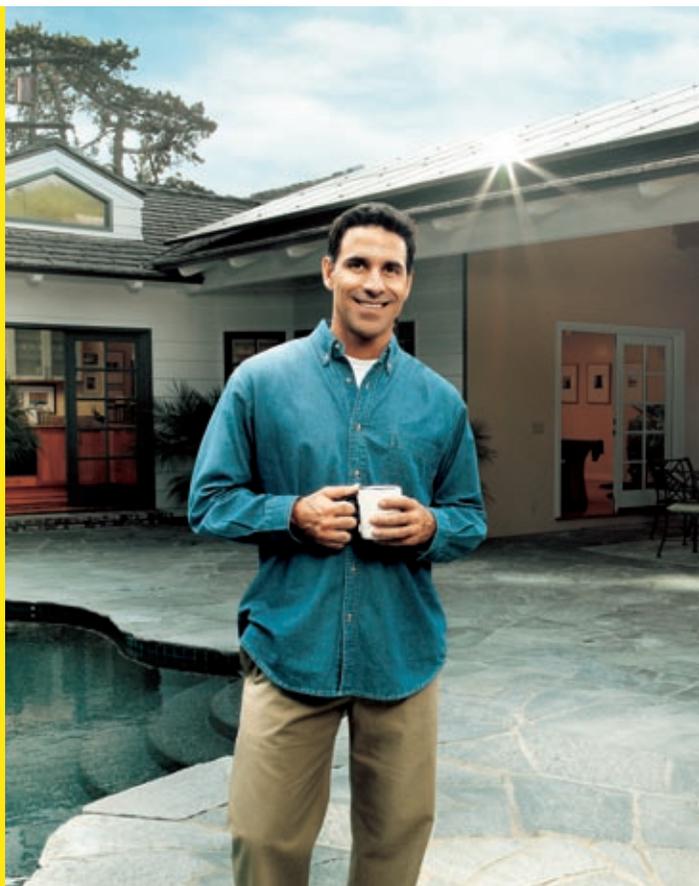




Making energy more

Sustainability Report 2005



ABOUT THIS REPORT For BP, 'sustainability' 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; attracting successive generations of employees; contributing to a sustainable environment; and retaining the trust and support of our customers, shareholders and the communities in which we operate.

Each year we aim to improve our sustainability reporting to reflect the concerns of our readers more closely and the priorities of the business more clearly. This year, we are giving more emphasis to the business case for activities that benefit society and promote environmental sustainability. For the second year, we have used in-depth analysis to define the non-financial issues material to our reporting. We have further developed this 'materiality' process by categorizing issues according to the level of public exposure and awareness they have received, and by taking into account the source of the interest – for example, the media, regulatory organizations or engagements with NGOs or socially responsible investors.

This year's report is entitled 'Making energy more' because it focuses on improvement – whether to the quality of our products, the way we manage environmental issues or the influence we have on the communities around us. The year has brought challenges as well as achievements, but our focus remains to learn and to improve every aspect of our business.

A message from Ernst & Young

We have reviewed the contents of *BP Sustainability Report 2005* to provide assurance on the information reported. This work involved testing relevant management information, interviewing BP management, reviewing external media sources and visiting a sample of locations. Our conclusions, which can be found on pages 64-66, have been prepared against the main principles of the AA1000 Assurance Standard: Materiality, Completeness and Responsiveness.

 Indicates internet reference.

A glossary of key terms and acronyms used in this report appears on page 72.

BP p.l.c. is the parent company of the BP group of companies. Unless otherwise stated, the text does not distinguish between the activities and operations of the parent company and those of its subsidiaries.

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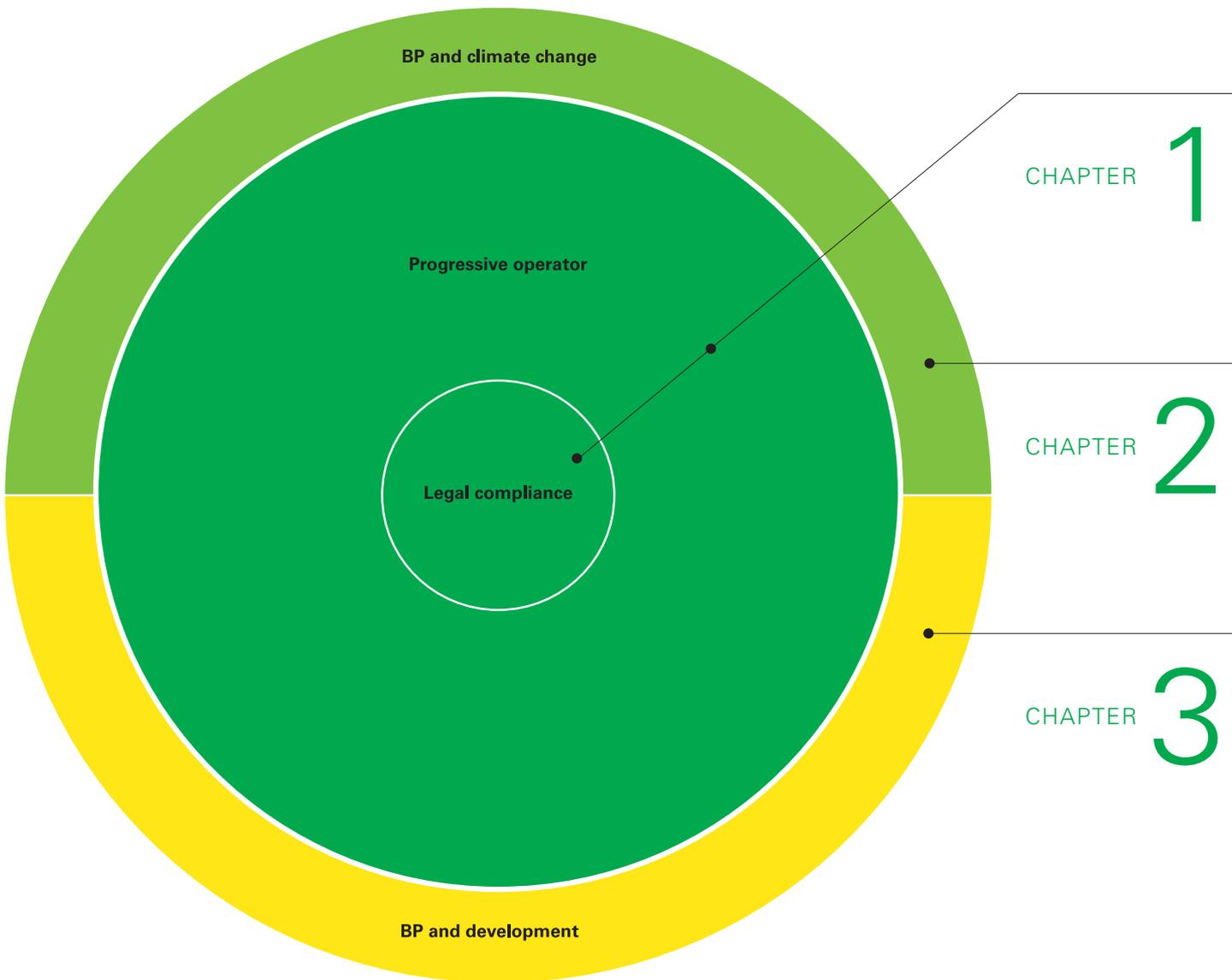
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What responsibility means for BP



www.bp.com/bpandresponsibility



Symbols like this appear throughout this report to help indicate which section you are in.

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.

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 or are inconsistently applied. At a second, higher level, a company with aspirations to succeed in the long term must have universal standards of individual and collective behaviour that are applied in every activity, everywhere around the world. In a large, diverse organization such as BP, this continues to be our primary challenge. Chapter 1 reports on our performance during 2005.

Sphere of control

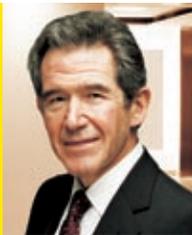
BP AND CLIMATE CHANGE Climate change represents a significant challenge for our industry. Our role here goes well beyond minimizing our own emissions. It involves contributing to the policy debate, supporting research and developing new, cleaner technologies in power and transport. In 2005, we achieved a milestone when we launched a major business, BP Alternative Energy, dedicated to generating and marketing low-carbon power. Chapter 2 describes our progress in this and related areas.

Sphere of influence

BP AND DEVELOPMENT Another major global issue we seek to influence is that 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 3 details what we are doing to fulfil that aspiration.

Sphere of influence

Group chief executive's introduction



We start from the view that the purpose of business is to satisfy human needs and, in doing so, to generate profits for investors. For BP, that means providing energy to fuel human progress and economic growth. It also means satisfying the need for a sustainable environment.

This philosophy helps to shape everything we do and we regard responsible behaviour as an essential part of the fabric of the group – not something to be added on as an afterthought. The actions we take are designed to enable our business to prosper and all our activities contribute to the delivery of our purpose as a business. Our focus is on safety and operational integrity, security of supply and the protection of people and the natural environment.

On many fronts, our performance in 2005 was very strong but the year was overshadowed by the industrial accident at our Texas City refinery in March, which caused 15 deaths and many more injuries. That incident has been the subject of rigorous and thorough investigation both by our own team and by external authorities and lessons have been learned. We are determined to do everything possible to ensure that no such accident recurs.

In addition to safety, the primary challenge for BP in 2005 was the maintenance of the flow of secure supplies of energy to our customers in the face of volatile markets and the instability caused by continued conflict in the Middle East, terrorism, and extreme weather conditions in the US and elsewhere. Our success in meeting this fundamental element of our purpose was due to the talent and dedication of our staff, often working under conditions of severe difficulty.

BP now produces more than 4 million barrels of oil equivalent per day of oil and gas for customers across the world. To sustain supplies and meet the growing levels of demand that population growth and prosperity are generating we continue to invest for the future. Our capital spending totalled \$13.9 billion in 2005. More than \$10 billion of this figure was in exploration and production, bringing the total so far since the turn of the century to more than \$50 billion. That investment will help to provide sustainable supplies of oil and gas for decades to come.

No company in the oil and gas industry, however, can fail to recognize that, as the demand for our products rises, so too does the risk that their use will contribute to the environmental challenges associated with an increasing concentration of carbon in the atmosphere. The science of climate change may be incomplete but we would be foolish to ignore the mounting evidence and the conclusion of many of the world's most eminent scientists that precautionary action is necessary.

Over recent years, we have taken steps to reduce emissions from our own operations and to improve the quality of our products. In 2005, we took an important step with a substantial investment in the development of an alternative energy business that will offer our customers new choices of low-carbon energy. BP Alternative Energy is focused on the power generation sector – the largest single source of emissions – through investments in solar power, wind, combined-cycle gas turbines, and the new technology of sequestration in which carbon is captured and stored, allowing hydrogen to be used to generate clean, low-carbon electric power.

This is a long-term but very exciting development which we believe can help meet the energy needs of a growing world while minimizing the impact on our common environment.

The other element of sustainability is human talent. In all the places in which we operate, we are committed to the development of people. Within BP, that commitment is reflected in our policies of inclusion and meritocracy and our determination to develop individuals, regardless of their background, creed or colour.

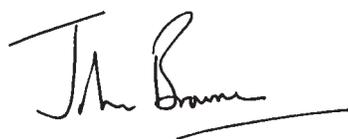
Beyond the group, we are committed to the development of enterprise and education to help ensure that the communities in which we work are equipped to take advantage of the wealth created by natural resource development. In 2005, we appointed our first director of education, whose role is both to co-ordinate our existing activities and to develop a continuing programme to maximize our contribution to the development of human capacity in the places where we operate.

These activities, many of which are described in greater detail in the following pages, represent the practical expression of our commitment to the principle of mutual advantage.

This report has been prepared in accordance with the 2002 *Global Reporting Initiative (GRI) Guidelines*. We believe it represents a balanced and reasonable presentation of BP's economic, environmental and social performance. BP has supported GRI in the development of the next generation of reporting guidelines, expected to be launched in 2006.

For the first year, we also report against the IPIECA/API indicators, which provide guidance on voluntary disclosure for the oil and gas industry. BP played a significant role in the development of these new sector guidelines. We also include a 'Communication on Progress', which describes how we continue to seek to demonstrate the United Nations Global Compact principles in our work.

We have much to do, and much to learn, but our aspiration remains unchanged – to be a company that works consistently and universally in ways that help to sustain the development of the world of which we are part.



The Lord Browne of Madingley
Group Chief Executive
April 2006

A number of speeches were made by Lord Browne addressing important issues facing the industry in 2005. We list some of them here. These and other speech scripts with accompanying presentations are available on our website.

www.bp.com/speeches

HINTON LECTURE: THE POWER OF ENGINEERING

12 December 2005

Royal Academy for Engineering, UK

ENERGY SECURITY – RESPONDING TO THE CHALLENGE

29 November 2005

Brookings Institute, Washington, US

ENERGY DEVELOPMENT AND SECURITY IN A GLOBALISED WORLD

31 October 2005

Public Policy and Administration School, Tsinghua University, Beijing, China

THE GLOBAL AGENDA FOR BUSINESS

13 October 2005

Confederation of Indian Industry, New Delhi

CLIMATE CHANGE

6 October 2005

DTI/DEFRA Conference, London, UK

DEWHURST LECTURE: A CELEBRATION OF TECHNOLOGICAL EXCELLENCE

29 September 2005

World Petroleum Congress, Johannesburg, South Africa

BUSINESS AND THE ENVIRONMENT

10 February 2005

Windsor, UK

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

Achievements

BP ALTERNATIVE ENERGY In November 2005, we launched BP Alternative Energy, a new business that aims to invest \$8 billion over 10 years in generating and marketing low-carbon power from solar, wind, hydrogen and natural gas sources (*pages 42-44*).

RESERVES REPLACEMENT On the basis of UK generally accepted accounting practice (SORP), our proved reserves replacement ratio was 100% on a combined basis of subsidiaries and equity-accounted entities. This was the 13th consecutive year in which we replaced 100% or more of our production (*page 7*).

REVENUE MANAGEMENT We were invited to join the International Advisory Group of the Extractive Industries Transparency Initiative (EITI). In March 2005, the Azerbaijan government published the first EITI report and, in August, BP Azerbaijan published payments made to the government in its 2004 Sustainability Report. BP also funded the study of resource-rich economies at the University of Oxford, UK (*pages 52-54*).

DEVELOPMENT OF PROFIT CENTRES We made progress in the new profit centres that are key to the future of our group and our customers' security of supply. We started up new projects in the Caspian, deepwater Gulf of Mexico, Trinidad & Tobago and Angola; and made discoveries in the deepwater Gulf of Mexico, Angola and Russia. In 2005, oil began to flow into the 1,768km BTC pipeline that is expected to export more than 300,000 barrels of oil a day by the end of 2006. Details are available throughout this report.

SHIPPING INTEGRITY For our four new LNG carriers, we chose gas-burning, electric propulsion, which offers a significant reduction in emissions compared with a conventional steam turbine system. We also increased our international shipping fleet from 42 ships to 52, all of them double-hulled. This transformation has been made well ahead of the international requirements for phase-out of single-hulled vessels (*pages 21 and 24*).



Challenges

FATALITIES There were 27 workforce fatalities in the course of our operations during 2005; 26 of those who died were contractors. This was the worst year for BP's safety record since 1999, when there were 30 workforce fatalities, including 20 contractors (*page 18*).

TEXAS CITY Fifteen people died and many more were injured in an industrial accident at the Texas City refinery on 23 March 2005. Lessons have been learned. We are determined to do everything possible to ensure that no such accident recurs (*pages 18-19*).

SECURITY OF SUPPLY THREATENED BY HURRICANES Hurricanes Katrina and Rita caused extensive damage to our facilities in and around the Gulf of Mexico. Offshore, 15 platforms and more than 100 wells were severely damaged or destroyed (*page 28*).

MAINTAINING CAPABILITY We continued to face the challenge of accessing, developing and retaining the highest quality talent necessary to maintain the capability of the group to deliver its strategy and plans. We are developing recruiting strategies across the group (*pages 30-33*).

DISMISSALS In 2005, 478 employees and contractors were dismissed for unethical behaviour or non-compliance with applicable laws or regulations (excluding retail site dismissals for petty incidents). The main reasons for dismissal were safety and security breaches and incidences of theft and misuse of company property (*pages 34-35*).

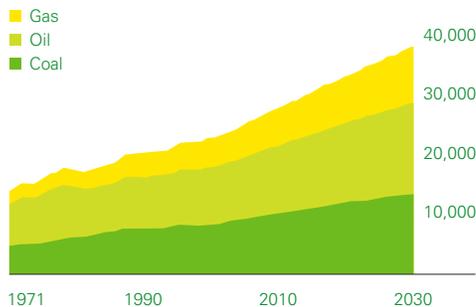
ENVIRONMENT AND CLIMATE We continued to face the ongoing challenge of managing increases in our operational GHG emissions as our production rises and our business grows (*pages 24-25 and pages 40-41*).



Industry in context

Energy continued to occupy the headlines in 2005. Oil and gas prices rose to new record highs, driven by a combination of factors, including concerns over security of supply, conflict in the Middle East, terrorism, and extreme weather conditions – including hurricanes in the US. High prices and company profits prompted renewed criticism from consumer groups and others, as well as calls for further investment into infrastructure and renewable and alternative forms of energy. Debate also continued over the future availability of energy resources, the possibility and timing of oil and gas production peaking and the need for lower-carbon sources of

WORLD ENERGY-RELATED CO₂ EMISSIONS BY FUEL
(million tonnes of CO₂)^a



CLIMATE CHANGE “We will act with resolve and urgency now to meet our shared and multiple objective of reducing GHG emissions, improving the global environment, enhancing energy security and cutting air pollution in conjunction with our vigorous efforts to reduce poverty.”

G8 meeting: Gleneagles Communiqué on Climate Change, July 2005.

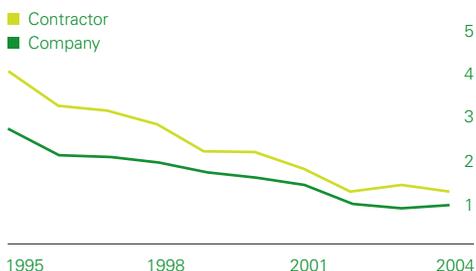
94%

of investors had confidence in UK corporate governance and 74% felt it had improved in recent years, according to a MORI survey of investors carried out for the FRC earlier in 2005^b.

CORPORATE GOVERNANCE “Since the recent financial scandals, corporate governance has become a major political issue. Sound corporate governance is essential for enhancing competitiveness and efficiency of business, strengthening shareholders’ rights and to restore confidence in capital markets. At present, there are a number of different national corporate governance models. This means companies have flexibility to choose their own corporate governance model.”

Commissioner McCreevy, European Commissioner for the Internal Market and Services, EU Governance Conference, Brussels, January 2005.

INDUSTRY LOST TIME INJURY FREQUENCY^{c,d}
(fatalities and lost day work cases per million workhours)



HEALTH AND SAFETY “There are many good employers out there who put safety first. But employers alone cannot ensure a safe workplace. And just issuing citations or enforcement can’t do it alone... Workers and employers must join together to build a culture of safety within the organization that says safety is #1.”

US Secretary of Labor, Elaine L Chao, 93rd Annual National Safety Congress, Florida, US, September 2005.

^a World Energy Outlook © OECD/IEA, 2004, Figure 2.13, page 74.

^b Review of the 2003 Combined Code: the findings of the Review, Financial Reporting Council (FRC), June 2005.

^c International Association of Oil & Gas Producers (OGP) Safety Performance Indicators 2004, © OGP, 2005.

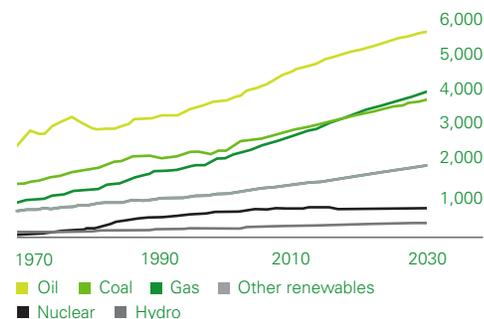
^d The chart is based on the analysis of submissions by around 35 companies from operations in over 70 countries.

energy. In addition to considering ways to accelerate development and reduce poverty, the G8 leaders' summit focused on climate change. G8 leaders were urged on by a report from their countries' scientific academies calling for precautionary action to reduce GHG emissions. In order to introduce some external context to our report we present some authoritative views on key issues for our industry's sustainability. Through work with the International Petroleum Industry Environmental Conservation Association (IPIECA) and also from our own materiality process, these six issues were among the most important identified for the industry during 2005.

SECURITY OF SUPPLY "If policies remain unchanged, world energy demand is projected to increase by over 50% between now and 2030. World energy resources are adequate to meet this demand, but investment of \$17 trillion will be needed to bring these resources to consumers. Oil and gas imports from the Middle East and North Africa will rise, creating greater dependence for IEA countries and large importers like China and India. Energy-related CO₂ emissions also climb – by 2030, they will be 52% higher than today."* "These projected trends have important implications and lead to a future that is not sustainable – from an energy-security or environmental perspective. We must change these outcomes and get the planet on to a sustainable energy path."†

* *World Energy Outlook*, © OECD/IEA, 2005. † William C Ramsay, Deputy Executive Director, International Energy Agency, London, November 2005.

WORLD PRIMARY ENERGY DEMAND BY FUEL^e
(million tonnes of oil equivalent)



TRANSPARENCY "...a significant body of literature has grown seeking to explain the relationships between resource abundance and economic performance... While there are many examples of poor management of resource wealth, a range of countries (including Botswana, Canada, Chile and Norway) appear to have avoided these problems through prudent and transparent management practices. The key question for a large number of countries is how they can ensure that their abundance in resources remains a blessing?"

Guide on Resource Revenue Transparency, International Monetary Fund, 2005.

CPI score on this map relates to perceptions of the degree of corruption as seen by business people and country analysts. It ranges between 10 (highly clean) and 0 (highly corrupt).

CORRUPTION PERCEPTIONS INDEX (CPI) 2005^f



WORKING IN DEVELOPING COUNTRIES "Some 1.6 billion people are still entirely dependent on highly inefficient traditional forms of energy. An energy system embodying such inequities is not sustainable or acceptable. Without access to affordable modern energy services, the United Nations' Millennium Development Goals cannot be achieved, as clearly recognized at the 2002 World Summit on Sustainable Development in Johannesburg."

Delivering Sustainability: challenges and opportunities for the energy industry, World Energy Council Statement 2005, February 2005^g.

2.4 billion

people are estimated to rely on wood, charcoal and dung as their principal source of energy for cooking and heating^h.

^e *World Energy Outlook*, © OECD/IEA, 2005, Figure 2.1, page 81.

^f Transparency International, www.transparency.org.

^g Used by permission of the World Energy Council, London, www.worldenergy.org.

^h *Energising the Millennium Development Goals*, UNDP, 2005.

BP at a glance

BP operates globally, with business activities and customers in more than 100 countries. We have 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. We make five-year and annual plans to execute our strategy.

STRUCTURE BP is organized into three business segments, 22 group functions and four regions. Our three operating business segments are: Exploration and Production, which includes oil and natural gas exploration, development and production, together with related pipeline transportation and processing activities; Refining and Marketing, including oil supply and trading, and the manufacture and marketing of petroleum products, including aromatics and acetyls (A&A); and Gas, Power and Renewables, including the marketing and trading of natural gas, natural gas liquids (NGLs), liquefied natural gas (LNG), LNG shipping and regasification activities, and low-carbon power development, including solar and wholesale marketing and trading (BP Alternative Energy). From 1 January 2005, our Petrochemicals segment ceased to report separately, following the announcement in 2004 of our intention to divest the olefins and derivatives (O&D) business. In December 2005, we sold Innovene, which represents the majority of O&D, to INEOS.

Group functions serve the three business segments, aiming to achieve coherence across the group, manage risk effectively and achieve economies of scale. The group's research and engineering activities provide technological support for all business segments.

Each head of region ensures regional consistency of the activities of business segments and group functions and represents BP to external parties. However, each segment is managed on a global basis.

We work with a number of non-BP companies and other entities in joint ventures (JVs), most of which are unincorporated JVs. Others, such as TNK-BP, have been established as separate companies with their own boards and governance processes, in which BP is a shareholder. We implement our own standards and policies in those JVs we operate or where our joint venture agreement permits. Where we are not the operator or where BP is a shareholder in a JV, we encourage adoption of or work towards standards and policies comparable with our own.

STRATEGY We make five-year and annual plans to execute our strategy in the context of time to achieve three targets:

- ... To underpin growth by a focus on performance, particularly on returns, investing at a rate appropriate for long-term growth.
- ... To increase the dividend per share in light of our policy.
- ... To return to shareholders all free cash flows in excess of investment and dividend needs.

Exploration and Production Our strategy remains to build production with improving returns by focusing on finding the largest fields, concentrating our involvement in a limited number of the world's most prolific hydrocarbon basins; by building leadership positions in these areas; and by managing the decline of existing producing assets, divesting assets when they no longer compete in our portfolio.

Refining and Marketing Our strategy remains to focus on our advantaged refineries, where we can achieve distinctive returns through scale, flexible configuration and operational excellence and develop supply opportunities around these assets. We plan to expand our A&A business by continuing to apply our advantaged technologies, building new acetic acid and purified terephthalic acid (PTA) capacity in Asia and maintaining our global competitive position. In our marketing business, we continue to grow our focused and differentiated offers. We operate in retail markets where we can create a competitive edge from supply positions, superior customer offers and efficiency across the value chain. We will continue to focus our investments in those areas where we have a distinctive position in the marketplace. We are building strategic relationships in the business-to-business sector, as well as increasing product loyalty in our Castrol and other branded lubricants activities and enhancing our strength in key growth markets. We also aim to improve operational efficiency in manufacturing and across the marketing base.

Gas, Power and Renewables Our strategy remains to capture distinctive world-scale gas market positions by accessing key pieces of infrastructure and to expand gross margin by providing distinctive products to selected customer segments and optimizing the gas and power value chains. We have created BP Alternative Energy to develop the world's leading low-carbon power generation and wholesale marketing and trading businesses. In line with growing demand for cleaner fuels, BP seeks to participate on a large scale in fast-growing markets for natural gas, gas liquids and low-carbon power. We have strong upstream gas assets near the major markets, significant interests in gas pipelines and a series of integrated LNG positions in the Pacific and Atlantic basins. We are expanding our LNG business by accessing import terminals in Asia Pacific, North America and Europe. We are extending our significant strength in US NGLs processing and marketing on a global basis.

OUR MAIN BRANDS



BP BRAND ATTRIBUTES

BP believes in being performance-driven, innovative, progressive and green. In everything we do and say, we should live up to these four brand attributes.

Performance-driven

Setting global standards to make and deliver promises that go beyond financials, including environmental performance, safety, growth, customer and employee satisfaction.

Innovative

Seeking new opportunities to deliver breakthrough solutions for our customers.

Progressive

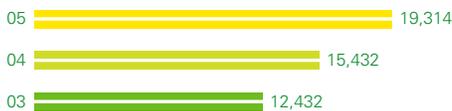
By staying in touch with customers, society and our communities, being accessible and open, inclusive and diverse, we are always looking for new and better ways of doing things.

Green

Committed to the proactive and responsible treatment of our planet's natural resources and to the development of sources of lower-carbon energy.

SELECTED 2005 PERFORMANCE HIGHLIGHTS

REPLACEMENT COST PROFIT (\$ million)



RETURN ON AVERAGE CAPITAL EMPLOYED (%)



DIVIDENDS PAID TO SHAREHOLDERS (\$ million)

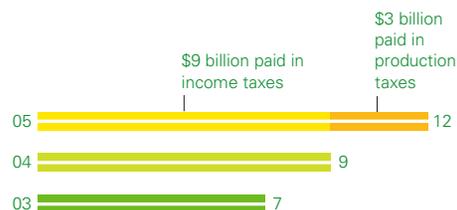


GREENHOUSE GAS EMISSIONS^a

78 million tonnes (Mte)

compared with 81.7Mte in 2004.

TAXES TO GOVERNMENTS^b (\$ billion)



RESERVES REPLACEMENT RATIO (%)

This was the 13th consecutive year in which our proved hydrocarbon reserves replacement ratio was 100% or greater^c.



^a BP share of emissions expressed as an equivalent mass of CO₂. TNK-BP emissions are not included.

^b Taxes to governments comprises income taxes and production taxes paid.

^c For subsidiaries and equity-accounted entities on a UK generally accepted accounting practice (SORP) basis.

Energy for tomorrow

Technology is fundamental to the sustainability of the group and of society. Technology helps us access the energy resources needed to provide future security of supply and it also helps us to minimize the environmental impact of energy production and consumption. We choose our focus areas for long-term technology investment by identifying the global trends that we believe will drive the future of the energy industry.

