



BP in Azerbaijan

Sustainability Report 2007



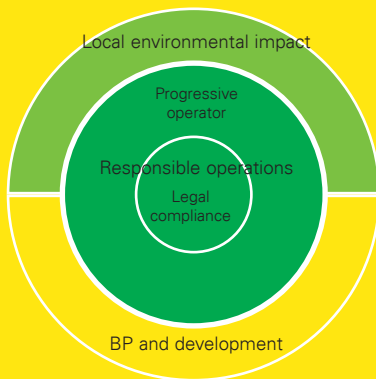
About this report The 2007 BP in Azerbaijan Sustainability Report covers our business performance, environmental record and wider role in Azerbaijan during 2007. This is our fifth Sustainability Report and it reflects feedback we received about previous reports. Our earlier publications are available at www.bp.com/caspian.

By 'sustainability' we mean the capacity to endure as a commercial organisation by renewing assets and by creating and delivering better products and services so that we meet the evolving needs of society, attract successive generations of employees, contribute to a sustainable environment and retain the trust and support of our customers, shareholders and the communities in which we operate.

References in this report to 'us', 'we' and 'our' relate to BP in Azerbaijan unless otherwise stated. Specific references to 'BP' and the 'BP group' mean BP p.l.c., its subsidiaries and affiliates. Unless otherwise specified, the text does not distinguish between the operations and activities of BP p.l.c. and those of its subsidiaries and affiliates.

A message from Ernst & Young

This report has been substantiated by Ernst & Young, the BP group auditors. The primary purpose of the report substantiation process is to test that the assertions, claims and data set out in the text regarding BP's sustainability performance can be supported by evidence. This process is intended to give assurance about the report contents from an independent third party. Ernst & Young's scope of work and their conclusions are provided on page 61.



2007 Azerbaijan Sustainability Report contains certain forward-looking statements particularly relating to recoverable volumes and resources, capital, operating and other expenditures, and future projects.

Actual results may differ from those expressed in such statements depending on a variety of factors including supply and demand developments, pricing and operational issues and political, legal, fiscal, commercial and social circumstances

This report is structured around BP's corporate responsibility framework, which explains BP's approach to sustainability. BP's activities are described in terms of areas where we have direct control (responsible operations) and areas where we can have significant influence (local environmental impact and development).

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On the cover Elnur Ismayilov, drilling engineer at Istiglal drilling rig.



Foreword by the president of BP Azerbaijan Strategic Performance Unit (SPU)

The BP Azerbaijan Strategic Performance Unit (SPU) experienced a momentous year in 2007 during which we recorded numerous achievements and reached many important milestones.

A fuller account of the SPU's operations can be found elsewhere in this report. But some highlights deserve a mention here. Our existing operations continued to perform successfully. We installed two deepwater platforms, so marking the end of offshore construction. The Shah Deniz exploration team made a significant gas discovery from the deepest well ever drilled in the Caspian.

A number of noteworthy safety milestones were attained including the integrated shutdown of our facilities in 2007. Our Onshore Operations team finished the year with zero Days Away From Work Case (DAFWC) incidents - a major achievement considering that it operates three pipelines across three countries as well as one of the biggest oil and gas processing terminals in the world.

At the end of the year, the BTC team completed all the obligations undertaken at the time the BTC consortium took out \$1.6 billion in loans from financial institutions. Furthermore, the team achieved this six months ahead of schedule. We also accounted fully for more than \$8 billion spent on our projects during 2004-06 as part of the biggest tax audit in our history and the biggest ever done in Azerbaijan.

As we look forward our focus is on enhancing the capability of our assets through the recruitment and development of national staff and the increasing use of local content and local contractors. In 2007, we made good progress in these areas. We hired more than 200 new national staff. With our co-venturers, we spent more than \$600 million with local companies. We launched a number of new programmes to promote enterprise and training in Azerbaijan. We also supported a wide range of other social investment programmes including educational initiatives. Overall, in 2007, our social investment in Azerbaijan was equal to \$7.39 million.

Against this background it is pleasing to note the recognition our efforts received in 2007 from the BP group. We won two Helios awards for outstanding achievement and group chief executive Tony Hayward praised the Azerbaijan SPU as a true example of how successful BP is when it has the right people delivering outstanding and safe performance.

It would be rash to claim that everything went smoothly in 2007 or that the SPU is without challenges. In particular, we can never afford to be complacent about safety. But 2007 was a year with many moments that made me proud of what is being achieved by BP in Azerbaijan. This review describes these activities in greater detail. I hope you find it interesting and informative.

A handwritten signature in black ink, appearing to read 'Bill Schrader', written over a horizontal line.

Bill Schrader
President, BP Azerbaijan SPU

Country context

In 2007 growing oil and gas production, and increasing exports to world markets, contributed to Azerbaijan's growing prominence in the region.

The benefits of mounting oil and gas-generated revenues on the national economy began to be felt throughout society in 2007. Budget expenditure of around \$7 billion was seven times higher than in 2003, with another large rise set for 2008 when state spending should reach \$10 billion compared to just \$1 billion five years earlier. In 2007 the revenues generated by BP-operated projects alone totalled almost \$4.3 billion.

Azerbaijan's gross domestic product (GDP) is expanding at around 25% a year and topped \$29.4 billion in 2007. Inflation - 16.7% in 2007 - remains a major concern. Capacity constraints increasingly impact the economy as well.

Official forecasts during 2007 predicted larger recoverable hydrocarbon resources and higher future production, along with intensifying efforts to secure new markets and long term international gas supply contracts.

Azerbaijan's free market resource



strategy pursued since independence in 1991 continues to attract foreign investors who have now committed \$30 billion to the country. Existing infrastructure and human capital available in the country, as well as prevailing political stability, provide international companies with a real opportunity to create and complete world class projects. However, the business environment

remains challenging for the oil and gas industry: in 2007, Transparency International ranked Azerbaijan 150th out of 179 states in its corruption perception index compared with a 2006 ranking of 130 out of 163 states^a.

As a responsible investor in Azerbaijan, BP strives in its activities to promote transparency, uphold respect for human rights and play a positive role in the community by supporting improvement of the overall business environment, revenue transparency and community development.

2007 Azerbaijan facts & figures

Item	Estimate
Area ^a	86,600 sq km (33,774 sq miles)
Population, total (millions) ^a	8.5
Life expectancy at birth, female (years) ^a	75.1
Life expectancy at birth, male (years) ^a	69.7
Gross Domestic Product (GDP) (current US\$) (billions) ^a	29.4
GDP growth (annual %) ^a	25
Non oil GDP (US\$ billions) ^b	10.99
Non oil GDP (% of GDP) ^c	36.83%
Inflation, consumer prices (annual %) ^a	16.70%
Capital investment (% of GDP) ^c	26.85%

^a State Statistical Committee (SSC): <http://www.azstat.org>.

^b National Bank of Azerbaijan (NBA): <http://www.nba.az>.

^c Original data from NBA with our calculation.

^a Transparency international ranking: http://www.transparency.org/policy_research/surveys_indices/cpi/2007.

Achievements and challenges

On this page we summarise the key achievements and challenges faced by BP in Azerbaijan in 2007, with emphasis on those most relevant to the sustainability of our business in the country.

Achievements

Operations We achieved an average daily production rate of 668,000 barrels of oil from the Azeri-Chirag-Deepwater Gunashli (ACG) platforms at the end of 2007. Throughput on the Baku-Tbilisi-Ceyhan (BTC) oil pipeline averaged 600,000 barrels per day. The 300th tanker was loaded with ACG oil at the Ceyhan terminal. We recommenced exploration on Inam.

Gas production at Shah Deniz (SD) totalled 3.1 bcma - 11% above plan. We delivered about 2.4 billion standard cubic metres of ACG gas to SOCAR. A major new gas discovery was made at SD. First gas was delivered to Turkey through the South Caucasus Pipeline.

We completed our expansion project at Sangachal, so allowing the terminal to process more than one million barrels of oil per day (pages 16-17).

Technology The world's first sub-sea, expandable sand screen, downhole flow control, water injection completions were installed in the Deepwater Gunashli field. These completions reduce the number of development water injection wells needed, and by running them sub sea, we avoid complex extended reach drilling from the platform. The completions help reservoir engineers to manage oil depletion in an efficient manner, improving the percentage of the original oil that is ultimately recovered.

Appraisal well SDX-4 - the deepest drilled in the Caspian to date - was completed successfully at Shah Deniz.

Environmental management Shah Deniz alpha (TPG-500), East Azeri, Logistics, Sangachal terminal (Shah Deniz section) and Serenja were certified as compliant with ISO 14001, - the leading international standard on environmental management (page 21).

Waste management Construction of a BP-exclusive non-hazardous solid waste landfill that is compliant with European Union standards was completed at Sumgayit (page 27).

Security The Government of Azerbaijan and the BP group signed a bilateral security protocol to govern the provision of security for BP-operated oil and gas projects in Azerbaijan. The protocol aims to promote respect for, and compliance with, internationally recognized human rights principles (page 33).

Our people At the end of 2007, 75% of our professional, and 100% of our non-professional staff were Azerbaijani citizens. In 2007 we introduced a retirement savings plan for BP national employees (pages 34, 37-38).

Challenges

WREP shutdown The Western Route Export Pipeline (WREP) to Supsa was shutdown throughout 2007 to allow completion of an extended repair and replacement programme. The programme was completed in the first quarter of 2008 (page 18).



Waste management We faced a number of waste management challenges during the year, particularly including the disposal of large volumes of produced water, prior to the availability of offshore re-injection; and sewage treatment package failures at our offshore facilities (pages 27-28).

Workforce demobilization Following completion of our onshore and offshore construction projects, a major demobilization of labour took place in 2007. We strove to ensure that this process ran as smoothly and as fairly as possible (page 37).

Report concept, scope and process

BP in Azerbaijan Sustainability Report 2007 is intended to provide a clear, transparent account of our performance and the issues we faced in Azerbaijan during the year.



Milestones of 2007

This is the fifth Sustainability Report produced by BP in Azerbaijan. It provides an integrated account of our activities in the country during 2007, including descriptions of our operational, social and environmental performance. It is aimed at both internal and external audiences including our staff and our co-venturers, government representatives, the media, academics, NGOs, students and potential employees.

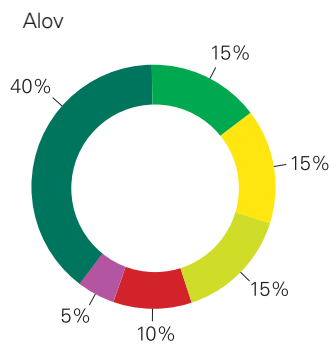
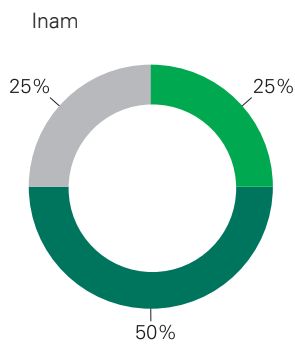
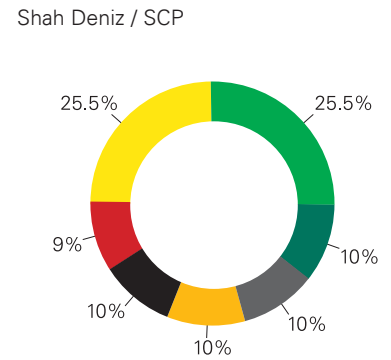
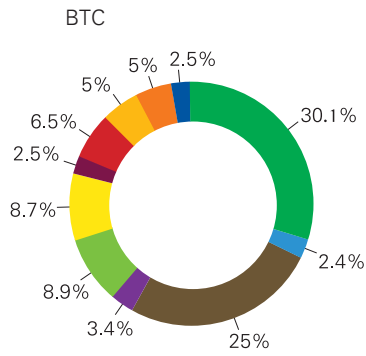
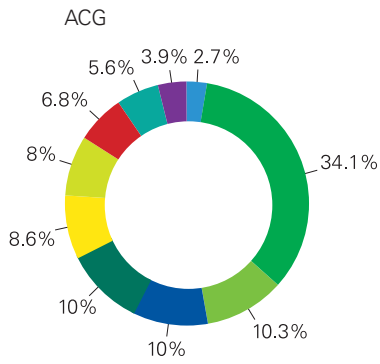
Throughout the report we highlight links to other sources of information about BP in Azerbaijan and the wider context of our operations. External

assurance has been provided by the BP group auditors, Ernst & Young, who are tasked with ensuring that every figure, statement and assertion in this report is correct and can be supported by documentation and that the report generally provides a balanced representation of material issues surrounding our activities in Azerbaijan.

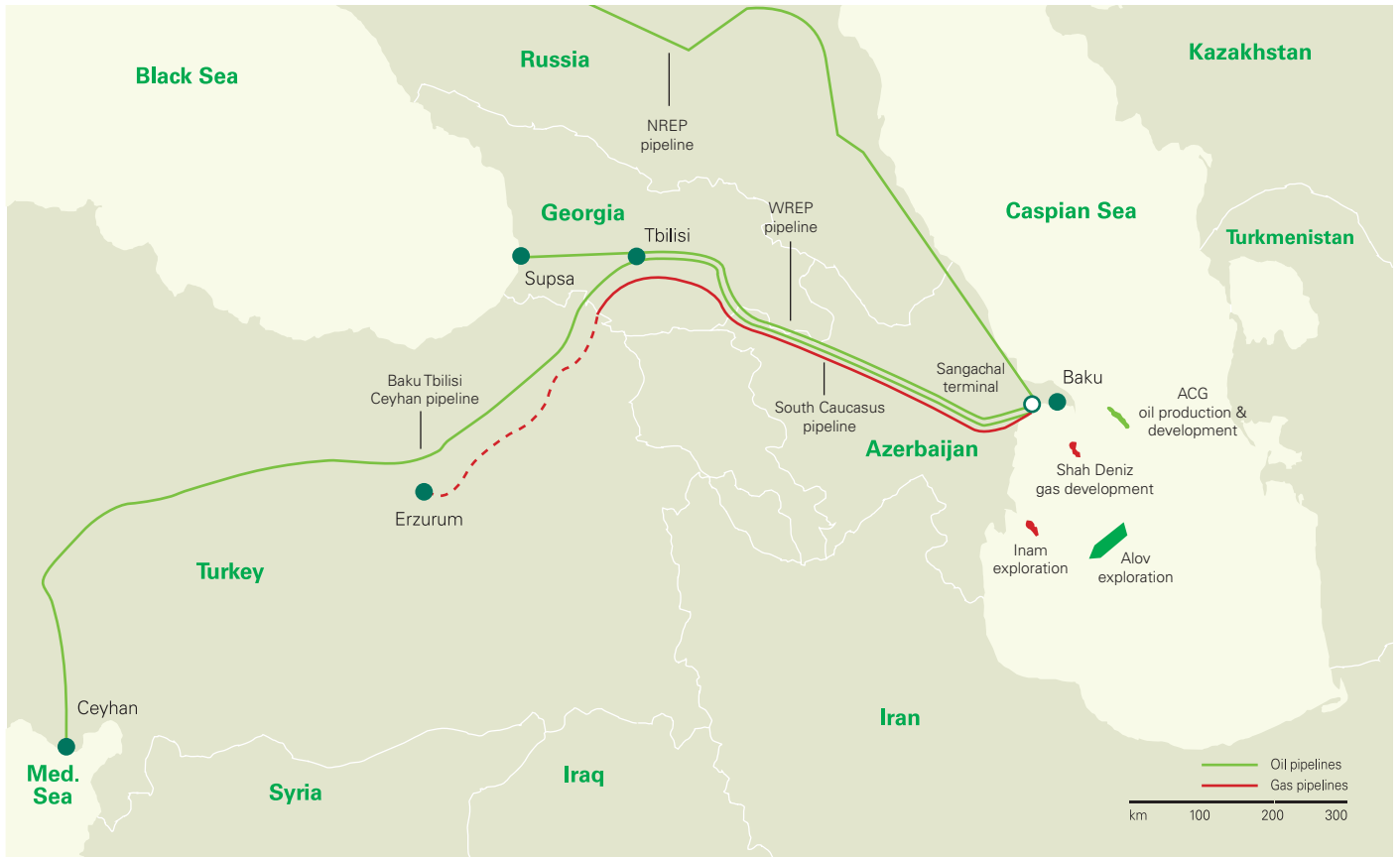
Two chapters make up the framework of the report in line with BP group sustainability reporting guidelines. The first concentrates on our performance in Azerbaijan during 2007. The second covers our role in society including our community and environmental programmes.

For more information on BP's approach to sustainability reporting and sustainability reporting guidelines access www.bp.com/sustainability or go to www.accountability.org.uk or www.globalreporting.org

BP Azerbaijan SPU interests



- Hess
- AzBTC
- BP
- Chevron
- Conoco Phillips
- Devon
- EnCana
- Eni
- ExxonMobil
- INPEX
- Itochu
- LUKoil
- NICO
- Shell
- SOCAR
- Statoil
- Total
- TPAO



1

From left to right: Firdovsi Isayev, control room technician and Ibragim Teregulov, production superintendent at combined control room at Sangachal terminal.



BP in Azerbaijan: our operations

- 1.1 BP in Azerbaijan at a glance
- 1.2 BP in Azerbaijan in perspective
- 1.3 Dialogue and engagement
- 1.4 Our projects and operations
- 1.5 Operating responsibly:
 - HSE management system
 - Safety
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- 1.6 Security and human rights
- 1.7 People, compliance and ethics
- 1.8 Key statistics in chapter 1

1.1 BP in Azerbaijan at a glance

Our structure, organisation, assets and history

Legal structure	BP operates within a number of legal entities in Azerbaijan reflecting its evolution in the country and the region since 1992. The principal legal entity is BP Exploration (Caspian Sea) Ltd.
BP Azerbaijan Strategic Performance Unit (SPU)^a	The BP Azerbaijan SPU is the BP organisational unit which operates in Azerbaijan, Georgia and Turkey. In Azerbaijan, BP operates under a number of production sharing agreements (PSAs) and host government agreements (HGAs) signed with the government of Azerbaijan. In Georgia and Turkey it operates under HGAs that cover export pipelines and terminals.
Business structure	At the end of 2007 eight vice-presidents reported to the President of BP Azerbaijan SPU (see BP in Azerbaijan in Perspective section) (page 10).
Office headquarters	The headquarters of BP Azerbaijan SPU are located at Villa Petrolea, 2 Neftchilar Prospekti (Bayil), Baku AZ1003, Azerbaijan. Telephone: + 994 12 497 9000. Fax: + 994 12 497 9602.
Employees	At the end of 2007 the number of Azerbaijani citizens permanently employed by BP in Azerbaijan was 1,712.
Offshore production assets	(1) Azeri-Chirag-Deepwater Gunashli ^b (ACG) is the largest oil field in the Azerbaijan sector of the Caspian Sea (2) Shah Deniz (SD) is a large offshore gas and condensate field.
Operational offshore facilities (end 2007)	Chirag 1 platform; Central Azeri platform; Compression & Water Injection platform; West Azeri platform; East Azeri platform; Shah Deniz TPG 500; Deepwater Gunashli (DWG) - Drilling, Utilities and Quarters platform; DWG - Production, Compression, Water Injection and Utilities platform.
Transportation & capacity	Transportation: Western Route Export Pipeline (WREP): an 830km pipeline linking Sangachal terminal to Supsa on Georgia's Black Sea coast. Northern Route Export Pipeline (NREP): a 231km pipeline linking Sangachal terminal to the Russia border ^c . Sangachal terminal: an oil and gas processing terminal south of Baku. Baku-Tbilisi-Ceyhan pipeline (BTC): a 1,768km oil pipeline (443km in Azerbaijan) linking Sangachal terminal to Ceyhan marine terminal in Turkey. South Caucasus Pipeline (SCP): a 690km gas pipeline between Sangachal terminal and the Georgia/Turkey border. Capacity at year end 2007: Export pipelines: NREP- 115 thousand barrels a day (mbd); BTC - 1 mmbd; SCP - 22.08 mscm/d. Terminal: Sangachal - can process in excess of 1.2 million barrels of oil per day (162,000 tonnes/day) and 1.25bcf/day (0.9 Shah Deniz and 0.35 DPCU) of gas. Crude oil storage capacity of 3 million barrels (405,000 tonnes).
Exploration activity	Inam - a large geological structure south of SD; Araz-Alov-Sharg - a frontier exploration area.
Capital expenditure	About \$25 billion on the ACG, BTC, SD Stage 1 and SCP projects since inception.
Oil production	AIOC 1997- 2007: 792 million barrels in total; 244 million barrels (2007).
Gas production	BP Exploration Shah Deniz Limited 2006-2007: SD gas production 3.255 bscm in total and 3.14 bscm in 2007; SD gas condensate 7.04 million bbl.

^a In this report when we refer to BP in Azerbaijan we refer to the SPU's activities in Azerbaijan only, while when we refer to BP Azerbaijan SPU we refer to SPU's activities in Azerbaijan, Georgia and Turkey.

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

^c 'Transneft' operates the continuation of the Northern route to Novorossiysk. In early 2008, operatorship of Northern route was assumed by the State Oil Company of the Azerbaijan Republic (SOCAR).

Leadership team of BP Azerbaijan SPU (end 2007)



Bill Schrader
President of BP Azerbaijan SPU

Bill has been leading BP Azerbaijan SPU since November 2006. He has 27 years' experience in BP, covering numerous leadership roles in BP chemicals, refining and marketing (R&M), marine, and exploration and production (E&P). He has worked in the USA, UK, the North Sea, Indonesia and Angola.



Paul Clyne
Renewal vice president

Paul is responsible for exploration and new development activities of BP Azerbaijan SPU. He has recent operational leadership experience in new developments such as Schiehallion, Andrew and Harding in the North Sea. He worked previously in Alaska, Canada and Norway.



Bruce Luberski
Major projects vice president

Bruce is responsible for delivery of the ACG project and future potential projects in the SD and ACG fields. In a previous job he supervised the Mad Dog project in the Deepwater Gulf of Mexico (GoM). Bruce has a wealth of operations and projects experience in Alaska and the GoM.



Mike Skitmore
Offshore operations vice president

Mike is responsible for ACG and SD operations and logistics. In the past Mike has been a head of operations (Europe), E&P technology, where he contributed to improving operations organisational capability and in moving the North Sea operations forward.



