



BP in Georgia
Sustainability Report 2005

The BP group

BP p.l.c. is the parent company of the BP group, one of the largest groups of oil and gas companies in the world, serving around 13 million customers a day in more than 100 countries. The BP group provides fuel from oil and gas and from other low carbon sources for transportation, energy, heat and light, and retail brands and products used in everyday life.

In 2005, the group produced the equivalent of more than four million barrels of oil and gas a day for customers across the world. The group's capital spending totalled \$13.9 billion in 2005, investment that will help to provide sustainable supplies of oil and gas for decades to come. The group replaced more than 100% of its existing production for the 13th year running (for subsidiaries and equity-accounted entities) on a UK SORP basis^a. In 2005, BP took an important step by announcing the launch of BP Alternative Energy – a business that is aimed at offering its customers new choices of low carbon energy, such as solar power, wind, combined cycle gas turbines, and the new technology of sequestration.

This report: its scope and process

Sustainability for BP means the capacity to endure as a group, by renewing assets, creating and delivering better products and services that meet the evolving needs of society, delivering return to our shareholders, attracting successive generations of employees, contributing to a flourishing environment and retaining the trust and support of our customers and the communities in which the group operates.

This account of our sustainability performance in Georgia builds on 'BP In Georgia: Sustainability Review 2004' which was published for the first time in 2005. This year, the report gives a more detailed account of our economic, environmental and social performance, covering our activities in 2005. Data is shown for country operations as a whole, or where indicated for specific projects and operations. The report has been prepared by our business in Georgia, based in Tbilisi, and describes our activities across the country, set in the regional context where appropriate. In preparing the report, we have used in-depth analysis and a formal process to determine which issues are of most significance to internal and external parties. We have done so to ensure that the report presents a balanced and reasonable view of our performance.

The report, which has been independently verified, forms one of several mechanisms for providing transparency in relation to the group's operations in Georgia. Many layers of monitoring are integrated into those operations. Scrutiny of our progress and of the challenges we face is carried out by independent external agencies and auditors. Our lenders and partners require regular accounts of progress. National and international non-governmental organizations (NGOs) provide further scrutiny. Local communities hold us accountable for operating safely and responsibly. As well as describing our performance, we hope that this report will contribute to constructive dialogue with all those who take an interest in our activities in the country.

^a Statement of recommended practice.

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Cover: vegetation regrowth and cattle grazing over the BTC pipeline in Georgia.

A message from our group auditor, Ernst & Young

We have reviewed the Georgia 2005 Sustainability Report 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 37.

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 on 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.



A message from our country manager

2006 marks the tenth anniversary of BP in Georgia. We are now on the threshold of completing the major phase of our oil and gas field developments in the region and commissioning the Baku-Tbilisi-Ceyhan (BTC) oil export pipeline and the South Caucasus gas pipeline (SCP) which cross Georgia.

With a total construction cost approaching \$4 billion, the BTC pipeline is the first direct oil transportation link between the Caspian and Mediterranean seas. It offers a commercially viable and inherently safer means of transporting oil over large distances than existing infrastructure and facilities, as well as providing a means of relieving the growth of oil transportation through the Bosphorus straits.

SCP, which is planned to export gas from the Shah Deniz field to markets in Azerbaijan, Georgia and Turkey, runs parallel to the BTC pipeline through Georgia. The gas supplied through SCP represents a source of future energy security and supply diversity for Georgia.

The Western Route Export Pipeline (WREP), also known as the Baku-Supsa pipeline, which was our first investment in Georgia, has operated successfully and safely since 1999. It has brought valuable transit fee revenues to the government of Georgia.

These developments demonstrate that a major new energy corridor has been created in the south Caucasus which is expected to make a significant contribution to local and global energy security in the future. This is an achievement of which we and our partners can be proud.

In reaching this position, we have faced an array of challenges. They have included intense media and public scrutiny, political uncertainty, severe weather and difficult terrain, and a range of logistical problems. We recognize that managing such a diverse range of challenges is a fundamental part of what it means to be a responsible business. Dealing with them successfully has been an integral part of making the projects viable.

But one overriding challenge we have faced, and continue to face, is operating in a manner which is truly sustainable. As we define and illustrate in this report, sustainability is a complex and long-term challenge involving the renewal of assets, the delivery of products and services that meet society's needs, and attracting successive generations of employees. It is about contributing to a sustainable natural environment, and retaining the trust and support of customers, shareholders and the communities in which we operate.

This report is one demonstration of our commitment to sustainability. It shows how we have performed in the course of 2005 and describes the variety of programmes we have put in place to help us ensure we operate responsibly and to mutual advantage in the years to come. We are proud of the achievements outlined above. They demonstrate that strategic infrastructure projects can be successfully delivered in Georgia, and that Georgia's transport, labour and service infrastructure can support projects of a global scale. We have invested heavily in the country as well as in our relationships with communities, local non-governmental organisations, and government. These investments and delivering mutual benefit have been the keys to our success and will continue to be so in the future. We are committed to continuing to work in a manner in which responsibility is an integral part of the activities we pursue.

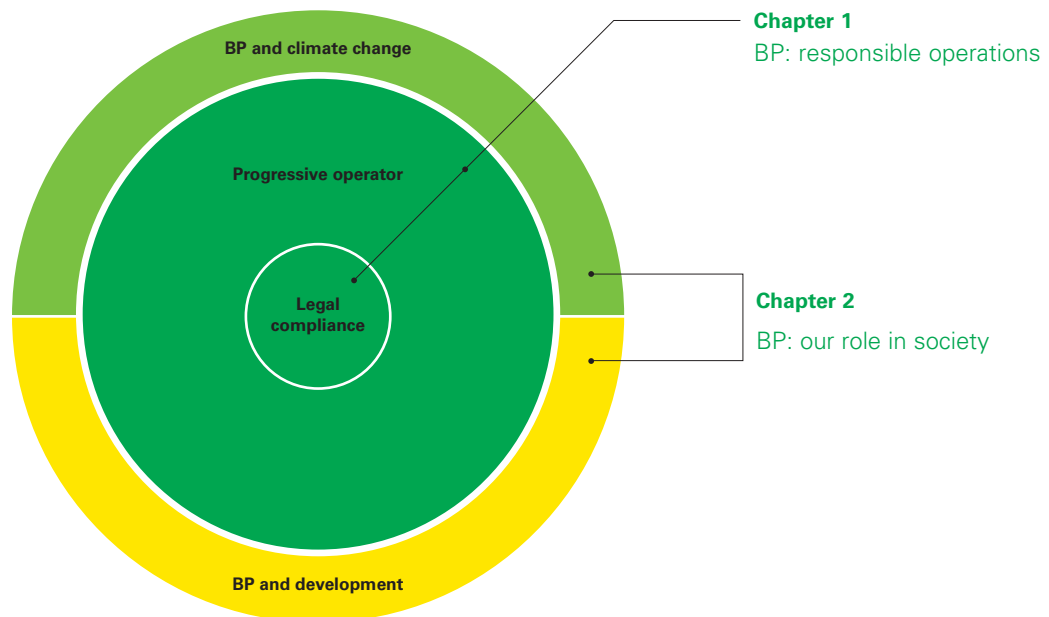
We welcome your feedback on the performance and plans which are outlined in this report.

A handwritten signature in black ink, appearing to read 'Hugh G McDowell'.

Hugh G McDowell
BP Georgia Country Manager
August 2006

What responsibility means to us: the corporate responsibility framework

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



Sphere of control: responsible operations

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

Sphere of influence: our role in society

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

Highlights in 2005

Achievements

Bringing 'first oil' to Georgia The entire BTC pipeline was in the ground in Georgia by the end of the second quarter of 2005 and Azerbaijani oil from the Azeri-Chirag-Guneshli (ACG) field development started flowing into the Georgian section of the pipeline in the summer. The transition from project to operations phase has been successfully completed for BTC, with linefill operations concluded and pipeline facilities commissioned in Georgia (page 8).

Operating the Western Route Export Pipeline (WREP) with outstanding performance

WREP, which transports oil from the Caspian to the Supsa port on the Georgian Black Sea, achieved maximum throughput capacity of 155 thousand barrels of oil a day. The pipeline operations recorded outstanding operating efficiency of 99%. This was achieved without a 'day away from work case' for the seventh successive year, encompassing more than 4 million man hours safely worked (pages 20-21).

Protecting and restoring the environment

New developments occurred in 2005 which will provide further safeguards for the natural environment. The Georgian Oil Spill Response Plan for BTC was approved, with conditions, by the government of Georgia in May 2005, building on over two years of work with the government and its advisors (page 15). We also made significant progress in land reinstatement after pipeline construction, involving complex engineering work and natural reinstatement (pages 14-15).

Supporting social investment Various projects in the fields of education, health care and energy were supported from BP's social and economic pledge to Georgia made in 2004, providing \$14.5 million in support. We also began preparations for the second phase of the BTC/SCP community investment programme, with a budget of \$5 million over the next three years (pages 33-34).

Initiating the Pipeline Monitoring and Dialogue Initiative

The first cycle of the NGO monitoring programme, designed to build NGO capacity as well as promote transparency and dialogue between industry and civil society, was successfully completed in 2005. Many of the recommendations made in the NGO reports were accepted and will be implemented (page 13).

Implementing the Regional Development Initiative

Substantial effort has been given to putting into action the themes of the Regional Development Initiative, a mechanism for contributing to social and economic development at a national level in Georgia, Azerbaijan, and Turkey. Projects have been launched to support mostly private sector business development. We have provided support for the rehabilitation of the north-south main gas pipeline (page 35).

Challenges

Managing the transition from projects to operations safely and efficiently

The completion of BTC and SCP pipeline construction in Georgia will create challenges arising from the start up of new facilities, the changeover of staff, new collaborations, and the demobilisation of project personnel. Although our safety performance has been superior to pipeline project averages, our priority is to ensure we manage this transition safely and efficiently (details are available throughout the report).

Managing expectations and promoting transparency

We recognize the positive contribution we can make to socio-economic development in Georgia, such as by helping to secure access to

energy. But, we are also clear about the limits to what we can achieve. We must manage community expectations by being clear about where government has primary responsibility and by promoting transparency in the management of project-related revenues (page 29).

Capacity building We understand that we can make a useful contribution to creating a vibrant and transparent civil society in Georgia by helping to build NGO and media capabilities. We will also continue to build the competencies and experience of Georgian national staff through active pursuit of our 'localization' agenda, and will continue to use local contractors and suppliers wherever possible to build local economic capacity (pages 24-25).

Safeguarding security We must continue to collaborate with national and local authorities to protect the security of our people and assets, and to protect the human rights of all who work on the pipelines (pages 22-23).

Protecting the natural environment In addition to having a framework of management systems we have invested in technical safeguards designed to ensure that any risk to the natural environment from the pipelines is minimised and that our waste and impacts are correctly managed. Our ongoing operations must continue to be managed in an environmentally sound manner (pages 14-17).



Responsible operations

- 1.1 BP at-a-glance
- 1.2 Our business activities
- 1.3 Our financial and economic performance
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The reinstatement process involves using rock that was removed from the right of way during construction in Georgia.

1.1 BP at-a-glance

Operating responsibly lies at the heart of our framework for corporate responsibility. Responsibility demands that we maintain high and consistent standards every day and wherever we work – including safety, integrity, environmental stewardship and people management. This section outlines our approach.

BP operates globally. The group has business activities and customers in more than 100 countries and exploration and production interests in 26 countries. Just under 40% of our fixed assets are located in the US and around 25% in the UK and the rest of Europe. BP makes five year and annual plans to execute its strategy.

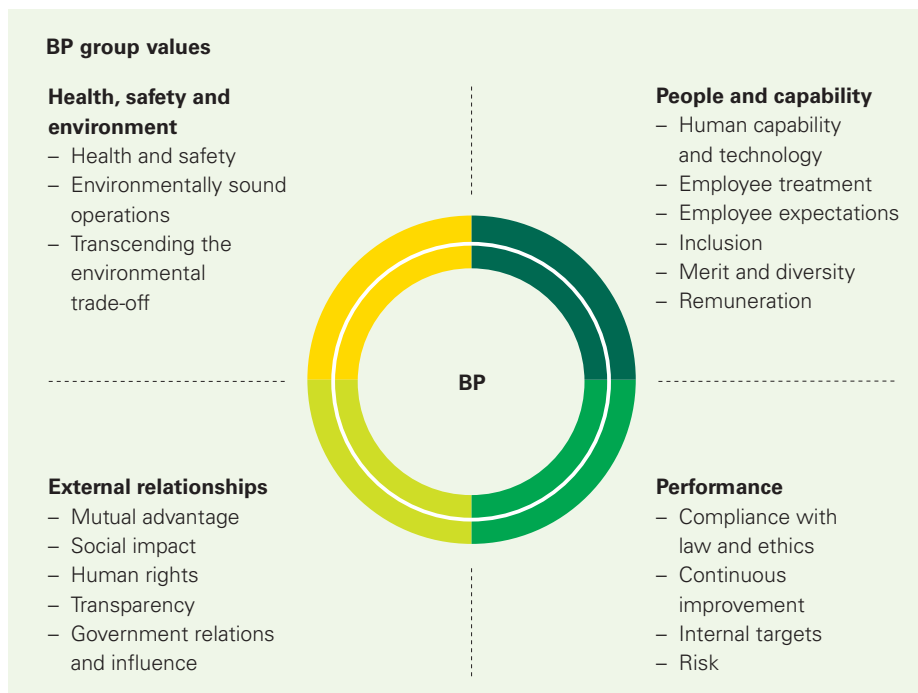
BP is organized in three business ‘segments’: Exploration and Production, Refining and Marketing and Gas, Power and Renewables. The three operating segments are served by a range of group functions which aim to achieve coherence across the group, manage risk effectively, and achieve economies of scale. Technological support for the entire business is provided by the group’s research and engineering activities. Technology helps the group access the energy resources we need to provide future security of energy supply and supports the group in its goal of minimizing the environmental impact of its energy production and consumption.

