



BP in Azerbaijan  
Sustainability Report 2006



**About this report** This report covers BP's business performance, environmental record and wider role in Azerbaijan during the calendar year 2006. It is our fourth Sustainability Report and reflects feedback we received about previous publications. The 2006 report does not cover Georgia and Turkey (unless specified otherwise) as information about our activities in these two countries is published by the respective country teams. The earlier publications contain detailed material about our approach, methodology and definitions which has not been repeated here. This information is available at [www.bp.com/caspian](http://www.bp.com/caspian) and from our offices in Baku.

By 'sustainability' we mean the capacity to endure as a commercial organisation 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 sustainable environment, and retaining the trust and support of our customers and the communities in which we operate.

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Unless specified otherwise, references in this report to 'us', 'we' and 'our' relate to BP in Azerbaijan. Specific references to 'BP' and the 'BP group' mean BP p.l.c., its subsidiaries and affiliates. 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.

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#### **A message from Ernst & Young**

This report has been substantiated by Ernst & Young, the BP group auditors. The primary purpose of the report substantiation process is to test that the assertions, claims and data set out in the text regarding BP's sustainability performance can be supported by evidence.

This process is intended to give assurance about the report contents from an independent third party. Ernst & Young's scope of work and their conclusions are provided on page 64.

**On the cover** From left to right: Rufat Azizov, Integrity Engineer; Mammad Abbasov, Legal Advisor; Zaur Pashayev, Azerbaijan West Pipelines Operations Superintendent; Sevinj Alifkhanova, Health, Safety, Security and the Environment Chief of Staff; Daniel Blanchard, Azeri Operations Manager, and Sevil Sadikhova, Offshore Environmental Advisor.

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## Foreword by the president of BP Azerbaijan Strategic Performance Unit (SPU)

I was honoured in November 2006 to have been given the opportunity to lead the BP Azerbaijan Strategic Performance Unit (SPU), succeeding David Woodward who retired from BP after leading the SPU for eight years. Since my arrival in Azerbaijan I have been deeply impressed by the sheer scale and global significance of what we are undertaking here.

Our overriding goal is to work with our co-venturers, the government of Azerbaijan, and other key stakeholders to continue to create a thriving business in Azerbaijan. This includes identifying and successfully exploiting the country's oil and gas potential and moving it to regional and global markets. To this end in 2006, we with our co-venturers, brought the East Azeri (EA) field on stream four months ahead of schedule; achieved a historic country record of daily oil production of more than 600,000 barrels; commenced operation of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and loaded the first oil from BTC onto a tanker at the Ceyhan terminal; fully commissioned the South Caucasus Pipeline (SCP); produced first gas from Shah Deniz (SD), and implemented a first gas injection from the Compression & Water Injection platform (C&WP).

Above all, we want to ensure that all of our activities are run safely. Unfortunately the year was overshadowed by a fatality at one of our projects when a contractor died during construction activities at Sangachal terminal. This tragic event occurred despite a general improvement in contractor safety performance. We deeply regret this accident and strive to reinforce the safety of people working on our projects. Safety has been, and will always remain, our top priority.

In parallel to our operational endeavours, we strive to build a distinctive Caspian presence by enhancing the capability of our workforce, increasing local content, and supporting capacity-building activities in the wider society.

In 2006, we recruited almost three hundred new national staff in Azerbaijan. We, with our co-venturers, spent more than \$650 million with local small and medium-sized enterprises, Azerbaijani state-owned companies, and joint ventures with Azerbaijani partners. Social investments made by BP and our co-venturers in Azerbaijan amounted to \$6.59 million. During the year we continued to support development of local communities along the BTC/SCP pipelines. Moreover, BP contributed directly to a number of initiatives including macro-economic modelling by Oxford Economics and English language training for journalists with the British Council.

This review reports our activities in greater detail. I hope you find it useful.

A handwritten signature in black ink, appearing to read 'Bill Schrader', with a long horizontal flourish extending to the right.

**Bill Schrader**  
President, BP Azerbaijan SPU



## Foreword by the ex-president of BP Azerbaijan SPU

*In November 2006, David Woodward, former president of BP Azerbaijan SPU, retired from BP. We asked him to reflect on his time in Azerbaijan for the 2006 Azerbaijan Sustainability Report.*

For eight memorable years it was my good fortune and privilege to work with an exceptional group of people on world-class oil and gas projects in Azerbaijan, Georgia and Turkey.

I am enormously proud of what we achieved together. This has been a rare success - the first time BP has opened up a major new hydrocarbon province in 30 years. But for me, it is not just what we have done, but how we have done it - respecting the environment, human rights, the communities that we touched directly, the three countries' cultural heritage - and doing as much as we could to ensure that the wealth we are generating will benefit successive generations.

BP now has a great opportunity to build on what we have achieved so far. The company's commercial strategy is sound: to maintain a 'project production line' which maximises capital efficiency and ensures a smooth hand-over to allow us to grow an integrated production, processing and export operation. We are also committed to enhance local enterprise, improve corporate governance and encourage sustainable development.

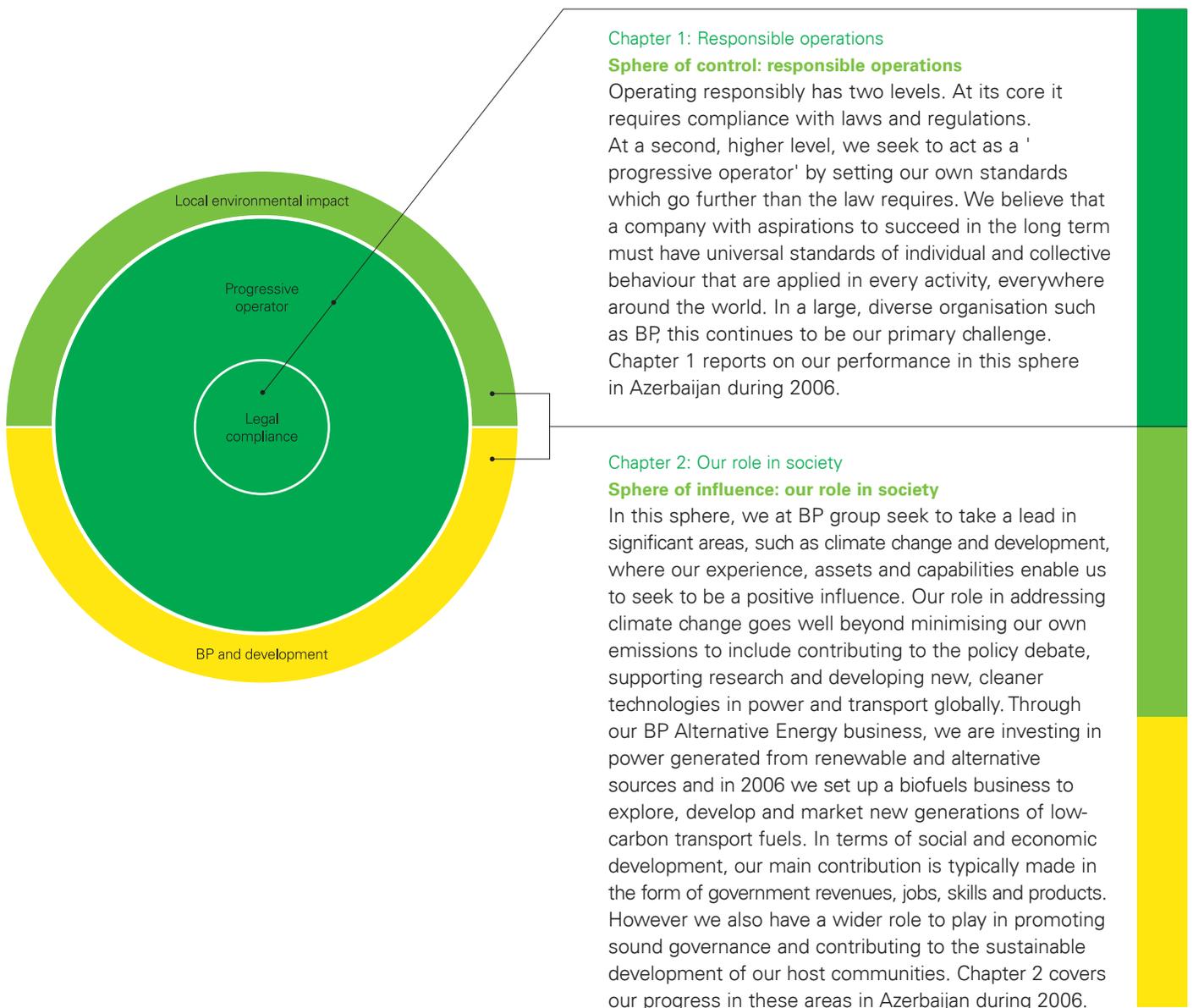
It is an ambitious agenda, but it is one that I am confident the company and its people can deliver.

A handwritten signature in black ink, appearing to read 'David Woodward'.

**David Woodward**  
Ex-president, BP Azerbaijan SPU

# What responsibility means for BP

This report is structured according to the framework we use in the BP group to describe the different aspects of corporate responsibility. According to this framework, our activities fall into two categories: those in which we have control and those where we have an influence. Our 'sphere of control' covers our operations, while our 'sphere of influence' extends beyond our operations to many aspects of society and the environment.



# Country context

**By the start of 2007 Azerbaijan had emerged as a key player in the evolution of world energy supplies following full field development of major new offshore hydrocarbon assets and the opening of the BTC/SCP oil and gas pipelines.**

For Azerbaijan the year 2006 marked the moment when the country's potential started to turn into reality. Oil production exceeded its historical peak. The Azeri-Chirag-Deepwater Gunashli (ACG) fields represent the single largest source of non-OPEC oil to reach international markets in the last 15 years. Offshore gas began to reach consumers in Azerbaijan. And the government in Baku started to receive income from offshore Caspian assets on a scale previously unknown - including around \$3 billion from BP-operated projects alone.

How Azerbaijan utilizes the substantial new revenue flows over the next 30-40 years represents one of the toughest challenges facing what is still a young, emerging state that has been independent for less than two decades.

For the oil and gas industry, Azerbaijan



continues to constitute a challenging business environment. 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 judicial reforms. Transparency International acknowledges an improved rating for Azerbaijan, but the country still ranks at 130 out of 163 states in its corruption perception index.

BP in Azerbaijan has been encouraged by some recent developments, in particular the efforts made by the Azerbaijani government to implement the Extractive Industries Transparency Initiative (EITI). We recognise that ensuring oil and gas revenues are shared equitably, and in a way that creates stable and sustainable progress, is the key to the country's lasting success.

As a long-term investor in the country we are committed to its successful development. In our activities we strive to promote transparency, uphold respect for human rights and seek to play a positive role in the community. Sustainability will be achieved, we believe, through a commitment to safe operations, environmental responsibility and enhanced workforce capability, local content and capacity building.

## 2006 Azerbaijan facts & figures box

Item	Estimate
Area	86,600 sq km (33,774 sq miles)
Population, total (millions) <sup>a</sup>	8.5
Life expectancy at birth, female (years) <sup>a</sup>	75.2
Life expectancy at birth, male (years) <sup>a</sup>	69.6
Gross Domestic Product (GDP) (current US\$) (billions) <sup>b</sup>	20.4
GDP growth (annual %) <sup>a</sup>	34.5
Non oil GDP (US\$ billions) <sup>c</sup>	9.3
Non oil GDP growth (annual %) <sup>c</sup>	12.1
Non oil GDP (% of GDP) <sup>d</sup>	45
Inflation, consumer prices (annual %) <sup>a</sup>	8.3
Capital investment (% of GDP) <sup>d</sup>	33.6

### Sources:

<sup>a</sup> State Statistical Committee (SSC): <http://www.azstat.org/publications/azfigures/2006/en/index.shtml>.

<sup>b</sup> Original data from SSC with our conversion into USD, where 1 USD = 0.87 AZN (as of year end 2006).

<sup>c</sup> National Bank of Azerbaijan (NBA): <http://www.nba.az/>.

<sup>d</sup> Original data from NBA with our calculation.

# Achievements and challenges

**On this page we summarise the key achievements and challenges of 2006, with emphasis on those with implications for the sustainability of our business in Azerbaijan.**

## Achievements

**Operations** The East Azeri (EA) field came on stream during the year. We achieved a production rate of more than 600,000 barrels a day - a record for daily oil production in Azerbaijan. The Baku-Tbilisi-Ceyhan (BTC) oil pipeline became operational, and the first oil was loaded onto a tanker - the BP-owned British Hawthorn - at the Ceyhan terminal. First gas was produced from the Shah Deniz (SD) field (pages 17-22).

**Technology** The first multi-platform advanced collaboration environment (ACE) in the BP group was built in Azerbaijan in 2006 and was launched officially in January 2007. ACE connects the three Azeri platforms and their onshore support teams digitally giving access to real time data and video conferencing, enabling decisions to be made more effectively, and enhancing the links between the office and offshore.

**Environmental management** In 2006, most of the assets of BP Azerbaijan SPU were re-certified as compliant with ISO 14001 environmental management system - the leading international standard on environmental management (pages 27-34).

**Our people** We adjusted local salaries to reflect regional pay levels. Seven out of ten of our professional staff were Azerbaijani citizens at the end of 2006. The BP Azerbaijan SPU continued to be a single SPU within the BP group with the largest number of Challengers - participants of

BP's graduate recruitment and development programme (pages 39-46).

**Local content** The Enterprise Centre (EC) was re-launched in autumn 2006. To encourage excellence by our contractors we and our co-venturers launched the annual 'Best of Business Awards' in 2006 which recognised four companies for their achievements and efforts in developing the national workforce (pages 56-57).

**Social investment** With our co-venturers we invested around \$6.59 million in 2006 in social development projects in Azerbaijan including a Regional Development Initiative, various community projects and other initiatives; in addition BP Azerbaijan SPU on its own contributed around \$154,000 into social investment projects (pages 49-59).

## Challenges

**Fatalities** One of our contractors died in Azerbaijan during construction activities at Sangachal terminal. We regret this loss of life very deeply and have endeavoured to learn from this incident (page 23).

**Shah Deniz/SCP** We completed construction, testing and commissioning of Stage 1 SD/SCP onshore and offshore facilities and delivered first gas from well SDA-01 on December 15, 2006. However technical issues subsequently meant that it had to be shut in for remedial work to be undertaken (pages 20-21).



**Extension of WREP shutdown** The Western Route Export Pipeline (WREP) was closed as part of a 10-day planned maintenance programme on the Chirag oil platform and Early Oil Project (EOP) system. Subsequently the shutdown was extended to enable further analysis of certain sections of the line and to allow maintenance and other remedial work to be completed.

**Waste management** The lack of waste management facilities in Azerbaijan that are able to meet European Union standards continued to present a challenge to us during 2006 (pages 30-32).

# Report concept, scope and process

**Sustainability reporting forms part of BP's corporate reporting. It is based on established international standards and is intended to cover material issues across BP in Azerbaijan in a consistent form. Our objective in producing individual country sustainability reports is to provide a clear and transparent insight into the quality of our assets and operations and to report as openly as possible on how we manage our business.**

## Milestones of 2006

This is the fourth Sustainability Report for Azerbaijan. It provides an integrated account of BP's business activities in Azerbaijan during the year as well as a description of our economic, environmental and social performance over the same period.

The report has been prepared by the BP in Azerbaijan communications & external affairs (C&EA) department based in Baku. We have been aided by external input from the International Institute of Environment and Development (IIED), an independent not-for-profit research organisation based in the U.K.

Two chapters constitute the framework of the report in line with BP group reporting guidelines. The first focuses on our performance in Azerbaijan during 2006. This is followed by an account of our role in society including investments we made in communities during the year, the promotion of local enterprise and the support we have given to sustainable development initiatives. Key performance indicators are shown in the individual chapters and also in a section at the back covering the four years to 2006.

Throughout the report we highlight links to other sources of information about BP and the wider context of our

operations. External assurance is provided by the BP group auditors, Ernst & Young, who are charged with ensuring that every figure, statement and assertion in this report is correct and can be supported by documentation and that the report provides a balanced representation of material issues concerning our activities in Azerbaijan.

For more information on BP's sustainability reporting and sustainability reporting guidelines access [www.bp.com/sustainability](http://www.bp.com/sustainability) or [www.globalreporting.org](http://www.globalreporting.org) or [www.accountability.org.uk](http://www.accountability.org.uk)



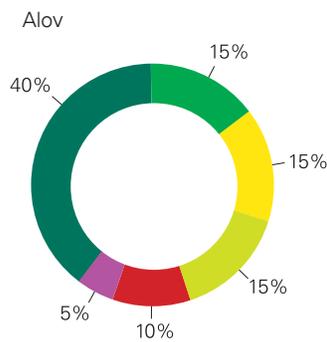
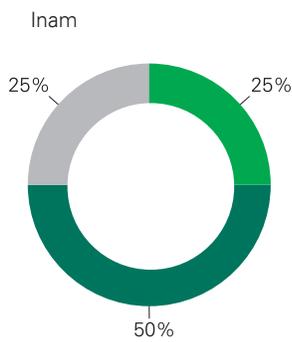
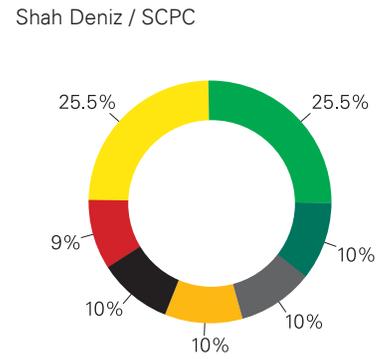
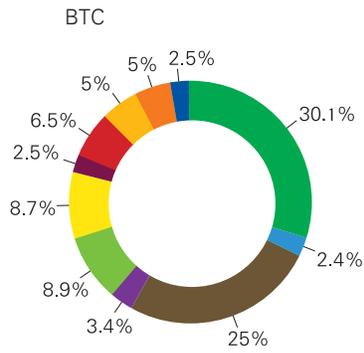
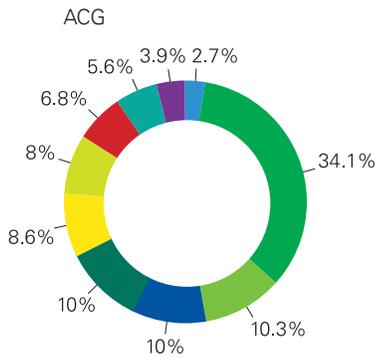
## Listening to students

Each year we hold a feedback session with students to discuss the previous year's Sustainability Report. The audience is selected by the dean's office at universities in Azerbaijan and includes students specialising in economics and/or environmental sciences. In 2006, the universities taking part were the State Oil Academy, Baku State University, the Economic University, Khazar University and the Western University. Members of the US Alumni Association and student interns working in BP in Azerbaijan also participated.

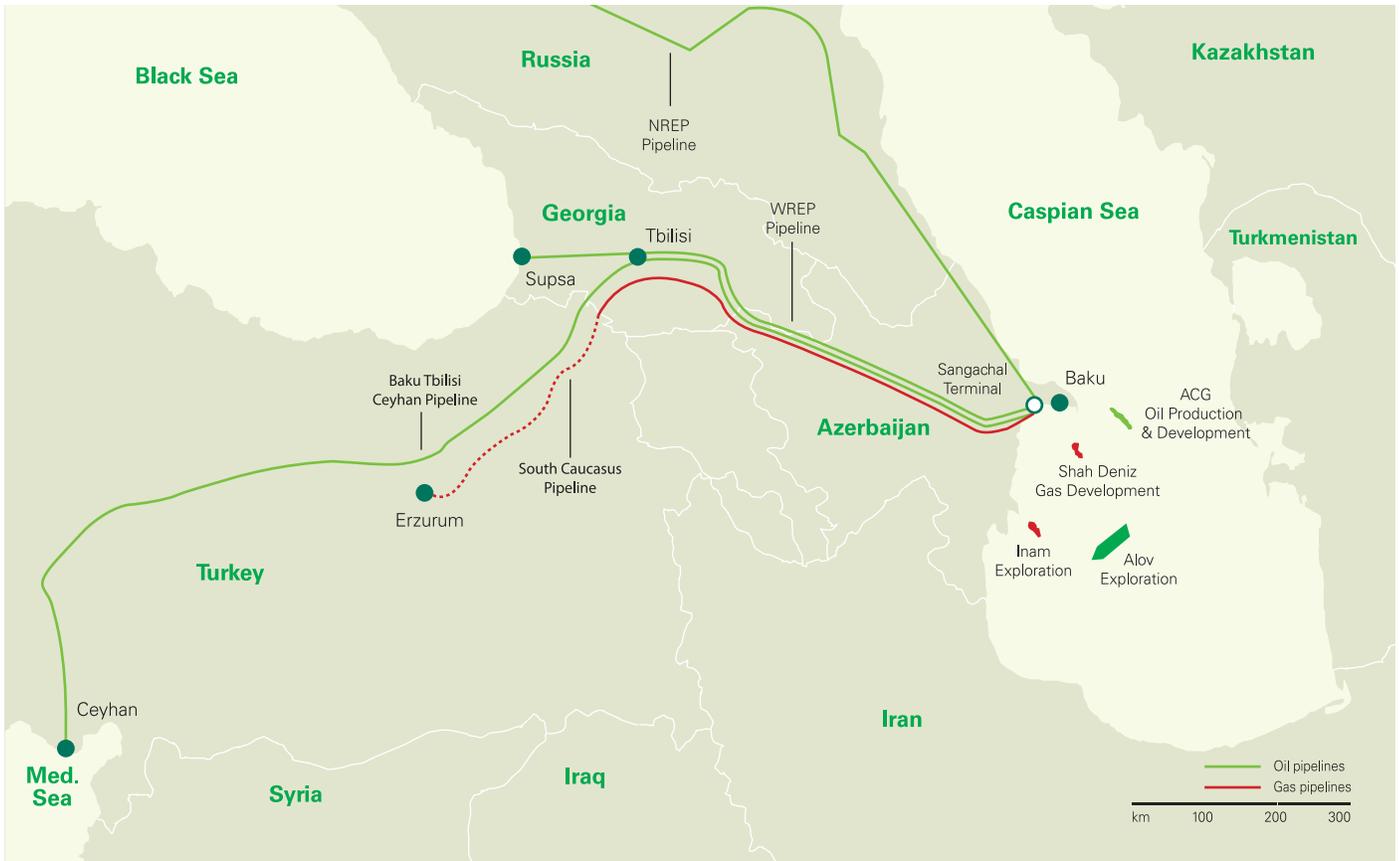
The November 2006 meeting focused on our 2005 report and offered us some of the most constructive and thought-provoking feedback we received. Three themes ran through the session - a desire for continued and greater transparency; a request for more detailed information about BP's educational initiatives in Azerbaijan, and suggestions that the report contain more information about our future plans.

Among specific ideas raised, there was interest in receiving fuller information about our financial payments to employees, the government and local contractors in Azerbaijan. Some students wanted more specific statistics on accidents and injuries. Others suggested we provide information about life-cycle reservoir management, feedback from our annual recruitment programme and more details about how BP's Azerbaijan operations fit into the BP group portfolio and strategy. As a group, the students also proved more interested in environmental management issues than other feedback groups, seeking more comprehensive coverage of such issues as waste management and recycling. We have endeavoured to satisfy these suggestions.

