas was delivered in 2005.

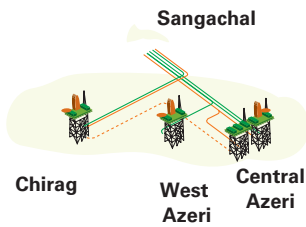
Drilling activity during the year saw the 20th well at Chirag handed over to operations in October. The East Azeri pre-drilling programme was successfully undertaken and largely completed.

In July 2005, the Compression and Water Injection platform (C&WP) that is to provide water and gas injection

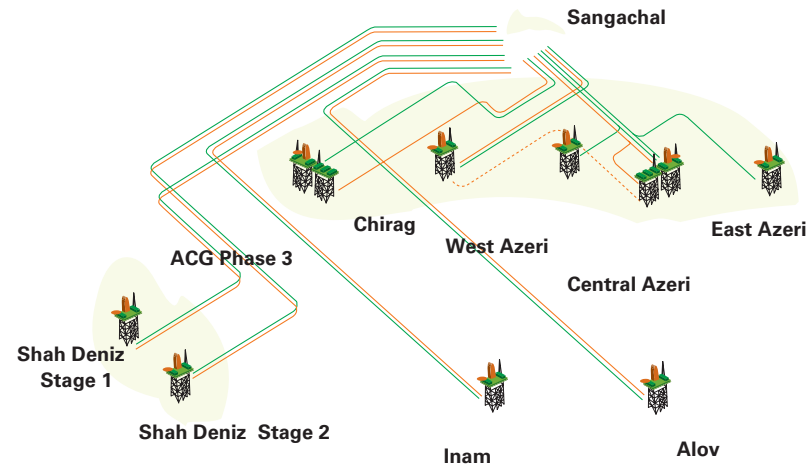
It is forecasted that the contribution from the BP – operated oil production in Azerbaijan to the predicted increase of the world's oil production by 2010 might reach 10%.



2005 BP Azerbaijan SPU offshore facilities



Potential future



By 2009, it is planned that the BTC pipeline will have a capacity to export a million barrels of oil a day to world markets – representing a significant proportion of expected growth in world oil demand over the next few years.

Sangachal Terminal in early January 2006. At peak production the WA facility is scheduled to add 300,000 barrels a day to the 'plateau' production rate of 340,000 barrels of oil a day from CA.

Deepwater Gunashli construction moved ahead as planned and was 30% complete by year end. We also finished construction of the WA subsea pipeline in July 2005 and then moved on to the EA pipe-lay. By the end of 2005, 18 subsea pipelines had been laid totalling more than 850km in length – almost 90% of the length of subsea pipe we planned to lay. So far more than half a million tonnes of pipe have been used.

In 2005, we spent \$2.71 billion in capital expenditure and \$191 million in operating expenditure with our AIOC partners on ACG activities.

Outlook In 2006, oil output at Central Azeri is scheduled to continue to ramp-up as the remaining pre-drilled production wells are brought online, followed by further drilling from the platform. Major milestones set for 2006 include first gas injection on the C&WP.

Gas from CA is scheduled to continue to be exported through a 28" subsea pipeline to Sangachal Terminal and also via the new gas export pipeline into the Azerigas system for domestic use. The remainder of Chirag 1 associated gas is planned to be sent to the CA C&WP once it is operational in 2006 for re-injection into the Azeri reservoir. This will

enable us to stop routine gas flaring on the Chirag platform.

Baku-Tbilisi-Ceyhan (BTC) pipeline project

Overview The BTC pipeline has been built to transport oil from the Sangachal Terminal south of Baku through Georgia to a new marine terminal at Ceyhan on the Turkish Mediterranean coast. From there tankers will ship the oil to world markets so avoiding the need to transport additional oil through the congested and environmentally-sensitive Turkish Straits.

Almost 10 million barrels of crude oil are required to fill the 1,768km pipeline which is scheduled to become operational in mid-2006 when the first tanker is filled at Ceyhan.

2005 milestones In May 2005, line-fill of the BTC pipeline started from the Sangachal Terminal. Oil reached the Azerbaijan/Georgian border in early August and then entered the Georgian section of the pipeline. In mid-November oil crossed the Georgian/Turkish border and reached Pump Station 1 in Turkey. At that point four million barrels of oil were in the pipeline.

Completion of the project involved rigorous testing and commissioning activities designed to ensure the integrity and safety of each section of the pipeline prior to introducing oil. These activities took longer than expected but were

services to the Central, West and East Azeri platforms sailed away from the Amec-Tefken-Azfen (ATA) yard south of Baku. Offshore installation and hook-up activities proceeded successfully with an aim to be completed in 2006.

In September 2005, the West Azeri (WA) topsides sailed away successfully and were installed safely onto the jacket. Fabrication of the East Azeri (EA) jacket was mostly completed.

At the end of December, four months ahead of schedule, WA production began from the first of three pre-drilled production wells. Oil from WA reached



By 2010, Shah Deniz Stage 1 is planned to supply 8.7 billion cubic metres (bcma) of gas annually, of which 1.6bcma is planned to go to Azerbaijan, 0.8bcma to Georgia and 6.3bcma to Turkey under long-term contracts.

necessary to make sure that the link operates efficiently and safely for the next 40 years or more. Other factors contributing to the delay included poor winter weather conditions and contractor performance, particularly on the Turkish section of the line.

Capital expenditure on the project totalled \$1.18 billion in 2005 including costs of line-fill and financing. Construction costs rose due in part to a longer than anticipated construction period and are expected to total around \$4 billion.

Outlook The BTC pipeline is scheduled to become fully operational during 2006, with the first oil due to be loaded aboard a tanker at Ceyhan Terminal in mid-year. Until BTC is fully operational alternative export routes will continue to be utilized for ACG crude including the Western Route Export pipeline, the Northern Route Export pipeline and export by railcar to Batumi.

www.bp.com/caspian

Shah Deniz and the South Caucasus gas pipeline

Overview One of the largest new hydrocarbon finds of recent years, the Shah Deniz (SD) natural gas field was discovered in 1999. BP in Azerbaijan is the operating company for SD and the technical operator of the South Caucasus gas pipeline (SCP).

SD is located 70km offshore Azerbaijan beneath water depths ranging from 50 metres in the north-west to 600 metres in the south east. It covers a surface area of 250 square kilometres and is a geologically complex structure with multiple reservoir 'horizons'. Recoverable reserves are put at 22.1 tcf of gas and 750 mmbbl of condensate, with potential for further hydrocarbons at deeper horizons.

Gas is planned to be delivered to the Azerbaijan, Georgian and Turkish markets through SCP, a 690km pipeline to the Georgian/Turkish border. The SCP line will then join up with the Turkish national gas grid. In Azerbaijan and Georgia, the SCP runs parallel to the BTC pipeline and, like it, is buried underground.

First phase development costs for SD and SCP are likely to total about \$4.1 billion and include installation of a fixed production platform linked by three subsea pipelines to Sangachal Terminal onshore as well as the \$1.1 billion SCP.

2005 milestones Good progress was made during 2005 on the first stage of SD construction. In August, the project completed its Stage 1 pre-drill programme, including the fourth production well sanctioned by the SD partners. This is scheduled to provide some three billion cubic metres of additional natural gas to Azerbaijan for delivery in the 2006-2008 period.

Work at the Zykha facility, operated for the SD project by Technip Maritime

Offshore Limited (TMOL), commenced in 2003 with refurbishment of the Zykha 3 and 4 facilities to transform the facility into a world-class offshore fabrication yard. In April 2005, the giant TPG500 hull arrived at the facility. Over the rest of the year work at the yard was focused on final installation of the platform legs and completion of the topsides facilities.

Construction on the SD section at Sangachal Terminal, and work on the large gas plant, continued in 2005 and was on schedule at the end of the year.

In September 2005, the SD subsea pipelay programme, comprising three 90km pipelines, began. The programme made use of the 'Israfil Huseynov' pipelay barge which had been re-fitted and upgraded for ACG subsea pipelay operations. By the end of 2005, about 85% of the SD offshore pipelines had been laid.

Substantial progress was made on the 690km SCP project. By the start of 2006, pipeline construction was almost complete in Azerbaijan. Major accomplishments included completion of trenching, mainline welding, lowering, and backfilling in Azerbaijan; hydrotesting of three quarters of the line in Azerbaijan; and installation and testing of a significant proportion of high altitude pipe sections in Georgia.

In all, capital spending on the Shah Deniz Stage 1 and SCP projects totalled \$1.27 billion in 2005. Operating expenditure on the Shah Deniz Stage 1 was \$19.8 million.

Outlook Sailaway of the TPG500 platform from the Zyxh fabrication yard and completion of the laying of SD subsea pipelines will take place in the second quarter of 2006 in line with our target to achieve first gas for the winter of 2006. Another appraisal well is expected to be drilled in the south western part of the field. SCP commissioning from Sangachal Terminal will commence by mid-year.

Exploration

Overview We remain committed to search in the region for new hydrocarbon resources that offer prospects of long-term development potential. Our focus is on three offshore possibilities.

Inam is a large structure in the Kura Delta area south of Shah Deniz located in a challenging drilling environment. A first deep well was drilled in 2001 but did not reach the reservoir targets due to excessive over-pressure. In 2005, preparatory work on a second well continued with a view to drilling sometime in the second half of 2006 depending on the availability of the 'Istigal' drilling rig.

Alov, Araz, Sharg In 2005, differences between Azerbaijan and Iran over delineation of the Caspian Sea continued to impede work on the site.

Eastern Black Sea In Turkey, we operate Deepwater Exploration Licence 3534 with

a 25% working interest. In January 2006, BP Azerbaijan SPU, on behalf of its partners TPAO (50%) and Chevron (Unocal Turkey B.V. – 25%), completed drilling operations on the first exploration well – Hopa HPX-1. The well spudded on July 18th, 2005, and reached its planned final depth of approximately 4,700 metres. Data acquired during the drilling will be studied by the partnership during 2006. In Georgia, BP holds a participating interest in deepwater blocks IIA, IIB, and III. Anadarko is the operator (48.0%) with BP (28.5%), Turkey Petroleum Overseas Company (13.5%) and Chevron (Unocal – 10%). Interpretation of seismic data continues.

Other businesses

Integrated Supply and Trading (IST)

BP Azerbaijan SPU markets its equity crude oil through BP's Integrated Supply and Trading (IST) group based in London.

IST's key role is to capture trading opportunities that exist throughout the value chain. Working with each segment, IST generates incremental value by optimizing and managing BP's commodity flows and by applying its entrepreneurial skills to value trading activities. It is one of the world's largest energy traders with substantial scale and geographic spread.

BP lubricants in Azerbaijan BP/Castrol lubricants continued to be distributed to BP Azerbaijan SPU projects in the Caspian region by our local partner



Petrochem. In 2005, 1.8 million litres of high quality lubricants were delivered to BP Azerbaijan SPU and its contractors in the country. Besides the projects operated by us, BP/Castrol lubricants are supplied to most oilfield services contractors active in Azerbaijan.

1.5 Operating responsibly

Our safety performance and the integrity of our operations.

Safety

Overview 2005 was overshadowed by the deaths of three people employed on our projects. Two contract workers died in direct support of our activities. One accident happened on a pipe laying vessel in the Caspian Sea and another was a vehicle accident on the pipeline right-of-way in Georgia. Although not under our direct control, a third worker died in Turkey in a heavy equipment accident during BTC land reinstatement work. We deeply regret these deaths and continue to seek ways to reduce the risk of such incidents.

BP group values include the goals of no accidents and no harm to people. We believe that no one should be subject to unnecessary risks while working for the company. Our approach is that all accidents are preventable. Health and safety is a line management responsibility while everyone who works for BP anywhere in the world has a personal responsibility to undertake his or her duties in a safe manner at all times.

In Azerbaijan, we have put in place a Safety Plan that integrates and links group, Segment and Strategic Performance Unit safety initiatives. It describes specific activities that support these initiatives and outlines actions that need to be performed to enhance safety awareness, encourage safe behaviour and learn from incidents.

The 2005 BP Azerbaijan SPU safety plan was based on a review of our 2004 safety performance. Key initiatives and

activities, such as additional training for site supervisors and increased targets for behavioural-based safety observations were developed and progress was monitored against them. Specific targets were set for key indicators. Our monthly safety performance measured against the initiatives was reported to senior management and distributed widely across BP Azerbaijan SPU.

Our safety culture was enhanced in 2005 by some specific initiatives including a Supervisors' Safety Leadership course, Contractor HSE forums and Energy Isolation Immersion^a.

These initiatives were augmented by a continuation of programmes begun in 2004. They included discussions about personal and workplace behaviour (known as Advance Safety Audit), the Safety Training Observation Programme, further strong emphasis on safe driving across BP Azerbaijan SPU and the delivery of HSE training. These efforts resulted in both reduced recordable injury frequency and reduced accident frequency rates. As one indicator of the success of the programmes, the BTC and SCP pipeline construction projects achieved a lost time accident frequency seven times better than the pipeline industry average in 2005.

During 2005, BP Azerbaijan SPU HSSE Policy Statement, which all employees are required to comply with, was enhanced. The basic commitment to no accidents, no harm to people and no damage to the environment remained in place and unchanged.

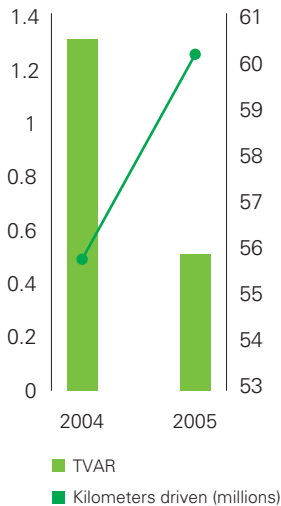


Safety achievements

- Since November 2004, 5.8 million man-hours worked without a lost-time incident in Offshore PU.
- The BTC pipeline was filled from Sangachal Terminal to Pump Station 1 in Turkey with no accidents.
- The NREP has now operated for eight years without a lost-time accident while the Western Route Pipeline (WREP) has operated for six years without a lost-time accident.
- In addition, the Supsa Marine Terminal achieved seven years with no lost-time accidents and in November 2005 celebrated the safe loading of its 300th tanker.

^a Energy Isolation Immersion – BP uses focused training and information packages, immersions, to increase awareness and skill around certain high-risk activities or conditions. The Energy Isolation Immersion focused on the recognition and control of hazards related to the unexpected release of energy during operations, maintenance and construction activity.

BP Azerbaijan SPU total vehicle accident rate, 2004-2005



BP Azerbaijan SPU safety performance 2004-2005^a

	Actual 2004	Target 2005	Actual 2005
Fatalities ^b	2	0	2
HiPO (f) ^c	0.015	0.02	0.005
DAFWC ^d	0.031	0.03	0.010
RIF ^e	0.433	0.40	0.33
TVAR ^f	1.33	1.16	0.48
ASA (f) ^g	353	600	937
STOP (f) ^g	1,885	3,000	3,643
Training (f) ^h	3,561	4,000	4,581
Kilometres driven (millions)	55.66	n/a	60.10 ⁱ
Hours worked (millions)	51.71	n/a	44.41

Notes and definitions.

^a The table shows information for BP Azerbaijan SPU data only. BP Azerbaijan SPU is the reporting unit for HSE performance within BP. It does not include project-only data. BP's injury and illness definitions are the U.S. Occupational Health and Safety Administration (OSHA) definitions and their subsequent interpretation.

^b Reported fatality figures do not include project-only work. There was one additional fatality in 2005 on project work where BP Azerbaijan SPU did not exert direct control but where we exert 'influence'.

^c HiPO is abbreviation for High Potential incident.

^d Days Away from Work Case (DAFWC) is a work-related injury or illness that causes the injured person to be away from work for at least one normal shift after the shift on which the injury occurred, because the person is unfit to perform any duties. DAFWC frequency is expressed as the number of reported injuries or illnesses that result in a person (employee or contractor) being unable to work for a day (shift) or more per 200,000 hours worked.

