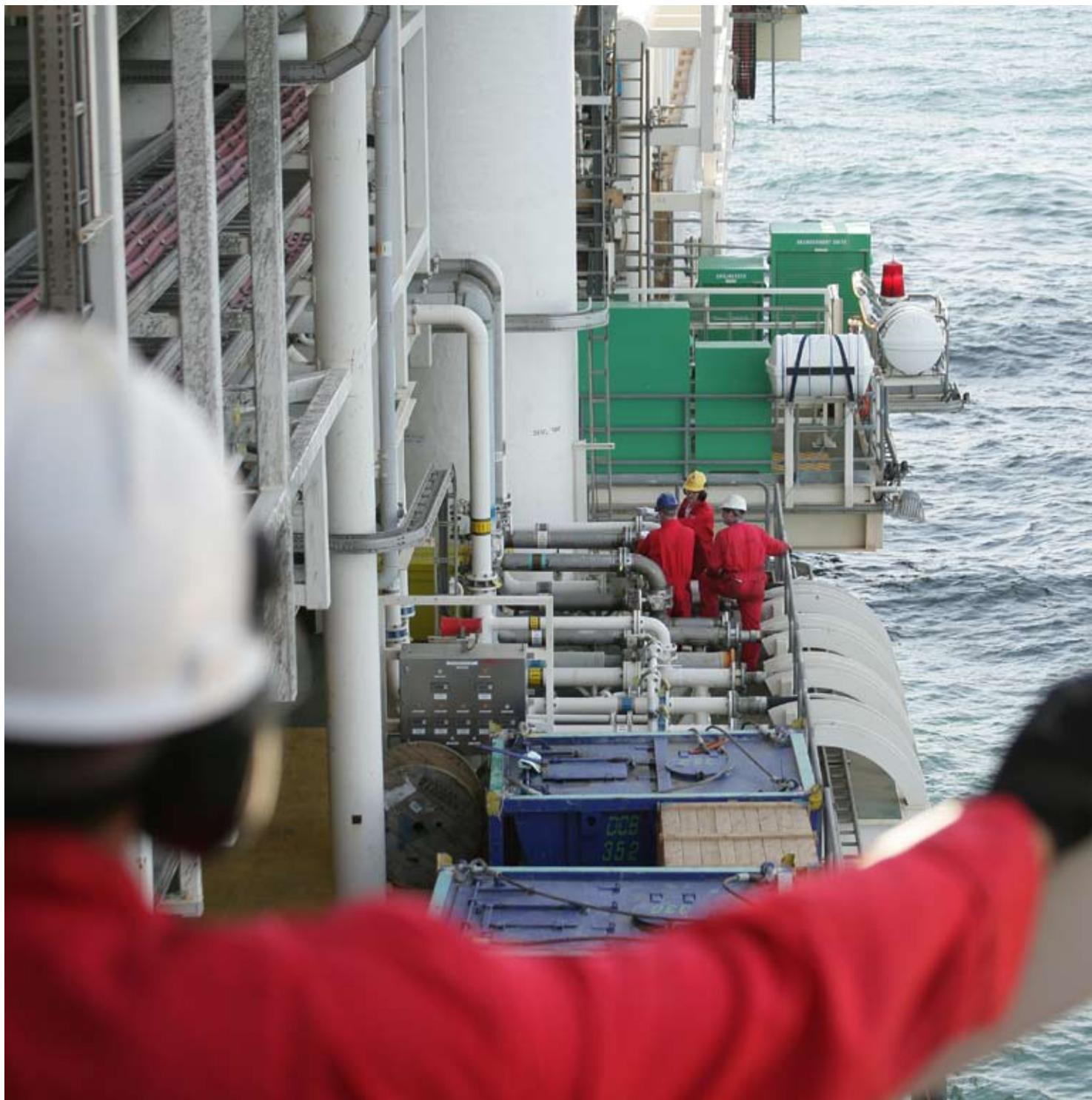


BP in Azerbaijan Sustainability Report 2008



www.bp.com/caspian/2008sr



What's inside?

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

04 Achievements and challenges

05 How BP operates

- BP Azerbaijan SPU interests
- BP in Azerbaijan at a glance
- Leadership team of BP Azerbaijan SPU
- History
- BP in Azerbaijan in perspective

10 Our operations

15 Safe and reliable energy

- HSSE and compliance management system
- Safety
- Environment
- Health
- Security and human rights

25 Human energy

- Our people
- Compliance and ethics

30 Local energy

- Dialogue and engagement
- Revenue transparency
- Enterprise development
- Community programme
- Environmental responsibility
- Conservation of cultural heritage
- Educational initiatives

39 Five year performance data

40 EITI reported data

41 Independent assurance statement

42 Glossary

44 Report process and feedback

45 How to .../Further Information



About this report

The BP in Azerbaijan Sustainability Report 2008 covers our business performance, environmental record and wider role in Azerbaijan during 2008. This is our sixth Sustainability Report and reflects feedback we received about previous reports.

By 'sustainability' we mean the capacity to endure as a commercial organisation by renewing assets and by creating and delivering better products and services. We seek to meet the evolving energy needs of society, attract successive generations of employees and contribute to a sustainable environment. By doing so we aim to gain 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.



The earlier publications are available at www.bp.com/caspian

Cover image

Dive Support Vessel (DSV) named after Academic Tofig Ismayilov leaving the Central Azeri platform.

Cautionary statement

The BP in Azerbaijan Sustainability Report 2008 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.

An introduction to Ernst & Young's assurance process

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 41.

Management introduction

Foreword by the president of BP Azerbaijan Strategic Performance Unit

Bill Schrader President, BP Azerbaijan SPU



“ The year 2008 proved to be both a successful and a challenging one for the BP Azerbaijan Strategic Performance Unit. ”

In April, we completed the third phase of the Azeri-Chirag-Deepwater Gunashli (ACG) development, receiving first oil from Deepwater Gunashli. Over the course of the year we achieved an average daily production rate of 688.5 thousand barrels of oil from ACG platforms. The total volume of oil exported to international markets through the Ceyhan terminal via Baku-Tbilisi-Ceyhan (BTC) pipeline in 2008 was 243 million barrels (around 34 million tonnes).

Gas production at Shah Deniz (SD) totalled 7.1 billion standard cubic metres (bscm) in 2008 and we delivered about 2.1 bscm of ACG associated gas to SOCAR during the year. Onshore, we completed an upgrade of the Western route export pipeline and restarted operations. The BTC pipeline operated efficiently and we began work to expand its capacity to 1.2 million barrels per day.

We were also tested by several significant challenges. In August, a fire on the BTC line in Turkey and military conflict in Georgia led to the temporary suspension of oil exports from Azerbaijan. The following month production at two platforms in the ACG complex had to be halted due to the discovery of a gas release.

Running safe, reliable and sustainable operations remains our top priority. None of these challenges resulted in injuries to our personnel. The BTC and SCP (South Caucasus) pipelines both achieved ISO 14001 certification and we met the requirements of the BP group Integrity Management (IM) standard across all our operational assets in Azerbaijan. In co-operation with the government of Azerbaijan, we continued to embed security and human rights principles in the provision of security at our operational sites.

Building a high calibre national workforce remained one of our key priorities and we exceeded our targets in this area in 2008. Investment in national workforce training totalled more than \$25 million for the year. At the same time we continued to invest in the education of young Azerbaijani nationals by sponsoring degree scholarship programmes in petro-technical disciplines.

For the first time we recorded a single-year spend of over \$1 billion on local goods and services. Investment in the community focused on income generation and the expansion of economic opportunity. Together with our co-venturers in Azerbaijan, we spent more than \$6 million on social activities during the year.

These are just some of the highlights of our activities during 2008. You may find much more detailed information in this report. I hope you will find it interesting and informative.

Achievements and challenges

This page summarizes the major achievements and challenges faced by BP in Azerbaijan in 2008. The emphasis is on those matters most relevant to the sustainability of our business in the country.



Engineering awards of BP Azerbaijan SPU.

Achievements

Operations

Average production from the Azeri-Chirag-Deepwater Gunashli (ACG) platforms in 2008 was 688.5 thousand barrels of oil per day (mbd). Throughput on the Baku-Tbilisi-Ceyhan (BTC) oil pipeline averaged 672 mbd. Seven hundred and sixty tankers were loaded with ACG oil at Ceyhan Terminal.

Gas production at Shah Deniz (SD) totalled 7.1 billion standard cubic meters (bscm) per annum. We delivered about 2.1 bscm of ACG associated gas to SOCAR.

In April, we completed Phase Three of the ACG development, producing First Oil from Deepwater Gunashli (pages 10-14).

Technology

Our survey and seismic operations team completed a 'leading edge' 3D high resolution seismic 'undershoot' of the Central Azeri platform complex - the first such survey in the Caspian.

The Chirag Azeri reservoir seismic project (CARSP) continued using 4D seismic, where the fourth dimension is time. CARSP is designed to assess oil flow management and to raise the efficiency of ACG oil extraction.

Shah Deniz full-field, ocean bottom seismic survey was safely concluded in August. This advanced approach to seismic acquisition involves laying several moveable sensor cables on the seabed to receive reflections from the subsurface, including the reservoirs over 4 kilometres below. The processed data will support Shah Deniz Stage I and II well planning for many years, helping to optimise the well locations and reduce risk.

Environmental management

Sangachal terminal, and the BTC and SCP pipelines in Azerbaijan, were all certified as compliant with ISO-14001 - the leading international standard on environmental management (page 16).

Waste management

The BP-exclusive non-hazardous waste landfill cell in Sumgayit, designed and constructed to European Union standards, became fully operational (page 20).

Security

A bilateral security protocol, signed by the Government of Azerbaijan and the BP group in 2007, entered into force (page 24).

Our people

By the end of 2008, 82% of our professional and 100% of our non-professional staff were Azerbaijani citizens. We launched a new performance management process to develop stronger links between individual performance and reward (pages 25-29).

Challenges

Central Azeri (CA)

A gas release was detected around the CA platform in mid-September. As a precautionary measure we suspended all operations on the platform. Production restarted on a limited basis in mid-December following a comprehensive review. As a consequence of the incident and resultant increase in gas flaring from the ACG field, we observed an overall increase in GHG emissions from our operations in 2008 (page 18).

Pipeline shutdowns

A fire on the Turkish section of the BTC pipeline in August, followed soon after by military conflict in Georgia, led to the temporary suspension of operations on the BTC/SCP pipelines, the Western route export pipeline and at the Supsa oil terminal. Operations restarted only after we were satisfied that it was safe to do so (page 12).

Waste management

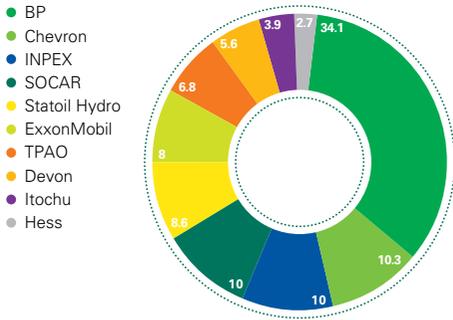
The disposal of large volumes of produced water prior to the availability of offshore re-injection, and sewage treatment failures at our offshore facilities, both posed challenges during the year (pages 19-20).

How BP operates

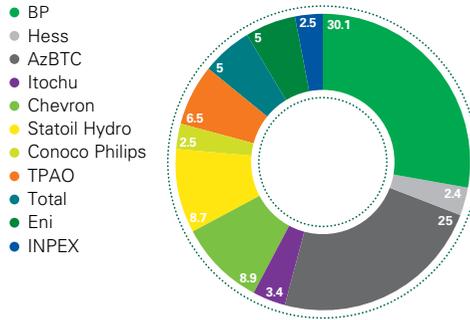
BP Azerbaijan SPU interests

Co-venturers' interests in BP Azerbaijan SPU-operated projects in Azerbaijan (%)

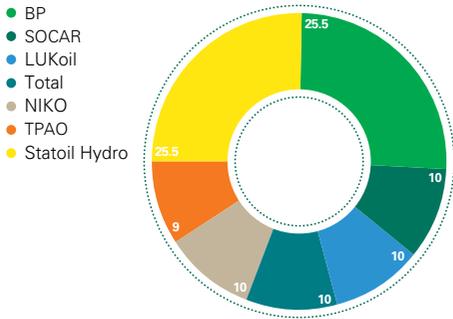
Azeri-Chirag-Deepwater Gunashli (ACG)



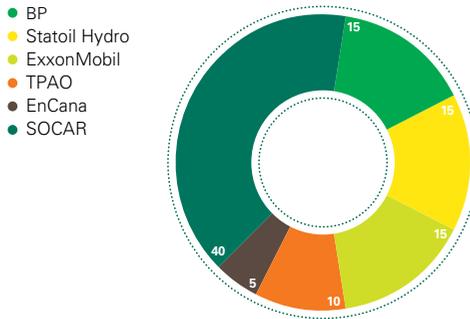
Baku-Tbilisi-Ceyhan (BTC)



Shah Deniz / South Caucasus pipeline (SCP)



Alov



BP Azerbaijan SPU interests map



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 2008, nine vice-presidents reported to the President of BP Azerbaijan SPU ^b (page 9).
Office headquarters	The headquarters of BP Azerbaijan SPU is 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 2008, the number of Azerbaijani citizens permanently employed by BP in Azerbaijan was 1,839.
Offshore production assets	(1) Azeri-Chirag-Deepwater Gunashli ^c (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 2008)	Chirag 1 platform; Central Azeri (CA) platform; Compression & Water Injection platform; West Azeri (WA) platform; East Azeri (EA) platform; Shah Deniz platform; Deepwater Gunashli (DWG) - Drilling, Utilities and Quarters platform; DWG - Production, Compression, Water Injection and Utilities platform.
Transportation & capacity (end 2008)	Transportation: Western Route Export Pipeline (WREP) - an 830km pipeline linking Sangachal terminal to Supsa on Georgia's Black Sea coast. 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 2008: Export pipelines: BTC – 1 mmbd; SCP – 22 mmscm/d; WREP – 106 mbd. Terminal: Sangachal – able to 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 Dew point control unit (DPCU)) of gas. Crude oil storage capacity of 3 million barrels (405,000 tonnes).
Exploration activity	Araz-Alov-Sharg – a frontier exploration area ^d .
Capital expenditure	About \$28 billion on the ACG, BTC, SD Stage 1 and SCP projects since inception.
Oil production	ACG 1997- 2008: 1,044 million barrels in total; 252 million barrels (2008).
Gas production	Shah Deniz 2006-2008: SD gas production 10.355 bscm in total and 7.1 bscm in 2008; SD condensate 21.99 million bbl in total and 14.95 million bbl in 2008.

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

^b Drilling, Completions and Interventions (DC&I) VP and Director officially joined BP Azerbaijan SPU in October, 2008 while the new DC&I organization was formed at the beginning of 2009.

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

^d In December 2008, Inam PSA terminated following fulfilment of contractual obligations.

Leadership team of BP Azerbaijan SPU (end 2008)



**Bill Schrader -
President of BP Azerbaijan SPU**

Bill has been leading the BP Azerbaijan SPU since November, 2006. He has 28 years' experience in BP, including leadership roles in BP chemicals, refining and marketing (R&M), marine, and exploration & 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. He has operational leadership experience in new BP 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. He supervised BP's Mad Dog project in the Deepwater Gulf of Mexico (GoM) and 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 a previous BP job he was a head of operations (Europe), E&P technology, where he contributed to improving organisational capability and moving North Sea operations forward.



**Rashid Javanshir -
Onshore operations vice president**

Rashid is responsible for onshore operations and security. He 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^a -
Commercial vice president**

Charles has responsibility for planning & performance management, joint venture management, commercial operations, business development, finance & control, procurement & 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 matters and the health safety and environmental agenda. He has 27 years' experience with BP in engineering, projects, operations, subsurface, commercial and leadership roles.



**Sue Adlam-Hill -
Human resources vice president**

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



**Seymour Khalilov -
Communications and external affairs
vice president**

Seymour oversees BP's external relations in-country. He joined BP in 2006 as external affairs manager and was responsible for government and international NGO relations. Previously he was executive director of the US-Azerbaijan Chamber of Commerce.

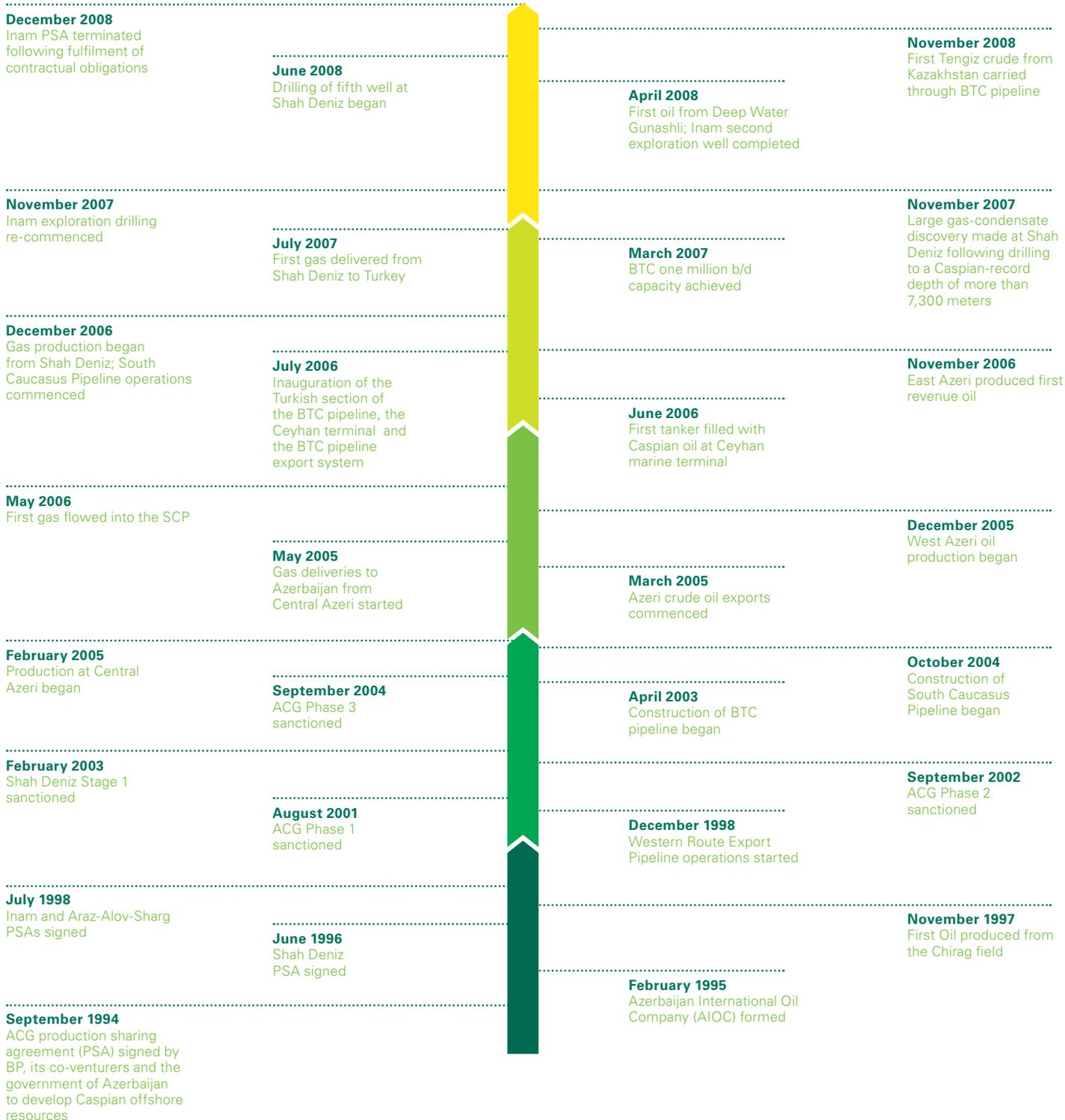


**Gary Christman -
Drilling, completions and interventions
vice president and wells director**

Gary brings 33 years of industry experience to his job, including 10 years in London, Calgary and Jakarta. He also worked as BP's Alaska SPU wells director.