# BP Azerbaijan SPU interests



- Hess
- AzBTC
- BP
- Chevron
- Conoco Phillips
- Devon
- EnCana
- Eni
- ExxonMobil
- INPEX
- Itochu
- LUKoil
- NICO
- Shell
- SOCAR
- Statoil
- Total
- TPAO



# BP in Azerbaijan: our operations



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- 1.2 BP in Azerbaijan in perspective
- 1.3 Dialogue and engagement
- 1.4 Our projects and operations
- 1.5 Operating responsibly: safety and health
- 1.6 Environmental management
- 1.7 Security and human rights
- 1.8 People, compliance, ethics
- 1.9 Key statistics in chapter 1



## 1.1 BP in Azerbaijan at a glance

### Our structure, organisation, assets and history

<b>Legal structure</b>	BP operates within a number of legal entities in Azerbaijan reflecting its evolution in the country and the region since 1992. The principal legal entity is BP Exploration (Caspian Sea) Ltd.
<b>BP Azerbaijan Strategic Performance Unit (SPU)<sup>a</sup></b>	The Azerbaijan SPU is the BP organisational entity, which operates in Azerbaijan, Georgia and Turkey. In Azerbaijan BP operates under a number of production sharing agreements (PSAs) and host government agreements (HGAs) signed with the government of Azerbaijan. In Georgia and Turkey, it operates under HGAs that cover export pipelines and terminals.
<b>Business structure</b>	As of year end 2006 four performance units (PUs) reported to the president of BP Azerbaijan SPU - renewals; major projects; offshore operations; onshore operations.
<b>Office headquarters</b>	Headquarters of BP Azerbaijan SPU is located at Villa Petrolea, 2 Neftchilar Prospekti (Bayil), Baku AZ1003, Azerbaijan. Telephone: + 994 12 497 9000. Fax: + 994 12 497 9602.
<b>Employees</b>	At the end of 2006, the total number of Azerbaijanis permanently employed by BP in Azerbaijan was 1,560.
<b>Offshore production assets</b>	(1) Azeri-Chirag-Deepwater Gunashli <sup>b</sup> (ACG) is the largest oil field in the Azerbaijan sector of the Caspian Sea (2) Shah Deniz (SD) is a large offshore gas and condensate field.
<b>Operational offshore facilities (end 2006)</b>	Chirag 1 platform; Central Azeri platform; Compression & Water Injection platform; West Azeri platform; East Azeri platform; Shah Deniz TPG 500.
<b>Estimated reserves</b>	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.
<b>Transportation &amp; capacity</b>	<b>Transportation:</b> Western Route Export Pipeline (WREP): an 830km pipeline linking Sangachal terminal to Supsa on Georgia's Black Sea coast. Northern Route Export Pipeline (NREP): a 231km pipeline linking Sangachal terminal to the Russia border <sup>c</sup> . Sangachal terminal: an oil and gas processing terminal south of Baku. Baku-Tbilisi-Ceyhan pipeline (BTC): a 1,768km oil pipeline (443km in Azerbaijan) linking Sangachal terminal to Ceyhan marine terminal in Turkey. South Caucasus Pipeline (SCP): a 690km gas pipeline between Sangachal terminal and the Georgia/Turkey border. <b>Capacity at year end 2006:</b> Export pipelines: NREP - 115,000 barrels a day (mbd); WREP - 140 mbd; BTC - in 2006 throughput at peak was over 500 mbbbl. Capacity is expected to increase up to 1,000 mbd. SCP - capacity expected for Phase 1 by 2007 - 720 mmcf (7.4 bcma). Terminal: Sangachal - can process in excess of 1.2 million barrels of oil (162,000 tonnes) and 2bcf (56 Mscm) of gas. Crude oil storage capacity of 3 million barrels (405,000 tonnes).
<b>Exploration activity</b>	Inam - a large geological structure south of SD; Araz-Alov-Sharg - a frontier exploration area.
<b>Committed capital expenditure</b>	About \$25 billion on the ACG, BTC, SD Stage 1 and SCP projects.
<b>Oil production</b>	AIOC 1997- 2006: 543 million barrels in total; 172 million barrels (2006).

<sup>a</sup> In this report when we refer to BP in Azerbaijan we refer to SPU's activities in Azerbaijan only, while when we refer to BP Azerbaijan SPU we refer to SPU's activities in Azerbaijan, Georgia and Turkey.

<sup>b</sup> Shallow water Gunashli is developed by the State Oil Company of the Azerbaijan Republic (SOCAR).

<sup>c</sup> 'Transneft' operates the continuation of the Northern route to Novorossiysk.

# Leadership team of BP Azerbaijan SPU (end 2006)



**Bill Schrader**  
**President of BP Azerbaijan SPU**

Bill has been leading BP Azerbaijan SPU since November 2006. He has 26 years' experience in BP, covering numerous leadership roles in BP Chemicals, Refining and Marketing, Marine, and Exploration & Production (E&P). He has worked in the USA, London, the North Sea, Indonesia and Angola.



**Paul Clyne**  
**Renewal Performance Unit (PU) Vice President**

Paul is responsible for Exploration and New Development activities of BP Azerbaijan SPU. He has recent operational leadership experience in new developments such as Schiehallion, Andrew and Harding in the North Sea. He worked previously in Alaska, Canada and Norway.



**Bruce Luberski**  
**Major Projects PU Vice President**

Bruce is responsible for delivery of the ACG project and future potential projects in the SD and ACG fields. In a previous job he supervised the Mad Dog project in the Deepwater Gulf of Mexico (GoM). Bruce has a wealth of operations and projects experience in Alaska and the GoM.



**Mike Skitmore**  
**Offshore Operations PU Vice President**

Mike is responsible for ACG and SD Operations and Logistics. In the past Mike has been a Head of Operations (Europe), E&P Technology, where he contributed to improving Operations Organisational Capability and in moving the North Sea operations forward.



**Rashid Javanshir**  
**Onshore Operations PU Vice President**

Rashid is responsible for onshore operations of BP Azerbaijan SPU. Rashid has an extensive leadership experience in Exploration, Operations, Group Strategy and Communications in the UK, USA and Azerbaijan. He is a professor of geology and geophysics.



**Phil Home**  
**Commercial Vice President**

Phil is responsible for planning & performance management, JV management, commercial operations, business development and the business support functions. He has extensive experience in exploration, planning & control, and commercial management in UK, Norway, Australia and Papua New Guinea.



**Fereidoun Abbasian**  
**Technical Vice President of BP Azerbaijan SPU**

Fereidoun is responsible for Petro-Technical and Procurement supply chain functions. In BP he has primarily worked in the Drilling and Completions discipline and has held various roles in research and development, in drilling operations and in technology leadership.



**Zarina Zeynalova**  
**Human Resources Vice President**

Zarina is responsible for directing human resources (HR) in BP Azerbaijan SPU since 2002. She has worked in HR for 11 years. Zarina joined BP in 1995 and had a secondment to USA and a year's International Development Assignment in UK.



**Gunther Newcombe - Health, Safety, Security and the Environment Vice President**

Gunther is responsible for the safety and integrity agenda of BP Azerbaijan SPU. His previous position was a Leader of the Terminals & Pipelines Performance Unit based in Aberdeen. During his 27 year career with BP Gunther has worked in UK, Germany, China, Norway, Indonesia & Venezuela.



**Clare Bebbington - Communications and External Affairs Vice President**

Clare is responsible for external and internal relations and communications of BP Azerbaijan SPU. She is a professional in this area with an 18-year career encompassing high-level roles inside and outside BP. Most recently she was BTC Communications Manager based in London.

# History

## September 1994

ACG production sharing agreement (PSA) signed by BP, its co-venturers and the government of Azerbaijan to develop Caspian offshore resources

## June 1996

Shah Deniz PSA signed

## July 1998

Inam and Araz-Alov-Sharg PSAs signed

## December 1998

Western Route Export Pipeline starts operations

## September 2002

ACG Phase 2 sanctioned

## April 2003

Construction of BTC pipeline begins

## October 2004

Construction of South Caucasus Pipeline begins

## March 2005

Azeri crude oil exports commence

## December 2005

Deepwater Gunashli pre-drilling programme commences; West Azeri oil production begins

## June 2006

First tanker filled with Caspian oil at Ceyhan terminal; Record ACG daily production rate of over 500,000 barrels per day

## November 2006

East Azeri produces first revenue oil

## February 1995

Formation of the Azerbaijan International Oil Company (AIOC)

## November 1997

First Oil produced from the Chirag field

## August 2001

ACG Phase 1 sanctioned

## February 2003

Shah Deniz Stage 1 sanctioned

## September 2004

ACG Phase 3 sanctioned

## February 2005

Production at Central Azeri begins

## May 2005

Delivery of gas to Azerbaijan from Central Azeri starts; Azerbaijan section of BTC pipeline inaugurated

## May 2006

First gas flows into the SCP

## July 2006

Inauguration of the Turkish section of the BTC pipeline, the Ceyhan terminal and the BTC pipeline export system

## December 2006

Gas production begins from Shah Deniz; South Caucasus Pipeline operations commence

## 1.2 BP in Azerbaijan in perspective

**BP operates in more than 100 countries. In common with BP globally, we in BP in Azerbaijan believe that a clear management framework and good governance are crucial building blocks if the global organisation is to perform in a focused, cohesive and consistent fashion.**

**Our vision** We are committed to deliver high quality, low cost services and to build a sustainable and distinctive Caspian presence through enhancing workforce capability, generating local content and building capacity. We strive to create value by speeding up project start-ups, improving facility efficiency, developing reserves and accelerating production. At all times we are committed to work safely, protect the environment and respect human rights. Our aim is to be a valued and trusted partner in the development of Azerbaijan's oil and gas resources.

**Our management framework** The BP group management framework, laid out in 2004, is based on four concepts - governance; role clarity; functional excellence, and corporate cohesion. Pulled together in a single point of reference known as the BP Management Framework, it sets lines of accountability.

The BP Management Framework defines how authority is delegated from the group chief executive to the local operational level. It is the company's primary system of internal control that comprises a complete set of management systems, organisational structures, processes, standards and

behaviours that are employed to conduct the business and deliver returns to shareholders.

In 2006 in Azerbaijan our management structure was based on four performance units (PUs): an offshore operations PU which ran all the offshore operational facilities; an onshore operations PU which ran Sangachal terminal and the export pipeline systems; a renewals PU designed to ensure a sustainable business, and a major projects PU established to develop the potential of the SD & ACG fields. In addition there were directorates covering commercial, technical and human resources activities and functions that reported directly to the president of BP Azerbaijan SPU including health, safety, security and the environment (HSSE), and communications and external affairs (C&EA).

**Our business strategy** Our strategy in Azerbaijan reflects BP group strategy. This is to seek out large, world-class oil and gas development opportunities. In pursuing this we are committed to act responsibly, operate safely and respect human rights in order to build trust, strengthen our reputation and create a sustainable business based on mutual advantage.



Our commercial objective is to achieve competitive performance across the region and to ensure returns that enhance BP group performance. We seek to do this by maintaining a project production line that maximises capital efficiency and permits a smooth transition from development to integrated production, processing and export. We also seek long-term renewal options including exploration access and the monetising of gas resources.

Our various co-venturers in Azerbaijan provide valuable input, challenge and support and have contributed greatly to our overall success.

## 1.3 Dialogue and engagement

**We believe that BP's activities should generate benefits and opportunities for all and that we should be as open and accountable as possible.**

**To this end this section summarises how we engaged and communicated with our stakeholders in Azerbaijan in 2006.**

**Summary** As the leading foreign investor in Azerbaijan, we interact with many individuals and organisations over a broad range of issues of mutual interest. Our contacts include government representatives, regulatory agencies, community representatives, the media, academics and students, national and international non-governmental organisations (NGOs), multilateral organisations (including lenders and project sponsors) and national civic groups.

In 2006, we engaged these stakeholders in varying ways including through our annual Sustainability Report, our publications and online services and at meetings, public events, visits and specialist workshops.

### With government

- We held several meetings with the President of Azerbaijan and senior government representatives to provide business updates on our activities in the country.
- President Ilham Aliyev visited the Zykh construction yard in March and met representatives of the management and staff. In 2006, we also hosted numerous site visits of other senior government representatives.

- We supported the State Oil Fund of Azerbaijan (SOFAZ) in its work with Oxford Economics to develop a macro-economic model of Azerbaijan's economy.
- We co-operated with SOFAZ on the implementation of the Extractive Industries Transparency Initiative (EITI).
- We continued our consultations with state ministries on concluding a Bilateral Security Protocol.
- Together with the State Oil Company of the Azerbaijan Republic (SOCAR) we worked on various issues. For example, we continued to hold regular meetings with senior management, technical and commercial experts of SOCAR to discuss the annual work-plan progress and other relevant matters. Our relations with SOCAR are regulated by PSAs/HGAs and other relevant agreements.

### With investors

- In September we hosted a visit to Baku by 29 institutional investors from the world's leading brokerage firms.





## How we are seen

What do Azerbaijan's NGOs think of BP? In 2006 we asked 37 national NGOs for their views. Over a four month period between July-November 2006 we received responses from 17 of these organisations all of whom are or were represented in programmes linked to BP in Azerbaijan.

The results showed that expectations of BP are very high - in some cases beyond the scope of our business. Sometimes these expectations do not match our remit as an oil and gas business. For example the company is regarded by some as a potential provider of such services as children's summer camps and family resorts.

Surveyed representatives of local NGOs regarded BP's performance in the country as good overall. Support was noted for our various capacity-building projects, community development initiatives and the contributions we make to the economy. Dissatisfaction centred on a perceived lack of BP focus on national education and educational institutions, which may reflect a lack of awareness of our educational activities in Azerbaijan.

Ideas suggested by the NGO representatives included putting more emphasis on programmes to help women and children; assisting the government in developing national educational standards, and creating a centralised management system for the provision of agricultural equipment.

*See pages 51-52 for further information on our community investment projects.*

## With civil society

- We engaged national NGOs in Azerbaijan in a variety of oversight activities including the BP Azerbaijan/ Open Society Institute (OSI-AF) NGO monitoring and audit programme. More information may be found on <http://www.bp.com/caspian/ngomonitoring>
- We undertook a survey to receive feedback on our approaches to civil society relationships. The survey was aimed at helping us better understand civil society expectations and to identify which of our activities are most supported by local NGOs.

"In our view BP has established a genuinely world class upstream position in the Caspian, offshore Azerbaijan, that no other western oil major rivals."

Fred Lucas, Cazenove

## With employees

- We held 'town hall' meetings on a quarterly basis to discuss topical issues. We published a staff magazine 'Compass' 10 times during the year in the English and Azerbaijani languages.
- The employee-focused compliance and ethics helpline of BP, OpenTalk, continued to be maintained (page 45).
- We radically improved the intranet homepage of BP Azerbaijan SPU to advance communication with our employees, including introduction of regular poll questions that allow us to learn about and address issues of common concern.
- We ran Avian flu awareness and pandemic flu preparedness campaigns.
- We continued to support a Fresh Thinkers Network (FTN) that was launched in October 2005 to give future leaders the opportunity to discuss business issues.

## With communities

- We continued to liaise with communities along the BTC/SCP route following completion of the pipelines. More than 120 communities were visited regularly by our seven community

liaison officers (CLOs) to keep residents informed and to hear their concerns.

- We supported co-operation between CLOs, local security forces and communities along the BTC/SCP pipelines to encourage dialogue on issues of common concern (pages 35-36).
- Official grievance mechanisms remained in place following completion of the BTC/SCP projects (page 36).

## With the media

- Numerous interviews and visits to sites in Azerbaijan and overseas were arranged for journalists from many countries as the BTC/SCP construction projects reached completion and began operation.
- We held quarterly press conferences.
- Five workshops for local journalists were arranged including one with Institute of Archaeology experts.

## With other interested parties

- **Senior international delegations** Fact-finding visitors to our facilities in 2006 included the presidents of Lithuania, South Korea and Ukraine, the prime minister of Kazakhstan, the Duke of York, US senator Richard Lugar and Israel's minister of national infrastructure.

### Summary results of 2005/06 NGO monitoring programme

<b>NGO concerns</b>	<b>Response of BP in Azerbaijan</b>
The presence of security vehicles on the BTC/SCP pipeline right of way (ROW) presents difficulties to the completion of land reinstatement.	We are continuing discussions with government to ensure pipeline security while honouring reinstatement commitments and the rights of people living and working close to the pipelines. Public consultation is also a key part of this process. In 2007 we will arrange consultation meetings with NGOs, communities and landowners.
Continued concern from cultural heritage activists regarding poor inter-governmental co-ordination.	An observation outside the scope of a review of our activities. We are contemplating holding an exhibition of BTC/SCP archaeological findings in the Caspian Energy Centre (CEC).
Increased monitoring and auditing of BP's and co-venturers' community investment projects would increase the overall value delivered to communities, as would ensuring proper transfer of title for infrastructure completed under these projects.	We agree and have added or adjusted assurance processes to accomplish more systematic review of our investments. These processes include but are not limited to: regular inspections/monitoring and audit of community investment projects by community liaison officers (CLOs) and by BP staff; co-operation with local authorities on transfer of relevant infrastructure.
There are on-going difficulties providing a telephone hot-line service to project-affected communities.	This was an accurate finding however as per the year end the hotline service was fully operational and advertisements about the hotlines were posted in each community.
<b>NGO commendations</b>	
Positive findings regarding use of local human resources, including achieving hiring targets. But improvements possible.	We agree that it would have been possible to distribute pipeline construction hires more broadly along the route(s). In June 2007, we are planning to organise a lessons learned session to look at labour and employment practice during projects' construction.
Overall praise for BP's environmental performance in construction and reinstatement while some challenges (as per corresponding concern mentioned above) were also noted.	
Positive findings regarding community liaison, consultation and grievance handling, with suggestions for improvement and recommendation that these processes continue to be implemented.	We will continue to review the effectiveness and transparency of the grievance process during pipeline operations and make further changes as required.



## A watching brief

With different levels of monitoring<sup>a</sup>, the BTC and SCP construction projects were heavily scrutinised from conception to completion. One of these layers was the Caspian Development Advisory Panel (CDAP) whose mission was to act as an independent, external advisory body to BP's group chief executive.

According to Jan Leschly, chairman of the CDAP, "our most notable contributions have been with respect to BP's planning for supplemental social investment in the region in co-operation with its project partners and regional development institutions. We also had a major impact on the decision of BP and BTC to endorse the EITI." So how does CDAP rate BP's social and environmental performance on the BTC project?

According to Leschly, "the high environmental and safety standards set for the project have had a significant impact." He reckons CDAP "has seen some outstanding examples of reinstatement and restoration. But the long-term social impact will not truly be known for years to come. "The establishment of the Regional Development Initiative (RDI), funded by BP and its co-venturers, is, he says, "a promising start."

- **Students** We ran a Student Engagement Programme. This allowed students to take part in BTC/SCP community investment projects implemented by two national NGOs - Umid and Hayat. The students' activities ranged from the preparation of business plans and involvement in apprenticeship programmes to undertaking a survey on economic development. We also ran an internship

programme (page 41) and provided a support to Azerbaijan-UK Alumni Association (page 59).

- **Trade unions** In 2006, we engaged with SOCAR and trade unions to address the labour issues related to the work of our contractors. As a result of this co-operation the corresponding guidelines were set in 2006, which led to the successful implementation of the 2007 wage rate review for contractor employees across the AIOC project.



"We will share the experience we gained during participation in the Student Engagement Programme with other students. I am sure this knowledge will help us much in our future study as well as in our careers."

Narmin Bagirova, a student participant

- **General public** We launched a new external website in March, which offered more information on the operations phase of BP-led projects in the Caspian region. This information included numerous external reports including quarterly lenders reports, NGO monitoring reports and others. The website is navigable in Azerbaijani and English and is believed to be the largest Azerbaijani-language internet site. Designed by a local company, it is managed by a dedicated team in Azerbaijan. The website address is: [www.bp.com/caspian](http://www.bp.com/caspian).

- **Caspian Development Advisory Panel (CDAP)** The panel continued to monitor the BTC project. Its reports and BP's responses are available on [www.bp.com/caspian](http://www.bp.com/caspian) and [www.caspsea.com](http://www.caspsea.com)

<sup>a</sup> More information about external monitoring may be found on [www.bp.com/caspian](http://www.bp.com/caspian); the CDAP website is [www.caspsea.com](http://www.caspsea.com); a full interview with Jan Leschly can be found on <http://www.bp.com/bpmagazine/2006/3/>.

## 1.4 Our projects and operations

**In 2006, our offshore operations recorded some notable accomplishments. Yearly production reached the target of 172 million barrels of oil, or 472,000 barrels per day on average. Daily production rose to over 600,000 barrels per day by the end of the year - the highest production rate ever achieved in Azerbaijan.**

### Azeri-Chirag-Deepwater Gunashli (ACG)

**Summary** ACG 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 field. Phase 1 and Phase 2 development of the East, West and Central Azeri complex followed. Phase 3 will develop Deepwater Gunashli. We anticipate that ACG full field development will result in the production of about one million barrels of oil per day by 2009.

**Milestones of 2006** During 2006 ACG spent \$234 million in operating expenditure against the target of \$227 million and \$2,477 million of the planned \$2,552 million capital expenditure.

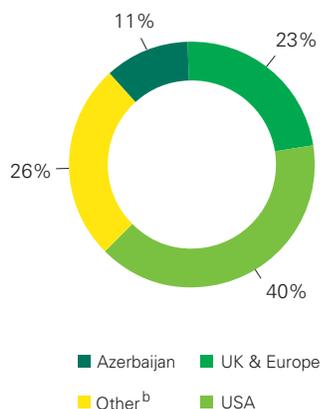
From mid year we exceeded our year-end target to produce more than half a million barrels per day from our offshore platforms. Overall, we produced an average of 472,000 barrels per day in 2006 against a plan of 458,000 barrels. This was achieved by delivery of first oil from East Azeri four months ahead of schedule, good well performance and high operating efficiency. Of the 472,000 barrel average daily production, 142,000 barrels came from Chirag, 223,000 barrels from Central Azeri (CA), 96,000 barrels from West Azeri (WA) and 11,000 barrels from the East Azeri (EA) platform.

In 2006, associated gas produced

The ACG field represents the single largest source of non-OPEC oil supply that has been brought to market in the last 15 years. At \$60 per barrel, BP's net production in Azerbaijan in 2006 was the seventh highest in BP's exploration and production portfolio.

#### 2006 BP group net production<sup>a</sup>

1.351 thousand barrels per day (excluding equity accounted entities)

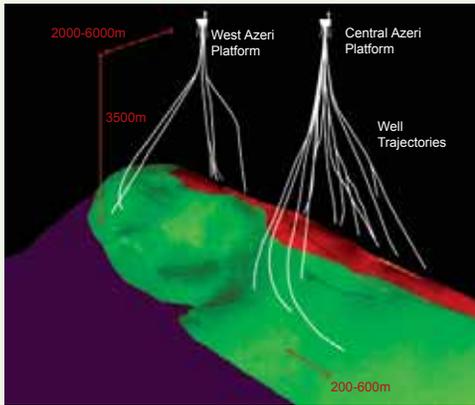


<sup>a</sup> Includes natural gas liquids and condensate.

<sup>b</sup> Includes Angola, Australia, Canada, Colombia.

from the CA, WA and EA platforms continued to be transported to the Sangachal terminal and onward into Azerigas' national grid system for Azerbaijan's domestic use. In addition, associated gas produced from the Chirag platform flowed to the SOCAR compression station at Oil Rocks. In total we delivered 2.2 billion cubic metres of associated gas to Azerbaijan in 2006.

