BP in Azerbaijan Sustainability Report

2011

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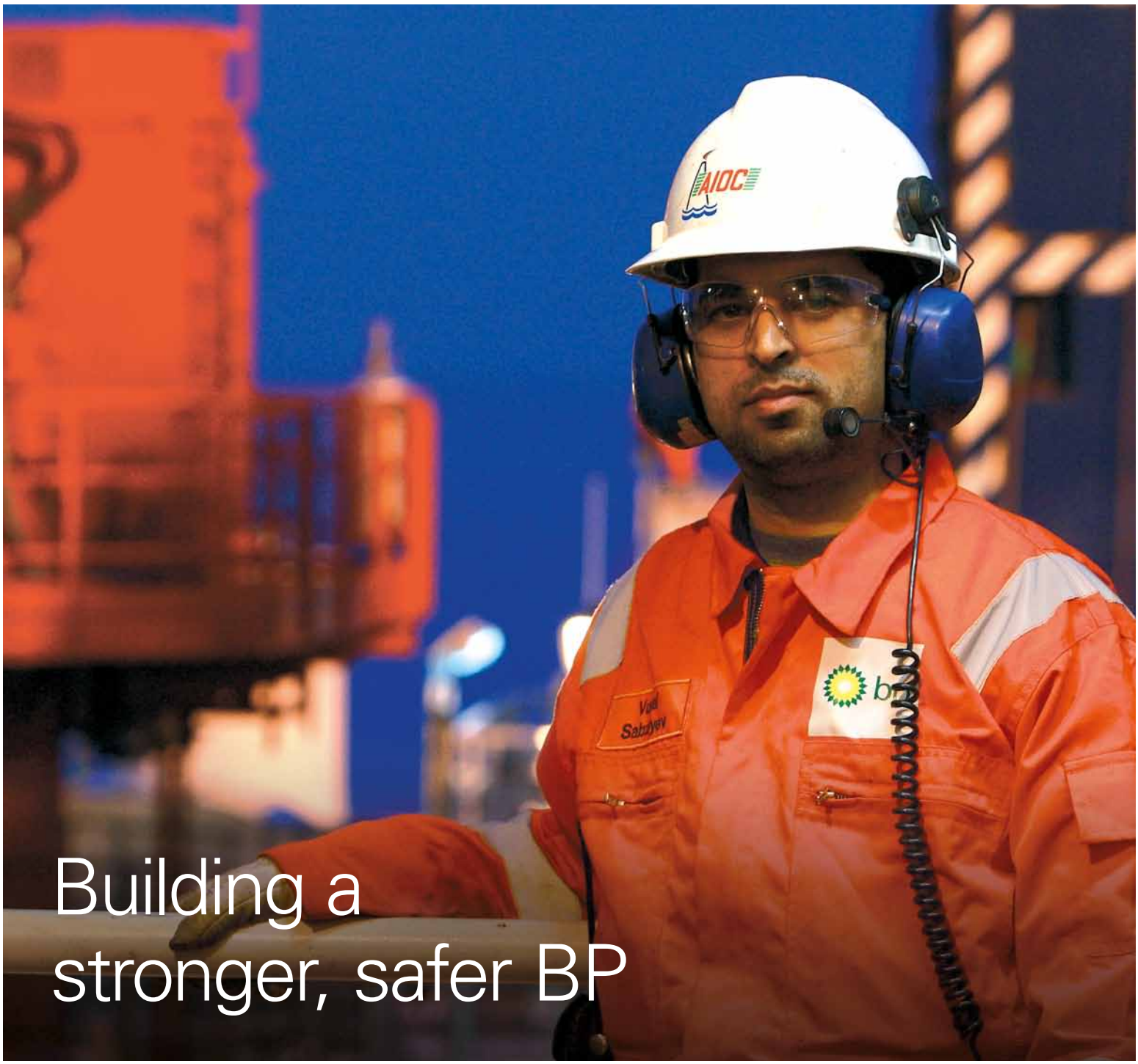

Building a stronger, safer BP

Scope of report

The scope of this report covers the calendar year ending 31 December 2011. In some instances significant events from 2012 have also been included. Unless otherwise specified, the text does not distinguish between the activities of BP p.l.c. and those of its subsidiaries and affiliates.

References in this report to 'us', 'we' and 'our' relate to BP in Azerbaijan unless otherwise stated. When we cite 'BP in Azerbaijan' we refer to operations in Azerbaijan only. If we refer to 'BP AGT' we are including all our activities in Azerbaijan, Georgia and Turkey. Specific references to 'BP' and the 'BP group' mean BP p.l.c., its subsidiaries and affiliates. All dollar amounts are in US dollars.

Cover image
Production technician Vusal Sabziyev at East Azeri platform

For the purposes of this report our definition of sustainability includes issues relating to safety, the environment, governance, risk management, our local and global socio-economic impact and the energy future. We aim to report on these matters in a way that answers key questions raised by stakeholders.

The report is issued annually by BP Exploration (Caspian Sea) Limited in its capacities as operator and manager of the joint operating company for the Azeri-Chirag-Deepwater Gunashli field, as manager of The Baku-Tbilisi-Ceyhan Pipeline Company and by BP Exploration (Shah Deniz) Limited in its capacities as operator of the Shah Deniz field and as technical operator of The South Caucasus Pipeline Company. For this report each of these entities has provided information relevant to its project and statements applicable to its project.

Cautionary statement

BP in Azerbaijan Sustainability Report 2011 contains forward-looking statements relating, in particular, to recoverable volumes and resources, capital, operating and other expenditures, and future projects. Actual results may differ from 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.

BP group sustainability reporting
bp.com/sustainability

What's inside?

BP in Azerbaijan Sustainability Report 2011 covers our business performance, environmental record and wider role in Azerbaijan during 2011. It is our ninth Sustainability Report and reflects feedback we received about previous reports.

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Rashid Javanshir reflects on the highlights of our diverse activities in 2011

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Good governance; enterprise development; working with communities and educational initiatives

We have reviewed *BP in Azerbaijan Sustainability Report 2011* in order to provide assurance to BP management that the data, statements and assertions made regarding the sustainability performance of BP in Azerbaijan are supported by evidence or explanation. Our scope of work and conclusions can be found on page 54.

Ernst & Young
Introduction to the assurance process

52 Five-year performance data

Our key performance data covering areas including production, safety, environment and social spend

53 Five-year EITI reported data

BP supports revenue transparency initiatives in Azerbaijan and we continue to disclose our own disaggregated data in this publication

55 Report process and feedback

We aim to provide a full and transparent account of our performance and activities and to respond to stakeholders' feedback on previous reports

Introduction by the president of the BP Azerbaijan-Georgia-Turkey region

Azerbaijan is one of BP's major offshore hydrocarbon producing regions. Like the rest of the company, we work hard to ensure that we run safe, sustainable and reliable operations.

Today we can assert that BP in Azerbaijan represents an outstanding example of how an integrated, safe and reliable business should be run. Over the past 20 years we have built a proven track record of delivery and created close partnerships with governments in the region, companies and other stakeholders.

That said, we are always striving to do better by improving our safety standards and by putting risk management at the heart of our activities. Our business integrity and ethical values are central priorities for us at all times right alongside operational performance.

Working to maximize operational safety

In 2011, we operated under the new BP group management standard known as the operating management system (OMS). The aim was to embed the OMS performance improvement cycle into our work and business planning processes.

Our record in 2011 indicates that we are making good progress. During the year, we carried out a record number of platform turnarounds – periods when operating assets are taken offline to complete essential maintenance and inspection or project work – safely and on schedule. We also planned and executed successfully a major emergency exercise with involvement of the State Oil Company of Azerbaijan Republic, the Export Pipelines Protection Department and the Ministry of Emergency Situations.

Operational achievements

In terms of our core activity, 2011 was particularly notable for two milestones – seeing Azeri-Chirag-Deepwater Gunashli oil production since the start of operations in 1997 exceed 1.9 billion barrels; and achieving 1 trillion standard cubic feet (about 30 billion standard cubic metres) of gas production from Shah Deniz since 2006.

In addition, our operations and project spending in Azerbaijan together with our co-venturers totalled more than $1.2 billion for the year – an increase of 17% on 2010. Our sustainable in-country operations only expenditure with local suppliers grew by the same percentage to about $947 million.

In parallel, after five years' hard work and intensive negotiations, in October we signed Shah Deniz gas sales and transit agreements in Turkey and a technical cooperation agreement with BOTAS to accompany a new intergovernmental agreement between Azerbaijan and Turkey. These agreements will support the development of the planned Shah Deniz Stage 2 project and allow us to move the venture forward.

Two other developments during the year allowed us to look ahead with optimism. We concluded a set of agreements with BOTAS related to the Baku-Tbilisi-Ceyhan pipeline project, which resolved all historical issues and set us up for a successful, sustainable partnership in the future. In addition, an agreement on the exploration, development and production sharing for the Shafag-Asiman offshore block was ratified by Milli Majlis (Parliament).

Local talent, transparency and relationships at the heart of our business

Our goal of building a strong national workforce and developing our people remained among our top business priorities. At the end of 2011, almost nine out of 10 professional employees in the Azerbaijan-Georgia-Turkey region were national citizens. The number of national employees in senior positions in Azerbaijan reached 149. This is a 14% growth since the last year and threefold growth in the last five years.

Since BP first opened an office in Baku in 1992, the company has been closely involved in many aspects of Azerbaijani life, in particular supporting community development and helping to broaden educational opportunity. This continued last year when Qafqaz University's chemical engineering department opened five fully equipped modern laboratories paid for by the company. It is just one of the accomplishments reflected in this publication.

To mark the twentieth anniversary of our presence in Azerbaijan, we also decided to support the country's teams and selected national athletes as the official partner of the National Olympic Committee and the National Paralympics Committee for the London 2012 Games.

This is our ninth annual sustainability report and is part of our continued commitment to transparency and accountability. I hope it provides you with comprehensive information about our performance over the last year. We welcome your interest and feedback.

