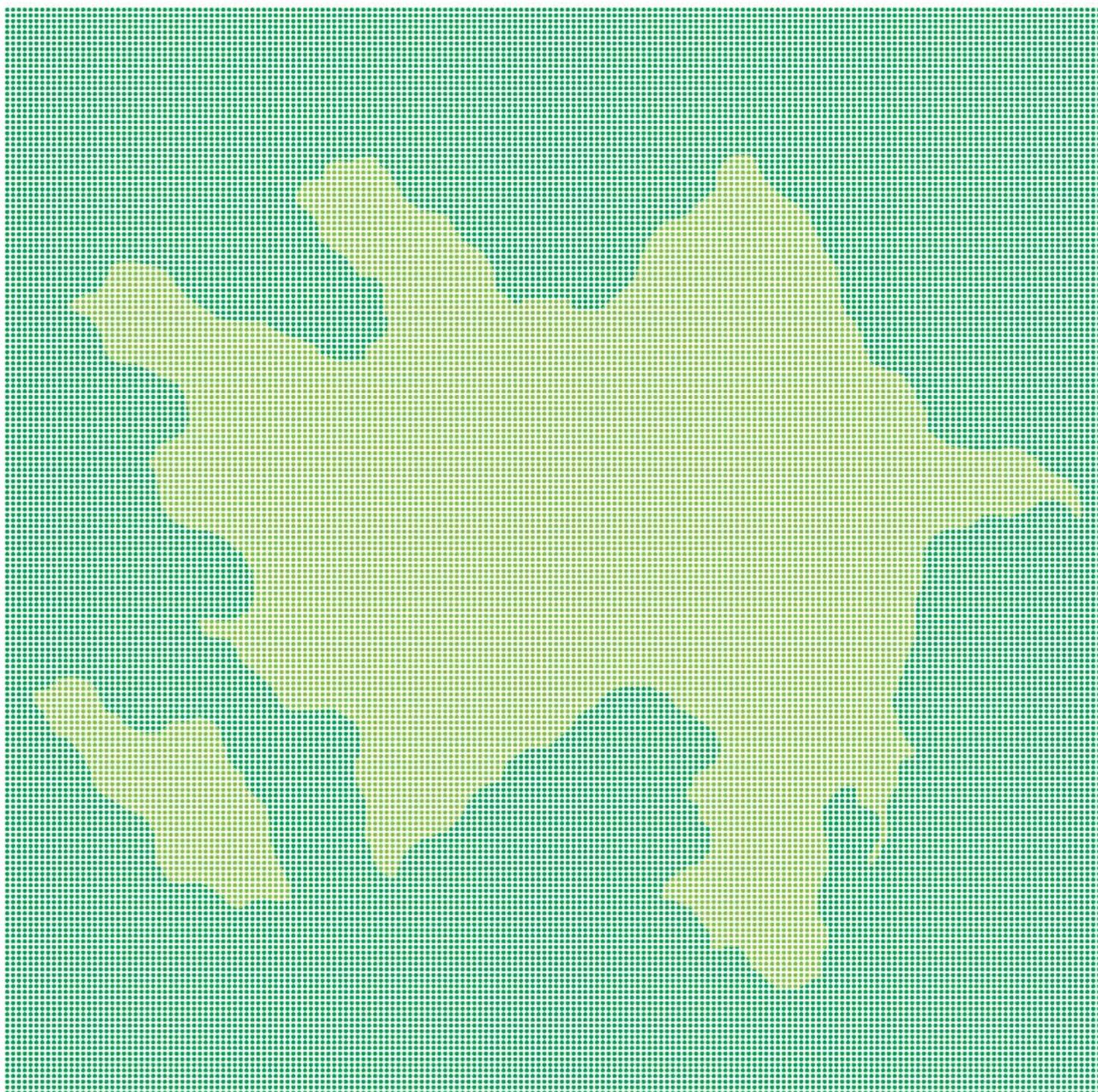




BP Azerbaijan



Sustainability Report 2003

●●● BP is one of the world's largest integrated energy groups. Our activities include the exploration and production of crude oil and natural gas; refining; petrochemical production; and the transportation and marketing of fuel, lubricants and chemical products. We are also one of the world's leading solar energy companies.

BP explores for and produces crude oil and natural gas from onshore and offshore fields, working with national governments, other oil companies and contractors. We operate in over 100 countries on six continents, producing the equivalent of approximately 4 million barrels of oil a day, and delivering high quality products to some 13 million customers every day. Worldwide, we provide employment for 103,700 people.

The Azerbaijan 'Business Unit' is one of over 100 BP Business Units (known as 'BUs') around the world. Its main operational centre is in Baku, with additional offices in Tbilisi and Ankara. Support for the BU is provided from the BP corporate centre in London as well as other staff in Sunbury and key contractor locations.

Azerbaijan is one of the most important new exploration and production areas for BP. We have made a commitment to helping develop the nation's oil and gas reserves, and to improve the quality of life of its people. BP has been in Azerbaijan since 1992 and has become the leading operator in the country. We currently operate four oil and gas exploration and development contracts, including the giant Azeri, Chirag, Guneshli and Shah Deniz fields. We are also managing the construction of the Baku-Tbilisi-Ceyhan project, which will export crude oil from the fields of the Caspian Sea to world markets, and the South Caucasus pipeline.

Our first sustainability report for Azerbaijan

This report is our first Sustainability Report for Azerbaijan. It has been prepared by our Azerbaijan Business Unit, based in Baku.

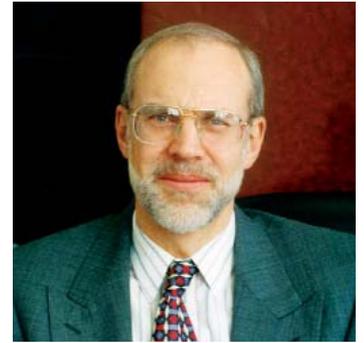
The report provides an integrated account of our business activities in Azerbaijan and our environmental, economic, and social performance. Its focus is on BP activities in 2003 and the first half of 2004. As our first report of this kind, it also refers to events that have taken place since we first established operations in Azerbaijan in 1992. Where appropriate, our activities are described in the context of the Business Unit's operations across the Caspian region, because most of our major projects and partnerships are international in character. We also describe how we operate within the values and policy framework which guides how BP does business worldwide.

The report is a local demonstration of the BP Group commitment to transparency. Throughout the report, we highlight links to further sources of information about BP, and about the environmental, economic, and social context of our operations in Azerbaijan. The report is one of a number of means by which we in Azerbaijan promote dialogue with our stakeholders. It has been substantiated by our independent external verifiers, Ernst & Young, whose statement can be found at the end of the report. In preparing this first report, we have taken account of the Global Reporting Initiative guidelines. We aim to work in accordance with these as our sustainability reporting progresses.

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Sustainability - part of the fabric of our business



Azerbaijan, a nation which more than 150 years ago created the industry on which the world continues to rely for much of its energy, is again poised to play a pivotal role on the global energy stage.

Today I believe we are at the dawn of that a new era, an era which will see world-scale oil and gas projects being undertaken in Azerbaijan and very substantial revenues and benefits flowing to the country and its people.

BP and our partners are committed to ensure that our activities are undertaken in close co-operation with our stakeholders - the Government, the people of Azerbaijan, national and international agencies, contractors and consultants, so that the maximum benefits from our investments here are shared between us all. We will continue to contribute our modern management practices, technology, high ethical, safety, and environmental standards, and our ability to secure finance and manage the multibillion dollar investments now being made in Azerbaijan.

Throughout our work in Azerbaijan, our vision is to ensure that our investment brings positive environmental, economic, and social benefits to the country and region. Environmental, economic, and social considerations are all integrated into our business decision-making and action planning. Our aim is to

deliver benefits which promote economic development in tandem with social and environmental improvement, while continuing to deliver excellent performance for shareholders. This is a major challenge, but is one that is now woven into the fabric of the way we do business.

We are therefore delighted to be issuing this, our first Sustainability Report for Azerbaijan. It sets out how we are going about the task. It describes our business operations in the country and provides information on our performance. It highlights the key environmental and social challenges we face, and describes what we are doing to tackle them. We welcome your feedback on how we are doing, and where you believe we can improve.

A handwritten signature in black ink, appearing to read 'D Woodward', with a stylized flourish at the end.

David Woodward

Associate President BP Azerbaijan

1. Our business in Azerbaijan





1.1

Legal structure	BP operates within a number of legal entities in Azerbaijan, reflecting the evolution of our involvement in the country and the region since 1992. The principal legal structure for our activities is BP Exploration (Caspian Sea) Ltd. Other legal entities exist which are linked to our exploration and pipeline projects. The Azerbaijan International Operating Company (AIOC) is one of these, set up as part of the 1994 'Production Sharing Agreement' with the Azerbaijan Government. BP is the operator of AIOC
The Azerbaijan Business Unit ('BU')	The Azerbaijan BU operates in Azerbaijan under a number of Production Sharing Agreements and Host Government Agreements signed with the Government of Azerbaijan, and in Georgia and Turkey under Host Government Agreements that cover the export pipelines and terminals
Location of BU headquarters	Villa Petrolea, 2 Neftchilar Prospekti (Bayil), Baku, Azerbaijan. Tel: (994 12) 4979000; Fax: (994 12) 4979602
Employees	Total number of employees in the Business Unit (2003): 1,196 (for Azerbaijan) Total number of Azerbaijani employees (2003): 967
Development / Production assets	<ul style="list-style-type: none"> :: Azeri - Chirag - Deepwater Gunashli (ACG): an oil field development which produced first oil in 1997, now undergoing full field development :: Shah Deniz (SD): a gas and condensate development project targeting the delivery of first gas to market by winter 2006
Estimated reserves	<ul style="list-style-type: none"> :: ACG: recoverable reserves of 5.4 billion barrels :: SD: recoverable reserves are 22.1tcf of gas and 750mmbbl of condensate
Storage and transportation	<ul style="list-style-type: none"> :: Western Route Export Pipeline (WREP): an 830km pipeline, and eight manned pump stations, running from Sangachal to Supsa in Georgia :: Northern Route Export Pipeline (NREP): 231km of pipeline in Azerbaijan, with pump, injection, and metering stations running from Sangachal to the Russian border :: Supsa Terminal (an oil storage and shipping terminal in Georgia, on the Black Sea) :: The Sangachal Terminal, south of Baku :: Baku-Tbilisi-Ceyhan oil pipeline project (BTC): under construction and for planned completion in 2005. 443km of the 1,762km pipeline is in Azerbaijan; 249km is in Georgia; and 1070km is in Turkey :: South Caucasus Pipeline (SCP): a gas pipeline under construction, parallel to BTC as far as Georgia and Turkey border, for planned completion in 2006
Exploration activity	<ul style="list-style-type: none"> :: Inam: focused on a large geological structure south of Shah Deniz :: Araz - Alov - Sharg: a frontier exploration area where we are working within an international exploration consortium :: Rioni: an exploration licence held in the Eastern Black Sea
Capital expenditure	Estimated \$21 billion on the three principal projects (ACG, BTC and Shah Deniz/SCP).
Oil production	AIOC 1997 - 2003: 229.3 million barrels



1.2

History of our engagement in Azerbaijan

BP has been an active participant in Azerbaijan since 1992. We were among the first companies to enter the country following the Government's strategic decision soon after independence to develop the country's oil and gas resources in partnership with international oil companies and to focus on exporting its oil to hard-currency paying western markets in order to generate needed revenues. We are the largest single shareholder in the Azerbaijan International Operating Company (AIOC), set up as part of the historic 1994 'Production Sharing Agreement' (PSA) which governs the way in which international oil companies operate in Azerbaijan. In 2003, we employed 1,196 people in Azerbaijan, 81% of whom are Azerbaijan nationals.

We are the operator of the major projects in the Azerbaijan sector of the Caspian and trans-Caucasus region - channelling investment estimated at \$21 billion. We believe that these projects, which are backed by partnerships of national and international petroleum companies and the Governments of Azerbaijan, Georgia and Turkey, comprise the largest foreign direct investments to date in the three countries. The projects are underpinned by PSAs, Inter-Governmental Agreements (IGA), and Host Government Agreements (HGA). As operator, BP is responsible for managing and carrying out operations on behalf of the various project partnerships within agreed project frameworks. This enables BP to consult extensively with stakeholders. Our partners provide invaluable support as a part of this process and contribute greatly to our overall success.

