

BP in Georgia Sustainability Report 2008



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About this report

This report, BP's fifth annual sustainability report for Georgia, describes our activities in Georgia in 2008 and outlines our performance across a range of indicators. In BP, we define sustainability as the capacity to endure as a group, by renewing assets; creating and delivering better products and services that meet the evolving needs of society; attracting successive generations of employees; contributing to a sustainable environment; and retaining the trust and support of our customers, shareholders and the communities in which we operate.

This year, we have updated the structure and content of the report. In addition to providing an update on significant developments in our operations in Georgia, the new structure is based on key sustainability issues identified by BP and core audiences. Each chapter is titled to provide a clear indication of the topics contained within it.

As in our previous reports, we have used a formal process to determine which specific issues are of most significance to internal and external parties. We do this to ensure the report covers the key issues and presents a balanced and reasonable view of our performance. The report, as in all previous years, has been independently verified.



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Cover image

BTC Pump Station 1
in Georgia.

In this report, references to 'BP' and the 'BP group' shall mean BP p.l.c., its subsidiaries and affiliates and, unless otherwise stated, the text does not distinguish between the operations and activities of BP p.l.c. and those of its subsidiaries and affiliates. Unless specified otherwise, references in this report to 'us', 'we', and 'our' shall refer to companies in the BP group operating in Georgia. Unless otherwise indicated all currency amounts are denominated in US dollars.

Cautionary statement

BP in Georgia Sustainability Report 2008 contains certain forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements depending on a variety of factors including future levels of industry product supply; demand and pricing; operational problems; general economic conditions; political stability and economic growth in relevant areas of the world; changes in laws and governmental regulations; exchange rate fluctuations; development and use of new technology; changes in public expectations and other changes in business conditions; the actions of competitors; natural disasters and adverse weather conditions; wars and acts of terrorism or sabotage; and other factors discussed elsewhere in this document and in *BP Annual Report and Accounts 2008*.

An introduction to Ernst & Young's assurance process

We have reviewed the *BP in Georgia Sustainability Report 2008* in order to provide assurance to BP management that the data, statements and assertions made regarding the sustainability performance of BP in Georgia are supported by evidence or explanation. Our scope of work and conclusions can be found on page 16.

Management introduction

A view from BP Georgia's country manager

Neil Dunn BP Georgia General Manager
May 2009



“We took significant steps forward in 2008, achieved in a challenging context with a minimum of disruption.”

I am delighted to continue in the path of my predecessors in BP Georgia by issuing this, the fifth consecutive annual sustainability report describing our activities in country. Sustainability reporting is a valuable part of engaging with stakeholders, enabling us to inform people what we have done and to gain feedback on how we can improve.

Military conflict thrust Georgia to the forefront of international attention in 2008. The implications of this conflict – social, political and economic – continue to reverberate. In the face of this we managed our business operations in Georgia with only minor disruption. Most importantly, the steps we took to protect the safety of our people helped ensure that all remained safe and accounted for. We also continued to operate our assets safely, in accordance with contingency plans.

For the year as a whole, production throughput on the Baku-Tbilisi-Ceyhan pipeline (BTC) and South Caucasus Pipeline (SCP) increased and our operating efficiency on BTC/SCP averaged 99.8%, a remarkable achievement. We also successfully re-opened the Western Route Export Pipeline (WREP) following maintenance and refurbishment. In achieving this, we can be proud of our safety performance, in which there were no days away from work cases for the second consecutive year.

We made progress with the special projects in the Kodiania section of BTC, despite interruptions caused by the conflict and financial difficulties among our contractors. We reached important agreements with the government on long-standing issues relating to land rights and made progress on issues relating to the demarcation of safety zones around the pipelines. Both these developments will help us maintain safe and reliable operations in the future.

We accelerated the process of staff nationalization, resulting in more than 90% of our workforce by year-end being Georgian nationals. Leadership roles in many areas of the business are now held by Georgians. Building a local energy company is an important goal for BP in Georgia, as it is in our operations worldwide.

These are all significant steps forward, achieved in a challenging context with a minimum of disruption. I congratulate and thank all the people across the business for their contribution.

We continue to face challenges, not least of which is maintaining a financially prosperous business in a highly uncertain economic climate. The steps we have taken in 2008 and earlier to establish a lean and efficient organization position us well for the long run. The past year has shown our ability to respond effectively and to manage through turbulent periods; one test of what it means to be a sustainable business. We are working hard to make sure we remain a sustainable business in the years ahead.

Achievements and challenges

In addition to the day-to-day challenges we routinely face in running a successful business, we had to respond to a number of events beyond our control in 2008. This section highlights some of our major achievements and challenges in 2008.



Pipeline operations
BP employee at Pump Station 1 on BTC pipeline.

Achievements

Nationalization

We made further progress in increasing the percentage of our workforce who are Georgian nationals, including the appointment of several local employees to leadership positions (page 9).

Operating efficiency

Throughput of oil in the BTC pipeline increased in 2008, reaching an average of some 675,000 barrels per day. Operating efficiency in the Georgia section of the pipeline averaged 99.8% over the year (page 4).

Securing land rights

We made significant progress with the government of Georgia in securing rights to state land along the pipeline right of way (page 5).

Crisis response

We safeguarded the security of our staff and successfully maintained operations on the BTC pipeline during the conflict in Georgia in August 2008 (page 7).

Challenges

Western Route Export Pipeline (WREP) security

An increase in the number of illegal taps on the WREP in late 2008 has highlighted the challenge of maintaining effective security in certain sections of the pipeline route (page 5).

Contractor capability

A number of our contractors experienced financial and operational difficulties in 2008, which along with the impact of the political unrest forced contractor evacuation and cut off access to Kodiana at the height of the construction season in August. These circumstances resulted in us not meeting internal timescales for completing the special projects in the Kodiana section of the BTC pipeline. The need to develop local contractor capability continues (page 5).

Further improving safety performance

While our activities were carried out in Georgia in 2008 without a single fatality or day away from work case for the second consecutive year, our recordable injury frequency increased compared with 2007. We recognize the need to remain vigilant and to drive further improvements in performance in our own operations and with our contractors (page 7).