Rashid Javanshir
President
BP Azerbaijan-Georgia-Turkey Region
7 August 2012

This is BP in Azerbaijan

We aspire to be a valued, trusted and long-term partner in the development of Azerbaijan's hydrocarbon resources

1.9 billion

Barrels of oil produced by Azeri-Chirag-Deepwater Gunashli from 1997 to end 2011

1 trillion

Standard cubic feet of total gas production from Shah Deniz was reached in October

The new production sharing agreement on the **Shafag-Asiman** block was ratified in May

We are BP We are committed to delivering world class operations and projects and to maintaining a sustainable presence in the Caspian region

At the heart of this vision is a commitment to work safely at all times, to protect the environment and to respect human rights. We believe these core objectives will be realized by enhancing the capabilities of our workforce and by generating local content and improving local capabilities.

Our values and behaviours
bp.com/ourvalues

What we do

We deliver energy to the world.

We find, develop and produce essential sources of energy. We turn these sources into products that people need everywhere.

The world needs energy and this need is growing. This energy will be in many forms. It is, and will always be, vital for people and progress everywhere. We expect to be held to high standards in what we do. We strive to be a safety leader in our industry, a world-class operator, a good corporate citizen and a great employer.

What we stand for

We care deeply about how we deliver energy to the world.

Above everything, that starts with safety and excellence in our operations. This is fundamental to our success. Our approach is built on respect, being consistent and having the courage to do the right thing. We believe success comes from the energy of our people. We have a determination to learn and to do things better. We depend upon developing and deploying the best technology and building long-lasting relationships. We are committed to making a real difference in providing the energy the world needs today, and in the changing world of tomorrow. We work as one team.

What we value

Safety

Safety is good business. Everything we do relies upon the safety of our workforce and the communities around us. We care about the safe management of the environment. We are committed to safely delivering energy to the world.

Respect

We respect the world in which we operate. It begins with compliance with laws and regulations. We hold ourselves to the highest ethical standards and behave in ways that earn the trust of others. We depend on the relationships we have and respect each other and those we work with. We value diversity of people and thought. We care about the consequences of our decisions, large and small, on those around us.

Excellence

We are in a hazardous business and are committed to excellence through the systematic and disciplined management of our operations. We follow and uphold the rules and standards we set for our company. We commit to quality outcomes, have a thirst to learn and to improve. If something is not right, we correct it.

Courage

What we do is rarely easy. Achieving the best outcomes often requires the courage to face difficulty, to speak up and stand by what we believe. We always strive to do the right thing. We explore new ways of thinking and are unafraid to ask for help. We are honest with ourselves and actively seek feedback from others. We aim for an enduring legacy, despite the short-term priorities of our world.

One Team

Whatever the strength of the individual, we will accomplish more together. We put the team ahead of our personal success and commit to building its capability. We trust each other to deliver on our respective obligations.

BP in Azerbaijan at a glance Our structure, organization, assets and history

East Azeri platform

Legal structure
BP operates within a number of legal entities in Azerbaijan, reflecting its evolution in the country and the region since BP opened its first office in Baku in 1992. The principal legal entity is BP Exploration (Caspian Sea) Ltd.

BP in Azerbaijan, Georgia and Turkey
In Azerbaijan, BP operates under several production sharing agreements 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 2011, 11 vice presidents, the chief financial officer, the chief procurement officer and the assistant general counsel reported to the president of BP Azerbaijan-Georgia-Turkey region.

Registered address[a]
In 2011, our registered address in Azerbaijan was Villa Petrolea,
2 Neftchilar Prospekti (Bayil),
Baku AZ1003, Azerbaijan.
Telephone: +994 (0)12 497 9000.
Fax: +994 (0)12 497 9602.

Employees
At the end of 2011, the number of people permanently employed by BP in Azerbaijan was 2,701 of whom 2,321 were Azerbaijani citizens.

Offshore production assets
Azeri-Chirag-Deepwater Gunashli (ACG)[b] is the largest oilfield in the Azerbaijan sector of the Caspian Sea. Shah Deniz (SD) is a large offshore gas and condensate field.

Operational offshore facilities
Chirag platform, Central Azeri platform, West Azeri platform, East Azeri platform, Shah Deniz platform and the Deepwater Gunashli platform.

Transportation and storage (at year end 2011)
Transportation: 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 691km gas pipeline (443km in Azerbaijan) between Sangachal terminal and the Georgia-Turkey border. Western route export pipeline (WREP) – a 829km pipeline (456km in Azerbaijan) linking Sangachal terminal to Supsa on Georgia's Black Sea coast.

Capacity: BTC – 1.2 million barrels per day; SCP – 22 million standard cubic metres (mmscm) per day; WREP – 106 thousand barrels per day. Sangachal terminal – 1.1 million barrels (149,000 tonnes) of oil per day and 36.8 mmscm of gas per day (25.5 from SD and 11.3 from ACG). Crude oil storage capacity of 3.2 million barrels (450,000 tonnes).

Exploration activity
Shafag-Asiman exploration area.

Capital expenditure
More than $34 billion on the ACG, BTC, SD Stage 1 and SCP projects since the establishment of Azerbaijan International Operating Company (AIOC) in 1995.

Liquids production
ACG 1997-2011: about 1.9 billion barrels in total including about 262 million barrels in 2011. SD condensate: about 63.7 million barrels in total including about 14 million barrels in 2011.

Gas production
SD 2006-2011: about 30 billion standard cubic metres (bscm) in total including about 6.7 bscm in 2011.

[a] Since December 2011, we have been gradually changing the registered address of all BP entities to Landmark, 96 Nizami Street, Baku AZ1010, Azerbaijan.

[b] Shallow water Gunashli is developed by the State Oil Company of the Republic of Azerbaijan.

The leadership team of BP Azerbaijan-Georgia-Turkey region[a]

Rashid Javanshir
President

Rashid became president in September 2009. He has extensive leadership experience in exploration, operations, group strategy and communication in the UK, US and Azerbaijan. He holds a PhD in geology and geophysics and is a member of the Azerbaijan Academy of Sciences.

Paul Clyne
Resource vice president

Paul is accountable for subsurface and information technology and services across the region, including base and reservoir management, new well planning, seismic and technology. He has operational leadership experience with BP in the North Sea and has worked in Alaska, Canada and Norway.

Bruce Luberski
Developments vice president

Bruce is accountable for line delivery of the Azeri-Chirag-Deepwater Gunashli (ACG) project and small projects in Azerbaijan. Previously he was responsible for ACG delivery and future projects in the SD and ACG fields. He has broad operations and projects experience in the US.

Mark Thomas
Operations vice president

Mark is accountable for safe, reliable and compliant offshore operations on six offshore platforms and associated infrastructure. He has extensive BP experience in the UK, North Sea, Netherlands, Trinidad & Tobago and North America.

Al Cook
Shah Deniz development vice president

Al is accountable for delivery of Shah Deniz (SD) full field development. He has held exploration and production business and project development leadership roles in the North Sea, Vietnam and the US. He has worked in BP's executive offices in London, Houston and Moscow.

Gary Christman
Wells vice president

Gary is accountable for new well delivery and well repair including engineering planning and operational execution. He has wide experience in many of the world's energy basins. Most recently he was wells director for BP in Alaska.

Greg Riley
Exploration vice president

Greg is accountable for BP group exploration and appraisal in the Caspian region. He joined Amoco in 1991 as a geologist and has spent most of his career working in the Caspian region.

Djan Suphi[b]
Vice president Turkey

Djan has held his current position since 2008. He is accountable for the integrated delivery of our business in Turkey as well as in-country relationships and risk management. He joined BP in 1996.

[a] As of end 2011.

[b] In April 2012, Bud Fackrell replaced Djan Suphi who took up a new role in BP Internal Audit. Most recently Bud held the role of president Denali – the Alaska Gas Pipeline company. He has technical and leadership experience in Egypt, Trinidad & Tobago, United Arab Emirates and the UK.

Kemp Copeland
Midstream vice president

Kemp is accountable for safe, reliable and efficient operations at Sangachal terminal and for pipelines in Azerbaijan, Georgia and Turkey. He has had operational leadership roles in Alaska, Indonesia and the US.

Robert Watt[a]
Safety and operational risk vice president
Robert is responsible for safety and operational risk (S&OR) management in the AGT region. Previous roles in BP include vice president for S&OR for the Asia Pacific region based in Indonesia and general manager of the Sullom Voe oil and gas terminal in the North Sea.

Seymour Khalilov
Communications, external affairs and security vice president
Seymour oversees BP's external relations, non-technical risk management, reputational matters and security-related issues. He joined BP in 2006 with responsibility for government and international NGO relations. Previously he led the US-Azerbaijan Chamber of Commerce in Washington, DC.

Sue Adlam-Hill
Human resources vice president

Sue directs human resources in the Azerbaijan-Georgia-Turkey region. She has wide experience in international human resources management and degrees in psychology and human resource management.

Ian Sutherland
Chief financial officer

Ian held senior finance roles with BP in Vietnam and Indonesia before joining BP in Azerbaijan in 2005 as a commercial manager for midstream.

Rick Monical
Chief procurement officer

Rick is responsible for supply chain management in the Azerbaijan-Georgia-Turkey (AGT) region. His previous international supply chain management experience involved similar roles in Venezuela, Colombia, Argentina, Brazil and Nigeria.

David Grant
Assistant general counsel

David is responsible for providing legal services to all aspects of BP's business in Azerbaijan, Georgia and Turkey. His background includes work in a variety of jurisdictions including the North Sea, the US and Canada.

Reynold Ajodhasingh
Head of control and financial operations
Reynold is responsible for ethics and compliance in the AGT region, for the robustness of our business controls and for the integrity of our financial reporting. He previously undertook similar roles in Egypt and Trinidad & Tobago.

[a] In June 2011, Robert Watt replaced Mike Barnes who took the role of vice president S&OR, operating management system and operating authority for upstream operations in the BP group.