Rashid Javanshir
Onshore operations vice president

Rashid is responsible for onshore operations and security in BP Azerbaijan SPU. Rashid has extensive leadership experience in exploration, operations, group strategy and communications in the UK, USA and Azerbaijan. He is a professor of geology and geophysics.



Charles Proctor
Commercial vice president

Charles is responsible for planning and performance management, joint venture management, commercial operations, business development, finance and control, procurement and supply chain management. He has worked in the UK, Europe, Angola, Indonesia and Russia.



Greg Mattson
Technical vice president

Greg is responsible for petro-technical, health safety and environmental agenda. He has 26 years' E&P experience with BP in engineering, projects, operations, subsurface, commercial and leadership.



Sue Adlam-Hill
Human resources vice president

Sue directs human resources (HR) in BP Azerbaijan SPU. She has degrees in experimental psychology and personnel management and substantial experience in change management and HR management. She joined BP in 1989.



Clare Bebbington -
Communications and external affairs vice president

Clare was responsible for external and internal affairs and communications in the SPU in 2007. She has worked in this area for 19 years inside and outside BP. Most recently she was BTC communications manager based in London. *(In January, 2008, Clare was appointed external affairs advisor for BP's E&P segment. She was succeeded by Seymour Khalilov - page 35).*

History

September 1994

ACG production sharing agreement (PSA) signed by BP, its co-venturers and the government of Azerbaijan to develop Caspian offshore resources

June 1996

Shah Deniz PSA signed

July 1998

Inam and Araz-Alov-Sharg PSAs signed

December 1998

Western Route Export Pipeline starts operations

September 2002

ACG Phase 2 sanctioned

April 2003

Construction of BTC pipeline begins

October 2004

Construction of South Caucasus Pipeline begins

March 2005

Azeri crude oil exports commence

December 2005

Deepwater Gunashli pre-drilling programme commences; West Azeri oil production begins

June 2006

First tanker filled with Caspian oil at Ceyhan terminal; Record ACG daily production rate of over 500,000 barrels per day

November 2006

East Azeri produces first revenue oil

March 2007

BTC one million bpd capacity achieved

November 2007

A large gas-condensate discovery made at Shah Deniz following drilling to a Caspian-record depth of more than 7,300 meters; Inam exploration drilling re-commenced

February 1995

Formation of the AIOC

November 1997

First Oil produced from the Chirag field

August 2001

ACG Phase 1 sanctioned

February 2003

Shah Deniz Stage 1 sanctioned

September 2004

ACG Phase 3 sanctioned

February 2005

Production at Central Azeri begins

May 2005

Delivery of gas to Azerbaijan from Central Azeri starts; Azerbaijan section of BTC pipeline inaugurated

May 2006

First gas flows into the SCP

July 2006

Inauguration of the Turkish section of the BTC pipeline, the Ceyhan terminal and the BTC pipeline export system

December 2006

Gas production begins from Shah Deniz; South Caucasus Pipeline operations commence

July 2007

First gas delivered from Shah Deniz to Turkey

1.2 BP in Azerbaijan in perspective

In Azerbaijan the company operates in line with BP group values, standards and structures based on detailed three and one-year plans.

Our vision We are committed to deliver high quality, low cost services and to establish a sustainable and distinctive presence in the Caspian region by enhancing workforce capability, generating local content and building capacity. We strive to create value by improving facility efficiency, developing assets and maximizing recovery.

At all times we are committed to work safely, protect the environment and respect human rights. Our aim is to be a valued, trusted and long term partner in the development of Azerbaijan's hydrocarbon resources.

Our values In Azerbaijan we aspire to a number of fundamental and enduring qualities in our work that are common to the BP group as a whole. These include an unshakeable commitment to integrity, honest conduct, respect and dignity in dealing with others, mutual advantage in our business activities and making a responsible contribution to the society in which we operate. BP group corporate governance policies provide the framework within which management direction is set and performance monitored.

Our management structure In 2007, the Azerbaijan leadership structure comprised

eight vice-president-divisions, reporting to the president of BP Azerbaijan SPU: offshore operations; onshore operations; renewals; major projects; health, safety, environment and technical; human resources; finance; and communications and external affairs. The first four groups directly manage our business delivery, while the four remaining groups contribute functional expertise and support to the line teams and have strong relationships with the BP global functional teams around the world.

Our business strategy Our strategy in Azerbaijan is a reflection of BP group strategy which seeks out large, world-class oil and gas opportunities to develop for mutual advantage. As part of this group strategy we are committed to operate safely, act responsibly, respect human rights and promote diversity and inclusion in our workforce.

Our priorities in Azerbaijan include ensuring that our operations do no harm to people, enhancing workforce capability, developing our assets in line with our commitments, accessing new Caspian region oil and gas opportunities and deepening relationships with the host government and other key external stakeholders.



1.3 Dialogue and engagement

We believe that continuous dialogue and multi-level engagement are among the most effective ways of sustaining constructive and mutually beneficial relationships with our stakeholders in Azerbaijan.

Overview As one of the leading investors in Azerbaijan, BP's interaction with various stakeholders continued in 2007. We worked on many different issues with state and local government, national and international non-governmental organizations (NGOs), academia, employees, local communities, the media, students, multi-lateral organizations and various independent monitors of our activities. Interaction took place in meetings, briefings, workshops and site visits.

With government

- Several meetings took place with the President of Azerbaijan and other senior government officials to discuss our operations. In April, August, October and December 2007, Andy Inglis, BP group chief executive of exploration and production, met with President Ilham Aliyev. Inglis also held a separate meeting with Rovnag Abdullayev president of the State Oil Company of the Azerbaijan Republic (SOCAR).
- In November 2007, the Azerbaijan government and BP in Azerbaijan signed a bilateral security protocol.
- Senior Azerbaijani and other governments' officials visited sites we operate. In 2007, these visitors included

- the Prime Minister of Turkey, the Prime Minister of Belarus, US Senators, The Rt. Hon. Lord Howell of Guildford, representatives from the Greek parliament and the French Senate and officials from the Israeli and Japanese foreign ministries.
- We continued to engage with the State Oil Fund of the Azerbaijan Republic (SOFAZ) on a macroeconomic modelling project being managed by Oxford Economics. In 2007, this project focused on improving the model and on building capacity within the Azerbaijani government. In December a working group including representatives of SOFAZ, Ministry of Finance, Ministry of Economic Development, National Bank and the President's office made a study tour in the UK.
- BP group economists engaged in a dialogue with the Ministry of Economic Development on building macroeconomic policy-making capacity at the Ministry.
- We continued to co-operate with SOFAZ on the implementation of the Extractive Industries Transparency Initiative (EITI).
- We continued to work with SOCAR on various issues of mutual interest as part of our Production Sharing

Agreements (PSAs) and Host Government Agreements (HGAs) and other relevant agreements.

- We held meetings with local government representatives in Lenkoran and Neftchala to update them about the next phase of exploration activities at the Inam offshore field.
- We met representatives of the Ministry of Economic Development, the Azerbaijan Investment Company and the Azerbaijan Export & Investment Promotion Foundation throughout the year to discuss future cooperation on enterprise development.

With civil society

- We conducted quarterly briefing and dialogue sessions with civil society representatives to discuss BP's ongoing business developments in Azerbaijan and to hear from NGO representatives about their projects, challenges and future directions.
- We gave a presentation to local NGOs and local journalists on the mechanism of the profit oil split according to the ACG PSA.
- We held a feedback session with external audiences, including



students, on the 2006 Azerbaijan Sustainability Report and on the BP statistical review.

With employees

- We held quarterly 'town hall' meetings to discuss topical issues.
- We issued the staff magazine 'Compass' nine times during 2007 in English and Azerbaijani language versions.
- We introduced a monthly e-newsletter from the President of BP Azerbaijan SPU to enhance direct and quick communication with employees.
- We held a number of family days for employees and their relatives. The Caspian Energy Centre organised six family day events attended by more than 300 people.
- We maintained BP's employee-focused compliance and ethics helpline, OpenTalk (page 39).
- We modernized and upgraded the intranet homepage of the BP Azerbaijan SPU to improve communication with our employees.
- We supported the Fresh Thinkers Network (FTN) which is designed to give future leaders the opportunity to discuss business issues with top management of BP in Azerbaijan.

With communities

- Following completion of the BTC and SCP pipelines our seven community liaison officers (CLOs) and a field security advisor regularly visited 130 communities to keep residents informed and to hear their concerns.
- We supported co-operation between the CLOs, local security forces and communities along the BTC/SCP pipelines (pages 32-33).
- We maintained the official grievance mechanisms on the BTC/SCP route following completion of the pipelines.
- We launched a new employee engagement programme. Eight projects were completed in the last three months of the year following introduction of the programme involving 38 employees of BP in Azerbaijan. We invested \$13,740 in various community projects, particularly focused on local schools and orphanages.

With the media

- We arranged press days at our project construction sites where we provided briefings on project progress and showed the sites to the press. We also arranged numerous interviews

and visits to our operational sites for local and international journalists.

- We held three workshops for local journalists about the structures and mechanisms of the PSAs, the 2006 Sustainability Report and the enterprise development and training programme.
- BP Azerbaijan SPU's leadership team held quarterly press briefings.
- We issued 27 press releases in 2007 covering all aspects of our business.
- The communications manager led regular live 30-minute talks on BP's business on Azerbaijan's national radio station AzRadio.
- In collaboration with the British Council and the Thomson Foundation, we funded and implemented a business journalism training programme for 12 Azerbaijani journalists (page 56).

With the other interested parties

Senior international delegations

- We hosted visits to our sites by senior representatives of NATO, Itochu, Mitsubishi Corporation UK PLC, Ukrtransnafta, Baker & McKenzie, Hess, Total, TPAO, Statoil, Inpex and Idemitsu Kosan Ltd.

Students

- We continued to run our summer student internship programme. This allowed three students to take part in community investment projects managed by International Medical Corps (IMC) and local NGOs Madad and Umid. The students participated in such activities as translation, drafting project documentation, visiting communities, conducting surveys and participating in other programme activities.
- We engaged students through the intern programme to give them on-job work experience in various departments in the BP Azerbaijan SPU.
- We held sessions on the 2006 BP in Azerbaijan Sustainability Report to gather student feedback.
- We supported various scholarship programmes (pages 55-56).
- We supported the Azerbaijan-UK alumni association (page 56).

Trade unions

- In 2007, we continued to engage with SOCAR and trade unions to address labour issues related to the work of our ACG contractors. As a result, we were able to establish a project-wide agreement that ensured that mutually

agreed categories as a result of work scope completion received some financial assistance.

The Caspian Development Advisory Panel (CDAP)

- In January, we received the last report from the CDAP. Both the report and our response may be viewed on: www.bp.com/caspian and www.caspsea.com.

The Azerbaijan Social Review Commission (ASRC)

- In early 2007, the ASRC was set up as a new independent advisory group designed to help the company recognize trends, challenges and longer-term issues relevant to our social performance in Azerbaijan.

General public

- We held open meetings in Baku and Neftchala to inform the public about the next phase of exploration activities for the Inam offshore field.
- We continue to maintain and constantly update our external website: www.bp.com/caspian.
- We issued five 'BP in Azerbaijan' and one 'BP in the Region' TV programmes that were aired on a local channel to



keep the people of Azerbaijan informed about the progress of BP-operated oil and gas projects and the role our company is playing in the region.

1.4 Our projects and operations

2007 was marked by a number of achievements in our operations including increased production at Azeri-Chirag-Deepwater Gunashli oil field, a significant exploration discovery at Shah Deniz (SD) gas field and the successful completion of Sangachal terminal expansion programme.

Azeri-Chirag-Deepwater Gunashli (ACG)

Summary ACG is the largest oil field under development in the Azerbaijan sector of the Caspian basin. Lying about 100 km east of Baku, it is operated by BP on behalf of the Azerbaijan International Operating Company (AIOC).

Production began in 1997 from the Chirag field. Phases 1 and 2 saw development of the Central, West and East Azeri complex. Phase 3 - Deepwater Gunashli - will follow and full scale ACG operations will start in the second quarter of 2008. By 2009

we anticipate daily ACG production of around one million barrels of oil.

Milestones of 2007 ACG production averaged around 668,000 barrels of oil per day (bopd) against a plan of 708,000 bopd. This reflected lower output at three wells in Chirag due to unexpected water and sand production at those wells and a higher than predicted gas-to-oil ratio at East Azeri.

The 668,000 barrels of oil p/d was made up of approximately 129,000 barrels from Chirag, 244,000 barrels from Central Azeri, 171,000 barrels from West Azeri and 124,000 barrels from East Azeri. Between 1997-2007 inclusive around

792 million barrels of oil (about 107 million tonnes) have been produced from the ACG field (see 'ACG production' table).

In 2007, we also delivered about 2.4 billion standard cubic metres of ACG associated gas to SOCAR which was almost twice as much as planned.

As part of our construction activities we undertook a major ACG shutdown in September 2007. The shutdown was completed successfully without any incident or injury.

Over the course of the year we spent \$445 million in operating expenditure and \$2,822 million in capital expenditure on the ACG complex.

ACG production

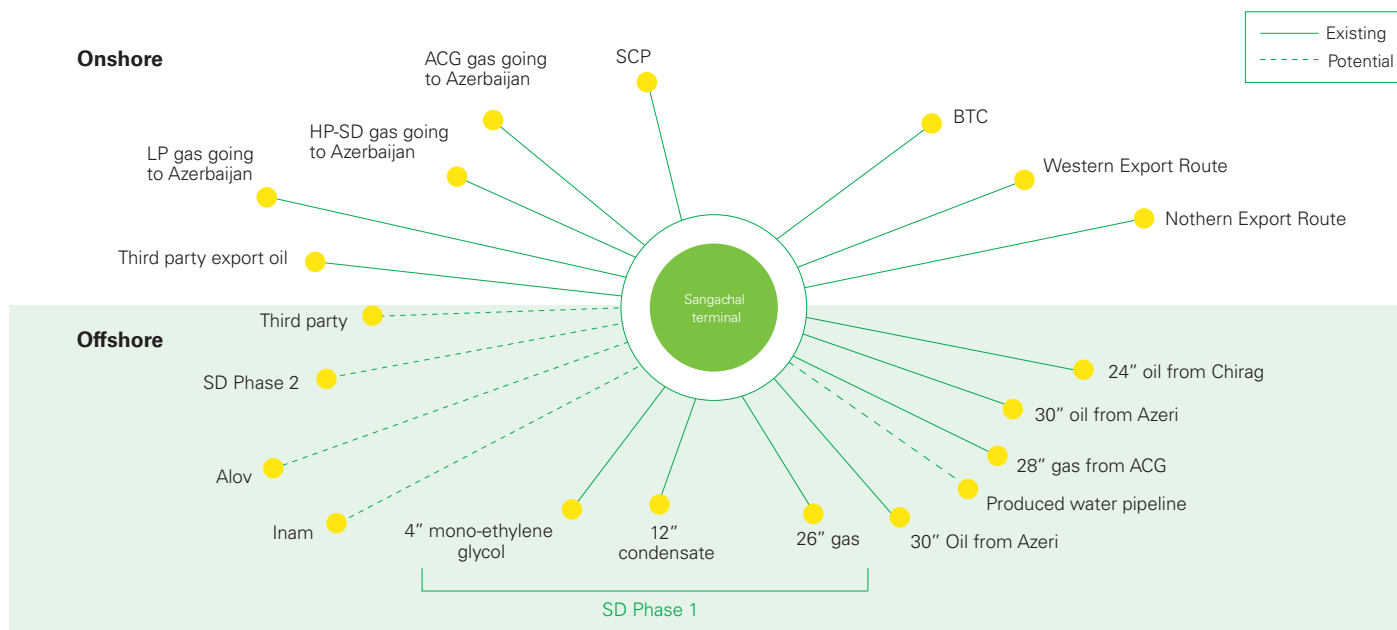
	Start of production	Unit of measurement	Oil produced from the start of production to the end of 2007	2007 actual production	2008 planned production
Chirag	November 1997	mln. bbl	429.15	47.13	49.16
		mln. te	57.8	6.35	6.62
Central Azeri	February 2005	mln. bbl	216.13	89.13	89.13
		mln. te	29.1	12.01	12.01
West Azeri	December 2005	mln. bbl	97.6	62.53	86.12
		mln. te	13.1	8.42	11.60
East Azeri	November 2006	mln. bbl	49.4	45.18	52.86
		mln. te	6.7	6.09	7.12
DWG	April 2008	mln. bbl			30.31
		mln. te			4.13

Outlook for 2008 We plan to produce an average of 840,000 barrels p/d for the full year from the four existing platforms and the newly-installed Deepwater Gunashli (DWG) platform. Of this, 134,000 barrels p/d is expected from Chirag, 243,500 barrels p/d from Central Azeri, 235,300 barrels p/d from West Azeri, 144,400 barrels p/d from East Azeri and 82,800 barrels p/d from DWG.

In 2008, we plan to continue delivering associated gas from ACG to SOCAR.

Over the course of the year we plan to spend more than \$600 million in operating expenditure and around \$2,000 million in capital expenditure.

A strategic hub for all BP operated assets in the Caspian



Further potential The potential ultimate recovery at ACG is estimated to be in excess of 5 billion barrels of oil. Realisation of this resource recovery will require us to apply sophisticated reservoir management techniques, the use of advanced seismic data analysis, and high functionality drilling and completion technologies. Our experience around the world, combined with reservoir information gained during ACG development, gives us confidence that we can achieve this potential.

Shah Deniz (SD)

Summary The Shah Deniz natural gas field was discovered in 1999. It is located 70km offshore Azerbaijan beneath water depths ranging from 50 to 600 metres. A geologically-complex structure with multiple reservoir 'horizons,' it is a highly

pressured field 22km long with reservoir thickness in excess of 1,000 metres. BP is the operating company for SD.

Milestones of 2007 During the year we produced 3.1 bcma of gas against the planned 2.8 bcma and 0.8 mmtpa of condensate. This higher than planned output was due to improved well performance and enhanced efficiency. Sales of SD gas began in February and first SD gas reached Turkey in July.

A fourth appraisal well - SDX-04 - was drilled to a Caspian-record depth of more than 7,300 metres. The drilling confirmed SD gas accumulation extends to the south west. It also discovered a new high pressure reservoir in a deeper structure below the currently producing reservoir - potentially a significant find. Results

from the well data analysis subsequently showed there is sufficient gas at SD to warrant second stage development.

In total, in 2007, we spent \$170 million in operating expenditures and \$364 million in capital expenditures on SD development.

Outlook for 2008 In 2008, we plan to continue appraisal activities at Shah Deniz by drilling a further appraisal well. Operating expenditure will be around \$120 million and capital expenditure around \$500 million. It is likely that 7.7 bcma of gas will be produced, and 1.9 mmtpa (around 16 mmbbl) of condensate.

Further potential We anticipate that plateau production from Stage 1 of SD will be 8.6 billion cubic metres of gas per year and approximately 45,000 barrels of condensate p/d. Total gas recovery of around 6.5 Tscf (approximately 180 bcm) is expected from the Stage 1 development.

Stage 2 development will focus on the remaining resource potential in the currently producing reservoir intervals. Estimations of gas initially in place^a in the Shah Deniz field are 1 Tcm.

SD production

	Start of production	Unit of measurement	Gas produced from the start of production to the end of 2007	2007 actual production	2008 planned production
SD gas	Production started Nov 24, 2006	bscm	3.255	3.14	7.68
		bncm	3.03	3.0	8.2
		boed	52.5	52.4	127.8
SD condensate	First gas delivery Dec 15, 2006	mln. bbl	7.04	7.04	16.3
		mln. te	0.8	0.8	1.9

^a Gas initially in place - is the 100% volume in the reservoir and indicates gas reservoir size unlimited by technology required to exploit.

Key Sangachal facts

- Area: 542 hectares.
- Location: 55 km south of Baku in Garadagh district.
- Processing capacity: in excess of 1.2 million barrels of oil (162,000 tonnes) and 1.25 bcf/day (0.9 Shah Deniz and 0.35 DPCU) of gas.
- Storage capacity: 3 million barrels (405,000 tonnes).
- Operator: BP Azerbaijan SPU.



Sangachal terminal (ST)

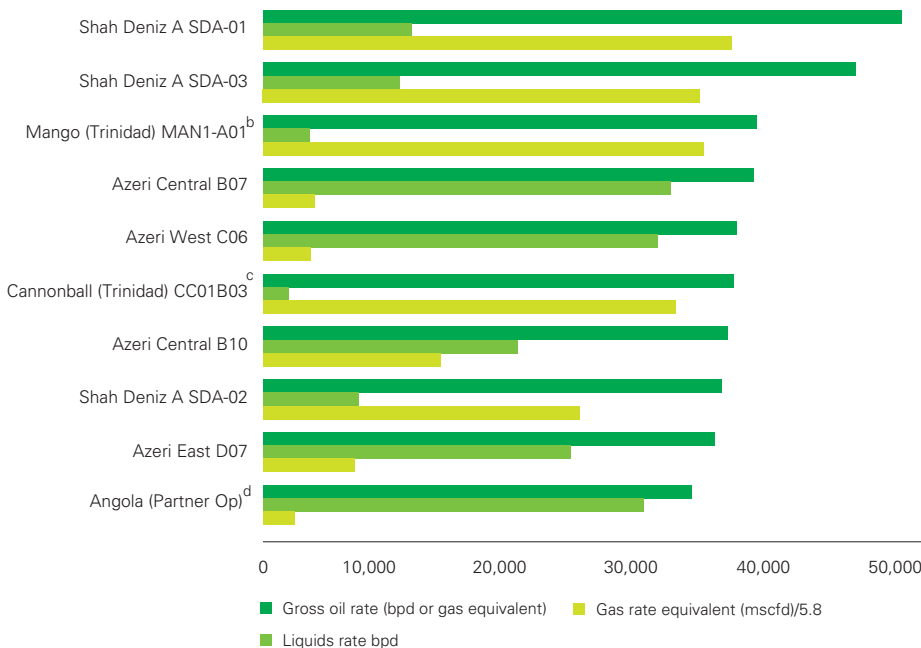
Summary Sangachal terminal is a processing hub terminal where hydrocarbons from offshore Caspian are processed before export. It is designed to treat production from all BP's operated assets in the Caspian and to allow future expansion. It includes oil and gas processing facilities, the BTC pipeline's first pump station and the SCP compressor. Third party pipelines are linked to its operations.