From May 2006 the remainder of the associated gas from the ACG field flowed via in-field subsea gas pipelines to the Compression and Water Injection platform (C&WP). This was installed in



## Intelligent completions

The ACG wells are among the most productive in the global BP portfolio. Maintaining this level of productivity will require the injection of large volumes of water into multiple reservoirs to keep up their pressure. It will also be vital to 'manage' water flows into the producing wells so that they sustain the pressure efficiently and in the right place.

The key technique used to achieve this is known as 'intelligent completions'. In essence completions are plumbing assemblies at the bottom of wells that allow the simultaneous extraction of oil and the injection of water. Intelligent completions provide the capability to adjust and direct water flows to maximize the efficiency of the producing wells.

According to Fereidoun Abbasian, BP Azerbaijan SPU's Technical Vice President, the use of intelligent completions will enable the ACG complex to achieve higher overall production than would have otherwise been possible. "In the past we would have had to drill a separate well into each reservoir," he explains. "With these new technological developments, we get the functionality of two wells within a single well." He adds that intelligent completions have a "huge application potential" and can bring considerable benefits to BP group operations elsewhere in the world.

CA to maintain pressure and maximise oil recovery. With the start up of the C&WP platform, routine gas flaring on the Chirag platform ceased.

**Outlook for 2007** In 2007, we plan to produce 708,000 barrels of oil per

day on average from Central, West, East and Chirag platforms. Of this, 141,000 barrels is expected to come from Chirag, 257,000 barrels from CA, 168,000 barrels from WA and 142,000 barrels from EA.

Our 2007 ACG operating expenditure

target is around \$400 million and we expect ACG capital expenditure to total \$2.6 billion.

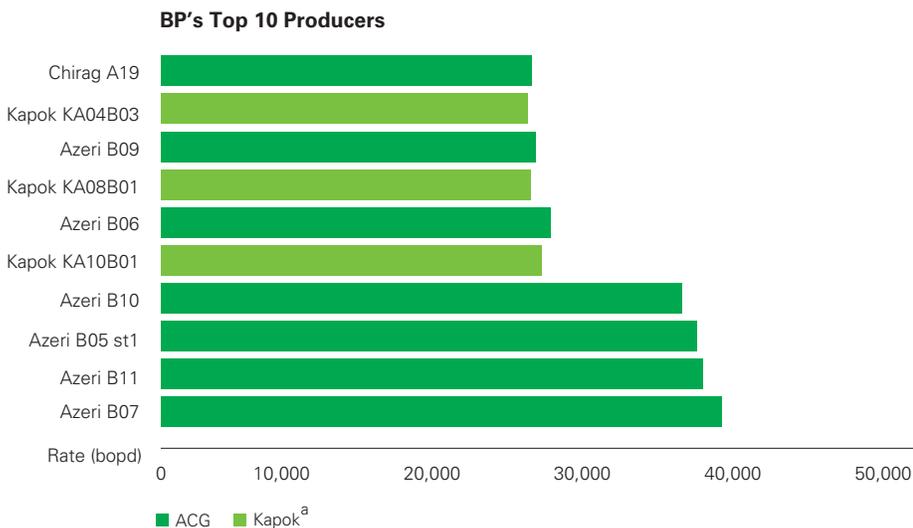
In 2007, we plan to continue delivering associated gas from ACG to SOCAR.

**Our long-term strategy** Full field development of ACG is divided into three phases. Phase 1 & 2 production is already underway. Phase 3 production, from Deepwater Gunashli, is expected to start in the second quarter of 2008. Full field development comprises:

- Installation of six jackets, six production decks, four templates and more than 100 piles
- Four drilling rigs
- More than 1,000km of subsea pipelines
- Six production trains at Sangachal terminal

**Further potential** At present recoverable reserves<sup>b</sup> are put at 5.4 bn bbls of oil. Extracting the most oil possible from a field requires sophisticated reservoir management techniques and the use of advanced seismic data, multilateral completions and enhanced oil recovery technologies such as CO<sub>2</sub> injection.

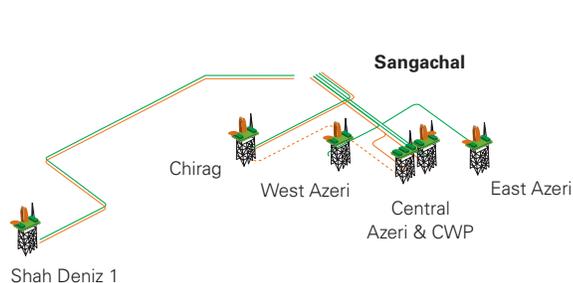
Seven of BP's top 10 producing wells worldwide are in the ACG field - the largest oil field in the Azerbaijan sector of the Caspian basin.



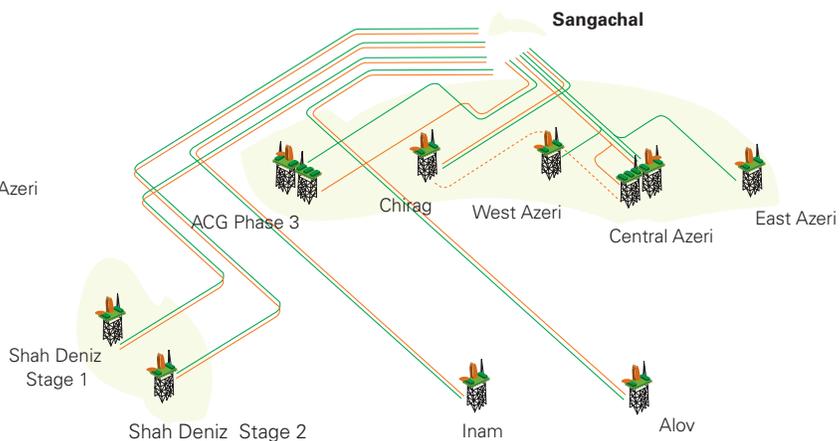
<sup>a</sup> Kapok gas field - is located off the east coast of Trinidad and operated by BP Trinidad&Tobago.

<sup>b</sup> The amount of oil or natural gas believed to be recoverable from known reservoirs under existing economic and operating conditions.

**2006 BP Azerbaijan SPU offshore facilities**



**Potential future**



From our experience and track record of operating large mature fields around the world, combined with reservoir information gained during development, we are confident that we can recover an additional three billion barrels of oil from the ACG complex above the base plan.

**Sangachal terminal operations**

Sangachal terminal is a processing hub terminal where all hydrocarbons from offshore Caspian are processed

before export. It has been built in phases linked with developments offshore to accommodate the additional volumes of oil and gas now being produced in the Caspian.

The terminal is designed to treat production from all BP's operated assets in the Caspian and to allow future expansion. It includes ACG oil processing facilities, SD gas processing facilities, the BTC first pump station and the SCP compressor.

Sangachal is known as a combined (rather than integrated) terminal as each

element can be operated independently. Core utilities have been shared between the projects and have been built by a single management team (the Sangachal terminal expansion project - STEP) and by a single main contractor, Tekfen-Azfen Alliance which includes Tekfen from Turkey and the SOCAR-established joint venture Azfen.

Cost sharing agreements have been put in place to ensure each project is paying fair and reasonable costs. By building a combined terminal large cost savings have been made by all the projects.

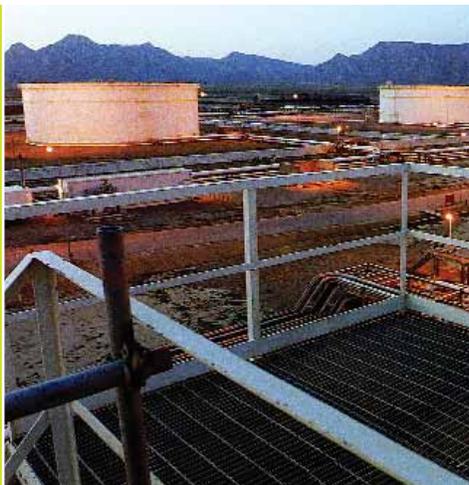
With the start up of ACG Phase 2 facilities several months ahead of schedule, Sangachal terminal's total oil processing capacity rose. Phase 3 facilities at Sangachal terminal expansion project (STEP) should be completed during the fourth quarter of 2007.

**Baku-Tbilisi-Ceyhan (BTC) pipeline**

**Summary** The 1,768km BTC pipeline has been constructed to transport oil from Sangachal terminal south of Baku through Georgia to a new marine terminal at Ceyhan on the Turkish Mediterranean coast.

**Key Sangachal facts**

- Area: about 500 hectares
- Location: 55 km south of Baku in Garadagh region
- As of year end 2006, Sangachal can process in excess of 1.2 million barrels of oil (162,000 tonnes) and 2bcf (56 Mscm) of gas
- As of year end 2006, crude oil storage capacity of Sangachal is 3 million barrels (405,000 tonnes).
- BP in Azerbaijan is the operator of the terminal



#### Key BTC facts

- 1,768km length
- Pipeline diameter: 42/46/34"
- Capacity: over 600 mbd - as of February 2007 and at peak capacity is expected to increase up to 1,000 mbd
- 2,800m at its highest point
- Eight pump stations generating 130 Mega Watt each
- 30,000 land parcels
- 130 million construction hours
- 21,000 work force at peak
- BTC Co. is responsible for the construction and operation of the whole pipeline
- BOTAŞ was a lump sum turn-key construction contractor for the Turkish part of the pipeline
- BOTAŞ International Limited (BIL) is responsible for the operation of the Turkish part of the pipeline

From there, tankers ship the crude to world markets so avoiding the need to transport more oil through the congested and environmentally-sensitive Turkish Straits.

**Milestones of 2006** Construction of the main facilities and linefill were completed by mid-year. The operations phase began in the second half of the year and the pipeline's throughput increased steadily as facilities and pump stations were brought on line. Over the course of 2006 \$920 million (including the costs of line-fill and financing) was spent on capital expenditure.

**Outlook** By early 2007 a daily flow-rate of more than 600,000 barrels had been achieved. The pipeline is now expected to achieve one million barrels per day throughput (about 50 million tonnes a year). With technical modifications it will be possible to further expand BTC capacity.

BTC development activity in 2007 will focus on the commissioning of pump stations. Total capital expenditure on the pipeline in 2007 will be around \$138 million.

While the BTC pipeline initially carried

ACG oil only, the first delivery of Shah Deniz condensate into the line was made in January 2007. Future volumes may include shipments from across the Caspian, possibly during 2007.

### Shah Deniz and the South Caucasus gas pipeline

**Summary** One of the largest hydrocarbon finds of recent years, the Shah Deniz (SD) natural gas field was discovered in 1999. BP Exploration (Shah Deniz) Limited is the operating company for SD and the technical operator of the South Caucasus gas pipeline (SCP); it is responsible for construction and technical operation of the pipeline. Statoil is the commercial operator of the pipeline; it is responsible for marketing the gas to customers.

SD is located 70km offshore Azerbaijan beneath water depths ranging from 50 metres in the north-west to 600 metres in the south east.

Covering a surface area of 250 square kilometres, it is a geologically-complex structure with multiple reservoir 'horizons'. Recoverable reserves are put at 22.1 tcf of gas (in excess of 600 bcm) and 750

mmbbl of condensate, with potential for further hydrocarbons at deeper horizons. It is anticipated that the plateau production from Stage 1 of SD will be 8.6 billion cubic metres of gas per annum and approximately 30,000 barrels of condensate per day.

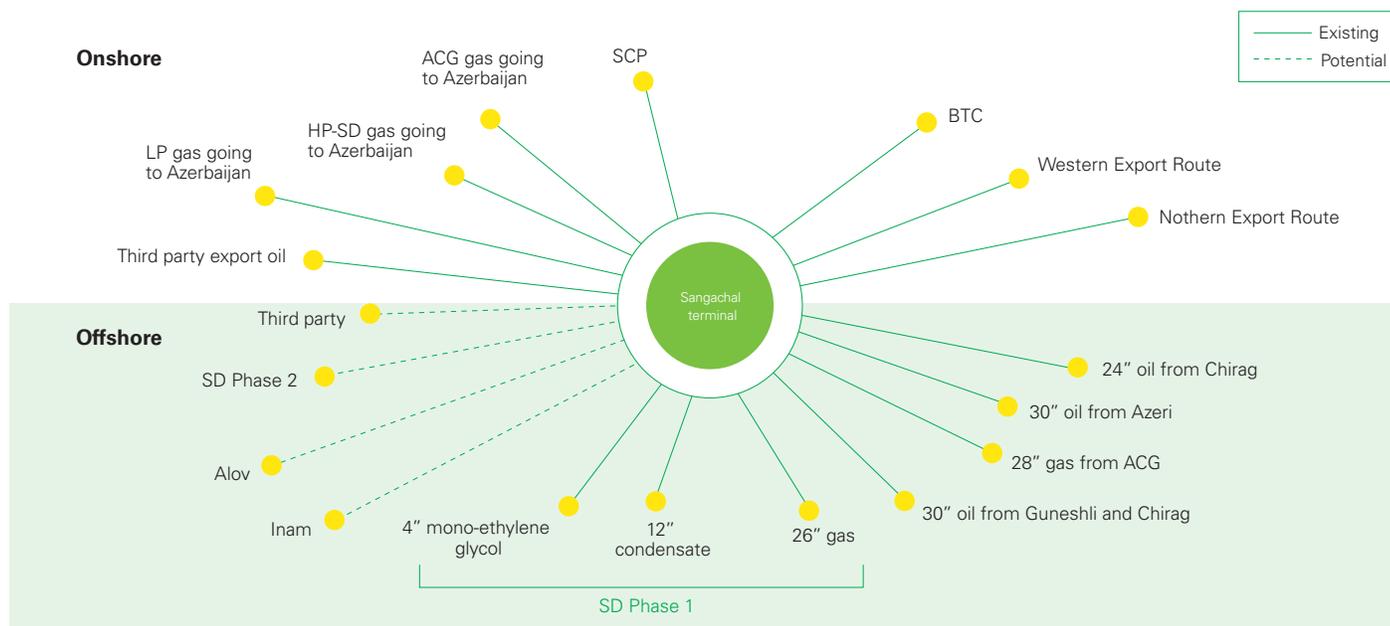
Gas will be delivered to the Georgian and Turkish markets through the SCP, a 690km pipeline to the Georgian/Turkish border.<sup>a</sup> Here the line links to the Turkish national gas grid. In Azerbaijan and Georgia, it runs parallel to the BTC pipeline and is also buried along its entire route.

Total first phase development costs for SD and SCP will be around \$4.1 billion and include a fixed production platform linked by three subsea pipelines to Sangachal terminal onshore.

**Milestones of 2006** In 2006 construction, testing and commissioning of all Stage 1 onshore and offshore facilities was completed. First commissioning gas was delivered to SCP on May 21, 2006 and first commercial gas was delivered on December 15, 2006. Technical issues with the first well were subsequently discovered and the well had to be closed to undergo remedial work.

<sup>a</sup> To Azerbaijan, SD gas is delivered through separate high pressure and low pressure pipelines from SD processing facility at Sangachal.

**A strategic hub for the Caspian:**



Appraisal drilling activities in support of additional stages of the Shah Deniz development continued during 2006.

SD operating expenditures in 2006 totalled \$20 million while \$771 million

was spent on capital expenditure. Capital spending on the SCP project totalled \$269 million for the year.

investment the capacity of SCP could be expanded from 720 mmcf/d to 1.9 bcfd (7.4 bcma to 20 bcma).

**Key SCP facts**

- 690km length
- Pipeline diameter: 42"
- Volumes: 720 mmcf/d (7.4 bcma) natural gas
- Shares right-of-way with BTC to Turkish border
- Block valves co-located with BTC pipeline
- Joint management team and contractors
- BOTAS responsible for line inside Turkey
- Statoil is a commercial operator - this means operation of SCP's commercial activity that includes administration (e.g. accounts) and business development
- BP Exploration (Shah Deniz) Ltd is a technical operator - this means technical operation of SCP that includes construction and technical operation of the pipeline

**Outlook** Gas production at SD will rise gradually through 2007 as further pre-drilled wells are brought online. Several new wells will be drilled from the platform during the year. Analysis of additional data from the SDX-4 exploration well will be used to plan Stage 2 development. We expect to produce an average of 65,000 barrels per day (oil equivalent) from the field.

In 2007, we plan \$334 million capital expenditure on Shah Deniz-related activities and \$183 million in SD operating expenditure. A total of \$41 million has been allocated for SCP capital spending.

**Further potential** Shah Deniz is a huge high pressure gas condensate field - 22km long and with reservoir thicknesses in excess of 1000m. The current Stage 1 development is planned to produce only about 20% of the resource potential. We are appraising a second phase of development to exploit part of the remaining reserves, and a third development phase of this massive field may follow. With substantial

**Exploration**

**Summary** BP remains committed to search for new hydrocarbon resources in the Caspian that offer prospects of long-term development potential. Our current focus is on the:

**Inam** structure in the Kura Delta area, south of Shah Deniz, and located in a challenging drilling environment. A first deep well was drilled in 2001 but did not reach the reservoir targets due to excessive pressure within the reservoir. Planning for a second exploration well has moved into the final stage and will involve use of the Istiglal rig. The actual timing of this work depends on completion of the fourth exploration well at Shah Deniz.

**Alov, Araz, Sharg** We and our co-venturers have no plans for on-site work within the Alov, Araz, Sharg contract area until the corresponding littoral governments have come to an agreement on the demarcation issue. We are continuing our studies off-site. The timing and requirement for any



## Unlocking the Caspian reserves: from well to wheels

It's a Friday night. Manfred Hoermann (pictured) drives away in his new diesel-powered Audi A4 having filled up at an Aral service station in Ingolstadt, Germany. It may be just a normal weekday evening for Hoermann, but for BP in Azerbaijan it means something else entirely.

Humay Guliyeva, publications officer at BP in Azerbaijan, had been following her very 'own' barrel of oil all the way from the Caspian to Ingolstadt.

This particular barrel travelled from well B05 in the Central Azeri reservoir through a sub-sea pipeline into the Sangachal terminal where it was processed into a high quality crude oil. Then it was pumped into the BTC pipeline to pass across Azerbaijan, Georgia and Turkey before reaching Ceyhan marine terminal on the Turkish Mediterranean coast.

At this point the crude was loaded onto a BP tanker, British Hawthorn, and shipped to the Italian port of Trieste. From there the prized Azeri Light was moved into the Europe's largest pipeline - the Transalpine Pipeline - where it was blended with Kazakh crude before passing across northern Italy and Austria and arriving at the Bayernoil refinery. Here the blend was processed again into diesel fuel, gasoline and extra-light fuel before being carried by road tankers to its final destination - a BP-owned Aral service station in Ingolstadt, the sixth largest city in Bavaria, Germany. That Friday night Herr Hoermann unwittingly made history by becoming one of the first customers ever to fill his car with diesel made from 'Azeri Light'.

*A fuller account can be read at [www.bp.com/bpmagazine](http://www.bp.com/bpmagazine); Issue 3, 2006; pages 25-26*

next phase of on-site work will be determined in consultation with our co-venturers and the Azerbaijani authorities. Beyond that, the demarcation issue is one for the governments themselves to resolve.

products, including BP and Castrol brands, for all BP projects in Azerbaijan. In 2006, 2.8 million liters of high quality lubricants were delivered to BP in Azerbaijan and its contractors in the country. In addition, BP/Castrol lubricants are supplied to most oilfield services contractors active in Azerbaijan.

### Other businesses

**Integrated Supply and Trading (IST)** BP in Azerbaijan markets its equity crude oil through BP's Integrated Supply and Trading (IST) group based in London. It is one of the world's largest energy traders with substantial scale and geographic spread.

**BP lubricants in Azerbaijan** Petrochem group is an official supplier of lubricant

### BP Azerbaijan SPU interests

PSA/HGA	Operating company	Corresponding BP legal entity
ACG	Azerbaijan International Operating Company (AIOC)	BP Exploration (Caspian Sea) Limited / Amoco Caspian Sea Petroleum Limited
BTC	Baku-Tbilisi-Ceyhan Pipeline Company	BP Pipelines (BTC) Limited
SD	BP Exploration Shah Deniz Limited	BP Exploration (Azerbaijan) Limited
SCP	South Caucasus Pipeline Company Limited	BP Pipelines (SCP) Limited
Inam	BP Amoco Exploration (Inam) Limited	Amoco Inam Petroleum Company
Alov	BP Exploration (Alov) Limited	BP Exploration (Azerbaijan) Limited

## 1.5 Operating responsibly: safety and health

**In the course of 2006, we made a concerted effort to focus on process safety and integrity management in line with BP group priorities while continuing our efforts to raise employee and contractor personal safety performance and health awareness.**

### Safety

**Summary** The year was overshadowed by a fatality at one of our projects when a contractor died during construction activities at Sangachal terminal. This tragic event occurred despite a general improvement in contractor safety performance. However, all accidents are avoidable and we deeply regret what happened and have sought to learn from it.

BP's belief is that no one should be subject to unnecessary risks while working for the company. Health and safety is a line management responsibility. But 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.

As a group, BP aspires to be an industry leader in the three dimensions of safety - personal safety, process safety and the environment. In the course of 2006 the company took action worldwide to raise employee and contractor safety performance, training and awareness - with particular emphasis on individual and team behaviour in the workplace.

In Azerbaijan, a safety plan is in place that integrates and links group,

exploration and production business and safety policies of BP Azerbaijan SPU. It describes specific activities that support these policies and outlines actions that need to be performed to enhance safety awareness and encourage safe behaviour.

The 2006 safety plan of BP in Azerbaijan was based on a review of our 2005 safety performance in the country and on our response to the events in other parts of BP's worldwide operations during 2005-2006. During the year we paid particular attention to three areas - improving contractor performance management; integrity management, and assessing and addressing the potential for major accidents.

**Fatalities** In 2006, one life was lost in a deeply regrettable incident associated with our operations in Azerbaijan.

A contractor-welder died during construction activities at Sangachal terminal. Many lessons were learned from this tragic incident. Specific follow-up actions, taken to ensure that there is no repetition, included holding a meeting for all employees and contractors in Azerbaijan to discuss the accident and future welding procedures.

#### Highlights of BP Azerbaijan's safety performance in 2006 included:

- No DAFWCs<sup>a</sup> were sustained for 7 successive years (March 2000 - March 2007) as a result of BP Land Transportation's driving activities in Azerbaijan - one of the riskiest activities undertaken in the development and operation of oil and gas resources
- Launch of the Tr@ction action-tracking system. Tr@ction records and stores incident reports, assigns actions arising from those incidents to relevant people and tracks the actions for closure
- Launch of an energy isolation practicing at all BP assets and sites as well as at contractor companies. This is intended to increase awareness and skills around certain high-risk activities or conditions including the management of unexpected releases during operations, maintenance and construction activity
- Professional drivers from BP and major contractor/subcontractor companies took part in the BP safe-driving championship

<sup>a</sup> For DAFWC definition, refer to footnote on page 24.

## STOP and Advanced safety audits (ASAs)



Two key programmes are used in BP Azerbaijan to improve safety behaviour and safety awareness. One is known as STOP (safety training observation programme). The other is known as ASA (advanced safety audit).

STOP encourages instant action. If unsafe behaviour is observed, anyone who sees it, is empowered to talk to the individual(s) concerned to explain the possible consequences of their actions. After the conversation the observer reports the incident. No names are required in STOP reports and no disciplinary measures follow. The system helps other employees avoid unsafe practices while also allowing HSE managers to analyse repetitive unsafe behaviour and eliminate root causes where possible.