History

BP opened its first office in Baku in 1992, two years later it was part of a consortium of international oil companies that signed the groundbreaking 'Contract of the Century' with the Government of Azerbaijan

September 1994
Azeri-Chirag-Deepwater Gunashli (ACG) production sharing agreement (PSA) signed by BP, its co-venturers and the Government of Azerbaijan

February 1995
Azerbaijan International Operating Company (AIOC) formed

June 1996
Shah Deniz PSA signed

November 1997
First oil produced from the Chirag field

December 1998
Western route export pipeline (WREP) operations started

August 2001
ACG Phase 1 sanctioned

September 2002
ACG Phase 2 sanctioned

February 2003
Shah Deniz Stage 1 sanctioned

April 2003
Construction of Baku-Tbilisi-Ceyhan (BTC) pipeline began

September 2004
ACG Phase 3 sanctioned

October 2004
Construction of South Caucasus gas pipeline (SCP) commenced

February 2005
Production at Central Azeri started

March 2005
Azeri crude oil exports commenced

December 2005
Production at West Azeri started

May 2006
First gas flowed into the SCP

June 2006
First tanker filled with Caspian oil at Ceyhan marine terminal

July 2006
Inauguration of Turkish section of the BTC pipeline, Ceyhan terminal and the BTC pipeline export system

November 2006
First profit oil produced at East Azeri

December 2006
First gas produced from Shah Deniz Stage 1

March 2007
BTC 1 million barrels per day capacity achieved

July 2007
First gas delivered from Shah Deniz to Turkey

November 2007
Large gas-condensate discovery made at Shah Deniz following drilling to a Caspian-record depth of more than 7,300 metres

April 2008
First oil produced at Deepwater Gunashli

March 2009
BTC capacity expanded to 1.2 million barrels per day

July 2009
Memorandum of Understanding signed with the State Oil Company of the Republic of Azerbaijan (SOCAR) to explore and develop the Shafag-Asiman structure

March 2010
$6 billion investment sanctioned for the Chirag oil project

August 2010
A 3.29% interest in the ACG oilfield purchased from Devon Energy

September 2010
One billionth barrel of crude oil carried successfully through BTC pipeline

October 2010
PSA signed with SOCAR to jointly explore and develop the Shafag-Asiman structures

December 2010
Five-year extension from 2031 to 2036 to the Shah Deniz PSA signed

Achievements and challenges

In this section we summarize the major achievements and challenges for BP in Azerbaijan in 2011

2011

May 2011
New PSA for the Shafag-Asiman structure ratified by the Azerbaijani Parliament

July 2011
SOCAR acquired 1.6461% of BP's ACG PSA interest

October 2011
Shah Deniz gas sales and transit agreements signed in Turkey

November 2011
3D seismic survey of the Shafag-Asiman structure started

Shah Deniz platform

Achievements

Operations and business development

A new agreement on exploration, development and production sharing for the Shafag-Asiman offshore block was ratified by Azerbaijani Parliament on 6 May 2011.

Agreements covering Shah Deniz gas sales and transit arrangements were signed in Turkey in October.

The same month, we reached the milestone of 1 trillion standard cubic feet (about 30 billion standard cubic metres) of gas production from Shah Deniz since 2006.

Production at the ACG field since 1997 totalled 1.9 billion barrels of oil by the end of 2011.

Safety

We carried out a record number of planned turnarounds[a] during the year on five of our six platforms (excluding Deepwater Gunashli). In all, more than 80,500 man hours work were completed safely across the platforms during these turnarounds.

Environment

We significantly reduced our volume of oil spills year on year – down 92% from 32,181 litres in 2010 to 2,677 litres in 2011. All the spilled oil was recovered.

Employees

The number of national employees in senior level positions rose 14% during the year and reached 149 at the end of 2011 compared with 40 at the end of 2006.

Challenges

Safety

Six high potential incidents[b] were recorded. Detailed investigations of these incidents were conducted and the lessons learned were reported back.

Our total vehicle accident rate increased by 44% compared with 2010, although no severe accidents took place. Accidents were at low speed and caused minimal damage. Driving safety remained a primary focus throughout the year.

A mechanical failure occurred on the produced water injection system connecting Central Azeri platform to West Azeri platform. Injection of biocides was stopped during the discharge to minimize potential environmental impact.

There was no disposal of produced water by onshore third-party contractors in 2011.

[a] Periods when operating assets are taken offline to complete essential maintenance and inspection or project work.

[b] High potential incident is defined as 'an incident or unsafe/unhealthy condition or near miss, where the most serious probable outcome is a major incident'.

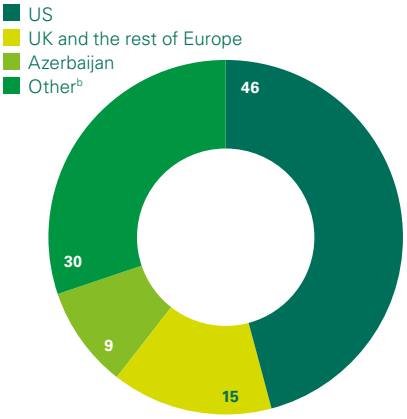
Our operations

We operate large offshore hydrocarbon assets in Azerbaijan including the Azeri-Chirag-Deepwater Gunashli oilfield and the Shah Deniz gas field; onshore, we manage one of the world's largest integrated oil and gas processing terminals and pipeline links to regional and world markets

East Azeri platform and Seacor Cougar vessel

Net share of liquids production by BP subsidiaries around the world[a]

(%)



[a] 922 thousand barrels per day, includes crude oil, natural gas liquid and condensate.

[b] Other includes Canada, South America, Africa, Asia (excluding Azerbaijan) and Australia.

Production continued at the Azeri-Chirag-Deepwater Gunashli (ACG) oil and Shah Deniz (SD) gas fields throughout 2011.

Azeri-Chirag-Deepwater Gunashli

ACG is operated by BP on behalf of the Azerbaijan International Operating Company (AIOC). It is the largest oilfield in the Azerbaijan sector of the Caspian basin and is located about 100km east of Baku. Production started in 1997 from the Chirag section and now also includes the Central, West and East Azeri and Deepwater Gunashli (DWG) sections.

In 2011, we produced an average of 717,600 barrels per day (261.9 million barrels or 35.4 million tonnes per year) from the ACG complex. In addition, around 9.1 million standard cubic metres (about 320.2 million standard cubic feet) of associated gas per day was delivered to SOCAR. In total, we delivered about 3.3 billion standard cubic metres (about 117 billion standard cubic feet) of associated gas to SOCAR in 2011, which exceeded (by about 43%) our forecast of 2.3 billion standard cubic metres (over 80 billion standard cubic feet) of associated gas for the full year.

Azeri-Chirag-Deepwater Gunashli oil production

(mmbbl – million barrels; mmte – million tonnes)

Platform	Start of production	Unit of measurement	From the start of production till end of 2011	2010	**2011**
Chirag	November 1997	mmbbl	573.6	34.0	**27.2**
		mmte	77.5	4.6	**3.7**
Central Azeri	February 2005	mmbbl	502.5	74.9	**70.1**
		mmte	67.9	10.1	**9.5**
West Azeri	December 2005	mmbbl	435.2	90.6	**72.4**
		mmte	58.8	12.2	**9.8**
East Azeri	November 2006	mmbbl	237.6	51.4	**45.8**
		mmte	32.1	6.9	**6.2**
Deepwater Gunashli	April 2008	mmbbl	156.1	49.5	**46.4**
		mmte	21.1	6.7	**6.3**
Total		mmbbl	1,905	300.4	**261.9**
		mmte	257.4	40.6	**35.4**

In total, ACG spent $699 million in operating expenditure and $1.912 billion in capital expenditure in 2011.

Chirag oil project

In March 2010, a $6 billion development plan for the Chirag oil project (COP) was sanctioned. The venture includes construction of West Chirag platform designed to fill a gap in the field infrastructure between the existing Deepwater Gunashli and Chirag platforms. COP is expected to increase oil production and recovery from the ACG field by a total of 360 million barrels. The first oil from COP is expected in 2013.

In 2011, COP construction activities continued on schedule and according to plan. Overall, the COP venture has made very good progress at all the fabrication sites with 55% of the work scope already completed.

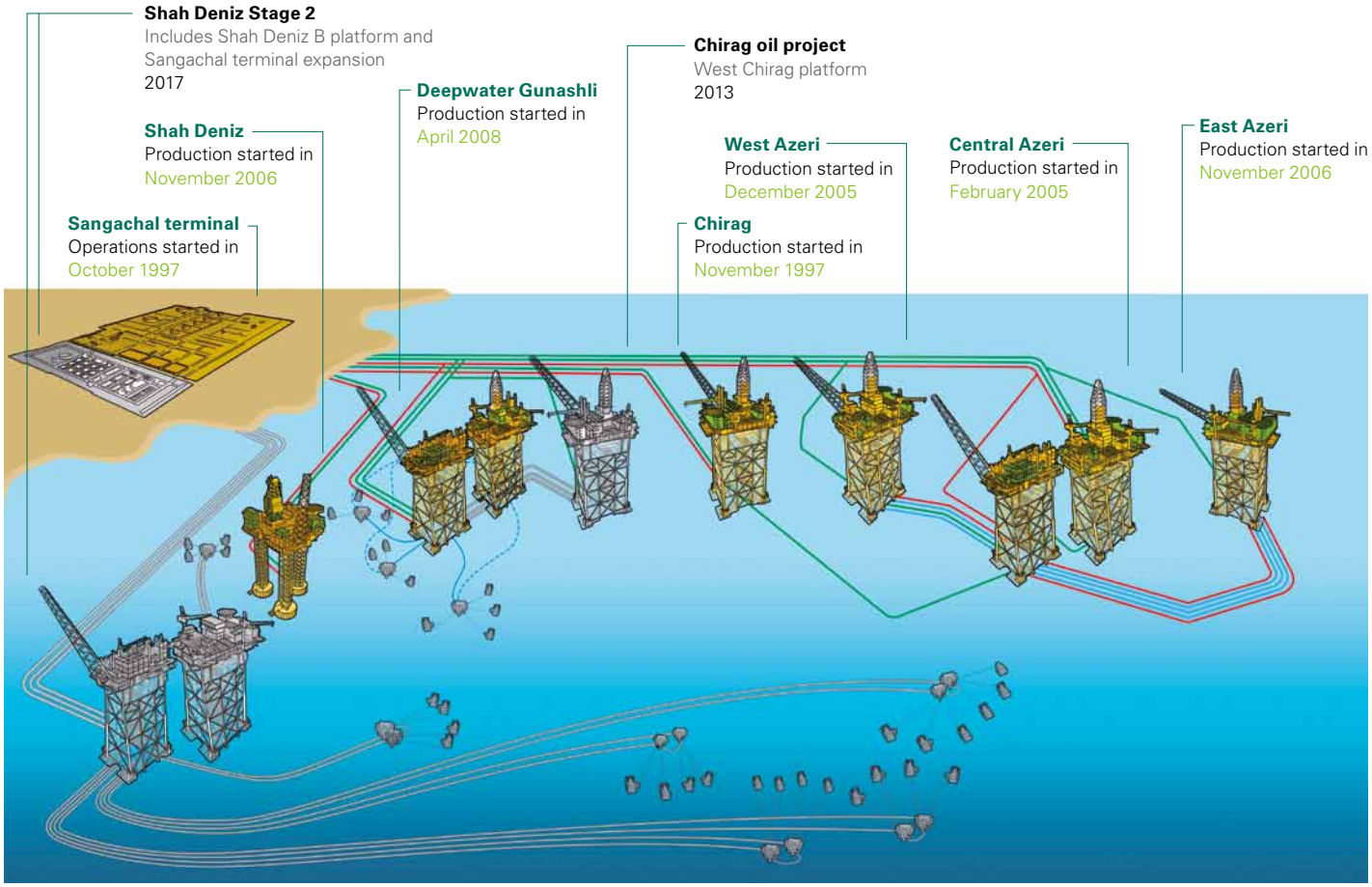
Pre-drilling for COP began in 2010 and continued in 2011. Work started on 12 pre-drill wells for the Chirag oil project in 2011. The Dada Gorgud semi-submersible rig completed a five-year certification and upgrade as planned.