Sangachal is a combined terminal where each element can be operated independently. Core utilities are shared and were built by a single management team (the Sangachal terminal expansion project - STEP) and by a single main contractor, Tekfen-Azfen Alliance, which included Tekfen from Turkey and the SOCAR-established joint venture Azfen. By building a combined terminal large cost savings have been made by all the projects.

Milestones of 2007 Commissioning of Trains 5 and 6 for ACG Phase 3 was completed in October, and the facilities were handed over to operations. This marked the successful completion of STEP allowing the terminal's total oil

In 2007 three of BP's top 10 gross producing wells worldwide were in the SD field and four in the ACG field.

BP's top 10 gross hydrocarbon producers, December 2007^a



^a This graph does not include the Australian Woodside wells as no data is currently available.

^b Mango gas field is located in Trinidad and operated by BP.

^c Cannonball gas field is located in Trinidad and operated by BP.

^d Oil fields in Angola are partner-operated.



Pipeline inspection gauges protect the BTC pipeline

A pipeline inspection gauge (PIG) is a special tool used to inspect the internal conditions of a pipeline, capture and record the geometry and reveal any corrosion information related to the pipelines. This information is then downloaded to a computer when the PIG is removed from the pipe to enable engineers to 'see' inside the line. This process is known as Intelligent Pigging (IP).

Starting from the Sangachal terminal and going all the way to the Ceyhan terminal in Turkey, the BTC pipeline is divided into 11 pigging stages. Two types of IPs are currently in use - a Geometry Pig (GP) and a Corrosion Detection Pig (CDP). The GP detects mechanical changes, such as dents (even minor ones), in the pipe's diameter and records the location of each defect along the pipe. Later, this information is cross-referenced with the

initial (as built) weld data to make sure that the welds on the pipe have not deteriorated. The CDP can detect any minor metal loss on the pipe including both internal and/or external corrosion of the metal. CDP can also help pinpoint illegal taps into the pipe. Due to variations in the diameter of the pipe, different-sized pigs are used in different sectors although they all record similar data.

The first IP began on BTC in April 2007 and will be repeated every five years, or more often, should circumstances require.

processing capacity to rise to over one million barrels of oil per day. In 2007, the highest daily export rate achieved was 991,276 barrels of oil on December 21st.

Late in the year we commissioned an interim produced water project at the terminal. We expect to use this facility until the main produced water facilities are commissioned by the end of 2008.

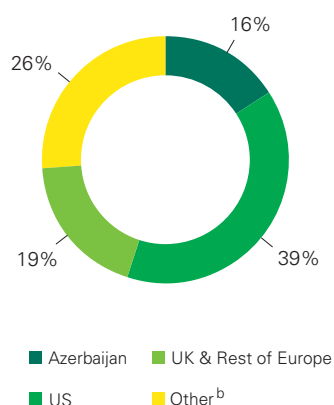
Outlook for 2008 Construction work at the terminal in 2008 will focus on the main produced water facilities. We hope to start up the new facilities during the fourth quarter of 2008. Other developments planned for 2008 at the terminal include work associated with a seventh oil heater and a new dew point control unit (DPCU). These are major installations to process oil (oil heater) and associated gas (DPCU).

Outlook for 2008 In 2008, we plan to spend \$87 million in capital expenditures for BTC.

South Caucasus gas pipeline (SCP)

Summary SCP is a 690 km pipeline to the Georgia/Turkish border through which gas from SD is delivered to the Georgian and Turkish markets.

2007 BP group net share of liquids production^a



^a Total 2007 BP group net share of liquids production 1,304 thousand barrels per day (excluding equity accounted entities) includes crude oil, NGL and condensate.

^b Includes Angola, Australia, Canada, Colombia, Egypt, Trinidad&Tobago, Venezuela and others.

Baku-Tbilisi-Ceyhan (BTC) pipeline

Summary A 1,768 km pipeline across three countries (Azerbaijan 443km, Georgia 249km, Turkey 1,076km), BTC links Sangachal terminal on the shore of the Caspian Sea to Ceyhan on the Turkish Mediterranean coast. It carries both oil from ACG and condensate from SD. At Ceyhan product is loaded on tankers and shipped to world markets.

Milestones of 2007 In March 2007, the one million bpd design capacity of the pipeline was commissioned. During the year, BTC's average throughput was 600 mbd. On occasion the pipeline reached its design capacity. We spent \$154 million in capital expenditure on BTC during 2007.



At the end of 2007, BTC had

- Capacity equal to 1 million bpd.
- Average throughput equal to approximately 600 mbd.

For further key facts on BTC refer to page 20 of the 2006 BP in Azerbaijan Sustainability Report.

At actual 2007 prices, Azerbaijan was the seventh highest BP net producing SPU (excluding production from TNK-BP). We anticipate that ACG full field development will result in the production of about one million barrels of oil per day by 2009.

BP was responsible for construction of the pipeline and is its technical operator.

Milestones of 2007 At the end of 2007, SCP's capacity was equal to 8.06 bcma. During the year, the average throughput of SCP was equal to 8.970 mmscm/d. This includes associated low pressure Azeri gas provided to SOCAR. In 2007, the maximum single day delivery was 21,645 mmscm/d and was reached in December. We spent \$64 million in capital expenditure on SCP during the year.

Outlook We expect to spend \$35 million in capital expenditure for SCP in 2008. With substantial new investment we believe the capacity of SCP can be expanded to 20 bcma.

At the end of 2007, SCP had:

- Capacity equal to 8.06 bcma.
- Average throughput equal to 8.970 mmscm/d.
- Throughput at peak equal to 21.645 mmscm/d.

For further key facts on SCP refer to page 21 of the 2006 BP in Azerbaijan Sustainability Report.

Western route export pipeline (WREP)

Summary The WREP was constructed in 1998 along an existing pipeline route that carried oil from the Caspian Sea to Supsa on the Georgian Black Sea coast.

Throughout 2007 WREP was shutdown to permit an extensive repair and replacement work to take place. The programme included section replacements in Georgia (Zestaphoni re-route) and Azerbaijan (Kura river, West crossing). The work was completed in the first quarter of 2008. During the shutdown we used other routes to deliver oil to world markets, so ensuring there was no impact on demand or ACG production.

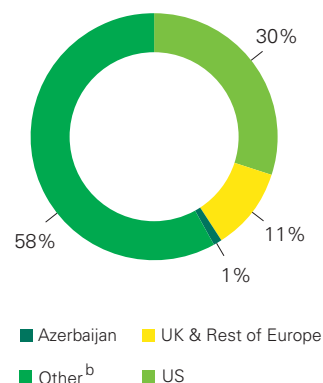
Outlook A full re-commissioning programme for WREP will be undertaken in 2008, once we are fully satisfied that it is safe to do so.

Northern route export pipeline (NREP)

Summary NREP carries Azerbaijani oil to the Russian port of Novorossiysk for

delivery to European markets. In 2007, its capacity was 115,000 barrels of oil p/d. During the year, AIOC was the operator from Sangachal to a metering station at Shirvanovka on the Russian border. In early 2008, SOCAR (State Oil Company of the Azerbaijan Republic) became operator.

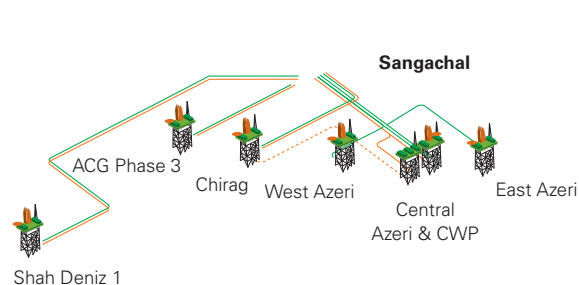
2007 BP group net share of gas production^a



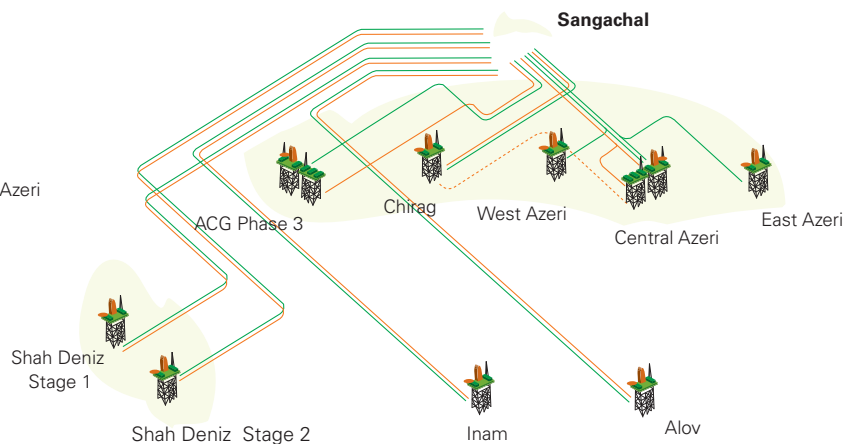
^a Total 2007 BP group net natural gas production - 7,222 million cubic feet per day (excluding equity accounted entities).

^b 'Other' includes Australia, Canada, China, Egypt, Indonesia, Sharjah, Trinidad & Tobago, other.

2007 BP Azerbaijan SPU offshore facilities



Potential future



Exploration

Summary We are committed to search for new, large hydrocarbon resources in the Caspian region that offer development potential.

Inam In 2007 the focus of our exploration activities was on the Inam PSA. In November, we started drilling activities on the INX-2 exploration well. The contract area covers 225 square kilometres about 140 km south of Baku. Water depths vary between 45 - 200 metres. 'Inam Bank' in the central part of the area has a minimum water depth of four metres.

Alov, Araz, Sharg Technical studies and sub-surface evaluation continued in 2007. However, the BP group has no plans for on-site work in the Alov contract area until Caspian littoral states reach an agreement on offshore demarcation of the sea.

Other business

Integrated Supply and Trading (IST) BP Azerbaijan SPU markets its equity crude oil through BP's Integrated Supply and Trading (IST) group based in London. It is one of the world's largest energy traders with substantial scale and geographic spread.

BP lubricants in Azerbaijan Petrochem group is an official supplier of lubricant products, including BP and Castrol brands, for all BP projects in Azerbaijan. In 2007, approximately 2.175 million liters of lubricants were delivered to BP and its contractors in Azerbaijan. In addition, BP/Castrol lubricants were supplied to most oilfield services contractors active in Azerbaijan.

BP Azerbaijan SPU interests

PSA/HGA	Operating company	Corresponding BP legal entity
ACG	Azerbaijan International Operating Company (AIOC)	BP Exploration (Caspian Sea) Limited / Amoco Caspian Sea Petroleum Limited
BTC	Baku-Tbilisi-Ceyhan Pipeline Company	BP Pipelines (BTC) Limited
SD	BP Exploration Shah Deniz Limited	BP Exploration (Azerbaijan) Limited
SCP	South Caucasus Pipeline Company Limited	BP Pipelines (SCP) Limited
Inam	BP Amoco Exploration (Inam) Limited	Amoco Inam Petroleum Company
Alov	BP Exploration (Alov) Limited	BP Exploration (Azerbaijan) Limited

1.5 Operating responsibly

During 2007, we integrated most of our operational facilities in Azerbaijan into a single health, safety, security, environmental and social (HSSE&S) management system. Compliance auditing was conducted at several sites.

HSSE&S management system and associated programmes

We made progress towards the BP group goal of industry leadership in process safety management.

HSSE&S management system Since the signing of the ACG production sharing agreement in 1994, the size and diversity of BP's operations in Azerbaijan have

increased rapidly. In line with this growth, our management systems have also developed and adapted.

In 2005 we began to replace the existing environmental management system (established for the Early Oil Project phase of the ACG development) with a new integrated HSSE&S management system. The new system is based on a multi-level tier system of procedures reflecting the organizational structure of the BP Azerbaijan SPU. Its main objective is

to compile, document and implement processes that support the SPU to consistently manage HSSE&S risks and opportunities and deliver legislative compliance, together with any BP group requirements.

In the longer term the current management system will need to evolve to take into consideration the newly developed Operating Management System (OMS) expectations that will apply to all BP operations.

The change from separate asset management systems to an integrated HSSE&S management system has taken place as the separate assets move from project stage to operation.

By the end of 2007, the following operational facilities in Azerbaijan had integrated into the HSSE&S management system and achieved ISO 14001 certification (the leading international standard on environmental management):

- Sangachal terminal - early oil project, Phase 1 and 2 expansions and Shah Deniz.
- NREP, WREP and Supsa.
- Offshore facilities - Chirag 1, Central Azeri and C&WP, East Azeri, West Azeri and Shah Deniz alpha platforms.
- Support facilities - logistics and Serenja hazardous waste management facility.

BP Azerbaijan SPU HSSE&S management system tier structure

Level	Business unit	Description
Tier 1	BP corporate, SPU, regional, head of country	Key BP group policy, standards and regulations which govern the AzSPU activities
Tier 2	Strategic performance unit	Key AzSPU policy, standards and regulation elements which govern the AzSPU activities
Tier 3	Performance unit	Management plans and processes under AzSPU MS manual, common procedures
Tier 4	Assets/sites	Assets/site specific working documentation and operational controls
Tier 5	Facilities or country	Facilities/country specific working documentation and operational controls



Safety and operations integrity audit

In August 2007, an audit was carried out of our offshore and onshore performance units, as part of the BP group's 2007 safety and operations integrity audit. These audits are an integral part of the Six Point Plan. A total of 21 auditors were involved. The majority came from oil and chemical companies (although the team did include an astronaut and a nuclear engineer). Half of them were external to the BP group.

Teams visited the West Azeri platform, Chirag platform, Sangachal terminal, and the offshore supply base and waste treatment storage area. Lead auditor Colin Logan praised the SPU's overall performance and stressed the good organisation of maintenance work processes, emergency response procedures, safety management and effective communications. He concluded that

the SPU is a 'well operated and managed asset.'

Subsequently all the audit findings were shared with our onshore and offshore teams and corrective action plans developed, along with deadlines for completion. Verification auditors will return to Baku to check on progress during 2008.

Effective implementation of the HSSE&S MS is verified through regular inspections, reviews and audits. Corrective action is taken where necessary and subsequently reviewed for effectiveness.

In 2007, internal management system audits were carried out in April and August by BP employees, with external supervision. In addition, compliance auditing against HSSE legal requirements was carried out at selected sites. These audits provided valuable performance information prior to the subsequent external audits.

External ISO 14001 audits were carried out in May and November by Moody International Certification Group. Only one corrective action was identified (concerning inadequate documentation of the annual HSSE management review meeting). This was resolved during the November audit.

Compliance management BP businesses must comply with a variety of HSSE requirements including international treaties and conventions, national laws and regulations, lender agreements, industry commitments and BP standards. To help BP businesses reduce the risk of non-compliance and create an enhanced culture of integrity, a Global HSSE compliance framework (Project Emerald) was introduced in 2007. This details the minimum requirements for HSSE compliance

management processes to be used by BP businesses worldwide.

Gap analysis of existing BP Azerbaijan SPU compliance processes, outputs and controls was carried out during the year against the requirements of this framework. Results from the analysis have

since been used to improve our compliance processes and to identify the actions and resources required.

As part of this initiative, considerable work was carried out inputting data into a compliance task manager software tool. This database, which will be activated in

ISO 14001 certification table

Assets	Planned certification	Certified
WREP Az		2000
BTC Az	Planned for May 2008	-
SCP Az	Planned for May 2008	-
Sangachal terminal- EOP		2000
Sangachal terminal- ACG Phase 1		2005
Sangachal terminal- ACG Phase 2		2007
Sangachal terminal- ACG Phase 3	Planned for May 2009	-
Sangachal terminal- Shah Deniz		2007
Sangachal terminal- BTC / SCP	Planned for May 2008	-
WREP Georgia		2000
Supsa terminal		2000
BTC Georgia	Planned for May 2008	-
SCP Georgia	Planned for May 2008	-
Chirag 1 platform		2000
DWG	Planned for May 2009	-
CA /CWP		2005
WA Platform		2006
EA Platform		2007
Shah Deniz alpha platform		2007
Dada Gorgud drilling ops	Planned for November 2008	-
Istiglal drilling ops	Planned for November 2008	-
Logistics		2007
Serenja HWMF		2007
CWAAs	Planned for May 2009	

2008, will manage compliance tasks and will serve as the basis for monitoring compliance performance across the BP Azerbaijan SPU.

Six Point plan delivery In March 2007, we marked the two year anniversary of the Texas City refinery incident with two minutes of silence throughout BP offices. This provided an opportunity for all of us to reflect on safety and the responsibility that we have to ensure that lessons learned are implemented.

The BP Azerbaijan SPU remains fully committed to sustain the effort needed

to deliver our goal of industry leadership in process safety management. The main vehicle for this is implementation of the BP group's 'Six Point Plan' which applies across BP.

During 2007, the SPU made progress on each of the Six Points:

- Point 1 - deliver on post-Texas City recommendations. Soon after Texas City all trailers and temporary accommodations in close proximity to operational sites in Azerbaijan were removed, or otherwise controlled to prevent use. In 2005/2006, additional

requirements were introduced for occupied portable buildings (OPBs). In response to this, the BP Azerbaijan SPU completed a register of all such facilities and identified a small number of onshore OPBs (eight in Azerbaijan and Georgia) in high risk areas. These have since been removed, or unmanned and locked to prevent re-occupation. In addition, BP requested all SPUs categorise their cold atmospheric vents based on risk. In response to this, the BP Azerbaijan SPU cold vent register was updated and signed off. No high risk vents (according to BP group definitions) were identified as a result of this assessment.

- Point 2 - carry out major accident risk assessments. All outstanding high priority major accident risk actions were completed in Azerbaijan during the year including implementation of an integrated ship collision and traffic management plan by logistics.
- Point 3 - roll out Integrity Management (IM) and the Control of Work (CoW) standards. The BP Azerbaijan SPU CoW policy and CoW procedure were issued in 2007 to assist with implementation of the standard. Progress with the IM standard is discussed below.

A new HSSE policy statement

In March 2007, our HSSE policy statement, which all employees are required to comply with, was revised and formally re-issued.

The BP group's basic commitment of 'no accidents, no harm to people and no damage to the environment' remains in place and unchanged. However, the revised policy also includes a requirement to manage HSSE performance in line with newly developed BP group standards (e.g. integrity management standard, control of work standard) and practices (e.g. environmental requirements for new projects). The policy has also been expanded to incorporate the BP 'Six-Point-Plan'.

HSSE Policy is communicated to employees and contractors on an ongoing basis through training, staff and toolbox meetings, posters, videos and via the intranet of BP Azerbaijan SPU. The policy is available to the public and is posted at BP and contractor locations.



Safety leadership forum

In October 2007, a safety leadership forum was held in Baku. This is an annual event hosted by the BP Azerbaijan SPU where we, our contractors and partners join together to share experience and ideas and talk about achievements, progress, and issues in safety. The theme for 2007 was 'moving forward together.' About 140 people from 60 different companies participated in the event.

One of the highlights of the forum was a series of presentations on best practice and lessons learned given by the contractor community. Topics included control of work, golden rules of safety and management systems. The forum also put the spotlight on ways of measuring HSE performance with a new safety scorecard, developed by both contractor and BP representatives, presented to the audience.

- Point 4 - enhance processes for compliance with laws and regulations. As stated earlier, compliance task development is well underway with the compliance task manager tool scheduled for activation in 2008.
- Point 5 - close out past audit findings. All high and medium severity actions are regularly reviewed and resolved using the SPU action tracking system. In addition the Azerbaijan Leadership Team reviews actions on a monthly basis to ensure closure.
- Point 6 - build competency in safety. BP Azerbaijan SPU is currently in the process of conducting baseline competency assessments and creating development plans for key operational leaders.

Integrity management At the start of 2006, the BP group issued a new Integrity management (IM) standard. All operational facilities of BP in Azerbaijan now have a three year rolling IM plan in place and are expected to be in full compliance with the BP group standard by the end of 2008.

In order to measure the effectiveness of our IM plans, a number of different key performance indicators were monitored throughout 2007. These

included incidents/releases, inspection management, maintenance management and corrosion and chemical management. In parallel with this monitoring, the BP Azerbaijan SPU established an incident investigation and learning network with the aim of reducing the number, severity and likelihood of future incidents by analyzing the causes and sharing findings across the organisation.

In the field, the SPU began the first baseline inspection of the entire length of the 1,768 km BTC pipeline during 2007, in accordance with BP engineering technical practices. Inspection of the pipeline through Azerbaijan was completed successfully, with analysis of the results ongoing. Inspection of the SCP gas line is also underway.

IM awareness campaigns were conducted throughout 2007 and IM-related presentations and a discussion took place at the regional conference HSE forum in January and the SPU operations conference in May.

Contractor management The health, safety and environmental performance of our major contractors is evaluated regularly through inspection and audit of contractor sites and facilities, monthly meetings with contractor management and quarterly

and annual performance reviews.

In 2007, audits were carried out at a number of contractor-run facilities including waste treatment, recycling, storage and disposal sites (as well as waste transportation), chemical storage yards, environmental laboratories, residences and offices.

In October, we held a safety leadership forum attended by our major contractor companies to provide an opportunity for knowledge transfer. In addition, a number of contractor assurance documents were prepared including one describing the minimum obligations of contractors with respect to SPU HSE expectations and principles and a contractor HSE auditing procedure.

Safety

Summary We made a major effort in 2007 to embed the principles of the BP group's Six Point plan in our activities. As part of this drive, our safety specialists conducted rigorous investigations into the root causes of incidents and the potential for incidents in different areas of the business.

Milestones of 2007 There were no fatalities in 2007 at any of our facilities in Azerbaijan.

One of the main contributory factors was the close attention paid to 'lessons learned' from an incident in 2006 when a contractor-welder died during construction activities at Sangachal terminal. Specific follow-up actions were taken which, we believe, paid off.

Our safety culture is based on continuously assessing risks of injury or incident from our activities and mitigating to acceptable levels. In 2007, we experienced a small increase in high potential incidents compared to 2006. We believe this rise is an indication of the increased focus on reporting and investigation of all incidents, particularly high potential incidents and near misses. In addition SPU activities are shifting from project phase to operation phase with consequent changes to risk profiles.