For instance, one of the STOP reports submitted in 2006 was about a bag left in a walkway representing a tripping hazard. An observer removed the bag from the walkway and left a note requesting the owner to follow adequate safety requirements in the future. In total, 682,845 STOP reports were submitted in 2006.

ASA promotes a positive safety culture through an emphasis on leadership by supervisors/management, through the involvement of the whole workforce and by building trust among employees. Unlike STOP, it requires feedback and follow-up and is normally conducted in teams of at least two people including one in a leadership position. ASA is always followed by a coaching session designed to improve technique.

For example, in 2006 a team of two people decided to observe availability of the first aid kit and eye wash station in one of the offices of BP in Azerbaijan. The team observed that both the kit and the station were in place as required; however it was noticed that the eye wash station had to be renewed. The team informed the staff in charge and the next day while following up on the action, the audit team found that the eye wash station was properly renewed. Overall in 2006 around 107,864 ASA reports were submitted.

### 2004-2006 safety performance of BP Azerbaijan SPU<sup>a</sup>

	Actual 2004	Actual 2005	Actual 2006	Target 2007
Fatalities <sup>b</sup>	2	2	1	0
HiPO (f) <sup>c</sup>	0.023	0.005	0.03	0.02
DAFWC(f) <sup>d</sup>	0.031	0.01	0.03	0.02
RI(f) <sup>e</sup>	0.44	0.33	0.25	0.28
TVAR <sup>f</sup>	1.45	0.49	0.71	0.50
ASA (f) <sup>g</sup>	353	937	983	600
STOP (f) <sup>g</sup>	1,885	3,659	5,923	3,000
Training (f) <sup>h</sup>	3,563	4,537	6,241	4,000
Kilometres driven (millions)	50.35	59.24	46.46	n/a
Hours worked (millions)	51.71	44.09	31.18	n/a

All data in the table includes BP recordable/control sphere figures<sup>i</sup>

### January-December 2006 safety performance of BP in Azerbaijan:

Fatalities	1
HiPO (f) <sup>c</sup>	0.04
DAFWC(f) <sup>d</sup>	0.02
RI(f) <sup>e</sup>	0.32
TVAR <sup>f</sup>	0.99
ASA (f) <sup>g</sup>	988
STOP (f) <sup>g</sup>	6,255
Training (f) <sup>h</sup>	5,740
Kilometres driven (millions)	28.28
Hours worked (millions)	21.83

#### Notes:

<sup>a</sup> The table shows information for BP Azerbaijan SPU. 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.

<sup>b</sup> Reported fatality figures do not include project-only work. There was one additional fatality in 2006 on project work where BP Azerbaijan SPU did not exert direct control but where we exert 'influence'.

<sup>c</sup> HiPO is an abbreviation for High Potential incident.

<sup>d</sup> 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 (DAFWC(f)) 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.

<sup>e</sup> Recordable injury (RI) is the number of all reported work-related injuries above first aid, i.e. medical treatment, restricted work/job transfer, days away from work case and fatality. The RI frequency (RI(f)) is expressed as the number of reported recordable injuries per 200,000 hours worked.

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

<sup>g</sup> 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.

<sup>h</sup> The training frequency is the number of safety training hours taken by employees per 200,000 labour hours.

<sup>i</sup> Some of the data differs from what was previously reported due to revising and clarification of reporting definitions by BP group in the middle of 2006.

**Driving safety** In 2006, the vehicle accident frequency in BP Azerbaijan SPU rose from 0.48 to 0.94 despite a continuing emphasis on driving safety across all our operations. The focus was reinforced through various training initiatives including a seatbelt campaign conducted by BP Azerbaijan's Land Transportation department and Major Projects PU.

**Safety training** In 2006, 43,786 hours of various HSSE training, compared with 58,573 hours in 2005, were undertaken

#### HSSE training courses in Azerbaijan and Georgia

	Man hours	USD
2005	58,573	5,316,939
2006	43,786	5,994,675

In 2006, the HSSE training expenditures increased due to the increased number of professional HSSE trainings, which are usually more expensive than the basic ones.

by BP and some of the contractor staff of BP in Azerbaijan and Georgia. Courses included basic fire fighting, chemical hazard awareness, safety observation training and HSSE induction training for new employees.

In 2006, weekly safety training sessions were held covering different safety topics including fire safety, home chemical safety awareness, heat stress, travel security, bomb threat awareness, snake bite prevention and the emergency response and crisis management system of BP Azerbaijan SPU.

**Contractor safety** In Azerbaijan, as elsewhere in BP's exploration and production business, much of the workforce is made up of contractors and the majority of our HSSE incidents occur among contractors. BP requires that the company assesses the safety performance of contractors in exactly the same way it assesses that of its employees.

Throughout 2005-06 we pressed home this message. A number of HSSE audits of our top operations contractor companies were undertaken, contractor supervisory personnel were instructed in safety leadership training and contractor vehicles and drivers assessed and reassessed. We held a safety forum with major contractor companies to emphasise our safety policy and expectations and to share our safety experience with around 100 people who attended the event.

The performance of contractors

monitored through 2005-2006 showed clear improvement. Over 12 month rolling period the occurrence of recordable injuries among contractors has decreased.

**Integrity management** At the start of 2006, a new BP group integrity management (IM) standard was issued. Applied across the BP group, it is a standard that is intended to ensure a consistent approach to the management of integrity of all BP operations through their lifecycle from design and construction to operation, maintenance and decommissioning.

The standard consists of 10 mandatory elements. It requires the controlled application of hazard evaluation including process safety and engineering management and major accident risk assessment. As such, it complements BP's control of work standard. It is designed to be adopted by companies working on behalf of BP.

Following the launch of the IM standard in 2006, BP in Azerbaijan has reviewed operations to identify the gaps and necessary actions to implement the standard.

To assure IM of export pipelines operated by us, we regularly inspect the pipelines using technology including intelligent pigs and we take actions as



### Azerbaijan drivers take part in BP driving championship

Dating from 1992, the BP driving championship aims to promote driving safety performance throughout the BP workforce. A BP Azerbaijan Driving Championship was held in Baku at the end of September 2006 involving four professional drivers from BP and major contractor/subcontractor companies.

The event included practical vehicle handling as well as first aid, fire-fighting, theoretical matrix tests and on-road assessments in three vehicle categories - Light Vehicles, Heavy Vehicles Rigid (including buses) and Heavy Vehicles Articulated. Winners in all three categories were honoured at a ceremony attended by

State Traffic Police officials and Rashid Javanshir, Onshore Operations PU Vice President.

The winners now go on to participate in BP's Regional Championship (Africa, Middle East, Russia and Caspian) in Dubai in May 2007. This, in turn, will produce entrants for the global BP International Driving Championship being held in the USA in October 2007.

necessary. For example, in 2007, we are planning to perform a comprehensive baseline inspection along the entire length of the BTC pipeline.

To heighten IM awareness among employees and contractors, we began conducting IM awareness campaigns. All operational facilities of BP Azerbaijan SPU now have a three-year rolling IM plan in place and we expect to be in full compliance with the BP group standard by the end of 2008.

## Health

**Health training** Training in 2006 was organized for both health professionals and medical contractors and covered a number of fields including health reporting, industrial hygiene, occupational health issues and food safety standards.

Twenty five health and safety professionals and medical contractors were trained in injuries and illnesses reporting. Together with continuous health reporting through the occupational health and illness reporting system, this helped us to improve health data management of BP in Azerbaijan.

More than 235 employees in Azerbaijan took part in the 2006 anti-

smoking day, while some 616 employees in Azerbaijan took part in the World Heart Day campaign. Seventy seven BP employees and contractors from Azerbaijani catering companies took part in food safety training courses.

**Health management** Weekly and quarterly food hygiene inspections were undertaken on a regular basis as a part of BP Azerbaijan's food safety management programme to ensure compliance with international hygiene best practice. We implemented a water quality management programme across BP operations in Azerbaijan to ensure a more systematic approach to water quality. As part of our industrial hygiene programme, we launched monitoring projects to assess personal noise and benzene exposure at Sangachal terminal.



### Ensuring safety

After the explosion at BP's Texas City refinery in 2005, BP in Azerbaijan identified all occupied portable structures at its sites in the country, such as trailers and portable accommodation. This was deemed necessary to prevent employee or contractor exposure to sites where there are potential hazards associated with fires, explosions and toxic releases.

The review found a number of temporary structures which were subsequently removed or secured to prevent their use. Further occupied portable buildings not meeting best practice criteria - BP's engineering technical practices standard - will be subject to removal or modification to ensure compliance.

## 1.6 Environmental management

**The BP group is committed to reducing the production of greenhouse gases (GHG) directly from our operations and to protect the environment. The elimination or minimisation of gas flaring and venting in our offshore Azerbaijan operations supports this goal as does the responsible management of waste; the prevention of oil spills and gas releases, and enhanced energy efficiency.**

### Greenhouse gases 2006

In 2006, total net GHG emissions of BP in Azerbaijan increased by 0.4% from 610 kte in 2005 to 613 kte in 2006. Our normalised operational GHG emissions - emissions released for every thousand barrels of oil and gas produced - fell significantly (45%) from 21.4 te/mboe in 2005 to 11.8 te/mboe in 2006. The major sources of GHG, as in previous years, were onshore and offshore gas flaring at the Chirag 1 and Azeri offshore platforms and the Sangachal terminal.

As outlined in previous Sustainability Reports, we operate several GHG emission minimisation projects.

Until June 2006, excess gas produced at Chirag 1 was flared due to lack of spare capacity in the Chirag-Oil Rocks gas pipeline. In 2006, we were able to minimise Chirag 1 routine gas flaring by delivering excess gas to the ACG Phase 1 Compression & Water Injection Platform (C&WP) facility using a subsea gas pipeline.

### Flaring

In 2006, the amount of the gas flared by the BP in Azerbaijan decreased by 26% in comparison with 2005 (448,279<sup>a</sup> te). In total 332,641 tonnes of gas was flared during the year.

The Chirag platform has been flaring since 1997, with the flare averaging about 250,000 tonnes a year in 2004-05 - the BP group's largest continuous flare. In June 2006, this flare was reduced to minimum operational rates following the installation of a new 12km, 18 inch subsea gas export pipeline linking the platform to the ACG Phase 1 Central Azeri (CA)-C&WP platform.

The new pipeline allowed Chirag to overcome its gas disposal limitation by exporting excess gas production to the Central Azeri Compression & Water Injection platform (C&WP) as part of ACG Full Field Development. Chirag maintained its export route to the Oil Rocks gas terminal providing an immediate gas supply for the people of Azerbaijan.

### GHG emissions of BP in Azerbaijan (net)

Azerbaijan only	Actual 2005	Actual 2006	Target 2007 4Q
Operational net GHG emissions te/p.a.	610,010	612,670	1,135,778
Normalised operational GHG emissions te/mboe	21.4	11.8	13.0

### Statistics on BP Azerbaijan

#### flaring 2004-2006, tonnes net (by asset)

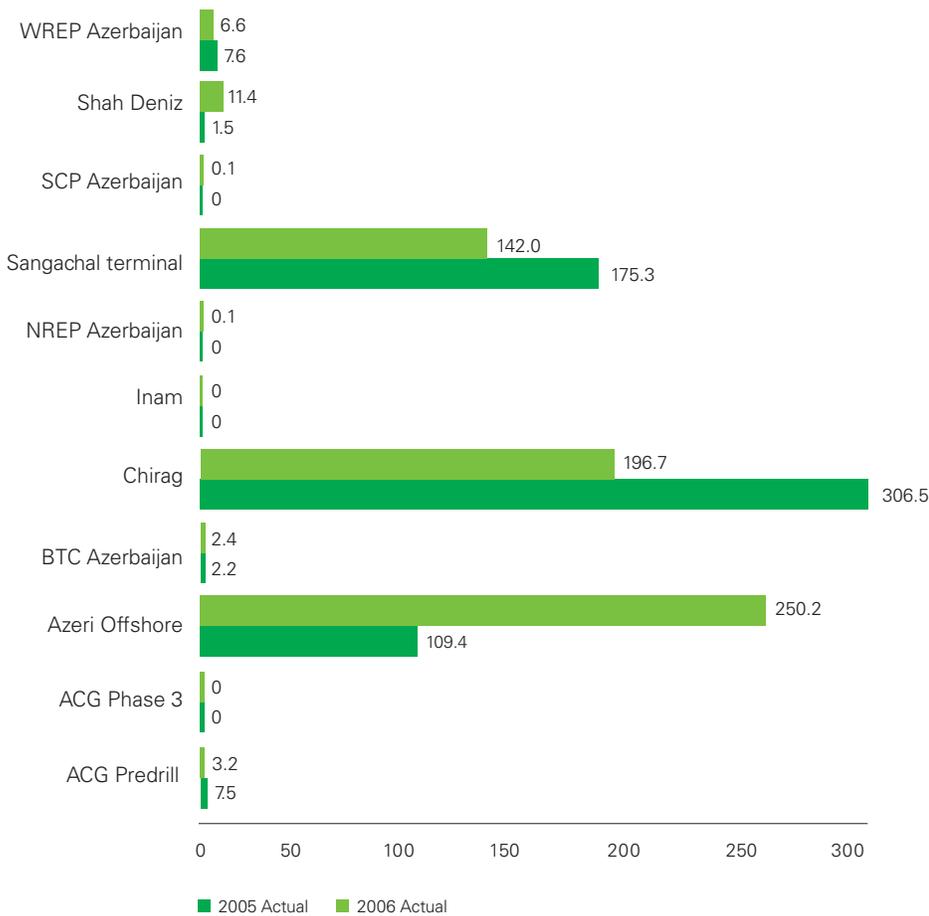
Flaring (te)	2004	2005	2006
Azeri Asset	0	94,532	140,108
Chirag	246,045	260,407	151,418
Sangachal terminal	37,908	93,340	35,999
Shah Deniz	0	0	5,116
BP in Azerbaijan	283,953	448,279	332,641

<sup>a</sup> In the BP in Azerbaijan Sustainability Report 2005 this number was overstated and was reported as equal to 478,415 te.



Flaring at Chirag platform

Graph of net actual GHG numbers<sup>a</sup> of 2005 and 2006 per asset in Azerbaijan (kte)



In 2006, flaring at Sangachal terminal declined significantly by about 60% compared with 2005, despite the commissioning of ACG Phase 2. The major reasons for the reduction were the relatively stable commissioning of Phase 2 and introduction of a Phase 1 high pressure gas recovery system and dew point control unit, which is used to remove condensate from the gas.

### Energy consumption

Energy consumption increased in 2006 due to the commissioning and operation of new facilities such as East Azeri and the BTC pipeline. Decrease of imported electricity was due to full commissioning of power generation turbines. This in turn led to increase in consumption of fuel gas and diesel in addition to increased operational activity. In fact, in 2006, consumption of fuel gas increased by 147,924 te (more than 100%), while consumption of diesel increased by 4,111 te (more than 20%).

<sup>a</sup> This refers to BP net GHG emission in Azerbaijan.

### Energy consumption by BP in Azerbaijan - 2005, 2006

Energy use/consumption	2005	2006
Fuel gas (te)	136,273	284,197
Diesel (te)	20,065	24,176
Electricity import (MWh)	21,371	5,545

### Direct CO2 emissions

Carbon dioxide	2005	2006
Direct carbon dioxide (100%) te	1,649,205	1,686,479
Equity share direct carbon dioxide te	562,283	571,846

### Non-GHG emissions SOx and NOx

Non-GHG emissions SOx and NOx	2005	2006
Oxides of sulphur (SOx) (te)	814	237
Oxides of nitrogen (NOx) (te)	3,538	3,711

### Oil spills

In 2006, there were 41 spills compared with 54 in 2005 including six spills greater than one barrel compared with seven in 2005. Clean-ups were undertaken where appropriate and actions to prevent reoccurrences implemented at the spill sites. In 2006, out of 8,396 litres of products

spilled 87%, i.e. 7,296 litres, were recovered. We report all spills to the State Oil Company of Azerbaijan Republic (SOCAR) and to Ministry of Environment and National Resources (MENR). Any spills for BTC are also reported externally to the BTC Lender Group together with any high potential incidents (HiPOs) and major incident announcements (MIA).<sup>a</sup>



### Discharges to water; drill cuttings

In 2006, 15,811 tonnes of drill cuttings and associated fluids (adhered drill mud) were discharged into the Caspian Sea.

BP Azerbaijan uses both water-based mud (WBM) and non-water-based mud (NWBM) for its drilling operations.

<sup>a</sup> A HiPO is an incident or near miss, where the most serious probable outcome is an MIA. An MIA in the context of material releases, is any spill greater than 100 bbls.



Central waste accumulation area at Shelf Project Stroy shipyard

About 90% of our discharged drill cuttings contain low toxic water-based mud - the most commonly used drilling mud in the world. Drilling operations in Azerbaijan also generate cuttings containing NWBM - specifically, synthetic-based drilling fluid. For the ACG and SD projects, we re-inject and discharge synthetic based mud (SBM) offshore or ship it to shore for treatment before re-use or disposal.

In order to reduce SBM drill-cutting volumes that have to be shipped to shore for further storage and treatment we started a process to re-inject cuttings into the subsurface. To this end, in 2006, we commissioned the drill cuttings re-injection (DCRI) wells on Central and West Azeri platforms. DCRI is a known, environmentally friendly industry practice for managing produced waste. In 2006, approximately 128,810 barrels of slurry was re-injected from the two platforms into the disposal wells. We are planning to commission additional DCRI wells on East Azeri and Deepwater Gunashli platforms in the future.

In 2006, BP Azerbaijan discharged cuttings to the Caspian Sea containing

1,563 te of SBM. The Chirag 1 offshore platform is the only source of SBM discharges and this discharge is in compliance with applicable agreements covering the development of the field.

The volume of SBM drill cuttings and associated muds discharged from the Chirag 1 platform fell by about half in 2006 compared with 2005 due to reduced drilling operations and continuous shipments ashore of centrifuge solids<sup>a</sup>. Options to eliminate the discharge of SBM totally from the Chirag 1 platform were evaluated in 2005. We concluded that none of the options could be engineered retrospectively into the platform due to a lack of deck space and insufficient weight tolerance.

We continue to explore ways to minimise SBM discharges from Chirag 1 and to conduct environmental monitoring in the vicinity of the platform. A cuttings dryer is expected to be installed on Chirag in 2007 which has the potential to reduce SBM discharges into the sea.

## Waste management

Waste is recovered, reused or recycled. In 2006, we recorded 100,564 cubic metres (63,276 tonnes) of disposed waste from our operations - 35,075 cubic metres (35,683 tonnes excluding sewage waste) of hazardous waste and 55,107 cubic metres (9,944 tonnes) of non hazardous waste. Approximately 19% of the generated waste was recycled or reused. This along with other waste items includes the base oil recovered from indirect thermal desorption (ITD) process.

The remainder of the waste (hazardous and non-hazardous items) was: (i). treated and disposed through properly assessed and accepted routes (e.g. hazardous liquids such as completion brine, oily water and other); (ii). temporarily stored at Serenja hazardous waste management facility (HWMF) (hazardous solids that don't have acceptable disposal routes); (iii). landfilled in a BP dedicated cell operated by ADES Azerbaijan - Germany JV (non-hazardous waste items that don't have recycling / reuse routes).

<sup>a</sup> Centrifuge solids are typically finer sediments with higher mud retention when compared with cuttings, therefore any reduction in discharge of such solids offers a greater SBM reduction when compared to similar reduction of cuttings.

The Serenja HWMF continues to be the operational cornerstone for BP's drill cutting treatment and interim hazardous waste storage. The covered area was constructed in 2005 which ensures the safe storage of hazardous liquid wastes. In 2006, technical support was provided to the facility in order to support improved control and onsite measures recording, as well as training for personnel.

Central Waste Accumulation Areas (CWAAs) continued to be operated under contract to BP at Sangachal and at the Shelf Project Stroy (SPS) yard. The majority of wastes pass through the site unless they are drill cuttings and a few other wastes (e.g. dead birds, pigging wax) which may go directly to the service provider. All wastes from offshore activities are received by the SPS CWA.

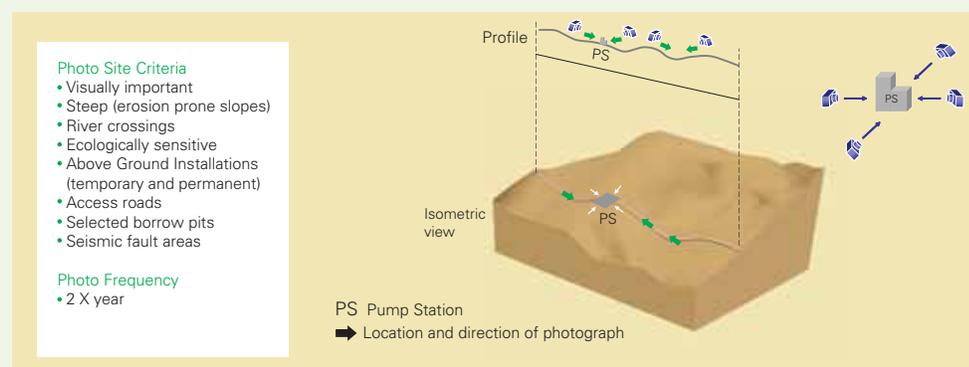
Those generated by the pipelines and terminal are managed at Sangachal CWA. Procedural improvements were made at both sites during 2006 to promote enhanced practices in line with the best international standards.

Approval for the long-term drill cutting disposal strategy (2006-08) via the ITD and bioremediation processes at Serenja was received from MENR. This strategy assumes that the above mentioned treatment processes apply to raw drill cuttings generated from Dede Gorgud, Istiglal mobile drilling rigs, Chirag 1 and TPG 500 (Shah Deniz platform - Alpha). As for the newly commissioned Azeri platforms and Deepwater Gunashli platform BP has established an improved disposal option for raw drill cuttings, through re-injection into specially designated wells offshore (CRI system).

This is aligned with MENR's recommendations to establish an alternative disposal option for raw drill cuttings. In 2006, a total of 17,650 tonnes of raw (i.e. untreated) drill cuttings were received onshore. Approximately 13,391 tonnes of SBM drill cuttings were processed via the ITD unit. This resulted in the recovery of 1,384 tonnes of base oil which was subsequently dispatched to the drilling contractor. Around 90% of this base oil was reused over 2006 in new drilling mud. In addition to ITD, bioremediation accounted for 1,626 tonnes of the raw drill cuttings treatment in 2006. At the end of 2006, 6,838 tonnes of SBM drill cuttings awaiting treatment were held in storage at Serenja HWMF.

A sewage treatment optimisation project was implemented at the Chirag 1

## BTC and SCP - landscape monitoring in Azerbaijan



BTC and SCP are committed to reinstate and restore the pipelines' right-of-way (ROW) terrain to its pre-construction condition or better. Reinstating the land is the principal mechanism to address loss of habitat, flora and fauna. To achieve this restoration considerable work is needed that in the shorter term includes reinstating land

contours, drainage patterns, stabilising the soils by installing permanent erosion control and redistributing the top soils (that were carefully removed and stored during construction) to allow vegetation to grow. In some areas biorestation (including direct seeding and planting where necessary) was carried out to re-establish a minimum of 70% of original cover of ground vegetation. Photo-landscape monitoring complements a number of other techniques to measure the success of reinstatement and bio-restoration over time.

Early in the construction of the pipelines a landscape monitoring programme procedure was established after discussion with external and internal experts. In Azerbaijan, 90 vantage points were selected comprising river and stream crossings, slopes and gullies liable to erosion, areas with high visibility to local communities and the public, borrow pits, permanent and temporary above-ground installations and road crossings in environmentally or socially-sensitive areas.