The group is also organized into four ‘regions’ to ensure consistency across the segments and functions and to represent BP to external parties. Our business in Georgia is an integral part of BP’s activities in the Africa, Middle East

and Caspian region and is a part of one of the group’s long-term profit centres.

BP also works with a number of non-BP companies and other entities in joint ventures (JVs). From a group perspective, many of these JVs are large and significant businesses in their own right, established as separate companies with

their own boards and governance processes, in which BP is a shareholder. In all cases, BP implements its own standards and policies in those JVs it operates and where the joint venture agreement permits. Where BP is not the operator or where BP is the shareholder in a JV, BP encourages adoption of or





works towards standards and policies comparable with BP's own.

BP's vision and strategy The BP group strategy is captured within five year and annual plans. It seeks to achieve three targets. These are:

- to underpin growth by a focus on performance, particularly on returns, investing at a rate appropriate for long-term growth;
- to increase dividend per share in the light of BP group policy; and
- to return to shareholders all free cash

flows in excess of investment and dividend needs.

BP's direction is also set by its group values. These express aspirations, such as for ethical behaviour, fair treatment of employees, or environmental responsibility. At the core of BP is an unshakeable commitment to integrity, honest dealing, treating everyone with respect and dignity, striving for mutual advantage and contributing to human progress by producing energy in ways that respect both human rights and the natural environment.

Governance and risk management

Acting consistently in accordance with these group values requires identification, analysis and management of the risks we face as a business and as individuals on a day to day basis. The group's corporate governance framework helps to manage risk by defining roles and responsibilities for the board, the group chief executive and non-executive directors. Within this framework, the board, which itself is accountable to shareholders, delegates all executive management authority to the group chief executive. In turn, the group chief executive delegates authority to senior management and onwards to the front line. This system of 'internal control' is captured in what is known as the 'BP Management Framework'. It sets out the roles and relationships of the different parts of the business and provides the framework for the complete set of management systems, organizational structures, processes, standards and behaviours that are employed to conduct our business and to deliver return for shareholders. This report provides information on many of those systems, structures, processes and behaviours in the specific context of our activities in Georgia.

Enterprise control in BP

BP's governance and management processes range from board-level governance policies and the BP management framework to our group standards and code of conduct, through to frontline operating standards and control processes. All these processes support our strategy to deliver long-term shareholder value.



1.2 Our business activities

BP's activities in the Caspian region are among the most strategically important across the whole of the group. The region is host to some of our most significant and high-profile investments. Within this context, Georgia plays an important role given its position as a strategic crossroads for hydrocarbon transit. As we move from investment in projects to long-term operations in Georgia, we are committed to contributing to Georgia's growing economic and social stability in the years ahead.

Our activities in Georgia feature three major oil and gas projects, in which we are the lead investor and operator. Our partners and their shareholdings are shown below. The three projects are:

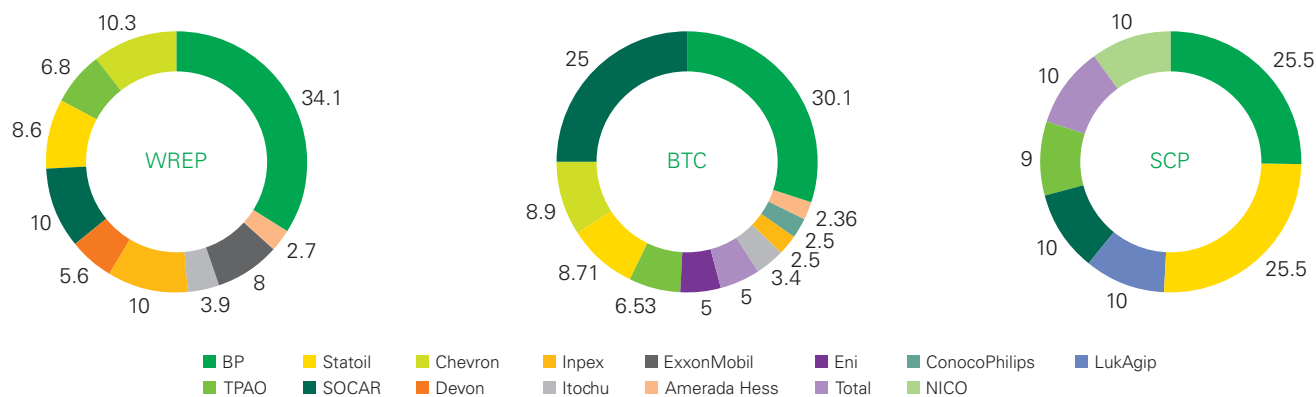
- The Western Route Export Pipeline (known as 'WREP'). This 830km pipeline transports oil from the Chirag field in the Caspian Sea via the Sangachal terminal in Azerbaijan to the Supsa terminal in western Georgia. Just under half of the pipeline is in Georgia. Refurbished and renewed from an existing Soviet pipeline in the late 1990s, oil started

to flow through WREP from Sangachal in December 1998 and reached Georgia in the first week of January 1999. Since the start of WREP and terminal operations through to the end of 2005, 317 tankers (64 in 2005) have transported more than 295 million barrels of oil (more than 52 million barrels in 2005) to world markets from the Supsa terminal. The passage of oil through WREP has brought substantial transit fee revenues to the government of Georgia.

- The Baku-Tbilisi-Ceyhan pipeline (known as 'BTC'). The BTC

pipeline in Georgia was successfully completed in 2005, an extraordinary achievement of more than a decade of co-operation between the host governments, investors and private companies. The pipeline is capable of transporting up to a million barrels of oil a day from the Sangachal terminal in Azerbaijan to a newly constructed marine oil terminal in Ceyhan on the Turkish Mediterranean coast. It is one of the longest pipelines in the world and is our highest profile strategic investment in the region.

Partners in the pipelines (% shareholding)





First oil celebrations in Georgia

In the summer of 2005, Azerbaijani oil from the Azeri-Chirag-Guneshli (ACG) field development started flowing into the Georgian section of the BTC pipeline.

Official celebrations were held on 12 October 2005, at the first BTC pumping station near Gardabani. Georgia's President Mikheil Saakashvili highlighted the political and economic importance of the BTC pipeline. Azerbaijani President Ilham Aliyev praised the positive socio-economic developments in Georgia. President Ahmet Necdet Sezer of Turkey drew attention to progress in regional energy developments with the east-west energy corridor envisaged in the 1990s becoming a reality.

After the official ceremony at the pumping station, celebrations continued at the Georgian National Museum in Tbilisi with the opening of the BTC cultural heritage protection exhibition. Guests from around the world had the opportunity to see artifacts from BTC excavations and other sites revealing facts about thousands of years of cultural heritage and human life in the region.

- The South Caucasus Gas Pipeline (known as 'SCP'). This pipeline, constructed in the same corridor as the BTC pipeline through its passage in Georgia, will carry natural gas from the Shah Deniz field in the Caspian Sea to customers in Georgia, Turkey and Azerbaijan. By the end of 2005, the SCP pipeline was approximately 85% complete. It is planned to be operational in 2006 in line with gas sales commitments to the three countries. It will provide a reliable and

relatively low-cost source of gas supply for Georgia.

In undertaking projects of this magnitude, we have inevitably faced a wide range of challenges, many of which have created pressure on project timescales. Many of the challenges are described in this report, along with our responses to them.

In addition to these three major projects, our aviation trading business has been active in Georgia since 1998. At Tbilisi airport, Air BP provides jet fuel

to national and international airline customers. Together with our joint venture partner, Aviafuel Service, we distribute lubricant products including BP and Castrol brands.

In Georgia, BP also holds a participating interest in Black Sea exploration deepwater blocks IIA, IIB, and III. Anadarko is the operator (48.0%) with BP (28.5%), Turkey Petroleum Overseas Company (13.5%) and Chevron (Unocal – 10%). Interpretation of seismic data continues.



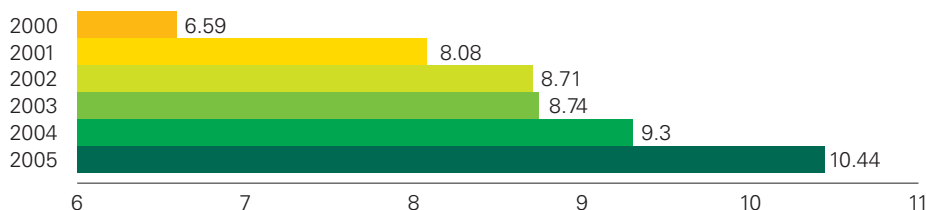
1.3 Our financial and economic performance

Against a backdrop of social and economic challenges typical of a country in transition, our financial and economic impact in Georgia is significant.

We are already an important contributor to national government revenues through the payment of WREP tariff and in future payments made to government linked to the volumes of oil and gas which pass through Georgian territory. We are a major employer of local companies and Georgian citizens. We have also made substantial investments in environmental and social projects, designed to tackle immediate concerns and to generate longer-term economic and social self-sufficiency. This investment is important to the government and people of Georgia and thus we recognize that our engagement here bring serious responsibility as well as opportunity.

The WREP tariff paid to the national government is the most direct of our financial and economic impacts at present. The table below shows fee payments arising from WREP from 2000-2005. Payments to the government will increase significantly when the BTC and SCP pipeline projects become fully operational. We currently estimate that the profits tax payments from BTC will be around \$25 million in 2007, and could rise to approximately \$50 million a year in future, which will be in addition to continuing WREP payments. In addition to gas sales in Georgia, SCP brings benefits of gas 'in

The WREP tariff payments to GIOC^a 2000-2005 (\$ million)



Notes:

^a GIOC is the Georgian International Oil Corporation, the legal entity representing the Georgian government. The figures quoted in the 2004 BP Georgia Sustainability Review were drawn, as indicated, from an IMF paper.

kind' in lieu of tariff which can be converted to a financial figure by assuming a gas value. We estimate that this will equate to approximately \$17 million per year under peak phase 1 throughput.

We are the largest single foreign investor in the country and as such make a significant contribution to national economic well-being. It has been estimated that about 60% of foreign investment in Georgia came from BP and

its partners in 2005. Our capital and operating expenditure from project inception to 2005 in Georgia on BTC is \$775 million and \$447 million on SCP. Details of expenditure for 2004 and 2005 are shown in the table below. As the nature of our operations changes from investment in projects to continuing operations, the balance of expenditure will shift from capital to operating expenditure in the years ahead.

Capital and operating expenditure in Georgia (\$)

	Capital 2004	Capital 2005	Operating 2004 ^a	Operating 2005
WREP	2,342,000	4,752,000	20,581,000	23,711,000
BTC	262,936,000	225,812,000	0	0
SCP	160,861,000	205,736,000	0	0
Total	426,139,000	436,300,000	20,581,000	23,711,000

^a Includes Georgian Pipeline Company office and administrative costs not included in the 2004 BP Georgia Sustainability Review.