Future prospects

Potential recovery at the ACG field is estimated to be in excess of 5 billion barrels of oil. Achieving this will require the implementation of sophisticated reservoir management techniques, the use of advanced seismic data analysis and high efficiency drilling and completion technologies.

During the work at East Azeri platform

Major BP-operated facilities in the Caspian



Shah Deniz

The Shah Deniz (SD) gas field was discovered in 1999. It has a reservoir thickness of more than 1,000 metres and is 22km long. The field is 70km offshore and lies beneath water depths ranging from 50-600 metres. SD is geologically challenging and highly pressured and has multiple reservoir 'horizons'. Production began in 2006.

In 2011, SD produced about 6.67 billion standard cubic metres (more than 235 billion cubic feet) of gas and around 14 million barrels (about 1.8 million tonnes) of condensate from four wells – equivalent to about 18.3 million cubic metres of gas per day (645 million standard cubic feet per day) and 38,300 barrels of condensate per day.

Since the start of SD production in late 2006 till the end of 2011, about 30 billion standard cubic metres (1,056 billion standard cubic feet) of gas, and 63.7 million barrels (8 million tonnes) of condensate was exported to the markets.

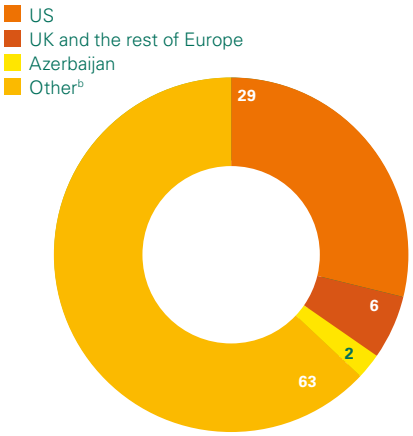
SD Stage 1 achieved its expected plateau gas production rate of approximately 9 billion cubic metres per year (bcma) and condensate production rate of about 50,000 barrels per day during 2011. This output came from four wells. Further wells will be drilled to manage the reservoir pressure.

During 2011, operating spending at SD totalled $190.7 million. Capital expenditure reached $674.9 million.

View of Shah Deniz platform

Net share of natural gas production by BP subsidiaries around the world[a]

(%)



[a] 6,393 million cubic feet per day (excluding equity accounted entities).

[b] Other includes Canada, South America, Africa, Asia (excluding Azerbaijan) and Australia.

Shah Deniz Stage 2

Shah Deniz Full Field Development, or SD Stage 2 (SD2), is a giant project that will bring gas from Azerbaijan to Europe and Turkey. This will increase gas supply and energy security in European markets through the opening of the new southern gas corridor. The project is expected to add a further 16 bcma of gas production to the approximately 9 bcma from SD Stage 1. It is one of the largest gas development projects in the world.

Plans for the project include two new bridge-linked offshore platforms, 26 subsea wells to be drilled with two semi-submersible rigs, 500km of subsea pipelines built at up to 550m water depth, additional export capacity in Azerbaijan and Georgia and expansion of the Sangachal terminal.

An important milestone for SD2 was reached on 25 October 2011 when Azerbaijan and Turkey signed a number of gas export-related agreements to enable Turkey to buy gas from Azerbaijan and to transit Azerbaijan gas through Turkey to Europe. Alongside an Intergovernmental Agreement between Azerbaijan and Turkey, we signed SD gas sales and transit agreements in Turkey and a technical cooperation agreement with BOTAS. The agreements allowed SD to proceed with its European pipeline selection process and to firm up gas sales deals with potential customers.

Subsequently the SD Export Negotiating Team led by SOCAR and including BP, Statoil and Total, decided that the SD consortium should undertake exclusive negotiations with the Trans-Adriatic Pipeline consortium for a route to Italy. In June 2012, the consortium selected the Nabucco West project, with a route running from the Turkish-Bulgarian border to Baumgarten in Austria, as the single pipeline option for potential export to Central Europe.

The SD consortium will make a final decision between these two selected pipeline options, and will conclude related gas sales agreements ahead of the SD Final Investment Decision planned for mid-2013.

Shah Deniz gas and condensate production

(bscm – billion standard cubic metres; bscf – billion standard cubic feet; mmboe – million barrels of oil equivalent, mmbbl – million barrels, mmte – million tonnes)

	Start of production	Unit of measurement	From the start of production till end of 2011	2010	**2011**
SD gas	November 2006	bscm	29.9	6.9	**6.7**
		bscf	1,056.0	243.4	**235.4**
		mmboe[c]	182.1	42.0	**40.6**
SD condensate	November 2006	mmbbl	63.7	14.7	**14.0**
		mmte	8.1	1.9	**1.8**

[c] Due to the change from mmboe per day to mmboe the numbers have changed.

Production technician at Sangachal terminal

Sangachal terminal

Sangachal terminal is a hub where offshore oil and gas is processed prior to export. It is designed to treat production from all currently operated BP assets in the Caspian basin and has room for expansion. The terminal includes oil and gas processing facilities, the first pump station for the Baku-Tbilisi-Ceyhan oil pipeline, the South Caucasus gas pipeline compressor and other facilities.

In 2011, the terminal exported about 291.5 million barrels of oil. This included 257.3 million barrels through the BTC link, 28.3 million barrels through the Western route export pipeline and 5.9 million barrels by rail.

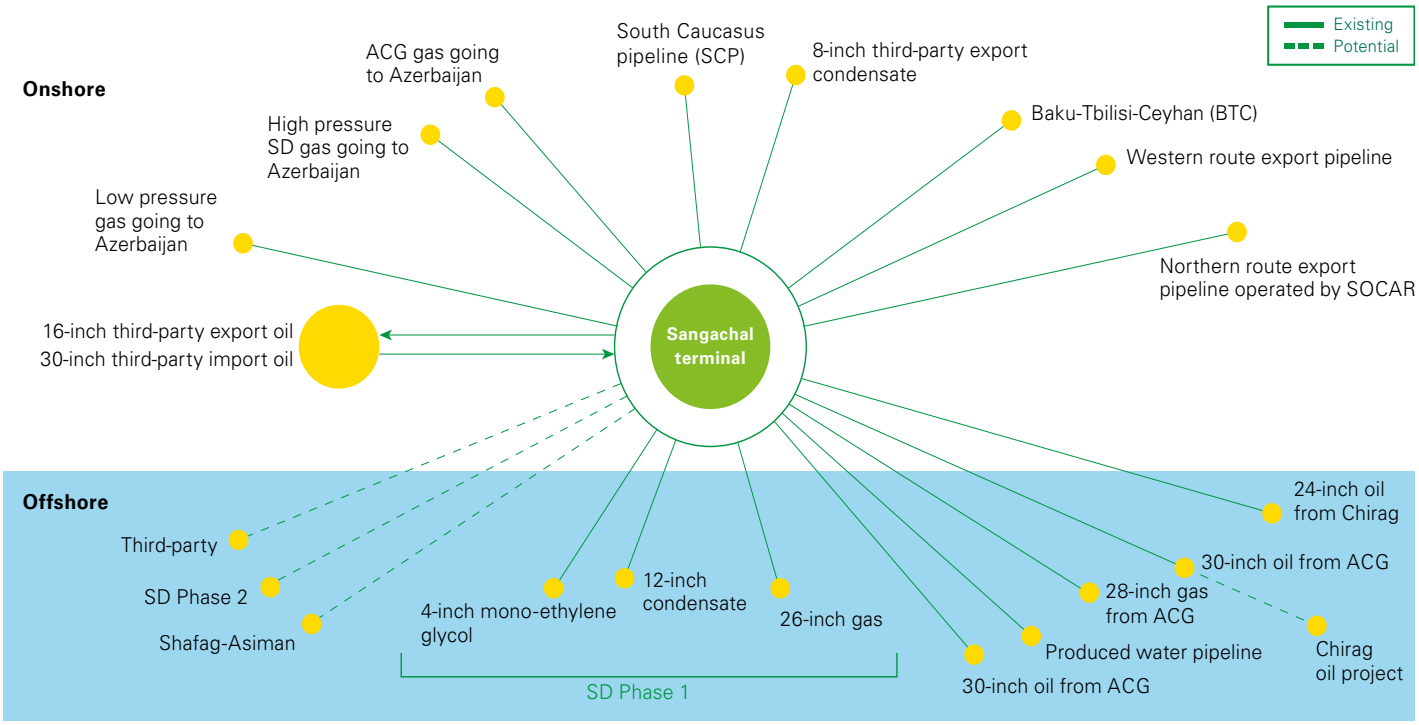
On average about 18.2 million standard cubic metres (about 644 million standard cubic feet) of Shah Deniz (SD) gas was exported from the terminal daily in 2011. Gas was exported through the SCP and via the State Oil Company of the Republic of Azerbaijan (SOCAR) gas pipeline connecting the terminal's gas processing facilities and Azerigas's national grid system.