DRIVERS OF THE ENERGY FUTURE The first driver of the future energy industry is demand growth. World energy demand is projected to grow by more than 50% by 2030, with the developing world accounting for two-thirds of that growth^a.

The second driver is the location of supply and resources. Although the world has enough oil, gas and coal to last many decades, there are growing challenges in making new resources available. Technology can help improve the accessibility of remote conventional resources as well as unconventional resources such as viscous oil or biofuels.

The third driver is security of supply. Concern over supply is likely to grow as many countries rely more on imported energy and supplies become concentrated in fewer areas.

The final driver is the environmental impact of energy, with a steady tightening of standards to address concerns about pollution and climate change from emissions.

In deciding on which energy technologies to focus, we use a strategic framework which sets out three categories of activity.

First, we look to technologies that provide the technical capability to identify new hydrocarbon resources and better exploit those we have. We call this category 'resource business extensions'. Second, we work on conversion technologies – those that convert hydrocarbon feedstocks into efficient fuels and chemicals. Third, we aim to prioritize low-carbon technologies for power and transport to minimize CO₂ emissions.

TECHNOLOGY FOR TOMORROW – KEY DRIVERS OF THE ENERGY FUTURE

Demand growth

- ... GDP growth
- ... Urbanization
- ... Demand management

Supply challenges

- ... Significant resources
- ... Infrastructure
- ... Non-conventionals



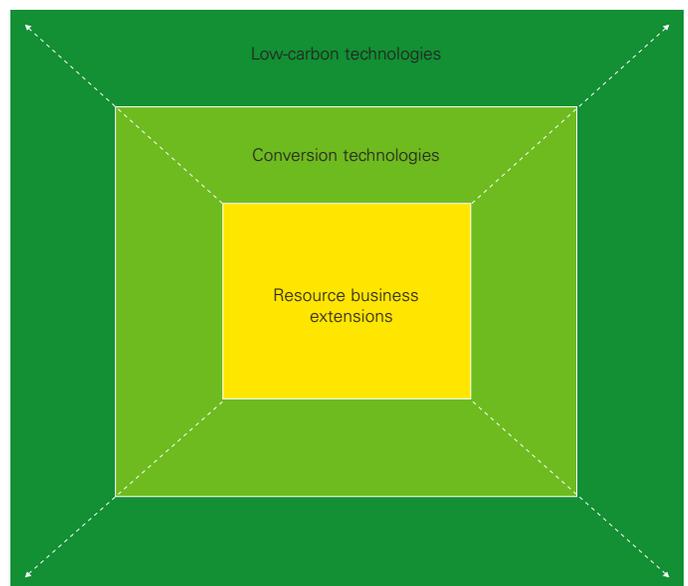
Environmental impacts

- ... Local pollution
- ... Climate change

Security of supply

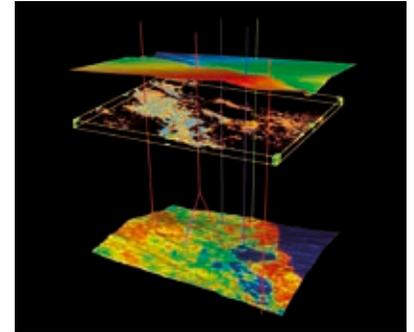
- ... Import dependence
- ... Competition

LONG-TERM TECHNOLOGY FRAMEWORK



Some key future technologies

ACCESSING RESOURCES – THROUGH ADVANCED SEISMIC SURVEYS One technology that we expect to remain critical in the future is that of seismic surveys. These use sound signals to collect data that helps us understand what lies beneath a seabed. This is critical as we continue to search for resources in more challenging and harsher environments. We have now deployed wide azimuth surveys that take soundings at different angles. We process this data using proprietary algorithms in our own facility that houses one of the most powerful in-house computer centres in any industry. We believe it has given us a lead in ‘seeing’ more clearly what lies beneath salt formations that previously rendered conventional seismic surveying techniques ineffective. This is important given that many future deepwater resources will lie beneath salt. Our wide azimuth techniques were taken from design to proof of concept in under 12 months.



ACCESSING RESOURCES – THROUGH ADVANCED DRILLING TECHNOLOGIES Security of supply concerns could be eased over the coming decades if we can successfully use advanced drilling techniques to unlock oil and gas that was previously difficult to access. BP plans to pioneer some of these techniques as part of the \$2.2-billion investment that we announced in 2005 in the 4,400km² Wamsutter field in Wyoming’s Rocky Mountains. As part of the Wamsutter investment, we are running a \$120-million, two-year technology programme that includes horizontal well drilling and advanced hydraulic fracturing techniques to access and enhance recovery from difficult reservoirs. In Alaska, to recover viscous oil we use multilateral drilling techniques that involve drilling several lateral wells off a single well bore.



CONVERSION TECHNOLOGIES – SYNGAS Concerns over security of supply and the environment can also be addressed by finding efficient and sustainable ways to convert any available hydrocarbon into multiple products, including transportation fuels, chemicals and electricity. There are many different conversion options, involving different feedstocks, processes, catalysts and outputs. Many current technologies involve using syngas – a combination of carbon monoxide and hydrogen – as an intermediary, though in the longer term we believe it may be possible to move to single step conversion. BP is currently a partner in the largest operating single-train methane reformer (syngas producer) in the world and future opportunities include more efficient generation of syngas and use of diverse feedstocks. We are particularly examining gasification of feedstocks such as coal, biomass and petroleum coke (*see below*).



LOW-CARBON TECHNOLOGIES We are developing a range of low-carbon technologies in order to capture business opportunities and assist the global effort to limit GHG emissions. One of our major focus areas is CO₂ capture and storage. We already jointly operate a project in Algeria that stores about 1 million tonnes of CO₂ annually. We have announced plans for the world’s first, industrial-scale hydrogen power plant at Peterhead, Scotland, where we plan to create hydrogen and CO₂ from natural gas. The CO₂ will then be injected into an oil field to enhance recovery. In February 2006, we announced a similar project to make hydrogen from petroleum coke at our Carson refinery in the US. Our aim is to show that this technology can be successfully applied at scale, paving the way for similar projects worldwide. Our solar business markets our proprietary Saturn solar technology that is at the forefront of solar technology for power performance and is looking to continue to make reductions in costs. In transport, we were a leader in developing low-sulphur fuels and are now supporting research into advanced biofuels (*pages 42-47*).



^a World Energy Outlook 2004, © OECD/IEA.

1 Responsible operations



How can we make energy more responsibly?

Our business by its nature must take a longer-term view in order to endure. This means we must balance preparing to meet the needs of the future with continuing to meet the needs of the present. Responsibility demands that we maintain high and consistent standards every day in many locations and all areas of work – including safety, integrity, security, environmental stewardship and people management. To make energy more responsibly, we must constantly review and improve our processes, accepting accountability and learning lessons as necessary. In 2005, we faced some major challenges in our efforts to act as a responsible business, but we also took some important steps forward. This section reviews our record and our progress.

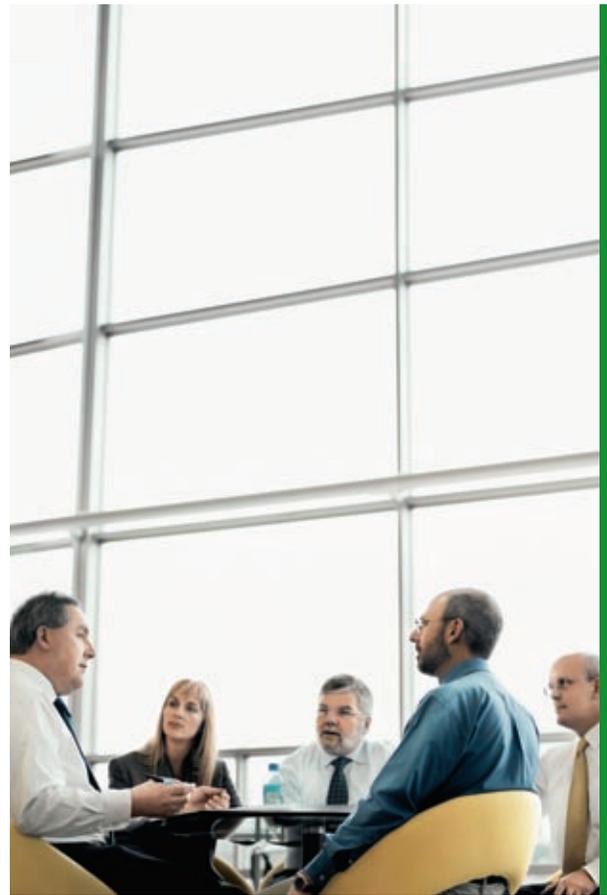
- 1.1 The way we work
- 1.2 Dialogue and engagement
- 1.3 Safety and operational integrity
- 1.4 Environmental management
- 1.5 Our people





Key actions taken by BP in 2005

- ... We responded to the industrial accident at the Texas City refinery with a thorough investigation and a fundamental review of systems and processes, leading to a range of new measures and investments being taken to maintain the safety of our people and the integrity of our plant.
- ... We issued a code of conduct across the company defining what is expected of BP employees.
- ... We identified a need for recruiting strategies tailored to each business or function and started to develop a range of new techniques and processes to achieve this end.



The way we work

In this section we describe the way we work at BP, covering our governance and management frameworks, which also define our goals and values. In particular, we highlight the central role of risk management in seeking to achieve our objectives and live by our values.

1.1



BP's direction is set by our goals and our values – the first defining what we want to achieve and the second the manner in which we seek to achieve it. The goals – or more formally the 'board goals' – state that the purpose of BP is business and to maximize long-term shareholder value by selling goods and services. Since our purpose is to maximize long-term value, the notion of sustainability lies at the heart of BP's business.

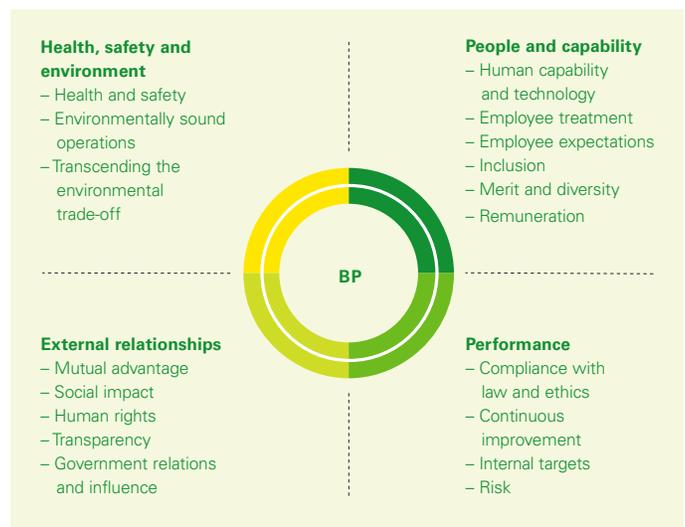
Maximizing value on a long-term basis depends not only on strategy and performance, but also on behaviour – the way we work. If we are to build the trust and support needed for our business to endure for the long term, we need to have strong values and apply them consistently. The underlying principles by which we set our values are articulated in a statement we know as our brand promise:

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. Our products and services contribute to a better quality of life. They provide the freedom to move, to heat, to see. We believe this freedom is inseparable from the responsibility to produce and consume energy in ways that respect both human rights and the natural environment. Maintaining this balance is our life-blood.

We apply these principles to specific areas of our work through a set of group values (Fig. 1.1). These are aspirations that cover such areas as the way we treat employees, our relationships, environmental concerns and ethical standards.

FIG. 1.1
OUR GROUP VALUES

Our group values express our aspirations – such as for ethical behaviour, fair treatment of employees or environmental sensitivity. Our brand defines the attributes that we aim to demonstrate as we live out our values – specifically to be performance-driven, innovative, progressive and green.



Our values include aspirations to conduct environmentally sound operations and to overcome the perceived trade-off between global access to heat, light and mobility and the protection and improvement of the natural environment. They also include aspirations to pursue relationships that are mutually advantageous, to support economic and social progress in the communities in which the group operates and to promote respect for human rights. As we seek to live out these values day by day, we identify, analyse and manage the associated risks. Risk management is therefore critical to our activities to address climate change, as discussed in Chapter 2, and our activities to promote development, as described in Chapter 3.

CORPORATE GOVERNANCE BP's shareholders delegate authority for the direction and oversight of the business to the board. As at December 2005, the board consisted of 17 directors, 11 of whom did not hold executive office, including the chairman and deputy chairman.

The board's governance role is distinct from that of management. The role of the board is to focus on tasks that are unique to it as the representative of shareholders and are necessary to promote their interests effectively. This necessarily requires input to and oversight of the strategic direction of the business as well as on-going scrutiny of business activity.

BP's goals are set by the board, which is accountable to shareholders. The board makes broad policy and delegates management of the business to the group chief executive (GCE), who is in turn accountable to the board.

Non-executives comprise a majority of the board. Board committees, which monitor the group's activity and performance, are comprised solely of independent non-executive directors, so that they are free from any conflict of interest that might arise from having a management role.

The ethics and environment assurance committee (EEAC) monitors the non-financial aspects of management activity, such as ethical conduct, environmental matters and health and safety. This committee therefore has a key role in respect of those issues covered in this report.

During 2005, topics discussed by the EEAC included safety, employee health, GHG emissions, oil spills and plant integrity. The committee met specially to consider the incident at the Texas City refinery and continues to monitor the executive management's response and the strengthening of its safety and operational capability. The EEAC also considered the success of measures taken to promote driving safety across BP's operations. Following its practice of examining risks that require management at regional or country level, risk reviews were undertaken for Africa, the Middle East and Alaska.

Other committees include:

- ... The chairman's committee, which comprises all non-executive directors and considers broad governance issues, including the overall effectiveness of the chairman and group chief executive.

- ... The audit committee, which monitors reporting, accounting, control and financial aspects of executive management activity.
- ... The remuneration committee, which determines the remuneration of the group chief executive and other executive directors.
- ... The nomination committee, which considers the appointment and reappointment of directors and other matters affecting the board's composition and succession planning.

The board delegates all executive management authority to the group chief executive. It prescribes the way in which that authority may be exercised through its executive limitations policy, which defines the boundaries within which the group chief executive and his management delegates can operate. The executive limitations require, for example, the group chief executive to take into account the health, safety and environmental consequences of any action. A comprehensive system of internal control is also required for the operation of the group. In managing the risks of the group, the executive limitations require that no one substitutes their own risk preferences for those of the shareholders as a whole. As a result, risk identification and management are important elements of the formal group planning process. More information is available on pages 158-163 of *BP Annual Report and Accounts 2005*. ¹

FIG. 1.2
GOVERNANCE FRAMEWORK



1.1 The way we work *continued*

THE BP MANAGEMENT FRAMEWORK AND RISK MANAGEMENT

The BP management framework governs the delegation of authority from the group chief executive to senior management and onwards to the front line.

The BP management framework is the group's system of internal control. It meets the expectations of internal control as described in the UK's Turnbull guidance and in the US by COSO (committee of the sponsoring organizations for the Treadway Commission).

The framework sets out the roles and relationships of the different parts of the business: the business segments, functions and regions and the individuals who work in them. It is the complete set of management systems, organizational structures, processes, standards and behaviours that are employed to conduct the business of BP and to deliver returns for shareholders. The design of the BP management framework is based on many years of experience in business, learning from successes and failures alike. It addresses risks and how best to respond to them. Each component of the management framework is in itself a device to respond to a particular type or collection of risks.

The group strategy describes the group's strategic objectives and the presumptions made by BP about the future (*page 6*). It describes the strategic risks that arise from making

such presumptions and the actions to be taken to manage or mitigate the risks. The BP management framework requires the group's strategic planning function to identify and monitor risks to group strategy. This informs the group chief executive's report to the board on strategic matters.

The group plan is the means by which the group enacts the group strategy. The group plan is prepared by having the segments, functions and regions assess business opportunities and threats/risks. Each must include appropriate responses in their respective plans.

Risk management is fully integrated into the process of planning and performance management. The risks described within the group plan fall into three categories. Two of these, delivery risks and enduring risks, lie largely within our control. The third category, inherent risks, are those that we cannot influence directly.

Delivery risks Delivery risks are those risks that are specific to the delivery of the group plan. These include inability to secure renewal of our upstream reserves; the risk of poor delivery of a major project; or inability to position our portfolio of assets in order to capture above-average market growth.

Enduring risks Risks to our reputation could be created if it is perceived that our actions are not aligned to our high standards of corporate citizenship and our aspirations to

FIG. 1.3
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.



contribute to a better quality of life through our products and services. For example, risks could arise from incidents of non-compliance with laws and regulation or ethical misconduct; or if it is perceived that we are not respecting or advancing the economic and social progress of the communities in which we operate. Risks could also arise if we do not apply our resources to overcome the perceived trade-off between global access to energy and the protection or improvement of the natural environment.

Inherent risks There are a number of risks that arise as a result of the business climate, which are not directly controllable. For example, regulatory risk exists because, as a result of new laws and regulations or other factors, we could be required to curtail or cease certain operations, causing our production to decrease, or we could incur additional costs. We also work in developing countries where political, economic and social transition is taking place. Some countries have experienced political instability, expropriation or nationalization of property, civil strife, strikes, acts of war and insurrections. Any of these conditions occurring could disrupt or terminate our operations.

Risks are managed and mitigated by several means, including the delegation of specific tasks to individuals and the creation of processes and standards.

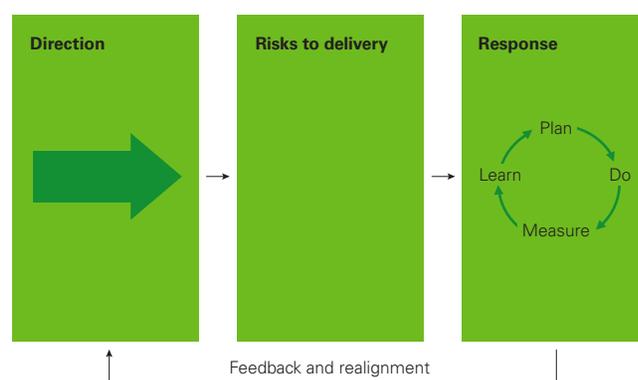
The tasks to be completed during the plan period to respond to the risks are described in the form of milestones and delegated to the appropriate people for implementation. Accountability is achieved through setting detailed internal targets, monitoring and measuring against plans.

When plans are delegated through the organization, people are expected to assess the risks to the implementation of the plan and develop appropriate responses. The group's performance management process assesses progress on achievement of targets and the management or mitigation of the risks.

The BP management framework contains devices and risk management tools that support delivery and decision-making, such as environmental impact assessments, country assessment and market value at risk. There are other ways that the BP management framework uses to respond to risks, including our group values.

FIG. 1.4

THE PROCESS OF RISK MANAGEMENT



Risks that threaten our progress towards fulfilling the aspirations articulated in our group values may be addressed through a limited number of group standards. For example, driving safety represents a risk to the group fulfilling its aspiration of having no accidents and no harm to people. We respond to this risk through our driving safety standard, which lays down requirements for BP employees driving or travelling in motor vehicles on BP business. Employees are expected to comply with group standards as they would with external laws or regulations (*page 20*).

In order to comply with laws, regulations and our own group standards, BP's employees need to maintain consistently high levels of behaviour. To set out what these levels are and manage the risk of non-compliance, we have created a code of conduct – *Our Commitment to Integrity* – which was launched in 2005. It sets out mandatory principles and expectations in key areas: health, safety, security and the environment; employees; business partners; governments and communities; and company assets and financial integrity (*page 34*).

A number of specific enduring risks are addressed at group level through control processes from our specialist functions. For example, our security team issues instructions on safety aspects of travel and levels of safety at our operating sites; and the financial control and accounting function provides a process to ensure financial statement integrity. ¹

Dialogue and engagement

BP's employees and contractors interact with millions of people across the world. For example, we serve about 13 million customers every day. Through dialogue and engagement we acquire understanding of others' views, which can then be taken into account in the planning and execution of our business strategy at group, country, business unit and site level. Like any successful business, our overall objective is that these relationships should create mutual advantage – benefits for those with whom we do business as well as for ourselves.

1.2



BP Sustainability Report 2004 outlined some of the mechanisms we use to create and maintain dialogue with key groups – customers, governments, shareholders, employees, communities, opinion leaders and suppliers (Fig. 1.5). We continue to provide more detailed information on our website. ¹

We have established panels of independent experts to make recommendations to us on the economic, social and environmental impacts of our activities in the Caspian region and at Tangguh, our LNG project in Papua, Indonesia. In early 2006, BP reported on progress to the Caspian Development Advisory Panel, for example, acknowledging the panel's influence in the development of a regional sustainable development programme. In Papua, Indonesia, we also acted on recommendations of the Tangguh Independent Advisory Panel on issues such as communications and security. ²

As well as maintaining channels of communication with these groups, we discuss specific business situations with many interested parties – for instance, a new product, a new site or a new business such as BP Alternative Energy (*pages 42-44*).

In this report, we focus on the significance of dialogue and engagement in two specific business issues during 2005 – first, the early phases of an important gas project in the US and second, our approach in contributing to a key piece of EU legislation.

Specific observation from Ernst & Young

All sites visited had activities in place to identify and engage with a range of stakeholders. In most locations, relationship mapping tools are used to identify relationship owners and to record relationship objectives and actions. All sites visited also had mechanisms in place to identify concerns from local communities. In Scotland, community concerns relating to North Sea operations are identified through mini-surveys. The BTC project in Turkey has a formal complaints procedure in place in addition to ongoing community liaison.

RESPONDING TO LOCAL CONCERNS One of the criticisms of public consultation exercises by large corporations is that they amount to lip-service, carried out too late to make any real difference to project design and execution.

Today, our practices demonstrate that this is far from the case. For more significant developments, consultation begins with early negotiations with government and land owners and progresses through detailed processes such as environmental and social impact assessments. For these significant operations, consultation continues throughout the operating phase, at varied levels of intensity, until operations are decommissioned and restored at the end of their life cycles.

For example, in New Jersey in the US, where BP plans to develop the Crown Landing LNG terminal, more than 80 meetings have been held over the past two and a half years with many groups, from civic clubs to local Homeland Security personnel. Community advisory panels in New Jersey and Delaware were established and meet regularly with plant personnel to learn about manufacturing, safety and security plans. They share their questions and concerns about safety issues related to how LNG should be delivered to Crown Landing and sent on to customers. Constituents have told BP they are concerned about jobs, safety, security and pollution.

A task force of emergency personnel from local communities helped BP revise the design of the LNG receiving dock on the Delaware River, adding more than \$1 million to construction costs, but improving both safety and security considerations.

Building on the work of local environmental experts, Crown Landing is exploring synergies that seek to minimize air emissions by using waste heat from nearby sources rather than burn natural gas and create new emissions. The project has also worked diligently to look at all options which would reduce any impacts on fish and wildlife as well as minimize wetland and river dredge impacts.

This collaborative approach with local constituents and interested groups is showing dividends. While the government approval process continues and there remain issues to be resolved, it is clear that support for the project is growing. Local awareness has increased more than 30% during 2005 while the project's approval rating has gone from 43% to 53%.

CONTRIBUTING TO PUBLIC POLICY – RESPONSIBLE LOBBYING

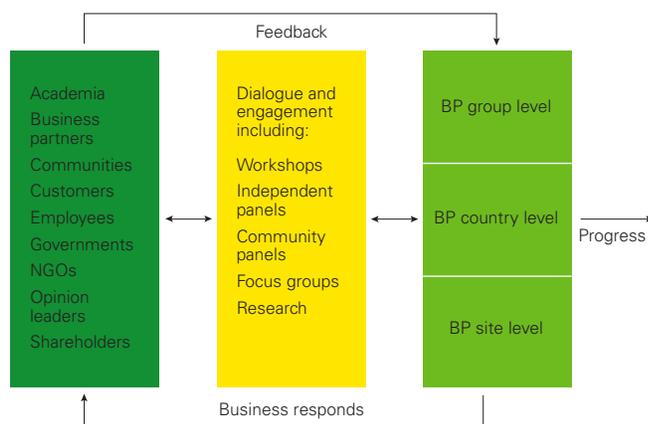
A different perspective on our dialogue and engagement processes can be seen in our approach to public policy development in the EU. An example of this concerns our input to the development of the complex EU REACH (Registration, Evaluation and Authorisation of Chemicals) legislation, scheduled to come into force in 2007. Once in force, REACH will oblige all chemical substances manufactured, imported and used in the EU above one tonne a year to be registered to a chemical agency. Companies will be made liable for assessing all the risks of about 30,000 substances across all their individual supply chains in each of their identified uses. Substance dossiers will eventually be thoroughly evaluated by the agency and those 'of high concern' only authorized for a limited period, substituted wherever possible or severely restricted. All information will be made publicly available.

Once in force, REACH will significantly affect BP as a manufacturer and importer of petroleum products, including fuels, chemicals and lubricants. It will also have a major impact on us as a downstream user of chemicals that are vital in our operations.

Companies fear that the proposed process will be very complicated, not cost effective, dramatically affect international competitiveness by forcing the release of confidential information and lead to the potential loss of vital substances.

BP is actively participating in the political debate, but aims to be a progressive voice and to lead by proposing the right balance

FIG. 1.5
DIALOGUE AND ENGAGEMENT



between the protection of our competitive interests while responding to the legitimate concerns of consumers and society. Some NGOs, for instance, are calling for complete transparency and prompt actions to ban all chemicals of concern.

In the summer of 2005, Friends of the Earth conducted a survey, contacting 31 of the largest chemicals companies affected by REACH. They subsequently issued a report and widely distributed it to interested groups in Europe. Regarding BP, they noted: 'Only two companies (including BP) answered all the questions as laid out in the questionnaire.'

Applying lessons

We are learning all the time how best to manage our dialogue with external groups, especially in respect of larger infrastructure projects. Learnings from the Crown Landing project helped influence site selection for our pilot hydrogen-for-transportation programmes in the US (page 47).

Also in 2005, a 'lessons learned' workshop was held in Baku, Azerbaijan, to discuss how external expectations and requirements on the BTC pipeline project were handled and how other BP business units, such as those in Indonesia, Russia, Angola, Georgia and Turkey, could benefit from that experience. Among the many topics discussed, the key ones were the need to ensure contractors understand commitments made through the environmental and social impact assessment process and the need to commence community relations at an early stage. We have also learned to appreciate the valuable local insights gained when independent monitoring of our operations is conducted by a range of interested groups, especially national NGOs (page 53).



Safety and operational integrity

1.3



2005 was the worst year for BP's safety record since 1999, when there were 30 workforce fatalities, including 20 contractors. In 2005, 26 of the 27 who died were contractors while, in 2004, seven of the 11 workforce fatalities were contractors (Fig.1.6). Fifteen of the deaths in 2005, as well as many injuries, occurred on 23 March, in an industrial accident at the Texas City refinery. There were 12 other workforce fatalities in BP's operations, 10 of which were transport-related. Additionally, 23 members of the public died in incidents related to BP activities, of which 21 were road accidents.

During 2005, there were 305 reported days away from work cases (injuries that resulted in lost time), of which 120 resulted from the Texas City incident. This compares with 230 cases in 2004 and 461 in 1999 (Fig.1.7). Apart from cases that required only first-aid (as defined by the Occupational Safety and Health Administration (OSHA)), an additional 1,139 reported injuries in 2005 required medical treatment. Combining all the injuries and fatalities, our reported total recordable injury frequency for 2005 was 0.53 (per 200,000 hours worked), compared with 0.53 in 2004 and 1.42 in 1999. The Texas City incident was a major setback to BP's improving safety record. In response, we are now taking renewed and further action to prevent repetition of a major incident and bring about focused improvements on safety performance.

The integrity of our operations was also severely challenged in 2005 by the two hurricanes, Katrina and Rita, that struck some of our US assets (pages 21 and 28). [11](#)

In this section we report on our performance in the areas of safety and integrity of plant and equipment during 2005. This includes detailed coverage of the industrial accident at the Texas City refinery, the lessons learned from the incident and the changes to systems, processes and structures introduced since the event. In total, there were 27 workforce fatalities in the course of BP operations during 2005. We deeply regret the loss of these lives.

Texas City refinery explosion and fire

The explosion and fire at the Texas City refinery happened on 23 March 2005 in an isomerization unit used to make components for unleaded gasoline. The unit was overfilled and overheated for three hours, resulting in an overflow of hydrocarbon vapours from the blow-down stack that was used to vent gases. The vapours exploded after coming into contact with an ignition source, which has not been definitively identified.

BP's internal investigation team found that the critical factors leading to the incident included failure to follow procedures, people being located in temporary trailers too close to the blow-down stack, and missed opportunities to install inherently safer light hydrocarbon control options. BP has set aside \$700 million in compensation and reached settlements with many of the injured and bereaved.