^e Recordable injury and illness (RI) is the number of reported work-related deaths and illnesses, together with injuries that result in days away from work, restriction of work or motion, transfer to another job, or that require treatment beyond first aid. The RI frequency is expressed as the number of reported recordable injuries and illnesses per 200,000 hours worked.

^f Total Vehicle Accident Rate (TVAR) is the number of reported road accidents per million vehicle kilometres travelled.

^g The Advanced Safety Audit (ASA) and Safety Training Observations Programme (STOP) frequencies are based on the number of reported ASA or STOP observations per 200,000 labour hours.

^h The training frequency is the number of safety training hours taken by employees per 200,000 labour hours.

ⁱ The total kilometres driven in 2005 equates to driving 1,375 times around the equator.

In addition, the statement spelled out clearly our commitment to the protection of the natural environment and to the health, safety and security of our staff and the communities in which we operate. It also incorporated a number of new requirements such as the ISO 14001:2004 Environmental Management System Standard.^a

Other safety developments during the year included:

- Completion of all action items from the 2004 *Getting HSE Right*^b external safety management systems audit.
- Review and updating of more than one-third of the procedures within the *Safe Systems of Work*^c in preparation for re-issue in 2006.

^a ISO 14001 – BP uses external accreditation of its environmental programmes through an international environmental standard (ISO 14001). Reviews are conducted by a third-party agency, in this case, Moody International.

^b Getting HSE Right – this is the name the BP group uses for its safety management system.

^c Safe Systems of Work – these are a collection of task or risk-specific policies and procedures used to provide guidance on the safe performance of key work activities.



Improving safety awareness

During the period of our operations in Azerbaijan, we have conducted several campaigns designed to improve road safety awareness.

Over five years and 17.5 million kilometres driven, employees in the Central Transportation section have achieved a safety record of two million man-hours worked without a single day away from work case.

We co-operate on a continuous basis with the State Traffic Police Department to help enlighten younger generations about driving safety issues. We contribute towards the cost of establishing special camps and preparing aids and textbooks designed to teach traffic rules at schools. And qualified specialists from BP Azerbaijan SPU's transport section regularly make presentations in schools and distribute technical materials to students including cat's eye reflectors and books for children.

Hafiz Aleskerov, our transportation compliance officer, is a firm believer in this practical approach. "Most of the traffic incidents occurring in Azerbaijan are caused because drivers or pedestrians are inadequately

trained in road safety issues or because of the poor attitude road users show towards other road users including pedestrians," he says. "My hope is that these presentations will help to change attitudes."

Adds Neil McCleary, BP Azerbaijan's Offshore Performance Unit leader: "Times have changed in Azerbaijan with better roads and faster and more vehicles on the roads every day. Our gift to children is to teach them to know the rules of the road and to obey them."

Events in other parts of BP's worldwide operations during 2005 drove home the need for continuous focus on safety issues. In 2006, we plan to pay close attention to three particular areas of our safety programmes under the headings of process, plant and people – covering plans for integrity management; assessing and addressing the potential for major accidents; and improving contractor performance management.

Fatalities We investigate all fatalities and incidents in BP Azerbaijan SPU on a systematic basis. The objective is to determine the root causes of every single incident and to develop and implement measures to prevent such incidents recurring.

Each incident classified as recordable under U.S. Occupational Health and Safety Administration (OSHA) record-keeping guidelines is analyzed in detail. Regular audit programmes are conducted by us including planned and scheduled contractor safety audits. Lessons learned from incident investigations are immediately utilized to drive change and improvement

and to establish the basis for subsequent safety plans and targets.

In 2005, to our deep regret, three fatalities were associated with our operations in the region. Two of them were recorded by BP Azerbaijan SPU and one was recorded at the BTC project level. All the cases involved contractors undertaking construction-related activities.

Following the fatalities we took steps to expand our existing safety programmes more widely into supporting organizations. This included setting higher expectations for delivery of safety programmes by contractors performing maintenance activity on their equipment even when they are not directly engaged in the performance of work for BP Azerbaijan SPU. Expectations for safety performance by subcontractors was also increased and additional access to safety resources was provided. Safety training, offered through the Enterprise Centre, was also expanded and access to these programmes was opened to all contractors, subcontractors and members of the public.

Driving safety Vehicle safety was a continuing focus of attention across all our operations in 2005. Emphasis was placed on enforcing specific elements of the BP *Driving Safety Standard* to our employees and our vehicles and to our contractor workforce. The focus was clearly reflected in a reduction of vehicle accident frequency from 2004 (1.33) to 2005 (0.48).

Safety training Our commitment to safety means that each person working for BP Azerbaijan SPU has a duty to be alert to safety as they go about their jobs. We recognize that safe operations depend not only on technically sound plant and equipment but also on competent people and an active HSSE culture.

All our staff and agency staff in BP Azerbaijan SPU are required to take the core HSSE training. In 2005, around 58,573 HSSE training hours were delivered. The courses included basic fire fighting, chemical hazard awareness, safety observation training, HSSE induction training for new employees and reviews

of BP group incidents such as the 2005 Texas City explosion.

Our HSSE staff are regarded as 'agents for change' – supporting our business management and seeking to deliver the best HSSE solutions to meet our business expectations and the requirements of our external stakeholders. For example, safety staff, working at our operations and projects sites, provide advice and encouragement to the workforce to apply safe working practices such as BP's *Golden Rules of Safety and Safe Systems of Work*. They monitor site activities, support supervisors when inconsistencies with good safety practice are observed, assist in HSE policy implementation and continuously improve the safety culture at the sites.

Contractor safety In 2005, measures were introduced to improve the safety of everyone who participated in any BP Azerbaijan SPU-related activity. Among other initiatives, a monthly Contractor HSE Performance Matrix was devised to monitor and assess contractor safety. Several HSE audits of our top operations contractor companies were undertaken, contractor supervisory personnel were trained in safety leadership training and contractor vehicles and drivers assessed. In addition, a 'Safety Away Day' was held with major contractor companies to emphasize our safety policy and expectations. Senior regional representatives of BP's top contractor

companies attended the event as well as the senior leadership of BP Azerbaijan SPU.

Integrity of our operations

In June 2005, the six monthly external surveillance audit of our Environmental Management System (EMS) compliance against the ISO 14001 Standard was undertaken by Moody International Certification group. No non-conformances were identified either during site visits to the Sangachal Terminal and the Chirag 1 platform or in a review of EMS-related documentation for the Sangachal, Chirag, NREP and WREP.

In November 2005, a similar audit took place to verify compliance with the ISO 14001 standard at the new ACG Phase 1 facilities at the Central Azeri PDQ platform, the Sangachal Terminal and Supsa sites. Again, no non-conformances were identified demonstrating that the new facilities had been integrated successfully into the EMS in accordance with the ISO 14001 standard.



1.6 Environmental management

How our activities in Azerbaijan affected the environment in 2005.

Greenhouse gases (GHG)

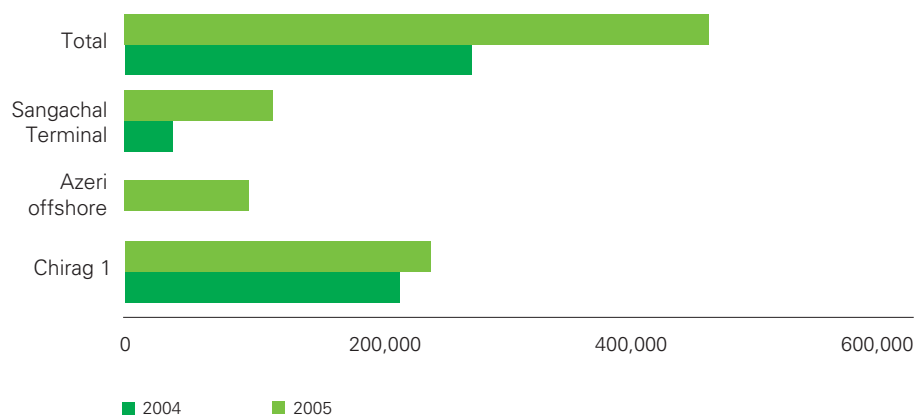
BP has publicly stated its position on climate change and its commitment to reduce the production of greenhouse gases (GHG) that contribute to global warming. The elimination or minimization of gas flaring and venting supports the intent of this commitment. The following sections describe the efforts being pursued by BP Azerbaijan SPU to translate the above commitments into local and regional improvements.

GHG emissions rose in 2005 as a result of increasing oil production. Actual emissions were 1,860kte, 28% less than originally forecast for 2005.

As outlined in the 2004 report, BP Azerbaijan SPU is pursuing a number of GHG emission minimization projects. These include re-injection of gas at the ACG Phase 1 offshore reservoir to improve oil recovery, minimization of flaring at the Chirag 1 platform and onshore flare gas recovery at the Sangachal Terminal. These projects are expected to start making a difference from 2006.

The major sources of GHG, as in previous years, were onshore and offshore gas flaring at the Chirag 1 offshore platform and the Sangachal Terminal. During 2005, we expected to be able to minimize Chirag 1 routine gas flaring through the delivery of excess gas to the ACG Phase 1 C&WP facility using a subsea gas pipeline. Project delays resulted in this initiative being rescheduled for 2006. Until

Summary of BP Azerbaijan SPU flaring 2004-2005, tonnes (by asset)



then excess gas produced at Chirag 1 continued to be flared due to lack of spare capacity in the Chirag-Oily Rocks gas pipeline.

Emissions from the BTC project in 2005 were lower than anticipated due largely to delays in commissioning the pipeline. Emissions from the Central Azeri platform were 58% below target due to improved operational efficiency and minor delays in start-ups of the C&WP platform. Sangachal Terminal emissions exceeded its internal estimate by 3% due to a minor delay in transporting gas to SOCAR which resulted in increased levels of flaring.

It is anticipated that our GHG emissions in 2006 will be 65% higher compared to 2005 due to the commissioning and start-up of the CA C&WP, West Azeri, East Azeri and Shah Deniz offshore oil and gas

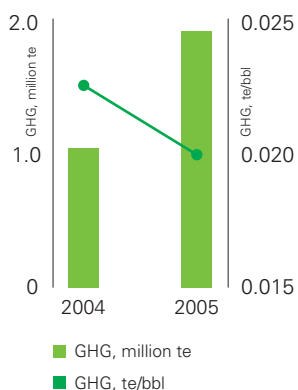
assets and the operations of the BTC and SCP oil and gas pipelines.

Flaring

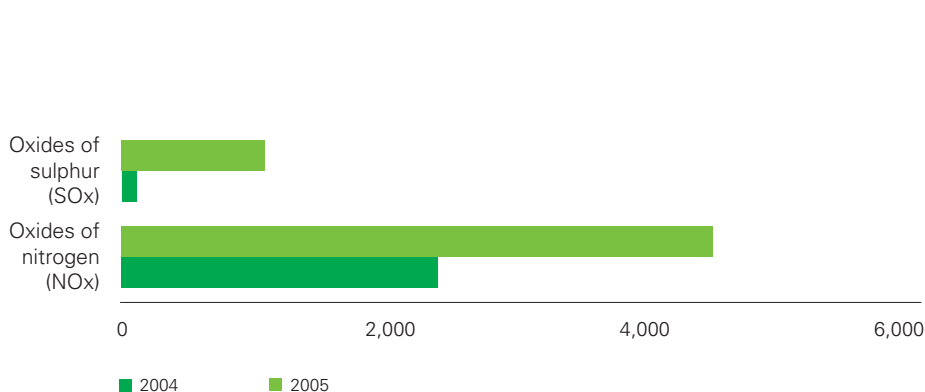
In 2005, the amount of the gas flared was 478,415 tonnes – a 68% rise compared to 2004 following the commissioning and start up of the Central Azeri offshore platform and higher oil production rates at Chirag 1 which resulted in additional flaring offshore and at the Sangachal Terminal.

To mitigate the Chirag 1 routine flare volume, during 2006 we intend to transfer associated gas from the platform to the newly installed CA Compression and Water Injection platform (CA C&WP), so that the gas can be injected into the subsurface as part of reservoir management or be transferred to the

BP Azerbaijan SPU GHG emissions 2004-2005, tonnes (gross)



BP Azerbaijan SPU generation of oxides of nitrogen and sulphur emissions 2004-2005, tonnes



Sangachal Terminal through the gas pipeline to shore from CA C&WP.

Energy consumption

In 2005, BP Azerbaijan SPU consumed 136,543 tonnes of fuel gas and 35,353 tonnes of diesel – up 134% and 36% respectively on comparable figures for 2004. The growth of our activities – especially the commissioning of the CA platform and Phase 1 facilities of the Sangachal Terminal, and line-fill on the BTC pipeline, accounted for most of the rise.

The greater scale of our activities also increased non-GHG emissions – SOx and NOx. Despite this growth, our monitoring

programmes within the environment around the Sangachal Terminal – our major onshore asset – showed, that concentrations of SOx and NOx were within air quality guidelines during 2004-2005.

Discharges to water/drill cuttings

In 2005, 13,014 tonnes of drill cuttings and associated fluids (adhered drill mud) were discharged to the sea – a 44% reduction compared with 2004.

BP Azerbaijan SPU uses both water-based mud (WBM) and non-water-based mud (NWBM) for its drilling operations. Most of our discharged drill cuttings are water-based. WBM is the most commonly used drilling

mud in the world and has low toxicity hence cuttings discharges to the seabed are often permitted in offshore operations.

Our offshore drilling operations in Azerbaijan also generate volumes of cuttings containing NWBM – specifically synthetic-based drilling fluid. For the ACG and SD projects, we re-inject the NWBM offshore or ship it to shore for treatment before re-use or disposal. Twenty five percent of BP Azerbaijan SPU discharged cuttings contained synthetic-based mud (SBM). In 2005, as in 2004, these cuttings were discharged only from the Chirag 1 platform and the discharges were in compliance with applicable ACG PSA and EIA requirements

BP's group policy is to eliminate SBM cutting discharges as far as practical. SBM discharge elimination options for Chirag1 platform have been evaluated by the BP Azerbaijan SPU. The evaluation concluded that possible options available, could not be engineered retrospectively into the platform due to the lack of required deck space and insufficient weight tolerance in addition to technical issues that prevent cuttings re-injection from Chirag 1 platform.

In 2005, the volume of SBM drill cuttings and associated muds discharged from the Chirag 1 platform was reduced

Summary of BP Azerbaijan SPU drill cuttings discharged to water 2004-2005, tonnes

	Drill cuttings with WBM discharged to water in 2004, te	Drill cuttings with WBM discharged to water in 2005, te	Drill cuttings with SBM discharged in 2004, te	Drill cuttings with SBM discharged in 2005, te	Total drill cuttings discharged 2004, te	Total drill cuttings discharged in 2005, te
Chirag 1 platform	0	0	6,077	3,315	6,077	3,315
Azeri offshore	0	1,408	0	0	0	1,408
ACG pre-drill	12,901	8,291	0	0	12,901	8,291
Shah Deniz upstream	4,294	0	0	0	4,294	0
Total	17,195	9,699	6,077	3,315	23,272	13,014



Hydrotesting in Azerbaijan

Hydrotesting is an essential part of proving the integrity of a pipeline and safeguarding the environment against future leaks and spills. Effectively, it involves filling a new pipeline with water and applying a pressure that is greater than standard operating procedures as one of the many integrity checks ahead of operation.

Consolidated Contractors International Company (CCIC), the BTC construction contractor in Azerbaijan, designed and implemented a hydrotest programme for the Azerbaijan section of BTC. The pipeline was tested in ten sections with water recycled from one test section to the next. In this way, the amount of water used for hydrotesting was minimized.

At the end of testing, approximately 76,000 cubic metres of hydrotest waste water was discharged from the pipeline into two ponds surrounded by fences and warning signs. In order to address concern that this water might contain

biocide (a chemical additive to the hydrotest water designed to remove oxygen and sulphur from the pipe, reduce bacteria and avoid internal corrosion) and enter shallow groundwater, high density polyethylene liners were installed in both ponds.