^a In February, 2009, he was appointed head of BP's group chief executive's office. His successor, David Quellhorst, is chief financial officer (CFO) for the Azerbaijan SPU.

History



BP in Azerbaijan in perspective



Measuring activity during construction of Production, Compression, Water Injection and Utilities (PCWU) at ATA yard.

Summary

We operate in accordance with BP group values, standards and strategy.

Our vision

We are committed to deliver high quality, low cost services and to establish a sustainable and distinctive presence in the Caspian region. This will be achieved by enhancing workforce capability, generating local content and building capacity. Value will be created by improving the efficiency of our facilities, developing assets and maximising oil and gas recovery rates.

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

Our values

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 overriding commitment to being progressive, responsible, innovative and performance driven. We believe in the principle of mutual advantage and build productive relationships with each other, our partners and our customers. We are committed to the safety and development of our people and the communities and societies in which we operate. We aim for no accidents, no harm to people and no damage to the environment. We push boundaries today and create tomorrow's breakthroughs through our people and technology. We deliver on our promises through continuous improvement and safe, reliable operations. These values guide us in the conduct of our business. In all our business we expect high ethical standards and act in accordance with our code of conduct.

Our management structure

In 2008, the Azerbaijan leadership structure comprised eight vice-president groups reporting to the president of BP Azerbaijan SPU - offshore operations; onshore operations; renewals; major projects; health, safety, environment & technical; human resources; finance; communications & external affairs.

A new business division (drilling completions and interventions) is expected to be set up in 2009.

Our business strategy

Our strategy in Azerbaijan is a reflection of BP group strategy, which is to create value for shareholders by producing energy in a way that is affordable, secure and does no damage the environment. We expect to make investments across the full life cycle of our assets with an increased emphasis on technology as a source of productivity, access and competitive advantage. We expect to strengthen our position further by securing new access and achieving exploration success and deepening relationships with the host government and other key external stakeholders. In parallel we seek to enhance local workforce capabilities and ensure that our operations do no harm to people or communities.

Our operations

What are BP's main activities in Azerbaijan?

BP is the operator of major natural resource developments in the Azerbaijan sector of the Caspian Sea, including the Azeri-Chirag-Gunashli oil field and the Shah Deniz gas field. We manage one of the world's largest integrated oil and gas processing terminals and transport energy to regional and world markets.



Our 2008 operational achievements included first oil from Deepwater Gunashli and higher production at the Azeri-Chirag-Deepwater Gunashli oil field and the Shah Deniz (SD) gas field. During the year, we also encountered technical, logistical and efficiency challenges.

Production

Azeri-Chirag-Deepwater Gunashli (ACG)

ACG is the largest oil field in the Azerbaijan sector of the Caspian basin. Situated 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 section. The Central Azeri, West Azeri, East Azeri and Deepwater Gunashli sections of the field were then developed in three phases.

Milestones of 2008

In 2008, we produced a total of about 252 million barrels (over 34 million tonnes) of oil. ACG average daily oil production was 688.5 thousand barrels per day.

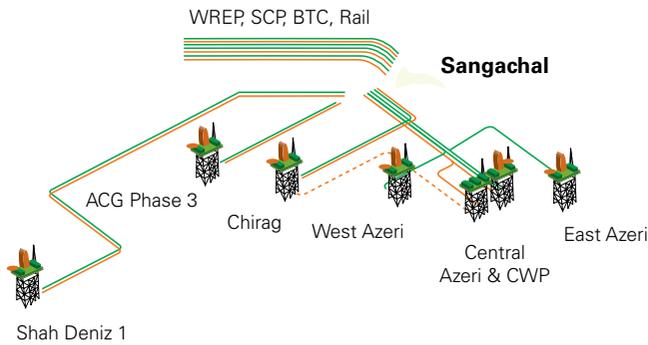
A gas release was detected around the Central Azeri (CA) platform in mid-September. As a precautionary measure we suspended all operations on the platform. Production re-started on a limited basis in mid-December following a comprehensive review. As a consequence of the incident and resultant increase in gas flaring from the ACG field, we observed an overall increase in GHG emissions from our operations in 2008 (page 18).

Through the year, we delivered about 2.1 billion standard cubic metres (bscm) of ACG gas to SOCAR. Capital spending totalled around \$1.9 billion and operating expenditure \$645 million.

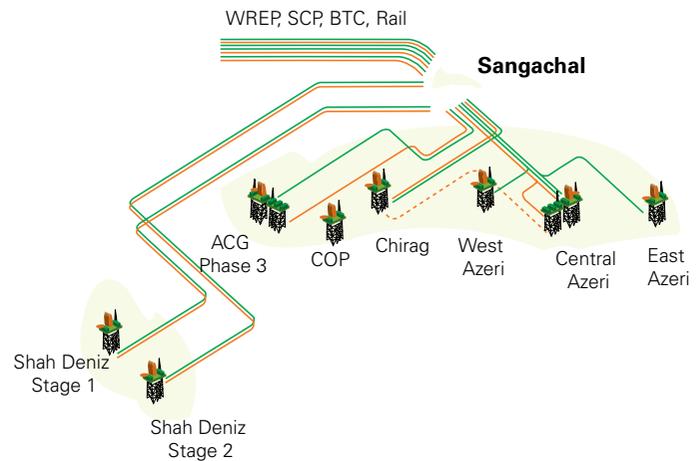
Outlook for 2009

Production for the full year from the five producing ACG platforms is planned to be over 256 million barrels (about 34.7 million tonnes per annum). Capital spending will total around \$1.6 billion and operating expenditure around \$743 million. We expect to deliver a minimum of 1.45 bscm of associated gas to SOCAR in 2009.

Present



Future



ACG production

	Start of production	Unit of measurement	Oil produced from start of production to end 2008	2008 actual production	2009 forecast
Chirag	Nov. 1997	mln. bbl	473.7	44.6	35.6
		mln. te	64.0	6.0	4.8
Central Azeri	Feb. 2005	mln. bbl	287.8	71.7	43.2
		mln. te	38.9	9.7	5.8
West Azeri	Dec. 2005	mln. bbl	174.2	76.6	93.3
		mln. te	23.5	10.4	12.6
East Azeri	Nov. 2006	mln. bbl	90.8	41.4	41.5
		mln. te	12.3	5.6	5.6
DWG	Apr. 2008	mln. bbl	17.7	17.7	43.2
		mln. te	2.4	2.4	5.8
Total	Jan - Dec 2008	mln. bbl	1,044.2	252	256.8
		mln. te	141.1	34.1	34.7

Future potential

The potential ultimate recovery at the ACG field is estimated to be in excess of five billion barrels of oil. Achieving this will require the implementation of complex reservoir management techniques, the use of advanced seismic data analysis and high functionality drilling and completion.

Shah Deniz

Shah Deniz (SD) gas field was discovered in 1999. It is located 70km offshore Azerbaijan beneath water depths ranging from 50-600 metres. A geologically - complex structure with multiple reservoir 'horizons', it is a highly pressured asset 22km long with a reservoir thickness of more than 1,000 metres.

Milestones of 2008

During the year SD gas production totalled 7.1 bscm. Condensate production was 1.8 million tonnes per annum (mmtpa). Capital spending for 2008 totalled \$471 million and

operating expenditures \$152 million.

Following successful results from our fourth appraisal well, SDX-04 in 2007, we continued appraisal activities at the field supporting plans for the second stage of Shah Deniz. Another appraisal well – SDX-05 in the south-eastern part of the field – was drilled from the Istigal rig. The data from SDX-5 is important and will be analyzed and integrated with other information from Shah Deniz by the end of 2009. This will help to determine the size and timing of SD Stage Two development.

Outlook for 2009

Around 7.7 bscm of gas and 1.9 mmtpa of condensate are expected to be produced over the year. Capital spending will be about \$369 million and operating expenditure \$264 million. Appraisal activities at SD will continue with the drilling of a sixth appraisal well.

SD production

	Start of production	Unit of measurement	Gas produced from start of production to end 2008	2008 actual production	2009 forecast
SD gas	Nov 24, 2006	mln. bbl	10.4	7.1	7.7
		mln. te	9.7	6.6	7.2
		mboed	170.9	118.4	128.0
SD condensate	First gas delivery Dec 15, 2006	mln. bbl	21.99	14.95	16.0
		mln. te	2.62	1.78	1.9

Future potential

We anticipate that plateau production from SD Stage One development will be about 8.6 bscma of gas and approximately 45 mbd of condensate. Stage Two development will focus on the remaining resource potential in currently producing reservoir intervals.

Storage and processing

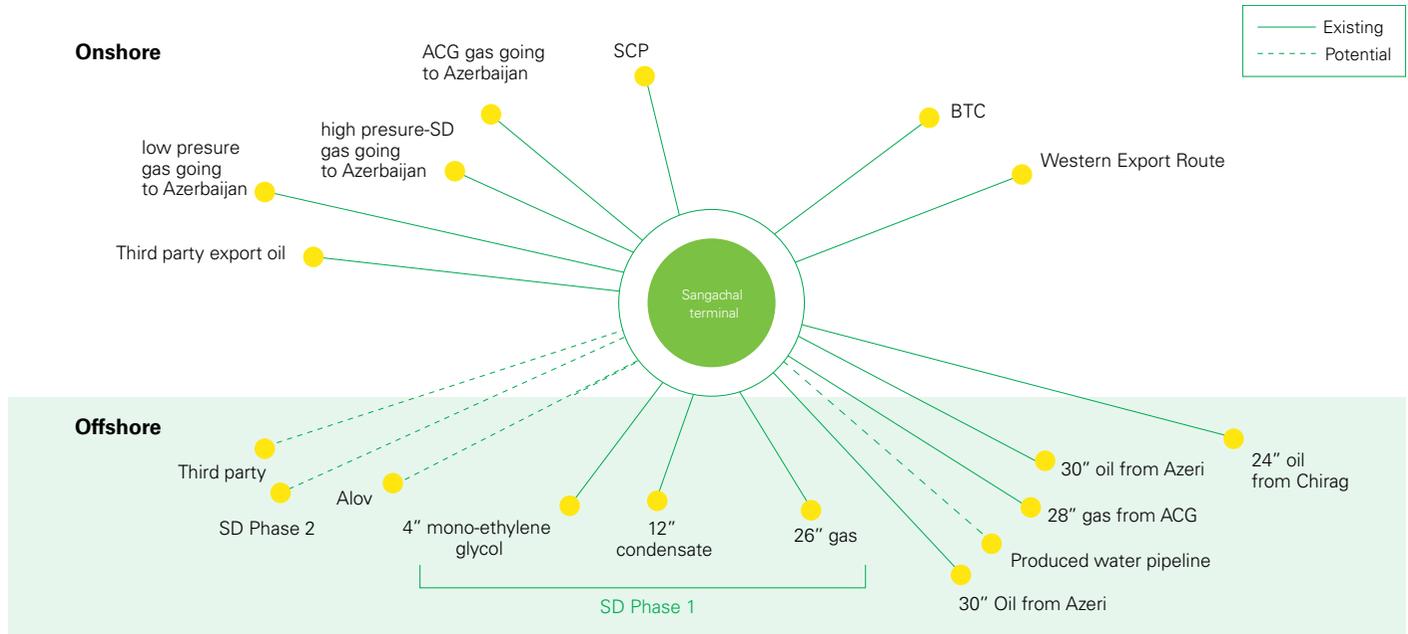
Sangachal terminal

Sangachal terminal (ST) is a hub terminal where hydrocarbons from offshore are processed. It operates as a huge integrated facility incorporating the Early Oil project (EOP), ACG Phase 1, Phase 2 and Phase 3 processing facilities, BTC main pump station, SCP facilities, the Shah Deniz plant and SOCAR and third party pipelines linked with the terminal's operations.

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 per day (162,000 tonnes) and 0.04 bcm of gas a day.
- Storage capacity: 3 million barrels (405,000 tonnes).
- Operator: BP Azerbaijan SPU.

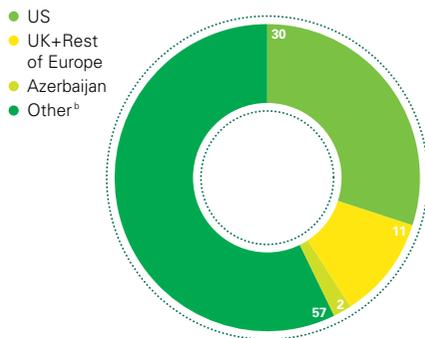
A Strategic Hub for all BP operated assets in the Caspian



Milestones of 2008

Sangachal terminal's highest daily export rate to date was achieved on 4th of July 2008 when the terminal processed and exported a record of 1.06 million barrels of oil. Of this amount, 992 thousand barrels went into the BTC pipeline and the remaining 67 thousand barrels were

2008 BP group net natural gas production^a (%)



^a 7.277 billion cubic feet per day (excluding equity accounted entities).

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

exported by rail. Work continued on the Sangachal terminal expansion programme (STEP) and focused on the completion and commissioning of the produced water facilities. During the year we finalised the design, delivered the required equipment to Baku and completed the early phases of this project.

Outlook for 2009

Planned activities include completion of Sangachal activities related to BTC expansion and start-up of the produced water disposal facilities. We also expect to complete, install, start up and handover of a new gas dew point control unit (a major installation designed to process associated gas) for use with ACG associated gas.

Transportation

Baku-Tbilisi-Ceyhan (BTC) pipeline

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

Milestones of 2008

At mid-2008, BTC's throughput reached one million barrels of oil per day. A fire on the Turkish section of the line, military conflict in Georgia in August and production problems at ACG reduced volumes in the second half of the year. By end-December,

throughput was averaging about 672 mbd. The total volume of oil and condensate exported via BTC in 2008 was 245.6 million barrels (around 32.9 million tonnes).

Since June 4 2006, 760 tankers had been loaded at Ceyhan. About 600 million barrels (about 80 million tonnes) of crude oil had been shipped to world markets.

Work began during the year on the expansion of BTC's capacity to 1.2 million barrels. The first crude oil from Kazakhstan's Tengiz field moved through the pipeline. Capital expenditure on the BTC line totalled \$164 million.

Outlook for 2009

The BTC expansion project is expected to be completed in 2009. BTC's capital spending for the year is likely to total about \$143 million.

At the end of 2008, BTC had

- Capacity equal to 1 mmbd
- Average throughput approximately 672 mbd

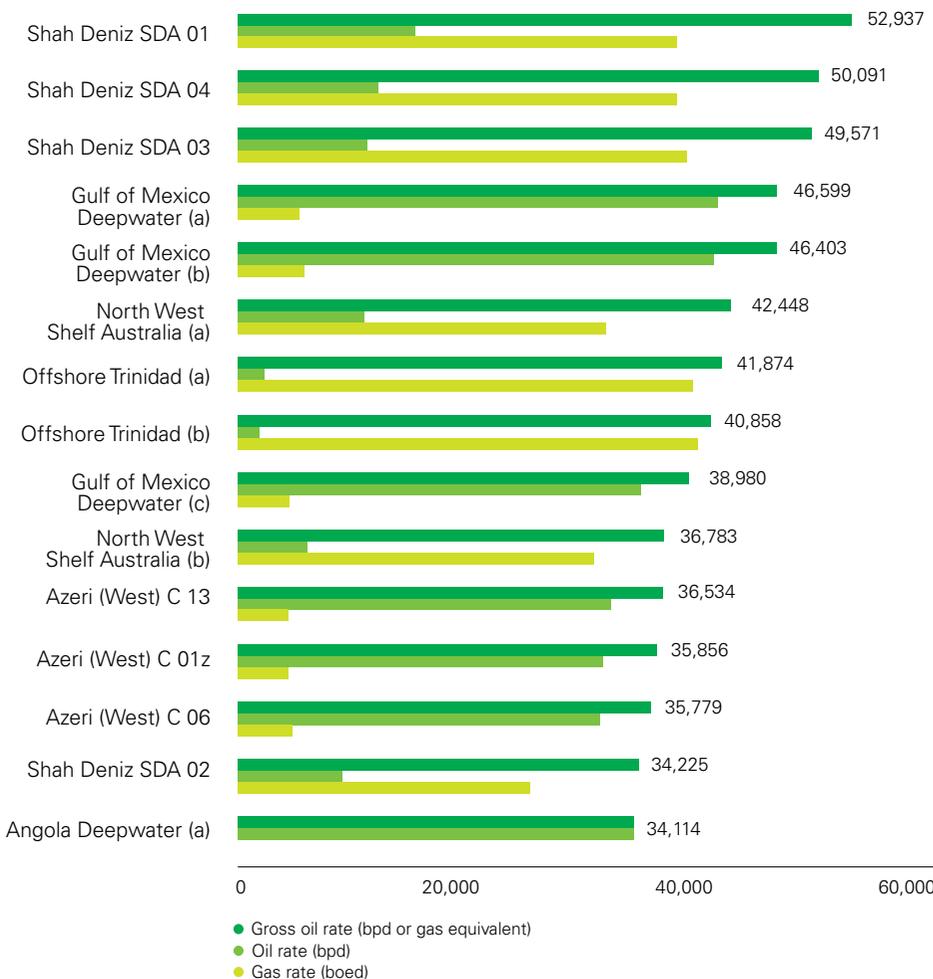


From left to right: Mehman Mustafayev, Control room technician (CRT) and Zaur Pashayev, Chirag offshore operations engineer (OOE), reviewing pressure indicators.

