

BP in Azerbaijan Sustainability Report 2010



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Scope of report

The scope of this report covers the calendar year ending 31 December 2010. All dollar amounts are in US dollars. Unless otherwise specified, the text does not distinguish between the operations and activities of BP p.l.c. and those of its subsidiaries and affiliates. References in this report to 'us', 'we' and 'our' relate to BP in Azerbaijan unless otherwise stated. In this report when we refer to BP in Azerbaijan we refer to our operations in Azerbaijan only. If we refer to BP AGT we are referring to our activities in Azerbaijan, Georgia and Turkey. Specific references to 'BP' and the 'BP group' mean BP p.l.c., its subsidiaries and affiliates.



Front cover image
Challenge drilling engineer Aysel Javadova at
Deepwater Gunashli platform

Cautionary statement

The BP in Azerbaijan Sustainability Report 2010 contains certain forward-looking statements relating, in particular, to recoverable volumes and resources, capital, operating and other expenditures, and future projects. Actual results may differ from those expressed in such statements depending on a variety of factors including supply and demand developments, pricing and operational issues and political, legal, fiscal, commercial and social circumstances.



What's inside?

The 2010 BP in Azerbaijan Sustainability Report covers our business performance, environmental record and wider role in Azerbaijan during 2010. This is our eighth Sustainability Report and reflects feedback we received about previous reports.

Our approach to sustainability covers issues relating to governance and risk management, safety, the environment, the energy future and our local and global socio-economic impact. We aim to report on these issues in a way that answers key questions raised by our stakeholders.

The BP in Azerbaijan Sustainability Report is issued annually by BP Exploration (Caspian Sea) Limited in its capacities as operator and manager of the joint operating company for the Azeri-Chirag-Deepwater Gunashli field and as manager of The Baku-Tbilisi-Ceyhan Pipeline Company, and by BP Exploration (Shah Deniz) Limited in its capacities as operator of the Shah Deniz field and as technical operator of The South Caucasus Pipeline Company. For this report each of these entities has provided information relevant to its project and statements applicable to its project.

2 Introduction by the president of the BP Azerbaijan-Georgia-Turkey region

Rashid Javanshir reflects on the highlights of our diverse activities in 2010



3 This is BP in Azerbaijan

Our strategy, BP in Azerbaijan at a glance; leadership team of Azerbaijan-Georgia-Turkey region, history, achievements and challenges, and our operations



17 How we operate

Management systems; security and human rights; our employees; compliance and ethics; stakeholder engagement



29 Safety and health

Focusing on the achievement of safe, reliable and compliant operations and putting safety and operational risk management at the heart of everything we do



35 Environment

Managing our environmental performance from exploration and the development of new projects to production



43 Society

Revenue transparency; enterprise development; working with communities; conservation of cultural heritage; and educational initiatives



52 Five-year performance data

Key performance data

Ernst & Young's introduction to the assurance process

We have reviewed the BP in Azerbaijan Sustainability Report 2010 in order to provide assurance to BP management that the data, statements and assertions made regarding the sustainability performance of BP in Azerbaijan are supported by evidence or explanation. Our scope of work and conclusions can be found on page 54.

Introduction by the president of the BP Azerbaijan-Georgia-Turkey region



Last year our company was involved in a tragic accident in the Gulf of Mexico, which took away the lives of 11 men and resulted in a major oil spill. We regret that the accident happened and the impact it had on the Gulf Coast environment and the lives and livelihoods of the communities.

Our task now is to regain trust and to build a sustainable future for BP. Azerbaijan is one of BP's major offshore producing regions and we, like the rest of the company, are working hard to ensure that we run safe, sustainable, reliable and integrated operations.

Working to maximise operational safety

In 2010, we reviewed all our operations in the Azerbaijan, Georgia and Turkey region in order to improve safety. We launched an extensive safety and operations audit to identify and address any gaps in our safety performance. We brought the BP group operating management system – designed to enable us to work in a consistent, safe and efficient manner – into operation. We continued to improve our safety performance through gap assessment processes and we completed our first performance improvement cycle.

We also completed an audit of 15 of our strategic, core and managed contractors focussing on their management system failures.

Thanks to these initiatives I am glad to report that we significantly reduced injury frequencies in our operations and put greater emphasis on maintenance and well integrity testing.

Operational achievements

The year 2010 was particularly notable for our achievement in transporting the one billionth barrel of crude oil safely from Sangachal terminal in Azerbaijan to Ceyhan in Turkey.

We looked to the future by signing a new production sharing agreement with the State Oil Company of the Republic of Azerbaijan to explore and develop an acreage known as the Shafag-Asiman block and by sanctioning the Chirag oil project which will help us to boost output from the Azeri-Chirag-Deepwater Gunashli oil field. To cap an encouraging year, in December we signed a five year extension to the Shah Deniz production sharing agreement which will take the existing agreement to 2036 and result in increased production.

Local talent, transparency and relationships at the heart of our business

The goal of attracting high-quality talent through a transparent recruitment process and multiple training and career development opportunities remains a key priority for us. It is reflected by the steady increase in the numbers of Azerbaijani nationals represented in our senior ranks. At the end of 2010, 87% professional employees in the Azerbaijan-Georgia-Turkey region were national citizens.

To support the development of local enterprise – another of our key commitments – we signed long-term contracts in 2010 worth more than \$915 million with 60 local companies.

Together with our co-ventures we sponsored several new community development projects aimed at improving the lives of communities close to our assets. We also underwrote various educational initiatives such as the launch of a chemical engineering department in Qafqaz University and a Project Management College in Khazar University as well as a number of scholarship programmes.

In addition, to assist good governance in Azerbaijan and to promote revenue transparency we continued to support the Extractive Industry Transparency Initiative (EITI) by submitting our 13th and 14th EITI reports.

These are only a few of the highlights of our diverse activities in 2010. It was a very busy year for BP in Azerbaijan and included many achievements and events. They are described more fully in this report.

A handwritten signature in blue ink, which appears to read 'R. Javanshir', written over a horizontal line.

Rashid Javanshir
Regional President
BP Azerbaijan-Georgia-Turkey Region

This is BP in Azerbaijan

We seek to improve performance on a continuous basis by focusing on the achievement of safe, reliable and compliant operations and by putting safety and operational risk management at the heart of our activities

Our strategy

What is our leadership structure, values and business strategy

Page 4



Achievements and challenges

Major achievements and challenges we faced in 2010 with emphasis on topics related to the sustainability of our business in the country

Page 9



Our operations

How we in Azerbaijan operate major offshore hydrocarbon assets and onshore, how we manage one of the world's largest integrated oil and gas processing terminals and its pipeline links to regional and world markets

Page 10



Our strategy



Central Azeri platform,
night view

Our vision

We aspire to be a valued, trusted and long-term partner in the development of Azerbaijan's hydrocarbon resources. We are committed to delivering world class operations and projects and to maintaining a sustainable presence in the Caspian region.

At the heart of this commitment is an obligation to work safely at all times, to protect the environment and to respect human rights. We believe these core objectives will be realised by enhancing the capabilities of our workforce and by generating local content and improving local capacities.

Our values

BP's values are fundamental to the way we operate. They help define what it means to be part of BP and are there to guide us in everything we do. We aspire to a shared understanding of what we believe, how we behave and what we seek to do as a company. Our experience has highlighted, in particular, the importance of long-term thinking, collaboration across teams and the humility to learn lessons and listen to others.

With these objectives in mind, a group-wide review of the way we express BP's values, and the content of our leadership framework, began in 2010. The goal is to ensure that our values support our aspirations for the future, align explicitly with our code of conduct and translate into responsible behavior in the work we do every day.

Our management structure

As of end 2010, the BP Azerbaijan-Georgia-Turkey region's (BP AGT) leadership structure comprised 14 groups: operations; midstream; wells; resource; developments; exploration; safety and operational risk; human resources; communications, external affairs and security; Shah Deniz full field development; finance; procurement and supply chain management; legal; and country vice president, Turkey. Eleven of the groups were headed by a vice president, one by the chief financial officer, one by the chief procurement officer and one by an assistant general counsel reporting to the president of the BP AGT.

Our business strategy

Our strategy in Azerbaijan reflects BP group strategy. We seek to improve performance on a continuous basis by focusing on the achievement of safe, reliable and compliant operations and by putting safety and operational risk management at the heart of everything we do. This approach brings together how we manage risk, how we operate, how we partner with governments and contractors and how we reward performance.

Mutual advantage and trust are central to our licence to operate. One of BP's main priorities is to deliver value growth to shareholders over the long-term by investing in the core areas of safety, capability, technology and relationships.

We seek to strengthen our competitive position by securing new access, by exploration success and by deepening our links with host governments and other key stakeholders. We believe in enhancing local employee capabilities and in ensuring that our operations do no harm to people or communities. As we look ahead our focus is on continuous safety improvement, value as much as volume and quality rather than quantity.

BP in Azerbaijan at a glance Our structure, organisation, assets and history

Legal structure

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.

BP in Azerbaijan, Georgia and Turkey

In Azerbaijan, BP operates under several 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.

Business structure

At the end of 2010, 11 vice presidents, a chief financial officer, chief procurement officer and assistant general counsel reported to the president of BP Azerbaijan-Georgia-Turkey region.

Registered address

The registered address in Azerbaijan is Villa Petrolea, 2 Neftchilar Prospekti (Bayil), Baku AZ1003, Azerbaijan. Telephone: (+994 12) 497 90 00. Fax: (+994 12) 497 96 02.

Employees

At the end of 2010, the number of Azerbaijani citizens permanently employed by BP in Azerbaijan was 2,159.

Offshore production assets

Azeri-Chirag-Deepwater Gunashli (ACG)^a is the largest oil field in the Azerbaijan sector of the Caspian Sea. Shah Deniz (SD) is a large offshore gas and condensate field.

Operational offshore facilities (end 2010)

Chirag platform; Central Azeri platform; West Azeri platform; East Azeri platform; Shah Deniz platform; Deepwater Gunashli platform.

Transportation and capacity (end 2010)

Transportation: 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 gas pipeline (SCP) – a 690km gas pipeline between Sangachal terminal and the Georgia/Turkey border. Western route export pipeline (WREP) – an 830km pipeline linking Sangachal terminal to Supsa on Georgia's Black Sea coast.

Capacity at year end 2010: BTC – 1.2 million barrels per day; SCP – 22 million standard cubic metres (mmscm) per day; WREP – 106 thousand barrels per day. Sangachal terminal – in excess of 1.2 million barrels of oil (162,000 tonnes) per day and 35.4 mmscm per day (25.5 SD and 9.9 Dew Point Control Unit) of gas. Crude oil storage capacity of 3 million barrels (405,000 tonnes).

Exploration activity

Araz-Alov-Sharg – a frontier exploration area; Shafag-Asiman exploration area.

Capital expenditure

About \$31.6 billion on the ACG, BTC, SD Stage 1 and SCP projects since inception.

Liquids production

ACG 1997-2010: more than 1,643 million barrels in total and 300.4 million barrels in 2010; SD condensate around 49.7 million barrels in total and about 14.7 million barrels in 2010.

Gas production

SD 2006-2010: more than 23.5 billion standard cubic metres (bscm) in total and 6.9 bscm in 2010.

^aShallow-water Gunashli is developed by the State Oil Company of the Republic of Azerbaijan.

The leadership team of BP Azerbaijan-Georgia-Turkey region^a



Rashid Javanshir

President

Rashid became president in September 2009. He has extensive leadership experience in exploration, operations, group strategy and communication in the UK, US and Azerbaijan. He holds a PhD in geology and geophysics and is a member of the Azerbaijan Academy of Sciences.



Paul Clyne

Resource vice president

Paul is accountable for subsurface and information technology and services across the region, including base and reservoir management, new well planning, seismic and technology. He has operational leadership experience in BP developments in the UK North Sea sector and has worked in Alaska, Canada and Norway.



Bruce Luberski

Developments vice president

Bruce is accountable for the line delivery of the Azeri-Chirag-Deepwater Gunashli (ACG) project and small projects in Azerbaijan. Before this he was responsible for ACG delivery and future projects in the Shah Deniz (SD) and ACG fields. He has wide-ranging operations and projects experience in the US.



Mark Thomas

Operations vice president

Mark is accountable for safe, reliable and compliant offshore operations on six offshore platforms and associated infrastructure. He has an extensive BP experience in the UK, North Sea, Netherlands, Trinidad & Tobago and North America.



Al Cook

Shah Deniz development vice president

Al is accountable for delivery of the SD full field development. He has held exploration & production business and project development leadership roles in the North Sea, Vietnam and Gulf of Mexico and has worked in BP's executive offices in London, Houston and Moscow.



Gary Christman

Wells vice president

Gary is accountable for new well delivery and well repair including engineering planning and operational execution. He has wide industry experience in many of the world's energy basins. Most recently he was wells director for BP in Alaska.



Greg Riley^b

Exploration vice president

Greg is accountable for BP group exploration and appraisal in the Caspian region. He joined Amoco in 1991 as a geologist and has spent most of his career working in the Caspian region.

^a As of end 2010.

^b Greg was appointed as exploration vice president in October 2010.



Kemp Copeland

Midstream vice president

Kemp is accountable for safe, reliable and efficient operations at Sangachal terminal and for pipelines in Azerbaijan, Georgia and Turkey. He has held operational leadership roles in Alaska, Indonesia and the US.



Mike Barnes^a

Safety and operational risk vice president

Mike is responsible for safety and operational risk management in the Azerbaijan-Georgia-Turkey region. Previously he had lengthy experience in operations and wells roles in the US, Netherlands, Denmark, Colombia, Bolivia, Argentina and the UK. Most recently he was the Performance unit leader at the Sangachal terminal.



Seymour Khalilov

Communications, external affairs and security vice president

Seymour oversees BP's external relations, non-technical risk management, reputational matters and security-related issues. He joined BP in 2006 with responsibility for government and international NGO relations. Previously he was head of the US-Azerbaijan Chamber of Commerce in Washington, DC.



Sue Adlam-Hill

Human resources vice president

Sue directs human resources in the Azerbaijan-Georgia-Turkey region. She has wide experience in international human resources management and degrees in psychology and human resource management.



Ian Sutherland^b

Chief financial officer

Ian held senior finance roles with BP in Vietnam and Indonesia before joining BP in Azerbaijan in 2005 as a commercial manager for midstream.



Rick Monical

Chief procurement officer

Rick is responsible for supply chain management in the Azerbaijan-Georgia-Turkey Region. He has broad supply chain management experience and has worked in various countries including Venezuela, Colombia, Argentina, Brazil and Nigeria.



David Grant

Assistant general counsel

David is responsible for providing legal services to all aspects of BP's business in Azerbaijan, Georgia and Turkey. In the past he has worked in various jurisdictions, including the North Sea, US and Canada.



Djan Suphi

Vice president Turkey

Djan is accountable for the integrated delivery of our business in Turkey as well as in-country relationships and risk management. He joined BP in 1996 and has held his current position since 2008.

^a In May 2010, Mike replaced Greg Mattson who took up the role of vice president HSSE and engineering in Alaska SPU.

^b In November 2010, Ian replaced David Quellhorst who was appointed chief financial officer of the developments division of the BP group.

History We opened our office in Baku back in 1992. Two years later BP and the consortium of international oil companies signed a major contract with the government of Azerbaijan. Today, offshore Caspian has become one of the world's leading hydrocarbon regions.

September 1994

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

February 1995

Azerbaijan International Operating Company (AIOC) formed

June 1996

Shah Deniz (SD) PSA signed

November 1997

First oil produced from the Chirag field

July 1998

Inam and Araz-Alov-Sharg PSAs signed

December 1998

Western route export pipeline (WREP) operations started

August 2001

ACG Phase 1 sanctioned

September 2002

ACG Phase 2 sanctioned

February 2003

SD Stage 1 sanctioned

April 2003

Construction of Baku-Tbilisi-Ceyhan (BTC) pipeline began

September 2004

ACG Phase 3 sanctioned

October 2004

Construction of South Caucasus gas pipeline (SCP) commenced

February 2005

Production at Central Azeri started

March 2005

Azeri crude oil exports commenced

May 2005

Gas deliveries to Azerbaijan from Central Azeri began

December 2005

West Azeri oil production started

May 2006

First gas flowed into the SCP

June 2006

First tanker filled with Caspian oil reached Ceyhan marine terminal

July 2006

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

November 2006

First profit oil produced at East Azeri

March 2007

BTC one million barrels per day capacity achieved

July 2007

First gas delivered from SD to Turkey

November 2007

Inam exploration drilling resumed

November 2007

Large gas-condensate discovery made at SD following drilling to a Caspian-record depth of more than 7,300 meters

April 2008

First oil from Deep Water Gunashli

November 2008

First Tengiz crude from Kazakhstan carried through BTC pipeline

December 2008

Inam PSA terminated following fulfillment of contractual obligations

March 2009

BTC capacity expanded to 1.2 million barrels per day

July 2009

Memorandum of understanding signed with SOCAR to jointly explore and develop the Shafag and Asiman structures



Achievements and challenges This page summarizes the major achievements and challenges faced by BP in Azerbaijan in 2010. Its emphasis is on topics related to the sustainability of our business in the country.

2010

March 2010

\$6 billion investment sanctioned for the Chirag oil project

August 2010

A 3.29% interest in the ACG oilfield purchased from Devon Energy

September 2010

One billionth barrel of crude oil carried successfully through BTC pipeline

October 2010

PSA signed with SOCAR to jointly explore and develop the Shafag-Asiman structures

December 2010

Five year extension from 2031 to 2036 to the Shah Deniz PSA signed

Achievements

Operations and business development

A production sharing agreement (PSA) was signed with the State Oil Company of the Republic of Azerbaijan (SOCAR) to explore and develop jointly the Shafag and Asiman structures in the Azerbaijan sector of the Caspian Sea.

We completed the acquisition from Devon Energy of an additional interest in the BP-operated ACG oilfield development in the Azerbaijan sector of the Caspian Sea.

A new Chirag oil project was sanctioned, and the award of six key contracts for the development of west Chirag was announced.

In December, a five year extension of the Shah Deniz PSA from 2031 to 2036 was signed by BP and its co-venturers and SOCAR.

The one billionth barrel of crude oil was transported safely from Sangachal terminal in Azerbaijan to Ceyhan terminal in Turkey.

The BP group's operating management system became operational across the Azerbaijan-Georgia-Turkey region. It is designed to enable us to work in a consistent, safe and systematic manner throughout the company.

Technology

We introduced a long-range ultrasonic testing system for use in the inspection of buried pipework at Sangachal terminal and began testing fibre-optic deployment along the BTC pipeline.

Safety

Our recordable injury frequency rate declined by 26% (from 0.23 in 2009 to 0.17 in 2010).

The total vehicle accident rate fell by 4% compared to 2009 and by 57% compared to 2008 (from 2.03 in 2008 and 0.92 in 2009 to 0.88 in 2010).

Our land transportation team achieved ten years without a day away from work case (DAFWC), offshore operations marked two years without a DAFWC, and WREP Azerbaijan recorded 11 years without a DAFWC.

Environment

We achieved significantly reduced gas flaring levels during the year – by 26% (from 574.9 kilo tonnes of hydrocarbons in 2009 to 423.3 kilo tonnes in 2010).

Our people

By end 2010, Azerbaijani citizens comprised 87% of our professional, and 100% of our non-professional, staff.

Challenges

Safety

We recorded four high potential incidents^a in Azerbaijan – one vehicle roll-over, one dropped object and two integrity-related. Detailed investigation reports were compiled for all of these incidents and lessons learned summary documents distributed to relevant personnel.

In the first half of the year, two severe vehicle accidents took place. They were addressed through an ongoing driving safety improvement programme. No severe vehicle accidents were recorded in the second half of the year and the total vehicle accident rate for 2010 was low.

Operations

Oil production was lower than forecast mostly because of new well delivery performance and unexpected well underperformance. Gas production was slightly lower than forecast due to market constraints.

In response to the 2008 Central Azeri gas release, which came under renewed attention in 2010, the last two re-completions and final well abandonment were finished during the year. The remaining action on Central Azeri is to engineer a permanent sealing arrangement to replace the diverter clamps currently installed on six wells. This action will improve our ability to maintain the wells going forward.

Waste management

Ongoing issues were experienced with sewage treatment, particularly on a number of our offshore platforms. Despite a 28% decrease compared to 2009, the volume of releases in 2010 totalled 444,234 litres.

^a High potential incident is defined as 'an incident or unsafe/unhealthy condition or near miss, where the most serious probable outcome is a major incident'.

Our operations In Azerbaijan we operate major offshore hydrocarbon assets including the Azeri-Chirag-Gunashli oil field and the Shah Deniz gas field. Onshore, we manage one of the world's largest integrated oil and gas processing terminals and its pipeline links to regional and world markets.



Central Azeri platform

Production continued throughout 2010 at the Azeri-Chirag-Deepwater Gunashli (ACG) oil and Shah Deniz (SD) gas fields. On 21 July, the Baku-Tbilisi-Ceyhan pipeline achieved its highest daily throughput of 1.057 million barrels. We completed the purchase of Devon Energy's share of the ACG asset and signed a new production sharing agreement with the State Oil Company of the Republic of Azerbaijan (SOCAR) on joint exploration and development of the Shafag-Asiman structure. A memorandum of understanding (MoU) was signed by the governments of Azerbaijan and Turkey as part of the SD full field development project.

Azeri-Chirag-Deepwater Gunashli

ACG is operated by BP on behalf of the Azerbaijan International Operating Company (AIOC). It is the largest oil field in the Azerbaijan sector of the Caspian basin and is located about 100km east of Baku. Production started in 1997 from the Chirag section and now also includes the Central, West and East Azeri and Deepwater Gunashli (DWG) sections.

In 2010, we produced an average of 823,100 barrels per day (300.4 million barrels, or 40.6 million tonnes, per year) from the ACG complex.

In addition, around 9.4 million cubic meters (about 332 million standard cubic feet) per day of associated gas was delivered to SOCAR, exceeding the original commitment for 2010 by 79%.

In March 2010, a \$6 billion development plan for the Chirag oil project (COP) was sanctioned. The venture includes construction of a new offshore facility designed to fill a gap in the field infrastructure between the existing DWG and Chirag platforms. COP is expected to increase oil production and recovery from the ACG field by a total of 360 million barrels. During the year, we began COP pre-drilling by spudding pre-drill wells from the Istigal rig and then continued with the Dada Gorgud rig.

Operating expenditure on ACG in 2010 totalled \$426 million while capital spending was \$1.648 billion.