BP - over a decade of engagement in Azerbaijan

September 1994

ACG Production Sharing Agreement signed between BP, partners and Azerbaijan Government - Azerbaijan's first offshore 'PSA', referred to as 'the Contract of the Century'

February 1995

Formation of AIOC - the Azerbaijan International Operating Company, comprising 10 parent companies, including BP as the largest single shareholder

October 1995

ACG 'Early Oil Project' sanctioned, an initiative to allow the 'early' export of oil from the Chirag field

June 1996

Shah Deniz PSA signed

September 1997

Azerbaijan Working Group established to develop the Baku-Tbilisi-Ceyhan (BTC) export pipeline

November 1997

First Oil produced from the Chirag platform

July 1998

Signature of Inam and Araz-Alov-Sharg PSAs

December 1998

Western Route Export Pipeline starts operations

November 1999

At a summit in Istanbul, Azerbaijan, Georgia and Turkey signed the Inter-Governmental Agreement (IGA) in support of the Baku-Tbilisi-Ceyhan Main Export Pipeline

August 2001

ACG Phase 1 sanction

May 2002

Opening of the Enterprise Centre in Baku, to help local companies develop their businesses

September 2002

ACG Phase 2 sanction

September 2002

Presidents of Azerbaijan, Georgia, and Turkey participate in BTC ground-breaking ceremony

February 2003

Shah Deniz Stage 1 sanction

April 2003

Construction of BTC pipeline commences in Azerbaijan, Georgia and Turkey

May 2003

200 million barrels production from the ACG 'Early Oil Project'

February 2004

Signature of financing deal for BTC - completing the agreements for third party financing of the pipeline project



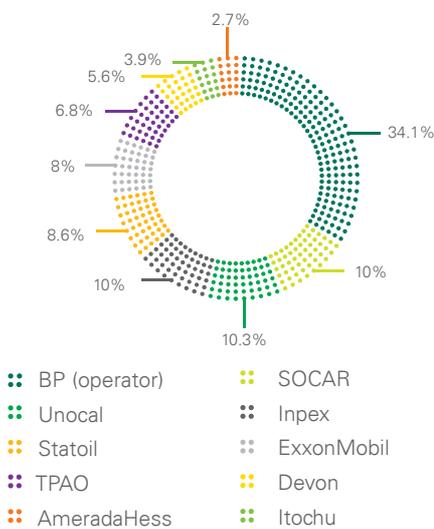
Our operations and projects - Azeri-Chirag-Deepwater Gunashli (ACG)

1.3

Overview

ACG, an offshore oil field in the south Caspian Sea, is the largest field under development in the Azerbaijan sector of the Caspian. Lying approximately 100km east of Baku, it is being developed by the Azerbaijan International Operating Company (AIOC) - made up of the companies shown in the diagram below. Production from ACG started in November 1997 from the Chirag field. The next two phases of development have been combined as the Azeri project and the third phase (ACG3) will develop deepwater Gunashli. We expect that full field development will result in the production of approximately 1 million barrels of oil per day by 2009.

AIOC partners

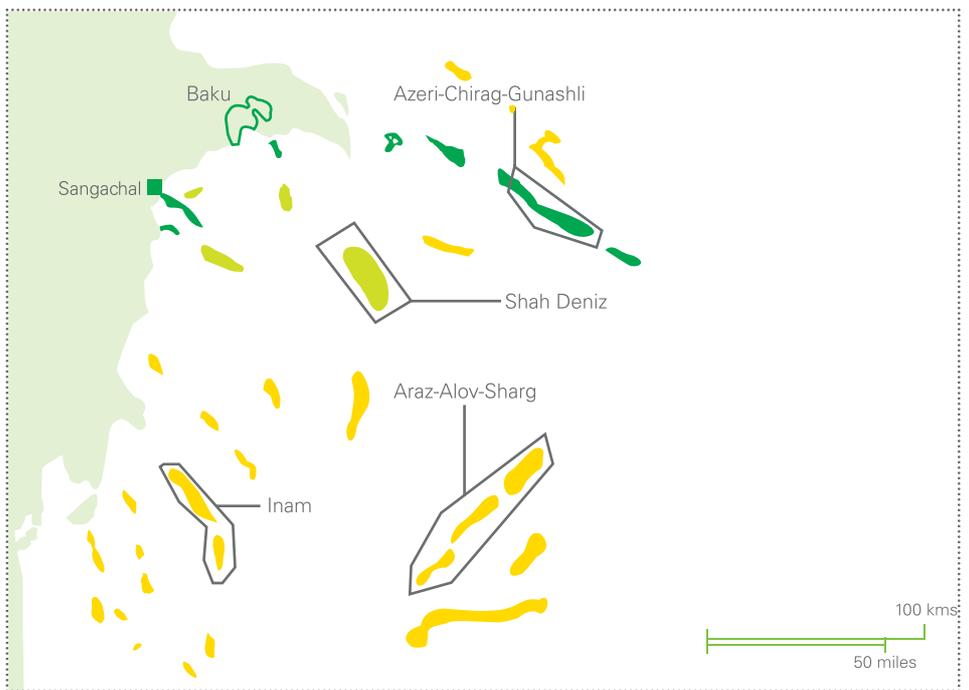


Progress

During 2003, we with our AIOC partners, spent \$89m on ACG operational expenditure, and \$2,129m on ACG capital expenditure, primarily on the construction of the Azeri project. In 2003, ACG production from Chirag totalled 47.8 million barrels (131,000 barrels per day).

On Chirag, we successfully completed the drilling of an extended reach production well, and sidetracked two additional production wells - bringing the total number of production and injection wells on Chirag to eighteen.

ACG project



On the Azeri project, construction of the jacket for the Central Azeri platform, which will be the largest structure to be installed in the Caspian Sea, was completed in November 2003. It has recently been installed offshore, in a water depth of 120 metres.

We have also made significant progress on the subsea pipelay programme, which will bring oil and gas to shore to the expanded Sangachal Terminal. Laying of the oil pipeline, which began in 2003, has been completed, and work on the gas pipeline is nearing completion. At Sangachal, construction activities have resulted in the completion of most of the major equipment for the first phase of expansion.

Pre-drilling activity was completed at the Central Azeri location in 2003 and pre-drilling at West Azeri commenced in 2003.

Plans

We, with our AIOC partners are planning to spend a further \$91m in operating

expenditure and \$2,364m capital expenditure in 2004 on ACG activities.

First oil is expected to be produced from the Central Azeri platform early in 2005. This will require the topside facilities to be installed offshore in September 2004, along with completion of the subsea oil and gas pipeline tie-ins and completion of the initial phase of the Sangachal Terminal expansion. Initial production will be used to fill up the facilities and production is expected to exit Sangachal Terminal in the first half of 2005.

In addition, pre-drilling activities will continue throughout the year at both West and East Azeri. Construction activity will continue on the jackets and topsides for the compression and water injection platform, West Azeri and East Azeri. Further expansion of the terminal will also occur.

On Chirag, production and drilling activities will continue. The aim is to improve water injection into the reservoir and support production. Production for 2004 from Chirag is expected to exceed 125,000 barrels per day.

The Baku-Tbilisi-Ceyhan pipeline (BTC)

“Without this pipeline we would have developed much smaller volumes of hydrocarbons over a far longer period,” says Samir Sharifov, the head of Azerbaijan's State Oil Fund.

“It's allowing us to develop our economy faster and it's giving Baku the opportunity to become a very important regional transport hub for hydrocarbons development. It has also given us much more confidence that the transport of the oil to world markets will be safe and in line with the highest international standards. The BTC project has already brought us a lot of additional inputs”

Overview

The BTC pipeline is being built to transport oil from the Caspian Sea starting at the Sangachal Terminal south of Baku, through Georgia, to a new marine terminal at Ceyhan on the Turkish Mediterranean coast. From there, tankers will ship the oil to international markets. The pipeline's construction will enable the export of oil from the Caspian without having to transit the environmentally sensitive and already congested Turkish straits. Extensive environmental and social impact assessments (ESIAs) have been carried out along the entire length of the pipeline,

including extensive study of and resulting changes to the pipeline route. The pipeline, which will be approximately 1,762 km in length, is being constructed to a tight schedule, with first oil due to be exported from the terminal at Ceyhan in the second half of 2005. The project's estimated capital cost is \$2.95 billion. Linefill and financing costs bring the total project cost to \$3.6 billion.

Progress and plans

Together with the upstream development of the ACG fields, this is currently the world's largest energy project. The construction of the BTC pipeline itself is the largest and most complex cross-border infrastructure project in the world today. The activities of the BTC project are truly global in scale. Equipment is being purchased and transported from 13 different countries, such as steel line - pipe from Japan, turbines from the UK and pipe coating from Malaysia, and the work is being co-ordinated in 30 office locations around the world.

BTC construction activities progressed on schedule in 2003. By the year end, within Azerbaijan, approximately 189km of the right of way (ROW) had been cleared, 169km of pipeline had been strung, and about 153km of pipe had been welded. The pipeline will be buried below ground throughout its entire length.

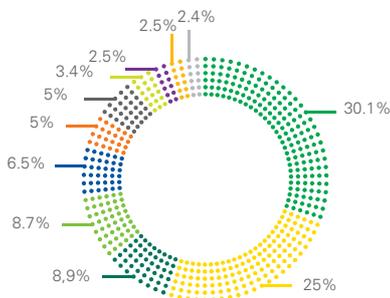
In the first 7 months of 2004 pipeline construction in Azerbaijan progressed in

accordance with the construction schedule. Of the total 443km of the pipeline length in this country we have cleared about 427km of the ROW, have strung about 425km of line-pipe, and have welded over 420km of pipe. In addition, we have trenched about 300km of land, lowered 285km of pipe in the ground, backfilled 262km of land and reinstated about 175km. Work continues to progress at the Pump Station PS-A2 site near Yaldilli in the Yevlakh district, and at Intermediate Pigging Station IP-A1 near Kurdamir.

We have also completed the construction of camps at Mugan and Kurdamir in the course of the year, and begun work on a further camp at Yevlakh, which was completed in early 2004, and two further sites at Poylu and Samukh, nearer the Georgian border.

Today we have major activities along the entire BTC route between Baku in Azerbaijan and Ceyhan in Turkey. The project has been spending over \$4 million a day since the commencement of construction activities and this will continue through this year until the completion of the pipeline, which is due to be in the first half of 2005.

BTC partners

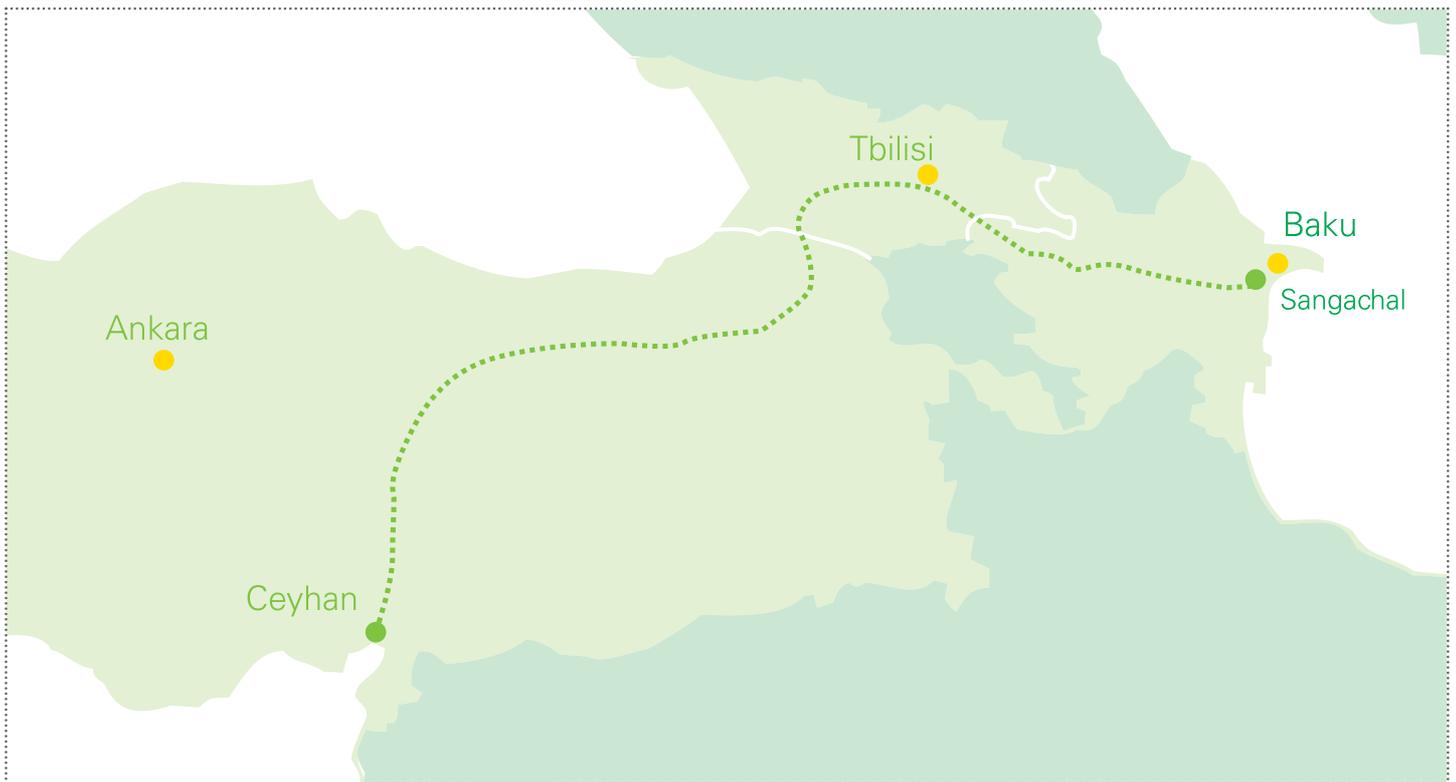


- BP (operator)
- Unocal
- TPAO
- TFE
- INPEX
- AmeradaHess
- SOCAR
- Statoil
- Eni
- Itochu
- Conoco-Phillips

BTC - facts and figures

- :: Carrying 1 million bbl/day by 2009 - equivalent to approximately 325 tanker loads a year
- :: 1,762km in length - the longest pipeline ever sponsored or operated by BP
- :: 42/46 inch pipeline - oil will move at approximately 2 metres per second
- :: 8 pumping stations - designed to minimize intrusion into the landscape
- :: crossing more than 1500 rivers, canals and other watercourses
- :: a high point of over 2,800 metres
- :: line buried to a depth of at least a metre - hidden for its entire length
- :: no people displaced, despite passing approximately 450 communities

The BTC pipeline project



"We believe this project - perhaps the best pipeline project designed to date - will unlock the economic potential of the region. We are committed to working with BTC, the project sponsors and the governments to ensure that the potential becomes reality."