At the end of 2008, SCP had

- Capacity equal to 22 mmscm/d
- Average throughput 19 mmscm/d

BP's top 15 gross hydrocarbon producers December 2008*



* Fields in Angola and Australia are partner-operated, all others are BP-operated.

South Caucasus gas pipeline (SCP)

The SCP is a 690 km gas pipeline linking Sangachal terminal to the Georgia/Turkish border. It has been operational since late 2006. In July 2007, it began transporting gas to Turkey from the Shah Deniz (SD) Stage 1 development. It has dual operatorship. BP is the technical operator responsible for construction and operation of SCP facilities. StatoilHydro is the commercial operator, responsible for the pipeline's business development and administration.

Milestones of 2008

Average SCP throughput was equivalent to 19.8 million standard cubic meters (mmscm) of SD gas per day. Capital expenditure on SCP-related activities for the year totalled \$22 million.

Outlook for 2009

Capital spending on SCP in 2009 will be around \$15 million.

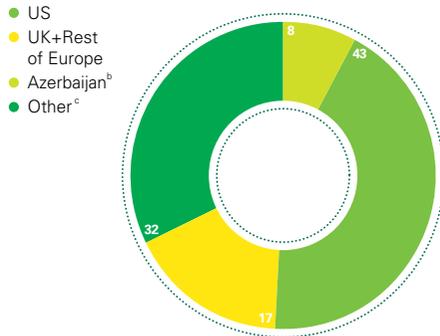
Western route export pipeline (WREP)

WREP was constructed in 1998 along an existing pipeline route that moved oil from the Caspian Sea to the port of Supsa on Georgia's Black Sea coast.

Milestones of 2008

A 21 month project to repair, replace and improve sections of the WREP was completed successfully in early August. The upgrade included sectional replacements in Georgia (Zestaphoni re-route) and Azerbaijan (Kura river, West crossing).

2008 BP group net share of liquids production^a (%)



^a 1,263 million barrels per day; Includes crude oil, NGL and condensate.

^b In Azerbaijan, BP's net production in 2008 was 130mboe/d, a net decrease of 40% from 2007. The primary factors behind this decline were the effects of significantly higher prices resulting in a change in profit oil entitlement in line with the terms of the PSA and reduced cost oil entitlement. This was partially offset by an increase following the start-up of the Deepwater Gunashli platform, the ramping up of three Azeri oil-producing platforms and the start of production in 2007 of the Shah Deniz condensate gas platform.

^c "Other" includes Angola, Australia, Canada, Colombia, Egypt, Trinidad & Tobago, Venezuela.

Military conflict in Georgia later in August led to the temporary suspension of WREP operations. The line was restarted again on November 5th. At the end of 2008, the pipeline was carrying more than 90 mbd to the Supsa terminal.

Outlook for 2009

During 2009, our focus will be on completing intelligent pigging in Azerbaijan and Georgia to confirm that previous improvements have been successful. In parallel, the WREP 'Sectional replacement project' will be advanced. This may involve multiple re-routes of sections of pipeline in Georgia, improvements in line pipe material qualities and optimisation of the pipeline route to improve its long term integrity.

Exploration

The BP group is committed to search in the Caspian region for new, large hydrocarbon resources that offer development potential. Technical evaluation of the Alov, Araz, Sharg contract areas continued during the year. BP 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.



Employees near the BTC pipeline at Sangachal terminal.

BTC increases its capacity

The BTC pipeline was designed to move one million barrels of oil per day to world markets. But from the outset it was envisaged that if sufficient new oil could be found the link would be upgraded. With additional output anticipated from the offshore ACG complex, a decision was taken in 2008 to increase BTC capacity by 20%.

Space for the extra volume is being made by inserting a polymer known as a drag reducing agent (DRA) into the link. When introduced into a pipeline DRA which has almost zero environmental impact reduces drag without increasing pressure, so boosting oil flow. It is usually added in an amount equivalent to a teaspoon per barrel of oil. Nine existing facilities on the BTC route have been selected for the insertions - two in Azerbaijan, two in Georgia and five in Turkey.

A review of possible environmental and social consequences resulting from this pipeline capacity growth was undertaken prior to the decision to proceed. A marginal increase in the number of trucks using roads in the vicinity of the pipeline was identified as one possible impact so routes were chosen to minimise disruption to local communities. In addition, DRA will be stored, handled and transported to the same standards and concern for safety as all other liquids and chemicals used by the BP group.

Other business

Integrated Supply and Trading (IST)

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

BP lubricants in Azerbaijan

All BP projects in Azerbaijan are supplied with lubricant products, including BP and Castrol brands, by the Petrochem group. In 2008, about 2.25 million liters of lubricants (up 3.5% on 2007) were delivered to BP and its contractors in Azerbaijan. In addition, BP/Castrol lubricants were supplied to most oilfield services contractors working 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
Alov	BP Exploration (Alov) Limited	BP Exploration (Azerbaijan) Limited

Safe and reliable energy

How does BP in Azerbaijan generate safe and reliable energy?

Safe and reliable operations are our key priority, reflecting BP's goal of 'no accidents, no harm to people and no damage to the environment.' We operate to rigorous international health, safety and environmental standards and work with our local partners to attain similar standards. We recognize a responsibility to protect the security of communities near our facilities and at all times to respect their rights.



In 2008, we targeted legislative compliance, control of work and integrity management at all our operational sites in Azerbaijan. Specific elements of the BP group's six point plan were delivered.

HSSE and compliance management system

Our main emphasis during the year was on further incorporation of BP group health, safety, security and environment (HSSE) compliance requirements into our existing management system in Azerbaijan.

To this end, we updated our HSSE procedures, identified high-risk compliance subject areas, drew up and implemented an internal risk-based HSSE compliance auditing programme and activated a compliance task manager (CTM) software tool. CTM is designed to link compliance tasks to operational controls and accountable positions in the BP management structure.

Two external ISO 14001 audits were conducted by Moody International Certification Group in May and November. Sangachal terminal (ACG Phase 3 + BTC/SCP) and the BTC and SCP pipelines all achieved certification.

In 2009, AzSPU focus will be on the transition to the newly developed operating management system (OMS). This is a fully integrated management system that addresses the whole range of our operating activities, and integrates all of BP's operating standards and requirements.

Six point plan delivery

BP's six point plan defines the company's commitment to achieve industry leadership in process safety management. All BP-operated sites in Azerbaijan continued to deliver specific elements of the plan in 2008. Progress was recorded in the following areas:

Point 1 – deliver on post-Texas City recommendations.

Following the Texas City refinery incident, BP group issued guidance on the design and location of occupied portable buildings subject to blast, fire and gas hazards at onshore facilities. In response, we conducted a gap analysis and an office building at the logistics diesel tank farm was relocated. In addition, all BP Azerbaijan SPU site operating procedures (SOPs) were risk ranked. Those considered high-risk were reviewed.

Point 2 – carry out major accident risk (MAR) assessments.

An MAR assessment was carried out at the newly operational Deepwater Gunashli platform. MAR assessments for the Shah Deniz and Chirag platforms were refreshed. As a key MAR risk mitigation measure, offshore operations began to develop plans to reduce offshore manning levels.

Point 3 – roll out integrity management (IM) and control of work (CoW) standards.

All BP Azerbaijan SPU safe system of work (SSOW) procedures were revised in line with the group CoW standard. The integrated safe system of work (ISSOW) was implemented at all BP-operated offshore platforms. This enables work crews to use a database of permits and ensures that hazardous work is risk assessed using a consistent, rigorous process. Progress on the IM standard is discussed below.

Point 4 – enhance compliance processes.

A major effort was made during the year to incorporate various compliance elements - in particular the activation of compliance task manager (CTM) - into our existing HSSE management system.

Point 5 – close out past audit findings.

All high and medium priority actions are reviewed monthly by the BP Azerbaijan leadership team. Close-out of safety & operations (S&O) audit actions was a particular focus, with S&O verification auditors returning to Baku in April 2008, to check progress.

Point 6 – build competency in safety and operations.

Integrity management (IM) competency assessments were carried out for site operations leaders and technicians at all our operational assets. Competency training targets for the year were achieved.

Integrity management

In 2008, we achieved conformity with the requirements of the BP group IM standard at all our operational offshore and onshore sites in Azerbaijan.

IM responsibilities were defined and IM competence levels boosted through awareness campaigns and training. Emergency response plans were upgraded and a hazard register was developed at each of our facilities. Preventative maintenance, and the inspection and examination of safety critical equipment, was stepped up. Protective systems were reviewed and improvements identified. Incident investigation and understanding was strengthened, and we instituted quarterly review meetings to analyse key



Sangachal terminal employee on the Caspian shore.

ISO 14001 certification table

Assets	Included to the scope of certification / certified
WREP Az	2000
BTC Az	2008
SCP Az	2008
Sangachal terminal- EOP	2000
Sangachal terminal- ACG Phase 1	2005
Sangachal terminal- ACG Phase 2	2007
Sangachal terminal- ACG Phase 3	2008
Sangachal terminal- Shah Deniz	2007
Sangachal terminal- BTC / SCP	2008
WREP Ge	2000
Supsa terminal	2000
BTC Ge	2008
SCP Ge	2008
Chirag 1 platform	2000
DWG	Planned for May 2009
CA /CWP	2005
WA platform	2006
EA platform	2007
Shah Deniz platform	2007
BP management of drilling rig ops ^a	Planned for November 2009
Logistics	2007
Serenja HWMF	2007
CWAA SPS	Planned for May 2009
CWAA Sangachal	Planned for May 2009

^a Certification audit of Dada Gorgud and Istiglal drilling operations rescheduled for 2009 due to AzSPU organisational restructuring.

data and define appropriate responses.

In the field, a baseline integrity inspection of the entire length of the SCP pipeline was carried out, following a similar exercise on the BTC pipeline in 2007. The results confirmed that both pipelines are in excellent condition.

Inspection of the ACG Phase 1 and 2 subsea pipelines was completed. Analysis of the Phase 1 results recorded no anomalies. Phase 2 analysis is ongoing.

Contractor management

The HSE performance of our major contractors is evaluated regularly through a combination of inspection and audit of

sites and facilities, monthly meetings and quarterly and annual performance reviews. In 2008, audits and worksite inspections of several major production/drilling service contractors were carried out.

Other contractor safety audits and inspections were held in locations such as offices, housing and training facilities. Driving safety audits were completed. Health assurance audits of catering contractors and medical providers were undertaken. In November and December, we facilitated contractor HSE forums in Baku to allow major onshore and offshore contractors and our leadership to address issues around safety, operations and contracts.



Lifting operations during jacket construction at SPS yard.

Introducing “Integra”

Two years ago lifting operations made up the largest number of violations of BP’s ‘Golden Rules’ of safety in the BP Azerbaijan SPU.

Due to the large number of lifts involved in offshore operations - transferring equipment and materials from vessels to platform, as well as lifting activities on the platforms themselves - the potential for these sort of incidents to grow in number, and become more serious, was identified early on by the HSSE team as a risk that had to be countered.

Available control measures seemingly had little effect. So the decision was taken in 2008 to bring the ‘Integra’ programme to our Azerbaijan operations following its successful roll-out in the North Sea. “Integra is a programme designed to take lifting and deck operations coaching and training into the work place,” explains Ross Kerns, offshore operations H&S advisor. “It’s designed to make a practical difference”.

Subsequently a number of clear improvements have been observed. The introduction of common lifting standards, procedures and practices, for example, has made a substantial difference. The profile of deck crane operations has been raised. On site coaching and assessment, with the emphasis on improving teamwork and encouraging individual feedback, has had a marked impact. And at each platform a register of corrective actions has been compiled.

By the end of 2008, a large proportion of corrective actions had been closed out and significant improvements in lifting incidents statistics were being recorded. Overall, we achieved a 13% reduction in lifting incidents compared to 2007.

2007-2008 safety performance of BP in Azerbaijan^a

Assets	2007	2008
Fatalities ^b	0	0
HiPO frequency ^c	0.06	0.01
DAFWC frequency ^d	0.05	0.03
RI frequency ^e	0.35	0.40
TVAR ^f	1.54	2.03
SOC frequency ^g (SOC / ASA ^h in 2007)	998	1,296
STOP frequency ⁱ	4,200	9,151
Safety training frequency ^j	5,485	7,301
Kilometres driven (millions)	27.96	25.64
Hours worked (millions)	21.66	22.22

^a Data does not include project-only data. 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 High potential incident (HiPO) frequencies are based on the number of HiPOs per 200,000 labour hours.

^d A days away from work case (DAFWC) is a work-related injury that causes the injured person to be away from work for at least one normal shift after the shift on which the injury occurred. DAFWC frequency is the number of reported injuries or illnesses that result in an employee or contractor being unable to work a day (or shift) per 200,000 hours worked.

^e Recordable injury (RI) is the number of all reported work-related injuries above first aid. The RI frequency is expressed as the number of reported recordable injuries per 200,000 hours worked.

^f Total vehicle accident rate (TVAR) is the number of reported road accidents per million vehicle kilometres travelled.

^g Safety observations and conversations (SOC) frequencies are based on the number of reported SOC per 200,000 labour hours.

^h Advanced safety audit (ASA) - now replaced by SOC.

ⁱ Safety training observations programme (STOP) frequencies are based on the number of reported STOP observations per 200,000 labour hours.

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

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

Year	Manhours	US\$
2007 ^l	148,105	6,884,812
2008	72,275 (50,749 HSE; 21,526 Operations)	4,217,416

^k Relevant information cannot be presented for Azerbaijan only as the system data was collected from BP Azerbaijan SPU as one site.

^l The 2007 man hours total cannot be split into HSSE and operations training.

Safety

Our safety emphasis in 2008 was on the implementation of the BP Group six point plan (see above). As part of this wide-ranging initiative, a BP Azerbaijan SPU ‘Lessons Learned’ communication process was put in place to share knowledge gained from incidents more consistently across the organisation.

Operational safety

The number of high potential incidents (HIPOs) fell from six in 2007 to one HIPO and there was one major incident announcement (MIA^a) in 2008.

Driving safety

Due to the increase in BP Azerbaijan’s total vehicle accident rate (TVAR) in 2007 (from 0.99 in 2006 to 1.54 in 2007), a number of additional driving safety initiatives were implemented in 2008.

Training was boosted and more than 2,000 drivers attended courses. Road speed monitoring was conducted in the Sangachal terminal area. Spot checks were made of vehicle performance reports. Weekly driver safety meetings were held and regular inspections made of both BP and contractor vehicles. Road risk assessments were performed at several locations. Driving safety standard (DSS) audits were carried out of major transport contractors within Azerbaijan exports and a

^a MIA - an unplanned event or occurrence that affects or has the potential to affect the health or safety, or security of people, or assets, or the environment, which is categorized by severity level.

2008 Safety highlights

- No fatalities.
- DAFWCs: In April, Sangachal terminal achieved five years without a DAFWC and BTC Azerbaijan achieved three years' operations without a DAFWC. In June, Serenja HWMF achieved 500,000 man hours worked without a DAFWC.
- RIs: In May, Istiglal rig achieved five years without a recordable incident. In February, Dada Gorgud rig achieved one year without a recordable incident.
- The 'Integra' programme roll-out resulted in a 13% reduction in lifting incidents (compared to 2007).

DSS re-assurance audit was undertaken at Sangachal terminal.

Monitoring showed that the TVAR continued to rise by 32% in 2008 over 2007. This was mainly attributed to the high number of minor vehicle accidents at Sangachal terminal caused by non-professional drivers (employees and contractors) driving on business on site. Just over half (27 of 52 vehicle accidents recorded for BP Azerbaijan in 2008) occurred this way. Several new driving safety initiatives are planned for the terminal in 2009 including safety campaigns, improvements in road markings/signage, more frequent use of professional drivers to move employees and contractors around site, and the installation of closed circuit television to monitor driving performance.

Safety training & awareness

In 2008, 72,275 hours of HSE and operations training were undertaken by BP and contractor staff in Azerbaijan and Georgia. The reduction in training hours compared to 2007 was mainly due to a re-assessment of training needs. A large proportion of the training was conducted in-house in line with international standards.

Environment

The emergency shut-down of the Central Azeri (CA) platform and the start up and commissioning of the Deepwater Gunashli (DWG) platform led to a marked increase in our flaring and GHG (greenhouse gas) emissions in 2008.

Drill cutting discharges to water fell in 2008, reflecting a reduction in drilling activity on Chirag platform and the fact that most drilling operations on Dada Gorgud rig were subsea completions.

Improvements in the Chirag cuttings dryer performance resulted in a decrease in synthetic-based mud discharges. There were also improvements in sewage treatment offshore.

Greenhouse gases (GHG)

Total net GHG emissions generated by the BP Azerbaijan SPU rose 19% in 2008 to 755.3 kilo-tonnes (kte). Normalised operational GHG emissions (emissions released for every thousand barrels of oil and gas produced) also increased significantly to 15.9 tonnes per thousand barrels of oil equivalent (te/mboe).

Several factors were responsible. They included: flaring during start up and commissioning of the DWG platform and continuous ramp-up of production; the inclusion of our logistics and waste management site emissions for the first time; higher BTC pipeline oil throughput resulting in more turbine hours and the inclusion of diesel generator emissions from the newly operational PSA2 camp.

Another major factor was the emergency shut-down of the CA platform in September, 2008. The lack of gas re-injection facilities at CA caused the temporary suspension of gas export from Chirag-1, East Azeri and West Azeri (these platforms are all linked to CA, with no independent gas export pipelines to shore). Excess gas therefore had to be flared off, resulting in higher GHG emissions. The associated reduction in oil production also increased normalized operational GHG emissions significantly.

Flaring

In 2008, 842 kte of hydrocarbon were flared by BP in Azerbaijan, a 200% increase compared to 2008. The main reasons are described in the previous section. In 2009, we expect to decrease flaring by maximising gas export from the offshore platforms and through engineering projects at Sangachal terminal.

Energy consumption

Consumption of fuel gas increased by 96.5 kte (up 22%) in 2008 on 2007, diesel consumption increased by 33.1 kte (up 178%), and electricity import increased by 4.3 kte (up 90%). Factors contributing to this increased energy consumption are summarized in the table on page 19.