The investigation team recommended changes that cover procedures, control of work, trailer-siting and engineering, management training and behaviour of people. A new Texas City site manager was appointed in May 2005. He has strengthened the leadership team, clarified responsibilities and introduced systems to improve communication and compliance. All occupied trailers have been removed from specified areas, an enhanced training programme is under way and the site has begun replacing blow-down stacks.

FIG. 1.6
WORKFORCE FATALITIES



FIG. 1.7
LONG-TERM SAFETY PERFORMANCE (DAFWCF)^a 1988-2005



^a Days away from work case frequency (DAFWCF) is the annual frequency (per 200,000 hours) of reported injuries that result in a person (employee or contractor) being unable to work for a day (shift) or more. For a full understanding of the underlying data on reported DAFWCF, please refer to our website.

Specific observation from Ernst & Young

We visited the Whiting refinery in the US during December 2005 and saw evidence that a number of initiatives had been undertaken in response to the investigations into the Texas City refinery explosion and fire. These initiatives included the removal of temporary office trailers, an assessment of flare and blow-down relief systems and a review of plant operating procedures.

BP Products North America Inc. has begun a work programme that is expected to cost about \$1 billion over five years. It calls for extensive investments at the refinery, including installing modern process control systems on major units, introducing a more powerful maintenance management system, improving worker training and replacing blow-down stacks.

We have carried out safety assessments at all BP-operated refineries and a number of initiatives are now in progress

based on these and the findings of the Texas City refinery incident investigation. The initiatives address factors such as leadership, culture, control of work procedures and the repositioning of occupied temporary buildings. The assessments found that no other BP-operated refinery presented safety and operational integrity concerns on the same level as those identified at Texas City.

Following a further fire in July and a leak from another unit at Texas City refinery in August, the US Chemical Safety and Hazard Investigation Board issued an urgent recommendation that BP appoint an independent panel to study the safety systems and safety culture of its US refineries. This panel has now started work under the chairmanship of former US Secretary of State James A Baker III.

BP has entered into a settlement with the US OSHA to resolve more than 300 separate alleged violations of OSHA safety regulations. BP paid a fine of \$21.3 million and agreed to a number of corrective actions. Under the agreement, BP does not admit the alleged violations or agree with the way OSHA has characterized them. ²

New steps to involve contractors

At the Texas City refinery, initiatives are under way to involve contractors and union personnel more fully in operations of the plant and to harness their experience to improve performance. On safety issues, contractors can contribute concerns or suggestions through a number of forums, including a contractor safety council for operators and other technical staff and a contractor company leaders' meeting. Instead of sharing offices in temporary trailers and on-site buildings, many contractors have moved to the new Texas City office building, remote from the refinery site. A new process has been created to assess contractors' competencies and monitor the amount of training undertaken at the refinery. BP is also involving union personnel and a local college to establish apprenticeship programmes for craft workers.



1.3 Safety and operational integrity *continued*

Safety systems and structures

The incident at the Texas City refinery led to a fundamental review of the systems, processes and organization needed to sharpen the focus on safety and operational issues in our US refineries and across BP.

A NEW TEAM From 1 November, we announced a new organizational structure designed to deliver better safety performance and operational capability. Three new senior leaders are in place. The role of senior group vice president for safety and operations has been filled by the senior executive who led BP's internal investigation of the Texas City refinery incident.

We have also established a new group vice president role with specific safety responsibilities within refining and marketing and a new vice president position for group safety, bringing in an external hire from DuPont, a company respected as a global leader in safety. This team has drawn up plans for measures in three areas: plant, people and processes. 

PLANT In terms of plant, we have been carrying out a programme of major accident risk (MAR) assessments for our major plant and equipment. A prioritized investment plan will be developed to address the recommendations of the MAR assessments and provide a framework that is designed to mitigate risk continuously. It is forecast that, during the next five years, our investment in integrity management at our sites will be more than \$3.5 billion. This includes a review

of occupied buildings on active sites, adoption of stringent new standards governing the use of temporary accommodation in process areas and re-engineering of blow-down stacks for light hydrocarbons.

PEOPLE In building capabilities among people, the new organization will work across a broad front. It will start by working to strengthen safety leadership and awareness among business and operational managers, as well as to increase awareness of process safety hazards among those responsible for handling hydrocarbons. The aim will be to improve the safety and operational culture, setting new standards for expected behaviours in the workplace and putting in place measures to ensure people have clear accountabilities and are fully competent to do their job. This programme of work is being integrated within our overall operating management system.

PROCESSES In terms of processes, we are augmenting our current management system, 'getting HSE right', to produce a more comprehensive operating management system (OMS) that will help improve our safety management processes and better integrate them with our operational procedures. The OMS is designed to provide a more rigorous approach to compliance and risk management, including a new formal audit process. We aim to implement the new OMS and audit process fully by 2010.

Meanwhile, in 2006, we are launching a group standard on integrity management (IM), to be fully implemented by the end of 2008. We are also introducing a control of work standard,



TNK-BP

TNK-BP is among the largest oil producers operating in Russia. It is a joint venture with 50% ownership by BP. In 2005, its second full year of operation, TNK-BP continued to train people in the use of 10 new safety standards introduced in 2004. In implementing these standards, the company has focused on reporting and investigation, leadership, personal protective equipment and transport. Further standards have been piloted in contractor safety, oil spill response, remediation and an environmental standard for 'greenfield' projects. Over the next five years, TNK-BP plans to spend around \$1.7 billion on facilities integrity and HSE activity. It has already carried out an interim assessment of its refineries based on the findings from the investigation into the Texas City incident. 

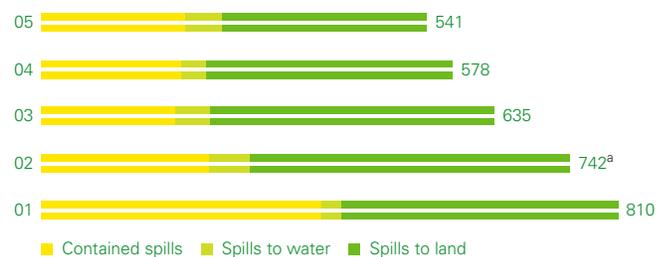
to be fully implemented by the end of 2009. The first part of the standard on driving safety was introduced for employees in 2004 and is hoped to be fully implemented, covering contractors as well as employees, by the end of 2007. A marine operations standard is also being developed.

The new IM standard, which will include the MAR process for assessing plants, is designed to minimize the number of incidents involving loss of containment or failure of an engineering system. The standard has been drawn up by a team of operations, maintenance and engineering leaders from across BP. Its key elements include identifying individuals accountable for integrity, assessing their competencies and developing and maintaining protective systems to reduce IM incidents. The standard also covers emergency response plans and root cause investigations.

The introduction of BP's code of conduct in 2005 provides a consistent global framework for our businesses to follow in seeking to ensure that they comply with all applicable requirements on HSSE. See pages 34-35 for more detail of the BP Global HSSE Compliance programme (Project Emerald).

THUNDER HORSE During late 2005, we reviewed in detail the incident at the Thunder Horse platform in the Gulf of Mexico. The semi-submersible vessel was discovered to be listing on 11 July 2005, having been evacuated three days earlier in anticipation of Hurricane Dennis. The incident investigation team, that included experts from BP and co-owner ExxonMobil, concluded that construction defects and failures associated with the hydraulic control system allowed ballast

FIG. 1.8
TOTAL NUMBER OF OIL SPILLS (≥1 barrel/159 litres)



water to move into and within the lower hull, causing extra flooding by seawater. We are correcting the deficiencies that caused the Thunder Horse platform to list and are incorporating the learnings into the way we manage projects to reduce further risk.

SPILLS The 2005 data shows we are continuing to make progress in reducing the number of oil spills, most of which occur on land. The number of spills of one barrel (159 litres) or above from all our operations decreased to 541, compared with 578 in 2004 and 810 in 2001. Our refining and marketing operations reduced spills in 2005 by 14%, exceeding a 10% reduction plan, while our other operations fell short of the 2005 reduction plan. In 2005, we also monitored the volume of oil spilled, including our effectiveness in recovering as much of the spilled product as we can. Compared with 2004, reported volumes were lower at 4.4 million litres of oil spilled, of which 1.2 million litres was unrecovered. ³

Shipping

In 2005, we continued to increase and upgrade our operated shipping fleet to manage the risk of a major oil spill more effectively. Our international fleet has grown from 42 ships in 2004 to 52 in December 2005, all of which are double-hulled. This transformation is well ahead of the international requirements for phase-out of single-hulled vessels. We also have 16 regional and specialist vessels and 81 vessels on time charter, of which 66 are double-hulled and three double-bottomed. All these vessels are enrolled in BP's time charter assurance programme, which requires compliance with our rigorous safety standards. We also spot charter additional vessels, which are vetted prior to use to ensure they also meet our safety and integrity standards.



Environmental management

Wherever we operate, we aim to minimize damage to the environment through the full life cycle of each site – from careful assessments on access through to responsible decommissioning and remediation on exit. 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.

1.4



Environmentally sound operations

We developed a set of principles for environmentally sound operations during 2005. These address the need for heightened environmental vigilance as our industry accesses increasingly remote and sensitive areas in order to meet the world's growing demand for oil and natural gas.

The new principles were developed as a result of work commissioned by the group chief executive in response to challenges over our processes for assessing and working in environmentally sensitive areas.

The principles adopt a life-cycle approach and build on existing good practice – updating, revising, clarifying, codifying and augmenting our approach. They provide our businesses with a suite of inter-related processes and requirements, including:

- ... Environmental screening in the very early stages of a potential project.
- ... Requirements for environmental impact assessments (EIAs).
- ... Requirements for consultation with interested parties, including local communities and NGOs.
- ... Criteria for environmental management systems when the operation is up and running, including ensuring that commitments made during the assessment stage are honoured during the operating life of the asset.
- ... Globally applicable environmental performance requirements for activities such as water management, waste management and physical and ecological impacts. These cover aspects such as minimizing the footprint of operations and reinstatement.

The principles have also been subject to extensive consultation within and beyond BP. This included discussions with international NGOs and socially responsible investment groups who have previously engaged with us on the issue of environmentally sensitive areas. Recommendations from the consultation have been taken into consideration in the final draft of the principles, which we intend to progressively implement in new major projects. We also carry out social assessments, often integrated with environmental assessments, to form environmental and social impact

assessments (ESIAs). Following feedback received during consultation, we intend to review our social impact principles covering impact assessment, community engagement and communicable diseases.

ENVIRONMENTALLY SENSITIVE AREAS BP believes that it is for governments to decide whether environmentally sensitive areas should be open to development. Our own approach is that we will operate in these areas only if we can manage the environmental risks and demonstrate compliance with all applicable laws and regulations.

The most important new element in the principles is the first one – a screening process that takes place at a very early stage in a project, normally well before any physical activity has taken place. This screening is carried out using a set of established indicators that classify a site according to its potential environmental sensitivity. The indicators consider a wide range of criteria, including whether the area has protected status, represents a unique or rare ecosystem and contains protected or endangered species.

The screening process is subjected to internal BP peer review by experts from outside the project team. This results in areas being classified in one of three categories, A, B or C, with A being the most sensitive, similar to the categorization used by the World Bank. The category assigned dictates the rigour of subsequent processes. For example, project teams working in areas classified in categories A or B have to prepare EIAs.

Before making any decision to enter an area, the environmental screening assessment is integrated into BP's decision-making process along with other factors, including commercial, geological, technical and social considerations.

The new principles provide guidelines for monitoring, feedback and reporting, including our commitment to report any decision to explore or develop in World Conservation Union (IUCN) category I-IV areas and to make public the results of risk assessments, where we are able to do so. In 2005, BP did not make any decisions to explore or develop in any new IUCN category I-IV designated areas. We report the locations of existing operations in all IUCN areas on our website. [I](#)

SITE-LEVEL MANAGEMENT Once it is operating, each of our major sites has an environmental management system to help achieve compliance with legal requirements and reduce environmental impacts. In 2004, we achieved our goal of having 100% of our major sites' systems certified to the global ISO 14001 standard. However, our performance faltered in 2005 with the suspension of the ISO certification at our Texas City refinery. The refinery intends to recertify after completing planned work to strengthen its HSSE management systems.

Our approach addresses issues such as biodiversity, where we use our processes and performance requirements to avoid adverse impacts. Where biodiversity is a significant issue, we work with partners to implement the most appropriate actions.

TANGGUH – MINIMIZING OUR FOOTPRINT Based on the latest project design assessments and recommended practice, the Tangguh liquefied natural gas (LNG) project in Papua, Indonesia, has significantly reduced the environmental footprint of the onshore site.

The initial design required that a total of 800 hectares of land be cleared for the development of the plant and its supporting facilities. However, the project team has found ways to reduce the project's physical footprint by more than 150 hectares.

Specific observation from Ernst & Young

In Indonesia and Turkey, we discussed the environmental and social assurance programmes designed to assess compliance with the ESIA's for both the Tangguh LNG and the BTC projects. For example, during our visit to LOT C of the BTC pipeline we discussed BTC's planned monitoring activities in relation to the quality of re-instatement against the requirements of the EIA.

SAKHALIN – EXPLORING WITH CARE The Elvary Neftegaz joint venture continued exploration drilling and seismic operations offshore Sakhalin, Russia, in 2005. The Udachnaya prospect proved to be the second discovery in the Kaigansky-Vasuykansky exploration offshore licence block, which lies in the south of the Sakhalin-5 acreage, north-east of Sakhalin Island. The Udachnaya well was drilled to a total depth of 2,705 metres and encountered hydrocarbons in three zones. Throughout the 2005 programme, precautionary measures were once again implemented to avoid spills, minimize vessel movements and reduce noise associated with operations. Additionally, operations were completed safely without a lost-time incident. Elvary Neftegaz is a Russian joint venture between Rosneft (51%) and BP (49%). It holds the exploration licence for the Kaigansky-Vasuykansky block of the Sakhalin-5 acreage and operates the project.

BTC and SCP – reinstating the right of way

The BTC pipeline, which runs through Azerbaijan, Georgia and Turkey, followed the re-instatement requirements set out in the new principles on environmentally sound operations. The oil pipeline is now in the ground and final construction of the accompanying South Caucasus gas pipeline (SCP) is taking place using the same corridor as the oil pipeline in Azerbaijan and Georgia. Engineering re-instatement and biorestitution of the entire corridor throughout the three countries are being carried out and, in places, it is already difficult to distinguish the pipeline route from the surrounding area.



1.4 Environmental management *continued*

Emissions from BP operations

Over the next four pages we explain the processes we follow to operate responsibly and provide data on emissions and waste. GHG emissions from our operations are included here, while GHG emissions from our products are in Chapter 2, along with a description of our work to address climate change beyond our operations. More detail on these emissions and other aspects of our environmental performance can be found on our website. ¹

GREENHOUSE GAS EMISSIONS In our operations since 2001 we have been aiming to offset, through energy efficiency projects, half of the underlying GHG emission increases that result from our growing business. After four years, we estimate that emissions growth of some 10 million tonnes has been offset by around 5 million tonnes of sustainable reductions.

Our 2005 operational GHG emissions of 78.0 million tonnes (Mte) of CO₂ equivalent on a direct equity basis were some 3.7Mte lower than in 2004 (81.7Mte)^a. The growth of our business generated an extra 2.9Mte of emissions, but these were offset by several factors. Newly implemented efficiency projects provided 0.9Mte of reductions that should be sustained in future years. Plant shutdowns resulting from hurricanes and other operational factors caused a substantial but transitory reduction in 2005 of around 3.5Mte. Finally, the net effect of disposals, acquisitions and methodology changes during the year was that emissions were lower by about 2.2Mte. As one of our efforts to reduce energy consumption and emissions, BP Shipping chose gas-burning electric propulsion for its four new LNG carriers.

Specific observation from Ernst & Young

We visited the In Salah Gas joint venture where we saw evidence of BP influencing its partners to adopt HSE policies consistent with BP's. At the production and processing facilities, we saw the CO₂ capture and reinjection equipment and evidence of activities to improve performance of the CO₂ reinjection compressors. At the time of our visit, the capture and reinjection system had achieved a year-to-date efficiency of more than 60%.

This offers a significant reduction in emissions compared with the conventional steam-turbine propulsion system. BP Shipping also issued an environmental charter in 2005, committing itself to seven principles that include early compliance with legislation and regulation, transparent reporting and environmental awareness training for employees.

IN SALAH – ONE YEAR ON The CO₂ injection and storage project at the In Salah gas field in the Algerian Sahara has now been in operation for more than one year and has stored 0.8 million tonnes of CO₂ in the water-bearing section of the reservoir that underlies the gas. A \$30-million science programme has been established to take full advantage of the learning from the project and this programme also looks to develop and test new tools for CO₂ monitoring and surveillance.

ENERGY USE AND EFFICIENCY In 2005, our total primary energy consumption, the amount used to complete our operations, was approximately 1.31 billion GJ, 2% less than in 2004.

Many of 2005's efficiency gains were made possible by a five-year, group-wide \$350-million energy efficiency programme that began in 2004. This programme has enabled businesses to carry out sustainable energy-reducing activities, cutting costs as well as GHG emissions.

The group-wide programme has supplemented two years of local initiatives to deliver GHG reductions, predominantly in our upstream activities. Preceding these local initiatives there had been an initial group-wide programme to reduce GHG emissions between 1998 and the end of 2001. We estimated that the value to BP of the hydrocarbons saved by this programme created around \$650 million of net present value (NPV) as the group fulfilled its commitment to reduce GHG emissions to 10% below the 1990 level. We now estimate that the total value generated since 1998 is more than \$1.6 billion of NPV, with projects and interventions from the start of 2002 to the end of 2005 creating around \$1 billion of additional NPV from an investment of less than \$170 million. The continued commercial success of the energy efficiency programme has led to it being extended beyond 2008 to 2010, with total planned investment from 2004 to 2010 being raised by \$100 million to about \$450 million. ²

^a BP operational emissions do not include TNK-BP operations.

¹ www.bp.com/impactsandemissions

² www.bp.com/energyefficiency

FIG. 1.9
EXPLORATION AND PRODUCTION
GHG INTENSITY
(tonnes CO₂e/mboe)^b

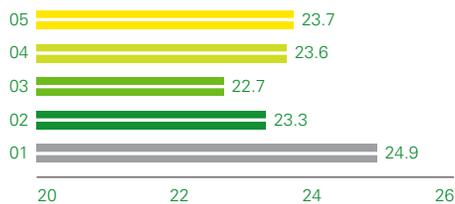


FIG. 1.10
REFINING GHG INTENSITY
(tonnes CO₂e/kbduEDC)^{b,c}

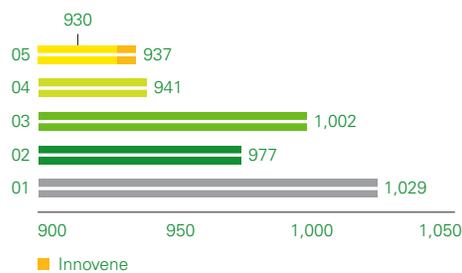
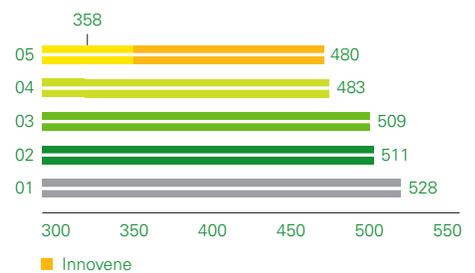


FIG. 1.11
PETROCHEMICALS GHG INTENSITY
(tonnes CO₂e/kte)^d



PER UNIT EMISSIONS Our businesses are judging their long-term energy efficiency by tracking their normalized GHG (per unit of production) performance against a 2001 baseline.

In exploration and production, performance has remained almost unchanged since 2004 at 23.7teCO₂e/mboe (Fig. 1.9). This reflects the efficiency gains in new production areas offsetting the emissions growth in some mature assets. Overall performance is expected to improve in the next two years as new more efficient production comes on stream. Our refining operations, (including the Grangemouth and Lavéra refineries now sold as part of the Innovene disposal) have continued their improving trend and operated, in 2005, some 9% more efficiently than in 2001 at 937teCO₂e/uEDC (Fig. 1.10). Excluding these two refineries, BP's refining performance in 2005 was 930teCO₂e/uEDC. In 2005, our petrochemicals operations (including olefins and derivatives (O&D) now sold as part of the Innovene disposal), continued to increase efficiency and emissions were 480teCO₂e/kte, more than 9% below the 2001 baseline (Fig. 1.11). If O&D is excluded, our remaining petrochemicals businesses, which are less carbon-intensive, had a normalized performance of 358teCO₂e/kte in 2005.

THE EU EMISSIONS TRADING SCHEME As required by law, we have taken part in the EU Emissions Trading Scheme since its launch in January 2005. We began the year with 30 participating operations but, following divestments in the fourth quarter, we ended 2005 with 18, which represent around a quarter of our reported global GHG emissions.

Operational emissions performance



- Significant growth in 2005 GHG emissions included:
- ... 890,500 tonnes from the SECCO joint venture in China achieving its full operational output.
 - ... 745,000 tonnes from increased oil and gas production in Angola, Australia, Azerbaijan and Trinidad & Tobago.
 - ... 370,000 tonnes of increased refining emissions at Grangemouth (Innovene) from recommissioning a catalytic cracker and clean fuels enhancements at Castellón.
 - ... 255,000 tonnes due to increased business and a larger fleet within BP Shipping.



- Significant reductions in 2005 GHG emissions were as follows:
- ... 250,000 tonnes from continued reductions in flaring and venting and other efficiency measures in exploration and production in our North America, Middle East, North Sea and Trinidad & Tobago businesses.
 - ... 230,000 tonnes^d from the Texas City cogeneration project completing its first 12 months of full operation.
 - ... 200,000 tonnes from continued delivery of energy efficiency improvements at the Whiting and Toledo refineries.
 - ... 150,000 tonnes from energy efficiency gains in the aromatics and acetyls business in the US and Asia.

^b Direct GHG emissions per unit of production are measured in tonnes of CO₂ equivalent (CO₂e) per thousand barrels of oil equivalent (mboe) for exploration and production, per thousand barrels a day (kbd) for refining and per thousand tonnes (kte) for chemicals.

^c uEDC – Utilized Equivalent Distillation Capacity is used globally in the refining industry as a normalized measure of production.

^d 152,000 tonnes saved within 2005, with the remainder a correction to an under-reporting of the reductions achieved in 2004.

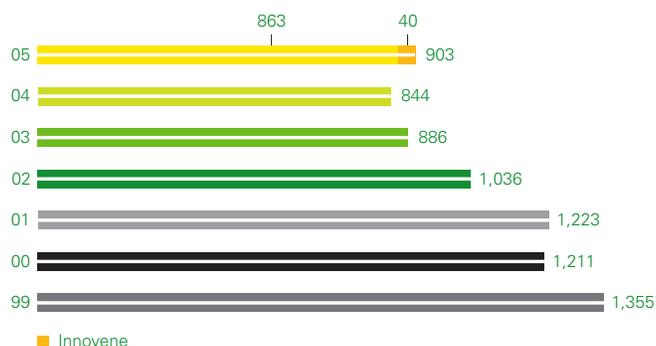
Environmental impacts

EMISSIONS TO AIR As well as GHGs, our operations have emissions to air that include sulphur dioxide, nitrogen oxides and non-methane hydrocarbons (Fig. 1.12). Most of our air emissions result from the combustion of fuels at our production sites, refineries and petrochemicals plants. We strive to reduce our emissions of air pollutants other than GHGs because of their impact on local air quality and concerns about health effects.

Some of our operations also emit ozone-depleting substances as a result of the use of certain types of fire suppression equipment, losses from refrigeration equipment and as an unintended by-product of our purified terephthalic acid (PTA) manufacturing. We report these on our website for the second year. ¹

In 2004, we reported that the South Coast Air Quality Management District had filed civil lawsuits against BP's Carson refinery in California, seeking penalties of about \$600 million for various alleged air-quality violations. In March 2005, BP, without admitting liability, agreed to settle all outstanding claims for \$25 million in cash penalties and approximately \$6 million in past emissions fees. BP also agreed to provide \$20 million in new refinery projects aimed at reducing emissions and \$30 million over 10 years in community benefit programmes.

FIG. 1.12
GROUP AIR EMISSIONS (SO₂, NO_x, METHANE AND NON-METHANE HYDROCARBONS) (thousand tonnes)



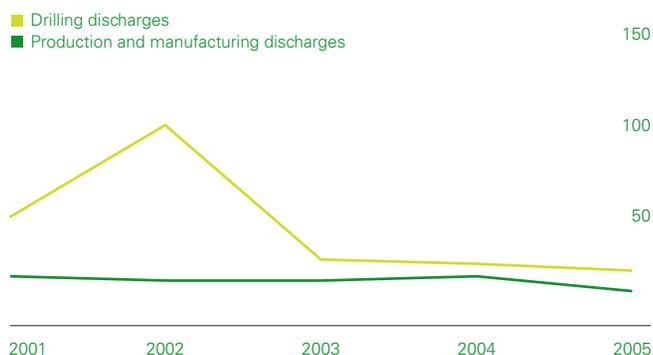
WATER MANAGEMENT We use fresh water from many sources, including lakes, rivers, wells and municipal supplies, for cooling, steam generation and industrial processing. Water is a critical natural resource for BP and an aspect of the natural environment we want to protect. In 2005, we worked with the International Petroleum Industry Environmental Conservation Association (IPIECA) to help produce the IPIECA Water Management Good Practice Guidelines, which promote an integrated approach to water extraction, water use and discharges to water. ²

Water withdrawal In 2005, our reported fresh water withdrawal from all sources was 479 million cubic metres. This corresponds to a decrease of 7% on 2003 when the figures were first gathered.

Discharges to water Our main discharges to water include water-based drilling muds from oil and gas exploration operations and waste waters from oil platforms, refineries and petrochemicals plants containing small amounts of oil, petrochemicals or treatment chemicals.

Since 2001, we have been classifying our discharges into drilling and operational categories to help us monitor longer-term trends. Our operational discharges to water remained fairly constant while our discharges due to drilling fluctuated as a result of our drilling activity (Fig. 1.13).

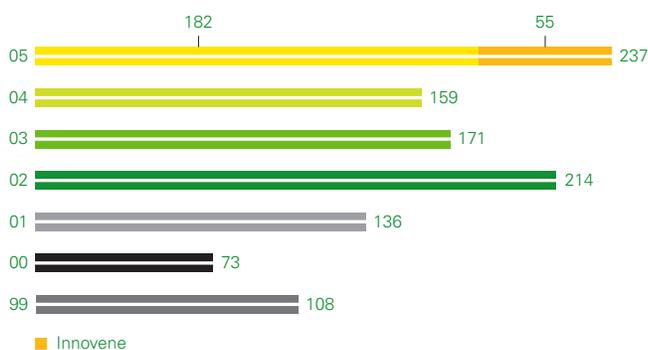
FIG. 1.13
GROUP DISCHARGES TO WATER^a (thousand tonnes)



^a 2005 does not include discharges in new category of discharges to third-party treatment at 8 thousand tonnes.

FIG. 1.14

HAZARDOUS WASTE DISPOSED (thousand tonnes)



WASTE MANAGEMENT Our activities generate a variety of solid and liquid wastes, including oily sludges, waste chemicals, spent catalysts, biological sludges from wastewater treatment, incinerator residues and construction debris. We try to recover, recycle or reclaim as much as is practicable of the waste we generate. ³

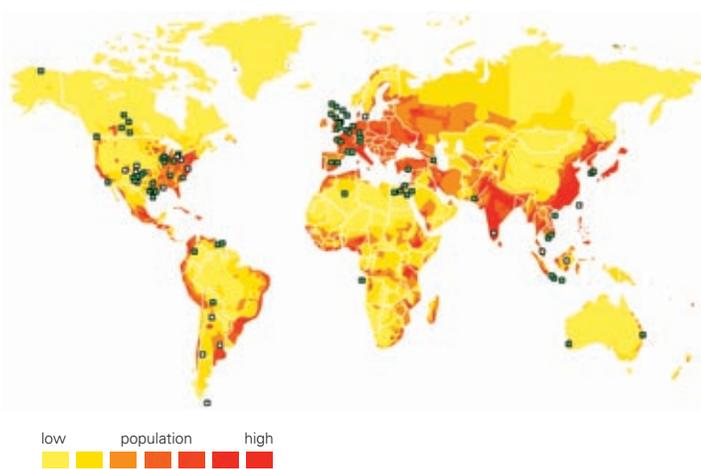
In 2005, the reported amount of hazardous waste disposed increased by almost 50% when compared with 2004, primarily due to contaminated soil from remediation activities at retail and logistics facilities. During 2005, we found that we had inadvertently overstated the wastes generated at our Whiting refinery for several years. We have now corrected this error and this is reflected in Fig. 1.14.