Noreen Doyle

First Vice President of the European Bank for Reconstruction and Development at the ceremony to mark the financing of the BTC pipeline in Baku, February 2004.

February 2004 saw the formal signature of the BTC financing agreements, at a ceremony in Baku involving the project sponsors, lenders, and the three governments of the transit countries. The successful conclusion of the external financing, which will enable us to drawdown payments from 2004 on, marked the culmination of over two years of extensive monitoring and scrutiny of the project's environmental and social impact and consultation with lenders, NGOs and the public. The consultation process involved villages, landowners, and land users along the entire project route, including the 443km of pipeline in Azerbaijan. We are committed to continuing consultation and openness.

In completing the financing arrangements, the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) expressed their faith in the

projects, and acknowledged the extensive effort, which has been made to engage with stakeholders throughout the project's life.

Links:

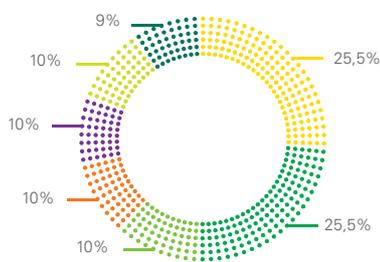
www.caspiandevlopmentandexport.com

Shah Deniz

Overview

The Shah Deniz gas field is located offshore in the Azerbaijani portion of the Caspian Sea, 100km south-east of Baku. It is one of the largest accumulations of offshore gas to be discovered in recent years: recoverable reserves of the Shah Deniz field are 22.1tcf of gas and 750mmbbl of condensate, with potential for further hydrocarbons at deeper horizons. Gas will be delivered through the 690km long South Caucasus Pipeline (the SCP) from Sangachal in Azerbaijan through to the Georgian /Turkish border for delivery to Turkish gas markets. The SCP will be constructed in the same right of way as the BTC pipeline, and will also be buried underground.

Shah Deniz partners



- BP (operator)
- SOCAR
- NICO
- TPAO
- Statoil
- LukAgip*
- TFE

* On 30th June 2004 OAO LUKOIL announced that it has signed a binding agreement with Eni, whereby LUKOIL will buy from Eni its fifty percent interest in LUKAgip N.V. Completion is subject to certain closing conditions and is therefore expected to take place in the third quarter of 2004.

Seven national and international petroleum companies are partners in the development of the Shah Deniz gas field and the construction and operation of the

SCP. BP is the operating company for the Shah Deniz gas field project during development and production, and is the operating company of the SCP during construction. BP will also be the Technical Operator for the SCP during the operational phase of the project.

The total capital cost of developing the first phase of Shah Deniz and the SCP is estimated at \$3.2bn.

Progress

Shah Deniz

The Shah Deniz gas export project has made significant progress since its sanction in February of 2003. The project has invested over \$1,250m to date and is on track to deliver first gas before winter 2006.

In Azerbaijan the upgrade of the Zyk 3 facility to fabricate the 3 legs of the TPG 500 platform is nearing completion. The upgrade work initially commenced in October 2003 and enabled leg fabrication to start in January 2004. Leg fabrication will continue throughout 2005 and the legs will be mated with the completed TPG 500 platform in early 2006.

The Zyk 4 yard is also undergoing renovation to prepare for the main integration of the TPG platform strips. At the beginning of 2004, work commenced on clearing the Zyk 4 site, and full completion of the Zyk 4 yard upgrade is scheduled for the fourth quarter of 2004.

The main TPG 500 hull is being fabricated in four self-floating strips at Keppel FELS shipyard in Singapore, these self-floating hull strips will be transferred into the Caspian Sea via the Volga-Don canal system and will arrive in Baku in October 2004. The work on fabricating the strips is progressing well and the first strip keel laying was completed in the Singapore dry dock in December 2003.

On arrival in Baku the hull strips will be joined together in the KMNF Floating Dry Dock the "Yusif Ibrahimov". Refurbishment of the Floating Dry Dock (FDD) commenced in February 2004 by the Caspian Shipyard Company and a number of local subcontractors. Currently in excess of 200 people are involved in Baku

with the FDD upgrade.

Once the hull strips are joined, the completed hull leg sections and platform topsides will be assembled into a single structure at the Zyk facility. The drilling equipment set, which is presently being fabricated in Norway, will be transferred through the canal system to Baku in the third quarter of this year and installed onto the platform hull prior to the installation of the completed platform in its final offshore location in the second quarter of 2006.

Shah Deniz will commence production from 3 pre-drilled wells using a subsea template installed in April 2003. All 3 wells have already been successfully drilled from the template. Their results have considerably added to our experience of drilling in the Shah Deniz reservoir and the South Caspian in general.

SCP (South Caucasus Pipeline)

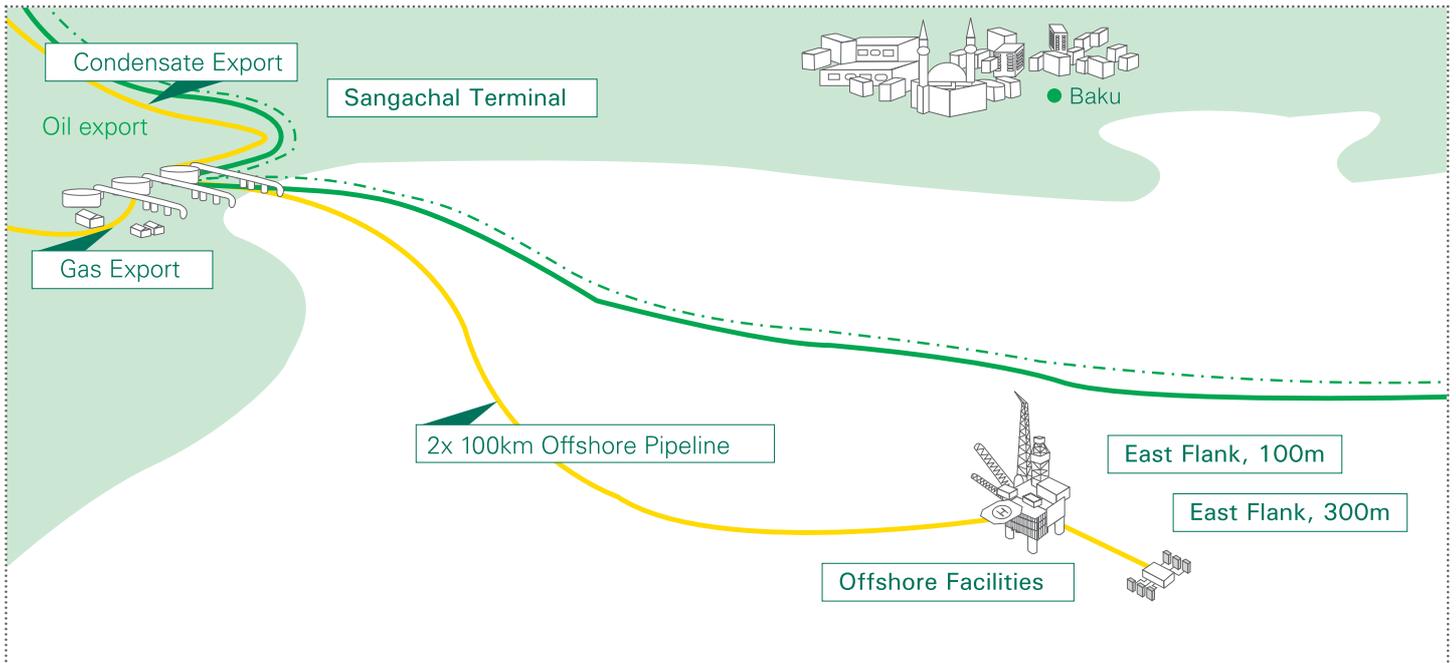
The first joints of pipe for the construction of SCP were delivered to Azerbaijan late January 2004. The pipe is 42" in diameter and is supplied by Sumitomo Corporation who are providing all of SCP pipe for both Azerbaijan and Georgia.

The SCP pipe joints that have already arrived are being stored in the Yevlakh pipe yard. As further shipments of SCP line-pipe arrive at Poti port in Georgia, and are transported to Azerbaijan, they will be unloaded at pipe yards nearer to the Azerbaijan/Georgia border, from where the construction of the Azerbaijan section of SCP will commence. The pipe will be transferred to the Right of Way (RoW) upon completion of welding of the BTC pipeline when major physical construction activities for SCP are planned to commence.

Approximately 38,000 joints of pipe will be needed for the Azerbaijan section of SCP which is 443 kilometres long. Transportation of pipe shipments will continue until the end of 2004.

All SCP engineering and procurement activities are continuing on schedule.

Shah Deniz and SCP projects



Plans

Remaining Shah Deniz & SCP 2004 milestones:

- :: Drilling equipment set arrives in Baku (from Norway) - 3Q
- :: Complete pre-drill programme - 3Q
- :: TPG500 platform strips arrive in Baku (from Singapore) - 3Q/4Q
- :: Commence TPG mating in Floating Dry Dock - 4Q
- :: Commence SCP pipeline construction - 4Q.

Exploration

We continue to explore in the region for new reserves and our exploration prospects offer great potential for longer-term development. It is also a further indication of our long-term commitment to Azerbaijan and the region.

Inam

Inam is a large structure in the Kura Delta area south of Shah Deniz. Together with SOCAR and Shell, we have been exploring the structure, with the first deep exploration well drilled in 2001. The structure is located in a challenging drilling environment, in which the application of advanced technology will be a critical success factor.

As the first Inam exploration well was unable to reach the deeper reservoir targets, due to very high overpressures, the Inam partnership spent 2003 selecting the most appropriate location for testing these deeper reservoirs. The main focus for 2004 is planning for the second exploration well at Inam.

Inam partners

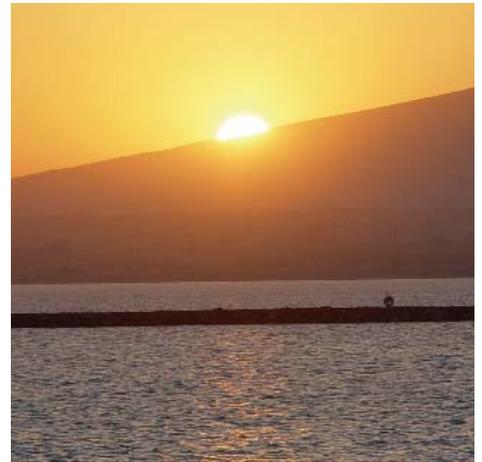


- BP (operator)
- Shell
- SOCAR

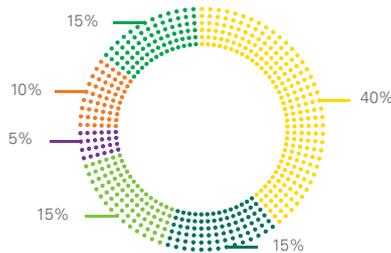
Alov, Araz, Sharg

This frontier exploration area is being explored by an international consortium, as shown below.

In 2003, the Alov partnership focused on improving the seismic image of this complex, deep-water structure. The results of these reprocessing efforts will be studied in 2004.



Alov, Araz, Sharg partners



- BP (operator)
- ExxonMobil
- SOCAR
- EnCana
- Statoil
- TPAO



1.4

Azerbaijan Business Unit operations are guided by corporate business policies that focus on five areas: ethical conduct, employees, relationships, health, safety, and environmental (HSE) performance, finance and control. We are committed to:

- ⌘ Respecting the rule of law, conducting our business with integrity, and showing respect for human dignity and the rights of the individual wherever we do business
- ⌘ Creating a work environment of mutual trust and respect; in which diversity and inclusion are valued
- ⌘ Creating mutual advantage in all our relationships so that people will trust us and want to do business with us
- ⌘ Demonstrating respect for the natural environment and work towards our goals of no accidents, no harm to people and no damage to the environment
- ⌘ Managing our financial performance to maximize long-term value for our shareholders.

These commitments have been given effect in a number of detailed policy standards, for example, the BP group's policy of never paying or taking bribes, of providing open and constructive feedback to employees, holding leaders accountable for safety, setting clear performance targets and working towards measurable improvements in the communities where we operate. Full details of BP group policies are available at www.bp.com



2. BP Azerbaijan and health, safety and environment





2.1

The BP Group's headquarters in London maintains a Health, Safety, Security and Environment (HSSE) management framework that applies to all BP businesses throughout the world.

The management of BP Business Unit translates these expectations into performance targets. Each business in the Group must demonstrate continuing progress toward these targets through an HSSE assurance process that involves audits, reports and dialogue within the company. Accordingly, within Azerbaijan we have:

- ⌘ An ISO 14001 certified environmental management system. In 2004, the system was successfully recertified by an external auditor
- ⌘ Incorporated extensive risk assessments in the planning and design of the projects
- ⌘ Developed and implemented industry technologies and best practices that reduce our environmental impact. We have, for example, successfully piloted an indirect thermal desorption unit in 2004 to dispose of drill cuttings from ACG, Shah Deniz and others
- ⌘ Worked with our partners and other operators in the region to develop oil spill response capability for the Caspian region
- ⌘ Engaged with stakeholders in many levels of society about our businesses. The BTC pipeline, for example, has undertaken an extensive stakeholder consultation process that has led to many design and construction modifications and has helped shape sustainability initiatives including community and environmental investments
- ⌘ Launched a major effort in 2003 to tackle key safety risks and ensure compliance with our 'Golden Rules of Safety'.

Our goal to create an injury-free workplace consists of three fundamental components:

- ⌘ Developing a visible and engaged leadership among our own managers and contractor management
- ⌘ Conducting risk assessment prior to every task
- ⌘ Embedding safe behaviours among workers.