Safety training and awareness In 2007, 148,105 hours of HSSE and operations training were undertaken by BP and contractor staff in Azerbaijan and Georgia. Courses included basic fire fighting, emergency response, oil spill response/

awareness, offshore training, incident investigation, hazardous materials, control of work, Safety Observations and Conversations (SOCs), waste management, first aid, and induction training.

A large proportion of HSSE training was conducted in-house. This accounts for the large increase in training man hours, with only an associated small increase in training expenditure.

Monthly safety training sessions were held covering different safety topics including cold stress, driving safety, manual handling, office and home safety, behavioural conversations at work sites, risk assessment and hazard prevention,

BP Azerbaijan SPU HSSE safety training courses in Azerbaijan and Georgia^a

	Man hours	USD
2006	43,786	5,994,675
2007	148,105	6,884,812

^a As in 2006 the totals include HSSE and operations training. Information cannot be presented for Azerbaijan only as the system data was collected from BP Azerbaijan SPU as one site.

2007 safety highlights

- No fatalities.
- DAFWCs: WREP achieved eight years without a DAFWC, Istiglal rig achieved over four years without a DAFWC, and Sangachal terminal achieved three and a half years without a DAFWC.
- Professional drivers from BP in Azerbaijan took part in the BP International Driving Championship, Regional Championship in Dubai, where they won four prizes. Two of the representatives went on to participate in the grand finals in the United States in October.

emergency preparedness, electrical safety, ergonomics and human fatigue, substance abuse and winter driving.

Analysis of safety accident statistics in 2006 showed that hands and fingers were the most frequently injured parts

BP Azerbaijan SPU 2005-2007 safety performance^a

	Actual 2005	Actual 2006	Actual 2007	Target 2008
Fatalities ^b	2	1	0	0
HiPO(f) ^c	0.005	0.03	0.05	0.05
DAFWC(f) ^d	0.01	0.03	0.04	0.05
RI(f) ^e	0.33	0.25	0.31	0.33
TVAR ^f	0.49	0.71	1.29	1.2
ASA(f)/SOC(f) ^g	937	983	934	600
STOP(f) ^h	3,659	5,923	4,574	3,000
Safety training(f) ⁱ	4,537	6,241	5,601	4,000
Kilometres driven (millions)	59.24	46.46	39.65	n/a
Hours worked (millions)	44.09	31.18	26.29	n/a

2006-2007 safety performance of BP in Azerbaijan

	2006	2007
Fatalities ^b	1	0
HiPO (f) ^c	0.04	0.06
DAFWC(f) ^d	0.02	0.05
RI(f) ^e	0.32	0.35
TVAR ^f	0.99	1.54
ASA(f)/SOC(f) ^g	988	998
STOP (f) ^h	6,255	4,200
Safety training (f) ⁱ	5,740	5,485
Kilometres driven (millions)	28.28	27.96
Hours worked (millions)	21.83	21.66

^a The table shows information for BP Azerbaijan SPU. It does not include project-only data and it includes BP recordable/control sphere figures.

BP's injury and illness definitions are the U.S. Occupational Health and Safety Administration (OSHA) definitions and their subsequent interpretation.

^b Reported fatality figures do not include project-only work.

^c HiPO is an abbreviation for High Potential incident.

^d Days Away from Work Case (DAFWC) is 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 the person is unfit to perform any duties. DAFWC frequency (DAFWC(f)) is expressed as the number of reported 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. DAFWC(f) is based on two DAFWC in 2005, five in 2006 and five in 2007.

^e Recordable injury (RI) is the number of all reported work-related injuries above first aid, that is medical treatment, restricted work/job transfer, days away from work case and fatality. The RI frequency (RI(f)) is expressed as the number of reported recordable injuries per 200,000 hours worked. There was a slight rise in the RI(f) from 2006. This was the result of a large drop in project hours worked and a similar number of RIs in 2007 compared to 2006 due to a change to operational activity associated with the impact of commissioning plant and increase in marine related works.

^f Total Vehicle Accident Rate (TVAR) is the number of reported road accidents per million vehicle kilometres travelled.

^g The Advanced Safety Audit (ASA) / Safety Observations and Conversations (SOC) frequencies are based on the number of reported ASAs / SOC's per 200,000 labour hours.

^h Safety Training Observations Programme (STOP) frequencies are based on the number of reported STOP observations per 200,000 labour hours.

ⁱ Safety training frequency is the number of safety training hours taken by employees per 200,000 labour hours.

of the body. Based on this information, an SPU hand protection awareness workshop was held in June 2007, in order to increase hazard awareness and knowledge on the subject. Following the workshop, all information was communicated across the workforce, including contractors.

Driving safety A number of new driving safety initiatives were implemented in 2007. Among them, the BP Azerbaijan SPU driving training school, located close to Sangachal terminal, became fully operational. An updated training package for SPU drivers was implemented and the SPU seat belt campaign continued. More than 1,000 employees and contractors attended sessions at different BP facilities where the effects of controlled vehicle collisions were demonstrated.

A number of contractor driving audits were carried out in 2006 and 2007 and the results were used to compile a driving gap analysis outlining the root cause of driving incidents. This has led to proposed additional driver training and required reporting procedures/processes (including a driving disciplinary code).

Despite this all-round focus, BP's total vehicle accident rate in Azerbaijan rose 55% from 0.99 in 2006 to 1.54 in 2007. This was largely due to the increase in traffic on Azerbaijan's roads and the fact that heavy goods vehicles had been allowed access to Baku city for construction purposes. Even more rigorous efforts will be required to reinforce driving safety in 2008.

Environment

Summary In 2007, our flaring totals significantly reduced. We continued with our proactive environmental monitoring programme. Sewage treatment on our offshore platforms remained an issue.

Greenhouse gases Total net greenhouse gas (GHG) emissions by the BP Azerbaijan SPU increased 18.9% in 2007 to 729 kte (from 613 kte in 2006). However, our normalised operational GHG emissions

(emissions released for every thousand barrels of oil and gas produced) fell 24% from 11.8 te/mboe in 2006 to 8.97 te/mboe in 2007.

The main sources of increased GHG emissions were:

- Sangachal terminal: This was due to the Shah Deniz portion of the terminal becoming operational

at the end of 2006 and increased offshore oil and gas production.

- Azeri offshore platforms: This reflected East Azeri becoming operational at the end of 2006, as well as a planned shutdown of this facility in September with associated flaring, and increased fuel gas use at Central Azeri to power the additional platform.

BP Azerbaijan SPU GHG emissions in Azerbaijan (net)

Azerbaijan only	Actual 2006	Actual 2007 (old assumptions)	Actual 2007 (new assumptions) ^a
Operational net GHG emissions kte/pa	612.67	729.06	634.64
Normalised operational GHG emissions te/mboe	11.8	8.97	7.99

^a Please note that as of 3Q 2007 methodology for calculating net GHG emissions changed. Prior to this it was based on participating interest. Now it is based on production entitlement share. Calculation methodology for predrill, renewals, export pipelines and terminal remained the same.

BP Azerbaijan SPU net GHG emissions 2006-2007 per asset in Azerbaijan (kte)

	2006	2007 (old assumptions)	2007 (new assumptions) ^a
ACG predrill	3.2	4.0	4.0
ACG Sangachal terminal	142.0	180.6	180.6
Shah Deniz Sangachal terminal	n/a	67.1	67.1
Shah Deniz OPS offshore	11.4	16.9	14.7
Shah Deniz exploration drilling	n/a	4.6	4.6
Azeri offshore	250.2	357.6	278.7
BTC Azerbaijan	2.4	13.7	13.7
Chirag	196.7	83.0	69.6
Inam	0	0.5	0.5
NREP	0.08	0.12	0.12
SCP Azerbaijan	0.08	0.02	0.02
WREP Azerbaijan	6.6	0.9	0.9

^a Please note that as of 3Q 2007 methodology for calculating net GHG emissions changed. Prior to this it was based on participating interest. Now it is based on production entitlement share. Calculation methodology for predrill, renewals, export pipelines and terminal remained the same.

BP Azerbaijan SPU direct CO2 emissions in Azerbaijan

	2006	2007 (old assumptions)	2007 (new assumptions) ^a
Direct carbon dioxide (100%) (kte)	1,686.5	1,980.1	1,980.1
Net direct carbon dioxide (kte)	571.8	650.1	582.8

^a Please note that as of 3Q 2007 methodology for calculating net of direct CO2 emissions changed. Prior to this it was based on participating interest. Now it is based on production entitlement share. Calculation methodology for predrill, renewals, export pipelines and terminal remained the same.

BP Azerbaijan SPU non-GHG emissions - SOx and NOx in Azerbaijan

	2006	2007 (old assumptions)	2007 (new assumptions) ^a
Oxides of sulphur (SOx) (te)	237	249	795
Oxides of nitrogen (NOx) (te)	3,711	3,953	3,786

^a Please note that as of 3Q 2007 methodology for calculating SOx and NOx emissions changed and they now are calculated using new emission factors that reflect usage of actual field data rather than guideline assumptions.

- BTC Pipeline: Resulting from operational ramp up and commissioning of Pump Station 2 (PSA2).

Flaring In 2007, 281 kte of hydrocarbon were flared by BP in Azerbaijan, a 15.6% reduction in comparison to 2006.

Flaring minimization measures implemented in mid-2006 at Chirag platform proved successful. A subsea gas export pipeline now links Chirag to the Central

Azeri C&WP allowing an average of 2.3 kte of gas per day to be routed to the C&WP for injection and export, thus reducing the Chirag flare to minimum operational rates.

Chirag is now in line with the BP group policy of no routine flaring for production, while simultaneously allowing for enhanced reservoir recovery in the ACG field.

Chirag also maintained its export route to the Oil Rocks gas terminal providing additional gas supplies to Azerbaijan

Energy consumption Consumption of fuel gas increased by 154 kte (54.1%) in 2007 while consumption of diesel decreased by 5.6 kte (23.1%). New operating facilities such as the Shah Deniz portion of Sangachal terminal and the offshore East Azeri platform were the main factors behind the increase in fuel gas consumption. Diesel use fell slightly due to the temporary closure of the WREP.

Hydrocarbon spills In 2007, the SPU recorded 71 hydrocarbon spills, compared with 41 in 2006. Of these, five spills were greater than one barrel, compared to six in 2006. Thorough spill clean-ups were carried out, where appropriate, and actions taken to prevent reoccurrence. Out of 4,534 litres of product spilled in 2007 about 74% (3,342 litres) were recovered.

Detailed internal and external processes are in place for reporting hydrocarbon spills in Azerbaijan. All spills are reported to the Ministry of Ecology and Natural Resources (MENR) and the State Oil Company of the Azerbaijan Republic (SOCAR). Any BTC spills are also reported to the BTC Lender Group.

Discharges to water - drill cuttings In 2007, 23,995 tonnes of drilling cuttings and

BP Azerbaijan SPU flaring 2005-2007 in Azerbaijan (net by asset)

Flaring (kte)	2005	2006	2007
Azeri asset	94.5	140.1	124.3 ^a
Chirag	260.4	151.4	44.2
Sangachal terminal (ACG)	93.3	36	51.6
Sangachal terminal (SD)	0	0	58.5
Shah Deniz	0	5.1 ^b	2.3 ^c
BP in Azerbaijan	448.2	332.6	280.9

^a Includes ACG predrill, ^b Upstream, ^c Exploration drilling.

BP Azerbaijan SPU energy consumption 2006-2007 in Azerbaijan

	2006	2007
Fuel gas (kte)	284.2	438.0
Diesel (kte)	24.2	18.6
Electricity import (MWh)	5.5	4.8



Sumgayit non-hazardous waste landfill

In September 2006, we began construction of a BP-exclusive non-hazardous solid waste landfill at Sumgayit. Design and construction was carried out by a local company, Tehlukheli Tullantilar LLC, who engaged the technical expertise of an experienced international contractor, Containment Quality Associates, to provide supervision and training.

The resulting facility, which comprises a landfill cell with a capacity of 54,000 cubic metres, a waste handling pad, a weighbridge and a wheel wash area, is fully compliant with European Union standards.

The landfill cell has a composite liner system of compacted clay, a high density polyethylene geomembrane and a geotextile liner. There is also a network of pipes on the cell floor to collect any resulting leachate (liquid produced as part of the natural decomposition process in landfills). Gas vent installation, for the collection of landfill gas, is planned for the future.

produced as part of the natural decomposition process in landfills). Gas vent installation, for the collection of landfill gas, is planned for the future.

Construction of the site was completed in the summer of 2007 and the first trial waste delivery took place in November. We expect the landfill site to be fully operational in 2008, and be sufficient for BP needs in Azerbaijan for the following five years.

associated fluids (adhered drill mud) were discharged to the Caspian Sea. This represents a 52% increase compared to 2006 reflecting increased drilling activity on Chirag platform (total drilled interval of 13,931m in 2007 compared to 3,873m in 2006).

BP in Azerbaijan uses both water based mud (WBM) and synthetic based mud (SBM) for its drilling operations. More than half (56%) of our drill cuttings discharged in 2007 contained low toxicity WBM - the most commonly used drilling mud in the world. The remaining 44% contained SBMs which were released solely from the Chirag platform. These discharges are in compliance with the ACG PSA and the early oil project environmental impact assessment requirements.

In the third quarter of 2007, a cuttings dryer was installed on Chirag platform. An indirect benefit of this system is a reduction in the total amount of SBM required for the drilling operations. Chirag personnel are currently working on understanding and optimising performance of the system. Drilling of wells since the introduction of the cuttings dryer indicate an SBM recovery rate ranging from 18-76%.

Waste management Our aim is to manage hazardous and non-hazardous wastes in Azerbaijan in line with BP group policies and international best practices, consistent with the availability of local infrastructure. We aspire in the long term to comply with European Union standards and this will be implemented, wherever possible, based on

the best practicable environmental option.

In 2007, we recorded a total of 48,663 tonnes of waste from our operations - 40,713 tonnes of hazardous waste, and 7,950 tonnes of non-hazardous waste. In addition, a total of 88,947 tonnes of sewage waste and 84,970 tonnes of produced water were generated.

Approximately 50% of the non-hazardous waste generated was recycled, or reused. The remainder of the waste (hazardous and non-hazardous) was either:

- treated and disposed through properly assessed and accepted routes;
- temporarily stored at Serenja Hazardous Waste Management Facility (HWMF); or
- landfilled in a BP dedicated cell operated by Azerbaijan Deutschland Ecological Service (ADES) Azerbaijan - Germany JV.

Central Waste Accumulation Areas (CWAAs) continued to operate under contract to BP at Sangachal terminal and at the SPS yard. All wastes from offshore activities are received by the SPS facility (with the exception of drill cuttings).

Waste generated by the various pipelines and Sangachal terminal are managed at Sangachal CWAAs.

Serenja HWMF, the operational cornerstone for the SPU's drill cutting treatment and interim hazardous waste storage, attained ISO 14001 certification of the

BP Azerbaijan SPU drill cuttings discharged to water in Azerbaijan

Asset / Facility	Drill cuttings with WBM discharged to water, te 2007	Drill cuttings with SBM discharged to water, te 2007	Total drill cuttings discharged to water, te 2007
Chirag	0	6,811	6,811
Azeri offshore	3,750	0	3,750
ACG predrill	11,812	0	11,812
Shah Deniz exploration drilling	737	0	737
Inam exploration drilling	885	0	885
Total	17,184	6,811	23,995

Local company assists BP with recycling

A major achievement during 2007 was the establishment of a paint recycling route in partnership with a local company 'Karvan-L'. The company has since treated 210 tonnes of paint and similar coatings for resale as paint and varnish. The recycled product is suitable for both industrial and domestic use. Previously, in the absence of a suitable treatment route, large quantities of unused paint and protective coatings were stored temporarily at Serenja HWMF.



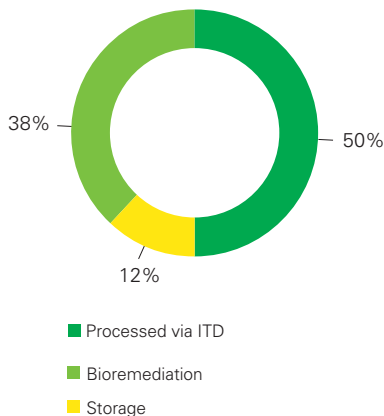
environmental portion of its HSSE&S management system in 2007.

- Drill cuttings** In 2007, a total of 23,010 tonnes of raw (that is, untreated) drill cuttings were received at Serenja HWMF from offshore drilling operations on the Dada Gorgud and Istiglal mobile drilling rigs and Chirag and Shah Deniz Alpha platforms. Approximately 14,922 tonnes of SBM drill cuttings were processed via the indirect thermal desorption (ITD) process.

This resulted in the recovery of 1,126 tonnes of base oil, which was subsequently returned to the chemical supplier for re-use. In addition to ITD, bioremediation accounted for 3,500 tonnes of the raw drill cuttings treatment. Onboard the Azeri platforms drill cuttings re-injection (DCRI) continued, with 19,918 tonnes of hazardous waste disposed of using this process in 2007. DCRI is a significant step towards the reduction of cuttings volumes requiring shipment to shore for further storage and treatment.

A significant milestone was the completion of a 14 inch pipeline from Sangachal terminal to the Central Azeri C&WP (where the produced water ultimately will be re-injected back into the reservoir). Work in 2008 will focus on completion of a new produced water tank and onshore treatment facilities. Until the long-term solution is operational, produced water will continue to be managed through MENR permitted disposal locations.

Cuttings treatment in 2007 - Serenja HWMF^a



- Sewage** Sewage treatment unit failures on our offshore platforms continued to be an issue in 2007. A total of 29 releases of untreated sewage to the Caspian Sea were recorded, compared to 10 releases in 2006. The majority of these were recorded on the West Azeri platform (15 releases). MENR and SOCAR were notified in writing following each release. In 2008, removal and replacement of underperforming sewage treatment units will be considered in more detail as an alternative solution.
- Produced water** Construction activities designed to produce a long-term disposal solution for produced water continued throughout in 2007.

- Hazardous liquid wastes** A local company, RT Services, licensed by MENR to provide industrial waste utilisation services, treated 10,971 tonnes of contaminated brine (compared with 9,439 tonnes in 2006) and 13,532 tonnes of produced water filtration waste during 2007.

Environmental monitoring An Integrated Environmental Monitoring Programme (IEMP) covers our activities in Azerbaijan. The IEMP was developed in response to professional opinion regarding the need to improve understanding and interpretation of our environmental surveys. It is designed to provide a consistent long-term data set, with the aim of ensuring that we are able to maintain a clear and accu-

^a Takes into account the 6,838 tonnes of cuttings held in storage at Serenja at the end of 2006.

rate picture of the impacts of our activities on the surrounding environment.

By the end of 2007, the IEMP had completed a total of 41 monitoring studies over four years. Out of the 11 surveys conducted in 2007, a total of five were offshore marine surveys and six were onshore terrestrial surveys. No nearshore studies were conducted in 2007, although fish and seagrass monitoring surveys are planned for 2008 in Sangachal bay.

Data from the 2007 studies is still being analysed. Interpretation of offshore monitoring reports for 2004-2006 has led to the identification of a number of distinctive trends. The majority are not thought to be associated with our activities. However, in one instance it appears possible that an observed change might be associated with platform installation or drilling activities - the appearance of the Nereis diversicolor worm around offshore platforms. Previously this worm had only been recorded in shallow, nearshore waters.

Onshore much time and effort was devoted to environmental monitoring in the vicinity of Sangachal terminal. Vegetation and soil stability monitoring surveys were carried out in spring and autumn, in line with the twice yearly

Summary of 2004-2006 marine environmental survey trends

Issue	2004-2005	2005-2006	Significance for BP operations
Biological change in offshore areas	Disappearance of previously dominant species across ACG contract area.	Large reduction in diversity of shrimp-like amphipods and gastropod snails across ACG contract area.	Not related to operations. Demonstrates the potential for very large 'natural' changes, and also shows that there is no fixed baseline against which changes can be assessed. Underlines the importance of periodic, regional monitoring.
Appearance of Nereis worm at offshore platform locations	Present at Chirag and all new platforms. Not abundant but centred on platforms.	Increased abundance and presence around platforms. No corresponding increase at regional survey stations.	Nereis appears to have become established and may eventually become dominant. Although there is no direct evidence that this is due to BP's activities, there is no plausible 'natural' hypothesis to explain the presence of this organism only at platform locations offshore.
Impact of platform installation and subsequent drilling	Little evidence of impact at Central Azeri, West Azeri and Shah Deniz alpha.	Little evidence of impact at East Azeri.	In general, the installation and early operation of platforms has had only very minor ecological impact. Modest biological footprint only evident at Chirag-1 where synthetic based mud and cuttings continue to be discharged.



surveys carried out in previous years. So far the results suggest that the terrestrial environment has not been impacted significantly by terminal operations, although there are clear signs of grazing pressure and impact from other land users.

A breeding bird survey was conducted in the spring within a five kilometre radius of the terminal, following similar surveys in 2004 and 2005. A number of physical impacts on habitats were observed, such as infilling of wetlands and clearing of shrubs. None appear to be related to terminal construction and infrastructure development.

2007 environmental highlights

- The BP Azerbaijan SPU moved closer to becoming fully ISO 14001 certified. Shah Deniz alpha platform, East Azeri platform, logistics, Sangachal terminal (Shah Deniz section) and Serenja hazardous waste management facility all achieved ISO 14001 certification in November.
- Construction of the BP-exclusive non-hazardous solid waste landfill at Sumgayit was completed. The landfill is compliant with EU standards.
- A paint recycling route established with the local company Karvan-L.
- A 15.6% reduction in flaring achieved due to Chirag platform flaring minimisation measures.
- New sewage treatment units installed at BTC IPA1 and PSA2.

Ambient air quality monitoring was carried out in the vicinity of the terminal during a period of maintenance shut-down and during post operational start-up. The aim was to collect baseline air quality data and information on the contribution of terminal operations. Unfortunately data interpretation was flawed due to lack of accurate site-specific meteorological data. A revised monitoring plan will be implemented in 2008 using a real-time air quality monitoring station and taking account of new third party emission sources in the area around Sangachal.

Water quality monitoring of terminal and flood protection channel run-off was initiated during the latter part of 2007 and will continue at approximately six weekly intervals in 2008.

In addition to the IEMP, the Azerbaijan export pipelines environmental monitoring programme continued throughout 2007.