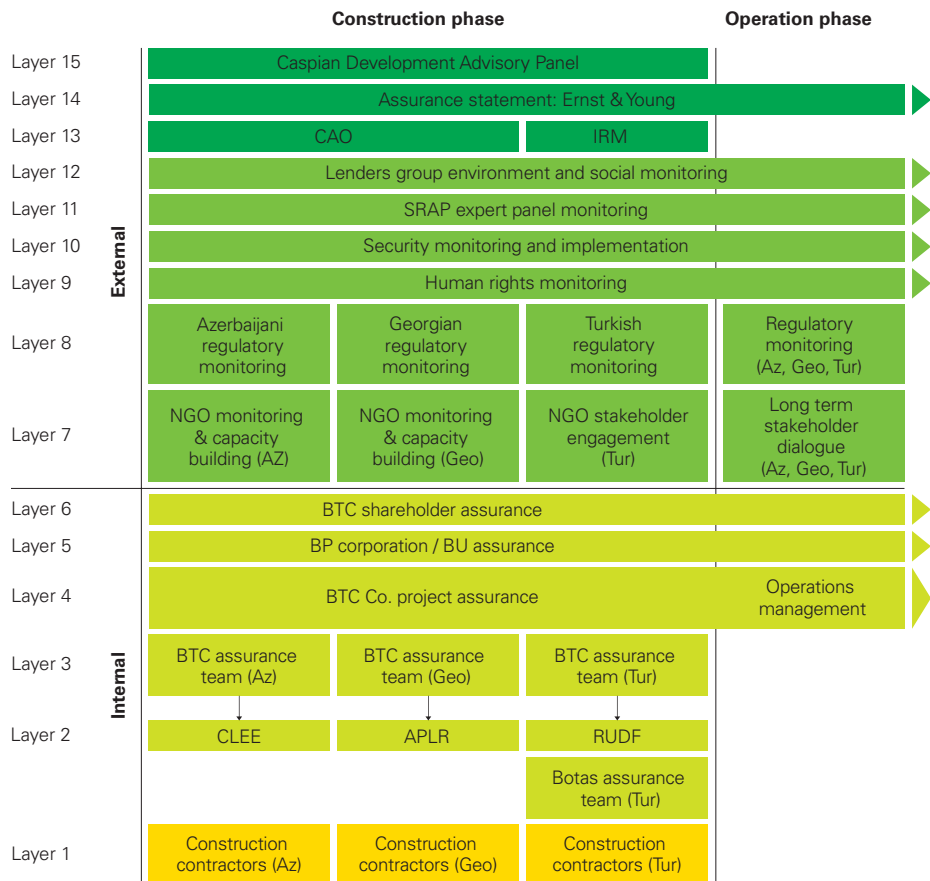
1.4 Dialogue and engagement

Our employees and contractors in Georgia interact on a regular basis with a wide range of groups – including government, communities, opinion leaders, NGOs, lenders, suppliers, and business partners. Our aim is to ensure that dialogue and engagement with these groups builds relationships which create mutual advantage – that is, benefits for those with whom we do business as well as for ourselves.

Understandably, our involvement in the major projects in the Caspian has attracted considerable attention, much of it critical. Our approach has been to be open and consultative, building in a range of mechanisms for internal and external scrutiny. Across the projects, we have identified fifteen separate layers of monitoring and assurance. Internal monitoring is carried out by the project teams themselves as well as project contractors and consultants. Additional scrutiny is provided by bodies external to BP, such as government or lender-appointed auditors.

This comprehensive external monitoring, which has been a feature of the projects since their inception, continued in 2005. The Caspian Development Advisory Panel (CDAP) Special Advisor on Environmental and Social issues visited in July prior to a visit by the full panel in October. A programme of NGO monitoring, called the ‘Pipeline Monitoring and Dialogue Initiative’ continued. Its activities are described in more detail below. The Social Resettlement Action Plan experts panel (‘SRAP’) also reviewed the project in September. Host government monitoring continued and included discussions with the Georgian Ministry of Environment on

Layers of monitoring and assurance



Notes:
 APLR – Association for Protection of Landowners Rights. IRM – Independent Resource Mechanism.
 CAO – Compliance Adviser Ombudsman. RUDF – Rural and Urban Development Foundation.
 CLEE – Centre for Legal and Economic Enterprise. SRAP – Social and Resettlement Action Plan.

such topics as special containment measures in the Kodiana section of the BTC pipeline, the Georgian Biodiversity Monitoring Programme, rare floral species, and waste management.

The Lender group's Independent Environmental Consultant (IEC) conducted quarterly audits of BTC construction through 2005. In Georgia, one 'class 3' non-compliance was raised in 2005, requiring review by the lenders. This concerned the need to move towards EU compliant waste management facilities (discussed in section 1.5 of this report). Overall, the number of non-compliances raised in the IEC audits has fallen steadily since the start of BTC construction.

The Caspian Development Advisory Panel

CDAP, established to provide independent advice and counsel to the BP group chief executive on the projects in the region, submitted its year-end report in December 2005. The panel found much that was positive about the projects and made recommendations for improvement designed to ensure that pipeline construction was completed in accordance with the high environmental and social standards set for the project. Observations and recommendations covered issues such as reinstatement and restoration of the right of way, land acquisition and compensation, and waste management.

Government relations CDAP's observations included noting the consolidation and advancement of relations between BP and the Georgian authorities. The panel noted the various actions which had been taken to address the concerns of the government. These included steps to inspire greater confidence in the safety of the pipeline by introducing additional engineering safeguards, beginning preparation of the oil spill relief tank in the Borjomi region requested by the Georgian authorities, and providing support for the construction and equipping of the security base to house government staff responsible for pipeline security. In addition, the first disbursements were made under the BTC grant programme agreed in 2004, as

'On the whole, the panel is very favourably impressed with the efforts of BP and BTC's leadership and on-the-ground team to set and meet high standards for the project. At the same time, and in the context of the significant accomplishments that the project has already achieved, we offer in this report a number of observations and recommendations for ways in which the project's impact could be further enhanced.'

CDAP Report on 2005 Activities: 28 December 2005
(available at <http://www.caspsea.com>)

well as preliminary funding from the 'BP pledge' grant programme supporting projects on education, health care, cultural heritage and energy.

Engagement with communities A key constituency is the local communities affected by pipeline construction. Our engagement with communities involves regular dialogue, including that carried out by our team of community liaison officers with project-affected communities. It also includes formal negotiations, such as those required for land purchase or the recent programme of handing land back to its original users after pipeline work is complete (known as 'land use handback').

Building and maintaining a positive relationship with the communities directly affected by pipeline construction can be difficult, given the influence of the pipeline work on local villages and towns and the unfamiliarity of many of these communities with an undertaking of this scale. As is inevitable for a project of this

size and complexity, community grievances, such as those surrounding land purchase or compensation payments, have been raised. The majority of these grievances have now been successfully resolved. In the case of Dgvari village, where the issue of landslides affecting the village was raised, we supported independent study of the hazards and risks. This concluded that future construction and operational activities associated with the BTC/SCP pipeline would have no impact on the village. As a humanitarian gesture, we provided financial support to the government in support of its plan to relocate the village given the serious nature of landslide problems. In the course of 2005, we were informed by the government that none of the funds BP had offered for this purpose would be required but that they would be allocated to fund other initiatives consistent with the themes of BP-funded social investment projects.

Through our regular contact with communities, we are aware of their



Our engagement with communities involves regular dialogue, such as that carried out by our team of community liaison officers with project-affected communities.

concerns about pipeline safety. We have addressed this issue in community meetings, such as those which have taken place with village and district community representatives along the western route pipeline.

In the course of the year on the BTC/SCP pipeline corridor, we received new complaints about damage to structures allegedly caused by heavy traffic or pipeline-related blasting. BP

engaged independent engineers to review the assessments done by construction contractors. Their report concluded that construction traffic was unlikely to be the primary cause of cracking in structures. Further studies have been recommended to assess whether blasting vibrations associated with pipeline construction were the cause of cracking. This work will take place in 2006.

In some cases complainants have elected to pursue their complaints through other channels, including the courts or the International Finance Corporation's (IFC) Compliance Advisor/Ombudsman (CAO). We continue to assess each case on its merits.

On some occasions, communities have blocked access to the pipeline. The reasons for these blockages have been varied. For example, some have related to



Land acquisition and compensation

Land acquisition and compensation issues have been a prominent concern amongst many individuals and communities along the BTC and SCP pipeline routes and also amongst NGOs and development agencies. The issues involved are complex, requiring clarity on subjects such as land registration and ownership, crop inventories, and the return of land once construction has been completed.

In the absence of reliable information about land ownership, or a clear land market with established prices for land plots, the process of land acquisition and return has been necessarily complex. To ensure the process is transparent, land acquisition procedures have been described in publicly available documents – a General Guide to

Land Acquisition and Compensation for both BTC and SCP, and a Resettlement Action Plan. An information booklet describing the land use handback programme and associated restrictions was produced and distributed to communities in 2005.

As far as possible, the projects have purchased the minimum land required for construction purposes. We have consistently adhered to the original policy and rates for payment set out in the Resettlement Action Plan.

The process of land acquisition necessary to carry out the work is substantially complete. In some areas, additional land parcels are being purchased where the BTC and SCP pipelines have had to be redesigned, due to local topological conditions.

Overall, since 2003, more than \$20 million has been paid in land acquisition and crop loss payments in Georgia. Over 3,400 parcels of land that were privately owned or affected by the construction corridor were purchased, along with over 200 parcels of land in high mountain villages and over 200 leased parcels of land.

As construction of all the pipelines nears completion, the process of returning the use of land to individuals and communities has begun. Land (except land occupied by permanent above-ground facilities) is returned to the previous private landowners for use free of charge but subject to certain restrictions, such as those relating to future building or tree planting. These restrictions are necessary for the safe operation and maintenance of the pipelines. They have been accepted by the Georgian government and are in compliance with international codes and standards. They are unlikely to have any practical impact on the ability to farm the affected land.

The projects have established formal mechanisms for individuals or communities to raise grievances if they feel they have been unfairly treated during the land acquisition or compensation process. This includes the possibility of grievances being raised with the IFC Compliance Advisor/Ombudsman, providing an independent mechanism for airing and resolving grievances. In the course of 2005, significant progress was made on resolving a backlog of claims relating to land acquisition and crop compensation, and construction related complaints. A small number of outstanding claims remain, which we are working to resolve as quickly as possible.

BTC/SCP land and crop payments in Georgia (\$)

	Land	Crops	Total
2003	6,691,490	4,933,688	11,625,178
2004	2,325,732	4,865,665	7,191,397
2005	484,572	1,090,274	1,574,846
Totals	9,501,794	10,889,627	20,391,421

requests for compensation for land and others to employment issues due to staff demobilisation. We have worked to tackle grievances and have sought the cooperation of local and national authorities as appropriate to assist in resolving any protracted blockages.

NGO capacity building: the 'Pipeline Monitoring and Dialogue Initiative' We are also taking steps to build the capacity of civil society institutions so that dialogue and constructive engagement can be enhanced. A central part of this is work we have done in 2005 with non-governmental organizations and the media. NGO capacity building along the pipeline route is one of the themes covered in the Environmental Investment Programme (EIP). The EIP Small Grants programme aims to build NGO capacity to engage citizens in environmental awareness and education programmes.

In 2004, we launched a new initiative to facilitate NGO audits of the BTC and SCP pipeline projects. The 'Pipeline Monitoring and Dialogue Initiative' (PMDI) was established with the collaboration of Eurasia Foundation (EF), a privately managed grant making and operating organization dedicated to supporting programmes targeted at building civil society and private enterprise in the countries of the former Soviet Union. The initiative implemented by EF seeks to promote international standards of monitoring and audit, provide opportunities for team-based audit activity, and build the capacity and professionalism of national NGOs in Georgia. The programme has been supported by the United Nations Development Programme (UNDP) and the IFC.

The first cycle of the programme was completed in 2005. NGO participants received training and mentoring from an independent consultant and EF as well as technical assistance from BTC to support their work. Based on field visits, interviews with BTC and construction contractor staff, and studies of relevant documentation, the working groups produced audit reports, published in 2005.

The working group reports, which covered waste management, the reinstatement process, the protection of

social and human rights along the pipeline (including land issues) involved representatives from 16 local NGOs. Many of the recommendations have been accepted and part of the second cycle of the programme will be follow-up audit to ensure that the required actions have been taken. In addition to providing effective scrutiny of BP and partner activities, a 'lessons learned' workshop was held at the end of the first cycle of activity to help the NGOs identify the internal strengths and weaknesses of their efforts, in order to determine how they could become more effective in future.

The second cycle of PMDI will be carried out in 2006 with national NGOs participating, providing further opportunity to monitor and audit BP activities along the BTC and SCP pipelines.

We have also launched projects to help develop the capacity of the local media. Building on work carried out in 2003 and 2004 which focused on the delivery of knowledge and training in business and economics journalism, we have in 2005 launched English language training in collaboration with the British Council. We have also held roundtables with representatives of the Georgian media as well as with national and international NGOs.

Engaging our people A number of mechanisms are used to communicate with our employees. One of these is the People Assurance Survey, a group-wide survey of opinion undertaken every two years and which will be undertaken again in 2006. In the course of 2005, we have also carried out a review of employee communications and begun a series of internal 'townhall' meetings on a quarterly basis. We have also launched an employee engagement programme to encourage staff involvement in charitable work. A quarterly programme of external events for employees was also initiated in 2005 – the first such being held at the Georgian National Museum, an organization BP has partnered through sponsorship.

Research into perceptions of BP in Georgia We also conducted independent research to learn more about our corporate

reputation in the country, canvassing the opinions of external parties interested in or directly affected by our activities in Georgia. We undertook market research in 2005, appointing a Georgian market research company to examine perceptions of BP.

We were pleased to note the recognition by many of those canvassed in our market research of the positive impacts which our presence has brought to local communities through the provision of jobs and social and environmental investment. This perception was supported by responses from our research into BP's corporate reputation which found that respondents were positive in their evaluation of the BTC project's impact on the country. We learned that we could do more to increase awareness of our social investment efforts and perceptions of our environmental impact, which we are now tackling through profile-raising initiatives such as advertising and sponsorship.