Our approach to safety is succinctly captured in our Guiding principles:

- ⌘ Injuries and occupational illnesses are preventable
- ⌘ Safety is fundamental to the way we conduct our business
- ⌘ Employee involvement, feedback and recognition are fundamental to safety
- ⌘ Managers, employees and contractors are responsible and accountable for their actions, and each has a responsibility - without fear of reprisal - to report unsafe or hazardous conditions to management
- ⌘ If a worker views a job as 'unsafe', he or she has the right and obligation to stop the work until deemed safe.

These principles are embodied within our 'Golden Rules of Safety' which set out fundamental standards for safeguarding personal safety and provide the key controls which must be followed in all places of work. They are in addition to the basic rules which are embedded within operating practices, and cover permit to work requirements, working at heights, lifting operations, energy isolation, ground disturbance, confined space entry, driving safety, and the management of change. We have taken steps to reinforce these throughout the year, with guidance and information available in Azeri, Russian, and English.





2.2

Safety

Azerbaijan Business Unit Safety plan for 2003 and results.*

Segment initiatives	
Quarterly Safety Immersions ¹	G
BU initiatives and activities	
Quarterly communication from Business Unit Leader	G
Just culture campaign ²	Y
Azerbaijan leadership team 'Golden Rules of Safety' training	G
Road safety audit	G
Safety day out	G
Segment MIA / HIPO ³ review and analysis	G
Bi-annual review of BU HSE risk matrix	G
Monthly review of risk from BU HSE risk matrix	G
Contractor safety matrix	G
Contractor performance reviews	G
Annual HSE report and assurance letter	G
Cross PU initiatives and activities	
Quarterly theme promotions ¹	G
'Golden Rules of Safety' self-assessment	G
Annual 'getting HSE right' self-assessment	G
2003 Safety Plan notes	
1. Driving Safety Immersion not issued until late 4Q. Energy Isolation Immersion not issued as of 2Q 04	
2. This program is in development but has not yet been implemented. Some of the original objectives are being met through GRoS and Supervisor's Safety Training programs	
3. MIA - Major Incident Announcement; HIPO - High Potential Incident	
* Colour Key: A simple 'traffic light' indicator is used to show performance against targets, with 'G' representing 'green' (where performance has exceeded the target) and 'R' representing 'red' where the target has not been reached.	



The ACG project has passed 20 million km driven without a DAFWC since the project was sanctioned in August 2001. At ACG project construction sites, our project team and contractors have worked hard to meet our goal of no harm to people. Our main contractor at the Sangachal Terminal expansion works, Tekfen/Azfen, has reached more than 8 million man-hours without any accident or injury from the beginning of the construction works in November 2001.



The AzBU Safety Plan for 2003 was based on a review of our 2002 safety performance. Key initiatives and activities were developed and progress against them was monitored. Specific targets were set for key safety performance indicators.

The Business Unit achieved its key safety performance indicators in 2003, achieving targets in all categories except for 'Total Vehicle Accident Rate' (TVAR). Our Business Unit safety performance against key indicators is set out in the table below.

2003 Azerbaijan Business Unit safety performance against targets¹

	Target	Actual	Status
DAFWC ²	< 0.09	0.08	G
RIIF ³	0.65	0.62	G
TVAR ⁴	0.72	0.86	R
ASA ⁵	210	415	G
STOP ⁶	1,400	1,621	G
Training Hours ⁷	3,000	7,638	G
Action Item Closure ⁸	80%	82%	G

Notes:

- The table shows information for Business Unit reportable data only. The Business Unit is the reporting unit for HSE performance within BP. It does not include data that are project-only reportable. BP's injury and illness definitions are the US Occupational Health and Safety Administration (OSHA) definitions and their subsequent interpretation
- Day Away From Work Case: a work related injury or illness that causes the injured person to be away from work for at least one normal shift after the shift on which the injury occurred, because he/she is unfit to perform any duties. The DAFWC frequency is expressed as the number of the injuries or illnesses that result in a person (employee or contractor) being unable to work for a day (shift) or more per 200,000 hours worked
- Recordable Injury and Illness: this is a measure used by OSHA. Recordable Injury and Illness Cases are all work-related deaths and illnesses, together with injuries that result in days away from work case, restriction of work or motion, transfer to another job, or require treatment beyond first aid. The RIIF frequency is expressed as the number of Recordable Injuries and Illnesses per 200,000 hours worked
- Total Vehicle Accident Rate: an expression of the number of road accidents per million vehicle kilometres travelled
- Advanced Safety Audit: a technique in which managers trained in safety issues, observe people at work, discuss and agree with them how risk should be managed. This intervention is done using a positive, cooperative approach. The ASA frequency is expressed as the number of completed Advanced Safety Audits per 200,000 hours worked
- Safety Training Observation Programme: a documented observation of an unsafe act or condition by the workforce. The STOP frequency is expressed as the number of completed Safety Observations per 200,000 hours worked
- Training Hours are those hours of training which include some aspect of safety as the topic. The Training Hours frequency is expressed as the number of training hours per 200,000 hours worked
- Action Item Closure: the number of action items in the Traction database that are closed on or before their due date, divided by the total number of actions due in the same time period.

Although our safety performance in 2003 was strong, we continue to learn from experience and embed better safety behaviour in all of our activities. The Business Unit had a total of 9 Days Away From Work Cases in 2003. While this is an increase on previous years, it reflects the increasing scale of our operations in higher-risk activities such as construction and the significant increase in the total number of hours worked. We

have instituted case management practices to ensure that injured workers receive proper medical care and are able to return to work without jeopardizing their recovery. DAFWC trend information is summarized in the table below:

Azerbaijan Business Unit DAFWC trend information: 2000-2003

	2000	2001	2002	2003
DAFWC	1	4	1	9
DAFWCf	0.03	0.11	0.02	0.08

Regrettably, we suffered three major incidents in Azerbaijan and Georgia in 2003: a contractor fatality on the BTC project caused by a vehicle accident, a helicopter incident involving the crash landing of a third party helicopter carrying BP and contractor staff (in which all passengers and crew survived), and an oil spill in Georgia (discussed below in the section on environmental performance).

We analyse several aspects of recordable incidents, such as their nature, frequency, seasonality, immediate and root cause, and relationship to the 'Golden Rules of Safety'. The projects also have audit programmes, including contractor safety audits, carried out to a plan and schedule. These analyses are used to drive immediate improvements and to form the basis of the annual safety plan and targets. Our 2004 safety plan includes focus on:

Contractor safety

Active participation of key contractors in HSE Forums	*
Increased focus on safety during contractor quarterly performance reviews	

Supervisory safety leadership

Establish accountability for 'Golden Rules of Safety' compliance amongst all first line supervisors	
Provide training and verify competence	

Transition management

Develop and test Construction-Commissioning-Operations transition management plans	
--	--

Lessons learned

Effectively assimilate learnings from all DAFWC's, MIAs, HIPOs and fatalities both from within AzBU and across the BP Group	
Deliver Driving Safety and Lifting Immersion programmes	
Standardise the Permit to Work system across the Business Unit	

* 'Traffic light' assessment to be made after year-end 2004.

HSE performance

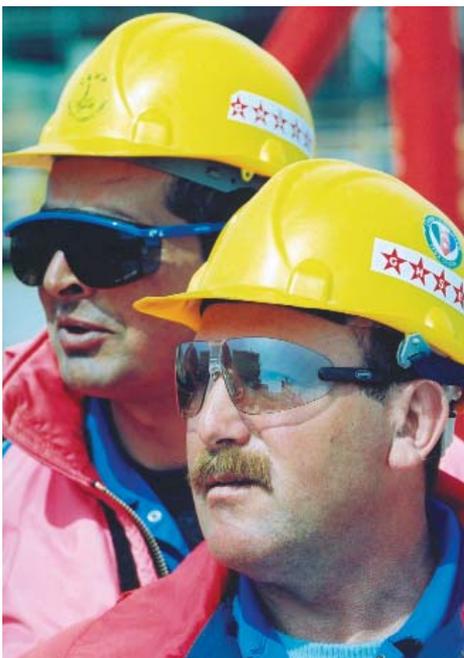
Health

Core elements of Health management in the Azerbaijan Business Unit are prevention of injury and ill health, management of injury and illness and health promotion. Our 2003 Health plan was focused on:

Assurance of health provisions and standards across the BU	G
Organisational stress and well-being	G
Working environment	G
Health team resourcing	G

In 2003

- We have undertaken a review of BP key medical providers in Azerbaijan and Georgia. The findings and recommendations have been communicated and successfully implemented to further develop medical services (infrastructure) available in Azerbaijan and Georgia



- A substance abuse policy and programme was successfully implemented. As part of this programme we have trained national doctors working for contractor medical companies (ISOS and MediClub in Azerbaijan and Georgia) and also Republican Narcology Center of the Ministry of Health of Azerbaijan in internationally accepted testing protocols and procedures. We have also provided them with the testing equipment (that meets international standards) that they can use for all customers not just BP

- The Health team worked with the assets across the BU to identify health risks and to put programmes in place to mitigate these risks. Health map risk assessment identified stressors in BTC and Azeri projects. A stress management programme has been established in Group Health and will be implemented in the AzBU mid 2004. Well-being programmes promoting healthy living were delivered across the Business Unit

- We sponsored an epidemiological survey along the BTC pipeline route. This survey was successfully carried out by the respective agencies of the Ministries of Health in Azerbaijan and Georgia (Republican Anti Plague Station of the Ministry of Health of Azerbaijan and the National Center for Disease Control within the Ministry of Health of Georgia)

- The Health team is staffed with eight national professionals and one expat, a food hygiene expert, who was recruited to manage catering risks. Training and development plans are in place for staff.

Our focus for 2004 is to continue concentrating on the following health management programmes to build a comprehensive and consistent Health management system across AzBU:

- Fitness for task (including travel health)
- Substance abuse. Managing multi random checking
- First Aid and medical preparedness
- Food safety programme
- Water Quality Programme
- Heat Stress Risk

- Stress management implementation
- Office ergonomics
- Manual handling.

Environment

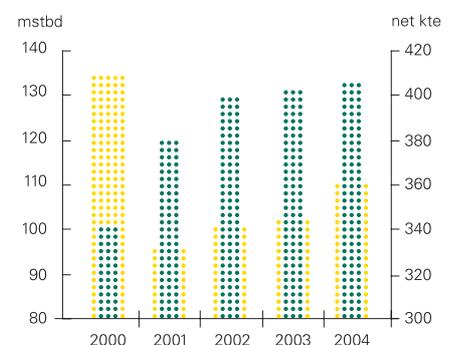
Greenhouse gas emissions (GHG)

Greenhouse gases (GHG) include carbon dioxide and methane emissions which are generated by the combustion of fossil fuels. For AzBU the main sources of GHG are the combustion of natural gas and diesel for power generation and also gas flaring (principally required for safety reasons).

Over the period 2000-2003, GHG emissions have dropped by approximately 18% whilst the level of hydrocarbon production has increased by 30%. The maintenance of the GHG plateau in 2003 is the result of improved management of flare rates and differences in gas composition of producing wells.

The tables below illustrate the contribution of individual AzBU projects and operational sites to the GHG profile over the period 2000-2004 and other atmospheric emissions.

AzBU GHG emissions & daily production rate*



- AzBU Oil production rate
- AzBU GHG emissions summary (net kte)
- * 2004 data shows target numbers

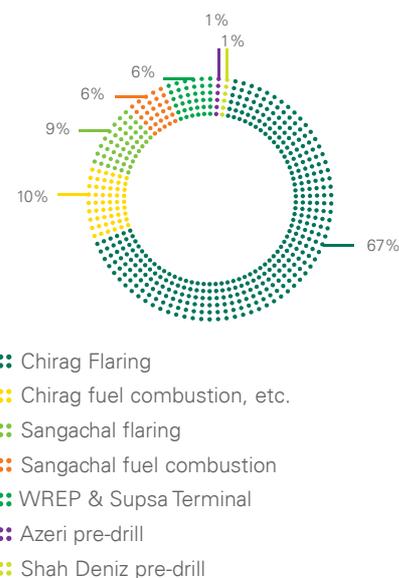
Azerbaijan Business Unit: direct greenhouse gas emissions summary (Net Kte equivalent)¹

Kte (net appropriate equity share)	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Target
Early Oil project total	409	330	336	336	330
Shah Deniz pre-drill	0	0	0	2	3
Azeri operations	0	0	0	0	23
Azeri pre-drill	0	0	3	5	7
BTC ²	0	0	0	0	0
SCP ²	0	0	0	0	0
Exploration ²	0	0	0	0	0
Total Azerbaijan BU	409	330	339	343	363

Notes

1. The emissions reported include carbon dioxide and methane
2. Emissions from construction activities are not included

AZBU GHG emissions summary 2003 (net kte)



Minimising emissions

By incorporating greenhouse gas mitigation and reduction measures in the design phase, the projects have been able to minimise GHG emissions, for example:

- The ACG project, which is the single largest source of forecast GHG emissions, was committed to eliminating the need to continuously flare gas at Chirag. This has the significant potential to reduce the national inventory of GHG emissions by approximately 15 million tonnes over the period 2005 to 2024
- Flare gas recovery, optimizing power sources and power requirements, and altering the configuration of pumps on the BTC pipelines have also been integrated into the design
- Removing a pumping station from the original conceptual design of the BTC pipeline in Georgia, and delaying construction of a second pump station has resulted in the most significant reductions in emissions. This was achieved by increasing the diameter of the Georgian section of the pipeline

Azerbaijan Business Unit oxides of sulphur, oxides of nitrogen, carbon monoxide, particulates emissions summary

Emissions in tonnes	2002	2003
Oxides of sulphur (S _{ox})	101	161
Oxides of nitrogen (N _{ox})	2,230	2,273
Carbon monoxide (Co)	2,187	2,250
Particulates (Pm10)	61	61

During 2003 the Business Unit's greenhouse gas emissions were approximately 343,000 tonnes of carbon dioxide equivalents. The main sources of GHG are flaring of gas at the Chirag platform and Sangachal Terminal and the combustion of hydrocarbons at Chirag to deliver power for the platform processing and safety systems. Given the future commissioning of new platforms it is anticipated that GHG rates will rise in 2004 and 2005. However, by 2006 they

are expected to have reduced compared with the 2003 level. This reduction should mainly be achieved by the export of the excess gas that is currently being flared at the Chirag platform to the new Compression and Water Injection platform and implementation of various excess gas export options at Sangachal Terminal. Hence despite the increased production levels and operations of new facilities, the overall Business Unit GHG signature should be lower than it was in 2003.