Azeri-Chirag-Deepwater Gunashli production

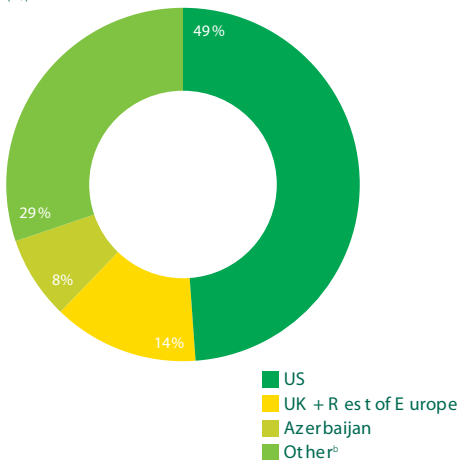
(mmbbl – million barrels; mmte – million tonnes)

	Start of production	Unit of measurement	Oil produced from the start of production till end of 2010	Oil produced in 2009	Oil produced in 2010
Chirag	November 1997	mmbbl	546.4	38.7	34.0
		mmte	73.8	5.2	4.6
Central Azeri	February 2005	mmbbl	432.4	69.6	74.9
		mmte	58.4	9.4	10.1
West Azeri	December 2005	mmbbl	362.8	98.0	90.6
		mmte	49.0	13.2	12.2
East Azeri	November 2006	mmbbl	191.8	49.6	51.4
		mmte	25.9	6.7	6.9
Deepwater Gunashli	April 2008	mmbbl	109.7	42.5	49.5
		mmte	14.8	5.7	6.7
Total		mmbbl	1643.1	298.4	300.4
		mmte	222.0	40.2	40.6

Future prospects

Potential recovery at the ACG field is estimated to be in excess of five billion barrels of oil. Achieving this will require the implementation of sophisticated reservoir management techniques, the use of advanced seismic data analysis and high efficiency drilling and completion technologies.

Net share of liquids production by BP subsidiaries around the world, 2010^a
(%)



^a 1,229 thousand barrels per day, includes crude oil, natural gas liquid and condensate.
^b Other includes Canada, South America, Africa, Asia (excluding Azerbaijan) and Australia.

Shah Deniz

The SD gas field was discovered in 1999. It has a reservoir thickness of more than 1,000 metres and is 22km long. The field is 70km offshore and lies beneath water depths ranging from 50-600 meters. SD is geologically challenging and highly pressured and has multiple reservoir 'horizons'.

The SD field produced about 6.9 billion cubic meters (more than 243.4 billion cubic feet) of gas in 2010 – an 11% increase on 2009 – and around 14.7 million barrels (about 1.9 million tonnes) of condensate – a 13% increase on 2009.

From the start of SD production in late 2006 to the end of 2010 some 49.7 million barrels (around 6.3 million tonnes) of condensate was exported to world markets.

A five-year extension to the SD PSA was signed in December 2010, by SOCAR and the SD partners. This extension to 2036 covers the second stage of the project known as Shah Deniz full field development

(SD FFD). It is expected to add 16 billion cubic meters per year (bcma) of gas production to the existing 8 bcma from SD Stage 1.

Engineering studies for SD FFD continued in 2010. Offshore appraisal activities were also conducted to build further understanding of the SD reservoir. As part of these activities the SDX-6 appraisal well is being drilled by the Istiglal rig.

The SD FFD project was underpinned by an MoU signed by the Azerbaijan and Turkish governments during the year. This MoU will serve as a framework for the sale of SD gas to Turkey and transit terms to European markets through Turkey.

Operating expenditure on SD in 2010 totalled \$171.2 million while capital spending was \$380.7 million.



Shah Deniz platform

Shah Deniz production

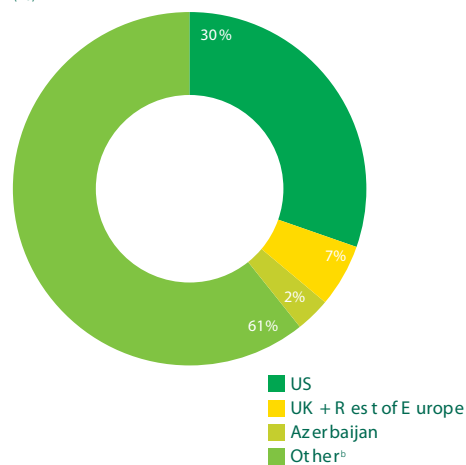
(bscm – billion standard cubic metres; bscf – billion standard cubic feet; mboed – thousand barrels of oil equivalent per day)

	Start of production	Unit of measurement	Gas/condensate produced from the start of production till end of 2010	Gas/condensate produced in 2009	Gas/condensate produced in 2010
SD gas	Production started 24 November 2006	bscm	23.5	6.2	6.9
		bscf	823.8	218.0	243.4
		mboed	–	103.0	115.0
SD condensate	First gas delivery 15 December 2006	mmbbl	49.8	13.1	14.7
		mmte	6.2	1.7	1.9

Future prospects

SD gas production is expected to increase during the next few years as new platform-drilled wells are brought on stream. Plateau production from SD Stage 1 is likely to be approximately 9 billion cubic meters of gas and about 50,000 barrels per day of condensate a year.

Net share of natural gas production by BP subsidiaries around the world, 2010^a



^a 7,332 million cubic feet per day (excluding equity accounted entities).
^b Other includes Canada, South America, Africa, Asia (excluding Azerbaijan) and Australia.



Crude oil tank at Sangachal terminal

Sangachal terminal

Sangachal is a hub terminal where offshore oil and gas is processed prior to export. It is designed to treat production from all currently operated BP assets in the Caspian basin and has room for expansion. The terminal includes oil and gas processing facilities, the first pump station for the Baku-Tbilisi-Ceyhan (BTC) pipeline, the South Caucasus gas pipeline (SCP) compressor and other facilities.

In 2010, the terminal exported more than 324.4 million barrels of oil. This included about 285.6 million barrels through the BTC link, 29.6 million barrels through the Western route export pipeline (WREP) and 9.3 million barrels by rail.

Gas exports from the terminal in 2010 averaged about 18.7 million standard cubic meters daily (around 659 million standard cubic feet). Gas was exported through the SCP and via the State Oil Company of the Republic of Azerbaijan (SOCAR) gas pipeline connecting the terminal's gas processing facilities and Azerigas's national grid system.

The capacity of the terminal's hydrocarbon processing systems is 1.2 million barrels of oil and 25.5 million cubic meters of Shah Deniz (SD) gas per day (about 39.5 million cubic meters of gas per day in total).

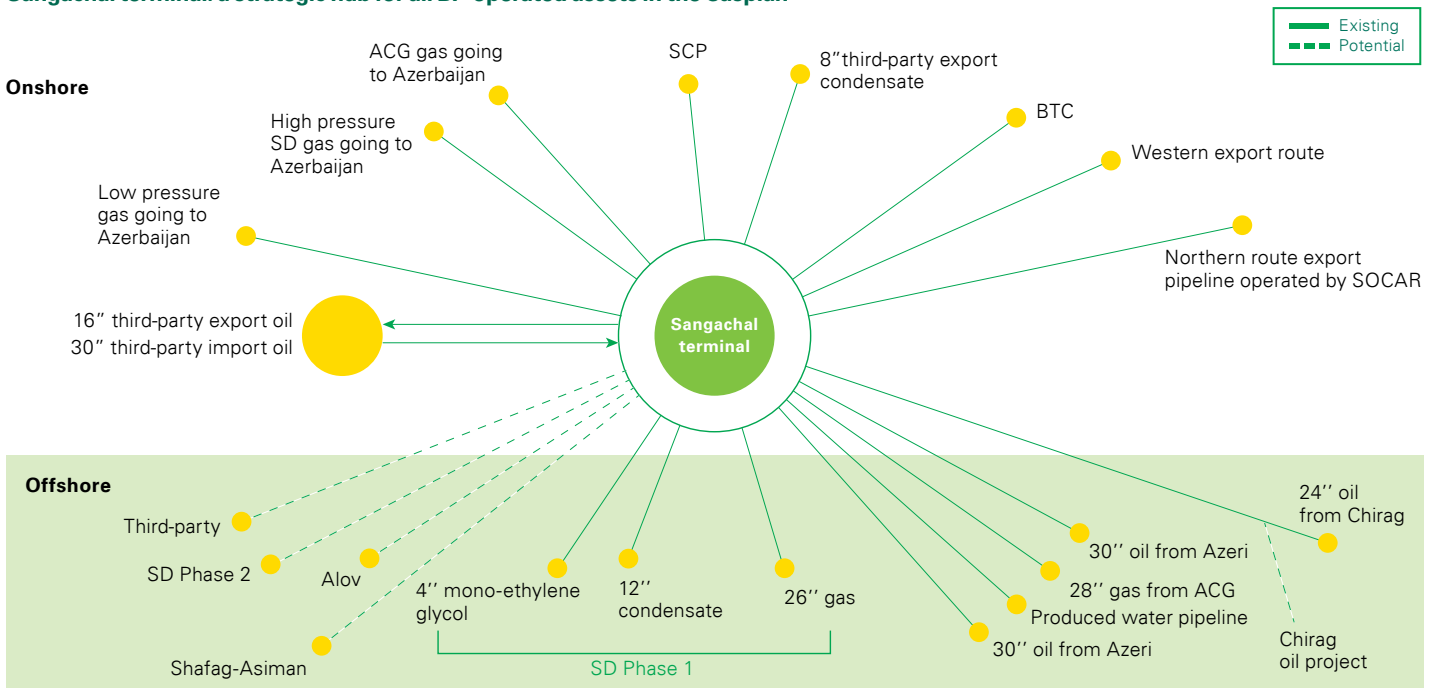
Sangachal terminal – key facts

- Area: 542 hectares
- Location: 55 km south of Baku in Garadagh district
- Processing capacity: 1.2 million barrels (162,000 tonnes) of oil per day and 0.04 billion cubic metres of gas per day (including Shah Deniz)
- Storage capacity: 3.2 million barrels (450,000 tonnes)
- Operator: BP AGT

Outlook for 2011

Our priorities for 2011 are to maintain safe, reliable, efficient and legally-compliant operations at the terminal. Planned activities include completion of the Azeri-Chirag-Deepwater Gunashli (ACG) flare ignition system project, commissioning of the SD waste heat recovery unit, completion of an upgrade to the controls on the Rolls-Royce turbines in use on the terminal, and commencement of the first phase of SD flare gas recovery project.

Sangachal terminal: a strategic hub for all BP-operated assets in the Caspian



Baku-Tbilisi-Ceyhan pipeline

The BTC pipeline carries oil from the ACG field and condensate from SD across Azerbaijan, Georgia and Turkey. It is 1,768 km in length and connects Sangachal terminal on the shores of the Caspian Sea to Ceyhan marine terminal on the Turkish Mediterranean coast.

At the end of 2010 BTC had

- Capacity: 1.2 million barrels per day
- Average throughput: approximately 782 thousand barrels per day

The BTC pipeline achieved its highest throughput so far of 1.057 million barrels on 21 July 2010, reflecting ACG's output of more than 900,000 barrels of oil equivalent per day – a level of daily production achieved on several occasions during the year. In total about 286 million barrels (about 38 million tonnes) of oil was exported via the pipeline in

2010. Capital expenditure on the BTC link totalled more than \$34 million.

Following the signing of a transportation agreement in July, crude oil from Turkmenistan began moving through the pipeline.

Between the opening of the BTC link in mid-2006 and the end of 2010 a total of 1,387 tankers were loaded at Ceyhan and more than 1.088 billion barrels (146 million tonnes) of crude oil were transported via the pipeline and shipped to world markets.

South Caucasus gas pipeline

This 690km pipeline has been operational since late-2006 and delivers gas from Sangachal terminal to the Georgia/Turkey border. As technical operator of SCP, BP is responsible for construction and operation of its facilities. Statoil is responsible for SCP administration and business development. SCP daily average throughput in 2010 was 14 million cubic meters (about 490 million cubic feet) of gas or about 87,000 barrels of oil equivalent per day. Capital expenditure for the year totalled \$10 million.

Western route export pipeline

This pipeline transports oil from the Caspian basin via Sangachal terminal to Supsa on Georgia's Black Sea coast. Since 1997, WREP has undergone extensive refurbishment by BP and its co-ventures.

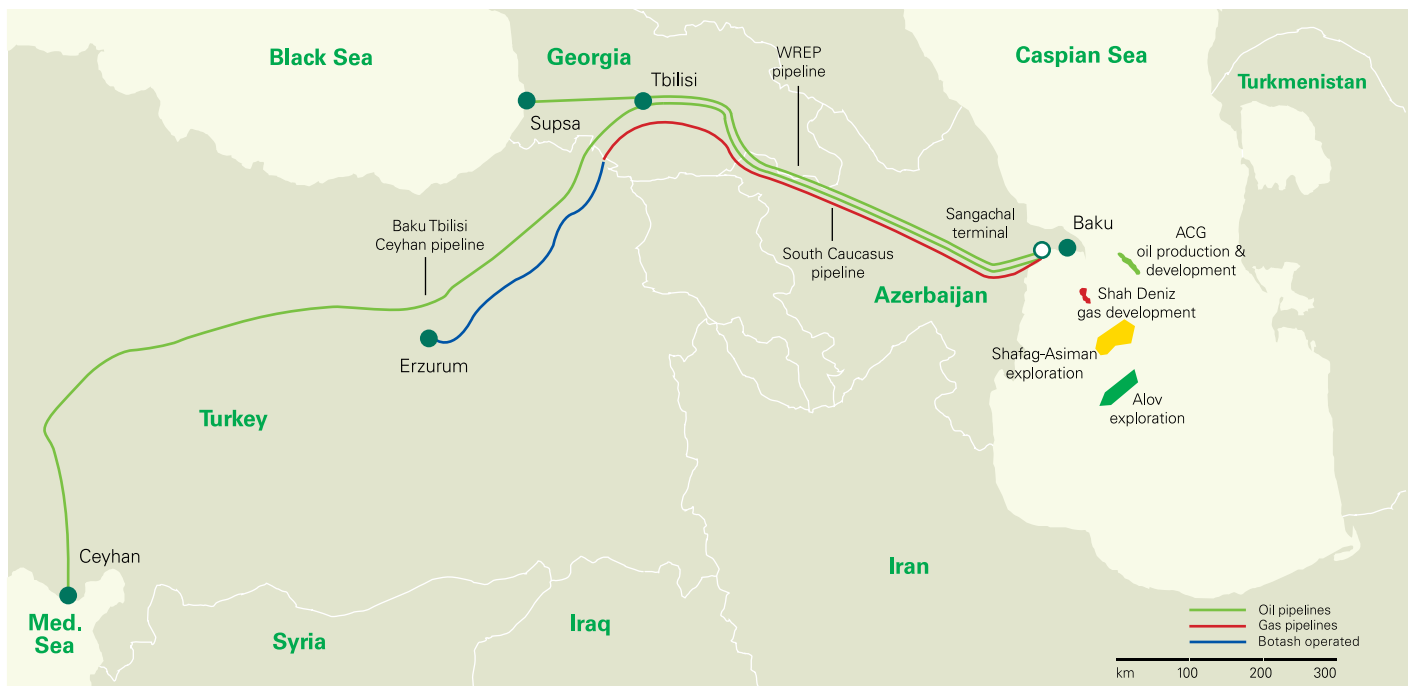
At the end of 2010 SCP had

- Capacity: 22 million cubic metres per day
- Average throughput: equivalent to 14 million cubic metres per day

In 2008, the upgrade of certain sections of the line was completed.

Around 29.6 million barrels of oil was transported from Sangachal terminal through WREP during the year.

BP's interests in Azerbaijan-Georgia-Turkey region^a



^a In Azerbaijan the BTC/SCP pipelines pass through 13 districts: Garadagh, Absheron, Hajigabul, Agsu, Kurdamir, Ujar, Agdash, Yevlakh, Goranboy, Samukh, Shamkir, Tovuz, Agstafa.



Employees at Deepwater Gunasli platform

Exploration

On 7 October 2010, a new production sharing agreement (PSA) was signed between BP and the State Oil Company of the Republic of Azerbaijan (SOCAR) on joint exploration and development of the Shafag-Asiman structure in the Azerbaijan sector of the Caspian Sea. Under this PSA BP will be the operator and have a 50% interest while SOCAR will hold the other 50% equity.

The Shafag-Asiman block is located 125 kilometres (78 miles) southeast of Baku and covers an area of 1,100 square kilometres. It has never been explored. Water depths vary between 650-800 metres. The reservoir depth is about 7,000 metres.

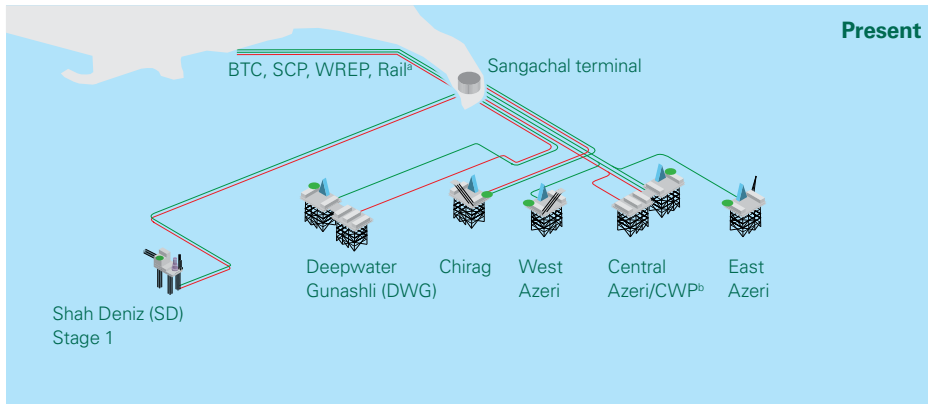
Technical evaluation of the Alov, Araz and Sharg contract areas continued during the year. The Alov partnership has no plans for on-site work in the Alov contract area until Caspian coastal states reach an agreement on offshore demarcation of the sea.

BP's top 25 producers of gross hydrocarbons, 2010^a

■ Gross oil rate (barrels of oil equivalent per day)
 ■ Oil rate (barrels per day)
 ■ Gas rate (barrels of oil equivalent per day)



^aField in Australia is partner-operated (all other are BP-operated).



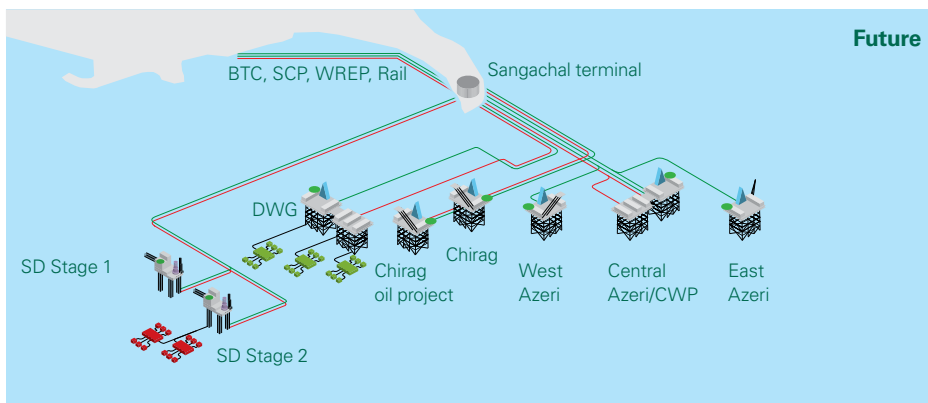
Reservoir surveillance at the speed of light

A good understanding of which layers of the reservoir structure produce which volumes and types of fluid is fundamental to maximizing oil recovery. In the Azeri-Chirag-Deepwater Gunashli (ACG) field the key challenge is to collect this information without costly production shut-downs and well interventions.

Distributed temperature sensor (DTS) was identified as a technology meeting this challenge. DTS requires small diameter control lines to be clamped along the length of a well completion. A 'hair thin' fibre optic line is then pumped into the control line. By analyzing the reflections from laser light pulsed down the fibre, the temperature profile along the fibre can be determined. With an understanding of the thermodynamics in production wells, and observing the temperature deviation from static conditions, the wellbore fluids (oil/gas/water) and their inflow profiles across the reservoir layers can be determined.

Our DTS fibre-optic technology for open hole sand control completions in the Caspian was developed originally by Schlumberger and supported by BP and was introduced in 2005 for the ACG field. Improvements in deployment techniques and equipment design since then have lead to 17 successful installations in ACG wells – including a first installation of this kind in the industry.

“DTS is expected to deliver a considerable incremental oil production benefit through the life of the ACG field,” according to Brian Edment, BP’s completions engineering manager. “Moreover, due to its ability to obtain necessary data without rigs or well intervention, the DTS technology removes associated risks to people and assets.”



^a BTC – Baku-Tbilisi-Ceyhan; SCP – South Caucasus pipeline; WREP – Western route export pipeline.
^b CWP – Compression and water injection platform.

Integrated Supply and Trading

The BP group’s London-based Integrated Supply and Trading unit – one of the world’s largest energy trading teams – markets equity crude oil produced by BP AGT.

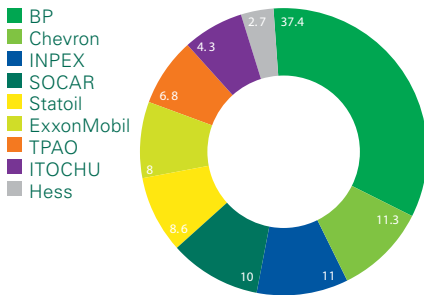
BP lubricants in Azerbaijan

BP and Castrol brands are supplied to all BP projects in Azerbaijan by the Petrochem group. In 2010 about 1.75 million litres of lubricants were delivered to BP and its contractors in Azerbaijan. BP/Castrol lubricants were also supplied to most oilfield services contractors working in Azerbaijan.