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1.5 Environmentally sound operations

We seek to operate responsibly across any project's total lifespan, from when we first investigate a location until decommissioning and remediation. In developing our activities, we are keenly aware of the importance of protecting, and where possible, improving the state of the natural environment. We aim not only to comply with legal requirements but to drive down the environmental and health impact of our operations by reducing waste and emissions and using natural resources responsibly.

Any projects of the scale being carried out in Georgia would be impossible to implement without creating some negative impacts. Our construction activities and other operations in Georgia inevitably have environmental effects, such as habitat disturbance or the need to dispose of waste. We assess and manage those impacts on a continuous basis and take appropriate action designed to address problems and challenges.

The BTC route passes through a number of environmentally sensitive areas, particularly in the Tsalka, Tabatskuri

and Borjomi sections. NGOs have expressed concerns about the need to protect the environment in these regions. In these areas additional pipeline protection measures have been implemented to enhance pipeline integrity and reduce the risk of accidental damage or deliberate third party interference that could result in an oil spill. In areas deemed most sensitive, several pipeline protection measures have been implemented to detect and locate excavation in the vicinity of the pipeline. The trench design includes physical and electronic barriers to prevent excavation

down to the pipe. This combination of early detection, location and the increased time to excavate the pipe allows pipeline patrols sufficient time to reach the area following receipt and acknowledgment of an alarm.

Concerns were raised in 2003-2004 about 'field joint coating' and weld defects on the BTC pipeline. The pipeline is protected from corrosion by a high integrity three layer factory applied polyethylene coating system used (which acts as a barrier against corrosion). This has been subject to rigorous testing in previous pipeline use and prior to use on



Georgia's natural environment

Georgia possesses a landscape of outstanding natural beauty, unusually varied for its size and with a rich biodiversity. With 50% of its landmass mountainous and at more than 1,500 metres above sea level, the country ranges from fertile valleys to semi-arid desert and subtropical coast.

Georgia is also a country which has suffered serious environmental degradation resulting from years of industrial neglect where little regard was paid to issues of land and water contamination. In the past, the environment suffered as a result of central planning. Following independence there was a long period of stagnation. Today the landscape requires responsible handling to preserve and restore its quality.



BTC and SCP – reinstating the right of way

The BTC pipeline has provided an early use of the reinstatement requirements of the new principles on environmentally sound operations developed at BP group level. The principles, which have been developed in the course of 2005, adopt a lifecycle approach. They include inter-related processes and requirements such as ensuring that globally applicable environmental performance requirements are applied. These cover aspects such as minimizing the footprint of our operations and land reinstatement (pictured left). In relation to the pipelines, the BTC oil pipeline is now in the ground and final construction of the South Caucasus gas pipeline (SCP) is taking place using the same corridor as the oil pipeline in Georgia and Azerbaijan. Engineering reinstatement and bio-restoration are being carried out along the pipeline route.

BTC. The field welds are protected from corrosion by a urethane modified epoxy product that has been subject also to a rigorous testing programme. During field application some defects were observed during quality control inspections. These were due to application of the product below the recommended minimum ambient temperature. Addressing the issue involved a simple remedy of applying heat to the coating and reapplying the product to the joints to which it was applied below minimum temperature. BTC is now entirely satisfied that this issue has been resolved and no further recurrence of these defects have been observed since then.

Weld defects – very small transverse cracks – were identified in a small number of manually welded joints in Georgia. Routine inspection identified the issue and then an enhanced inspection scheme identified the 193 joints that presented these transverse cracks. All of these welds were removed from the pipeline and re-welded. Additional testing under laboratory conditions was performed to ensure there was no impact to the integrity of the pipeline. These defects were limited only to manual welds which are less than 22% of the total number of welds within the pipeline. We are confident that the construction techniques and testing regimes ensure that the BTC and SCP pipelines are laid correctly and are safe.

Environmental management Each of the projects has its own environmental (and social) management system, covering the key environmental aspects. These

include issues such as waste management, pollution prevention, biodiversity protection, landscape, land contamination and land reinstatement. Management systems provide a framework for planning, doing, checking and acting in a cycle of continuous improvement related to the commitments made in environmental and social impact assessments.

Environmental and social impact assessments An important part of our framework for establishing responsible operations has been the conduct of environmental and social impact assessments – or ESIA's.

The BTC and SCP ESIA's are comprehensive assessments of the environmental and social impacts of the pipeline projects. They set out the baseline conditions prior to any disturbance by the projects and recommend mitigation measures that seek to minimize impacts during construction.

An important feature of the process has been the identification of the needs, concerns and aspirations of communities affected by the pipelines. The ESIA's have incorporated a vast amount of study and consultation – including extensive interaction with the communities along the pipeline route.

The ESIA's are also the cornerstone of a process of continuing dialogue. They have been made available to the public in Georgian, Azeri, Russian and Turkish in non-technical form and have been published on the internet (www.bp.com/caspian).

Greenhouse gas emissions (GHG)

Managing our own operational GHG emissions has always been a component of our efforts to tackle climate change and to operate as efficiently as possible. Across the BP group, our operational GHG emissions in 2005 totalled 78.0 million tonnes (Mte) of CO₂ equivalent on a direct equity basis. In Georgia, GHG emissions from current operations are generated primarily through construction and related activities such as transport and loading. The main contractor on the projects seeks to minimize emissions as far as practical through programmes of monitoring and maintenance.

Oil spill and gas leak response measures

Taking steps to prevent oil spills and gas leaks is an important part of operational integrity. Mitigation measures above industry standards have been implemented during the development of the pipelines and in the selection of pipeline routes to minimise as far as reasonably practical the risk of oil spills or gas leaks. Pipeline design, materials and construction have been implemented to high international standards. Quantified risk assessment and research have been completed to assess the performance of the pipelines against safety criteria used in Europe. Oil spill response preparedness, in the unlikely case of a leak, is maintained through having a dedicated contractor with responsibility for regular emergency response exercise and an effective emergency response management system. Four emergency response exercises have been held



Emergency response spill exercise, Georgia

'The exercise was a definite success. In particular, it is evident that the BTC spill management team has the personnel and the ability to organize and implement an appropriate and effective oil spill response. Lessons were learned during this exercise, which is one reason why they are an important element of a continuously developing and improving oil spill response capability. Notwithstanding these lessons, BTC demonstrated that they have the management and equipment in place to deal competently with an oil spill in Georgia'.

From the report by Polaris Applied Sciences Inc., independent oil spill consultants and advisors to the Lender group (7 June 2005).

across the three countries crossed by the BTC pipeline. The Georgian exercise in 2005 was observed by Georgian government representatives and an independent advisor to the project lenders. The advisor's report confirmed that the response teams were ready to respond to incidents, prior to the introduction of hydrocarbon transit through the country.

A major step forward was taken in May 2005 with the approval by government of the Georgian Oil Spill Response Plan (OSRP). The plan was approved with conditions intended to provide additional environmental safeguards, such as the construction of a drain down reservoir in the Tskhratskaro-Kodiana section of the pipeline and of secondary containment facilities in riverbeds. Approval of the plan marked the culmination of over two years of work with the Georgian government and its advisors. Workshops and technical meetings involved the scientific community, lenders, the Ministry of the Environment, GIOC, BTC, and specialist consultants and advisors. An emergency response plan for SCP is currently going through a similar approval process.

Topics addressed in the OSRP workshops and technical meetings included contaminated land clean-up, in-situ burning, wildlife response and environmental sensitivity assessment. To address this last topic a technical working group was established to integrate the findings of the environmental sensitivity report.

The aim of the group was to establish a methodology and identify priorities in oil spill response. Work has resulted in updating information on environmental sensitivities downstream of the pipeline and in providing a "rating" of the relative sensitivity of each receptor to an oil spill. This information will provide the incident team with valuable information to assist in prioritizing response activities to minimize any potential environmental damage.

Waste management Waste management is one of the most sensitive challenges we face in ensuring we operate responsibly across Georgia because of the absence of domestic waste management facilities that meet European Union standards.

For non-hazardous waste, we have sought to apply EU standards. In the course of 2005, we developed a waste management strategy in consultation with local authorities. We plan to build an EU compliant facility for non-hazardous waste that will be used by both the project and municipalities. Until this facility is constructed, our objective continues to be to minimise waste volumes generated at source as far as possible and to re-use (sludge, wood) and recycle (paper, plastic, metal, glass) waste whenever feasible. In 2005, 72.6% of all waste generated during the construction works was recycled in local companies. Hazardous waste, which includes material such as used oil, contaminated soil, and oil contaminated water, is securely stored until it can be treated at an EU compliant disposal facility.

Biodiversity and conservation Operating responsibly also requires protection of biodiversity. In relation to WREP, plant conservation and restoration projects, floral monitoring surveys, compensation planting and landscaping projects have been undertaken. Seasonal bird counts and bird migration monitoring have also been carried out.

As part of our approach to protecting biodiversity we have, together with our partners, established an annual biodiversity competition in Georgia. The 2005 competition, which was the fourth one run, was based on the success of the first three competitions and had the same objective: to make a real, measurable and positive impact on biodiversity. It aimed to find the best ideas for raising awareness of the importance of the preservation of the world's biodiversity, ideas which can be implemented in a practical way both today and in future.

In the 'Best Biodiversity Project' category, 12 projects were received and evaluated by the Scientific Advisory Panel (for technical evaluation) and then by the Awards committee (for ensuring the project met BP's standards and policies). First prize was awarded to the NGO 'NACRES' for its project on the 'Study and conservation of the Eurasian otter in Georgia'. The value of the award was \$15,000. Two second prizes and a third prize were also awarded under this category.

In the 'Best Biodiversity Article and Video Material' category, four entries were received. All four were newspaper articles. The judges concluded that none of the submissions fully met all the

requirements of the competition this year, and that there would not be a first prize award. A second prize award of \$500 and two third prize awards were made.

Biodiversity in action: the Environmental Investment Programme (EIP) The Environmental Investment Programme, a \$9.3 million initiative funded through the BTC and SCP projects, supports initiatives focused on the promotion and conservation of biodiversity. Georgia receives \$3 million of the programme's allocated funds. The programme, which began in September 2003, is divided into themes identified during the ESIA process and through consultation with national and international stakeholders. The five projects financed are:

- Caucasian Black Grouse Research, Monitoring and Conservation Management project. The lead implementing organization has been the Georgian Centre for the Conservation of Wildlife. The goal of the project was to provide a scientific basis for the effective conservation management of this endemic, rare and globally threatened species. The project ended at the end of 2005, with the development and government acceptance of the species management plan.
- Ecosystems and Species Conservation in Georgia: the Brown Bear project, being implemented by NACRES – Noah's Ark Centre for Recovery of Endangered Species. The project aims to estimate the bear population, appraise threats, describe the reasons for habitat loss, establish a bear conservation action plan, and promote community involvement in conservation activities. Activities in 2005 included habitat mapping using GIS data developed by the project, field work to explore bear movements, and awareness-raising activities with the public.
- Management of the Small Grants Programme for NGO Capacity Building along the SCP and BTC Pipeline routes. This is being implemented by Save the Children. The goal is to develop NGOs' capacities to engage citizens in environmental awareness and education. Twenty six local NGOs are being supported across all seven districts crossed by the BTC/SCP pipelines. In 2005 training and support was provided to local NGOs to help them develop proposals for Environmental activity grants.
- Enhancement of Environmental Education, being conducted by the NGO CARE, in conjunction with the CIP-Improved Schools Project (see more information below). The goal of the project is to deliver extra-curricular training to adolescents on environmental issues and environment conservation approaches, to promote active learning methodologies in teaching, and to upgrade teaching materials. In the course of 2005, over 170 teachers from participating schools received training, and the creation of Nature Clubs was supported. Project proposals subsequently submitted by Nature Clubs were also supported.
- Environmentally Sound Livestock Farming Project, also being carried out by CARE. The project aims to promote environmentally sustainable livestock management practices in the 24 villages surrounding the Borjomi-Kharagauli National Park. The target group is approximately 2,580 livestock farmers representing approximately 40% of all farming households in the target villages. In 2005, training materials have been distributed and updated and training courses provided. In addition to the activities summarized above, a feasibility study for a major new project to develop a management plan for a Ktsia-Tabatskuri Managed Reserve was carried out.



Waste management in Georgia

In seeking to adhere to EU standards for the disposal of waste, the project invested in an incinerator which would meet the required standards. From its arrival in 2003, the incinerator unit failed to meet the required performance standards. Despite significant investment in 2004, the unit's deficiencies could not be resolved in a feasible and timely manner and it was shut down in January 2005.

Following discussions with the Ministry of the Environment, the existing lagluja municipal waste disposal facility site, near the city of Rustavi, has been used for the disposal of non-hazardous non-recyclable/re-usable project waste such as food-contaminated waste. This was the closest approved municipal site to the source of waste and with the safest road access. Although the site is one of the most widely used waste disposal facilities in Tbilisi and adjacent districts, it does not (nor does any other waste disposal site in Georgia) possess the infrastructure or operating standards needed to comply with EU standards.

Faced with this challenge, the BTC/SCP project partners have offered to contribute to managing and funding the implementation of specific works to improve the conditions and management of the site. Training for site staff has also been offered. These offers have been made even though the project has generated less than 1% of the total waste disposed at lagluja.

