



BP Azerbaijan



BP p.l.c. is the parent company of the BP group of companies ('BP'). BP is one of the largest oil and gas groups in the world, serving about 13 million customers a day, in more than 100 countries on six continents. In 2004, our main business segments were Exploration and Production; Gas, Power and Renewables; Refining and Marketing; and Petrochemicals. Through these activities we provide fuel for transportation, energy, heat and light, retail brands and petrochemicals products for use in everyday items.

In 2004, we produced the equivalent of almost 4 million barrels of oil a day and delivered a company record profit of \$16.2 billion. We replaced more than 100% of our existing production with additional oil and gas reserves for the 12th year running on a UK GAAP/SORP^a basis. Our solar business recorded its first-ever profit in 2004 and we invested a total of \$87.7 million in community programmes and community-based organizations around the world.

In total BP employs almost 103,000 people and works with nearly 139,000 suppliers worldwide. We own or part-own more than 20 refineries, 25,000 miles of pipeline and a tanker fleet of 42 vessels. Each day we sell and trade about six million barrels of refined products including gasoline, aviation fuels, middle distillates and fuel oil for commercial and industrial uses. Almost 20,000 retail sites around the world carry the BP helios brand.

Azerbaijan is one of the most important new exploration and production areas for the group. BP has been represented in the country since 1992 and has become its leading international investor and operator. The Azerbaijan Business Unit (BU) is one of more than 100 BUs in BP. It has its main operational centre in Baku, with additional offices in Tbilisi and Ankara.

Currently we operate four oil and gas exploration and development contracts including the giant Azeri, Chirag and deepwater Gunashli oil field and Shah Deniz gas field. We manage the construction of two pipelines – the Baku-Tbilisi-Ceyhan oil pipeline and the South Caucasus gas pipeline – and the expansion of the Sangachal oil and gas processing terminal. Offshore exploration in the Turkish sector of the Black Sea is also managed from Baku.

^a Generally Accepted Accounting Principles (GAAP): the common set of accounting principles, standards and procedures. Statements of Recommended Practice (SORP): recommendations on accounting practices for specialized industries or sectors.

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A message from Ernst and Young

We have reviewed the *BP Azerbaijan Sustainability Report 2004* to provide assurance to BP management on whether the Report covers the key issues and whether the data, statements and assertions made regarding the sustainability performance of BP Azerbaijan Business Unit (BP Azerbaijan) are supported by evidence or explanation. Our scope of work and conclusions can be found on *page 56*.



A responsible business

In 2004, BP in Azerbaijan enjoyed a most successful year. Our good all-round business performance was widely acknowledged by BP senior management, our partners and others. Our belief in social responsibility and our commitment to ensure that the benefits from our activities in Azerbaijan, Georgia and Turkey are shared as much as possible with those most directly affected also received recognition.

These substantial achievements, many of which are detailed in this report, did not occur by chance. Throughout the past decade our core vision has been to ensure that the investments by BP and its partners result in economic, social and environmental benefits for the countries and for the region. This objective has been integrated into our forward planning and decision-making.

Today, Azerbaijan stands poised at the start of a new era which will involve world-scale oil and gas projects delivering very substantial benefits to the state and its people. BP and its partners are proud to have played a part in creating this opportunity. But our role is not finished.

We intend to continue contributing modern management practices and advanced technology and to work to high safety and environmental standards as the new era gets under way. We hope to continue co-operating with all interested parties – government, partners, customers, contractors, civil society and international agencies – and particularly with local communities. We will continue to develop the capabilities of our teams and people as we strive for technical excellence. And at all times in all circumstances we aim to conduct our business with integrity to the highest ethical standards always respecting different cultures, the rights of individuals and the law of the land.

Our second Sustainability Report for Azerbaijan describes how we performed against these objectives in 2004. It outlines our business operations in the

country during the year and provides information on our social and environmental accomplishments. It also highlights the challenges we faced.

Major infrastructure projects pose significant risks to the safety of people and the environment and the Baku-Tbilisi-Ceyhan (BTC) project, with a workforce of around 22,000 at peak, has been no exception in this respect despite the effort put in to ensure safe working. We profoundly regret that six people lost their lives while involved with the BTC pipeline project in 2004. Any life lost is one too many. Each of these incidents led to investigations inside and outside the group in the three host countries.

Safety at work is a never-ending preoccupation for us given the scale of our projects, and there will be no slackening of our vigilance in this area in 2005. In seeking to promote all-round benefit from our activities we aim to be open and transparent in our dealings with the outside world. In that spirit, after reading this report we welcome 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 horizontal line underneath.

David Woodward

Associate President, BP Azerbaijan

Achievements

On this page we summarize the key achievements and challenges of 2004, concentrating on those with implications for the sustainability of our business in Azerbaijan but also reflecting our operations in Georgia and Turkey.

Operations By the end of 2004, the Chirag platform had produced 277.6 million barrels (more than 37 million tonnes) of oil since November 1997, with virtually no interruptions. During the year Chirag achieved a record output of 154,000 barrels of oil a day and significantly improved its drilling and water injection performance.

Offshore oil development Phase 3 of Azeri, Chirag and deepwater Gunashli (ACG) full field development was sanctioned. Two jackets in the central area of the Azeri field were installed. The 15,000 tonne Central Azeri topsides structure was installed. Commencement of East Azeri pre-drilling programme. Re-commencement of West Azeri pre-drilling.

Offshore gas development Completion of three well pre-drill programme for Shah Deniz (SD) natural gas project. Completion of floating dry dock refurbishment for SD project. Hull sections and drilling equipment for SD platform delivered to Azerbaijan.

Onshore terminal Construction works for Central Azeri – part of Sangachal Terminal Expansion Programme (STEP) – completed. Two 880,000 barrel crude oil tanks built at Sangachal Terminal. BTC head pump station in Sangachal Terminal virtually completed.

Export pipelines Finalization of finance agreements for the BTC project. More than 99% of BTC pipeline welded. Azerbaijan/Georgia sections of BTC welded together. Laying and welding of the South Caucasus Pipeline (SCP) commenced.

Safety Ten million hours worked accident-free on STEP. Ten million hours worked accident-free on Central Azeri

topsides. About five million hours worked accident-free on compression and water injection platform deck.

Community investment Addition of 25 villages in Azerbaijan to BTC/SCP community investment programme. Opening of community development centre for refugees in Umid settlement. Launch of Sustainable Income Generation Project for internally displaced people in Khirdalan.

Capacity building Technical training facility for the Caspian opened at Sangachal. Start of national Non-Governmental Organizations (NGO) capacity development project with the Open Society Institute (OSI). Launch of joint project with the International Finance Corporation (IFC – the private sector arm of the World Bank Group) and the Azerbaijan Bank Training Centre to assist development of small and medium-sized enterprises in Azerbaijan.



Challenges

Fatalities We deeply regret that six contractors lost their lives while involved with the BTC pipeline project in 2004 in Azerbaijan, Georgia and Turkey. In the words of the Associate President of BP Azerbaijan: "There is absolutely no room for complacency. For each and every one of us, the only acceptable approach is continued vigilance, 24 hours a day, seven days a week."

Pipeline integrity Hairline fractures were found at the end of 2003 in the joint coating applied to the BTC pipeline sections welded in Azerbaijan and Georgia. These were repaired before the pipe was buried and remedial measures were taken to ensure the correct application procedure was followed. The choice of field joint coating material and its adhesion to the pipe was later criticized in some media.

External developments Following formation of a new government in Georgia during 2004, construction work was suspended for two weeks while the new government conducted a review of the BTC project's security measures in the Kodiana region.

Land acquisition Delays in the BTC-related land acquisition and payments in Turkey and Georgia led to concerns being raised about the integrity and fairness of the compensation process. BP stated that it has to follow the requirements

and procedures of local law where land title is in question and made a firm public commitment that all legitimate landowners and land users would be compensated with funds held in escrow accounts while due legal process was completed.

Waste management In Azerbaijan and Georgia the use of municipal disposal sites by the construction projects was criticized by lenders to the project and government agencies. Azerbaijan Business Unit is planning to invest significant resources in the upgrade of existing waste sites and the development of new waste facilities.

Land reinstatement Efforts to progress land reinstatement along the BTC route, particularly in Turkey, fell behind schedule. The BTC's high standard of reinstatement remained unchanged and it still expects to complete engineering reinstatement and the replacement of topsoil by the end of 2005.

Contractor management Concern was expressed by the Caspian Development Advisory Panel (CDAP) that the extra distance introduced by the Lump Sum Turnkey Agreement (LSTK) between BTC and those contractors engaged in construction activity would reduce BTC's ability to ensure that the commitments made within the Environmental Impact Assessment (EIA) are honoured. BTC

worked closely with BOTAS, the LSTK contractor, to ensure this was not the case.

Financial transparency Despite acknowledgment of the signing in November 2004, of the world's first Memorandum of Understanding under the UK's Extractive Industries Transparency Initiative (EITI), demands were made for BP to publish disaggregated financial data that identified the amount and nature of financial transfers by the company to the Azerbaijan government. BP Azerbaijan committed to publish its disaggregated data in the *BP Azerbaijan Sustainability report 2004*. Copies of the EITI templates, submitted by BP Azerbaijan, can be found on *pages 54 and 55* of this report.

Labour relations Allegations were made that some BP contractors discriminated against local staff by paying them less than expatriate staff, making them work longer hours than allowed by Azerbaijan labour laws and dismissing them when they fell ill. As a result steps were taken to improve independent monitoring of contractors' performance in the area of their practices towards local staff.

Report scope and process

This report provides an account of BP's business activities in Azerbaijan during the year 2004 and a description of our economic, environmental and social performance over the same period. Where appropriate our activities in Georgia and Turkey are also outlined reflecting the international character of most of our major Azerbaijan-based projects and partnerships.

Three chapters form the framework of the report in line with BP group reporting guidelines. The first focuses on our businesses. This is followed by sections on 'BP Azerbaijan and the environment' and 'BP Azerbaijan in society'. Performance data is carried within the individual chapters and also in a separate section at the back of the report covering both 2003 and 2004.

Throughout the report we describe how we work within the values and policy framework that guide the way BP does business around the world. External assurance is provided by the BP group auditors, Ernst & Young, who are charged with ensuring that figures, statements and assertions in this report can be supported by documentation or explanation; testing whether BP Azerbaijan's process for determining the key issues to be included in the report has been applied.

The report is also a demonstration of BP's commitment to transparency in its operations in Azerbaijan. Throughout the report we highlight

links to other sources of information about BP and the wider context of our operations.

Our objective in producing country sustainability reports is to provide further insight into our activities and operations worldwide, to report openly on how we manage our business, to assist constructive dialogue with interested parties and to demonstrate our distinctive approach to the management of corporate responsibility issues.

Sustainability reporting forms a key part of the BP group's corporate reporting. At a group level BP reports in accordance with the standards set out by the Global Reporting Initiative (GRI) and has been a main driver in the development of sector sustainability guidelines via International Petroleum Industry Environmental Conservation Association (IPIECA). In 2005, BP will implement a consistent approach to country sustainability reporting across its global operations.

www.bp.com/sustainability
www.globalreporting.org
www.accountability.org.uk



1

Our business in Azerbaijan

- 1.1 BP Azerbaijan at a glance
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- 1.4 Operating responsibly – safety, integrity, managing impacts, security and human rights, people, health, ethics

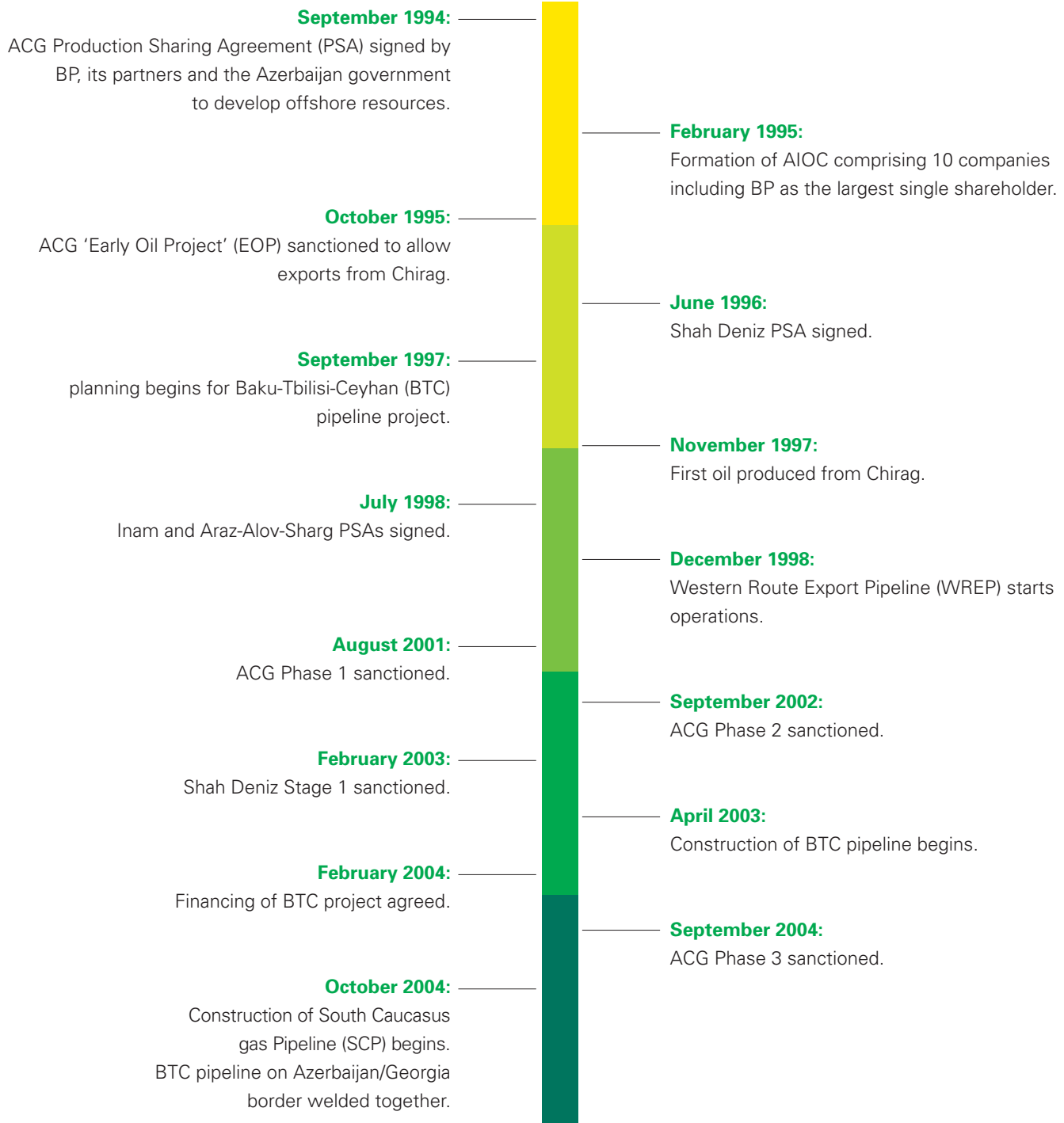
1.1 BP Azerbaijan at a glance

Legal structure	BP operates within a number of legal entities in Azerbaijan reflecting the evolution of its involvement in the country and the region since 1992. The principal legal entity is BP Exploration (Caspian Sea) Ltd. Other legal entities exist which are linked to our projects.
The Azerbaijan Business Unit (BU)	The Azerbaijan BU operates in Azerbaijan under a number of Production Sharing Agreements (PSA) and a Host Government Agreement (HGA) signed with the Government of Azerbaijan. In Georgia and Turkey it operates under HGAs that cover export pipelines and terminals.
Office headquarters	The Azerbaijan BU is located at Villa Petrolea, 2 Neftchilar Prospekti (Bayil), Baku, Azerbaijan. Telephone: +994 12 4979000; Fax: +994 12 4979602.
Employees	At the end of 2004 the total number of employees in the Azerbaijan Business Unit was 1,945. The number of employees of Azerbaijan/Georgian/Turkish nationality was 1,404. The number of expatriates was 430. UK-based employees totalled 111.
Offshore production assets	Azeri-Chirag-deepwater Gunashli ^a (ACG): an oil field which produced first oil in 1997 and is now undergoing full field development. Shah Deniz (SD): a gas and condensate field currently undergoing Stage 1 development with a target delivery date of first gas to market by winter 2006.
Estimated reserves	ACG: recoverable reserves of 5.4 billion barrels. SD: recoverable reserves of gas 22.1tcf and 750 million barrels of condensate.
Storage and transportation	Western Route Export Pipeline: an 830km pipeline with eight manned pump stations linking Sangachal Terminal to Supsa in Georgia. Northern Route Export Pipeline: a 231km pipeline with pump injection and metering stations, linking Sangachal Terminal to the Russian border ^b . Supsa Terminal: an oil storage and shipping terminal on the Black Sea coast in Georgia. Sangachal Terminal: an oil and gas processing terminal on the Caspian shoreline south of Baku. Baku-Tbilisi-Ceyhan pipeline: a 1,768km oil pipeline including eight pump stations scheduled for completion in 2005 linking Sangachal Terminal to Ceyhan marine terminal on the Mediterranean coast in Turkey – 443km in Azerbaijan, 250km in Georgia, 1,075km in Turkey. South Caucasus Pipeline: a 690km natural gas pipeline between Sangachal Terminal and the Georgia/Turkey border running parallel to the BTC pipeline and scheduled to be technically complete by end 2005.
Exploration activity	Inam: a large geological structure south of Shah Deniz. Exploration activities continued in 2004. Araz-Alov-Sharg: a frontier exploration area. Turkey Black Sea: a deepwater exploration well to be drilled in 2005 in Licence 3534 by TPAO/BP (Operator).
Committed capital expenditure	Estimated \$22 billion on the ACG, BTC, SD/SCP projects.
Oil production	AIOC 1997-2004: 277.6 million barrels in total.