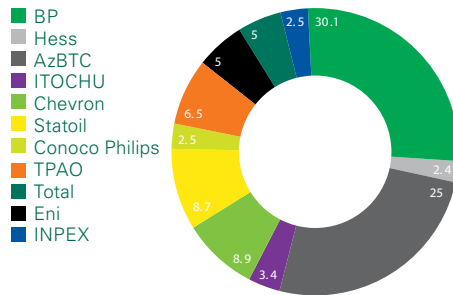
Co-venturers' interests in BP-operated projects in Azerbaijan^a

(%)

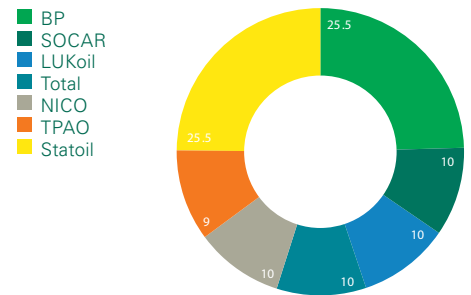
Azeri-Chirag-Deepwater Gunashli (ACG)



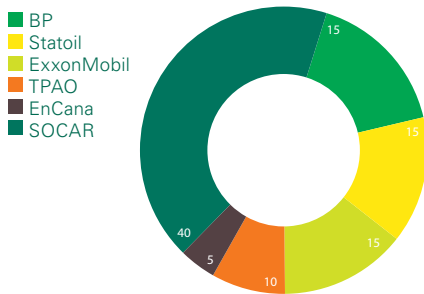
Baku-Tbilisi-Ceyhan (BTC)



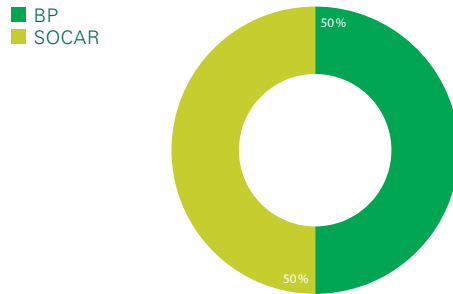
Shah Deniz/South Caucasus pipeline (SCP)



Alov



Shafag-Asiman



^a The State Oil Company of the Republic of Azerbaijan (SOCAR) is represented in the above-mentioned projects through its affiliates: ACG – AzACG; Shah Deniz – AzShahDeniz; SCP – AzSCP; Alov – SOCAR Oil Affiliate (SOA).

Legal entities responsible for BP AGT projects

Project	Operator	BP share holding entity
ACG	Azerbaijan International Operating Company	BP Exploration (Caspian Sea) Limited
BTC	The Baku-Tbilisi-Ceyhan Pipeline Company	BP Pipelines (BTC) Limited
Shah Deniz	BP Exploration (Shah Deniz) Limited	BP Exploration (Azerbaijan) Limited
SCP	South Caucasus Pipeline Company Limited	BP Pipelines (SCP) Limited
Alov	BP Exploration (Alov) Limited	BP Exploration (Azerbaijan) Limited
Shafag-Asiman	(to be appointed)	BP Shafag-Asiman Limited

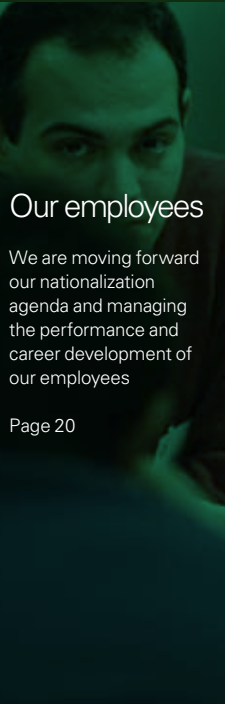
How we operate

During 2010, the BP group introduced changes to the way we manage our operations – strengthening our governance, safety culture and relationships with contractors and stakeholders

Management systems

How we expand operating management system engagement and awareness across the business

Page 18



Our employees

We are moving forward our nationalization agenda and managing the performance and career development of our employees

Page 20



Stakeholder engagement

We engage in many different activities with key stakeholder groups in Azerbaijan

Page 27



Management systems BP's management standard – known as the operating management system – became fully operational in 2010. It is designed to simplify the way we work and to promote safe, efficient, and reliable operations throughout the BP group.



'Winds of Change' event in Baku

Operating management system

The operating management system (OMS) framework is a structured set of processes and requirements that, when fully implemented, help to make BP operations safe, responsible and reliable, and to continuously improve performance. It is a control process that is relevant to all projects, facilities, sites and operations.

In 2010, BP AGT completed its first annual performance improvement cycle under OMS. The resulting review and associated Statement of Intent defined the main areas of focus for the region in 2011 and were issued to the whole organisation by email and also posted on the BP AGT intranet page.

Significant improvements to the Azerbaijan-Georgia-Turkey region's local OMS handbook were made by tailoring it to BP group OMS requirements and to the online OMS navigator tool.^a

Throughout the year we expanded OMS engagement and awareness across the business. Our efforts included 19 successful

'Winds of Change' interactive sessions for employees in Baku, Tbilisi and Ankara.

The event focused on three themes – sector leadership; OMS; and continuous improvement. Primarily an educational tool, the concept was designed to help employees understand the reasons for our functional reorganisation, learn how to use systems through the OMS lens and instil the continuous improvement culture more deeply in the everyday workplace.

Room for improvement – particularly the need for safety messages to penetrate deeper into the organisation – still exists and will be pursued vigorously in 2011.

^a OMS Navigator is an online tool which helps employees to gain quick access to key processes, information, documentation and tools. Navigator is a tool which allows everyone to find out the requirements of OMS and to understand how we meet these through our local business processes and procedures.

OMS performance improvement cycle

The OMS performance improvement cycle identifies the six steps in driving continuous risk reduction and performance improvement. It is a systematic process applied at least annually.



Six point plan delivery

The BP six point plan was introduced in 2007. It defines the key priorities in process safety management and is intended to help the BP group achieve industry leadership in this area.

In the Azerbaijan-Georgia-Turkey region all outstanding six point plan actions at the time of our move to OMS (in December 2009) were checked against OMS requirements and a transition plan developed. All requirements under this plan have since been completed.

Security and human rights *We co-operate with relevant stakeholders to ensure that security is provided, in compliance with human rights, at all BP-operated sites*

Security of people and facilities within BP-controlled and operated sites is the company's responsibility. The guard function is sub-contracted to Titan D Ltd. Security outside the sites' perimeter is undertaken by the host government. Pipeline security is the responsibility of the Export Pipelines Protection Department (EPPD).^a Offshore protection is provided by the Azerbaijan navy and coast guard.

Working with communities

Co-operation with those communities close to our operations plays a crucial part in maintaining the security of our business in Azerbaijan. In 2010, we continued to facilitate Inter-Agency Security Committee (IASC) meetings with communities along BP-operated pipeline routes. A total of 85 meetings led by BP field security advisers were held in 13 regions involving the participation of EPPD representatives, local executive committees and 3,920 community members.

Issues raised at IASC meetings were submitted to security commissions consisting of the high level regional executive authorities set up in 2009. The primary role of these commissions is to ensure implementation of the Voluntary Principles (VP) on Security and Human Rights and to assist any joint BP/EPPD investigation into alleged human rights abuses. In 2010 no human rights abuses were alleged.

Hotline 114, set up in 2009 for security concerns of communities along BP-operated pipelines, remained operational in 2010. We did not receive any pipeline security-related calls in 2010.

Monitoring

In 2010, the Azerbaijan Social Review Commission (ASRC) conducted an examination of our implementation of the VPs in Azerbaijan. In its subsequent report ASRC stated: "BP's internal processes for VP monitoring, its efforts in training and implementing security and human rights, and its IASC are regarded by the Commission as excellent."

Despite this conclusion ASRC challenged the lack of other external monitoring. While BP does not exclude the possibility of an external VP review, we are confident that our regular internal assessment programme will ensure VP implementation and identification of areas for improvement.

In line with this position we conducted our first internal evaluation of VP implementation in May 2010. The primary purpose was to provide guidance and advice to businesses as opposed to

identifying areas of 'compliance' or 'non-compliance'. We found that BP in Azerbaijan is in strong conformity in all areas of implementation, but that there are some aspects that require improvement such as the need to survey communities periodically and to take more note of EPPD training programmes. The executive summary of the evaluation and a summary of the framework are available on our website in English and Azerbaijani.

As part of the HSE (health, safety and environment) assurance programme, an audit was conducted by BP in 2010 to verify whether the HSSE (health, safety, security and environment) management system of Titan D, our security contractor, meets BP and Titan D HSSE requirements. Findings from the audit were registered and a follow-up action plan developed.

Interacting with public and private security

Procedures agreed in 2009 with EPPD to implement the bilateral security protocol were submitted for review to the Cabinet of Ministers in 2010. In parallel we worked with the Azerbaijan navy and coast guard to agree procedures to cover offshore operations.

As a result the EPPD agreed to increase the number of unarmed horse patrollers along the BTC/SCP (Baku-Tbilisi-Ceyhan/South Caucasus gas pipeline) route to avoid daytime patrolling by vehicles along the pipelines' right-of-way. At the end of 2010, there were 32 horse patrollers. Our target is to bring the number to 57 by the end of 2011. Patrollers are selected from community members residing in the pipelines' corridor.

VP implementation training continued. We organised two separate sessions on security and human rights issues for Azerbaijan navy command-operation centre staff and for vessels' command officers. Twenty one officers of navy command-operation centre participated in the first session and 19 vessel commanders in the second.

Basic security skills and safety training was provided to Titan D guards. Fifty two guards completed vehicle search and basic guarding training, 61 guards completed fire fighting training, 152 guards completed the behavioural observation safety system (BOSS) course and 34 guards completed technical induction on operating the integrated electronic security systems at Pump Station 2 in Azerbaijan. A joint security exercise



Security checks on a vehicle at Sangachal terminal

with Titan D on the detection of prohibited items at the Baku port used by our offshore employees also took place.

Grievance resolution

The BTC/SCP grievance resolution mechanism remained active in 2010. Six community liaison officers (CLOs) and the manager at Sangachal terminal with responsibility for handling grievances relating along the pipeline routes were involved. In 2010, we received four complaints from members of the public. They related to property damage, unemployment, land reinstatement, health and the environmental impact of flaring gas. All the complaints, as well as one left over from 2008 about the impact of the terminal's expansion on herders' pasture, were resolved in 2010.

In addition to these specific complaints we received 215 requests related to permission to work on land for different types of activities along the BTC/SCP pipeline route in 2010. Of those, 206 were resolved satisfactorily in 2010 and nine in January 2011.

^a EPPD (Export Pipelines Protection Department) is a department of Special State Protection Service (SSPS).



Find out full ASRC report at:
bp.com/caspian/asrc

Our employees Our pledge to create a strong national workforce remains in place. In order to maintain the quality of our staff we recruit new talent using transparent processes and actively manage the performance and career development of those people who already work for us.

In 2010, we sustained our commitment to our local nationalisation programme. By year end, 87% of BP in Azerbaijan professional employees were national citizens. Various programmes are in place to increase this percentage. During the year, we hired 237 new employees and invested almost \$5 million in staff training and development.

Recruitment

Each year we review our competitive selection processes to make sure that we attract first rate applicants. Our objective is to recruit the best graduates and experienced specialists that we can in line with our specific business goals.

Our graduate and intern recruitment programme involves high-profile marketing using modern technology to attract students in Azerbaijan and overseas. To this end we have close relationships with universities within Azerbaijan and abroad. Career days are conducted at leading local institutions including the Azerbaijan State Oil Academy, Technical University, National Aviation Academy, Khazar and Baku State University.



Leyla Abbasova
Recruitment advisor

What is the successful BP candidate like?
A successful BP candidate is energetic, has a fresh approach and can offer new ideas to help us handle the growing demands of business – someone who enjoys challenge, strives for learning and values development.

In 2010, we attracted 2,145 applications from universities and recruited 50 summer interns and 38 graduates across seven disciplines. In 2011 we expect to recruit 63 graduates. Ad hoc vacancies were advertised on the www.bp.com/caspian website. In total, 111 vacancies were posted in 2010, we received 9,171 applications and we hired 107 experienced professionals.

Professional staff of BP in Azerbaijan, Georgia and Turkey

Category	Number of people	2008 %	2009 %	2010 %
National	2,388	83	86	88
Expatriate	317	17	14	12
Total	2,705			

Professional staff of BP in Azerbaijan

Category	Number of people	2008 %	2009 %	2010 %
National	2,067	82	84	87
Expatriate	312	18	16	13
Total	2,379			

BP in Azerbaijan national professional recruitment target, 2011^a

Employment Type	Graduate	Interns	Technicians
Resource	9	13	
Wells	15	12	
Engineering	27	14	
Finance	2	6	
Health, safety, security and environment (HSSE)	6		
Procurement and supply chain management (PSCM)	2	3	
Human resources	2	1	
Operations			110
Total	63	49	110

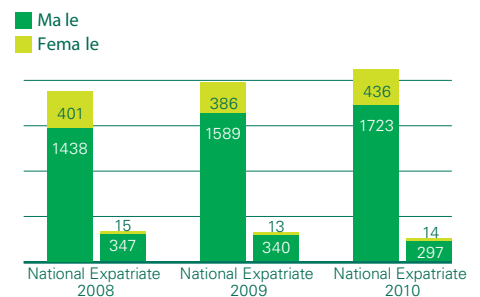
^a Recruitment target figures reflect status for April 2011.

During the year, we reviewed 3,350 applications received in 2009 for the 2010 technician recruitment programme. In addition, 92 technicians were recruited and assigned to the 14-16 month foundation training programme at the Caspian Technical Training Centre before being deployed onshore and offshore.

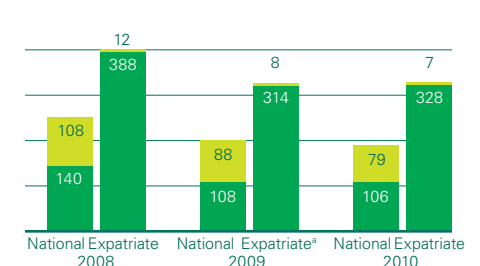
Existing employees continued to receive a competitive benefits package to encourage retention and reward long-term commitment. These benefits included competitive salaries, medical insurance, dental insurance, accident insurance, family support payments and recreational facilities. Local employees also participated in BP group global reward programmes such as Sharematch and the variable pay plan (an annual incentive bonus linked to performance).

From 2011, the company will operate an upgraded performance management and reward policy which is intended to strengthen our focus on safety. This will include regular performance reviews designed to encourage excellence in safety and operational risk management.

BP permanent staff based in Azerbaijan



BP agency contract employees based in Azerbaijan



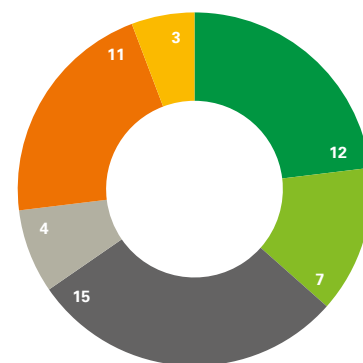
^a Instead of 340 erroneously indicated in Sustainability Report 2009.

BP in Azerbaijan recruitment statistics

Discipline	2010 Graduates		2009 Graduates		2010 Adhoc		2009 Adhoc		2010 Technicians		2009 Technicians	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
Business support					5	2	1	1				
Communications and external affairs					6	1						
Drilling and completions	1	13	1	10	1	2	2	1				
Engineering	2	10	2	12	1	3	1	9				
Finance	2		3	2	5	2	2					
HSSE				2	1	10		6				
Human resources	1			1	4	1						
Commercial						2						
Informational technologies and services			1					2				
Legal					1			3				
Logistics						12	2	1				
Operations					7	2	1	9				
Planning						15	1					
PSCM	1	1	2	1	2			4				
Projects					2			2				
Subsurface	2	5	4	4	5	9	1	6				
Operations technicians						7			1	91	1	117
Total	9	29	13	32	34	73	12	44	1	91	1	117
Grand total	38		45		107		56		92		118	

Azerbaijani nationals on overseas assignments

Continuing Started Finished
 Male Female Male Female Male Female



This chart includes Azerbaijani expats working for BP outside Azerbaijan.



Staff nationalisation propels a career

After reading a book called 'The Financier' by Theodore Dreiser when he was at high school, Huseyn Gasimov made an important decision – he wanted to be a financier himself. While still a student at Azerbaijan State Economic University he started to work in a local bank. On graduation in 1998 he joined the Azerbaijan International Operating Company finance team and was only 20 when he was promoted to a supervisory role there. A year later he held the team leader position with six people reporting to him.

In BP Huseyn was recognised early on as a national employee with high potential and so was sent on an assignment to London in 2001. There he joined the corporate finance team, and later the mergers and acquisitions team, and was involved in several significant transactions including the one with TNK-BP in 2003. "Overall, I spent four years in one of the world's financial centres as part of the

best corporate finance team of the largest British company" he remarks.

On returning to Azerbaijan Huseyn took on a number of high profile roles including head of finance offshore where he led a team of 40 specialists. Currently he is the Azeri-Chirag-Deepwater Gunashli business development manager responsible for managing commercial activities for the largest oil field in Azerbaijan. With BP's support, he has also become one of the first national citizens to receive the UK qualification of Chartered Management Accountant.

For his contribution so far to the development of the Azerbaijan oil industry Huseyn was awarded the 'Tereggi' (progress) medal by the president of Azerbaijan in 2009. "I believe that my professional growth is the best evidence of the opportunities in BP for national staff to develop and take on 'big' roles with challenging responsibilities" he concludes.

Employee engagement

Annual staff satisfaction survey

In 2010, the BP group decided not to conduct a staff satisfaction survey. In view of this, in Azerbaijan we concentrated on implementing actions resulting from the 2009 survey. Our emphasis was on two areas – improving open and honest dialogue among employees; and improving leadership relationships with employees through more interactive exchanges.



Dima Kirilov
Human resource projects coordinator

How does BP go about team building in Azerbaijan?

In 2010, we conducted a number of sports activities to build team spirit among our staff, including soccer, basketball and chess tournaments. About 300 employees got involved and gathered possibly twice as many spectators from family and friends.

Technician forums

These meetings were initiated in 2008 to improve dialogue between frontline BP technicians and the company's leadership. So far about 250 technicians have participated in the eight technician forums held by BP in Azerbaijan and Georgia in the past two years.

Three forums were conducted in 2010 attended by 90 technicians from Azerbaijan and Georgia. The agenda at each session included a business update from a member of the BP in Azerbaijan leadership team and a discussion about technician development. Subsequently we examined ways to ensure that the ideas raised and discussed at these meetings influenced our work practises and leadership attitudes.

Social activities

We supported various employee engagement activities in 2010 with a view to boosting team spirit. Initiatives included off-site meetings, Azerbaijan leadership team meetings dedicated to discussing people development, and sports events that brought some 500 BP participants into contact and engaged employees' family members.

Employee assistance programme

The confidential employee assistance programme, launched in Azerbaijan and Georgia in 2009, continued. This programme is intended to support national staff and family members who want to discuss personal issues such as work-life balance or relationship questions. PPC Worldwide, one of the leading global providers of such programmes, offers free counselling within this programme.

Talent and development

We design and deliver learning programmes in order to develop the core capabilities of our workforce and to help us maintain competitive advantage.

Personal and leadership development

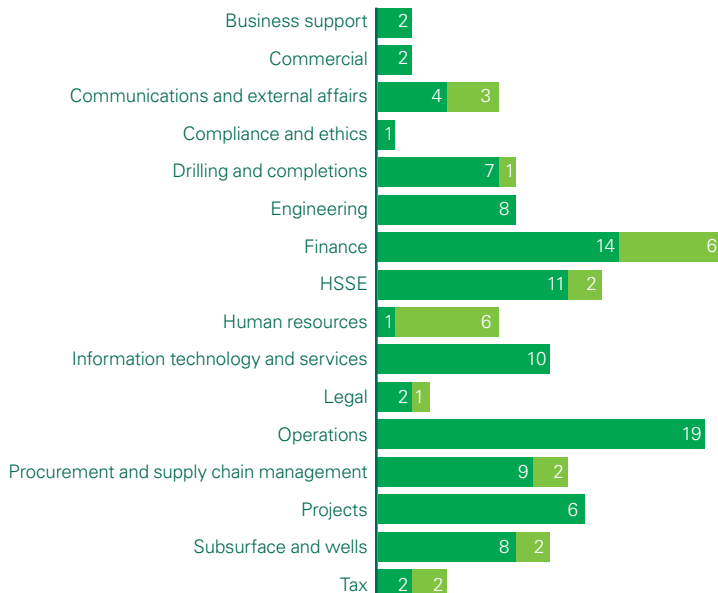
We invested \$4.62 million in 2010 in a range of training and career development options for employees of BP AGT. Seventy eight sessions in core leadership skills were delivered with 1,315 employees attending.

A series of development courses for team leaders known as the 'managing essentials' programme was devised and launched across

Senior level Azerbaijani managers

- Male (106 in total)
- Female (25 in total)

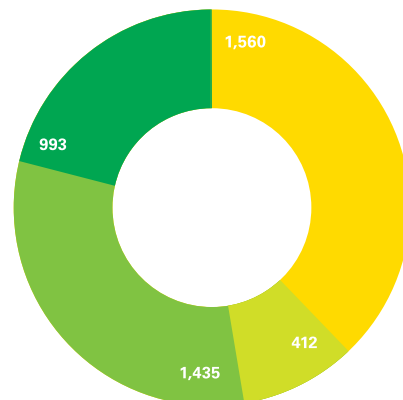
About half of female managers are in finance and human resources while around 50% of male managers are in finance, HSSE (Health, safety, security and environment), information technologies and operations.



BP in Azerbaijan total training spend, 2010 (\$ thousands)

In 2010, BP AGT training spend totalled more than \$4.6 million of which \$4.4 million was spent in Azerbaijan.

- Health, safety and environment/Emergency response
- Core/Foundation/Leadership
- Professional
- Operations



the BP group in 2010. The programme blends technical, managerial and behavioural elements and offers team leaders the opportunity to develop their management skills through classes on topics such as improving personal performance, effective team working and responsible leadership. We delivered seven classes during the year, attended by 155 BP team leaders.

Language training

English language training for national staff continued in 2010. By the end of the year, almost 250 employees were taking part. Monthly English language conversations clubs were organised for anyone wishing to improve their communications skills. Azerbaijani language classes were offered to all expatriate employees while incoming expatriates were offered an introductory course on Azerbaijan history, culture and traditions. We also introduced Azerbaijani classes for national staff wishing to improve their language skills in a business context.

Early professional development - the BP Challenger scheme

Graduates are recruited from a wide range of technical disciplines including science, technology, engineering and mathematics. Subsequently some of these recruits take part in intensive programmes as part of our 'Challenger' scheme designed to help them

learn about different areas of BP and prepare for an enduring role in the group.

According to a June 2010 survey of Challenge graduates, the preceding 12 months saw an increase of more than 40% on the previous 12 months in the satisfaction of BP challengers in the Azerbaijan-Georgia-Turkey region. Significant improvements were reported in all elements identified as key concerns in the 2009 survey – technical coaching, value of competency assessments and team leader support.

In November, a Challengers' away day was held at which the challengers followed up the survey results, discussed ways to improve the programme and provided feedback to team leaders and managers responsible for people development. On the same day 24 Challengers from BP AGT were handed graduation certificates.

Professional qualifications

As part of our drive to improve employee qualifications, we sponsor professional education for national staff. At the end of 2010, 109 individuals were studying to become Chartered Institute of Management accountants. Fifteen employees graduated from this programme in 2010.