Activities included:

- Ambient air monitoring at BTC intermediate pigging station IPA1 and BTC pump station PSA2 using passive sampling techniques. This will be continued throughout 2008 to establish annual mean data and determine compliance with BTC Environmental and social action plan (ESAP) standards.
- Stack emissions monitoring at the PSA2 turbines, at the same time as ambient monitoring, to compare air quality at source and at the surrounding receptors.
- Environmental noise monitoring in the vicinity of PSA2 and around one BTC block valve at the nearest community receptors. All the results of this monitoring were compliant with ESAP standards.
- Surface water monitoring at IPA1, PSA2, and groundwater monitoring in the vicinity of PSA2 and within the Karayazi sensitive aquifer area. As in previous years the results demonstrated compliance with ESAP standards and baseline results.
- Effluent quality monitoring at IPA1 and PSA2 and WREP Pump Stations 2, 5 and 8. At IPA1 and PSA2 new sewage treatment units (rotating

biological contactors) and reed bed filter systems have been commissioned to improve effluent quality, and will be fully operational in 2008. In the meantime, effluent continues to be discharged off-site at municipal sewage treatment works. We continued to monitor the recovery of the BTC/SCP right of way following reinstatement work. This involved assessing vegetation cover, species diversity and tree and shrub survival; satellite monitoring and ground truthing to provide high-level vegetation cover information; and landscape monitoring through annual photographic surveys. Rare species monitoring of *Iris acutiloba* was also carried out to determine translocation survival rates.

Environmental requirements for new projects

In 2006, the BP group introduced its environmental requirements for new projects (ERNP) - a full life-cycle environmental management process which aims to deliver consistency of project environmental performance across the company.

New projects are now required to comply with the following minimum requirements: screening and categorisation; compliance with the environmental impact assessment process requirements appropriate to the project category; and compliance with environmental performance requirements.

Existing operations are also encouraged to apply the practice in order to support our commitment to continuous improvement of the company's overall environmental performance.

During the year, all operational facilities in Azerbaijan, and proposed future projects, conducted a gap analysis against the requirements of ERNP.

Health

Summary Food safety and industrial hygiene were dominant themes of our health activities during 2007. Our employees were encouraged to take part in internationally-sponsored health awareness campaigns.



Occupational hygiene safety training

Throughout 2007 efforts were made to fill a perceived international gap in industrial hygiene skills. Working with the British Occupational Hygiene Society (BOHS), the BP group adapted its proven training and certification programme to develop a new cadre of industrial hygiene professionals and technicians.

By completing six modules, and sitting an additional oral examination, a student is able to achieve official BOHS certification as an industrial hygiene technician. If required he or she may then continue studying via a number of options, including distance

learning, until they are ready to sit an examination for the BOHS Occupational Hygiene Diploma - the globally recognised qualification for an industrial hygiene professional.

Two modules were conducted successfully in Baku during the year - 'Measurement of Hazardous Substances' and 'Thermal Environment'. About 20 BP employees including HSE advisors, occupational health and industrial hygiene specialists and medics from different facilities attended.

According to Mike Taylor (a BP industrial hygiene coach), "the industrial hygiene module series gives employees an excellent opportunity to build valuable, marketable HSE skills. Our goal is to enable employees to master the subjects they choose for the benefit of their career and for the success of BP globally".

Health training Health training for BP employees concentrated on two critical areas in 2007 - food safety and industrial hygiene (see case study), with BP-specific programmes delivered in Azerbaijan.

A health network meeting was held in Baku, attended by representatives from Azerbaijan, Georgia and Turkey (including contractors and medical providers). Health information was shared between the participants and countries, strengthening the knowledge base of the region. HSE staff from BP Azerbaijan SPU also attended the BP group Global HSSE forum in Orlando, Florida, where they were presented with an award for their work on the BTC regional emergency medical plan.

Health campaigns Our employees were encouraged to take part in several internationally-sponsored health awareness campaigns in 2007. In May, 'World no tobacco day' was marked in the BP Azerbaijan SPU with awareness presentations (attended by more than 500 staff) and the distribution of carbon monoxide monitoring and quit kits. In November, around 650 employees took part in 'World diabetes day' activities (attending presentations and wellness assessments) in order to promote surveillance, encourage prevention, raise awareness

and strengthen prevention and control.

As part of the BP Azerbaijan SPU's 'Avian Flu awareness campaign', posters and booklets were distributed throughout the SPU including platforms, drilling rigs, boats, terminals, yards and pump stations. Educational material was also sent to community centres along the pipeline route, the International School of Azerbaijan and to all employee residential complexes.

Reconstruction of a backup secondary care facility was completed at Shelf Project Stroy (SPS) yard. This clinic is designed and equipped for the provision of emergency medical support in the event of an infectious disease outbreak or other large-scale medical incident.

Health performance We continued our food hygiene audits of all our catering facilities at onshore and offshore operational sites in Azerbaijan on a quarterly and annual basis. Audits of SPU medical facilities were undertaken to determine levels of medical preparedness and make recommendations to improve the service. As part of our industrial hygiene programme workplace exposure assessments were initiated. Noise monitoring surveys were also held at all operational sites and a personal noise dosimetry programme developed.

2007 health highlights

- Health surveillance programme introduced.
- Food safety and industrial hygiene capability training implemented.
- Secondary care clinic reconstruction completed.
- Noise monitoring surveys held.

1.6 Security and human rights

We enhanced the security of BP-operated assets in Azerbaijan in 2007 by broadening cooperation with government agencies, local communities and specialist organisations.

Overview Wherever the BP group operates, the provision of security is the responsibility of the host government. In Azerbaijan pipeline security is provided by the Export Pipelines Protection Department (EPPD)^a, while offshore protection is provided by the Azerbaijan navy and the Azerbaijan coast guard.

BP in Azerbaijan is responsible for maintaining the security of people and facilities within BP-controlled or operated sites. Until 2007, unarmed protection 'behind the fence' at our onshore facilities^b was provided by the staff of BP in Azerbaijan and a private Azerbaijani security contractor, Titan D Ltd. In 2007 BP in Azerbaijan decided to fully outsource its security needs to Titan D Ltd. By the end of the year, the hand-over had been completed successfully. To ensure that Titan D's security guards have proper training, we provided a foundation course and training in bomb threat calls, vehicle inspection, residential security and x-ray inspection.

Our role in pipeline security is built on four main principles - work closely with community members; cooperate effectively with host governments and their security agencies; protect our people

and assets; and ensure that security, like safety, is everyone's responsibility.

This approach has been supported by the voluntary principles on security and human rights, which provides a framework of standards guiding security planning for the pipelines and were incorporated in the legal regime surrounding the projects. In November 2007, we signed a bilateral security protocol with the government of Azerbaijan (see below).

Working with communities Communities close to our operations are key elements in the provision of security to our facilities and we have constantly sought to create strong and enduring links with our neighbours as well as with local and national government agencies.

In 2007, we continued to support the Inter-Agency Security Committee (IASC) forum, the goal of which is to facilitate dialogue between BP in Azerbaijan, community members and government security providers - including local police and the EPPD. The IASC held 115 meetings in all Azerbaijani communities along the pipelines' right of way during 2007 in all transited 13 regions.



Grievance resolution We continued to operate a local grievance mechanism along the BTC/SCP pipelines' route in 2007 following the end of construction. Seven Community Liason Officers (CLOs) employed by BP in Azerbaijan

'I feel like a very important part in protecting this pipeline.'

Seymur Alizadeh, who patrols the BTC route on his chestnut-brown mare six days a week.

^a EPPD (Export Pipelines Protection Department) is a department of SSPS - Special State Protection Service.

^b This primarily involves control of entry to and exit from the sites and prevention of loss of company property.



were involved directly as well as pipeline technicians and a field security advisor. The CLOs provided a consistent, familiar face to local communities as well as facilitating day-to-day communication.

During the year we received 40 complaints from land owners and users along the pipelines' right-of-way corridor in Azerbaijan. Subjects included irrigation (25%), damage to property (22.5%), compensation issues (20%), land reinstatement (7.5%), damage to infrastructure (7.5%), road access (2.5%), land use (10%) and orphan land cases^a (5%). By the end of 2007, 85% of these complaints had been resolved. The outstanding six complaints relate to compensation issues (5) and property damage (1).

Three out of the 40 complaints registered in 2007 related to EPPD activities. These were addressed with the cooperation of EPPD officials and by following the same Azerbaijan pipelines complaints management procedure used to manage grievances related to our own activities. All these complaints were resolved to the satisfaction of the complainants.

We also considered 21 outstanding complaints received in 2006 and 14 from previous years (2004-2005), which

remained unresolved at the end of 2006. Thirty-three of these outstanding complaints were resolved by end 2007. The two outstanding complaints involve infrastructure damage.

Five additional complaints (beyond the 40 mentioned above) were received from settlements close to Sangachal terminal. These related to flaring, noise, loss of livestock, livelihood impacts and quality issues regarding particular community investment projects. At the end of 2007, two of the five complaints remained outstanding.

In 2007, we planned to set up a telephone hotline to give people affected by our onshore operations an additional way to raise security-related concerns. The process took longer than expected and we hope to implement this initiative in 2008.

Interacting with public and private security

In November 2007, we signed a bilateral security protocol with the government of Azerbaijan. It covered the provision of security for facilities and installations operated by BP in Azerbaijan including the BTC/SCP pipelines, WREP, NREP, Sangachal terminal and installations associated with the offshore Shah Deniz

and ACG fields.

The protocol defines standards and procedures on the use of force and firearms, hiring and training security personnel, consultation and exchange of information and monitoring compliance. It reflects international agreements such as the United Nations basic principles on the use of force and firearms by law enforcement officials and the voluntary principles on security and human rights.

Independent monitoring During 2007, we published a report by an independent monitor that assessed our compliance with the voluntary principles for the year 2006. The auditor, Foley Hoag Limited Liability Partnership found that we 'continued to demonstrate both good faith and exceptional leadership in seeking to meet commitments under the voluntary principles'. Foley Hoag also noted that the BTC/SCP projects took 'important steps during the course of 2006 to address ongoing challenges related to the nexus of human rights and security.' The human rights and security external monitoring assessment of the pipeline projects in Azerbaijan may be read on www.bp.com/caspian.

^a This is land that, for instance, has become too small to be farmed economically following the construction of ancillary BTC/SCP facilities such as block valves.

1.7 People, compliance and ethics

BP in Azerbaijan is committed to increasing the number of national staff in senior posts and reducing the number of expatriates in order to create a local company run by qualified national staff.

People

Milestones of 2007 Target staffing levels under our Production Sharing Agreements for 2007 were met for both our professional and non-professional staff. The BP Azerbaijan SPU's own targets for the year 2007 were more than 75% national employees in professional roles and 100% in non-professional roles. Both these targets were achieved or exceeded as we reached 77% for national professionals and 100% for non-professionals.

We have established measures to monitor progress in our employment commitments. Apart from internal feedback gained through BP people assurance surveys we study external auditing of our activities. An example in 2007 was the Azerbaijan Social Review Commission report, published in June (page 13). The report commended our programme for dealing with de-manning in the construction yards, funding for re-training and the assistance we provided to find new jobs for affected contract workers.

Recruitment^a Recruitment of Azerbaijani nationals continued in 2007. In total, 226 Azerbaijani nationals were recruited of whom 75% were male and 25% female. We hired 47 university graduates (Challengers) through the annual recruitment programme, 41 experienced

^a A detailed explanation of the recruitment process (step by step) was described in 2006 BP in Azerbaijan Sustainability Report (page 40) and therefore will not be repeated in here.

Professional staff of BP Azerbaijan SPU^a

Category	Number of people	% of total workforce
BP Azerbaijan SPU national professional staff	1,664	77%
BP Azerbaijan SPU expatriates ^b	511	23%
Total	2,175	

^a This includes professional staff of BP Azerbaijan SPU in Azerbaijan, Georgia and Turkey.

^b Includes all Azerbaijani expats on overseas development assignments.

Professional staff of BP in Azerbaijan^a

Category	Number of people	% of total workforce
National professional staff	1,462	75%
BP expatriates	487	25%
Total	1,949	

^a This includes national professional staff of BP in Azerbaijan only.



National staff

At the end of 2007, BP Azerbaijan SPU had 77% national professional staff against a target of 75%.



Seymour Khalilov - a high flyer

Seymour Khalilov - since January 2008 BP in Azerbaijan's vice president for communications and external affairs - has made a habit of achieving firsts in life. In 1996, while a student at the Azerbaijan State Institute of Languages (ASIL), he was one of four winners out of 3,600 applicants for a US government scholarship that allowed the winners a year of paid study at an American university. He went to the University of Missouri, St. Louis. A year later, in 1997, Seymour graduated first in a class of 60 from ASIL. Going to work in the US embassy in Baku as a commercial specialist, he won a

Meritorious Service Award within three years. On becoming Executive Director of the US-Azerbaijan Chamber of Commerce (USACC) in 2002, he facilitated the entry of more than 50 multinational corporations into Azerbaijan. Fluent in four languages and conversant in a fifth, Seymour, now 32, has always had a strong business bias.

In his spare time Seymour enjoys travelling and reading. At one stage he organised a 20,000 volume book drive from US public libraries to help universities in Azerbaijan. In his role he also completed fundraising for a \$1 million USACC-Kennedy School of Government fellowship programme for graduate students from the Azerbaijani public sector.

In May 2006, Seymour Khalilov joined BP in Azerbaijan as external affairs and policy forum manager. In this role he led the company's relationships with governments and international NGOs and developed and implemented BP's approach to revenue management in the Caspian region. Now, as only the second national vice president in BP Azerbaijan SPU, his wide ranging, high profile role seems sure to see him achieving more firsts.

professionals and 106 operations and maintenance trainee technicians. The remaining 32 newcomers joined the company through ad hoc recruitment procedures. In 2007, we hired more experienced professionals than originally planned. This reflects our support of localisation at leadership levels.

At the end of 2007, 155 challengers were working for BP in Azerbaijan including 137 Azerbaijani nationals (82% male/18% female) and 18 expatriates (78% male/22% female). 55 challengers (82% male/18% female) graduated from the programme during the year including 50 Azerbaijani nationals.

We completed an internal project to review and strengthen BP Azerbaijan SPU's recruitment processes. We committed to developing clearer channels to enable national candidates in the market to apply more easily for positions. A process was established to advertise our externally available vacancies on the careers page of the BP Caspian intranet site. We also completed BP group's strategic resource planning process.

We had another successful summer internship programme^a, experienced by 71 students (79% male/21% female) in a range of disciplines from finance to engineering.

Career development BP's challenger programme met its targets for training and development in 2007. In addition, 14 Azerbaijani challengers went on one year early development overseas assignments. We also established a development tool called 'step-up' to better support our significant post-challenge

^a A detailed description of internship programme was provided in 2006 Azerbaijan Sustainability Report (page 41).

Permanent employees of BP in Azerbaijan

Category	Total	Male	Female
National permanent employees ^a	1,712	1,348	364
Expatriates	487	433	54
Total	2,199	1,781	418

^a Number of national permanent employees includes professional and non-professional permanent staff.

Agency contract employees of BP in Azerbaijan

Category	Total	Male	Female
Agency contract national employees	266	126	140
Agency contract expatriate employees	619	588	31
Total	885	714	171

Did you know?

- At the end of 2007, 225 of Azerbaijani citizens were in middle and senior management grades (170 in 2006); 69 were in senior management grades (40 in 2006).
- Out of them 22% (50 of 225) were women.
- A second Azerbaijani citizen was appointed as vice-president of BP Azerbaijan SPU.
- Thirteen Azerbaijani citizens were in senior management grades and eight in middle management grades in BP global organization outside of Azerbaijan.

Annual recruitment in Azerbaijan in 2007

Graduates by disciplines	Total	Male	Female
Surface engineering	17	17	0
HSE (Health, safety and environment)	6	4	2
HR (Human resources)	1	0	1
D&C (Drilling and completions)	7	6	1
FC&A (Financial control and accounting)	4	4	0
Commercial	3	2	1
Subsurface	9	8	1
Total	47	41	6

Ad hoc and experienced recruitment in Azerbaijan in 2007

Experienced hires by disciplines	Total	Male	Female
Admin	14	1	13
C&EA (Communications and external affairs)	4	4	0
Commercial	5	2	3
D&C	3	3	0
DCT (Digital and communications technology)	3	3	0
FC&A	24	13	11
HR	4	0	4
HSE	15	13	2
Legal	2	1	1
Logistics	10	7	3
OPMS (Office properties management and services)	1	0	1
Projects	2	2	0
PSCM (Procurement and supply chain management)	6	4	2
Security	2	2	0
Subsurface	10	7	3
Surface-Engineering	10	7	3
Surface-Operations	7	4	3
Surface-Technicians	102	96	6
Tax	2	1	1
Total	226	170	56

professional population. Our 'step-up' development offer is a structured competency-based programme for all graduates of professional disciplines that helps participants to make the most of on-the-job learning experiences, deepen their discipline professionalism and position themselves for roles of increasing responsibility. The offer ties together all the common BP tools into a discipline-focused pathway to support progression.

Forty-one posts were localized in the BP Azerbaijan SPU in 2007. A National Progression Programme (NPP) identifies and accelerates the development of local leaders. At the end of 2007, our NPP population numbered more than 100 national staff. Each of these employees had a development assessment panel meeting with senior leaders to focus their career plans.

Overseas development assignments

In 2007, 43 Azerbaijani employees were working overseas either in the BP Azerbaijan SPU or in other business units within the BP group. Out of them 30% were female and 70% male.

Contractor workforce At the end of 2007, the ACG project employed about 4,000 contractors of whom 74% were Azerbaijani

nationals. At Sangachal terminal more than 1,500 people were employed of whom some 72% were Azerbaijani nationals.

Labour relations The year saw the completion of several major offshore construction projects at Baku's main fabrication yards without any significant labour disruption. Appropriate severance packages were agreed across all sites. Where possible, assistance was offered to help workers find new jobs.

Reward We continued to provide a competitive package of non-cash benefits to

all permanent employees. This includes medical insurance, dental insurance, recreation facilities, accident insurance and family support payments. Local employees also participate in key BP group global reward programs such as Sharematch, variable pay plan (annual incentive bonus) and performance share plan.

The benefits package was expanded in 2007 with the introduction of a retirement savings plan, one of the very first private retirement programmes in the region. This new benefit package reflects the company's long term



Good employee relations

'Good employee relations are about constant, effective two-way communication between manager and employee. This establishes an environment of mutual trust, helps to encourage employee participation in management decisions and enhances a sense of fairness. It also boosts relationships within a team and creates a healthy work environment.'

Vugar Ibrahimov,
Employee relations manager

BP in Azerbaijan 2008 national professional recruitment targets

Recruitment plan	Graduate Hires	Experienced Hires	Trainee Technicians
Operations	13	62	150
HSSE (Health, safety, security and environment)	2	12	0
D&C	8	4	0
Technicians	44	13	0
Projects	4	14	0
SS&W (Subsurface and wells)	10	5	0
PSCM	1	2	0
Commercial	3	0	0
DCT	0	1	0
C&EA	2	14	0
Leaders	0	0	0
Admin support	0	10	0
Total	87	137	150



Elkhan Mamedov is after training and development

As offshore operations engineer for the Chirag offshore production facility, Elkhan Mamedov manages multiple business activities and is one of BP's senior operations leaders in the Caspian.

On graduation from the Azerbaijan State Oil Academy as a system engineer Elkhan worked for the Azerbaijan airline company AZAL for five years in a number of engineering-related roles. He moved to BP in Azerbaijan in 2001. An early graduate of the Caspian Technical Training Center (CTTC), he joined the offshore operations team as an instrument technician on the Chirag platform in March 2002. Looking back, he remembers that period as great learning experience working with a team

of professionals.

Subsequently he worked overseas as an instrument technician on BP's Miller platform in the North Sea before returning to the Central Azeri team in May 2004. This team successfully completed all stages of platform construction/ commissioning /first oil production and became one of the three finalists that won the 2005 BP Paul Martin's award. Elkhan was among the BP Azerbaijan SPU operations team proud to accept an award at a ceremony in Vancouver, Canada.

Elkhan was soon promoted again and became a maintenance supervisor before moving on to his present role as offshore operations engineer on the Chirag platform. Here he focuses on the delivery of performance targets and identifies training and development needs for his crew as well as managing budget issues. Thanks to the support of the Chirag platform team he passed the MME (Managing Major Emergencies) exam in August 2007, and joined the NPP

commitment to employees. All employees participate in the package and 30% of employees elected to make additional voluntary contributions with added company matching funds to significantly enhance their future retirement benefit. The number of people signed up for the share match offer reached 1,104 by 2007, representing 66% of the total national staff.

Training spend We offer a full curriculum of training, both technical and behavioural, to support national development. This investment exceeded \$20 million in 2007.

Technical training By the end of 2007 the Caspian Technical Training Centre (CTTC) had provided training for more than 1,000 BP and agency technicians to meet the

needs of operating a large and growing oil and gas business in Azerbaijan^a. CTTC delivers foundational technical skills to technicians and also provides learning experiences in HSE, English language and behavioural subjects. In 2007, 106 technicians graduated from the foundation programme to join the BP Azerbaijan SPU (compared to 100 in 2006).

Incoming expatriates 2007 (Azerbaijan only)

Discipline	Total	Male	Female
Commercial	5	4	1
D&C	20	18	2
FC&A	4	4	0
HR	4	0	4
HSE	9	8	1
Legal	1	0	1
OPMS	1	1	0
Other	1	0	1
Projects	5	5	0
PSCM	4	3	1
Subsurface	10	9	1
Surface-Engineering	10	8	2
Surface-Operations	23	19	4
Surface-Technicians	9	8	1
Tax	1	1	0
Total	107	88	19

Outgoing expatriates 2007 (Azerbaijan only)

Discipline	Total	Male	Female
C&EA	2	1	1
Commercial	5	4	1
D&C	10	9	1
DCT	1	1	0
FC&A	3	2	1
HR	5	5	0
HSE	3	3	0
Legal	3	3	0
Logistics	1	0	1
Projects	8	8	0
PSCM	2	2	0
Subsurface	11	9	2
Surface-Engineering	16	14	2
Surface-Operations	13	11	2
Surface-Technicians	16	13	3
Tax	1	1	0
Total	100	86	14

^a <http://www.caspianctc.com/index.htm>.