HSE performance

- ∴ To further minimise flaring, it is planned to use gas produced from ACG project, for example, for fuel gas to run the operation on and offshore. It is planned to re-inject the gas into the reservoir to support and improve oil recovery, and deliver gas to SOCAR for their use
- ∴ Gas deliveries made in this way will be managed in the context of a 'Gas Delivery Protocol' signed between SOCAR and the AIOC.

Cleaner Energy

In addition to these reduced direct emissions, we also aim that the projects will bring benefit by providing cleaner sources of energy to the host governments. The Shah Deniz project will add to the supply of gas available in all three countries, much of which will be used for power generation. Reliance on 'mazut' (a heavy fuel oil which is less efficient and more polluting), will be reduced in Azerbaijan and Georgia. These are valuable contributions to the countries' efforts under the UN Framework Convention on Climate Change (the UNFCCC) to control GHG emissions in future, which are predicted to rise significantly in all three countries by 2010.

In the decade since independence, Azerbaijan and Georgia have faced chronic problems with domestic energy supply. In Azerbaijan, domestic gas production is declining. In recent years, it has been less than half the estimated demand. New demand has overloaded the electricity generating system which, coupled with lack of investment and integrated energy management at government level, has led to rationing of power supplies. The interruption or curtailment of gas and electricity supply in communities is not uncommon in Azerbaijan and Georgia, particularly in rural areas and small towns.

As is widely recognized, access to reliable supplies of energy is a cornerstone of successful economic and social development. The Caspian is a region where energy resources are abundant. However, the lack of adequate infrastructure, technology and services, combined with struggling economies, has prevented the region from developing its energy resources to their full potential.

Oil spills

As a responsible operator, we aim to minimise the potential for spills to occur. Since 2001, the scale and complexity of our activities has dramatically increased and this has been reflected in an increase in the number of spills. Spill notifications to the regulatory authorities are carried out as per the AzBU Incident Management System document (Unif - HSE - MA - 400), so that they are aware of the incident and our actions taken to reduce the impacts of any spill.

Oil spill sources: 2003

The data show information for 2001-2003, for the Azerbaijan Business Unit, covering Azerbaijan and Georgia.

Although the risk of a serious large-scale oil spill incident is very low, this does not remove our obligations to have appropriate oil spill contingency plans in place.

To ensure that sufficient oil spill contingency resources exist to complement the region's environmental protection, BP, along with other energy companies is proactively supporting a regional initiative called OSPRI, the 'Oil Spill Preparedness Regional Initiative'. Launched in 2003, over the next five years OSPRI activities will focus on the sharing of information, support to governments, development and testing of trans-boundary response to tier 2 or 3 spills and the demonstration of capability through

Note: AzBU refers to Azerbaijan & Georgia only	Year	Total number	Volume spilled	Volume recovered	Volume unrecovered
AzBU	2001	15	2,325	2,170	155
AzBU	2002	16	29,769	25,251	4,518
AzBU	2003	29	113,454	20,202	93,251
Azerbaijan	2001	11	1,370	1,215	155
Azerbaijan	2002	12	7,426	6,086	1,338
Azerbaijan	2003	24	1,972	1,802	169
Georgia	2001	4	955	955	0
Georgia	2002	4	22,343	19,165	3,180
Georgia	2003	5	111,482	18,400	93,082

In 2003, approximately 113,000 litres of oil were spilled in Azerbaijan and Georgia. The majority of these spills were small.

The single largest spill (111,300 litres of oil) in 2003 was the result of an illegal tap on the Western Route Export Pipeline in eastern Georgia.

The impact was minimised by the effective implementation of oil spill response procedures and remedial work (including repair, oil recovery, soil bioremediation, and site cleaning and inspection). Overall 17% of the volume released was recovered, and most of the rest remediated.

training and exercises. The activities will improve the ability of the region to respond effectively in the event of an oil spill and contribute to the region's environmental protection. Under this framework BP is also working closely with the Azerbaijan government to test the effectiveness of potential dispersants for use in the Azerbaijan sector of the Caspian Sea. This work is continuing and it is anticipated that Azerbaijan guidelines for dispersant use will be approved in the near future.

Biodiversity

Azerbaijan, Georgia and Turkey are geographically and biologically diverse. The influence of four climate zones and complex physical terrain has accounted for the large number of endemic species. The parallel alignment of the Greater and Lesser Caucasus Mountains also provides a natural funnel for annual bird migration, which adds to the region's biological diversity and significance.

Yet, large areas of the region are environmentally degraded. Dilapidated industrial and urban infrastructure has resulted in continuing acute and chronic pollution, inefficient transmission and delivery systems (for example, for water and energy) and resource and product wastage. The emergence of a significant refugee population has contributed to increased poverty levels and put additional demands on available resources.

Our projects have the potential to affect biodiversity. The construction, operation and decommissioning of facilities result in the conversion of land and the sea bed for industrial purposes and can also lead to a variety of effects including habitat disturbance, noise pollution, increasing access to previously remote areas, and discharges of waste such as those from offshore platforms.

To minimise these potential direct and indirect effects, we aim to ensure that offshore facilities and the pipeline routes avoid areas of high biodiversity.

Working with stakeholders, we are seeking to implement practical projects, as well as raising biodiversity awareness. Building on our success in 2002, BP organised, on behalf of our partners, the Second Biodiversity Competition Award in Azerbaijan in May 2003. The theme was 'Ecology and Economy in Harmony'. Twenty five projects were submitted by local NGOs. Proposals were evaluated by a Scientific Advisory Panel comprised of Azerbaijani experts and an Awards

Committee made up of BP representatives. The main prize (\$20,000) was awarded to the Azerbaijan Demographers Association for a project aimed at restoring the sturgeon stock and protecting its biological diversity. Four other prizes were also awarded.

Biodiversity case study: protecting the spur thighed tortoise

As a result of a survey of plants and animals undertaken by AIOC around the Sangachal Terminal expansion area, it was established that a number of species of local and global importance are found in the area and may be affected by construction activities.

One of these is the spur-thighed tortoise. This species is particularly vulnerable due to the fact that it hibernates in winter and thus can be easily injured during earth works.

To mitigate impacts on this species AIOC has initiated a Spur-thighed Tortoise Conservation Plan. It is planned to breed tortoises in a special enclosure simulating conditions close to natural conditions, to avoid loss in net population. Any tortoises found during construction are carefully removed into tortoise boxes and allowed to hibernate there. It is intended that the conservation plan will help to spread awareness and increase knowledge of this species, and educational programmes are planned for local schools. In future the company plans to actively involve local NGOs, well-known experts and scientists, as well as students in this programme.

Waste management

As a responsible operator we set ourselves high standards for environmental management. Our Business Unit Waste management strategy includes the following principles:

- ∴ Compliance with accepted industry standards, BP Policy and local legislation and regulations
- ∴ Development and application of best practice disposal options in partnership with the relevant authorities
- ∴ Waste minimisation at source, followed by reuse and recycling, with disposal as a final option
- ∴ Innovative approaches to waste management, wherever practicable
- ∴ Provision of interim safe storage facilities for hazardous wastes until reuse/recycling/treatment/ disposal options are available
- ∴ 'Cradle to grave' approach to waste management.

During 2003, the types of wastes produced by our activities included typical oilfield operations and maintenance wastes (waste oil, oily sand and rags, wax, chemicals, steel) and construction wastes (grit blast, paint cans) along with some office waste (domestic waste, fluorescent tubes, paper).

We work with local companies and communities (such as the Baku Steel Company, Municipal STP, Azersun Cardboard Factory, local communities) to use local waste management infrastructure and services. Where no practicable reuse route exists, we will either store at an appropriate safe location (hazardous wastes such as drill cuttings, chemicals, oil contaminated materials) or dispose via landfill (non-hazardous wastes such as food waste and inert wastes that cannot be properly recycled or reused at present).

We have developed waste management requirements for waste management contractors and carry out contractor site audits to check compliance. Based on our findings we work closely with contractors to encourage continuous improvement of their performance.

HSE performance

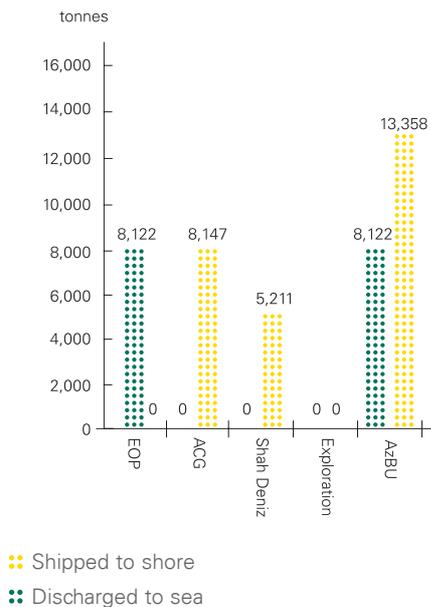
A key waste that received attention during 2003 was the non-water based mud (NWBM) drill cuttings produced from our Shah Deniz and Central and West Azeri drilling operations. In 2003 we generated 21,480 tonnes of drill cuttings, more than half of which was brought onshore for processing. The only NWBM drill cuttings discharged to sea were 8,122 tonnes from the Chirag platform. This was driven by the lack of space on Chirag platform to store drill cuttings and unavailability of reinjection facilities.

BP will generate significant volumes of drill cuttings over the next few years from development drilling operations. Volumes of cuttings coming ashore are forecasted at approximately 12,000 - 17,000 tonnes per year for the next three years.

Although the PSA allows us to discharge NWBM drill cuttings to sea, we have made commitments not to discharge such cuttings from our new projects (Shah Deniz and ACG Phase 1 and 2 projects). Offshore reinjection, or ship to shore for appropriate onshore treatment or disposal, will be used. These arrangements are subject to extensive internal and external scrutiny (for example, via regular audits by the International Financial Lenders).

To ensure that hazardous wastes are kept in a safe and secure manner we have built a hazardous waste storage facility at Serenja in accordance with international best practice. The cuttings are brought onshore for transport to Serenja. They are then stored in concrete lined pits until ready for treatment and disposal, once a long-term environmentally acceptable solution for disposal has been identified.

Drill cuttings with synthetic based mud volumes 2003



The table and graph show volumes of cuttings from our operational and pre-drill activities in 2003.

Environmental and social impact assessment (ESIA) approvals

In the course of 2003, we received ESIA approval for the ACG Phase 2 project from the Ministry of Environment and Natural Resources. Along with all other ESIA's, this has been publicly disclosed and is available on the Caspian development and export website.

Link:

<http://www.caspiandevelopmentandexport.com>

Environmental investment programme

In addition to direct operational measures to manage and mitigate environmental risk, we have developed, through the BTC and SCP projects, an Environmental Investment Programme (EIP). The main objective of the EIP is to benefit the promotion and conservation of biodiversity in Azerbaijan and other countries along the pipeline route. The intent is that implementation will translate environmental investment policies and strategies into action.

Following work to develop a set of investment principles and an investment framework, 24 proposals from a number of local and international organisations were received for the Azerbaijan EIP.

Following initial review, seven proposals were selected for second phase scrutiny. Following this second review by both internal and external experts, six of the proposals have been shortlisted for funding.



Drill cuttings with synthetic based mud	EOP	ACG	Shah Deniz	Exploration	AzBU
Discharged to sea	8,122	0	0	0	8,122
Shipped to shore	0	8,147	5,211	0	13,358
Total	8,122	8,147	5,211	0	21,480

Investigating disposal options to minimise environmental impact

A promising, locally available drill cuttings disposal option that has been utilized is **cement manufacture**. Cement kilns are recognized by the World Bank as a potentially more effective method for waste disposal than dedicated waste incinerators (very high temperature co-incineration technique). Only small percentage of drill cuttings are added to take place of other raw materials and no waste residuals incurred.

Internationally, cement plants have been used for disposal of hazardous wastes (including PCBs, pesticides) since 1979 in countries including the UK and Thailand. In Azerbaijan, we conducted trials during 2003 at a local cement production company. So far our study results confirm that cement manufacture is a technically feasible single step solution for the disposal of drill cuttings.

Indirect thermal desorption (ITD) is a process in which oily cuttings are exposed to moderate temperatures (c.300 degrees Celsius) to vaporize the oil and water components, which are then collected separately. We began an ITD trial in January 2004 at the Serenja site. In other areas of the world (such as Egypt and Colombia) it is being used to clean cuttings from past practices of burying or storing untreated cuttings in pits.