Other employees being supported included seven human resource staff who enrolled at the UK-based Chartered Institute of Personnel Development and 14 employees who were

taking part in a specially-designed MBA programme run by the W.P. Carey School of Management at Arizona State University in the United States. Six employees graduated from this programme in 2010.

Another programme encouraged engineers working for BP AGT to acquire certification as chartered engineers from the UK-based Engineering Council. Three employees also graduated from the Institute of Engineering and Technology during the year.

We continued to sponsor the membership of our employees in the Society of Petroleum Engineers. This organisation brings together hydrocarbon professionals to share knowledge and promote the attractions of the petroleum engineering discipline.



Eldar Gaziye
Logistics manager

How does BP train leaders?

Leadership training in BP focuses on strategic thinking for individuals at every level of the organisation. You learn communication skills, the fundamentals of teamwork and how to develop employees among other things. As a result of my training I understand the role of an effective leader in the organisation much better.



Formula for success

While still at school, Anar Valiyev wanted to learn more about the job of his father who is an engineer. To achieve this, he read engineering articles in local and international magazines that his father shared with him. The knowledge that he gained contributed a great deal to Anar's decision to become an engineer.

To pursue his goal Anar entered the manufacturing processes automation faculty at the Azerbaijan State Oil Academy. In his third year he saw a poster advertising BP's summer internship programme. He applied and was accepted at Sangachal terminal. Based on his excellent performance there, he received an offer to become a health and safety challenger specialising in process safety engineering in the HSE (health, safety

and environment) team. His enthusiasm, persistence and commitment to continuous learning helped him to graduate from the challenge programme (designed to last three years) in nine months. Subsequently he became a process safety engineer at the terminal – the first national process safety engineer in BP in Azerbaijan.

Anar, who now participates in the management of risk at one of the largest oil and gas terminals in the world, is happy to share his formula for success with other young engineers. "Get the most out of your education and learn your discipline well, so that when the opportunity arises you grasp it at once", he says. "But do not stop then. You must maintain your development continuously – it's your own full responsibility".



Joining BP for big projects

As a schoolgirl Aliya Akhundova's passion for chemistry determined her decision to apply to enter the chemistry faculty at Baku State University. Nine years later, she defended her candidate thesis in the Academy of Science and got a job in the Caspian Environmental Laboratory where she worked for 13 years reaching the position of senior chemist.

Aliya has a rare combination of scientific and practical skills. She has been involved in onshore and offshore environmental monitoring, including the monitoring of the Caspian seabed in the Azeri-Chirag-Deepwater Gunashli and Shah Deniz fields. Experience from these projects became very useful in landing a job at BP. "I found out about the vacancy through the BP web site and decided to apply in order to move from a

small laboratory to an energy company known worldwide" she recalls. "I was very impressed by the transparent recruitment process at BP. I think that I passed the interview successfully because of my experience in environmental monitoring which gave me a good understanding of the company's health, safety and environment policy" she says.

Her personal credo is to work hard to develop her technical competencies and to seize opportunities as they arise. As a recently-joined hazardous materials specialist Aliya is looking forward to some big projects ahead. 'I have an excellent opportunity to apply my technical knowledge and to help BP develop solutions to complex challenges in the field of hazardous materials management' she observes confidently.

Caspian technical training centre

The Caspian technical training centre (CTTC) offers a variety of training opportunities to technicians to meet BP's commitment to create a competent workforce in operations and drilling in Azerbaijan. It accommodates approximately 250 people each day. In 2010, 120 technicians graduated.

A post-foundation training programme was launched at CTTC in June in line with the company's continuous improvement agenda. This programme offers a combination of resources and is designed to advance the competency level of technicians. At the end of 2010, 51 trainees were assigned to six discipline-oriented teams.

Home countries of expatriates working in BP in Azerbaijan, 2010

Discipline	Europe and North America	Trinidad & Tobago	Colombia	Indonesia	Pakistan	Egypt	Grand total
Business support	5						5
Drilling and completions	58	7	9	1	1	1	77
Engineering	56				2	1	59
Finance	9	1					10
Health, safety, security and environment	6						6
Human resources	4						4
Information technologies and services (IT&S)	1						1
Legal	3						3
Operations	101	1			1		103
Planning	7						7
Procurement and supply chain management (PSCM)	3						3
Projects	11						11
Subsurface and wells	22						22
Tax	1						1
Grand total	287	9	9	1	4	2	312

Expatriates working in Azerbaijan

We had 61 incoming expatriates who started their work in BP in Azerbaijan in 2010 and the same year we had 78 outgoing expatriates with their contracts ended. Expatriates play an important role in delivering BP's strategy in Azerbaijan. 287 of the 312 expatriate professional staff are from Europe and North America; the remainder are from Columbia, Egypt, Indonesia, Pakistan and Trinidad & Tobago.

Senior level expatriate managers, 2010 (Azerbaijan only)

Home country	No reports	Line managers	Grand total
Europe and North America	171	116	287
Trinidad & Tobago	6	3	9
Colombia	5	4	9
Egypt	2		2
Pakistan	3	1	4
Indonesia	1		1
Grand total	188	124	312

Incoming expatriates, 2009-2010 (Azerbaijan only)

Discipline	2009			2010		
	Female	Male	Grand total	Female	Male	Grand total
Business support		3	3		2	2
Drilling and completions	2	29	31		12	12
Engineering		7	7	1	10	11
Finance		1	1		3	3
Human resources					2	2
IT&S					1	1
Operations	1	9	10	1	6	7
PSCM					2	2
Projects		2	2		5	5
Subsurface		7	7	1	3	4
Grand total	3	58	61	3	46	49

Outgoing expatriates, 2009-2010 (Azerbaijan only)

Discipline	2009			2010		
	Female	Male	Grand total	Female	Male	Grand total
Health, safety and environment		6	6	1	1	2
Business support					3	3
Drilling and completions		19	19		13	13
Engineering	1	5	6		13	13
Finance	1	2	3		5	5
Human resources		1	1		1	1
Planning					2	2
Legal		1	1			
Operations	2	18	20		30	30
PSCM	3	3	6		2	2
Projects		4	4		4	4
Subsurface	1	5	6		3	3
Technicians		5	5			
Other		1	1			
Grand total	8	70	78	1	77	78



During the work at Central Azeri platform

Contractor management

Contractor workforce

The new Chirag oil project began construction in the third quarter of 2010. Activity was centred on the Shelfprojectstroy/BOS yard for jackets and the ATA yard for the offshore platform and drilling module. At the end of 2010, approximately 2,000 contractor workers were employed at both yards.

Labour relations

For Chirag oil project we instigated the same labour management structure as in previous projects. This involved ensuring that contractors comply with local legislation and have robust employee relations processes and policies in place. Wherever possible we encourage the contractors to recruit from the immediate locality. Monthly labour management meetings are held with the main contractors to identify and address any real or potential labour issues. In parallel we continued our engagement with the State Oil Company of the Republic of Azerbaijan and trade unions.

Ethics and compliance Wherever we operate we require our employees to comply with all applicable legal requirements as well as the high ethical standards set out in BP's code of conduct



Employee and a code of conduct brochure

Our code of conduct

BP's code of conduct defines what the company expects of its business and employees regardless of location, status or background. It provides guidance in key areas and references to more detailed standards, instructions and processes. It covers a number of issues including gifts and entertainment, conflicts of interest, bribery and corruption and supplier relationships. It also explains how to raise concerns and ask questions about ethics, compliance and the code of conduct itself.

The code states clearly that in cases where there are differences between the code and local customs, norms, laws or regulations, then either the code or local requirements should be applied – whichever sets the highest standard of behaviour. Failure to follow this direction is taken very seriously and may result in a disciplinary action up to and including dismissal.

Speaking up

A new internal compliance and ethics website was launched to raise awareness and encourage employees at all levels to speak up about compliance and ethics issues. The website includes training materials, guidelines and other ethics-related information for BP employees and contractor staff designed to help understanding of the principles and requirements that underpin the code of conduct.

Employees are encouraged to speak out about ethical issues by using the OpenTalk facility both as a source of information and a means of resolving ethical dilemmas. OpenTalk is an independent global helpline that allows BP employees and contractors to raise concerns and ask questions in complete confidence about compliance, ethics and the code of conduct. All contacts with OpenTalk are answered and processed by an independent third party company.

Business ethics

A new anti-corruption/anti-money laundering procedure has been developed for BP in Azerbaijan and, following from this, an e-learning module on conflict of interest and anti-money laundering was launched in 2010. In addition, code of conduct and anti-bribery and corruption e-learning courses were provided to all new BP and agency employees. During the year we also introduced and implemented the new BP group fraud and misconduct reporting standard.

Contractors and ethics

The code of conduct defines minimum standards of behaviour for every contractor working for or with BP. To ensure that all our contractors understand our compliance and ethics requirements, we conducted ethical awareness workshops for suppliers in 2010. During the year, we also asked our suppliers to complete anti-bribery and corruption compliance declarations.

2010 performance

The annual compliance and ethics certification process of BP in Azerbaijan was carried out in 2010. This requires BP's employees to confirm that their activities are in line with the code of conduct. Any breaches are recorded on an online form. In all 57 breaches of the code were reported in BP in Azerbaijan in 2010. All these breaches have been thoroughly investigated with corrective actions taken or planned.

A number of BP employees in Azerbaijan were dismissed in 2010 and contractor and agency personnel released, for non-compliance with applicable laws and regulations and non-compliance with the code. Examples of non-compliance included substance abuse, violation of safety procedures, fraud and misuse of company assets.

Stakeholder engagement Wherever the BP group operates we conduct our business in ways that benefit local communities. In Azerbaijan we support sustainable development, encourage revenue transparency and sponsor educational initiatives.

During the year, we engaged in many different activities with stakeholders in Azerbaijan:

Government

We continued to have a successful and mutually beneficial partnership with the government of Azerbaijan, which has entrusted us with the development of its major oil and gas development projects. This co-operation has produced and continues to produce benefits to all parties involved and most importantly to the nation of Azerbaijan. In 2010, our relations with the government of Azerbaijan attracted increased media attention. Throughout the year the government made statements on several occasions re-iterating their trust in BP's capability to operate safely and responsibly in the Caspian.

- We held several meetings with President Ilham Aliyev and other senior officials to discuss our operations.
- In March, Rovnag Abdullayev, president of the State Oil Company of the Republic of Azerbaijan (SOCAR), and Rashid Javanshir, BP AGT president sanctioned investment in the new Chirag oil project.
- In October, Rovnag Abdullayev and Rashid Javanshir in the presence of BP's visiting group chief executive officer Robert Dudley signed a production sharing agreement between SOCAR and BP to jointly explore and develop the Shafag-Asiman structure in the Azerbaijan sector of the Caspian Sea.
- We worked with SOCAR on issues of mutual interest within the framework of our production sharing agreements, host government agreements and other agreements.
- We sustained our commitment to enhance economic planning capacity in Azerbaijan by supporting economic policy analysis and forecasting competency in the Ministry of Economic Development.
- We co-financed the capacity-building component of a business enabling environment project launched by the International Finance Corporation (IFC).

Civil society

- We continued our involvement with the Azerbaijan Social Review Commission (ASRC), an independent external advisory group set up by BP to provide assurance,

advice and challenge to our social performance in Azerbaijan. In May 2010, we hosted an ASRC session which discussed a number of performance-related issues. The fourth ASRC report to BP, containing several recommendations, was posted on BP in Azerbaijan's public website together with our response.

- We co-operated with civil society through the Extractive Industries Transparency Initiative.
- We interacted with non-governmental organisations through our sustainable development initiatives.

Employees

- We held several 'town hall' meetings to discuss topical issues.
- We maintained a regularly updated internal website.
- The president of BP AGT issued monthly newsletters to enhance direct communication with employees.
- We published eight issues of the staff magazine 'Compass' covering 2010 in the Azerbaijani (hard copy) and English (online version) languages.
- We conveyed BP's new operating management system to employees by various means, including web/email communication, videos and the 'Winds of Change' interactive event.
- We held three forums for technicians during the year to increase engagement with our technician workforce. Topics ranged from company performance to staff training and development issues.
- We recognized 99 employees with long-service awards. Since this programme began in 2008, we have acknowledged more than 600 long-serving employees.
- We maintained the compliance and ethics helpline, OpenTalk, throughout the year.
- We held five family days attended by 185 people for BP employees, contractors and their families at the Caspian Energy Centre.

Communities

- We continued to support sustainable development initiatives in communities close to our facilities in Azerbaijan.
- We held three public meetings in Sangachal, Azim Kend and Umid villages near Sangachal terminal to increase their engagement with the facility, share the results of a retrospective health impact assessment, communicate business updates and listen to questions or concerns.



'Winds of Change'
interactive session in Baku

- We continued to operate the grievance mechanism in place along the BTC/SCP (Baku-Tbilisi-Ceyhan/South Caucasus gas pipeline) route.
- We supported the Inter-Agency Security Committee forum which facilitates dialogue between BP in Azerbaijan, community members and government security providers.
- Our employees contributed to community development and education through the employee engagement programme.

The media

- We issued quarterly business updates to the media to report the results of our activities in all aspects of our business in Azerbaijan.
- Our regional president for Azerbaijan, Georgia and Turkey held regular meetings with a group of local and international business journalists to update them on the progress of BP-operated projects in the region.
- We provided TV interviews to highlight our activities, achievements and plans.
- We arranged group and individual briefings and presentations for local and international journalists. Three media workshops and 16 visits to our sites were organised. The briefings and site visits included:
 - A business update by the BP in Azerbaijan leadership for nine Turkish and 11 Azerbaijani journalists followed by a visit to BP-operated facilities
 - A visit to Sangachal terminal and business update for 30 EU neighbourhood North African countries and 18 EU journalists
 - A three-day visit by local journalists to communities along the BTC and SCP pipelines where development projects are supported by BP and its co-venturers

- We issued 15 press releases covering 2010 milestones and developments in our business.
- We made a 24-hour response line available to the media during incidents.
- The communications manager provided regular updates and television interviews on BP's activities in Azerbaijan.
- A BP-funded business journalism training project was expanded to include two new modules in 2010 – on investigative journalism; and on social media.
- We arranged for six local journalists to visit UK twice in 2010 to receive training at the Thompson Foundation and the BBC. At the end of this three year programme all the trainees were awarded international certificates.

Other interested parties

Business visits

We hosted Sangachal terminal site visits by representatives and guests of our co-venturer companies Itochu, Total, SOCAR, TPAO and INPEX.

Students

- We signed an agreement with ESI International to launch a Project Management College to bring world class project management education to Azerbaijan.
- We held feedback sessions with students from local universities to discuss the BP in Azerbaijan Sustainability Report 2009.

- We supported scholarship programmes inside and outside Azerbaijan.
- We engaged with students through our internship programme to give them on-job work experience throughout BP in Azerbaijan.

Contractors

We hosted events for BP contractors and shared our corporate social responsibility activities in Azerbaijan with the participants.

General public

We re-designed the English and Azerbaijani versions of the BP Caspian external website – the official public website highlighting BP activities in the country and the region.



Learn and share

In November 2010, BP in Azerbaijan held an interactive event for students from Baku State University, State Oil Academy, State Economic University and Qafqaz University. The aim of the event was to provide information about BP's activities in the country and to seek students' feedback on these activities and on our 2009 Sustainability Report.

Each university was represented by a group of four or five students. Discussion was held in a simulation format in which participants were split in four different groups playing the roles of government, media, NGO representatives and students. Each group reviewed specific sections of the Sustainability Report and provided its feedback on the report itself and on BP's activities in Azerbaijan.

After the event the students were encouraged to share their newly-gained knowledge with others. Eleven students out of 27 made either individual or group presentations for peers and faculty of their respective universities. The presenters were later invited to one of BP's offices in Baku to share their experience and the feedback they received from the audience. During this follow up session students had an opportunity to meet with human resources representatives of BP in Azerbaijan and receive information about recruitment process, internships and scholarships.

Asiya Khankishiyeva, a participant from Baku State University summed up the event in these words: "It helped me to obtain broader information about BP's activities in Azerbaijan and gave me a chance to share this knowledge with others."

Safety and health

Safeguarding the people working for BP, and ensuring our operations are designed and managed properly must always be at the core of how we run our business

Safety performance

How we are seeking ways to improve safety performance, both personal and process, to deliver safe operations

Page 30



Contractor management

We launched a supplier safety programme, involving collaboration between our teams, to standardize safety requirements for our suppliers

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Health

How we operate to rigorous international health standards and work with our local partners to attain similar standards

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Safety performance We improved our recordable injury frequency in 2010. Our day away from work case frequency rate and total vehicle accident rate remained low.

The tragic incident in the Gulf of Mexico in April 2010, reminded us all of the critical risks that we have to manage in our business.

The wells team in BP AGT is implementing the requirements of the Interim Guidance that was issued to address immediate measures following the incident. It included the inspection of subsea blow out preventer systems, plans to upgrade those systems, assurance about our cementing operations and reinforcement of authority levels for critical decisions.

In 2011, the wells team will be participating fully in the implementation of 26 recommendations made by BP's internal report into the Gulf of Mexico incident and will be coordinating this with the rest of the group.^a

Our focus on safety has always been very clear in Azerbaijan and we are constantly seeking ways to improve safety performance. High-specification equipment and technology is employed by the company, we recruit well-trained people and we operate some of the most stringent safety and integrity processes and systems in the industry. In addition, we work closely with the State Oil Company of the Republic of Azerbaijan and relevant government ministries, to keep them informed of our activities.

Overall, 2010 was a strong year for safety performance by BP in Azerbaijan. Our recordable injury frequency was 0.17 – 26% below that in 2009 – while our day away from work case frequency and total vehicle accident rate remained low.

Four high potential incidents were recorded during the year – overpressurisation of blow down line during a planned shutdown, vehicle roll-over, dropped object, and water injection manifold failure. Detailed investigation reports were compiled about these incidents and lessons learned summaries distributed to relevant personnel. At the same time, an energy system isolation presentation focusing on high/low pressure interfaces was launched on the offshore platforms to increase safety awareness and to provide recommendations and guidance for future operations.

^a See BP Sustainability Review, page 7, on www.bp.com for more information about the 26 recommendations.

Safety performance of BP in Azerbaijan, 2009-2010^b

	2009	2010
Fatalities	1	0
High potential incident frequency ^c	0.02	0.045
Day away from work case frequency ^d	0	0.01
Recordable injury frequency ^e	0.23	0.17
Total vehicle accident rate ^f	0.92	0.88
Core HSE (health, safety and environment) training completion rate ^g	88%	82%
Kilometres driven (millions)	21.84	17.02
Hours worked (millions)	17.94	17.97

^b BP's injury and illness definitions are the US Occupational Health and Safety Administration definitions and their subsequent interpretation. Data does not include project-only data.

^c The high potential incident frequencies are based on the number of high potential incidents per 200,000 labour hours worked.

^d A day away from work case (DAFWC) is a work-related injury that causes the injured person to be away from work for at least one normal shift after the shift on which the injury occurred. DAFWC frequency is the number of reported injuries or illnesses that result in an employee or contractor being unable to work a day (or shift) per 200,000 labour hours worked.

^e Recordable injury (RI) is the number of all reported work-related injuries above first aid. The RI frequency is expressed as the number of reported recordable injuries per 200,000 hours worked.

^f Total vehicle accident rate is the number of reported road accidents per million vehicle kilometres travelled.

^g Percentage attendance at core HSE training courses measured against pre-defined training requirements.

Safety performance of BP AGT, 2009-2010^h

	2009	2010
Safety observations and conversations (SOC ⁱ) metrics	Approx 133%	125%
Behavioural observation safety system (BOSS ^j) metrics	Approx 171%	145%

^h Percentage conformance with monthly BOSS / SOC targets set for office and field based staff.

ⁱ SOC is a tool for systematic observation of workplaces. It encourages positive interaction between management and staff. It is used by all leaders and other personnel who are accountable for maintaining safe operations.

^j BOSS is a tool used to encourage employees' observations of, and conversations about, safety at work.

Systematic approach to safety auditing

The BP safety and operational risk (S&OR) group provides BP group management and the audit committee of the company's board with a systematic and structured operations-focused audit programme. These audits are conducted on a three-year cycle.

Azerbaijan-Georgia-Turkey (AGT) region's offshore and wells facilities, including relevant onshore support functions, were subject to an extensive S&OR group audit in 2010 which was performed over a three-week period by a multi-disciplined team of 23 auditors from the BP group. The scope covered compliance

with BP's group defined practices, engineering technical practices, and operating management system.

The 2010 S&OR audit raised a number of actions, with closure dates varying from several months up to six years. In order to close these actions, their completion has to be confirmed by dedicated AGT regional and BP group verification teams. This procedure is designed to ensure quality and timely action closure on all the findings made by the S&OR group, and ensures rigorous mitigation of business risks and the delivery of safe and reliable operations.

Safety culture

We carry out regular safety culture assessments to 'feel the temperature' in our assets, gauge performance, identify our strengths and prioritise areas for improvement. The focus is on personal safety, process safety and major hazards.

Building on work undertaken in 2009, we conducted safety culture surveys in 2010 on all BP in Azerbaijan offshore platforms and drilling rigs, and at two of our contractor companies – 'ASCO' and 'Saipem'. The surveys covered 14 topics including management commitment to safety, communication, attitude to risk and contractor relationships.

2010 safety highlights

- Recordable injury frequency was 0.17 (bettering the strict BP AGT target of 0.2), reduced by 26% compared to 2009, and by 57% compared to 2008.
- Total vehicle accident rate reduced by 4% compared to 2009, and by 57% compared to 2008.
- Land transportation team celebrated 10 years, offshore operations marked two years, and Western route export pipeline Azerbaijan recorded 11 years without a DAFWC.

Following the surveys, we organised discussion group sessions around the key topics so that survey participants could voice opinions and get involved in our safety culture development process. Improvement plans were then created. Examples of specific, implemented remedial actions from 2010 include:

- a renewed focus on safety awards/incentives and work planning/resourcing,
- stronger emphasis on hazard assessment and incident investigation,
- improvements to the 'accessibility' of procedures,
- greater management presence at our sites.

Integrity management

Onshore

Sangachal terminal contains a significant quantity of buried and difficult-to-inspect pipework dating back to its initial construction. To address this, we introduced a number of new inspection techniques in 2010.

One of these was the use of long-range ultrasonic thickness testing. This works by sending pulses of ultrasound along a pipe from the collar ring. Ultrasound is reflected back to receivers on the collar so providing information on internal or external defects, welds and changes in pipe section.

We first used this technology in the early oil project area of the terminal where the oldest pipework is buried. Nine excavations were made allowing long-range ultrasonic thickness assessment up to 10 metres either side of the pipe. Buried and hidden defects were located resulting in a number of repairs to pipework coating and wrapping.