Completing the transition from projects to operations

Despite the progress we have made, we continue to face the challenge of completing initiatives from the project phase of pipeline development. Having secured the necessary permits from the government, we are now completing the construction of an EU-compliant non-hazardous waste management facility. We made progress towards completing the land reinstatement along the BTC/SCP pipeline right of way but discussions are underway with government to agree an approach to forestry eco-compensation (page 8).

BP in Georgia

BP Georgia in context

BP provides energy from oil and gas and also from low-carbon sources for transportation, heat and light, and retail brands and products used in everyday life. We operate globally, with business activities and customers in more than 90 countries and approximately 92,000 employees. We have exploration and production interests in 29 countries, which include our midstream pipeline activities in Georgia.

In 2008, the BP group produced the equivalent of more than 3.8 million barrels of oil and gas per day for customers across the world. BP replaced its annual production by 121% in 2008, the fifteenth consecutive year that our reported reserves replacement ratio has exceeded 100%.

An important landmark in 2008 was the start up of oil production on our Deepwater Gunashli platform in the Azerbaijan sector of the Caspian Sea.

Our operations in Georgia

BP is the operator of the Baku-Tbilisi-Ceyhan oil pipeline and South Caucasus gas pipeline in Georgia, which are now in their third full year of operation. Both pipelines run side by side for 248 kilometres within Georgia and have two pump stations, two gas metering stations and a total of 21 block valves in the country. BP operates these facilities on behalf of two international consortia of energy companies and investors.

We also operate the Western Route Export Pipeline (373 kilometres of which is within Georgia) which carries oil from the Caspian Sea via the Sangachal terminal in Azerbaijan to the Supsa oil terminal on the Georgia Black Sea coast.

Air BP, in a joint venture, provides service to international customers at Tbilisi airport.

Our values

BP's operations in Georgia are undertaken in the context of the BP group values and strategy.

BP is progressive, responsible, innovative and performance driven.

Progressive

We believe in the principle of mutual advantage and build productive relationships with each other, our partners and our customers.

Responsible

We are committed to the safety and development of our people and the communities and societies in which we operate. We aim for no accidents, no harm to people and no damage to the environment.

Innovative

We push boundaries today and create tomorrow's breakthroughs through our people and technology.



Performance driven

We deliver on our promises through continuous improvement and safe, reliable operations.

These values guide us in the conduct of our business. We expect high ethical standards and act in accordance with our code of conduct.

BP interests in the Caspian Region



Our operations in Georgia

How did BP's operations develop in Georgia in 2008?

We ran our operations and projects efficiently, safely and reliably in Georgia in 2008. In this section, we describe key developments that took place in the course of the year.



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The Baku-Tbilisi-Ceyhan pipeline

The operating efficiency of the BTC pipeline in Georgia, measured by the extent to which we successfully transported the oil delivered through the Georgian section of the pipeline, averaged 99.8% in 2008.

Oil flow rates through BTC increased in 2008, averaging around 675,000 barrels of oil per day (bpd) and on numerous days operating at or near the pipeline's current capacity of one million bpd.

Operations on the BTC pipeline were suspended on 6 August following a fire at block valve 30 near Erzincan in Turkey. In line with emergency planning, response to the incident was led by the BTC pipeline operator in Turkey, Botas International Limited (BIL). BP assisted the response by managing a controlled shut-down of pipeline operations, establishing support teams in Ankara and Baku, providing on-scene advice and mobilizing a repair team.

Normal operations resumed at the end of August, following an assessment of the security and integrity of all the block valves in Turkey.

Agreement was reached in principle with the government of Georgia to expand BTC capacity to 1.2 million barrels, which will be achieved by the injection of drag reducing agent (DRA – a chemical injection which increases the flow of oil). The construction activities needed to install the injection apparatus, piping, pumps and day tanks at pump stations and other locations began in 2008.

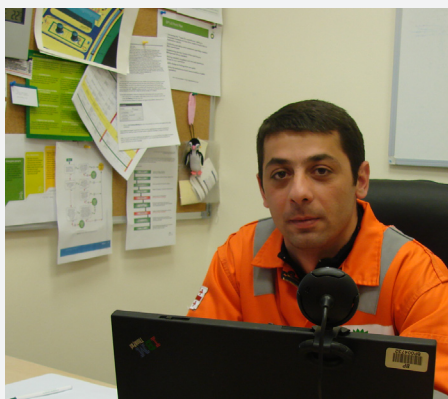
In 2008, 313 tanker loadings were completed from the marine oil terminal at Ceyhan on the Turkish Mediterranean coast, where the BTC pipeline ends. Eight tanker loadings were also made from the Supsa terminal in the course of the year.

We reached agreement with the government of Georgia by signing construction rights agreements on state lands along the BTC pipeline right of way and registering our rights on 90% of all land parcels. We also provided the information needed to confirm the location and requirements of safety zones along the pipeline and around pipeline facilities, and are awaiting formal government ratification of these arrangements.



Marine operations

Tanker loaded at Supsa Terminal on the Black Sea.



Growing our people and our business

"I have worked for BP for more than 11 years, and in this time the company's role in the Caucasus has significantly increased. From operations on WREP, which originally carried some 90 mbpd, we have moved to a position where we are currently providing far larger volumes of oil to western markets through BTC, along with supplying gas to Azerbaijan, Turkey and Georgia through SCP.

Each of us is aware of the global significance of our efforts here and this adds to our responsibility and reinforces our desire for personal development in parallel with business expansion. Kakha Jalabadze and Shalva Titberidze, who started as production technicians five years ago, are examples of such commitment. They are now site controllers at one of the most important pump facilities, working with their teams to meet company, local and international market expectations. BP Georgia's pipeline operating efficiency – at more than 99% – shows the success that has been achieved.

My experience has shown that successful production requires well-trained and motivated individuals in every area of operations. While the difficult events of 2008 in Georgia affected employee morale, the professionalism of our technicians, supervisors, and marine personnel ensured that we maintained safe operations and transit through BTC, SCP, WREP as well as exports from Supsa.

We face a challenging year ahead, seeking to increase pipeline throughput and satisfy the increasing demands of local markets. We are proud of our performance to date, and hope to be so in future."