Outlook for 2012

Planned activities include commissioning the SD waste heat recovery unit, commencement of the second phase of the SD flare gas project and construction of a new laboratory, safe completion of the SD turnaround in August and implementation of a wax remediation pipeline programme.

- Area: 542 hectares
- Location: 55km south of Baku in Garadagh district
- Processing capacity: 1.1 million barrels of oil per day and 36.8 mmscm of gas per day (including Shah Deniz)
- Maximum storage capacity: about 4 million barrels
- Working storage capacity: about 3.2 million barrels

Sangachal terminal: a strategic hub for all BP-operated assets in the Caspian



Baku-Tbilisi-Ceyhan pipeline
The 1,768km Baku-Tbilisi-Ceyhan (BTC) pipeline carries oil from the ACG field and condensate from SD across Azerbaijan, Georgia and Turkey. In addition, crude oil from Turkmenistan is transported via the link. It connects Sangachal terminal on the shores of the Caspian Sea to Ceyhan marine terminal on the Turkish Mediterranean coast.

By the end of 2011, 1,742 tankers had been loaded at Ceyhan since the opening of the BTC link in June 2006. Around 1,342 million barrels (180 million tonnes) of crude oil had been moved to world markets.

BTC capital spending for the year totalled $40.5 million.

At the end of 2011 BTC had
- Capacity: 1.2 million barrels per day
- Average throughput: approximately 705 thousand barrels per day

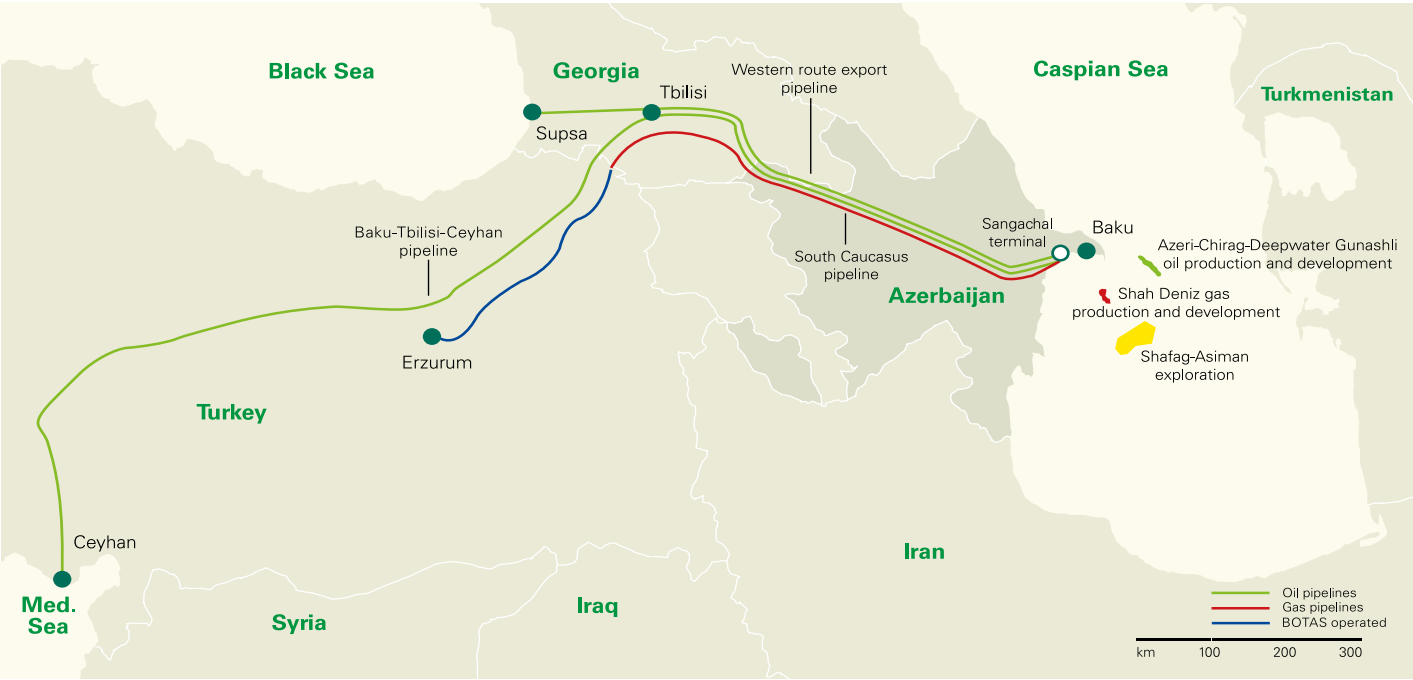
Helicopter landing at Central Azeri platform

South Caucasus gas pipeline
This 691km pipeline has been operational since late-2006 and delivers gas from Sangachal terminal to the Georgia-Turkey border. As technical operator of South Caucasus gas pipeline (SCP), BP is responsible for construction and operation of its facilities. Statoil is responsible for SCP administration and business development.

During 2011, SCP's daily average throughput was 12.5 million cubic metres (440 million cubic feet) of gas or about 76,000 barrels of oil equivalent per day. Capital expenditure for the year totalled $8.8 million

At the end of 2011 SCP had
- Capacity: 22 million cubic metres per day
- Average throughput: equivalent to 12.5 million cubic metres per day

BP's interests in Azerbaijan-Georgia-Turkey region[a]



[a] In Azerbaijan the BTC/SCP pipelines pass through 13 districts: Garadagh, Absheron, Hajigabul, Agsu, Kurdamir, Ujar, Agdash, Yevlakh, Goranboy, Samukh, Shamkir, Tovuz, Agstafa.

Western route export pipeline

This 829km pipeline moves oil from the Caspian basin via Sangachal terminal to Supsa on Georgia's Black Sea coast. Since 1997, the Western route export pipeline (WREP) has undergone extensive refurbishment by BP and its co-ventures. Around 28.3 million barrels of oil was transported from Sangachal terminal through WREP during 2011.

BP's top 20 production wells[a]

[a] Gas from Angola wells in the chart is currently re-injected and therefore is not included in gross oil rate.

New sand removal design concept deployed offshore

Sand removal has always been a challenge – not just for BP but for the entire offshore oil industry. Since Azeri-Chirag-Deepwater Gunashli start up, more than 500 tonnes of sand, accumulated inside offshore separators, has constantly created technical challenges, including mechanical erosion in pipes chokes and valves, internal corrosion and problems with bearings.

The traditional method of sand removal is known as a dig-out operation and requires a platform shut-down. It is a very heavy and labour-intensive operation and normally takes at least 15 days.

In 2011, BP in Azerbaijan's produced water and sand team developed a new and distinct sand removal design concept. This avoids a dig-out operation and platform shut-down and has no impact on production. It also involves no additional spending. First used in a successful trial on the Deepwater Gunashli platform, the method is based on the combined use of Merpro sand handling system, Alderley desanding hydrocyclone and produced water degasser.

According to Shamil Babanli, produced water and sand manager, "This is a significant breakthrough, which could bring many benefits to the company. Among other things we expect to reduce significantly corrosion and erosion risks across separators and flow lines, improve gas/oil separation, better protect our pumps and strainers and reduce sand carry over by subsea export pipelines linking into Sangachal terminal."

The success of this project has been recognized by BP's Central Technology group, which asked the Azerbaijan produced water and sand team to share this best practice. The plan now is to take it to the East Azeri platform and to share this best practice with BP colleagues working in the US.

Exploration

On 6 May 2011, the Parliament of the Republic of Azerbaijan ratified a new production sharing agreement (PSA) between BP and SOCAR on exploration and development of the Shafag-Asiman structure in the Azerbaijan sector of the Caspian Sea. The block lies some 125 kilometres (78 miles) south-east of Baku. It covers an area of around 1,100 square kilometres and has not been explored. It is located in a deepwater section of about 650-800 metres with reservoir depth of around 7,000 metres.

In May, a contract to conduct a 3D seismic survey of the structure was awarded to Caspian Geophysical, a joint venture between WesternGeco (Schlumberger) and SOCAR. Seismic acquisition began in November and was completed on 4 January 2012. This is the first 3D seismic conducted on the contract area. It will be followed by data processing throughout 2012. This processing is also being undertaken by Caspian Geophysical and will be the largest 3D survey ever processed in Azerbaijan.

Integrated Supply and Trading

The BP group's London-based Integrated Supply and Trading (IST) unit – one of the world's largest energy trading teams – markets equity crude oil produced by BP AGT.

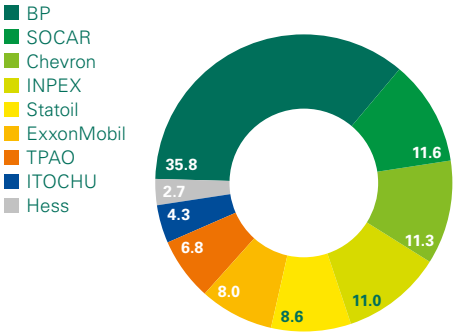
BP lubricants in Azerbaijan

BP and Castrol brands are supplied to all BP projects in Azerbaijan by the Petrochem group. In 2011, about 2 million litres of lubricants were delivered to BP and its contractors in Azerbaijan. BP/Castrol lubricants were also supplied to most oilfield services contractors working in Azerbaijan.