In addition, BP and its partners have offered to help fund, design and construct a new EU-compliant landfill facility for the disposal of non-hazardous waste – both generated by the project and for other municipal waste currently going to lagluja. The construction of the new landfill will greatly benefit the citizens of Georgia.

1.6 Protecting cultural heritage

The archaeological heritage of Georgia (in common with that of Azerbaijan and Turkey) is outstanding in terms of its physical and historical characteristics. The Georgian government, the general public, we and our partners therefore place a very high value on protecting and preserving these heritage resources.

With our partners we have so far spent over \$2 million on programmes for this purpose along the BTC and SCP pipeline routes.

We have developed a cultural heritage protection programme to avoid or minimize project impacts to archaeological sites and historic monuments as a result of pipeline construction and operation. Programme planning started during the ESIA process and is aimed at ensuring compliance with applicable Georgian law, international standards and treaties, and the

environmental requirements of the lending agencies. The programme was developed in conjunction with the Ministry of Culture and the Academy of Sciences, key agencies tasked with heritage oversight in Georgia. Research teams consist of international and Georgian archaeologists, monument specialists, and cultural resource management specialists. BP has employed a project heritage specialist to manage implementation of the plan.

The plan sets out a number of phased tasks that reflect the progress of pipeline

construction and the gradual accumulation of knowledge about the archaeological resources in the pipeline corridor. The phases progress from identifying resources, evaluating their significance, mitigating any impacts associated with construction, monitoring activity and managing any 'late finds' (also known as chance discoveries). A 'Project Late Finds' protocol sets out the procedures to follow to protect and record any heritage resources encountered during pipeline construction.



Conservation and restoration of St George's Church, Tadzrisi

St George's Church, located off the BTC right of way, is one element of a nationally significant cultural heritage site called Tadzrisi Monastery. The monastery was originally constructed between 830 and the late 900s but later abandoned and fell into disrepair. Between May and November 2005, the church was carefully cleaned, stabilised and reconstructed by the Georgian chapter of ICOMOS (International Council on Monuments and Sites) funded through a BTC grant. This involved removing vegetation and over 500 years of overburden and sediment. Archaeological investigations were also conducted. All stones and features were carefully mapped upon exposure and where possible the original stones were used to reconstruct the walls of the church. A variety of highly skilled and predominantly Georgian masons, engineers, stonecutters, archaeologists, and architects were involved throughout the process.

A side benefit of this project has been the improvement in relations with local village residents culminating in a letter of gratitude from the community in the autumn of 2005. Visitors to the site have already included government officials, representatives of specialist international organizations such as UNESCO, local residents, and tourists. The site, if properly managed and promoted, could be an integral part of Georgia's economic growth strategies, including heritage tourism.

1.7 Health and safety

Our philosophy as a company is that no job is too important not to be carried out safely. One of our primary responsibilities as an employer of large numbers of staff and contractors working in challenging environments is to protect personal health. All of our projects and operating assets function within a safety management system.

Health We carried out a range of actions to secure personal well-being such as pre-employment medical screening, food hygiene audits at catering facilities, water quality assurance inspections in camps, and inspecting health care facilities along the right of way. Our aim is to protect the well-being of our workforce by identifying specific health risks and developing programmes and guidelines to protect them from their impact. Our effort to address the risks of avian flu, in alignment with adjacent countries, is an example.

Safety Our safety managements system provides a framework of policies, procedures, practices and tools which are designed to ensure safe operations. In addition, a wide range of safety initiatives have been implemented in the course of the year. Safety leadership training was rolled out for management personnel. A safety training programme, covering topics such as Behaviour Safety Observation Training, Behaviour Safety Auditing, the company's 'Golden Rules of Safety', and Energy Isolation was successfully completed.

Our operations have also involved working with a large number of staff we have had to train. Many of these are local staff with little or no previous insight into the safety culture required of a project of this type, or are contractor personnel with different approaches to safety management. The multiple languages of the workforce and the transient nature of much of the working population make the creation of a safety culture more of a challenge than it is in many working environments. Nevertheless, we seek to ensure that our approach is communicated



We estimate that by the end of 2005, we and our contractors had completed health and safety inductions for over

12,000

people in Georgia.



effectively, understood, and upheld in all operations. We estimate that by the end of 2005, we and our contractors had completed health and safety inductions for over 12,000 people in Georgia.

Training initiatives were needed to reinforce the safety requirements for working near overhead power cables. Operators were given reinforcement on the safe operation of their specialized equipment, such as sidebooms, cranes, and forklifts. Training and other measures were taken to focus on the special hazard associated with working on the many steep slopes in Georgia.

Training was provided to local medical personnel on advanced life support with emphasis on road traffic accidents. Further training was provided covering hypothermia and other risks related to cold weather, food safety, water quality, camp hygiene, and guidance on the substance abuse policy.

Contractor safety Pipeline construction involves recognizing and addressing a variety of health and safety challenges. Heavy lifting, welding and excavations are routine activities that require well executed safety practices. As is typical of a major infrastructure project, the extensive use of heavy equipment is necessary and work is often undertaken in difficult terrain, in sections of Georgia at high altitude and adjacent to bodies of water. Working in difficult weather conditions was a significant challenge in 2005. The projects need to ensure that safety and healthy living conditions and adequate medical facilities and personnel are provided for large numbers of people, often accommodated in remote areas.

In addressing these challenges, ensuring that our contractors work safely is an important priority. We have carried out a number of safety initiatives in 2005

with our main pipeline contractor (the Spie Petrofac joint venture). These included safety leadership training, safe driving practices, the inspection of light and heavy vehicles at facilities, medical screening, and health and safety inspections of the catering facilities. We are supporting our contractors by working jointly with their leaders to improve their safety programmes.

'Toolbox talks' and risk assessments are regular features of our safety activities. Due to the logistical challenge of gathering workforce personnel, the toolbox talk is a preferred means of information and training delivery on a pipeline project. These are task-specific on-the-job training carried out on site. They are regularly carried out both at permanent facilities and along the pipeline route. These have covered a range of safety and environmental topics in 2005 such as lessons learned from incidents, safety precautions to be implemented for the current task, waste segregation, preventing the use of unauthorized access roads, refueling, oil spill response, and the management of topsoil and subsoil segregation.

Driving safety The BP group has focused in 2005 on improving driver and road safety through the implementation of the driving safety standard. The standard specifies requirements for BP employees driving or travelling in motor vehicles on BP business. On the Georgian part of the BTC/SCP project, we have estimated that the total kilometers driven to date equate to driving more than 1000 times around the world. The demanding driving conditions and extensive driving exposure required rigorous means to meet the standard.

Special measures have been taken, therefore, to improve driving practices.

Light and heavy vehicles were monitored and assessed to check their mechanical condition and safety equipment availability. Drivers were re-assessed to ensure the validity of their BP driving permits. Guidance and safety measures were introduced to ensure safer driving during winter when the additional hazards of snow, ice and cold are added to the challenges.

We began an initiative to equip project vehicles with telematic driving recorders, which enable more detailed monitoring of driver behaviours. The unit provides the driver real time feedback related to issues of speed, braking, seatbelt use and several other parameters. The installation of these recorders on the BTC/SCP vehicles was submitted to the 'Innovation' category of the regional BP 'Helios' awards competition, an internal programme which promotes and rewards creative ideas for putting our brand values into practice. Guidance and safety measures were introduced to ensure safer driving during winter.

We believe that the steps we are taking to improve driving safety are working. On the Georgian part of the BTC/SCP projects, the 'total vehicle accident rate' has declined by almost 90% since 2003. In 2005, the Georgia driving team of direct hires and contract drivers safely completed over 5.2 million kilometers driven with no days away from work cases and no injuries to any of their passengers. It has been estimated that the use of seatbelts and rollover protection has saved lives in 90 of the vehicle rollovers in the life of the project in the three countries.

Safety performance The safety programmes we have implemented within BP Georgia and among our contractors have helped us achieve a

good safety record, with significant further improvements in performance in 2005. While we are pleased with our record of continuous improvement, our goal of zero accidents was not achieved. We deeply regret that we suffered one fatality in our Georgian operations in 2005. As with all fatalities, the incident was investigated to establish the root causes, so that lessons could be learned and disseminated. Actions were taken which seek to eliminate a repeat of this or similar accidents.

Our goal in implementing our safety programme is to ensure our activities are conducted as safely as possible. We aim to make safety a key concern for everyone, in and out of the work environment. By the start of 2006, operations on WREP had gone seven years without a 'day away from work case' (DAFWC). According to our assessment, DAFWC frequency performance on the BTC/SCP pipeline project has been over five and a half times better than the industry average for similar projects. We have carried out more than 2.6 million hours of safety training on the BTC project to date, equivalent to 96 hours of training for every person who has worked on the project.

Safety performance in Georgia

	2004	2005
BTC /SCP^a		
Workforce fatalities	1	1
Day Away from Work Case Frequency	0.13	0.06
Recordable Injury and Illness Frequency	1.16	0.43
Total Vehicle Accident Rate	4.52	1.42
Man hours worked	18,119,886	13,468,525
Km driven	15,257,792	23,204,992
WREP		
Workforce fatalities	0	0
Day Away from Work Case Frequency	0	0
Recordable Injury Frequency	0	0
Total Vehicle Accident Rate	0	0.3
Man hours worked	1,230,337	675,621
Km driven	2,770,776	3,377,535
Supsa terminal		
Fatalities	0	0
Day Away from Work Case Frequency	0	0
Recordable Injury Frequency	0	0.57
Total Vehicle Accident Rate	0	4.96
Man hours worked	393,288	349,352
Km driven	219,397	201,475
Air BP		
Fatalities	0	0
Day Away from Work Case Frequency	0	0
Recordable Injury Frequency	0	0
Total Vehicle Accident Rate	0	0
Man hours worked	33,033	34,342
Km driven	87,806	60,880

^a Information in the 2004 BP Georgia Sustainability Review did not include SCP.



Improving road safety in winter

Road traffic accidents remain one of our highest risks, here in Georgia and across the BP group. The group-wide driving safety standard is a response to this – seeking to improve driving behavior to lead to safer driving everywhere we operate.

In Georgia, winter road hazards such as 'black ice' and extreme weather conditions are a particular hazard, especially in some of the difficult and remote areas where we work. These conditions oblige each driver engaged in our activities to adapt their driving. Reducing our road traffic accident rate is one of our main safety goals for 2006. Achieving this during the winter season is a major challenge.

A number of actions were taken to increase driving safety in the winter period:

- All project vehicles have been provided with snow chains.
- Our contractor has mobilized two 4x4 trucks equipped with salt and sand mix and spreader tail gate to maintain road conditions and reduce the risk of skidding in snow and icy conditions.
- Guidance was issued to project staff, encouraging them to keep speeds as low as necessary, negotiate curves at slow and steady speeds, and to minimize sudden acceleration and deceleration.
- Winter and off-road driver training has been provided, with a qualified instructor providing coaching.

1.8 Security and human rights

Maintaining the security of our people and assets in Georgia is a key factor in operating responsibly. It can present significant challenges. These arise in part from operating in an environment in which there has been significant political change, and where a degree of regional instability exists. There is also a need to strengthen systems of law enforcement. Yet they also arise from simpler and more commonplace events such as theft. Illegal tapping of oil pipelines, for example, is a recognized problem in Georgia and an issue we take seriously.

Providing effective security along all pipeline routes requires a cooperative approach involving a number of agencies. Securing pipelines is the responsibility of the Georgian government – as it is for any strategic asset inside the country's borders. Throughout 2005, the State Special Protection Service (SSPS) was tasked with security responsibility for BTC/SCP and for WREP. As a result of a 2005 government policy change, security for BTC/SCP and the Supsa terminal now resides with the Strategic Pipeline Protection Department or SPPD (formerly SSPS) while security for the WREP (excluding the Supsa terminal) has been handed to the Special Task Police of the Ministry of Internal Affairs.

Working in partnership with local authorities is also required. In addition to providing security management and staff at our permanent facilities, we provide field security officers up and down the pipelines. They carry out liaison with communities and local police, and provide training to contracted security personnel posted at pipeline facilities.

Illegal tapping of the WREP remains a problem. While the pipeline has been operating safely since 1999, transporting over 239 million barrels of oil to global markets, there have been instances of



Mobile patrols ensure that security is maintained along the length of the pipelines. Our overriding approach is to try to strengthen pipeline security by developing strong relationships with the communities in which we operate and to undertake activities that are mutually beneficial.

illegal theft, including 17 intervention attempts in 2005, of which 10 were successful. Such incidents pose safety and environmental risks, including oil spills. The failure of an illegal tap connection to the WREP in October 2005 resulted in an oil spill of 446 barrels. The oil spill and pipeline repair personnel at the site were able to contain the spill, and commence the repair and clean-up operation.

A range of practical measures is now in place which aims to ensure that asset and personal security is maintained. Our projects and major assets each have security plans and advisors. Mobile SPPD and Special Task Police patrols ensure that security is maintained along the length of the pipelines. Our overriding approach is to try to strengthen pipeline security by developing strong relationships with the communities in which we operate and to undertake activities that are mutually beneficial. For example, security guards posted at valves along the pipelines are recruited by the service provider from local communities. Another example of community recruitment is the use of horse patrolmen, used to verify the operational condition of the pipeline right of way.