After only six weeks concentrations of biocide in the first evaporation pond had fallen below the normal detection limit. Later both ponds were fully reinstated to the previous land use.

by about 46% in comparison with 2004. This reflected the commencement of shipping centrifuge solids generated from three development wells to shore. BP Azerbaijan SPU will explore ways to further reduce SBM discharges at the Chirag 1 platform and will continue to undertake environmental monitoring in the vicinity of the platform. As part of the Chirag 1 drill cuttings management strategy, it is planned to install a cuttings dryer on the platform in 2006 that will reduce the SBM content on the discharged cuttings.

In 2006, we plan to begin to re-inject NWBM cuttings at Central Azeri and other Azeri platforms as they come online to minimize the amount of NWBM cuttings sent to shore and to continue to meet the project commitment for no discharge of NWBM cuttings.

Spills

In 2005, 64 spills (releases from primary containment) were recorded in Azerbaijan, Georgia and Turkey as a result of our activities. This compares to 24 spills in 2004. About 80% of the spills were small by volume – less than one barrel or 159.9 litres.

One spill of about 70,900 litres (or 446 barrels) accounted for three quarters of

the total volume of all spills in 2005. This spill took place in Georgia and was the result of an illegal tapping of the Western Route Export Pipeline. Necessary clean up measures were taken and the contaminated soil was removed.

In Azerbaijan, 54 spills were recorded in 2005 in comparison with 20 spills in 2004. The total volume of material released in Azerbaijan was 24,410 litres. Almost all of the released material was recovered by means of special spill recovery equipment. Nevertheless, the volume of material spilled was 14% greater than in 2004.

The higher number of spills in 2005 compared with 2004 reflected the wider scale of our activities as compared to 2004 – in particular the commissioning of new offshore platforms and the BTC oil pipeline in Azerbaijan and Georgia.

BP Azerbaijan SPU uses Oil Spill Contingency Plans to ensure that in the event of a spill all reasonable and foreseeable actions and contingencies are available. To facilitate local capability we were involved in the development of Azerbaijan's National Oil Spill Contingency Plan (NOSCP) during 2005. The plan seeks to protect the environment from the damaging effects of oil spills by providing a co-ordinated national response mechanism. Use of dispersants

(see below) has been included in the NOSCP. Under the co-ordination of an international consultancy, Det Norske Veritas (DNV), the NOSCP is scheduled to be finalized during 2006.

Dispersants

To maximize the protection of Caspian Sea resources against oil spills, the Azerbaijan government and international oil companies operating in the country, a number of years ago, identified a need to investigate the use of dispersants as a suitable tool for responding should a spill occur. The overall aim was to find the most effective and least toxic dispersant that could be used to respond to a spill in the Caspian Sea.

The use of dispersants – chemicals that are sprayed onto oil spills to encourage the 'dispersion' of oil, so minimizing the amount of oil that reaches wildlife or coastlines and speeding up oil biodegradability – is an internationally-recognized oil spill response method. Dispersants are designed to break-up or 'emulsify' the spilled oil into the form of oil droplets small enough to remain below the surface and not reform as a slick. Natural water movement then ensures that the oil is diluted in the sea to levels which cause no environmental problem.



To address the concerns of governmental authorities and help build local capacity, a Steering Committee of interested parties (MENR, SOCAR and the National Academy of Science) was set up which conducted a number of scientific studies. Based on the results of the conducted studies, the government of Azerbaijan granted approval for the use of two types of internationally used and recognized dispersants (Super-dispersant 25 and Corexit EC 9527A) in the Caspian Sea, as well as approving operational guidelines for dispersants use.

Dispersants capability will greatly increase the capacity of Azerbaijan and the region to respond to an oil spill in the Caspian basin. Already the benefits have been experienced outside Azerbaijan when the BP Turkey Black Sea Exploration team used the information in 2005 during consultations with the Turkish authorities about the potential use of dispersants in the Black Sea.

The conclusions of the studies undertaken by the Steering Committee were presented at a Caspian Environmental Programme Oil Spill Preparedness workshop and put forward at the 2005 International Oil Spill Conference in Miami, USA.

Waste management

Waste management infrastructure compliant with European Union (EU) standards is at an early stage of development in Azerbaijan and Georgia. More developed infrastructure is available in Turkey.

Both Azerbaijan and Georgia have plans to establish EU-compliant facilities for non-hazardous waste. In Azerbaijan, we expect the new landfill designed to EU standards to commence operations in 2007.

In 2005, we continued to work with the Ministry of Ecology and Natural Resources (MENR) of Azerbaijan to gain access to the existing hazardous waste landfill in Azerbaijan and to ensure that its operations adhere to international standards.

In one of its reports in 2005, the CDAP "commended" BP Azerbaijan SPU and BTC "for the constructive way" in which both had worked with local authorities in 2004-2005, especially in Georgia, to find long-term solutions to waste management.

Disposed wastes by our operations in BP Azerbaijan SPU totalled 13,078 tonnes in 2005 – an increase of 109% compared to 2004. Of these wastes, 85% (11,170 tonnes) were designated as hazardous^a and 15% (1,908 tonnes) as non-hazardous^b – a substantial shift from 2004 when the comparable figures were 61% (3,817 tonnes) and 39% (2,440 tonnes). The increase in quantities of waste in 2005 was a reflection of the higher number of the operational sites such as Central Azeri platform, Phase 1 facilities at Sangachal Terminal, and other sites and associated activities such as commissioning, well completion etc.

Throughout 2005, in Azerbaijan we utilized our new dedicated landfill cell at the Sumgayit municipal landfill for non-

hazardous waste. A programme will be put in place to train personnel in landfill operations. In addition, we awarded a contract to a local company to build and operate a new landfill designed to EU standards as a long-term permanent solution.

Our purpose-built waste storage facility at Serenja was expanded to provide a dedicated hazardous chemical storage area for the temporary storage of wastes. We also worked with local contractors to find new re-use opportunities for specific chemicals. This resulted in a decrease in stored hazardous waste liquids.

Serenja continued to provide drill cuttings storage and treatment processes. In 2005 14,298 tonnes, or about 95% of all received drill cuttings, were treated by the Indirect Thermal Desorption (ITD) unit.

At Kurdamir – located midway between Sangachal Terminal and the Georgian border – an incinerator was provided to ensure that the movement of waste from BTC construction sites was kept to a minimum. The incinerator comprises an air incineration system, a flue gas cooling and treatment system and a continuous

^a Hazardous wastes – wastes that exhibit one or more of the characteristics such as ignitability, corrosivity, reactivity, toxicity, flammability or explosiveness. Examples are oily rags/absorbents, diesel/crude oil residues, pigging waxes, batteries and drill cuttings.

^b Non-hazardous waste – wastes that do not exhibit one or more of the characteristics of hazardous waste, are biodegradable or inert and cannot cause any harm to people and environment. Examples include paper, cardboard, food waste, scrap metal, wood, plastics and glass.



monitoring system. It has a solid waste throughput of up to 170 kilograms per hour and a waste oil throughput of up to 40 litres per hour. This has allowed the project to minimize the amount of waste sent to landfill. The Kurdamir facility is expected to continue its work during the operations phase of the BTC project.

We closely monitored performance of our waste management contractors. Quarterly Performance Reviews (QPRs), audits and inspections are regularly conducted with existing Waste Management contractors to assess their performance, identify any gaps and set improvement plans. Potential new service providers were briefed regularly to provide them with details of our requirements and scope of activities so that sustainable facilities and processes could be developed.

In 2005, BP Azerbaijan SPU introduced a revised waste management strategy. A key element was the work with local service providers to improve their standards. A number of new 'in-country' contractors were engaged to provide re-cycling services for wastes such as pigging wax and wood. In addition, in 2005, we awarded a contract to 'Enviros' (an independent environmental consultancy) to assess the Best Practicable Environmental Option (BPEO) for waste management, considering each waste stream separately and collectively and balancing such aspects as environmental impact, technical standards and financial costs.

Green office initiative In 2003, we launched a green office initiative (GOI) in Azerbaijan and since then the project has become an integral part of BP Azerbaijan SPU's existence. The aim is straightforward – to reduce the impact that office activities have on the local environment. The chosen tool is everyday application of the 3Rs – Reduce, Re-use, Re-cycle.

Progress has been made with paper re-cycling. Used paper from our offices, including shredded paper, is now collected in special paper re-cycling bins and transferred to a paper re-cycling factory run by a local company. The material is then transformed into egg trays, boxes and other carton products.

In 2005, the maximum rate achieved by our offices was 39% of re-cycled office paper versus consumed. Old books, brochures and newspapers are also collected. In 2005, 24,916 kilograms of paper product from our offices in Azerbaijan were re-cycled. We also extended the GOI to include used sunflower oil from our canteens. This waste is used in varnish production.

Other waste like used batteries, luminescent tubes and used printer toner cartridges for which no re-cycling facilities yet exist in Azerbaijan are collected and transferred to BP Azerbaijan SPU-approved waste management sites. In 2006, we plan to replace styrofoam cups in our offices with bio-degradable paper cups.

The GOI is the first of its type in Azerbaijan and is now being duplicated by

similar initiatives at our contractor companies and in the local community.

Environmental monitoring

BP is required by law and committed by its values to undertake environmental monitoring of its activities. Actual monitoring at each company location is based on the site-specific activities.

Our ecological monitoring in the region dates back to the start of operations in 1995. During the period of 1995-2003, 29 marine ecological surveys were conducted on our behalf.

BP Azerbaijan SPU now has an integrated environmental monitoring strategy and programme in place. The main objective is to have an internally consistent long-term monitoring regime that will help us understand our impact on the environment and fulfil our legal commitments.

In 2005, an interim internal summary report was drafted, drawing together all the studies conducted in 2004. The results of this exercise are being reviewed with the aim of quantifying both background regional trends and operational impacts and identifying the most effective environmental management practices for the future.

During the year, our integrated monitoring programme continued, with marine benthic surveys at an exploration drilling site within the Shah Deniz contract area. A regional benthic survey was undertaken in the Shah Deniz

Trending of Independent Environmental Consultant quarterly audit non-compliances for Azerbaijan



contract area and complemented by a combined plankton-water quality survey which covered both the ACG and Shah Deniz contract areas. Two new seasonal surveys were carried out in the terrestrial environment around the Sangachal Terminal. We continued to support seasonal monitoring of coastal populations of migratory and over-wintering birds.

The programme, to date, has made a successful start in developing a reliable long-term time-series of information for both operational locations and the wider environment. It is expected that this data will make a significant contribution over the longer term to the scientific community's wider understanding of the health and status of the Caspian Sea.

The programme continues to receive scientific support and guidance from the AIOC/Shah Deniz Research and Monitoring Group – experts including local scientists and representatives of the MENR, Azerbaijan National Academy of Sciences (ANAS), State Oil Company of the Azerbaijan Republic (SOCAR) and its research institute – Gipromorneftegas.

Monitoring of the BTC/SCP pipeline projects continued through 2005. It included internal environmental compliance monitoring (by BTC/SCP, BOTAS and construction contractors), Environmental and Social Action Plan (ESAP) and Resettlement Action Plan (RAP) compliance monitoring by independent consultants on behalf of the Lender groups, regulatory monitoring by

host country governments and project monitoring by the CDAP.

The Lender groups Independent Environmental Consultant (IEC) conducted quarterly audits of BTC construction through 2005. Overall, the number of non-compliances raised in the Lender Independent Environmental Consultant (IEC) audits has fallen steadily since the start of BTC construction as is shown above.

The BTC project continued to produce quarterly Environmental and Social reports for public dissemination through the project website. Environmental and Social reports for both the BTC and SCP projects covering 2004 were also published during 2005. The reports can be accessed via www.bp.com/caspian

Biodiversity

Despite geographic and biological diversity, wide areas of Azerbaijan suffer from environmental degradation. In addition, our various projects in the country have the potential to affect biodiversity by disturbing habitats, generating waste, causing noise pollution and opening up previously remote areas.

To minimize these potential effects, our aim has been to ensure that the offshore facilities and pipeline routes avoid areas of high biodiversity and environmental sensitivity. We have also been implementing practical projects that help to reinforce biodiversity and raise awareness of the issue of biodiversity.

During 2005, we moved from preparation to initial execution of a pilot project intended to conserve and restore parts of the rare Tugay forest habitat in the Kura floodplain.

Today just 10% of the 180,000 hectares of Tugay forest that once existed in Azerbaijan is still in existence. Loss and damage have been extensive in recent decades. The creation of water reservoirs in the Kura basin has resulted in more than 30,000 hectares of wooded land being covered and destroyed. Much of Tugay forest has been lost to farming activities. Industrial activities including shipping and manufacturing have discharged polluting wastes into the river water. These waters have then been dumped onto the woodland by natural flooding. A lack of energy accessibility in the surrounding villages has also made the Tugay trees a tempting supply of firewood.

As part of the pilot project, 12 hectares of forests are now being replanted and more than 150 hectares of land rehabilitated with support from BP Azerbaijan and in close co-operation with the Azerbaijan Ministry of Ecology and Natural Resources. Villagers living near the pilot area participated in the trees planting work and efforts have been made to raise their environmental awareness – for example, by holding meetings at which the importance of trees to the natural habitat is underlined and by demonstrating how cattle wear down forests. Fences have been erected



Dealing with mud volcanoes

Over 300 mud volcanoes are located in Azerbaijan. Bubbling craters containing cold mud, they sometimes erupt causing a flow from the source which then travels down the slope and over time may form conical or plateau-like structures. Most are to be found in the Gobustan region between KP0 and KP30 on the BTC pipeline route and have formed at points where pressure within the earth's crust is released.^a

From the outset the BTC pipeline was designed to bypass active mud volcanoes but the right-of-way does pass through an area known as the Mud Volcano Ridge (MVR). This feature represents an elevated series of predominantly inactive volcanoes between KP24 and KP30. Here the soil is unstable and highly

vulnerable to erosion and the area is also characterized by steep gullies and ravines.

When construction began through the MVR, it was feared that the work could make the erosion worse and even threaten the integrity of the pipeline if it was not properly managed.

Additional controls were therefore put in place to reduce the impact of construction. They included dual lay of the BTC and SCP pipeline to minimize the duration of the construction period and allow rapid and one-off reinstatement, a site specific method statement, minimal separation distance between the BTC and SCP pipelines and immediate reinstatement and closure of section to traffic.

In addition, particular effort has been made to re-contour the land surface to match pre-disturbance conditions thereby promoting a quick return to more stable landform conditions. Biodegradable matting has also been used in the reinstatement works. The success of these operations is illustrated in the accompanying photo.

^a Section 8.6.4.2 of the Azerbaijan ESIA for BTC. www.bp.com

around rehabilitated areas to allow time for newly planted trees to get established.

The fourth Biodiversity Awards in Azerbaijan sponsored by AIOC, the Shah Deniz and BTC/SCP projects, were made in November 2005. Forty three projects from 27 organizations were entered into the Best Biodiversity Project category. The first prize of \$20,000 was won by the Society of Azerbaijan Botanists for a project focused on the Absheron peninsula's natural monuments.

Conservation of cultural heritage

During 2005, the BTC/SCP projects continued to implement a cultural heritage work programme developed at the outset of construction. The focus of the year was on completing all necessary right of way excavations in advance of construction to the satisfaction of the regulatory authorities and under the supervision of international archaeological experts.

A further 27 excavations were completed in 2005 bringing the total undertaken in Azerbaijan to 40. We worked closely with the Institute of Archaeology and Ethnography (IAE) in carrying out these excavations. An article about the work was published in August on www.archaeology.co.uk/cwa/issues/cwa12/cwa12.htm#BTC

At the end of the year, we supported a regional archaeological conference hosted by the IAE at which a paper on the projects' archaeological work programme was presented. The conference ran for three days and attracted more than 60 participants including scholars from Georgia, Russia and the United States. Following the conference BTC financed the publication of a book containing 175 papers presented at the meeting. This was later distributed to conference attendees.

Beyond BTC/SCP construction and into 2006, the projects are supporting the Institute in carrying out a comprehensive

analysis and reporting of finds from the excavations. Public and academic dissemination of the information is planned to be supplemented by the project producing further publications and presentation media.