^a Shallow water Gunashli is developed by the State Oil Company of the Azerbaijan Republic (SOCAR).

^b 'Transneft' operates the continuation of the Northern route to Novorossiysk.

History



1.2 BP Azerbaijan in perspective – strategy, management framework and relationships

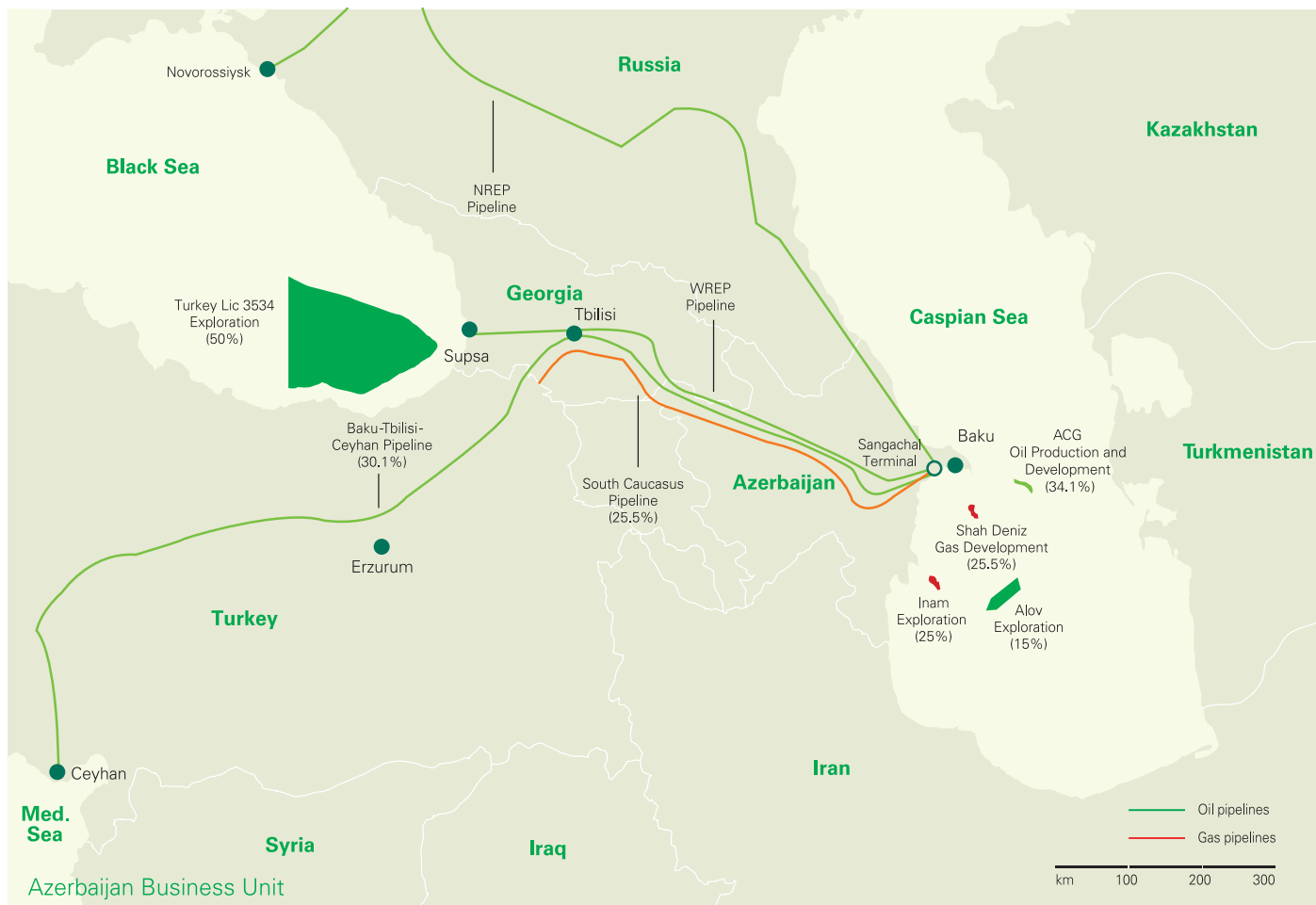
Our strategy BP is the operator of major projects in the Azerbaijan sector of the Caspian and trans-Caucasus region committing, together with partners, investment estimated at \$22 billion into these ventures. We believe that these projects collectively comprise the largest foreign direct investment to date in Azerbaijan, Georgia and Turkey. It is underpinned by PSAs, Inter-Governmental Agreements (IGA) and Host Government Agreements as well

as the participation of national and international energy companies.

As the operator, BP is responsible for managing and carrying out development and production activities on behalf of the various project partnerships within agreed management frameworks. This involves extensive consultation with a wide variety of external interested parties. Our partners provide invaluable support as part of this process and contribute greatly to our overall success.

Our strategy in Azerbaijan is defined, in the first instance, by BP group strategy. In Exploration and Production – the basis of our business in Azerbaijan – we seek out large, long-term assets. In delivering this strategy we are committed to acting responsibly in order to build trust and mutual benefit, be sustainable and strengthen our reputation.

Responsibility, in our view, operates on several levels. All of them are linked to our business strategy. At its most



fundamental, responsibility means obeying applicable laws in each country where we are represented, behaving in a responsible way around the world, being driven by the group's stated values. It means, too, working within our corporate code of conduct^a which lays down mandatory principles and expectations on issues such as equal employment, facilitation payments and business ethics that must be observed on a worldwide basis.

We also seek best practice wherever we operate in such areas as local procurement and the management of the environmental and social impacts of our business. At a further level we believe that behaving responsibly involves playing a part in helping to solve global challenges directly relevant to our business strategy. The most obvious example involves the issue of climate change on which we chose to take a lead in stating publicly in 1997 that the risks of climate change were serious and that precautionary action was justified.

More recently BP has recognized the need to make a focused and inclusive contribution towards global social and economic development. In 2004, we reviewed our role in, and impact on, the communities in which we operate worldwide. We identified three themes where there is often an overlap between what we can offer, what communities need and what will help us to deliver BP's long-term business strategy –

education (supporting a focused range of learning initiatives); enterprise (helping to create sustainable jobs in communities where we operate); and energy (enabling communities to gain access to modern energy services). Each of these areas is based on the concept of mutual advantage. Each has direct relevance to our current and future role in Azerbaijan and can be applied in a manner that meets the country specific context.

Our management framework BP today is an organization of many cultures – not only national, but also derived from recently-acquired firms in a number of countries and from specific areas of expertise. A clear management framework and good governance are regarded as crucial building blocks if the global organization is to perform in a focused, cohesive and consistent fashion.

In 2004, BP introduced a new Management Framework based on four concepts: governance, clarity of roles, functional excellence, and the overarching importance of BP as a single cohesive group. Contained in a single point of reference known as the *Green Book*, this framework identifies lines of accountability from the most senior to the most junior levels, establishes principles that will enable the company to benefit from its increasing scope and scale, improve its performance, gain competitive advantage and deliver the long-term strategy.

The Management Framework makes it clear that accountability always goes to a single individual. Every team anywhere



in the world has a leader and that leader must take ultimate responsibility for decision-making. Personal objectives are normally set and agreed at the beginning of each year. This clarity extends to the balance between functions, regions and business segments inside BP and involves consistent delivery by every function from marketing to health, safety, security and the environment across the BP group regardless of geographic location.

Dialogue and engagement 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 applied across the BP group.

As the major foreign investor in

^a The code of conduct which will be launched to every BP employee in 2005 supersedes the previous guide entitled *What We Stand For*.

Azerbaijan and the region, we have a diverse interaction with many interested parties. We engage with government, regulatory agencies, community leaders, the media, national and international NGOs, multilateral organizations (including lenders and project sponsors) and national civic groups on a regular basis.

Our consistent aim is to ensure that the support we provide meets local needs in the communities in which we work. To fulfil this objective we encourage communities and local NGOs to prioritize their needs and identify possible projects on which we can co-operate in an open, accountable manner. Much of our work in this area is focused on improving local capacity.

These relationships can often be challenging and complex. The BTC pipeline project, in particular, has faced opposition from some international and national NGOs in the three host countries related to its environmental and social impact. The process of land

acquisition and compensation along the BTC route continued to cause some controversy during 2004 although the vast majority of outstanding cases had been resolved by the end of the year. There were a number of work stoppages in Georgia caused mostly by local grievances – not all directly relating to the pipeline itself. For example, in Minadze, a village in the Akhaltsikhe district, the main road through the village was blocked for approximately three months because the villagers felt that vibrations from construction traffic work was damaging their houses. Tests were independently completed and, whilst there was no evidence that this was the case, BTC Co. has agreed to work with the village on a number of community projects.

In addition, we faced some claims of alleged discrimination by our contractors against local employees in Azerbaijan.

Dialogue and engagement in Azerbaijan during 2004 took place on many levels:

With interested parties in general

- We distributed a quarterly 'Lenders' Report' on the environmental and social aspects of the BTC project widely inside and outside the region.
- The Caspian Development Advisory Panel continued to monitor the BTC project. Its reports and recommendations were published on its website and the BTC website, together with BP's responses.
- We published monthly news bulletins on the BTC website and compiled and published the first Azerbaijan BU sustainability report.
- Panels of experts visited BTC sites in February and July-August 2004, as part of the project's Social and Resettlement Action Plan (SRAP). Recommendations mostly concerned land acquisition/compensation, the impact of construction and community engagement and were followed up.



- We participated in the annual Oil Show in Azerbaijan, and used the opportunity to strengthen local industry relationships and share information about project activities and progress.
- We worked hard in 2004 to share information on our projects as widely as possible by hosting numerous site visits, field trips and workshops. Visitors included Heads of State, Ambassadors, Ministers, international agency representatives, Parliamentarians, CEOs, representatives of local and international NGOs and others.

With communities

- We opened the Bibi-Heybat Community Information and Resource Centre in the ATA Yard vicinity to establish dialogue with the local community, informing it about project activities and potential resources and receiving information



through a comments and complaints-gathering system.

- We launched the Zyk Community Information Centre to establish constructive mutual relations between the Shah Deniz project and local communities, and made a series of presentations to local communities on the project activities.
- Almost 150 public meetings were held between July and September by the main BTC/SCP pipeline contractor in Azerbaijan, CCIC, with communities along the route to discuss construction progress, use of access roads, safety and recruitment issues.

With the media

- Field trips were arranged for newspaper and television media representatives to several locations including the BTC pipeline right of way, Sangachal Terminal and BTC construction camps.

With NGOs

- We began the 'National NGO Capacity Development Project' in September 2004. This one-year project managed by the International Rescue Committee Azerbaijan involves partnering five national NGOs while simultaneously mobilizing 24 pipeline-affected communities in Azerbaijan to assess and address their priority needs (in addition to

82 communities already being supported by BTC/SCP Community Investment Programmes).

- We encouraged inquiry and dialogue with national and local NGOs interested in BP project activities. An example is the NGO monitoring of BP/BTC with the Open Society Institute (OSI). In this programme, in Azerbaijan, NGOs are reviewing how the BTC project activities have performed regarding the environment, preservation of cultural heritage, local content, upholding land and worker rights, and social issues (see Case Study). A similar project is under way in Georgia with the Eurasia Foundation.
- BTC senior management met with World Wildlife Fund (WWF) International and WWF UK in September to discuss issues of concern. A workshop was held for NGOs and socially-responsible investor groups (SRIs) in the UK in February 2004. In May 2004, a presentation on BTC and related activities was given with the Brookings Institution in Washington DC. In May, a meeting on the BTC project was held with NGOs and SRIs in New York.
- We sponsored and participated in a UN and NGO-led conference on sustainable development in Azerbaijan.

With government

- We discussed with Azerbaijan's Ministry of Ecology and Natural Resources (MENR) claims for

damage resulting from the accidental release into the sea of synthetic-base drilling mud during offshore drilling work in 2002-2003.

- Tax issues involving donor funding were discussed by the BTC project team with Azerbaijan's Cabinet of Ministers.
- The chairman of Azerbaijan's Milli Mejlis (parliament) requested support from BP in developing new waste management legislation

for the country. A working group was set up on which BP represented the foreign oil industry in Azerbaijan and facilitated a visit to Aberdeen by members of the group to attend a drill cuttings management conference.

- We arranged for a workshop on Economic Modelling to be run by Oxford Economic Forecasting from the UK and to be attended by various ministries of Azerbaijan.

With multilateral organizations

- We hosted round-table discussions in Baku with interested members of the foreign diplomatic corps, embassy representatives and international donor organizations to share details of on-going project activities.



NGO Monitoring Programme

One example of our approach to building mutually beneficial NGO relationships is the BTC Monitoring Programme. Facilitated in Azerbaijan by the Open Society Institute (OSI), the programme is independently funded to further ensure its impartiality. It contains a significant element of training and capacity building on such topics as proposal development, monitoring and audit methodologies, report writing, and other technical areas. BP and BTC/SCP contribute to the programme by providing access to staff, facilities and information and by meeting the costs of training and logistics.

After undertaking training, working groups of NGOs selected key topics or 'themes' for further research such as the environment. With the assistance of independent, international experts, working groups drafted research proposals. After these teams received inputs from OSI, NGOs implemented their extensive research programmes. With the assistance of construction contractors, we were pleased to provide the information, staff interviews, site visits, project briefings, background documentation and logistical arrangements that made the NGO monitoring programme possible.

By the end of 2004, the NGO working groups have largely completed the monitoring process in Azerbaijan and had begun drafting their reports. The first of these reports – on the themes of society, the environment, human rights, local content, and cultural heritage – is expected by June 2005. A similar programme in Georgia, facilitated by Eurasia Foundation, was launched in December 2004. Reports from the Georgian programme are due in the second half of 2005. We believe these programmes present a rare, if not unprecedented, example of how international companies and national NGOs can work together towards the mutually advantageous goal of better social and environmental performance.

1.3 Operations and projects – performance and achievements 2004

Overview In 2004, the average daily production rate from the Chirag oil field was 132,200 barrels, with an overall production efficiency of 93%. We continued to invest in our various projects in Azerbaijan, Georgia and Turkey on schedule and in line with our previous commitments. Our major projects represent the largest foreign direct investment in both Azerbaijan and Georgia. We believe they already contribute to local and regional economic development in many ways.

Azeri-Chirag-deepwater Gunashli (ACG)

Overview ACG, an offshore oil field in the south Caspian Sea, is the largest oil field under development in the Azerbaijan sector of the Caspian basin. Lying approximately 100km east of Baku, it is being developed by the Azerbaijan International Operating Company (AIOC) which is made up of the companies shown in the diagram.

Production from ACG began in November 1997, from the Chirag field. Development of the Azeri project, Phases 1 and 2, have followed while Phase 3 will develop deepwater Gunashli. We anticipate that ACG full field development will result in production of about one million barrels of oil a day by 2009.

Progress In 2004, we spent \$2.55 billion in capital expenditure and \$126 million in operating expenditure with our AIOC partners on our ACG activities.

Production from Chirag, with an average rate of 132,200 barrels a day for the full year, significantly exceeded our

planned daily average target of 125,000 barrels despite cutbacks at the start of the year due to shipping congestion in the Turkish Straits and a planned platform shutdown in July. By the end of 2004 Chirag had produced more than 277 million barrels (over 37 million tonnes) of oil since November 1997, with minimal interruption. Oil exports via the Western Route Export Pipeline and the Northern Route Export Pipeline continued successfully on schedule throughout the year.

On the Azeri project, we began the East Azeri pre-drilling programme in February 2004. The Central Azeri

Capital and Operating expenditure for Azerbaijan BU 2004 (\$ thousand)

	CAPEX	OPEX
ACG	2,554,922	125,918
BTC	1,234,196	n/a
SD/SCP	1,327,499	14,025
INAM	5,361	1,014
ALOV	700	16,711 ^a

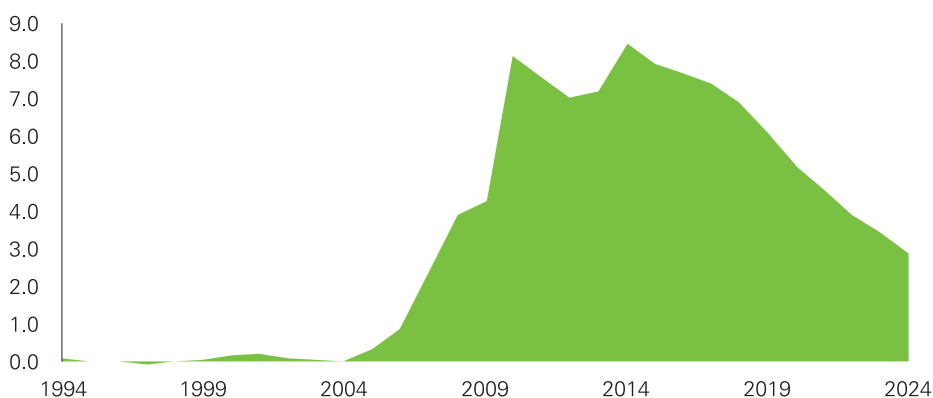
^a Operating expenditure of ALOV for 2004 includes 50% provision for ALOV rig take or obligation.