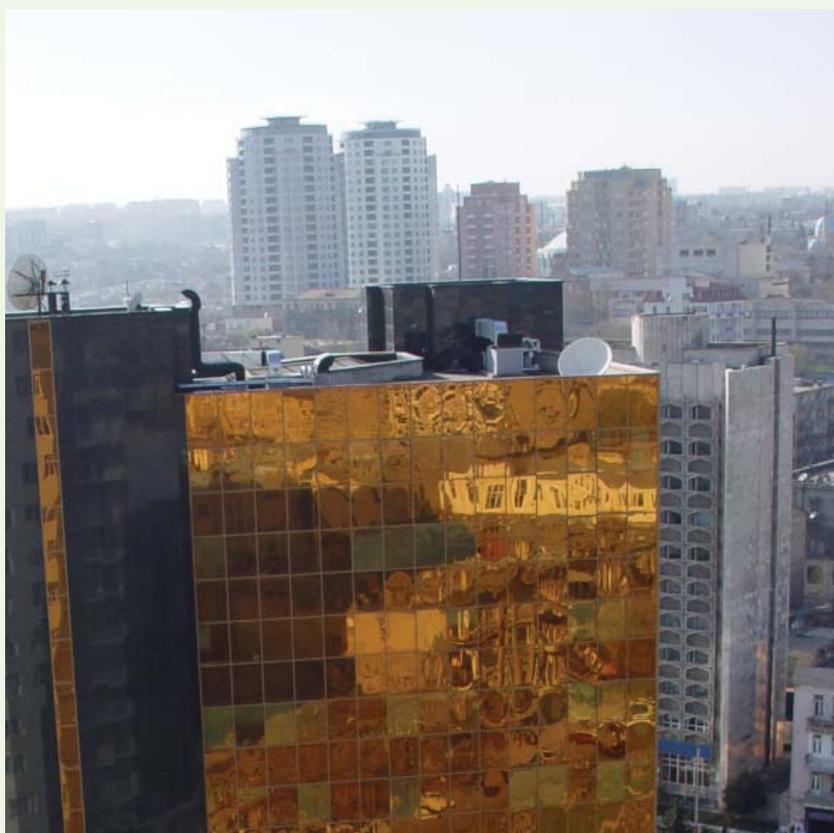
Of the three recovered streams:

- :: Oil is reused to manufacture new drilling mud
- :: Water is reused to dampen treated solids or reused by the drilling contractor - to manufacture new mud or brines
- :: Dried drill cuttings can be recycled as infill material, road foundation material, or used in brick manufacture. BP is working with the local Scientific Research and Design Institute of Building Materials (Dadashev) to identify practicable options for reuse.

We are working with our ITD and drilling fluids contractors to reuse all residuals of ITD process and minimise environmental impact.

Bioremediation is an internationally recognized waste management technique where cuttings are mixed with soil and fertilizer and bulking agents to encourage the growth of soil microbes which break down the oil to harmless products. As a method of disposal, it has been trialled in the UK, Canada, Bolivia, Egypt and Kuwait. The 2003 Azerbaijan trial is complete. Results show almost 90% degradation of oil after 9 months. These results are consistent with international bioremediation experience and demonstrate the use of bioremediation as a proven drill cuttings treatment option for Azerbaijan.

3. Our economic performance





3.1

We set out below headline economic performance information for 2003.

Operating performance: production

In 2003 the average daily production rate was 131,000 barrels and the overall production efficiency rate exceeded 96%. Equipment upgrading at Chirag and at the Sangachal Terminal have contributed to the enhanced production rate.

Operating performance: capital and operating expenditure

We believe that the investment in the three main projects represents the largest foreign direct investment in both Azerbaijan and Georgia. We have continued to invest in the projects in 2003 in line with our plans and commitments, and to schedule.

Economic performance

Our activities in Azerbaijan contribute to economic development in many ways, as outlined in this report. We are fully aware that the scale of the projects means that their potential fiscal and economic impacts in Azerbaijan and (to a lesser extent) in Georgia are significant. We are therefore very aware of the need for prudent oil revenue management, sound governance and transparency.

Oil production	2001	2002	2003
(Mbd)	119.6	129.5	130.8
Capital expenditure \$m			
ACG	218	1,185	2,129
BTC (including Azerbaijan, Georgia, Turkey)	99	433	1,126
Shah Deniz	28	142	731
Operating expenditure \$m			
ACG	80	83	89

Payments to Azerbaijan government	
Profit oil deliveries (2003)	8.2m barrels (1.1m tonnes, estimated value of \$200-220m)

Potential Azerbaijan State revenues	
Significant forecast state revenues from ACG, BTC & SD Stage 1/SCP (1994-2024)	~\$27bn (@ \$16/bbl)
	~\$45bn (@ \$20/bbl)
	~\$64bn (@ \$25/bbl)
	...with deliveries of ACG associated gas at ~\$3-4bn



3.2

Our activities in Azerbaijan continue to create opportunities for local economic development, not only through the creation of direct employment opportunities, but also through the procurement of local goods and services. We have taken a direct role in promoting the development of Azerbaijan companies, through the services provided by the Enterprise Centre in Baku. Our efforts here are creating benefits not only for our own activities but in developing the local economic infrastructure and improving the business and investment climate in the country.

In the course of 2003, BP worked with a total of 225 SMEs. We have also begun to track and analyse our spending with third parties. BP direct spend with local SMEs in 2003 totalled \$48m. We estimate that over a quarter of all BP third party spend was in Azerbaijan, and that over 500 SMEs are engaged in developments through BP and our major contractors.

Business in-country - Azerbaijan

In-country expenditure with companies with Azerbaijan capital	\$116m with state-owned (60)
	\$191m with joint ventures (22)
	\$48m with SMEs (225)
Expenditure in-country of foreign contractor companies established in Azerbaijan	\$813m
Total in-country spend during 2003	\$1,168m (approximately 28% of total AzBU expenditure)

Business in-country - Georgia

In 2003 we paid more than \$21m to local companies
Since 2000 we invested more than \$120m
Ongoing operations expenditure in-country c.\$35m / p.a.

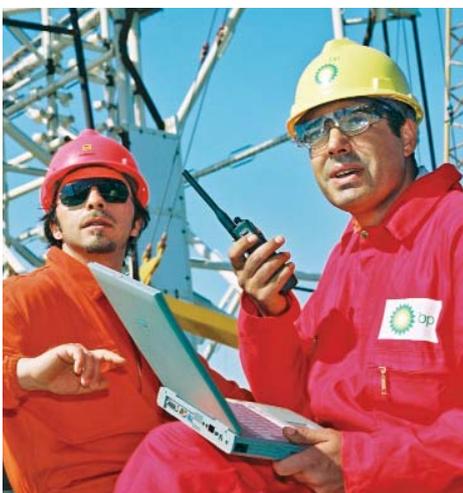


3.3

"I believe BP is an organisation that embraces different nationalities with different cultures where, regardless of work type and rank, you get a wealth of experience and application of western business standards that makes you feel confident and self - motivated. This gives you an opportunity to prove yourself in any other international organisation."

Turkhan Ahmadov

In addition to the 967 Azerbaijan nationals we employ directly, we estimate that the major projects across the region provided employment for up to 10,000 people in Azerbaijan, Georgia, and Turkey during 2003. The PSA with the Azerbaijani government requires that preference is given to Azerbaijani citizens, consistent with efficient operations. In terms of employing national staff, we have exceeded the requirements of the PSA. The types of jobs provided reflect the nature of the operations during each



phase of the work - requiring a combination of skilled, semi-skilled and unskilled labour.

Our commitments to employees

Everyone who works for BP, whether in Azerbaijan or elsewhere, can expect to:

- :: Know what is expected of them in their job
- :: Have open and constructive conversations about their personal performance
- :: Be helped to develop their capabilities
- :: Be recognized and competitively rewarded for their performance
- :: Be listened to and involved in improving their team's performance
- :: Be treated fairly, without discrimination
- :: Feel supported in the management of their personal priorities.

These commitments are contained within our people management processes. At least once a year, our staff discuss their performance with line management and review their performance and options for personal development. We encourage staff to take the training they need to operate safely, to do their job effectively, and to develop their personal skills. Information on the amount of training undertaken in the Business Unit in 2003 is set out below.

Project	Training hours
Azeri Project	375,000
BTC Azerbaijan	31,000
Shah Deniz	3,300
Total training hours	409,300

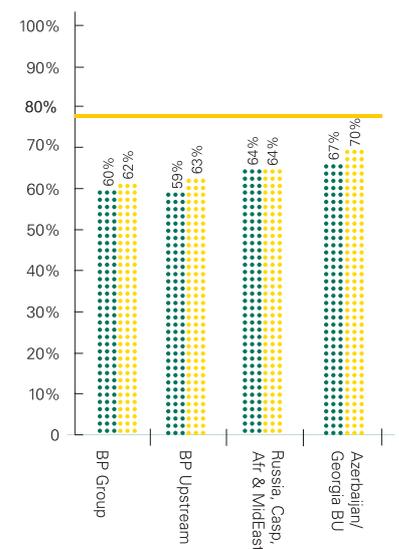
We also measure the extent to which we are meeting our commitments and aspirations. We use a range of techniques to collect opinions and feedback, including upward feedback questionnaires and discussions, peer feedback mechanisms, e-mail and company intranet surveys. The annual 'People Assurance Survey' is a detailed employee opinion survey used to monitor progress and identify trends, and

to promote feedback and discussion on where we can improve. It is used across BP worldwide.

'People assurance'

The 2003 survey results for the Azerbaijan Business Unit - from a 68% response rate - highlight a number of achievements and future challenges. The 'Employee Satisfaction Index' (ESI), a composite indicator based on key questions which relate most closely to staff satisfaction, is high relative to the company as a whole, but showed a slight decline from the 2002 figure, from 70% to 67%. In ranking performance characteristics, BP's societal performance received the highest favourable rating, while pay and recognition received the least favourable scores. As in previous years, an action plan has been developed to act on the findings.

Below is the chart that shows Azerbaijan Business Unit ESI scores versus BP Group and Exploration and Production segment.



- 2003 ESI Score
- 2002 ESI Score
- 2003 Best in class (77%)

Employment - our people



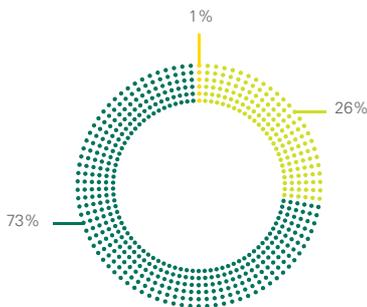
In 2003 we recruited 180 employees, of whom 144 are Azerbaijanian and 36 are Georgian nationalities. 50 Azerbaijanian and 1 Georgian employee currently work in overseas BP locations as part of their development and training. Of the total number of Azerbaijanian and Georgian staff, ten percent are in management grades. Twenty point three percent of the total staff within the Business Unit are women. Ten point two percent of the female employees are in management grades.

For 2004 our plan is to recruit around 200 new employees helping to increase the proportion of Azerbaijan nationals and the number of local staff in management positions. New employees are hired on merit only. We use a multi-staged, structured annual recruitment programme, based on the best practices employed in UK graduate recruitment. English language tests and a wide range of ability tests are used to shortlist candidates for assessment centres, where candidates go through technical and behavioral interviews, team and individual exercises. The final selection decision is made based on the overall results of candidates' performance in the assessment centres.

Employment and diversity

It is a BP corporate goal to encourage diversity in the workplace and to create a culture of inclusion, where each member of the workforce is able to realise her or his full potential and deliver outstanding business results. In Azerbaijan, as elsewhere across BP, we have sought to ensure that the employment of expatriate staff is balanced with the recruitment and development of employees from the local workforce. The chart below shows that in 2003 approximately three quarters of the employees in the Business Unit were Azerbaijan or Georgia nationals.

Azerbaijan Business Unit: employee nationality (August 2002 - August 2003)



- UK/US
- Azerbaijanian / Georgian
- Other

4. BP Azerbaijan in society





4.1



Azerbaijan, which was one of the leading oil producing nations in the world at the turn of the 20th century, has the chance to become one of the most important oil and gas producers at the turn of the 21st century. The possible benefits of monetising the country's natural resources are great, but the challenges in doing so and sharing those benefits equitably are also significant.

Azerbaijan: social indicators¹

- :: Population (at January 2004): 8.2 million
- :: Per capita GDP: \$879.7
- :: Life expectancy: 73.3 years
- :: UN 'Human Development Index' Score (in 2003): 0.767
- :: The World Bank Poverty Assessment (1997) found that over 60% of households could not afford the standard 'food basket'
- :: The UNDP estimate that just 3.6% of GDP was allocated to education in 1997 - about half of the 1993 level
- :: Transparency International rank Azerbaijan 95th out of 102 countries in its 2002 corruption practice index
- :: The UNDP estimate that there are approximately 1 million Azerbaijan refugees and IDPs in Azerbaijan

1. Except where indicated, the source for this information is the UNDP Azerbaijan Development Report 2003, available at www.un-az.org/undp

Links:

www.un-az.org/undp
www.transparency.org

Azerbaijan has taken a number of important steps towards economic liberalisation, stabilisation and privatisation. Many enterprise, infrastructure and financial reforms have been introduced. Yet many challenges remain, such as developing the legal and institutional capacity to deal with corrupt practices, promoting good governance, and diversifying the economic base. Politically, Azerbaijan is entering a period of transition in which there is potential for increased pluralism, transparency and accountability.

For businesses such as ours, the current realities present an operating environment which is extremely challenging. But it also illustrates the scope and potential benefit of positive engagement.

BP recognizes that it shares a common interest with Azerbaijan to ensure that the oil and gas revenues do deliver benefits to people of the country and create a stable, sustainable environment in which to do business, now and in the future. We are therefore committed to playing our part in efforts to tackle many of these challenges, alongside Government, our partners, NGOs, multilateral development banks and other organisations.