Erekle Lezhava: a BP Georgia Operations Superintendent.

The South Caucasus Gas Pipeline

We continued the safe and reliable delivery of gas through SCP into Georgian and Turkish markets and the provision of fuel gas for BTC machinery, increasing throughput by more than threefold compared with 2007. The provision of this gas, from the Shah Deniz field in the Caspian Sea, remains an important element in Georgia's energy security.

BTC/SCP security and human rights

We commissioned a second independent assessment of the extent to which the Voluntary Principles on Security and Human Rights (the VPs) are being effectively implemented in BTC and SCP operations in Georgia. The report, carried out by the US law firm Foley Hoag LLP, found the projects to be 'in material compliance with the principles', demonstrating 'good faith and international leadership in fulfilling commitments and managing risk'.

A number of specific recommendations were made, including suggestions for how to improve the communication of ethical conduct and human rights policies to security providers.

The Western Route Export Pipeline

We safely restarted operations on the Western Route Export Pipeline in July 2008 following our precautionary decision in autumn 2006 to cease operations to conduct maintenance to ensure its integrity. However, operations were interrupted in August on account of the conflict in Georgia, and subsequently by the discovery of illegal taps – attempts to siphon oil from sections of the pipeline.

There were two spills equal to or greater than one barrel of oil in our operations in Georgia in 2008, the same number as in 2007. One occurred at the Supsa terminal and one resulted from an illegal tap on the western route. The volume of oil spilled (equal to approximately 29 barrels) was lower in 2008 than 2007 and all the oil spilled was recovered.

The number of illegal taps on the Western route pipeline increased in 2008. In addition to our own efforts to safeguard the operation of the pipeline, we are in discussions with the Georgian government about how best to eliminate theft of oil, and the associated environmental risk, from the WREP pipeline.

To safeguard its long-term operation, we are assessing options for replacing certain sections of WREP, particularly the old Soviet-era sections and some within areas affected by landslide, some 66 kilometers in total. By the end of 2008, topographic field work to determine possible routes had been completed. Progress had also been made on a geo-technical investigation. A land ownership survey and an environmental and social impact study are being carried out, planned for completion in 2009.

Kodiana special projects

We made progress with the additional special project facilities linked to the BTC pipeline in the Kodiana section which were requested by the Georgian government. We completed construction of the security base, which is now being occupied by the government's Strategic Pipelines Protection Department (SPPD).

We completed mechanical construction of the Emergency Drain Down Facility (the EDDF – an 8,500m³ steel tank constructed within a secondary underground concrete tank for the draining and storage of oil from the Kodiana section of the BTC pipeline in certain emergency situations). The facility is being commissioned and being prepared for operation using a formal handover process. Construction continued on the BTC secondary containment sites (settlement basins and dams with sluice gates to contain oil safely in the unlikely event of a pipeline rupture).

Progress on these projects was hindered by financial problems experienced by our contractors as well as the impact of military conflict at the height of the construction season in August forcing the evacuation of contractor personnel and cutting off material access to the Kodiana region.



Air BP
Operating at
Tbilisi International
Airport.

Recognizing the need to develop contractor project management capabilities more widely, we are launching with our co-ventures a three-year \$1.5 million project management training initiative. We describe this in more detail within the 'Local Energy' section of this report.

Our projects team also continued to manage the impact of construction activities, repairing 30 roads and seven bridges affected during pipeline construction.

Air BP

Air BP continued to provide international grade aviation jet fuel to its customers at Tbilisi international airport. New customers in 2008 included Lufthansa, Austrian Airlines and Ukrainian International Airlines. As in 2007, operations throughout the year were carried out without a DAFWC or reported recordable injury.

Financial and economic impact

Our economic contribution to Georgia remains significant.

Our operational expenditure in Georgia totalled \$130.9 million in 2008 compared with \$111.6 million in 2007. Capital expenditure amounted to \$74.2 million in 2008, the vast majority of which was spent on activities associated with BTC expansion and original construction projects.

Profit tax payments linked to the throughput on the BTC pipeline from all the BTC business partners totalled \$29.6 million in 2008. This compared with \$25.4 million in 2007. With the resumption of operations on the western route pipeline, we made tariff payments to the Georgian government of more than \$1.2 million for 2008.

With the completion of pipeline construction, the amount of foreign direct investment by BP and its partners in Georgia has declined. Government statistics indicate that approximately 2.7% of foreign direct investment in Georgia came from BP and its partners in 2008. However, with pipeline operations under way, we make an important contribution to the value of exports. Government statistics show that our pipeline operations contributed approximately 17% of the total value of service exports in 2008.

Working with local contractors

We continue to work with local contractors where possible. In 2008, our payments to local companies totalled \$74.3 million compared with \$72.6 million in 2007.

Safe and reliable energy

How does BP seek to ensure its operations in Georgia are safe and reliable?

Delivering energy safely and reliably lies at the heart of our business. Our values incorporate the goal of no accidents, no harm to people and no damage to the environment. In BP Georgia, as in the rest of BP, we are investing in people, plant and processes to drive continuous improvement in our safety and operational performance.



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Responding to security events

We responded to the military conflict in Georgia in 2008, working in line with contingency plans: we facilitated the evacuation of non-essential expatriate personnel, contractors and dependents into Azerbaijan and Turkey, and provided guidance to national staff on remaining at home or in alternative safe locations. These measures contributed to ensuring that all employees were safe and accounted for. We suspended operations on WREP and the Supsa oil terminal as a precaution. We consulted with the government of Georgia to ensure the safety of our people and operations, and agreed start-up criteria against which to plan for the safe return of personnel and the safe restart of operations once we were confident that we could do so.

We reviewed the lessons we could learn from our response, considering issues such as communication, evacuation procedures and business continuity. While our response during the conflict was effective, the review identified areas where our processes could be improved.

Safety performance

As in 2007, our activities in Georgia in 2008 were completed without a single day away from work case. The number of reported recordable injuries, however, increased from one in 2007 to five in 2008, resulting in a higher annual recordable injury frequency. We analyse the root causes of each recordable injury incident and take corrective actions to prevent re-occurrence.