Other economic data

Potential Azerbaijan State revenues:

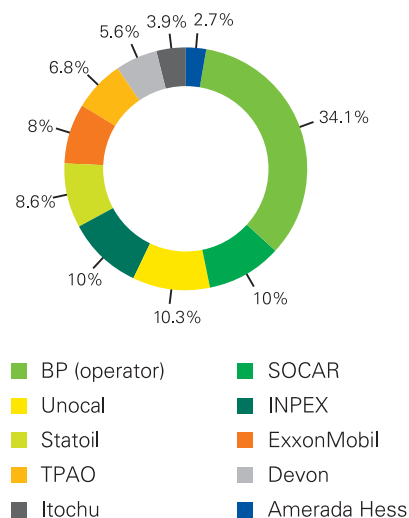
- Profit oil deliveries to Azerbaijan from ACG and SD 1997-2024 (estimated): 3.3 billion barrels of oil equivalent.
- Azerbaijan revenues from ACG, BTC, SD, SCP 1994-2024 (estimated): \$107 billion^b.

Potential Azerbaijan State revenues from ACG, BTC, SD and SCP projects (\$ billion)^b



^b Assuming oil price of \$30 per barrel.

AIOC partners



production, drilling and quarters (CA-PDQ) platform jacket installation was completed offshore in March as were the Central Azeri subsea pipelines. West Azeri pre-drilling recommenced in July 2004. The following month we installed the compressor and water injection platform jacket offshore and took delivery in Baku of the drilling facilities for the West Azeri platform. In September we sanctioned a construction stage of Phase 3 of ACG full field development and in October offshore installation of the CA-PDQ topsides took place followed by commencement of the jacket fabrication for the deepwater Gunashli (Phase 3) drilling, utilities and living quarters.

All the subsea pipe-lay, tie-in and testing work for the oil and gas pipelines from Central Azeri to the Sangachal Terminal were completed, along with the installation of a 187km fibre optic communications cable. The Eupec coating

facility had a successful year with more than 90% of ACG Phase 2 pipe coated. The Sangachal Terminal Expansion Programme (STEP) progressed on schedule. Works for Central Azeri, including the gas plant, were finished as was a gas export pipeline for SOCAR.

Outlook In 2005, operating expenditure on ACG will increase to \$154 million while capital spending will decline slightly to \$2.28 billion. Production is expected to reach 227,000 barrels a day in total from Chirag and Central Azeri during the year. First oil from the Central Azeri platform is likely to be produced during the first quarter of 2005. Commissioning of the expanded terminal at Sangachal is expected during the first quarter of 2005. Azeri pre-drilling should be complete by the third quarter. First injection by the compressor and water platform is planned for the fourth quarter together with installation of West Azeri topsides.

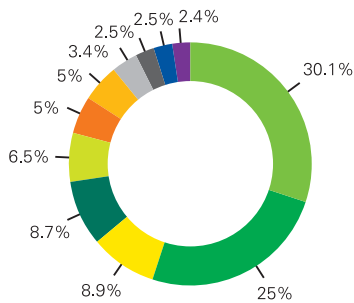
The Baku-Tbilisi-Ceyhan (BTC) pipeline project

Overview The BTC pipeline is being built to transport oil from the Caspian Sea from 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 so avoiding the need to transport oil through the congested and environmentally-sensitive Turkish Straits.



The pipeline will be 1,768km long and is due to be completed in the fourth quarter of 2005 with the first oil scheduled to be exported from Ceyhan before the end of 2005. We expect construction costs of the project to be around plus or minus 10% of the original budget of \$3 billion. BP is the leading shareholder in the BTC Company with a 30.1% stake.

BTC partners



- BP (operator)
- Unocal
- TPAO
- Total
- INPEX
- Amerada Hess
- SOCAR
- Statoil
- ENI
- Itochu
- ConocoPhillips

Progress In 2004, construction works progressed well, leaving the project on track to be completed in the fourth quarter of 2005. Capital expenditure on the project during the year totalled about \$1.2 billion.

Some 17,000 people were working on the project in December 2004, of whom about 2,500 were in Azerbaijan (80% of these Azerbaijan nationals). At the peak of construction in the autumn of 2004

the project employed around 22,000 people in the three host countries.

Major milestones for 2004 included finalizing the financing of the project during the first quarter and achieving access to all the right-of-way corridor across the three countries in the second quarter. In the third quarter the Azerbaijan and Georgian sections of the link were welded together. The total length of the pipeline in Azerbaijan is 443km – by end 2004, only 8km was left to trench, 26km to backfill and 105km to reinstate. Construction of the BTC head pump station in the Sangachal Terminal was 99% finished. In Georgia the pipeline was more than 80% complete by end 2004 while in Turkey some 85% of the project was complete, including 90% of the new Ceyhan marine terminal.

Outlook In 2005, capital spending on constructing the BTC pipeline is expected to decline to around \$700 million, excluding costs of line-fill and financing as this huge infrastructure project is completed.

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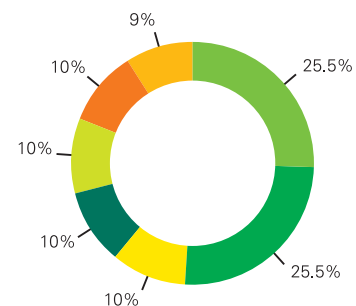
Shah Deniz (SD) and the South Caucasus pipeline (SCP)

Overview The Shah Deniz natural gas field is located 70km offshore Azerbaijan beneath water depths ranging from 50 metres in the north-west to 600 metres in the south east. It covers a surface area of 250 square kilometres and is a geologically complex structure split into at least four distinct ‘horizons.’

One of the largest hydrocarbon discoveries of recent years, SD was confirmed in 1999. Recoverable reserves of the SD field are 22.1tcf of gas and 750mmbbl of condensate, with potential for further hydrocarbons at deeper horizons. Gas will be delivered to Turkish and international markets through the 690km South Caucasus Pipeline to the Georgian/Turkish border where the link will join up with the Turkish national gas grid. Through Azerbaijan and Georgia the SCP will run parallel to the BTC pipeline and, like it, be buried underground.

Seven national and international energy companies are partners in the development of SD and construction of SCP.

Shah Deniz partners



- BP (operator)
- SOCAR
- NICO
- TPAO
- Statoil
- LukAgip
- Total

BP is the operating company for SD and will also be the technical operator for the SCP during the operational phase of the project. First phase development costs are likely to total about \$4.1 billion and include installation

of a fixed production platform linked by three subsea pipelines to Sangachal Terminal onshore as well as the \$1.1 billion SCP.

Progress Significant progress was made on the SD project in 2004 and by the end of the year 44% of Stage 1 construction activity was complete and work was on schedule to meet the target of delivering first gas to the market before the winter of 2006. Following a successful three well pre-drilling programme and seismic re-imaging, estimates of gas and condensate in place were increased by 20%.

Major accomplishments in 2004 included the arrival of pipe in Azerbaijan for the SCP link followed in September

by commencement of main pipelay activity. A third pre-drill well was completed in July, the refurbishment of the Yusuf Ibrahimov floating dry dock in Baku was finished in August and in September the drilling equipment set from Norway arrived. Subsequently, in October, the four hull sections of the TPG 500 platform reached Baku after a two-month journey from Singapore. Welding of the SCP began in Azerbaijan in October; by the start of 2005, 54% of this project was complete.

At the end of the year, a 25% increase in the likely cost of the project to about \$4.1 billion from the previous estimate of \$3.2 billion was announced by the project partners. The rise in part reflected oilfield price inflation and currency exchange movements. A full

review, undertaken in co-operation with our partners, resulted in a number of decisions designed to enhance project controls and ensure the viability of the development.

Outlook In 2005, the focus will be on completion of the fabrication and assembly of the TPG 500 platform, the laying of subsea pipelines, construction of the SD section of the Sangachal Terminal and work on the remaining section of the SCP. Offshore construction activities will begin in the third quarter, after completion of the Azeri subsea pipeline programme, with the laying of 100km of gas and condensate pipelines to the SD platform location. A fourth development well will be drilled in the second half of the year to enable increased gas deliveries to Azerbaijan. Onshore, final SD equipment deliveries will take place at Sangachal.

Exploration

Overview We continue to explore in the region for new hydrocarbon resources that offer prospects of long-term development potential.

Inam is a large structure in the Kura Delta area south of Shah Deniz, located in a challenging drilling environment. A first deep development well was drilled in 2001 but was unable to reach the reservoir targets due to high over-pressures. In 2004, exploration activities continued with



the focus on planning a second well to be drilled in the second half of 2006 depending on the overall drilling programme for the South Caspian. BP (25%) is operator in the Inam consortium which includes SOCAR (50%) and Shell (25%).

Alov, Araz, Sharg This frontier exploration area involves a partnership between BP, SOCAR, Statoil, ExxonMobil, EnCana and TPAO. In 2004, we studied the results of seismic reprocessing efforts undertaken in 2003. Differences between Azerbaijan and Iran over delineation of the Caspian Sea continued to impede work on site.

Eastern Black Sea In 2004, BP Turkey in partnership with TPAO contracted the Global Santa Fe 'Explorer' rig to drill the first exploration deepwater well in the Eastern Black Sea in mid-2005. The well is planned to be in 1,500 metres of water and will be the first important test of this undrilled basin.

Other businesses

Integrated Supply and Trading (IST) BP Azerbaijan markets its crude production through BP's Integrated Supply and Trading (IST) group based in London. IST plays a key role in offering detailed understanding and experience of the crude oil supply and trading business. In addition to trading physical crude oil on behalf of BP Azerbaijan, IST is also engaged in futures trading to maximize value associated with BP's Caspian crude production.

BP lubricants in Azerbaijan Our partner, Petrochem group distributes lubricant products including BP and Castrol brands. Since 2000, Petrochem group has been an official supplier of lubricants for all BP projects in Azerbaijan. In 2004, Petrochem group delivered more than 1,800 metric tonnes of lubricants to customers in Azerbaijan from BP plants in the UK, Dubai, Turkey, USA, Belgium and Germany and provided associated services.

1.4 Operating responsibly – safety, integrity, managing impacts, security and human rights, people, health, ethics

Safety

Overview The year 2004 was overshadowed by the deaths of six people while working on our projects. We deeply regret these deaths and have sought to learn from the incidents that caused them in such a way as to reduce the risk of recurrence.

Our group values include the goal of no accidents, no harm to people and that no one is subject to unnecessary risks while working for the group. We address these goals with three principles in mind: all accidents are preventable; health and safety is a line management responsibility; and everyone who works for us has a personal responsibility to undertake his or her duties in a safe manner at all times. Once construction and operation of a site begins, safety and security of people and operational facilities become paramount, along with the health of our workforce and the community.

In 2004, the group as a whole recorded a 10% reduction in our Days Away From Work Case Frequency (DAFWCF).

A DAFWCF is registered when an injury causes a worker to miss a day or more from work. Since 1988, the BP group DAFWCF has declined from around 1.5 cases per 200,000 man-hours to 0.08 in 2004.

The Azerbaijan BU Safety Plan integrates and links group, segment, business unit and performance unit safety initiatives. It describes activities that support these wider initiatives and outlines actions that need to be performed to enhance safety

awareness, encourage safe behaviour and learn from incidents.

Our 2004 Safety Plan was based on a review of our 2003 safety performance. Key initiatives and activities were developed and progress monitored against them. Specific targets were set for key indicators. Performance against the initiatives was reported monthly to senior management and distributed widely throughout the BU.

Progress Azerbaijan BU's safety culture in 2004 was enhanced through some specific initiatives including the safety intervention programmes of discussions about personal and workplace behaviour known as Advanced Safety Audit (ASA), the Safety Training Observation Programme (STOP) and many forms of HSE training. These initiatives resulted in both reduced absolute accident and incident levels and reduced accident frequency rates.

There were some substantial achievements during the year:

- Ten million man-hours were worked safely on the Sangachal Terminal expansion programme while eight million man-hours were worked safely at the Ceyhan marine terminal.
- During construction of the BTC and SCP pipelines in 2004 the DAWCF was nearly six times better than the average for the pipeline construction industry. This was achieved during an intensive period of construction in which some 63 million man-hours of work was performed.

- The Western Route Export Pipeline (WREP) from Baku to Supsa, fully operational since February 1999, achieved five years (2.5 million man-hours) without a single DAFWC.
- The Shah Deniz hull fabrication activity at Keppel Fels, Singapore, achieved more than five million man-hours worked without a single DAFWC, and TMOL at Zykha yard, Baku, worked more than one million man-hours without a DAFWC.
- At Pump Station One in the Kars district of northeast Turkey the BTC Co. together with BOTAS and sub-contractor Tepe Construction achieved a million man-hours of work without any loss of working days due to accidents.
- We reviewed, updated and reissued existing Safe Systems of Work (SSOW) procedures for the BU. The revised SSOW procedures will be translated from English into the Azerbaijan and Russian languages.
- We conducted 'Driving Immersion – learning, practising and testing' training for BP and contractor employees across Azerbaijan, Georgia and Turkey.
- Professional fire fighters from the Sangachal Terminal and the Azerbaijan state fire fighting department underwent a seven-week training course run by two international companies to equip them to form a Sangachal Terminal emergency response team.
- Supervisor Safety Leadership training was conducted for more

than 2,400 first line supervisors on Azerbaijan BU operations and projects.

The chart below shows the BP Azerbaijan Business Unit's performances for 2003 and 2004, and our targets for 2005. It does not include data that is categorized as 'project-reportable'. The difference between 'Business Unit –

reportable' and 'project-reportable' data is based on the level of influence and control established by BP at a particular site. For example, work at the ATA yard is project-reportable because the site is operated by a contractor, while work at the Sangachal Terminal is BU-reportable because it is operated directly by BP.

In 2004, the BU achieved the great majority of its safety performance

indicators, reaching targets in all categories except for fatalities and TVAR (Total Vehicle Accident Rate).

Incidents and fatalities BP has a systematic approach in place to investigate all Business Unit and BTC/SCP project-related and recorded incidents. We work to determine the root causes and to develop and

BP Azerbaijan BU safety performance 2003-2004

	2003 Actual	2004 Actual	2005 Target
Fatality	0	2 ^a	0
HiPof	0.03	0.015	0.02
DAFWCf	0.08	0.031	0.03
RIIF	0.62	0.433	0.4
TVAR (two incidents)	0.86	1.33	1.16
Kilometres driven, (million km)	46.55	55.66	n/a
Hours Worked, (million hours)	23.80	51.71	n/a
HiPo/MIA	3/2	6/2	n/a
Action Tracking, % Closure	82	100	100

^a Plus four fatalities on contractor managed sites.

Notes and definitions.

1. 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 a project-only reportable data.
2. BP's injury and illness definitions are the US Occupational Health and Safety Administration (OSHA) definitions and their subsequent interpretation.
3. DAFWC. 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. 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.
4. Recordable Injury and Illness (RII). This is a measure used by OSHA. RII 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 RII frequency is expressed as the number of Recordable Injuries and Illnesses per 200,000 hours worked.
5. Total Vehicle Accident Rate (TVAR). An expression of the number of road accidents per million vehicle kilometres travelled.
6. 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.
7. MIA/HiPo. Major incident announcement/ high potential incident.

implement measures to prevent incidents from happening again.

Every incident classified as recordable under US Occupational Health and Safety Administration (OSHA) record

keeping guidelines at the BU or BTC/SCP project level is analysed in detail. Regular audit programmes are conducted by the BU including planned and scheduled contractor safety audits. The lessons

learned from incident investigations are used to drive immediate improvements and to establish the basis for subsequent safety plans and targets.

We also track incidents that are not within our sphere of influence but may be indirectly associated with our projects. For example, this may include accidents at a vendor's pipe fabrication mill or a contractor's office, or accidents associated with the transport of equipment and materials by rail. Such cases would be classified as non-reportable at the Business Unit and project level.

In 2004, to our very deep regret, there were six fatalities. Two of them were recorded by the Azerbaijan BU and four were recorded at the project level. All the cases involved contractors associated with construction of the BTC pipeline. Details were published in the relevant quarterly report to Lenders and posted on the BTC project website.

In addition to these tragedies there was an incident on July 9, 2004, when two children were killed along the BTC right-of-way in Turkey. While this case is classified as non-reportable at the BU and the BTC project level it was subject to extensive investigations within the Business Unit and by the BP group and BOTAS. We made a sustained effort to improve community awareness of construction risks and increased security patrols along the right-of-way corridor. We also improved the safeguarding of excavations across all three host countries.

2004 Azerbaijan BU safety performance against targets

	Target	Actual
DAFWCf	0.08	0.03
RIIF	0.53	0.43
TVAR	0.86	1.33
ASA	210	353
STOP	1,400	1,885
Training Hours	3,000	3,561
Action Item, % Closure	80	100

Notes and definitions.

1. Advanced Safety Audit (ASA). A technique in which managers trained in safety observation of people at work, discuss and agree with them how risk should be managed. This intervention is done using a positive, co-operative approach. The ASA frequency is expressed as the number of completed Advanced Safety Audits per 200,000 hours worked.
2. Safety Training Observation Programme (STOP). 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.
3. Training Hours. Hours of training during which some aspect of safety is covered. Training Hours frequency is expressed as the number of training hours per 200,000 hours worked.