A South Caucasus gas pipeline inspection to check for internal metal loss and geometry was conducted successfully in August and September 2010. All reported features were assessed against internationally recognised criteria and found to be acceptable in terms of integrity of the pipeline.

Offshore

During 2010, we also performed external surveys of the Azeri-Chirag-Deepwater Gunashli field subsea pipelines using acoustic survey techniques. No significant anomalies were reported. The whole length of the Shah Deniz 26" gas line and 12" condensate line was inspected internally. The results showed no corrosion or anomaly that would affect the integrity of the pipelines.



A moment of unity: responding to the Gulf of Mexico oil spill

BP experts from all over the world – including Azerbaijan – took part in the response to the Gulf of Mexico oil spill. At its peak 48,000 people, 6,500 vessels and 125 aircraft were involved.

Hijran Jafarova, industrial hygiene advisor, was one of 19 people from BP in Azerbaijan who were deployed to the Gulf to provide support. She joined the industrial hygiene team of the Louisiana Unified Incident Command at Houma in July. This team had responsibility for identification, facilitation and mitigation of all industrial hygiene risks potentially resulting from the emergency response operations.

The scale of the response and the interaction of numerous internal and external teams astounded Hijran. In her words: "As industrial hygienists we needed to keep an eye on the provision of exposure monitoring programmes on sites. We worked closely with the US Coast Guard, the Occupational Safety and Health Administration, the National Institute for Occupational Safety and Health, the Center for Toxicology and Environmental Health and Bureau Veritas." Hijran was particularly impressed by the commitment, eagerness and energy of the many thousands of people involved.



Emergency training at Sangachal terminal

Driving safety

Although driving safety remained a focus area for BP in Azerbaijan two severe vehicle accidents^a were recorded in the first half of 2010.

In response we utilised our ongoing driving safety improvement programme to guide our reaction to these incidents. A number of specific elements were used including monitoring, incentives and disciplinary action. Safety campaigns around driving safety, fatigue management, driving during the Ramadan fasting period and winter driving were launched. Driving safety standard audits were conducted for Azerbaijan pipeline operations and at Sangachal terminal, and a new procedure was issued for self-driving personnel.

No severe vehicle accidents were recorded in the second half of 2010 in Azerbaijan and the total vehicle accident rate for the year was low at 0.88 (in comparison it ranged from 0.92–2.03 in the previous five years).

Also during the year, we aligned BP in Azerbaijan driving safety standards with the requirements of operating management system (OMS).

Safety training and awareness

In 2010, 57,429 hours of HSSE (health, safety, security and environment) and operations training were undertaken by BP and contractor staff in Azerbaijan and Georgia. This was 19% less than in 2009 due to a rationalisation of our training requirements.

Radioactive source management

Well logging is the practice of making a detailed record of a geological formation penetrated by a borehole. In the case of nuclear well logging, a radioactive source is used to determine formation qualities. In 2009 concerns were raised by Azerbaijan’s Ministry of Ecology and Natural Resources about incidents of radioactive sources stuck in downholes.

In response, in 2010 we introduced a five year plan to decrease the incidence of these occurrences by reducing the number of nuclear logging runs on BP in Azerbaijan platforms and rigs. Good progress has been made, and we recorded a significant reduction in the number of nuclear well logging runs from 21 in 2009 to eight in 2010.

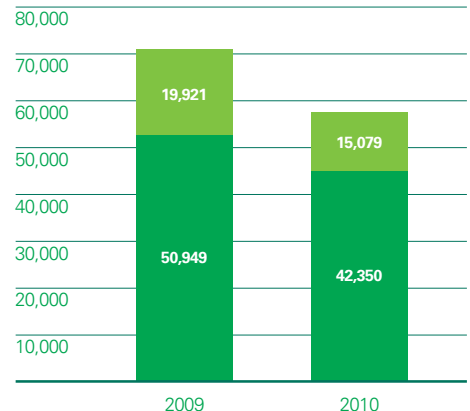
^a Severe vehicle accident covers accidents that result in fatality, injury, a spill, a vehicle roll-over or serious or disabling vehicle damage.

Health, safety and environment training courses in Azerbaijan and Georgia

(man hours)

In 2010, we spent more than \$2.3 million on health, safety and environment (HSE) trainings in Azerbaijan and Georgia, while in 2009 we spent about \$3.3 million. Relevant information cannot be presented for Azerbaijan only as data was collected from BP in Azerbaijan and Georgia as one site.

- Operations and technical
- Health, safety and environment



Working with partners and contractors *We are working to build strong relationships with suppliers, contractors and partners, with a shared understanding of what responsibility means*

We instigated a supplier safety programme in 2010, involving collaboration between BP AGT procurement and supply chain management team and the HSE Team, in order to standardise safety requirements for our suppliers. A standardised HSE Section was developed as part of the Standard Contract Template to deliver uniform HSE requirements and standards in alignment with OMS across all contracts.

As part of this initiative, joint HSE and financial audits of 15 of our contractor companies were carried out covering engineering, production and drilling, industrial cleaning/waste management, maintenance, security, and school facilities. Common themes emerging from the audits included the importance of document control, timely closure of actions, personnel competence and workforce communication. Individual audit reports were completed and actions agreed with the contractors. It is planned to conduct a second series of audits in 2011 to cover core contractors in the Azerbaijan-Georgia-Turkey (AGT) region.

Towards the end of the year, bi-weekly site tours were carried out at our warehouse operations to assess heavy and light vehicles in use. Deficiencies and improvement actions were discussed with the site operators following the visits.

Working together safely

The first Baku drilling contractor forum – ‘Working together safely’ – was held in May 2010. It involved all BP and drilling contractor senior managers, including HSE managers. The purpose was to engage BP and the contractor community about current HSE issues affecting both parties and so ramp up our safety performance.

The forum discussed 2009 performance, heard about future plans and was advised on significant changes to the way that BP operates following the introduction of the OMS. A lively discussion took place that included all the

Strategic and core contractor HSE performance was tracked using monthly performance scorecards. ‘Lessons learned’ were then communicated to key contractors in order to improve their future performance. Topics included loss of primary containment, lifting and dropped objects, control of work and driving safety.

During the year, the leadership team at Sangachal widened its involvement with the terminal’s contractors. The facility hosts a large number of contractors with a history of good HSE performance. However, it was felt that an opportunity existed to improve

delegates. Problems were aired openly and strategies developed to help overcome these challenges. The BP AGT president urged delegates to remain totally focused on their business in order to ensure continuous control of work and safety standards.

It is anticipated that future forums will concentrate on wells, production and midstream operations. The meetings will be held as frequently as required, based on the activity and circumstance prevailing at the time, but in any case not less than once a year. Specifics arising from the forums will be managed via the regular contractor management meetings.

performance further by engaging contractors’ senior management in conversations about their HSE strategy, our expectations of their day-to-day leadership and how best we can support them to develop an enduring and meaningful safety culture.

As part of this initiative two safety leadership forums were held with contractors and the terminal’s leadership team. Contractor safety stand downs took place during which work was stopped to highlight specific safety issues such as process and personal safety, heat stress and snake awareness. Contractor management site tours were also carried out.



Emergency response: BP Azerbaijan and MES work together

The first joint BP/Ministry of Emergency Situations (MES) emergency exercise was conducted successfully in the Agstafa region of Azerbaijan in September 2010, in close proximity to one of the Baku-Tbilisi-Ceyhan block valves. The exercise simulated an MES-proposed scenario – an act of terrorism, resulting in multiple casualties, oil spill and fire – and was intended to test inter-agency coordination.

Real-time mobilisation of the Azerbaijan export pipelines site response team, the BP in Azerbaijan incident management team and the BP oil spill response contractor in Azerbaijan took place. Resources were provided by MES including fire and medical rescue teams, fire engines, ambulances, fire fighting and air trooper helicopters.

“The purpose of the exercise was to identify the main areas of co-operation that

require more development,” said Anar Hasanov, BP in Azerbaijan crisis management and emergency response manager. “The exercise was very fruitful in terms of revealing areas that need to be addressed in the mutual operational plan between BP and MES. This is presently under development.”

Issues identified for future improvement included such matters as timing, co-ordination of joint BP and MES actions and information exchange.

According to Etibar Mirzoyev, deputy minister of emergency situations who was in charge of the exercise and observed the on-site response, “The main objective was to test how well we coordinate our activities with BP and how effectively we can limit, and eliminate, the consequences of such an incident. It was truly a major exercise involving of more than 200 members of staff, over 30 vehicles and two helicopters. Overall, I believe it was a success.”

Health Our health programmes include health risk assessments, health campaigns, food safety audits, legionella risk assessments and control of substances hazardous to health surveys



Medical consultation at East Azeri platform

Health initiatives

Several important health initiatives took place in 2010 including:

- Sangachal terminal (ST) retrospective health impact assessment – this was a single study undertaken to establish a baseline health impact assessment for people within the terminal and surrounding area. It was designed to analyse scientifically community/key stakeholder concerns and health issues related to past facility releases/emissions.

The assessment took nine months to complete and covered the planning, observation and report phases. A report was issued in 2010 which concluded that, based on the air monitoring undertaken, any significant community health effects attributable to the terminal were highly unlikely. Public meetings were held in Sangachal, Azim Kend and Umid to inform attendees of the results of the study and to address their comments and concerns. Any future related study will use the data of this report as its baseline.

- Skin surveillance programme – this initiative involved identification and assessment of employees potentially at risk from exposure to irritant/sensitizer chemicals. All individuals identified in 2009 on BP AGT offshore platforms underwent a surveillance programme with on-site medics in 2010. 'At risk' employees were identified at Azerbaijan Export

Pipeline sites intermediate pigging station Azerbaijan (IPA1) and pump station in Azerbaijan (PSA2). Surveillance of these individuals will be carried out in 2011.

- Health risk assessments – the new Chirag oil project construction yards (ATA and BOS Shelf) were assessed for health risks in December 2010. A health action report, which defined some of the improvements required including medical emergency preparedness and site medical equipment issues, was developed and agreed with the contractors.
- Laboratory workplace exposure assessments – chemical, biological and physical risk assessment of employees working in on-site laboratories at ST and on the Baku-Tbilisi-Ceyhan (BTC) pipeline was undertaken during the year. The assessments began in 2009 and are still ongoing.

Health campaigns

- We launched the 'YourMove' campaign across BP AGT in response to the OMS (operating management system) requirement that all manual handling activities should be categorised and assessed consistent with the identified risk.
- Targeted employee presentations gave clear information on manual handling dangers and risk assessment tools.
- To mark World Diabetes Day, we launched a 'Let's Take Control of Diabetes' campaign across the BP AGT region. This involved awareness sessions. About 400 contractor and employee personnel voluntarily

underwent wellness assessments.

- We carried out our annual influenza awareness and vaccination campaign during the last quarter of the year. Some 661 employees and contractors were vaccinated against A/H1N1 (pandemic) influenza and two other influenza viruses.

Health performance

The BP AGT health team conducted a review of three local medical institutions to assess their capability to deal with a pandemic outbreak or sporadic infectious disease. Recommendations were drawn up and shared with the providers.

In August, control of substances hazardous to health (COSHH) audits were conducted at both Deepwater Gunashli (DWG) and Chirag platforms. A number of recommendations were made for implementation by site personnel.

Food safety audits were held at ST, at facilities along the export pipeline routes, in our Baku offices and at selected contractor sites. Legionella risk assessments were carried out at ST, BTC IPA1 and PSA2 and on the offshore platforms. In-depth surveys of the existing water systems for legionella hazards were conducted on Chirag, DWG and Shah Deniz platforms.

In addition, a new procedure was issued entitled 'PSA2 multi-casualty plan'. This provides site-specific guidance to the on-site response team and medical emergency response team at BTC pipeline PSA2.

Seasickness management programme

At the end of 2009, the usual method of transportation to BP Azerbaijan's offshore platforms and rigs was changed from helicopter to vessel. An unfortunate side-effect of this switch was that some passengers became seasick during the four hour journey.

BP Azerbaijan's health team was assigned to investigate the problem and develop preventive actions. As a result several areas of improvement were identified and introduced:

- Provision of medication to prevent or diminish sea sickness symptoms. Medication was checked for its efficiency, side-effects and availability on the local market. Now all employees going offshore are offered suitable sea sickness tablets during pre-embarkation and advised by a

doctor on their use.

- Sea sickness awareness. A presentation was developed and communicated to offshore employees outlining the implications of sea sickness and some of its more serious effects. A sea sickness management procedure was issued.
- Monitoring of seasickness. To assess the effectiveness of the measures various statistics are now collected covering such matters as the number of passengers receiving sea sickness medication and the number of passengers suffering from severe sickness symptoms. The results are analysed on a quarterly basis.

During the last nine months of 2010, 37% of all offshore passengers took medication for sea sickness. Only 2% reported any subsequent illness on the transport vessels and only 0.2% reported illness on the platforms.

Environment

We understand, respect and value the responsibility we have to produce energy in the most responsible way possible, while minimizing impacts to people, communities and the environment

Greenhouse gas emissions

How we modify and upgrade equipment, optimise flaring processes and systems to manage greenhouse gas emissions

Page 36



Waste management

We implement new strategies and improve waste management processes as part of waste minimisation programme

Page 38



Environmental monitoring

Our rigorous approach to consistently monitoring the potential impact our activities may be having on the surrounding environment

Page 40



Environmental management

We achieved significantly reduced gas flaring levels during the year and made good progress in the disposal of long-term produced water. Issues arose over sewage treatment at several of our facilities.

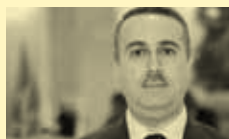
Greenhouse gases

Net greenhouse gas (GHG) emissions generated by BP in Azerbaijan in 2010 totalled about 671 kilo tonnes (kte), a reduction of around 6% on 2009.

Behind the decrease was a decline in flaring at most of our offshore platforms including West Azeri, East Azeri, Deepwater Gunashli (DWG), Chirag and Shah Deniz, as well as at Sangachal terminal. The fall in GHG emissions on the Istiglal rig in 2010 followed the cessation of drilling activities in the first quarter of 2010.

Flaring

About 423 kte of hydrocarbons were flared by BP and its co-venturers in Azerbaijan in 2010 – a decrease of 26% compared to 2009. The decline reflected modification and upgrade of the gas injection system at Central Azeri platform which in turn resulted in a reduction of gas injection system shut-downs. This led to maximised gas injection and reduced flaring at most of the platforms in the Azeri field and on the Chirag platform.



Ramiz Aliyev
Head of SOCAR ecological projects management department

The offshore operations awareness workshop, arranged by BP for the State Oil Company of the Republic of Azerbaijan (SOCAR) in 2010, was subject-specialised and the information and knowledge acquired by our experts at this event is proving very useful. The workshop covered advanced environmental standards and technologies used by BP in engineering, construction and operation of the offshore platforms in the Caspian. For some participants a trip to the Central Azeri platform was also organised.

At Sangachal terminal a flare improvement programme was implemented targeting a reduction of unplanned shut-downs. This produced a sustainable reduction of flaring. In addition, the reliability of the flare pilots was

improved which allowed the recovery of more flared gas. Overall, the terminal achieved a 39% decline in flaring compared to 2009.

Energy consumption

Fuel gas consumption rose by around 75 kte (about 8%) in 2010 in comparison to 2009. Diesel consumption rose by 3.4 kte (some 7%) while electricity imports grew by 52,296 Megawatt hours. These increases were due to:

- On the upside, all gas injection turbines were online at Central Azeri in 2010 as compared to a more limited regime in operation in 2009 following the 2008 gas release. This led to an increase of fuel gas consumption. At Sangachal terminal the rise was due to an increase in production.
- On the downside, Istiglal drilling rig was on contract to BP AGT for six months in 2009 as opposed to nine months in 2010. The decline in diesel fuel consumption at Sangachal terminal was due to fewer vehicles being used on site.

2010 environmental highlights

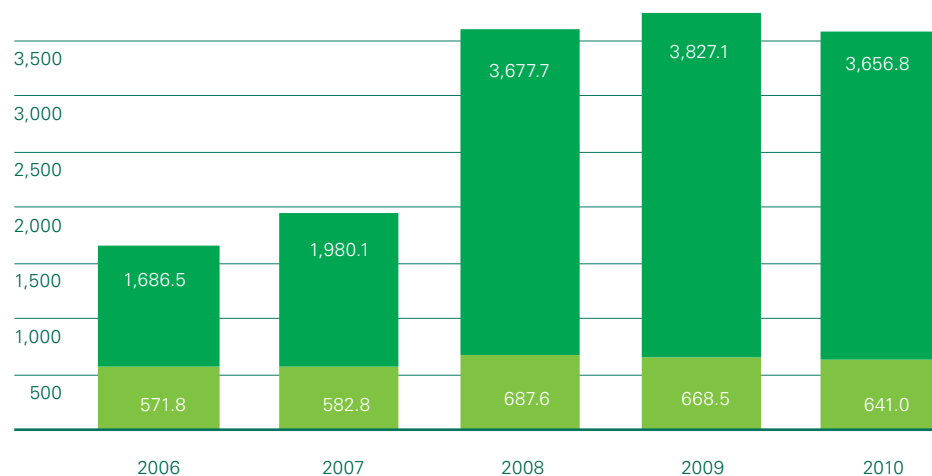
- Flaring totals reduced significantly – by 26% on 2009
- GHG emissions down by 6% on 2009
- 99.6% of produced water re-injected offshore
- Istiglal sewage treatment plant replaced
- Chirag oil project environmental and social impact assesment approved by MENR
- Tortoise breeding/release programme completed

The isolation of Chirag's compressors was improved and modified in 2010. As a result, the number of trips and shut-downs was minimised and the volume of exported gas rose in comparison to 2009. The longer working hours of Water injection 3 turbine at the DWG platform also led to higher fuel gas consumption and a reduction of flared gas.

BP in Azerbaijan direct CO₂ emissions, 2006-2010

(kilo tonnes)

- Gross direct carbon dioxide (100%) (BP and co-venturers)
- Net direct carbon dioxide (BP only)



More info at:

bp.com/sustainabilitymappingtool



Detailed environmental data

Find out more on page 42



Iris acutiloba translocation

Construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline necessitated extensive disturbance of vegetation along the route's Right-of-Way (RoW). As part of the restoration process BP Azerbaijan committed to re-introducing the Azerbaijan Red Data Book species *Iris acutiloba* to places from which it had been displaced such as the desert area of Gobustan.

This remedial work continued in 2010 when we identified an area with a large population of *Iris acutiloba* that was going to be excavated to make way for a quarry belonging to Garadagh cement plant (GCP). As a result, BP in Azerbaijan and GCP reached a co-operative agreement under which we agreed to move up to 16,000 iris plants from the quarry site to areas in the BTC RoW. The Ministry of Ecology and Natural Resources (MENR) was informed of the plans and a detailed scope of work plan was developed for the translocation process.

By November 2010, more than 11,000 *Iris acutiloba* plants had been removed from the proposed quarry area. Since the excavation-transport-replanting process was carried out rapidly, and the plants did not have to be moved to a non-native environment, the exercise is considered very likely to succeed. The newly planted areas along the BTC are protected by fences to reduce disturbance.

ISO 14001 certification

One of the requirements of the BP group's operating management system is to "maintain external ISO 14001 certification at major operating sites." ISO 14001 surveillance audits at BP Azerbaijan facilities were conducted successfully twice in 2010 by Moody International Certification Group. In May, the East Azeri and Shah Deniz platforms and the terminal at Sangachal were audited. Our Villa Petrolea office, sewage treatment plant and the central waste accumulation area at Sangachal terminal, as well as the central wastes accumulation area and supply base of the Shelfprojectstroy, were audited in September. A total of 11 corrective action requests were raised as a result of the audit, six out of which were related to the Villa Petrolea office which was being audited for the first time.

Oil spills^a

BP aims to maintain readiness to respond when spills occur, to minimise adverse effects and facilitate rapid mitigation. A total of 11 oil spills was recorded at our facilities in Azerbaijan in 2010 (10 in 2009). All the spills were offshore. Of the 32,181 litres of oil spilled in 2010 (9,831 litres in 2009), about 99% (31,789 litres) was recovered. The increase in spills volume was a result of a large spill of oil-based mud at East Azeri due to the use of an incorrect valve. The volume of the spill equalled 23,848 litres. The total volume of this spill, which constituted 74% of total volume of all oil spills in 2010, was fully recovered. All spills to the environment were reported to MENR and SOCAR. BTC also reports spills data to the BTC lender group.

^a Oil spills are defined as any liquid hydrocarbon release of more than or equal to one barrel (159 litres, equivalent to 42 US gallons).



Last stage of tortoises release programme at Sangachal terminal

Biodiversity

Working sensitively in relation to flora, fauna and local species is an integral part of our effort to manage environmental impacts.

Tortoise breeding/release programme^b

In 2010, a project to release all remaining tortoises from the breeding sanctuary near Sangachal terminal ended when a further 60 tortoises were released in the Gobustan area in May using the same methodology as in previous years. Monitoring conducted in September 2010, by the Azerbaijan Biological Diversity Centre found that the adaptation of the tortoises to the natural environment had been satisfactory.

^b Detailed information on BP in Azerbaijan's spur-thighed tortoise (*Testudo graeca*) breeding and release programme was provided in last years' sustainability reports.

Waste management *We follow an all embracing 'cradle-to-grave'^a approach to waste management with the aim of achieving industry leading performance*

In 2010, we commissioned a detailed supply chain strategy to help us select technically-qualified contractors to dispose of hazardous wastes stored at Serenja hazardous wastes management facility (HWMF). This work will continue in 2011.

Assurance audits were carried out by BP experts to verify compliance with relevant regulations covering the disposal of selected wastes.

Our waste minimisation programme made good progress. In drilling, improved results were achieved following a review, and subsequent optimisation, of the drilling chemicals management process. This helped to eliminate and minimise waste chemicals generation by maximising reuse and improving inventory management. A number of waste chemicals^b stored at Serenja HWMF were defined as suitable for operations and sent back to drilling operations for reuse.

In total, we produced 71,659 tonnes of waste from our operations in Azerbaijan in 2010 – 61,420 tonnes of hazardous waste, and 10,239 tonnes of non-hazardous waste. This 22% increase on our 2009 waste volume was mainly due to an increase in drill cuttings. In addition, we generated 425,936 tonnes of raw and treated sewage (about 5% up on 2009) and received significant quantities of produced water at Sangachal terminal.

^a Responsibility to monitor every aspect of a product or programme through its entire life cycle; from design or acquisition to disposal, or from proposal to termination.

^b Novathin, novamul, novamul L, xanvis, waste oil, waste diesel.