Fresh thinkers network

The Fresh thinkers network started in the BP Azerbaijan SPU in 2005 as a way for professional staff to get together with senior leadership and provide input and feedback on important ongoing business issues across all disciplines and nationalities. To keep it fresh, membership rotates each year. In 2007, the network helped leadership in areas from designing a national long service award programme to support for nationalisation of the workforce.

Professional training We supported more than 100 employees in their professional education studies during 2007 in such fields as personnel, accountancy, management, project management and public relations. For instance, 32 people from human resource are studying for a qualification with the UK Chartered Institute of Personnel and Development. Fourteen of them will graduate in 2008.

We also have 53 students enrolled into the Heriot Watt Petroleum Engineering MSc degree programme. It has been incorporated with the D&C early development programme, here in BP Azerbaijan SPU and in other regions, to ensure that our challengers have a solid engineering foundation. First graduates are expected in 2008.

Society of petroleum engineers (SPE)

We continued to support the SPE in 2007, which brings together oil and gas professionals to share knowledge and promote the attractions of the petroleum engineering discipline. Azerbaijan SPE remains one of the fastest growing chapters of the SPE, with some 400 student members and 100 professional members. The annual programme in Baku includes a lecture series, as well as student-focused events and support for local universities.

Compliance and ethics

All employees of the BP group, wherever they work, are obliged to observe and uphold the BP Code of Conduct (CoC). This group-wide Code operates alongside local laws or regulations covering similar matters and has been drawn up to define and achieve high standards of probity and behaviour throughout the company. Failure to follow the Code is taken very seriously and may result in disciplinary action up to and including dismissal.

The CoC makes it clear that the highest standard of behaviour must always prevail if there are circumstances where differences exist between the Code and local customs, laws or regulations.

Various provisions in the CoC prohibit illegal, corrupt or unethical practices. Others underline the BP group's worldwide policy of making no corporate political contributions whether in cash or in kind. The CoC also provides detailed guidance on the giving and receiving of gifts and entertainment, conflicts of interest, bribery, competition, trade restrictions, money laundering and working with suppliers.

BP in Azerbaijan has identified particular areas where fraud and ethical risks

Total training spend in BP Azerbaijan SPU in 2007



have greater potential to occur within our operations. These are primarily in contract and supplier selection, contract administration, conflict of interest and gift and entertainment processes.

All employees of BP in Azerbaijan are encouraged to raise any ethical concerns they may have with management directly or through the company compliance and ethics helpline known as OpenTalk. Under this initiative BP pledges that any concerns reported on Open Talk will be properly reviewed and, if appropriate, will be investigated in a confidential manner and acted upon.



Vugar Mammadov is recognised by the IMechE

Vugar Mammadov, a member of the Chirag Deep Water Gunashli Performance Unit, operations team joined BP in 2006 as a mechanical engineer. Vugar holds a PhD in Material Science in Mechanical Engineering from Azerbaijan State Oil Academy. He has published 25 research papers in national and international journals.

In 2007 he became the second national employee in the BP Azerbaijan SPU to become a chartered engineer and join the UK-based Institution of Mechanical Engineers (IMechE)

IMechE, a prestigious worldwide organization chaired in 2007 by the BP group's director of engineering John Baxter, brings together professional engineers from different companies and countries around the world.

Milestones of 2007 To minimise risks in the areas previously mentioned, we undertook a number of actions in 2007 including development of a third parties risk assessment model, quarterly communication to staff on ethics, communication on registering potential conflicts of interest and reminders of key code issues. In addition, the compliance & ethics network, representing compliance and ethics contacts departments, promoted ethical issues and we continued to hold induction sessions for all newcomers.

During the year, a number of employees and contractor staff working in Azerbaijan were dismissed for non-compliance with applicable laws, regulations or the CoC. Examples of non-compliance included substance abuse, inappropriate safety behaviour, misuse of company assets, fraud and theft.

Each year a key indicator of the extent to which the BP Azerbaijan SPU is complying with the CoC and applicable laws and regulations is provided by the annual BP group-wide compliance and ethics certification process. This enables us in Azerbaijan to identify potential risks and concerns and to take action where appropriate. Any highlighted risks and concerns are reported to BP group

management in a compliance report signed by the president of the BP Azerbaijan SPU. We completed our most recent annual compliance and ethics certification in November 2007.

As part of this process we received personal attestations that specifically addressed gifts and entertainment and conflict of interest declarations. All employees of BP in Azerbaijan were asked to confirm in writing that their activities in 2007 were in compliance with the CoC. During the 2007 certification process more than 600 individual issues were raised against 400 in 2006.

These issues were distilled down to 83 potential ethical concerns against 65 in 2006. Of the 83 concerns, the majority were addressed immediately. The remaining issues were all subject to remedial interventions that will be carried out during 2008.

We intend to build on the certification results in 2008 and use them to continue our efforts to foster a higher level of awareness of business conduct expectations among our staff in Azerbaijan. Measures planned include putting a spotlight on low value contracts and reviewing inductions and compliance with policies and procedures across the SPU.

Contractors and ethics Most of our business in Azerbaijan is undertaken in co-operation with external, local contractors. BP's processes are designed to choose contractors carefully and on merit, with a particular emphasis on avoiding conflicts of interest and inappropriate gifts and entertainment. We expect contractors to comply with all legal requirements. It is our intention only to do business with contractors who perform in line with the Code of Conduct.

1.9 Key statistics in chapter 1^a

Operating

- Oil production from Chirag 1, Central Azeri, West Azeri and East Azeri platforms averaged 668,000 barrels a day by year-end (129,000 barrels came from Chirag, 244,000 barrels from Central Azeri [CA], 171,000 barrels from West Azeri [WA] and 124,000 barrels from the East Azeri [EA] platform).
- Gas production at Shah Deniz (SD) totalled 3.1 bcma - 11% above plan.
- We delivered 2.4 billion standard cubic metres of ACG gas to SOCAR.

Financial

- Capital expenditure (with co-venturers) on ACG development totalled \$2.822 billion.
- Capital expenditure (with co-venturers) on SD development totalled \$364 million.
- Capital expenditure (with co-venturers) on BTC construction totalled \$154 million.
- Capital expenditure (with co-venturers) on SD/SCP construction totalled \$64 million.
- Operating expenditure (with co-venturers) on ACG/SD totalled \$615 million.

Environmental

- Net GHG emissions increased by 18.9% from 613 kte in 2006 to 729 kte in 2007.
- Net normalised operational GHG

emissions (emissions released for every thousand barrels of oil and gas produced) decreased by 24% from 11.8 te/mboe in 2006 to 8.97 te/mboe in 2007.

- Total gas flared decreased by 15.6% on 2006 from 333 kte to 281 kte.
- Fuel-gas-use increased by 54.1% from 284.2 kte in 2006 to 438.0 kte in 2007.
- Diesel used decreased from 23.1% from 24.2 kte in 2006 to 18.6 kte in 2007.
- Electricity import decreased by 14.6% from 5.5 MWh in 2006 to 4.8 MWh in 2007.
- Drill cuttings to sea rose by 52% from 15,811 tonnes in 2006 to 23,995 tonnes in 2007.
- Hazardous waste generated increased by 14% from 35,683 tonnes in 2006 to 40,713 tonnes in 2007.
- The number of hydrocarbon spills increased by 74% from 41 in 2006 to 71 in 2007.
- The volume of oil hydrocarbon released decreased by 46% from 8,396 litres in 2006 to 4,534 litres in 2007.

Safety

- No fatalities during 2007 related to our operations in Azerbaijan.
- Total vehicle accident frequency rate increased by 55.6% from 0.99 to 1.54 in Azerbaijan.
- The number of HSSE & Operations training hours delivered to BP Azerbaijan SPU employees increased by 238% from 43,786 in 2006 to 148,105 in 2007.

People

- At the end of 2007, BP Azerbaijan SPU had 77% national professional staff against a target of 75%.
- Total staff employed in Azerbaijan increased by 7% from 2,048 year-end 2006 to 2,199 year-end 2007.
- New national staff recruited decreased by 25% from 303 in 2006 to 226 in 2007.
- Recruitment of experienced national professionals through the annual recruitment programme increased by 64% from 25 in 2006 to 41 in 2007.
- Number of Azerbaijani citizens in middle and senior management grades rose by 32% from 170 in 2006 to 225 in 2007. Number of Azerbaijani citizens in senior management grades rose by 72.5% from 40 in 2006 to 69 in 2007.
- Spending on training decreased by 8% from \$30.3 million in 2006 to \$28 million in 2007.

^a Unless otherwise stated, data relates to 2007 performance of BP Azerbaijan SPU.

2

Children from Yevlakh region visiting Caspian Energy Centre.



BP in Azerbaijan: our role in society

- 2.1 Supporting sustainable development**
 - Regional Development Initiative
 - Community investment
 - Environmental investment
 - Conservation of cultural heritage
- 2.2 Revenue transparency**
- 2.3 Local content development**
- 2.4 Educational initiatives**
- 2.5 Key statistics in chapter 2**

2.1 Supporting sustainable development

In 2007 BP and its co-venturers invested \$7.39 million in socio-economic development projects in Azerbaijan.

Regional Development Initiative (RDI)

The RDI is a long-term programme that implements large-scale, country-wide and where possible cross-regional projects to enhance local enterprise development, access to energy and effective governance. In 2007 it was implemented in Azerbaijan, Georgia and Turkey. In Azerbaijan the programme focuses on local enterprise development. Around \$3.7 million was spent during the year on various RDI projects in the country.

Milestones of 2007 In 2007 we completed some projects, continued others and signed contracts to implement new ones:

- **Strengthening business services for small and medium-sized enterprises (SMEs):** This three-year business services development project was completed in 2007 by Azerbaijan bank training

centre (ABTC). It was set up to create a training/consultancy capability in ABTC so that the centre would be able to provide high quality, affordable business training to the SME sector on a commercially sustainable basis. Between 2004 and 2007 ABTC developed 42 new courses. Some 1,178 representatives of local business received training, including 52 in 2007.

Later in the year in a competitive tender, ABTC won a service contract from the BP Azerbaijan SPU to provide business training to the staff of BP in Azerbaijan.

This development project was co-funded by the International Finance Corporation (IFC) and RDI, which contributed about \$0.24 million. The Enterprise Centre supported by BP and our co-venturers was involved actively in supporting this project and will be continuing this work.

- **Private public partnership project (PPP):** This project to develop suppliers was completed by German Technical Cooperation (GTZ) in 2007. It was designed to deliver tailored technical assistance to local oil and gas sector companies. The total cost was approximately €625,000 of which RDI contributed €200,000. Over three years, the project provided technical assistances to 17 local companies. Seven were subsequently able to meet BP's pre-qualification tender requirements and two of them - AzMETCO (in 2005) and Debet Uniform Ltd (in 2007) - were successful bidders. As a result of this project, BP in Azerbaijan localized two key areas of the supply chain provision of metering, and personal protective equipment.
- **Enterprise development and training programme (EDTP):** This three year initiative to support local business



How Debet has flourished

When the supplier development project was launched in 2004 Debet Uniform Ltd. was looking for ways to grow.

Three years later Debet Uniform won a three-year, \$6 million contract to supply personal protective equipment to BP in Azerbaijan and Georgia. This happened after input from the Enterprise Centre helped the company gain the skills necessary to meet international standards. The company currently employs 117 people.

According to Ibrahim Ismayilov, RDI manager in Azerbaijan, 'the success of Debet Uniform is the positive outcome of our local enterprise development strategy.' Adds Asad Nasrullayev, general director of Debet Uniform: 'The contract

with BP will allow us, in a short period of time, to open a lot of new work places. Our quality management, health, safety and environmental systems are constantly developing and the BP contract will encourage this process.'

In January 2008, Debet's development efforts paid off, with a major award of loan financing from the supplier finance facility.



development was launched and progressed well in 2007. A multi-million dollar programme designed and financed through RDI, it is managed by the Enterprise Centre and implemented by international non-profit development organization agricultural cooperative development international and volunteers in overseas cooperative assistance (ACDI/VOCA). It is part of our drive to increase the local content of our contracts in Azerbaijan. EDTP complements a \$15 million supply finance facility which BP and its co-venturers launched with the IFC and Micro-Finance Bank of Azerbaijan (MFBA) late in 2006. It includes identification of potential local suppliers, workshops for local companies and, where appropriate, the creation and implementation of a development plan. Three workshops were held in 2007 for 36 participants representing 30 organizations from sectors including catering, translation and engineering.

- Microfinance lending programmes:** At the end of 2006, BP in Azerbaijan, on behalf of its co-venturers, signed a three-year agreement with the European Bank for Reconstruction and Development (EBRD) to encourage more effective access to commercial finance for small local businesses and entrepreneurs. Under this agreement, BP Azerbaijan SPU and its co-venturers are contributing \$6 million for loans to private sector development in Azerbaijan and Georgia. The programme is implemented by the EBRD through separate agreements with a number of local financial institutions active in the microfinancing sector. In November 2007, we on behalf of ourselves and our co-venturers signed a separate \$1 million grant agreement with the IFC to widen access to finance for micro and small enterprises (MSE) in Azerbaijan's western



To the left: Andrey Sdobnov, engineer-metrologist AzMETCO. To the right: Shukur Agazade, general director of AzMETCO - the first Azerbaijani company to receive SFF loan.

regions. This project will enable the Micro Finance Bank of Azerbaijan (MFBA) to expand its branch network to the towns of Mingechevir and Gazakh by opening one new branch in each town as well as improving the services of its Ganja branch. The initiative was matched by \$2.3 million grants by IFC and MFBA under a separate agreement.

Social spend in Azerbaijan, Georgia and Turkey in 2007

	Azerbaijan	Georgia	Turkey	Total
Gross spend by BP and co-venturers	\$7,386,192	\$8,724,588	\$4,992,513	\$21,103,293
Net spend by BP only	\$2,581,673	\$3,845,208	\$1,502,746	\$7,929,627

- **Supplier finance facility (SFF):** In May 2007, the second phase of the supplier finance facility (SFF) was launched. This facility is intended to give Azerbaijan's local oil and gas industry supplier and service enterprises easier access to finance. It is established by BP on behalf of its co-venturers and the IFC, and is implemented by MFBA. Phase two offers access to \$15 million to BP Azerbaijan SPU's local contractors. This amount includes \$6 mil-

lion funded by BP and its co-venturers, \$6 million by IFC and \$3 million by MFBA. In 2007, a number of activities were implemented under the SFF banner including the signing of a credit line agreement with MFBA and completion of SFF competitive analysis based on Azerbaijan's financial market data and integration of the Enterprise Centre's local content development plan into the SFF 2008 plan.

- **Microfinance benchmarking survey:** This study, implemented by the Azerbaijan microfinance association (AMFA), aimed to enhance transparency in Azerbaijan's microfinance sector so as to improve institutional performance and widen access to diversified sources of funding. It was co-sponsored by RDI, the UN Development Programme (UNDP), the Eurasia Foundation and AMFA. Two benchmarking reports in three languages have been produced. The project also financed a summer internship program in 2007 with nine competitively selected students in Azerbaijan attending loan officer training sessions run by AMFA at the Enterprise Centre. Interns were later offered permanent jobs in the microfinance sector.



Spreading her wings

Intizar Rzayeva, 54, operates a small business in Baku, which mainly sells clothing and garments to the public. Her business had been growing steadily so in 2007 she decided to seek extra financing to expand it further.

Intizar was able to secure a loan through FINCA in Azerbaijan, a local non-bank financial institution serving the needs of entrepreneurs and micro and small companies that is supported by BP and its co-venturers through the RDI.

Her case exemplifies how thousands of local entrepreneurs and businesses throughout Azerbaijan are now benefiting from financial products made available through the joint lending programme established by the RDI and EBRD. The loan enabled Intizar to open another outlet in Sahil shopping center and so increase her trading volumes.

Community investment

Summary We continued to invest in communities in Azerbaijan in 2007 within the framework of our Community Investment Programme (CIP), BP sponsorship and the employee matching fund programme.

Community Investment Programme

Our community investment projects in Azerbaijan reflect an ongoing support to



Helping find future paths

As a child, Niyaz Mammadov always had an interest in dismantling and reassembling electrical devices and, as he grew older, this developed into repairing them. While in the Army, his dexterity was noticed and he was assigned to work as a telephone line supervisor. Completing his service, he resolved to become a competent mobile phone repairman but he knew he had to receive suitable training.

After learning about employment apprenticeship courses, 23-year-old Niyaz enrolled in a vocational training scheme in Sahil settlement being delivered through the BP-sponsored Save the Children's living university concept programme in partnership with a local NGO, Umid. Here he was able to focus on mobile

phone repair, so changing the direction of his career, towards his dream.

From day one on the course, Niyaz showed enthusiasm to learn all he could. After graduating, he found a job with Sahil's Style mobile phone repair centre as a repairman. There was one problem - the equipment he had was not sufficient to do the job. But because of the dedication he had shown on the apprenticeship programme, Save the Children/Umid was able to give him a small grant to buy the remaining tools he needed.

Today Niyaz continues to work hard as a mobile phone repairman, helping people with broken phones in the Sahil community. None of this would have been possible before the vocational training courses began to be offered in Sahil.

positive social and community development for people living near our facilities. In 2007, the CIP was implemented in 60 communities. The year was marked by close cooperation with municipalities, local authorities and businesses. In all, BP and co-venturers spent \$2.7 million on the CIP in 2007.

Milestones of 2007

- **The living university concept programme:** Set up in 2005, this project invested in 24 communities in 2007, focusing on the regions of Hajicabul, Kurdamir, Ujar, Agdash and Yevlakh. The programme works with those communities that have demonstrated a strong commitment to sustainable development partnerships. Project sustainability is strengthened through the establishment of lasting links between communities and local government. The programme was implemented for us by Save the Children in partnership with national NGOs Umid and agro information centre. In 2007, we and our co-venturers spent around \$1.3 million on activities in the programme. The programme will run until 2009. The living university concept programme has three major components:

a community-to-community partnership, where successful communities pass on their development experience and expertise to recently mobilised or 'nascent' communities; a vocational apprenticeship component for youth; and an agricultural component implemented through the establishment of agricultural service centres (ASC). ASCs are based on a network of 20 agriculture extension agents in each centre who ran 13 demonstration farms and provided advice to approximately 900 farmers.

In 2007, five 'star' communities mentored and coached 15 'nascent' communities; 36 apprentices were trained and seven of them ended up with relevant jobs. Nine participants received small grants to establish their own businesses.

Two ASCs opened in Kurdamir and Ujar regions in 2007, while the ASCs established in Samukh (Servet) and Agstafa (Bereketli Torpaq) in 2006 continued their activities in 2007.

Computer and English language courses were conducted in the centres. Trainers from the ASC 'Bereketli Torpaq' conducted business training for 60 individuals while Servet specialists provided agro training for 160 farmers.

In 2007, 2,750 farmers received advice in these centres on various topics.

- **Water purification programme:** In 2006, one water purification facility was installed at each of six communities in the Kurdamir, Ujar and Agdash regions (along the BTC/SCP pipeline route) that had previously been affected by lack of potable water. In 2007, the CIP implementing partner UMID NGO worked on construction of additional five water purification facilities in Kurdamir and Ujar communities incorporating low-tech, locally available technologies.
- **Zykh community development initiative:** Various development projects were implemented by UMID through this programme, which ended in June 2007. The NGO created business plans for 40 businesses, 126 people were linked to credit institutes and received credits, 156 young people participated in apprenticeship courses and 31 of them launched their own businesses. Different types of infrastructure were rehabilitated. In all, we and our co-venturers spent around \$650,000 on the project in 2004 - 2007 in addition to community contributions.
- **Economic opportunities programme (EcOP):** Launched in 2007, this program supports economic development and

job-creation in 17 communities in Azerbaijan following the demobilization of our major construction projects. Four elements have been linked to form an integrated development tool: access to finance by foundation for international community assistance - committed \$423,000; apprenticeship programme by UMID - committed \$189,000; economics and business training by Junior Achievement Azerbaijan - committed \$151,000; and an information and communications technology (ICT) programme run by Madad - committed \$142,000.

- **Emergency medicine development initiative (EMDI):** This initiative focuses on improving the effectiveness of pre-hospital ambulatory care and in-hospital emergency medical services. The initiative provided emergency medical equipment to emergency departments in Kurdamir, Shamkir, and Yevlakh and 220 individuals (physicians, rheumatologists, ambulance staff, nurses and first responders such as policemen and firemen) from Ganja, Kurdamir, Shamkir, and Yevlakh received training in emergency medicine. Due to end in 2008, EMDI is implemented by the International Medical Corps and funded by BP, our

co-venturers and United States Agency for International Development.

- **Educational initiatives:** We, either with our co-venturers or independently, supported a number of educational projects including the school connectivity and global citizenship programme and the rural inclusive education programme.

You can find more information about them on pages 54-56

Employees' support to communities: We encourage our employees to support communities around the country through gift, effort and time-matching schemes. These contributions are matched



Little bit helps

As winter advanced in 2007, two employees of BP in Azerbaijan - Ekaterina Golovina and Ramal Guliyev - decided to do something to help Azerbaijan's Internally Displaced Persons (IDPs). With the Rotaract Club of Baku International (both are members), they launched and ran a campaign in

November/December 2007, to provide winter clothes to the refugees along with sports supplies for a newly constructed school in the Fizuli region.

Working flat out, the pair collected about ten full boxes of clothes which were then driven to Fizuli and distributed to the people of Bala Behmenli, a community of 2,000 including many IDPs who fled from Nagorno-Karabakh in 1992-93.

On completing this project Ekaterina and Ramal, together with Majid Samadov who helped to move the clothes from Baku to Fizuli, requested a matching time grant from BP for the work they had done. All the money raised this way was later spent on repair works at orphanage #3 (for children with hearing and speaking impairments) located in Nizami district of Baku.

through the employee matching fund (EMF) managed by the BP group. Our third-party administrator - Charities Aid Foundation (CAF) - maintains and updates a list of local organizations eligible to receive matching donations from the global EMF. In 2007, eight BP Azerbaijan SPU employees contributed around \$5,000^a in gifts and efforts. These funds were matched by identical amounts from BP matching funds to local charities in Azerbaijan.