Total Vehicle Accident Rate (TVAR)

Vehicle safety received a high degree of attention across the BP group and within the Azerbaijan BU during 2004. A number of specific initiatives were taken in Azerbaijan to improve driving safety performance:

- Delivery of the group-sponsored Safety Immersions Section 1 (Learning) and Section 2 (Practising). Section 3 (Testing) began in November 2004, and continued into 2005.
- Development and implementation of a plan to ensure that all appropriate elements of the Driving Safety Standard were carried out. The plan set goals, provided a tracking mechanism to monitor performance and was reported regularly around the BU.
- Performance Units also implemented their own initiatives

including establishment of a zero-tolerance threshold for driving infringements (BTC pipeline).

Outlook Our basic challenge as an organization continues to be to develop an effective safety culture. This will be achieved, we believe, by clear communication based on mutual trust, by shared perceptions of the importance of safety and by establishing confidence in the effectiveness of preventive measures.

In 2005, our safety plan focuses on improving the effectiveness of safety forums across the BU. We aim to establish and implement a plan for the introduction of a Driving Safety Standard for our contractors. Refresher courses will be held at supervisory level to emphasise safety accountabilities and responsibilities. Initiatives will also be taken to raise standards of risk

assessment across the BU, apply the lessons learned from drowning fatalities in the past and implement new 'Golden Rules of Safety.'

Integrity of our operations

The group operates an ISO 14001 certified environmental management system within the Azerbaijan BU as an integral part of everyday operations. This process demands continual improvement of environmental performance through the minimization of operational impacts.

In 2004, the Azerbaijan BU was ISO 14001 Environmental Management System (EMS) recertified by Moody International Certification, an independently accredited company. This was a major milestone that underlined how BP Azerbaijan as the operator had maintained and improved environmental integrity across its operational sites. Semi-annual external reviews continued during 2004 and showed sustained progress. The scope of this certification will be widened in 2005 with the Central Azeri platform and the expanded terminal at Sangachal and the Baku-Tbilisi-Ceyhan pipeline starting operation.

Along with the international environmental management systems standard ISO 14001, BP's internal operational framework, 'Getting HSE Right' lays down a comprehensive system for the assessment and management of risks and impacts on a day-to-day basis at a local level.

Safety day out for all

A workforce of 5,100, and their families, had a day to remember on June 12, 2004 when all of the AGT pipeline construction activities in Georgia stopped for a 'safety day out'.

BP and Spie Petrofac (contractor) staff – a workforce from more than 20 different countries – stopped working to share and practice safety and committed to make all future days as safe as June 12th. The BTC project sacrificed an entire day of construction to demonstrate not only the importance of safety as a value, but also recruiting family and friends to reinforce this value outside the workplace.

Georgian television personalities were enlisted, together with the First Lady of Georgia to reinforce this message. The eight 'Golden Rules of Safety' formed the backdrop of fixed displays and interactive workshops explaining the reasons behind these rules to those unfamiliar with health and safety concerns.

Managing impacts

Drill cuttings/discharges to sea

BP Azerbaijan uses both water-based mud (WBM) and non-water-based mud (NWBM) for its drilling operations.

Most of the Azerbaijan BU discharged drill cuttings are water-based. In 2004, almost 17,200 tonnes of WBM drill cuttings were generated by the BU's platform and mobile drilling activities. WBM is the most commonly used

drilling mud in the world. Because of its low toxicity, discharges to the seabed of WBM containing cuttings are usually permitted in offshore operations. The chemical components of WBMs are soluble and tend to disperse within the water column as the discharged cuttings fall to the seabed.

BP's current and future development drilling operations offshore Azerbaijan will also generate large volumes of drill cuttings containing NWBM – specifically

synthetic-based drilling fluid. For the ACG and Shah Deniz projects this NWBM will either be reinjected offshore or shipped to shore for treatment before reuse or disposal. Non-water-based drill cuttings from the Dada Gorgud^a and Istiglal^b mobile drilling rigs were sent ashore in 2004.

^a Dada Gorgud: a semi-submersible drilling rig performing ACG drilling programme.

^b Istiglal: a semi-submersible drilling rig performing Shah Deniz drilling programme.



Pipeline integrity

A number of measures are in place to protect the integrity of the BTC and SCP pipelines. For protection during its 40-year design life, the pipe was coated with a three-layer polyethylene coating system in accordance with project specifications and international standards. Once the pipe sections were welded together on site, the weld joint areas were blast-cleaned and a liquid field joint coating material applied. Before the pipeline was buried, welds and field joint coatings were inspected and tested.

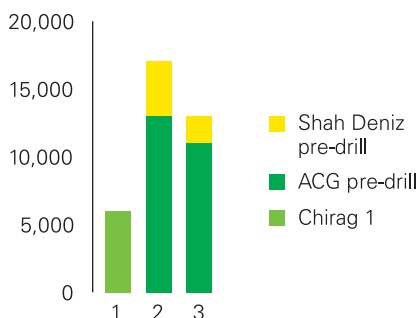
System integrity will be validated by hydro-testing and other quality assurance tests before the pipelines become fully operational in 2005 and 2006. After

operational start up the pipe will be subject to comprehensive monitoring and further protection measures. For example, a system known as cathodic protection will be used which diverts corrosion from the pipe to a series of 'sacrificial anodes' placed nearby.

During 2004, BTC resolved a problem first identified in November 2003, when some hairline cracks appeared in the joint coating of pipeline sections welded in Azerbaijan and Georgia. Investigations by BTC (confirmed by engineers acting for the project's financial lenders) found that some cracking had occurred under cold weather conditions when the coating had not sufficiently 'cured' – a chemical reaction that fuses the epoxy material.

A simple remedy – correctly applying heat to reduce the cure time, in accordance with the manufacturer's instructions, before and after applying the coating – was undertaken. This procedure worked well and a team of full-time coating inspectors subsequently has been ensuring that all coatings are applied correctly. The faults were picked up during normal quality assurance testing procedures prior to the pipe being laid in the pipeline trench.

Drill cuttings discharged and shipped to shore 2004, tonnes (te)



- 1 Drill cuttings with synthetic-based mud discharged to sea
- 2 Drill cuttings with water-based mud discharged to sea
- 3 Drill cuttings shipped to shore for treatment

For existing operations (Chirag 1 platform) NWBM cuttings are discharged to sea. Drill cuttings brought ashore from the Dada Gorgud and Istiglal mobile

drilling rigs are stored at the purpose-built Serenja Waste Storage Facility prior to treatment through an Indirect Thermal Desorption (ITD) process or bioremediation.

ITD is recognized as best practice in many countries and by many companies including BP. ITD has the major benefit of recovering residual fluids from the cuttings, thereby allowing the potential reuse of recovered fluids (oil, water) and solids. If the solids cannot be reused they can be landfilled. The anticipated volumes of drill cuttings brought ashore will fluctuate according to the drilling programme but BP Azerbaijan has predicted that annual volumes of NWBM drill cuttings brought ashore will reach 17,000 tonnes per year 2005-6 and afterwards reduce to about 9,000 tonnes per year until 2009.

The actual quantity of NWBM drill cuttings generated in 2004 was 19,395 tonnes which represents almost 10% reduction compared to 2003. Of the 2004 NWBM drill cuttings, the majority (69%) was brought ashore for treatment and reuse or disposal. During the year the use of bioremediation for the treatment of NWBM drill cuttings was approved by the Azerbaijan Ministry of Ecology and Natural Resources (MENR).

Oil spills

In 2004, there were fewer oil spills (releases from primary containment) in Azerbaijan and Georgia compared to 2003 – 24 spills in 2004 compared to 29 in 2003. A smaller volume of oil was also spilled in 2004 – 21,495 litres spilled in 2004 compared to 113,454 litres in 2003.

Drill cuttings, discharges to sea/shipped to shore 2004, (te)

Performance Units

Performance Units	Discharged to sea		Shipped to shore	
	Drill cuttings with synthetic-based mud discharged to sea	Drill cuttings with water-based mud discharged to sea	Total drill cuttings discharged	Drill cuttings shipped to shore for treatment
EOP Sangachal Terminal	0	0	0	0
Chirag 1	6,077	0	6,077	0
ACG pre-drill	0	12,901	12,901	10,595
Exports	0	0	0	0
Shah Deniz pre-drill	0	4,294	4,294	2,723
Azeri operations (CA & STEP)	0	0	0	0
BTC & SCP	0	0	0	0
Exploration	0	0	0	0
Total Azerbaijan BU	6,077	17,195	23,272	13,318

Azerbaijan BU oil spills 2003-2004

	2003	2004
Total number of spills	29	24
Volume spilled (litres)	113,454	21,495
Volume recovered (litres)	20,202	18,434
Volume unrecovered (litres)	93,251	3,061

The majority of the 2004 spills (more than 60% by number) occurred in Azerbaijan and were associated with offshore operational activities. During 2004, 86% of hydrocarbons spilled were recovered compared to 17% in 2003.

Most of the oil spills were small by volume – that is, less than one barrel or 159.9 litres. The largest spill (a release to sea) occurred at the Shah Deniz project from the Istiglal drilling rig. This was a NWBM (synthetic-based) drilling mud leak from the wellhead and 90% of the released mud was subsequently recovered.

The development of comprehensive Oil Spill Response Plans (OSRPs) is a key BP requirement. During 2004, OSRPs were developed for the extended ACG Upstream and onshore operations. Country-specific OSRPs were also prepared by BTC for approval by host governments and lending institutions.

The ACG and BTC plans were reviewed during 2004 by Polaris Applied Sciences, an independent consultant working on behalf of the international financial institutions that have lent funds to the projects. In its review (issued at the start of 2005) Polaris concluded that the BTC plans “are in accordance with conventional

international practice and exceed international best practices in a number of key areas” and that the ACG plans “comply with the ESAP (Environmental and Social Action Plan), applicable Finance Corporation (IFC) policies and guidelines and applicable environmental laws in all material respects”.

With other energy companies, BP continued to support the Oil Spill Preparedness Regional Initiative (OSPRI) which was launched in 2003. OSPRI activities in the 2003-7 period are focused on information sharing, supporting governments and developing and testing trans-boundary responses to spills. BP continues to work with the government of Azerbaijan to test the effectiveness of potential dispersants for use in the Azerbaijan sector of the Caspian Sea and to draw up guidelines for dispersant use.

Emergency response exercises are conducted each year as part of the BU’s Incident Management System in order to ensure that employees are trained and ready to deal with any spills in a timely, proper manner. In 2004, major spills exercises were conducted based on scenarios of offshore pipeline and platform spills.

Waste management

Overview The Azerbaijan Business Unit’s development of oil and gas facilities will generate significant quantities of construction and operational non-hazardous and hazardous wastes that will require appropriate management. It is, however, recognized that waste management infrastructure compliant with European (EU) standards is at an early stage of development in Azerbaijan and Georgia, with some further developed waste management infrastructure available in Turkey.

Waste generation relates directly to the sustainability of resource production and consumption.

BP, therefore, recognizes that waste has an environmental impact and that significant resources are required to manage waste. The more efficiently we use materials and energy, the less waste we generate. This in turn minimizes environmental impacts from waste disposal.

We work with companies and communities in Azerbaijan and Georgia to use the local waste management infrastructure and services and have developed clear waste management requirements for local contractors and carry out contractor site audits to check compliance and work closely with contractors to improve their performance on a continuous basis.

Progress Disposed wastes by the Azerbaijan operations totalled 6,257 tonnes in 2004. Of these, over 61%

were designated as hazardous waste and 39% classified as non-hazardous waste. Operational wastes were reused where possible or disposed of in accordance with the Azerbaijan BU Waste Management Strategy. Waste from construction projects is recorded separately.

In Azerbaijan, the majority of BTC and SCP non-hazardous wastes were disposed via the incinerator at Kurdamir camp. On occasion due to down-time of the incinerator it was necessary to dispose of limited volumes of organic wastes at a municipal landfill. BP construction projects are also funding improvement works at a municipal landfill site at Sumgayit, and financing the design, construction and operation of a new non-hazardous waste landfill.

In September 2004, a waste management workshop was held in the Enterprise Centre in Baku. Companies and other organizations based in

Azerbaijan that specialize in, or are interested in, providing waste management services took part. The purpose of the workshop was to promote two-way information exchange on BP waste types and quantities and the capabilities of local waste management providers, promote co-operation between existing waste management companies and help new and existing local companies to start up and apply for external funds for waste management improvements.

Security and human rights

Overview Maintaining the security of people and facilities in and around our sites is a central aspect of responsible business behaviour. To make sure our own standards are high and consistent, the BP group has developed a business risk management tool called 'Getting Security Right' which identifies and ranks

the risks we face and helps us create clear action plans.

Human rights represent an important concern in many aspects of our work from employment conditions to security arrangements. BP supports the United Nations Universal Declaration of Human Rights with its principle of fundamental freedoms for all and we seek to enshrine this in our work. We believe that the protection of human rights is a legitimate concern of business although enforcement lies with governments.

We respect a wide range of other internationally recognized human rights including labour rights. Our labour commitments include provisions on issues such as non-discrimination, freedom of association, work conditions and a ban on the use of child labour. We are committed to freedom of opinion and expression and respect for minority and ethnic rights.

The group is also committed to the

Security management

In line with the Voluntary Principles, BP entered into partnership with Equity International, an international foundation, in 2004 to provide human rights-based security training for state security organizations responsible for pipeline security. While BP is responsible for practical security issues surrounding the day-to-day management and operation of the BTC/SCP pipelines, national governments have a responsibility to protect the pipelines as national assets.

During 2004, Equity International held human rights-based training programmes for relevant state security organizations responsible for pipeline protection in Azerbaijan and Georgia. Headed up by a former Dutch police chief, the Geneva-based NGO delivers practical, skills-based human rights training to security teams. Its aim is to embed a sustainable human rights training capacity within security organizations by equipping instructors with the skills to develop and deliver training courses.

In Azerbaijan around 600 government security employees will eventually be responsible for patrolling the pipeline. The first training cycle began in the country in May for 22 participants and brought a good response. Later in the year the programme was extended to Georgia and a second 'Continuation Training Programme' commenced in Azerbaijan.

Voluntary Principles on Security and Human Rights which it helped to develop. Launched in 2000 by the US and UK governments, several energy companies including BP and human rights NGOs, the principles set standards on security and human rights in the extractive industries. As such they are designed to safeguard rights by ensuring that police, security forces and private guards assigned to protect energy sites or pipelines are properly trained and closely monitored. BP's support for the Voluntary Principles is set out in the company's group values.

Progress 2004 saw further application of the Voluntary Principles in Azerbaijan, Georgia and Turkey (see Case Study), particularly in connection with the construction of the BTC/SCP pipeline projects – the first projects of their kind to incorporate the Voluntary Principles as part of their prevailing legal regime.

In August, we held a human rights workshop for the BTC/SCP core management team involving an expert from Equity International and human rights guidance for line managers is being provided on an ongoing basis.

Regular monitoring of the BTC/SCP projects' compliance with their human rights commitments took place throughout the year and we appointed an external human rights assessor (the US law firm Foley Hoag) to make on-the-ground appraisals of our compliance based on commitments matrices to facilitate the evaluation process.

Bilateral security protocols between BP and the host governments will further elaborate and 'operationalize' our security and human rights principles. In October, BP and the government of Georgia signed the first bilateral agreement. This defines standards and procedures on the use of force and firearms, on monitoring and reporting, recruitment and training of security staff and on communications and consultation between the two parties.

Outlook We plan to conclude bilateral security protocols with the governments of Azerbaijan and Turkey in 2005. Equity International's programme of human rights-based training for state security organizations responsible for pipeline security in Azerbaijan and Georgia will continue. We intend to make the monitoring reports of our human rights compliance record available to the public during the year.

People

For our employees we seek to offer rewarding careers, equality of opportunity and flexible working practices. Our goal is to encourage diversity in the

workplace and to recruit and promote on merit without discrimination.

We are committed to encourage everyone who works for BP in Azerbaijan and elsewhere in the region to develop their capabilities, and to pay employees competitively for their performance. Commitments about the treatment of employees are contained within our internal policies. We measure the extent to which we are meeting our commitments and we use a range of techniques to collect opinions and feedback from our people. Regular performance reviews are conducted with individual members of staff.

In Azerbaijan, as elsewhere in the BP world, we strive to achieve a balance between the employment of expatriate staff and the recruitment and development of local nationals. In 2004, about three-quarters of the permanent staff in the BU were Azerbaijan or Georgia nationals.

About 31 Azerbaijani employees in the BU were working overseas. Twenty six out of the 1,168 national employees were in management grades in 2004 (including Azerbaijani employees working abroad). Twenty three percent of the

Azerbaijan BU staffing 2004 (Azerbaijan-based staff only)

Azerbaijan nationals	1,137
Expatriates	368
Contractors (Azerbaijan nationals)	286
Contractors (Expatriate)	514
Total number of Azerbaijan BU staff	2,305

national employees in management grades were female.

During 2004, we recruited 213 Azerbaijani staff on a permanent or temporary basis for the Azerbaijan BU. For graduates a multistaged annual recruitment programme was used based on best practices employed in UK graduate recruitment. We have invited several non-governmental organizations to monitor the 2005 recruitment programme in order to demonstrate the transparency and the fairness of our selection process.