Some 61% of non-hazardous waste, and 4% of hazardous waste was recycled or reused by local companies. The remainder was either treated and disposed using approved methods and routes,

stored temporarily at Serenja HWMF or landfilled (non-hazardous only) in the new BP-dedicated non-hazardous waste landfill cell at Sumgayit.

BP in Azerbaijan waste quantities, 2009-2010

(tonnes)

	2009	2010
Hazardous waste ^c	51,055	61,420
Non-hazardous waste	7,479	10,239
Sewage	402,810 ^d	425,936
Produced water received by Sangachal terminal from offshore	666,986	1,213,951

BP in Azerbaijan drill cuttings discharged to water, 2010

(tonnes)

Asset / Facility	Drill cuttings with WBM discharged to water	Drill cuttings with SBM discharged to water	Total drill cuttings discharged to water
Chirag	0	3,308	3,308
Central Azeri (CA)	0	0	0
East Azeri (EA)	1,519	0	1,519
West Azeri (WA)	608	0	608
Deepwater Gunashli (DWG)	0	0	0
Shah Deniz (SD)	0	0	0
Dede Gorgud (DDGG) drilling rig	906	0	906
Istiglal drilling rig	1,716	0	1,716
Total	4,749	3,308	8,057

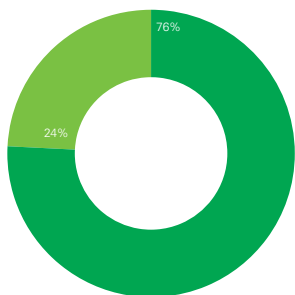
^c Includes drill cuttings and produced water filtration wastes.

^d Instead of 64,775 indicated erroneously in the 2009 BP in Azerbaijan Sustainability Report.

Cuttings treatment – Serenja HWMF, 2010

(%)

- Processed through indirect thermal desorption (ITD)
- Storage of raw untreated cuttings



At end of 2009, 3,939 tonnes of cuttings were in storage at Serenja HWMF. 36,156 tonnes of cuttings and drilling muds were received and, 25,582 tonnes of cuttings and drilling mud were treated by ITD in 2010. 2,050 tonnes were recovered base oil while 5,509 tonnes were recovered water re-used in cooling system of the ITD units. In December 2010, 5,470 tonnes were transported to bioremediation site.

Drill cuttings

Offshore discharge and re-injection

BP uses water-based mud (WBM) and synthetic-based mud (SBM) in Azerbaijan for its drilling operations. Fifty nine per cent of our drill cuttings discharged in 2010 contained low toxicity WBM – the most commonly used drilling mud worldwide. The remainder contained SBMs from the Chirag platform. Both discharges complied with the Azeri-Chirag-Deepwater Gunashli (ACG) production sharing agreement and the early oil project environmental impact assessment requirements.

In total, 8,057 tonnes of drill cuttings and associated fluids (adhered drill mud) were discharged into the Caspian in 2010 – a 10% decrease compared to 2009. As in the previous year, the decline reflected the lack of drilling activity on CA platform following the 2008 emergency shutdown. Also, the Istiglal

rig was on contract to the BP in Azerbaijan for less than a full year.

These factors were offset by increased drilling activity on the Chirag platform, where top sections of the new A-22 well were drilled using SBM^e, and on the EA platform where two top-holes were drilled with WBM.

In addition, a total of 49,591 tonnes of waste was re-injected on the Azeri and DWG platforms compared to 96,715 tonnes in 2009 – a 49% decrease. The waste included drill cuttings and mud, brine, oily drains and pit cleaning materials.

Onshore management

A total of 27,809 tonnes of untreated drill cuttings was received at Serenja HWMF from offshore drilling operations in 2010 (about 63% more than in 2009) as well as some 8,348 tonnes of drilling mud and tank cleaning waste. The rise in drill cuttings coming ashore followed increased offshore drilling activities at Chirag oil project during the year.

^e The rise in SBM as top sections of new A-22 well were drilled with SBM. Chirag has dispensation for these discharges.

Approximately 25,582 tonnes of drill cuttings were processed using ITD.^a Some 2,050 tonnes of base oil were recovered and returned to the drilling fluids supplier for re-use. The treated drill cuttings (classed as non-hazardous) were stockpiled on the site pending re-use/disposal.

Due to the higher total of generated drill cuttings and the consequent higher volumes transferred to shore for treatment, we began a bioremediation project of 7,000 tonnes of cuttings at Serenja HWMF. This will be completed in 2011.

About 4,229 tonnes of the treated drill cuttings were used as operational landfill cover at the Tehlukeli Tullantilar LLC non-hazardous landfill site during the year to minimise the potential for wind blown litter, birds and vermin. Further studies were made on the use of treated cuttings as an infill in quarry restoration. A series of chemical analysis tests was also implemented which confirmed the non-hazardous nature of the ITD-treated drill cuttings.

Drill cutting and oily/chemical waste re-injection from the Azeri and DWG platforms totalled 49,591 tonnes in 2010, compared to 96,715 tonnes in 2009.

Sewage

During 2010, we experienced a number of sewage-related issues, mostly to do with the sewage treatment unit on the DWG platform, as well as a few instances of sewage treatment plant (STP) outages from the three Azeri platforms.

Overall, there was a sharp increase in STP outages on the DWG platform and a slight decrease on the Azeri platforms. In total, 30 platform releases in 2010 compared to 18 in 2009 (a rise of 61%) while the volume of releases in 2010 totalled 444,234 litres compared to 617,480 in 2009 (a decrease of 28%).

In consequence, final effluent occasionally failed to meet our agreed discharge specifications. There were also several incidents of untreated sewage being released into the Caspian due to malfunctioning electrochemical cells, solenoid valves and macerators.^b

The quality of effluent on the Azeri platforms – in particular occasional ‘off-spec’ levels of faecal coliforms^c on the EA and WA platforms – slightly exceeded agreed specifications in 2010. Improvements to the maintenance and operational regimes on the EA and WA platforms during the

year reduced the number of outages. The services of NTL Alaska, an international consultant, were used to improve the operation of effluent quality systems and to provide training. In 2011, a trial modification is planned to improve effluent quality on the DWG platform.

Maintenance was carried out on the Chirag platform to improve the performance of the Redfox STP. After completing maintenance work, total suspended solids levels were brought within the allowable specification for three months of 2010. Details of this work were communicated formally to the Ministry of Ecology and Natural Resources (MENR).

On the SD platform STP modifications were made to switches and pumps in the buffer tank during 2010 to ensure the smooth movement of sewage from the buffer tank to the aeration tank during peak hours. This helped to avoid overloading of the aeration tanks and led to improved performance. It is planned to change the chlorine pump on the SD platform STP in 2011 to improve the results in faecal coliform bacteria counts.

Another upgrade involved the replacement of the Istiglal drilling rig sewage treatment unit (STU) by a membrane bioreactor unit. The unit was replaced before the rig moved from shipyard to its first well in 2010.

In Sangachal terminal an old sewage water line was reconstructed and new lines built during the year. Effluent monitoring at the terminal showed that the majority of sampling results complied with environmental and social impact assessment requirements. Only two readings during the year exceeded the lower tier limit for biological oxygen demand (BOD)^d (23 mg/l (milligrammes per litre) in March and 24 mg/l in September accordingly – the lower limit is 20mg/l). Any excess volume of untreated water beyond the capacity of the terminal STP was transported to Sahil municipal treatment plant for disposal.

At Azerbaijan Export Pipelines, one new STU at pigging station IPA1 was commissioned successfully and started up in January 2010. Discharges to the environment were in full compliance with the environmental and social action plan (ESAP) standards throughout the year.

During January 2010 – the first operational month of the new STU – discharged water failed to reach the agreed standards in respect of Coliform bacteria (700/100ml (millilitres) to

16000/100ml compared with the standard of 400/100ml), nitrogen ammonia (11.45 mg/l compared with the standard of 10mg/l) and total nitrogen (25.7 mg/l compared with the standard of 15mg/l) due to adverse weather conditions. Heavy rains in April and November also led to Coliform bacteria levels above the standard.

In April, the rotating biological contractor (RBC) in PSA2 camp cracked. Sewage treatment was stopped immediately. All untreated sewage was then sent for treatment to a BP-approved waste water treatment plant at Sahil. The RBC unit was successfully re-commissioned and re-started in July.

Other effluent monitoring results at PSA2 camp in 2010 were in compliance with ESAP standards with the exception of total Coliform bacteria. These reached 920/100ml in February, 9000/100ml in July and 910/100ml in October compared with the standard of 400/100ml. An investigation later confirmed that the results were not due to any failure of RBC treatment system but because of rain.

Produced water

A total of about 1,214,000 tonnes of produced water was received at Sangachal in 2010 from BP-operated offshore platforms – Chirag 420,739 tonnes; Azeri 712,320 tonnes; DWG 58,542 tonnes and SD 22,350 tonnes. This compares to 666,986 tonnes received by the terminal in 2009. The 82% rise was in line with our predictions which are based on increasing the ACG ratio of produced water flow rates to the terminal.

Around 1,208,585 m³ (about 99.6% against 76.6% in 2009) of produced water was transferred back offshore for re-injection and discharge. There was no disposal of produced water by onshore third party contractors in 2010.

Hazardous liquid wastes

A local company, RT Services (licensed by the MENR to provide industrial waste utilisation services), treated 6,606 tonnes of contaminated brine in 2010 (compared to 7,504 tonnes in 2009) – a decrease of 12%. Ekol-AAS JV treated 13,794 tonnes of oily water in 2010. This represents a slight increase compared to the 13,162 tonnes treated in 2009.

^a A technique for treating drill cuttings. The ITD treatment method uses indirect heating of contaminated drill cuttings in order to distil and separate hydrocarbons and water from the solid rock fraction of the cuttings.

^b Electrochemical cells oxidize the sewage. A solenoid is an electromechanical device which allows for an electrical device to control the flow of a gas or liquid. Macerators grind the sewage into small particles.

^c Faecal coliforms are types of bacteria that mostly exist in faeces.

^d BOD is a measure of the oxygen used by microorganisms to decompose the waste. High levels of organic waste in an effluent lead to high BOD.

Environmental monitoring

Our environmental monitoring efforts consisted of two distinct parts – ambient monitoring, which focused on the status of the surrounding environment in the vicinity of BP’s facilities; and operational monitoring in which the discharges and emissions resulting from our operations were measured at the source

Ambient environmental monitoring programme

BP in Azerbaijan’s ambient environmental monitoring programme has operated since 2004. It is designed to provide a systematic approach to ambient monitoring and the interpretation of results. By the end of 2010, a total of 90 monitoring studies had been completed over seven years. Following a reorganisation, in June 2010 the programme was renamed the Azerbaijan-Georgia-Turkey region environmental monitoring programme.

Of the 20 surveys conducted in 2010, six were offshore marine surveys, one was a nearshore survey in Sangachal bay and 13 were onshore ambient environmental surveys covering Sangachal (seven surveys), AzExport (two surveys) and Serenja hazardous wastes management facility (HWMF) (four surveys).

Offshore surveys

Offshore surveys in 2010 consisted of routine monitoring of existing assets, well site post-drill monitoring and regional environmental monitoring.

Regional offshore surveys are undertaken to help us understand background environmental trends. Sampling is carried out at locations some distance from our activities (and third party operations) in order to provide information on natural changes in the marine environment.

In 2010, routine seabed monitoring was conducted in the vicinity of the Chirag, Central Azeri and East Azeri platforms to assess the impact of production operations. A post-drill survey was undertaken in the vicinity of the SDX-5 well site to analyse the environment following drilling operations and platform installation. In addition, a regional survey was conducted in the vicinity of the Azeri-Chirag-Deepwater Gunashli (ACG) contract area. This involved physical and chemical sampling of the seabed and water column, and faunal sampling of the benthic and planktonic populations.

Nearshore surveys

The environmental status of Sangachal Bay and any BP Azerbaijan or third party impacts on it were identified and assessed during the Sangachal seabed sediment survey in 2010. The resulting data will be compared to that obtained during the Sangachal benthic surveys conducted in 1996 (baseline), 2000, 2003, 2006 and 2008.

Summary of ambient environmental survey results^a

Offshore	
Shah Deniz contract area – regional survey	This surveyed distinct groups of sampling stations’ physicochemical and biological characteristics related to sediment type, depth and distance from the coast. Hydrocarbon and metal concentrations were found to be generally low and have remained relatively unchanged from previous years except at stations located nearest to the coast (St. 20, 21 and 22) and at the centre (St. 28) of the eastern flank of the contract area. There is also a trend towards lower biological diversity, which is related to natural fluctuations in the region.
Shah Deniz platform – environmental survey	The results of this survey suggested that the operations at the Shah Deniz Stage 1 platform have not influenced the physicochemical characteristics and macrobenthic communities at the surrounding stations.
West Azeri platform – environmental monitoring	Relatively large temporal variations of sediment physical characteristics, and no strong gradients or patterns of trace metal concentration (with the exception of sediment barium which was recorded at elevated concentrations close to the platform), were logged at the majority of the sampling stations throughout the monitoring period (2002-2009). However, there were no clearly observable trends or patterns that could be attributed to anthropogenic activity. Temporal trends in faunal numbers and distribution patterns indicate a slight change in the fauna following commencement of offshore operations.
DWG platform – environmental monitoring	Comparison to previous survey data shows no evidence of significant contamination of the surrounding benthic environment and there has been no measurable impact on the health of the benthic community. An area extending 500m north, northeast, east, south and 750m west may have been subjected to physical disturbance which could be associated with the observed reduction of annelid and amphipod abundance. If there was seabed disturbance in this area, it is no longer occurring or has declined, allowing the communities to recover.
Chirag oil project – baseline survey	Comparison with the 2003 West Chirag data indicates that the 2009 Chirag oil project community had greater biodiversity and abundance. Physicochemical data overall were very similar in both surveys. No notable difference was identified that could be related to the greater diversity and abundance in 2009.
Shah Deniz 2 Worse Reverse Fault 1 area	Comparison with previous data indicated that sediment types, trace metal and hydrocarbon concentrations were similar to those recorded in previous surveys in this general location and can be considered as typical background values for the area. The abundance and species-richness of amphipods and cumacea was inversely related to sediment silt-clay content, whereas a positive relationship was present between oligochaete abundance and silt-clay content. The lowest oligochaete abundance occurred at sampling stations where hydrocarbon concentrations were highest.
Nearshore	
Sangachal – fish monitoring	Two studies undertaken in Autumn 2008 and Spring 2009 indicated that the health of fish caught near the beach at Sangachal is good. There was no evidence of significant damage or stress. The measurement of polycyclic aromatic hydrocarbons metabolites indicated that fish within the Bay and at Neftchala may occasionally be exposed to oil, but other measurements suggest that this exposure is neither persistent nor a source of identifiable damage.
Onshore	
Sangachal terminal – soil and vegetation survey	The general assessment of the ecosystem condition in the vicinity of Sangachal terminal (ST) fell within predicted ranges. An increase in non-terminal activities in the area may be a cause for concern in the future.
Sangachal terminal – air quality monitoring	Average annual NO _x , SO ₂ and volatile organic compound results were all below World Bank/World Health Organization guidelines. The standard for benzene was exceeded at a couple of sites, probably due to third party activities, and therefore should be interpreted with caution. Real time monitoring station average results for NO, NO ₂ , NO _x and SO ₂ were below the guideline levels.

^a The results of our offshore, nearshore and onshore ambient monitoring in 2010 will be released during 2011.

Summary of ambient environmental survey results

Onshore	
Sangachal terminal – bird surveys	No significant effects from Sangachal terminal operations were recorded on bird populations. Bird species abundance and diversity was influenced by distribution of suitable habitat in the area rather than by the terminal.
Sangachal terminal – ground and surface water monitoring	Ground and surface water monitoring at Sangachal terminal found contaminants in a few wells. The source of the contamination was identified quickly and all required preventive measures taken. A Risk Assessment study confirmed there were no risks to population or environment.
Serenja HWMF – air quality monitoring	Two rounds of air quality monitoring at Serenja HWMF placed all the results within international air quality standards with the exception of particulate matter. Relatively high particulate matter levels found in nearby settlements were probably due to large-scale construction works currently being carried out in the area.
Serenja HWMF – groundwater monitoring	Analysis of results over the entire monitoring period suggests there is no consistent or persistent contamination of ground water in the vicinity of the Serenja HWMF site.
Sangachal – noise monitoring	Night and daytime noise level monitoring was carried out in 2009 around three neighbouring ST residential areas – Azim village; Umid village; and Sangachal Settlement. The results complied with World Bank standards during daytime. At night there was a minor excess at Sangachal Settlement probably due to noise from the settlement, the adjacent power station, and intense traffic due to heavy trucks carrying stones from a nearby quarry.
AzExport pipelines – noise monitoring	Ambient environmental noise monitoring was undertaken according to the monitoring programme around AzExport Pipelines above ground installations and block valves to ensure that the level of the emitted noise was within the project specifications. No limit was exceeded during 2009.
AzExport Pipelines – ambient air quality monitoring	Ambient air quality monitoring in 2009 was undertaken at BTC pump station PSA2 in Azerbaijan and pigging station IPA1. The results demonstrated compliance with the BTC environmental and social action plan (ESAP) for all parameters.
AzExport Pipelines – surface and groundwater quality monitoring	Surface and ground water quality monitoring data, from surveys conducted at various locations along the BTC/SCP (Baku-Tbilisi-Ceyhan/South Caucasus gas pipeline) route, were comparable with baseline data.
AzExport Pipelines – vegetation monitoring	The recovery rate of vegetation and plant diversity on the BTC/SCP Right of Way (RoW) was also surveyed. Vegetation cover data indicated that the west part of RoW (Ganja-Georgian border) has equal or greater vegetation cover than adjacent, undisturbed areas. In the east part of the RoW (Sangachal-Hajiqabul) vegetation cover is 50% less than undisturbed areas. In the middle part of the RoW (Hajiqabul-Ganja) vegetation cover is 10% less than undisturbed areas. On average, all of the habitats exhibited a trend towards increasing vegetation cover when compared to previous years. Species-commonality between the RoW and adjacent, undisturbed areas is still low (mostly around 30%, although much lower in some areas), and in most habitats there has been only a small increase in the commonality recorded between 2007 and 2009. As a result, collection, threshing and sowing of natural plant seeds was continued.
Rare species monitoring	Only 1,018 individuals of <i>Iris acutiloba</i> (Red Data Book Plant species) were observed on the RoW (4% of those originally transplanted onto the RoW) in 2009.

Onshore surveys

We conducted a number of onshore ambient environmental monitoring surveys during 2010. At Sangachal terminal the focus was on vegetation and soil stability, bird populations, air quality, noise and ground and surface water. At Serenja HWMF the focus was on air quality and ground water. Along the BTC pipeline route the emphasis was on air quality, ground water, noise and vegetation monitoring. Air quality monitoring and vegetation monitoring were conducted along the Western route export pipeline.

To prevent erosion on the BTC RoW, a geographical information system was used to identify locations vulnerable to erosion along the corridor and to determine rates of erosion in order to assist in the planning of preventive measures. To perform erosion potential analysis, inputs from vegetation cover analysis were used on a yearly basis for non-agricultural areas only to track the RoW vegetation recovery trend and overall RoW vegetation performance.



Collection of seawater samples in ACG contract area during offshore environmental survey

Operational environmental monitoring

Comprehensive operational environmental monitoring was undertaken at BP's Azerbaijan facilities in 2010. All the results proved to be in compliance with the requirements of project-specific commitments such as production sharing agreement and environmental and social impact assessment (ESIA) with the exception of the following:

- Several onshore and offshore sewage effluent sampling results (see section above on sewage).
- NO_x emissions from four main oil line pumps stacks at BTC pump station 2 (PSA 2). Three of the stacks were compliant with ESIA requirements but all of them exceeded ESAP standards.
- SO₂ levels above ESAP limits around BTC PSA2. Nevertheless the SO₂ levels were below World Health Organization's guideline values.
- Environmental noise above 2 decibels of ESAP night time limit at BV-7 and BV-10 along the BTC pipeline.
- NO_x emissions at engines and turbines above 500 horsepower at Sangachal terminal due to the high work load on oil heaters during the test.

Detailed environmental data

BP in Azerbaijan gross flaring (by asset), 2009-2010

(kilo tonnes)

Asset / Facility	Actual 2009	Actual 2010
Central Azeri	56.7	86.7^a
East Azeri	121.7	86
West Azeri	87.9	66.3
Deepwater Gunashli	167.7	77.9
Chirag	69.3	64.4
Shah Deniz	0	0
Istiglal rig	3.1	0
Dada Gorgud rig	0	0
ACG Sangachal terminal	43.3	31.2
SD Sangachal terminal	25.1	10.8
Total	574.9	423.3

^a Gas injection outages at full production rates and export gas compressor outages resulted in higher flaring totals in 2010; WA, EA and DWG reductions due to the fact that during CA gas injection outages flaring was mostly at CA and hence there was less flaring at WA, EA and DWG platforms.

BP in Azerbaijan net GHG emissions, 2009-2010

Azerbaijan only	Actual 2009	Actual 2010
Operational net greenhouse gas (GHG) emissions (kilo tonnes per annum)	712.2	670.9
Normalised operational GHG emissions (tonnes per thousand barrels of oil equivalent) ^b	15.9	13.85

^b Emissions released for every thousand barrels of oil and gas produced.

BP in Azerbaijan net GHG emissions per asset, 2009-2010

(kilo tonnes)

Asset / Facility	Actual 2009	Actual 2010
Central Azeri (CA)	105.6	123.6^c
East Azeri (EA)	57.5	39.8
West Azeri (WA)	46.2	35.3
Deepwater Gunashli (DWG)	105.1	80.2
Chirag	36.6	36.1
Shah Deniz (SD)	2.3	2.1
Istiglal rig	3.8	2.6
Dada Gorgud rig	2.4	3.2
ACG (Azeri-Chirag-Deepwater Gunashli) Sangachal terminal	249.5	239.5
SD Sangachal terminal	44.3	46.2
BTC (Baku-Tbilisi-Ceyhan) Azerbaijan	26.1	27.2
SCP (South Caucasus gas pipeline) Azerbaijan	0.1	0.2
WREP (Western route export pipeline) Azerbaijan	4.2	4.1
Logistics	27.2	29.6
Waste management sites	1.3	1.2

^c Increase in GHG in 2010 is caused by around 50% increased gas flaring (Gas injection outages at full production rates affected the flaring totals in 2010. Also due to export gas compressor outages), and 15% growth in fuel gas combustion (All gas injection turbines online as compared to limited regime in 2009 after 2008 gas leak).