BIODIVERSITY – BUILDING LEADERSHIP CAPACITY Over the past five years, BP has supported more than 200 initiatives related to biodiversity, covering research, education and conservation. These have been primarily supported through the BP Conservation Awards programme, although around 60 were directly supported by our businesses. In a review during 2005, we found that the majority of these projects had delivered against the objectives they set. In the future, we plan to continue our awards scheme through the renamed Energy and Environment programme, focusing on developing and educating future conservation leaders and local capacity building.

SITE METRICS AND TARGETS The environmental impact of each operation depends on its location and the nature and scale of its emissions. Our environmental management system requires the setting of local site metrics and targets for continual improvement, for example, in waste, emissions, discharges and energy efficiency. We therefore do not set group-level aggregate targets for these parameters. However, at segment and group level we track a range of environmental data as indicators of our overall performance. We do not expect a year-on-year improvement in every parameter, but poor performance trends are closely investigated. Our online charting tool provides more data on a range of our emissions, discharges and waste since 1999. Emission and resource use data alone does not fully reflect environmental performance at the local level. ⁴

Our online mapping tool and verified site reports provide details of our environmental performance on a site-by-site basis, reporting on local issues and planned improvements. Visitors to the mapping tool can review details by region for five environmental issues – protected areas, air quality (non-GHG), fresh water use, water quality and waste (Fig. 1.15). Our major operating sites are plotted on background maps that illustrate regional environmental conditions to help put site information into context. ⁵

FIG. 1.15
WORLD OVERVIEW: WASTE



Source: World Resources Institute.

³ www.bp.com/wastemanagement ⁴ www.bp.com/hsechartingtools
⁵ www.bp.com/environmentalmappingtool

1.4 Environmental management *continued*

Decommissioning and remediation

During 2005, key developments in decommissioning and remediation included further refinement of the decommissioning plans for the North West Hutton platform in the UK North Sea and a range of remediation and land reuse projects.

DECOMMISSIONING

UK North Sea Our proposals for decommissioning the North West Hutton platform, 130km east of the Shetland Islands, are in the final stages of approval from the UK government. BP has been involved in three years of consultation with interested parties and dialogue with both the UK and other European governments to secure approval. This will be the first large, fixed steel jacket North Sea installation of this size to be decommissioned. We expect to receive permission to remove the entire topsides and steel jacket down to its base, which should permit the reuse or recycling of at least 97% of this material. The jacket base or 'footings' will be left in place as these cannot be removed safely with current technology. A drill cuttings pile will also be left in place and monitored as the agreed best environmental solution is to allow the seabed to recover naturally. We expect to begin decommissioning between 2007 and 2009. 

Fifteen offshore platforms and more than 100 wells were either destroyed or severely damaged as a result of Hurricanes Katrina and Rita.



Gulf of Mexico Shelf, US In the Gulf of Mexico, we had to adjust our decommissioning programme to deal with the impacts of the 2005 hurricanes. Prior to mid-2005, we were following a scheduled plan to decommission non-producing assets. Then, in August and September, as a result of Hurricanes Katrina and Rita, 15 offshore platforms and more than 100 wells were either destroyed or severely damaged. We have drawn up a revised plan to decommission the irreparable assets over several years.

REMEDIATION

BP's remediation specialists deal with over 4,000 sites from small retail locations to old mining properties. Environmental provisions of some \$2.3 billion covering global environmental liabilities were under active management in 2005, with an annual spend of approximately \$366 million against those provisions. 2005 saw milestones of progress at several legacy sites.

Casper The former refinery site at Casper in Wyoming won one of the US Environmental Protection Agency's 2005 Phoenix Awards, widely recognized as the outstanding awards for achievement of excellence in brownfield redevelopment. The former Amoco refinery site now contains a professional-standard golf course, office facilities and valuable public recreational space, in addition to protecting a playa lake that is home to more than 250 species of birds.

Llandarcy, UK The former refinery site in Llandarcy, Wales, in the UK, is planned to be redeveloped with a view to creating a self-sustaining community with a mix of housing, shops, business and green space. Work is being undertaken in association with the Welsh Development Agency and The Prince's Foundation, and promises to be a milestone in brownfield development in the UK.

PREVENTION During 2005, we also made advances in prevention measures taken while sites are operational to minimize the need for remediation afterwards. This included developing a waste management system for disposal or recycling of waste at third-party sites that provide environmentally responsible care. We have also improved leak detection and pipe replacement work and are using modelling techniques to develop a new understanding of oil contamination.

Image provided by the National Oceanic & Atmospheric Administration, from the GOES-12 satellite on 28 August 2005 at 1345Z.

Security

In 2005, we continued to introduce new measures to maintain the security of our people in and around our sites. Where appropriate, we hardened perimeter security through tighter access controls and extra barriers. We use a risk management tool called *Getting Security Right* to rank risks and create action plans. To help protect the security of employees, we provide training and tools and continue to develop our global system travel alert levels. In addition, our operations have risk-based crisis and emergency response plans that are tested each year through a series of training sessions and exercises. During 2005, we have been preparing to expand our security group's analytical capability and regional expertise, as well as examining new systems to collate and assess information.

SHARING KNOWLEDGE AND INFLUENCING OTHERS We have an input into draft legislation, regulation and best-practice guidelines through our relationships with global security agencies and organizations such as the EU, NATO and international NGOs. For example, guidelines for pipeline security that were developed by BP and other producers in 2001 are considered industry-leading and have been shared, through the International Association of Oil & Gas Producers (OGP), with more than 40 oil and gas security representatives worldwide.

Specific observation from Ernst & Young

We visited the Tangguh LNG project site and several nearby villages in Papua, Indonesia. We saw the development of a procedure for responding to allegations and incidents, including human rights violations. We spoke with villagers involved in community forums and community policing as part of the ICBS programme. We also spoke with security staff and saw evidence that they received training on human rights.

THE VOLUNTARY PRINCIPLES ON SECURITY AND HUMAN RIGHTS

We support and use the Voluntary Principles on Security and Human Rights (VPs), designed to safeguard human rights by ensuring that police, security forces or private guards assigned to protect energy sites or pipelines are properly trained and closely monitored. The VPs have been agreed by several extractive industry companies, NGOs and governments – including those of the US, UK, Norway and the Netherlands.

Our primary implementation of the VPs has been in Algeria, Colombia, the South Caucasus countries and in Papua, Indonesia. In early 2006, we appointed a full-time security and human rights specialist to examine our use of the VPs, drawing on best practice, and develop a standard operating procedure. ²

The Voluntary Principles on Security and Human Rights in action in Tangguh

During 2005, we continued to apply the VPs at our LNG project under construction at Tangguh, Papua, Indonesia. In this project we have an Integrated Community Based Security (ICBS) programme that aims to protect human rights through good relations between the project, the police and the community.

Activities in 2005 included supporting the establishment of community forums, promoting community policing, training security guards in human rights and developing a procedure to respond to allegations or incidents of a human rights violation.

The community forums cover 24 local villages and are being set up by villagers with assistance from the Centre for Human Rights Studies at the Indonesian Islamic University (Pusham UII). The purpose of these forums is to enable villagers to discuss and resolve security issues in the village in a peaceful and agreed manner. BP has facilitated this process but is not present on the forum as the issues are those that arise in the village and do not necessarily relate to BP. The forums are made up of leaders chosen by the communities with close involvement from local government and police. ³



Our people

1.5



Our aim is to build a global meritocracy that welcomes people from all backgrounds: young, old, male, female, of all races and every nationality, physical ability, religion, sexual orientation and identity. Our People Assurance Survey in 2004 showed that the proportion of employees who believe that the group has created an environment where people from diverse backgrounds can succeed has risen from 60% in 2000 to 70% in 2004.

We carry out a regular organizational review, led by the group chief executive, to establish priorities for the organization and its people. In 2005, some of the key priorities identified in the review included developing differentiated recruiting strategies for each business, function and region and continuing to promote diversity and inclusion among senior managers.

In this section of the report, we review our progress in 2005 in managing our 96,200 people and promoting diversity and inclusion. This covers recruitment programmes, development opportunities, support for current and future leaders and measures to address the challenge of an ageing workforce. [►](#)

FIG. 1.16
EMPLOYMENT BY REGION (at 31 December 2005)

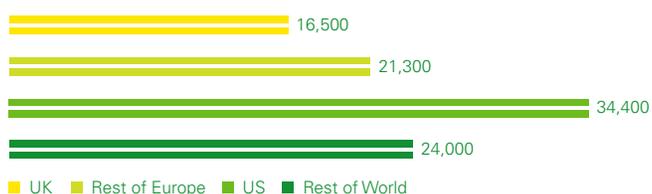
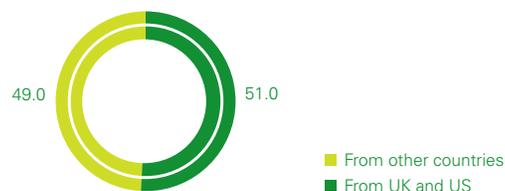


FIG. 1.17
EMPLOYMENT BY BUSINESS (at 31 December 2005)



Our prospects of becoming a sustainable company depend on our people. Our priority is accessing, developing, retaining and incentivizing the highest quality talent necessary to maintain the capability of the group to deliver on its strategy and plans. We seek out employees who share our ambition to be competitive, successful and a force for human progress. A particular focus is to attract such people in our new profit centres and emerging markets.

FIG. 1.18
GRADUATE RECRUITMENT (%)



RECRUITMENT In recruiting people we aim to ensure that our capabilities keep pace with the needs of our business or shifts in our portfolio of assets. For example, we need to have specific recruitment strategies to attract local leaders and employees in the emerging economies where newer profit centres are located.

We believe success depends on being the 'local energy company' wherever we operate, understanding local concerns and relating to local communities, as well as drawing on the capacity of a global company.

At graduate level, we recruited 479 people into early managed programmes in 2005, of whom 49% came from countries other than the UK and US (Fig. 1.18).

The number of experienced hires was 2,156 and is part of our efforts to maintain the number of employees who have mid-career expertise and skills (page 33).

We launched a training programme to help interviewers and selection panels select purely on merit. We piloted this among UK exploration and production managers and it is now available to other teams worldwide.

We prepared to offer a technology fellowship programme for technical PhD students. This is similar in approach to our current global MBA programme, which in 2005 provided 24 MBA students from the world's leading business schools with the opportunity to work at BP. Eight joined us as new hires and 16 were interns with us during 2005.

Our group vice president for technology led an assessment of options for attracting technical specialists in China and Russia.

In China, we received 1,600 applications for posts in our energy trading business after targeting four top universities for graduate talent.

In India, we set out to attract top IT talent and four graduates were hired from the Indian School of Business in Hyderabad.

DEVELOPING CAPABILITIES We provide a range of development opportunities to enhance the capabilities of our people. These include training courses, international assignments, mentoring, team development days, workshops, seminars and online learning. We encourage everyone to take five training days a year. In 2005, around 3,000 people attended our First Level Leaders (FLL) development programme, aimed at people on the first tier of management. Between 2002 and 2004, around 15,500 participants attended an FLL event.

More than 1,700 of our senior leaders attended modules of the Senior Level Leaders (SLL) programme. Around 980 SLLs attended the two-day BP management framework Leadership in Context module, which aims to deepen leaders' understanding of the way the whole group operates and is delivered through dialogue with senior executives. 817 SLLs attended one of the three-day skills modules on leadership capabilities: Leading Self, Leading Change and Leading People.

At the end of 2005, 100 people had graduated from the Projects Academy programme, launched in 2003 to develop BP's current and future leaders of large, complex, multimillion-dollar projects. The academy gives BP's major project leaders the chance to study with business and engineering experts at the Massachusetts Institute of Technology.

More than 2,800 people undertook courses with the BP Sales and Marketing Academy, launched in 2003 to improve the group's sales and marketing skills.

The fifth Global Graduate Forum was held, providing a learning and networking experience for graduates who joined BP two years previously. In 2005, the forum hosted 250 participants from the class of 2003. Around 350 people hired into the first level of management and above, other than graduates, participated in the Discover BP programme.

Specific observation from Ernst & Young

Although there was no group-wide staff survey in 2005, smaller 'pulse' surveys to monitor satisfaction on targeted issues had been undertaken at several sites visited, including BP Indonesia, North Sea, Trinidad & Tobago and Tata BP Solar.



For 2006, we have set an objective to define the appropriate diversity demographics for our 10 leading countries of operation.

ENGAGING THE WORKFORCE BP engages with its employees for a number of reasons – to ask their views, promote inclusion and provide information. We carry out a group-wide People Assurance Survey (PAS) of employee opinion every two years. Managers are expected to use the intervening time to take action in response to issues revealed. In 2004, when 74% of staff took part, the level of satisfaction was the highest since 1999.

Employees' reactions to changes made in response to the 2004 PAS are tested through shorter 'pulse' surveys. In 2005, a number of businesses surveyed approximately 20,000 employees to monitor progress against key elements of their specific people agendas. We continue to address issues identified in the 2004 PAS, including the need to extend awareness of the BP management framework and the brand values. The next PAS will be conducted in June 2006.

1.5 Our people *continued*

PROMOTING DIVERSITY AND INCLUSION In 2005, we continued to develop our programmes designed to build a diverse, inclusive and meritocratic work environment. These programmes are designed to help us better reflect the societies we serve, enabling all employees to contribute their talent to the full and advancing more leaders who are women, members of UK and US racial minorities and from countries beyond the UK and US.

We seek to promote inclusion by engaging our workforce through courses, workshops, online learning, seminars, conferences and other interventions. We create opportunities for employees to share their own experiences to raise awareness of issues about race, gender and cultural identity and we continue to build more inclusion into our human resources processes. For example, we require a diverse range of candidates for senior posts and use diverse selection panels to conduct interviews.

These initiatives are increasingly targeted at our senior level leaders (SLLs), the key managerial group just below group leadership. SLLs are directly responsible for the daily operation of the company and are key in making inclusion a reality in individual units. Among this group we have been running development programmes to help them identify, manage and develop talented people from diverse backgrounds. For example, in the US we ran a Managing Inclusion programme, showing how inclusion of all employees increases an organization's strength and helps leaders address and resolve difficult situations.

In the Asia Pacific region, we ran a series of cultural connection workshops to provide people with the skills needed to lead and motivate cross-cultural teams. In the US, the refining and marketing business held a diversity and inclusion 'summit' to share best practice on issues faced by hourly-paid employees.

In the US, we continued with our programme to encourage employees to discuss the issues of race and to achieve greater understanding and respect through dialogue. This included 94 pairs of employees taking part in Let's Talk – a programme that brings together employees of different races and ethnicities to discuss race and racism.

In early 2006, BP was presented with the Catalyst Award to recognize its worldwide progress in diversity and inclusion,



The number of women in BP group leadership has more than doubled since 2000.

with particular emphasis on local representation in varied geographic markets. The Catalyst Award honours business initiatives that result in the recruitment, development and advancement of women in the workplace.

DEVELOPING FUTURE LEADERS We identify and manage potential future leaders through a range of global and local programmes. People identified as having potential for the most senior leadership roles in BP join one of our career advancement programmes (CAPS). CAPS members have access to senior staff for advice and coaching to develop their skills.

As well as CAPS, we run 'challenge' programmes in particular countries or businesses to support the development of potential in individuals. For example, in Angola, 41 graduates with less than three years' work experience entered the challenge programme in 2005. They work with discipline co-ordinators who help them develop particular skills, including those in leadership, commercial and financial areas and strategic-level work.

In Trinidad & Tobago, educational opportunities are available for high-potential individuals. During 2005, five subsurface engineers studied for an MSc degree in Texas, US and a

further three at Imperial College London, UK. Three engineers were granted geoscience scholarships at the University of the West Indies where BP supports the geoscience programme.

DEVELOPING OUR CURRENT LEADERSHIP In 2005, BP's group leadership – the executive ranks – consisted of 606 people. During the year, 89 people were appointed to the group leadership, of whom 17 were externally recruited.

The number of women in the group leadership has more than doubled in five years, from 50 in 2000 to 105 in 2005. Over the same period, the number of group leaders from beyond the UK or US has increased by more than 66%, from 74 to 123 (Fig.1.19). The number of group leaders from UK and US racial minorities increased by more than 68%, from 19 in 2000 to 32 in 2005.

In 2005, under the new executive reward programme, group leaders were evaluated first on what they had achieved in relation to their performance contract and, second, on how delivery was achieved in relation to seven behavioural expectations. These included assessment of the external environment and role-modelling BP's code of conduct.

We ran masterclasses for the most senior executives to strengthen their capabilities in areas we believe to be increasingly critical to the business. These focused on diplomacy, statecraft and decision-making in uncertainty. Approximately 85% of our targeted audience was reached. We also designed and piloted courses for group leaders on behavioural skills such as Enabling Others and Straight Talk.

OCCUPATIONAL HEALTH We seek to protect the well-being of our workforce by identifying specific health risks and developing guidelines to protect employees and BP from their impact. We have launched BP guidelines on HIV/AIDS in southern Africa and have adapted them to local needs in Azerbaijan, Indonesia and Angola. The guidelines raise awareness of HIV/AIDS and seek to ensure that employees affected are treated with confidentiality, respect and tolerance. In 2005, we developed similar guidelines to address the risk of malaria in Angola. We also continue to use and develop Mind Matters, a tool that helps us address psychological health and stress issues in the workplace. 

FIG. 1.19
DIVERSITY^a (%)



^aSenior management in 2005 includes the top 606 positions in BP.

Specific observation from Ernst & Young

Over half the sites visited this year had developed plans for diversity and inclusion in response to the findings of their Progress and Assessment Framework surveys and expressed a commitment to using diverse selection panels in recruitment decisions.

CHANGING DEMOGRAPHICS During 2005, we took new steps to deal with the challenge presented by the shortage of people with mid-career technical expertise in the Exploration and Production segment – a problem faced across the industry. Many technical experts are now approaching retirement age and, with the business growing steadily, there is a need to bring on younger technologists to replace them. Several measures are being taken to address this issue. For instance, a targeted technical coaching programme is under way in which senior technical specialists are trained to coach less experienced staff. There are now 40 coaches who are part of the pilot programme out of around 80 coaches in the segment.

We have set up a system to co-ordinate consultancy and other contributions by engineers who have retired from full-time work. The system consists of four elements: the 'alumni', or retired engineers; a database recording their skills; an agency to arrange staff placements; and a project consultancy through which engineers work. We hope to build the skills database to include around 1,000 individuals during 2006.

1.5 Our people *continued*

Compliance and ethics

We believe that compliance with laws, regulations and our own standards is central to our sustainability. In 2005, we acted to strengthen compliance by launching the BP code of conduct, overseen by our Group Compliance & Ethics (GC&E) function. ¹

THE BP CODE OF CONDUCT The code enshrines BP's commitment to integrity, defining what is expected of BP employees in one universal framework. It sets out how BP people should behave when faced with choices about their behaviour at work. In 2005, we rolled out the code across the company, using multilingual resources including books, posters, websites, videos and eLearning. Interactive training sessions to introduce the code were held throughout BP. These were led by team leaders to explore the legal and ethical issues most relevant to each team's area of work. An internal communications survey showed that 99% of respondents had heard of the code, with 96% having access to a copy. To help implement the code throughout the organization, a network of 135 senior level compliance and ethics leaders (CELs) was appointed.

CERTIFICATION In addition to OpenTalk, our annual certification process provides a key indicator of legal, regulatory and BP ethical compliance within the group. Each business or functional team produces an annual certificate, usually following a team discussion, indicating the extent to which it has complied with laws, regulations and BP's ethical standards. Certificates go to line managers who are asked to certify the behaviour of teams under their direction. This process continues to the group chief executive, who signs a certificate for the group and reports to the board's ethics and environment assurance committee.

Specific observation from Ernst & Young

Interviews in the businesses where the code of conduct had been formally rolled out indicated that staff were more familiar with OpenTalk. Some confusion remained at sites that had received no formal training.

The code of conduct covers five areas:

HEALTH, SAFETY, SECURITY AND ENVIRONMENT The code outlines BP's standards and highlights fundamental rules such as the prompt reporting of any breaches of HSSE laws or BP's HSSE requirements.

EMPLOYEES The code highlights expectations for employee behaviour within BP, including a respectful and harassment-free workplace. The code outlines BP's commitment to the elimination of all forms of forced or compulsory labour and the effective abolition of child labour. It also confirms that BP will seek to work in good faith with trade unions and other bodies that our employees choose to represent them collectively.

BUSINESS PARTNERS The code provides detailed guidance on receiving and giving gifts and entertainment, conflicts of interest, competition and anti-trust issues, trade restrictions, money laundering and working with suppliers. The code also highlights BP's policy of working in accordance with competition laws of all the countries where we operate.

GOVERNMENTS AND COMMUNITIES The code covers issues such as bribery and corruption, dealing with governments, community engagement and political activity. For instance, it highlights that BP does not permit facilitation payments to be made, even if such payments are nominal in amount.

COMPANY ASSETS AND FINANCIAL INTEGRITY The code includes BP's requirements on issues such as accurate and complete data, reporting and accounting, intellectual property and copyright, insider trading and the use of digital systems. ²

COMPLIANCE MANAGEMENT GC&E has been developing an integrated compliance management programme designed to provide BP's businesses with the tools and systems to assess relevant regulations and laws, identify legal and ethical risks and ensure that mitigation plans are developed and implemented. For example, our competition law programme is supported by a global network of lawyers and includes risk workshops, face-to-face training, eLearning modules and practical tools such as guidelines on dealing with trade associations.

OPENTALK To complement the launch of the code of conduct, we extended the scope of the OpenTalk programme to provide advice for people on the code. The introduction of 'OpenTalk –

Next Generation', along with the code of conduct, resulted in the number of cases raised in 2005 almost doubling from 2004. There were 634 cases in 50 countries during 2005 (Fig. 1.20). The most common concerns were around people management issues, followed by compliance with health and safety regulations and conflicts of interest.

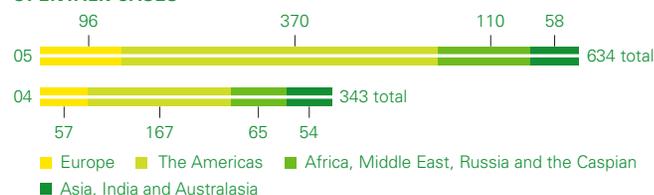
OpenTalk, operating for three years, invites anyone at BP to raise confidentially any concerns or enquiries about compliance, ethics or the code of conduct. Individuals can contact OpenTalk using a multilingual phone line or via fax, e-mail or letter, 24 hours a day, seven days a week. It is operated by an independent third party and callers can choose to remain anonymous. Concerns raised are forwarded to the appropriate regional ombudsperson in BP, who will arrange a response including any appropriate investigation. If allegations are substantiated, we then take action.

DISMISSALS In 2005, 478 employees and contractors were dismissed for unethical behaviour or non-compliance with applicable laws or regulations (excluding retail site dismissals for petty incidents). The main reasons for dismissal were safety and security breaches and incidences of theft and misuse of company property. Seventy-seven contracts with suppliers were either terminated or not renewed during the year on the same basis, with the main causes of termination including breaches of BP's HSSE policies, fraud and conflicts of interest. The increase in dismissals compared with 252 cases in 2004 may be partly explained by a further improvement of our reporting process in this area, together with a greater awareness of what constitutes unethical behaviour or non-compliance within the group due to the launch of the code of conduct.

BP continues to apply a policy that the group will not participate directly in party political activity or make any political contributions, whether in cash or in kind. BP specifically made no donations to UK or other EU political parties or organizations during 2005. While BP will not directly participate in party politics, the group continues to engage in policy debate on subjects that are of legitimate concern to the group, its staff and the communities in which it operates. We do this by processes such as lobbying that are regulated by law. ³

FIG. 1.20

OPENTALK CASES

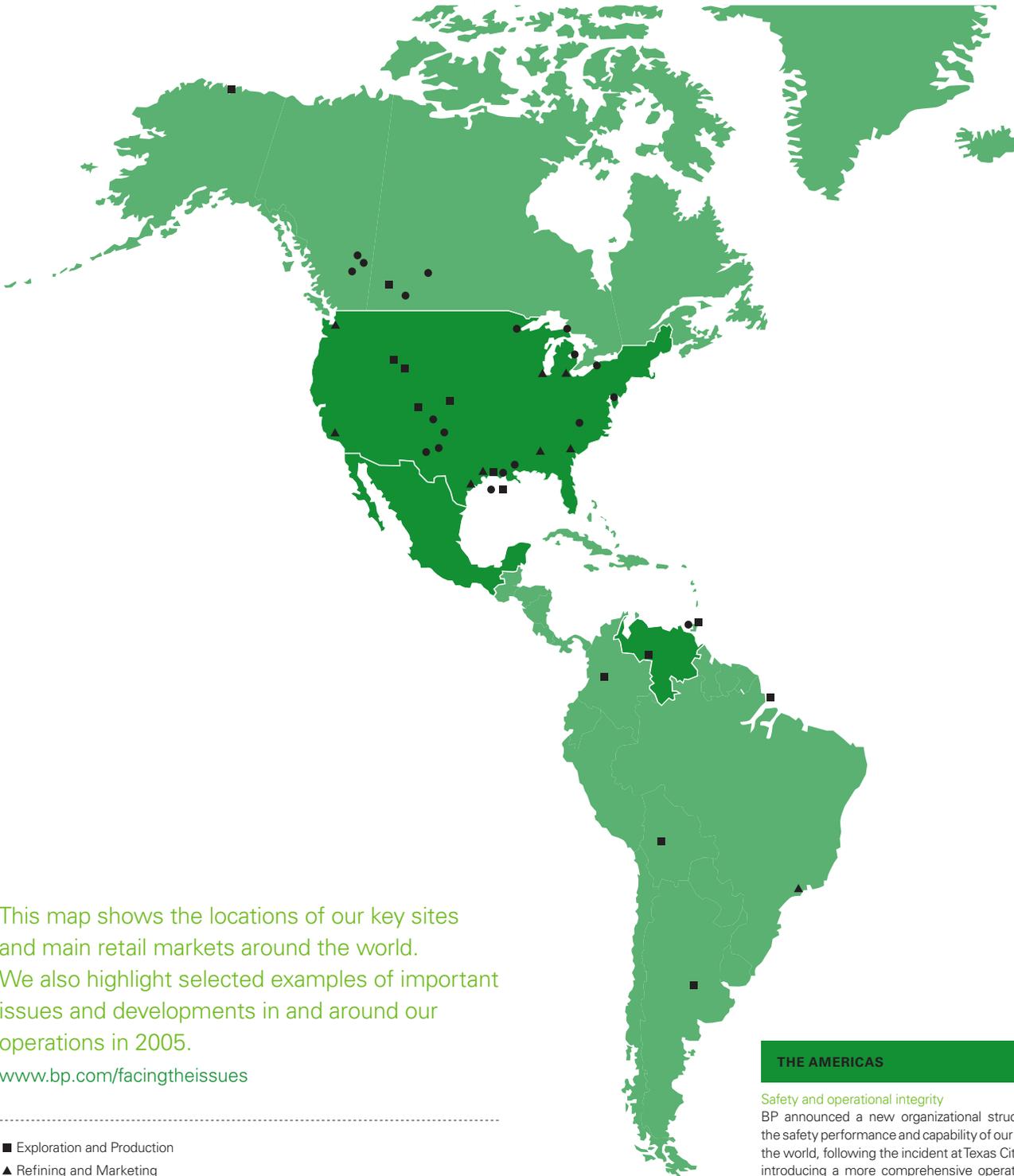


Specific observation from Ernst & Young

All locations visited had a process to select suppliers and contractors, including evaluation criteria. As in previous years, the process for managing contractors' non-financial performance varied in consistency of application. Overall, there was more focus on health and safety performance of contractors and less emphasis on ethical conduct and environmental performance.

SUPPLIERS AND ETHICS BP's processes are designed to choose suppliers carefully and on merit, avoiding conflicts of interest and inappropriate gifts and entertainment. We expect suppliers to comply with all legal requirements and seek to do business with those who act in line with BP's commitments to compliance and ethics, as outlined in our code of conduct. Our mechanisms for managing relationships with suppliers are focused on four principles: strategy, building common ground, delivery and performance management. We engage with suppliers in a variety of ways, including performance review meetings to identify mutual improvements in performance. ⁴

PROJECT EMERALD In 2004, we launched Project Emerald to develop a Global HSSE compliance programme. Project Emerald requires each business to assess and enhance their compliance management process against a five-step plan, ranging from risk assessment to management review and certification. In 2006, we plan to increase activity across the BP group, building on learnings from BP businesses in the US, where enhancements identified through Project Emerald have begun.