In all areas of safety, we recognize the importance of leadership and effective communication. Regular safety and operations meetings monitor performance and share lessons, weekly safety and operations circulars disseminate information about personal and process safety, toolbox talks are a routine feature of operations and safety leadership team sessions are held with contractors.

Compared with five years ago, our safety performance has improved markedly against all the key indicators. While this in part reflects the transition from projects to operations, we are proud of the progress we have made, but know we must remain alert to the risks and make additional effort to drive further improvements in performance.

Driving

Driving remains an important area of safety risk, as our workforce drove more than eight and a half million kilometres in 2008. There were six vehicle accidents in our activities in 2008, one more than in 2007 but none of which resulted in injuries. We audited our approach to driving safety in 2008 against the BP driving safety standard and as a result have implemented an action plan, including the replacement of a small number of vehicles and improving some of our processes for managing driving safety.

Improving personal and process safety

We continued to formalize our processes to seek compliance with BP group standards on integrity management and control of work. We reviewed, for example, the major hazards associated with our operations and we refreshed emergency response plans accordingly. We reviewed how we handle chemicals at our pump stations and warehouse. We introduced a web-based integrated safe systems of work (ISSOW) system for BTC and SCP operations. The system enables work crews to use a database of permits and isolation certificates to manage the planning and authorization of work tasks. Permits to work for the entire worksite can be digitally signed, viewed and edited and can be linked to isolation certificates, enabling simultaneous operations and safe co-ordination of work tasks. Introducing ISSOW included extensive operator training.

For our project team, a range of training was provided on topics including first aid, lifting, energy isolation, incident investigation and others.

Protecting health

We take steps to protect the health of our workforce in their day-to-day activities, as well as ensuring we are properly prepared to respond to health-related risks and emergencies.

We carried out our annual health risk assessment in 2008 to identify operational health risks and develop programmes and guidelines to protect staff. We provided training on topics such as respiratory protection, the use of display screen equipment and we audited food safety standards. We undertook occupational health assessments to review employees' and contractors' fitness for work and carried out health promotion and awareness initiatives on topics such as substance abuse, flu prevention and awareness and stress management and counselling.



Waste management

BP EU compliant
non-hazardous landfill
close to Rustavi.

Responding to emergencies

Having the capability to respond to emergencies, whether related to health, safety, security or the environment, is an important aspect of risk management, in which training and preparedness are critical.

In 2008, we completed training exercises as part of our emergency and oil spill response plans. For example, we carried out medical emergency response drills at the EDDF, and a joint emergency response exercise with the SPPD to establish clear working relationships in the event of a security-related incident. We established a dedicated incident management centre at our office in Tbilisi. To gain experience of managing cross-border issues, we carried out an oil spill response exercise covering the border with Turkey, involving state authorities.

Environmentally sound operations

We continue to take steps towards the systematic management of our environmental impacts. We successfully obtained certification against the international environmental management system standard ISO 14001 for the BTC/SCP pipelines and associated facilities. While proud of this achievement, we recognize the responsibility certification places on us to maintain and continually improve our performance. The WREP pipeline maintained certification against ISO 14001 following an audit in May 2008.

Waste management

We made further progress in 2008 to fulfil our internal commitment to adhere to EU standards of waste management for the BTC pipeline and associated facilities.

Following government acceptance of the environmental and social impact assessment, we began construction of a permanent landfill facility for the non-hazardous waste generated by our activities. This will become operational in May 2009. We discontinued use of the municipal lagluja waste disposal site by diverting our waste to a temporary storage area, where we carried out initial treatment to reduce its volume. The progress made on waste management enabled the independent environmental consultant, auditing our performance against commitments made to the BTC lenders, to remove the previous non-compliance relating to this subject.

Given that no EU-compliant hazardous waste management facilities exist in Georgia, we exported our hazardous waste in 2008, working with the international contractor we appointed in 2007.

Reinstatement and protecting biodiversity

We made progress towards completing the land reinstatement along the BTC/SCP pipeline right of way and temporary facilities, carrying out bio-restoration, hydroseeding and erosion risk monitoring. We are continuing discussions with the government about the nature and extent of off-right of way re-forestation as a compensation for the forest lost during the construction of the BTC/SCP pipelines.

We continue to monitor adherence to our commitments on ecology within the BTC environmental and social action plan. Among the steps we have taken are carrying out a five year biodiversity monitoring programme along the pipeline right of way, including protection of sensitive habitats and individual species of high floral and faunal conservation value.

Remediation

We carried out remediation work following an oil spill of approximately 25 barrels of crude oil caused by an illegal tap on the Western Route Export Pipeline. Remediation involved the removal of contaminated soil and water and its subsequent handling at an approved treatment facility.

People energy

What is BP doing in Georgia to build the capability of its workforce?

People and their capabilities are fundamental to our sustainability as a business. To build an enduring business in Georgia, we recognize the need to develop the skills and experience of local people, creating an environment which provides opportunity for all staff.



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Nationalization

We increased the proportion of Georgian nationals working in the business in Georgia to 93% by the end of 2008. This continued the steady growth we have achieved in nationalization since 2004.

As well as seeking to increase the number of Georgian nationals within the business, we aim to build their experience and skills so they can assume leadership positions. We have taken steps to provide more extensive development programmes for nationals, involving job placements linked to training and development needs. Georgian nationals now hold senior management positions in finance, human resources, government relations and regulatory affairs, legal, business services, security, social responsibility, environmental affairs and operations.

Building an operations-focused organization

We have continued the transition of BP Georgia from a project-focused to an operations-focused organization. To this end, we made a number of changes in 2008 designed to create a simpler structure focused on our core activities. For example, we decided to outsource the majority of our security and transport roles, to become effective in early 2009. We also appointed a new supplier to provide and manage our Georgian agency personnel, following an open tender process.

The total size of our workforce declined in 2008. The principal reason for the continuing reduction in total staff numbers is the completion of project activities and the associated reduction in the number of expatriates. An organizational review also resulted in a small number of redundancies.