1.7 Security and human rights

Our involvement in upholding rights and resolving grievances in 2005.

Maintaining the security of people and facilities in and around our sites is central to responsible business behaviour. In addition, we believe that the protection of human rights is a legitimate concern of business although enforcement lies with governments.

To make sure our own standards are high and consistent the BP group identifies and ranks the security risks it faces and then develops clear action plans. It supports the United Nations Universal Declaration of Human Rights with its principle of fundamental freedoms for all and seek to enshrine it in our work. And it supports the Voluntary Principles on Security and Human Rights.

The Voluntary Principles are designed to safeguard rights by ensuring that police, security forces and private guards assigned

to protect energy sites or pipelines are properly trained and closely monitored. The year 2005 saw further application of the Principles, particularly in connection with the construction of the BTC/SCP pipeline projects – the first projects of their kind to incorporate the Principles as part of their prevailing legal regime.

In addition, we respect a wide range of other internationally-recognized human rights including labour rights. Our labour commitments include provisions on issues such as non-discrimination, freedom of association, work conditions and a ban on the use of child labour. We are committed to freedom of opinion and expression and respect for minority and ethnic rights.

To assess our compliance with these fundamental human rights commitments, BTC and SCP appointed an independent auditor, the US law firm Foley Hoag. In July 2005, Foley Hoag made on-the-ground assessments in Azerbaijan and concluded that, overall, the projects are "in substantial compliance with AGT's Human Rights Commitments" and that "BTC Co. and SCP Co. efforts to address human rights-related issues follow the best practices for the industry and, in some instances, set new higher standards." As with a number of other external monitoring assessments of the projects, the findings and recommendations from this round of monitoring were made available publicly on the projects' website.

While we are responsible for practical security issues surrounding the day-to-

day management and operation of the BTC/SCP pipelines, national governments have a responsibility to protect the pipelines as national assets. To help build capacity in this area, we signed an agreement with Equity International, an international foundation, to provide human rights-based security training for state security organizations of Azerbaijan and Georgia responsible for pipeline security.

In 2005, Equity International continued to provide human rights-based security training for Azerbaijan's Pipeline Protection Department (PPD). A second 'Continuation Training Programme' was completed in spring 2005, reinforcing the knowledge and skill development work that started the year before. This phase included seminars for senior commanders and operational commanders, a four-week 'training of trainers' course, followed by three rounds of two-week training courses for government pipeline protection personnel at regional bases along the pipelines' route.

During the second half of the year, Equity International began third phase training for Azerbaijan's PPD. This involved a 'training of trainers' course in proportionate use of force and firearms, assistance in enhancing the PPD's training curriculum (to incorporate human rights instruction), assistance in enhancing the PPD's standard operational procedures and assistance in developing its crisis response plan. The training programme received excellent support from the Azerbaijan authorities and is planned to continue in 2006.



Following the signing of a bilateral security protocol between us and the government of Georgia in October 2004, we met with Azerbaijani officials in 2005 to develop a similar agreement. The meetings included discussion of provisions on standards and procedures on the use of force and firearms, on monitoring and reporting, recruitment and training of security staff and on communications and consultation between the two parties. We hope to conclude an agreement in 2006.

Grievance resolution We recognize that our activities may have a significant impact on local communities. As a result, we have put in place a community grievance mechanism that allows us to receive, log, and address legitimate concerns raised by individuals impacted by our activities.



During 2005, a total of 396 complaints were received from landowners/users and other individuals along the Azerbaijan BTC right-of-way related to the construction of the BTC/SCP pipelines. Most related to irrigation issues (42%), damage to property (12%), damage to infrastructure (7%), land issues (12%) or land compensation (13%). By the end of 2005, only 35 complaints remained unresolved, which we will continue to consider in 2006.

We have also put in place a response process to be followed in the event of any alleged human rights violations associated with our business being brought to our attention. At the end of February 2005, a small group of residents in the Goranboy district of Azerbaijan held a protest on the BTC pipeline right of way over rights to compensation for land used by BTC during construction. In line with the project's procedures, work was stopped and a community liaison officer (CLO) met the protestors to hear their grievances and provide guidance on how to address them. The following day a second protest was held at the same location. The Divisional Police chief and the Regional Governor's representative were unable to negotiate a resolution and they called in the local police who then moved the group off the pipeline.

Immediately following the incident, a BTC/SCP projects investigation team was asked to determine the facts of the incident and also to determine if additional measures should have been taken to prevent it. The

subsequent report made clear that no physical injuries had been suffered by the protestors. The results of the investigation, the recommendations and the applicable lessons have been widely shared.

Monitoring by national NGOs has also helped us identify human rights risks associated with our activities. Human rights assessments were completed in 2005 in Azerbaijan and Georgia, as part of the BTC/SCP national NGO monitoring and audit programme. The audits have examined such project issues as community liaison, land acquisition and compensation, employment standards, and grievance mechanisms. The findings and recommendations of the working groups were made public and can be read on www.bp.com/caspian. A second round of human rights monitoring by national NGOs is scheduled to be completed in both countries during 2006.

1.8 People, health, compliance and ethics

Our approach to employee recruitment, training, health care and behaviour.

People

Our employment objective in Azerbaijan and the Caucasus region is to offer rewarding careers with BP Azerbaijan SPU, equality of opportunity and flexible working practices. We encourage diversity in the workplace and aim to recruit and promote on merit and without discrimination.

Everyone who works for us is encouraged to develop their capabilities to the full. Regular performance reviews are conducted with individuals. We measure how well we meet our employment commitments and we use a range of survey techniques to collect employee opinions and feedback.

We carry out a group-wide People Assurance Survey (PAS) of employee opinion every second year. Managers are expected to use the intervening time to take actions on issues revealed. In 2004, PAS found a higher level of satisfaction in BP Azerbaijan SPU compared to the BP group as a whole or in the region as a whole.

Individuals working for BP Azerbaijan SPU are competitively rewarded for performance. Benefits for our staff include

contracts with medical and accidental death and disability insurance, family support plans, bonuses and a share match plan. Non-cash benefits for staff include educational assistance, vacation time, maternity and sick leave and lunch provision.

Recruitment In Azerbaijan, as elsewhere in the BP world, we seek a balance between the employment of expatriate staff and the recruitment and development of local nationals, the aim being to localize the workforce as quickly as possible. In 2005, about 74% of Azerbaijan-based employees working in BP Azerbaijan SPU were Azerbaijan nationals. Expatriates are engaged on a basis that reflects the standard of living in their home countries.

In 2005, 36 Azerbaijani employees were working overseas either in BP Azerbaijan SPU or in other business units within the BP group. One hundred and a twenty nine out of 1,291 national employees were either in middle (107) or senior (22) management grades (including Azerbaijani employees working abroad). Nineteen percent of the national employees in management grades were female.

During 2005, we recruited 49 recent graduates, 17 experienced workers and 57 interns in addition to 115 operations technicians. The recruitment process was observed by the Open Society Institute (OSI-AF) which declared subsequently that it had been conducted "in a transparent and fair way." OSI-AF made a number of suggestions to improve the

process which BP agreed to implement. OSI-AF plans to conduct a second review in 2006.

In 2005, 26 employees resigned from BP Azerbaijan SPU to leave Azerbaijan and continue their professional careers in Canada, Germany, Kazakhstan, Russia, Switzerland, UK and US.

Contractor workforce At the end of 2005, the ACG project employed about 12,000 people of whom 77% were Azerbaijani nationals. At Sangachal Terminal more than 3,600 people were employed of whom some 76% were Azerbaijani nationals. About half of these workers are resident in adjacent villages and towns of the Garadagh district. Some 3,600 local contractor staff were involved in Shah Deniz projects activities at the Zyk yard and Sangachal Terminal at the end of 2005. BTC and SCP local contract staff totalled 1,300.

Levels of local employment generated by our construction projects consistently exceeded target during the year. In Azerbaijan, the percentage of local workforce rose above 70% for the BTC pipeline and 90% at our facilities.

Labour dispute In November 2005, several hundred workers at the fabrication yard operated by AIOC's construction contractor for platform topsides, McDermott Caspian Contractors Inc (MCCI) refused to work and demanded an immediate salary increase. The dispute was settled and

BP Azerbaijan SPU staffing 2005 (Azerbaijan-based staff only)

Local employees	1,291
Expatriates	450
Temporary employees (Local)	312
Temporary employees (Expatriates)	720
Total	2,773

employees were offered a salary rise, a bonus and a salary review. A number of working groups were set up to investigate and help the management of MCCI address other issues raised by employees.

Training During the course of 2005, we spent more than \$22 million on training activities.

Training expenditure 2005

National professional training	\$19,799,192
Safety training	\$2,307,801
Total	\$22,106,993

Challenge programme The BP group's Exploration & Production (E&P) segment's Challenge programme for graduates dates back to 1993. Since then it has developed in line with the business although the original intent remains the same as it was at the start – to renew BP professional workforce in order to safeguard the future of the company.

BP Azerbaijan Challenge population is now one of the biggest in the E&P segment with 131 'challengers' taking part. The programme provides structure for obtaining required competencies and is built around real jobs. It gives an opportunity to those involved to establish a track-record for delivery, gain important field experience and build networks with peers across the world.

Summer internship programme This programme gives an opportunity to second/third year undergraduate students and first year students in Master programmes at Azerbaijani universities to obtain hands-on work experience in BP Azerbaijan SPU during the two-three

month summer vacation period. In 2005, there were 57 students participating in this programme.

Scholarship programmes BP Azerbaijan SPU's core scholarship programme began in 2001 when our subsurface discipline initiated a US-based Master of Science programme for geologists, geophysicists, petroleum engineers. In 2003, this was widened to include programmes for drilling, completions and surface engineers. Two local universities – 'Qafqaz' and 'Khazar' – as well as Turkey's Middle East Technical University were selected to support this expansion.

At the end of 2005, 66 Azerbaijani nationals were taking part in various scholarship programmes funded by us, including 13 in the United States, 33 in Turkey and 20 in Azerbaijan. Fifteen were undertaking subsurface studies, 23 drilling and completions and 28 surface engineering studies.

In September 2005, BP Azerbaijan SPU was one of the sponsors, along with the UK Embassy in Baku and the British Council, at the launch the UK-Azerbaijani Alumni Network – a self-run grouping of one-time Azerbaijani students who studied in the UK and have since returned home to work in government, business and civil society. More than 50 people joined the network at its inception.

In addition, BP supported the first three young Azerbaijanis to take up John Smith fellowships in the UK. Set up to promote democracy and good governance and also to help encourage dialogue among young people in the region, these fellowships were extended to include Azerbaijan in 2005.

Technician training The Caspian Technical Training Centre (CTTC), opened for business in 2004, has quickly become the main educational hub for career development of technicians working in onshore and offshore hydrocarbon operations in Azerbaijan.

Technicians spend one year at CTTC getting hands-on experience and being evaluated. In-class training is blended with practical learning at drilling simulators, dummy plants and in a well-equipped modern workshop. At the end of their year successful graduates are assigned to BP operated sites.

In 2005, about 98 people were trained at CTTC. Sixteen technicians also took part in BP Azerbaijan SPU's overseas assignment programme, working for three months at BP North Sea operations sites at Sullom Voe and Dimlington. Participants were selected on their performance in their current jobs. In 2006, this programme will be extended to include placements in BP's Alaska Business Unit.

Society of Petroleum Engineers (SPE)

Since 2004 BP Azerbaijan SPU has worked with the SPE (providing facilities and sponsorship) to bring together professionals in the oil and gas industries in order to share knowledge, technology, experience and best practice. In 2005, SPE held a two-day symposium for students from 'Khazar' university and the State Oil academy, providing training on well planning and presentation and team-working skills.

Developing local leadership To enable potential leaders to develop necessary skills and behaviours, the BP group some years ago instituted a First Level Leaders (FLL) programme. The

"I can say that the Challenge programme is really an excellent opportunity for graduates to develop their professional competencies. In particular I was able to extend my HSE skills from several different perspectives."

Asif Huseynov, Drilling Challenger, Central Azeri platform Drilling team.



"I gained lots of things by taking part, especially knowledge that will enable me to think critically and work in an increasingly interconnected world. And I got a sense of perspective about what is needed for a successful career in BP."

Emin Hasanov, student at the Academy of Public Administration.



Godjat Nuriyev, offshore operations engineer

In 2005, Godjat Nuriyev, a mechanical engineer by training who joined the Chirag team in 1997, became the first Azerbaijani employee of BP/AIOC to become an Offshore Operations Engineer (OOE) on the Chirag 1 platform.

Nuriyev has come a long way from his first job in 1982 as a mechanic at Azerbaijanstroy. In 1984, he enrolled at the Polytechnic Institute of Azerbaijan, graduating in 1990 as a mechanical engineer. By 1997, when AIOC offered him a job, he was employed in a Baku-based scientific research and design institute focusing on offshore platforms. At that stage his mastery of the English language was non-existent. Indeed, when he took an entry test to join AIOC he had to ask a person sitting next to him to write his name for him in English on the test paper.

At AIOC, the Nuriyev's hard work and ambition was soon noticed. After six months onshore training he joined the Chirag team as a production technician. Four years later, in 2002, he became the first Azerbaijan national to reach Production Supervisor level. At the start of 2005, he was sent on a three-month assignment to BP's Magnus

platform in the North Sea so that he could become familiar with the onshore-offshore interaction process.

Now Godjat is in charge of oil production, separation and export from the Chirag 1 platform to the Sangachal Terminal. "The key contributions to my career development to date have been the willingness to take on new accountabilities and challenges," he says.

intention of the programme is to build a worldwide community of individuals with an understanding of the company's strategic direction, the context within which it operates and a common language of leadership. At the end of 2005, there were more than 250 FLLs in the Azerbaijan SPU. About 120 of them are Azerbaijani citizens.

A comparable Senior Level Leaders (SLL) programme aims to enhance leadership capabilities by engaging the company's extended leadership in the strategic direction of the group, forming a diverse yet inclusive global community of SLLs and inspiring a passion for leadership among those taking part. There are more than 140 SLLs in the Azerbaijan SPU of whom five are Azerbaijani citizens.

Health

The core objectives of health management in BP Azerbaijan SPU are the prevention of injury and ill health at our facilities, the management of injury and illness and the promotion of good health. In order to achieve these goals our health team conducts training and implements a comprehensive health management programme and data reporting system.

Health training and data reporting system

In a major initiative, we organized the first UK-certified training exercise in emergency medical pre-hospital care to be held in Azerbaijan. Forty medical professionals from four countries and 10 companies successfully completed practical and theoretical modules and were certified.

We also conducted medical emergency response training for teams from different BP/AIOC/BTC operations locations. More than 60 people from rescue staff representing BP Azerbaijan SPU and contractors were shown how to conduct life saving actions in different scenarios of medical emergencies.

Another initiative in 2005 involved the training of 84 Azerbaijani and Georgian health and safety professionals in OSHA (Occupational Safety and Health Administration) illnesses and injuries reporting. As a part of this project, a new injury and illness reporting system was implemented across BP Azerbaijan SPU.

More than 132 BP Azerbaijan SPU and contractor personnel were trained in manual handling awareness. Training in drug testing to UK standards was undertaken and special skills training sessions were given to our and contractor caterers. Computer-based training

about sexually transmitted infections was launched in three languages (Azerbaijani, English and Russian).

Health management programmes During 2005, several new health programmes were issued, including the first edition of the Food Safety management programme and a comprehensively updated Drinking Water Quality management programme. These internal references are designed to ensure a systematic approach toward maintaining and improving food safety and water quality. In 2005, as part of the drinking water quality programme, a series of bottled water production plants were audited by BP Azerbaijan SPU health team. In addition, external ISO 17025^a accreditation audits were conducted to ensure suitable testing service providers were available in county to support the food and water programmes.