BP Azerbaijan SPU net GHG emissions in Azerbaijan

Azerbaijan only	Actual 2007	Actual 2008
Operational GHG emissions kte/pa	634.64	755.3
Normalised operational GHG emissions te/mboe	7.99	15.9

BP Azerbaijan SPU net GHG emissions 2007-2008 per asset in Azerbaijan (kte)

Azerbaijan only	2007	2008
Chirag	69.6	64.2
Azeri Offshore	278.7	310.4
DWG ^a	-	80.6
ACG predrill Dada Gorgud	4.0	4.7
ACG Sangachal terminal	180.6	194.5
SD Ops offshore	14.7	3.2
SD exploration drilling	4.6	3.2
SD Sangachal terminal	67.1	48.7
Inam	0.5	0
BTC Azerbaijan	13.7	21.9
SCP Azerbaijan	0.02	0.03
WREP Azerbaijan	0.9	1.5
NREP ^b	0.12	0.01
Logistics ^c	-	21.5
Waste management sites ^d	-	0.9

^a DWG not operational in 2007.

^b NREP ownership transferred to SOCAR 01/02/08.

^c No GHG reporting conducted for BP Azerbaijan SPU logistics prior to 2008.

^d No GHG reporting conducted for BP Azerbaijan SPU waste management sites (Serenja HWMF, SPS CWAA and ST CWAA) prior to 2008.

BP Azerbaijan SPU direct CO2 emissions in Azerbaijan

Azerbaijan only	2007	2008
Gross direct carbon dioxide (100%) (kte)	1,980.1	3,677.7
Net direct carbon dioxide (kte)	582.8	687.6

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

Azerbaijan only	2007	2008
Oxides of sulphur (SOx) (te)	795	3,034
Oxides of nitrogen (NOx) (te)	3,786	7,243

Hydrocarbon spills

In 2008, we recorded a 38% decrease in hydrocarbon spills at our facilities in Azerbaijan – 44 against 71 in 2007. Of the 44 spills, seven were greater than one barrel, compared to five in 2007. Thorough clean-ups were carried out where appropriate, and actions taken to prevent recurrence. Of 6,198 litres of product spilled in 2008, about 89% (5,499 litres) were recovered.

All spills to the environment are reported to MENR and SOCAR. BTC spills to the environment are also reported externally to the BTC Lender Group.

Discharges to water – drill cuttings

A total of 9,397 tonnes of drill cuttings and associated fluids (adhered drill mud) was discharged into the Caspian in 2008 - a 61% decrease compared to 2007. This reflected the reduction in drilling activity on Chirag-1 platform and the fact that the majority of drilling operations on the Dada Gorgud rig were subsea completions.

BP Azerbaijan SPU uses water-based mud (WBM) and synthetic-based mud (SBM) for its drilling operations. Ninety one percent of our drill cuttings discharged in 2008 contained low toxicity WBM – the most commonly used drilling mud worldwide. The remainder contained SBMs from the Chirag platform. These discharges complied with the ACG production sharing agreement and the early oil project environmental impact assessment requirements.

By utilizing cuttings dryer technology Chirag continued to push down discharges during 2008. This involved secondary processing of the cuttings to reduce drilling mud residue and collection of the separated mud for re-use.

Waste management

In 2008, we achieved a number of improvements in our waste management processes. The strategy was revised and roles and responsibilities more clearly assigned. The waste streams register detailing all wastes generated in the BP

Azerbaijan SPU and their characteristics was reviewed and updated. A process to improve the procurement of waste management and waste transport services in Azerbaijan was also initiated.

In all, 90,335 tonnes of waste were produced from our operations for the year – 79,968 tonnes of hazardous waste, and 10,367 tonnes of non-hazardous waste. In addition, 62,896 tonnes of raw and treated sewage waste were generated and significant quantities of produced water were received at Sangachal terminal (page 20).

About 41% of the non-hazardous waste generated was recycled or reused. The remainder (both hazardous and non-hazardous) was either treated and disposed using approved methods and routes, stored temporarily at Serenja hazardous waste management facility (HWMF), or landfilled (non-hazardous only) in a BP-dedicated cell operated by Azerbaijan Deutschland Ecological Service (ADES) Azerbaijan - Germany JV.

BP Azerbaijan SPU flaring 2007-2008 in Azerbaijan (net by asset)^a

Flaring (kte)	2007	2008
Azeri offshore	124.3 ^b	495.5 ^b
DWG	-	157.2
Chirag	44.2	109.3
Sangachal terminal (ACG)	51.6	58.4
Sangachal terminal (SD)	58.5	21.4 ^c
Shah Deniz	2.3 ^d	0
Total	280.9	841.9

^a Net flaring is BP's share only of the flaring of the whole AzSPU.

^b Includes ACG pre-drill / DDGG drilling activities.

^c Reduction in 2008 due to engineering modifications to reduce flaring.

^d Exploration drilling/Istiglal drilling activities.

BP Azerbaijan SPU energy consumption 2007-2008 in Azerbaijan

Azerbaijan only	2007	2008	Reason for increased energy consumption in 2008
Fuel gas (kte)	438.0	534.5	<ul style="list-style-type: none"> Sangachal terminal Phase 3 expansion activities Increased power generation on the Azeri platforms due to additional gas export and water and gas re-injection Increased turbine hours for BTC Azerbaijan due to higher oil pipeline throughput
Diesel (kte)	18.6	51.7	<ul style="list-style-type: none"> Inclusion of logistics and waste management sites diesel use Start up, commissioning and ramp up of operations on DWG platform Significant drilling activity on Istiglal rig Sangachal terminal Phase 3 expansion activities and the addition of new equipment Start up of BTC PSA2 camp operations Restart of WREP pipeline
Electricity import (Mega Watt per hour [MWh])	4.8	9.1	<ul style="list-style-type: none"> Inclusion of logistics electricity import data Sangachal terminal Phase 3 expansion activities

BP Azerbaijan SPU drill cuttings discharged to water in Azerbaijan (2008)

Asset / Facility	Drill cuttings with WBM discharged to water, te 2008	Drill cuttings with SBM discharged to water, te 2008	Total drill cuttings discharged to water, te 2008
Chirag 1 platform	0	808	808
Azeri offshore platforms	3,694	0	3,694
Deepwater Gunashli platform	28	0	28
Shah Deniz platform	0	0	0
DDGG drilling rig	537	0	537
Istiglal drilling rig	4,330	0	4,330
Total	8,589	808	9,397

BP Azerbaijan SPU waste quantities 2007-2008 in Azerbaijan (tonnes)

Assets	2007	2008
Hazardous waste	40,713 ^a	79,968 ^b
Non-hazardous waste	7,950	10,367
Sewage	88,947	62,896
Produced water received by Sangachal terminal from offshore	95,440	381,222

^a 2007 total does not include drill cuttings (DC) (DC and waste data were not combined in BP Azerbaijan Sustainability Report 2007).

^b 2008 total includes drill cuttings and PW filtration wastes.

Drill cuttings

A total of 24,782 tonnes of untreated drill cuttings was received at Serenja HWMF in 2008 from offshore drilling operations (8% up on 2007), as well as 6,439 tonnes of drilling mud and tank cleaning waste. A second indirect thermal desorption (ITD) unit was commissioned at Serenja to handle this demand and to allow for separate processing of different mud types.

Approximately 16,884 tonnes of synthetic based mud drill cuttings were processed using the ITD unit. Some 2,090 tonnes of base oil were recovered and returned to the drilling fluids supplier for re-use.

Drill cutting and oily/chemical waste re-injection onboard the Azeri platforms totalled 84,025 tonnes in 2008, compared to 19,918 tonnes in 2007. Waste re-injection was also introduced successfully on the DWG platform during the year. In August, approval was received from the MENR to increase the number of materials that may be disposed through drill cuttings re-injection. The new list includes completion fluids, oily sludges, cleaning water contaminated with cuttings, lube oil, seawater anti-foulant fluids and other materials.

A new landfill facility

- BP's dedicated non-hazardous waste landfill cell in Sumgayit became fully operational at the end of 2008.
- It is designed and constructed to European Union environmental standards.
- It is operated by a local contractor 'Tehlukeli Tullantilar MMC'.
- The ADES landfill facility will be decommissioned in 2009.

Sewage

While failures of sewage treatment units (STUs) across BP Azerbaijan SPU offshore platforms remained an issue in 2008 (particularly for the Azeri platforms) the SPU actually recorded a 38% decline for the year in the number of untreated sewage releases to the Caspian (18 for 2008 compared to 29 for 2007).

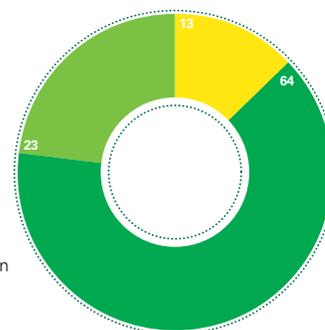
Efforts to improve STU performance continued. A modification of the East Azeri STU was trialled with the aim of eliminating mechanical failures. Results were still being analysed at year end.

A number of STU performance improvements were implemented on Chirag-1 platform including major de-sludging of the system. Other actions, by the SD platform, included: trial grey water line separation; installation of a liquid chlorination unit, and a vendor visit. Sampling and analysis conducted at the end of 2008 for Chirag-1, and early 2009 for SD, confirmed that the sewage effluent complied with ESIA requirements.

Onshore, Azerbaijan pipelines commissioned a new STU at BTC pump station PSA2. Its capabilities include biological treatment, ultraviolet sterilization and a final "polish" of the treated effluent in a reedbed. The majority of STU sampling results demonstrated compliance with BTC environmental and social action plan (ESAP) standards. Exceptions to this were two instances where pH was temporarily out of compliance, and six instances where total coliforms was temporarily out of compliance. No adverse environmental impact was detected in the receiving water as a result of this. There are plans to commission two more STUs along the BTC route in Azerbaijan in 2009.

Cuttings treatment in 2008 – Serenja HWMF (%)

- Processed via ITD
16,884 tonnes
- Storage of raw untreated cuttings
6,203 tonnes (this includes 1,805 tonnes in storage from 2007)
- Bioremediation
3,500 tonnes



Produced water

A total of 381,222 tonnes produced water (PW) was received in 2008 at the Sangachal Terminal from SPU-operated offshore platforms - Chirag 252,606 tonnes; Azeri 98,468 tonnes; DWG 4,715 tonnes and SD 25,433 tonnes. This compares to 95,440 tonnes of PW received by the terminal in 2007.

Just over 30% of the PW received in 2008 (118,994 tonnes) was treated and disposed of by RT Services, AzGerSu, Garadagh cement plant and Karasu Operating Company. The balance was stored in on-site tanks and transferred to storage ponds at the terminal for natural evaporation.

In 2009, a long-term produced water disposal option (separation and offshore re-injection) will be available.

Hazardous liquid wastes

In 2008, a local company, RT Services (licensed by the MENR to provide industrial waste utilisation services), treated 15,220 tonnes of contaminated brine (compared with 10,971 tonnes in 2007) and 8,758 tonnes of produced water filtration waste (compared with 13,532 tonnes in 2007).

Environmental monitoring

As described in earlier Sustainability Reports, BP Azerbaijan SPU operates an integrated environmental monitoring programme (IEMP) in Azerbaijan. This is designed to provide a consistent, long-term set of data with the objective of ensuring that we maintain an accurate picture of the impact our activities may be having on the surrounding environment.

At the end of 2008, the IEMP had completed a total of 57 monitoring studies over five years. Of 16 surveys conducted in 2008, nine were offshore marine surveys, three were nearshore surveys in Sangachal Bay and four were onshore terrestrial surveys. Data from the 2008 surveys is still being analysed.



ITD Treated Cuttings
Storage at Serenja
HWMF.

A second life for drill cuttings

Although some drill cuttings from BP's drilling operations in the Caspian are re-injected offshore, significant quantities are also brought ashore for treatment by indirect thermal desorption (ITD) at the Serenja hazardous waste management facility (HWMF).

The ITD process adopted by BP Azerbaijan SPU uses condensation and separation to recover the base oil, resulting in a solid end product with low residual hydrocarbon content (around 0.4%). All the extracted base oil can be reused in the production of new drilling fluids, which is environmentally sound and economically efficient. The treated solid material is stockpiled in above ground cells at Serenja pending assessment of preferable re-use opportunities or disposal options.

In 2008, an independent review by 'Enviros Consulting'^a confirmed that the treated drill cuttings may be considered non-hazardous and thus suitable as a raw material in other processes. The first re-use to be developed is as landfill intermediate layering and cover material, initially at the BP dedicated non-hazardous waste landfill cell at Sumgayit.

Other re-use applications are under consideration including cement and brick manufacture, road building and construction, and ideas and proposals have been sought from companies within Azerbaijan. The treated drill cuttings contain some barium, sulphates, metals and chlorides which will influence consideration of the environmental impact of each proposed re-use.

^a 'Enviros Consulting' is a UK based independent environmental consultancy.

vicinity of the terminal.

Another project - to monitor terminal groundwater and surface water quality at six-weekly intervals - began at the end of 2007 and continued in 2008. This monitoring was enhanced during the year by additional groundwater monitoring wells sited around the PW holding ponds and the proposed terminal expansion area.

The results of the 2008 offshore, nearshore and onshore surveys will be released in 2009.

Export pipeline surveys

The export pipelines environmental monitoring programme ran throughout the year in Azerbaijan. Ambient air monitoring was conducted at BTC pump station PSA2. This demonstrated compliance with BTC environmental and social action plan (ESAP) standards for all measured parameters.

Stack emissions monitoring of the generators, and noise monitoring at PSA2 and IPA1, also demonstrated compliance with ESAP standards. Surface water and ground water quality results, from monitoring conducted at various locations along the BTC/SCP route in Azerbaijan, were comparable with baseline data.

Meantime, we continued to monitor the recovery of the BTC/SCP right of way. In general our surveys showed that bio-restoration activities are resulting in increased vegetation cover on many sections of the route.

Offshore surveys

Offshore monitoring in 2008 concentrated on existing assets and potential future assets.

Seabed monitoring was carried out in the vicinity of Chirag-1, Central Azeri and East Azeri platforms and post-drill seabed monitoring was undertaken around the Shah Deniz SDX-4 appraisal well. Post-pipeline installation monitoring took place along the seabed corridor between the ACG complex and Sangachal terminal.

In terms of future assets, pre-drill monitoring was conducted at the proposed Shah Deniz SDX-NF1 appraisal well location, and post-drill monitoring was performed at the Inam INX-2 exploration well location.

To assist in the understanding of background environmental trends, regional offshore surveys are conducted as part of the IEMP. Sampling is carried out at locations remote from BP Azerbaijan SPU activities (and third party operations) in order to provide information on changes in the marine environment resulting from natural developments. This helps us to detect any consistent background trends, which are clearly not due to BP Azerbaijan SPU operations. In 2008, a regional survey was completed in the vicinity of the ACG contract area. This involved physical and chemical sampling of the seabed and water column, and faunal sampling of the benthic and planktonic populations.

Nearshore surveys

Three surveys were conducted in Sangachal bay during 2008. A seabed sediment survey assessed the environmental status of the bay and identified BP and/or third party impacts. A second survey studied the status and recovery of seagrass communities in the subsea export pipeline corridor. A third survey looked for changes in fish population dynamics.

Onshore surveys

Much effort was devoted to environmental monitoring in the vicinity of Sangachal terminal in 2008.

An improved methodology for terrestrial ecosystem monitoring (vegetation and soil stability survey) was implemented in 2006 and has been carried out in spring and autumn of each subsequent year. The new method directly addresses the question of ecosystem deterioration and is designed to enable early warning so that appropriate management action can be taken, if warranted. A new type of bird survey was introduced to address whether the terminal is affecting local bird populations. Monitoring was carried out at a number of survey points on six occasions. Ambient air quality monitoring was also carried out using a revised method that takes into account third party emission sources in the



The new produced water tank at Sangachal terminal

- In 2008, we constructed and installed a produced water storage tank, pumping and treatment systems and laboratory facilities at Sangachal terminal.
- When the long-term disposal solution is fully operational, produced water will be stored in the tank prior to treatment via centrifuge, flotation and filtration.
- Treated effluent will then be pumped offshore, via a new subsea pipeline, for re-injection at Central Azeri platform.

2008 Environmental highlights

- We moved closer to being fully ISO 14001 certified. In 2008, Sangachal terminal (ACG Phase 3 + BTC/SCP), and the BTC and SCP pipelines achieved certification.
- We made improvements to waste management processes. A second ITD unit was commissioned at Serenja HWMF. The non-hazardous waste landfill at Sumgayit became fully operational to EU standards.
- We improved sewage treatment performance at Chirag and Shah Deniz platforms. A new sewage treatment unit became operational at BTC pump station PSA2.
- We made significant progress towards a long-term disposal solution for produced water.

Summary of 2007 environmental reports

Offshore		Onshore	
DWG	Comparison of benthic survey data for 2001 and 2007 indicates that pre-drill activities, platform installation, and post installation drilling have not resulted in significant contamination and have not had a measurable impact on seabed communities.	ST terrestrial ecosystem	Environment around terminal appears to be relatively unaffected by BP terminal operations. Evidence supports hypothesis that deterioration in certain areas is due to non-BP activities – grazing, construction and mud volcano eruptions.
WA	Sediments showed no sign of ecologically significant contamination. Seabed communities remained diverse and abundant suggesting operational impacts are minimal.	ST ambient air	The level of atmospheric pollutants recorded was within appropriate environmental and health guideline values.
SDX-5	Baseline survey prior to drilling. Only four seabed species recorded at low abundance. This is typical of the Caspian deep water environment (>500m) and in line with data from the regional surveys.	ST ground and surface water	All groundwater borehole samples had a total hydrocarbon concentration of <20µg / litre. Surface water sample results were within environmentally accepted limits.
SD Stage 1	Results indicate that ecological health around the platform is good, with improvements since the 2001 baseline survey and no evidence of significant impacts.		
SD Regional	Total number of seabed species considerably higher in 1998 regional baseline survey, but has remained relatively constant since 2000.		

^a Microgram, 1/1000 of a milligram



Produced water storage pond at Sangachal terminal.

ACG produced water disposal update

Produced water (PW) is a challenge for every oil and gas operation worldwide. To meet commercial specifications it must be removed from hydrocarbon products prior to export.

In Azerbaijan, separation and offshore re-injection will account for a large proportion of PW treatment and disposal by BP from 2009 onwards. Until this link becomes operational, however, our options are more limited.

At the start of 2008, all PW was separated and disposed onshore. As oil and gas production rose, this proved a tougher challenge for Sangachal terminal due to its limited storage and disposal facilities. An alternative short-term solution was sought and it was decided to trial a system using initial on-site filtration, followed by transfer to storage ponds for natural evaporation on site.

The key issue with this disposal route is the smell associated with the PW. This arises from chemicals occurring naturally in the reservoir. In August and

September 2008, complaints regarding the smell, and potential health impacts, were received from local communities near the terminal.