Each year we survey our employees through a People Assurance Survey. In 2004, as in 2003, this survey found a higher level of satisfaction in the

2004 recruitment process

	Applications	Recruited
Recent graduates with no experience	2,208	47
Experienced hires	2,544	24
Technicians	5,000	98
Interns	1,422	44^a

^a two month employment

Employee Satisfaction Survey

	2003	2004
Azerbaijan/Georgia BU	67	68
Russia, Caspian, Africa and Middle East	64	67
Exploration and Production	59	66
BP group	60	64



Caspian Technical Training Centre

In May 2004, BP on behalf of its partners in the AIOC, SD, BTC and SCP projects opened a \$12 million world-class technical training centre in the Sangachal Terminal area. The facility was developed as part of BP's and its partners plans for technical and professional development of the national staff working for these projects.

The CTTC is designed to satisfy the technician training requirements of all the production sharing agreements operated by BP in the Caspian region. BP operations technicians and BP's drilling contractor KCA Deutag's drilling technicians, working on BP's platforms, will be able to use the training facilities.

The centre has the capacity to train 400 operations and drilling technicians a year. Facilities include a learning simulator, a unique

operations training plant designed and manufactured in the UK and a large and fully equipped workshop with equipment used extensively in the oil and gas industry.

The CTTC is located adjacent to purpose-built living accommodation and is operated and managed by TTE-Petrofac Ltd, a leading global provider of specialist technical training.

In 2004, the CTTC provided 19,074 person-days of training. By December 2004, the Technician Foundation Training programme at the CTTC included 127 full-time students compared to 12 at the start of the year.

Azerbaijan BU than in the BP group as a whole or in the region as a whole. As in previous years, an action plan was developed to act on the findings of the survey.

Much emphasis continued to be placed on skills development. All newly-recruited technicians attend a full-time 12-month programme at the Caspian Technical Training Centre (CTTC – see Case Study). In addition, the Azerbaijan BU sponsored more than 47,000 hours training for its employees.

The BU also provides scholarships that permit four Azerbaijani students to undertake MSc degrees on subsurface discipline at American universities and allow 40 students to attend two local

universities (Qafqaz and Khazar) and Turkey's Middle East Technical University on drilling and completion, subsurface and engineering disciplines. In October 2004, we contracted the British Council to conduct English language train-the-trainer and teacher development courses at the Azerbaijan State Oil Academy.

Health

Around 30 health professionals in Azerbaijan, Georgia and Turkey constitute the Azerbaijan BU Health Network. As in 2003 the core elements of our health management programme in 2004 were the prevention of injury and ill health at our facilities, the

management of injury and illness and the promotion of good health.

Initiatives during the year included:

- Establishing a Health Management System framework to ensure a systematic approach and continual improvement in health standards in the Azerbaijan BU. Programmes covering display screen equipment, substance abuse, stress, fitness, first aid, heat stress, manual handling and noise are now in place.
- Launching HIV/AIDS and sexually transmitted disease awareness campaigns in Azerbaijan, Georgia and Turkey (see Case Study).
- Sponsoring another epidemiological

HIV/AIDS

As part of the BTC project's focus on health education, in 2004, BP and BTC agreed to support the implementation of an HIV/AIDS awareness and prevention programme in 10 provinces along the BTC pipeline route in Turkey. After six months' preparation, a three-month time frame was set for the awareness and prevention phase of the project. At the end of 2004, two months were set aside for a follow up and evaluation phase.

The goal of the project was ambitious: to raise awareness of HIV/AIDS among 20,000 people and then to implement prevention programmes including the training of medical doctors. To get the awareness/prevention message across a theatre presentation was developed making use of nationally-known Turkish television actors. Large and small group interactive sessions were also staged to encourage discussion.

All BTC camps and pump station sites in Turkey were visited, as were 90 communities in a four kilometre-wide corridor along the pipeline route. More than 15,000 individuals participated in the awareness sessions including 7,000 persons working on the BTC project, 6,000 villagers and more than one thousand police. In three months the training team travelled 20,000km.

The final Phase 1 session was held at the end of August in the BTC headquarters building in Ankara. Two months later Phase 2 – follow up and evaluation – was launched at the Ceyhan marine terminal. In total about 4,000 pipeline workers took part. In tandem two-day training seminars on HIV/AIDS were held for 250 doctors at four locations along the pipeline. Consultants Stars Crescent Assistance and Mehmet Kontas of UNAIDS in Turkey joined with BTC management in creating this programme which subsequently won praise from the European Union Commission, UNICEF and UNAIDS for its innovative use of theatre-based interactive learning techniques.

survey by host government agencies along the BTC/SCP pipeline route in Azerbaijan and Georgia – the second such comprehensive review in over a decade.

- Organizing an independent survey of all water and food testing laboratories in Azerbaijan as part of our food and water safety and quality assurance programme. This resulted in a local facility becoming the first Azerbaijan laboratory externally accredited for micro-biological and chemical testing of water to the ISO 17025 standard.

- Training around 80 professionals from BP and construction and catering contractor companies in food safety to develop skill levels.
- Training national professionals in skills related to offshore and terminal health management – offshore medic certification, advanced cardiac and trauma life support skills, audiometry testing, spirometry, noise, manual handling, stress at work, radiological protection, food hygiene. In addition, six specialists completed diving medical training in the UK as a

result of which local guidelines are being reviewed.

Promoting ethical conduct

Overview To achieve and set consistently high standards of behaviour, BP has developed group-wide rules to be observed by all employees in addition to applicable local laws and regulations.

Our values state that everyone who works for BP will be required to comply with the code of conduct, which prohibits illegal, corrupt or unethical practices and demands high standards of probity.

2004

	Favourable	Neutral	Unfavourable
Q. To what extent do you believe that ethical considerations influence decisions taken in BP?			
Group	55	33	12
Segment (Exploration and Production)	57	33	10
Azerbaijan BU	59	32	9
Q. Where I work I can report a concern about BP's practices without fear of reprisal.			
Group	64	22	14
Segment (Exploration and Production)	69	19	12
Azerbaijan BU	70	18	12
Q. I would use OpenTalk to raise a concern about BP's practices if I felt unable to raise it with my management.			
Group	62	22	17
Segment (Exploration and Production)	64	21	15
Azerbaijan BU	69	18	12



Since BP opened an office in Baku in 1992 we have sought to conduct our business in Azerbaijan to these standards. As part of our system of internal control and assurance the BU leadership files an annual ethics compliance report with the BP group which allows us to identify potential ethical concerns and take action where appropriate. Clear policies are in force regarding such issues as gifts and entertainment (a register has been maintained since 2003), information brokering and facilitation payments.

Employees are encouraged to raise any ethical concerns they may have with management or through the use of the OpenTalk (an anonymous 24-hour telephone and email service). All reported concerns on policy breaches are treated confidentially and are investigated where necessary.

Perception surveys by respected independent organizations such as Transparency International suggest that high levels of corruption exist in Azerbaijan and the BU has identified areas where fraud and ethical risks may occur. These are primarily in contract and supplier selection and contract administration across the supply chain for large and small-scale contracts, in recruitment procedures and in other administrative processes.

Progress Throughout 2004 meetings were held with BP and contractor employees and suppliers to raise awareness of BP's business conduct

expectation. In total 54 awareness sessions were held attended by 723 people in 2004 compared to 41 sessions attended by 460 people in 2003.

The 2004 People Assurance Survey included three questions designed to assess employees' perception of business ethics values in the BU. The first found that 59% believed that ethical considerations influence decisions taken in BP (55% for the group as a whole), the second showed that 70% felt that they could report a concern about BP's practices without fear of reprisal (64% for the group) while the third revealed that 69% would use OpenTalk to raise a concern about BP's practices if they felt unable to raise it with management (62% for the group).

Outlook During 2004, the BP group developed a new code of conduct. It sets out rules and advice more clearly and in greater detail than ever before, updating material included in the previous guide issued in 1997 *What We Stand For*. By adopting this more detailed and practical approach, the new code signals BP's intent to embed its values and a culture of integrity still more firmly in the group.

In its section on business partners, the code provides detailed guidance on the giving and receipt of gifts and entertainment, conflicts of interest, competition, trade restrictions, money laundering and working with suppliers. In terms of governments and communities, the code covers such



issues as bribery and political activity. It underlines BP's policy of making no corporate political contributions in cash or kind. A section covers company assets and financial integrity, with clear rules on personal use of company property, handling proprietary information, intellectual property and data and digital systems.

The new code of conduct will be launched to every BP employee worldwide in 2005.



2

BP Azerbaijan and the environment

- 2.1 The environmental context
- 2.2 Ecological and environmental monitoring
- 2.3 Biodiversity
- 2.4 Environmental investment
- 2.5 Climate change, flaring, energy consumption
- 2.6 Conservation of cultural heritage

2.1 The environmental context

To meet rising global demand for energy, the search for hydrocarbons is increasingly moving into environmentally sensitive areas. BP believes that it is for governments to decide whether or not sensitive or protected areas should be open to development and, if open, what measures should be taken to protect them.

The group will also only operate in an area if it is convinced it can properly manage any risks to the environment and comply with all applicable laws and regulations. At all times through the whole life cycle of each BP site around the world we seek to act responsibly – from understanding the social and environmental issues when we first investigate a location through decommissioning and remediation.

In 2004, BP was asked for more clarity on the process and methods used to assess risk when it decides to operate in environmentally-sensitive areas. A report was commissioned by the group to study how BP assesses the sensitivity of development areas at the earliest stages. The results of this investigation

will be analysed during 2005 to ensure that our approach is transparent and consistent across BP.

In assessing possible new sites we routinely carry out Environmental and Social Impact Assessments (ESIA) at the start of a project. A number of ESIA's were conducted in Azerbaijan, Georgia and Turkey in 2001-4 describing existing environmental and social conditions at various project sites, the likely design, construction and operation of the projects and measures that will be taken to prevent or minimize any potentially adverse impacts on the ecology and population. The issues identified by the ESIA's were addressed in the projects' environmental and social management plans as well as in their operational environmental and social management systems. ACG/SD/BTC/SCP ESIA's are publicly available on the website www.caspiandevlopmentandexport.com

The ACG/SD/BTC/SCP projects are the first private sector developments in Azerbaijan, Georgia and Turkey for which integrated ESIA's have been conducted.



2.2 Ecological and environmental monitoring

BP is required by law and committed by its values to undertake environmental monitoring of its activities, thereby allowing the group to understand and eliminate or mitigate its impacts on the environment.

Actual monitoring at each site is based on the site-specific operations. But it is likely to include a wide range of topics such as air emissions from power generation, soils and surface waters, sanitary water, fuel usage, power use, noise emissions, waste prevention, waste recovery and recycling, waste segregation and storage and waste disposal including hazardous materials management.

Since exploration and production in the south Caspian Sea began in 1995, AIOC/BP have made a significant investment in ecological monitoring. During the period 1995-2003 29 marine ecological surveys were conducted, including 14 baseline seabed surveys and eight seabed post-drilling surveys.

The process began with the commencement of the Early Oil project and has continued in support of the Phase 1, Phase 2 and Phase 3 ACG offshore developments and the Sangachal Terminal Expansion Project in the coastal environment.

Environmental monitoring process has involved a variety of organizations, and has been carried out under the overview and guidance of the AIOC and Shah Deniz Research and Monitoring Group (R&MG), which is a group of experts comprising local scientists and representatives of the Ministry of Ecology and Natural Resources (MENR), Azerbaijan National Academy of Sciences (ANAS), State Oil Company of the Azerbaijan Republic (SOCAR) and its research institute – Gipromorneftegas. Representatives of the R&MG and the state environmental authorities discuss and approve each survey design, and also provide comments and recommendations on each survey report.

BP now has an integrated upstream environmental monitoring strategy and programme in place. The main objective of the strategy is to develop an internally consistent long-term environmental monitoring programme which serves the overall needs of BP upstream projects and operations in Azerbaijan and accommodates the legal commitments and practical requirements of all the group's projects in Azerbaijan.

For the BTC and SCP pipelines project, compliance monitoring, as well as monitoring to identify potential improvements in the management of environmental and social issues, is a key component of the Environmental and Social Management System (ESMS). The Project environmental and social monitoring activities include: Environmental and Social Compliance monitoring (by BTC/SCP, BOTAS or Contractors); ESAP and RAP Compliance monitoring by independent consultants on behalf of the Lender group; Regulatory monitoring by host country governments; project monitoring by the Caspian Development Advisory Panel. The BTC's level of monitoring and transparency has been termed (by World Bank officials) unprecedented for an infrastructure project of this size and complexity.

Quarterly Environmental and Social Reports on the project are produced by BTC and posted on the projects' website. Overview of the AIOC environmental monitoring in the Caspian Sea is also available there.



2.3 Biodiversity

Overview Despite their geographic and biological diversity wide areas of Azerbaijan, Georgia and Turkey suffer from environmental degradation. Nevertheless, BP's various construction and development projects in the region still have the potential to affect biodiversity through such impacts as habitat disturbance, noise pollution, increased access to previously remote areas and waste disposal.

To minimize these potential direct and indirect effects our aim has been

to ensure that the offshore facilities and the pipeline routes avoid areas of high biodiversity and environmental sensitivity. More generally, BP has been committed since 2002 to undertake specific initiatives on biodiversity in the countries and areas in which it operates.

Working with various interested parties the Azerbaijan BU is endeavouring to implement practical projects in the region that reinforce biodiversity and raise awareness of the issue of biodiversity.

Progress A flagship biodiversity programme was unveiled by the Azerbaijan BU during 2004 to help protect and restore the Tugai forests along the Kura river. Tugai forests are primarily located along riverbanks in arid regions throughout Middle and Central Asia and the Caucasus. Most of the main area of Tugai forest in Azerbaijan was felled by the expansion of arable farming in the 1920s and today less than 10% of the original area remains.

A two-stage pilot project for the



Hasansu river crossing

The Hasansu river rises in the Lesser Caucasus mountains and runs for 25km before flowing into the Kura river. It has a seasonal flow, driven largely by the annual snowmelt. At normal flow the river is about four metres wide but this can increase to 14 metres in May. There is widespread erosion with steep, bare, undercut banks and extensive cliff erosion and loose, easily erodible bank materials.

During the ESIA process the importance of Hasansu river as a spawning ground for fish species was identified and a commitment made to avoid construction of the river crossing during the spawning season which extends from October to June. As a result a dual-lay

construction method was chosen in which both BTC and SCP pipes were laid at the same time in order to reduce the environmental impact and complete the installation on time. Sediment flow down the Hasansu during construction was controlled by the installation of silt fences along the river banks and the use of sediment traps such as geo-textile barriers and straw bales downstream.

Prior to trenching and laying the pipe the area was excavated and graded. The undulating terrain meant that a significant amount of material was excavated (about 161,300m³), about 80% of which could not be returned to its original location due to the erosive nature of the soils. This excess material was therefore compacted and carefully disposed of in gullies near the right-of-way corridor.

Once the pipes had been laid and the trench refilled, the final shaping and contouring of these areas ensured that the land profile blended in with the surrounding topography. Erosion matting was placed over the area of steep slopes and in the cut of the river to stabilize the soil until the vegetation is reestablished. By the start of 2005, work had started on bio-restoration and reseeded of the banks and side slopes with an appropriate mix of native species and was expected to be completed in a few months.

restoration of these forests, supported by the Ministry of Ecology and Natural Resources of the Azerbaijan Republic, was announced by the BU in 2004. Part of its purpose is to give the local population an opportunity to work for sustainable utilization of natural resources. The preparation phase of the project has been finalized by conducting environmental and social surveys, identifying areas for pilot project, developing actions plans. Implementation will start in 2005. It is envisaged that the whole project will be conducted by local companies and NGOs.

Biodiversity projects continued to be implemented along the BTC/SCP route. In Azerbaijan further fauna and flora pre-construction surveys were conducted. Approximately 2,000 *Iris Acutiloba* plants were removed from the pipeline right-of-way corridor and either replanted nearby or translocated to Mardikan Arboretum for safe-keeping while the pipeline was being constructed. As part of a WREP EIA commitment, we continued a rare species conservation project in Georgia and carried out a beached bird survey along the Georgian coastline as part of a wider ornithological survey.

During the year work was undertaken to develop a scientifically-based

monitoring programme to study the post-construction recovery of the BTC pipeline corridor in Azerbaijan. Assistance was provided by the US-based Desert Research Institute – an internationally recognized centre of expertise in the management of arid habitats.

As part of the BU's wider incident management system a Wildlife Response Plan (WRP) for the Caspian Sea – to BP's knowledge the first-such response plan in the Caspian region – was formulated based on existing BP group procedures. Success in wildlife response is built on partnership with local parties and access to international expertise. During 2004, BP Azerbaijan performed training and exercise programmes to ensure proper integration and co-ordination with Azerbaijani organizations.

Another focus of the BU's biodiversity attention, as in previous years, was the annual biodiversity competition held in both Azerbaijan and Georgia.

In 2004, we received 28 applications in Azerbaijan. Six were selected as prizewinners. The first prize of \$20,000 was won by the Azerbaijan Birds Ecology and Protection Association for a project to protect the species diversity of wading birds on the Azerbaijan coastline of the Caspian Sea. The second award of



\$5,000 went to The Society of Azerbaijan Zoologists for a project designed to raise awareness of fish and zooplankton species on the Absheron coast of the Caspian Sea.

In Georgia, 21 project proposals were received in 2004, under the theme of 'Ecology and Economy in Harmony'. Two projects were declared winners: 'The conservation of economically valuable relict plants of Georgian flora', from the Wild Plant Conservation Association; and 'A study of the Biodiversity of Butterflies (Lepidoptera) of Borjomi-Kharagauli National Park', by the Institute of Zoology. In addition, prizes were awarded to two other projects, submitted by the Georgian Society of Nature Explorers and the Department of Ecology at Tbilisi State University.