The aim of implementing these programmes is to ensure that BP Azerbaijan SPU's Supply Chain Management, HSSE

^a ISO 17025 – specifies the general requirements for the competence to carry out tests and/or calibrations, including sampling. It covers testing and calibration performed using standard methods, non-standard methods, and laboratory-developed methods.

and contractors are able to appoint and manage catering activities and facilities using a uniform approach. The first successful application of the new Food Safety management programme was at the Baku Deep Water Jacket Factory Topsides site following a food related incident involving 100 personnel seeking treatment for gastrointestinal symptoms at the site clinic. The programme was applied to appoint a new contractor, upgrade the site facility and implement a process of self regulatory monitoring in conjunction with BP/AIOC audit activity.

Compliance and ethics

To set and achieve consistently high standards of behaviour, BP has developed group-wide rules to be observed by all employees in addition to applicable local laws and regulations. Since BP opened an office in Baku in 1992, we have always sought to conduct our business in Azerbaijan to these standards.

BP expects that everyone who works for the company adheres to the BP group *Code of Conduct*, introduced in June 2005, throughout the BP group including in Azerbaijan where 190 briefing 'awareness' sessions were held for staff. The Code prohibits illegal, corrupt or unethical practices and demands high standards of probity. It is universal in application and sets out rules and advice more clearly and in greater detail than ever before. Failure to follow the *Code of Conduct* is taken very seriously and may result in disciplinary action up to and including dismissal.

In relation to governments and communities, the Code underlines BP's policy of making no corporate political contributions whether in cash or in kind. It also provides detailed guidance on the giving and receiving of gifts and entertainment, conflicts of interest, bribery, competition, trade restrictions, money laundering and working with suppliers.

In addition, the Code lays down clear rules on the personal use of company property, the handling of proprietary information, intellectual property and data and digital systems. It applies in all jurisdictions and cultures. Where differences exist with local customs, laws or regulations,

employees must apply either the Code or local requirements – whichever sets the highest standard of behaviour.

To complement the English edition, the Code of Conduct document, posters and website were made available to our staff in the Azerbaijani language. The Code was also translated into Georgian and Turkish. BP Azerbaijan SPU policies relating to business conduct were reviewed and updated to ensure alignment with the Code's provisions and any changes were communicated to staff. All newly hired employees received detailed briefings on the Code as part of their orientation process.

Perception surveys by independent organizations such as Transparency International suggest that high levels of corruption exist in Azerbaijan. BP Azerbaijan SPU has therefore identified particular areas where fraud and ethical risks have greater potential to occur as part of our operations in Azerbaijan. These are primarily in contract and supplier selection and contract administration across the supply chain for large and small-scale contracts, in recruitment procedures and in other administrative processes.

Certification process A key indicator of the extent to which BP Azerbaijan SPU is complying with applicable laws and regulations is provided by the annual group-wide compliance and ethics certification process. This enables us to identify risks and potential concerns and to take action where appropriate. Any highlighted risks and concerns are reported to BP group management in a compliance report signed by BP Azerbaijan SPU Leader. We completed our annual certification in 2005.

As part of the Compliance and Ethics certification process, BP Azerbaijan SPU introduced personal attestation. As a result, all of our employees in Azerbaijan had to confirm in writing that their activities during the year were in compliance with the *Code of Conduct*. During this exercise more than 150 individual items were raised which were then distilled down to 51 potential ethical concerns. Over half of these had been addressed within respective teams by the time of certification and the remainder are currently being actioned.

All employees are encouraged to raise any ethical concerns they may have with management directly or through the use of an *Open Talk* programme. Under this programme the company endeavours that any concerns reported will be properly reviewed and, if appropriate, will be investigated in a confidential manner and acted upon.

During 2005, a small number of our employees and contractor staff working in Azerbaijan were dismissed for non-compliance with applicable laws, regulations or BP *Code of Conduct*. Examples of non-compliance included substance abuse, procurement irregularities, outside affiliations/conflicts of interest, fraud and theft.

In 2006, BP Azerbaijan SPU intends to continue its efforts to foster a higher level of awareness of business conduct expectations among our staff and contractors employed in Azerbaijan. We plan to run compliance and ethics workshops and induction sessions, review business conduct policies and compliance processes for third party contractors, conduct a mid-year ethics review that is focused on particular risk areas and make special efforts to communicate the *Code of Conduct* to our contractors.

Contractors and ethics The majority of our business is performed in co-operation with our contractors. BP's processes are designed to choose contractors carefully and on merit, avoiding conflicts of interest and inappropriate gifts and entertainment. We expect our contractors to comply with all legal requirements and we aim to do business with those contractors that perform in line with BP's commitments to compliance and ethics as outlined in BP *Code of Conduct*. During 2005, more than 2,600 local and international companies and physical persons delivered goods and services to us in Azerbaijan.

1.9 Georgia and Turkey operational performance summary 2005

In developing our Caspian projects the BP group is involved with issues and countries outside Azerbaijan, in particular in neighbouring Georgia and Turkey.

Georgia

Both the BTC and SCP pipelines pass through Georgia on their way from Azerbaijan to Turkey, and the 250km length of this part of the route has provided some of the toughest logistical and technical challenges of the construction phase.

Since the end of 1998, BP in Georgia has also been operating the Western Route Export Pipeline known as WREP. This 83-kilometre link transports oil from the ACG field in the Caspian via Sangachal Terminal to the Supsa port on the Georgian Black Sea coast.

In summer 2005, ACG oil started to flow into the Georgian section of the Baku-Tbilisi-Ceyhan pipeline. An official First Oil ceremony was held on October 12, 2005, at the first pumping station in Georgia in the presence of the presidents of the three countries most directly involved – Georgia, Azerbaijan and Turkey.

Following the ceremony the transition from construction to operations on the BTC project continued smoothly and by the end of 2005, all BTC pump stations and pipeline facilities in Georgia were operating and line-fill oil from Sangachal Terminal had passed through Georgia and into Turkey.

Construction work in the Kodiana section continued on additional facilities specified by the Georgian government. Temporary secondary containment measures were put in place at five of the six cited locations and a contractor

selected to construct a security base in spring 2006.

BTC land reinstatement in Georgia made good progress. In places where SCP pipe had also been laid, reinstatement of the entire 44 metre-wide land corridor was carried out. A particularly high standard of reinstatement was achieved along a 70-kilometres section of the right-of-way. This resulted in good levels of natural re-vegetation taking place and it is already difficult to distinguish the pipeline route in this section.

Turkey

About 60% of the 1,768km BTC pipeline is in Turkey. This section includes four pump stations, two metering stations and the Ceyhan Marine Terminal which itself consists of seven crude oil storage tanks and a 2.6 kilometre-long jetty able to load two tankers of up to 300,000 deadweight tonnes simultaneously.

The BTC pipeline in Turkey is being constructed by the Turkish state company BOTAŞ and its subcontractors under a turnkey agreement with the BTC Company. Despite delays at the start of 2005, the entire pipeline had been laid and hydrotested by year-end. All land reinstatement along the Turkish section of the route had been completed. Commissioning of the Ceyhan Terminal facilities was underway using a cargo of crude oil delivered by ship from the Supsa Terminal.



Construction continued at all of the pump stations. In December, oil crossed the Georgian border and line-fill was achieved up to the first pump station in Turkey. Only two pipeline construction camps (at Kars and Kova) were still operational at the end of 2005. Reinstatement of other camp sites was either completed or in progress.

1.10 Key statistics in Chapter 1^a

Our partners

AIOC BP (operator – 34.1%), Chevron (10.3%), SOCAR (10%), INPEX (10%), Statoil (8.6%), ExxonMobil (8%), TPAO (6.8%), Devon (5.6%), ITOCHU (3.9%), Amerada Hess (2.7%).

BTC BP (30.1%), AzBTC (25%), Chevron (8.9%), Statoil (8.71%), TPAO (6.53%), Eni (5%), Total (5%), Itochu (3.4%), INPEX (2.5%), ConocoPhillips (2.5%) and Amerada Hess (2.36%).

Shah Deniz BP (operator – 25.5%), Statoil (25.5%), SOCAR (10%), LUKAgip (10%), NICO (10%), Total (10%), and TPAO (9%).

SCP BP (technical operator – 25.5%), Statoil (commercial operator – 25.5%), SOCAR (10%), LUKAgip (10%), NICO (10%), Total (10%), and TPAO (9%).

Inam BP (operator – 25%), SOCAR (50%), Shell (25%).

Alov-Araz-Sharg BP (operator – 15%), SOCAR (40%), Statoil (15%), ExxonMobil (15%), TPAO (10%), EnCana (5%).

Turkey Black Sea BP (operator – 25%), TPAO (50%), Chevron (25%).

Georgia Black Sea Andarko (operator – 48%), BP (28.5%), TPAO (13.5%), Chevron (10%).

Operating

- Oil production from Chirag 1 and Central Azeri platforms averaged 261,000 barrels a day by year-end.
- Chirag 1 production for the year – 52 million barrels.
- 20th well at Chirag handed over to operations.
- 1.88 billion standard cubic metres of associated gas delivered to Azerbaijan.

Financial

- \$2.71 billion capital expenditure (with partners) on ACG development.
- \$1.18 billion capital expenditure (with partners) on BTC construction.
- \$1.27 billion capital expenditure (with partners) on SD/SCP construction.
- \$211 million operating expenditure (with partners) on ACG/SD.

Environmental

- 72% rise in GHG emissions on 2004 to 1,860,000 tonnes.
- 68% rise on 2004 in total gas flared to 478,415 tonnes.
- 136,543 tonnes of fuel gas and 35,353 tonnes of diesel.
- 44% decrease on 2004 in drill cuttings discharged to sea – to 13,014 tonnes.

- 46% decrease in SBMs discharged from Chirag 1 platform.
- 11,170 tonnes of hazardous waste generated.
- 109% increase in disposed wastes to 13,078 tonnes.
- 64 oil spills with a total volume released of 95,468 litres – 77% up on 2004.

Safety

- Three fatalities during the year related to our operations in Azerbaijan, Georgia and Turkey.

People

- 181 new national staff recruited (Azerbaijan-based only).
- Number of BP Azerbaijan SPU employees end 2005 – 1,741 (Azerbaijan-based only).
- 58,573 HSSE training hours delivered.
- \$22 million spent on training in 2005.
- 66 Azerbaijani nationals taking part in BP Azerbaijan SPU-funded scholarship programmes.
- 98 people trained at the Caspian Technical Training Centre during 2005.

^a Unless otherwise stated, performance data relates to BP Azerbaijan SPU.

2



Caspian Energy Center, Baku.

Chapter 2. BP in Azerbaijan – our role in society

- 2.1 BP and climate change
- 2.2 Country context
- 2.3 Revenue transparency
- 2.4 Regional sustainable development
- 2.5 Enterprise development
- 2.6 Educational initiatives
- 2.7 Community and environmental investment
- 2.8 Georgia and Turkey – social performance summary
- 2.9 Key statistics in Chapter 2

2.1 BP and climate change

Our approach; milestone developments in 2005.

As a global energy company, BP has a responsibility to play a part in addressing the threat of climate change. 2005 marked a milestone with the launch of BP Alternative Energy, a business that plans to invest \$8 billion over 10 years to lead the market in low-carbon power generated from the sun, wind, natural gas and hydrogen, as well as the wholesale marketing of cleaner electricity.

The launch of BP Alternative Energy in 2005 followed nearly a decade of action by BP to address climate change. In 1997, BP was widely acknowledged for publicly advocating precautionary action over climate change and setting voluntary targets in 1998 to reduce its own emissions. By 2001, BP's GHG emissions were 10% below 1990 levels. BP continues to improve GHG emissions performance through energy efficiency projects and BP supports research into technological solutions to curb emissions.

BP has been developing products that help customers reduce their emissions. BP has increased its production and distribution of natural gas, which produces about half the CO₂ emissions of conventional coal technology when used to generate power. BP has developed a major solar business, built its first wind farm and pioneered technologies for capturing and geologically storing CO₂. In transportation, BP has also developed advanced fuels and lubricants that provide emissions reductions.

BP supports precautionary action to limit GHG emissions, even though aspects of the science are still the subject of expert debate. In BP's view, the goal must be to stabilize GHG levels through sustainable long-term emissions reductions. BP supports the emerging consensus that it would be prudent to limit the increase in the world's temperature to about 2°C above pre-industrial temperatures. One way to achieve this would be to ensure that global emissions in 2050 are no higher than today's – around 25 billion tonnes of CO₂ a year. BP believes that this can be achieved using a mixture of technologies, including innovation to cut CO₂ emissions from fossil fuels, significantly increasing the fuel economy of motor vehicles, increasing the energy efficiency of buildings and radically increasing wind and solar capacity. BP sees its role as pursuing efficiency in its own operations, creating cleaner products and contributing to an informed debate. For example, BP has advocated the use of market mechanisms to enable economies to adjust to a carbon-constrained world.

www.bp.com/sustainability

Climate change – BP's journey

1997	BP publicly acknowledges the need for precautionary action to cut GHG emissions after exiting the Global Climate Coalition.
1998	BP sets target to cut emissions from operation to 10% below 1990 levels by 2010.
1999	BP initiates the CO ₂ capture project with other companies and governments, studying methods of capturing and storing CO ₂ at power plants.
2000	BP begins funding the Carbon Mitigation Initiative at Princeton University, exploring solutions to climate change.
2001	BP achieves its 2010 target nine years early, having reduced GHG emissions by energy efficiency projects and cutting flaring of unwanted gas.
2002	BP announces plans to build wind farm at Nerefco, The Netherlands.
2003	Based on work at Princeton, BP sets out range of technology options to stabilize GHG emissions over 50 years, including increases in solar, wind, gas-fired power and carbon capture and storage.
2004	BP's solar business moves into profit and announces plans to double production. BP launches CO ₂ capture and storage project at the In Salah gas field in Algeria.
2005	BP announces plans for the world's first industrial-scale commercial hydrogen power plant. BP launches Alternative Energy.

2.2 Country context

The backdrop to our operations in Azerbaijan.

By the start of 2006 Azerbaijan – one of world's leading oil-producing countries a century ago – had re-emerged as a leading source of hydrocarbons. How Azerbaijan utilizes the substantial new revenue flows that it will receive over the next 30-40 years nevertheless represents a considerable challenge for a state that has been independent for less than two decades.

In recent years, Azerbaijan has taken a number of steps towards economic liberalization, improved accountability, stabilization and privatization. Structural, financial and enterprise-focused reforms have been introduced and the country has passed legislation to improve standards of governance and transparency.

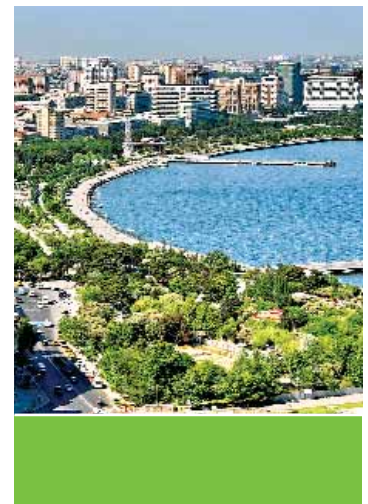
All the same much remains to be done to build a successful market economy including controlling spending and inflation, implementing legislative changes, seeking new sources of foreign investment, investing more in public infrastructure and introducing banking and judiciary reforms.

For foreign investors and businesses, political and economic conditions in Azerbaijan continue to constitute a challenging environment. Corruption, in particular, remains a pervasive problem in society.

Some recent developments are encouraging, in particular the efforts made by the government to implement the Extractive Industries Transparency Initiative (EITI; see following section). However, there is a long way to go before the revenues generated by our activities

in Azerbaijan feed through to the population to deliver benefits equitably and in a way that creates stable, sustainable progress.

As part of a large international company, we are committed, with our partners, to helping the government and people of Azerbaijan realize the country's development potential and work towards ensuring the responsible use of the revenue generated as a result of our activity. At this stage our primary efforts to this end are focused on three areas – the promotion of transparency in our own operations; the creation of a stronger private sector in the economy; and improved access to energy.



2.3 Revenue transparency

Our approach to fiscal openness and knowledge-sharing in Azerbaijan.

The BP group regards openness – revenue transparency – about the sums of money that companies pay to governments, and how they are spent, as one way to assist the development of countries, alleviate poverty and build capacity locally to manage large revenue flows.