BP Georgia workforce

	2004	2005	2006	2007	2008
Number of Georgian nationals	389	398	492	499	498
Number of whom are BP employees	228	271	274	280	323
Number of whom are contractors	161	127	218	219	175
Number of expatriates	142	138	162	92	38
Number of whom are BP employees	37	38	26	26	12
Number of whom are contractors	105	100	136	66	26
Total workforce number	531	536	654	591	536

Pay and benefits

We made changes to pay and benefits in 2008, affecting employees and agency staff. We improved the staff medical insurance plan to provide more extensive and generous cover for employees and their dependents. We reached agreement with our agency staff provider to extend coverage to eligible agency employees and their dependents.

Code of conduct

We strive to maintain an open working environment in which everyone is treated with respect and dignity.

Underpinning our aspiration for an open environment is the BP code of conduct, which represents BP's commitment to personal integrity, defining what is expected of every BP employee in the areas of health, safety, security and the environment; interaction with employees; business partners; governments and communities; and the approach to company assets and financial integrity.

As in previous years, we completed our internal ethics certification process in 2008 in which each business or functional team is asked to produce a

certificate indicating the extent to which it has complied with laws, regulations and the code of conduct. We continued to make employees and contractors aware of OpenTalk, our independent confidential helpline, enabling them to enquire or raise concerns about compliance, ethics or the code of conduct.

Share of Georgian nationals in the BP Georgia workforce



A Georgian offshore

Giorgi Dzvelaia, an offshore operations engineer working on the Shah Deniz Alpha gas platform, is the first Georgian BP employee to work in the Caspian offshore environment. Shah Deniz Alpha is a jack-up production and drilling platform, delivering gas and condensate by pipeline to the onshore terminal at Sangachal, approximately 92 kilometres away.

"I joined BP in 1998 as an operations technician at the Supsa terminal and reached the position of deputy terminal manager. I transferred to the Tbilisi office to broaden my

experience and skills, and took up the role of production engineer, followed by work at BTC pump station 2 as a site controller. Overall, I have spent more than ten years working onshore. So now, working in this offshore environment represents a great change and a real challenge. I am gaining knowledge of platform operations and learning from the experience of the professionals working here, who are supporting me in my new role."

Local energy

What contribution is BP making to social and economic development in Georgia?

We aim to ensure that our presence in Georgia, and wherever we operate, creates mutual advantage for us and for those with whom we come into contact. Using our collective experience and resources and working in partnership with others, we seek to respond to local needs and contribute to building the capacity of individuals, communities and institutions.



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Strategy

In conjunction with our BP colleagues and co-venture partners, we agreed in late 2008 to launch a new and integrated phase of stakeholder engagement from 2009-2011, building on the Community Investment Programme (CIP) which began in 2003 and the Regional Development Initiative which began in 2005.

In Georgia, our focus will be to help protect the co-venturers' asset base and overall investment by retaining the goodwill and supporting the work of key stakeholders – communities adjacent to the facilities, government and the NGO sector and the local business community.

Building the capacity of local enterprises and communities near our assets and supporting the creation of a favourable business environment for small and medium-sized businesses will be one of the key areas of our contribution in Georgia. The geography of our operations and the economic profile of neighbouring communities mean that sustainable projects in support of agriculture will remain our focus in rural areas.

Recognizing Georgia's need to further develop its energy sector, we also seek to build capacity in civil society organizations and within communities. Within the programme, activities to be considered include energy efficiency initiatives in rural areas, technical assistance and energy education.

We plan to invest an average of \$3 million per year on these activities in Georgia from 2009-2011.

Engaging with stakeholders

We continue to work with the villages and communities in the vicinity of the BTC/SCP and western route pipelines.

Our team of Community Liaison Officers (CLOs) maintained regular contact with village communities, using a community liaison protocol and systematically recording the outcome of visits to help ensure an effective response to local concerns. CLOs also work to raise awareness of BP and its activities. We reinforced messages relating to safety around the BTC and SCP pipelines, engaging schools in a photography competition as part of the creation of a safety-themed calendar for 2009.

We have worked for a number of years to investigate and respond to grievances which arose during pipeline construction. In 2008, all remaining construction-related complaints were closed. We continued the programme of returning land to former land owners that had been required during construction. We now have agreements in place regarding future land use with more than 80% of private landowners.

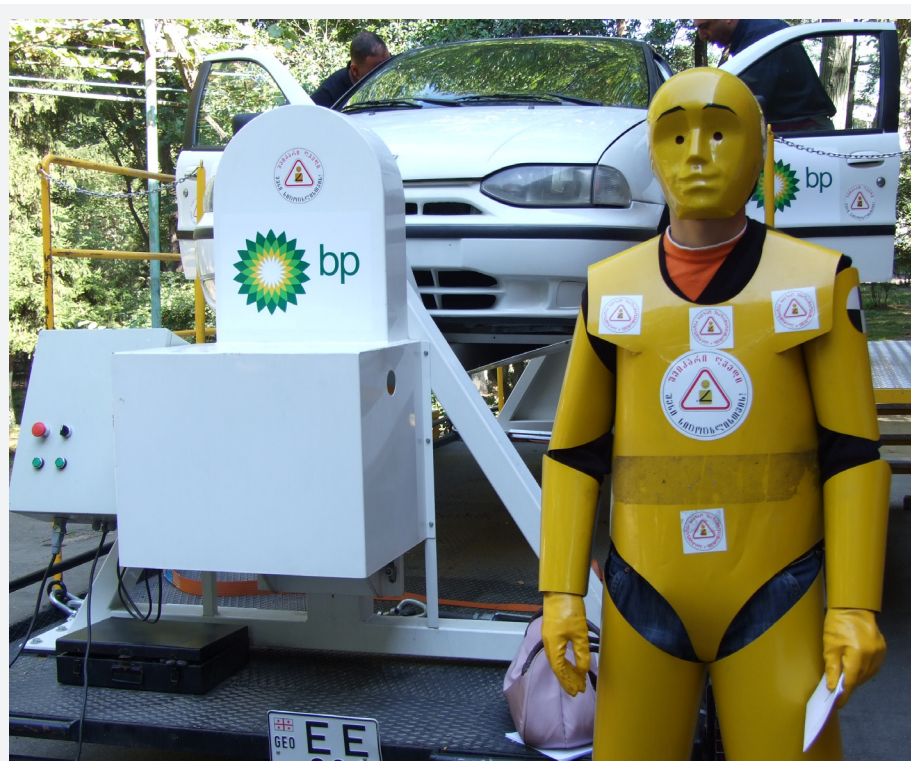
Responding to local needs also involves reacting to events beyond our control. In the light of the conflict in Georgia in 2008, our employees contributed to the humanitarian relief activities of Save the Children. BP matched employee donations to support this work for children, families and refugees. We also made a grant through the BP Foundation to assist the work of CARE International in Georgia in providing emergency aid.