Our efforts to date have been to promote the transparency of our activities, to assist in creating private enterprise and in helping to build capacity to manage oil and gas revenues effectively:

Transparency:

- :: Sustainability reporting
- :: Regular progress updates to press and Ambassadors
- :: Host Government Agreements on our website
- :: Azerbaijan piloting EITI and making rapid progress

Capacity Building:

- :: Our Enterprise Centre in Baku provides training/assistance to develop local content
- :: Provision of training and support to SME's
- :: Co-Chair Azerbaijan Entrepreneurs Council, Finance and Investment Group
- :: Supporting Azerbaijan Bank Training Centre

Revenue Management:

- :: Working with both SOFAZ and Ministry of Economic Development on macroeconomic models
 - :: Developing capacity
 - :: Facilitating the debate
- We are doing this through company-led initiatives as well as sectoral programmes like the Extractive Industries Transparency Initiative (EITI), an initiative launched at the World Summit on Sustainable Development to promote transparency over payments in the extractive industries sector.

We have previously described the financial, economic and environmental impact of our operations. We now turn to a description of our social engagement programmes.



4.2

We seek mutual advantage

The principle of mutual advantage lies at the heart of our approach to relationships. The belief that our activities should generate economic benefits and opportunities, that our conduct should be a source of positive influence, and that we should be open and accountable is driven by our leadership team, within the country and across the BP group as a whole.

As the major investor in Azerbaijan and the region, our interaction with stakeholders is diverse and multi-layered. We routinely engage with government, a large number of regulatory agencies, the media, national and international NGOs, multilateral organisations including lenders and project sponsors, community and voluntary groups, national civic organisations, community leaders, and others.

These relationships can present challenges. We have, in particular, faced concerted opposition from a number of international NGOs about the environmental and social impacts of the BTC pipeline project, which has been widely reported in the international press. On a day-to-day basis, we face challenges in connection with the projects, such as those associated with the c.22,000 land acquisition agreements which have been negotiated as part of the process of acquiring c.6,000 hectares of land for BTC pipeline construction. In all of these interactions, extensive consultation and dialogue has sought to reinforce transparency.

We always aim to ensure that the support we provide meets the needs of the communities in which we operate and therefore has a genuinely valuable impact. Our aim is to do something **with** the community, not just **for** it. To support this, we encourage communities to identify projects and prioritise needs, and we invite proposals for initiatives from NGOs and others.

We believe we have developed all of our initiatives in a manner which is open and transparent.

In 2003 - 1H 2004:

- Together with our partners, we published the 'Regional Review', providing an economic, social, and environmental overview of our Caspian oil and gas projects. The review was the culmination of 18 months of consultations, evaluations, research and analysis, involving contact with approximately 100 organisations and experts to discuss the projects, the countries and the region
- Two reports of the Caspian Developments and Advisory Panel (CDAP) were published. CDAP, a body set up by BP to provide objective advice on the possible impacts of the BTC pipeline and related activities in Azerbaijan, Georgia, and Turkey, made about 100 recommendations in areas such as sustainable development, economic, social, and environmental impacts and the governing legal regime.

We are addressing these recommendations now

- We carried out a pilot study to determine the benefits of our activities in Azerbaijan, which has involved identification of our stakeholders and mapping their concerns, with a view to reporting in future on the impact of our activities.

Links:

www.caspiandevlopmentandexport.com

Working with stakeholders: Environmental and Social Impact Assessments

The Environmental and Social Impact Assessments (ESIAs) we have carried out on the major projects described in this report illustrate the effort we make to consult with stakeholders, and analyse the impacts of our operations.

The ESIAs describe the existing environmental and social conditions at project facilities and sites, the design, construction, and operation of the projects, and the measures which will be taken to prevent, minimize and mitigate any potential adverse impacts on the ecology and population. They are led by international consultants, supported by local contractors, and conform to World Bank and other international finance institutions' guidelines, as well as national environmental legislation.

The projects are the first private sector developments in Azerbaijan (as well as Georgia and Turkey) for which integrated ESIAs have been carried out. The ESIAs carried out in Azerbaijan were completed in 2001 and 2002.

Security and human rights

Each of the projects has incorporated security measures. We have also provided country-specific guidance to our staff on security matters, covering issues such as personal security, travel guidelines, and security of information. We contributed to the signing in July 2003 of a Trilateral Protocol between Azerbaijan, Georgia and Turkey on the provision of security for the East-West energy corridor that demonstrated commitment of regional governments and security agencies to protecting fundamental human rights in delivering security for pipeline infrastructure. We are also committed to respecting a wide range of internationally recognized human rights, which encompass commitments relating to labour rights as well as other fundamental human rights. Our labour commitments include provisions on issues such as non-discrimination, freedom of association, having healthy and safe working conditions and not engaging in forced or child labour. We are committed to freedom of opinion and expression, and respect minority and ethnic rights.

BTC: a multi-layered approach to stakeholder engagement

The framework for monitoring, assurance and oversight which has been applied to the BTC project provides a good example of our multi-layered approach to stakeholder engagement. A number of internal stakeholders, including project management teams and contractors, provide assurance that the pipeline construction and its future operation are proceeding in line with commitments. Engagement with external stakeholders provides additional input and oversight. NGOs are being engaged to monitor the project in Azerbaijan, Georgia and Turkey, over and above national regulatory oversight in each country. Our own security monitoring focuses on issues of transnational issues of pipeline security. The social implications of our activities, including the many commitments embodied within Environmental and Social Impact Assessments, are scrutinised by the project lenders. And in addition, we have created the Caspian Development Advisory Panel (CDAP) to provide an additional layer of independent observation and comment on the conduct of the project. This comprehensive framework has a number of

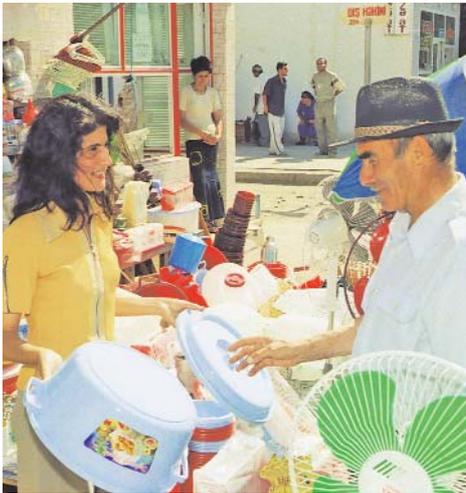
aims. It provides assurance within BP that the project is implementing commitments made in the ESIA process and gives confidence to stakeholders that it is proceeding in accordance with applicable standards. It not only ensures that the quality and effectiveness of the project is improved, but also that it acts as a catalyst in the development of civil society and regulatory capacity.

“IFC believes the level of monitoring and transparency is unprecedented and provides the correct balance of internal monitoring verified by external independent monitoring and public disclosure for the BTC. It also demonstrates the project sponsors and the lenders will focus on implementation challenges and results on the ground.”

Rashad Kaldany: Director of the World Bank Group's Oil Gas Mining and Chemicals department on the IFC Board approval of investment in BTC - November 2003.



4.3



Social and community programmes

Our social and community programmes are focused on three themes:

- ∴ Community Investment: this includes support for a wide range of community projects which seek to help and mobilize local communities. They include initiatives in income generation, developing economic opportunity, improving health and sanitation, social infrastructure rehabilitation and land and agriculture development
- ∴ Private Enterprise: this includes support for SME development, building local business capacity, and providing business education and training
- ∴ Good Governance: this is directed towards civil society development through institution building, and improving administrative capacity. Promoting transparency and high standards of ethical conduct are important themes.

The report describes the many dimensions of our social performance, including social and community programmes, promoting local economic development and capacity building.

Our experience has shown that working in partnership is the most effective means of ensuring that improvements are sustainable. Our social and community programme strategy is founded upon helping others to help themselves. The strategy identifies the need to work with communities through partnerships with the communities themselves and through national and international NGOs for implementation. The desire to ensure effective expenditure on social and community programmes also leads us to work with partners and specialists who are best-placed to deliver what is really needed. Throughout our social and community programmes, we aim to use our funds wisely, to build social capital and make a contribution that lasts. BP, as operator, co-ordinates all the projects' social and community programmes to obtain maximum synergy and benefits for people living near project activity. However, each project is responsible for the detailed development and execution of their respective programmes.

Our gross expenditure on social and community programmes in Azerbaijan, Georgia and Turkey is shown below, for 2002 and 2003.

Social/community investment \$ million, gross spend	2002	2003
Azerbaijan	0.6	2.71
Georgia	0.07	3.13
Turkey	-	0.82
Total	0.67	6.66



4.4



communities, which included refugees from the Nagorny Karabakh conflict. Working closely with the main contractor Tekfen/Azfen, we developed a progressive and innovative training and recruitment programme to develop the local workforce. The result has been that families from the refugee communities have gained employment at STEP, with many successfully passing through training courses. Over 45% of the national workforce live in the local area.

To facilitate the training, the Human Development Centre (HDC) was created at STEP. The HDC provides free training in necessary skills such as welding, computer skills and English lessons. The underlying objective is to train local workers to the international standards required to complete the project, and in so doing equip them with long-term skills that can be transferred not only to future BP operations but also to other industries and will therefore help them make the most of their lives long after the project is completed.

Income - generation project paves the way for sustainable development

We have undertaken micro - enterprise linked projects on greenhouse and sewing production businesses for IDPs near Baku, with Hayat, a national NGO.

Three greenhouses have been constructed and commissioned with the participation of the IDP community living in Khyrdalan, creating jobs and conditions for self-support. Vegetables grown are delivered to local markets and the income earned from the sale of the products will be spent to meet community needs and to support other activities identified by the community.

The sewing workshop started its activity by manufacturing leather goods. The IDP women who are employed by the project received comprehensive training to produce high quality products, which are sold right from the workshop and have proven to be in great demand. The income earned from the sale of the goods made in the workshop will provide additional funds that help to meet the community needs. People involved in these projects have been trained and given information on BP's safety and operating standards.

More than 174 IDPs in the local community will be beneficiaries of the project.

Bringing water to Sitalchay

Sitalchay, home to approximately 250 families and 40 displaced families from the Gubadli district, lies close to the Northern Route Export Pipeline. People living in this area have suffered from a water supply problem for many years in which supplies became unavailable in the spring and summer seasons. We provided support through our social investment programme for the construction of two water pipelines, which will deliver potable water to the village. In accordance with BP policy, local manpower was used as much as possible to construct the pipeline, with safety training provided to local employees before the start of the work. The project has been implemented by 'Umid', a national NGO.

In spending terms, our community investment programme (CIP) is the largest part of our overall social investment budget. The bulk of funding supports activities directly at community level among the people, communities and areas affected by our operations. These are principally along the pipeline routes, in the Garadagh region around Sangachal Terminal and other areas close to Baku. The CIP aims to help the communities identify, design and implement projects which improve their socio-economic situation. It is a dual aim to provide initial immediately visible results in the form of quick impact projects, and translate these into longer-term self-sustaining projects.

The following examples provide insight into the different types of CIP projects we have supported over the past year in Azerbaijan, Georgia and Turkey.

The STEP human development forum

The Sangachal Terminal Expansion Programme (STEP) called for a large workforce experienced in international fabrication practices. Yet the availability of local people with the necessary skills was limited. The BP team was committed to maximizing employment from the local

Formation and development dynamics of BP-UMID relations

"We have worked with BP since 2002, when we initiated our first series of mutual community projects. With the financial support of BP and its partners, and with the commitment of local communities, we have assisted in the construction of a primary school in the village of Dashliytag in the Davachi region, and the repair of the roof of Agalig rural school. Building on these initiatives, we have since launched a project to build sustainable communities in the northern regions of Azerbaijan, involving the mobilization of communities, the formation and training of community action teams, and the implementation of micro infrastructure projects. We are proud of the achievements we have contributed to, and believe that our work in partnership with BP has brought benefit to us, to the company, but most importantly to the communities we are seeking to help."

Israil Iskanderov, 'UMID'

Georgian CIP

In Georgia our CIP is divided into two areas with one consortium of implementing partners responsible for managing the projects in each area. These consortiums are led by CARE International in west of Georgia and Mercy Corp in the east of the country. These organisations work closely with various local NGOs, such as Constanta Foundation, Curatio International Foundation and Elkana. Seventy seven communities along the BTC/SCP pipeline route have received assistance in activities such as the provision of loans, first aid, agriculture, technical assistance and infrastructure rehabilitation.

Kars province (Turkey) CIP

The aim of this programme, implemented by Surkal, is to increase incomes and empower the most disadvantaged groups by provision of assistance with promoting animal husbandry, health care, improvements in pasture and fodder crops, drinking water, and sewerage projects. The project covers 20 villages in the Selim and Sarikamis districts. The project also has capacity building activity with pilots in training and organisational management.

Manana Gigani, a resident of Nagebi village and the mother of four children, lost her job seven years ago: The farm where she worked as an accountant, simply went bankrupt and closed down... the hardships began...

Her disabled husband's tiny pension, which is paid infrequently, does not even suffice to buy bread... Their only livelihood came from a few cattle and the cheese they produced and sold...

It was really hard to feed the family with money earned as a result of selling five kilos of cheese a week... They managed to get by somehow... and then, there was a simple stroke of luck for them... They were simply lucky to be the residents of village

Nagebi, located within the two-kilometer radius from the BTC and SCP pipeline corridor, where the pipeline operator BP launched the Community Investment Program. Manana Gigani applied to 'Constanta' for the loan to develop her cheese trading business. Manana formed a small group of producers and they were lent GEL 800 (around USD 380). The group members received several steadily increasing loans, the last of which was lent in June 2004 in the amount of GEL 3900. Manana Gigani's business proved to be a success. She now buys cheese from her co-villagers and sells 15 - 20 kilograms daily at the Rustavi market.