Because of the problems associated with substantial natural resource revenue flows a number of governments and international companies have agreed to take part in the voluntary Extractive Industries Transparency Initiative (EITI) to help manage these issues.

At a meeting of the EITI international Advisory Group held in London in 2005, it was mentioned that the EITI implementing countries, such as Azerbaijan and Nigeria, "could play an important role in informing

and promoting transparency in other countries in their respective regions."

We have taken a lead in supporting the EITI in the past three years, promoting transparency and knowledge-sharing by carrying many reports and documents detailing legal, fiscal, environmental and social agreements and our performance in these areas on our website and facilitating good governance in the country by hosting workshops.

Following the endorsement of EITI principles by the government of Azerbaijan and the country's Oil Fund, and BP's commitment to support the EITI in November 2004, a commission was set up to implement the EITI in Azerbaijan. We, along with 22 other foreign oil

companies in the country and a coalition of 32 national NGOs, took part in this effort and subsequently played a lead organizational role among the companies.

Early in 2005, an Aggregator was appointed to accept the host government's annual report of revenues received from foreign oil companies and the companies' individual reports of revenues paid to the government. The job of the Aggregator is to compare the totals, check for obvious errors and publish the reports. Azerbaijan's first EITI report was published in March 2005. Four months later we published our individual EITI reported data in the *BP Azerbaijan Sustainability Report 2004*.

www.oilfund.az

Potential 2006 Azerbaijan government receipts from ACG, BTC, SD Stage 1 and SCP^a

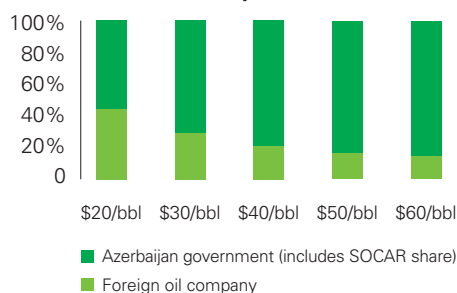
Oil price \$/bbl	Receipts \$/bn
40	1.45
50	2.10
60	2.80

^a Includes Azerbaijan government revenues and SOCAR share.

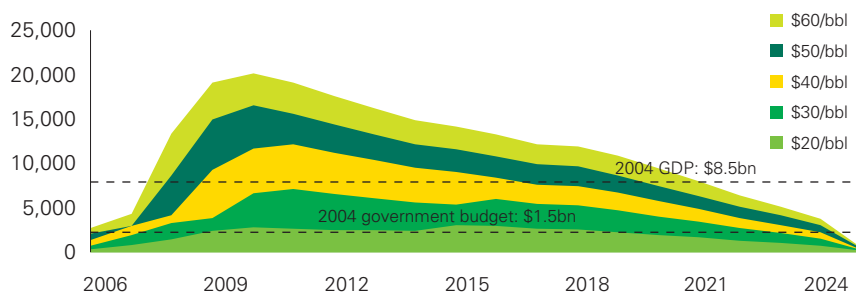
Payments to the government of Azerbaijan (summary of BP Azerbaijan SPU EITI reported data)

	2003	2004	2005
In-kind payments oil (barrels, million)	2.26	2.29	4.89
Cash payments (US dollars, million)	4.3	4.47	5.71

Potential distribution of ACG cumulative net cash flow, full life cycle



Potential Azerbaijan government receipts from ACG, BTC, SD Stage 1 and SCP (money of the day, \$ million)^a



2.4 Regional sustainable development

Our long term commitment to progress and growth.

The Regional Development Initiative (RDI) is BP's response to a recommendation made by the CDAP in 2003 that the company should "invest in sustainable development in the Caspian Region as a whole" for the full lifespan of the projects. An initial funding commitment of \$20 million has been made by the BP group to the RDI.

Three core themes that align with the BP group's view on the responsibility of companies give the RDI internal consistency – enterprise development; effective governance; and access to energy.

The year 2005 marked the practical start of the RDI. We made our first financial commitments, finalized our internal governance procedure and operational guidelines and agreed a three-year strategy and budget.

In co-operation with the United Nations Development Programme (UNDP), we sponsored a survey of the microfinance sector to support the Azerbaijan Microfinance Association (AMFA) in identifying impediments to the development of a microfinance sector in the country and offer long-term policy instruments to improve the situation.

We continued to work with Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH on the public-private partnership project, the objective of which is to improve the capacity of companies in Azerbaijan to boost their competitiveness and enable them to bid successfully to supply goods and services to BP Azerbaijan SPU and our major contractors.

Together with the IFC, we continued to fund a project with the Azerbaijan Bank Training Centre to raise standards in the business services sector. Since 2004, the project has been providing high-quality professional training courses and high-level consultancy services on a fee-paying basis.

As part of the RDI we are also keen to improve access to transparent sources of financing for business communities in the region and so are working with a range of international finance institutions and other multilateral development agencies to develop innovative finance programmes.

One example is the Supplier Financing Facility being developed in partnership with the International Finance Corporation (IFC, lending arm of the World Bank). This will aim to increase local content of the BP Azerbaijan SPU supply chain by extending the availability of transparent SME (small and medium-sized enterprise) loans for businesses via local financial institutions. We hope first disbursements from this facility will be made in 2006.

In 2006, we will continue to develop our enterprise development activities and, in line with CDAP recommendations, we will focus on increasing the scale of the supplier finance facilities. To complement our financing activities, we will be looking to develop appropriate training activities to promote improved performance amongst local companies and suppliers. We will also begin to broaden the scope of our work to encompass the RDI themes of access to energy and effective governance,



and anticipate starting projects later in 2006. In the meantime, we will continue to explore new partnerships for both the RDI and FCP programmes.

2.5 Enterprise development

How we are widening our support for local business in Azerbaijan.

Developing an effective local supplier base is one of the critical factors in the future success and sustainability of our oil and gas business in Azerbaijan as well as being vital to the growth and development of the Azerbaijani economy.

In 2005, total third party spend of BP Azerbaijan SPU was \$5 billion. Total spend through Azerbaijani-based ventures reached \$310 million (SMEs \$67m – 17.5% up on 2004; JVs – \$184m; state-owned firms – \$59m).

Our direct spend with local companies in 2005 resulted in Azerbaijani suppliers achieving the third highest level of in-country spend by revenue, after the US and UK, of any country where BP is represented.



RealGaz – a successful first time contractor to BP Azerbaijan SPU

In May 2005, we awarded a local company, RealGaz, a five-year contract previously held by an international company. The contract covered the provision of 99%-pure bottled nitrogen and related services that are required for leak-testing of pipes in our operations.

RealGaz has been operating in the gas sales market in Azerbaijan for seven years engaging in the sale and services of industrial, technical and medical gases as well as gas mixtures. It has its own plant for manufacturing technical gases and recently opened a representative office for filling technical gas orders in Kazakhstan. It works closely with such companies as Azfen, Caspian Shipyard Company, BOSSHELF, Franklin Offshore Caspian Limited, Saipem Spa Azerbaijan, Oil Electro Ltd and others.

During the tender process, three of the main evaluation criteria for successful bidders were the use of local staff, the

availability of self-owned local facilities meeting recognized standards, and the volume of services subcontracted.

Since winning the tender, staff numbers in RealGaz have increased from 11 to 53 people. And in December 2005, the audit company Bureau Veritas Quality International accredited RealGaz with an ISO 9001:2000^a certification. "ISO 9001:2000 certification provides assurance for current and future RealGaz's customers that customer satisfaction and our continuing improvement are number one priorities in our organization at every level," said Ikhlas Jafarli, the general director of RealGaz.

^a ISO 9001:2000 – is an international family of specifications and standards for quality assurance management systems involving a third party for inspection and registration.

During 2005, we also undertook a thorough review of our local supply chain and enterprise development activities. As part of this review, we commissioned an external assessment of local supply chain development. Following this, we announced the establishment of a new team to stimulate local enterprise and increase both the number of companies participating in BP Azerbaijan SPU contracts and the value of contracts awarded locally.

In the next few years, this team will create a range of new opportunities for Azerbaijan-owned companies to gain our business by pursuing specific local enterprise development initiatives and stimulating the creation of joint ventures with local partners, licensees and in-country subsidiaries of foreign firms. It will also encourage international contractors to invest in training and infrastructure and to source materials and services locally.

We have now set an ambitious target to double the value of contracts placed by us with Azerbaijan-owned companies within five years. By 2010, we aim to be spending an additional \$250 million annually with small and medium-sized enterprises (SMEs) and local joint ventures in Azerbaijan bringing our total spend with locally-owned companies to more than \$500 million a year.

As part of the Regional Sustainable Development Programme (RSDP), we will also be formulating plans to encourage the non-oil sector – in particular by supporting enterprise development throughout

Azerbaijan so as to assist the country's drive in diversify its economy, and by creating innovative and transparent sources of funding for local businesses.

Together with multilateral development agencies, we have also begun to assess demand for specialist financing solutions for SMEs to help build them so that they can become competitive suppliers to large foreign companies. In addition, we intend to move as much of our business services spend to local firms as soon as possible and to foster partnerships with local companies to enable them to compete regionally and internationally.



2.6 Educational initiatives in 2005

Sharing knowledge with the local community.

The Caspian Energy Centre The presidents of four countries and Britain's Prince Andrew opened the BP and partner-funded Caspian Energy Centre (CEC) on May 25, 2005 – the first science-focused centre in the region open free of charge to anyone interested in broadening their knowledge about the Caspian energy sector.

CEC's mission is to showcase the vision and projects that are driving Caspian energy developments and in particular those involving BP Azerbaijan SPU. It provides a detailed look at the origins and future of energy sources in the region and the positive impact energy-driven developments are having on Azerbaijan – as well as supporting regional capacity-building through its interactive, multilayered educational programmes and experiences. Special emphasis is put on working with schoolchildren and local communities.

In the seven months the centre was open to end-2005, it hosted about 3,000 visitors, half of whom were schoolchildren aged 8-16. Towards the end of 2005, the CEC took a part in British Science Week and it also began to develop joint events and programmes with other educational institutions such as the British Council.

The 'Energy Bus' In 2005, we sponsored an 'Energy Bus' to raise awareness of the efficient use of energy to the rural communities of Azerbaijan, working with the Baku office of the Organization for Security and Co-operation in Europe (OSCE),

the International Finance Corporation (IFC) and the Eurasia Foundation.

Intended to provide knowledge and raise awareness of existing internationally-practised alternative energy solutions and help isolated villages to identify cost-effective and long-term energy solutions which can feasibly be realized, the bus contains display models of various types of generators, wind power, hydro-electric and solar options.

Visitors receive a guided tour of the bus while outside working examples of solar panels used to heat water and a powerful but economic sawdust heater are displayed to help press home the twin messages that alternative energy solutions do exist and energy efficiency is not only desirable but practical.

By the end of 2005, the 'Energy Bus' has conducted demonstrations in 75 communities with 6,867 visitors.

Teacher development at the State Oil Academy

In July 2005, a programme of teacher development, sponsored by us and delivered by the British Council, was completed.

The aim of the programme was to raise the standard of English teaching in the State Oil Academy, through the introduction of modern interactive methods. Trainers from the British Council delivered weekly seminars at the Academy over a seven-month period, and conducted lesson observations with all the participating teachers. Diplomas and teaching materials were presented to the 13 teachers from the Academy who successfully completed the programme.



2.7 Community and environmental investment

How our partnerships in Azerbaijan help others to help themselves.

As the leading foreign investor in Azerbaijan, our primary beneficial impact on society comes from the investments we make, the employment we create and the revenues we generate for the state. Beyond these important contributions, BP Azerbaijan SPU has a considerable social impact through the community and environmental investments and projects it undertakes, through the promotion of local economic development and through capacity building and support for sustainable social investment programmes.

Our approach to social development is built around the concept of partnership and underpinned by a single unifying theme – helping others to help themselves. This theme creates coherence and gives consistency to the many initiatives and projects in which we play a part in the country.

In 2005, our social spend in Azerbaijan, Georgia and Turkey totalled \$25.45 million

(compared to \$6.66 million in 2003 and \$34.25 million in 2004), reflecting the completion of the construction phase of the BTC project.

In all, about \$18 million has been spent by us and our partners on social investment of varying kinds in Azerbaijan during the 2003-2005 period. The main beneficiaries are rural communities along the route taken by the BTC/SCP pipelines in Azerbaijan and communities close to our onshore operations connected with ACG and SD development.

ACG Community investment programme (CIP)

Sangachal Terminal Expansion Project (STEP) CIP Begun in 2002, this is a five-year \$6.7 million programme targeted on Azerbaijan's Garadag region. It will continue to late-2007. Activities are focused on communities

Social spend in Azerbaijan in 2005, \$ million

Gross spend – BP AzSPU and its partners	6.29
Net spend – BP AzSPU only	2.21

around Sangachal – Umid, Sahil, Lokbatan, Alyat, Gobustan, Korgoz and Gizildash – as well as Bibi-Heybat near Baku.

The main NGO implementing partner is World Vision International for community development projects and International Medical Corps (IMC) for health, with other projects being implemented by local NGOs and the Sangachal community investment team.

2005 highlights included the formation and training of new Community Development Committees in Korgoz and Gizildash and implementation of 31 micro projects – 18 infrastructure projects, eight health/environment projects and five education projects. The communities contributed just over 25% in cash and labour to help implement the projects, exceeding the target of 20% community contribution.

Throughout 2005, many existing CIP-funded education projects continued including student development programmes, computer courses, university exam preparation courses, a scholarship programme, an environmental education programme and cultural programmes. A year-long 'Local government capacity building' project was completed. In Umid





Business development training in Garadag

To foster economic diversity in Garadag and also to increase employment opportunities, a number of AIOC-funded income generation programmes commenced in the district in 2005.

In particular, in partnership with World Vision and Dircharlish, we established a Business Development Resource Centre in Sahil settlement funded by the ACG CIP. The Centre, opened in April 2005, offers training in life skills (computers and English language), vocational skills such as hairdressing and baking and business skills including accounting, taxation, marketing, book-keeping, start-up business planning and credit planning.

The centre quickly established links with local schools and they have proved very keen to send final year students on the courses to acquire additional knowledge that is currently not part of the standard curriculum.

Courses must be paid for which allows the centre to operate independently with no external funding. Nevertheless demand for entry is great. More than 600 people received training in 2005 and business advice was provided to more than 200 Garadag residents. Five business development plans for new businesses in the area were prepared and seven local business instructors found work at the centre.

Based on similar business development centres elsewhere it is hoped that the economic diversity of Garadag (currently mostly an industrial district) will be enhanced through this initiative which is already creating new skills and offering new opportunities.

and Sangachal settlements a sewerage system was installed. A health programme began in the Garadag district in the first quarter of 2005 with the aim of strengthening primary maternal – child health care and education services. In Alat, a greenhouse project commenced with a view to first crop production in 2006.

In the *BP Azerbaijan Sustainability Report 2004* we mentioned the Human Development Union in Umid settlement – Azerbaijan's first community organization, registered in 2004 as the Human Development and Sustainable Income Generation Public Union (UHDU). In the same year, the country's minister of education published a human development curriculum which included human development as a study option in secondary schools. As a result, a number of textbooks for schoolchildren and students have now been published in Azerbaijan that contain information about UHDU. In December 2005, the United Nations in New York placed information about UHDU on its website.

www.hdr.undp.org/nhdr/impact

Compression and Water Injection Platform (C&WP) Project CIP During 2005, the CIP, implemented by International Rescue Committee in Bib-Heybat (ATA yard vicinity), completed four major micro projects designed and proposed by community leaders: construction of a school gym and first aid station, rehabilitation of the culture centre, renovation of electricity supply system in internally-displaced-people (IDP) settlement as well as construction of the health point and provision of medical/non-medical equipment.

Other projects undertaken during the year, included health and environmental clean-up campaigns, business development and health promotion training sessions, micro projects initiated by Bibi-Heybat's youth group, training on micro projects implementation for the community leaders and special training courses for the municipality staff.