Civil society capacity building

We continue to inform NGOs about our activities in Georgia. Representatives from about 40 NGOs attended a roundtable briefing on our operations in Georgia in June 2008. To promote transparency in Georgia, we made a presentation at the UNDP Global Compact workshop in Georgia on the concept and practices of non-financial reporting.

We extended our support for capacity building in the field of cultural heritage protection, where it is our aim to preserve and enhance access to archaeological sites unearthed during pipeline construction. In the course of 2008, we supported workshops and lectures by leading international archaeological experts and put in place an agreement between the Smithsonian Institution in Washington and the Georgia National Museum to develop expertise on the management of museum collections of scientific, literary and historical value.

We completed a programme begun in 2007 which has aimed to promote understanding of the energy sector in Georgia. The initiative, run by Transparency International Georgia with funding from BP, sought to increase public awareness of the energy sector and disseminate information about energy sector reforms. More than 20 media representatives from across Georgia participated in a series of ten workshops involving Georgian energy experts. Monthly reports, newsletters, media tracking and training for journalists formed the core of the programme. An award for journalism and media coverage was also made.



Promoting road safety in schools

Raising awareness of road safety among children in Georgia is an important priority, recognized by the Georgian government. Basic education on road safety has been lacking. Poor road infrastructure and higher numbers of vehicles have contributed to increasing rates of death and injury among children on Georgia's roads. In 2007, 36 children were killed as a result of traffic accidents in Georgia, and 550 injured.

BP's support for the Partnership for Road Safety Foundation will contribute to a pilot project that aims to raise safety awareness among adolescents of road-related risks and spread that learning through families and communities. Schools in urban areas, with complicated road traffic environments, will participate in the programme, with a view to extending the initiative in future.

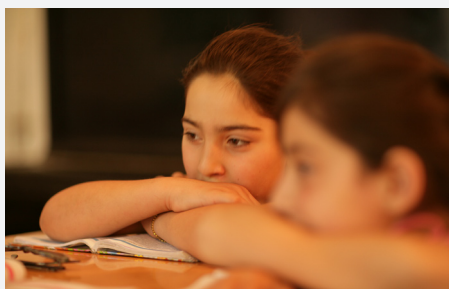
Supporting education

Supporting education has been an important element of our community investment programmes in Georgia since their inception. We have financed projects designed to make quick impact, such as refurbishing school buildings, as well as longer-term initiatives that develop the skills and capabilities of students.

We reached agreement in 2008 to finance a one year project in collaboration with the Ministry of Education to raise awareness of road safety in schools. We are funding the work of the Partnership for Road Safety Foundation, a local NGO which is implementing the project in more than 40 schools throughout Georgia.

Our programme of investment in schools around the Supsa terminal was completed in 2008. The initiative, begun in 2007, involved rehabilitating school buildings, providing training to boards of trustees and supporting various initiatives with schoolchildren. We also continued to support small-scale projects, such as building refurbishment, in schools located within two kilometres of the western route pipeline and supported safety quizzes in schools to raise awareness of safety issues around our assets.

To support schools in communities along the BTC and SCP pipelines and around the Supsa terminal, we have supported programmes implemented by CARE International to train school boards of trustees. Training has covered topics such as organizational development skills, financial responsibilities, teamwork, and communications.



Creating a sporting chance: Investing in schools

With financial support from the programme of investment in schools around the Supsa terminal, Supsa public school in the Lanchkhuti region has constructed a new sports complex as a means of promoting health education. The school is planning to attract additional income by renting the sports facilities to

other users, outside school terms. The work, which has led to the creation of good quality football, tennis and basketball facilities, tied in with the investment programme's goal of upgrading the physical and educational infrastructure of schools in the area.

We continued to provide financial support for the International School of Economics in Tbilisi (ISET) established in 2006 with core support from BP and the governments of Georgia, Sweden and Norway to promote excellence in postgraduate economic study and research. In 2008, the school completed its second year of operation, appointed faculty members, completed the refurbishment of its building and admitted its third year of students. The BP Group Chief Economist, Dr Christof Ruehl, visited Tbilisi and held a lecture for students at ISET in 2008, focusing on the *2008 BP Statistical Review of World Energy*.

Energy efficiency awareness-raising

We took further steps towards launching a three-year initiative in Georgia which will aim to raise public awareness of alternative energy options and the potential for energy efficiency in the regions of Georgia.

The programme will feature a mobile information and demonstration unit – the 'energy bus' – containing information and displaying products and technology that promote energy efficiency. The bus will visit urban and rural communities across the country. We are working with the European Bank for Reconstruction and Development (EBRD) to open a concessional credit line for selected participating banks, to help provide micro and small loans to local communities interested in taking up the technologies. On behalf of our co-venturers, we have committed to providing up to \$1million of grants to make these products more affordable to households.



Supporting local enterprise

We are taking a range of steps to help develop local economic capacity. Some of these are linked directly to our operational activities, while others promote economic opportunity more widely.

To help develop contractor capability, we are launching a three-year management training initiative. The Project Management College will provide local companies with access to high-quality training on core project management performance skills such as cost control and project planning. Training will be delivered by ESI International, a leading global training institution and completion of the programme will lead to globally recognized certifications. The college will be hosted at the Free University in Tbilisi.

Given the importance of agriculture to many communities along the pipeline routes, we initiated a three year programme in 2007 to support business development in the agricultural sector. Through this 'Farmers to Markets' project, we are helping establish and equip agricultural consolidation centres to give farmers the information they need to tailor their products to their markets.

The second phase of a project to promote private sector business development in the Greater Borjomi region was begun in 2008. The goal is to develop the milk processing and beekeeping sectors. Seven milk collection centres are being established in the region, and a milk processing factory and honey processing factory are being built in Akhaltsikhe. Cooperatives have been established and veterinary services strengthened.