This map shows the locations of our key sites and main retail markets around the world. We also highlight selected examples of important issues and developments in and around our operations in 2005.

www.bp.com/facingtheissues

- Exploration and Production
- ▲ Refining and Marketing
- Gas, Power and Renewables



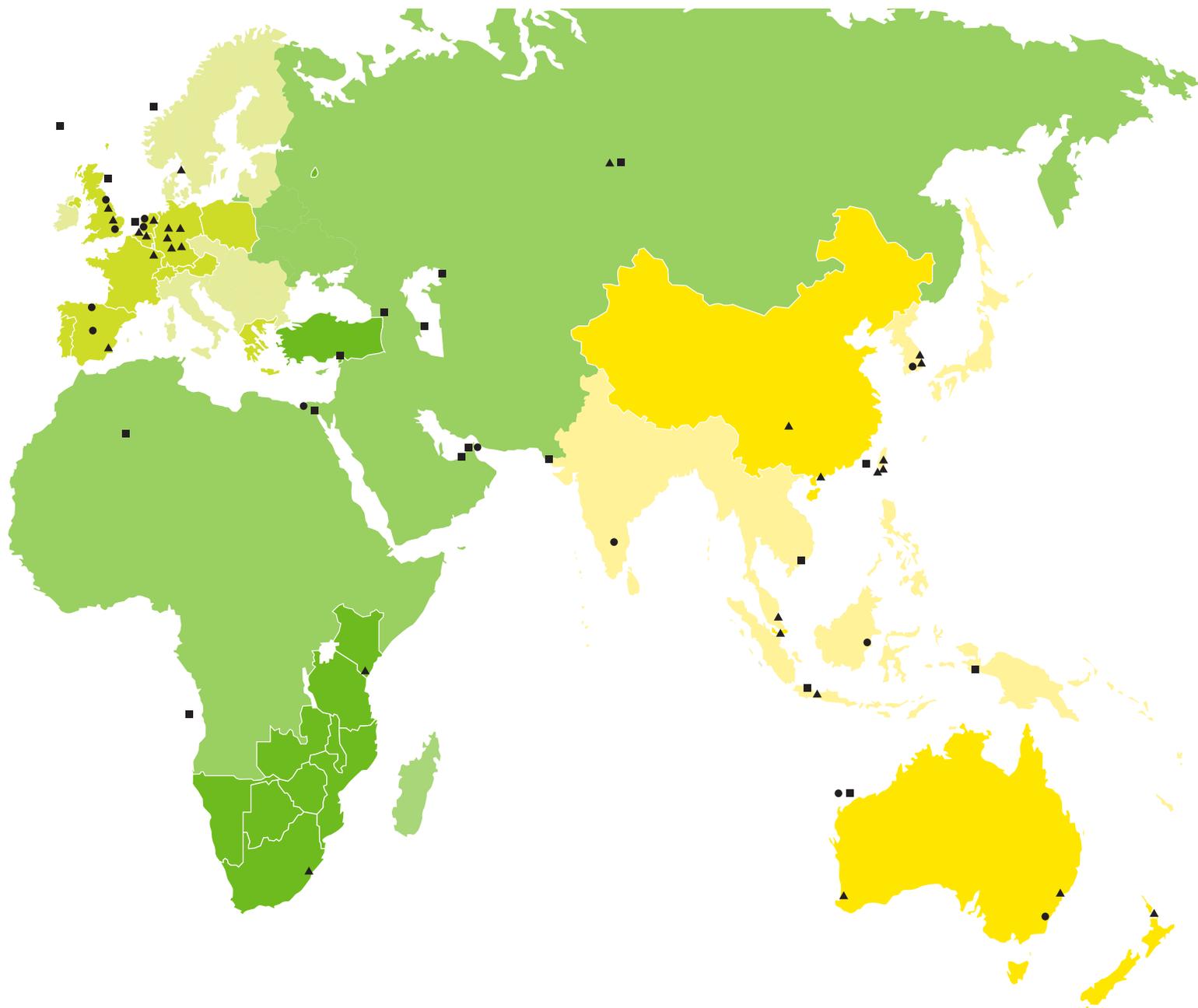
Key retail markets indicated in bold colours.

THE AMERICAS

Safety and operational integrity
 BP announced a new organizational structure to focus on the safety performance and capability of our operations across the world, following the incident at Texas City refinery. We are introducing a more comprehensive operating management system that will improve our safety management processes and better integrate them with our operational procedures.

BP Alternative Energy
 From 2006, we aim to invest \$8 billion over 10 years in BP Alternative Energy, launched in Frederick, Maryland, in 2005. This business aims to lead the market in low-carbon power from the sun, wind, natural gas and hydrogen as well as boost our wholesale marketing of cleaner electricity across the world.

Diversity and inclusion
 During 2005, we continued to develop programmes to build a diverse and inclusive work environment and a more rigorous meritocracy. In the US, employees took part in Let's Talk, a programme that brings together employees of different races and ethnicities to discuss race and racism.



AFRICA, MIDDLE EAST, RUSSIA AND THE CASPIAN

Revenue management

In 2005, as part of our work to promote sound revenue management to contribute to development, BP Azerbaijan published in its sustainability report a statement of payments made to the Azerbaijan government, who, in March, publicly disclosed their first reports on the revenues received from the extractive industries.

Enterprise development

We aim to help economies develop and diversify by encouraging local companies to become our suppliers. We support microfinance programmes in Azerbaijan, Colombia, Georgia, Trinidad & Tobago and Vietnam. In 2005, we launched a similar programme in Angola.

Security and human rights

We support and use the Voluntary Principles on Security and Human Rights. In 2005, we supported a project whereby local NGOs monitored our performance in areas such as human rights in Azerbaijan and Georgia.

EUROPE

Climate change

BP has a responsibility to help the world meet its increasing demand for energy in a sustainable way. In 2005, we announced plans to create power from hydrogen in Scotland. BP Alternative Energy aims to generate 475MW (expanded from 350MW) of low-carbon electricity and store around 1.8 million tonnes of CO₂ in depleted oil reservoirs.

Sustainable transportation

During 2005, we continued efforts to reduce the environmental impacts of transportation. We extended the use of biofuels by introducing biocomponents, derived from rape seed oil to diesel markets in Austria and France, and a bioderived additive to gasoline markets in France.

Decommissioning

Developments in decommissioning in 2005 included further refinement of the plans for the North West Hutton platform in the UK North Sea. The plans are in the final stages of approval from the UK government following nearly three years of consultation.

ASIA, INDIA AND AUSTRALASIA

Workforce development

BP hired 236 graduates from outside the UK or US, including four graduates with specialist IT skills from the Indian School of Business in Hyderabad. We received 1,600 applications for posts in our energy trading business after a recruitment programme targeting four Chinese universities.

Community investment

As part of our commitment to promote education and access to energy in remote locations, we continue to support the Environmental Educators' Initiative in China. In India, Tata BP Solar is bringing power to villagers in Ladakh through the provision of solar panels.

Business ethics

We rolled out the BP code of conduct worldwide and extended our employee concerns programme, OpenTalk, to offer help and guidance on the code. We translated the code into seven Asian languages, including Mandarin Chinese, Japanese, Korean and Thai.

2 BP and climate change



How can we make energy more sustainably?

The world's consumption of energy will continue to grow. For example, experts project that up to 40% of the power stations the world will need by 2020 have yet to be built. Economic growth, social progress, population growth and human well-being are all dependent on access to energy. However, tomorrow's energy can be cleaner than today's. BP is investing in a range of technologies to generate power with low-carbon emissions. Our intention is to build a long-term material business from cleaner energy – the first energy business dedicated to the development and wholesale marketing and trading of low-carbon power from different technologies at this scale. In 2005, we also made further progress towards sustainable transportation, including extending the use of cleaner fuels, biofuels and lubricants.

- 2.1 Climate change
- 2.2 BP Alternative Energy
- 2.3 Sustainable transportation

Key actions taken by BP in 2005

- ... We launched our low-carbon energy business, BP Alternative Energy, aiming to invest \$8 billion over 10 years in generating and marketing cleaner power from solar, wind, hydrogen and gas sources.
- ... We continued to develop a wide range of cleaner energy technologies and products, including work on capturing and storing CO₂; and research projects in London and Beijing looking at future patterns of energy use in cities.
- ... We acted to raise awareness of climate change issues among a range of audiences, for example, engaging the public through an online 'carbon footprint' calculator and calling on policy-makers to consider the best means of encouraging investment in low-carbon technologies.



Climate change

2.1



As a global energy company, providing about 2% of the world's total primary energy, we have a responsibility to help the world meet its increasing demand for energy in a sustainable way, taking precautionary action to address the threat of climate change. 2005 marked a milestone with the launch of BP Alternative Energy. We also continued to make progress towards more sustainable transportation by offering advanced fuels and lubricants and supporting research into new solutions. In this section of the report, we outline our thinking on climate change and explain how we put it into action in 2005.

THE ISSUE In 2005, climate change was at the top of the global policy agenda. The Kyoto Treaty came into force, committing the 156 participating countries to making emissions reductions, and the EU Emissions Trading Scheme came into operation. However, Kyoto was only designed as a first step and policy makers are now discussing what new agreement might follow it in 2012 and how to involve all significant countries. The issue was discussed by the G8 group of world leaders at their July summit and at the United Nations Climate Change meeting in Montreal in December. The year also saw increasing scientific consensus on the potential risks of climate change, exemplified by a report issued by the scientific academies of the G8 countries, along with those of Brazil, China and India. The report concluded that global warming is occurring and added that most of the warming in recent decades is likely to have been caused by human activity. [1](#)

BP'S RECORD ON CLIMATE CHANGE The launch of BP Alternative Energy in 2005 followed nearly a decade of action by BP to address climate change. Back in 1997, BP was widely acknowledged for publicly advocating precautionary action, setting voluntary targets in 1998 to reduce its own emissions. By 2001, our GHG emissions were 10% below 1990 levels and we have since continued to improve our own GHG emissions performance through energy efficiency projects (*pages 24-25*). We have also supported research into technological solutions to curb emissions (*page 41*).

We have increasingly been developing products that help customers reduce their emissions. We have substantially increased our production and distribution of natural gas, which produces only about half the CO₂ emissions of conventional coal technology when used to generate power. We have developed a major solar business, which moved into profit in 2004, and built our first wind farm in 2002. We have pioneered technologies for capturing and geologically storing CO₂. In transportation, we have developed advanced fuels and lubricants that provide emissions reductions.

These experiences provided the foundation for the launch of BP Alternative Energy in 2005 (*pages 42-44*).

BP'S POSITION ON CLIMATE CHANGE POLICY We support precautionary action to limit GHG emissions, even though aspects of the science are still the subject of expert debate. In our view, the goal must be to stabilize GHG levels through sustainable long-term emissions reductions. We support 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. This is a major challenge, but we believe that the reduction can be achieved using a mixture of existing and emerging technologies. We support an inclusive approach that recognizes the existence of different starting points, perspectives, priorities and solutions.

FIG. 2.1
CLIMATE CHANGE – OUR JOURNEY

1997 BP publicly acknowledges the need for precautionary action to cut GHG emissions after exiting the Global Climate Coalition.

1999 BP initiates the CO₂ capture project with other companies and governments, studying methods of capturing and storing CO₂ at power plants.

2001 BP achieves its 2010 target nine years early, having reduced GHG emissions by energy efficiency projects and cutting flaring of unwanted gas.

2003 Based on work at Princeton, BP sets out a range of technology options to stabilize GHG emissions over 50 years, including increases in solar, wind, gas-fired power and carbon capture and storage.

2005 BP announces plans for the world's first industrial-scale hydrogen power plant. BP launches BP Alternative Energy.

1998 BP sets target to cut emissions from our operations to 10% below 1990 levels by 2010.

2000 BP begins funding the Carbon Mitigation Initiative at Princeton University, exploring solutions to climate change.

2002 BP announces plans to build a wind farm at Nerefco, the Netherlands.

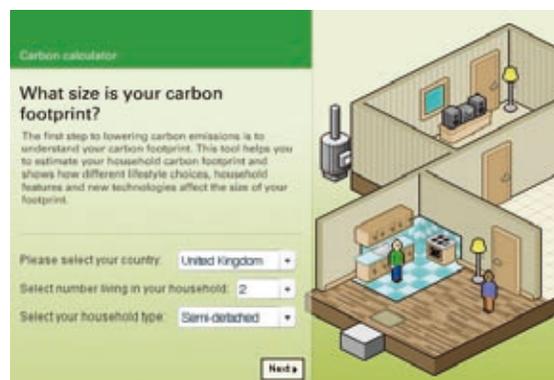
2004 BP's solar business moves into profit and announces plans to double production. BP launches CO₂ capture and storage project at the In Salah gas field in Algeria.

These include innovation to cut CO₂ emissions from fossil fuels, for example, capturing and storing the CO₂ generated at power plants. Other strategies include significantly increasing the fuel economy of motor vehicles, increasing the energy efficiency of buildings and radically increasing wind and solar capacity. Governments and businesses need to work together to create a policy framework that drives economic progress and provides energy security at the same time as delivering significant emissions reductions.

We see our own role as pursuing efficiency in our own operations, creating cleaner products for customers and contributing to an informed debate. For example, we have advocated that emission caps should be introduced and that market mechanisms, such as emissions trading, be used to enable economies to adjust to a carbon-constrained world. We also argue that policy should create a level playing field that provides similar encouragement to different means of achieving emissions reductions – such as renewables and carbon capture. BP participates in several groups to help provide a strong business voice for progressive policy development and we have offered our practical experiences of operating an internal emissions trading system to policy makers and academics. ²

PRODUCT EMISSIONS In 2003, we first reported our estimates of CO₂ emissions from the products sold by BP. During 2005, we revised our methodology for this estimate to provide a more reliable indicator of product emissions from our asset-backed operations. The new methodology uses BP's production of natural gas and natural gas liquids plus our refinery throughputs, converted to CO₂ using International Panel on Climate Change conversion factors. Using the revised methodology, we estimate CO₂ emissions from BP products to be around 570 million tonnes (Mte) in 2005; on the same basis the figure for 2004 would have been 606Mte and for 2003 614Mte. We also continue to monitor examples of product developments that allow customers to increase the efficiency of their operations, thereby reducing CO₂ emissions.

INFORMING THE CONSUMER We have been seeking to raise awareness of the issues among customers. For example, in 2005 we launched a simple carbon footprint calculator on our website, based on UK and US data, for residents to assess their household CO₂ emissions and to see how they can reduce them. ³



RESEARCH We support several research projects on climate change and potential solutions at leading academic institutions. These include the following:

- ... **CCP** The CO₂ Capture and Geological Storage Project (CCP) brings together BP and a range of other companies, supported by the UK, US and Norwegian governments. CCP has moved into a new \$50-million phase, focusing on the safety and security of geological storage and reducing the uncertainties around technology cost and performance.
- ... **IMPERIAL COLLEGE** BP has launched an \$8-million project at Imperial College London, UK to research the use of energy in cities. The BP Urban Energy Systems project will explore in detail how energy, people and materials flow through a city and how money and energy could be saved in the future.
- ... **IN SALAH** A \$30-million science project has been established to take advantage of the learning from this CO₂ capture and storage initiative at a gas production site operated by BP in Algeria. This project will also develop and test new tools for CO₂ monitoring and surveillance.

BP Alternative Energy

In November 2005, we announced plans to invest \$8 billion over 10 years in a single business called BP Alternative Energy. This new business aims to lead the market in low-carbon power generated from the sun, wind, natural gas and hydrogen, as well as utilizing our skilled trading teams to boost our wholesale marketing of cleaner electricity worldwide. BP Alternative Energy seeks to grow five- to ten-fold over a decade.

2.2



We estimate that BP Alternative Energy will help reduce forecast GHG emissions by 24 million tonnes a year in 2015, the equivalent of making a city the size of Berlin emissions-free.

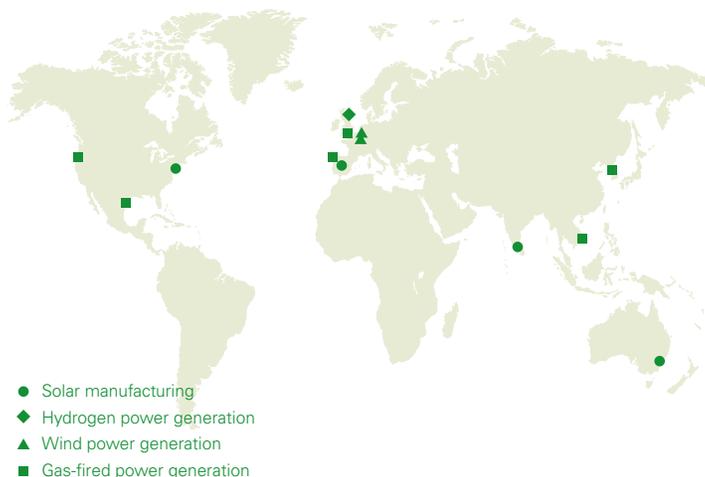
About 40% of the world's CO₂ emissions from fossil fuels are due to power generation, yet up to 40% of the power plants that the world is expected to need by 2020 have not yet been built. We believe national and regional governments and local utility companies should increasingly look to build plants that use low-carbon technologies. By 2020, we estimate that the power sector will be close to a \$2-trillion business. Basing even a small part of this on alternative energy technologies would create a substantial global market opportunity. Alternative energies also offer many countries a potential means of gaining greater security of energy supplies. They can build domestic solar and wind facilities as well as using CO₂ capture and storage to burn indigenous coal or other fossil fuels with only minimal GHG emissions.

Over the next three years, BP Alternative Energy plans to increase our sales of solar products three-fold, start construction of two of the world's first industrial-scale hydrogen power plants, build new gas-fired power co-generation capacity and develop a significant wind power business. [11](#)

OUR SOLAR BUSINESS BP's solar business has been operating for more than 30 years. In 2005, we manufactured panels with an installed capacity of 100MW worldwide and we are currently in the process of doubling that capacity. We have manufacturing plants in Frederick, Maryland, US; Madrid, Spain; Bangalore, India (where we have a partnership with Tata Power); and Sydney, Australia. The main markets in which we sell solar panels are Germany, Spain, the US and India. Our solar business became profitable for the first time in 2004 after rapid growth and streamlining.

In marketing solar power, we offer a range of packages and products. For example, BP has been offering residential solar systems through the Home Depot retail chain to reach consumers in key US markets more effectively. This enables customers to buy a complete system, including financing and access to grants. The initiative has been expanded to more than 250 stores in California, New Jersey, and Long Island, New York. We formed a joint venture with SunOasis, a leading photovoltaic module manufacturer and system supplier in China. We also bring power to people without access to electricity by providing solar power to remote areas of the developing world (*pages 58-59*).

Global plans for BP Alternative Energy



- ... We signed an agreement with Treasure Homes in California to provide our new low-profile solar modules that combine high performance with sleek appearance. This product also helps simplify installation, while reducing total costs. In Europe, we have been offering the Saturn module, which is at the forefront of solar technology for power performance.
- ... During 2005, we completed the construction and commissioning of our 9MW Amsterdam wind farm in the Netherlands.
- ... In the UK and US, we are planning the world's first industrial-scale hydrogen power plants.
- ... In 2005, we commissioned the first unit of K-Power's 1,074MW gas-fired power plant in South Korea and started commercial operations at our co-generation facility in Hythe, UK.

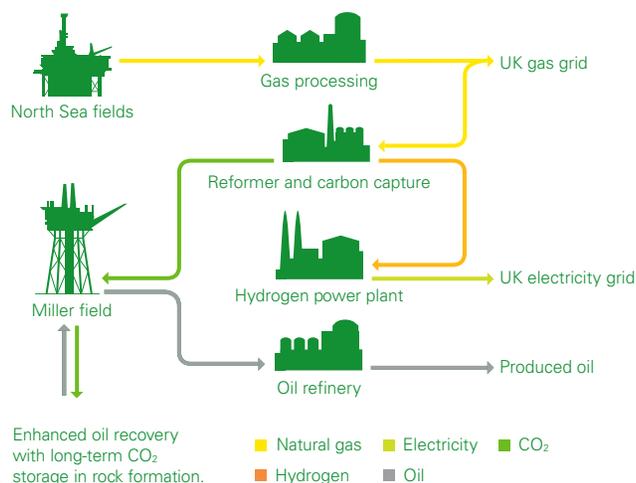
In 2005, our solar revenues grew to nearly \$500 million, with an increase in sales revenue compared with 2004 of around 17%. Now, as part of BP Alternative Energy, our solar business plans to increase sales of solar panels from 110MW of capacity in 2005 to 300MW in 2008.

Our plan is to ensure that BP Alternative Energy remains one of the largest solar manufacturers and marketers. We aim to be a leader in the drive to reduce the costs of providing solar energy to levels at which it can compete strongly with oil, gas, coal and nuclear in the generation of electricity, as it does today in some retail markets such as California. This requires continued innovation and technology gains, including lower-cost panels, higher-efficiency cells and more productive 'total system' installations.

Since we started the solar business, solar technology, efficiency and popularity have flourished. For the past five years, solar panel production has grown by nearly 30% every year, around 10 times faster than the world economy.

During 2005, we secured access to additional supplies of polysilicon feedstock to help meet the growing demand for solar modules by entering into long-term agreements with leading producers of polysilicon and wafers.

FIG. 2.2
GENERATING POWER FROM HYDROGEN AT PETERHEAD, SCOTLAND



OUR HYDROGEN POWER BUSINESS Our plans to generate power from hydrogen developed rapidly in 2005. Our hydrogen power projects involve taking a fossil fuel such as coal, oil or natural gas and turning it into hydrogen and CO₂. The hydrogen can be used to generate electricity, while 90% of the CO₂ can be captured and stored underground in oil and gas reservoirs – where it can be used to help force out oil that is difficult to reach.

The first hydrogen power plant, planned for Peterhead, Scotland, would use natural gas from North Sea fields to create hydrogen and CO₂ (Fig. 2.2). The hydrogen would be used to generate 475MW (expanded from 350MW) of electricity, enough power for more than 700,000 UK homes. The CO₂ would be transported offshore and injected more than 3km under the seabed into the Miller field reservoir, potentially extending its life by 15-20 years. The project would capture and permanently store about 1.8 million tonnes of CO₂ each year.

We have begun the front-end engineering design stage, addressing significant technical challenges that we believe BP and our partners are well placed to manage. At the same time, we are keeping under constant review the project's schedule and its commercial viability, which is dependent on clarification of an appropriate regulatory regime.

A second hydrogen power plant, planned for Carson, California, would use petroleum coke as feedstock, demonstrating how low-carbon energy can be generated from coal, which is plentiful in the US. Once operational, the Carson project would produce 500MW of low-carbon electricity, enough to power about 325,000 southern Californian homes. The facility would also capture and permanently store about 4 million tonnes of CO₂ a year. BP and our partner, Edison Mission Group, hope to complete detailed engineering and commercial studies for the Carson project in 2006, finalize project investment decisions in 2008 and bring the new power plant online by 2011.

If applied to just 5% of the new electricity-generating capacity that the world is projected to need by 2030, this combination of technologies could potentially reduce global CO₂ emissions by more than 500 million tonnes of CO₂ a year by 2030, equivalent to removing over 100 million cars from the world's roads.

2.2 BP Alternative Energy *continued*

BP already owns, operates or contracts for enough gas-fired power capacity to power more than 10 million homes. These include plants in the US, Vietnam, Spain and South Korea.



OUR WIND BUSINESS Wind power has the potential to make a major difference in addressing climate change. We estimate that if 10% of the world's power came from wind, it would cut CO₂ emissions by 1 billion tonnes a year. Until now our wind business has been relatively small in scale, consisting of two wind farms in the Netherlands. One is sited at the Nerefco refinery, with a total of 22.5MW capacity, and the other at our Amsterdam terminal, with a capacity of 9MW. Together they produce enough power for 15,000 Dutch homes. The value of these farms has been in the nature of the technology and the location. We have learned how to use some of the largest wind turbines in Europe and how to build wind farms in the challenging conditions of industrial locations.

BP Alternative Energy aims to enter the wind power business at a large scale, growing BP's wind business from 30MW to 450MW in 2008. We aim to become a major wind operator by 2015. We have begun feasibility studies at several US sites with a view to building new wind farms five to 10 times the size of our largest existing site. We are also looking for additional opportunities across Europe and Asia.

OUR NATURAL GAS POWER BUSINESS Natural gas is the cleanest hydrocarbon. When burned to generate power, it emits only about half as much CO₂ as traditional coal-fired power.

Because gas-fired power generation is already in operation at scale around the world, it has a critical role to play in making an early and substantial contribution to stabilizing world

emissions of GHGs. It is often described as the 'bridge' to the lower-carbon economy of the future. Average growth in the gas power sector is expected to be at least 50GW a year over the next 15 years.

BP already owns, operates or contracts for 12GW of gas-fired power capacity, enough to power more than 10 million homes. These include plants in the US, Vietnam, Spain and South Korea. In several cases, BP has built co-generation facilities that generate power for our operations as well as for sale on the grid. The plants use combined cycle gas turbine (CCGT) technology which is not only better for the environment than coal technologies, but more efficient. CCGT has an energy conversion efficiency of 50%, compared with 45% for the latest coal power technologies. CCGT plants are also more flexible. They can perform both base load and peaking duty, while coal plants are best suited to base load duty. A gas plant also takes half as long to build as a coal one.

Over the next three years, BP Alternative Energy plans to advance development and start construction on new co-generation facilities totalling more than 700MW.

OUR POWER MARKETING AND TRADING BUSINESS As well as producing lower-carbon power, BP Alternative Energy is planning to expand the marketing and trading business that helps us bring this electricity to places where it meets the needs of the local market, known in the industry as dispatching. We currently provide electricity to a number of large customers and are a major electricity consumer at our own facilities. We understand energy both as a customer and a supplier and are already among the top power marketers in North America.

As well as providing customers with secure, reliable electricity, we also offer them risk management services that help reduce price volatility. For wholesale customers interested in low-carbon electricity, we offer products in many markets, including certified green electricity, integrated solar and clean-grid power solutions. Our marketing and trading business also plans to promote increased trade activity, which encourages emerging markets to use CO₂ credits that are traded as part of emission trading systems such as that operating in the EU.

Sustainable transportation

We are one of the world's major suppliers of transport fuel. On average, every day throughout the year we sell 255 million litres of gasoline, 79 million litres of aviation fuels and 52 million litres of shipping fuels. We have a responsibility to play our part in reducing the environmental impacts of transport. These include emissions of CO₂ – a greenhouse gas associated with climate change – and of nitrogen oxides, sulphur oxides, carbon monoxide and particulates, all of which affect local air quality.

2.3



BIOFUELS Biofuels are those that contain components created from biomass. Today's biocomponents are typically made from sugar, wheat, maize or oilseed crops such as soy and rape. They reduce the overall volume of CO₂ entering the atmosphere because they absorb CO₂ as they grow, while emitting roughly the same as conventional fuels when they are burned. Owing to the current application of component technologies in vehicle engines in most countries, biocomponents are usually blended into fuel in small proportions such as 5% or 10%, providing useful but limited reductions in net GHG emissions. In the EU and US, legislation has been proposed or introduced that requires suppliers to blend biofuels to specified levels.

We were closely involved in drawing up the Biofuels Assurance Scheme being created by the UK Low Carbon Vehicle Partnership – a group drawn from industry, government, academia and environmental NGOs that aims to accelerate the shift to low-carbon vehicles and fuels. The scheme aims to provide a framework for the assessment of the overall performance of biofuels in cutting GHG emissions – from the farm to the fuel tank. The initiative will also provide a basis on which to assess the sustainability of the production of different biofuels, given their impact on the environment and on wildlife, the change of use of and demand for land, for water and other resources.

During 2005, we also continued to carry out research towards a new generation of advanced biofuels that have the potential for much greater emissions reductions and improved performance than today's conventional biofuels. We believe

>20 new US markets for BP gasoline-ethanol blends in 2005.

such new fuels need to be developed if biocomponents are to make a major contribution to the transport fuel pool.

Our work focuses on new technologies for converting large volumes of biomass feedstock into biocomponents, whose characteristics are such that they can be blended into fuels in higher proportions than today. Because of concerns over using food crops such as wheat for fuel, we are looking particularly at processes that would handle crops such as non-edible oils such as jatropha and fast-growing grasses, including switchgrass, that are grown specifically for fuel and farmed non-intensively to minimize life-cycle emissions. We are also exploring processes to convert waste resources such as agricultural or forestry residues into fuels.