Putting this approach into practice, our pipeline surveillance programme for WREP includes a public consultation element in which meetings are held with the local administration, police, landowners, land users, managers of local enterprises, local service organisations, and schools. We employ, wherever possible, local people to provide patrols to ensure the operational integrity of our assets and to maintain a link to local communities.

Human rights International oil companies have faced criticism from human rights organizations for failing to take sufficient action to prevent human rights abuses in areas where host authorities take responsibility for security. BP supports and uses the Voluntary Principles on Security and Human Rights designed to safeguard human rights by ensuring that police, security forces and private guards assigned to protect energy sites or pipelines are properly trained and closely monitored. In this region, we have taken a number of steps to protect human rights. We see our support for human rights at project level as part of a broader picture in which civil society and long term regional stability are supported through promoting respect for human rights and the rule of law.

In 2003, a joint protocol was signed, with our support, by each of the three pipeline countries. It included commitments to observe the highest human rights standards when providing pipeline security. The 'Joint Pipeline Security Commission', established under the protocol, met in the course of 2005, bringing security officials from the three countries together to work and share experience.

BP established an agreement in 2003 with Equity International (EI), a Geneva-based not-for-profit organisation that promotes respect for human rights in law enforcement. Under this agreement, EI provided practical training courses in

Georgia to SPPD trainees. The goal is to ensure that the rule of law is followed and the voluntary principles on human rights are observed.

In October 2004, BP also agreed a bilateral Protocol on Security with the Georgian Government. The agreement defined standards and procedures on the use of force and firearms, on monitoring and reporting, recruitment and training of security staff, and on communication and consultation between these two parties.

In a separate agreement on the same date, we agreed to the loan or transfer of equipment and facilities to the government for use solely on providing BTC pipeline security. The vast majority of this equipment – covering a wide range of non-lethal items such as protective clothing, tents, tools, and vehicles – was delivered in 2005. A further part of the agreement provides for the construction of a base for government security personnel responsible for patrolling and protecting the pipeline in the Kodiana section. Preliminary design of the security base was completed in 2005, and following a tender process, a contract for construction was awarded. Planning for the base included the preparation of an Environmental and Social Impact Assessment.

A significant feature of our efforts in 2005 with SPPD related to pipeline security training. The training was provided in two four week cycles. A total of 360 individuals received basic training on topics including patrolling, weapons, ethical law enforcement, and concepts of international law. The Voluntary Principles on Human Rights were introduced at this time to new recruits.

Agreements and protocols provide the necessary framework, but we remain vigilant on the ground in ensuring that human rights are properly protected. In 2005, we commissioned and published a human rights monitoring assessment to monitor compliance with the BTC and

SCP project commitments to respect the fundamental human and labour rights of workers and members of local communities affected by the project's activities. The assessment was carried out by specialists from the corporate social responsibility practice of the US law firm of Foley Hoag LLP.

Foley Hoag concluded in their assessment that overall the project is in 'substantial compliance with its human rights commitments' and that 'in general BTC Co. and SCP Co. efforts to address human-rights related issues follow the best practices for the industry, and in some instances, set new standards'. However, as with projects of this magnitude there is always room for improvement and Foley Hoag made a number of recommendations, especially with respect to improvements in compliance in areas such as non-discrimination, working conditions, remuneration and labour grievance procedures. The project has prepared a response to each recommendation, and is implementing an action plan to tackle them.

A copy of the assessment's executive summary is available in Georgian and a complete English copy is available on the project's website (www.bp.com/caspian).

We see our support for human rights at project level as part of a broader picture in which civil society and long term regional stability are supported through promoting respect for human rights and the rule of law.

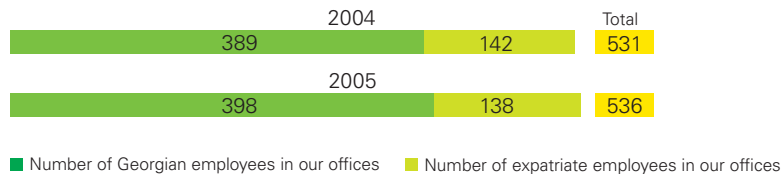
1.9 Our people

BP seeks to offer rewarding careers, exciting challenges, equality of opportunity and flexible working practices. One of our core values is to engage the creative talents of our employees. We aim to nurture the capabilities and skills of our people, treat them and reward them fairly, make clear the expectations the group has of each employee, and promote inclusion within a meritocratic organisation of people from diverse backgrounds.

An important aspect of our people agenda is the need to attract people who share our ambition to be competitive, successful and a force for human progress. A particular focus is attracting such people in the group's new profit centres and emerging markets. In Georgia, we are striving to be the employer of choice to local nationals and to develop their capabilities as employees. We provide a range of opportunities to enhance the capabilities of our people including training courses, international assignments, mentoring, team development days, workshops, seminars, and on-line learning.

People Assurance Survey We engage with our employees in a number of ways, through group meetings, events, internal newsletters, and opinion surveys for example. The 2004 People Assurance Survey in Georgia highlighted areas where we needed to take action to address employee concerns. Two important areas where we responded in 2005 were in the development of a leadership development programme and reviewing and improving our contractual arrangements with contract and agency staff. We also acted on the findings of a review of salaries.

BP Georgia headcount



Localisation In our offices in Tbilisi and the regions, we have progressively employed more people since 2001. This has included an increase in both the number of Georgian nationals and expatriates. The expatriates are experienced staff with relevant prior experience, working in short and some long-term roles. As the projects have neared completion we have needed experienced staff of this kind with relevant prior experience, for commissioning and initial operations.

The agreements that set out the framework of requirements for our operations on the projects, include preference on the use of local labour in the construction and operating phases. We have exceeded these requirements. We estimate that over 4,800 Georgians will have worked on the BTC pipeline during its construction phase. This will create a legacy of skilled workers for future infrastructure projects in the country.

BP Georgia is committed to developing all our staff. As our activities in Georgia move from projects to long-term operations, we are seeking to promote more Georgian nationals to assume leadership positions. In the course of 2005, we implemented a programme to ensure all long-term employees had appropriate development opportunities and launched a Georgia Leadership Development Programme (GLDP), providing briefings, training, career planning and succession planning. We also identified the roles currently filled by expatriates, and began succession and development planning to help ensure that the long-term BP Georgia positions are ultimately filled by Georgian nationals.

Compliance and ethics 2005 saw the launch of the BP Code of Conduct across the company. The code enshrines BP's commitment to integrity and defines what

is expected of BP employees in a single universal framework. It sets out how BP people should behave when faced with choices about their behaviour at work. It places responsibility on each member of staff to report instances of any breaches or potential breaches of BP's compliance and ethics commitments of which they become aware, such as unsafe acts, fraud, or harassment. Our employees each received a copy in the Georgian language and briefings were provided to BP staff and contractors on its provisions.

Certification We carried out the annual certification process in 2005, providing a key indicator of legal, regulatory and BP ethical compliance within the region. In this process, team discussions are held indicating the extent to which individuals and teams have complied with laws, regulations, and BP's ethical standards. Certification involves both individuals and line managers, who certify the behaviour

BP workforce in Georgia

	2004	2005
BP employees (Georgian nationals)	228	271
Contractors (Georgian nationals)	161	127
Sub total	389	398
BP expatriates	37	38
Contractor (expatriate)	105	100
Sub total	142	138
Total BP Georgia workforce	531	536

of teams under their direction. Certificates are submitted upwards through the country manager, who in turn signs a certificate submitted on behalf of the staff of BP Georgia.

Open Talk 'Open Talk' is BP's global independent employee concerns programme, which allows the opportunity for anyone at BP to raise concerns or enquiries about compliance or ethics, in a confidential manner. Individuals can contact Open Talk using a multilingual

phone line or via fax, e-mail or letter, at any time, and callers can choose to remain anonymous. Concerns raised are forwarded to the appropriate regional ombudsman in BP, who will arrange a response including any appropriate investigation. If allegations are substantiated, action is taken. Alongside the launch of the code of conduct in 2005, we extended the scope of the Open Talk programme to provide advice for people on the code, in addition to raising concerns.



The Georgia Leadership Development Programme (GLDP)

To support the BP Georgia localisation agenda, we launched a Georgia Leadership Development Programme in 2005. The main purpose of the programme is to develop Georgian nationals so that they can assume senior leadership positions in the medium and long term. The programme provides a platform for high potential staff to discuss and leverage the benefits of existing BP Group development programmes and more specifically how they can be applied within BP Georgia. It provides a forum for sharing best practice and for developing leadership skills to increase personal impact and effectiveness and thus create the leaders of the future.

Sixteen Georgian employees were selected to be part of the programme. It is our plan to recruit new participants to the programme on a regular basis. There are currently five female employees in the programme. As it progresses we will be aiming to include more female employees.

While this initiative focuses on the particular challenge of developing future leaders, it is important to highlight that development opportunities are open to all employees.

The views and aspirations of some of the GLDP participants 'The programme is an opportunity for me to accelerate my development and deepen my knowledge of my strengths and weaknesses. My hope is that it will offer exposure outside my functional area, to bigger challenges, and increase my involvement in future strategic decisions within the company. The support of line managers and mentors is crucial in making this happen.' **Zurab Topuridze, environmental team leader**

'The GLDP is a good opportunity for national staff members to raise their awareness of BP's development process and identify areas where they need to develop their skills.' **Paata Jincharadze, senior security advisor**

'The programme is a concentrated way of using the opportunities for development that BP offers.' **Irine Samadashvili, ESIA co-ordinator**

'Localisation is on the agenda. This is a very important message that the leadership programme delivers; important to me as to a Georgian. It gives us the opportunity to demonstrate that we will be able to contribute to the future "Georgianization" of the company.' **David Magradze, government affairs advisor** (pictured above).

2



Our role in society

- 2.1 The social context
- 2.2 Climate change
- 2.3 Promoting good governance
- 2.4 Enterprise development
- 2.5 Education
- 2.6 Access to energy
- 2.7 Our programmes

BP celebrates 10 years in Georgia with a picnic for employees and their families.

2.1 The social context

Despite strong GDP growth in recent years, some 52% of the Georgian population lives below the national poverty line, according to the World Bank. Key organizations with a role in supporting development, such as the UN, the World Bank, and the Millennium Challenge Corporation (MCC) have remarked upon the positive steps that have been taken in recent years in Georgia to promote stability and private enterprise development.

Georgia's rate of economic growth ranks it 100th out of the 177 countries listed in the UNDP Human Development Report 2005 – well below the rankings of most of other transitional countries. The UNDP has commented that poverty is the main concern of the majority of Georgia's citizens, with all its implications for social and economic growth.

BP and organisations including UNDP and the MCC, are working to reduce the incidence of poverty, support democratic governance, and stimulate economic growth across Georgia. The Georgian government has committed to meeting the UN Millennium Development Goals, and has developed, with UNDP assistance, an Economic Development and Poverty Reduction Programme. It has also agreed a Millennium Challenge Compact with the MCC. The UNDP and the MCC recognize that business has a part to play in long-term poverty alleviation. The UNDP's Integrated Employment Generation and SME development programme seeks to improve entrepreneurial skills within small and medium sized enterprises. The Millennium Challenge Account programme objectives include developing regional enterprises by funding investment and technical assistance and rehabilitating key regional infrastructure.

Through our activities in Georgia, BP is committed to working to promote economic and social development, and to improving the welfare of the Georgian people. This is delivered through the economic and financial contribution we make to the Georgian economy, through tariff payments to government and via our use of local companies and staff. It is also provided through our specific community and social investment initiatives.

Conducting our business relationships on the basis of mutual advantage is one of our core values. We seek to ensure that our relationships create benefits that are shared between those with whom we do business as well as for ourselves.

At the group level, BP recognizes the need to make a focused and inclusive contribution to social and economic development. The group therefore prioritizes the support of revenue transparency initiatives, and directs most of our community investment to programmes and projects that support enterprise development, education and improving access to energy. The sections which follow describe these.

In Georgia, these group priorities and themes are implemented through a number of national and regional programmes, more details of which are

given in section 2.7. It should be noted that BP also encourages large capital projects in developing countries, such as BTC/SCP, to invest in additional 'community development' categories, such as health.

This section of the report describes how we have been contributing to meeting the social and economic challenges faced by Georgia. We begin by setting out the group's thinking on climate change, given that economic growth, social progress, and human well-being are all dependent on access to energy. Providing access to energy is one of the principal themes of the group's social investment programmes. These initiatives, in which we use our investment and influence to make specific contributions in support of socio-economic development in Georgia, are also described here.