All data was noted in a pre-prepared pro forma and stored within the project geographical information system (GIS).

Landscape monitoring in Azerbaijan commenced in September 2005 and will continue biannually until all the ROW corridor and off-ROW areas (such as borrow pits and subsoil piles) affected by the projects have been restored to their original condition.



## Local company manages waste

In 2006, we awarded a one-year waste management services contract, valued at \$900,000 and involving the treatment of hazardous liquid wastes, to a local Azerbaijani company - RT Services. This followed a competitive tender involving 26 participants, 18 of whom were local companies or joint ventures with local business partners.

RT Services was founded in 2002 to provide waste management services to local and foreign companies based in the Caspian region. The company is licensed by the Ministry of Ecology and Natural Resources (MENR) to provide industrial wastes (including toxic wastes) utilisation services. Subsequently,

it treated 10,488 cubic metres of contaminated brine and further 1,070 cubic metres of completion fluids during the year.

According to Vugar Jabbarov, RT Services Business Development Manager, "this tender was a big challenge for our company. Today we can say that RT Services has stood this test. Our teamwork with BP is one of numerous examples where BP has increased the participation of local companies in global oil and gas projects".

For its part, says Namig Abbasov, BP's Regional Environmental Compliance Manager, BP is "very pleased to have this opportunity to work with another specialised local service provider. We look forward to co-operating with RT Services. We believe this co-operation will enable the company to compete for new contracts in local and international service markets".

offshore platform during the year. Another project to improve the sewage treatment plant was implemented at Sangachal in 2006.

As a result of this project, starting from the third quarter of 2006, the Sangachal sewage treatment plant also meets the applicable standards.

In 2006, we commenced construction of a BP-exclusive non-hazardous solid waste landfill at Sumgayit which is compliant with European Union standards. The contract was awarded after competitive tender to a local company, Tehlukeli Tullantilar MMC, which later engaged the technical expertise of an experienced international contractor Containment Quality Associates to provide design and construction supervision and training. The site will be operational in 2007.

In November, a waste management workshop was hosted by BP in Azerbaijan. The objective was to bring together BP group waste management practitioners to share knowledge and expertise.

Attendance was extended to include representatives from MENR, SOCAR, the Research and Monitoring Group (a working group of advisors from local institutions and regulatory bodies set up to provide technical advice to BP), independent consultants, vendor

communities and the European Bank for Reconstruction and Development (EBRD). The workshop highlighted the challenges involved in developing waste management in emerging areas and the importance of building on local expertise.

## Environmental monitoring

BP undertakes extensive environmental monitoring of its activities in Azerbaijan. Ecological monitoring in the region dates back to the start of operations in 1995.

As described in our 2005 Sustainability Report, we have implemented an Integrated Environmental Monitoring Programme (IEMP) in Azerbaijan. This provides a technical and planning framework within which monitoring studies are designed, executed, reported and interpreted.

By the end of 2006, the IEMP had completed a total of 30 monitoring studies over three years. Offshore marine monitoring included 12 benthic (seabed biology and chemistry) surveys. Three were regional surveys of the ACG and Shah Deniz contract areas, four focused on production platforms and exploration sites and five were regional plankton and water column surveys covering both contract areas and the pipeline route. Benthic and plankton studies were also carried out in the nearshore habitat close to the Sangachal terminal. Additional studies focused on seagrass habitat, fish populations and water quality near the terminal. Out of a total of 30 studies, 14 were conducted in 2006 including eight offshore, five onshore and one nearshore ones.

Our offshore monitoring programme

### Summary of BP in Azerbaijan drill cuttings discharged to water in 2006, tonnes

Assets	Drill cuttings with WBM discharged to water, te 2006	Drill cuttings with SBM discharged to water, te 2006	Total Drill cuttings discharged to water, te 2006
Chirag 1	0	1,563	1,563
Azeri offshore	3,248	0	3,248
ACG pre-drill	9,481	0	9,481
Shah Deniz upstream	1,519	0	1,519
Total	14,248	1,563	15,811

has enabled identification of some minor natural trends in regional benthic ecology, and has also reflected much larger regional changes in plankton composition.

Synthetic-based drill cuttings continue to be discharged only at Chirag, and efforts are ongoing to reduce these discharges. Monitoring at Chirag shows a zone of impact within 750m to the north-east of the platform which has remained stable between 2000 and 2004. Within this zone there is a modest elevation of a sediment hydrocarbon levels and a moderate reduction in benthic species diversity, while to the south of the platform there is no evidence of impact. Monitoring continues at Chirag on a regular basis; the most recent seabed survey was carried out in 2006, and the report on this survey is currently being developed.

In 2005, Central Azeri and West Azeri offshore platforms became operational and this gave us the opportunity to carry out post-installation surveys in 2006. There was no discharge of non-water-based drill cuttings at either platform during pre-installation or production drilling. Our surveys demonstrated that this policy had been successful in mitigating impact on the seabed. At both locations biological diversity was unaffected at a range of 250-1000m from either platform.

Onshore, the BTC/SCP Azerbaijan operations environmental monitoring programme commenced to assess compliance with the high standards defined in various BTC and SCP governmental and other agreements. Monitoring also continued along WREP and NREP pipelines as well as at Sangachal terminal. Activities included:

- extensive ambient air quality monitoring: that was carried out at Sangachal terminal as well as at Pump Stations BTC PSA2 and WREP PSA8, and Intermediate Pigging Station BTC IPA1; parameters were measured using passive sampling techniques at pre-identified locations around the facility for the period of one month.
- environmental noise monitoring at pre-identified receptors around PSA2, IPA1 and Sangachal terminal:

monitoring took place at two BTC block valve stations where community complaints were received about noise. Preventive measures have been identified and taken for those locations where noise exceeded project-specified standards; as a result the complaints have been resolved.

- surface and ground water monitoring: during the autumn of 2006, three surface water monitoring locations at PSA2 and two locations at IPA1 were sampled; results showed no excess of surface water beyond those levels recorded before construction of BTC commenced; groundwater monitoring for BTC took place at a sensitive aquifer area in Karayazi at nine monitoring wells and for NREP at five monitoring wells; the results demonstrated compliance with EIA standards.
- effluent discharge monitoring continued at all sites: at PSA2 and IPA1, waste water treatment plants are being upgraded to improve effluent quality. The ESIA addendum to support this work was approved by MENR in November 2006 and the modifications are scheduled for completion in the summer of 2007.
- emission monitoring: this was carried out in the stacks of major emission sources (e.g. generators and turbines) at WREP PS8 and PS5 and Sangachal. Results showed compliance with the relevant standards; this monitoring was not carried out during 2006 for BTC as turbines and the water bath heater only become operational in 2007 with the commissioning and operation of Phase II of BTC.

### Ecological management

In September 2006, 24,000 rhizomes of *Iris Acutiloba* (Azerbaijan Red Book Data species) were translocated from Mardakan Arboretum to the BTC/SCP right of way (ROW) corridor. These plants had been removed from the ROW during BTC/SCP construction in 2003. Monitoring of the plants' survival rates will be carried out in 2007 and 2008.



### Contractor monitoring

The environmental performance of our contractors is evaluated regularly through inspection and auditing visits to contractors' sites and facilities, monthly meetings with contractors' management and quarterly and annual performance reviews.

### Compliance with international environmental standards

In 2006, most of the assets in BP Azerbaijan SPU were re-certified as compliant with ISO 14001 environmental management system - a series of standards that specify the internationally recognised requirements for an environmental management system.

Compliance with the standards of the ISO 14001 environmental management system forms part of our Integrity Management Plan (page 25). As part of this process the Moody International Certification Group conducted audits in May and November. The 2005 HSSE site report of BP Azerbaijan SPU, prepared in response to BP corporate requirements, was verified by Moody International Certification Group in September, 2006. No significant non-conformances were observed during either audit. Several new or expanded facilities, such as the

West Azeri platform and the extension to the Central Azeri platform, received recertification or certification after a nine-month start-up period. As a result, the BP Azerbaijan SPU was successfully re-certified in 2006.

### Environmental requirements for new projects (ERNP)

In November 2006, the BP group published mandatory environmental requirements for new projects (ERNP). The requirements cover both the impact management process and environmental performance requirements and apply throughout the BP group. Lessons learned from the BTC project have been incorporated into these requirements. Examples include the condition that waste management provision be made in all contracts and agreements, and a stipulation that waste only be accumulated or temporarily stored for a maximum of one year. Both these requirements were written into the ERNP as a direct result of our experiences on the BTC project and are designed to ensure that such matters are addressed at the outset of project developments.

### Conservation of cultural heritage

As part of the BTC and SCP pipelines projects, one of the biggest archaeological excavation programmes ever undertaken in Azerbaijan was completed in January 2006. Approximately 50 sites were excavated along the 443km pipeline ROW and a large number of artefacts dating from the Copper to the late Bronze and Iron Ages were discovered. It is estimated that about half of all archaeological material currently available for study in Azerbaijan has come from the BTC/SCP excavations.

Post-excavation activities are now underway and can be divided into five areas supported by BP in Azerbaijan - processing of artefacts; analysis and reporting; conservation of artefacts; dissemination of results, and cataloguing of data.

During the year, the Azerbaijan Institute of Archaeology and Ethnography (IoAE) began carrying out reporting, logging and laboratory work related to artefacts unearthed along the BTC/SCP route in Azerbaijan. A consultant developed a list of equipment needed for future conservation work and a new conservation laboratory was set up at



the IoAE. Plans were made to publish a book highlighting the scientific and cultural contributions of the BTC/SCP funded archaeological programme. We also began discussion of how best to make wider use of the archaeological knowledge developed collected during pipeline construction.

## 1.7 Security and human rights

**We took several initiatives in 2006 to enhance the security of BP-operated assets in Azerbaijan. These involved co-operation with a range of partners including government agencies, local communities and specialist legal and security organisations.**

**Summary** Under agreements covering the BTC and SCP pipelines, the provision of security is the responsibility of the host governments. Each government has designated security organisations to provide this service. In Azerbaijan, it is the Export Pipelines Protection Department<sup>a</sup> (EPPD), which also provides security for the Sangachal terminal. With respect to our offshore-operated assets, security is provided by the Azerbaijan Navy and Azerbaijan Coast Guard.

For its part, BP in Azerbaijan is responsible for maintaining the security of people and facilities within BP-controlled or operated sites. At present, we employ a private Azerbaijani security contractor, Titan D, to provide unarmed guarding services 'behind the fence' at our onshore facilities. This primarily involves control of entry to and exit from the sites and prevention of loss of company property.

Early in the development of the BTC and SCP pipelines, BP and its co-venturers in the consortia building the pipelines developed four principles concerning the provision of security - to work closely with community members; to co-operate

effectively with host governments and their security agencies; to protect our people and assets, and to ensure that security, like safety, became everyone's responsibility.

Underpinning this approach are the Voluntary Principles developed in 2000 by the US and UK governments, international NGOs and companies in the extractive industries. The objective is to guide companies in maintaining the security of their operations in a way that upholds respect for human rights (see [www.voluntaryprinciples.org](http://www.voluntaryprinciples.org)).

These principles provide the framework of standards guiding our security planning for the two pipelines and have been incorporated in the legal regime governing the development of the projects. The government of Azerbaijan has agreed to provide security for the pipelines in compliance with these standards.

**Working with communities** Communities close to our operations are vital stakeholders in how security is provided now and in the future. From the outset of pipeline construction we therefore sought to establish and facilitate direct dialogue between ourselves and such



A security training session delivered by an instructor from the Exports Pipeline Protection Department.

<sup>a</sup> EPPD (Export Pipelines Protection Department) is a department of SSPS - Special State Protection Service.



Horse patrol at BTC right-of-way.

communities, as well as with local and national government agencies.

In 2006, to promote the inclusion of local community members in the secure and safe operation of our assets we established a forum called the Inter-Agency Security Committee (IASC). IASC aims to facilitate dialogue between BP (through our community liaison officers - CLOs), community members and government security providers - including local police and the government's designated pipeline security agency, the EPPD. Regular meetings of IASC were held in communities along the pipelines right-of-way during 2006 in regions such as Agstafa, Shamkir, Ujar, Samukh and Hajiqabul.

We also provide written information to people living and working close to the onshore pipelines in order to raise awareness of security-related arrangements. In 2006, our efforts included the distribution of more than 4,500 copies of a brochure that outlined our role and the government's role in providing security, as well as information on land use restrictions.

**Grievance resolution** We recognise that our activities may have a significant impact on local communities. Ongoing

consultation through the CLOs, pipeline technicians and field security advisors allows us to receive, log and address legitimate concerns raised by individuals affected by our activities. A grievance mechanism captures complaints and community concerns from these consultations and allows us to address and resolve legitimate complaints.

In 2006, a total of 121 complaints related to construction of the BTC/SCP pipelines were received from land owners and land users along the Azerbaijan BTC right-of-way. Most complaints concerned irrigation (31%), land use and compensation (25%). Others involved damage to infrastructure (22%), land reinstatement (6%), damage to property (7%), recruitment (6%), and other issues (3%). Among the complaints received in 2006 there were five complaints related to EPPD activities along the pipelines right-of-way. These were addressed with the co-operation of EPPD officials and by following the same Azerbaijan Pipelines Complaints Management Procedure that is used to manage grievances related to our own activities. All five of the grievances have been resolved to the satisfaction of the complainants. In 2006, we also considered 14 complaints which remained unresolved

from 2004-2005. At the end of 2006, in total there were 21 complaints unresolved.

The main avenue for submitting complaints is through our CLOs or through information centre drop boxes in Sangachal, Umid and Sahil settlements. The CLOs have provided a consistent, familiar face to local communities, as well as have facilitated day-to-day communication and served as an early warning system if and when problems arose in the communities. In 2006, CLOs continued their visits to more than 120 communities along the BTC/SCP route and near the Sangachal terminal.

**Interacting with public security** The Voluntary Principles emphasise that governments always have the primary role of maintaining law and order, security and respect for human rights. They also stress that companies have a legitimate interest in ensuring that actions taken by governments in providing security for their business are consistent with the protection and promotion of human rights. Support for training is one important aspect of this interest, as it enables us to promote compliance with international human rights standards.

In 2004, we established a partnership with EPPD to implement a human

rights-based security training programme with Equity International, an international training foundation. We continued to support this training during 2006 when a third phase was completed addressing development of instructor skills on proportionate use of force and firearms, development of an enhanced training curriculum that incorporated human rights-based instruction, development of standard operational procedures in line with international standards, and development of the organisation's emergency response capabilities.

This last element was tested in an EPPD emergency response exercise held near the Sangachal terminal in May 2006. Michael Uppman, an Equity International instructor and police officer from Sweden, explained later how the emergency response exercise fitted within the wider programme.

In his words: "A timely, well-coordinated and co-operative response to emergency situations is key in helping provide protection to people in crisis situations - and thereby protecting their basic human rights. We are working closely with the EPPD to enhance their existing emergency response plan. During the exercise we were able to observe its effectiveness. We have also been able

to assess individual actions to test how well key human rights principles are integrated into the physical response to an emergency."

At present, we have no plans to support further training by Equity International. EPPD's judgment is that, following more than two years of assistance, it has received sufficient training at this stage. It is now implementing its own revised training curriculum that incorporates expanded training on human rights as a basis for law enforcement strategies and tactics. When assistance is requested of us to support human rights-based training in the future, we will readily consider it.

Another area in which BP co-operates with host governments is through the Pipelines Security Commission - a joint initiative of the governments of Azerbaijan, Georgia and Turkey launched in July 2003. The Commission meets annually to share examples of best practices in security provision for the pipelines, to exchange information on security risks and protection measures and to discuss compliance with international legal norms. BP representatives took part in the commission meeting held in Baku in June 2006.



Dialogue between the company, public security and local community representatives at a meeting in 2006.

In 2006, we also continued our consultations with state authorities on concluding a Bilateral Security Protocol.

**Independent monitoring** External monitoring provides an additional mechanism to promote compliance with, and best practice in, implementing the Voluntary Principles.

During the first half of 2006, we published a report by an independent monitor that assessed BP's compliance

with the Voluntary Principles for the year 2005. The auditor, Foley Hoag, found that BP was "taking appropriate steps to be in compliance with each element of the Voluntary Principles." Foley Hoag also found that "many of the initiatives, taken by Azerbaijan, Georgia, and Turkey to put into operation the Voluntary Principles, establish new models for the industry." The Human Rights and Security External Monitoring Assessment of the pipeline projects in Azerbaijan may be read on [www.bp.com/caspian](http://www.bp.com/caspian).

In the assessment for 2005, the monitor argued that steps should be taken by the BP-led BTC and SCP projects to address a perceived 'communications gap' between public security providers and local community members.

The establishment of the IASC is a key means by which this gap is being closed.

With both BTC and SCP projects moving into the operations phase during 2006, we agreed with Foley Hoag that "compliance should be regarded as a process of continuous improvement." Equally, we will work to continue improvements in implementation of the Voluntary Principles at other BP-operated sites, such as the Sangachal terminal.

**Outlook for 2007** In 2006, BP commissioned a follow-up assessment of our compliance with the Voluntary Principles.

The independent monitor completed a field visit during November which involved interviews with company personnel, government representatives, private security providers, embassies, representatives of multi-lateral organisations operating in Baku, and local NGOs representing civil society. As with the previous year's assessment, it is our intent to make the key findings and recommendations of the audit publicly accessible on the [www.bp.com/caspian](http://www.bp.com/caspian) website during 2007.

In 2007, it is planned that the IASCs will continue to convene regularly. In 2007, we also plan to set up a telephone hotline<sup>a</sup> to give people affected by our onshore operations an additional mechanism to raise and report security-related concerns and grievances.



BTC pipeline starts here - at Sangachal terminal.

<sup>a</sup> This is in addition to the hotline mentioned on page 15.

## 1.8 People, compliance, ethics

**BP in Azerbaijan is committed to enhance the capacity of its national workforce. In Azerbaijan, we promote equal opportunity and advancement on merit, oppose all discrimination and put management emphasis on diversity and inclusion in our workforce in line with BP group goals and in compliance with agreements with the government of Azerbaijan.**

### People

**Milestones of 2006** Considerable progress was achieved in increasing national professional employment by BP in Azerbaijan during the year. By year-end, the proportion of national employees in professional roles of BP in Azerbaijan reached 72%.

A People Assurance Survey (PAS) of employee opinion is held every second year across the BP group. In 2006, the PAS found that the employee satisfaction index was slightly higher in Azerbaijan

than in that of the BP group as a whole. According to the survey, a clear majority thought that BP in Azerbaijan treats its employees with respect and dignity. The company was also seen as a good societal performer, a constructive neighbour and a supporter of local communities.

At the same time the PAS revealed employee concern about their wage levels and recognition they received for their contribution. BP in Azerbaijan is committed to offer an employment package that is competitive with comparable companies operating in Azerbaijan.

#### Professional staff of BP Azerbaijan SPU<sup>a</sup>

Category	Number of people	% of total workforce
BP Azerbaijan SPU national professional staff	1,510	74%
BP Azerbaijan SPU expatriates	534	26%
<b>Total</b>	<b>2,044</b>	

#### Professional staff of BP in Azerbaijan

Category	Number of people	% of total workforce
BP national professional staff	1,276	72%
Expatriates	488	28%
<b>Total</b>	<b>1,764</b>	



#### National staff

At the end of 2006 BP Azerbaijan SPU<sup>a</sup> had 74% national professional staff against a target of 70%. By 2010, we expect 85% of our professional workforce to be nationals.

<sup>a</sup> This includes national professional staff of BP Azerbaijan SPU in Azerbaijan, Georgia and Turkey.

In January 2006, the salaries of BP Azerbaijan employees were adjusted significantly upwards to move them in line with regional market conditions.

Non-wage benefits for our staff include medical insurance, accidental death and disability insurance, family support plans, vacation time, maternity leave and a share-match plan.

**Recruitment** Recruitment for Azerbaijani citizens is focused on an annual recruitment programme (ARP) which starts every year in November. Ad-hoc recruitment of mature hires takes place throughout the year. This enables us to reach our strategic staffing goals and to fulfil our commitments efficiently.

The ARP is based on the best recruitment practices used in BP's graduate recruitment programme in the UK, as well as approaches deployed previously by BP in Azerbaijan. The recruitment process includes initial HR and functional application screening, followed by further assessments consisting of English language and ability tests; team exercises and functional and behavioural interviews and technical tests where appropriate. The final



#### How to be a successful candidate

According to Lamiya Huseynova, Resourcing Manager: "Usually successful applicants have a good command of English, strong analytical skills and ability to work as part of the team in a diverse multicultural environment. In our interviews we look for individual's ability to make wise decisions, positively influence others, and overcome challenges. Our selection process is very rigorous and competition is tight, therefore only the top candidates rated are successful in getting the job with BP. Incomplete or misleading application forms, inactive or inadequate behaviour during the interviews or during the team exercises and inability to clearly express oneself are some of the reasons for rejecting candidates."

decision is made both by HR and the employing function and is based solely on the attributes displayed by the candidate during the selection process.

In 2006, we recruited 124 operations technicians, 49 university graduates (Challengers), 25 experienced professionals and 73 summer interns through the ARP. Applicants went through a competitive selection process which consisted of an HR and functional screening, English language and ability tests, team exercises and interviews.

A diverse pool of more than 3,500 candidates applied with ages ranging from 18-60 years. Of the graduate and experienced recruits, 80% were male and 20% female. In total 303 Azerbaijani nationals were recruited to BP in Azerbaijan in 2006.

Apart from the ARP, external

candidates may submit applications to baku\_jobs@bp.com throughout the year. These applications may be considered for vacancies arising on an ad-hoc basis at any time during the year. In addition to ad-hoc experienced hires, 28 national administrative/support staff was recruited in 2006 out of which 4 were male and 24 female. Seventeen Azerbaijani national employees resigned from BP Azerbaijan, to continue their professional careers in North America, Russia, Europe and the Middle East.

**Career development** Workforce capability (WFC) project is one of the key elements of our strategy and fundamental in the creation of a company run largely by national staff. In 2006, we set up two programmes inside the WFC project - the national progression programme (NPP) and the organisational capability development (OCD) programme.

NPP has been designed for mid and senior level national employees with recognised professional capability and a strong performance record. It acts as an emerging talent network focused on building strengths and closing skills and competency gaps at a senior level. By the end of 2006 around 80 national staff were on NPP.

OCD is a network of learning and development of professionals who support their respective disciplines through recruitment, training and development.

#### Did you know?

In 2006, about 25% of graduate recruits to BP in Azerbaijan were former summer interns who received job offers as result of successful completion of their internship.

#### Permanent employees of BP in Azerbaijan

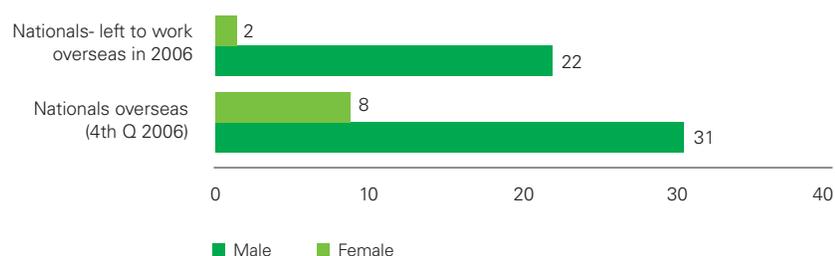
Category	Number of people	Male	Female
National permanent employees <sup>a</sup>	1,560	1,233	327
Expatriates	488	435	53
<b>Total</b>	<b>2,048</b>	<b>1,668</b>	<b>380</b>

#### Agency contract employees

Category	Number of people	Male	Female
Agency contract national employees	317	159	158
Agency contract expatriate employees	806	671	135
<b>Total</b>	<b>1,123</b>	<b>830</b>	<b>293</b>

<sup>a</sup> Number of national permanent employees includes professional and non-professional national permanent staff.