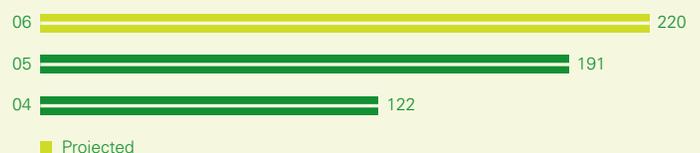
LUBRICANTS Improving the quality of engine lubricants can have a significant impact in reducing emissions of CO₂, carbon monoxide, nitrogen and sulphur oxides and particulates. By reducing viscosity, improved lubricants can increase engine efficiency, thus reducing emissions for each kilometre travelled. As engine technologies develop, new

Biofuels development in Europe and the US

We blend biocomponents derived from rape seed oil into diesel fuels in Germany, Austria and France. In 2005, we also introduced bioderived ethyl tertiary butyl ether (ETBE) to gasoline markets in France and increased our production and supply in Germany. In the US, we are one of the largest blenders of bioethanol into gasoline and in 2005 we introduced gasoline-ethanol blends to more than 20 new US markets. We also continue to carry out research on a new generation of advanced biofuels, which have potential to deliver substantially reduced overall emissions. ¹

FIG. 2.3

BP BIODIESEL COMPONENT USAGE IN GERMANY (thousand tonnes)



2.3 Sustainable transportation *continued*

forms of lubricants are being created that complement the performance of engines and fuels to produce more efficient systems with reduced emissions.

In the passenger car field, for example, we worked on lubricants for use in gasoline direct injection engines and light-weight engines. We also developed lubricants that can be used in conjunction with advanced tailpipe technologies such as diesel particulate filters, 'De-NO_x' traps and oxy-catalysts.

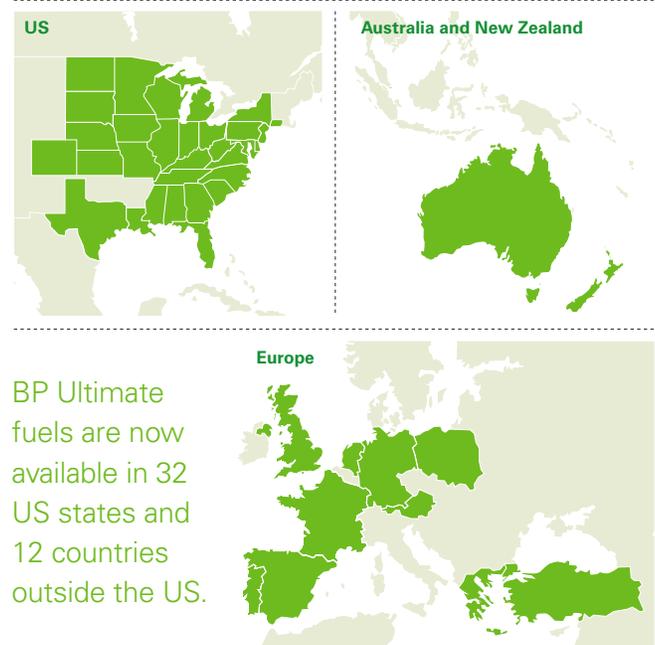
Co-engineering with vehicle manufacturers in Formula 1 motor sport has led to the development of ultra-low viscosity oils and fuel-efficient lubricants. We are now working with our partners to gain endorsement for their use in commercial and domestic applications.

We are also working closely with vehicle manufacturers to develop lubricants that further support developments of conventional internal combustion engines and also hydrogen engines.

During 2005, our lubricants team evaluated the impact of the use of biofuels on conventional lubricants in heavy-duty engines. We have concluded that there are some adverse impacts on engine efficiency and lubricant durability. In 2006, we aim to commence an extensive programme designed to develop lubricants that will help mitigate these problems.

FIG. 2.4

BP ULTIMATE MARKETS WORLDWIDE



The Eden Project partnership

During 2005, BP worked with The Eden Project, an environmental education charity and visitor attraction in Cornwall, UK, to find out what would motivate consumers to reduce and offset the GHG emissions generated by their vehicles. We used information and exhibits across the site to educate visitors. We also conducted market research during and after people visited Eden, testing their awareness and attitudes towards climate change and their willingness to take action. Carbon credits were available for purchase by motorists who wanted to make their journey or a whole year's motoring carbon neutral. The funds generated have been invested in an independent biomass power generation project in India. The low-carbon power this project will generate will offset approximately 1,800 tonnes of CO₂. 

CLEANER FUELS BP supports moves to create cleaner fuels and we manufacture a range of fuels, including low and ultra-low sulphur fuels, many of which are designed to reduce pollutants affecting local air quality. BP Ultimate unleaded was launched in 2003 and has been shown in UK tests to reduce carbon monoxide emissions by 14.5% and nitrogen oxide emissions by 4.3%, compared with standard fuels. In 2005, we rolled out BP Ultimate for sale in the Netherlands, Turkey and New Zealand, as well as in South Florida and Chicago in the US. In 2005, we also completed projects in Australia to manufacture low-sulphur diesel at the Kwinana refinery and low-sulphur gasoline at the Bulwer refinery. In the US, projects to enable the production of low-sulphur gasoline at Toledo and ultra low-sulphur diesel at the Toledo, Whiting and Cherry Point refineries are nearing completion and will be brought on stream in 2006. Further projects to enable the production of cleaner fuels are in the process of evaluation.

THE TSINGHUA SUSTAINABLE URBAN MOBILITY PROJECT We are supporting a project at China's Tsinghua University to investigate the challenges to access and mobility presented by the rapid growth of cities, especially in Asia. The project brings together six departments at the university: urban planning, transportation, energy, vehicle technology, environment and policy. It began in 2005 with a six-month broad assessment of the issues faced by 10 cities: Beijing, Chongqing, Dalian, Guangzhou, Jinan, Langfang, Ningbo, Shanghai, Taiyuan and Wuhan. This will lead to in-depth studies and practical demonstration projects running over two to three years.

HYDROGEN FOR TRANSPORT BP has an ongoing set of 'incubator' activities to examine the potential of using hydrogen for transport, including how to supply hydrogen fuel at competitive prices. The activities are designed to test the various technology pathways by which hydrogen can be produced, distributed, stored and dispensed. BP is developing this understanding through a series of demonstration programmes in Australia, China, Europe, Singapore and the US. We have also continued to support university programmes to address the challenges of a hydrogen economy. We plan to complete the current set of projects by 2008-2009.

10 Chinese cities are being assessed by Tsinghua University to investigate the challenges to access and mobility presented by the rapid growth of cities.

INVOLVEMENT IN POLICY DEBATE AND POLICY-MAKING During 2005, we continued to engage with policy-makers and others in discussions on the laws and regulations affecting transport.

- ... As a member of the European Petroleum Industry Association (Europia), we took a leadership position in developing an industry view on the EU biofuels directive, providing first-hand evidence about the practical implications of implementation. This will contribute to the review of the directive in 2006.
- ... In the UK, we have actively engaged with the government in the formulation of the Renewable Transport Fuels Obligation. This will require 5% of motor fuel in the UK to come from renewable sources by 2010.
- ... We continued to work as part of Shipping Emissions Abatement and Trading (SEAaT), a cross-industry group of oil and shipping companies that raises awareness of methods for reducing shipping emissions, including abatement technologies and emissions trading. The group was formed as a result of a BP Marine-led industry conference on emissions trading in 2002. BP participates in the SEAaT board and executive committee as well as seconding an employee to the permanent secretariat.
- ... In September 2005, the European Commission proposed a revised directive on air quality that was informed by a technical programme known as CAFE (Clean Air for Europe) in which we had played an active part, along with many other organizations and groups. We believe that having used this broad range of expertise led to improvements to the directive's scientific basis, resulting in a solution that is both achievable and affordable.

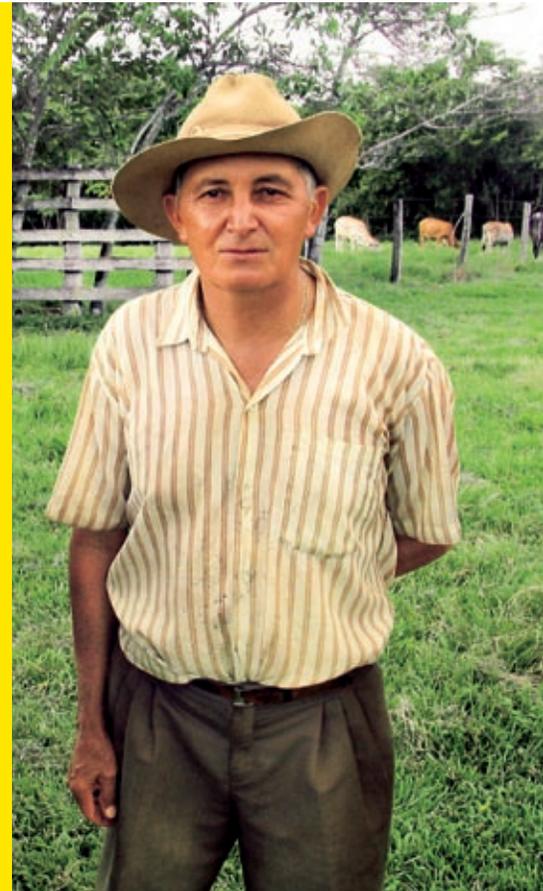
3 BP and development



How can we make energy more progressively?

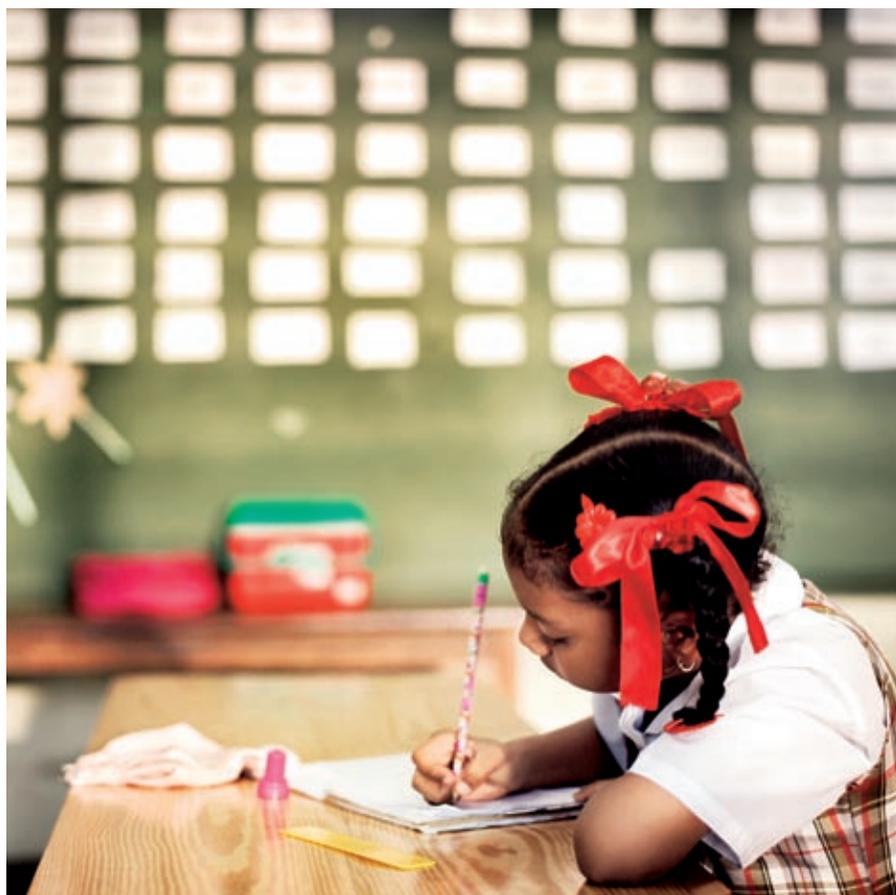
As a large global business, we have an influence in more than 100 countries and among millions of people. For us, making energy more progressively means using that influence to promote development and encourage sustainable growth as we undertake our work. In part, we can achieve this by running a successful and responsible business that creates wealth and employment. However, we also take opportunities to make specific contributions to the societies in which we work, sharing our skills and investing directly in community projects. In 2005, our progress included new initiatives to promote enterprise and education as well as new businesses to provide energy to remote communities.

- 3.1 Our role in development
- 3.2 Promoting good governance
- 3.3 Enterprise development
- 3.4 Education
- 3.5 Access to energy



Key actions taken by BP in 2005

- ... We invested in a range of projects to promote enterprise, economic development and sound governance worldwide, including a major regional development initiative in the Caspian region and a new centre at the University of Oxford, UK, which aims to be a world leader in advancing understanding of the impact of natural resource wealth, including in oil and gas producing countries.
- ... We extended our educational initiatives – ranging from projects to help schoolchildren learn about the environment in the UK, US and China to high-level academic work in Russia and China.
- ... We developed new businesses to reach those without access to clean energy. We continued to provide solar power in many countries, including the Philippines, Sri Lanka and Algeria. In 2005, we marketed LPG cookers to communities in South Africa.



Our role in development

In this section we report on how we have been contributing to meeting the social and economic challenges faced by the communities where we work. We are focusing increasing attention on developing countries, as this is where the main issues lie and where much future business will be sought.

3.1



There was intense political and public interest in poverty alleviation during 2005. The issue was a top agenda item for the G8 summit in Scotland, as well as being highlighted by a series of natural disasters that particularly affected the poor, including hurricanes in the US and earthquakes and the effects of the tsunami in South East Asia.

Continuing challenges were revealed in a report issued by the UN on progress towards the Millennium Development Goals – a set of targets to reduce poverty and improve living standards between 2000 and 2015. As trade continues to grow and global companies extend their influence, business has an increasingly crucial role to play in countries affected by poverty. ¹

As a group with major projects in emerging and developing economies, we stay active in organizations such as the World Business Council for Sustainable Development in order to increase our understanding of the contribution business can make. We have a particular part to play in combating poverty, because energy is critical for improved standards of living and economic progress.

UN Millennium Development Goals

- 1 Eradicate extreme poverty and hunger.
- 2 Achieve universal primary education.
- 3 Promote gender equality and empower women.
- 4 Reduce child mortality.
- 5 Improve maternal health.
- 6 Combat HIV/AIDS, malaria and other diseases.
- 7 Ensure environmental sustainability.
- 8 Develop a global partnership for development.

Our primary means of making a positive impact on poverty is through aligning our own operations with local people's needs. In terms of developing people's skills, we can contribute by hiring and developing local staff and seeking to buy the products and services we need from local suppliers.

We can sell affordable products that enable people to improve their standard of living, including motor and heating fuels. We can also act as a role model in communities by behaving in an ethical way, demonstrating strong values and standards, which extends to influencing business partners.

There are particular challenges relating to the social and economic impact of exploration and production projects in developing countries that have heavy dependence on oil and gas income. These include the difficulties of managing large revenue flows that can distort local economies, as well as the danger of corruption and the possibility of conflict over resources (pages 52-53). We also face risks to our business that can be associated with operating in challenging areas. In 2005, specific issues relating to the BTC project attracted external interest, some of which are discussed in this report. Our country sustainability reports identify material issues to their operations using a materiality process similar to that used for this report (pages 62-63). More details on the BTC and Tangguh LNG projects can be found in our country reports on our website. ²

We are exploring practical ways to encourage a thriving environment for our business by contributing to regional socio-economic development. During 2005, we began to invest with partners in a regional development initiative (RDI) designed to bring sustainable benefits to people in Azerbaijan, Georgia and Turkey. The Caspian Development Advisory Panel welcomed the effort put into applying the RDI's key themes of enterprise development, effective governance and access to energy. By building business capacity in Azerbaijan, the RDI will help us meet our 2010 target to double the value of contracts placed with Azerbaijani-owned companies, resulting in an extra \$250 million a year being spent locally. In Georgia, committed RDI projects include \$3.15 million for private sector business development funded by BTC, \$750,000 to expand the ProCredit Bank funded by BTC and SCP together with the European Bank for Reconstruction and Development and \$700,000 of BP funds to assist with refurbishment of an existing gas pipeline.



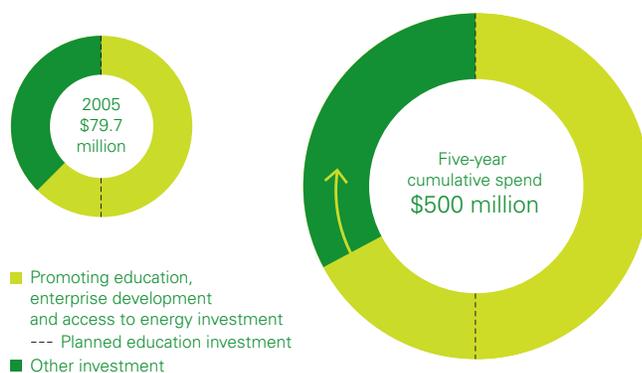
Women in Colombia, displaced by violence, have found work in Yopal with the Amanecer Foundation, set up by BP in 1994.

OUR CONTRIBUTION TO COMMUNITIES We have a wider role to play in supporting communities that are affected by our business. For BP, this involves planned community investment in business-related or educational projects, helping governments and communities manage humanitarian crises and matching our employees' voluntary work and personal donations with company contributions. In 2005, our contribution to communities was \$95.5 million, compared to \$87.7 million in 2004.

COMMUNITY INVESTMENT In 2004, we committed to spend around \$500 million towards community investment in each five-year cycle. 2005 was the first year in which we targeted this investment on developing local enterprise, promoting education and improving access to energy. Figure 3.1 shows how we plan to increase our investment in these areas while continuing to invest around 50% of our annual commitment in education. Of our direct contribution to communities in 2005, \$79.7 million was community investment to support identified programmes and initiatives with long-term benefits to locations near our sites. Our education investment has almost doubled since 2002, to nearly \$50 million in 2005. We invested \$9.6 million on developing local enterprise and around \$0.6 million to help improve access to energy in remote locations. \$20.4 million of our community investment continued to support community and infrastructure development programmes, excluding matched giving and humanitarian aid. In addition to our \$79.7 million community investment, we contributed \$6.3 million community investment as partners of the BTC and South Caucasus Pipeline (SCP) projects. ³

HUMANITARIAN AID BP responds directly to particular tragic events and issues in the locations that relate to our work and where a positive difference can be made. BP and its businesses committed more than \$16 million to humanitarian aid in 2005. We allocated \$9.5 million of this commitment for relief efforts following the devastation caused by Hurricanes Katrina and Rita in the US. \$1.2 million was committed to UNICEF, the International Federation of Red Cross and Red Crescent Societies and the President of Pakistan's earthquake fund in the aftermath of the earthquake in northern Pakistan. We continue to assist victims of the South East Asia earthquake

FIG. 3.1
PLANNED COMMUNITY INVESTMENT (\$ million)



Specific observation from Ernst & Young

All BP-operated sites visited were aware of the requirement to focus community investment on enterprise development, education and access to energy. However, there remained investment activities that did not directly meet these criteria such as support for arts and culture programmes.

and tsunamis. \$3 million of the commitment was provided as immediate relief in the aftermath of the disaster. A further \$2.3 million was made available to assist recovery efforts during 2005. Of the total commitment for humanitarian relief worldwide, \$6 million was spent in 2005 and more than \$6 million is planned to continue to help recovery and reconstruction efforts in 2006.

CHARITABLE GIVING BP employees choose to support charitable activities. We also wish to play our part. The BP Employee Matching Fund enables personal donations, volunteer time or funds raised by employees to be matched by BP. In 2005, BP employees gave around \$9.6 million to charitable organizations worldwide, including funds raised for humanitarian relief. BP provided matching grants totalling about \$9.8 million to these charities.

¹ www.un.org ² www.bp.com/countrysustainabilityreports
³ www.bp.com/communityinvestment

Promoting good governance

During 2005, we continued our efforts to ensure that the wealth created by our activities benefits the countries and communities in which we operate. We believe that such efforts help us to enjoy trust and support and help those among whom we work to experience improving living standards.

3.2



In several of our resource-rich host countries, the single biggest impact of BP's investment is the generation of revenues for the government. Large increases in government revenue offer a good opportunity for faster development but also pose risks. The risks include conflict, social tension and corruption. There are also economic risks – the risk of intense economic activity in the oil and gas sector crowding out other non-oil sectors and the risk, that revenues from oil and gas exports lead to a strengthened real exchange rate that damages the competitiveness of other tradeable sectors. The quality of a government's revenue management is critical in determining whether opportunities for development are seized or squandered. While we recognize the primary role of sovereign governments in these matters, we support sound revenue management in two ways. First, we support transparency – clarity on how much money is flowing from companies to governments and from governments into public services and investment. Second, we help promote understanding of issues linked with resource-rich economies and sharing of best practice in addressing their challenges.



The BTC pipeline is expected to export more than 300,000 barrels of oil a day by the end of 2006.

FIG. 3.2
TAXES TO GOVERNMENTS^a (\$ billion)



Specific observation from Ernst & Young

In BP Indonesia, Algeria, South Africa, Turkey and Trinidad & Tobago, community investment programmes included projects that were designed to build the capacity of local NGOs. For example, in Trinidad & Tobago we saw evidence of BP supporting projects with NGOs to encourage the sharing of good practice in the area of environmental and social impact assessments.

PROMOTING TRANSPARENCY We support the Extractive Industries Transparency Initiative (EITI), which promotes greater disclosure of revenue flows from extractive industries to governments. During 2005, we participated in the International Advisory Group for the EITI. Azerbaijan is one of the leading countries in implementing EITI and there we were active in developing a Memorandum of Understanding on transparency of aggregate payments from extractive industry companies to government. In *BP Azerbaijan Sustainability Report 2004*, we disclosed individual payments and we plan to disclose our individual payments in the future. In March 2005, the Azerbaijan government publicly disclosed its first reports on the revenues received from the extractive industries in 2003 and early 2004. In 2005, the International Monetary Fund (IMF) published the *Guide on Resource Revenue Transparency* (GRRT). The IMF conducts assessments of host country practices in the transparency and good governance of public finances – both where the money comes from and where it goes. In 2005, BP supported the pilot mission of the GRRT during its visit to Azerbaijan. [E](#)

^a Taxes to governments comprises income taxes and production taxes paid.

BUILDING CAPACITY IN HOST COMMUNITIES We make numerous contributions to building the capacity of companies, governments, organizations and individuals. During 2005, one example of building local government capacity took shape in Papua, Indonesia, where we supported a local NGO, the Centre for Local Government and Innovation, in working with the nascent government in Bintuni, the local regency. Activities included working on budgets and planning, linked with our Tangguh LNG project.

We also played a part in what we believe was an industry first by supporting a project to build capacity among NGOs in Azerbaijan. The project was run in partnership with the Open Society Institute and helped 27 national NGOs build their capacity through monitoring our activities. This provides skills that can be later transferred to monitor other major infrastructure projects. The initiative was in line with recommendations made by the Caspian Development Advisory Panel, which described it as 'a good example of how the company can use its presence in the region to achieve long-term developmental goals'. ²

The first round of monitoring was completed in May 2005. In a second part, launched in August 2005 and focusing on the South Caucasus Pipeline (SCP), seven NGO representatives who participated in last year's programme were selected to mentor newly participating NGOs. A similar monitoring project took place in Georgia, where the results highlighted good practices and areas for improvement in waste management, reinstatement and protection of social and human rights along the pipeline.

HUMAN RIGHTS BP supports the Universal Declaration of Human Rights (UDHR). While governments have the ultimate responsibility to promote and protect human rights, we take very seriously the UDHR's statement that 'every organ of society' shall strive to promote respect for the rights and freedoms outlined therein. In keeping with our commitment to the UN Global Compact, we support and respect the protection of internationally proclaimed human rights and take steps to avoid being complicit in human rights abuses (*page 67*).

Our code of conduct shows how we are committed to protecting human rights among employees, creating a work environment of mutual trust, rejecting discrimination, working in good faith with trade unions and other representative bodies and not engaging in bribery or corruption in any form.

We seek to safeguard human rights in our security arrangements by using the Voluntary Principles on Security and Human Rights (VPs) (*page 29*). These include guidelines for companies to undertake risk assessments, engage private security providers and interact with public security forces.

Plans to respond to allegations of human rights violations are being drawn up and implemented. In Azerbaijan, for example, we have a response plan that enables us to establish credibility, investigate, determine a response, take action and follow up.

External scrutiny promotes learning and provides assurance. For example, BTC Co. and SCP Co. have commissioned independent monitoring of their compliance with the VPs by the corporate social responsibility practice of Foley Hoag. ³



The BP Chair of Economics and the Oxford Centre for the Analysis of Resource-Rich Economies

In an initiative to promote greater understanding of issues linked with resource-rich economies, we endowed a new Economics Chair at the University of Oxford in 2005. The new BP professor will be the director of the Oxford Centre for the Analysis of Resource-Rich Economies, for which we have provided an initial five years of research funding. The centre is intended to be a global centre of excellence in this area. Its objectives are to undertake original research, to act as the core of a global network and to share best practice, including in countries that host large natural resource investments. The centre is scheduled to open for business at the beginning of the next academic year in 2006.

¹ www.eitransparency.org

² www.bp.com/caspian

³ www.bp.com/humanrights, www.bhrseminar.org/Sutherland-speech-8-Dec-2005.doc

Enterprise development

Businesses such as ours benefit from operating in economies with a healthy small and medium-sized enterprise (SME) sector, a wide diversity of industries and many potential local suppliers. However, in some countries where we work, there is a weak SME sector, heavy dependence on our industry and few companies operating to the standards required of our suppliers. In these countries, BP invests funds and expertise to help economies develop, to encourage local companies to become our suppliers and to enable economies to diversify.

3.3



ENCOURAGING LOCAL SUPPLIERS Encouraging local suppliers can bring long-term benefits to both BP and the host country. Local people benefit because such activity creates jobs, increases people's skills and injects money directly into the local economy. We benefit because we reduce our costs by sourcing supplies locally and we develop mutually advantageous relationships in the community. In the developing countries where we operate, we plan to increase the number of local suppliers we use progressively and to encourage them through training, development and investment.

- ... In Angola, a BP-led oil industry supplier training initiative was launched in co-operation with Angola's national oil company, Sonangol, other international oil companies and the Citizens Development Corps, an American NGO. In September 2005, the first supplier training seminar was held for participants from around 50 organizations.
- ... In Trinidad & Tobago, the Cannonball platform was completed in 2005. In the tender process, BP had required the platform to be engineered and constructed in Trinidad, using Trinidadian labour to the maximum extent possible. We achieved 75% Trinidadian national workhours in project management. Using newly developed capability, the construction yard is now conducting further work for BP and third parties.
- ... In our North Sea operations based at Aberdeen, UK, we continue to encourage suppliers with new or unique technologies. We currently have ongoing relationships with 11 such vendors who have been given support, including meetings and feedback on products from BP personnel at varying levels.

Specific observation from Ernst & Young

During our visit to BP Trinidad and Tobago, we interviewed personnel involved in delivering the Cannonball platform. Procurement personnel interviewed outlined plans to continue to develop relationships with local suppliers.

101,000

loans are estimated to have been made through microfinance programmes supported by BP.

PROMOTING DIVERSIFIED ECONOMIES In several countries, we provide support for local enterprises, often traditional ones that are at risk when resources and labour flock to energy projects.

In Algeria, BP and the UK Department for International Development have supported a partnership between contemporary British designers and traditional artisans from remote Saharan villages who make handicrafts such as baskets, carpets, furniture and ceramics. After five years of operation, the project – called Illizi Home – is now self-sufficient and consists of seven artisan enterprises that employ about 700 people, mostly women, creating products that can be bought online. [u](#)

Encouraging local suppliers in Azerbaijan

We have announced a target to double the value of contracts placed with Azerbaijan-owned SMEs and joint ventures within five years. This will be supported by the provision of transparent sources of financing for local suppliers as part of the Caspian regional development initiative. At the centre of this increasing activity will be the Enterprise Centre in Baku, supported by BP and partners, where activities include training in business skills and engineering. Having doubled the number of local staff who deal with supply chain management, the centre will now co-ordinate communications with suppliers, publicizing BP's plans and tendering processes.



Over the past 10 years, microfinance programmes have been a powerful tool in reducing poverty in poor regions in Vietnam. In partnership with Save the Children, we have supported two programmes in Hanoi City and Thanh Hoa province from 1998 to 2005.



In Azerbaijan, Georgia and Turkey, the oil and gas pipeline companies in which we participate, BTC Co. and SCP Co., support a range of community investment programmes to promote sustainable social and economic development in the communities along pipeline routes. The aim is to support projects that can become sustainable and bring long-term benefits to the region. These include projects to help poor rural farmers improve their agricultural productivity and raise their standard of living. Activities include training in crop rotation and livestock welfare, the development or strengthening of co-operatives, the creation of demonstration farms, bee-keeping, organic farming and the introduction of better quality seeds.

In South Africa, BP supports a number of enterprise promotion projects that target historically disadvantaged people. Examples include development assistance for women in construction businesses and training, support and development in partnership with the Nelson Mandela Metropolitan University based in Port Elizabeth, as well as support for small business development in Pietermaritzburg, in the Kwazulu Natal region.