2.4 Environmental investment

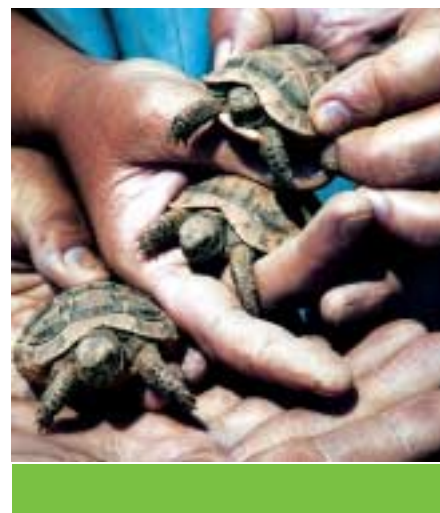
Implementation of the BTC/SCP Environmental Investment Programme (EIP) in Azerbaijan, Georgia and Turkey has taken longer than expected. But by the end of 2004, of the 31 offset and EIP projects originally selected 19 were being implemented, seven had reached the definitional stage and five were at the planning stage.

Six of the projects were cross-country, five were located in Azerbaijan, nine in Georgia and 11 in Turkey. An overall budget of \$9 million was allocated by BTC/SCP for the three-country EIP.

In Azerbaijan, three projects had reached the implementation stage by the end of 2004 – creation of a strategic management plan for the proposed Gobustan National Park; conservation of the spur-thighed tortoise population at Sangachal Terminal (a joint project with ACG and Shah Deniz); and local projects in BTC/SCP pipeline-affected communities to conserve biodiversity – for example tree planting and the use of simple bio-gas energy projects to reduce the threat to the country's tree stock. In addition, we completed the preparation phase of the conservation and restoration of Tugai forest habitat in the Kura floodplain, with implementation scheduled for 2005.

In Georgia implementation stage projects at end 2004 included the rare floral species protection programme to preserve rare plant populations within the BTC/SCP pipeline corridor, a Black Grouse monitoring and data collection programme, a survey of the Brown Bear population in the Trialeti Range, an Environmentally Sound Livestock Farming project to improve animal husbandry techniques in areas adjoining the Borjomi Kharagauli National Park, and an environmental education programme in Borjomi, Akhaltsikhe and Adigeni and selected villages close to the Borjomi Kharagauli National Park.

The BTC EIP in Turkey is being conducted in two phases. A number of projects were at the implementation stage by end 2004 including the Important Bird Areas and the Important Plant Areas projects, a survey of the country's Black Grouse population, field surveys of the Mediterranean Monk Seal colony in the Gulf of Iskenderun and the Sea Turtle population near Ceyhan terminal. Late in the year projects got under way to draw up a management plan for a proposed Erzurum Marshes conservation zone and to raise awareness of the sustainable use of natural resources in the wetlands of Yumurtalik and Sivas.



2.5 Climate change, flaring, energy consumption

Overview Greenhouse gases (GHGs) – including water vapour, carbon dioxide and methane – are naturally present in the Earth’s atmosphere. They are the world’s insulation, absorbing long wave infra-red radiation emitted by the earth’s surface. Without GHGs the world would be 33°C colder. In this sense GHGs are life-supporting. The issue with GHG is not their presence in the atmosphere but the concentrations at which they occur.

As the concentrations of these gases increase, the earth’s surface temperature also rises, leading to climate change which is also known as ‘global warming’. GHGs derived from the man-made combustion of fossil fuels generate additional greenhouse gases (carbon dioxide and methane emissions) which may contribute to climate change.

At the end of 2001, the BP group achieved its target of reducing GHG emissions to 10% below 1990 levels. Our new group target, set in 2002, is to hold net GHG emissions flat

to 2012 despite the company’s ambitious growth plans.

Local context In the decade since independence Azerbaijan and Georgia have faced chronic problems with domestic energy supplies. In Azerbaijan, domestic gas production has been falling and in recent years has been less than half estimated demand. Energy demand has overloaded the electricity generating system and there has been a lack of new investment. The result has been the rationing of power supplies, with rural areas and small towns often suffering curtailment or interruption of gas and electricity supplies. The situation is very similar in Georgia.

Access to new and reliable supplies of energy is widely seen as the cornerstone of economic and social development. Moreover the Caspian is a region where energy resources are abundant. But a lack of adequate infrastructure, technology, capital and services has so far held back development.

With the development of the ACG and SD fields, excess gas produced from these projects is planned to be used in onshore power plants in preference to the existing reliance (in Azerbaijan and Georgia) on ‘mazut’ (a heavy fuel oil which is less efficient than natural gas and more polluting). AIOC and SOCAR have agreed a ‘Gas Delivery Protocol’ covering gas produced by the ACG project while the SD project will add to the supply of gas available in all three host countries.

Along with the benefits of the ‘Gas Delivery Protocol’ we are pursuing a number of GHG minimization projects (including mitigation of continuous flaring at Chirag 1 platform, re-injection of gas at the ACG Phase 1 offshore reservoir to improve oil recovery, and onshore flare gas recovery) that were described in the *BP Azerbaijan Sustainability Report 2003*.

These GHG emission reduction projects will be delivered over the period 2005-6 and will contribute to Azerbaijan, Georgia and Turkey’s efforts under the UN Convention on Climate Change to control GHG emissions which are predicted to rise significantly in all three countries by 2010.

Progress In the Azerbaijan BU all sources of GHG emissions from our operations are tracked. As in 2003, the main sources of our GHG emissions in 2004 were onshore and offshore gas flaring at the Chirag 1 offshore platform and Sangachal Terminal and the offshore combustion of

Summary of Azerbaijan BU GHG targets and performance 2003-2004

Kte (gross)	2003 Actual	2004 Target	2004 Actual
Early Oil Project Total	985	966	1,061
Shah Deniz pre-drill	10	12	7
Azeri Operations	0	67	0
Azeri pre-drill	15	21	9
BTC	0	0	0
SCP	0	0	0
Exploration	0	0	0
Total Azerbaijan BU	1,010	1,066	1,077

hydrocarbons for power generation at the Chirag 1 platform.

In 2004, the total quantity of Azerbaijan BU GHG emissions was 7% higher than in 2003 and exceeded our internal GHG target by just over 1%. This was the result of higher offshore hydrocarbon production rates than originally anticipated (132,200 barrels a day in 2004 compared with the target of 125,000 barrels a day) and the higher rate of flaring of associated gas.

Flaring In 2004, the amount of gas flared from the Chirag 1 platform and the Early

Oil processing facility at Sangachal Terminal rose almost 10% to 283,953 tonnes.

GHG emissions from flaring are expected to continue increasing in 2005 as new offshore platforms are commissioned (and subsequent hydrocarbon production rates increased).

Energy consumption In 2004, Azerbaijan BU consumed 58,329 tonnes (te) fuel gas and 25,942 te diesel. All fuel gas used was accounted for by the Chirag 1 platform and the Early Oil project at Sangachal Terminal.

In addition to GHGs, the combustion

of fossil fuels also results in the generation of oxides of nitrogen, sulphur, carbon monoxide and particulates which can affect local air quality. Table 2 shows that the quantities of these emissions were similar during the period 2003-4 with the exception of SO_x which was reduced by 39%.

Outlook In 2005, the Azerbaijan BU target for GHG emissions is likely to more than double from 2004 as the Central Azeri, Sangachal Terminal expansion project and the BTC oil

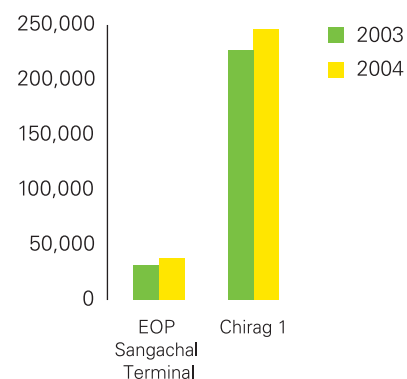
Table 1. Summary of Azerbaijan BU flaring (by asset)

Performance Units	2003 tonnes	2004 tonnes
EOP Sangachal Terminal	31,792	37,908
Chirag 1	226,392	246,045
ACG pre-drill	0	0
Exports	0	0
Shah Deniz pre-drill	0	0
Exploration	0	0
Total Azerbaijan BU	258,184	283,953

Table 2. Generation of oxides of nitrogen, sulphur and other air quality related emissions 2003-2004

Emissions in tonnes	2003	2004
Oxides of sulphur (SO _x)	161	98
Oxides of nitrogen (NO _x)	2,273	2,210
Carbon monoxide (CO)	2,250	2,322
Particulates (Pm10)	61	57

Flaring 2003-2004 summary, (te)



pipeline are commissioned and become operational. In 2006, Chirag 1 flaring is planned to be reduced as gas from Chirag 1 is delivered to the new Azeri infrastructure Compression and Water Injection Platform (C&WP) and various changes are implemented at Sangachal. Overall, a relative reduction of Chirag gas flaring is expected from 2006.

2.6 Conservation of cultural heritage

The protection of the rich cultural heritage of the regions impacted by the BTC/SCP pipelines has been a priority from the start of the projects. More than \$5 million was allocated to this objective, full-time monitors were employed and management processes introduced to ensure that anything of archaeological interest was investigated and, where necessary, excavated.

One result was that even before construction began the BTC/SCP route had been redrawn at more than 100 locations. Another was that some 300 previously unknown sites of potential heritage interest were identified of which at least 60 were subsequently subject to full-scale evaluation. Many new finds have been recorded.

In Azerbaijan, where around 70 potential sites of interest, 51 archaeological sites and 200 historical monuments were initially identified, the great majority ended up outside the pipeline right-of-way corridor. Some 100 potential sites were identified in Georgia's stretch of the pipeline while field studies turned up 179 sites of potential interest in Turkey.

Where the pipeline route does

intersect particularly sensitive areas – for example, where it passes close to the Borjomi National Park, the Erzurum plain, Posof, the Ktsia Tabatskuri reserve or the Gobustan cultural reserve – special measures have been taken and projects developed to protect and conserve the natural and cultural landscape.

In 2004, archaeological pre-clearance and excavation work continued at a number of sites, in all countries, ahead of BTC pipeline trenching. For example, during the period 2003-2004 16 archaeological salvage excavations were implemented on the Turkish section of the BTC route alone.

Since mid-2004, when the right-of-way corridor had been largely stripped and trench digging completed, the focus has shifted to the preservation and study of what has been found. In November, a series of 10 curatorial workshops funded by the BTC/SCP projects were held at the Institute of Archaeology and Ethnography in Baku in order to provide basic training to enhance the skills of those working with excavated material. Topics covered ranged from the handling and cleaning of objects to



documentation, storage, environmental control, pollution and pest management. Equipment such as a computer and digital cameras was purchased for the programme. Around 50 participants attended the sessions.

The following month BP approved funding for a project to build capacity within regional museums in Turkey to better exhibit, interpret and raise awareness of regional history and to enable more artefacts found along the BTC route to be properly shown.

Many of the discoveries made during the BTC/SCP construction phase have already been made available for scholarly study. Archaeological excavations at

Girag Kesemen between June and August 2004, for example, revealed an early medieval settlement dating back to around 900AD. Floors and walls of domestic buildings were revealed together with many pottery vessels of

that period. These findings were handed over to the Institute of Archaeology and Ethnography in Baku. Above these deposits, a post medieval cemetery was also discovered. This consisted of 26 graves which were carefully moved to

a large cemetery to the south of this location. The reburial was carried out in accordance with all Islamic rituals and traditions, as well as the procedures of the Institute of Archaeology and Ethnography.



Rebuilding a museum

Throughout 2003 the BTC/SCP archaeological team carried out excavation work in the Borsunlu area of the Goranboy district and discovered many interesting artefacts, for example a five leaf shaped arrowheads, a bronze dagger, pottery vessels, a composite bronze leaf and bead necklace, dating back thousands of years. These finds were later taken for analysis by the Azerbaijan Institute of Archaeology and Ethnography in Baku. Eventually many will be returned to Goranboy so that the historical legacy of the past will not be lost to the people of the region.

A key factor in this plan was the condition of the local museum in Goranboy. An upgrade in facilities was necessary before any artefacts could be displayed. During 2004, the BTC/SCP project funded a major

refurbishment of the museum. Work included increasing the display area and creating a special space for artefacts found by the BTC/SCP archaeological team. In addition, improved protection was arranged for the existing exhibits, space was made for the display of material in storage and changes were made to allow the museum to widen its educational role.

At present Goranboy's museum receives about 7,000 visitors a year, including school children on organized visits. Following the upgrade, which was completed by the end of 2004, the museum will be able to host many more visitors and so hopefully generate extra revenue in the form of donations that can be used for the continuing maintenance of the museum and its staff. In the words of the Goranboy museum's director Mushfig Gurbanov: "...Exhibits of high historical significance in terms of aesthetics and history have been collected in the museum. This bears evidence of the ancient history of our district... And Goranboy residents will always regard with favour and be fond of those who have granted it to them".



3

BP Azerbaijan in society

- 3.1 Country context
- 3.2 Social performance
- 3.3 Community investment
- 3.4 Enterprise development
- 3.5 Good governance
- 3.6 Regional sustainable development

3.1 Country context

A leading oil producing country at the start of the 20th century, by 2004 Azerbaijan was poised to rejoin the ranks of the world's primary oil and gas producers. As the offshore ACG project ramps up output in 2005 and the BTC pipeline begins transporting oil to world markets, Azerbaijan will begin to receive substantial new revenue flows. How these funds are utilised will be a huge challenge for a country that has been independent for less than 15 years.

In recent years Azerbaijan has taken a number of steps towards economic liberalization, stabilization and privatization. Structural, financial and enterprise-focused reforms have been introduced and the country has improved standards of governance and transparency. A commitment made by the government in 2004 to begin implementing the Extractive Industries

Transparency Initiative (EITI) was especially noteworthy.

Nevertheless, much remains to be done. Today Azerbaijan is at a crossroads where the potential exists to increase pluralism and accountability, reduce corruption, reform the country's institutional infrastructure and diversify its economy. In a speech in June 2004, the Associate President of BP Azerbaijan, David Woodward, spelled out some of the changes Azerbaijan will need to make to build a successful market economy. They included controlling spending and inflation, seeking new sources of foreign investment, investing more in public infrastructure and introducing banking and judiciary reforms.

For the oil and gas industry, the current realities in Azerbaijan constitute a challenging business environment. The

Azerbaijan BU has been encouraged by some developments but recognizes that there is a long way to go before the revenues generated by our activities start to deliver benefits equitably and in a way that creates stable, sustainable progress.

Working alongside our partners, BP remains committed to help the government and people of Azerbaijan realise the country's development potential. Our efforts have focused on three areas – transparency and revenue management, the creation of a stronger private sector in the economy, and improving access to energy.

Progress The past year saw a number of important advances in the BU's efforts to promote transparency, build local capacity and enhance revenue management in Azerbaijan:

- BP and its BTC/SCP partners announced the launch of the 'National NGO Capacity Development Project' in September, 2004 – a one-year programme managed by International Rescue Committee Azerbaijan that will partner five national NGOs with a view to increasing their capacity to manage and implement community-based development projects.
- We encouraged inquiry and dialogue with national and local NGOs interested in BP project activities such as the NGO monitoring of BP/BTC/SCP undertaken with the Open Society Institute.

Azerbaijan at a glance

Population (at January 2004):	8.27 million
Population growth:	0.7% a year (2003)
Territory:	86,600 sq km
Per capita GDP:	\$880 (2004)
Annual real GDP growth:	12% (2003)
Life expectancy:	73.3 years
Infant mortality:	76 deaths per 1,000 live births
Child malnutrition:	17% of children under 5
Poverty:	50% below national poverty line (2003)
School enrolment:	80% net primary enrolment
Energy use per capita:	1,779 kWh

Sources: *UNDP Human Development Report 2003* and *World Bank Group 2004*

- Grants were awarded by BP, as operator of the BTC/SCP projects on behalf of its partners, to continue a Civic Education Programme for police, municipal employees and NGOs along the Azerbaijan section of the pipelines. Around 50 seminars had been held by the end of 2004.
- More than 100 villages in Azerbaijan, and the vast majority of the 500 settlements adjoining the 1,768km long BTC/SCP pipeline route, were involved in community investment projects.
- A new initiative was unveiled by BP and the International Finance Corporation (IFC – the private sector arm of the World Bank Group) with the Azerbaijan Bank Training Centre to provide technical assistance over a 12-month period from June 2004, for the development of small and medium-sized enterprises.
- The Enterprise Centre in Baku, set up by BP on behalf of its partners in the AIOC/BTC/SD/SCP projects, launched a Local Content Award to be made twice a year to individuals making a significant contribution to the development of local business capability.
- On behalf of our partners, BP

opened information centres in Borjomi, Georgia, and at the Zyk and ATA fabrication yards near Baku to broaden relations with local communities.

- Formal and informal meetings were held with communities along the BTC/SCP pipeline route and around Sangachal Terminal to share information about the progress of the project and respond to local concerns.
- As operator, BP compiled and published a report each quarter for Lenders on the environmental and social aspects of the BTC project and bi-annual reports for ACG project and distributed them widely.
- BP Azerbaijan's first Sustainability Report covering 2003 was collated, written, printed and distributed in 2004.
- We sponsored a second high-level workshop on revenue management for senior Azerbaijan government officials.
- The EITI Memorandum of Understanding was signed on 24 November 2004, between the government of Azerbaijan, foreign and local oil companies and a coalition of NGOs.