To further encourage employee work in local communities, BP Azerbaijan SPU decided to localize time matching by launching the employee engagement programme (EEP) in 2007. Unlike the EMF, the budget of the EEP is managed by BP Azerbaijan SPU. Under this programme, volunteers spend free time outside business hours with any recognised organization or community and request BP in Azerbaijan to match their time spent - with money. During the year, 38 employees participated in eight EEP programmes contributing 822 volunteer hours. BP in Azerbaijan contributed \$13,740^a to match these hours.

Environmental responsibility

Environment investment programme (EIP)

In 2007, the EIP focused on the protection of biodiversity and environment around BP-operated assets and in the regions where we are represented. With our co-venturers, we spent a total of \$288,500 on the programme during 2007.

Milestones of 2007

- **Green Pack:** The year was noteworthy for the successful completion of the Green Pack project - the culmination of almost three years' intensive work with local and international partners. Green Pack is a multimedia, interactive educational tool designed to enhance environmental knowledge among school teachers and 1st to 11th grade pupils. The pack contains a teacher's handbook, a textbook for children, a DVD film collection, a CD-ROM and a dilemma game. One thousand packs were produced and distributed free of

charge to schools and educational centres across Azerbaijan.

Green Pack content was approved by Azerbaijan's Ministry of Education and the Ministry of Ecology and Natural Resources. Following this, the pack was included officially in the national educational curriculum.

In 2007, 741 teachers received extensive training on how best to present the pack to school students. The project was implemented by the Regional Environment Centre for Central and Eastern Europe - REC (Hungary) in collaboration with the Azerbaijani NGO For Sustainable Development Society (FSDS). The total cost of the project was slightly more than \$400,000, of which \$300,000 was contributed by BP and its co-venturers in BTC/SCP. The balance was provided by the OSCE office in Baku.

- **Support to environmental and energy initiatives:** Local NGO UMID completed this project at the end of 2007. During the year, the project delivered some 13 pilot micro-projects with energy, safety and environmental themes. The micro-projects included installation of solar collectors, solar water heaters, biogas units and photovoltaic devices in 11 communities along the BTC/SCP route in Azerbaijan. In addition, UMID conducted demonstrations and consultations on alternative energy in communities and schools. The NGO also organised drawing and article contests among school children. In total, 10,124 community members benefited from this project.
- **Tugay forest rehabilitation project:** The BP flagship Tugay forest rehabilitation project continued in 2007. This project included the following activities: tree planting, construction of a forester house and installation of irrigation facilities on a 12 hectare land plot in the region of Agstafa. Rehabilitation measures were accomplished in an adjoining 150 hectare forest area.

Other initiatives in 2007

- **Biodiversity competition:** In 2007, we and our co-venturers organised the sixth annual biodiversity competition in Azerbaijan. Some 80 applications were received from 44 organizations. In the best 'biodiversity project' category, the main prize - valued at \$19,120 - was awarded to local NGO Ecostyle-Azerbaijan for a project aimed at creating a seed bank of rare and endangered plants of the Absheron peninsula as well as biodiversity awareness campaigns with participation of the students of Azerbaijan Cooperation University. In the category 'best environment awareness project' the main prize - valued at \$9,356 - was won by the youth development public association 'Brilliance of Youngsters' for its proposal to conduct the following activities: opinion surveys in five regions of Azerbaijan on ecological problems and ways to solve them, a youth training on solution of ecological problems, photo exhibition, and other activities. In 2007, two books were published by previous winners of the biodiversity-competition. The books were 'Waterfowl in the Azerbaijan sector of the Caspian Sea' and 'Natural Monuments of Absheron peninsula'.
- **BP conservation leadership programme (CLP):** A team from the Azerbaijan Ornithological Society (AOS) received a grant of \$24,700 from the BP group programme to enable it to determine the condition of the imperial eagle and the lesser kestrel. The AOS team was among 26 teams from 19 countries who shared \$502,500 distributed by BP under the CLP in 2007. The main goal of this programme is to promote biodiversity and nurture the careers of young conservationists worldwide. BP implements the CLP in partnership with BirdLife International, Fauna & Flora International, Conservation International and the Wildlife Conservation Society.

^a This is in addition to \$739 million of social investments made by BP in Azerbaijan and co-venturers.



A dream come true in Eyvazlilar

Achieving regular supply of gas as well as hot water are among the most crucial issues facing a majority of homes in remote rural communities in Azerbaijan. One answer is the installation of solar water heaters.

As part of support for environmental and energy initiatives, UMID has so far installed 12 solar water heaters and a biogas unit with a solar panel on a community farm at Eyvazlilar - chosen as an optimal site for implementation of this project because it accommodates about 50 people working on the farm and around 100 cattle on the land.

Thanks to the project the farmers of Eyvazlilar can now take a hot shower at the end of a hard day in the fields and cook a meal using environmentally-friendly 'BIOgas'. Yahya Mamedov, a member of the community (located in the Goranboy region) says: "In the past, in order to get hot water, we had to use electricity or firewood, which resulted in huge energy expenses. This project is a success, as it allows us to utilize alternative energy that uses locally available inexpensive resources".

Conservation of cultural heritage

Activities involving the processing analysis, reporting and conservation of artefacts excavated on the BTC route were ongoing throughout in 2007.

Milestones of 2007 To enhance the capacity of the Azerbaijan Institute of Archaeology and Ethnography (IoAE), BP in Azerbaijan and its co-venturers initiated the BTC conservation programme in 2006 (implemented by URS Corporation Ltd.). The goals of this programme are: (1) to treat and stabilize objects recovered during BTC excavations (2) to establish a conservation laboratory for the IoAE and (3) to train IoAE staff in basic archaeological conservation techniques, procedures, and ethics.

In 2007, IoAE worked with URS on reporting, logging and laboratory work related to artefacts unearthed along the BTC/SCP pipeline route in Azerbaijan. A conservation laboratory was set up for IoAE use in 2007. Twenty one archaeological objects excavated during BTC/SCP construction underwent special conservation treatment. An American conservator provided monthly on-the-job training for IoAE staff in basic archaeo-

logical conservation techniques, procedures and ethics. Five IoAE archaeologists took part in 27 hours of training.

During the year we on behalf of ourselves and our co-venturers signed a memorandum of understanding with Gobustan State Historical Artistic Reserve (GSHAR) to provide internships to four GHSAR guides at the BP-operated Caspian Energy Centre (CEC). The internships started in December 2007. During the internship the guides learned to make interactive presentations to schoolchildren, visitor services procedures and developed information leaflets for school visits to the GHSAR.

Work on an archaeological exhibition in the CEC began in 2007, and is planned to open at the end of 2008.

Towards the end of 2007 we on behalf of ourselves and our co-venturers finalised, and in February 2008 signed a two-year grant agreement with the US based Smithsonian Institution to implement a major cultural heritage programme. The Smithsonian has begun work that will include capacity building for the Gobustan national state reserve, the IoAE and the Georgian national museum; and public outreach on the BTC/SCP archaeological findings.

2.2 Revenue transparency

We cooperated with government, civil society and extractive industry companies in 2007 to promote greater revenue transparency. We also underwent the biggest tax audit in our history.

Transparency and good governance reflect the BP group's values and our commitment to generate mutual advantage and ensure that the wealth created by hydrocarbon development is used effectively and for the widest benefit.

We support international initiatives designed to promote the transparency of revenues paid to government by extractive industries. Over the years, we have expressed consistent support for a voluntary, consensus-building approach and believe there are many valuable things we can facilitate.

In 2007, we continued to cooperate with the State Oil Fund of the Azerbaijan Republic (SOFAZ) and a coalition of local and international non-governmental organizations (NGOs) on implementation of the Extractive Industries Transparency Initiative (EITI). In October, we submitted our 7th EITI report covering January-June 2007, to the independent aggregators. In December, the aggregated extractive industry companies' report was posted on the SOFAZ website.

We continue to disclose our own disaggregated EITI data in this publication, including a table summarizing our previous reports. Our 8th EITI report covering the data for the 2007 calendar year can be read on the page 59 of this report.

Azerbaijan's efforts in EITI were recognized in September when it was among 15 countries nominated to be an EITI candidate country. The presentation took place during the 7th global forum on reinventing government. Once Azerbaijan's EITI implementation process is validated, it will be considered EITI-compliant.

Throughout the year, we continued to support SOFAZ in its work with Oxford Economics to develop a macro-economic model of Azerbaijan's economy and build capacity within SOFAZ and in the working group (comprising experts from SOFAZ, Ministry of Economic Development, Ministry of Finance, National Bank of Azerbaijan, the President's Office). In 2007, the second phase of this project concentrated on improving the model with additional data and designing options for various scenarios unique to Azerbaijan's economy.

In a related initiative, BP group economists engaged in a dialogue with the Ministry of Economic Development in 2007 on building macro-economic policy-making capacity at the ministry and widening relationships with leading economic research and capacity-building institutions in Azerbaijan.

In 2007, Azerbaijan's efforts in transparency began to win wider recognition.



In June, SOFAZ won a UN public service award in the category of 'improving transparency, accountability and responsiveness in the public service'. The state oil fund is a first governmental agency from a former eastern bloc/CIS country to win this award.

In other initiatives we conducted a presentation on the PSA revenue and tax structure to journalists and members of the EITI NGO coalition to raise their awareness and understanding on how the revenue split works under the PSA.

In 2007, we successfully underwent the biggest tax audit in our history and the largest ever done in Azerbaijan. Our tax team spent almost six challenging months and reviewed more than eight billion dollars that we spent on different projects from 2004 to 2006.

2.3 Local content development

In 2007, we stepped up our efforts to encourage local content development in Azerbaijan.

Two major challenges confronted our enterprise development efforts in Azerbaijan in 2007 - a mismatch between local market conditions and BP's desire to introduce progressive technologies; and a growing need to align BP's local content plans with sustainable economic progress in the country.

In response we implemented new initiatives through the Enterprise Centre (EC) to facilitate local content development for projects being undertaken by BP and its co-venturers in Azerbaijan. The EC concentrated on sector strategy

development, working with procurement and supply chain management (PSCM) contract holders and the Regional Development Initiative (RDI) team.

This strategy involved identifying contract opportunities for local companies based on their competencies and the business needs of BP in Azerbaijan. EC staff evaluated our specific technical requirements and demand profiles for each priority sector of spend. By doing this it was able to help identify potential new entrants to the BP's supplier network in Azerbaijan and to design specific

business development plans tailored to our needs. While developing the strategy, the EC also considered the longer-term implications of the new approach on sustainable local content development.

In parallel, we introduced changes to each step of the procurement process to make it easier for small, local firms to compete with international suppliers. The changes included breaking up contract scopes into more manageable activities; introducing mandatory local content evaluation criteria across all sectors; and revising pre-qualification and tender



Young entrepreneur of the year

Eyvaz Mirzoyev, 28, owns and manages Munasib Senaye Techizat (MST) Ltd., a business specialising in the provision of industrial supply, electrical supply and services to the region. He began his career in Azerbaijan's energy sector in 1996 when he joined an oil and gas service company. After more than six years in the business, he decided to branch out on his own and in 2004 set up a company in Baku.

After a dynamic sales debut that year, Eyvaz expanded the MST supply chain into Georgia and Kazakhstan. Meantime at home he nurtured strong business relationships, signing key distributorship agreements with reputable suppliers in the UK, Norway and US.

Being named 'young entrepreneur of the year' will reinforce MST's growing reputation, Eyvaz believes: "the 'best of business award' will give us the impetus for further development of our business inside and outside Azerbaijan". He says: "It will increase international confidence in our reliability".

JIS, owned by Jeyhun Imanov (2006 young entrepreneur of the year) was granted accredited agency status by the BP group brand centre in 2007 for designing avian flu posters and booklets for distribution across the SPU.

provisions and evaluating the commitment of foreign contractors to local content. EC works with PSCM contract holders to ensure that local content requirements are properly applied.

As mentioned in the RDI section of this report (page 44), the enterprise development and training programme (EDTP), launched in 2006, also moved ahead. The EDTP is a three-year multi-million dollar initiative to support local business development. The EC plays a core role in managing this programme and specifically in ensuring that there are strong links between BP business objectives and local content development in Azerbaijan.

BP also held discussions with Azerbaijani government departments and agencies to explore potential avenues of cooperation in entrepreneurship-related ventures.

Our spend in Azerbaijan In 2007, BP and its co-venturers' in-country spend (operations and projects) totalled \$1,494 million. This broke down as: direct spend with SMEs \$111 million (up 44% on 2006); state-owned spend \$43 million (down 28%); joint ventures spend \$ 450 million (down 13%); indirect local spend through foreign suppliers working in Azerbaijan \$891 million (up 8%).

Our sustainable in-country spend with local suppliers (operations spend only i.e. a longer term spend) totalled \$953 million in 2007, up 4% on 2006. This included direct spend with SMEs \$102 million (up 51% on 2006); state owned spend \$21 million (down 40%); joint ventures spend \$320 million (down 8%); indirect spend \$511 million (up 14%).

The changes in expenditure patterns over the years reflect the evolving nature of our business in Azerbaijan as projects move from the construction to operational phase. At present we are focusing our efforts on development of SMEs.

The 2007 best of business award winners

Award category	Winner
Health, safety and environment performance award	Caspian Drilling Company (CDC)
Young entrepreneur of the year	Eyvaz Mirzoyev
Employer of the year	ITS Testing Services
Company of the year	Encotec
Community entrepreneur of the Year	The Community Business Organisation, the Human Development and Sustainable Income Generation Public Union



Growing local commitments

Eight local companies won new long term contracts with BP in Azerbaijan in 2007:

- Dalgich
- Azertunelsutikiniti
- Rapid Solutions
- Debet
- ABTC
- English Services Direct
- EKOL
- SOCAR Ecology Division

In total, BP and its co-venturers did business with 2,637 companies in 2007. Of these companies 472 (17.9%) were local suppliers. In 2007, 161 local entities received training at the EC including 67 local SMEs.

During the year we announced the winners of the second 'best of business award'. This is an annual initiative which recognises BP contractors for their contributions to the economic

development of Azerbaijan.

We believe that our local content development initiatives in Azerbaijan should contribute to the sustainable development of the country.



Company of the year

Encotec was founded in 2000. Seven years later it is a multi-discipline engineering company providing design-engineering services, project management and supervision for construction, installation and commissioning to Azerbaijan's oil and gas industry.

Nowadays the company's expertise extends well beyond the hydrocarbon sector and embraces civil engineering and other engineering fields. Encotec, for example, provided minor engineering, modifications and design services in support of the ACG development, the SD development, and the BTC and SCP facilities.

In the business community Encotec has become well known for its flexibility and prides itself on being able to handle a large number of small projects in an efficient manner. The 2007 judging panel was particularly impressed by its consistent record of successful delivery and the high quality of its engineering-design works. Continuous employee training is also encouraged.

"We are proud to have been awarded the 'company of the year' award," says Faig Rzayev, manager of Encotec. "For us this award serves as a strong motivation for even harder work".

2.4 Educational initiatives

Our educational initiatives in Azerbaijan are intended to enhance knowledge of the energy industry, improve skills in the national workforce, promote business training and advance learning.

In 2007, we implemented a number of educational initiatives in Azerbaijan:

Caspian Energy Centre (CEC) The centre continued to attract attention in 2007 when 8,478 visitors toured the facility including 5,855 children. BP and its co-venturers spent \$1.039 million to support CEC in 2007.

Several new projects were undertaken. In March, a science workshop 'Energy in our lives' was organised with the British Council and overseen by the specialist of UK-based, the Floating Point Science Theatre and the Creative Science Consultancy Ltd. More than 200 children from four schools and Gizil Dash orphanage participated.

CEC also produced an informative educational pack on energy for secondary school children. Distribution to local schools started in November 2007.

After winning the 3rd Azerbaijan national lego robotics competition in 2006, Lokbatan-CEC team travelled to the UK in January 2007 to take part in the UK Robotics championship finals at the University of Birmingham. The team took 5th place out of 28 teams. CEC continued its support in 2007 by sponsoring training and the 4th Azerbaijan national lego robotics competition for local schools.

School economic and business education programme In June, BP and its co-venturers agreed a new grant to Junior Achievement Azerbaijan (JAA). The grant will enable JAA to expand its activities and provide students and teachers in 15 schools in the Khatai, Sabayil and Garadagh districts with economic and business education and training. The project is part of the economic opportunities programme described on pages 46-47.

Community economics education programme (COMEEP) This programme provides economic and business training to mainly LLC representatives created with the support of BP and co-venturers, local business people and members of the community who want to strengthen their commercial acumen, market economic knowledge, business ethics and possibly start their own businesses. The programme is implemented by Junior Achievement Azerbaijan in nine community centres in Yevlakh, Samukh, Agstafa, Ujar, Kurdamir, and Agdash. In 2007, 42 entrepreneurs were supported and \$133,000 spent on the programme.

Youth employment and economic opportunities expansion initiative This project, launched in 2007, is implemented by



local NGO Umid and designed to adapt apprenticeship programmes to youth-identified needs. This project is also part of the economic opportunities programme (pages 46-47).

School connectivity and global citizenship programme We continued to support the spread of Information and Communication Technology (ICT)-based learning in rural schools along the BTC/SCP and WREP pipelines and in selected schools. In 2007, \$147,000 was spent on this programme by BP and its co-venturers. A separate agreement signed in August extends the project to cover 15 schools around Sangachal terminal,

Zykh and Bailovo in the Baku Corridor. Some \$100,000 was spent on the new project over the remainder of 2007.

Rural inclusive education programme (RIEP) During the year, many children with special needs received assistance through RIEP (implemented by

International Medical Corps), and 12 were integrated into mainstream classes. Twelve teachers received training on child-centred learning techniques. Educational material about inclusive education was developed and distributed in Baku, Sumgayit, Mingechavir and Yevlakh.

BP in Azerbaijan scholarships We supported, wholly or in part, three scholarship programmes in Azerbaijan:

- **Bursary programme:** This new initiative helps students interested in pursuing oil and gas-related studies in Azerbaijan. In 2007, 50 university students specializing in petroleum engi-



Impact of community economic education

Gorkhmaz Abdulrahimov joined COMEEP in March 2007 as one of the programme's regional trainers, and passed a separate train the trainer course prior to starting the actual coaching. "I believed my basic business skills would improve and also that I'd be able to pass on any knowledge I gained to the staff of my own company". Gorkhmaz's business - one of nine formed as a result of water purification projects sponsored by BP and its co-venturers in recent years - sells affordable drinking water to rural communities. But because of unclear marketing strategies, the company - known as Kahriz-L - had been languishing, with low sales volumes.

Gorkhmaz and a colleague, soon joined by some of his own company staff and a large number of fellow residents in Agdash's Orta Leki village, got to work absorbing the course concepts. "We quickly learned some basic market research skills which we used to do a demand analysis of our company's production. This made us think more in-depth about product promotion. Towards the end of the three month course we learned how to write a business plan. By then we had a complete picture of our business and how it was operating".

The results were dramatic as Kahriz-L grew rapidly, attracting new customers from neighbouring villages and boosting water sales 12 times to 72 tons in just five months. The company also began to work with a Turkish firm, delivering water to its offices and sites.

Looking ahead, Gorkhmaz plans to continue his involvement with COMEEP training. "Business literacy is essential in the development of our society", he says. "As a manager I'm planning to expand my business by attracting additional capital".



A successful BP scholarship recipient

One of the first individuals selected to take part in UK-based post-graduate study turned out to be working with BP - Chingiz Orujov, then economic development and agro-business adviser for BP in Azerbaijan's Community Investment Programme team.

Chingiz linked up with BP in 2006. Before that he worked as a community liaison officer for Petrofac (an oil construction company) and as deputy country director for Seacor (an oil spill response company) in Yevlakh district. "That's where I developed affection for field trips and face-to-face interaction", he says.

An economist by training, Chingiz graduated from Azerbaijan State Economic University and decided to specialise in such areas as transitional economic policy and the effect environmental change has on an economy. The BP scholarship was his chance.

In the autumn of 2007, he left for UK to become the only Azerbaijani student at York University. He plans to return to Baku and focus on development issues.

"We (the generation of Azerbaijanis aged 25-35) are the ones (who will) determine whether Azerbaijan will prosper or be doomed by the so-called oil curse", he remarks. "I hope the BP scholarship programme will be a positive model and a good source for methodology in future bigger-scale projects all over the country".

neering and the geosciences and 15 students from the society of Azerbaijan young specialists developers received one time stipend, in amount equivalent to \$1,000 each, to support their education.

- **Azerbaijani oil and gas scholarship programme:** This programme enables Azerbaijani students to pursue undergraduate and post-graduate studies in engineering and the geosciences at universities in the US, UK, Turkey, Russia and Azerbaijan. Ninety three BSc and 11 MSc students were supported in 2007.
- **Post graduate scholarship programme:** This initiative allows Azerbaijani professionals to undertake advanced study in the United Kingdom. Eight individuals were selected in 2007 from 71 applicants and seven of them accepted scholarship to pursue MBA, MPA or MSc courses at leading British universities.

Other educational activities We maintained support for the Azerbaijan-UK Alumni Association (AUKAA). This is a network of young professionals who studied in UK and assists its members in their professional development. Another initiative involved training for journalists.

Known as the Business Journalism Course, it is run by BP, the British Council and the Thomson Foundation and builds on past programmes. Twelve Azerbaijani journalists working for local media outlets took part in 2007.

Towards the end of 2007, we finalized planning for two new educational projects. The first one will be implemented in cooperation with Azerbaijan National Academy of Sciences (ANAS). Based on the memorandum of understanding signed by BP in Azerbaijan and ANAS in early 2008, the company will help ANAS to build academic capability and knowledge. The project is aimed at supporting the next generation of geoscientists, and will be implemented through a number of activities including basin modeling and a feasibility study for launching a petroleum geology master of science at the academy.

The second project, called BP-British Council interactive science project, was launched in April 2008 and is intended to offer a well-tested teacher training model initiating active teaching and learning approaches in three subjects - physics, chemistry and biology.

2.5 Key statistics in chapter 2

Regional Development Initiative

- Spend on RDI projects in Azerbaijan in 2007 - \$3.7 million.
- Amount allocated for enterprise development & training programme to boost local content - \$5.2 million.
- A \$1 million agreement signed with IFC to widen access to micro finance in Azerbaijan's western regions.