We are investigating ways of marketing products for low-income customers that can also provide job opportunities for local distributors. For example, we plan that such opportunities will exist in our projects to provide cooking equipment to households in South Africa (page 59).

Case studies looking at these and other projects in more detail are available on our website. [2](http://www.bp.com/casestudies)

Microfinance

Economic diversification reduces a country's dependence on oil or gas revenue, decreases the risk of distortion in the economy and provides jobs. BP's support for economic diversification includes microfinance in six countries, support for small enterprises in Azerbaijan, Georgia, Turkey, Algeria and South Africa and products for low-income customers in South Africa.

During 2005, BP supported microfinance programmes in Azerbaijan, Georgia, Trinidad & Tobago, Colombia and Vietnam, as well as launching a programme in Angola. These provide modest loans to individuals, groups and micro-enterprises to expand business activities. We estimate that around 101,000 loans have been made through these programmes, ranging from around \$40 to \$10,000. Defaulters are rare – repayment rates are between 85% and 99% – and repeat loans are common.

Microfinance loans fund a variety of business activities for example, collecting and selling scrap metal, buying farm animals for breeding, buying and selling clothes at markets, launching a domestic cleaning products company, fruit marketing and hairdressing.

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. For example, in Georgia, in partnership with the European Bank for Reconstruction and Development, we are supporting the ProCredit Bank to establish three new branches along the BTC/SCP pipeline route in order to provide increased financing opportunities to local micro and small enterprises, as well as agricultural businesses.

Country	Interest rate (%)	Repayment rate (%)	Repeat clients (%)	Women clients (%)
Azerbaijan	2.5-3.5 a month	98.87	70	49
Colombia	21.6-24 a year	90	88	50
Georgia	1.5-3.0 a month	99	80	70
Trinidad & Tobago	10 a year	85	10	15
Vietnam	1.5-1.7 a month	99.56	85	99

The Angola programme was launched in September 2005. No loans were made in 2005. Data will be available to report in 2006.

Education

Education is critical to development. As a key activity within our corporate responsibility framework, education focuses on issues that affect our future: energy and the environment, basic education and enterprise development.

3.4



This section indicates some of our major education projects, beginning with pre-school education to advanced research in conjunction with universities, spanning economics, executive development and research to develop new technologies. 

PRE-SCHOOL AND BASIC EDUCATION Our involvement in pre-school education reflects the growing consensus that early intervention is crucial in setting lifelong learning capabilities. In 2005, we continued to work with the public broadcasting network, KCET, in California, US, to produce a television training series for pre-school teachers broadcast in Spanish and English. The series, *Los Niños En Su Casa* or *A Place of Our Own*, which had aired its 120th episode by December 2005, was awarded an Emmy – the highest television accolade in the US – for the Los Angeles area.

Recognizing the importance of English language skills for economic development, we support English courses and programmes in China, Azerbaijan, Algeria and Sakhalin Island, Russia. On Sakhalin, we support English language classes and an information centre that provides free access to internet, audio and video materials to help people improve their English-speaking skills.

Different communities require different approaches. In some, the need is for a particular programme, working with specific partner organizations. In others, schools and facilities

need to be built before education can take place. In October 2005, we inaugurated a newly built school with our partners in Baku, Azerbaijan. The school was primarily constructed by local residents for refugee communities.

In Pakistan's Badin district, we have built two schools, one of which will also receive science laboratory equipment. We have also established a computer centre at a local college for girls and appointed a technology trainer there in the absence of local female IT specialists. In Trinidad & Tobago, we are contributing to adult and childhood literacy programmes in Mayaro, a rural fishing area on the country's south-east coast.

CURRICULUM INITIATIVES IN SCHOOLS In 2005, the UK Schools' Link programme celebrated 37 years of operation. In this programme, BP employees work with local schools to lead class discussions on energy and environmental topics. During the past year, the UK team, in response to requests from, the Netherlands and Germany, assisted local BP teams in extending the programme into their communities.

BP's signature programme in California, A+ for Energy, was expanded to Houston, Texas, in 2005. The programme provides \$2.5 million in grants and training for teachers for the enhancement of energy education. It has already benefited more than 3,000 teachers.



In China, the Environmental Educators' Initiative (EEI) – a partnership between the Chinese Ministry of Education, WWF and BP – continued to succeed in its objective of embedding environmental education in China's national school curriculum. Today, eight years after its launch, the EEI supports teacher training, a network of pilot schools that test new materials and approaches and 21 environmental education centres at China's teacher training universities. In 2005, BP China staff played an increasingly active role in EEI, for example, with Beijing employees delivering workshops on energy and environment at Beijing Dongzhimen Middle School, one of the EEI pilot schools.

Specific observation from Ernst & Young

On our site visits, we saw evidence of BP's involvement in community investment programmes focused on education. For example, in Indonesia we visited a school in Tomu Ekam, West Papua, that was supported by the Tangguh project's integrated social plan. We met with the newly appointed teachers and visited their accommodation that had been recently constructed.

PROMOTING INCLUSION IN THE EDUCATION SYSTEM In November 2005, we launched the Los Angeles Multicultural Educational Collaborative, a four-year \$3.75-million programme to raise attainment among minority communities. The programme encourages students to aspire to higher education through after-school discussions on social justice topics, art sessions, workshops on college requirements and mentoring. A parallel parents' programme focuses on leadership skills, financial literacy and understanding the education system. The programme is being undertaken with the Asian Pacific American Legal Center, the Los Angeles Urban League and the Mexican American Legal Defense and Educational Fund.

In Tanzania, we are supporting a project led by Tanzania English Language Development, which aims to improve the literacy and business skills of primary school leavers.

EDUCATIONAL EXHIBITIONS During 2005, we continued to sponsor the London Science Museum's 'Energy: fuelling the future' exhibition and an 'energy playground' that involves interactive exhibits on energy and its future. There is also online material available that can be used by schools to reinforce learning following a visit or provide interactive activities for those who are unable to visit the site. Surveys showed that teachers perceived the website to be a highly relevant learning resource for the UK curriculum key stages 2 and 3. We have drawn on the success of this exhibition by bringing its team to Azerbaijan to help create the Caspian Energy Centre, which now provides education and conference facilities to schools throughout Azerbaijan. ²

UNIVERSITY EDUCATION Throughout the world, we continue an extensive programme of university support. Our business is linked with university work in several ways, whether through research and development, supporting communities, discovering new technologies, developing project management acumen or enhancing business skills. 2005 included the following significant university initiatives.

- ... We pledged \$2 million towards the establishment of the Caucasus School of Economics in Tbilisi, Georgia. The school will promote excellence in postgraduate economic study and research across the region. The institution also has the support of the governments of Georgia, Azerbaijan and Armenia, the World Bank, Tbilisi State University and local and international donors. BP Georgia has also pledged \$1.5 million to support a masters-level programme in the UK for Georgian scholars over three academic years. This initiative is implemented in collaboration with the British Council.
- ... We announced an \$8-million project at Imperial College London, UK to research the use of energy in cities (page 41).
- ... Programmes were initiated at China's Tsinghua University to explore clean energy options and the implications of urbanization for transport (page 47).
- ... The Tangguh project has supported education institutions in Papua, Indonesia, since 2002.
- ... The BP Projects Academy, run with the Massachusetts Institute of Technology, helped managers attain world-class project management skills (page 31).
- ... We helped to finance faculty positions in Alaskan native languages and educational technology at the University of Alaska, US.
- ... A new partnership was agreed with the New Economic School in Moscow in which BP plans to support an annual series of conferences focusing on the Chinese and Russian economies.
- ... A programme to promote corporate responsibility and transparent environmental reporting in Russia has been running at Mendeleev Russian State University.
- ... A 10-year, \$16-million commitment was made to the BP Energy and Environmental Programme in June 2005 to provide education and training to emerging leaders in the fields of conservation and development (page 27).

Access to energy

3.5



Over the past five years, BP has helped an estimated two million people gain better access to safe, reliable and renewable energy through our rural solar projects. However, access to energy is not only about rural communities. Many people living in towns and cities have poor access to reliable and safe energy. Gas in a variety of forms, such as LPG bottles, can provide safe, reliable and cleaner energy for domestic cooking, greatly reducing indoor pollution, a major cause of health problems in many of the world's largest cities. [1](#)

RURAL ELECTRIFICATION THROUGH SOLAR Solar electricity is portable and simple. As such it is a natural choice for bringing energy to rural communities, providing power for hospitals, schools and homes and enabling medicine to be refrigerated and fresh water pumped. We take a 'whole system' approach, by providing the pumps, fridges, lights as well as the solar panels. Rural electrification helps increase farm productivity, raise household income and improve the lives of people in the most isolated regions of the world.



Solar-powered vaccine refrigerators at a SPOTS barangay health centre in the Philippines.

Energy is a major factor in lifting people out of poverty. As an energy company, we can use our expertise to provide infrastructure or services for low-income communities in developing and emerging countries. Sometimes this forms part of our business activity, for example, when we provide affordable energy products to low-income customers or carry out projects funded by governments, banks or international agencies. In other situations, such as the solar project in Algeria and gas initiative in Georgia reported below, we choose to fund such projects as community investments in countries where we also have other major projects under way.

2 million people

are estimated to gain better access to safe, reliable and renewable energy through our rural solar projects.

Solar Power Technology Support to Agrarian Reform Communities, the Philippines In May 2005, BP Solar completed installation of more than 6,000 packaged solar systems under the first phase of the Solar Power Technology Support (SPOTS) project in the southern Philippines. Valued at \$51 million, the two-phased SPOTS project is one of the biggest rural solar initiatives in the world, in terms of funding and geographical coverage. SPOTS 1 benefited 40 communities in 16 provinces where 240,000 people live. Energy packages include home lighting, school and health facilities, barangay – or community – lighting, potable water and power blocks for farm businesses and farm water supply. Positive evaluation of BP Solar's performance during the first phase of the programme paved the way for a contract for the second phase signed with the Philippine Department of Agrarian Reform in May and the expansion of coverage to 44 more communities.

Ladakh Solar Initiative, India Our joint venture, Tata BP Solar, is bringing power to villagers in the Himalayan region of Ladakh, one of the world's most inaccessible places. The area has high altitudes and temperatures that drop to -25°C. Tata BP Solar has installed 8,700 solar home lighting systems and delivered 6,000 solar lanterns to people living in 80 remote villages, more than 3,000 metres above mean sea level.

SAWMP – Sri Lanka The Sustainable Assistance Water Management Project (SAWMP) in Sri Lanka is a pioneering example of the use of solar power to drive large-scale irrigation facilities. The \$16-million project began in March 2005 and 5,000 systems are expected to be installed by the end of 2006. The project will help 5,000 rural farming families boost productivity and raise income in the dry zones of Sri Lanka. These irrigation systems will help reduce use of fossil fuels, combat soil erosion associated with previous flood irrigation methods and avoid the dangers associated with transporting and running kerosene-fuelled pumps. One farmer said: "I can now sow three crops a year as opposed to one or two previously."

IMPROVING RELIABILITY AND CAPACITY OF PIPELINE GAS DELIVERY TO GEORGIA

In addition to its investment in the South Caucasus Pipeline, 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, a country that plays an important part in our Caspian business. According to the Georgian Gas International Corporation's (GGIC) estimates, Georgia's gas system leaks around 5% of total throughput. BP is providing \$700,000 and training for GGIC staff as they prepare to carry out restoration work on a major Soviet-era 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 US government's Millennium Challenge Corporation. BP's contribution is part of the multi-country socio-economic investment programme, the regional development initiative.

PROVIDING AFFORDABLE LPG IN SOUTH AFRICA AND INDIA

We are investigating ways of marketing products for low-income customers that can also provide job opportunities for local distributors. For example, in South Africa, BP is marketing LPG stoves among low-income communities. Our aim is to reach three million households by 2008 and currently sales are ahead of target. Under the BP pilot programme, local distributors will deliver 5kg steel cylinders that feature a two-plate cooking stove.

BP has recently begun looking at ways to provide rural customers in India with sustainable energy for cooking. We have helped to develop a pioneering combined appliance integrating an LPG and biomass burner. This business idea is at its early stages, currently undergoing prototype testing. However, if successful, BP has aspirations to create a substantial business through offering a wider set of innovative energy products to low-income families.

Low-cost electricity for remote desert village

People are benefiting from a solar project that is providing reliable, low-cost electricity to the remote desert village of Iherir, close to BP's In Amenas project in south-east Algeria. Iherir is a joint venture between the Algerian Energy and Mines department of the Illizi Wilaya, the Algerian Red Crescent, BP and the inhabitants of Iherir. The project has installed a hybrid photovoltaic and diesel system to serve villagers who formerly had access to only two or three hours of diesel-generated electricity a day. The result is that some 2,000 villagers in 300 households are for the first time connected to a source of renewable, reliable electricity.



Five-year performance data

	2001	2002	2003	2004	2005
FINANCIAL AND OPERATING					
Total hydrocarbons produced (thousand barrels of oil equivalent a day)	3,419	3,519	3,606	3,997	4,014
Total refinery throughputs (thousand barrels a day)	2,611	2,774	2,723	2,607	2,399
Total chemicals production ^a (thousand tonnes)	8,698	11,166	12,195	13,150	12,367
Shop sales (\$ million)	3,234	5,171	5,708	6,061	6,083
Replacement cost profit ^{b,c} (\$ million)	8,456	5,691	12,432	15,432	19,314
Taxes to governments – comprising income taxes and production taxes paid (\$ million)	6,184	4,255	6,614	8,595	11,995
Dividends paid to shareholders (\$ million)	4,827	5,264	5,654	6,041	7,359
Benefits to employees					
– including wages, salaries, share-based payments, benefits and pensions (\$ million)	7,641	7,524	8,639	9,965	10,746
Spending on suppliers and contractors ^d (\$ million)	30,100	30,200	33,800	37,600	36,400
Contracts terminated or not renewed due to non-compliance or unethical behaviour	n/a	n/a	29	41	77
SAFETY AND OPERATIONAL INTEGRITY^e					
Fatalities – employees	5	3	5	4	1
Fatalities – contractors	11	10	15	7	26
Days away from work cases (DAFWC) ^f – workforce	327	272	239	230	305
Days away from work case frequency (DAFWCF) ^f – workforce	0.13	0.10	0.09	0.08	0.11
Recordable incidents – workforce ^f	2,392	2,012	1,604	1,513	1,471
Recordable incident frequency (RIF) ^f – workforce	0.95	0.77	0.61	0.53	0.53
Hours worked – employees (million hours)	244	250	247	241	242
Hours worked – contractors (million hours)	259	276	280	330	313
Number of oil spills – loss of primary containment	810	761	635	578	541
Volume of oil spilled ^g (million litres)	3.5	3.5	3.8	5.7	4.4
Volume of oil unrecovered ^g (million litres)	1.0	1.1	1.4	1.5	1.2
ENVIRONMENT^e					
Direct carbon dioxide (CO ₂) ^h (million tonnes)	73.4	76.7	78.5	76.8	73.2
Indirect carbon dioxide (CO ₂) ^{h,i} (million tonnes)	10.1	11.4	10.4	9.9	13.9
Direct methane (CH ₄) ^h (million tonnes)	0.34	0.27	0.24	0.23	0.23
Direct greenhouse gas (GHG) ^h (million tonnes CO ₂ equivalent)	80.5	82.4	83.4	81.7	78.0
Flaring (exploration and production) (thousand tonnes of hydrocarbons)	2,017	1,735	1,342	1,343	1,514
Sulphur dioxide (SO ₂) (thousand tonnes)	225	169	151	126	124
Nitrogen oxides (NO _x) (thousand tonnes)	266	242	220	215	218
Non-methane hydrocarbons (NMHC) (thousand tonnes)	365	322	269	245	298
Discharges to water (thousand tonnes)	81	126	57	57	46 ⁱ
Fresh water withdrawal (million cubic metres)	n/a	n/a	517	493	479
Hazardous waste ^k (thousand tonnes)	136	214	171	159	237
Environmental and safety fines (\$ million)	12.0	27.5	7.0	4.8	56
EMPLOYEES^e					
Number of employees – group	110,100	115,200	103,700	102,900	96,200
Number of employees in group leadership	603	622	609	610	606
Women in group leadership (%)	12	13	15	15	17
People from UK and US racial minorities in group leadership (%)	3	3	4	4	5
People from beyond the UK and US in group leadership (%)	15	16	18	19	20
OpenTalk cases	n/a	n/a	258	343	634
Dismissals for non-compliance and unethical behaviour (excluding retail sites)	n/a	132	165	252	478
CONTRIBUTION TO COMMUNITIES^e (\$ million)					
UK	14.9	13.9	12.7	11.7	23.6
Rest of Europe	8.0	6.2	8.2	6.5	4.6
US	52.9	46.3	31.5	25.7	36.0
Rest of World	18.9	18.8	22.0	43.8	31.3

^a Reported within Refining and Marketing and excludes olefins and derivatives operations sold as part of Innovene.

^b Replacement cost profit reflects the current costs of supplies. The replacement cost profit for the period is arrived at by excluding from profit inventory holding gains and losses.

^c Financial information for 2003-2005 has been restated to reflect the adoption by the group of International Financial Reporting Standards. Financial information for 2001 and 2002 is on a UK GAAP basis. UK GAAP information for 2002 reflects the adoption by the group of Financial Reporting Standard No. 17 'Retirement Benefits' (FRS 17) with effect from 1 January 2004. Financial information for 2001 has not been restated for FRS 17.

^d Sourced from an internal supplier management system and excludes Innovene in 2005. Data coverage is estimated to be around 95% of BP's supplier and contractor base. This system does not form part of the financial reporting system used to produce BP's financial statements.

^e Quantitative performance indicators have been chosen, with external input, to reflect the most important sustainability issues for BP. Data is reported here only from operations under BP management control, except in footnote^l. We use consistent processes that seek to provide acceptable estimates to enable year-to-year comparisons.

^f DAFWCF and RIF is the annual frequency per 200,000 hours worked. Prior to 2003, data included both illnesses and injuries. From 2003, only injuries are reported.

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

^h BP share of emissions from operations on an equity share basis. TNK-BP emissions are not included.

ⁱ Prior to 2005, reported indirect emissions are lower because the BP CO₂ protocol previously allowed credit for exported power.

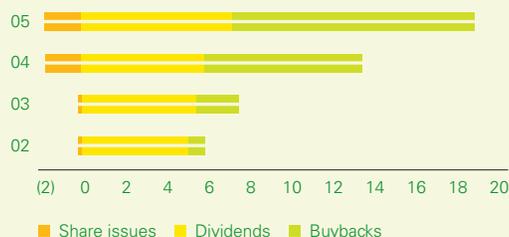
^j Does not include discharges in new category of discharges to third-party treatment at 8 thousand tonnes.

^k Data prior to 2005 have been restated to correct inadvertent overstatements of hazardous waste at the Whiting refinery, US.

Trends and interpretation

FINANCIAL AND OPERATING BP distributed around \$19 billion to investors in 2005 via a 26% increase in the per-share dividend and share buybacks of \$11.6 billion. We have paid out a total of \$29.1 billion dollars of dividends over the past five years. During this period, dividends per share in dollar terms have grown around 13%. In 2005, BP paid around \$12 billion of taxes to governments. This included about \$9 billion paid in income taxes and around \$3 billion paid in production taxes (pages 7 and 52).

SHAREHOLDER DISTRIBUTIONS (\$ billion)



SAFETY AND OPERATIONAL INTEGRITY The 27 fatalities in 2005 resulted from an industrial accident at Texas City refinery, one drowning, one fall and 10 transport incidents. Over the past seven years, road traffic accidents have been the largest single cause of workforce fatalities (30%). To support our aim of reducing injury levels in our operations for 2004 and 2005, we set targets for DAFWCF of 0.09 or better and for RIF of 0.58 or better. In 2005, we missed our DAFWCF target by 0.02, while our reported RIF was 0.53, the same as in 2004. We will continue to monitor these indicators in 2006. Our reported number of oil spills is continuing on a downward trend. However, the volume of oil spills has varied over the past five years, impacted by a small number of larger spills (pages 18-21).

RECORDABLE INCIDENT FREQUENCY (RIF)^f



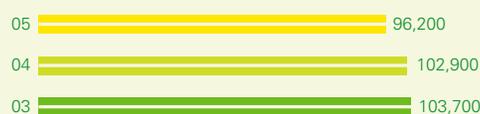
ENVIRONMENT Despite business growth, our 2005 direct operational GHG emissions were lower than 2004 levels, due to a number of factors, including plant shutdowns, disposals and real sustainable reductions (page 24). Our indirect CO₂ emissions increased by 4Mte in 2005 due to the use of a new reporting protocol. The main changes in 2005 were: an increase in hazardous waste disposals due to remediation activities; an increase in non-methane hydrocarbon emissions (NMHC) due to the growth of our shipping operations; an increase in flaring due to increased production activities in Azerbaijan; and a decrease in discharges to water due to a reduction in the type and level of drilling activities (pages 26-27). Fines and penalties paid by BP were mainly related to two significant settlements, the Texas City refinery (page 19) and Carson refinery (page 26).

DIRECT GREENHOUSE GAS EMISSIONS^h
(million tonnes CO₂ equivalent)



EMPLOYEES The reporting period saw a decrease in the total number of BP employees from 102,900 at the end of 2004 to 96,200 people at the end of 2005, a decrease of 6,700. A total of 8,500 people left the company following the sale of Innovene to INEOS at the end of 2005. We continue to develop differentiated recruiting strategies to access local and global talent. For example, we recruited 2,156 experienced hires and 479 graduates on to an early managed programme during 2005.

NUMBER OF EMPLOYEES



CONTRIBUTION TO COMMUNITIES We previously reported our intent to focus contributions in areas such as Asia Pacific, Africa, the Caspian and Russia. In 2005, we increased our contributions in Russia, Angola and Algeria. Our reported data does not include our contribution as partners of the BTC and SCP pipeline projects, which, in 2005, was \$6.3 million. However, trends show an increase in contributions in the UK and US. A significant part of our UK commitment in 2005 was our endowment of a BP chair and creation of the Oxford Centre for Analysis of Resource-Rich Economies, in partnership with the University of Oxford. This aligns with our plans to commit around 50% of our annual community investment to promoting education. Community investment guidelines were distributed to the group in 2005 as we implement our new community investment strategy launched in 2004. Through our five-year planning process, we seek to identify future contributions by considering the of the risks in the communities in which we operate.

CONTRIBUTION TO COMMUNITIES, 2005 (\$ million)



Our approach to reporting

BP Sustainability Report 2005 covers BP group activities in the period 1 January 2005 to 31 December 2005. We aim to report on all aspects of our business, including joint ventures that have significant sustainability impacts and fall within the boundary of our operational control. Where appropriate, we also seek to provide an overview on areas that are beyond our direct control but where we have influence, such as joint ventures operated by others, including TNK-BP and BTC Co.

In 2005, we completed a review of our reporting boundaries. This work clarified our definitions of control and influence, giving greater consistency to our reporting of HSE data. It includes the determination of which joint ventures and contractors fall under BP's operational control whose HSE data may be consolidated within our reported group-wide performance. Where BP has a share in a joint venture company but does not have operational control, for example, TNK-BP, data may be reported separately to show how we work with our partners to influence HSE performance.

ENGAGEMENT ON OUR REPORTING In the three months after publication in April, we assess the reaction of readers to the content and presentation of our report. This means conducting surveys, interviews, benchmark studies and workshops across the UK, US and Europe with key groups of readers. This feedback is formally reviewed and an action plan agreed that forms an important stage in the planning of the following year's report.

In 2005, we carried out research to understand whether we had made progress in including improvements indicated from research on the 2004 report. The research showed that the report satisfied the majority of readers' needs. ¹

- However, the readers of the 2004 report also asked for:
- ... More insight into our approach to materiality.
 - ... Evidence of BP's response to engagement and dialogue with external parties.
 - ... Improved transparency on BP's public policy and advocacy activities.
 - ... Discussion of BP's approach to risk management, with particular emphasis on how the group integrates the assessment of environmental and social risks into this approach.

Our research in 2006 will test the extent to which the 2005 report has incorporated these suggestions.

MATERIAL ISSUES This year, we have continued with our efforts to improve our processes for identifying the most material issues for inclusion in our group reports.

Our approach combines an inside-out view of the group's key issues and risks with the outside-in perspective of external observers. We have built on this by:

- ... Formally aligning the way we assess an issue's potential impact on BP's ability to deliver strategy (x axis of the materiality matrices) with the group's risk register (*pages 12-15*).
- ... Expanding the definition of the y axis to ensure that the matrix better captures not only negative but also positive issues.
- ... Assessing the level of external engagement and awareness by tracking the type of stakeholder associated with the issues.
- ... Separating and further developing the materiality matrices based on the report chapters.
- ... Extending our database to cover more than 40 external sources.

MATERIALITY – PROCESS FLOW



As the matrices have evolved, external research in 2005 suggested the tool helped BP report on the key issues. The matrices have also proved useful as a way to engage within the group when drafting this report. The matrices generated at a formal materiality workshop in 2005 were reviewed at senior management level before review by the board's Ethics and Environment Assurance Committee (EEAC) in January 2006.

BP group faces legal challenges and fines in connection with issues other than HSE, that are not considered material for us to report in *BP Sustainability Report 2005*. HSE fines and penalties are reported and can be found on pages 60-61.

REPORTING STANDARDS *BP Sustainability Report 2005* is the third report where we have reported in accordance with the Global Reporting Initiative (GRI) guidelines. We continue to be an 'organizational stakeholder' in the GRI. In 2005, we became a member of the 'Reporting as a process' working group, giving feedback on the G3 revised guidelines. These are expected to be launched in late 2006. Additionally, BP chaired work within the International Petroleum Industry Environmental Conservation Association (IPIECA) – the oil and gas industry group – that resulted in the development of IPIECA/API guidelines for sector sustainability reporting. We see these guidelines as an important step for the energy industry in reporting on key issues and encouraging other companies to report. *BP Sustainability Report 2005* reports against the IPIECA/API guidelines for the first time. The GRI, IPIECA/API and the UN Global Compact require a wider set of forward-looking key performance indicators. The metrics featured in this report therefore build on those in the Environmental and social performance section of *BP Annual Report and Accounts 2005*. ²

ACCESSIBILITY Readers of *BP Sustainability Report 2004* who were surveyed felt that we should broaden the reach of the content, in addition to requests to improve the linkages between the website and printed report.

This has led us to restructure both the printed and online versions so that they utilize our corporate responsibility framework more explicitly as their organizing principle. Furthermore, readers of the online version are now able to access information via a new issues-driven search page, offering greater choice to a wider range of online readers. ³

We have also made improvements to the design of the printed report, by creating a more 'open' page structure to enhance readability and by using more graphs and images.

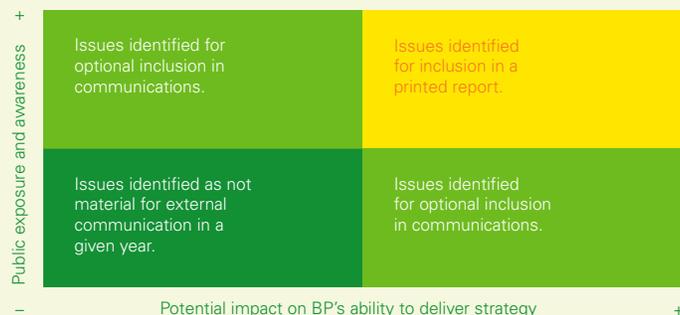
The 2005 report will be translated into German, Russian, Spanish and, for the first time, Mandarin Chinese. ⁴

THREE LEVELS OF SUSTAINABILITY REPORTING Over the past year, we have established three levels of sustainability reporting: group sustainability report, selected country reports and selected local site reports. This has involved joining up previously unconnected external reports on non-financial performance within a consistent framework.

In 2005, we produced six country sustainability reports: Azerbaijan, Georgia, Germany, New Zealand, Southern Africa and Trinidad & Tobago. ⁵

These have been produced to a consistent template in terms of structure, content and design and have adopted standardized processes for content development and external verification.

IDENTIFYING MATERIAL ISSUES



BP POSITION IN SUSTAINABILITY INTERNATIONAL BENCHMARKS

Corporate responsibility communication

#1 in the 2005 AccountAbility rating of the FORTUNE Global 100 companies.

No. 1 energy company and No. 3 overall in the SustainAbility Global Reporters 2004 Survey.

³ www.bp.com/facingtheissues ⁴ www.bp.com/sustainabilityreport

⁵ www.bp.com/countrysustainabilityreports

Independent assurance statement to BP management

BP Sustainability Report 2005 (the Report) has been prepared by the management of BP p.l.c., 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, in order to provide conclusions in relation to Materiality, Completeness and Responsiveness.

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 did we do to form our conclusions?