In response, public meetings were held with the residents of Sahil, Umid and Sangachal - in the words of Khatira Iskender (C&EA director, Sangachal terminal), "to provide a valuable forum for the public to air their concerns and obtain accurate feedback from BP representatives." At the meetings it was explained that an extensive programme of health monitoring had been carried out in July, which showed that no individual components exceeded relevant occupational exposure limits^a. Subsequently mitigation measures were introduced including modification of operations to suit the weather conditions and use of neutralizing substances in the ponds to reduce odour.

^a Legally enforceable limit on the amount or concentration of a substance in the work environment to which employees/workers may be exposed during a specified period.

Health

Management of hazardous substances, food safety and the provision of medical services were dominant themes of our health activities in 2008. Employees were encouraged to participate in both internationally-sponsored and BP Azerbaijan-specific, health awareness campaigns.

Health initiatives

In 2008, the management of hazardous substances was identified as a key risk by the BP Azerbaijan SPU health team. In response, initiatives were launched across the organisation accompanied by training and awareness programmes.

Two new management tools were introduced to improve data handling - the 'Dolphin' material safety data sheet database (which uses a central provider to store and update documents provided by manufacturers detailing safety procedures and precautions for materials used in the workplace); and the COSHHnet (control of substances hazardous to health) chemicals risk assessment tool (which is designed to improve the management of hazardous substances product and risk assessment information).

At Sangachal terminal, a pilot respiratory protection programme was launched. Presentations were made to emergency response personnel and individuals required to wear respirators at work. More than 100 employees were tested to determine adequacy of fit of their respirators.

Health campaigns

Our employees were encouraged to take part in several internationally-sponsored health awareness campaigns in 2008. They included 'world tuberculosis day' in March, 'world no tobacco day' in May and 'world diabetes day' in November. Educational awareness packages were delivered to employees in conjunction with these campaigns.

2008 Health highlights

- Systems rolled-out to improve hazardous substances data management.
- Respiratory protection programme launched at Sangachal terminal.
- Food safety control improved and food safety training provided to relevant catering contractors.
- Review of local occupational health clinics carried out.

Terminal tortoises get their freedom

The spur-thighed tortoise (*Testudo graeca*) is listed in the Red Data Book of the Azerbaijan Republic and the International Union for Conservation of Nature (IUCN) Red List of threatened species as 'vulnerable' due to reductions in population numbers.

In 2002, a BP breeding programme was initiated on the coastline adjacent to Sangachal terminal in response to concerns regarding terminal expansion works and their possible impact on tortoises in the area. As part of this project, tortoises were bred in a special enclosure - simulating conditions close to nature - to avoid any net loss in population. By the end of 2008, 423 tortoises had been bred successfully at the nursery.

In collaboration with the breeding project a release programme was developed with help from the Azerbaijan bio-diversity centre. In October 2007, the

first batch of 123 tortoises was released in the Gobustan area using procedures agreed in advance with the MENR. All the tortoises were marked to permit future monitoring. Initial observations suggested that these released tortoises were relatively inactive, only moving short distances prior to hibernating. Further monitoring in spring 2008 indicated a 76% survival rate (56 were observed feeding and moving, while 37 were in post-winter refuge).

In May/June 2008, another 104 tortoises were released in the Shirvan foothills area, using the same methodology as the previous year. Initial observations showed that these individuals were active, some moving up to 300m in the five day monitoring period.

A plan to release all the remaining tortoises in the Sangachal terminal breeding sanctuary will be developed during 2009.



Tortoises ready for release

Tortoise release May/June 2008

Tortoises from October 2007 release found during spring 2008 monitoring

A number of BP Azerbaijan-specific awareness campaigns were also delivered in 2008. Topics covered included avian flu and flu vaccination, eye health, heat stress, noise awareness, stress management, women's health and lighten the load (prevention of musculoskeletal disorders).

Health performance

Food hygiene standards remained a central concern in 2008, with our focus on food safety control and the provision of food safety training to relevant catering contractors. Regular food hygiene audits of our catering facilities were carried out and catering contractor selection was subject to increased rigor.

Training programmes were delivered to contractors on 'effective hygiene inspection of food premises' and 'principles of hazard analysis critical control points'. Procedures regarding legionella^a

and integrated pest control were also developed and issued.

A review of local occupational health clinics was carried out by the SPU health team. As a result, three clinics were shortlisted to participate in future bids for medical services. Baku's central military clinic, which specialises in burns treatment, was added to our medical insurance plan as an approved facility.

^a Legionella is a Gram negative bacterium, including species that cause legionellosis or Legionnaires' disease, most notably *L. pneumophila*.

Security and human rights

In 2008, we increased co-operation with local communities, specialist organisations and government bodies in order to strengthen the security of BP-operated assets in Azerbaijan.

Overview

External security at our assets in Azerbaijan is provided by the host government. Pipeline security is the responsibility of the export pipelines protection department (EPPD). Offshore protection is supplied by the Azerbaijan navy and coast guard.

Security of people and facilities within BP-controlled or operated sites is the company's responsibility and is sub-contracted to Titan D Ltd. BP's direct involvement relies on effective cooperation with local communities and the government of Azerbaijan, detailed planning to protect our people and assets and the company-wide value that security, like safety, is everyone's responsibility.

Responding to major events

Delivering safe and reliable performance also requires us to react on occasion to external events beyond our control. In 2008, we responded to the military conflict in Georgia, oversaw the evacuation of non-essential personnel, contractors and dependents to Azerbaijan and Turkey and provided guidance to those staff who remained in Georgia. The operations of the western route export pipeline and the south Caucasus pipeline were suspended temporarily as a precaution. In consultation with the government of Georgia, we agreed criteria for the safe return of our people and the safe resumption of operations.

Working with communities

Our support for the inter-agency security committee (IASC) forum, which facilitates dialogue between BP in Azerbaijan, community members and government security providers, continued in 2008. Over the year, the inter-agency security working group (ISWG) held 98 meetings in communities in eight regions along the pipelines' right of way.

Grievance resolution

The grievance mechanism along the BTC/SCP pipeline route remained in force during 2008. Those involved included seven community liaison officers (CLOs), pipeline technicians and a field security advisor. In 2008, we received 27 complaints from land owners and users within the pipeline right-of-way in Azerbaijan – 33% less than in 2007.



BTC reinstatement areas in Yevlakh - Pipeline patrol technician Gadir Pashayev talks to local shepherd.

Topics included compensation issues (52%), irrigation (19%) and land reinstatement (15%). By the end of 2008, 21 of these complaints had been resolved.

The last two complaints from the BTC/SCP construction phase were also resolved late in the year. Both involved allegations about bridges claimed to have been damaged by contractor vehicles. Sufficient evidence was not produced to support the claims. Nevertheless we decided to offer support to local authorities to facilitate rehabilitation work.

Interacting with public and private security

The bilateral security protocol that we signed with the government of Azerbaijan in 2007 entered into force in May, 2008. It covers the provision of security for facilities operated by BP in Azerbaijan and includes a definition of standards on the use of force and firearms, hiring and training security personnel, exchange of information and monitoring compliance.

To identify offshore security risks, we sponsored a review of all BP-operated offshore infrastructures, including platforms and sub-sea pipelines. We also conducted a joint competence assessment of the security services provided by SOCAR for BP logistics supply base facilities and central waste accumulation. Subsequently we supported training for 62 SOCAR security guards and four SOCAR supervisors.

Cooperation with Titan D – the contractor responsible for providing security for our offices, export pipelines and Sangachal terminal – developed during the year. During 2008, Titan D guards and supervisors continued to receive training: 269 people were trained in basic guarding skills, 294 in first aid, 226 in fire fighting and 13 in human rights.

Independent monitoring

We published a report by an independent monitor that assessed our compliance with the Voluntary Principles. The auditor, Foley Hoag, found that BP was "in material compliance with the Voluntary Principles, and setting global industry standards for effective implementation of this initiative". It uncovered no "allegations that public or private security forces failed to respect the rights of individuals impacted by the pipelines" or that there had been any attempted security breaches against the projects.

Exercising right for voting

A presidential election took place in Azerbaijan in October, 2008. Voting for offshore national staff was organized on Deepwater Gunashli, Chirag, East Azeri and West Azeri platforms. Precinct election commissions of six specially trained nationals were established on each platform. Our work was recognized by the chairman of the Sabail constituency election commission.

 **Independent monitoring report may be read on**
www.bp.com/caspian

Human energy

What is BP doing in Azerbaijan to enhance the skills of its local workforce?

Our objective is to create a local company run by qualified Azerbaijani citizens. To this end, we have introduced policies and procedures designed to increase the number of national staff in senior posts and to develop a national workforce.



Our people

Milestones of 2008

Good progress was made in 2008 towards creating a highly professional national workforce. The targets for the BP Azerbaijan SPU for end-2008 were 80% of national employees in professional roles and 100% in non-professional roles. We achieved the target for non-professional roles and exceeded that for professionals which reached 83%. Real improvement was made in advancing national staff into senior roles, with 102 persons qualified by end 2008 against 69 at end 2007.

These developments reflected a sustained emphasis on quality recruitment, early development, technical/discipline training and leadership support.

Professional staff of BP Azerbaijan SPU^a

Category	Number of people	% of total workforce
National staff	1,947	83%
Expatriate staff	392	17%
Total	2,339	

^a The table shows BP expatriate and national professional staff working for the Azerbaijan Strategic Performance Unit working in Azerbaijan, Georgia and Turkey.

Professional staff of BP in Azerbaijan

Category	Number of people	% of total workforce
National staff	1,632	82%
Expatriate staff	362	18%
Total	1,994	

Senior level Azerbaijani managers by work disciplines

Communications and external affairs (C&EA)	6
Drilling, completions and interventions (DC&I)	5
Finance	17
Human resources (HR)	5
Health, safety and environment (HSE)	14
Information technologies and systems (IT&S)	3
Legal	2
Logistics	3
Management	2
Projects	3
Procurement and supply chain management (PSCM)	6
Security	2
Subsurface	10
Operations & engineering	19
Tax	4
Transportation	1
Total	102

Did you know?

- At the end of 2008, 306 Azerbaijani citizens were in middle management grades (225 in 2007).
- Out of these 306 people, 24% were female.
- At the end of 2008, 102 Azerbaijani citizens were in senior or middle management grades (69 in 2007).
- 22 Azerbaijani citizens were in senior or middle management grades in the BP global organization outside of Azerbaijan.

Permanent BP staff based in Azerbaijan^a

Category	Total	Female	Male
National staff	1,839	401	1,438
Expatriate staff	362	15	347
Total	2,201	416	1,785

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

Agency contract employees of BP based in Azerbaijan

Category	Total	Female	Male
National employees	248	108	140
Expatriate employees	400	12	388
Total	648	120	528

Azerbaijani graduates recruitment

Work discipline	Total	Female	Male
DC&I	7	2	5
Finance	4	1	3
HSE	3	1	2
PSCM	2		2
Subsurface	5		5
Surface-engineering	2		2
Surface-operations	5	2	3
Overall total	28	6	22

Ad hoc recruitment numbers^a

Work discipline	Total	Female	Male
Administration	21	19	2
C&EA	2		2
DC&I	7		7
Finance	13	6	7
HR	2	2	
HSE	24	5	19
Information technology & services (IT&S)	1		1
Legal	1	1	
Logistics	22	2	20
Office Property management services (OPMS)	1		1
Projects	5		5
PSCM	11	7	4
Subsurface	7	2	5
Surface-engineering	8	4	4
Surface-operations	21	3	15
Surface-technicians	75		72
Overall total	221	57	164

^a This includes all experienced hires.

Attracting talented individuals

Reflecting operational and new project requirements, we expanded our organisation in 2008. A total of 221 national experienced employees were recruited in Azerbaijan and a variety of recruitment programmes were launched to find people with the right skills set. Through the annual graduate recruitment programme, we hired 28 university graduates and 54 interns. Among new hires, 20 individuals were selected for middle and senior management positions and 68 for operations and maintenance roles.

In a related move, clearer means of communication were introduced to enable national candidates to apply more easily

for positions. Our careers web page on the BP Caspian internet site became the primary source for all information regarding recruitment and externally available vacancies. In addition, we launched a new internet-based recruitment system in Azerbaijan and Georgia called talent acquisition solution (TAS). This enables both internal and external job-seekers to browse through vacancies easily, upload CVs into the system quickly, apply for jobs and be notified on the status of their application at each step. TAS also helps build greater efficiency and transparency into our selection processes.



Walking his way up

"How would you explain the importance of drilling mud?" This was the first question asked of a young candidate wanting to become a BP drilling supervisor back in 1997. "It's like blood in a human body" came back the answer quick as a flash. This was Tofiq Hajiyev.

A graduate of Azerbaijan State Oil Academy, Tofiq loved studying and was eager to learn. An engineer by qualification, he started his career in the oil and gas sector as a roughneck. Before long he moved to SOCAR's research institute and subsequently 'walked' his way up to the post of senior scientist. Then he set a target for himself – to learn English. No teachers - just patience, diligence and books.

Tofiq's practical English improved when he moved to McShelf. This job proved to be his bridge into BP in 1997 and work as a drilling supervisor. At first, he found the transition difficult. As he puts it: "It was only my theoretical baggage which helped me to understand and get used to world class standards." In 1999 he moved to the well planning team. An assignment in Sunbury followed. Then in 2003 he joined the newly established Central Azeri drilling team.

Now a senior drilling engineer, Tofiq has been responsible for the delivery of drilling well programmes since 2007. Exposure to this level of responsibility, he believes, "helps to grow competencies and develop leadership skills." Today he considers himself a fortunate man with a happy family (he has three children), interesting work and plenty of stimulus to take on future challenges.

Incoming expatriates 2008 (Azerbaijan only)

Work discipline	Male	Total
D&C	6	6
Finance	1	1
Logistics	1	1
PSCM	3	3
Subsurface	5	5
Surface-engineering	7	7
Surface-operations	6	6
Surface-technicians	3	3
Overall total	32	32

Outgoing expatriates 2008 (Azerbaijan only)

Work discipline	Total	Female	Male
D&C	23		23
Finance	10	2	8
HR	4	3	1
HSE	10	2	8
IT&S	1		1
Legal	1		1
Logistics	1	1	
OPMS	1		1
Projects	22		22
PSCM	6	1	5
Security	1		1
Subsurface	9	2	7
Surface-engineering	15	2	13
Surface-operations	19	3	16
Surface-technicians	11		11
Overall total	134	16	118

Our priority remains as laid out in previous Sustainability Reports - to develop transparent recruitment and selection processes that minimize any possibility of breaches of BP's Code of Conduct. In pursuit of this goal we created a 'fraud alert' reporting mechanism in 2008 on

the Caspian website. Any allegation of recruitment impropriety made to the site is referred immediately to senior management.

Contractor workforce

At the end of 2008, the ACG project employed more than 1,800 contractor staff at Sangachal terminal of whom three-quarters were Azerbaijani nationals.

Labour relations

There were few labour relation issues during the year. Issues that did arise were handled as part of the labour management framework and did not involve any lost time. In consultation with SOCAR and the trade unions, we continued to make use of arrangements put in place to address labour issues related to the work of ACG contractors. These included an agreement covering financial assistance for demobilisation.

National reward

During 2008, we launched a new performance management process. This was designed to create a stronger link between individual performance and reward.

Salaries and reward programmes were benchmarked both within Azerbaijan and around the region, and we made significant improvements to ensure retention of key staff. Our overall rate of voluntary attrition in 2008 was similar to 2007 but we experienced improvements in key disciplines where we had witnessed higher levels of attrition in the past such as DC&I (from 9% to 6%) and surface operations (from 9% to 2%).

We also made several changes to our benefit programmes. A service award programme was launched to recognise long-serving employees. In total, 404

Resourcing team leader Ulviyya Jabbarly



As part of BP's global HR transformation, talent acquisition solution (TAS) has been launched in Azerbaijan and Georgia to streamline recruiting. TAS is an integrated internet-based system designed to handle all external and internal resourcing in BP. It gives us a single global talent warehouse that can be mined by recruiters across the company.

national employees were recognised in 2008 for having completed more than 10 years' service in the company. Our medical insurance programme was significantly enhanced and now provides better coverage and improved services to employees from third party providers.



"I was sure I could run a platform"

A graduate of the Azerbaijan State Oil Academy, Godjat Nuriyev began building a career in the oil and gas industry when he was given the chance of a consultancy job in an international company. This opened doors to other opportunities. In 1997, he spent 40 days in the U.K. as a consultant in Sunbury where a BP team was working on a scenario for the next stage of the Azeri-Chirag-Gunashli (ACG) development. Later that year he made the leap into the international oil development business by joining the Early Oil project centred on the Chirag platform.

Following six months' general training and English language courses, Godjat was ready for his first assignment as an operator on the Chirag platform.

Over the following eight years he

progressed steadily up the career ladder on Chirag before, in 2005, spending four months working on BP's Magnus platform in the North Sea. Then he returned to Chirag as offshore operations engineer (OOE) – effectively, second in command to the platform manager.

Just two years later, Godjat Nuriyev applied to become the West Azeri offshore installation manager (OIM). "By that point I was sure I could run a platform, and my confidence was supported by the management team," he recalls. "My view is that, in BP, if you demonstrate your capabilities to do something, you will get the job." Today he is living proof of this belief, managing the 48-well West Azeri platform in water 120 metres deep.

Talent management and learning milestones

Several initiatives were begun in 2008 as part of our talent management, leadership development and learning agendas. A new leadership framework was introduced across the BP group, including the BP Azerbaijan SPU. This focused on clarifying key expectations from leaders at all levels in the organisation. It will form the cornerstone of leadership development activity in Azerbaijan in the coming years.

To help create a more performance-oriented culture, and to support the new performance-related reward framework, a programme called effective performance conversations (EPC) was made available to all team leaders. In Azerbaijan, 283 line managers attended EPC courses during 2008. In addition we continued to run our flagship supervisory essentials course. This was attended by 86 first time supervisors.

Another key initiative was the launch of operating essentials (operational capability development programme) for site leaders. This programme represents a group-wide investment in the development of core operational management skills. It is aimed at first level operations and maintenance leaders and is tailored for more than 180 of our Azerbaijani operational leaders. It will be delivered progressively over 18 months.

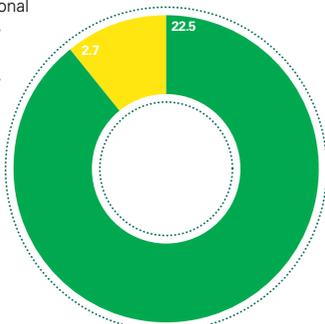
The BP group also introduced greater rigour into its talent management and succession planning processes during the year. In Azerbaijan this had the effect of supporting our efforts to identify suitable national candidates for key management and leadership roles. In consequence, by the end of 2008, more than 40% of the middle management were Azerbaijan national staff compared to 30% in 2007.