BP in Azerbaijan gross non-GHG emissions – SO_x and NO_x, 2009-2010

(tonnes)

	Actual 2009	Actual 2010
Oxides of Sulphur (SO _x)	2,842	3,396^d
Oxides of Nitrogen (NO _x)	8,412	8,908^e

^d Raise in SO_x emissions was due to increased diesel consumption at operational sites (45.4 kilo tonnes in 2009 compared to 48.8 kilo tonnes in 2010) and enhancement of SO_x calculation methodology for mobile offshore drilling units.

^e Increase in NO_x was largely due to greater fuel gas usage at CA (rise by 261 tonnes compared to 2009).

BP in Azerbaijan energy consumption, 2009-2010

Azerbaijan only	Actual 2009	Actual 2010
Fuel gas (kilo tonnes)	888.4	963.7
Diesel (kilo tonnes)	45.4	48.8
Electricity import (Megawatt hours)	2,053 ^f	54,349

^f Instead of 2.1 erroneously reported in Sustainability Report 2009.

Society

We strive to make our socio-economic impact a positive one by running our operations responsibly and by investing in communities in ways that benefit both local populations and BP

Revenue transparency

How we promote revenue transparency initiatives and support good governance projects

Page 44



Enterprise development

We continue to support local enterprise and foster sustainable economic development

Page 45



Educational initiatives

Supporting educational initiatives is integral to our efforts to create a sustainable BP business in Azerbaijan

Page 51



Revenue transparency We support good governance projects in Azerbaijan and promote revenue transparency initiatives which we believe may bring wide socio-economic benefits to the country

In 2003, the BP group supported the launch in London of the Extractive Industries Transparency Initiative (EITI). Our objective was to help create a voluntary, worldwide standardised process for transparent reporting of company payments and government revenues from extractive industry companies.



Shahmar Movsumov
Executive director,
State Oil Fund of
the Republic of
Azerbaijan

“BP has been one of the companies that is most supportive of EITI implementation in Azerbaijan. The company has been actively engaged in the preparation and implementation of the initiative since the beginning of the process. BP’s significant contribution to the global development of the EITI as an industry standard of transparency is hard to overestimate.”

We continued to work with the government of Azerbaijan, civil society and other extractive industry companies in 2010 within the framework of this initiative. In March, BP in Azerbaijan submitted its 12th EITI report covering the period January–December 2009. Our 13th EITI report covering January–June 2010 was submitted in August and our 14th EITI report covering the 2010 reporting year was submitted in March 2011. The data from the latest submission can be read on page 53 of this publication.

Within the EITI framework we continued to back the Advisory Services on Macroeconomic Management and Institutional Reforms (ASMMIR) project which is being implemented in Baku by the Centre for Social and Economic Research (CASE), a Warsaw-based think tank.

As part of ASMMIR we underwrote efforts to enhance economic planning capacity in Azerbaijan by improving forecasting skills and economic policy analysis in the Ministry of Economic Development (MED). This project, launched in September, 2008, was scheduled to last for 24 months but has been extended for a further 17 months and will now end in January, 2012. The total value of the contract with CASE is \$1.25 million. About \$440,000 was spent in 2010.

Also as part of ASMMIR, a methodological framework for quarterly economic reviews was elaborated in 2010. CASE experts assisted MED staff in the preparation of these reviews and in the development of monthly analysis of inflation, gross domestic product, the global economy, exchange rates, commodity markets and other topics.

In addition, CASE experts undertook an analysis for MED of the influence of the 2008-09 world economic crisis on the Azerbaijani economy during the year, prepared a concept note on economic diversification, studied distribution of real household income and consumption in the country and suggested a methodological framework for analysis of social assistance policies in Azerbaijan. In July, CASE experts and MED staff organised a workshop on the impact of the global economic crisis on emerging market economies. This was attended by representatives from MED, the Central Bank and the State Oil Fund of the Republic of Azerbaijan.

By supporting such initiatives we believe that BP is contributing to the efficient management of revenues generated by the oil and gas industry and that this will bring long-term socio-economic benefits to Azerbaijan.



Adalat Muradov
Head of Economic
Policy, Analysis and
Forecasting
Department, MED

“BP and co-venturers have sponsored macroeconomic advisory projects implemented in our ministry for more than two years. This has led to substantial development of the macroeconomic-forecasting model used by our ministry. It has also played a significant role in the establishment of a strong team of macroeconomic analysts.”



EITI reported data

Find out more on page 53

Enterprise development BP aims to include local participation in our supply chain

BP and our co-venturers in Azerbaijan signed new long-term contracts worth more than \$915 million with 60 local companies in 2010.

In addition, a total of 165 local companies took part in enterprise development and training programmes during the course of the year. Fifteen of these companies won contracts with BP and our co-venturers in 2010 as well as 14 with other international companies and 20 with local companies.

The gradual introduction of standard performance indicators for our major international suppliers continued. These indicators capture local spend and workforce nationalisation as part of the supplier management process. They also help to monitor suppliers' performance against their own nationalisation targets agreed under corresponding production sharing agreements.

Did you know? In 2010, more than 60 local companies were awarded new contracts by BP in Azerbaijan and more than 40 companies had existing contracts extended.

Throughout the year, we engaged local small and medium enterprises (SMEs) in activities intended to address competency gaps related to international oil and gas industry standards. Initiatives designed to align local enterprise development programmes with our procurement and localisation strategies continued.

Market research was conducted into the Azerbaijan fabrication and machine tool sector to identify potential local companies able to provide small as well as large fabrication services.

An enterprise e-centre was launched to provide up-to-date online information about development projects supported by BP in Azerbaijan and our co-venturers. The website at www.ecbaku.com gives useful insights on how to work with BP and other international and local companies.

Our spend in Azerbaijan in 2010

BP and its co-venturers' operations and projects expenditure in Azerbaijan in 2010 totalled \$1.03 billion, the same as 2009. It included a rise of 11% in direct spend with SMEs to \$147 million, an increase of 14% in spending with joint ventures to \$365.5 million, a fall of 4% in expenditure with state-owned companies to \$27.7 million and a decline of 11% to \$486 million in indirect local spend through foreign suppliers working in Azerbaijan.

Our sustainable in-country operations spend with local suppliers decreased by 9% to \$812 million reflecting successful efforts to consolidate a large number of small contracts into fewer big ones. The total included direct expenditure of \$144.2 million (up 13%) with SMEs; \$27 million with state owned companies (down 4%); \$263.4 million with joint ventures (down 14%); and an indirect spend of \$377.3 million (down 13%).

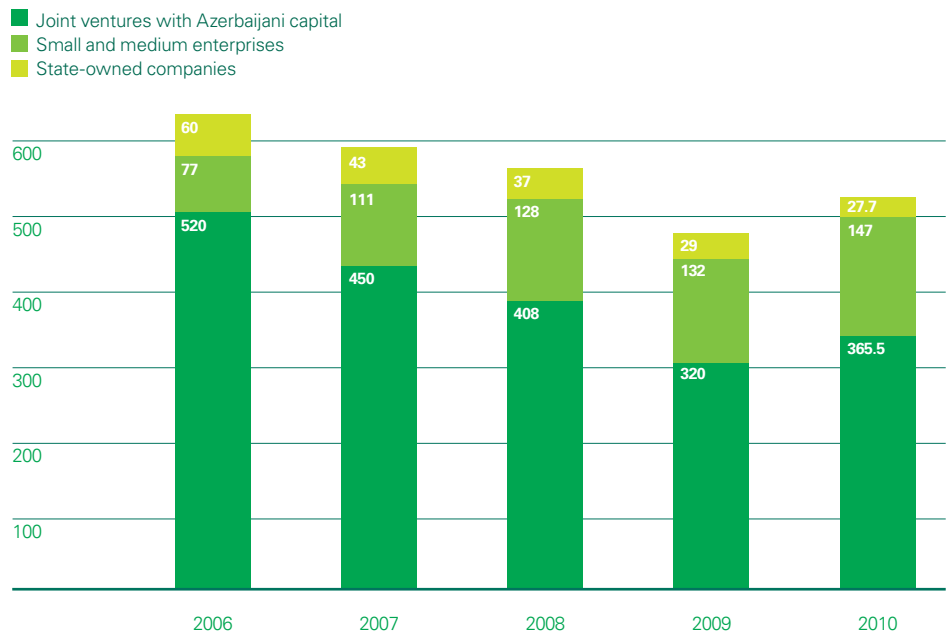
In total, BP and its co-venturers did business with 281 companies in Azerbaijan in 2010, of which 221 (79%) were SMEs.



Enterprise e-centre website

Direct in-country spend in Azerbaijan, 2006-2010

(\$ million)



Leading contractor meets workforce nationalisation requirements

During 2010, BP's major international hydrocarbon engineering and modifications contractor in Azerbaijan, AMEC, developed and implemented an ambitious nationalisation programme of its own.

Designed to last five years, the programme is intended to expand AMEC's Azerbaijani workforce and to replace expatriate staff by developing the competencies of existing national personnel and recruiting experienced and entry-level (graduate) local staff. The approach also is designed to underpin and sustain AMEC's long-term engineering presence in the country.

The project's core feature emphasises skills development through formal and on-the-job training. Expatriate employees have been made accountable for the progress of national staff through coaching and mentoring. In 2010, according to Kevin Stephenson, AMEC engineering construction and modification services project manager, the programme moved ahead of plan when ten national citizens were promoted sooner than expected to higher grades or positions following assessment against the required performance and competency criteria.

AMEC has also recognised the importance of developing and strengthening its local supply chain. "We achieve this by proactively interacting with local suppliers to identify potential sources of supply, outlining AMEC local requirements and plans to potential suppliers and evaluating and approving local suppliers in our approved supplier database," says Stephenson.

Enterprise development and training programme

We support the enterprise development and training programme (EDTP), launched in 2007, which is intended to help local hydrocarbon sector companies achieve international standards and so increase the local content of our contracts in Azerbaijan.

Various activities are included in the EDTP such as identification of potential local suppliers, detailed gap analysis and the creation and implementation of a tailored development plan where appropriate. By end 2010, we and our co-venturers had spent \$2.83 million on the programme including \$590,000 in 2010.

As part of our localisation drive the EDTP's implementing partner, an international organisation called ACDI/VOCA, was replaced gradually during the year by a local company, AZERMS.

In 2010, 165 local companies participated in EDTP. Forty in-depth gap analyses and 40 business development plans were produced to support the training of participating companies. Twenty companies completed the programme in 2010.

In total, 65 companies have completed the EDTP programme since 2007, 534 companies have taken part, and 149 business plans and 157 gap analyses have been produced to support EDTP participating companies.

At the end of 2010, several EDTP participants were invited by BP to bid on tenders. Some of the companies, including Telcoplus, Barama, MCG, MQS, Real Gas and Azecolab, won contracts with BP and its co-venturers.

Contracts obtained by EDTP participants in 2010 totalled \$14.6 million of which close to \$2 million was with BP. Since the launch of the programme the value of contracts obtained by EDTP participants has exceeded \$60 million, of which more than \$27 million has been with BP in Azerbaijan.

In total, EDTP clients have invested around \$7 million since 2007 in new capital equipment and enhanced quality management systems of which \$1.1 million was committed in 2010. From the start of the programme to the end of 2010 more than 250 new employees were hired by EDTP participants, including 70 in 2010.

Business enabling environment project

BP and its partners co-finance the business enabling environment project (BEE) being implemented by the International Finance Corporation (IFC). This programme was set up to assist the government of Azerbaijan in improving legislation in the spheres of permits/licensing and business registration. Slightly under \$500,000 has been allocated to the BEE project of which \$260,000 was spent in 2010 on the capacity building component of the programme.

In February 2010, the IFC presented the results of its business registration survey of 510 individual entrepreneurs and managers of 142 small and medium enterprises (SMEs). The survey acknowledged the success of the 'one-stop-shop' system launched in January 2008, in co-operation with Ministry of Economic Development and the Ministry of Taxes, in simplifying the registration process. It also outlined ways (such as the introduction of online registration) of bringing business registration in Azerbaijan closer to international best practice.

In the second half of 2010, a second tax client satisfaction survey was conducted by the IFC and representatives of the State Statistical Committee and the State Institute of Economic Reforms. The survey aimed to assess user satisfaction with various tax administration services. The results will be presented in 2011.

Micro and small lending and advisory programme

Under a framework agreement signed in 2006, BP and its co-venturers committed \$6 million through the European Bank for Reconstruction and Development (EBRD) for use as loans and technical assistance to private sector development in Azerbaijan and Georgia. The objective was to help widen access to finance and to encourage a strong microfinance sector to emerge in both countries.

In 2010, financial institutions supported by the EBRD lending programme issued more than 15,000 business loans with total value of \$48.5 million to local entrepreneurs in Azerbaijan. More than 3,700 new jobs were created as a result. Since 2007, over 54,000 loans have been issued under this programme with combined value of \$200 million, creating more than 13,600 new jobs.

In March 2010, an amendment was signed to the micro and small lending and advisory programme to allow the use of \$1.6 million from the fund on a 30-month initiative called the Azerbaijan SME Credit Advisory Services.

Did you know? The enterprise e-centre (www.ecbaku.com), was launched in June 2010, to inform local companies about the initial steps required when doing business with BP in Azerbaijan.

This project is focusing initially on technical support to, and institutional strengthening of, seven financial institutions in Azerbaijan to enable them to provide SME loans in urban and rural regions on a sustainable level.

Following the launch of this initiative,

34 attendees representing four financial institutions in six regions of Azerbaijan participated in basic loan officer training. In addition, 23 attendees representing seven financial institutions in four of the regions were involved in train-the-trainer sessions.

Supplier finance facility

The supplier finance facility (SFF) was set up with the IFC in 2006 to support local companies supplying the oil and gas industry in Azerbaijan. It offers loans to local vendors awarded contracts by BP procurement and supply chain management (PSCM) on behalf of the co-venturers.

In 2010, four local companies - Debet, AzMetco, Rapid Solutions and Student Travel International – that had received loan capital through the SFF totalling about \$2.1 million in 2009, boosted their turnover to around \$7.5 million. As a result they were able to double their combined staffs from 117 to 230 people.

Outlook for 2011

In 2011, we plan several new initiatives to support the local economy. They include:

- Holding local content-related events. The aim is to ensure that our impact on local enterprise development is transparent, to demonstrate our continuing commitment to localisation and safe operations, to create new opportunities and to spread information about new projects.
- Developing and implementing a single localisation programme across BP in Azerbaijan. The programme will include a localisation strategy, implementation steps and monitoring mechanisms.
- Starting a new supplier quality management process to create a pool of competitive local supply chains.



Localisation efforts drive mutually beneficial results

MQS, formerly Metal Qaynaq Sinaq (Metal Weld Testing), was set up in Azerbaijan in 1998 as a successor to the central operating laboratory for welding and testing at the Caucasus Energy Installation Trust. The laboratory had unique experience in construction of large power plants across the former Soviet Union. Today, MQS is involved in petroleum, gas and petrochemical projects in the Caspian region. Its areas of expertise include fabrication of steelwork, pipe and duct ware, blasting, painting and welding services.

According to Rasim Mamedov, a director of MQS, the success of the business is largely down to supplier development programmes organised by BP and its co-venturers. These programmes equipped MQS with new skills on quality control, health, safety and environment, assurance and transparent reporting required by the international oil and gas industry. "A true testimony to the quality of our products and services is the long-term

co-operation we have achieved with BP and its co-venturers in oil and gas projects in Azerbaijan" says Rasim.

To give two examples, the company won a long-term multimillion dollar contract in 2008 for the provision of pipeline maintenance and repair services under BP's localisation strategy. Then in March 2011, MQS was awarded a three-year contract for the provision of fabrication and maintenance services for the BP-operated Sangachal terminal and related oil and gas export pipelines.

Three years down the line MQS has achieved an enduring partnership with BP. In the words of Hikmet Bagirov, maintenance and logistics manager at BP Export Pipelines Operation: "We're happy with the level of co-operation with MQS. It is successfully demonstrating high reliability and providing quality and cost-effective pipeline fabrication and coating repair services."

MQS is now planning to expand its hydrocarbon servicing activities beyond the Caspian region.

Working with communities **BP in Azerbaijan supports sustainable community development initiatives near our operating facilities**



'Greenhouse agriculture' initiative in Goranboy

Our community programme was implemented in 90 communities across Azerbaijan in 2010. Its focus was on income generation and the creation of wider economic opportunities. Together with our co-ventures we allocated more than \$1.1 million to the programme and supported many projects. They included:

Development of the Garadaghly community agricultural sector

This one-year project was launched in November 2009, in Garadaghly village in Ujar region. The project was implemented by Ganja Agrobusiness Association (GABA). The objective was to provide sustainable income generation tools for those members of the community involved in agriculture.

As part of the venture 140 farmers received training in soil improvement, livestock breeding, crop cultivation and business management. More than 4,800 kilograms of fodder and vegetable seeds were provided to 150 farmers and a new fodder processing facility constructed. Some 1,785 people benefited directly from the initiative which ended in December 2010. The project budget was \$119,570 of which \$67,562 was spent in 2010.

Developing Khatinly community

Supported by BP in Azerbaijan and its co-venturers and implemented by GABA, this project covered the Khatinly community. A fodder processing facility and cold storage warehouse were designed and constructed. New crops to produce high quality fodder were

introduced and biogas provided for organic fertilizer composting. A limited liability company was established to manage the new facilities. Around 2,400 people benefited from this project which began in June 2009, and ended in December 2010. Out of a total budget of \$255,703 about \$100,789 was spent in 2010.

Development of greenhouse agriculture in Goranboy communities

This initiative was implemented by GABA. It commenced in June 2010, with the establishment of 'greenhouse agriculture' in Azizbeyov, Yolpag, Nadirkend, Jinli Boluslu villages in the Goranboy region. Twelve greenhouses were constructed and 24 training sessions provided to 332 community members. A total of 452 residents benefited in 2010. During the year, \$127,693 out of a total budget of \$171,255 was spent.

Improvement of Agstafa Agro Service Centre

Launched in August 2009, this project ended in February 2011. It was implemented by the Local Governance Assistance Public Union. Sixteen communities along the Baku-Tbilisi-Ceyhan and South Caucasus pipelines in Agstafa region were targeted. The aim was to boost improvement of Agstafa Agro Service Centre productivity and expertise. Fourteen business development workshops were held and various services provided to the farmers. Around 300 people attended training sessions and 2,000 community members benefited directly. The total budget of the project was \$129,273 of which \$71,222 was spent in 2010.

Management of community micro projects

This project began in January 2009, with a budget of \$1,389,295. It was implemented by Umid Support to Social Development (SSD) and designed to equip 39 communities from Agsu to Agstafa with the skills and resources required for sustainable development. In 2010, project spending totalled \$459,427 and there were some 59,215 beneficiaries. Within the initiative, 39 micro projects were completed successfully. Community members attended 148 specialised training sessions on leadership, team work, project management and contract development. The project ended in November 2010.

Expansion of economic opportunities and community skills programme

Implemented by Umid SSD this 18-month initiative began in October 2009. It covers communities in Kurdamir, Ujar and Agdash regions. The objective is to improve the local context for entrepreneurship and to support youth employment.

In 2010, 44 apprentices received training and 33 apprentices were able to find a job. More than 160 capacity building workshops were conducted for community members and 11 business ideas originated in the communities were supported with grants worth \$60,000. Around 50,286 community members are estimated to have benefited from the programme to end 2010. The total budget of the project is \$326,155 of which \$81,529 was spent in 2010.

Provision of community-based support to dairy producers

This one year project, implemented by Umid SSD, began in July 2010. It has been designed to expand dairy production by small and medium-sized farmers. A secondary goal is to promote regional collection centre linkages to commercial processors to enhance the sustainable development of private dairy farming households and small farmers in Azerbaijan.

The project's main funder is the United States Agency for International Development (USAID) in conjunction with BP in Azerbaijan and its co-venturers. A total of \$86,000 has been allocated by BP to this project, of which \$60,002 was disbursed in 2010.

During the year, project-related plans were prepared and submitted to USAID for approval. Public awareness sessions were held in seven regions among 50 communities. Villages in five regions (Yevlakh, Goranboy, Samukh, Shamkir, GoyGol) were selected as target communities. Training materials and booklets were prepared as part of the project. Within the project's framework, seven milk collecting points and 24 milk processing points were surveyed. Two of the milk processing points were selected and a memorandum of agreement was signed with one of them.

Supporting youth development

We also funded a number of initiatives in 2010 designed to improve the skills and capacity of young people in Azerbaijan. They included:

- A project run by Umid SSD that commenced in November 2010 and will last to June 2012. The goal is to increase the skills capacity and revenue of community entrepreneurs and young people via sustainable market approaches. To achieve this we plan to implement community projects via the consolidated budget method, empower community entrepreneurs by introducing safe and innovative technologies and encourage youth to act as a driving force for development. The project budget is \$500,000.
- A year-long youth development project led by the Eurasia Partnership Foundation. This seeks to enhance the economic and entrepreneurial opportunities of young people through experience in business startups and micro-economic projects. Five youth funds were set up comprised of young people from ten target communities in five regions. Each fund included seven members who provided capacity-building and business training for others in their communities. Financial assistance was given through the funds to the best two or three business plans or micro-economic projects in each region. In all 100 young people benefited in 2010. The project has a budget of \$138,551 of which \$129,445 was spent in 2010.
- A three-year youth employment and economic opportunities expansion initiative led by Umid. This project focused on communities in the Baku Corridor and sought to provide young people with vocational and entrepreneurship skills and to support them job-hunting and/or in starting their own business. The project ended in August 2010. A total of 214 young people completed the courses. Of this total, 145 were subsequently employed and 45 were enabled by Jump Start Economic Project grants to set up their own business. The budget of the project was \$439,090, of which \$66,404 was spent in 2010.
- In December 2010, a fourth project aimed at empowering entrepreneurial skills among the young began. It will run through June 2012. Implemented by the Azerbaijan Community Development Research, Training & Resource Centre, it offers skills development training. Some 600 young people are expected to benefit. A total of \$98,845 has been allocated to this initiative.

Social spend in Azerbaijan, Georgia and Turkey, 2010

(\$ thousands)

	BP and co-venturers	BP only	BP only (%)
Azerbaijan	4,776	2,341	49%
Georgia	5,824	1,369	23%
Turkey	3,718	938	30%
Total	13,718	4,648	34%



Transferring skills into success

The positive consequences of taking part in an apprenticeship programme are best seen through the subsequent successes of the participants.

Ruhida Shahmardanova is a graduate of a six-month apprenticeship course on hairdressing offered by Umid SSD in 2007 within the future communities programme supported by BP and its co-venturers. Through this programme Ruhida gained valuable skills and received a grant to start her own business. Then she developed an effective business plan and went ahead and set up her own business – the 'Fidan' beauty salon in Hajigabul city.