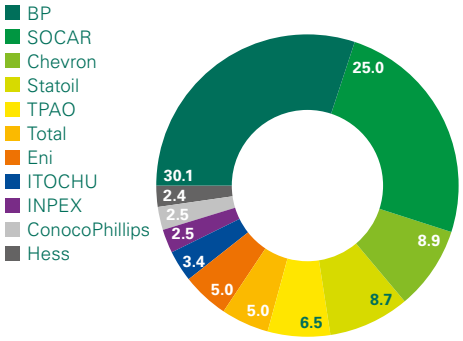
Co-venturers' interests in BP-operated projects in Azerbaijan[a]

(%)

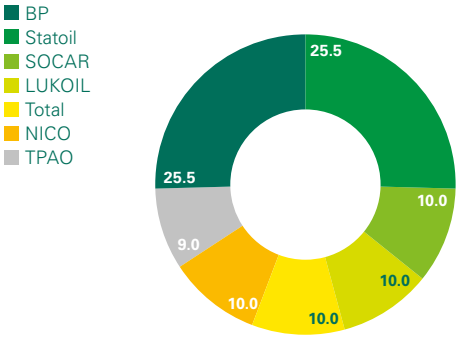
Azeri-Chirag-Deepwater Gunashli (ACG)[b]



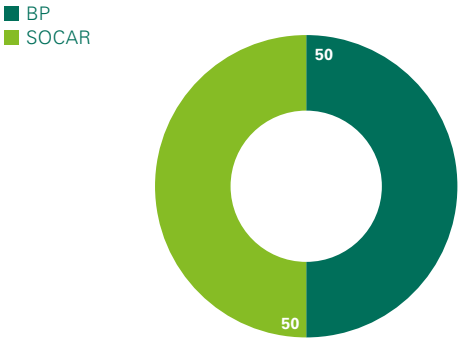
Baku-Tbilisi-Ceyhan (BTC)



Shah Deniz/South Caucasus pipeline (SCP)



Shafag-Asiman



Legal entities responsible for BP AGT projects

Project	Operator	BP share holding entity
ACG	Azerbaijan International Operating Company	BP Exploration (Caspian Sea) Limited
BTC	The Baku-Tbilisi-Ceyhan Pipeline Company	BP Pipelines (BTC) Limited
Shah Deniz	BP Exploration (Shah Deniz) Limited	BP Exploration (Azerbaijan) Limited
SCP	South Caucasus Pipeline Company Limited	BP Pipelines (SCP) Limited
Shafag-Asiman	(To be appointed)	BP Shafag-Asiman Limited

[a] Because of rounding, percentages may not add up to 100%.
The State Oil Company of the Republic of Azerbaijan (SOCAR) is represented in the above-mentioned projects through its affiliates: ACG – AzACG; Shah Deniz – AzShahDeniz; SCP – AzSCP; Alov – SOCAR Oil Affiliate (SOA).

[b] The percentages changed in July 2011 after SOCAR acquired 1.6461% of BP's interest.

How we operate

We enhance the way we manage and develop our people, strengthen our safety culture and relationships with contractors and stakeholders

14%

Increase in the number of national employees in senior level positions since 2010

$5.6 million

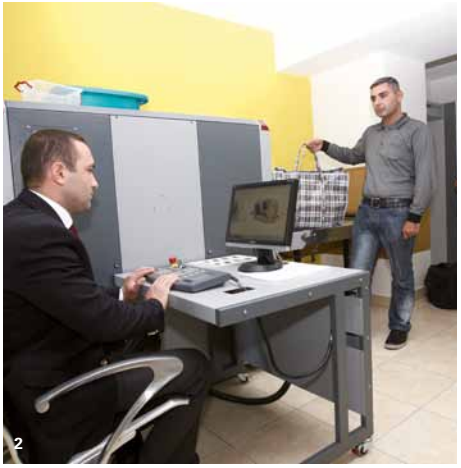
Spent through human resources on staff trainings in Azerbaijan

108

Information exchange sessions with 136 communities

Find out more at bp.com/caspian/careers
Current job openings, application process, interview tips

Management systems In 2011, we operated under the new BP group management standard known as the operating management system



1. Monitoring processes in the combined control building at Sangachal terminal
2. Security check at the Baku sea port

Operating management system

BP's operating management system (OMS) provides a uniform framework for safe, compliant and reliable operations across the BP group. It is designed to help BP people identify and eliminate defects and deliver tangible improvements on a daily basis.

In the Azerbaijan-Georgia-Turkey (AGT) region, three OMS components are critical:

- Elements of operating: These describe the requirements to which all operating entities should operate on a consistent basis.
- Performance improvement cycle: This consists of a rigorous, systematic plan-do-check-act annual cycle that embeds learning and drives continuous risk reduction and performance improvement.
- Business processes: These are procedures and activities, which turn the requirements of OMS into reality at a local level.

During 2011, our emphasis was on integrating the OMS fully into our work and business planning processes.

Our understanding of our strengths and our weaknesses was further enhanced during the year through safety and operational risk (S&OR) audits, OMS gap assessments and a refreshed approach to risk assessments. The result was greater clarity and focus in all our work. One indicator of this is the significantly increased use of our online tool OMS Navigator, which provides an online portal to key processes, information and documentation. AGT region's first local OMS management review was carried out successfully in September and was chaired by the president of BP AGT.

Our safety and operational risk function

The structure of AGT region changed during the year from an asset-based model to a functional model. We also created a new S&OR function. This is the BP group's independent arm that supports the business line in delivering safe, reliable and compliant operations across the entire group's operated businesses. S&OR does this in four ways:

- Sets and updates the requirements, including those in OMS that are used across the business for safety and operational risk management.
- Provides expert scrutiny of safety and operational risk, independent of line managers – advising, examining and assuring what our operations do.
- Provides deep technical expertise to the operations.
- Has the authority to intervene and escalate issues to cause corrective action to be taken.

Continuous improvement

Since early 2010, we have been fostering a culture of continuous improvement (CI), implementing specific CI projects and building CI competency in the workforce. Much progress has been made. In 2011, we introduced a more systematic approach to building a sustainable CI culture as part of a multi-year initiative intended to embed this culture throughout the AGT region. As a result, more than 200 CI projects were implemented by BP in Azerbaijan during the year.

Security and human rights

Engagement with local communities and the host government, combined with systematic risk assessment, are the basis for our protection of people, operations and assets

Security of people and assets within BP-operated facilities is the company's responsibility. To this end we promote a value system based on the philosophy that maintaining security is the task of every employee.

In Azerbaijan, state enforcement agencies provide external perimeter protection of our facilities. Pipeline security falls under the remit of the Export Pipelines Protection Department (EPPD) of the Special State Protection Service of the Azerbaijan Republic. Physical protection of offshore installations (platforms, subsea pipelines, fibre optic cables and operational vessels) is the responsibility of the Azerbaijan Navy and the Azerbaijan Coast Guard. Points of embarkation and supply base facilities are the responsibility of contractors' security guard services.

Working with communities

Communities affected by our operations and pipelines are critical stakeholders in the provision of a sustainable security structure. We meet regularly with the community members along the pipelines in various forums.

In Azerbaijan, we seek opportunities to exchange information with members of many communities close to our facilities and operations. These meetings are facilitated through Inter-Agency Security Committee events led by BP field security advisers. They are attended by our community liaison officers (CLOs), local government representatives, land owners and public security officials. About 3,800 people from 136 communities took part in 108 sessions during the year.

The telephone hotline 114 established in 2009 remained operational along the export pipelines. Its purpose is to allow affected communities and individuals to report security-related issues to BP and state security providers for further joint consideration. No human rights or security force abuse cases were reported on the line in 2011.

A meeting was held in February 2011 at the Caspian Energy Centre to discuss the results of all regional Export Pipelines Security Commissions (EPSC) activities in the 13 regions along the pipeline and to set up priorities for 2011. It was attended by the Heads of the EPSC formed in the regions and by the responsible authorities of EPPD, Ministry of National Security, Ministry of Internal Affairs and Ministry of Emergency Situations as well as a number of BP AGT managers.

The EPSCs play a significant role in providing security for BP facilities since local personnel, including fire fighters and emergency ambulance staff, and machinery and equipment on the regional level would be the first to react in case of an incident or emergency. They also play a valuable preventive role by ensuring, for example, that construction is controlled near the pipeline zone.

Voluntary Principles on Security and Human Rights

Launched in 2000 by the US and UK governments, several energy companies including BP and human rights non-governmental organizations (NGOs), the Voluntary Principles on Security and Human Rights (VP) are designed to safeguard rights by ensuring that police, security forces and private guards assigned to protect energy sites or pipelines are properly trained and closely monitored.

In 2011, 76 training officers certified by Equity International in the provision of VP course were available in EPPD. Ninety officers recruited by EPPD during the year completed the training course before a job assignment. We helped our private security guard service contractor to provide new recruit and refresher training courses. A total of 276 training hours were provided by the contractor in 2011 for 52 guards.

Interacting with public and private security

During 2011, the BP in Azerbaijan security function was subject to a BP group safety and operational risk audit. This was designed to verify compliance with the company's security practices and commitments. It concluded that we were in full compliance with our set objectives.

Based on existing contractual agreements, emergency response training was provided to more than 100 guard service personnel. At Sangachal terminal (ST), we focused on contractor training in such areas as skid correction, defensive driving and bomb threat call response. Regular security inspections were held and reported by our security coordinators.

Along the Baku-Tbilisi-Ceyhan/South Caucasus pipeline (BTC/SCP) route, the number of horse patrollers employed by EPPD rose to 45 in 2011. We also supported EPPD by completion of a fibre optic cable installation linking the ST combined control building to EPPD Head Office at the terminal.

We continued to work with the Government of Azerbaijan to flesh out the procedures stipulated by the Bilateral Security Protocol. In 2011, our security department drafted four procedures and submitted them for an internal legal review before introducing them to the government.

As part of our co-operation with the government, a representative of BP in Azerbaijan's security department joined a group of Azerbaijani officials invited by the US Ambassador to a security-related study tour of key energy facilities in the US.

Grievance resolution

The BTC/SCP grievance resolution mechanism remained active in 2011. Six CLOs and the manager at ST handled community-related grievances and requests along the pipeline routes. During the year, we received 10 complaints from communities. Five related to compensation, three to land use, one to recruitment and one to an access road. Nine of the complaints were successfully resolved. Only one complaint, related to land use, was unresolved from 2011.