Training spend

A wide curriculum of training, both technical and behavioural, was offered in 2008 to support national development. Investment in training exceeded \$25 million for the year. This investment included safety training and professional training including technician training, as well as maintenance of the Caspian technical training centre (CTTC).

Total training spend in BP Azerbaijan SPU in 2008 (\$ mln.)

- Professional trainings
- Safety trainings



Combining business and health

Almaz Agazada's parents had a plan for their daughter's future. "My mother wanted to see me in court as a lawyer but I had a different vision of my life," she recalls, smiling. "I've always wanted to help people, and the steps to achieve that vision led me down a different route."

Deciding to acquire a medical degree Almaz spent seven years at Azerbaijan State Medical University. This was followed by ten years of practical experience in occupational health before she became Health Manager for BP Azerbaijan in 2008. In this role she is one of the youngest female managers in the organisation – and one of the most respected. As Greg Mattson, Vice President of HSE & Technical Directorate for BP Azerbaijan SPU, explains: "Dr. Almaz has demonstrated great ability to combine her experience as a health professional – caring for people – with a sharp focus on the managerial aspects of providing a health care system for a business with over 3,000 employees."

It is no easy combination. Almaz, as she acknowledges, is business-driven. In 2008, her team saved BP millions of dollars potentially by developing and implementing a burn management strategy in Azerbaijan. "Initially there was no in-country medical capability for specialized treatment of burn injuries and our emergency plan included hospitalizing injured people in Turkey," she explains. "We decided to reassess in-country medical capability and reviewed the military hospital of the Azerbaijan Republic. Our efforts paid off. Today the military hospital is recognised as NATO standard. Now it's on our list of medical providers - and we have achieved one of our high priority targets."

Technical training

Since its opening in 2004, the Caspian technical training centre (CTTC) has provided training for more than 1,570 technicians from the BP Azerbaijan SPU and agencies. Its courses focus on key technical work skills and learning experiences for technicians in HSE, English language and behavioural subjects. In 2008, 89 (compared to 106 in 2007) technicians graduated from the foundation programme to join the BP Azerbaijan SPU.

Professional training

We supported more than 150 employees in their professional education during 2008 at an estimated cost to the company of about \$4 million. Disciplines covered included personnel, accountancy, management, project management and public relations.

Fifteen employees from the human resources department graduated from the UK Chartered Institute of Personnel and Development (CIPD) programme. Sixty eight students enrolled in the Heriot Watt petroleum engineering MSc degree programme compared to 53 in 2007. First graduates from this programme are expected in 2009.

We continued to support the Society of Petroleum Engineers (SPE) in 2008. This organisation brings together hydrocarbon professionals to share knowledge and promote the attractions of the petroleum engineering discipline. The Azerbaijan SPE chapter is one of the fastest growing in the SPE with some 100 student members and 100 professional members, many of them from BP.

BP in Azerbaijan 2009 national professional recruitment targets^a

SPU disciplines	Graduate hires	Technicians
Operations and engineering	14	120
Subsurface	8	
D&C	7	
HSE	3	
Finance	6	
PSCM	3	
IT&S	1	
HR	1	
Overall total	43	120

^a This table does not include targeted experienced-hires as they are recruited based on ad hoc business needs.

Compliance and ethics

In 2008, we simplified our Code of Conduct certification process to integrate it more closely with risk management processes in our businesses. To enhance Code awareness, mandatory e-learning training was introduced for all employees.

Overview

All employees of the BP group are obliged to observe and uphold the BP Code of Conduct. This establishes BP's universal minimum expectations for businesses and individuals regardless of their location, level or background.

The Code represents a fundamental BP commitment – to comply with all applicable legal requirements and the ethical standards set out in the Code – wherever we operate. Where differences exist as the result of local customs, laws or regulations, either the Code or local requirements should be applied – whichever sets the highest standard of behaviour. Failure to follow the Code is taken very seriously and may result in disciplinary action, including dismissal.

Various provisions in the Code prohibit illegal, corrupt or unethical practices. Others underline the BP group's worldwide policy of making no corporate political contributions. The Code also provides detailed guidance on gifts and entertainment, working with suppliers, avoidance of conflicts of interest, prohibition of bribery and money laundering.

BP in Azerbaijan has identified particular areas where fraud and ethical risks, including bribery and corruption, have greater potential to occur in our operations. These are in contract and supplier selection, contract administration, and gift and entertainment processes.

All employees are encouraged to raise ethical concerns with management directly or through OpenTalk, the company compliance and ethics helpline. All concerns reported via OpenTalk are reviewed and, if appropriate, investigated and acted on in a confidential manner.

Code of Conduct certification

Code of Conduct certification is an annual process undertaken across the BP group to support the assessment of compliance and ethics within the company. As such it provides an important point of reference of the extent to which BP is complying with the Code.

In January 2008, BP's executive team agreed that the annual certification process should be simplified. This decision reflected external benchmarking which



Employee holding the Code of Conduct.

showed that compliance risk management is most effective when it is a part of the overall risk management process of a business. All our businesses and functions now manage compliance risks as an integrated part of their risk management processes.

The new certification process focuses on breaches of the Code of Conduct and is managed through a web-based tool. This has already been shown to improve the quality of information, improve consistency and reduce complexity. Individuals are required to complete certification annually.

The BP Azerbaijan SPU completed its most recent compliance and ethics certification in November, 2008. All employees were asked to confirm that their activities were in compliance with the Code of Conduct. As part of this process, we received individual attestations concerning gifts and entertainment and conflict of interest declarations. In total, 47 breaches of the Code were reported in the BP Azerbaijan SPU in 2008. The majority were addressed immediately. The remaining issues were subject to remedial interventions that will be carried out in 2009.

A number of BP employees and agency staff working in Azerbaijan were dismissed for non-compliance with applicable laws and the expectations of the Code during the year. Reasons included substance abuse, inappropriate safety behaviour, misuse of company assets, fraud and theft.

To further enhance Code of Conduct awareness, as well as to deepen understanding of anti-bribery risks and compliance, mandatory e-learning training was introduced for all our employees. The e-learning module serves as induction for new joiners and as a refresher for employees who have been with the company more than three years.

Contractors and ethics

Most of our business in Azerbaijan is undertaken in co-operation with external and local contractors. We expect contractors to comply with all legal requirements and we only work with contractors who perform in line with our Code of Conduct.

Outlook for 2009

A review of the content of the gifts & entertainment register and the conflict of interest register is planned. The objective will be to establish whether employees are being exposed to unethical pressure from third parties, or are finding themselves in positions where their personal activities could interfere with loyalty and objectivity towards BP.

Local energy

How do the activities of BP in Azerbaijan benefit local communities?

At all times we are committed to conduct business in ways that benefit the communities where we operate. In line with this, we strive to preserve and improve the surrounding environment, support sustainable economic and community development and encourage educational initiatives.



Dialogue and engagement

Throughout 2008, we interacted with stakeholders at all levels in Azerbaijan. We sought constructive dialogue and mutually beneficial outcomes.

Overview

During 2008, BP in Azerbaijan discussed many different issues and engaged in many different activities with stakeholders in the country. Those involved included national and local government officials, national and international non-governmental organizations (NGOs), academic specialists, employees, community representatives, the media, students, multilateral 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 officials to discuss our operations. In January 2008, Tony Hayward, BP group chief executive officer, met with President Ilham Aliyev during the World Economic Forum held at Davos, Switzerland. In April, August and October, Andy Inglis, BP group chief executive officer of exploration and production, also met with President Aliyev. Inglis held a separate meeting with Rovnag Abdullayev, president of the State Oil Company of the Azerbaijan Republic (SOCAR).
- We cooperated with the Central Election Commission to facilitate offshore and onshore voting by Azerbaijani citizens during the Presidential election in October.
- Visitors to sites we operate included senior Azerbaijani government officials as well as the President of Switzerland, the Prime Ministers of Hungary and South Korea and the Speaker of the Turkish Parliament. We hosted delegations from the European Commission, UK Government, NATO, OSCE and the French National Assembly.
- We co-operated with the SOFAZ on implementation of the Extractive Industries Transparency Initiative (EITI). BP, together with other oil companies, participated in Azerbaijan's EITI country validation process.

- We and our co-venturers worked with the Ministry of Economic Development of Azerbaijan on the business enabling environment project (page 34).
- We co-operated with our co-venturers and the Ministry of Economic Development to develop expertise in macroeconomic policymaking, economic forecasting and fiscal strategy as part of our effective governance initiative (page 32).
- We continued to work with SOCAR on issues of mutual interest within the framework of our Production Sharing Agreements (PSAs), Host Government Agreements (HGAs) and other agreements.



BP statistical review session for the media.

With civil society

- We held a BP-civil society dialogue session with civil society representatives to talk about our key public projects in Azerbaijan and obtain their feedback.
- We launched public consultation and disclosure meetings on the Chirag Oil Project (COP) and the expansion of the BTC oil pipeline.
- We held ad-hoc meetings with NGO representatives and responded to their queries and information requests.
- We organised a feedback session with interested external organizations on the BP in Azerbaijan Sustainability Report 2007 and the BP Statistical Review 2007.

With employees

- Several 'Town hall' meetings were conducted to discuss topical issues.
- The staff magazine 'Compass' was issued nine times during the year in the Azerbaijani (hard copy) and English (online version) languages.
- The President of the BP Azerbaijan SPU issued a monthly newsletter in order to enhance direct communication with employees.
- Eight family days were organized for BP employees and their families in the Caspian Energy Centre. About 400 people attended.
- The compliance and ethics helpline, OpenTalk, was maintained throughout the year.
- Technician forums were created to increase engagement with our national technician workforce. Topics discussed ranged from company performance to staff training and development issues.
- We launched a service year award programme to recognise long serving employees.
- We maintained a regularly updated internal website to keep our employees informed about all aspects of our day-to-day activities.

With communities

- A local grievance mechanism built around seven community liaison officers (CLOs) employed by BP continued to be operated along the BTC/SCP pipelines' route in Azerbaijan.
- We supported co-operation between the CLOs, pipeline technicians, local security forces and communities along the BTC/SCP pipelines.
- Our employees contributed to community development through the employee engagement programme (EEP).

With the media

- Numerous group and individual briefings and presentations were arranged for local and international journalists. In addition we organised media workshops and visits to our sites.
- BP Azerbaijan SPU's leadership team updated the media on our current activities, achievements and plans.
- A 24 hour response line was made available to the media during incidents in August-September 2008.
- Fifteen press releases/updates were issued during the year covering milestones and progress in all aspects of our business.
- Our communications manager led regular live 30-minute talks on BP's business on AzRadio, Azerbaijan's national radio channel.
- We funded and arranged business journalism training which started in June 2007, continued through 2008. Classes for local media were held on a monthly basis by the Thomson Foundation.

With the other interested parties

- Business visits:
 - We hosted visits to our sites by senior representatives of Total, TPAO, Itochu, Inpex, ExxonMobil, Wintershall Holding.
- Students:
 - Feedback sessions with students were set up to discuss the BP in Azerbaijan Sustainability Report 2007.
 - We supported various scholarship programmes.
 - We supported the Azerbaijan-UK Alumni Association.
 - We engaged students through the intern programme to give them on-job work experience in various departments in the BP Azerbaijan SPU.
- Trade unions:
 - We engaged with SOCAR and trade unions to address labour issues related to the work of our ACG contractors. As a result, certain categories of demobilised workers received some financial assistance.
- The Azerbaijan Social Review Commission (ASRC):
 - In April 2008, we hosted the third BP-ASRC session. This discussed a number of issues related to our social performance. The second ASRC report to BP, and the company's response, were posted on our public website.
- General public:
 - Six 'BP in Azerbaijan' films that we produced about the progress of BP-operated oil and gas projects in the country were broadcast on a local channel.



We maintained and updated our external website:
www.bp.com/caspian

Revenue transparency

If used effectively, the wealth created by hydrocarbon development can bring wide socio-economic benefits to all sections of society. It is the belief of the BP group that transparency and good governance are the major tools that facilitate such a beneficial outcome.

Over two decades, BP has expressed consistent support for a voluntary, consensus-building approach to transparency and good governance. It remains the company's view that it can facilitate many valuable initiatives designed to promote these objectives.

In September 2008, BP Azerbaijan submitted its ninth EITI (Extractive Industries Transparency Initiative) report covering the period January-June 2008, to the independent aggregators. In March 2009, we submitted our tenth EITI report covering the 2008 calendar year. This full year disaggregated EITI data may be read on page 40 of this publication.

In September 2007, at the 3rd international EITI board meeting held in Oslo, Norway, 15 countries including

Azerbaijan obtained EITI candidate status. According to a decision by the Board, a candidate country willing to become an EITI Compliant country should then pass through a validation process.

Azerbaijan officially started its EITI

Azerbaijan Social Review Commission (ASRC)

BP is commended for its efforts in fostering transparency in its business dealings and for supporting the Extractive Industries Transparency Initiative.

country validation in 2008. BP in Azerbaijan together with other oil companies, civil society and the State Oil Fund of the Republic of Azerbaijan (SOFAZ) participated in a working group that selected the validator and took part in the subsequent country

validation process. In addition we submitted the company validation form on the country level. Subsequently, in February 2009, Azerbaijan became the first EITI compliant country among 25 candidate countries.

During the year, together with our co-venturers in Azerbaijan, we also signed a memorandum of understanding with the Ministry of Economic Development (MoED) on implementation of an advisory programme on macro-economic management and institutional reforms. The Centre for Social and Economic Research, a Warsaw-based international think tank, was selected by the BP group economics team to manage this two year project and provide guidance and policy advice to senior officials at the MoED (page 34).

By supporting this project, which was designed in co-ordination with the MoED, we hope that we are making another contribution towards the effective use of resource revenues in Azerbaijan. An earlier sponsorship of an independent economic consultancy (Oxford Economics Ltd) helped develop a long-term macro-econometric model at SOFAZ.

Enterprise development

BP's long term commitment to foster sustainable economic development in Azerbaijan made good progress in 2008. Our focus was on supporting local business, capacity building and governance.

Milestones of 2008

BP and its co-venturers for the first time recorded a local sustainable spend of over \$1 billion for a single year. The achievement reflected a number of factors including the fact that our knowledge of the local market has improved as a result of sustained engagement through various initiatives over a number of years. In addition, the BP-supported Enterprise Centre (EC) and Regional Development Initiative (RDI) both showed results in their efforts to stimulate local capabilities.

Our spending in Azerbaijan in 2008

BP and its co-venturers' in-country spend in Azerbaijan (operations and projects) in 2008 totalled \$1.3 billion, down 12% on 2007 reflecting our transition from project to operation phase. This broke down as: direct spend with small and medium enterprises (SMEs) \$128 million (up 15%); with state-owned companies \$37 million (down 14%); with joint ventures \$408 million (down 9%); and indirect local

spend through foreign suppliers working in Azerbaijan \$737 million (down 17%).

Our sustainable in-country spend (operations only) with local suppliers totalled \$1 billion (up 5% on 2007). This included direct spend with SMEs \$119 million (up 17% on 2007); state owned companies spend \$22 million (up 5%);

joint ventures spend \$325 million (up 2%); indirect spend \$535 million (up 5%).

In total, BP and its co-venturers did business with 2,600 companies in Azerbaijan in 2008. Of these companies 328 (12.6%) were SMEs.



Potential to grow

The AIC Group was identified early on by the Enterprise Centre as having a lot of potential in the Azerbaijani information technology (IT) market. But a preliminary gap analysis in 2008 showed that it would have to look closely into a number of issues, ranging from health, safety, security and environment (HSSE) requirements in the workplace to IT infrastructure, if it was to meet international quality standards.

Given this assessment, AIC Group seemed a perfect candidate to take part in the EC's enterprise development and

training programme (EDTP).

The participation in the programme enabled the company's technically proficient staff to leverage their enthusiasm and embark on a substantial change management initiative. By delving into the Group's marketing strategy and quality management service delivery, and addressing capital upgrades, human resources policy and capacity building issues, rapid progress soon became possible.

Within a short time AIC Group had added new marketable services, hired six additional employees to meet contracted demand and upgraded its own IT capacity - investing more than 25,000 AZN in the process. It paid off. Within two months of completing the EDTP, according to AIC group executive director Nail Huseynquliyev, the company landed three new contracts for its services.

For more on the AIC Group, and other EDTP clients, visit www.edtp.az



Banking on knowledge

Ramina Quliyeva, human resources training specialist at Access Bank, had always done her best to gain the knowledge and experience she felt was critical to undertaking her daily responsibilities at work. She and her colleagues also understood that knowledge acquired and knowledge transferred in international master-class training seminars was likely to play a significant role in developing their careers and advancing each of them professionally.

When a project designed to support the regional branch expansion of Access Bank and co-sponsored by the International Finance Corporation and BP and its co-venturers through the Regional Development Initiative, loomed on the horizon, Ramina was immediately interested. The aim, she discovered, was to develop a pool of competent national

trainers to cascade and disseminate knowledge among other employees of the bank across the country.

Joining the programme, Ramina and her colleagues received in-depth training from international experts in operational and management business practices. In turn, they have trained about 90% of the bank's personnel in areas such as business loans and retail banking.

By the end of 2008, BP and its co-venturers' involvement had helped Access Bank to train staff, open new branches in Gazakh and Mingechevir and expand the services of the Ganja branch. Notes Andrew Pospelovsky, Access Bank General Manager: "Our focus area is rural regions like these – places where access to finance remains the most limited and where the role of our bank is especially important."

Enterprise Centre

As a one-stop shop where local suppliers can increase their understanding of BP and its co-venturers' business requirements, technical needs and standards of governance, the Enterprise Centre (EC) plays a key role in supporting and developing local business capacity.

In 2008, its focus remained primarily on building capabilities. During the year, 339 companies (203 of them local) received training courses in marketing, financial, ethics, safety and other business-related topics.

In parallel, efforts were stepped up to link BP's procurement and supply chain management process to the sustainable development of local content. Achieving such a direct link is a long term challenge. To help us get there, we gave careful consideration during the year to the coordination of enterprise development projects with our own business needs. This involved monitoring and evaluating development projects.

The related enterprise development and training programme (EDTP), launched in 2007, continued to offer local businesses a straightforward way of

learning more about the standards required to become part of an international supplier network. More than 150 companies took part in the EDTP in 2008 and business development plans were produced to support around 50 SMEs in 13 market categories.

Best of Business awards

Our local content initiatives in Azerbaijan should contribute to sustainable development in the country. To encourage this, we instituted the 'Best of Business' annual awards in 2006 to recognise outstanding BP contractors in Azerbaijan.