### Overseas assignments of Azerbaijani nationals in 2006



**Overseas assignments** In 2006, 39 Azerbaijani national employees were working overseas either in BP Azerbaijan SPU or in other business units within the BP group.

**Contractor workforce** At the end of 2006, the ACG project employed about 9,400 contractors of whom 80% were Azerbaijani nationals. At Sangachal terminal, more than 1,900 people were employed of whom some 75% were Azerbaijani nationals. During 2007, we expect to reduce our total contractor workforce by about 4,500 people as construction projects are completed.

**Labour relations** The year saw the successful completion of several major offshore construction projects at Baku's main fabrication yards without any significant labour disruption. Meanwhile, we helped our leading contractors manage a number of potentially sensitive issues including inflation-driven wage demands and downsizing at the yards. Appropriate severance packages were agreed at each site as construction projects ended. Where possible, assistance was offered to help workers find new jobs. The corresponding guidelines were set, which led to the successful implementation of the 2007 wage rate review for contractor employees across the AIOC project.

**Challenge programme** This programme is open to all university graduates hired for management roles who have achieved globally competitive competency levels. Competencies are developed through on-the-job experience and a structured programme of formal training.

Continued participation in the programme depends on achievement but is normally for three years. During this period an individual rotates jobs every 12-18 months, predominantly within his or her discipline. The programme also offers exposure across the BP group, allowing participants the chance to begin building a worldwide network of peers.

In 2006, the BP Azerbaijan SPU continued to be a single SPU within BP group with the largest number of Challengers. At the end of 2006, there were 163 Challengers working for BP in Azerbaijan including 149 Azerbaijani nationals and 14 expatriates. About 32 Challengers graduated from the programme during the year including 26 Azerbaijani nationals.

**Summer internship programme** This programme is conducted as part of BP's annual recruitment process and is intended for second and third year undergraduates and first year post-graduate students taking relevant degree courses. The intention is to establish the foundation for a future professional career. Interns are given short-term projects for the duration of their two month-long period with the company. Upon completion of the programme, their internship is assessed and outstanding performers are made contingent offers of employment. During 2006, we had 73 summer interns out of which 57 were male and 16 female.

**Training** To maintain standards of performance and to meet BP's commitments numerous training and development programmes have been set up for employees. Training is held during regular working hours and may take place at a location other than the normal work location. In 2006, we spent over \$30 million on training activities compared with \$22 million in 2005 - an increase of more than one-third.

### Annual recruitment programme of BP in Azerbaijan in 2006

Graduates by disciplines	Numbers	Male	Female
C&EA (communications & external affairs)	3	2	1
Commercial	3	2	1
D&C (drilling & completions)	15	11	4
Engineering	17	16	1
FC&A (financial control & accounting)	3	2	1
HSSE (health, safety, security and the environment)	3	1	2
Logistics	2	2	0
Subsurface	3	1	2
<b>Total</b>	<b>49</b>	<b>37</b>	<b>12</b>

Experienced hires by disciplines	Numbers	Male	Female
Commercial	2	2	0
D&C	1	1	0
DCT (digital & communications technology)	1	1	0
Engineering	8	8	0
FC&A	1	0	1
HR (human resources)	2	0	2
HSSE	1	1	0
Logistics	2	2	0
Operations	1	1	0
PSCM (procurement & supply chain management)	3	3	0
Subsurface	3	3	0
<b>Total</b>	<b>25</b>	<b>22</b>	<b>3</b>



### A thorough, fair process

"I am aware that there have been concerns about BP's recruitment process. But I am confident it is very thorough, fair and professional and we are determined to ensure it remains so. The key to recruitment is to ensure that people understand that you can only get a job in BP based on merit and nothing other than merit. This is a value very dear to my heart.

As HR Vice President I am strongly committed to the ongoing success and integrity of the local recruitment process, and so are the members of my team and team leaders in the whole organisation. We all appreciate that this is a sensitive area and we need to continue promoting clarity, transparency and fairness of the recruitment process."

Zarina Zeynalova, HR Vice President

### Training expenditure (USD)



replacing those who graduated.

During the year, we updated course curricula, added some practical training equipment, installed extra process simulators and IT equipment and improved the English language and professional development programmes. The impact of these changes was evident during the newly-added 24 hour operation and maintenance turn-around exercise on BP's Operations Training Plant at the centre.

Other training opportunities were provided to technicians through post-Foundation programmes. Hundreds of

technicians, for example, attended a Skills Gap training programme in 2006. The addition of assignments to BP's Alaska operations enhanced the overseas assignment programme which was previously limited to the UK.

**Professional development** Many staff are encouraged to pursue internationally-recognised professional qualifications. The professional qualifications, our employees obtain every year, are equal to postgraduate qualifications. In 2006, we established a new Human Resources

**Technical training** In 2006, the Caspian Technical Training Centre (CTTC) continued to serve as the educational hub for technician career development through the delivery of its Technician Foundation Programme, as well as ad-hoc technical and professional courses. In 2006, more than 100 technicians (98 in 2005) graduated from the Foundation Programme and joined BP assets in Azerbaijan. Over 120 additional technicians were recruited to begin their development at CTTC,

### Ad-hoc recruitment of national experienced hires<sup>a</sup>

Graduates by disciplines	Numbers	Male	Female
C&EA	9	2	7
Commercial	4	4	0
D&C	4	4	0
DCT	5	5	0
Engineering	3	2	1
FC&A	14	3	11
HR	4	0	4
HSSE	21	15	6
Operations	4	2	2
Projects	3	1	2
Subsurface	1	0	1
PSCM	3	0	3
Technicians	2	2	0
<b>Total</b>	<b>77</b>	<b>40</b>	<b>37</b>

<sup>a</sup> This includes experienced employees recruited in 2006 by BP in Azerbaijan on an ad-hoc basis not related to ARP.



## Growing talent - Narmina Nabiyeva

During 2006, Narmina Nabiyeva returned to BP in Azerbaijan as Talent Manager after three years spent working at BP headquarters in London. She describes her new role as "giving talent the opportunity to flower" - advising BP leaders on the best ways to identify and grow talent.

A graduate of the Baku Institute of Political Science and Social Management, Narmina joined BP in 1998. In HR she began by co-ordinating safety, leadership and business skills training courses. In London she grew, professionally and personally. "When you work in a corporate centre where there is no production and you are many layers removed from the places benefiting from your work, the value of what you do is less obvious," she says. Against that, there were opportunities for learning and networking. There were British, Greek, German and Spanish members of her team and all brought different ways of approaching things.

"I'm glad that BP in Azerbaijan is becoming more like that," she says, noting that in Azerbaijan, BP was hosting employees from Colombia, Trinidad and Vietnam in 2006. Diversity and inclusion matter, Narmina believes - particularly when the goal is to build a strong long-term business.

education programme in Baku working with Nottingham Trent University in the U.K. The course - a Post Graduate Diploma in Human Resources Management - is run part-time over two years and leads to membership of the professional body for HR specialists in UK - the Chartered Institute of Personnel and Development (CIPD).

Our relationship with the UK-based Chartered Institute of Purchasing and Supply (CIPS) continued. Since the initial contract was signed in 1998 seven BP

staff were awarded CIPS membership - the equivalent of a two-year university degree. Ten SPU employees were in the process of achieving CIPS qualification at the end of 2006. In addition there were 66 employees of BP in Azerbaijan taking part in a professional qualification course being run by the UK-based Chartered Institute of Management Accountants (CIMA) at the end of 2006. In October 2006, we also had one of our communications and external affairs specialists joining the UK-based Chartered

Institute of Public Relations and she expects to receive her Charter in 2007.

More than 50 engineers were also pursuing Chartered Engineer or Incorporated Engineer registration with one of the following UK institutions: Institute of Engineering and Technology, Institute of Mechanical Engineers, Institute of Chemical Engineers, Institute of Civil Engineers and Institute of Measurement & Control. In 2006, our first two Azerbaijani Engineers, Ajdar Askerov and Rahman Rahmanov, received their charters.

### BP in Azerbaijan 2007 national professional recruitment targets

Discipline	2007 National recruitment targets			2007 Total
	Experienced hires	Graduates	Technicians	
Business Services	3	0	0	3
C&EA	2	1	0	3
Commercial	2	3	0	5
D&C	3	6	0	9
Engineering & Projects (E&P)	1	8	0	9
FC&A	2	3	0	5
HR	2	0	0	2
HSSE	6	3	0	9
Legal	1	0	0	1
Operations Management (OM)	6	12	0	18
PSCM	3	0	0	3
Reservoir & Wells (R&W)	3	9	0	12
Technicians	0	0	108	108
<b>Grand total</b>	<b>35</b>	<b>50</b>	<b>108</b>	<b>187</b>



#### Expatriates hired in 2006

Discipline	Number of people	Male	Female
Commercial	4	4	0
D&C	14	13	1
DCT	1	1	0
Engineering	14	11	3
FC&A	2	2	0
HR	3	1	2
HSSE	5	4	1
Leadership	1	1	0
Legal	1	1	0
Operations	29	25	4
Projects	16	12	4
PSCM	4	3	1
Subsurface	11	11	0
Technicians	7	6	1
<b>Total</b>	<b>112</b>	<b>95</b>	<b>17</b>

#### Expatriates repatriated in 2006

Discipline	Number	Male	Female
C&EA	2	2	0
Commercial	2	0	2
D&C	19	18	1
Eng	16	15	1
FC&A	4	4	0
HR	1	0	1
HSE	20	15	5
Leadership	1	1	0
Operations	17	16	1
Projects	38	33	5
PSCM	1	1	0
Security	1	1	0
Subsurface	6	5	1
Technicians	11	11	0
<b>Total</b>	<b>139</b>	<b>122</b>	<b>17</b>

#### Society of Petroleum Engineers (SPE)

BP Azerbaijan continued to support the Society of Petroleum Engineers which brings together oil and gas professionals in order to share knowledge. Increasing numbers of Azerbaijani nationals joined the SPE during the year and there are now more Azerbaijani student members (around 350) than students of any other nationality. BP in Azerbaijan currently represents the largest single membership block in the SPE's professional/technical ranks. BP's ongoing support to SPE

in Baku included organisation of lectures and student focused events.

#### Compliance and ethics

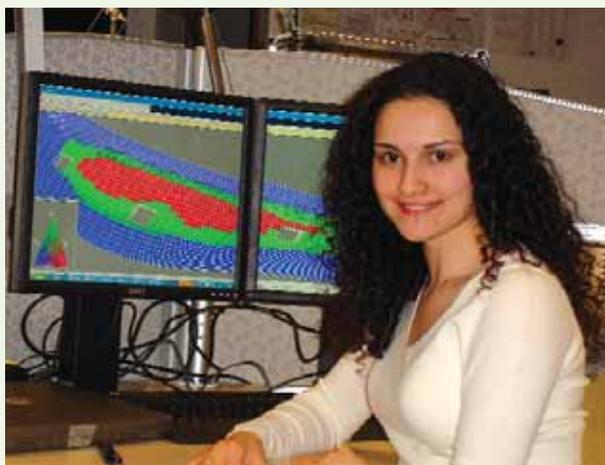
To set and achieve consistently high standards of behaviour, BP has developed a group-wide standard known as the BP Code of Conduct (CoC) which must be observed by all employees.

This Code operates in parallel to any local laws or regulations covering similar matters.

The CoC sets the standard to which

all BP employees anywhere in the world must adhere. It prohibits illegal, corrupt or unethical practices and demands high standards of probity. Failure to follow the Code 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



## Arzu Hajizada, exploring new horizons

Arzu Hajizada joined BP in Azerbaijan as a summer intern working for two months as an assistant reservoir engineer. After that she went back to the Azerbaijan State Oil Academy to finish her studies. On graduation she was offered a job in the Chirag Base Management Team as a Challenge Petroleum Engineer. In her second Challenge year she moved to Aberdeen to join a well services team where she was exposed to production operations, well operations and the offshore environment. The following year she joined the UK-based Azeri Reservoir Management Team to gain reservoir engineering experience.

Arzu says that being a Challenger has given her the opportunity to learn on the global BP stage. "BP encouraged me to take the training and also provided experienced staff to give me advice.

"I had, and have good supervisors," she says. "I think my enthusiasm has helped as well. I enjoy what I do. Given that we spend half of our lives at work, it's vital to enjoy what you do. But the other thing about the Challenge programme is that much of it is real work. That's the best training you could possibly wish for."

entertainment, conflicts of interest, bribery, competition, trade restrictions, money laundering and working with suppliers.

Where differences exist with local customs, laws or regulations, employees must apply either the Code or local requirements - whichever sets the highest standard of behavior.

BP in Azerbaijan has 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.

To minimise risks in any of these areas in 2006, we took a number of actions including development of third parties risk assessment model, staff communication of quarterly ethics flashes reinforcing BP Code of Conduct expectations, availability of newly established Compliance & Ethics Network representing compliance & ethics contacts in departments and continuation of induction sessions for all newcomers.

**Milestones of 2006** A key indicator of the extent to which BP in Azerbaijan is complying with the Code and applicable

laws and regulations is provided by the annual BP group-wide compliance and ethics certification process.

This enables us to identify potential risks and concerns and to take action where appropriate. Any highlighted risks and concerns are reported to BP group management in a compliance report signed by the president of BP Azerbaijan SPU. We completed our most recent annual compliance and ethics certification in 2006.

As part of this process we introduced personal attestation. As a result, all employees of BP in Azerbaijan were asked to confirm in writing that their activities during the year were in compliance with the Code of Conduct. During the certification process more than 400 individual issues were raised. These were distilled down to 65 potential ethical concerns. Of the 65 concerns, 60 were addressed immediately. Of the remaining five, all were subject to remedial interventions that will be carried out during 2007.

All employees of BP in Azerbaijan are encouraged to raise any ethical concerns they may have with management directly or through the company compliance and ethics helpline, called OpenTalk. Under this initiative the company pledges that

### Did you know?

- By year end, 170 of Azerbaijani citizens were in middle and senior management grades (129 in 2005) Forty of them were in senior management grades (22 in 2005) and 130 were in middle management grades (107 in 2005)
- More than 19% of them (33 of 170) were female
- An Azerbaijani citizen was appointed as Vice-President of BP Azerbaijan SPU (and is also the chief executive of the BTC Company)
- Six Azerbaijani citizens were in senior management grades and nine in middle management grades in the BP global organisation outside of BP Azerbaijan SPU

any concerns reported will be properly reviewed and, if appropriate, will be investigated in a confidential manner and acted upon.

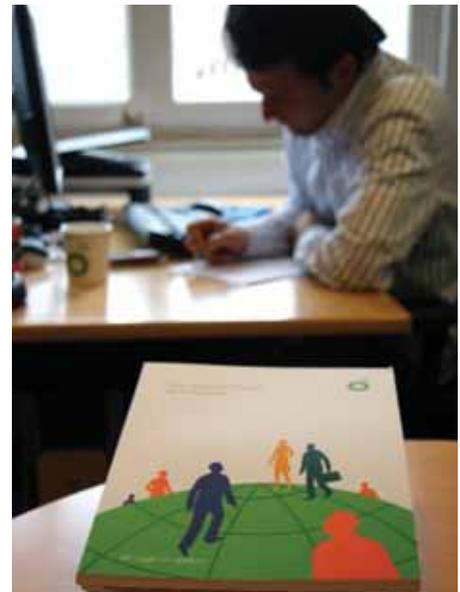
During 2006, a number of employees and contractor staff working in Azerbaijan were dismissed for non-compliance with applicable laws, regulations or BP Code

of Conduct. Examples of non-compliance included substance abuse, inappropriate safety behaviour, misuse of company assets, fraud and theft.

In 2007, we intend to continue our efforts to foster a higher level of awareness of business conduct expectations among our staff in Azerbaijan. Measures planned include implementation of a procedure for random drug and alcohol tests at all operational sites, an external audit of our recruitment process and the introduction of a declaration about conflict of interests in the personal attestation process.

**Contractors and ethics** The majority of our business is performed in co-operation with 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 only with contractors that perform in line with BP's commitments to compliance and ethics as outlined in BP Code of Conduct.



## Engineering his own career

In 2006, Rahman Rahmanov, Project Engineer from Major Projects Performance Unit, received the esteemed status of Chartered Engineer with the Institute of Engineering and Technology (IET) in the UK. He is the first Azerbaijani to become a chartered engineer with this institute. Also having a PhD in electrical engineering and over seven years of experience in the industry, Rahman decided to obtain this status two years ago. "I always enjoy challenges and setting high goals, which serve as a locomotive for development in my career," says Rahman. "I put achieving the status of the chartered engineer in my personal development plan as a short term goal and thus made it even more challenging. And also,

there were quite a few electrical and instrument engineers who wanted to become chartered with IET. I just had to achieve it so that it will encourage the rest of my colleagues. Now that I have become the first chartered engineer with IET from Azerbaijan it makes me feel proud, but in the meantime it makes me think of new and more challenging goals," adds Rahman.

## 1.9 Key statistics in chapter 1<sup>a</sup>

### Operating

- Oil production from Chirag 1, Central Azeri, West Azeri and East Azeri platforms averaged 472,000 barrels a day by year-end (142,000 barrels came from Chirag 1, 223,000 barrels from Central Azeri (CA), 96,000 barrels from West Azeri (WA) and 11,000 barrels from the East Azeri (EA) platform.
- We delivered 2.2 billion standard cubic metres of associated gas to Azerbaijan.

### Financial

- Capital expenditure (with co-venturers) on ACG development was equal to \$2.48 billion.
- Capital expenditure (with co-venturers) on BTC construction was equal to \$920 million.
- Capital expenditure (with co-venturers) on SD/SCP construction was equal to \$1.04 billion.
- Operating expenditure (with co-venturers) on ACG/SD was equal to \$254 million.

### Environmental

- There was 0.4% increase in net GHG emissions from 610,010 te/p.a. in 2005 to 612,670 te/p.a. in 2006.
- Forty-five percent decrease in net normalised operational GHG emissions (emissions released for every thousand barrels of oil and gas produced) from 21.4 te/mboe in 2005 to 11.8 te/mboe in 2006.
- About 25% decrease on 2005 in total gas flared from 448,279te to 332,641tonnes.
- One hundred and nine percent increase in fuel-gas-use from 136,273te to 284,197 tonnes.
- Twenty percent increase in diesel used from 20,065te in 2005 to 24,176te in 2006.
- Seventy four percent decrease in electricity import from 21,371MWh in 2005 to 5,545 MWh.
- Twenty one percent rise on 2005 in drill cuttings to sea from 13,014 to 15,811 tonnes.
- Fifty three percent decrease on 2005 in SBMs discharged from Chirag 1 platform from 3,315 to 1,563 tonnes.
- Amount of hazardous waste generated was equal to 35,683 tonnes.

- Disposed wastes 63,276 tonnes.
- Twenty four percent decrease in the number of oil spills from 54 spills in 2005 to 41 spills in 2006.
- Sixty six percent decrease in the volume released from 24,410 litres in 2005 to 8,396 litres in 2006.

### Safety

- One fatality during 2006 related to our operations in Azerbaijan.
- Zero DAFWC in driving activities of BP land transportation in Azerbaijan.
- Rise in vehicle accident frequency rate from 0.49 to 0.71.
- The number of HSSE training hours delivered to employees of BP Azerbaijan SPU was equal to 43,786.

### People

- Three hundred and three new national staff recruited (Azerbaijan-based only).
- Year-end 2006 staff of BP in Azerbaijan was 2,048.
- In 2006 \$30.3 million were spent on training, which includes:
  - a. spend on national professional training - \$ 26.2 million
  - b. spend on safety training - \$ 4.1 million

<sup>a</sup> Unless otherwise stated, data relates to 2006 performance of BP Azerbaijan SPU.

# BP in Azerbaijan: our role in society

## 2.1 Supporting sustainable development

- Regional Development Initiative
- Community investment
- Environmental investment

## 2.2 Revenue transparency

## 2.3 Enterprise development

## 2.4 Educational initiatives

## 2.5 Key statistics in chapter 2

# 2



Children benefiting from a community investment project in Yevlakh.

## 2.1 Supporting sustainable development

**In 2006, BP and its co-venturers in Azerbaijan invested around \$6.7<sup>a</sup> million on social development projects. Our social development projects are implemented through programmes such as the Regional Development Initiative, Community Investment Programme, Environmental Investment Programme and various other initiatives.**

### The Regional Development Initiative (RDI)

RDI has been designed to provide a lasting contribution to socio-economic progress in Azerbaijan, Georgia and Turkey. It combines the experience, skills and resources of BP and its co-venturers in Azerbaijan with the expertise of development organisations.

It is operated by BP in Azerbaijan.

RDI focuses on large-scale, country-wide and cross regional programmes and its projects are aligned with country-specific development needs. A key element in the design of the RDI is its capacity to respond to the challenges created by a large-scale extractive industry such as oil and gas operating in

countries undergoing economic transition and suffering from high poverty rates.

RDI seeks to maximise its impact by concentrating on three main areas - enterprise development, energy efficiency and effective governance. Capacity building and education is intrinsic to all three themes. In Azerbaijan, RDI focused mainly on establishing enterprise development projects during 2006. More than \$3.3 million was invested through RDI in Azerbaijan.

**Milestones of 2006** Several important RDI breakthroughs were recorded in 2006:

- **Supplier Finance Facility (SFF) agreement:** In June 2006, BP in Azerbaijan on behalf of its co-venturers, and

International Finance Corporation (IFC) launched the first step in an important new initiative, a new Supply Chain Finance Facility pilot project.

The project was implemented through a separate IFC grant agreement with the Micro-Finance Bank of Azerbaijan (MFBA) and a total loan capital of \$316,000. SFF is a joint credit facility designed to support development of Azerbaijan's local oil and gas industry supplier and service enterprises through resources provided by BP and its co-venturers, the IFC and MFBA. In late 2006, an agreement was signed with IFC to establish the second phase of the SFF worth \$15 million in total. BP and its co-venturers in Azerbaijan, and the IFC agreed to



### AzMETCO pilots new enterprise loans

AzMETCO, a local company specialising in metering services, complex adjustment and automation, was the first company to receive a loan from the Supplier Finance Facility (SFF). Selection for a SFF loan was conducted through competitive pre-qualification exercises by the Enterprise Centre, then passed through the MFBA credit appraisal and was finally approved by the SFF Credit Committee comprising representatives of all the three parties involved.

AzMETCO has been providing assurance for metering equipment at the Sangachal, Sumgayit, Siyazan, Shirvanovka and Supsa terminals of the Northern Route and Western Route oil export pipelines since 1998. In 2005, AzMETCO won a four-year contract from BP in Azerbaijan for the provision of metre calibration services along the Northern Route, Western Route, BTC and SCP pipelines.

"I am very proud that AzMETCO is the pioneering company in this notable initiative," says Shukur Aghazadeh, AzMETCO's general manager. "We will do our best to provide a world-class service and set a standard for other local oil industry suppliers and services enterprises which will benefit from the SFF loan."

<sup>a</sup> This includes \$6.59 million of social investments made by BP and our co-venturers and \$154,000 invested by BP on its own.