Our assurance engagement has been planned and performed in accordance with the Institute of Social and Ethical Accountability's AA1000 Assurance Standard and the International Federation of Accountants' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE3000). The report has been evaluated against the following criteria:

- ... Adherence to the principles of Materiality, Completeness and Responsiveness as set out in the AA1000 Assurance Standard.
 - ... The application of the Global Reporting Initiative (GRI) *2002 Sustainability Reporting Guidelines* (the Guidelines). In order to form our conclusions we undertook the steps outlined below.
1. Interviewed a selection of BP executives and senior managers to understand objectives and priorities for embedding and managing BP's social, ethical and environmental expectations as set out in BP's code of conduct, the means by which BP planned to accomplish those objectives, the degree to which those objectives were met and how internal assurance is given to the board on these matters.
 2. Reviewed BP's approach to stakeholder engagement through interviews with key stakeholder relationship holders in BP and reviewing selected associated documentation.
 3. Reviewed BP's internal processes for reviewing the sustainability reporting practices of peer organizations and conducted a high-level benchmarking exercise of the material issues and areas of performance covered in the environmental and social reports of BP's peers.
 4. Reviewed a selection of external media reports relating to BP's adherence to its policies, as a check on the scope and appropriateness of statements made in the Report.

5. Reviewed information or explanation about the Report's data, statements and assertions regarding BP's sustainability performance. As part of this we undertook 11 business visits, chosen in discussion with BP to give coverage across business segments, key material issues identified through our media review and the geographies in which BP operates.
6. Reviewed health, safety and environment, community investment, ethics dismissals and group leadership data samples and processes to test whether they have been collected, consolidated and reported appropriately at the group level.
7. Reviewed selected group level documents to assess management awareness of performance against non-financial policy commitments and test the coverage of the Report.
8. Reviewed BP's processes for determining material issues to be included in the Report and tested whether the processes had been applied in preparing the Report.
9. Reviewed whether BP's reporting (which includes the Report, the environment and social web content and elements of *BP Annual Report and Accounts 2005*) is in accordance with the Guidelines through reviewing whether the reporting:
 - a. Contains all information required in Sections 1-3 of Part C of the Guidelines (Vision and Strategy, Profile and Governance Structure and Management Systems).
 - b. Contains a GRI content index.
 - c. Contains data regarding performance against each of the GRI core indicators or explanations for omissions.
 - d. Is consistent with the 11 principles by reviewing BP's own assessment against the Guidelines and interviewing a selection of BP staff.
 - e. Contains a statement signed by the board or the CEO confirming that the reporting has been prepared in accordance with the Guidelines.

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.

LIMITATIONS OF OUR REVIEW Only pages (i)-63 and 68-71 of the Report formed part of our review. A review of BP's performance against the UN Global Compact Principles (page 67) was not included in our scope of work.

The scope of our work was limited to a sample of 11 visits from approximately 120 locations. We did not attend any

stakeholder engagement activities. Our review of data processes only included the following data sets: health, safety and environmental (HSE), community investment, ethics dismissals and group leadership diversity data. Our review of these data processes at operations level was limited to the 11 locations visited.

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 in relation to each of the main AA1000 Assurance Standard's principles (Materiality, Completeness and Responsiveness) and in relation to the Guidelines. Our conclusions should be read in conjunction with the above section on *What did we do to form our conclusions?*, which includes the limitations of our review.

MATERIALITY Has BP provided a balanced representation of material issues concerning BP's sustainability performance?

Based on our review, we consider that:

- ... With the exception of BP's approach to influencing the performance of joint ventures in relation to BP's policy expectations, we are not aware of any material aspects concerning BP's sustainability performance which have been excluded from the Report.
- ... BP's reporting covers the core GRI indicators or explains the reasons for any omissions.
- ... Nothing has come to our attention that causes us to believe that BP management has not applied its processes for determining material issues to be included in the Report, as described in *Our approach to reporting (pages 62-63)*.

COMPLETENESS Does BP have complete information on which to base a judgement of what is material for inclusion in the Report?

Based on our review:

- ... We are not aware of any material issues excluded or misstatements made in relation to the information on which BP has made judgements in respect of the content of the Report.
- ... We are not aware of any material reporting units that have been excluded in BP management's review of social and environmental performance.
- ... We have reviewed information or explanation on the statements on BP's sustainability activities presented in the Report and we are not aware of any misstatements in the assertions made.

HSE data

- ... We are not aware of any material reporting units which have been excluded from the group HSE data.
- ... Nothing has come to our attention that causes us to believe that HSE data has not been properly collated from information reported at operations level.
- ... We are not aware of any errors that would materially affect the group HSE data.

Community investment data

- ... We are not aware of any material reporting units which have been excluded from the group community investment data.
- ... Nothing has come to our attention that causes us to believe that community investment data has not been properly collated from information reported at operations level.
- ... We are not aware of any material omissions in relation to the total community investment data.

Ethics dismissals data

- ... We are not aware of any material reporting units which have been excluded from the group ethics dismissals data.
- ... Nothing has come to our attention that causes us to believe that ethics dismissals data has not been properly collated from reporting units through the group's annual compliance and ethics reporting system.
- ... We are not aware of any material omissions in relation to the ethics dismissals data.

Leadership diversity data

- ... Nothing has come to our attention that causes us to believe that leadership diversity data has not been collated properly from group-wide systems.

RESPONSIVENESS How has BP responded to stakeholder concerns?

Based on our review:

- ... With the exception of BP's influence over joint ventures, we are not aware of any additional issues of stakeholder interest that are not currently included in the Report's scope and content.

GRI Has the Report been prepared 'in accordance' with the GRI 2002 Sustainability Reporting Guidelines?

- ... Based on our GRI review that included consideration of the Report, environment and social web content and elements of *BP Annual Report and Accounts 2005*, nothing has come to our attention that causes us to believe that BP management's assertion that their sustainability reporting has been prepared in accordance with the Guidelines is not fairly stated.

Selected observations on particular aspects of our engagement

Selected observations are provided below and additional specific observations from our visits to operational sites regarding progress made and areas for improvement can also be found embedded in appropriate sections of the Report. Our observations and areas for improvement will be raised in a report to BP management. A summary page of our specific observations can be found on www.bp.com/environmentandsociety. These observations do not affect our conclusions on the Report set out above.

- ... We have observed policies, programmes and discrete activities aimed at addressing issues raised through stakeholder engagement. Observations on progress in these activities are provided in several sections of the Report. It is recognized that the response taken is BP's judgement and may not always be consistent with the expectations of all stakeholders.
- ... This year BP has addressed a number of issues that were raised by stakeholders during feedback on BP's 2004 Sustainability Report and also items highlighted in our assurance statement for 2004. These include improved coverage of BP's risk management processes, alignment of the Report's content to BP's corporate responsibility framework and improved coverage of BP's influence over suppliers and contractors.
- ... To improve accessibility BP has extended the languages in which the Report will be reproduced, which this year will include Mandarin Chinese.
- ... The processes for determining materiality in the context of the Report have developed further and include much closer links to BP's risk register and clearer ranking criteria against which to evaluate the issues.
- ... Documentation of the greenhouse gas emissions data collection, assumptions and assurance activities was in place at the operational sites visited. However, as in previous years, the completeness of documentation to support other HSE parameters is varied.

Our independence

Our assurance team includes environmental and social assurance specialists 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
21 March 2005

UN Global Compact



The UN Global Compact (UNGC) is an international initiative that brings together companies, UN agencies, labour organizations and civil society in support of 10 principles covering human rights, labour, the environment and corruption.

The 10 principles are based on the Universal Declaration of Human Rights; the International Labour Organisation's Declaration of the Fundamental Principles and Rights at Work; and the Rio Declaration on Environment and Development.

As a founding member of the Global Compact, we believe that our business policies are in accordance with the 10 principles.

We continue to participate in Global Compact meetings in a number of countries.

Here we provide an index to our performance in demonstrating the Global Compact's 10 principles in our work. Further information, as well as metrics and data, is available throughout this report and on our website. This index cross-refers to relevant GRI indicators.

Further information on our approach to the GRI principles and our GRI index is available on pages 68-71 of this report. We report on progress to the UNGC because we recognize that GRI is mainly used by large corporations and we support the efforts of the UNGC to find a more widely accessible way to report, especially for smaller companies.

GLOBAL COMPACT PRINCIPLES	Corresponding GRI indicators	Corresponding IPEECA/API indicators	Where will I find reference to this principle?	Page
1 Businesses should support and respect the protection of international proclaimed human rights within their sphere of influence.	HR1, HR2, HR3, HR4	SOC-1 SOC-4	Environmental management: security Our people: compliance and ethics Promoting good governance	2 9 34-35 52-53
2 Businesses should make sure that they are not complicit in human rights abuses.	HR2, HR3		Safety and operational integrity Our role in development Promoting good governance	18-21 50-51 52-53
3 Businesses should uphold the freedom of association and the effective recognition to the right to collective bargaining.	HR5, LA3, LA4	SOC-7	Our people	30-35
4 Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR7	SOC-7	Our people: compliance and ethics	34-35
5 Businesses should uphold the effective abolition of child labour.	HR6	SOC-6	Our people: compliance and ethics	34-35
6 Businesses should eliminate discrimination in respect of employment and occupation.	HR4, LA10, LA11	SOC-4	Our people	30-35
7 Businesses should support a precautionary approach to environmental challenges.	3.13		Environmental management Climate change	22-27 40-41
8 Businesses should undertake initiatives to promote greater environmental responsibility.	EN1, EN2, EN3, EN4, EN5, EN6, EN7, EN8, EN9, EN10, EN11, EN12, EN13, EN14, EN15, EN16, 1.1	ENV-1, ENV-2, ENV-3, ENV-5, ENV-9, ENV-A1, ENV-A2, ENV-A3, ENV-A4, ENV-A6, ENV-A7	GCE introduction BP at a glance Environmental management BP and climate change Five-year performance data Trends and interpretation	1-2 6-7 22-29 40-47 60 61
9 Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN17		Environmental management BP and climate change	22-27 40-47
10 Businesses should work against all forms of corruption, including extortion and bribery.	SO2	SOC-2	The way we work Our people: compliance and ethics	12-15 34-35

International reporting standards

Global Reporting Initiative (GRI) principles

This report has been prepared in accordance with the GRI *2002 Sustainability Reporting Guidelines*. This section outlines the 11 GRI principles and demonstrates how we address them in our reporting.

TRANSPARENCY A report's credibility depends on the full disclosure of the process, procedures and assumptions used in its preparation. By striving to meet the GRI principles we continually aim to improve our approach to reporting, which is described on pages 62-63.

INCLUSIVENESS The reporting organization should systematically engage and respond to its 'stakeholders' to enhance the quality of its reports. We seek feedback on our reporting and produce communications tailored to audiences and their concerns, including multiple language and location-specific versions (pages 62 and 72).

CLARITY To provide clarity, reports should be written and laid out in a way that enables them to be understood by a range of readers. We use a range of different print and web techniques and varying depths of detail to increase accessibility of our reports for different audiences (pages 63 and 72).

COMPLETENESS Material information should be consistent with declared boundaries, scope and time period. We aim to report on all significant sustainability impacts that fall within the boundary of our operational control as well as areas that are beyond our direct control, but where we have influence (pages (i)-63).

RELEVANCE We believe it is important to have a reliable process to determine which information is significant enough to be reported. Using external and internal inputs, we undertake an extensive materiality exercise to identify all the issues relevant to our audiences (pages 62-63).

GRI and IPIECA/API index

We provide an index to our sustainability reporting based on the GRI reporting elements and core performance indicators. We also, for the first time, map our index to the *IPIECA/API Oil and Gas Industry Guidance on Voluntary Sustainability Reporting, 2005*. More detail, including additional GRI and IPIECA/API performance indicators, is available on our website, which incorporates all of our group communications, including *BP Annual Report and Accounts 2005*.

www.bp.com/gri

SUSTAINABILITY CONTEXT It is important to define what sustainability and responsibility mean for BP. Our reports should also demonstrate that sustainability is integrated with our business strategy, including our risk management, governance and engagement processes (pages (i) and 12-17).

ACCURACY Our reports need to be sufficiently accurate to enable readers to make judgements based upon our disclosures. Our verification processes help provide this assurance. We recognize that we can further improve data reliability and are currently undertaking work to improve our internal controls for non-financial data (pages 14-15, 64-66).

NEUTRALITY This principle states that reports should strive to be balanced and unbiased in selection and presentation of information. We aim to report our performance openly, whether good or bad and engage with stakeholders (pages 3 and 16-17).

COMPARABILITY In this report, we have a consistent structure for reporting and publish data over five years to enable comparability as well as providing additional information relevant to the interpretation of this data (page 60). This year we also report against the IPIECA/API key performance indicators (pages 68-71).

AUDITABILITY Data and information should be recorded and disclosed to enable verification. We ensure that records are maintained so that any information can be evidenced on request and give our auditors open access to our management and operations (pages 64-66).

TIMELINES Reports should provide information on a regular basis that meets user needs. BP has consistently reported on health, safety and environmental performance every year since 1991 and social performance since 1998. Our online reporting is revised annually and updated appropriately throughout the year (pages 62-63 and 72).

KEY

● Fully reported	a Locally managed issue with locally defined indicators; therefore not aggregated.
◐ Partially reported	b Assessed not to be relevant to BP.
○ Not reported	c Not applicable to most oil products except lubricants and polymers.
	d Detailed data not yet collected or sufficiently reliable, but could be reported in the future.
	SR <i>BP Sustainability Report 2005</i>
	p Page
	IFC Inside front cover
	IBC Inside back cover

Corresponding with UN Global Compact principles

IPIECA Reference	GRI Reference		Location in this report	SR	Web
1. VISION AND STRATEGY					
1.1		Statement of the organization's vision and strategy regarding its contribution to sustainable development.	p(i), IFC, 1-2, 6-7	●	●
1.2		Statement from the CEO describing key elements of the report.	p1-2	●	●
2. PROFILE					
2.1		Name of reporting organization.	Title	●	●
2.2		Major products and/or services, including brands, if appropriate.	p6-7, 42-46	●	●
2.3		Operational structure of the organization.	p6	●	●
2.4		Description of major divisions, operating companies, subsidiaries and joint ventures.	p6, 20, 23, 42-44	●	●
2.5		Countries in which the organization's operations are located.	p6, 36-37, 42	●	●
2.6		Nature of ownership; legal form.		○	●
2.7		Nature of markets served.	p6-7, 42-44, 46-47	●	●
2.8		Scale of the reporting organization (including employees, assets, sales and products).	p6-7, 30, 36-37, 42-47, 60	●	●
2.9		List of stakeholders, key attributes of each and relationship to the reporting organization.	p16-17	●	●
2.10		Contact person(s) for the report, including e-mail and web addresses.	IBC	●	●
2.11		Reporting period for the information provided.	Title, p62	●	●
2.12		Date of most recent previous report.	IBC	●	●
2.13		Boundaries of report and any specific limitations on the scope.	p62, 68	●	●
2.14		Significant changes in size, structure, ownership or products/services that have occurred since the previous report.	p1-2, 6, 21, 42-44, 60	●	●
2.15		Basis for reporting on joint ventures, partially owned subsidiaries, leased facilities, outsourced operations and other situations that can significantly affect comparability from period to period and/or between reporting organizations.	p25, 60-63	●	●
2.16		Explanation of the nature and effect of any restatements of information provided in earlier reports, and the reasons for such restatements.	p25-27, 60	●	●
2.17		Decisions not to apply GRI principles or protocols in the preparation of the report.	p68	●	●
2.18		Criteria/definitions used in any accounting for economic, environmental and social costs and benefits.	p60-66	●	●
2.19		Significant changes from previous years in the measurement methods applied to key economic, environmental and social information.	p25-27, 60	●	●
2.20		Policies and internal practices to enhance and provide assurances about the accuracy, completeness and reliability that can be placed on the sustainability report.	p12-15, 62-66, 68	●	●
2.21		Policy and current practice with regard to providing independent assurance for the full report.	p63-66	●	●
2.22		Means by which report users can obtain additional information and reports about economic, environmental and social aspects of the organization's activities, including facility-specific information.	p72, IBC	●	●
3. GOVERNANCE STRUCTURE AND MANAGEMENT SYSTEMS					
3.1		Governance structure of the organization, including major committees under the board of directors that are responsible for setting strategy and for oversight of the organization.	p12-15	●	●
3.2		Percentage of the board of directors that are independent, non-executive directors.	p13	●	●
3.3		Process for determining the expertise board members need to guide the strategic direction of the organization, including issues related to environmental and social risks and opportunities.		○	●
3.4		Board-level processes for overseeing the organization's identification and management of economic, environmental and social risks and opportunities.	p12-15	●	●
3.5		Linkage between executive compensation and achievement of the organization's financial and non-financial goals.		○	●
3.6		Organizational structures and key individuals responsible for oversight, implementation and audit of economic, environmental, social and related policies.	p12-15	●	●
3.7		Mission and values statements, internally developed codes of conduct or principles, and policies relevant to economic, environmental and social performance and the status of implementation.	p(i), 12-15, 34	●	●
3.8		Mechanisms for shareholders to provide recommendations or direction to the board of directors.		○	●

IPIECA Reference	GRI Reference		Location in this report	SR	Web
	3.9	Basis for identification and selection of major stakeholders.	p16-17	●	●
	3.10	Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group.	p16-17	●	●
	3.11	Type of information generated by stakeholder consultations.	p16-17, 30-31, 47, 50, 53	●	●
	3.12	Use of information resulting from stakeholder engagements.	p16-17, 30-31, 47, 50, 53	●	●
	3.13	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	p40-41	●	●
	3.14	Externally developed, voluntary economic, environmental and social charters, sets of principles or other initiatives to which the organization subscribes or which it endorses.	p22-23, 29, 47, 52-53, 63, 67-71	●	●
	3.15	Principal memberships on industry and business associations and/or national/international advocacy organizations.	p29, 47, 52-53, 62-63, 67	●	●
	3.16	Policies and/or systems for managing upstream and downstream impacts.	p35, 40-44	●	●
	3.17	Reporting organization's approach to managing indirect economic, environmental and social impacts resulting from its activities.	p(i), 12-15, 40-41, 50-59	●	●
	3.18	Major decisions during the reporting period regarding the location of, or changes in, operations.	p1-2, 6, 28, 42-44, 60	●	●
	3.19	Programmes and procedures pertaining to economic, environmental and social performance. Include discussion of priorities, targets, internal communication and training, performance monitoring, auditing and senior management review.	p(i), 1-72	●	●
	3.20	Status of certification pertaining to economic, environmental and social management systems.	p22-23, 34-35	●	●
4. GRI CONTENT INDEX					
	4.1	A table indicating location of each element of the GRI report content by section and indicator.	p68-71	●	●
5A. ECONOMIC PERFORMANCE INDICATORS					
	EC1	Net sales – as listed in the profile section under 2.8.	p60	●	●
	EC2	Geographic breakdown of markets.	a	○	○
ECO-3	EC3	Cost of all goods, materials and services purchased.	p60	●	●
	EC4	Percentage of contracts that were paid in accordance with agreed terms, excluding agreed penalty arrangements.	a	○	○
ECO-A2	EC5	Total payroll and benefits including wages, pension, other benefits and redundancy payments broken down by country or region.	p60	●	●
ECO-A3	EC6	Distributions to providers of capital broken down by interest on debt and borrowings and dividends on all classes of shares, with any arrears of preferred dividends to be disclosed.	p7, 60	●	●
ECO-2	EC7	Increase/decrease in retained earnings at end of period.		○	●
ECO-1	EC8	Total sum of taxes of all types paid broken down by country.	p7, 52, 60	●	●
	EC9	Subsidies received broken down by country or region.	d	○	○
	EC10	Donations to community, civil society and other groups broken down in terms of cash and in-kind donations per type of group.	p50-51, 60	●	●
5B. ENVIRONMENTAL PERFORMANCE INDICATORS					
	EN1	Total materials use other than water, by type.	a	○	○
	EN2	Percentage of materials used that are wastes from sources external to the reporting organization.	d	○	○
ENV-5	EN3	Direct energy use segmented by primary source.	p24	●	●
ENV-5 ^a	EN4	Indirect energy use.	p24	●	●
ENV-A7	EN5	Total water use.	p26, 60	●	●
ENV-9	EN6	Location and size of land owned, leased or managed in biodiversity-rich habitats.		○	●
ENV-9	EN7	Description of the major impacts on biodiversity associated with activities and/or products and services in terrestrial, fresh-water and marine environments.	p22-23	●	●
ENV-3	EN8	Greenhouse gas emissions.	p7, 24-25, 40-41, 60-61	●	●
	EN9	Use and emissions of ozone-depleting substances.		○	●
ENV-A6	EN10	NO _x , SO _x and other significant air emissions by type.	p26, 60	●	●
ENV-A3/4	EN11	Total amount of waste by type and destination.	p27-28, 60	●	●
ENV-2/A2	EN12	Significant discharges to water by type.	p26, 60	●	●
ENV-1/A1	EN13	Significant spills of chemicals, oils and fuels in terms of total number and total volume.	p21, 60	●	●
	EN14	Significant environmental impacts of principal products and services.	p40-44	●	●
	EN15	Percentage of the weight of products sold that is reclaimable at the end of the products' useful life and percentage that is actually reclaimed.	c	○	○
	EN16	Incidents of and fines for non-compliance with all applicable international declarations/conventions/treaties, and national, sub-national, regional and local regulations associated with environmental issues.	p3, 19, 26, 60-61	●	●

IPECA Reference	GRI Reference		Location in this report	SR	Web
5C. SOCIAL PERFORMANCE INDICATORS – LABOUR PRACTICES AND DECENT WORK					
	LA1	Breakdown of workforce, by region/country, status, employment type and employment contract.	p30, 60	●	●
	LA2	Net employment creation and average turnover segmented by region/country.	d	○	○
	LA3	Percentage of employees represented by independent trade union organizations or other bona fide employee representatives broken down geographically or percentage of employees covered by collective bargaining agreements broken down by region/country.	a	○	○
	LA4	Policy and procedures involving information, consultation and negotiation with employees over changes in the reporting organization's operations (e.g. restructuring).		○	●
H&S-4	LA5	Practices on recording and notification of occupational accidents and diseases, and how they relate to the ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases.	p18-21, 60	●	●
H&S-2	LA6	Description of formal joint health and safety committees comprising management and worker representatives and proportion of workforce covered by any such committees.	a	○	○
H&S-4	LA7	Standard injury, lost day and absentee rates and number of work-related fatalities.	p18, 60	●	●
	LA8	Description of policies or programmes (for the workplace and beyond) on HIV/AIDS.	p33	●	●
	LA9	Average hours of training per year per employee by category of employee.	p31	●	●
SOC-4	LA10	Description of equal opportunity policies or programmes as well as monitoring systems to ensure compliance and results of monitoring.	p30-35	●	●
	LA11	Composition of senior management and corporate governance bodies including female/male ratio and other indicators of diversity as culturally appropriate.	p32-33, 60	●	●
5D. SOCIAL PERFORMANCE INDICATORS – HUMAN RIGHTS					
SOC-1	HR1	Description of policies, guidelines, corporate structure and procedures to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results.	p29, 53	●	●
	HR2	Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers/contractors.	p29, 34-35, 52-53	●	●
	HR3	Description of policies and procedures to evaluate and address human rights performance within the supply chain and contractors, including monitoring systems and results of monitoring.	p34-35	●	●
SOC-4	HR4	Description of global policy and procedures/programmes preventing all forms of discrimination in operations, including monitoring systems and results of monitoring.	p30-35	●	●
SOC-7	HR5	Description of freedom of association policy and extent to which this policy is universally applied independent of local laws, as well as description of procedures/programmes to address this issue.	p34	●	●
SOC-7	HR6	Description of policy excluding child labour as defined by the ILO Convention 138 and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.	p34	●	●
SOC-7	HR7	Description of policy to prevent forced and compulsory labour and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.	p34	●	●
5E. SOCIAL PERFORMANCE INDICATORS – SOCIETY					
SOC-8	SO1	Description of policies to manage impact on communities in areas affected by activities, procedures/programmes to address this issue, monitoring systems and results of monitoring.	p15, 22-23, 50, 52-53	●	●
SOC-2	SO2	Description of the policy, procedures/management systems and compliance mechanisms for organizations and employees addressing bribery and corruption.	p34-35	●	●
SOG3/A1	SO3	Description of policy, procedures/management systems and compliance mechanisms for managing political lobbying and contributions.	p16, 34-35	●	●
5F. SOCIAL PERFORMANCE INDICATORS – PRODUCT RESPONSIBILITY					
H&S-5	PR1	Description of policy for preserving customer health and safety during use of products and services, and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.		○	●
	PR2	Description of policy, procedures/management systems and compliance mechanisms related to product information and labelling.		○	●
	PR3	Consumer privacy policy, procedures/management systems and compliance mechanisms.		○	●
CORE IPECA/API AND ADDITIONAL GRI INDICATORS					
ENV-4		Flared and vented gas.		○	●
HS1		Health and safety management system.	p20	●	●
SOC-5	LA17	Specific policies and programmes for skills management or for lifelong learning.	p30-31	●	●
SOC-6	HR10	Description of non-retaliation policy and effective confidential employee grievance system (including but not limited to its impact on human rights).	p34-35, 53	●	●
SOC-9	HR11	Human rights training for security personnel.	p29	●	●

^a ENV-5 indicator is reported in full for IPECA/API on page 24.

Further information

BP Sustainability Report 2005 forms part of BP's corporate reporting programme. Further information can be found on our website, including country or site-specific information and detailed data.

We seek to improve accessibility to information about BP. Visitors to our website may choose to select information about non-financial commitments and performance that BP controls versus those that we may influence. In addition, a key issues page enables visitors to navigate the website and find out BP's approach to a particular issue. A range of case studies is also available to provide specific examples of how we put our commitments into practice. Each case study has been substantiated by Ernst & Young.

We publish a number of online and printed country reports. These enable review of our economic, environmental and social performance in the context of a particular region or market. Our website also contains more than 60 verified site reports to help demonstrate our progress towards our aspirations.



SUSTAINABILITY REPORTING STRUCTURE

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

www.bp.com/ourapproachtoreporting

Group level

BP Sustainability Report 2005 is available in English, German, Mandarin Chinese, Russian and Spanish and BP's HSE performance data, presented as interactive charts.

www.bp.com/sustainability
www.bp.com/hsechartingtools
www.bp.com/facingtheissues

Country level

Reporting on our operations in Alaska, Azerbaijan, Georgia, Germany, Indonesia, New Zealand, Scotland, Southern Africa and Trinidad & Tobago.

www.bp.com/countrysustainabilityreports
www.bp.com/worldwide

Site level

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

www.bp.com/sitereports
www.bp.com/environmentalmappingtool
www.bp.com/casestudies

GLOSSARY OF TERMS

BTC.....	Baku-Tbilisi-Ceyhan pipeline
CDAP.....	Caspian Development Advisory Panel
CO ₂	Carbon dioxide
EIA.....	Environmental impact assessment
ESIA.....	Environmental and social impact assessment
GHG.....	Greenhouse gas
GRI.....	Global Reporting Initiative
HSE.....	Health, safety and the environment
HSSE.....	Health, safety, security and the environment
IPIECA/API.....	International Petroleum Industry Environmental Conservation Association/ American Petroleum Institute
LNG.....	Liquefied natural gas
LPG.....	Liquefied petroleum gas
NGO.....	Non-governmental organization
RDI.....	Regional development initiative
SCP.....	South Caucasus Pipeline
SME.....	Small and medium-sized enterprise
TIAP.....	Tangguh Independent Advisory Panel

OTHER USEFUL WEB ADDRESSES

www.bp.com	Information about the BP group
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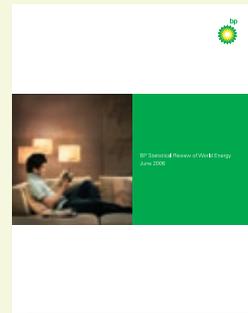
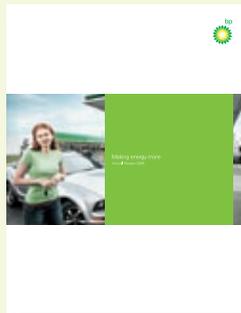
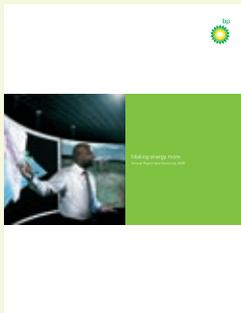
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Date of previous report April 2005

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BP Annual Report and Accounts 2005 gives details of our financial and operating performance.

2 www.bp.com/annualreview
BP Annual Review 2005 highlights our financial and operating performance.

3 www.bp.com/financialandoperating
BP Financial and Operating Information 2001-2005 includes five-year financial and operating data.

4 www.bp.com/statisticalreview
BP Statistical Review of World Energy, published in June each year, reports on key global energy trends.



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