The Regional Development Initiative (RDI)

The RDI has been designed to promote large-scale, country-wide, cross-regional projects that enhance enterprise development, energy efficiency/access to energy and good governance. It is being implemented on a long term basis in Azerbaijan, Georgia and Turkey. Around \$2.5 million was spent in 2008 in Azerbaijan on RDI projects.

Microfinance lending programme (MLP)

Under the RDI Framework Agreement signed in 2006, BP and its co-venturers committed \$6 million for loans and technical assistance to private sector development in Azerbaijan and Georgia through the European Bank for Reconstruction and Development (EBRD).

Azerbaijan Social Review Commission (ASRC)

BP is commended for increasing in-country spend in procurement, helping to develop small and medium enterprises (SMEs), and place local contracts. This is a key accomplishment of BP in Azerbaijan.

The 2008 Best of Business award winners

Award category	Winner
Health, safety and environment performance award	'Dalgidj PC. Ltd'
Young entrepreneur of the year	Ramig Zeynalov
Best teamwork project award	'Debet Uniforms Ltd'
Company of the year	'Metal Gaynag Sinag'
Community entrepreneur of the year	Fariz Shamiyev, 'Cheshma S' LLC

The objective is to widen access to finance and help to develop a strong microfinance sector in both countries. This initiative complements other EBRD programmes in the region with similar objectives.

In 2008, financial institutions supported under the MLP provided about 100,000 loans for micro and small enterprises in Azerbaijan. The total value of these loans came to about \$176 million.

Growing local commitments

14 local companies won new long term contracts with BP in Azerbaijan in 2008:

- Alternative Group LLC
- Azerbaijan bank training centre
- Azger-Su TT LLC
- Caspian Safe LLC
- Dalgij private company
- DEBET uniform LLC
- Encotec LLC
- FSSA LLC
- Jeykhun Imanov Studio
- JSC Azmetco Complex Adjustment and Autom
- Language Services Direct
- Metal qaynaq sinq (MQS) LLC
- Rapid Solutions LLC
- Real gas

supply personal protective equipment. Another local company, Rapid Solutions Ltd., received a \$1 million credit line in 2008.

By the end of 2008, this loan financing facility had supported the execution of contracts between BP and its suppliers worth a total of \$10.6 million.

Access Bank expansion

This project was launched towards the end of 2007. It provides support to Access Bank (formerly the Micro-Finance Bank of Azerbaijan) to expand its branch network to the towns of Mingechevir and Gazakh and to upgrade the services of its Ganja branch. By supporting this expansion it is hoped to widen access to finance in rural areas and so enhance local development.

More than 4,770 micro and small enterprises received loan capital through these three Access Bank branches in 2008. The total value of these loans was around \$24 million. The project also supports the professional development of loan officers and branch managers in the three towns. In 2008, 45 Access Bank loan officers received training.

Microfinance impact assessment and social performance management survey

This review project was implemented by the Azerbaijan Micro-Finance Association (AMFA). It was set up to increase understanding of the social performance of microfinance institutions in Azerbaijan and the social impact of the microfinance services on their clients. Little previous academic research had been done in this area.

The social impact assessment survey was conducted among 10 microfinance institutions and 2,000 microfinance clients. The project was completed successfully

in November 2008, and revealed that microcredit had had a generally positive impact on clients' living conditions and had been advanced at sensible levels.

The findings of the project were shared later with public and private sector representatives at a presentation held by AMFA in January 2009. According to the AMFA the findings have enabled local lending institutions to benchmark their social performance management systems and have also helped the Association to determine the Social Performance Rating of local Micro Finance Institutions (MFIs).

Business enabling environment project (BEE)

In 2008, we began co-financing the capacity-building component of the BEE project launched by the International Finance Corporation (IFC). This project is intended to assist the government of Azerbaijan in reducing the regulatory burden on private businesses and streamlining permission and licensing procedures. The capacity building component includes a gradual transfer of survey methodology from IFC to the Ministry of Economic Development (MoED) enabling the latter to better assess the business environment and to develop policy recommendations for its improvement.

Advisory services on macroeconomic management and institutional reforms

This project is described in detail in the 'Revenue transparency' section of this report (page 32).

Supplier finance facility (SFF)

The SFF was set up in 2006 with the International Finance Corporation (the lending arm of the World Bank) to support local companies supplying the oil and gas industry in Azerbaijan. It provides loans to local vendors awarded contracts by BP procurement & supply chain management (PSCM) on behalf of the co-venturers.

AzMetco, a local company specializing on oil and gas metering equipment provision and maintenance, received the first SFF loan (for \$210,000) in 2007. This was followed by a second loan for \$90,000 to the company in 2008. Five loans totalling \$675,000 have now been made to Debet Uniform Ltd., a company awarded a \$6 million contract by BP to

Community programme

Interaction with communities in Azerbaijan progressed in 2008 within a framework set by our community programme, sponsorships and the employee engagement programme.

Overview

Our community projects in Azerbaijan reflect the BP group's commitment to support sustainable socio-economic development for people living near facilities operated by the company.

Milestones of 2008

In 2008, the community programme (CP) was implemented in 60 communities in Azerbaijan. The year was marked by cooperation with municipalities, local

authorities and communities. Our focus was on income generation and the provision of economic opportunities for communities.

In total, BP Azerbaijan and its co-venturers spent more than \$2.7 million on the CP during the year. The key projects were:

West communities programme (WCP)

WCP builds on previous CP activities along the western section of the BTC/SCP pipeline. It is based on partnership with the Save the Children Foundation, a national non-governmental-organization (NGO) UMID HSSC (humanitarian and social support centre) and indirect partnership with two national NGOs - Bilik and the Young Enlighteners.

Begun at the end of 2007, WCP is a two-year, \$1.9 million programme of which about \$1.8 million was spent in 2008. It is designed to equip communities and NGO partners with the skills

and resources necessary to promote sustainable development. In 2008, 20 new communities were formed, 184 training sessions conducted, numerous round table discussions held and 825 young people involved in youth-oriented market research.

As part of WCP, an apprenticeship programme has been established to develop skills and employment and income-generating opportunities for young people. In 2008, 59 individuals joined the programme and 30 completed apprenticeship courses.

By identifying the most successful communities – five in 2008 – WCP helps to strengthen operational capability and cooperation with local government. Within the programme a consolidated budget initiative is identifying possible sources of additional local financial support in communities along the BTC/SCP pipelines. WCP also works to raise the institutional and organisational capacity of our NGO partners.

In 2008, two NGOs took part in this programme - 'Bilik' and 'Young Enlighteners'.

Potable water improvements in communities along the BTC/SCP pipelines

This is a two year programme that started in 2007 and is implemented by Umid HSSC. By the end of 2008, 11 communities had gained access to potable water following the installation of water purification units. Training and advice was provided to support the management of eight limited liability companies (LLCs) set up to promote the efficient and sustainable utilisation of water purification units and to organize the sale of water. Funding for the year totalled around \$85,322.

Youth employment and economic opportunities expansion initiative

This two-year programme, implemented by Umid HSSC and Junior Achievement (JA) in Azerbaijan, covers Sahil, Umid and Sangachal settlements in Garadagh district, Zyk road of Khatai district and settlements in Bayil, Bibiheybat and Sabayil districts in the Baku Corridor. It aims to create an environment in which youths can learn practical employment skills. In 2008, 593 people benefited directly from this programme. Assistance was provided to Umid's community-based organisation (CBO) set up earlier as a part of STEP community programme.

Within the programme, Umid HSSC recruited apprentices and JAA provided eight individual training sessions on business planning and business ethics to 20 apprentices recommended by Umid HSSC.

Both organisations were involved in a related initiative run by JAA. In 2008, we spent approximately \$141,600 on this programme.

Microfinance initiative

As part of our efforts to mitigate the economic impact caused by the end of the construction phase of our projects in Azerbaijan, we signed an agreement with FINCA Azerbaijan at the end of 2007. Under this agreement FINCA is implementing a microfinance/capacity-building initiative for two years in three districts in the Baku corridor - Khatai, Sabail and Garadagh.

Slightly more than \$1 million is committed to this project – around \$423,000 by BP and its co-venturers, and \$600,000 by FINCA. In 2008, BP and its co-venturers disbursed around \$211,000. As of end 2008, there were 1,533 active clients (60% women) and the outstanding portfolio totalled \$1,418,000. A very low percentage (0.32%) of the portfolio was considered to be at risk of default.

Capacity-building under the initiative included the opening of a new branch office by FINCA and the training of branch managers and junior loan officers.



A book pipeline

Five BP employees may often be seen working late in the office in Baku - Firuz Salam, Elshan Rzayev, Emin Babazade, Jabbar Bayramov and Samir Sadiqov. All are active members of the Society of Azerbaijan Young Specialist Developers (SAYSD). They are busy preparing subsurface presentations to share with local students.

SAYSD runs several educational programmes. The most dynamic is called 'University Development'. Since November, 2006, the BP enthusiasts have held weekly seminars on the topic at the Azerbaijan State Oil Academy - the first time this practice, common in western universities, has been applied with such consistency and rigour in Azerbaijan.

In 2008, the 270 hours spent by BP's SAYSD members holding lectures for students specialising in oil and gas

disciplines were matched by the BP group employee engagement programme (EEP). As a result, \$5,000 was donated to purchase approximately 50 books for another SAYSD project – an oil and gas library the Society set up early in 2008 in Elitar Gymnasium in Baku.

An impressive collection of hydrocarbon expertise has now been assembled for students who visit the gymnasium – subsurface books (both electronic and hard copies), oil and gas articles from around the world, presentations and other industry publications with an educational purpose. Readers include students from several departments at the Azerbaijan State Oil Academy and Baku State University. By the end of its first year the new library contained 54 hard copy books, 86 E-books and 70 presentation packs.

Sustainable environmental and economic livelihoods programme (SEEL)

Implemented by Ganja agribusiness association (GABA), this one-year programme has been set up to increase opportunities for sustainable livelihoods in the villages of Eyvazlilar, Mashadi Garalar and Jinli Bolusli and institutional capacity development of the Eyvazlilar human development Union (a CBO in Goranboy district). It has the total budget of around \$191,260, of which about \$108,730 was spent in 2008.

SEEL got underway in 2008. During the year a technical resource centre was opened, two agricultural technical training sessions were conducted for farmers and vegetable-growing skills enhanced. In Eyvazlilar, construction of a fodder processing facility started with the aim of enhancement gardening and vegetable growing efficiency through the introduction of modern processing technologies including packaging, sorting and product labeling. The establishment of a drip-irrigated demonstration orchard and kitchen-garden also commenced.

Social spend in Azerbaijan, Georgia and Turkey in 2008 (\$)

	Azerbaijan	Georgia	Turkey	Total
Gross spend by BP and co-venturers	6,431,728	3,960,305	3,472,639	13,864,672
Net spend by BP only	2,066,127	1,366,678	1,045,264	4,478,069

Employees' support to communities

We support charitable efforts by our employees by matching their contributions through an Employee Matching Fund (EMF) run by the BP group. A third-party administrator - Charities Aid Foundation (CAF) - maintains and updates a list of eligible local organisations. In 2008, AzSPU employees donated around \$19,600 to communities in gifts/money as part of EMF.

A similar initiative, the employee engagement programme (EEP) aims to encourage and empower employees to volunteer their time and talent for the communities where they work and live through a time matching scheme. In 2008, 154 employees made contributions and 1,315 hours were donated, equivalent to \$26,300 in matching BP funds. From this amount around \$22,400 was spent on the needs of orphanages, housing for the elderly, boarding schools, universities and schools in Azerbaijan. The remaining amount is planned to be spent in 2009.



The effort pays off

For about a year now, people living in Karrar village in the Kurdamir region have had access to clear, purified water thanks to a water purification device installed in the village with financial support from BP and its co-venturers.

A Limited Liability Company known as 'Aran K' was set up in Karrar to provide management and maintenance and to ensure continuous sales of potable water. However, due to poor management there were problems with the availability and timely delivery of this drinking water. As a result 'Aran K' LLC hired Rovshan

Abdurahmanov, a local villager well known in Karrar for his capability, enthusiasm and willingness to share his experience with other people and communities.

Rovshan, it turned out, had been involved in capacity-building activities at one of BP and its co-venturers' earlier social investment projects – 'Improvement of access to potable water along BTC/SCP pipelines'. The consequences were soon apparent. Once he started the work order was quickly observed around the purification device and in the equipment room. Spare parts became available, and promotional booklets were distributed to villagers. As a result, water sales rose. 'Aran K' LLC became a profit-making small enterprise and surplus funds were allocated to the local community fund.

The commitment and sense of responsibility and ownership felt both by the management of 'Aran K' LLC and Rovshan Abdurahmanov, as operator-seller, lay behind this success in the view of Umid. And the success continued. As water sales in Karrar have continued to rise, so have profits.

Environmental responsibility

Several long-standing projects were completed in 2008. We continued to sponsor initiatives designed to raise environmental awareness in Azerbaijan.

Milestones of 2008

Together with our co-venturers we spent more than \$775,000 on environmental programmes in 2008.

Tugai forest reahabilitation project

BP's regional biodiversity flagship project - the protection and restoration of the Tugai forest - was completed successfully and handed over to the Ministry of Environment and Natural Resources (MENR) in November 2008. The main goal of the project, which began in 2003, was to establish a model for the long-term protection and restoration of a unique forest which, despite being located in a desert area, is rich in endemic species.

During the project, a 16 hectare plot was fenced off and 40,000 seedlings of Tugai-specific tree and shrub species, planted. An irrigation system was set up to supply the area with water. One hundred and fifty hectares of forest land were protected from cattle, and natural restoration was encouraged in some 30 hectares of empty forest glades.

To raise public awareness of the

Tugai forest, we opened an environmental centre in the Agstafa technical and humanitarian lyceum and developed an environmental 'corner' in Girli village close to the pilot area. One hundred and fifty pine trees were planted in the courtyard of the Lyceum. School libraries in the locality received material issued with BP's support intended to raise environmental awareness.

Protecting biodiversity

A number of winning projects from the sixth biodiversity competition, held in 2007, began to be implemented or were completed.

Among examples, Ecostyle-Azerbaijan's project to develop a supply of seeds of rare and endangered plants - 'Reproduction and reintroduction of unique and endangered plants of the Absheron Peninsula' - moved ahead. In 2009, Ecostyle expects to submit seed samples to relevant scientific organizations in Azerbaijan and to publish a brochure titled 'Rare and endangered plants of the Absheron Peninsula'.

Another winning 2007 project - the public association of youth development's 'Environmental problems as seen by Azerbaijan youngsters' - completed its activities in 2008.

The activities included: environmental attitude survey of the young in the regions of Azerbaijan, a photo exhibition and a biological diversity training course for young people.

Conservation of cultural heritage

Our partnership with the Washington DC-based Smithsonian Institution began to show results in 2008.

Archaeological reports about the many historical sites discovered during construction of the BTC/SCP pipelines in Azerbaijan were completed during the year in collaboration with the Institute of Archaeology and Ethnography.

In another important development, the first group of three Azerbaijani and four Georgian trainees successfully completed courses at the Smithsonian Institution in Washington DC. Their training included topics such as museum management, exhibition development, processing of field collections and the storage and preservation of materials.

Throughout the year, we continued to collaborate with Gobustan Reserve. Internships were arranged in the Caspian Energy Centre (CEC) for four guides from the Reserve. During their internship the guides observed and learned interactive methods of presentation. In addition, they received coaching from a CEC external consultant and advice from CEC presenters, worked with children and gained knowledge of the BP style of work. Later we arranged free-of-charge trips for more than 1,200 visitors to Gobustan and supplied them with an information leaflet.

Educational initiatives

Our educational activities in Azerbaijan are directed at increasing knowledge of the energy industry, promoting business training and widening learning opportunities.

Milestones of 2008

In 2008, the Caspian Energy Centre continued to host visitors. We launched an interactive science project to help promote science through increased access to better quality science education in Azerbaijan. Three major scholarship programmes continued, and we invested in community initiatives aimed at providing wider access to web-based learning.

Caspian Energy Centre (CEC)

The CEC celebrated its third anniversary. Since opening in May 2005, it has hosted 22,000 visitors and spread learning about the oil and gas industry and BP in Azerbaijan through the use of innovative, educational and enjoyable computer-based media.

During the year, CEC programmes were adapted to reflect the requirements of two key audiences - schoolchildren older than 12 and technical students.

In total, CEC hosted 5,478 visitors in 2008, 80% of whom were children.



For more information about CEC activities, visit www.cec.az

BP-British Council interactive science project

This project was launched in April 2008, in Baku. It introduces student-centred, interactive approaches to science teaching and learning in schools. Three workshops were conducted to explain interactive teaching. Fifty three teachers took part in the programme in 2008.

Scholarship programmes

We supported, wholly or in part, three scholarship programmes in Azerbaijan in 2008:

Bursary programme:

This programme is designed to help students interested in pursuing oil and gas-related studies in Azerbaijan. In 2008, 45 first year students from Azerbaijani State Oil Academy specializing in petroleum engineering and the geosciences and 10 students from the society of Azerbaijan young specialists developers received a one-time stipend of 1,000 AZN per person 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 geo-sciences at universities in the US, UK, Turkey, Russia and Azerbaijan. Nine MSc students and 84 BSc students were supported in 2008.

Post graduate scholarship programme:

This programme allows young Azerbaijani professionals to undertake advanced study in the UK. Eight individuals were selected in 2007 from 71 applicants and 7 of them accepted scholarships to pursue MBA, MPA or MSc courses at leading UK universities. Six scholarship recipients completed their graduate studies in UK and returned to Azerbaijan during 2008. The last recipient started studies in October 2008.

Azerbaijan UK Alumni Association

We continued to support the Azerbaijan UK Alumni Association (AUKAA). In March, AUKAA organized a regional conference titled 'The European neighbourhood policy: opens the doors to where?' This event brought together the UK Alumni associations of Azerbaijan, Georgia and Israel.

Community education

To help strengthen communities' business capacity we invested in a number of educational initiatives run by local NGOs in Azerbaijan in 2008. Our involvement was intended to widen rural access to web-based learning and business and economic education. The initiatives included:

Run by Junior Achievement Azerbaijan (JAA):

- *Community economic education programme (COMEEP)*. This initiative targeted communities along the BTC/SCP pipeline route. In 2008, JAA selected and trained 18 trainers in nine communities to deliver courses on fundamentals of the market economy, business ethics and management.



JAA's training for community members.

Clear ideas, clear returns

Sarvar Babayev from the village of Yevlakh has been involved in small business activities for more than 15 years in Azerbaijan and Russia. His entrepreneurial spirit, and enthusiasm to learn and to share his knowledge with others, brought him to Community economic education programme (COMEEP) in 2007.