## Eyvazlilar - a star performer

As a part of the Living university concept programme, the Eyvazlilar star ijma group (SIG), with the Mashadi Garalar nascent ijma group (NIG) and municipality, implemented their first integrated project in 2005 - a road rehabilitation initiative that repaired seven kilometres of road at a total cost of \$16,422. CIP provided \$11,322 and the two communities contributed \$5,100 towards the project<sup>a</sup>.

This success motivated the Eyvazlilar SIGMP (SIG municipality partners) and Mashadi Garalar NIGMP (NIG municipality partners) jointly to solve another problem in 2006.

As both communities (the total population in Eyvazlilar and Mashadi Garalar is 529 and 603, respectively) lacked a regular supply of irrigation water, the groups and municipalities submitted a proposal to Save the Children to drill two artesian wells.

The project drilled the first well 100 metres deep and installed a pump in the Mashadi Garalar community. The second well, 40 metres deep, was drilled in Eyvazlilar with the pump powered by a transformer. The total cost of this project was \$28,256 of which \$19,811 was provided by CIP and the rest by the communities. Not only has the project enabled both communities to expand their use of arable land and increase incomes, but it has also encouraged them to exchange skills and experience in solving problems and, by their example of collaboration through the ijma group structure, show other communities how the challenges of rural life may be overcome.

contribute \$6m each with a further \$3 million from a local bank.

- **Small and medium-sized enterprises (SMEs) and microfinance lending programme:**

On behalf of its co-venturers, BP in Azerbaijan signed an agreement with the European Bank for Reconstruction and Development (EBRD) to support private sector development in Azerbaijan and Georgia. As part of the first contribution agreement, BP in Azerbaijan is contributing \$4.65 million while EBRD will match or exceed this amount. The funds will be used to provide loan capital to local banks for SME, and microfinance institutions for micro businesses.

BP and co-venturers in Azerbaijan will also provide technical assistance to the banking and non-banking sectors as part of this programme.

- **Private Public Partnership (PPP) project:**

BP, Statoil, Chevron, and the IFC, partnered by GTZ (German Technical Cooperation), launched a two-year PPP in 2004 to help local businesses benefit from investments in the oil and gas industry. Three of the participating companies qualified to bid for BP tenders in 2006.

- **Development of business services for SMEs:**

BP and its co-venturers in Azerbaijan, and the IFC continued to support the Azerbaijan Bank Training Centre (ABTC) in offering high quality, affordable training and consultancy services to the SME sector. In 2006, ABTC organised 32 training sessions for 320 participants. About half of them represented 88 different SMEs. In order to develop local consultant training capacity, ABTC trained seven local trainers during the year.

- **Microfinance benchmarking survey project:**

Implemented by the Azerbaijan Microfinance Association (AMFA) and sponsored by the joint efforts of RDI, UNDP, Eurasia Foundation and the AMFA, this project studied the performance of Azerbaijani micro-financing institutions (MFIs) through the lens of industry standard performance metrics. In 2006, AMFA delivered its first report and ran an international conference in Baku. The report concluded that Azerbaijani MFIs (primarily equity funded) have an increased access to external resources, focus mostly on rural areas and possess excellent portfolio quality. It recommended that MFIs give more attention to ensuring financial transparency within their institutions. A series of capacity building trainings were delivered for MFIs as part of this project.

### Social spend in Azerbaijan, Georgia and Turkey in 2006

	Azerbaijan	Georgia	Turkey	Total
Gross spend by BP and co-venturers	\$6,747,794	\$5,102,409	\$5,274,733	\$17,124,936
Net spend by BP only	\$2,172,467	\$1,764,206	\$1,657,595	\$5,594,268

<sup>a</sup> For more information see BP in Azerbaijan Sustainability Report 2005, page 48.



From left to right: Olivier Descamps, Business Group Director of European Bank for Reconstruction and Development and Bill Schrader, President of BP Azerbaijan SPU signing the agreement on support for private sector development in Azerbaijan and Georgia.

## Community investment

**Summary** Our community investment projects in Azerbaijan reflect an ongoing commitment to positive social and community development for people living near our facilities. The commencement of the operations phase of our projects marked the start of a new stage in our community and environmental investment programmes. Around \$3.2 million was spent on various community development investment projects in 2006.

**Community Investment Programme 2006 highlights** The year 2006 marked the continuation and completion of many of our construction-phase projects and the introduction of the second phase in our Community Investment Programme (CIP). Known as CIP II, two objectives underpin the new programme - to promote constructive and mutually beneficial relations between communities and BP and its co-venturers in areas directly impacted by our activities; and to deliver significant, long-term sustainable benefits to members of those communities.

The themes at the heart of CIP II build on those that drove the original CIP - economic development - particularly agriculture and community based

enterprises; community mobilisation and capacity development, through the rehabilitation of community infrastructure. We are seeking to achieve these goals in communities through working closely with municipalities, local authorities and other relevant stakeholders.

Our expectation is that any new programmes will reinforce and build on our earlier initiatives.

During 2006, a wide range of socio-economic activities were undertaken in Azerbaijan by a variety of BP-led initiatives:

- A two-year programme of community investment was completed in the Bibi-Heybat area on our behalf by the International Rescue Committee (IRC). The total cost of the project was \$254,000. Initiatives under this project included rehabilitation of the electricity supply system, renovation of a secondary school, rehabilitation of a culture centre, rehabilitation of the electricity system of an Internally Displaced Persons settlement, and construction of a health care facility. Some \$30,000 was contributed by community members in Bibi-Heybat, with support from the local municipality and executive authorities, to our various social projects in 2006.
- Agricultural development remained a focus of our activities. In 2006, a network of agriculture extension agents, who promote better farming practices, provided consultations to 2,545 farmers. To build on this, two limited liability companies (agricultural service centres) were set up in Agstafa and Samukh districts which, in turn, established extension and information services for farmers and an agro-shop which purchases agricultural input products in bulk and passes on the savings to local farmers.
- The 'Living University Concept' programme was implemented by Save the Children in partnership with the national NGO Umid. Six 'Star' communities were chosen based on their past successful implementation of CIP I projects (*see BP in Azerbaijan SR 2005*) and based on their organisational capacity to work with and mentor 19 'Nascent' communities. Infrastructure rehabilitation projects were completed in all 25 communities. Umid also led an initiative that paired with local 'masters' and 30 apprentices graduated successfully from the programme.
- Other important community initiatives undertaken during the year



### Caring for the Caspian environment

BP is committed to help preserve the unique environment of the Caspian Sea. We have built a strong relationship with local scientists and supported the Caspian environment programme, which unites Caspian states around a common goal of preserving and managing the area's marine and shore life.

"The Caspian is unique. It's very important to maintain its biodiversity", Faig Askerov, Environmental manager stresses. "Before we start any activity we launch a baseline study and prepare an environmental impact assessment document. We consult with NGOs and discuss matters at public meetings. Then we conduct environmental monitoring against these base-line studies, and we take on board the results."

included development activities in Gobustan and Alat implemented by World Vision including school renovations, community lighting and infrastructure improvements.

- Another focus in 2006 was water purification. The beneficiaries were six communities along the BTC/SCP pipeline route affected by lack of potable water. UMID, the CIP implementing partner, managed the design and successful installation of six water purification units incorporating low-tech, locally available technologies in the target areas. As part of the water purification programme, six community owned limited liability companies (LLC) were set up and registered. LLC managers were selected by the members of individual communities to manage the day to day operations of the facilities and to ensure the financial transparency of the receipt and expenditure of revenues from the sale of the water. Communities will be able to use "profits" to support other community improvement programmes.

**Employee matching fund** BP in Azerbaijan operates an employee matching fund through which it matches charitable contributions made by staff members. The Charity Association Fund in London checks the eligibility of organisations once there is an offer for their registration. Organisations in Azerbaijan currently eligible for matching funds include the International Women Club, United Aid for Azerbaijan (UAFA), Community Shield Azerbaijan, UFUQ, Caspian Compassion Project, Azerbaijan Republic Association of Hemophilia and Ophthalmologists for Children. In 2006, BP in Azerbaijan contributed \$33,464 to local charities through its employee matching fund. A new, reinvigorated employee matching fund will be re-launched in 2007.

### Environmental investment

**BP and climate change** For the past decade the challenges posed by climate change have been at the heart of the BP group's approach to environmental stewardship. We first set voluntary targets to reduce our greenhouse gas emissions in 1998. Since then we have

played a leading role in developing energy with a low carbon footprint, including solar, wind hydrogen and natural gas. In 2006, we launched a biofuels business<sup>a</sup>.

### Environmental Investment Programme

**2006 highlights** BP in Azerbaijan has continued a number of initiatives in order to protect biodiversity in the areas affected by its operations. Our Environmental Investment Programme (EIP) in Azerbaijan seeks to protect and enhance biodiversity around our assets and in regions where we operate, working with local communities, local authorities and the government. Our activities also include improving environmental education and heightening environmental awareness.

A major grant was awarded to the local NGO Hayat to support community projects on raising environmental awareness in the BTC/SCP Azerbaijan 4km pipeline corridor. Grants averaging \$12,000 were awarded on a competitive basis to communities putting forward projects that responded to local environmental challenges and needs. Typical activities included reclaiming

<sup>a</sup> See BP group Sustainability Report for more information on BP group's contribution to addressing the threat of climate change: <http://www.bp.com/sustainabilityreports/>.

flooded land, cleaning up parks and common areas, restoring irrigation channels and setting up alternative energy projects. A total of 29 communities were awarded funding worth about \$290,000. Communities' contribution was nearly \$100,000. This programme was experimental and a number of organisational and motivational challenges were encountered during and after its implementation. For example, a number of communities were not ready to effectively maintain the projects that were handed over to them after completion.



Tugay forests in western Azerbaijan

#### Other initiatives in 2006

- In 2006, our flagship regional biodiversity project to rehabilitate and protect the Tugay forests in the Kura lowland and around the Kura River in western Azerbaijan began to take shape. A planting design plan was prepared by the local NGO Soyug Bulag, 40,000 trees were planted over 12 hectares and activities undertaken to restore naturally a 150ha forest area. The Tugay project is guided by a steering group consisting of BP, BTC and MENR representatives. The project has been implemented with the support of local organisations, experts

and community representatives and has been highly appreciated by local executive authorities. The social and environmental awareness components of the project are being continued.

- The fifth biodiversity competition in Azerbaijan sought the best biodiversity project, the best biodiversity article and video material. More than 80 applications were submitted - 61 projects from 46 organisations and 21 articles from ten eco-journalists. The main prize was awarded to the Society of Zoologists of Azerbaijan for the project 'Artodactyla fauna of Azerbaijan'.

Gulgiz Suleymanova won a prize for her article "Seal Flu Virus" published in Zerkalo newspaper. Previous winners of this competition have implemented a number of successful projects including the planting of 3,400 trees by the Karvan NGO and the publication of a book, 'Waterfowls of the Azerbaijan Sector of the Caspian Sea' by the Ecology and Protection of Birds' Public Association, 'Mammals of Azerbaijan' posters by NGO Ecosphere, and 'Sturgeon Protection and Restoration Study' by the Azerbaijan Association of Demographers.



### Transforming village life

Electricity supply and the lack of potable water are two of the main limitations on development of the rural regions in Azerbaijan. In Karrar village in Kurdamir region, home to more than 2,200 farming people, these problems have been tackled by turning to renewable energy.

In Karrar this involved a community-wide effort for the installation of a water purification facility.

Karrar was chosen as an optimal site for the installation of an alternative energy demonstration project. Two 200 watt-hr solar photovoltaic modules installed as part of the water purification project in Karrar village charge batteries which can provide the facility with electrical energy for up to five hours. As interruptions in electric power supply are frequent in this part of Azerbaijan, the solar energy system is vital in ensuring that community's need for a continuous supply of potable water is met. This project was implemented by UMID, a national NGO. Our collaboration with UMID began during the first phase of CIP when it partnered with Save the Children. UMID has demonstrated strong performance in delivery of programmes, and as a result, we have concluded two CIP grant contracts directly with UMID for the implementation of Sustainable potable water I and II.

## 2.2 Revenue transparency

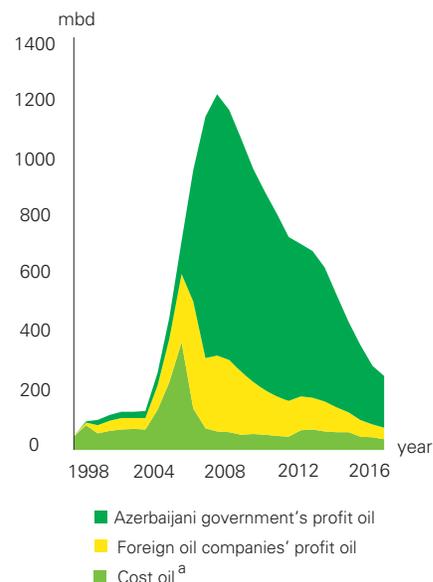
**The year saw continuing progress towards achieving greater transparency around Azerbaijan's oil and gas revenues as a result of joint efforts between the government, civil society and extractive industry companies. The long-term macroeconomic model of the Azerbaijani economy sponsored by BP, was successfully developed by Oxford Economics and transferred to the full ownership of SOFAZ.**

Over the years BP in Azerbaijan and elsewhere has expressed consistent support for a voluntary, consensus-building approach to revenue transparency in which governments, international financial institutions, companies and civil society work together for the common cause of maximising the benefits of natural resources by promoting good governance, tackling corruption and finding workable solutions.

We recognise that no single company, whatever its size or scope, can achieve much in these areas by itself. At the same time we believe that there are valuable things companies can do to improve transparency by working jointly with others and by consensus.

BP in Azerbaijan has taken a lead in supporting the Extractive Industries Transparency Initiative (EITI) which brings together government, companies, civil society, investors and international organisations to support improved governance through the publication and verification of company payments and government revenues from oil, gas and mining. In 2006, BP in Azerbaijan, has initiated a dialogue with co-venturers and SOCAR to develop a cost split mechanism for EITI services covering 2005. The successful interim agreement has been reached and was based on the respective production share of each participant in Azerbaijan. We will continue the dialogue in 2007 to

**Gross ACG oil production split at \$60/bbl**



<sup>a</sup> Cost oil - a portion of a crude oil required to recover capital and operating costs as per ACG PSA page 21.

### EITI journey in Azerbaijan

#### June 2003

Azerbaijan announced to pilot EITI implementation at Lancaster House Conference

#### November 2003

National Committee on EITI is established within SOFAZ

#### November 2004

MoU signed among Government of Azerbaijan, local and foreign companies and NGO coalition

#### March 2005

Azerbaijan published its 1st EITI report for 2003 and 1st semester of 2004

#### July 2005

BP publishes individual EITI data in SR 2004



British Hawthorn sailing away from Ceyhan with the first cargo of oil.

develop a long-term solution. As part of its EITI commitment BP in Azerbaijan has published its individual EITI-reported data in Sustainability Reports for 2004, 2005 and 2006, and plans to continue doing so in future years.

At the 3rd EITI international conference in Oslo in October 2006 Azerbaijan was selected to become a member of the multi-stakeholder board that will manage EITI in 2007 and beyond, and help to oversee its future operation. Azerbaijan's EITI report on aggregated receipts from the extractive industries covering January-December 2005 was published in 2006, however, the report covering January-June 2006 was not disclosed in 2006.

In addition to our commitment to the

EITI, we have extended co-operation with SOFAZ to continue training and capacity building. BP in Azerbaijan has sponsored a macroeconomic modelling project at the SOFAZ in co-operation with Oxford Economics (an independent economic consultancy). In 2006, BP in Azerbaijan hosted several visits to Baku by the BP economics unit and experts from Oxford Economics. In addition to strengthening the government's economic forecasting capacity, this project is also contributing to inter-agency co-operation among different government agencies.



## 2.3 Enterprise development

**Our efforts to do business with more local companies and increase the value of contracts awarded to them are ongoing in Azerbaijan. Together with our co-venturers we are committed to double our local spend with locally-owned companies by 2010. Our enterprise development activities in Azerbaijan include local supplier development, supply and demand analysis and other initiatives.**

**Milestones of 2006** In 2006, BP in Azerbaijan, on behalf of its co-venturers, re-launched the Enterprise Centre (EC) in Baku following its refurbishment and upgrading. The EC is the focal point of our efforts to maximise local content in Azerbaijan by increasing the number of companies participating in contracts and by raising the value of locally-awarded contracts. The EC works closely with the country's leading companies, foreign investors and contractors, trade associations and other relevant groups in order to support local enterprises and their participation in BP contracts.

In 2006, we developed the local enterprise development strategy and a five-year outlook based on the long-term procurement plan. In addition, we also reviewed training needs analysis which was the basis of the strategy for the development of the enterprise development and training programme (EDTP). The EDTP programme seeks to contribute to Azerbaijan's economic growth by enhancing the capacity of local small and medium-sized enterprises (SMEs) to become competitive both in the local market and in the Caspian region.

Our total in-country spend in 2006 equalled \$1,483 million, which includes our direct spend with local suppliers (SMEs \$77 m - 15% increase on 2005; state-owned firms - \$60m; JVs - \$520m) and indirect spend with foreign suppliers working in Azerbaijan (\$826m).

Eight local companies got new contracts with BP in Azerbaijan in 2006. For the first time, local company Caspian Safe was awarded a contract to provide health, safety and the environment (HSE) training to BP in Azerbaijan.

Local private company Dalgij was awarded another large contract (worth



### Young entrepreneur of the year

Jeyhun Imanov, aged 23, is one of the youngest businessmen in Azerbaijan. Early in 2005 he set up his own design studio with just one member of staff. Since then the Jeyhun Imanov Studio has completed more than 150 projects, expanded its staff to 13 and provided a wide range of services to scores of local and international clients.

From the outset the company's goal has been to provide professional, high-quality design services to clients and to become a partner of choice for an expanding client list. Already Jeyhun Imanov Studio has provided a wide range of services to many local and international clients. According to the selection panel, Imanov has succeeded in creating a

united family of young, talented professionals. Jeyhun Imanov brings innovative approaches to his clients and has substantially improved his company's performance.



## HSE training courses for BP in Azerbaijan go local

In December 2006, a contract for the provision of a series of health, safety and the environmental (HSE) performance training courses was signed between Caspian Safe and TTE Petrofac. These training courses will be conducted for BP in Azerbaijan staff through the contract it has with TTE Petrofac.

Caspian Safe was founded in 2005 with nine members of staff. The company's workforce is carefully selected and trained and their skills and competencies are regularly assessed. Caspian Safe provides HSE courses, such as task based risk assessment, behavioural safety auditing, hazard identification, gas testing theory, basic incident investigation, manual handling, chemical hazard awareness, basic offshore survival training, offshore fire team member, offshore fire team leader, fire warden, basic confined space entry and breathing apparatus. "Our employees practice, encourage and reinforce safe, healthy and environmentally sound behaviour"

says Elsavar Quliyev, the company's general manager. Caspian Safe's success was a result of localisation initiatives that the Enterprise Centre has undertaken in order to achieve BP and co-venturers' target of maximising both direct and indirect spending, and developing the local contractor base. Caspian Safe provides similar services to other extractive industry companies operating in Azerbaijan.

### The 2006 best of business award winners

Award category	Winner
Best HSE performance of the year	Sumgayittikintigurashdirma-2
Young entrepreneur of the year	Jeyhun Imanov Studio
Employer of the year	Rigblast
Company of the year	Dalgij Private Company

\$1 million) with BP in 2006 to provide major air-diving and remote operational vehicle (ROV) services. In order to become a BP-approved sub-sea contractor, the company undertook a special two-year programme and applied many innovative approaches to its business. The company's technical capabilities were reviewed and supported through various international accreditations. Today, Dalgij is a member of the International Marine Contractors Association Diving and ROV Division. It has a team of local air divers and experienced ROV pilots.

During the year BP, on behalf of its co-venturers, sponsored the Best of Business local enterprise awards as part of our encouragement of local business development. The awards recognised outstanding local and international companies and business personalities whose entrepreneurial skills contributed

to the success of BP-operated oil and gas projects and made a lasting impact on the local business environment.

Despite achievements, there are many challenges remaining: local economic and regulatory conditions and the appreciation of the Azerbaijani Manat (which prompts many SMEs to import rather than produce locally).



### Local companies awarded contracts with BP in Azerbaijan in 2006

- Khazardenizneftgaztikinti Trust
- Caspian Oil Services Inc.
- Xazar Deniz Yollari Idaresi
- Caspian Safe
- Dalgij
- Azertunelsutikinti
- Azerbaijan Bank Training Center
- RT Services

## 2.4 Educational initiatives

**Our educational initiatives are designed to bolster Azerbaijani society by fostering capacity-building projects. We believe we can best achieve this by widening opportunity, encouraging intellectual excellence and developing awareness of the contribution made by our industry to national development.**

**Caspian Energy Centre** In September 2006, we re-launched the Caspian Energy Centre (CEC) with new exhibits created by the Houston Museum of Natural Science offering an enhanced learning experience. The CEC is designed as an educational tool primarily for use by secondary schools to help educate children in Azerbaijan about the natural resources of this country, and how they are used in everyday life.

In 2006, more than 6,300 people visited the CEC. About two-thirds of them were schoolchildren. In addition, adult visitors - including government officials, shareholders, media professionals and BP Azerbaijan employees - continue to benefit from what is a special learning experience. The CEC costs for 2006 were approximately \$1.44 million.

**Rural inclusive education programme** The primary goal of the rural inclusive education programme (RIEP) is to help disabled children be mainstreamed into regular schools and ensure that there is a competent, viable and responsive support system in place to permit them to reach their full potential. International Medical Corps (IMC) implements RIEP in collaboration with national stakeholders, including the Ministry of Education.

The programme is funded by BP in Azerbaijan and its co-venturers, and the Open Society Institute (OSI).

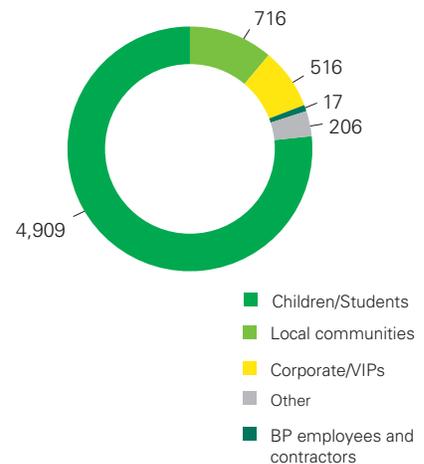
RIEP is a pilot project which includes establishment of a special care system, improving the skills of district medical and educational staff and integrating 24 disabled children living in Yevlakh into local primary schools. This, the second phase, integrated a further 12 children with special needs into mainstream classes at three kindergartens and three primary schools in Yevlakh.

Work continued to improve local skills at district level, build up local special services and provide educational outreach and training to parents, teachers, school staff, and government officials on areas relating to inclusive education.

The long-term goal of the programme is to develop a working model on inclusive education that can help to guide national policies on inclusive education, school improvement, early intervention and advocacy.

**School connectivity and global citizenship programme** CIP continued to support the school connectivity and global citizenship programme implemented by the national NGO Madad in 2006. This programme provides computers and

**CEC visitors in 2006**



internet access and promotes the education and participation of young Azerbaijanis in civic processes. It seeks to revitalise schools as vibrant community development resources.

The programme is co-funded by BP, Chevron, Ministry of Education, AzNet (joint project of Government of Azerbaijan, OSI-AF, UNDP, and AZRENA) and Ministry of Information and Communication Technologies.