A project under our Community Investment Programme is providing grants and training for women who want to start-up in business. A total of 21 grants have been provided to support young women entrepreneurs.



.....
local enterprise
Farmers to Markets
project, honey
packaging.

We continued to support the EU-Georgia Business Council (EUGBC), set up with BP and Statoil financial assistance in 2006 to develop trade and investment ties between Georgia and the EU. EUGBC activities in 2008 included discussions with Georgian and EU officials on trade and investment issues and support for Georgian exporters and businesses, particularly small and medium sized enterprises. Brochures, trade seminars, workshops and conferences were also supported.

We also continue to support the American Chamber of Commerce in Georgia, the British Georgia Chamber of Commerce in London and the activities of the US-Georgia Business Council in Washington.

.....
Energy efficiency
Mobile information and
demonstration unit.

Our performance

Five-year performance data, trends and interpretation

For the year ended 31 December

Performance

Total hydrocarbon throughput (mmboe)

Social investment (\$ million)^a

Safety and environment^b

BP employee fatalities

BP contractor fatalities

Days away from work cases (DAFWC)^c – workforce^dDays away from work cases frequency (DAFWCF)^e – workforceRecordable injuries^f – workforceRecordable injury frequency (RIF)^g – workforce

Total vehicle accidents

Total vehicle accident rate^hNumber of spills (loss of primary containment)ⁱ

Volume of product spilled (litres)

Volume of product unrecovered (litres)

Hours worked – workforce

Kilometres driven

Direct carbon dioxide (CO₂) (tonnes)Direct methane (CH₄) (tonnes)Equity share direct greenhouse gas (GHG) (tonnes CO₂ equivalent)Sulphur dioxide (SO_x) (tonnes)Nitrogen oxides (NO_x) (tonnes)

Non-methane hydrocarbons (NMHC) (tonnes)

Hazardous waste disposed (m³)

Non-hazardous waste disposed (tonnes)

People

Total BP Georgia workforce

Georgian nationals in BP Georgia workforce (%)

	2004	2005	2006	2007	2008
	–	–	106,600	221,389	281,385
	23.2	12.4	20.1	8.7	8.0
	0	0	0	0	0
	1	1	0	0	0
	12	4	3	0	0
	0.12	0.06	0.07	0	0
	105	30	5	1	5
	1.06	0.41	0.12	0.04	0.26
	69	35	33	5	6
	3.76	1.30	2.06	0.49	0.71
	1	1	3	2	2
	15	70,914	10,416	75,290	4,715
	10	0	0	51,000	0
	19,776,554	14,527,840	8,158,739	4,459,899	3,873,410
	18,335,771	26,844,882	15,999,715	10,101,030	8,503,842
	32,029	35,421	146,084	408,273	251,090
	202	220	396	271	147
	12,362	13,687	47,675	123,863	76,443
	39	44	197	109	88
	589	651	1,751	2,704	1,992
	1,834	1,990	1,823	91	72
	311	388	243	383	352
	603	670	378	463	497
	531	536	654	591	536
	73	74	75	84	93

^a Figures show BP and partner spending. They include 'cash out' spending and support provided under the BTC grant and the BP Pledge. For more information on BP Pledge and BTC Grant please see *BP in Georgia Sustainability Report 2005* and *BP in Georgia Sustainability Report 2006*, respectively.

^b Safety data shows performance for Georgia as a whole, encompassing our in-country activities described in this report (WREP, Supsa, BTC, SCP and Air BP). All environment data relates to total BP-operated emissions with the exception of 'equity share direct greenhouse gas (GHG)' emissions which shows the BP share of emissions from operations on an equity share basis. Environment data for 2005 covers BP operated activities on the western route pipeline and the Supsa terminal. Data for 2006 and 2007 covers BP operated activities for all three pipelines (BTC, SCP and WREP) and associated facilities in Georgia.

^c DAFWC: An injury or illness is classified as a Day Away From Work Case (DAFWC) if as a consequence of it the member of the BP workforce could not have worked on any day after the injury or illness, irrespective of whether there was scheduled work, or the member of the BP Workforce comes to work even when a physician or other licensed health care professional recommends that the individual stays at home.

^d The BP workforce comprises all BP employees, all BP contractors and all BP Directors.

^e DAFWCF workforce: The number of injury DAFWCs to the BP workforce for every 200,000 hours worked in the same period.

^f A recordable injury is a work-related injury and illness incident that results in a fatality, a day away from work case, restricted work or job transfer, or medical treatment beyond first aid.

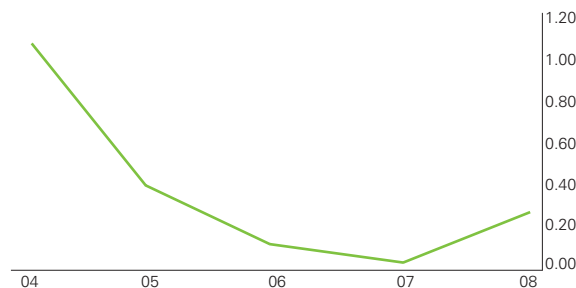
^g RIF: The total number of recordable injuries to the BP workforce for every 200,000 hours worked in the same period. This is a commonly-used industry measure of personal safety performance.

^h TVAR: Total Vehicle Accident Rate: the sum of all light vehicle, all heavy vehicle and all mobile plant accidents per one million kilometres driven.

ⁱ In accordance with the BP group definition, hydrocarbon spills are those equal to or more than one barrel (equal to 159 litres, or 42 US gallons).

Our performance

Recordable Injury Frequency (RIF) in 2004-2008



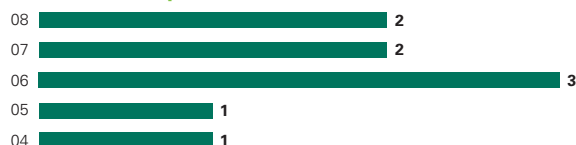
Safety and environment

Despite the upturn in 2008, RIF has declined significantly over the period from 2004-08, from 1.06 to 0.26. This improvement is derived from the significant fall in the number of reported recordable injuries, which fell from 105 in 2004 to five in 2006. A sharp decline in the number of injuries followed the transition to routine operations in the course of 2006, from pipeline construction in 2004-2005. The increase in RIF in 2008 highlights the need for continuing effort to drive performance improvement.