In May 2005, a second grant agreement, for \$150,000, was signed between AIOC and IRC to fund two new projects in Bibi-Heybat – a school renovation project and construction of a community centre. The

school renovation project was completed in time for the start of the 2005-2006 academic year. Other projects underway at the end of 2005 included one to construct

In 2005, our social spend in Azerbaijan, Georgia and Turkey totalled \$25.45 million (compared to \$6.66 million in 2003 and \$34.25 million in 2004), reflecting the completion of the construction phase of the BTC project.



a kindergarten and another to build a community park.

Shah Deniz (SD) community investment programme (CIP)

The SD CIP is a \$1.78 million programme which in Azerbaijan, is focused on improving the lives of communities living near SD project construction areas.

Various programmes moved ahead in 2005. A microfinance initiative delivered by Foundation for International Community Assistance (FINCA) provided loans to small local enterprises for trade, production and services in Khatai and Sabail districts of Baku. Some 1,880 people, considerably more than targeted, have benefited to date with a total disbursement of almost \$890,000.

Meantime, the Zyxh Community Development Initiative, which is delivered through national NGO Umid and targeted at 10 communities in the project area, achieved some important results in the year. A school heating system, out of use since 1995, was refurbished. School attendance

subsequently grew from 80% to 95%. Kitchen and water sewerage systems were improved. Six education projects were implemented. To support these projects, a community contribution amounting to \$5,250 was made by community members in 2005. Since the beginning of the projects the community contribution has totalled \$17,454.

Other SD-related programmes in the areas around our operations included a 'Playbus' project aimed at getting children to act in a group, solve problems together and respect others' rights. Many children took part with their parents. Fifty activities were conducted in 15 locations including orphanages and community kindergartens.

BTC and SCP community investment programme (CIP)

The BTC/SCP CIP in Azerbaijan, started in 2003, is an \$8 million programme with spending spread over more than three years. Similar programmes exist in Georgia and Turkey with budgets of \$8 million and \$9 million respectively.

About \$18 million has been spent by us and our partners on social investment of varying kinds in Azerbaijan during the 2003-2005 period. The main beneficiaries are rural communities along the route taken by the BTC/SCP pipelines in Azerbaijan and communities close to our onshore operations connected with ACG and SD development.



An active FINCA client

Hasanova Tarana was born in 1966 in the town of Ganja. She graduated from secondary school and is married with two daughters and a son. Her daughters are studying at a musical school and her son is in the 4th grade at a secondary school.

Until 1994 Tarana worked at a carpet factory in Ganja while her husband worked as a freelance welder. But that year, following the break-up of the Soviet Union, the huge carpet factory in town went out of business and Tarana lost her job. Soon the family was experiencing serious financial difficulties.

Tarana's response was to take matters into her own hands. Within a few months she had launched a small hairdressing salon in a kiosk next to her apartment.

Before long the limited facility was unable to serve its rapidly-growing clientele. In 2003, when FINCA Azerbaijan started operations in Ganja, Tarana was among the first people to express an interest.

Over the next couple of years she became an active FINCA client, borrowing \$300 for this, \$400 for that. By the end of 2005, her accumulated total amount borrowed had reached \$4,250, all of which was being repaid on time.

With the loans Tarana has built a 40-square meter hairdressing salon called 'Jennifer' to replace the kiosk and in doing so has increased the number of clients several times. Currently she employs two women and looks forward to the future with renewed confidence.

In all three countries the CIP is delivered through NGO implementing partners. In Azerbaijan, Save the Children, International Rescue Committee (IRC), International Medical Corps (IMC) and the Foundation for International Community Assistance (FINCA) continued as the main international partners in 2005, carrying out projects they initiated in 2004. In addition, some new programmes were added as the network of implementing partners grew to include local organizations.

The themes underpinning the BTC/SCP CIP in Azerbaijan continued as in previous years – income generation; strengthening agricultural systems; community mobilization and empowerment; healthcare provision and rehabilitation of social infrastructure.

IMC sustained the 'Community Primary Health Care' programme which by end 2005 had involved the refurbishment of 28 clinics and the provision of training to more than 300 medical practitioners.

IRC and Save the Children continued their work of community mobilization and capacity building. A local NGO, Agro Information Centre (AIM),

trained 21 agricultural specialists in the technical aspects of crop farming and animal husbandry and farm economics during the year. In turn these specialists will provide training for an additional 124 farmers.

The Development Resource Center (DRC) in Yevlakh, established by IRC, received a grant from BTC/SCP to set up an agricultural service company to meet local demand for modern agricultural equipment and also to make such equipment and machine operators available for independent farmers in the district.

Micro loans were widely disbursed. Since the inception of the BTC/SCP CIP, more than 12,822 such loans have been issued by FINCA in Azerbaijan with a 99% repayment rate and over \$4.6 million was disbursed cumulatively by FINCA under BTC/SCP microfinance programme in CIP communities.

The IMC-implemented Caspian Vision Project (CVP), co-funded by BTC/SCP and Unocal Khazar, is an extension of the BTC/SCP CIP. It, too, recorded a busy year. Fifteen 'eye clinic days' were conducted in 11 target districts and

2,086 eye screenings and consultations provided. Chief ophthalmologists from the 11 target districts participated in the 'eye clinic days' and received on-the-job training. Almost 1,000 corrective procedures have now been carried out by the CVP.

Among new programmes in 2005, Save the Children launched a 'Star and Nascent Communities' programme through which six communities that performed well in the first two years of the BTC/SCP CIP passed on knowledge and skills to 18 communities that had not enjoyed as much success.

Such has been the impact of the BTC/SCP CIP in Azerbaijan that external parties have been encouraged to invest and get involved in new projects with us. Many of these projects are being implemented using local NGOs so bolstering their capacity both to lead and to carry out community development work.

Among examples in 2005:

- Madad started a programme to promote school computerization in 11 rural schools.



Learning from your neighbour

The achievements of the Eyvazlilar Ijma (self-help) Group (IG) so impressed the neighbouring community of Mashadi-Garalar that it decided to follow suit. Yet the road to joint success proved anything but smooth until some mutual understanding was established.

Real co-operation only began when the IG and municipality were able to organize an awareness campaign in Mashadi-Garalar and explain the role and functions of an IG. As a result, the IG was elected in Mashadi-Garalar and its members received training from their Eyvazlilar counterparts in such functions as project proposal writing and the identification, prioritization and solution of community problems.

The training sessions proceeded successfully and led to the IG suggestion for an integrated road rehabilitation project that would address the common road problems of both communities. The goal was not only to address an infrastructure need but also to impart and share knowledge and experiences.

Eventually a project costing \$16,422 rehabilitated seven kilometres of roads serving both communities. Of the total cost, the BTC/SCP CIP funded 69% and the two villages 31% (83% from Eyvazlilar and 17% from Mashadi-Garalar). Members of both communities were actively involved in the construction work and a new spirit of partnership has been born in the district.

- Umid commenced implementation of a water purification programme to address a critical need for potable water in communities between Yevlakh and Hajigabul.
- Hayat initiated an environmental awareness and improvement programme to develop awareness about local environmental issues.

In addition, we helped to set up a formal programme to assist national NGOs in gaining experience and skills in project management. In the programme IRC worked with five national NGO partners to provide them with increased organizational capacity through mentoring, training and technical assistance. This was complemented by the practical experience

of conducting community mobilization and developing micro projects in 24 communities. The programme was completed successfully in December 2005.

The website www.btcinvestment.com has been established to provide more detailed information about the BTC/SCP CIP projects.

Environmental investment (EIP)

During 2005, we decided to diversify EIP activities to include environmental awareness, education and community environmental issues in addition to biodiversity.

An independent expert review of the BTC/SCP EIP was conducted in mid-2005.

The review indicated that there was widespread support for the EIPs in all three countries although some concepts underlying the programme were not sufficiently understood. In Azerbaijan, delays in EIP implementation because of "adjustments to better align the programme with the national biodiversity objectives as established by MENR" were found to have raised doubts amongst stakeholders about the effectiveness of the EIP, but the reviewers felt this would be resolved once more projects got underway. A number of recommendations were advanced by this review, including the need for stronger efforts to be made to keep governments better informed and improve awareness amongst international donors.

Achievements of the BTC/SCP CIP and other social investments in Azerbaijan, 2003-2005

Investment type

Number of communities benefiting	117
Amount of money invested (US\$)	\$6.9 million
Implementing partners/Number of local/national NGOs	5 main implementing partners and 22 NGOs assisting
% women in Community Action Groups	43%
Number of medical facilities improved	35
Number of education facilities improved	49 (in addition, 11 schools have received computers)
Number of water supply systems improved	36
Kilometres of road upgraded	146 kilometres
% Infrastructure project achieving >25% community contribution	71.5%
Number of medical staff trained	314
Number of people receiving direct medical support	184,000
Number of micro loans issued	12,822
% repayment rate for micro loans	99%
Average value of micro loan	\$364
% women receiving micro loans	49%
Number of agricultural trainers/demonstration farms	48 and 23 demonstration fields
Number of farmers trained	2,700
Weight of high quality seed provided	10.3 tonnes
Number of co-operatives established	1 Development Resource Centre in Yevlakh 2 public companies in Samukh and Akstafa

We also funded the management plan at the Gobustan Cultural Reserve including assisting with the publication of printed materials for the reserve and helping the national NGO Hayat to develop an Environmental Awareness and Improvement Programme aimed at youth. It is planned that 30 communities will eventually be awarded funding for various projects valued up to a maximum of \$10,000.

ACG/SD EIP projects continued to support the conservation of the spur-thighed tortoise population at Sangachal Terminal. We also held discussions with the Ministry of Ecology and Natural Resources (MENR) concerning the selection of other possible EIP projects in Azerbaijan.

www.bp.com/caspian

Employee matching fund

BP employees anywhere in the world may access up to US\$5,000 per person per year through the BP Employee Matching Fund (EMF). The Fund encourages active fund-raising and volunteering and allows employees to choose local charities that will benefit from the company's presence.

In 2002, we developed and implemented a separate employee engagement strategy for Azerbaijan fit for our local circumstances. Since implementation of the new strategy, hundreds of BP Azerbaijan SPU employees have taken part in the programme. In 2005, \$77,520 was donated to local charities – UFUQ, the United Aid for Azerbaijan (UAFA), Community Shield Azerbaijan (CSA),

International Women's Club (IWC), Deceller Ushag Teatri – through the matching scheme.

Apart from this formal employee engagement programme, many of our staff in Azerbaijan take part informally in other voluntary activities such as supporting orphanages or homes for invalids.

2.8 Georgia and Turkey social performance summary 2005

An outline of related community and environmental investment programmes in Georgia and Turkey associated with the BTC/SCP pipeline projects.

Georgia

The first phase of the BTC/SCP community investment programme, which began in 2003, was largely concluded by the end of 2005. In December 2005, we announced a second phase with a budget of \$5 million for the period 2006-2008.

The Environmental Investment Programme in Georgia progressed well. Five projects with a combined budget of \$1.65 million were undertaken during the year – research, monitoring and conservation of the Caucasian black grouse; brown bear conservation and research; NGO environmental capacity building; enhancement of environmental education; and support for environmentally-sound livestock. A sixth EIP project was the subject of specialized research and a feasibility study.

As the soon-to-be-operator of the three oil and gas pipelines in Georgia we continued to work with many partners in many areas to assist the country's long-term development following the undertaking the BP group made in October 2004, to commit \$14.5 million to projects in the fields of education, health care and energy.

During the year, BP pledged \$2 million to support the International School of Economics in Tbilisi that will promote excellence in postgraduate economic study and research across the region. This institution is also being supported by the governments of Georgia,

Azerbaijan and Armenia, the World Bank, Tbilisi State University and local and international donors.

The first round of the UK scholarship programme for Georgian professionals was completed successfully. A group of 10 students left for the UK in September to continue their studies at British universities. BP also contributed \$3 million to the renovation and re-equipment of a regional health care facility in Kutaisi, western Georgia.

Within the framework of the RDI, BP agreed to help upgrade Georgia's natural gas network by providing \$700,000 for technical assistance as part of a co-operation agreement with the Georgian Gas International Corporation (GGIC). The funds will be used to support GGIC's planning and preparation for repair work on the north-south 'Magistral' gas pipeline.

At the end of the year, a European Union-Georgia Business Council was created with the help of a \$300,000 grant from BP. The EUGBC's role will be to promote Georgia as a destination for EU investment, assist EU companies in navigating local regulations and identifying local partners and help Georgian business to find markets in the EU and to achieve EU standards.



Turkey

About \$2.7 million was disbursed in 2005 as part of the CIP in Turkey to add to the \$2.4 million already disbursed.

Such has been the success of the CIP in Turkey that another \$1.7 million has been contributed to the projects by local authorities and communities. A number of co-operatives and Village Development Associations established with the support of CIP, have designed related projects and secured an extra \$3.6 million from other donor institutions. In addition, partners and local institutions are awaiting responses from donors for new projects with a value of \$643,000.

The focus of the CIP in Turkey remained unchanged in 2005. It included improving income-earning and economic opportunities, helping development, improving the agricultural and livestock sector and supporting capacity-building in local communities.

Some 331 communities in ten provinces along the BTC pipeline route are the prime beneficiaries of the programmes. By end-2005 more than 154,000 people in Turkey had benefited from CIP activities. Approximately 309 'Quick Impact' projects had been completed – 105 for the establishment or improvement of drinking water systems, 98 for the upgrading/provision of common buildings such as schools and clinics, and the remainder linked to irrigation or sewage system refurbishment.

Other highlights in 2005 included setting up about 60 local institutions to organize, manage and initiate community-driven development including 29 co-operatives; continuing to support the open school education programme in Erzurum, Erzincan and Kayseri regions; and helping to upgrade local museums so they can exhibit finds uncovered along the BTC route working with the Turkish Archaeology and Archaeologists Foundation, Gazi University and the British Institute of Archaeology.

In parallel, the EIP in Turkey – a \$3.5 million programme – produced a number of important results in 2005. An external review described it as providing a significant benefits in the promotion and conservation of biodiversity in Turkey.

During 2005, surveying of the green sea turtle around the Ceyhan Marine Terminal found 213 nests, many of which were subject to predation by foxes and feral dogs. As a result, grills were placed over half of the nests, so reducing predator losses to less than 10%.

A study to understand the dynamics of the few remaining mediterranean monk seals on Turkey's coast was completed and barriers erected at cave entrances to prevent human entry. A project to collect data about the rare Caucasian black grouse recorded 286 individuals in 42 areas, 27 of them previously unknown. And the 'Important Plant Areas' (IPA) project identified 21 new IPAs, collected 5,000 specimens and discovered six species new to science.



2.9 Key statistics in Chapter 2^a

General

- \$8 billion to be invested by the BP group in alternative energy sources 2006-2015.

Community investment

- \$25.45 million social spend in Azerbaijan, Georgia and Turkey in 2005.
- \$18 million spent in 2003-2005 on social investment in Azerbaijan.
- 31 micro-projects initiated by the Sangachal Terminal Expansion Project CIP during 2005.
- 15 'eye clinics days' conducted in eleven target districts in Azerbaijan and 2,086 eye screenings carried out in 2005.
- \$4.6 million disbursed in micro loans by FINCA in 2005 - at an average value in Azerbaijan of \$364.
- 117 communities in Azerbaijan benefiting from CIP.

Enterprise development

- \$310 million spent in 2005 in the country through Azerbaijan-based ventures, including \$67 million with small and medium-sized enterprises.

^a Unless otherwise stated, performance data relates to BP Azerbaijan SPU.