Over the course of the year, 56



## Lego robotics on the Caspian

During the summer of 2006, the Caspian Energy Centre provided the opportunity for students from the nearby communities of Sahil, Sangachal, Gobustan and Lokbatan to spend day-long sessions at the centre to build and programme robots made from Lego. CEC staff and young Challenger engineers from our central engineering department ran the sessions jointly. Once the students mastered the basics they were encouraged to modify or optimise their robots' capabilities.

In November, we followed this up by sponsoring a team to participate in the National Robotic tournament organised by the British Council. Eight students from School No.139 in Lokbatan were trained for two months, meeting once a week with the Challenger engineers to practice tasks set by the organisers. In mid-December the Lokbatan-CEC team won the tournament which attracted 112 students from seven different schools, achieving the highest score in the three-year history of the

award. With this victory came the chance to travel to the UK and participate in the UK Robotics championship finals held at the University of Birmingham.

teachers received teacher professional development training courses and developed initial skills for the application of ICT into education. Madad's on-site monitors provided computer literacy courses for about 300 teachers, students and community members in eleven communities.

### BP Azerbaijan scholarships

BP Azerbaijan's core scholarship programme includes programmes for drilling, completions, subsurface and surface engineers, and may be undertaken at universities in Azerbaijan, Russia, Turkey and the United States.

The objective is to equip potential staff with the academic skills needed to be successful in the oil and gas industry.

In addition to our existing scholarship programmes, we announced the launch of a major new scholarship programme for Azerbaijan in 2006. This programme is a continuation of our investment in the development of young and talented Azerbaijani citizens through high-quality training and education. It is designed to provide outstanding Azerbaijani graduates with the opportunity to pursue Master's degree courses at British universities in a range of disciplines

including public administration, banking, finance and accounting, and economics.

At the end of 2006, 104 Azerbaijani nationals were taking part in various scholarship programmes funded by BP and co-venturers. Eight students studied in USA, 61 in Turkey, two in UK, four in Russia and 29 in Azerbaijan.

Of the 104 students, 16 were undertaking subsurface studies, 38 drilling and completions and 50 engineering studies.

### Azerbaijan business case competition

In 2006, together with the US-educated Azerbaijani Alumni Association, we supported the Fifth National Business Case Competition set up to support MBA students in Azerbaijan. Forty teams from 17 universities went through intensive five-week long training courses on the use and understanding of the business case study method. A team from the State Economics University won the first prize of \$5,000.

### Azerbaijan-UK Alumni Association

**(AUKAA)** We continued to support AUKAA, the network of Azerbaijani students who previously studied in the UK, which concentrates on professional development opportunities for its

members and activities that aim to benefit Azerbaijani society at large.

In February 2006 AUKAA held a panel discussion on cross-cultural understanding in Baku. In May AUKAA representatives took part in the Forum of Azerbaijani Students of Europe held in Brussels.

## 2.9 Key statistics in chapter 2

### Regional Development Initiative

- In Azerbaijan around \$4.65 million allocated for SME/microfinance lending programme.
- BP and its co-venturers committed \$6 million for Supplier Finance Facility (SFF).
- More than \$3.3 million was invested in Azerbaijan through RDI.
- Thirty two training sessions organised by ABTC were attended by 320 participants representing 88 SMEs.

### Community Investment Programme

- Some \$3.2 million was spent on various community investment projects in Azerbaijan.
- We and our co-venturers spent \$290,000 in 29 villages raising environmental awareness.
- Around 2,545 farmers trained through a network of agricultural extension agents.
- Through our employee matching fund around \$33,464 was contributed to local charities.

### Educational initiatives

- Caspian Energy Centre (CEC) had 9,000 visitors in 2005/06, including more than 6,300 people in 2006.
- CEC costs for 2006 were \$1.44 million.
- One hundred and four Azerbaijani nationals took part in various BP funded scholarship programmes.

### Enterprise development

- Eight local companies got new contracts with BP in Azerbaijan in 2006.
- Our spend with local small and medium-sized enterprises (SMEs) reached \$77 million, 15% increase compared with 2005.
- Total in-country spend by BP in Azerbaijan and its co-venturers was equal to \$1,483 million.
- Four local companies were awarded Best of business awards for outstanding performance.

## Four year performance data<sup>a</sup>

	2003	2004	2005	2006
<b>Operating</b>				
Total hydrocarbons produced (thousand barrels of oil a day on average)	130.8	132.2	261.0	<b>472.0</b>
<b>Financial<sup>b</sup></b>				
OPEX – total gross spend (\$thousand)	89,000	157,668	213,983	<b>254,000</b>
CAPEX – total gross spend (\$thousand)	3,986,000	5,122,678	5,160,705	<b>4,437,000</b>
<b>Safety<sup>b</sup></b>				
Fatalities – employees	0	0	0	<b>0</b>
Fatalities – contractors	0	2	2	<b>1</b>
Days away from work cases (DAFWC) – workforce	8	8	3	<b>5</b>
Days away from work case frequency (DAFWC(f)) – workforce	0.07	0.03	0.01	<b>0.03</b>
Recordable incidents (RI) – workforce	73	113	73	<b>39</b>
Recordable incident frequency (RI(f)) workforce	0.61	0.44	0.33	<b>0.25</b>
Hours worked – employees (million hours) <sup>c</sup>	3.07	3.5	3.85	<b>5.73</b>
Hours worked – contractors (million hours) <sup>d</sup>	20.73	48.22	40.24	<b>25.45</b>
<b>Environment</b>				
Direct carbon dioxide (CO <sub>2</sub> ) (kilo tonnes)	0	946.7	1,649.2	<b>1,686.5</b>
Indirect carbon dioxide (CO <sub>2</sub> ) (kilo tonnes)	0	0	0.5	<b>0.4</b>
Direct methane (CH <sub>4</sub> ) (kilo tonnes)	0	4.6	6.7	<b>5.7</b>
Direct gross greenhouse gas (GHG) (thousand tonnes CO <sub>2</sub> equivalent) in Azerbaijan	0	1,042.8	1,789.5	<b>1,806.5</b>
Flaring (exploration and production) (tonnes)	259,205	283,953	448,279	<b>332,641</b>
Sulphur dioxide (SO <sub>x</sub> ) (tonnes)	123	59	814	<b>237</b>
Nitrogen oxides (NO <sub>x</sub> ) (tonnes)	1,702	1,621	3,538	<b>3,711</b>
Non-methane hydrocarbons (NMHC) (tonnes)	874	1,327	3,229	<b>7,562</b>
Number of oil spills	24	20	54	<b>41</b>
Volume of product spilled (litres)	1,972	21,376	24,410	<b>8,396</b>
Volume of product unrecovered (litres)	169	3,061	1,024	<b>1,100</b>
Discharges to water – drill cuttings with synthetic-based mud (tonnes)	8,122	6,077	3,315	<b>1,563</b>
<b>Employees</b>				
Number of employees of BP in Azerbaijan	1,196	1,505	1,741	<b>2,048</b>
<b>Social spend</b>				
Total for BP Azerbaijan SPU – gross spend (\$million)	6.66	34.25	25.45	<b>13.31</b>

<sup>a</sup> Unless otherwise stated, performance data relates to BP in Azerbaijan only; some of the data in safety section differs from what was previously reported due to revising and clarification of reporting definitions by BP group in the middle of 2006.

<sup>b</sup> Cumulative data for BP Azerbaijan SPU.

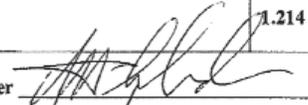
<sup>c</sup> Hours worked by employees - are identified as hours worked by individuals who have a contract of employment with BP Azerbaijan SPU; this definition is consistent with BP's group definition. NOTE: in the previous BP in Azerbaijan Sustainability Reports hours worked by both employees and contractors under the sphere of our control were reported as "hours worked by BP employees".

<sup>d</sup> Hours worked by contractors - are identified as hours worked by contractors under the sphere of our control; this definition is consistent with BP's group definition. NOTE: in the previous BP in Azerbaijan Sustainability Reports the contractors working under the sphere of our influence were reported as "contractors" working under the sphere of our control.

**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 2006

Payment description	Value <sup>1</sup>		Volume	
	mln. US dollar	bln. AZM	Oil mln. boe	Gas (natural, associated) nm <sup>3</sup>
1	2	3	4	5
<b>1. Payments/allocations of foreign company to host government</b>				
<b>1a) Host Government's production entitlement in foreign company's Production Stream</b>				
- in kind (SOFAZ)			6.498	
- in cash				
<b>1b) Payments of foreign company to host government</b>				
Royalties				
- in kind				
- in cash				
Profit tax	472.032			
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)	4.212			
b) acreage fee				
<b>2. Payments / allocations of foreign company to host state-owned company</b>				
<b>2a) Host state-owned company's production entitlement in foreign company's Production Stream</b>				
-in kind				
-in cash				
<b>2b) Payments to host state-owned company</b>				
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 (SOCAR)	1.214			
b) associated gas <sup>2</sup> (SOCAR)				2,191,730,873.711

Company authorized officer   
 Form completing date 21/06/07

<sup>1</sup> For a reporting line only one of value columns shall be filled (either USD or AZM)  
<sup>2</sup> BP as the operator of AIOC, reports within BP's template, the total gross number for associated gas delivered to SOCAR in 2006.  
<sup>\*</sup> In 2006 BP Exploration Caspian Sea Ltd. and Amoco Caspian Sea Petroleum Ltd. made a combined bonus payment of \$25,602,525 million, being their share of the 3<sup>rd</sup> and final bonus installment payable to SOCAR under the ACG PSA. The payment was made to the account of Devon Energy Caspian Corporation, being the account nominated by SOCAR pursuant to Article 29.2 of the PSA.

## BP in Azerbaijan EITI reported data (2003-2006)

	2003 January1-December 31			2004 January1-December 31			2005 January1-December 31			2006 January1-December 31		
	Value	Volume		Value	Volume		Value	Volume		Value	Volume	
	mln. US dollar	Oil mln. boe	Gas (natural, associated) nm3									
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					2.29			4.89			6.498	
Profit tax										472.032		
Other payments, including: a) transportation tariff (SOFAZ) b) acreage fee (SOFAZ)	3.80 0.45			3.95 0.45			4.45 0.45			4.212		
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		2.26										
Other payments, including: a) transportation tariff (SOCAR) b) associated gas <sup>a</sup> (SOCAR)	0.05			0.07			0.81			1.214		2,191,730,873.711
						948,576,000		1,778,570,000				

<sup>a</sup> BP as the operator of AIOC, reports the total gross number for associated gas delivered to SOCAR, within BP's template.

# Independent assurance statement

The BP in Azerbaijan Sustainability Report 2006 (the Report) has been prepared by the management of BP in Azerbaijan, 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 organisation. Any reliance that 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' ISAE3000<sup>a</sup>. 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 2006 which were raised in the media, BP Azerbaijan'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 managers.
- Whether the sustainability data presented in the Report are consistent with the relevant business 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 2006 as a check on the scope, balance and accuracy of statements made in the Report.
2. Reviewed BP Azerbaijan's process for determining the key issues to be included in the Report.
3. Reviewed information or explanation about the Report's sustainability performance data and statements. Whilst we reviewed documentation to support the sustainability data contained within the Report, we did not test the processes for gathering, collating and reporting data at country 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'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 management within the Report regarding BP Azerbaijan's sustainability performance.

## Our independence

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 2006.

 **ERNST & YOUNG**

**Ernst & Young LLP**

London  
July 2007

<sup>a</sup> International Federation of Accountants' International Standard for Assurance Engagements other than audits or reviews of historical financial information (ISAE3000).

# Glossary

ABTC	Azerbaijan Bank Training Centre	EPPD	Export Pipelines Protection Department
ACE	Advanced collaboration environment	ERNP	Environmental requirements for new projects
ACG	Azeri-Chirag-Gunashli	ESAP	Environmental and social action plan
AIOC	Azerbaijan International Oil Company	ETP	Engineering technical practice
AMFA	Azerbaijan Microfinance Association	FC&A	Financial control & accounting
ARP	Annual recruitment programme	FTN	Fresh thinkers network
ASA	Advanced safety audit	GDP	Gross domestic product
AUKAA	Azerbaijan UK Alumni Association	GHG	Greenhouse gases
AZRENA	Azerbaijan Research Educational Network Association	GIS	Geographic information system
BTC	Baku-Tbilisi-Ceyhan	GTZ	German technical cooperation
C&WP	Compression and Water Injection platform	HGA	Host government agreement
CA	Central Azeri	HiPO(f)	High potential incident (frequency)
CDAP	Caspian Development Advisory Panel	HR	Human resources
CEC	Caspian Energy Centre	HSE	Health, safety and the environment
CEP	Caspian environment programme	HSSE	Health, safety, security and the environment
CIMA	Chartered Institute of Management Accountants	HWMF	Hazardous waste management facility
CIP	Community Investment Programme	IASC	Inter agency security committee
CIPD	Chartered Institute of Personnel and Development	ICT	Information communication technologies
CIPS	Chartered Institute of Purchasing and Supply	IEMP	Integrated environmental monitoring programme
CLO	Community liaison officer	IFC	International Finance Corporation
CTTC	Caspian Technical Training Centre	IIED	International Institute of Environment and Development
CWAA	Central waste accumulation area	IM	Integrity management
D&C	Drilling and completions	IMC	International Medical Corps
DAFWC(f)	Day away from work case (frequency)	IoAE	Institute of Archaeology and Ethnography
DC	Drill cuttings	IPA#	Intermediate pigging station Azerbaijan #
DCT	Digital & communications technology	IRC	International Rescue Committee
E&P	Exploration and production	ISO	International Standards Organisation
EA	East Azeri	IST	Integrated supply and trading
EBRD	European Bank for Reconstruction and Development	ITD	Indirect thermal desorption
EC	Enterprise Centre	JV	Joint venture
EDTP	Enterprise development and training programme	LLC	Limited liability company
EIA	Environmental impact assessment	MENR	Ministry of Environment and Natural Resources
EIP	Environmental investment programme	MFBA	Micro-Finance Bank of Azerbaijan
EITI	Extractive industries transparency initiative	MFI	Micro-financing institutions
EOP	Early Oil Project	MIA	Major Incident Announcement

NGO	Non governmental organisation
NIG	Nascent ijma group
NIGMP	NIG municipality partner
NPP	National progression programme
NREP	Northern Route Export Pipeline
NWBM	Non-water based mud
OCD	Organisational capability development
OM	Operations management
OPEC	Organisation of petroleum exporting countries
OSI/AF	Open Society Institute/Assistance Foundation
PAS	People Assurance Survey
PPP	Public private partnership
PS	Pump station
PSA	Production sharing agreement
PSA#	Pump station Azerbaijan #
PSCM	Procurement & supply chain management
PU	Performance unit
R&W	Reservoir & wells
RDI	Regional Development Initiative
RI(f)	Recordable injury (frequency)
RIEP	Rural inclusive education programme
RMG	Research and monitoring group
ROW	Right of way
SBM	Synthetic based mud
SCP	South Caspian pipeline
SD	Shah Deniz
SDA	Shah Deniz alpha (platform)
SDX	Shah Deniz exploration well
SFF	Supplier finance facility
SIG	Star ijma group
SIGMP	SIG municipality partner
SME	Small and medium-sized enterprises
SOCAR	State Oil Company of the Azerbaijan Republic
SOFAZ	State oil Fund of Azerbaijan
SPE	Society of Petroleum Engineers

SPS yard	Shelf Project Stroy yard
SPU	Strategic performance unit
SR	Sustainability report
STEP	Sangachal terminal expansion project
STOP	Safety training observation programme
TPG 500	Technip - GeoProduction 500
TVAR	Total vehicle accident rate
UNDP	United Nations Development Programme
WA	West Azeri
WBM	Water based mud
WFC	Work force capability
WREP	Western Route Export Pipeline

### Units

\$	US dollar
AZN	Azerbaijani new manat
bcf	Billion cubic feet
bcma	Billion cubic metre per annum
boepd	Barrels of oil equivalent per day
bpd	Barrels per day
Kte	Kilo tonnes
mdbl	Thousand barrels
mbd	Thousand barrels a day
mboe	Thousand barrels a day
Mmcf	Million cubic feet a day
Mscm	Million standard cubic metres
Mt	Million tonnes
tcf	Trillion cubic feet
te	Tonnes

## How to...

### ...visit the CEC

Visitors either invited or making requests, should contact the centre to book the date and time. We request 3 day notice to accommodate your request for free of charge visit. Schoolchildren's visits must be arranged and accompanied by their parents or teachers!

Phone: 994 12 447 51 74  
Email: [cec@bp.com](mailto:cec@bp.com)  
Address: Garadag district, AZ1082, BP operated Sangachal Terminal, Salyan highway.  
Due to security restrictions, visits must be pre-arranged

### ... apply for CIP grants

For inquiries regarding Community Investment Programme and Environmental Investment Programme grants please contact:

1033, Izmir Str., Hyatt Tower III, 2nd Floor  
Baku, AZ1065, Azerbaijan  
Tel: (994 12) 497 91 58  
Fax: (994 12) 497 91 41  
E-Mail: [CNP@BPCOM](mailto:CNP@BPCOM)

### ...get a contract

To learn about business opportunities with BP and its co-venturers please contact Enterprise Centre:

Enterprise Centre  
99, Mirza Mansur Str.,  
(Old City) AZ1004  
Baku, Azerbaijan  
Phone: (+994 12) 4 97 96 24  
Fax: (+994 12) 4 97 96 54  
E-mail: [office@ecbaku.com](mailto:office@ecbaku.com)  
[www.ecbaku.com](http://www.ecbaku.com)

### ...apply for a Job

- Unsolicited application:

You can send your CV and cover letter to the following e-mail address: [baku\\_jobs@bp.com](mailto:baku_jobs@bp.com)

- Internships: HR resourcing team
- Annual recruitment programme:
  - starts in November
  - is announced in the local newspapers; announcement and application form can also be found at [www.ecbaku.com](http://www.ecbaku.com)

### ...raise a difficult issue (for employees only)

OpenTalk 24-hour phone numbers:  
Azerbaijan + (994 12) 4979 888  
International Collect + (1 704) 540 2242  
Fax: + (1 704) 556 0732  
Email: [opentalk@myalertline.com](mailto:opentalk@myalertline.com)  
Letter: OpenTalk, 13950 Ballantyne Corporate Place,  
PMB 3767, Charlotte, NC28277, USA  
Intranet: <http://baku.bpweb.bp.com/dep/ethics/opentalk/compliance.asp>  
Further queries about OpenTalk can be referred to the BP Azerbaijan SPU Assurance Team:  
Joe Dowse (<mailto:dowsj1@bp.com>);  
Zaur Ahmadov (<mailto:akhmzb@bp.com>)

### ...raise a grievance/concern, request information

You can contact us to express your grievances/concerns/interest in information/other through:

CLO contacts:

Garadagh, Absheron, Hajigabul, Agsu, Kurdamir  
Tel: 225 02 51, 205 08 22

Ujar, Agdash, Yevlakh, Goranboy

Tel: 225 02 57, 225 02 45

Samukh, Shamkir, Tovuz, Agstafa

Tel: 225 01 75, 225 02 60

Project Information Centers' numbers:

Kurdamir (145) 6-64-08; Yevlakh (166) 6-58-84;

Tovuz (231) 5-50-99

<http://www.bp.com/caspian/contactus>

# Feedback

## Summary of NGO feedback:

- Indicate annual revenue of BP and then provide a comparison between the revenue of Azerbaijan Government and that of BP;
- Indicate the split of social investment expenditures across Azerbaijan, Georgia & Turkey
- Clearly indicate the boundaries of BP's responsibility in terms of the revenue transparency;

- Indicate how BP Azerbaijan SPU meets PSA targets in terms of the staff nationalisation

## Summary of media feedback:

- Show the organisational chart of the company
- List various disciplines and report the number of people involved in each discipline
- Indicate any changes in staff composition

- Disclose percentage of professionals, administrative employees
- Indicate drilling standards and benchmarks
- Report operating and capital expenditures and other financial statistics

## Summary of students' feedback:

The students' feedback could be found on page 6 of this report.



## Our response to stakeholders' feedback:

The annual BP in Azerbaijan Sustainability Report allows us to deepen our engagement with Azerbaijani society by increasing our transparency. Stakeholders' feedback from these reports is therefore most helpful and welcome.

Last year we conducted three feedback sessions on the 2005 report with students, representatives of local NGOs and representatives of the local media. Subsequently we reviewed all the comments and in this report have strived to provide the information requested.

As a result of the feedback, in the 2006 report we have continued:

- Disclosing disaggregated EITI reports in which we provide information on our tax payments to the government of Azerbaijan (pages 62-63)
- Disclosing our local spend (pages 56-57)
- Disclosing the split of social investments across Azerbaijan, Georgia and Turkey (page 50)
- Disclosing statistics on safety of our operations (pages 23-26, 61)

- Reporting on our initiatives in revenue transparency (pages 54-55)

In response to the feedback we have also added:

- An organisational chart (page 10)
- More information on recruitment (pages 39-46)
- More information on employment statistics and staff nationalisation (pages 39-46)
- More information on training and educational initiatives for both employees and non-employees (pages 39-46, 58-59)
- Information about our operations outlook and the potential of assets operated by us (pages 17-22)
- More information on environmental management and environmental investment programmes (pages 27-34, 52-53)
- Information on how our operations in Azerbaijan fit into the BP group production portfolio (pages 17-18)
- Information on how we meet our PSA targets in terms of the staff nationalisation (page 39)

In the future, we will endeavour to increase our transparency. However, some information may not be disclosed for commercial reasons or due to ethical considerations.

We are not, for example, able to provide information on how much we pay individual employees/contractors as this is a confidential and personal matter. As emphasised in the section on "Our People" we are glad to confirm that we

operate a competitive and merit-based benefit package for all our staff.

Nor will we disclose revenues earned by BP in this country as this constitutes market-sensitive information.

Nevertheless the aggregated report on BP group's revenues and expenditures can be found in BP's 2006 Annual Report at:

<http://www.bp.com/annualreview2006>

Although our report does not refer to specific boundaries of BP's responsibility in terms of the revenue transparency we acknowledge the role that the companies can play in this sphere working jointly with the government and civil society. The current report provides information on our activities in supporting revenue transparency initiatives in Azerbaijan.

In 2006, we continued to explore the 'boundaries' of business action and contribution to sustainable development. We invited the International Institute of Environment and Development (IIED) to facilitate a corresponding workshop on 'boundaries' for BP staff in Azerbaijan. We believe that understanding gained during the workshop will help us to further increase the efficiency of our contribution to the sustainable development of the country.

We welcome additional feedback to this report.



**Aydin Gashimov**

Performance and Public Reporting Manager

## 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](http://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 ESIs carried out in Azerbaijan, Georgia and Turkey and the legal agreements (including the PSAs, HGAs and IGAs) which govern the projects. The site is multi-lingual and is updated regularly.

### [www.bp.com](http://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 Sustainability reports.

### [www.caspsea.com](http://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](http://www.ecbaku.com)

Carries information about the work and services provided by the Azerbaijan Enterprise Centre (EC) in Baku

### [www.globalreporting.org](http://www.globalreporting.org)

The Global Reporting Initiative (GRI) site provides information about the GRI and the 2002 Sustainability Reporting Guidelines

### [www.eitransparency.org](http://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](http://www.transparency.org)

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

### [www.iso.org](http://www.iso.org)

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

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## Contact us

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Performance and Public  
Reporting manager

Tamam Bayatly  
Communications manager

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