2.2 Climate change

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

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

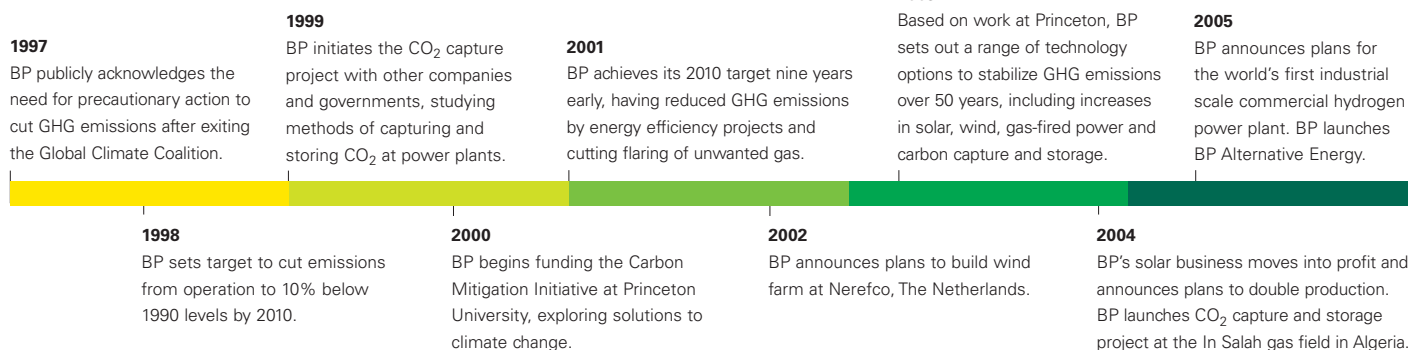
BP has been developing products that help customers reduce their emissions. BP has increased its production and distribution of natural gas, which produces about half the CO₂ emissions of

conventional coal technology when used to generate power. BP has developed a major solar business, built its first wind farm and pioneered technologies for capturing and geologically storing CO₂. In transportation, BP has also developed advanced fuels and lubricants that provide emissions reductions.

BP supports precautionary action to limit GHG emissions, even though aspects of the science are still the subject of expert debate. BP believes the goal must be to stabilize GHG levels through sustainable long-term emissions reductions. BP supports the emerging consensus that it would be prudent to limit the increase in the world's temperature to about 2°C above pre-

industrial temperatures. One way to achieve this would be to ensure that global emissions in 2050 are no higher than today's – around 25 billion tonnes of CO₂ a year. BP believes that this can be achieved using a mixture of technologies, including innovation to cut CO₂ emissions from fossil fuels, significantly increasing the fuel economy of motor vehicles, increasing the energy efficiency of buildings and radically increasing wind and solar capacity. BP sees our role as pursuing efficiency in our own operations, creating cleaner products and contributing to an informed debate. For example, BP has advocated the use of market mechanisms to enable economies to adjust to a carbon-constrained world.

Climate change – our journey



2.3 Promoting good governance

We recognize the importance of encouraging the Georgian government to be transparent in its management of resource-related revenues. Experience in other parts of the world has shown the potential risks of corruption and economic difficulty that can arise from the mis-use of oil-related wealth in developing countries.

Securing revenue transparency is an important issue in the region, and is being supported by a number of NGOs.

Azerbaijan is engaged as a pilot participant in the Extractive Industries Transparency Initiative (EITI), a programme that seeks to increase the transparency of payments by oil, gas and mining companies to governments and of the revenues received by those governments. The government of Georgia, in submissions to the IMF, has stated its commitment to join the EITI even though EITI is not designed for a transit country environment.

Within Georgia, CDAP have commented favourably in 2005 on BTC's relationship with the Georgian government, taking note of the transparent process that has been established for publishing information about the BTC grant programme, and for creating an audit process for these funds.



The government of Georgia, in submissions to the IMF, has stated its commitment to join the EITI even though EITI is not designed for a transit country environment.

2.4 Enterprise development

We recognize the role we can play in promoting the development of local enterprise through engaging local companies in support of our projects. Doing so creates jobs, increases skills, and injects money directly into the local economy. We also benefit because we reduce costs by sourcing supplies locally and by developing mutually advantageous relationships in the community.

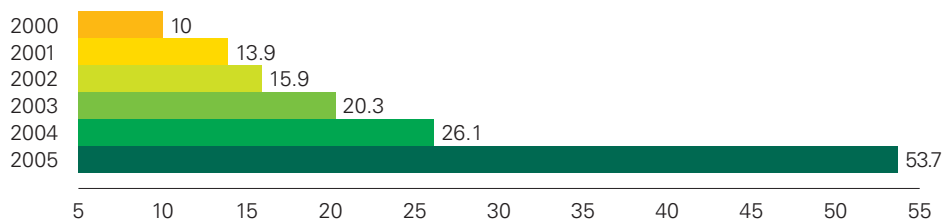
BP Georgia makes significant payments to local, Georgian-owned businesses. The table below shows the total annual payments made to Georgian companies from 2000-2005, with the total figure increasing consistently year on year. In addition to this, our principal contractors use local sub-contractors where possible and practicable.

Beyond our routine operations, and as part of our community investment programme, we have contributed to other initiatives supporting enterprise development. In particular, we have provided support for entrepreneurs and small businesses through the provision of micro credit. Enterprise development

is also one of the three core themes within our Regional Development Initiative (described in section 2.7).



Payments to local companies (\$ million)



Notes:
Year 2000: Georgian Pipeline Company (GPC) payments.
Year 2001: GPC and BP payments.
Years 2002 and 2003: GPC, BP and BTC payments.
Years 2004 and 2005: GPC, BP, BTC and SCP payments.

2.5 Education

Supporting education is an important area where we have the capacity to contribute to development. It is a key activity within the group corporate responsibility framework because it focuses on issues that affect our future: energy and the environment, basic education, and enterprise development.

The CIP-Improved Schools Project (CIP-ISP) which began in the summer of 2004, seeks to provide opportunity for adolescents to participate more effectively in Georgia's future social and economic growth.

CIP-ISP has supported a range of projects in 2005 such as school

rehabilitation, teacher training, awareness raising campaigns on educational reform (in line with new national models), and the organization of summer camps. The experience gained by communities in initial projects has led to greater independence in planning and preparing second phase initiatives.

We also support tertiary education. Our pledges of \$2 million towards the establishment of the new International School of Economics in Tbilisi and of \$1.5 million to support a Masters level programme over three academic years to allow gifted Georgian scholars to study in the UK are examples of this support.



Improved Schools Project summer camps in Bakuriani and Tsalka

In July 2005, two computer summer camps were arranged for students from Tsalka and Bakuriani schools that had been rehabilitated under the programme. A solar powered computer lab had been developed in each of these schools under the framework of the improved schools initiative.

The purpose of the three week summer camps was to:

- reinforce and supplement the computer training given to the students during the school year
- provide basic English language training with an emphasis on computer language, and
- provide training in leadership.

In total, 100 students were selected by their teachers to participate. The camps were supported by a group of volunteer team leaders, computer trainers, and English language teachers. Parents were also invited to help out and participate.

In the morning students were split into learning groups and formal instruction was given daily. The students were allowed a total of two hours at the computer laboratory per day. The computer laboratory was also open during free time to give students the opportunity to practice what they had learned. In the afternoon the groups joined together for discussions groups and to enjoy outdoor activities such as hiking and playing ball games.

2.6 Access to energy

Despite being a region with substantial reserves of energy which will help to meet growing demand in the long term, Georgia faces a number of current energy challenges. Security of supply, for example, is a serious economic and political issue in Georgia, which depends heavily on Russia to supply its natural gas needs.

The development of Caspian oil reserves and the completion of the SCP pipeline are important strategic developments which will enhance Georgia's energy security. Accompanying measures, such as the renovation of the country's gas distribution infrastructure will also assist in improving the reliability of energy supply to Georgia's population.

The need to address problems of energy supply and security is a responsibility of the Georgian government, in cooperation with its regional partners. However, we recognize the role we can play in helping establish energy security by providing technical support and advice where necessary and by operating the new pipeline facilities in Georgia safely and efficiently.

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Improving the reliability and capacity of pipeline gas delivery in Georgia

In addition to our investment in SCP, which will bring a new source of natural gas from the Shah Deniz field in Azerbaijan to Georgia and Turkey, BP is playing a part in upgrading the existing gas pipeline network in Georgia. According to the Georgian Gas International Corporation's (GGIC) estimates, Georgia's gas system leaks around 5% of total throughput. BP provided \$750,000 to fund an initial survey of the pipeline and to train GGIC staff as they prepare to carry out restoration work on a major Soviet-era pipeline, the north-south main pipeline, which runs south from the Russian border across Georgia to the borders of Azerbaijan and Armenia. The \$40 million rehabilitation is to be funded from the Millennium Challenge Corporation. BP's contribution is part of the multi-country socio-economic investment programme, the Regional Development Initiative.

2.7 Our programmes

Over and above our direct business investment into the Georgian economy, BP and our partners have committed to social investment programmes across Georgia. The programmes and initiatives we have launched put the key themes of our social investment approach into action. The programmes include the 'BP pledge', the BTC/SCP Community Investment programme, a BTC grant programme for Georgia, and a Regional Development Initiative.

'The BP Pledge' In October 2004 BP made a commitment to Georgia by pledging \$14.5 million of extra social and economic investment funds. This is known as 'the BP pledge'. Money is being spent on number of projects in the field of education, healthcare, and energy. In 2005:

- BP pledged \$2 million to support a new International School of Economics in Tbilisi. The school will promote excellence in postgraduate economic study and research across the region. The institution is being supported by the governments of Georgia, Azerbaijan and Armenia, the World Bank, Tbilisi State University and local and international donors.
- Selection for the first round of a UK scholarship programme for Georgian postgraduates was completed

successfully. The programme is implemented jointly with the British Council. The first group of 10 students departed for the UK in September 2005 to take up Masters-level studies in UK universities. The fields covered by the scholarships are banking (including insurance), business studies, management, human rights, law, media, social and political studies, built environment, and international relations and diplomatic studies.

Selection for the second round of the scholarship program was initiated at the end of 2005, to identify 8 finalists who will take up their studies at UK universities in September 2006.

- In 2005 BP contributed \$3 million to renovate and equip a regional health care facility in Kutaisi, western Georgia.

- Work was carried out to prepare for the creation of the EU-Georgia Business Council (EUGBC) established with \$0.3 million of financial support from BP. The role of the EUGBC is to promote Georgia as a destination for EU investment, assist EU businesses in navigating local regulations and identifying local partners, and to assist Georgian business in finding markets in the EU and in achieving EU standards.

The BTC/SCP Community Investment Programme (CIP) The BTC/SCP Community Investment Programme started in March 2003. It has been developed through a process of consultation with communities, donors, NGOs and government. Its goal is to promote sustainable social and economic



Supporting healthcare

In November 2005, the Centre for Interventional Medicine of Western Georgia, in Kutaisi was officially opened by President Mikheil Saakashvili. It had been renovated with BP support under its pledge agreement with the government of Georgia. A total of \$3 million was allocated to the Kutaisi hospital development, covering mostly diagnostic equipment.

Support for the hospital, a part of BP's social investment programme, is an illustration of the socio-economic benefits that can be realised not just by those communities along the pipeline route but also beyond in wider Georgia.

BP Pledge Status: disbursement phasing (\$million gross)

	Total	2004	2005	2006	2007
Borjomi Historical Park	4.5	0.6	3.9		
Kutaisi hospital	3.0		3.0		
UK scholarships	1.5		0.5	0.5	0.5
International School of Economics, Tbilisi	2.0			1.0	1.0
Schools computerization	2.8			2.8	
Georgian National Museum Partnership	0.4			0.4	
EU-Georgia Business Council	0.3			0.2	0.1
Total	14.5	0.6	7.4	4.9	1.6

development in the communities along the pipeline route. The total CIP budget for Georgia during the construction phase of the BTC and SCP projects is \$8 million.

Georgia's CIP has two principal sets of activities: 'CIP' which is aimed at villages along the pipeline route, and 'CIP-Improved Schools Project' (CIP-ISP) which is focused on schools in towns along the pipeline route. The programme has brought many tangible benefits to project-affected communities, but has also brought less tangible but important outcomes such as community empowerment, awareness-raising, and capacity building.

Delivery of CIP and CIP-ISP is led by two international NGOs, Mercy Corps and CARE. They work with the assistance of five national NGO partners – Constanta Foundation (micro-credit), Technical Assistance Georgia (infrastructure rehabilitation), Elkana (agriculture and agro-business), Curatio International Foundation (health and social services), and the International Centre for Conflicts and Negotiations (capacity building for conflict resolution).

CIP's main components are:

- **Renewal of rural infrastructure:** communities have identified needs, developed workplans, and drawn up budgets and schedules to undertake infrastructure rehabilitation projects. Over 112 projects have been completed, on facilities such as medical and educational facilities, and water supply systems. Over 96% of projects have a community investment contribution of over 25%, the minimum requirement for CIP support. This engenders greater community ownership of the project and encourages the community to undertake long-term maintenance.