Community Investment Programme

- We and our co-venturers spent \$2.7 million in 2007 on various community investment projects in Azerbaijan.
- We and our co-venturers spent \$300,000 in 2007 on the "Green Pack" environmental awareness campaign.
- Our employees contributed \$5,173 to local charities and matched by BP funds.
- In 2007, 10,124 community members benefited from alternative energy projects.

Educational initiatives

- In 2007, 8,478 people visited the Caspian Energy Centre, including 5,855 children.
- In 2007, \$1.039 million was spent on Caspian Energy Centre.
- In 2007, 175 Azerbaijani nationals participated in BP-funded scholarship programmes.

Local content development

- Eight local companies won new long term contracts with BP in Azerbaijan in 2007.
- Our spend with local small and medium-sized enterprises (SMEs) reached \$111 million, a 44% increase compared to 2006.
- Five local companies were awarded best of business awards for outstanding performance in 2007.
- In-country spend by BP in Azerbaijan and its co-venturers totalled \$1.495 billion, up 1% on 2006.

Four year performance data^a

	2004	2005	2006	2007
Operating				
Total hydrocarbons produced (thousand barrels of oil a day on average)	132.2	261.0	472.0	668.0
Financial^b				
OPEX – total gross spend (\$thousand)	157,668	213,983	254,000	615,000
CAPEX – total gross spend (\$thousand)	5,122,678	5,160,705	4,437,000	3,404,000
Safety^c				
Fatalities – employees	0	0	0	0
Fatalities – contractors	2	2	1	0
Days away from work cases (DAFWC) – workforce	8	3	5	5
Days away from work case frequencies (DAFWC(f)) – workforce	0.03	0.01	0.03	0.04
Recordable incidents (RI) – workforce	113	73	39	41
Recordable incident frequencies (RI(f)) workforce	0.44	0.33	0.25	0.31
Hours worked – employees (million hours) ^d	3.5	3.85	5.73	11.53
Hours worked – contractors (million hours) ^e	48.22	40.24	25.45	14.76
Environment				
Direct gross carbon dioxide (CO ₂) (kilo tonnes)	946.7	1,649.2	1,686.5	1,980.1
Indirect gross carbon dioxide (CO ₂) (kilo tonnes)	0	0.5	0.4	0.3
Direct gross methane (CH ₄) (kilo tonnes)	4.6	6.7	5.7	9.4
Direct gross greenhouse gas (GHG) (thousand tonnes CO ₂ equivalent) Azerbaijan	1,042.8	1,789.5	1,806.5	2,176.2
Flaring net (exploration and production) (tonnes)	283,953	448,279	332,641	280,774
Sulphur gross dioxide (SOx) (tonnes)	59	814	237	249^f
Nitrogen gross oxides (NOx) (tonnes)	1,621	3,538	3,711	3,953^f
Non-methane hydrocarbons gross (tonnes)	1,327	3,229	7,562	3,014
Number of crude oil spills	20	54	41	71
Volume of product spilled (litres)	21,376	24,410	8,396	4,534
Volume of product unrecovered (litres)	3,061	1,024	1,100	1,192
Discharges to water – drill cuttings with synthetic-based mud (tonnes)	6,077	3,315	1,563	6,811
Employees				
Number of permanent employees of BP in Azerbaijan	1,505	1,741	2,048	2,199
Social spend				
Total for BP Azerbaijan SPU and co-venturers - gross spend (\$million)	34.25	25.45	17.12 ^g	21.10^h

^a Unless otherwise stated, performance data relates to BP in Azerbaijan only.

^b BP Azerbaijan SPU and its coventurers.

^c Cumulative data for BP Azerbaijan SPU.

^d Hours worked by employees - are identified as hours worked by individuals who have a contract of employment with BP Azerbaijan SPU; this definition is consistent with BP's group definition.

^e Hours worked by contractors - are identified as hours worked by contractors under the sphere of our control; this definition is consistent with BP's group definition.

^f For comparability this number is reported using 2006 (vs. 2007) assumptions.

^g Instead of \$13.31 million indicated erroneously in the 2006 BP in Azerbaijan Sustainability Report.

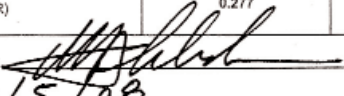
^h This is the cash out number; as in previous years BTC grant and BP pledge of Georgia are excluded.

BP Azerbaijan EITI reported data (2007)

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

Name of company: BP
 BP Exploration Caspian Sea Ltd (TIDN 9900070211), Amoco Caspian sea Petroleum Ltd (TIDN 9900071821);
 Name of industry: Oil and gas
 Activity type: Production Sharing Agreements (Azeri-Chirag-Guneshli, Shah Deniz, Alov, Inam)
 Reporting Period: Annual, January - December 2007

Payment description 1	Value ¹		Volume	
	min.US dollar 2	bln. AZM 3	Oil mln.boe 4	Gas (natural associated) nm ³ 5
1. Payments/allocations of foreign company to host government 1 a) Host Government's production entitlement in foreign company's Production Stream - in kind (SOFAZ) - in cash ²	0.615		10.360	
1 b) Payments of foreign company to host government Royalties - in kind - in cash				
Profit tax	799.735			
Other tax (excluding employee income tax, Social Protection Fund tax, withholding tax)				
Dividends				
Signing bonuses and other bonuses	12.750			
License fees, entry fees and other considerations for licenses				
Other payments, including: a) transportation tariff (SOFAZ)	0.000			
b) acreage fee	0.450			
2. Payments/ allocations of foreign company to host state-owned company 2 a) Host state-owned company's production entitlement in foreign company's Production Stream in kind in cash				
2 b) Payments to host state-owned company Royalties - in kind - in cash				
Profit tax				
Other tax (excluding employee income tax, Social Protection Fund tax, withholding tax)				
Dividends				
Signing bonuses and other bonuses				
License fees, entry fees and other considerations for licenses				
Other payments, including: a) transportation tariff (SOCAR)	0.277			2,295,332,277.863
b) associated gas ³ (SOCAR)				

Company authorized officer 
 Form completing date 2/5/08

¹ For a reporting line only one of value columns shall be filled (either USD or AZM).
² The payment is for SD gas.
³ BP as the operator of AIOC, reports within BP's template, the total gross number for associated gas delivered to SOCAR in 2007.

BP in Azerbaijan EITI reported data (2003-2007)

	2003 January 1-December 31		2004 January 1-December 31		2005 January 1-December 31		2006 January 1-December 31		2007 January 1-December 31	
	Value min. US dollar	Volume Oil min, boe	Value min. US dollar	Volume Oil min, boe	Value min. US dollar	Volume Oil min, boe	Value min. US dollar	Volume Oil min, boe	Value min. US dollar	Volume Oil min, boe
1. Payments/allocations of foreign company to host government 1a) Host Government's production entitlement in foreign company's Production Stream - in kind (SOFAZ) - in cash		2.29		4.89		6.498		10.360		
Profit tax						472.032		799.735		
Signing bonuses and other bonuses								12.750		
Other payments, including: a) transportation tariff (SOFAZ) b) acreage fee (SOFAZ)	3.80 0.45		3.95 0.45					0.000 0.450		
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 - in kind - in cash		2.26								
Other payments, including: a) transportation tariff (SOCAR) b) associated gas ^a (SOCAR)	0.05		0.07			948.576.000		1.214		2,295,332, 277,863
						1,778, 570,000		2,191,730, 873,711		

^a BP as the operator of AIOC, reports the total gross number for associated gas delivered to SOCAR, within BP's template.

Independent assurance statement to BP management

The BP Azerbaijan Sustainability Report 2007 (the Report) has been prepared by the management of BP Azerbaijan, who are responsible for the collection and presentation of information within it. Our responsibility, in accordance with BP management's instructions, is to carry out a limited assurance engagement on the Report as outlined below, in order to provide conclusions on the claims, data and coverage of issues within it.

Our responsibility in performing our assurance activities is to the management of BP p.l.c. only and in accordance with the terms of reference agreed with them. We do not therefore accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance that any such third party may place on the Report is entirely at its own risk.

What we did to form our conclusions

Our assurance engagement has been planned and performed in accordance with the International Federation of Accountants' ISAE3000⁹.

The Report has been evaluated against the following criteria:

- Whether the Report covers the key sustainability issues relevant to BP in Azerbaijan in 2007 which were raised in the media, BP Azerbaijan's own review of material sustainability issues, and selected internal documentation.
- Whether sustainability claims made in the Report are consistent with the explanation and evidence provided by relevant BP managers.
- Whether the sustainability data presented in the Report are consistent with the relevant business unit level data records.

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

1. Reviewed a selection of external media reports and internal documents relating to the sustainability performance of BP in Azerbaijan in 2007, including risk assessments, ethics certificates and stakeholder feedback.
2. Reviewed the outcome of BP Azerbaijan's own process for determining the key issues to be included in the Report.
3. Reviewed information or explanation about the Report's sustainability performance data and statements. Whilst we reviewed documentation to support the sustainability data contained within the Report, we did not test the processes for gathering, collating and reporting data at country or site level.

Level of assurance

Our evidence gathering procedures have been designed to obtain a limited level of assurance on which to base our conclusions. The extent of evidence gathering procedures performed is less than that of a reasonable assurance engagement (such as a financial audit) and therefore a lower level of assurance is provided.

Our conclusions

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

1. Does the Report cover the key issues?

Based on our review of media, selected internal documents, and BP Azerbaijan's process for determining key issues, we are not aware of any key sustainability issues that have been excluded from the Report.

2. Are the data and statements regarding BP Azerbaijan's sustainability performance contained within the Report supported by evidence or explanation?

We are not aware of any misstatements in the assertions and data presented by BP management within the Report regarding BP Azerbaijan's sustainability performance.

Our independence

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

We confirm annually to BP whether there have been any events including the provision of prohibited services that could impair our independence or objectivity. There were no such events or services in 2007.

 **ERNST & YOUNG**

Ernst & Young LLP

London
June 2008

⁹ International Federation of Accountants' International Standard for Assurance Engagements other than audits or reviews of historical financial information (ISAE3000).

Glossary

ABTC	Azerbaijan Bank Training Centre	DAFWC(f)	Days away from work case frequency
ACDI/VOCA	Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance	DC	Drill cuttings
ACG	Azeri-Chirag-Deepwater Gunashli	DCRI	Drill cuttings re-injection
AIOC	Azerbaijan International Oil company	DCT	Digital & communications technology
AMFA	Azerbaijan Microfinance Association	DPCU	Dewpoint control unit
ANAS	Azerbaijan National Academy of Sciences	DWG	Deep-water Gunashli
AOS	Azerbaijan Ornithological Society	E&P	Exploration and production
ASA	Advanced safety audit	EA	East Azeri
ASC	Agricultural service centre	EBRD	European Bank for Reconstruction and Development
ASIL	Azerbaijan State Institute of Languages	EC	Enterprise Centre
ASRC	Azerbaijan Social Review Commission	EcOP	Economic opportunities programme
AUKAA	Azerbaijan-UK Alumni Association	EDTP	Enterprise Development and Training Programme
AZAL	Azerbaijan Airlines	EEP	Employee engagement programme
BOHS	British Occupational Hygiene Society	EIP	Environmental Investment programme
BTC	Baku-Tbilisi-Ceyhan	EITI	Extractive Industries Transparency Initiative
C&EA	Communications & external affairs	EMDI	Emergency Medicine Development Initiative
C&WP	Compressor & water injection platform	EMF	Employee matching fund
CAF	Charities Aid Foundation	EOP	Early Oil Project
CDAP	Caspian Development Advisory Panel	EPPD	Export Pipelines Protection Department
CDP	Corrosion detection pig	ERNP	Environmental requirements for new projects
CEC	Caspian Energy Centre	ESAP	Environmental and social action plan
CIP	Community Investment programme	EU	European Union
CIPD	Chartered Institute of Personnel and Development	FC&A	Financial control & accounting
CIS	Commonwealth of Independent States	FINCA	The Foundation for International Community Assistance
CLO	Community liaison officer	FSDS	The Azerbaijani NGO For Sustainable Development Society
CLP	Conservation leadership programme	FTN	Fresh thinkers network
CoC	Code of conduct	GDP	Gross domestic product
COMEEP	Community economic education programme	Ge	Georgia
CoW	Control of work	GHG	Greenhouse gas
CQA	Containment quality associates	GoM	Gulf of Mexico
CTTC	Caspian Technical Training Centre	GP	Geometry pig
CWAA	Central waste accumulation area	GSHAR	Gobustan State Historical Artistic Reserve
D&C	Drilling & completions	GTZ	German Technical Cooperation
DAFWC	Day away from work case	HGA	Host government agreement
		HiPO	High potential incident

HP-SD gas	High pressure Shah Deniz gas	NREP	Northern route export pipeline
HR	Human resources	OMS	Operating management system
HSE	Health, safety and environment	OPB	Occupied portable buildings
HSSE	Health, safety, security and environment	OPMS	Office properties management & services
HSSE&S MS	Health, safety, security, environment and social management system	OSCE	The Organization for Security and Co-operation in Europe
HWMF	Hazardous waste management facility	p/d	Per day
IASC	Inter-agency security committee	PIG	Pipeline inspection gauge
ICT	Information and communications technology	PPP	Private public partnership
IDPs	Internally displaced persons	PSA	Production sharing agreement
IEMP	Integrated environmental monitoring programme	PSA	Pump station in Azerbaijan
IFC	International Finance Corporation	PSCM	Procurement & supply chain management
IMC	International Medical Corps	PU	Performance unit
IMechE	Institution of Mechanical Engineers	R&M	Refining and marketing
IMS	Integrity management standard	RDI	Regional Development Initiative
INX-2	Inam exploration well	REC	Regional Environment Centre for Central and Eastern Europe
IoAE	Azerbaijan Institute of Archaeology and Ethnography	RI	Recordable injury
IP	Intelligent pigging	RI (f)	Recordable injury (frequency)
IPA	Intermediate pigging station Azerbaijan	RIEP	Rural inclusive education programme
ISO	International Organization for Standardization	ROW	Right of way
IST	Integrated Supply and Trading	SBM	Synthetic based mud
ITD	Indirect thermal desorption	SCP	South Caucasus pipeline
LP gas	Low pressure gas	SD	Shah Deniz
MBA	Master of business administration	SDX-4	Shah Deniz exploration well
MENR	Ministry of Ecology and Natural Resources	SFF	Supplier Finance Facility
MFBA	Micro-Finance Bank of Azerbaijan	SMEs	Small and medium sized enterprises
MME	Managing major emergencies	SOC	Safety observations and conversations
MPA	Master of public administration	SOCAR	State Oil Company of the Azerbaijan Republic
MS	Management system	SOFAZ	State Oil Fund of the Azerbaijan Republic
MSE	Micro and small enterprises	SOx	Sulphurous oxides
n/a	Not applicable	SPE	Society of Petroleum Engineers
NGL	Natural gas liquid(s)	SPS	Shelf Project Stroy
NGO	Non-governmental organisation	SPU	Strategic performance unit
NOx	Nitrous oxides	SR	Sustainability report
NPP	National progression programme	SS&W	Subsurface & wells

STEP	Sangachal terminal expansion project	MWh	Mega Watt per hour
STOP	Safety training observations programme	tcf	trillion cubic feet
TkAz	Tekfen-Azfen Alliance	te	tonnes
TNK	Tyumenneftegaz, Nizhnevartovskneftegaz, Kaluganefteprodukt	te/mboe	tonnes per million barrels of oil equivalent
TVAR	Total vehicle accident rate		
UK	United Kingdom		
UN	United Nations		
UNDP	UN Development Programme		
US	United States		
USACC	US-Azerbaijan Chamber of Commerce		
USAID	United States Agency for International Development		
WA	West Azeri		
WBM	Water based mud		
WREP	Western route export pipeline		

Units

€	euro
\$	US dollar
bbl	barrels
bcma	billion cubic metres per annum
bncm	billion normal cubic metres
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
bscm	billion standard cubic metres
km	kilometre
kte	kilo tonnes
kte/pa	kilo tonnes per annum
mbd	thousand barrels a day
mboe	thousand barrels of oil equivalent
m	metre
mln	million
mmbbl	million barrels
mmscm/d	million standard cubic metres per day
mmtpa	million tones per annum

How to ...

... visit the CEC

All potential visitors should contact the Centre to book a date and time for their visit. We require three days notice to accommodate a request for a free of charge visit. Schoolchildren should be accompanied by their parents or teachers and their visits should be arranged in advance.

Phone: (+994 12) 447 02 55/ 447 17 19/ 447 17 29
Email: cec@bp.com; Website: www.cec.az
Address: Garadag district, AZ1082, BP operated Sangachal terminal, Salyan highway.
Due to security restrictions, visits must be pre-arranged.

... apply for CIP/EIP grants

For inquiries regarding grants from the Community Investment Programme or the Environmental Investment Programme please contact:

Villa Petrolea, 3rd floor, 315 room, 2 Neftchilar prospekti, Baku, AZ1003, Azerbaijan
Phone: (+994 12) 497 90 00
Fax: (+994 12) 497 96 02
Email: cnp@bp.com

... get a contract

To learn about business opportunities with BP and its co-venturers please contact:

Enterprise Centre
99, Mirza Mansur Str.,
(Old City) AZ1004
Baku, Azerbaijan
Phone: (+994 12) 497 96 24
Fax: (+994 12) 497 96 54
E-mail: office@ecbaku.com
Website: www.ecbaku.com

... apply for a job

- Advertisements for experienced hires, internships, annual recruitment programme are placed online at <http://www.bp.com/caspian/careers/>

Note: annual recruitment programme starts in November and is announced in local newspapers.

... raise a difficult issue

OpenTalk 24-hour phone numbers:

Azerbaijan (+994 12) 497 98 88
International Collect (+1 704) 540 2242
Fax: (+1 704) 556 0732
Email: opentalk@myalertline.com
Letter: OpenTalk, 13950 Ballantyne Corporate Place, PMB 3767, Charlotte, NC28277, USA
Intranet: <http://baku.bpweb.bp.com/dep/ethics/opentalk/compliance.asp>
Further queries about OpenTalk should be referred to BP in Azerbaijan

... raise a grievance/concern, request information

You may contact us to express your grievances/ concerns/interest in information/other matter through:

CLO contacts:

Garadagh, Absheron, Hajigabul, Agsu, Kurdamir
Phone: (+994 50) 225 02 51/ 225 02 45
Ujar, Agdash, Yevlakh, Goranboy
Phone: (+994 50) 225 02 57/ 225 02 45
Samukh, Shamkir, Tovuz, Agstafa
Phone: (+994 50) 225 01 75/ 225 02 60
Project Information Centers' numbers:
Kurdamir (+994 145) 6 64 08; Yevlkah (+994 166) 6 58 84;
Tovuz (+994 231) 5 50 99
<http://www.bp.com/caspian/contactus>

Feedback

Summary The 2006 BP in Azerbaijan Sustainability Report received a generally positive response from students, educational institutions and the media in Azerbaijan. The report was distributed externally, and an electronic version was also available.

More than 100 individuals participated in engagement sessions on the 2006 report including students, professors, NGO and media representatives, professionals and alumni of various educational programmes.

Positive responses highlighted the comprehensiveness of the 2006 report. Negative reactions concentrated on the timeliness of the publication.

The student view

- Students and alumni from the Technical University, AAA, Baku State University, Qafqaz University, AUKAA and

University of Languages took part in feedback sessions.

- As in previous years, participants were most interested in recruitment-related issues. Other areas of interest included BP scholarships and the future of BP in Azerbaijan.

The media view

- Media representatives were generally positive about the report and felt that the 2006 version was more comprehensive and informative than previous reports.
- The major concern raised involved the publication date in July/August. For the media, this schedule diminishes the report's news value and usefulness.
- The Azerbaijani language version of the report and the technical terms used in it raised some questions.

The civil society view

- There was much less engagement and feedback from NGOs than previously.
- Investigation suggested this reflected BP's openness to NGOs in Azerbaijan and the amount of information readily available to them.
- Some NGOs expressed an interest in telling their own story about BP-sponsored projects they have been involved in.



Our response to stakeholders' feedback:

Each year the BP in Azerbaijan Sustainability Report allows us to widen and deepen our engagement with Azerbaijani society by reporting performance as openly as possible, meeting our stakeholders and receiving feedback that helps us to refocus our activities.

Last year we conducted seven feedback sessions on the 2006 report. Subsequently we reviewed the comments

made and have adjusted this 2007 report in some important respects. We have:

- Tried to advance our publication date. Production of a sustainability report is a complex process. But we recognise there is a demand for the report to be available earlier in the year.
- Taken steps to widen distribution of the report.

In the 2007 report we have continued our practice of disclosing information about our tax payments to the government of Azerbaijan (pages 59-60), our local spend (page 52), initiatives to enhance revenue transparency in Azerbaijan (page 50), our recruitment practices (pages 34-35) and our safety and environmental performance (pages 20-30).

Some information cannot be disclosed for commercial or ethical reasons. To give one example, we will not provide infor-

mation on how much we pay individual employees/contractors as this is a confidential and personal matter.

Nor will we disclose revenues earned by BP in this country as this constitutes market-sensitive information. However, the aggregated report on BP group's revenues and expenditures can be found in BP's 2007 Annual Report at: <http://www.bp.com/annualreview>

If you have feedback on this report, we will welcome it. Please get in touch with us through the contact details printed on the last page of the report.



Aydin Gashimov

Stakeholder investment and reporting manager

Further information

Much information about BP's energy projects in the Caspian/Caucasus region is available online. The main sites are:

www.bp.com/caspian

This is the main information source about our Caspian region energy projects. It includes project details, news items, ESIs, legal agreements (including PSAs, HGAs and IGAs) which govern the projects, lenders' reports, NGO monitoring reports and BP's responses, ASRC letter of recommendations and our responses, earlier BP in Azerbaijan Sustainability

Reports and other documents. The site is multi-lingual and is updated regularly.

www.bp.com

This site contains information about the BP group including detail of its policies and values, reports on its activities and operations in the Caspian and Caucasus regions and the group's Sustainability reports.

www.caspsea.com

The site of the Caspian Development Advisory Panel. It includes the full text of

its reports 2004-07 and responses of BP in Azerbaijan, 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.

Contact us

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Online feedback may be sent through
www.bp.com/caspian/sr

To leave your feedback or to ask questions, call the communications and external affairs department at (+994 12) 497 92 72.

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