Three-year performance data^a

	2003	2004	2005
Operating			
Total hydrocarbons produced (thousand barrels of oil a day)	130.8	132.2	261
Financial			
OPEX – total gross spend (\$thousand)	89,000	157,668	213,983
CAPEX – total gross spend (\$thousand)	3,986,000	5,122,678	5,160,705
Safety^b			
Fatalities – employees	0	0	0
Fatalities – contractors	0	2	2
Days away from work cases (DAFWC) – workforce	9	8	3
Days away from work case frequency (DAFWCF) – workforce	0.08	0.03	0.01
Recordable incidents – workforce	74	112	74
Recordable incident frequency (RIF) workforce	0.62	0.43	0.33
Hours worked – employees (million hours)	23.80	51.71	44.41
Hours worked – contractors (million hours)	n/a	104.5	81.84
Environment			
Direct carbon dioxide (CO ₂) (kilo tonnes)	910	979	1,680
Indirect carbon dioxide (CO ₂) (kilo tonnes)	0	0	0.3
Direct methane (CH ₄) (kilo tonnes)	4.7	4.7	6.9
Direct greenhouse gas (GHG) (thousand tonnes CO ₂ equivalent)	1,010	1,077	1,860
Flaring (exploration and production) (tonnes)	258,184	283,953	478,415
Sulphur dioxide (SO _x) (tonnes)	161	98	878
Nitrogen oxides (NO _x) (tonnes)	2,273	2,210	4,457
Non-methane hydrocarbons (NMHC) (tonnes)	2,753	3,161	5,277
Number of spills (loss of primary containment)	29	24	64
Volume of product spilled (litres)	113,454	21,495	95,468
Volume of product unrecovered (litres)	93,251	3,061	1,048
Discharges to water – drill cuttings with synthetic-based mud (tonnes)	8,122	6,077	3,315
Employees^c			
Number of employees in Azerbaijan Strategic Performance Unit (for Azerbaijan)	1,196	1,505	1,741
Social spend			
Total for Azerbaijan Strategic Performance Unit – gross spend (\$million)	6.66	34.25	25.45

^a Unless otherwise stated, performance data relates to BP Azerbaijan SPU.

^b Safety data shows information for BP Azerbaijan SPU. BP Azerbaijan SPU is the reporting unit for HSE performance within BP. It does not include project-only related data.

^c Excludes temporary employees.

Copies of the EITI templates

Reporting form for a foreign extractive industry company about payments to the government of the Republic of Azerbaijan (host government)

Name of Company: BP
 BP Exploration Caspian Sea Ltd (TIDN 9900070211), Amoco Caspian Sea Petroleum Ltd (TIDN 9900071821);
 Amoco Inam Petroleum Co BV (TIDN 9900065151); BP Exploration (Azerbaijan) Ltd (TIDN 9900070341)
 Name of industry: Oil and gas
 Activity type: Production Sharing Agreements (Azeri-Chirag-Guneshli, Shah Deniz, Alov, Inam)
 Reporting Period: Annual, January-December 2004

Payment description	Value ¹		Volume	
	mln. US dollar	bln.AZM	Oil mln.boe	Gas (natural, associated) nm ³
1. Payments/allocations of foreign company to host government				
1a) Host Government's production entitlement in foreign company's Production Stream			2.29	
- in kind				
- in cash				
1b) Payments of foreign company to host government Royalties				
- in kind				
- in cash				
Profit tax				
Other tax (excluding employee income tax, Social Protection Fund tax, withholding tax)				
Dividends				
Signing bonuses and other bonuses				
License fees, entry fees and other considerations for licenses				
Other payments, including:				
a) transportation tariff (SOFAZ)	3.95			
b) acreage fee (SOFAZ)	0.45			
2. Payments / allocations of foreign company to host state-owned company				
2a) Host state-owned company's production entitlement in foreign company's Production Stream				
- in kind				
- in cash				
2b) Payments to host state-owned company Royalties				
- in kind				
- in cash				
Profit tax				
Other tax (excluding employee income tax, Social Protection Fund tax, withholding tax)				
Dividends				
Signing bonuses and other bonuses				
License fees, entry fees and other considerations for licenses				
Other payments, incl.				
a) transportation tariff (SOCAR)	0.07			
b) associated gas ² (SOCAR)				948,576,000

Company authorized officer 

Form completing date 15th June '05

¹ For a reporting line only one of value columns shall be filled (either USD or AZM)

² BP as the operator of AIOC, reports within BP's template, the total gross number for associated gas delivered to SOCAR in 2004

**Reporting form for a foreign extractive industry company about payments
to the government of the Republic of Azerbaijan (host government)**

Name of Company: BP
 BP Exploration Caspian Sea Ltd (TIDN 9900070211), Amoco Caspian Sea Petroleum Ltd (TIDN 9900071821);
 Amoco Inam Petroleum Co BV (TIDN 9900065151); BP Exploration (Azerbaijan) Ltd (TIDN 9900070341)
 Name of industry: Oil and gas
 Activity type: Production Sharing Agreements (Azeri-Chirag-Guneshli, Shah Deniz, Alov, Inam)
 Reporting Period: Annual, January-December 2005

Payment description	Value ¹		Volume	
	mln. US dollar	bln.AZM	Oil mln.boe	Gas (natural, associated) knm ³
1. Payments/allocations of foreign company to host government				
1a) Host Government's production entitlement in foreign company's Production Stream - in kind (SOFAZ) - in cash			4.89	
1b) Payments of foreign company to host government Royalties - in kind - in cash				
Profit tax				
Other tax (excluding employee income tax, Social Protection Fund tax, withholding tax)				
Dividends				
Signing bonuses and other bonuses				
License fees, entry fees and other considerations for licenses				
Other payments, including: a) transportation tariff (SOFAZ) b) acreage fee	4.45 0.45			
2. Payments / allocations of foreign company to host state-owned company				
2a) Host state-owned company's production entitlement in foreign company's Production Stream - in kind - in cash				
2b) Payments to host state-owned company Royalties - in kind - in cash				
Profit tax				
Other tax (excluding employee income tax, Social Protection Fund tax, withholding tax)				
Dividends				
Signing bonuses and other bonuses				
License fees, entry fees and other considerations for licenses				
Other payments, incl. a) transportation tariff (SOCAR) b) associated gas ² (SOCAR)	0.81			1,778,570

Company authorized officer 

Form completing date 26.12.05

¹ For a reporting line only one of value columns shall be filled (either USD or AZM)

² BP as the operator of AIOC, reports within BP's template, the total gross number for associated gas delivered to SOCAR in 2005

Independent assurance statement to BP management

The *BP in Azerbaijan Sustainability Report 2005* (the Report) has been prepared by the management of BP Azerbaijan Strategic Performance Unit (BP Azerbaijan SPU), who are responsible for the collection and presentation of information within it. Our responsibility, in accordance with BP management's instructions is to carry out a limited assurance engagement on the Report as outlined below, in order to provide conclusions on the claims, data and coverage of issues within it.

Our responsibility in performing our assurance activities is to the management of BP p.l.c. only and in accordance with the terms of reference agreed with them. We do not therefore accept or assume any responsibility for any other purpose or to any other person or organization. Any reliance any such third party may place on the Report is entirely at its own risk.

What we did to form our conclusions

Our assurance engagement has been planned and performed in accordance with the International Federation of Accountants' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE3000). Our scope of work is to carry out a limited assurance engagement on the claims and data contained within the Report.

The Report has been evaluated against the following criteria:

- Whether the Report covers the key sustainability issues relevant to BP in Azerbaijan in 2005 which were raised in the media, BP Azerbaijan SPU's own review of material sustainability issues, and selected internal documentation.
- Whether sustainability claims made in the Report are consistent with the explanation and evidence provided by relevant BP Azerbaijan SPU managers.
- Whether the sustainability data presented in the Report are

consistent with the relevant strategic performance unit level data records.

In order to form our conclusions we undertook the steps outlined below.

1. Reviewed a selection of external media reports and internal documents relating to the sustainability performance of BP in Azerbaijan in 2005 as a check on the scope and appropriateness of statements made in the Report.
2. Reviewed BP Azerbaijan SPU's process for determining the key issues to be included in the Report.
3. Reviewed information or explanation for the sustainability performance data and statements presented in the Report. Whilst we reviewed documentation to support the sustainability data contained within the Report, we did not test the data processes for gathering, collating and reporting data at SPU or site level.

Level of assurance

Our evidence gathering procedures have been designed to obtain a limited level of assurance on which to base our conclusions. The extent of evidence gathering procedures performed is less than that of a reasonable assurance engagement (such as a financial audit) and therefore a lower level of assurance is provided.

Our conclusions

On the basis of our review and in accordance with the terms of reference for our work we provide the following conclusions on the Report. Our conclusions should be read in conjunction with the above section on 'What we did to form our conclusions'.

1. Does the Report cover the key issues?

Based on our review of media, selected internal documents and BP Azerbaijan SPU's process for determining key issues, we are not aware of any key sustainability

issues that have been excluded from the Report.

2. Are the data and statements regarding BP Azerbaijan's sustainability performance contained within the Report supported by evidence or explanation?

We are not aware of any misstatements in the assertions and data presented by BP Azerbaijan SPU management within the Report regarding BP Azerbaijan SPU's sustainability performance.

Our independence

Our assurance team has been drawn from our global environment and sustainability network, which undertakes similar engagements to this with a number of significant UK and international businesses. As auditors to BP p.l.c., Ernst & Young are required to comply with the independence requirements set out in the Institute of Chartered Accountants in England & Wales (ICAEW) Guide to Professional Ethics. Ernst & Young's independence policies, which address and in certain places exceed the requirements of the ICAEW, apply to the firm, partners and professional staff. These policies prohibit any financial interests in our clients that would or might be seen to impair independence. Each year, partners and staff are required to confirm their compliance with the firm's policies.

We confirm annually to BP whether there have been any events including the provision of prohibited services that could impair our independence or objectivity. There were no such events or services in 2005.

 **ERNST & YOUNG**
Ernst & Young LLP
London, 12 July 2006

Glossary

ACG	Azeri-Chirag-Gunashli offshore oil field	MENR	Ministry of Ecology and Natural Resources
AGT	Azerbaijan Georgia Turkey	NGO	Non Governmental Organization
AIOC	Azerbaijan International Operating Company	NREP	Northern Route Export Pipeline
ATA	AmecTefkenAzfen	OSCE	Organization for Security & Co-operation in Europe
BTC	Baku-Tbilisi-Ceyhan pipeline project	OSPRI	Oil Spill Preparedness Regional Initiative
CA	Central Azeri	PMDI	Pipeline Monitoring & Dialogue Initiative
CDAP	Caspian Development Advisory Panel	PPD	Pipeline Protection Department
CEC	Caspian Energy Centre	PSA	Production Sharing Agreement
C&WP	Compression & Water Injection Platform	RAP	Resettlement Action Plan
DAFWCF	Days Away From Work Frequency	RDI	Regional Development Initiative
EA	East Azeri	SBM	Synthetic-based Mud
EC	Enterprise Centre, Baku	SLL	Senior Level Leaders
EIT	Extractive Industries Transparency Initiative	SCP	South Caucasus Pipeline project
EOP	Early Oil Project	SME	Small and Medium-sized Enterprise
ESAP	Environmental and Social Action Plan	SOCAR	State Oil Company of Azerbaijan Republic
ESIA	Environmental and Social Impact Assessment	SPU	Strategic Performance Unit
ESMS	Environmental & Social Management Systems	SSOW	Safe Systems of Work
E&P	Exploration & Production	STEP	Sangachal Terminal Expansion Project
FCP	Future Communities Programme	TVAR	Total Vehicle Accident Rate
FINCA	Foundation for International Community Assistance	UN	United Nations
FLL	First Level Leaders	UNDP	United Nations Development Programme
GHG	Greenhouse Gas	WA	West Azeri
GDP	Gross Domestic Product	WBM	Water-based Mud
GOI	Green Office Initiative	WREP	Western Route Export Pipeline
HGA	Host Government Agreement		
HSSE	Health, Safety, Security, Environment		
IDP	Internally Displaced Person	Units	
IEC	Independent Environmental Consultant	\$	US dollar
IFC	International Finance Corporation	bpd	Barrels per day
IGA	Inter Governmental Agreement	kte	Kilo tonnes
IMC	International Medical Corps	Mbd	Thousand barrels a day
IRC	International Rescue Committee	Mt	Million tonnes
ITD	Indirect Thermal Desorption	tcf	Trillion cubic feet
LNG	Liquefied Natural Gas	te	Tonnes

Further information

Much information about BP's energy projects in the Caspian/Caucasus region is available online. The main sites are:

www.bp.com/caspian

This is the main information source about the various Caspian energy projects. It includes project details, news items, the full text of the ESAs carried out in Azerbaijan, Georgia and Turkey and the legal agreements (including the PSAs, HGAs and IGA) which govern the projects. The site is multi-lingual and is updated regularly.

www.bp.com

This site contains information about the BP group including detail of its policies and values, reports on its activities and operations in the Caspian and Caucasus regions and the group's 2005 Sustainability Report.

www.caspsea.com

The site of the Caspian Development Advisory Panel. It includes the full text of its reports and BP's response, biographical

details of panel members and the CDAP terms of reference.

www.ecbaku.com

Carries information about the work and services provided by the Azerbaijan Enterprise Centre in Baku.

www.bp.com/countrysustainabilityreports

This site contains information about BP's reporting at country level.

www.eitransparency.org

The site of the EITI Secretariat. It carries information about the Extractive Industries Transparency Initiative, including detailed country sections.

www.transparency.org

The site of Transparency International, an NGO specialising in issues associated with corporate social responsibility, EITI, corruption, governance and transparency.

www.eurasia.org

Site of the Eurasia Foundation, which assists the states of the former Soviet

Union to build democratic, free market institutions and works with the BTC/SCP projects in Georgia.

www.iso.org

Carries information about the work of the International Standards Organization, including ISO 14001, the environmental management standard.

www.oecd.org

Is the site of the OECD. It contains guidelines for multinational enterprises detailing voluntary principles and standards for responsible business conduct in defined areas such as human rights, employment and industrial relations, environment, information disclosure, competition and taxation.

Publications

Regional Review: an overview of economic, social and environmental issues related to the southern Caucasus oil and gas projects (February 2003).

Between Two Seas: a BTC brochure describing the BTC project in broad terms.

Safe, Silent, Unseen: outlines the technical and engineering challenge of building the BTC pipeline.

Breaking New Ground: a BTC brochure explaining how the project relates to communities and people.

Pipelines and People: describes the benefits being brought to the Caucasus region by the various Caspian energy projects.

BTC Project Environmental and Social Quarterly Report: regular quarterly report updating lenders to the BTC/SCP projects.

AIOC Overview: presents an overview of AIOC marine monitoring activities.

Shah Deniz Gas Export Project: brochure outlining the SD project and the role it will play in the future prosperity of the region.

A Decade of Delivery: brochure outlining the ACG project 1994-2004.

BP Azerbaijan Sustainability Reports 2003 and 2004: our first and second country reports published in 2004 and 2005.

Feedback

Following the publication in 2005 of our second BP Azerbaijan Sustainability Report covering 2004 we received much helpful input and comment from a variety of interested parties.

Independent consultants, NGO monitoring groups and other elements of civil society in Azerbaijan criticized a lack of transparency around contractors' activities and lack of detail about alleged human rights violations.

Media representatives raised issues around land compensation/acquisition in Azerbaijan and the report's coverage of fatalities suffered in 2004, waste management, associated gas from the ACG field, labour relations/union recognition and delays in completing the BTC project.

In this report we have endeavoured to discuss these issues more fully as well as putting greater emphasis on employee-related issues, revenue transparency and grievances of various kinds.

We welcome all feedback to this report.

Contact us

Aydin Gashimov, Performance and Public Reporting manager, or Tamam Bayatly, Communications manager.

BP Azerbaijan Strategic Performance Unit, Villa Petrolea, 2 Neftchilar Prospekti (Bayil), Baku, Azerbaijan.

Online feedback may be sent at www.bp.com/caspian/sr

Or you may telephone the Communications and External Affairs department on +994 12 497 9272.

Paper

This Sustainability Report is printed on Revive Uncoated from the Robert Horne Group, which is produced using 100% de-inked post-consumer waste recycled fibre at a mill that has been awarded the ISO 14001 certificate for environmental management. The pulp is bleached using an elemental chlorine free (ECF) process.

Design and production

Designed by Jeykhun Imanov Studio

Layout by Eldar Husseyinov

Printed in Azerbaijan by S.M.G. Ltd