The reduction in the number of vehicle accidents is in part a result of the decrease in the number of kilometres driven, as the nature of our activities has shifted from pipeline construction to routine operations. However, the total vehicle accident rate, which measures the rate of all vehicle accidents per million kilometres driven, has improved at a faster rate, suggesting that the steps we have taken to implement the BP driving safety standard have brought significant improvements.

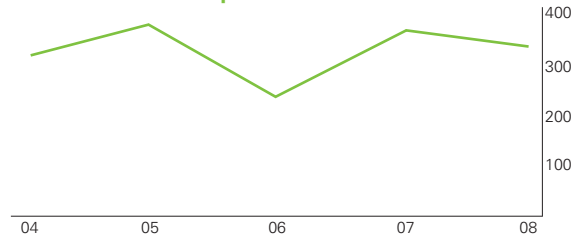
The decline in greenhouse gas and other air emissions compared with 2007 resulted principally from the adoption of more appropriate emissions factors.

Number of oil spills 2004-2008



The number of oil spills, which gives an indication of process safety, has remained broadly steady since 2004. It should be noted that several spill incidents have been the result of illegal taps on the WREP.

Hazardous waste disposed



The hazardous waste we generate is a very wide range of materials, but principally the materials that have been in contact with oil, such as oily water, filters, cans, rags and absorbent materials. The amount of hazardous waste disposed in 2008 was slightly higher than the average over the past five years, but lower than in 2007. We re-inject used oil into the pipeline and treat oily waters through site separators to reduce hazardous waste volumes.

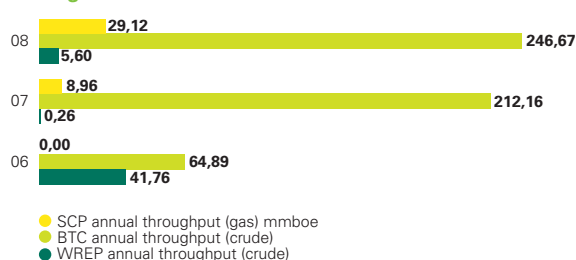
Proportion of Georgian nationals in BP Georgia workforce 2004-2008



People

The proportion of Georgian nationals in the BP workforce continues to increase, reaching 93% at the end of 2008. This increase continued the trend seen in every year since 2004. This reflects both an increase in the number of BP employees who are Georgian nationals and a decrease in the number of BP employee and contractor expatriates. The number of expatriates, which peaked at the time when pipeline construction was being completed, has declined significantly since 2006, with responsibilities for operations being progressively assumed by local staff.

Total throughput of hydrocarbons through BTC/SCP/WREP



Performance

The total throughput of hydrocarbons through BTC, SCP and WREP increased by 27% in 2008 compared with 2007. The increase was due to higher production from the Azeri-Chirag-Guneshli field in the Caspian. 2009 marks the third full year of BTC and SCP pipeline operations, and we anticipate that throughput will rise again in 2009.

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 Georgia Sustainability Report 2008 (the Report) has been prepared by the management of BP Georgia, 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 Georgia in 2008 which were raised in the media, BP Georgia'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 Georgia in 2008 including risk assessments and ethics certificates.
2. Reviewed the outcome of BP Georgia'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 Georgia which were raised in the media or the outcome of BP Georgia's own materiality process that have been excluded from the Report.

2. Are the data and statements regarding BP Georgia'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 Georgia's sustainability performance.

Our independence

As auditors to BP p.l.c., Ernst & Young are required to comply with the independence requirements set out in the Institute of Chartered Accountants in England & Wales (ICAEW) Guide to Professional Ethics. Ernst & Young's independence policies, which address and in certain places exceed the requirements of the ICAEW, apply to the firm, partners and professional staff. These policies prohibit any financial interests in our clients that would or might be seen to impair independence. Each year, partners and staff are required to confirm their compliance with the firm's policies.

We confirm annually to BP whether there have been any events including the provision of prohibited services that could impair our independence or objectivity. There were no such events or services in 2008.



Ernst & Young LLP
London
May 2009

^a International Federation of Accountants' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE 3000).

Glossary

Glossary

BPD

Barrels of oil per day

BTC

Baku-Tbilisi-Ceyhan pipeline

CLO

Community liaison officer

CO₂

Carbon dioxide

DAFWC (f)

Day away from work case (frequency)

EDDF

Emergency drain down facility

EU

European Union

EUGBC

EU-Georgia Business Council

GHG

Greenhouse gas

ISSOW

Integrated safe systems of work

Mmboe

Thousand barrels of oil equivalent

NGO

Non-governmental organization

SCP

South Caucasus Pipeline

SPPD

Strategic Pipelines Protection Department

UNDP

United Nations Development Programme

VPs

Voluntary Principles on Security and Human Rights

WREP

Western Route Export Pipeline (also known as the Baku-Supsa pipeline)

More information

BP's sustainability reporting

BP communicates non-financial commitments and performance at group, country and site levels in both print and online media.

Group level

BP Sustainability Review 2008 is available in English, Mandarin Chinese, Russian and Spanish and BP's HSE performance data is presented as interactive charts.

www.bp.com/sustainability

www.bp.com/hsechartingtools

www.bp.com/sustainabilityworldwide

Country level

Reports are available describing our operations in Angola, Australia, Azerbaijan, Germany, New Zealand, Southern Africa, Trinidad & Tobago and Turkey.

www.bp.com/countrysustainabilityreports

www.bp.com/worldwide

Site level

Verified site reports and a focus on air quality, access to water and water quality, biodiversity and waste management are also available.

www.bp.com/sitereports

www.bp.com/environmentalmappingtool

www.bp.com/casestudies

Feedback

We welcome feedback on this report. You can write to us at the address below, marked for the attention of the Communications and External Affairs team, or send an e-mail to us at: bpgeosust@bp.com

BP Georgia, 38 Saburtalo Street, 0194, Tbilisi, Georgia.

BP in Georgia Sustainability reports are also available at www.bpgeorgia.ge

Acknowledgements

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