- **Agricultural support:** initiatives support economic development by transferring agricultural technologies through on-farm demonstrations and training sessions. In 2005, activities included the establishment of new farmer associations to create economies of scale. Over 800 farmers have benefited from training sessions on subjects such as seed sorting, preventive measures against seed invasive diseases, the proper use of chemicals and cattle fodder preparation.
- **Providing support for income generation through micro-credit:** the aim is to stimulate business and employment by providing at least 14,000 micro loans. By the end of 2005, over 11,000 loans have been provided with an average value of approximately \$450. To date, the total loan value is over \$4 million.
- **Energy efficiency:** activities have included the winterisation of buildings and the installation of fuel efficient stoves. Bio-gas digesters have been constructed and installed.
- **Social services:** the objective has been to establish social services networks for elderly and vulnerable people, to train doctors and nurses, and provide basic first aid training. Following a needs assessment, social service networks have been established. Within these, youth volunteers have provided support to elderly village residents. Medical treatment has also been provided by doctors and nurses in visits to villages. Training sessions on HIV, drug and alcohol abuse, and chronic disease prevention have been provided.
- **Capacity building:** initiatives have been undertaken to improve the capacity of rural communities to analyse problems,

mobilise resources and implement development initiatives. A feature of activity has been the creation of 'community based organizations' (CBOs). These bring village representatives together with local government officials. Workshops have been provided to the CBOs on leadership, team building, organizational development and management.

The BTC Grant Programme for Georgia

In October 2004, two agreements were signed with the government of Georgia which built on earlier commitments. A security protocol (discussed in section 1.8), formalised obligations concerning the provision of pipeline security in a manner consistent with international security and human rights undertakings. Under this framework we have provided financial support and programme management for construction of the Kodiana security base, for the purchase of security equipment, and to cover SPPD operating expenses.

The second agreement concerned the establishment of a grant programme for Georgia. Under this agreement, a series of mutually agreed grants will be provided by BTC to the Georgian government to be used for social and economic projects. Total funding for the programme amounts to \$40 million through to 2010, with a further \$1 million per year for the remaining life of the pipeline. In 2004 the first grant payment of \$9 million was disbursed by the government to support poverty allowances (\$5.5 million), regional pensions (\$2.6 million) and a student voucher scheme (\$0.9 million). In 2005 no disbursement was made but in 2006 a payment of \$15 million is scheduled. Thereafter until 2010, \$4 million per year will be disbursed. The agreement contains provisions for the government's management of all grant funds to be audited.

The intent of the grants is to support the government's ongoing socio-economic development plans during a critical period before the pipeline revenues reach their maximum level. The grants are in addition to any existing social and community investment projects being carried out under BTC funding.



Business finance provision in Georgia

As part of the Regional Development Initiative in Azerbaijan, Georgia, and Turkey, we are looking towards more substantial credit systems and are currently working with a range of international finance institutions and other multilateral development agencies. In Georgia, in partnership with the EBRD, we have been supporting the ProCredit Bank in the renovation, equipping and staffing of three new bank branches in towns along the pipeline route with limited access to finances. It is anticipated that the new branches will provide increased financing opportunities to local micro and small enterprises, as well as agricultural businesses.

Country	Interest rate (%)	Repayment rate	Repeat clients (%)	Woman clients (%)
Georgia	1.5-3.0 a month	99	80	70
Azerbaijan	2.5-3.5 a month	98.87	70	49

The Regional Development Initiative

Taking account of the views of various stakeholders, BP and its partners have established the Regional Development Initiative (RDI). This is an innovative mechanism that aims to provide a long-term contribution to sustainable socio-economic development across Azerbaijan, Georgia and Turkey.

In order to fulfil its purpose, RDI's strategy is to:

- be regional in focus;
- maximise its development impact by working on a ten-year horizon in clearly defined thematic areas;
- work in partnership with development agencies, and in close co-ordination with governments, civil society and other interested parties;
- be more than a source of funds, by drawing on BP and partner competencies and working practices; and
- ensure that societies at large across the three countries benefit from the initiative.

A number of important agreements were signed and financial commitments made in 2004 which developed RDI. We have committed \$12 million in connection with the first phase of the programme (\$6 million with EBRD and \$6 million with IFC) and are working with the IFC and EBRD to secure additional commitments from potential partners to raise respectively \$25 million with each.

After consultation throughout the region with various stakeholders including governments, NGOs, IFIs

(International Financial Institutions) and donor organizations, three themes for RDI have emerged. These are:

- Enterprise development – generating employment, improving the economic performance of individual entrepreneurs, and contributing to the diversification of the economy.
- Effective governance – supporting policy initiatives on transparency; revenue management and the rule of law.
- Access to energy – supporting initiatives that increase access to secure sources of energy.

In the course of 2005, substantial effort has been made to identify and implement a range of projects that embody these themes. They include:

- A pilot project, aiming to improve solid waste management infrastructure in the Borjomi and Bakuriani region, was launched in 2004 and progressed in 2005. It is being implemented by the German Technical Cooperation Agency (GTZ). The waste collection system in Borjomi was modified to improve the efficiency of waste collection and new equipment was purchased to assist in the upgrade of waste services.
- In the Borjomi region, private sector business development is being supported through the provision of \$3.15 million from the BTC partners. This project is also being implemented by GTZ. Its goal is to improve the product lines, competitiveness and organization of

small-scale entrepreneurs and agro-businesses. It will be implemented through the following fields of intervention: vocational training; SME improvement in agriculture, agro-processing, manufacturing and services; business development services and the creation of a small businesses association; and networking and collaboration.

- In partnership with the EBRD, the BTC and SCP partners are providing \$750,000 to support the construction and renovation of three branches of the ProCredit Bank of Georgia – in Telavi, Khashuri and Rustavi – where access to banking services and borrowing opportunities has been limited. The ProCredit Bank will provide financing to micro and small enterprises as well as agricultural businesses.
- Preparation for a major rehabilitation of the north-south 'Magistral' gas pipeline has been supported (also see the case study in section 2.6). Under an agreement signed in 2005 with the Georgian Gas International Corporation (GGIC), BP committed to provide project management advice and technical support, building the capacity of project management systems ahead of receiving the grant from the Millennium Challenge Corporation. BP's initial funding commitment of \$750,000 was supplemented by a further \$400,000 from the BTC, SCP and ACG partners in early 2006.

Performance Data

	2004	2005
Safety^a		
BP employee fatalities	0	0
BP Contractor fatalities	1	1
Days away from work cases (DAFWC) ^b – workforce ^c	12	4
Days away from work cases frequency (DAFWCF) ^d – workforce	0.12	0.06
Recordable injuries ^e – workforce	105	30
Recordable injury frequency (RIF) ^f – workforce	1.06	0.41
Total vehicle accidents	69	35
Total vehicle accident rate ^g	3.76	1.30
Hours worked – workforce	19,776,554	14,527,840
Kilometres driven	18,335,771	28,844,882
Environment^h		
Direct carbon dioxide (CO ₂) (tonnes)	32,029	35,421
Indirect carbon dioxide (CO ₂) (tonnes)	N/A	N/A
Direct methane (CH ₄) (tonnes)	202	220
Equity share direct greenhouse gas (GHG) (tonnes CO ₂ equivalent)	12,362	13,687
Flaring (exploration and production) (tonnes)	N/A	N/A
Sulphur dioxide (SO _x) (tonnes)	39	44
Nitrogen oxides (NO _x) (tonnes)	589	651
Non-methane hydrocarbons (NMHC) (tonnes)	1,834	1,990
Number of spills (loss of primary containment)	1	1
Volume of product spilled (litres)	15	70,914
Volume of product unrecovered (litres)	10	0
Total hydrocarbon discharges to water (tonnes)	0.015	0
Hazardous waste disposed (tonnes)	1,307	513
Employees		
Total BP Georgia staff	531	536

Notes:

^a 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).

^b 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 when a physician or other licensed health care professional recommends that the member of the BP workforce stay at home but the individual comes to work anyway.

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

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

^e A recordable injury is an 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.

^f RIF: the total number of Recordable Injuries to the BP workforce for every 200,000 hours worked in the same period.

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

^h Environment data in this table covers WREP and the Supsa terminal in Georgia.

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 The BP Georgia Sustainability Report 2005 (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' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE3000). Our scope of work is to carry out a limited assurance engagement on the claims and data contained within the Report.

The Report has been evaluated against the following criteria:

- Whether the Report covers the key sustainability issues relevant to BP in Georgia in 2005 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 2005 as a check on the scope and appropriateness of statements made in the Report.
2. Reviewed BP Georgia's process for determining the key issues to be included in the Report.
3. Reviewed information or explanation about the Report's sustainability performance data and statements. Whilst we reviewed documentation to support the sustainability data contained within the Report, we did not test the 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?**
Based on our review of media, selected internal documents, and BP

Georgia's process for determining key issues, we are not aware of any key sustainability issues that have been excluded from the Report.

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

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

 **ERNST & YOUNG**

Ernst & Young LLP
London, August 2006

Glossary of terms

ACG	Azeri-Chirag-Guneshli field
APLR	Association for Protection of Landowners Rights
Area 72	Gas filtering and metering, gas conditioning (heating), flow control, gas offtake to Georgian transmission system, fuel gas offtake to BTC (turbines)
Area 80	Gas filtering and metering, gas conditioning (heating), flow control, delivery of gas to Turkish transmission system
BTC	Baku-Tbilisi-Ceyhan pipeline
CAO	Compliance Advisor Ombudsman
CBO	Community based organization
CDAP	Caspian Development Advisory Panel
CLEE	Centre for Legal and Economic Enterprise
CIP	Community Investment Programme
CO ₂	Carbon dioxide
DAFWC (F)	Day away from work case (frequency)
EBRD	European Bank for Reconstruction and Development
EF	Eurasia Foundation
EI	Equity International
EIP	Environmental Investment Programme
ESIA	Environmental and social impact assessment
EU	European Union
EUGBC	European Union Georgia Business Council
GGIC	Georgian Gas International Corporation
GIOC	Georgian International Oil Corporation
GHG	Greenhouse gas
GPC	Georgian Pipeline Company
HSSE	Health, safety, security and environment
ICOMOS	International Council on Monuments and Sites
IFC	International Finance Corporation
IFIs	International Financial Institutions
IRM	Independent Resource Mechanism
ISP	Improved schools project
JV	Joint venture
MCC	Millennium Challenge Corporation
NGO	Non-governmental organization
OSHA	Occupational Safety and Health Administration
OSRP	Oil spill response plan
PMDI	Pipeline monitoring and dialogue initiative
PRS	Pressure Reduction Station
PS	Pump Station
PSG	Pump Station Georgia
RDI	Regional development initiative
RoW	Right of way
RUDF	Rural and Urban Development Foundation
SCP	South Caucasus Pipeline
SIP	Social Investment Programme
SME	Small and medium-sized enterprise
SPPD	Strategic Pipeline Protection Department
SRAP	Social and Resettlement Action Plan
SSPS	Special State Protection Service
UK	United Kingdom
UNDP	United Nations Development Programme
WREP	Western Route Export Pipeline – also known as the Baku-Supsa pipeline

Further information

This document forms part of BP's reporting on non-financial performance. Over the past year, BP has established three levels of sustainability reporting: our group report, selected country sustainability reports (such as this) and a selection of local site reports.

Group reporting Our group website provides a full information resource for people interested in finding out more about BP's approach to sustainability and responsibility. The site includes detailed information and data about the group's sustainability performance, including the BP Sustainability Report 2005 (www.bp.com/sustainability and www.bp.com).

A range of case studies is available online. These provide specific examples of how we put our commitments into practice around the world. They cover topics including health, safety, and security, employees, diversity and inclusion, education, conservation, BP and development, responsible operations, enterprise development, revenue management, and business ethics. They have been substantiated by Ernst & Young (www.bp.com/casestudies).

The website also includes detailed

charting tools that allow you to view BP's performance data on issues such as health, safety, and the environment through an intuitive and easy to use charting function with an accessible formatting option. Charts can be created as images and raw data downloaded (www.bp.com/hsechartingtool).

Our environmental mapping tool aims to provide greater transparency on the issues we face at local level by allowing you to access environmental management information about individual BP sites. This shows where all major BP operated facilities with ISO certification are located and identifies which issues are significant for management of each site. Using the tool, you can review details for biodiversity, air quality (non-greenhouse gas), fresh water use, water quality and waste by region. Plotting these sites on background maps that illustrate regional environmental conditions helps to put site information into local context, especially in relation to environmentally sensitive areas (www.bp.com/hsemappingtool).

Country sustainability reports We publish a number of country sustainability reports. As with this report, their aim is to

provide a detailed view of our operations and an insight into the diversity of our activities. They enable you to review our environmental and social performance in the context of a particular region or market. A country sustainability report for Azerbaijan is amongst those provided (for 2003, 2004, and 2005) (www.bp.com/countrysustainabilityreports and www.bp.com/worldwide).

Verified site reports Our website also contains more than 60 verified site reports, providing detailed accounts of health, safety, environmental, and social performance around the world. We believe independently verified site reports provide local transparency on our progress towards our stated aspirations (www.bp.com/sitereports).

Speeches on corporate responsibility We publish a range of speeches on our Group website. Many of these cover issues of sustainability and responsibility. In 2005, these included subjects such as energy security, energy development, climate change, technological excellence, and business and the environment (www.bp.com/speeches).

Contact details and acknowledgements

Your feedback is important to us. 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

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