3.2 Social performance

Context The social dimension of the Azerbaijan BU's performance is considerable. Each year it includes social, community and environmental investments and projects, the promotion of local economic development, capacity building and sponsorship. It is founded on the concept of partnership and it has a unifying theme – helping others to help themselves – that creates coherence and gives consistency to our initiatives.

In practice our approach rests on three pillars:

- **Community investment.** This includes support for a wide range of community projects which seek to mobilize and aid local communities, mostly in areas where we operate. Initiatives cover such themes as income generation, rural and agricultural development, infrastructure improvement and rehabilitation and education.
- **Support for private enterprise.** This covers backing for small and medium-sized enterprise development, building local capacity,

providing business education and training and laying down clear local content targets for the BU as a whole.

- **Good governance.** This embraces all our involvement with civil society development in Azerbaijan and Georgia, our own behaviour, support we offer to the Azerbaijan government, the promotion of transparency and the establishment of high standards of ethical conduct by ourselves and our contractors.

Progress In 2004, our social spend in Azerbaijan, Georgia and Turkey rose 414% to \$34.25 million dollars as the BTC/SCP construction projects advanced in all three countries.

By category and BP net spend in 2004, 88.6% of funds were allocated to community development, 5.7% to education and local capacity development, 1.8% to environmental projects, 1% to arts and culture and 2.9% to other activities.

In October 2004, two agreements were signed with the government of Georgia which built on previous commitments.

A security protocol (discussed earlier in this report), formalized obligations concerning the provision of pipeline security in a manner consistent with international security and human rights undertakings.

The second agreement concerned the establishment of a grant programme for Georgia. Under this agreement, a series of grants to be provided by the BTC Co. to the Georgian government to be used for funding social and economic projects for the benefit of the Georgian people. Total funding for the programme amounts to \$40 million, with a further \$1 million per year for the remaining life of the pipeline. The grants are in addition to any existing social and community investment projects being carried out under BTC funding.

At the same time BP also announced as part of this package a new commitment to invest \$10 million in Georgia on a range of social investment projects. The funding will cover projects in education, healthcare, cultural heritage, energy sector revitalization, and the promotion of business and civil society links between Georgia and the European Union.

Social spend by countries – gross spend (\$ million)

	2002	2003	2004
Azerbaijan	0.6	2.71	8.64
Georgia	0.07	3.13	23.2^a
Turkey	n/a	0.82	2.41
Total	0.67	6.66	34.25

^a Includes payments made in 2004 as per new protocols signed with the government of Georgia in October 2004.

3.3 Community investment

The community investment programme (CIP) is currently by far the largest component of the Azerbaijan BU's overall social investment spend. The bulk of funding supports activities at the local level among communities along the BTC/SCP pipeline route, settlements around the Sangachal and Ceyhan terminals and some districts close to Baku.

Due to the scale of investment it is not possible to give a description of each project in this report. Instead, details of many CIPs are listed on the BTC/SCP project website www.caspiandevlopmentandexport.com Others have been featured in articles in BP and partner publications. In July we published a brochure titled

Pipelines and People which described some of the benefits arising to the people and communities of the three host countries from the BTC project.

The account that follows gives insights into different types of CIP activities supported by each of the main BP-operated projects over the past year, and concentrates on Azerbaijan, with short sections on Georgia and Turkey.

ACG community investment programme

The ACG-funded community investment programme targets key areas for development including education, income generation,

community development, health and associated infrastructure. ACG Sangachal Terminal Expansion Programme's (STEP) main implementing partner is World Vision International, with other projects being implemented by national NGOs and the community investment team.

The five-year programme began in 2002 and will continue to late 2007. It has a budget of \$6.7 million and targets activities in the Garadag region of Azerbaijan, concentrating on the communities of Sangachal, Umid, Sahil, Lokbatan, Alyat, Gobustan, Korgoz and Gizildash as well as at Bibi-Heybat near Baku.

In 2004, education projects included student development programmes,



Human Development Union in Umid

Azerbaijan's first community-based organization, the 'Umid Human Development and Sustainable Income Generation Support Union' (UHDU), owes its existence to a student from the Umid settlement near Sangachal Terminal. The idea was then brought to life by a group of women who approached members of the terminal's community investment team requesting funds to purchase sewing machines and set up a workshop initially to produce working gloves for major construction projects, including STEP. As an integral part of this programme, AIOC arranged courses to develop the skills the women needed to run an enterprise and ensure product quality.

UHDU began by manufacturing gloves, previously imported due to the lack of manufacturing capability in country, and eventually received the AZS (a national certification system) quality certificate. Subsequently it diversified, most recently receiving another quality certificate for a line of cold weather hoods. After six months, 14 household workplaces had been established and the monthly income of UHDU members had risen seven-fold on average. Equally encouraging, UHDU member's dependence on humanitarian assistance fell from 100% to less than 10% as a result of income received from the sale of products. Today UHDU is able to cover all the expenses associated with the purchase of new equipment and pay all required tax and social security contributions.

computer courses, university exam preparation courses, a scholarship programme and cultural programmes. Noteworthy 2004 education initiatives included the reopening of a public library following its renovation using ACG-supplied materials. Additionally, STEP organized a local football tournament for teenagers from 23 schools which went a long way to uniting 11 communities in Garadagh.

A programme to improve the economic conditions of internally displaced persons through income generation activities was implemented by ACG, forming the Umid Human Development Public Union (see Case Study). Health programmes include the provision of better services, malaria prevention and community-based health education projects.

Since 2002, 26 micro-projects moved ahead in 2004 including youth group skills training (photography, carpet making, cooking), the construction of community centres and micro-finance services. A major achievement of the year was the commencement of the sewage system installation in Sangachal and Umid settlements, identified as the top priority by the communities.

In March 2004, a new ACG-funded project was launched in the Bibi-Heybat settlement of Baku close to the ATA yard where C&WP topsides construction is taking place. The \$250,000 implementing grant agreement was awarded to the International Rescue Committee.

Shah Deniz community investment programme

One of the core social investment ventures supported by the SD project in 2004 was the Micro-finance Initiative – the disbursement of small loans by FINCA Azerbaijan to individuals and groups living mostly in the Khatai and Sabayil districts. By the end of the year FINCA Azerbaijan had exceeded its targets in terms of number of loans disbursed by 202%, delivering 966 loans to individuals and groups with a cumulative value of \$383,808. Repayments rates reached 100% and there were no repayment arrears at the end of the year.

Community initiatives focused on micro-projects such as the replacement of beds in a kindergarten, the organization of a judo circle and the provision of a first aid kit for 1,500 people. A sewage system in Gobustan settlement was rehabilitated, street lighting was installed in Shikhlar and water lines repaired in Mertebe. Capacity building included the provision of business development services and computer, accountancy and English language courses to individuals in Garadag region.

A number of initiatives involved the Zykh fabrication yard. A recycling initiative transformed site waste timber and glass into picture frames. A six-month part-time course partnered 100 apprentices to qualified masters of such trades as welding, hairdressing and car repair. Another project – the Zykh Site Experience – introduced students from Baku technical institutions to the various components of the Shah Deniz project.

BTC/SCP community investment programme

The core objective of the BTC/SCP community investment programme is to fulfil the projects' commitment to generate economic benefits and opportunities for an enhanced quality of life for those whom our business impacts most directly. Achievement of this objective is met in three ways – interventions that focus on long-term benefit; approaches that help communities to solve their own problems, and needs-driven involvement led by the communities themselves.

The dominant themes at the heart of the BTC/SCP CIP are therefore the needs of nearly 500 communities along the pipeline route. They include income generation, strengthening rural and agricultural systems, enhancing community institutional capacity, improving access to training and education, health and sanitation and rehabilitating social and economic infrastructure.

Implementing partners to oversee the CIP were selected through a public tendering process. In Azerbaijan and Georgia international NGOs partner national organizations while in Turkey implementers are based in the country and include national NGOs, a university and a consultancy. Community members are active participants in all the CIP components in all three countries.

In 2004, 25 additional pipeline communities were added to the 82 already being supported by CIP projects in Azerbaijan. Additional funding has

been agreed from time to time including \$1 million donated for emergency heating assistance in Georgia during the winter of 2003-4.

In Azerbaijan, the CIP has leveraged more than \$3 million in added programme value to CIP beneficiaries. In Turkey, about 100,000 people were benefiting directly or indirectly from CIP projects. In Georgia, BTC's NGO partners were working with more than 75,000 people in 77 communities.

During the fourth quarter of 2004 independent consultants were commissioned to evaluate the BTC/SCP CIPs in Azerbaijan and Georgia. The outcomes of the Georgia evaluation were outlined in the 4Q04 Environmental and Social Report to Lenders which can be read on the project website. A summary of the Azerbaijan evaluation will be published in 2005. In Turkey, an

independent evaluation is taking place during the first half of 2005.

BTC/SCP CIP in Azerbaijan 2004

In Azerbaijan, the key components of the CIP are community mobilization and capacity building through community-led micro-projects, health care, and micro-finance initiatives.

Four different implementing partners were involved – Save The Children (STC – western half of pipeline), International Rescue Committee (IRC – eastern half of pipeline), International Medical Corps (IMC – whole length of pipeline), and Foundation for International Community Assistance (FINCA – whole length of pipeline). All the implementing partners with the exception of FINCA were assisted by local NGOs in order to help build local project management capacity.

BTC/SCP CIP in Georgia 2004

Georgia's CIP has two principal sets of activities: 'CIP' which is aimed at villages along the pipeline route, and 'CIP-Improved Schools Project' (CIP-ISP) which is aimed at schools in towns along the pipeline route. It is managed from Tbilisi, with regular participation in field activities.

Delivery of CIP and CIP-ISP has been designated to two international NGOs, Mercy Corps and CARE. Each works with a number of Georgian NGO partners – Constanta Foundation, Technical Assistance Georgia, Elkana, Curatio International Foundation, International Centre for Conflicts and Negotiations – who undertake significant components of the CIP.

The CIP's main components are: renewal of rural infrastructure,

Uniting a divided community

Chohranli-Yeni Shikhimli has been one of the most challenging communities in which the BTC/SCP community investment programme has been active. When the IRC first entered the community it was split into two factions. Neither side would support anything proposed by the other and it proved almost impossible to get both sides to attend the same meeting.

For the CIP team, conflict negotiation became the highest priority. Through expanded management training and intensive mentoring the team worked with community members to help them come to equitable solutions. Eventually it was children who offered a way ahead when both sides agreed that young people should not suffer because of in-fighting among adults.

On that basis a joint proposal was submitted by the Ijma (Community Action) Group to rehabilitate the local school. The experience of working together to prepare and carry out the project convinced the community it could co-operate despite the differences of individual members. Subsequently, the rehabilitation of the school was completed on time with a high level of community participation. Then the village went one step further and approached the local BTC contractor, Petrofac, for help in completing additional work on the school grounds not covered by the CIP funding. Personal animosities still simmer in Chohranli-Yeni Shikhimli, but the project has demonstrated how much more can be achieved by working together.

agricultural support, providing support for income generation through micro-credit, energy efficiency, social services, capacity building.

In the summer of 2004, the 'CIP – Improved Schools Project' began. It seeks to provide opportunity for adolescents to participate more effectively in Georgia's future social and economic growth. Aspects include secondary school rehabilitation initiatives, teacher and administrator training, and improving school management in towns along the pipeline route. By the end of 2004, 28 schools had completed the first round of infrastructure rehabilitation activity. This covered tasks such as roof repairs, repairs to heating and sewerage systems, and repairs to sports halls. Teacher training has begun for more than 235 teachers from 41 schools,

supporting the efforts of the Ministry of Education.

BTC CIP activity in Turkey 2004

In Turkey, there were five CIP Implementing Partners in 2004 who each managed a separate geographical area along the pipeline route and oversaw a large number of projects in 285 communities. Conceptually, these projects had four main objectives – employment and income generation, agricultural and rural development, the improvement of social infrastructure and capacity building especially for women.

Implementing Partners in north-east Turkey were: International Blue Crescent Relief and Development Foundation (NGO, working in Ardahan Province in 37 villages); Ataturk University (working in around 63

villages in Erzurum Province); PAR (consultancy working in 47 villages in Erzincan and Gumushane Provinces); and SURKAL (NGO, working in 24 rural settlements in Kars Province).

Along the south-east portion of the pipeline route the Implementing Partners were: PAR (working in 35 villages); SURKAL (working in 54 villages); and G&G Consulting (working in 25 villages, with a further 43 to be added in 2005).

By the end of 2004, a wide range of infrastructure projects had been completed including the repair of irrigation canals and drinking troughs for animals, resurfacing of roads and the installation of new water systems. Livestock training and health education training programmes were undertaken in parallel with a mass animal vaccination programme. A number of special programmes for women were conducted covering such matters as mother-and-child care, family planning and female entrepreneurship. Some 238 girls were registered to open schools programmes in Erzurum Province as well as 91 boys.

More than \$1.8 million was disbursed to the CIP Implementing Partners in Turkey during 2004. About 50,000 people living in 117 settlements benefited directly from 164 quick impact projects. Around 54% of the projects related to drinking water systems and 22% to building repairs. More than 150,000 livestock were treated or vaccinated and nearly 19,000 individuals trained in farming techniques.



3.4 Enterprise development

Set up with BP and AIOC/BTC/SD/SCP support in May 2002, the Enterprise Centre in Baku exists to help stimulate local business capacity, help local firms win a growing share of Azerbaijan's oil and gas sector business and demonstrate the commitment of BP and its partners to lasting development in Azerbaijan.

Around 77 training sessions were held for local companies in 2004 with the focus on ethics, accounting, internal audit, ISO certification, business and presentational skills and general management. Some 27 international companies – including German, Russian, American, Belgian and French companies supplying equipment and services to the oil and gas industry – were introduced to the local and foreign business communities in Baku.

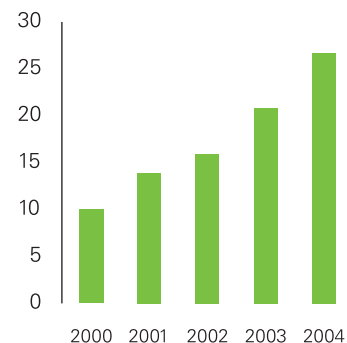
Each month HSE training was organized with BP HSE for local companies usually in the form of one-day sessions. Twelve courses were held in 2004, attended by more than 30 local companies. Some

27 meetings were hosted by the Centre for local and international NGOs on such topics as tourism development, environmental policy and cultural heritage. The Centre also undertook market research for companies and individuals wanting to establish a business in Azerbaijan.

Other highlights included the Caspian Region Oil & Gas Commercialization Conference, a presentation by women entrepreneurs, a local content workshop and an agreement with a local fabrication services company to provide technical assistance and investment to enable it to develop its capacity. In September the Centre presented its first Local Content Awards to individuals who had made a significant contribution to developing local business capabilities.

The Enterprise Centre also collects data on third-party spend by BP and its major contractors in Azerbaijan in 2004. It found that total third party spend exceeded \$5 billion. In-country spend was

Value of contracts awarded by BP in Georgia to local companies (\$ million)



\$1.7 billion, including the direct spend of BP and its major contractors. Spend with companies with Azerbaijan capital totalled \$326 million, less than in 2003. However spend with small and medium-size local companies reached \$57 million for the year – a 19% increase on 2003.

The graph above shows the total annual payments made by BP in Georgia to Georgian companies from 2000-4, with the total figure increasing consistently year on year. In addition to this, our principal contractors use local sub-contractors where possible and practicable.

In Turkey, BTC launched a two-year project in September 2004, to support the development of ecologically sustainable enterprise in the country. The Small Investments Fund is planned to be implemented by the UNDP in areas along the route of the pipeline. Funds worth around \$325,000 will be advanced to support the sustainable use of natural resources by local enterprises.

www.ecbaku.com

Safe Hands fulfils commitments

In 2003, we awarded a contract to a local trading and distribution company called Safe Hands Offshore Ltd to supply personal protective equipment to international standards at competitive prices provided there was clear local content.

Throughout 2004 Safe Hands, an Azerbaijani company set up in 1996, made a tremendous effort to deliver its promises. Drawing on advice and support from BP's HSE manager and the team at the Enterprise Centre, the firm established a relationship with three Azerbaijani manufacturers and provided them with significant technical assistance to ensure a product of the correct standard. As a result Nazim Ltd produced 100 autumn coveralls; Safe Vision Ltd manufactured 520 winter jackets and 220 work outfits; and Silhouette Ltd altered 300 summer coveralls into winter and autumn coveralls. In the words of the Enterprise Centre's private enterprise development lead Aliovsat Guliyev: "they are an example of how the supply chain power of an oil company can make a difference if applied to local sustainable development needs".

3.5 Good governance

As well as redefining the way it organizes its business operations in 2004, BP supported host governments in several countries, including Azerbaijan, in managing the resource wealth the group is helping to create. An important element in this is widening the transparency surrounding the volume and flows of oil revenues.

In 2003, BP made a public commitment to support the principles set out the year before in the UK government's Extractive Industries Transparency Initiative (EITI). The government in Azerbaijan subsequently agreed to pilot this initiative and formed a commission to begin implementing the EITI.

Towards the end of 2004, as described earlier in this report, a Memorandum of Understanding was signed in Baku setting out the process for implementing the EITI in Azerbaijan. The first Azerbaijan EITI reports were published in March 2005.