This success wasn't enough for Ruhida; she wanted to transfer her skills to others. So she joined an ongoing apprenticeship training programme implemented by Umid SSD and supported by BP and its co-venturers. But this time she became the teacher to the young pupils. As she puts it: "I do my best to share all the secrets of the trade with my apprentices. I want them to become professionals so that in the future they can also teach someone else". Attracted by Ruhida's passion for her trade two new apprentices, Banovsha Suleymanova and Ayshan Ibrahimova, recently started their courses at 'Fidan' beauty salon.

Employee engagement programme

The employee engagement programme (EEP) is designed to encourage our staff to volunteer their time and talents through time-matching. In 2010 about 30 employees participated in EEP via various educational projects and donated 1,721 hours, equivalent to \$34,420.

From November 2009 to December 2010, 11 EEP projects worth \$70,120 were implemented by a local NGO – Saglam Hayat, using EEP generated money. This included \$34,420 of BP funds, \$16,890 of the NGO matched contribution and \$18,893 donated by the BP Azerbaijan employees. Among the initiatives were:

- Stage 2 of a mega library project. This was costed at \$5,000 and designed to help 1,500 students at the Oil Academy and other educational institutions studying oil and gas related disciplines. Books on subsurface engineering and other oil and gas related disciplines were acquired online and delivered to the Information Resource Centre in the Azerbaijan University of Languages.
- The BP library initiative. This involved the repair and/or refurbishment of school library premises and the installation of newly-built bookshelves in two of six selected pilot schools – Secondary Schools #5 in Hajigabul and #8 in Yevlakh. About 80 teachers and 1,565 schoolchildren benefited from the two projects which cost \$18,891, two-thirds funded by BP AGT employee donations.

Conservation of cultural heritage We cooperate with the US-based Smithsonian Institution and the Azerbaijan Institute of Archaeology and Ethnography to preserve Azerbaijan's cultural heritage



- 1 Historical artefacts discovered during construction of the Baku-Tbilisi-Ceyhan pipeline
- 2 Presentation of the book about Zeynalabdin Tagiyev

The BTC/SCP (Baku-Tbilisi-Ceyhan/South Caucasus gas pipeline) cultural heritage programme in Azerbaijan and Georgia began in 2008. It includes capacity building and public outreach components. BP and its co-venturers have allocated \$1,078,000 to this programme. In 2010, we spent \$395,300.

During the year, the Washington DC-based Smithsonian Institution published a book in multiple languages on the programme and the artefacts discovered along the BTC/SCP route titled 'Past and future heritage in the pipelines corridor'.

In April 2010, a website dedicated to the BTC/SCP cultural heritage programme was launched at www.agt.si.edu.

The Caspian Energy Centre continued its archaeological exhibition (see 'Educational Initiatives' section).

Also in April, the Smithsonian Institution held a two-day workshop on the assessment, collection and conservation of artefacts for Azerbaijani and Georgian scientists and archaeologists who had participated in the BTC/SCP pipelines archaeological programme. The workshop was led by international experts from the Smithsonian Institution, the University of Arizona and the National Museum of Berlin. More than 40 representatives from the Gobustan State Historical-Artistic Reserve, the Institute of Archaeology and Ethnography and the Georgian National Museum participated.

In addition, we sponsored publication of a photo-album during the year dedicated to the Azerbaijani philanthropist and oilman Hajji Zeynalabdin Tagiyev. The album (in the Azerbaijani and English languages) promotes ideas of philanthropy and the use of national wealth to develop education and culture.



Laying the foundation of the future

Gunel Abdullayeva is one of eight students who were admitted to Qafqaz University's chemical engineering department when it was established in 2010 with financial support from BP in Azerbaijan. In her university admission test she had achieved the highest score (700 points) in the country.

Entering the new programme, Gunel became one of the first students in Azerbaijan to benefit from the internationally-accepted curriculum and access to the newly-established chemical laboratory. While touring the laboratory, which will become functional in 2011, Gunel was amazed at its modernity.

By supporting the establishment of this higher education facility at Qafqaz, BP in Azerbaijan is hoping to open up new opportunities for local students to obtain international level education without having to leave the country. "We are glad to see that some high potential Azerbaijani students have chosen chemical engineering as their major and that our financial support will help them to pursue their educational goals," remarks Jeyhun Karamov, education section lead at BP in Azerbaijan. "We believe that this faculty will nurture specialists with the potential to become a driving force in developing Azerbaijan's chemical engineering field to international levels".

Educational initiatives Supporting educational initiatives is integral to our efforts to create a sustainable business in Azerbaijan

Our major initiative in 2010 was the support we gave to the establishment of a chemical engineering department at Qafqaz University. We also signed an agreement to launch a Project Management College in Azerbaijan. We continued to sponsor scholarship programmes.

Qafqaz University project

At Qafqaz University we are underwriting the creation of international-level undergraduate programmes in chemical, petroleum and mechanical engineering. In 2010, a chemical engineering department was opened at the university and the first 29 students were admitted to the department. Work also began on developing a chemical engineering laboratory which is to be launched in 2011.

Depending on the success of these initial steps, the project envisages the eventual establishment of distinct petroleum and mechanical engineering departments at Qafqaz. A total of \$1 million has been allocated by BP to this initiative.

Project Management College in Azerbaijan

In November 2010, BP and its co-venturers signed an agreement with ESI International to launch a 'Project Management College' in Azerbaijan in 2011. ESI International is an industry leader in project management and business analysis training. BP will support this project until 2013. A total of \$1 million has been allocated for the purpose. The college will be located within Khazar University and will offer an open-enrolment programme.

Supporting pre-school education

This project is designed to improve the quality of pre-school education at public kindergartens³ and to broaden access to such facilities in Azerbaijan. It is run by the Centre for Innovation in Education and commenced in December 2010. It will last for 12 months and, covers five communities in the Shamkir, Tovuz and Samukh districts. It has a budget of \$103,475.

BP bursary programme

The BP bursary programme financed by BP in Azerbaijan started in 2007. It supports the education of petroleum engineering and geosciences students at the State Oil Academy. By the start of 2011, about 180 first and second year students, including 57 students in 2010, had received a BP bursary. In 2010 the 30

students who entered the academy with the highest admission score received computers courtesy of BP. We also sponsored 27 second year students to attend English language courses. The rest of the students received financial support.

BP summer students geology field course

In the summer of 2010, BP in Azerbaijan sponsored a field course in sedimentology and structural geology for undergraduate and graduate students. Twenty eight students from local universities were selected from 80 applicants following knowledge-based assessments. The course was led by representatives of Azerbaijan's National Academy of Sciences and the University of Michigan in the United States.

BP geosciences and engineering speaker series

We continued to sponsor the geosciences and engineering speaker series to help local geologists and engineers add to their knowledge and expertise. Courses were scheduled each month in the State Oil Academy where experts from inside and outside Azerbaijan focused on geology, geophysics and engineering. Many students from local universities and academia took part in the courses.

South Caspian basin modelling centre

In 2008, BP launched the South Caspian basin modelling centre at the Geology Institute of the National Academy of Sciences. The centre serves as a venue for advanced geological modelling equipment and facilitates subsurface modelling of the challenging South Caspian basin. It is supported by a range of related disciplines such as geology, geophysics, geochemistry and biostratigraphy.

At the centre BP shares its experiences with industry experts and sponsors one institute expert internship in Paris and some expert internships at the Geology Institute of the National Academy of Sciences. In 2010, a three dimensional geological model of nearshore-onshore transition zone structures was created to improve understanding of the distribution of the main reservoir units and seals^a in the area.

BP business journalism training

Around 200 national journalists have taken part in the BP-funded English language training courses for business journalists which have run for more than a decade. In 2006, we decided to build on the success of this initiative by launching a formal business journalism training programme.

In 2010, the programme hosted six leading Azerbaijani journalists selected from participants in the earlier language training phase. They represented print, broadcast and online media. The six were trained in investigative journalism and the use of social media. They were also trained to become trainers themselves in order to cascade their knowledge and skills. The group visited the UK twice during 2010 to receive specialised training organised by the Thompson Foundation.

Azerbaijani oil and gas scholarship programme

This programme is funded by BP and its co-venturers to allow Azerbaijani students to pursue undergraduate and post-graduate studies in engineering and geosciences at universities in Turkey and Azerbaijan. Five MSc students and 74 BSc students were supported in 2010. Twenty six students graduated from universities within the programme during the year. The value of the scholarships we provided in 2010 amounted to more than \$300,000.

Caspian Energy Centre

In 2010, 4,395 people visited the centre including 1,983 adults and 2,412 schoolchildren compared to 2,769 adults and 2,443 children in 2009. A film with the title 'Sangachal terminal tour' was launched by the Caspian Energy Centre to inform visitors about some of the technical processes in the terminal in order to optimise physical visits to operational areas.

For the young visitors, the centre developed a new 'space' exhibition at the request of secondary school teachers, and created a science show called 'How things fly'. This rapidly became the centre's most popular science activity among the schoolchildren. The show explains physics and describes how planes and rockets fly.

^a Main production units and overlying layers that allow oil-gas to be trapped in the reservoirs.

Five-year performance data^a

For the year ended 31 December	2006	2007	2008	2009	2010
Operating					
Total hydrocarbons produced (thousand barrels of oil equivalent per day) ^b	509	779	881	1,023	1,036
Financial^c					
OPEX (operating expenditure) – total spend, gross (\$ thousand)	254,000	615,000	1,154,000	1,174,000	831,000
CAPEX (capital expenditure) – total spend, gross (\$ thousand)	4,437,000	3,404,000	2,659,000	1,443,000	2,096,000
Safety^d					
Fatalities – employees	0	0	0	0	0
Fatalities – contractors	1	0	0	1	0
Day away from work cases – workforce	5	5	3	0	1
Day away from work case frequency – workforce	0.03	0.04	0.02	0	0.009
Recordable injuries – workforce	39	41	49	24	15
Recordable injury frequency – workforce	0.25	0.31	0.36	0.21	0.14
Hours worked – employees (million hours) ^e	5.73	11.53	6.09	5.87	6.74
Hours worked – contractors (million hours) ^f	25.45	14.76	21.12	17.26	14.92
Environment					
Direct carbon dioxide (CO ₂), gross ^g (kilo tonnes)	1,686.5	1,980.1	3,667.7	3,827.1	3,656.8
Indirect carbon dioxide (CO ₂), gross (kilo tonnes)	0.4	0.3	0.5	0.4	0.5
Direct methane (CH ₄), gross (kilo tonnes)	5.7	9.4	20.8	15.6	10.5
Direct greenhouse gas (GHG) emissions ^h , gross (kilo tonnes CO ₂ equivalent)	1,806.5	2,176.2	4,113.9	4,155.4	3,876.4
Flaring (exploration and production), gross (tonnes)	332,641	280,774	841,856	574,922	423,265
Sulphur dioxide (SO _x), gross (tonnes)	237	795	3,034	2,842	3,396
Nitrogen oxides (NO _x), gross (tonnes)	3,711	3,786	7,243	8,412	8,908
Non-methane hydrocarbon, gross (tonnes)	7,562	3,014	4,965	2,816	2,398
Number of oil spills ⁱ	18	12	12	12	11
Volume of oil spilled (litres)	29,925	40,327	12,154	9,831	32,181^j
Volume of oil unrecovered (litres)	3,674	1,532	1,112	1,039	392
Discharges to water – drill cuttings with synthetic-based mud (tonnes)	1,563	6,811	808	890	3,308
Employees					
Number of permanent employees of BP in Azerbaijan	2,048	2,199	2,201	2,328	2,470
National	1,560	1,712	1,839	1,975	2,159
Expatriate	488	487	362	353	311
Number of professional staff of BP in Azerbaijan	1,764	1,949	1,994	2,237	2,378
National	1,276	1,462	1,632	1,889	2,067
National (%)	72%	75%	82%	84%	87%
Expatriate	488	487	362	348	311
Senior level Azerbaijani managers	40	69	102	117	132
Social spend					
Total for BP AGT and co-venturers, gross (\$ million)	17.12	16.10	13.9	12.6	13.7^k

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

^b Calculation is based on production of thousand barrels of oil equivalent (mboe) per day. It includes Azeri-Chirag-Deepwater Gunashli (ACG) oil, associated gas delivered to State Oil Company of the Republic of Azerbaijan, Shah Deniz gas and condensate.

^c BP AGT and its co-venturers.

^d Cumulative data for BP AGT. For data related to BP in Azerbaijan refer to page 30.

^e Hours worked by employees – are identified as hours worked by individuals who have a contract of employment with BP AGT; this definition is consistent with BP's group definition.

^f 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.

^g Gross numbers represents total of all partners participating interest in production sharing agreements (PSA). Net numbers represents BP's participating interest in PSA.

^h Direct GHG emissions are the physical emissions from operations. Indirect GHG emissions are a consequence of the import by operations of steam, electricity and heat from third-party sources.

ⁱ The definition of spills is now aligned with BP group reporting standards. Oil spills are defined as any liquid hydrocarbon release of more than or equal to one barrel (159 litres, equivalent to 42 US gallons).

^j The increase in spills volume was a result of a large spill of oil-based mud at East Azeri due to the use of an incorrect valve. The volume of the spill equaled 23,848 litres. The total volume of this spill, which constituted 74% of total volume of all oil spills in 2010, was fully recovered.

^k This is the cash-out number; as in previous years BTC grant and BP pledge of Georgia are excluded.

EITI reported data, 2004-2010^a

	2004			2005			2006			2007			2008			2009			2010		
	1 January - 31 December			1 January - 31 December			1 January - 31 December			1 January - 31 December			1 January - 31 December			1 January - 31 December			1 January - 31 December		
	Value	Volume ^b		Value	Volume		Value	Volume		Value	Volume		Value	Volume		Value	Volume		Value	Volume	
\$ million	Oil mmboe	Gas (natural, associated) ncm	\$ million	Oil mmboe	Gas (natural, associated) ncm	\$ million	Oil mmboe	Gas (natural, associated) ncm	\$ million	Oil mmboe	Gas (natural, associated) ncm	\$ million	Oil mmboe	Gas (natural, associated) ncm	\$ million	Oil mmboe	Gas (natural, associated) ncm	\$ million	Oil mmboe	Gas (natural, associated) ncm	
1. Payments/allocations of foreign company to host government 1a) Host Government's production entitlement in foreign company's Production Stream ^c - in kind (SOFAZ) - in cash		2.29		4.89		6.498			0.615	10.360		33.448	51.283		20.561	65.743		68.403	76.035		
Profit tax						472.032			799.735			797.721			264.887			328.302			
Signing bonuses and other bonuses									12.750			0.845			0.000			0.000			
Other payments, including: a) transportation tariff (SOFAZ) b) acreage fee (SOFAZ)	3.95		4.45			4.212			0.000			0.025		1.372				1.222			
	0.45		0.45						0.450			0.900		0.000				0.000			
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																					
Other payments, including: a) transportation tariff (SOCAR) b) acreage fee (SOFAZ) ^e	0.07		0.81			1.214			0.277			n/a ^d		n/a ^d				n/a^d			
		948,576,000			1,778,570,000			2,191,730,873,711			2,296,332,277,963		1,967,495,330,355				3,640,412,267,96		3,190,738,758,110		

^a 2003 data can be found on page 60 of the 2007 BP in Azerbaijan Sustainability Report.

^b mmboe – million barrels of oil equivalent; ncm – normal cubic metres.

^c In kind – State Oil Fund of the Republic of Azerbaijan; in cash – the payment for Shah Deniz gas.

^d Transportation tariffs for Northern route export pipeline (NREP) are paid to the State Oil Company of the Republic of Azerbaijan (SOCAR) as a commercial entity rather than as a representative of the government. In 2008, the operatorship of NREP was assumed by SOCAR.

^e BP as the operator of Azerbaijan International Operating Company, reports the total gross number for associated gas delivered to SOCAR, within BP's template.

Independent assurance statement

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 below.

Independent assurance statement to BP management

BP in Azerbaijan Sustainability Report 2010 (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 organization. Any reliance any such third party may place on the Report is entirely at its own risk.

What we did to form our conclusions

Our assurance engagement has been planned and performed in accordance with the International Federation of Accountants' ISAE3000.^a

The Report has been evaluated against the following criteria:

- Whether the Report covers the key sustainability issues relevant to BP in Azerbaijan in 2010 which were raised in the media, BP in 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 2010, including risk matrices and outputs from stakeholder engagement.
2. Reviewed the outcome of BP in Azerbaijan's own processes 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 data 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?

We are not aware of any key sustainability issues relevant to BP in Azerbaijan which were raised in the media or the outcome of BP in Azerbaijan's own materiality process that have been excluded from the Report.

2. Are the data and claims regarding BP in 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 in Azerbaijan's sustainability performance.

Our independence

As auditors to BP p.l.c., Ernst & Young are required to comply with the requirements set out in the Auditing Practices Board's (APB) Ethical Standards for Auditors. Ernst & Young's independence policies 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 2010.

 **ERNST & YOUNG**

Ernst & Young LLP, London
15 July 2011

^a International Federation of Accountants' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE3000).

Report process and feedback

Our objective in publishing this report is to provide a transparent account of our performance in Azerbaijan in 2010 and to respond to feedback on previous reports

This is the eighth Sustainability Report (SR) produced by BP in Azerbaijan. It describes our activities in the country during 2010. BP group auditors, Ernst & Young have provided external assurance. Their job has been to ensure that the report offers a balanced representation of our performance in Azerbaijan in 2010 and that figures and statements are correct and supported by documentation.

Feedback

The 2009 BP in Azerbaijan SR was circulated widely both internally and externally, in hard copy and electronically. All our stakeholders received a copy and feedback was requested. We also organised live feedback sessions involving about 200 individuals including BP employees, media representatives, students, professionals and alumni from educational programmes.

In general the feedback was positive. One of the researchers named the 2009 report as one of the best examples of corporate sustainability, social accountability and transparency reporting.

Employees from the communications and external affairs, security, permitting and regulatory affairs teams of BP in Azerbaijan took part in a 'cake and learn' session. During the meeting they made a number of suggestions including a request for more information on co-operation and joint activities between BP and the government of Azerbaijan and specifically, the Ministry of Emergency Situations, and for detailed expenditure data on BP scholarships.

Students from American Alumni Association, Qafqaz University, State Oil Academy, Economic University and Baku State University participated in feedback sessions. As in previous years, they were interested primarily in recruitment-related issues and BP scholarships. They also suggested adding more information on the use of new technologies by BP in the Caspian region, on the company's team-building activities and on SR engagement activities.

Media feedback was mostly positive and the 2009 report was regarded as being as comprehensive and informative as the year before. Suggestions for the 2010 report included improving the Azerbaijani translation, adding social spend numbers from the start of operations and providing more information on the new Chirag oil project.

Civil society feedback was limited but included one request to expand the statistics given on expatriates working in Azerbaijan

Our response

In response to the feedback, we have included information in the current report on various new topics – a joint event held between BP Azerbaijan and the Ministry of Emergency Situations; the company's team-building activities; a case-study on innovative technology used in the Caspian; expenditure data on scholarships; and information on Chirag oil project.


To encourage transparency we continue to disclose information about our tax payments to the government of Azerbaijan, our local spend, our efforts to enhance revenue transparency, our recruitment practices and our safety and environmental performances.


For ethical and privacy reasons, and in accordance with BP group policy, we do not disclose payments to individual employees or contractors or market-sensitive information. An aggregated account of the BP group's revenues and expenditures worldwide can be read in the company's 2010 annual report.

Should you have any comment or reaction to this report, please get in touch using the contact details printed on the last page.



Ayla Azizova
Transparency and public reporting team leader.
Since May 2011, Ayla performs a role of finance analyst in Azeri-Chirag-Gunashli business development.

 **BP's approach to sustainability reporting**
bp.com/sustainability

 **The aggregated report on the BP group's revenues and expenditures**
bp.com/annualreview

How to ...

... visit the Caspian Energy Centre

Caspian Energy Centre (CEC) is located 55 km from the centre of Baku, at Sangachal oil and gas terminal, near the Salyan highway. Visits are free of charge and take place from Monday to Friday between 10:00 and 16:00 - hours.

All visits to CEC are pre-arranged. A bus service is provided to invited visitors. Schoolchildren's visits must be arranged and accompanied by parents or teachers. Adults need to provide their names and ID card numbers before a visit.

Phones: (+994 12) 444 80 47 / 444 80 45

Fax: (+994 12) 444 80 55, Email: cec@bp.com

www.cec.az

... get a contract

Go to the Enterprise E-centre, a web portal that carries information on our development projects and gives guidance on how our procurement system works.

www.ecbaku.com

... raise a difficult issue

Use the OpenTalk 24-hour phone numbers:

Azerbaijan (+994 12) 497 98 88

International Collect (+1 704) 540 22 42

Fax: (+1 704) 556 07 32

Letter: BP OpenTalk, 13950 Ballantyne Corporate Place, PMB 3767, Charlotte, NC28277, US

Online form: www.opentalkweb.com

Further queries about OpenTalk should be referred to BP in Azerbaijan

... apply for a job

Visit www.bp.com/caspian/careers

On this site you can learn more about our technicians recruitment programme, our graduate and intern recruitment programmes and other BP vacancies.

Note: The graduate and intern recruitment campaign usually starts in February and is announced in the local media.

... apply for a community programme grant

Regarding grants for community programmes please contact us at: cdi@bp.com

... raise a grievance/concern, request information

To express your grievances/concerns or to request information, please contact community liaison officers:

Garadagh, Absheron, Hajigabul, Agsu, Kurdamir

Phone: (+994 55) 225 02 51/225 02 45

Ujar, Agdash, Yevlakh, Goranboy

Phone: (+994 55) 225 02 57/225 02 54

Samukh, Shamkir, Tovuz, Agstafa

Phone: (+994 55) 250 58 31/225 02 60

Public Information Centres' numbers:

Kurdamir (+994 145) 5 05 45

Yevlakh (+994 166) 6 58 84

Ganja (+994 22) 57 38 90

www.bp.com/caspian/contactus

For security-related grievances and concerns please call 114.

Further information

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

To leave your feedback or
to ask questions, call the
communications and external
affairs department at
(+994 12) 497 90 00



www.bp.com/caspian

This is the main information source about our Caspian region energy projects. It includes project details, news items, environmental and social impact assessments, legal agreements, which govern the projects, lenders' reports, civil society monitoring reports and BP's responses, earlier BP in Azerbaijan Sustainability Reports and other documents. The site is multi-lingual and is updated regularly.



www.bp.com

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



www.ecbaku.com

This site provides up-to-date information about development projects, gives useful insights on how to work with BP and other international and local companies.

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The Sustainability Report is printed on recycled paper. This paper has been independently certified according to the rules of the Forest Stewardship Council (FSC).