In addition to these specific complaints, we received 221 requests in 2011 related to permission to work on land for different types of activities along the BTC/SCP pipeline route in Azerbaijan. Of those, 205 were resolved satisfactorily in 2011 and 16 in 2012.

We also received six requests and concerns from communities around ST regarding our operations. They related to recruitment of local people, social investment, skill training, and infrastructure improvement. In connection with the public concerns, our contractors hired 63 persons from Garadagh district. Also, the scope of our apprenticeship programme was extended to cover Azimkend community in addition to Sangachal, Umid and Sahil communities. Additionally, a waste management project was implemented in Sangachal village and an access road to a school in Azimkend was improved. The renovation of the community centre in Umid is planned for completion in 2012.

Our people We aim to attract the best talent and retain employees by offering a positive work environment, competitive rewards and transparent career development paths

The BP AGT Engineering Day in Baku brought together around 180 engineers, March 2011

The safety of our staff and operations is paramount. In 2011, safety-related objectives were included as one of the major priorities in each individual's annual performance plan – an official document agreed upon between employee and supervisor.

Another focus in 2011 was staff[a] nationalization. By the end of the year, 86% of our professional employees in Azerbaijan were national citizens compared with 87% in 2010. This slight decline can be attributed to a rise in demand for qualified staff and the globalization of labour markets. BP's overall headcount in Azerbaijan increased by 231 over the year, reaching 2,701 permanent[b] employees.

The number of national employees in senior level positions grew by 14% over the 2010 level and reached 149. This is more than threefold growth compared with 40 at the end of 2006. Among them, more than 44% of female managers worked in finance and human resources. Just above 50% of national senior level male managers were in operations, engineering, health, safety, security and environment (HSSE), and finance.

Recruitment

Our focus in 2011 remained on attracting the best talent. To achieve this we again reviewed our internal recruitment processes and policies with a view to closing any gaps and continuing to improve our transparency and efficiency.

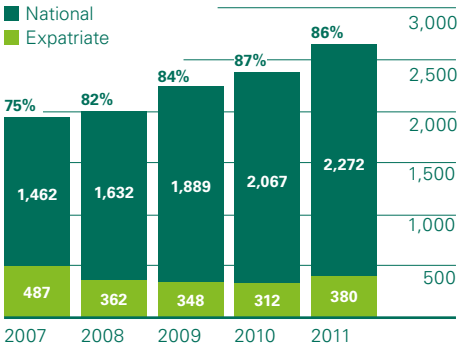
For the fourth year in a row, the graduate and intern recruitment programme was launched online to allow greater accuracy and transparency and to shorten application processing time. A promotional campaign was run to publicize the programme among students. The graduate recruitment team arranged career days at a number of local universities including Oil Academy, Khazar University, Marine Academy, Technical University and Baku State University as well as at selected Turkish universities. We received and reviewed 2,546 applications, arranged English language and ability tests, conducted 396 interviews and eventually recruited 47 summer interns and 64 graduates, slightly exceeding our target.

Ad hoc vacancies continued to be advertised on *bp.com/caspian*. Our job announcements attracted 10,812 applications and resulted in 174 accepted job offers. Additionally, we hired 119 technicians of various disciplines to go through 18 months training at the Caspian Technicians Training Centre prior to their job assignment.

In addition to competitive salaries, we offered employees non-cash benefits such as medical, dental and accident insurance, family support payments and recreational facilities. A new recreational facility in Sumgayit was added in 2011. Local employees also participated in BP group global reward programmes such as ShareMatch and the company's variable pay plan (an annual bonus tied to performance). Allowances paid to offshore workers were increased during the year.

Professional staff of BP in Azerbaijan

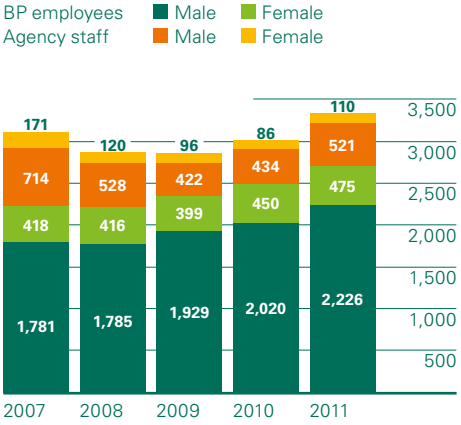
This chart also shows the percentage of national citizens



[a] Skilled operations, production, petrotechnical, and business support functions specialist jobs, as well as skilled labour.

[b] Officially employed by BP, including professional and non-professional employees.

BP permanent employees and agency staff[c] based in Azerbaijan



[c] Agency staff work for BP, but are officially employed by recruitment agencies.

BP in Azerbaijan recruitment statistics[a]

	Ad hoc recruitment				Graduate recruitment				Grand total	
	2010		**2011**		2010		**2011**			
	Female	Male	**Female**	**Male**	Female	Male	**Female**	**Male**	2010	**2011**
Business support	5	2	**19**						7	**19**
Commercial		2	**1**						2	**1**
Communications and external affairs		6	**1**	**3**					6	**4**
Engineering	1	3	**2**	**11**	2	10	**6**	**18**	16	**37**
Finance	5	2	**3**	**6**	2			**2**	9	**11**
Health, safety, security and environment	1	10	**4**	**17**			**2**	**4**	11	**27**
Human resources (HR)	4	1	**5**	**1**	1		**3**		6	**9**
Information technologies and services				**2**					0	**2**
Legal	1		**1**	**2**					1	**3**
Logistics		12							12	**0**
Operations	7	2	**8**	**43**					9	**51**
Planning		15	**1**	**3**					15	**4**
Procurement and supply chain management	2		**5**	**22**	1	1		**3**	4	**30**
Projects	2		**1**	**5**					2	**6**
Subsurface	5	9	**2**	**5**	2	5	**1**	**10**	21	**18**
Tax			**1**						0	**1**
Wells[b]	1	2			1	13	**2**	**13**	17	**15**
Total graduates					9	29	**14**	**50**	38	**64**
Technicians recruitment		7			1	91		**119**	99	**119**
Total ad hoc	34	73	**54**	**120**					107	**174**

[a] Graduates and technicians are recruited through regular campaigns.

[b] This function was called as 'drilling and completions' previously.

Employee communication and engagement

Annual staff satisfaction survey

We conduct an annual employee survey to understand and monitor employee engagement and to identify areas for improvement. The 2010 survey was delayed to allow for organizational changes to be reflected in the questions. In 2011, we ran an employee satisfaction survey. The results were communicated to all staff and showed that employees felt well informed and clear about their roles. Leadership was ranked as listening and responsive to employees. Leader relations with employees had improved since the last survey in 2009 because of greater two-way communication – partially attributable to actions resulting from the previous survey.

The 2011 survey also indicated areas for improvement including the need to boost staff awareness and understanding of BP values and business priorities. Some of these matters were subsequently addressed. A reviewed set of company expectations around corporate values and behaviour was introduced at year-end and will be highlighted in staff meetings in 2012.

Patience and persistence – formula for success

As offshore installation manager on the East Azeri platform, Abdulla Abdullayev has overall responsibility for the health, safety and welfare of all personnel on the installation. Above all, he is accountable for delivering safe, compliant and reliable operations. He must build employee competence, strive for continuous performance improvement and sustain the installation's organizational capabilities. It is a heavy load – and the reward for 15 years' extraordinary advance in BP in Azerbaijan.

"Over these years, I've gained knowledge and expertise step by step as many others in the company do. Everything I've achieved is a result of the support BP has given me. As a young specialist you just need to be patient and persistent in achieving your goals," he says. In recognition of his achievements, Abdulla was awarded the 'Tereqqi' medal by the President of Azerbaijan in 2009 for his contribution to the development of the Azerbaijan oil industry.

Abdulla began working for BP in 1996, starting in the security department as relief supervisor. From there he moved into health, safety and environment (HSE) as an emergency response officer. In 2001, he was seconded to the UK where he worked with Oil Spill Response Limited. After a year he moved to the BP group's Regional Crisis Centre in Sunbury. Here he was involved in projects such as helping to set up a crisis and emergency management system for TNK-BP in Russia. He also worked in Alaska where he gained a great experience in operating the 1,287km Trans Alaska pipeline system.

On returning to Azerbaijan in mid-2004, Abdulla was appointed crisis and emergency preparedness manager for the Azerbaijan-Georgia-Turkey region. In 2006, he switched his focus and became HSE manager for offshore operations and then, in 2008, HSE and emergency response manager role for onshore oil and gas terminal operations. In 2010, he was designated offshore installation manager on Deepwater Gunashli platform before moving to the East Azeri platform as OIM in March 2011.

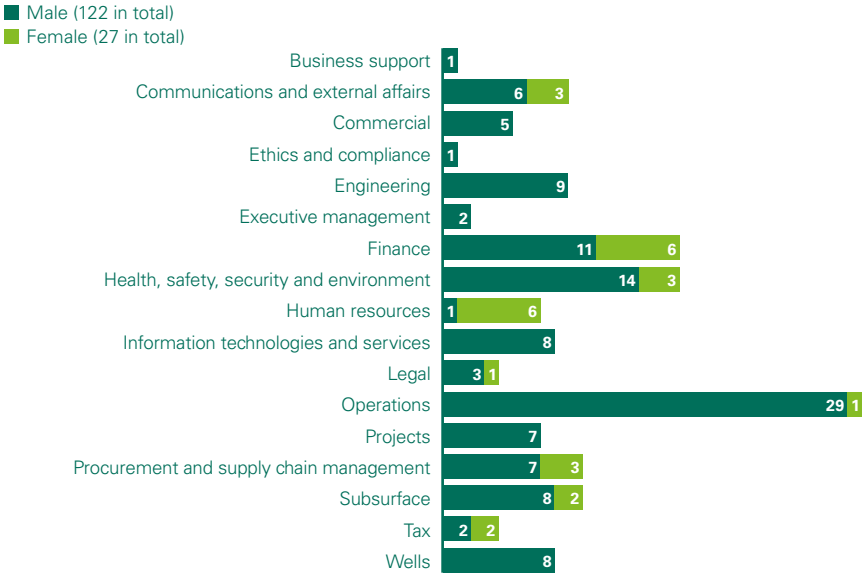
Listening lunches

Another two-way communication initiative – the 'listening lunches' project begun in 2010 – continued in 2011. At these informal get-togethers senior leaders listen to employees, note the themes raised and later discuss how to take issues forward in regional leadership team meetings. In the process employees are exposed to business leaders, are given an opportunity to ask direct questions and are able to acquire information first hand.