4.5

Our activities in Azerbaijan continue to create opportunities for local economic development, not only through the creation of direct employment opportunities, but also through the procurement of local goods and services.

Together with our partners, we opened the Enterprise Centre in Baku in May 2002. The centre aims to help Azerbaijan owned and based companies develop their business to support the oil and gas industry through:

- :: Building local supply capability
- :: Promoting international standards
- :: Increasing opportunities for local businesses.

The Centre provides a range of services and facilities:

- :: Information services on oil industry, HSE, ethics, and technical standards
- :: Information services on procurement processes and standards
- :: Information and consultancy services on available suppliers and their capabilities
- :: Information services to foreign investors on various aspects of doing business in Azerbaijan, and investment opportunities
- :: Pre-tendering support and coaching services to Azerbaijan SMEs
- :: Information services on current and future supply opportunities in the energy sector
- :: Seminar, training and meeting facilities with all necessary IT, communication and reprographic infrastructure
- :: Supplier training services on HSE, various aspects of doing business with oil companies and general business trading.

More information about the Enterprise Centre can be found at www.ecbaku.com.





4.6

Transparency

In seeking to promote social benefit, we aim to be open and transparent in our dealings with external stakeholders. The level of consultation on the BTC pipeline, with local communities in particular, has been unprecedented for a project of this type. We have made all relevant documentation publicly available, and continue to do so. In the Regional Review, we have published a wide-ranging analysis of the impact of the projects. The Caspian Location report provides an additional review of the issues, available on the BP.com website.

We have also made the key documents which set out our commercial relationships with the Government - the Host Government Agreements, the Production Sharing Agreements and the Inter - Governmental Agreements - available to the public. All can be viewed on the Caspian Development and Export Website. We have also worked openly with the Azerbaijan government to ensure that the workings of the State Oil Fund are as transparent as possible.

Links:

www.caspiandevlopmentandexport.com
www.bp.com/location_reports

Working with the media

We seek to be open with the national and international media. Our Business Unit Leader regularly provides updates to the Azerbaijani press on business developments.

We have helped the national media in Azerbaijan develop their understanding of western business practice. We have provided training and workshops to help support the media in becoming a more visible component of civil society. With the British Council, we have supported approximately 30 journalists a year with English language training and have held business workshops for media representatives. In these, oil and gas industry topics for discussion are selected by the journalists themselves, with the event facilitated by a BP subject-matter expert.

NGO capacity building

Domestic NGO activity in Azerbaijan is developing rapidly. However, the legal and

institutional framework in which NGOs form and conduct themselves is as yet undeveloped. As a result, the sector has been characterised by the existence of a large number of small, inexperienced, and unregistered organisations. Given our philosophy of working constructively with NGOs in partnership to deliver social and environmental initiatives, it is in our mutual interest to build capacity and expertise in the NGO sector. We have therefore sponsored a number of projects managed by the Eurasia Foundation, and Transparency International to build NGO capabilities. Together with other companies, donors, and NGOs we have also supported English language training for national NGOs.

Links:

www.eurasia.org
www.transparency.org

Promoting ethical conduct

BP Group policies provide a framework in which we aim to pursue our business with integrity, respecting the different cultures and the dignity and rights of individuals wherever we operate.

Our policies state that in our actions and dealings with others, we will:

- :: Respect the rule of law
- :: Promise only what we expect to deliver, make only commitments we intend to keep, not knowingly mislead others and not participate in or condone corrupt or unacceptable business practices
- :: Fulfil our obligations and commitments, compensate people according to merit and contribution, refrain from coercion and never deliberately do harm to anyone
- :: Act in good faith, use company assets only for furthering company business and not seek personal gain through abuse of position in the company.

Since opening our first office in Baku in 1992, we have continually sought to conduct business to high ethical standards.

Independent commentators such as Transparency International have commented on the high levels of corruption in Azerbaijan, an operating climate which creates risks and challenges when doing business. From our own experience and risk assessments, we

have identified the areas where fraud and ethical risks may occur. These are primarily in contract and supplier selection and contract administration (throughout the supply chain, for large and small-scale contracts), in recruitment procedures and in other administrative processes.

We actively educate employees on ethical issues. We encourage our employees to talk openly with management about such issues, and have run 28 ethics awareness sessions in 2003, involving 460 people. Within these, we have covered issues such as conflicts of interest, fraud, information brokering, gifts and entertainment, and given guidance on dealing with ethical challenges. We established a network of ethics champions across the Business Unit in 2003, to act as focal points for consultation on ethical matters. We have used the annual BP Group ethical conduct certification process to identify potential ethical concerns and take action to address them where appropriate. In 2003 we issued policy and procedures on the conduct of internal investigations covering fraud and security. We have a gifts and entertainment policy and have maintained a register in 2003. The results of the 2003 People Assurance Survey showed that 91% of respondents believed ethical considerations influenced decision-making in BP.

The promotion of ethical performance is also part of the remit of the Enterprise Centre, which has provided and continues to provide training on business ethics.

In common with BP operations group-wide, our staff and contractors have access to a 24 hour independent and anonymous phone and email line (called 'Open Talk') which enables any concern to be raised about BP's operations or working practices. As part of our system of internal control and assurance, our Business Unit leadership files an annual ethics compliance report with the BP Group.

The ethics certification process in 2003 raised 60 potential ethical concerns. These were explored either through the respective teams or with the support of internal audit. One BP employee and contractor's employment was terminated as a result of the investigation.

5. Report assurance

Written by BP

Ernst & Young, the BP Group auditors, have substantiated the Azerbaijan Sustainability Report. Their conclusion can be seen below. The primary focus of the report substantiation is to test the assertions made in the text regarding BP's sustainability performance, in order to give assurance to the reader from an independent third party. The process of checking and challenging the text also provides assurance to the company of the integrity of the report.

BP is currently developing guidelines for countries intending to prepare their own sustainability reports. These guidelines will ensure that we achieve a consistent approach to not only the structure and core content, but also the assurance and independent review of those individual country reports. The Azerbaijan Sustainability Report marked the first step in our evolving approach to country level assurance. We asked that Ernst & Young in London delegate the majority of the work to the Ernst & Young office in Azerbaijan. This ensured that fundamental skills could be shared and relationships could be built in country, which we intend to build on into the future.

The Azerbaijan Sustainability Report is confined to upstream activities and forms part of a broader communication plan within the region. BP publishes on average one detailed report a month about our performance and progress against the commitments that have been made in the Caspian region. For further information please refer to www.caspiandevlopmentandexport.com. A case study on the BTC pipeline can also be found on our website www.bp.com/environmentandsociety.

We have been working hard to improve our assurance approach and bring it in line with the AA1000 Assurance Standard. Substantiation of this report forms one part of the work that Ernst & Young completes to provide assurance on BP's sustainability reporting. The assurance process consists of 10 key steps, including: interviews with senior management, review of internal assurance documents, review of external media sources, HSE & social data review, substantiation of text and site visits. We will continue to develop our approach to country level assurance throughout 2005.

Azerbaijan country report - October 2004 Assurance statement to BP management

We are currently conducting our assurance work on BP's sustainability reporting 2004. Our conclusions from which will be available in March 2005, when the BP sustainability reporting 2004 is launched. Our previous assurance statements can be found on www.bp.com.

As part of our work this year we have been asked by BP

Management to review the Azerbaijan Sustainability Report.

BP Azerbaijan Sustainability Report 2003 (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. In accordance with BP management's instructions we have reviewed the Report, as outlined below, in order to provide our conclusions.

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 conclusion?

The scope of our work was limited to assessing information and explanation regarding BP's sustainability performance as described in the Report. Information and explanation was gathered through interviews with BP management in Baku, Azerbaijan and London, UK.

Limitations of our review

The main limitations of our work are:

- ∴ We did not review whether the Report covers the material issues
- ∴ We did not conduct any site visits to review performance
- ∴ We did not review or observe stakeholder engagement activities
- ∴ We did not review the data processes or accuracy of data included in the Report.

BP is currently developing formal guidelines for the creation and independent review of the county sustainability reports. We understand that the guidelines will extend the scope of future independent assurance work on country reports.

Our conclusion

On the basis of our review and in accordance with the terms of reference for our work we provide the following conclusion on the Report. Our conclusion should be read in conjunction with the above section on 'What we did to form our conclusion', which includes the limitations of our review.

Evidence obtained through our work supports the sustainability performance claims made in the Report. Where evidence could not be provided, or where the statements made were inconsistent with the evidence available, the text was amended by BP.

Our independence

Our assurance team has been drawn from our global environment and sustainability network, which undertakes similar engagements to this with a number of significant UK and international businesses and our global BP audit team, which has industry knowledge. 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 last year.

Ernst & Young

London

October 2004

6. Glossary and further information

Glossary

ACG	Azeri - Chirag - Gunashli offshore oil field
AIOC	Azerbaijan International Operating Company - the partnership developing the ACG field
BAP	Biodiversity action plan
BTC	Baku-Tbilisi-Ceyhan Pipeline Project
CDAP	Caspian Development Advisory Panel
CO2	Carbon dioxide
EC	Enterprise Centre (Baku)
EITI	Extractive Industries Transparency Initiative
EOP	Early Oil Project
ESIA	Environmental and Social Impact Assessment
GDP	Gross domestic product
GHG	Greenhouse gas
GNP	Gross national product
HGA	Host Government agreement
HSSE	Health, safety, security and the environment
IDP	Internally displaced person
IFC	International Finance Corporation
IGA	Inter-Governmental Agreement
IMF	International Monetary Fund
IUCN	International Union for Conservation of Nature and Natural Resources
MENR	Ministry of Environment and Natural Resources (Azerbaijan)
NGO	Non-Governmental organisation
NREP	Northern Route Export Pipeline
NWBM	Non-water based muds
OECD	Organisation for Economic Co-operation and Development
OSPRI	Oil spill preparedness regional initiative
OSRP	Oil spill response plan
PCDP	Public consultation and disclosure plan
PSA	Production Sharing Agreement
SBM	Synthetic based muds
SCP	South Caucasus Pipeline (gas)
SIA	Social Impact Assessment
SME	Small and medium sized enterprise
SOCAR	State Oil Company of Azerbaijan
SOFAZ	State Oil Fund of Azerbaijan
UN	United Nations
UNDP	United Nations Development Programme
WBM	Water - based muds
WREP	Western Route Export Pipeline

Units

\$	US dollars
bpd	Barrels per day
Mt	Million tonnes
Mtoe	Million tonnes of oil equivalent
tcf	Trillion cubic feet
mstbd	Million standard barrels/day
kte	Kiloton equivalent

For more information

As indicated throughout the report, other information about our activities in Azerbaijan and the Caspian region is available from the following sources:

www.caspiandevelopmentandexport.com

a multi-lingual site which posts the full text of the Environment and Social Impact Assessments carried out in Azerbaijan, Georgia and Turkey and the legal agreements (PSAs and HGAs) which govern the projects. The site is updated regularly and contains a feedback form.

www.ecbaku.com: for information about the services and work of the Azerbaijan Enterprise Centre, in Baku (telephone: + (994 12) 4979624)

www.bp.com: information about the BP Group, including the group Sustainability Report.

www.caspsea.com: provides information on the role and work of the Caspian Development Advisory Panel, including biographical details of the CDAP members, its terms of reference, and the panel's work to date.

www.globalreporting.org

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

www.iucn.org: information about the work of the World Conservation Union, which seeks to build bridges between governments, NGOs, science, society and local communities.

www.transparency.org: provides information about Transparency International, an international non-governmental organisation devoted to combating corruption and bringing civil society, business and governments together in global coalition.

Extractive Industries Transparency Initiative (EITI): an initiative launched to tackle the problem of the lack of transparency in the extractive industries sector. Information on EITI is available at www.dfid.gov.uk

www.eurasia.org: Site of the Eurasia Foundation, which assists the states of the former Soviet Union to build democratic and free market institutions.

OECD Guidelines For Multinational Enterprises (www.oecd.org): these provide voluntary principles and standards for responsible business conduct in a variety of areas including employment and industrial relations, human rights, environment, information disclosure, competition, taxation, and science and technology.

www.iso.org: for information about the work of the International Standards Organisation, including ISO 14001, the environmental management standard.

Publications

- :: 'Regional Review: economic, social, and environmental overview of the Southern Caspian oil and gas projects' (February 2003)
- :: 'Between Two Seas': describes the BTC project in broad terms
- :: 'Safe, Silent and Unseen': outlines the technical and engineering challenge
- :: 'Breaking New Ground': explains how BTC relates to people and communities
- :: 'Guidelines for Multinational Enterprises' (OECD)
- :: 'BP Exploration (Caspian Sea) Ltd. Environmental Statement 2002' (available from the BP Azerbaijan)
- :: BTC Project. Environmental and Social Quarterly Report (Construction Phase) Q1 2004
- :: "Pipelines and people". The Baku-Tbilisi-Ceyhan and South Caucasus pipelines.

7. Feedback

We welcome feedback on this report. Please use the feedback form and send it to the address below. Thank you for taking the time to send us your comments.

Azerbaijan

Martin Miles, sustainable development director or Tamam Bayatly, communications manager, BP Group, Azerbaijan Business Unit, Villa Petrolea, 2 Neftchilar Prospekti (Bayil), Baku, Azerbaijan.

Feedback form



Name: _____

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