After enrolling in the COMEEP training programme for trainers Sarvar, along with 17 counterparts from five other regions, went back to his home community and started guidance courses for his fellow villagers. "We made announcements throughout our village," he says. "In a short time the programme aroused the curiosity of the whole community."

More than 20 villagers subsequently signed up to take courses in the fundamentals of a market economy, business management and business ethics. During these courses, Sarvar encouraged the group to

come up with a business idea and a business plan to accompany it. "No serious business partnership can be formed without having a strong idea and a step-by-step realisation plan," he says. Out of this work a plan for a sheep farm in the area emerged.

Within two months, the Yevlakh group completed their plan and applied for a \$3,600 loan from World Vision AzerCredit LLC. Subsequently Sarvar and his partners received \$1,800 to purchase pedigree sheep and applied for another \$1,800 to fund breeding operations. Later, up-to-date financial and management procedures learned on the course were introduced. "We have developed a complete strategy for using and returning the loan," Sarvar explains. "None of this would have been possible without the extensive training and hands-on experience gained through being part of COMEEP"



Local school children at the Caspian Energy Center.

Nearly 200 community members participated in 31 courses. Nine community centres were created to offer training and computer services.

- *School economics education programme.* This programme was launched in 2007. In 2008, it expanded its curriculum to offer economics classes to 18 schools in the Baku corridor. Twenty seven secondary school teachers were trained in JA economics and 3,470 students and teachers took part in the 34 business training courses conducted by JAA.
- *Community economics & business education programme.* This programme began in 2008 to support business education in rural areas. It is designed to spread skills and knowledge to potential business leaders. In its first year the programme included five communities in Kurdamir, Ujar, and Goranboy. A total of 12 training courses were held on such topics as access to finance, fundamentals of the market economy, business management and business ethics. Forty eight community members and three regional business resource centres' representatives participated in the courses. In addition, six training courses on economics, student companies and entrepreneurship projects were conducted in schools and attended by 560 students and 16 teachers.

Run by 'Madad':

- *School connectivity and global citizenship programme.* Phase II of this project was implemented in 12 secondary schools outside of Baku corridor. In 2008, 1,904 participants attended 95 training courses on basic computer literacy. As part of this programme, in 2008, in the Baku corridor there were 4,918 participants

in 196 basic computer literacy courses and 169 participants in 12 teacher-training courses. In addition, 15 teachers who created the best educational resources were commended and 14 online educational projects were implemented.



Opening up new horizons

As an economist in the Ministry of Foreign Affairs, Rustam Tahirov was involved in developing Azerbaijan's bilateral economic relations. He also worked for the National Bank of Azerbaijan where he helped to reform financial policy-making. Although successful professionally, he wanted to deepen his education and develop the skills and knowledge necessary to advance reforms in Azerbaijan's financial sector. So he applied to the BP scholarship programme to study in the United Kingdom.

Today, as a graduate of the Cass Business School in London, Rustam works as the chief of the licensing division in the supervision department of the National Bank. He thinks that the further education he received through the BP scholarship programme has hugely improved his professional skills. "Gaining an MSc in banking and international finance from the Cass Business School in London was one of the biggest time investments I've ever made," he says. "But the rate of return is only increasing. I'm more prepared now to take important decisions in my everyday job in the National Bank, and in real life situations."

Rustam has also been wondering how best to turn his academic experience to wider use and bring more value to society. "There are many areas requiring people equipped with contemporary knowledge and skills. This is where BP scholars should step in, take responsibility and show leadership - no matter what they do", he says.

Five year performance data^a

For the year ended 31 December					
	2004	2005	2006	2007	2008
Operating					
Total hydrocarbons produced (thousand barrels of oil a day on average)	132.2	261.0	472.0	668.0	688.5
Financial^b					
OPEX-total gross spend (\$thousand)	157,668	213,983	254,000	615,000	1,154,000
CAPEX-total gross spend (\$thousand)	5,122,678	5,160,705	4,437,000	3,404,000	2,659,000
Safety^c					
Fatalities - employees	0	0	0	0	0
Fatalities - contractors	2	2	1	0	0
Days away from work cases (DAFWC) workforce	8	3	5	5	3
Days away from work case frequencies (DAFWC(f)) workforce	0.03	0.01	0.03	0.04	0.02
Recordable Incidents (RI) workforce	113	73	39	41	49
Recordable Incident frequencies (RI(f)) workforce	0.44	0.33	0.25	0.31	0.36
Hours worked – employees (million hours) ^d	3.5	3.85	5.73	11.53	6.09
Hours worked – contractors (million hours) ^e	48.22	40.24	25.45	14.76	21.12
Environment					
Direct gross carbon dioxide (CO ₂) (kilo tonnes)	946.7	1,649.2	1,686.5	1,980.1	3,667.7
Indirect gross carbon dioxide (CO ₂) (kilo tonnes)	0	0.5	0.4	0.3	0.5
Direct gross methane (CH ₄) (kilo tonnes)	4.6	6.7	5.7	9.4	20.8
Direct gross greenhouse gas (GHG) (thousand tonnes CO ₂ equivalent) Azerbaijan	1,042.8	1,789.5	1,806.5	2,176.2	4,113.9^f
Flaring net (exploration and production) (tonnes)	283,953	448,279	332,641	280,774	841,856^f
Sulphur gross dioxide (SO _x) ^g (tonnes)	59	814	237	795	3,034
Nitrogen gross oxides (NO _x) ^g (tonnes)	1,621	3,538	3,711	3,786	7,243
Non-methane hydrocarbons gross (tonnes)	1,327	3,229	7,562	3,014	4,965
Number of crude oil spills	20	54	41	71	44
Volume of product spilled (litres)	21,376	24,410	8,396	4,534	6,198
Volume of product unrecovered (litres)	3,061	1,024	1,100	1,192	699
Discharges to water – drill cuttings with synthetic-based mud (SBM) (tonnes)	6,077	3,315	1,563	6,811	808
Employees					
Number of permanent employees of BP in Azerbaijan	1,505	1,741	2,048	2,199	2,201
Social spend					
Total for BP Azerbaijan SPU and co-venturers – gross spend (\$ million)	34.25	25.45	17.12	16.10 ^h	13.9ⁱ

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 Increase in GHG emissions and flaring totals in 2008 due to several factors, including: emergency shut-down of CA platform and associated flaring of excess gas from the Azeri field; flaring during commissioning of DWG platform, and the inclusion of additional site data in 2008 (Logistics and Waste management sites).

g As of 3Q 2007 the methodology for calculating SO_x and NO_x emissions changed. They are now calculated using new emission factors that reflect usage of actual field data rather than guideline assumptions.

h Instead of \$21.10 million indicated erroneously in the 2007 BP in Azerbaijan Sustainability Report.

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

BP in Azerbaijan EITI reported data 2004-2008^a

	2004		2005		2006		2007		2008	
	Value min. US dollars	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)		2.29		4.89		6.498		10.360		51.283
Profit tax					472.032				797.721	
Signing bonuses and other bonuses									0.845	
Other payments, including:	3.95								0.025	
a) transportation tariff (SOFAZ)	0.45				4.212				0.450	
b) acreage fee (SOFAZ)										
2. Payments/allocations of foreign company to host state-owned company										
Other payments, including:	0.07				1.214				n/a ^e	
a) transportation tariff (SOCAR)		948,576,000		1,778,570,000		2,191,730,873,711		2,295,332,277,863		1,967,495,330,355
b) associated gas ^d (SOCAR)										

^a 2003 data can be found on page 60 of the 2007 Sustainability report

^b The payment is for Shah Deniz (SD) gas.

^c The payment is for SD gas.

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

^e Transportation tariffs for Northern Route export pipeline (NREP) are paid to SOCAR as to a commercial entity rather than to a representative of the government. In 2008 the operatorship of NREP was assumed by the State Oil Company of Azerbaijan Republic (SOCAR).

Independent assurance statement

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

Independent assurance statement to BP management

BP in Azerbaijan Sustainability Report 2008 (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 organization. Any reliance any such third party may place on the Report is entirely at its own risk.

What we did to form our conclusions

Our assurance engagement has been planned and performed in accordance with the International Federation of Accountants' ISAE3000^a.

The Report has been evaluated against the following criteria:

- Whether the Report covers the key sustainability issues relevant to BP in Azerbaijan in 2008 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 2008, including risk assessments and ethics certificates.
2. Reviewed the outcome of BP Azerbaijan's own processes for determining the key issues to be included in the Report.
3. Reviewed information or explanation about the Report's sustainability performance data and statements. Whilst we reviewed documentation to support the sustainability data contained within the Report, we did not test the data processes for gathering, collating and reporting data at country or site level.

Level of assurance

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

Our conclusions

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

1. Does the Report cover the key issues?
We are not aware of any key sustainability issues relevant to BP Azerbaijan which were raised in the media or the outcome of BP Azerbaijan's own materiality process 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 2008.

 **ERNST & YOUNG**

Ernst & Young LLP
London
June 2009

^a International Federation of Accountants' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE3000)

Glossary and units

Glossary

AAA

Azerbaijan American Alumni Association

ACG

Azeri-Chirag-Deepwater Gunashli

AIOC

Azerbaijan International Oil company

AMFA

Azerbaijan Microfinance Association

ASA

Advanced safety audit

ASRC

Azerbaijan Social Review Commission

AUKAA

Azerbaijan-UK Alumni Association

BTC

Baku-Tbilisi-Ceyhan

C&EA

Communications & external affairs

C&WP

Compressor & water injection platform

CA

Central Azeri platform

CARSP

Chirag Azeri reservoir seismic project

CBO

Community-Based Organisation

CEC

Caspian Energy Centre

CP

Community programme

CLO

Community liaison officer

CoC

Code of conduct

COMEEP

Community economic education programme

COSHH

Control of Substances Hazardous to Health

CoW

Control of work

CTM

Compliance Task Manager

CTTC

Caspian Technical Training Centre

CWAA

Central waste accumulation area

D&C

Drilling & completions

DAFWC

Day away from work case

DAFWC(f)

Day away from work case frequency

DC

Drill cuttings

DC&I

Drilling, Completions and Interventions

DPCU

Dewpoint control unit

DRA

Drag reducing agent

DWG

Deepwater Gunashli

E&P

Exploration and production

E&Y

Ernst & Young

EA

East Azeri

EC

Enterprise Centre

EcOP

Economic opportunities programme

EDTP

Enterprise Development and Training Programme

EEP

Employee engagement programme

EITI

Extractive Industries Transparency Initiative

EOP

Early Oil Project

ESIA

Environmental and social impact assessment

ESAP

Environmental and social action plan

EU

European Union

FC&A

Financial control & accounting

FINCA

Foundation for International Community Assistance

GABA

Ganja Agribusiness Association

Ge

Georgia

GHG

greenhouse gas

GoM

Gulf of Mexico

HGA

Host government agreement

HiPO

High potential incident

HR

Human resources

HSE

Health, safety and environment

HSSE

Health, safety, security and environment

HSSC

Humanitarian and Social Support Centre

HSSE&MS

health, safety, security, environment and social management system

HWMF

Hazardous waste management facility

IASC

Inter-agency security committee

ITD

Indirect Thermal Desorption

IT&S

Information Technologies and Systems

ICT

Information and communications technology

IEMP

Integrated environmental monitoring programme

IM

Integrity Management

IMechE

UK-based Institution of Mechanical Engineers

IP

Intelligent pigging

ISO

International Organization for Standardization

ISSOW

Integrated Safe System of Work

IT

Information technology

IST

Integrated supply and trading

ITD

Indirect thermal desorption

JAA

Junior Achievement Azerbaijan

LLC

Limited liability company

MAR

Major Accident Risk

MBA

Master of business administration

MENR

Ministry of ecology and natural resources

MFBA

Micro-Finance Bank of Azerbaijan

MoED

Ministry of Economic Development

MPA

Master of public administration

MFI

Micro Finance Institutions

MS

Master of Science

N/A

Not Applicable

NGL

Natural gas liquid(s)

NGO

Non-governmental organisation

NOx

Nitrous oxides

NREP

Northern route export pipeline

OIM

Offshore Installation Manager (OIM)

OMS

Operating management system

OOE

Offshore Operations Engineer

OSHA

Occupational Health and Safety Administration

OPS

Operations

OPMS

Office properties management & services

p/d

Per day

PSA

Production sharing agreement

PSA

Pump station in Azerbaijan

PSCM

Procurement & supply chain management

PW Produced water	SPU Strategic performance unit	boepd barrels of oil equivalent per day
RDI Regional development initiative	SR Sustainability report	bpd barrels per day
RI Recordable injury	SS&W Subsurface & wells	bscm billion standard cubic metres
RI(f) Recordable injury (frequency)	SSOW Safe system of work	km kilometre
SBM Synthetic based mud	ST Sangachal terminal	kte kilo tonnes
SCP South Caucasus pipeline	STEP Sangachal terminal expansion project	kte/pa kilo tonnes per annum
SD Shah Deniz	STOP Safety training observations programme	mbd thousand barrels a day
SDX-5 Shah Deniz exploration well	TAS Talent Acquisition Solution	Mm³ Million cubic metres
SEEL Sustainable Environmental and Economic Livelihoods Programme	TVAR Total vehicle accident rate	mboe thousand barrels of oil equivalent
SFF Supplier Finance Facility	UK United Kingdom	m metre
SMEs Small and medium sized enterprises	WA West Azeri	mln million
SOC Safety observations and conversations	WBM Water based mud	mmbbl million barrels
SOCAR State Oil Company of the Azerbaijan Republic	WREP Western route export pipeline	mmscm/d million standard cubic metres per day
SOFAZ State Oil Fund of the Azerbaijan Republic	Units	mmtpa million tonnes per annum
SOx Sulphurous oxides	\$ US dollar	MWh Mega Watt per hour
SPE Society of Petroleum Engineers	bbl barrels	tcf trillion cubic feet
	bcma billion cubic metres per day	te tonnes
	bncm billion normal cubic metres	te/mboe tonnes per million barrels of oil equivalent

Report process and feedback



Aydin Gashimov,
Stakeholder investment
and reporting manager.
Since May 2009 Aydin
performs a role of
strategic projects manager
in PSCM.

Our objective in publishing this report is to provide a transparent account of our performance over the year, highlight issues we faced and make available feedback from previous reports.

Milestones of 2008:

This is the sixth Sustainability Report produced by BP in Azerbaijan. It describes our activities in the country during 2008.

External assurance has been provided by the BP group auditors, Ernst & Young. Their job is to ensure that figures and statements are correct and are supported by documentation, and that the report provides a balanced representation of our activities in Azerbaijan.

Feedback

The BP in Azerbaijan Sustainability Report 2007 generated a largely positive reaction in Azerbaijan. More than 200 individuals participated in feedback sessions including students and professors, NGO and media representatives, business people and alumni of educational programmes.

Students

Representatives from the US-educated Azerbaijan Alumni Association (AAA), Qafqaz University, State Oil Academy, Economic University and AUKAA took part in the sessions together with BP summer interns. As in previous years, these participants were most interested in recruitment-related issues and BP scholarships. Oil revenues and the future of BP in Azerbaijan were also raised.

Media

Response was mostly positive and the 2007 report was regarded as being as comprehensive and informative as the year before. Technical terms in the Azerbaijani language version led to some questions. Concern was again raised about our publication date in June/July. From the media perspective this diminishes the report's news value and usefulness.

Civil society

Feedback was limited, mirroring a trend noticed in 2007. Inquiries indicated that this might reflect the amount of information about BP and its co-venturers in Azerbaijan already available to NGOs.

Our response to stakeholders' feedback

We conducted four feedback sessions on the 2007 report and subsequently adjusted the 2008 report by taking steps to widen the report's distribution.

We have continued our practice of disclosing information about our tax payments to the government of Azerbaijan, our local spend, initiatives to enhance revenue transparency in Azerbaijan, our recruitment practices and our safety and environmental performance.

Some information, such as payments to individual employees or contractors, cannot be disclosed for ethical reasons. Nor will we disclose revenues earned by BP in Azerbaijan since this is market-sensitive information. However, the aggregated report on BP group's revenues and expenditures can be found in BP's 2008 Annual Report. If you have feedback on this report, we welcome it. Please get in touch with us through the Contact details printed on the last page.



For more detail about BP's approach to sustainability reporting access
www.bp.com/sustainability



For general information on the subject go to
www.accountability.org.uk or
www.globalreporting.org



The aggregated report on BP group's revenues and expenditures is available at:
<http://www.bp.com/annualreview>

How to...

...visit the CEC

Visits to CEC are pre-arranged and therefore bus service is provided to the invited visitors. Schoolchildren's visits are arranged and accompanied by their parents or teachers. The CEC is located 55 km from the centre of Baku, at the Sangachal oil and gas terminal, near the Salyan highway. Visits are free of charge and take place from Monday to Saturday between 10:00 and 16:00.

Telephones: (+994 12) 447 02 55; (+994 12) 447 17 19;
(+994 12) 447 17 32
Fax: (+994 12) 447 53 40
Email: cec@bp.com
Internet address: www.cec.az

...apply for CP grant

For inquiries regarding grants for the Community programme please contact us at: cnp@bp.com

...get a contract

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

E-mail: office@ecbaku.com
Website: www.ecbaku.com

...apply for a job

Please visit www.bp.com/caspian/careers to learn more about technicians recruitment programme, graduate & intern recruitment programme and other BP vacancies.

Note: The Graduate and Intern Recruitment Campaign usually starts in February and is announced in the local media.

...raise a difficult issue

OpenTalk 24-hour phone numbers:

- Azerbaijan + (994 12) 4979 888
- 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 matters through:

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 54
Samukh, Shamkir, Tovuz, Agstafa
Phone (+994 50) 225 01 75/225 02 60
Project Information Centers' numbers:
Kurdamir (+994 145) 6-64-08; Yevlakh - (166) 6-58-84
Tovuz (231) 5-50-99
<http://www.bp.com/caspian/contactus>

More information

Contact us

Ayla Azizova
Transparency and public
reporting team leader

Tamam Bayatly
Communications manager

BP Azerbaijan SPU, Villa Petrolea,
2 Neftchilar Prospekti (Bayil),
Baku, Azerbaijan.

To leave your feedback or to
ask questions, call the
communications and external affairs
department at (+99412) 497 90 00



Online feedback may be
sent through
<http://www.bp.com/caspian/sr>

Much information about
BP's energy projects in the
Caspian/Caucasus region
is available online.

www.bp.com/caspian

This is the main information source about our Caspian region energy projects. It includes project details, news items, ESIA's, 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 2004-2007 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.