For its part BP has committed to publish data submitted by the company to the government of Azerbaijan as part of this process. In addition, in BP's

response to the December 2004, report of the Caspian Development Advisory Panel, we stated that while the use of aggregated disclosure by several companies in our view ensures that the aims of the EITI will be fulfilled in the near future, BP will report its disaggregated data in its *Azerbaijan Sustainability Report 2004*. An article in the international press by the president of the European Bank for Reconstruction and Development subsequently described BP as a "world leader" in its commitment to publicly reporting the amounts that the company pays to governments.

BP in Azerbaijan is also involved in a number of other governance initiatives designed to promote transparency and encourage knowledge-sharing. Throughout 2004, our website www.caspiandevelopmentandexport.com carried many new reports and documents detailing legal, fiscal, environmental and social agreements and our performance in these areas.

We facilitated two governance workshops in 2003-2004. The first, in

November 2003, brought together people with experience of managing natural resource windfalls in Trinidad and Tobago, Botswana, Colombia, Norway, Nigeria and Indonesia. The second, in November 2004, explored the role of a macro-econometric model in supporting a sound medium-term fiscal strategy.

Throughout 2004 we co-operated with the national and international media. The BU Leader regularly briefed journalists in Azerbaijan and abroad on business developments. We hosted a number of media field visits and issued more than 40 press releases. In addition we continued to provide training and workshops with the British Council to help support the local media in becoming a viable component of civil society in Azerbaijan.

Summary of EITI reported data (disaggregated)

	2003	2004 ^a
EITI reported data (BP net)		
Volume of profit oil lifted by the Azerbaijan government (million barrels)	2.26	0.96
Transportation tariffs (\$ million)	3.85	1.97
Acreage fees (\$ million)	0.45	n/a

^a For the first half of 2004.

3.6 Regional sustainable development

In 2004, BP's commitment to long-term sustainable development in the countries in which the Azerbaijan BU operates began to be defined in greater detail. As we move into the full operations phase, we are developing a Regional Sustainable Development Programme (RSDP). It is anticipated that RSDP will co-ordinate all of BP and its partners' joint sustainable development activities in the region. We aim to take a more holistic approach to our investment projects, building on the best practice of existing CIP projects as well as addressing some of the regional and national challenges posed by the development of large-scale oil and gas businesses.

In this way the RSDP will form the core of BP's pledge to the people of Azerbaijan, Georgia and Turkey to create sustainable benefits for both the countries and the company over the longer term and to make a central contribution to the responsible use of revenues generated as a result of our activity.

The RSDP has two principal activities:

- The Regional Development Initiative (RDI). This is envisaged as a large-scale, country and regional-wide programme. It will include projects that will endure and have an impact designed to cover the lifetime of our projects. The programmes will be

aligned with government policy in each country and we aim that we will be partnered by multilateral development agencies, international financial institutions and our projects' partners. The focus will be on enterprise development, good governance and improving access to energy. Capacity building and educational/vocational training will be intrinsic to all three themes.

- The Future Communities Programme. This is envisaged as the main vehicle for the BU's future relationship with, and investment in, those communities most directly affected by our operations. It will build on the construction-phase CIPs and will be driven by themes and projects identified by the communities themselves. As with the existing CIPs, there will be an emphasis on community mobilization and capacity building.

Creation of the RDI followed a recommendation in 2003 by the Caspian Development Advisory Panel. In its December 2004, report the panel welcomed the RDI as 'a sound and comprehensive approach toward sustainable development in the region' while also recommending that BP increase the duration and size of its commitment. The development of the RSDP is a response to that challenge.



Performance data^a

	2003	2004
Operating		
Total hydrocarbons produced (thousand barrels a day)	130.8	132.2
Safety^b		
Fatalities – employees	0	0
Fatalities – contractors	0	2
Days away from work cases (DAFWC) – workforce	9	8
Days away from work cases frequency (DAFWCF) – workforce	0.08	0.03
Recordable incidents – workforce	74	112
Recordable incidents frequency (RIF) – workforce	0.62	0.43
Hours worked – employees (million hours)	23.80	51.71
Hours worked – contractors (million hours)	n/a	104.5
Environment^c		
Direct carbon dioxide (CO ₂) (kilo tonnes)	910	979
Indirect carbon dioxide (CO ₂) (kilo tonnes)	0	0
Direct methane (CH ₄) (kilo tonnes)	4.7	4.7
Direct greenhouse gas (GHG) (thousand tonnes CO ₂ equivalent)	1,010	1,077
Flaring (exploration and production) (tonnes)	258,184	283,953
Sulphur dioxide (SO _x) (tonnes)	161	98
Nitrogen oxides (NO _x) (tonnes)	2,273	2,210
Non-methane hydrocarbons (NMHC) (tonnes)	2,753	3,161
Number of spills (loss of primary containment)	29	24
Volume of product spilled (litres)	113,454	21,495
Volume of product unrecovered (litres)	93,251	3,061
Discharges to sea (drill cuttings with synthetic-based mud) (tonnes)	8,122	6,077
Employees		
Number of employees in Azerbaijan Business Unit for Azerbaijan ^d	1,196	1,505
Social spend		
Total for Azerbaijan Business Unit – gross spend (\$ million)	6.66	34.25

^a Unless otherwise stated, performance data relates to Azerbaijan Business Unit.

^b Safety data shows information for Azerbaijan Business Unit. The Azerbaijan Business Unit is the reporting unit for HSE performance within BP. It does not include a project-only reportable data.

^c All environmental performance data includes Georgia (WREP & Supsa Georgia).

^d Excludes contractors.

Copies of the EITI templates

Reporting form for a foreign extractive industry company about payments to government of the Republic of Azerbaijan (host government)

Name of Company: BP
 BP Exploration Caspian Sea Ltd (TIDN 990000055); Amoco Caspian Sea Petroleum Ltd (TIDN 990000772); Amoco Inam Petroleum Co BV (TIDN 9900065151); BP Exploration (Azerbaijan) Ltd (TIDN 990001289)
 Name of industry: Oil and gas
 Activity type: Production Sharing Agreements (Azeri-Chirag-Guneshli, Shah Deniz, Alov, Inam)
 Reporting Period: 2003 (annual) - January 1 - December 31, 2003

Payment description	Value ¹		Volume
	min. US dollar	mln. AZM	
1	2	3	4
1. Payments/allocations of foreign company to host government	-	-	-
1a) Host Government's production entitlement in foreign company's Production Stream			
- in kind			
- in cash			
1b) Payments of foreign company to host government	-	-	-
Royalties			
- in kind			
- in cash			
Profit taxes	-	-	-
Other taxes (excluding employee income taxes, Social Protection Fund taxes, withholding taxes)	-	-	-
Dividends	-	-	-
Signing bonuses and other bonuses	-	-	-
License fees, entry fees and other considerations for licenses	-	-	-
Other payments including:	-	-	-
2. Payments/allocations of foreign company to host state-owned company			
2a) Host state-owned company's production entitlement in foreign company's Production Stream			2.26
- in kind			
- in cash			
2b) Payments to host state-owned company			
Royalties	-	-	-
- in kind			
- in cash			
Profit taxes	-	-	-
Other taxes (excluding employee income taxes, Social Protection Fund taxes, withholding taxes)	-	-	-
Dividends	-	-	-
Signing bonuses and other bonuses	-	-	-
License fees, entry fees and other considerations for licenses	-	-	-
Other payments, including:			
- transportation tariff		-	-
- SOCAR	0.05		
- SOFAZ	3.80		
- acreage fee (SOFAZ)	0.45		

Company authorized officer 


Form completing date 24 Feb. '05

¹ For a reporting line only one of value columns shall be filled (either USD or AZM)

**Reporting form for a foreign extractive industry company
about payments to government of the Republic of Azerbaijan (host government)**

Name of Company: BP
 BP Exploration Caspian Sea Ltd (TIDN 990000055), Amoco Caspian Sea Petroleum Ltd (TIDN 990000772); Amoco Inam Petroleum Co BV (TIDN 9900065151); BP Exploration (Azerbaijan) Ltd (TIDN 990001289)
 Name of industry: Oil and gas
 Activity type: Production Sharing Agreements (Azəri-Chirag-Günəşli, Şah Deniz, Alov, Inam)
 Reporting Period: 2004 (bi-annual) – January 1 – June 30, 2004

Payment description	Value ²		Volume
	mln. US dollar	bln. AZM	
1	2	3	4
1. Payments/allocations of foreign company to host government	-	-	-
1a) Host Government's production entitlement in foreign company's Production Stream			
- in kind			
- in cash			
1b) Payments of foreign company to host government	-	-	-
Royalties			
- in kind			
- in cash			
Profit taxes	-	-	-
Other taxes (excluding employee income taxes, Social Protection Fund taxes, withholding taxes)	-	-	-
Dividends	-	-	-
Signing bonuses and other bonuses	-	-	-
License fees, entry fees and other considerations for licenses	-	-	-
Other payments, including:	-	-	-
2. Payments/allocations of foreign company to host state-owned company			
2a) Host state-owned company's production entitlement in foreign company's Production Stream			0.96
- in kind			
- in cash			
2b) Payments to host state-owned company			
Royalties	-	-	-
- in kind			
- in cash			
Profit taxes	-	-	-
Other taxes (excluding employee income taxes, Social Protection Fund taxes, withholding taxes)	-	-	-
Dividends	-	-	-
Signing bonuses and other bonuses	-	-	-
License fees, entry fees and other considerations for licenses	-	-	-
Other payments, including:			
- transportation tariffs			
- SOCAR	0.04	-	-
- SOFAZ	1.93	-	-

Company authorized officer 

Form completing date 17.06.06

² For a reporting line only one of value columns shall be filled (either USD or AZM)

Assurance statement to BP management

BP Azerbaijan Sustainability Report 2004 (the Report) has been prepared by the management of BP Azerbaijan Business Unit, 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 conclusions?

We have reviewed the Report to provide assurance on whether the Report covers the key issues and whether the data, statements and assertions made regarding the sustainability performance of BP Azerbaijan Business Unit (BP Azerbaijan) are supported by evidence or explanation.

In order to form our conclusions we undertook the steps outlined below.

- Reviewed a selection of external media reports relating to the sustainability performance of BP Azerbaijan in 2004 as a check on the scope and appropriateness of statements made in the Report.
- Tested whether BP Azerbaijan's process for determining the key issues to be included in the Report had been applied in preparing the Report.
- Reviewed information or explanation about the Report's data, statements

and assertions regarding BP Azerbaijan Business Unit's sustainability performance. Whilst we saw documentation to support the data contained within the Report, we did not test the data processes for gathering, collating and reporting data at BU or site level.

- Interviewed a selection of BP management in Baku, Azerbaijan and London, UK in April 2005 once the Report was drafted.
- As part of our assurance activities on BP Group's sustainability reporting for 2004 we visited BTC's offices in Baku, Azerbaijan and Tblisi, Georgia.

Our conclusions

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'.

Are the key issues covered in the Report?

Based on our review, we consider that:

- The Report provides a balanced representation of issues raised in our media review concerning BP Azerbaijan's sustainability performance as defined in the scope of the Report (inside front cover).

BP has applied its processes for determining the key issues to be included in the Report.

Are the Report's data, statements and assertions regarding BP Azerbaijan Business Unit's sustainability performance supported by evidence or explanation?

Based on our review, we consider that:

- Evidence obtained through our work supports the data, statements and assertions regarding BP Azerbaijan Business Unit's sustainability performance 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 in 2004.

 **ERNST & YOUNG**

Ernst & Young LLP
London, 2 June 2005

Glossary

ACG	Azeri-Chirag-Gunashli offshore oil field
AIOC	Azerbaijan International Operating Company
APC	Action Plan Committee
BTC	Baku-Tbilisi-Ceyhan pipeline project
BU	Business Unit
CA	Central Azeri
CDAP	Caspian Development Advisory Panel
C & WP	Compression and Water Injection Platform
DAFWCF	Days Away From Work Case Frequency
EC	Enterprise Centre, Baku
EBRD	European Bank for Reconstruction and Development
EITI	Extractive Industries Transparency Initiative
EOP	Early Oil Project
ESAP	Environmental and Social Action Plan
ESIA	Environmental and Social Impact Assessment
ESMS	Environmental and Social Management Systems
FINCA	Foundation for International Community Assistance
GAAP	Generally Accepted Accounting Principles
GHG	Greenhouse Gas
GDP	Gross Domestic Product
GNP	Gross National Product
HGA	Host Government Agreement
HIPOF	High Potential Incident frequency
HSE	Health, Safety, Environment
HSSE	Health, Safety, Security, Environment
IDP	Internally Displaced Person
IFC	International Finance Corporation
IGA	Inter-Governmental Agreement
IMC	International Medical Corps
IRC	International Rescue Committee
ITD	Indirect Thermal Desorption
MENR	Ministry of Ecology and Natural Resources
MIA	Major Incident Announcement

NGO	Non Governmental Organization
NREP	Northern Route Export Pipeline
OSCE	Organization for Security and Co-operation in Europe
OSPRI	Oil Spill Preparedness Regional Initiative
PSA	Production Sharing Agreement
PS/IM	Process Safety and Integrity Management
RIIF	Recordable Injuries and Illness frequency
RDI	Regional Development Initiative
RSDP	Regional Sustainable Development Programme
SORP	Statements of Recommended Practice
SCP	South Caucasus Pipeline
SME	Small and Medium-sized Enterprise
SOCAR	State Oil Company of Azerbaijan Republic
SRAP	Social and Resettlement Action Plan
SSOW	Safe Systems of Work
STC	Save The Children
STEP	Sangachal Terminal Expansion Project
TVAR	Total Vehicle Accident Rate
UN	United Nations
UNDP	United Nations Development Programme
WA	West Azeri
WBM	Water-based Mud
WREP	Western Route Export Pipeline
WRP	Wildlife Response Plan

Units

\$	US dollar
bpd	Barrels per day
KP	Kilometre point
Mt	Million tonnes
Mtoe	Million tonnes of oil equivalent
tcf	Trillion cubic feet
te	Tonnes

Further information

For more information

The Caspian energy projects have set new standards for transparency for international infrastructure projects and much information is available online.

Sites include:

www.caspiandevlopmentandexport.com

This is the core information source about the various Caspian energy projects. It includes the full text of the ESIs carried out in Azerbaijan, Georgia and Turkey and the legal agreements including the PSAs, HGAs and IGA which govern the projects. The site is multilingual and is updated regularly.

www.bp.com

This site contains information about the BP group including information about its activities and operations in the Caspian and Caucasus regions and the *BP Sustainability Report 2004*.

www.caspsea.com

The site of the Caspian Development

Advisory Panel. It includes the full text of its reports and BP's response, biographical details of panel members and the CDAP terms of reference.

www.ecbaku.com

Carries information about the work and services provided by the Azerbaijan Enterprise Centre in Baku.

www.globalreporting.org

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

www.transparency.org

The site of Transparency International, an NGO specializing in issues associated with corporate social responsibility, corruption, governance and transparency.

www.dfid.gov.uk

The site of the UK government Department for International Development, it carries information

about the Extractive Industries Transparency Initiative (EITI).

www.eurasia.org

The site of the Eurasia Foundation which assists the states of the former Soviet Union to build democratic, free market institutions and works with the BTC/SCP projects in Georgia.

www.iso.org

Carries information about the work of the International Standards Organization, including ISO 14001, the environmental management standard.

www.oecd.org

The site of the OECD. It contains Guidelines for Multinational Enterprises detailing voluntary principles and standards for responsible business conduct in defined areas such as human rights, employment and industrial relations, environment, information disclosure, competition and taxation.

Publications

Regional Review An overview of economic, social and environmental issues related to the southern Caucasus oil and gas projects (February 2003).

Between Two Seas A BTC brochure describing the BTC project in broad terms.

Safe, Silent, Unseen Outlines the technical and engineering challenge of building the BTC pipeline.

Breaking New Ground A BTC brochure explaining how the project relates to communities and people.

Pipelines and People Describes the benefits being brought to the Caucasus region by the various Caspian energy projects.

BTC Project Environmental and Social Quarterly Report Regular quarterly report updating lenders to the BTC/SCP projects.

AIOC Overview Presents an overview of AIOC marine monitoring activities.

Shah Deniz Gas Export Project Brochure outlining the SD project and the role it will play in the future prosperity of the region.

A Decade of Delivery Brochure outlining the ACG project 1994-2004.

BP Azerbaijan Sustainability Report 2003 First Azerbaijan BU country report published in 2004.

Feedback

Following publication of our first Azerbaijan Sustainability Report covering 2003 we received much helpful input and comment from readers and interested parties in 2004.

In the interests of transparency we summarize the feedback below.

There was a general feeling that the report represented a positive step towards greater transparency. It was regarded as having been prepared professionally. Demands were made for simpler language, more maps and sharper colours. The lack of content about archaeological conservation was regretted as was the absence of material about labour developments. The case studies received a positive response, but it was felt that more needed to be included.

Conceptually, there were a number of suggestions that clearer assessments of projects' sustainability be provided. These ideas were coupled with a request that sustainability benchmarks

be given for individual projects so that their sustainability performance could be assessed. The quality of some of the report's economic indicators was queried.

In general the report was deemed a noteworthy 'first' – the first time BP had released a document providing information about the company's all-round activities in Azerbaijan. Many respondents saw it as an opportunity for further open dialogue.

Contact us

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

E-mail feedback may be sent to bpazsust@bp.com

Or you may telephone the Communications and External Affairs department on +994 12 4979272.

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