Social activities

Social events continued to be held in 2011 to help employees get to know each other outside the business environment. Futsal and backgammon tournaments were held, which attracted more than 400 employees and contractors and double the number of supporters. In 2012, we plan to expand the programme to include basketball and chess.

Senior level Azerbaijani managers



Technicians forums

Technicians are among our most crucial group of employees. Through their daily work on the front line – on production platforms, in terminals and along pipelines – they make significant contributions to our core business. Developing communication with this group is one of our highest management priorities.

In 2008, we set up the BP technicians' forum to create a platform for technicians to meet and talk directly to our top leadership, share experiences and provide feedback on processes and initiatives within BP in Azerbaijan. This forum is 'owned' by the technicians who contribute to each forum's agenda and may raise any concerns and make suggestions as they wish.

Since 2008, several initiatives have followed such as establishing a technicians-to-engineering recruitment process, which opens up a new career development path. We have also introduced a coaching assessment tool, made changes to technician training and encouraged technicians to involve themselves in working groups partnering business leaders and HR professionals – all as a result of feedback received from the forums. More than 300 technicians have participated in these meetings over the past four years, including about 100 technicians in three forums held in 2011.

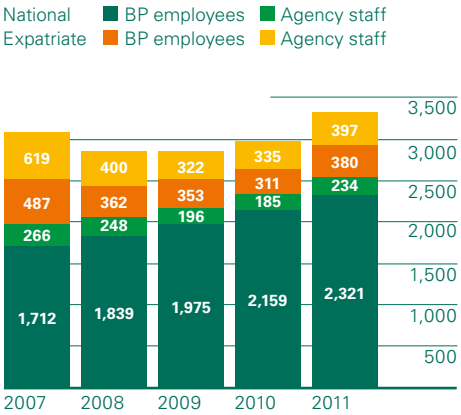
One region – one team

Five years ago, Nino Meladze, who worked in human resources (HR) services in BP's Tbilisi office, began her first professional development assignment in Baku. For a time, she worked as an organizational development adviser and later as HR adviser to Sangachal terminal. Her responsibilities covered a wide range of activities including consultation and advice in the areas of recruitment, selection and appointment, employee relations, learning and development activities, and job design and evaluation.

"Working outside my home country in such a challenging environment, with exposure to a big-scale project like the Baku-Tbilisi-Ceyhan pipeline, was an invaluable experience", she says now. During that period, Nino also graduated from Nottingham Trent University in the UK with a Postgraduate Diploma in HR and became the first Georgian to receive a Chartered Institute of Personnel Development qualification.

Nino returned to Tbilisi in July 2008, as HR manager for BP in Georgia. Three years later, she and her family moved back to Baku when she took on the role of HR manager for midstream in the entire Azerbaijan-Georgia-Turkey region. Today, she is leading a team of HR professionals spread across three countries. "I enjoy working for BP in Azerbaijan," she says. "Being at the heart of huge regional projects provides many opportunities to grow."

BP national and expatriate employees based in Azerbaijan



The drilling control room cabin at East Azeri platform

Society of Azerbaijan Young Specialist Developers

The Society of Azerbaijan Young Specialist Developers is a group of BP employees who run educational programmes voluntarily for the benefit of students at the Azerbaijan State Oil Academy. Activities include lecturing on geosciences and engineering and stocking a library related to these subjects. By end-2011 the library contained more than 300 books. Around 40 students had been introduced to the subsurface disciplines of the petroleum industry. Sixteen students had been selected to attend regular weekly courses in subsurface fundamentals while three were receiving fully-funded research and teaching assistantships at prestigious American institutions including Colorado School of Mines, Cornell and Stanford universities.

Expatriates

Expatriates play an important role in delivering BP's objectives in Azerbaijan. Of the total expatriate grouping of 380 people in 2011, 350 came from Europe and North America. The remaining 30 originated from Australia, Colombia, Egypt, Indonesia, India, Pakistan and Trinidad & Tobago. During the year, there was a net increase of 68 expatriates as 67 left Azerbaijan while 135 arrived. The main growth was in the wells, engineering and operations disciplines.

Home countries of expatriates working for BP in Azerbaijan

Discipline	Europe and North America	Australia	Colombia	Egypt	India	Indonesia	Pakistan	Trinidad & Tobago	**Grand total**
Business support									
Commercial	5								**5**
Communications and external affairs									
Engineering	74	3		1	2		2		**82**
Finance	3							1	**4**
Health, safety, security and environment	8								**8**
Human resources	4								**4**
Information technology and services	1								**1**
Legal	3								**3**
Operations	123			1			1		**125**
Planning	1								**1**
Procurement and supply chain management	7								**7**
Projects	14								**14**
Subsurface	20							1	**21**
Tax	1								**1**
Wells	86		8	2		2	1	5	**104**
Total	350	3	8	4	2	2	4	7	**380**
Non-supervisors	242	3	4	4	2	2	2	5	**264**
Supervisors	108		4				2	2	**116**

Incoming/outgoing expatriates

2010		**2011**	
Incoming	Outgoing	**Incoming**	**Outgoing**
2	3		
			1
			1
11	13	**31**	**3**
3	5	**2**	**2**
	2	**5**	**2**
2	1	**1**	**2**
1			
7	30	**31**	**23**
	2	**1**	
2	2	**5**	
5	4	**7**	**2**
4	3	**10**	**9**
			1
12	13	**42**	**21**
49	78	**135**	**67**

We support employees wanting to acquire further degrees in their specialist disciplines. This continuing professional education policy is aimed, in particular, at helping those who wish to deepen theoretical and practical knowledge relevant to their chosen career path in BP. The company covers 100% of the expenses related to tuition fees, books, registration, examinations, and correspondence.

Yelena Mirtagavi
Learning and development manager, BP AGT

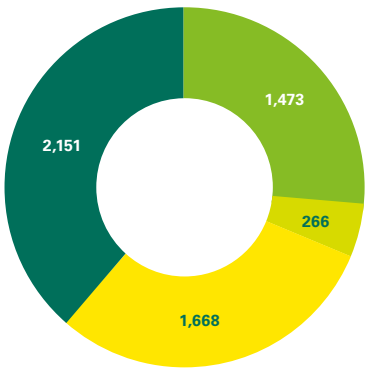
Learning and development

In 2011, we spent about $5.6 million on training and development in Azerbaijan. This covered safety, technical, managerial, and behavioural trainings.

Training expenditure of BP in Azerbaijan[a]

($ thousand)

- Health, safety and environment/emergency response
- Core/foundation/leadership
- Operations/technical
- Professional[b]



Continuing professional education

Continuing professional education programme helps employees to attain a formal degree or certificate in their areas. Through this offer, full time national employees are able to get financial assistance towards education related expenses.

In 2011, a total of 23 employees in midstream, subsurface, operations, safety and operational risk, human resources, finance, and communications and external affairs got support through this programme. During the year, seven BP employees applied for MSc degree programmes via reputable British or American educational institutes. Sixteen more were enabled by BP to take advantage of other postgraduate learning opportunities.

Challenge programme

The Challenge programme is BP's early development programme for technical and professional disciplines. It plays a key role in helping the company to achieve long-term strategic growth and workforce renewal. The objective is to develop competent and independent professionals within a given discipline who will provide technical excellence as well as support the broader business agenda.

In 2011, 26 national hires graduated successfully from this programme moving forward to take on more advanced roles in the company. In addition 64 new participants enrolled, bringing the total Challenger population in Azerbaijan to 143.

In July, Azerbaijan-Georgia-Turkey (AGT) region Challengers participated in the BP group's TechnoFest event for the first time. This allowed them to exhibit their work, interact with technical leaders and widen their BP networks and contacts.

Upstream eXcellence programme

The Upstream eXcellence programme aims to build the technical and professional depth of our people and increase our organizational capability. It offers a structured process for technical and professional development in each workplace discipline.

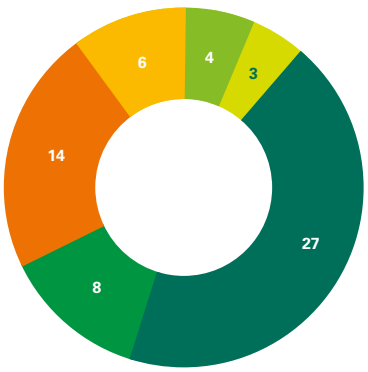
[a] This and other diagrams and tables reflect only the trainings administered by human resources.

[b] Disciplines covered are wells, engineering, subsurface, communications and external affairs, and finance.

The programme underpins company strategy by delivering a distinctive development process to build organizational capability focused on performance. It also supports individual development by giving our employees a clear view of their possible future career paths and promotes meritocracy. The programme began in 2011 with our subsurface organization. More teams will join in 2012.

Azerbaijani nationals on BP expatriate assignments

Continuing	Male	Female
Started	Male	Female
Finished	Male	Female



1. Receiving postgraduate diploma from Nottingham Trent University with Chartered Institute of Personnel Development qualification
2. Employees at the meeting
3. Training at the Caspian Technician Training Centre

Azerbaijan's first chartered cartographer

Integration of scientific knowledge in quantitative geography and geospatial technologies is considered essential to achieve success in the geographical sciences. Emil Bayramov has coordinated the Geographical Information Systems (GIS) for the Baku-Tbilisi-Ceyhan (BTC), South Caucasus pipeline (SCP) and Western route export pipeline (WREP) for BP in Azerbaijan since 2008. As such he regularly uses his geographical and geospatial knowledge for the analysis required to mitigate risks along the pipeline routes. "The application of technology and science is critical to achieve reliable predictions of potential risks along pipelines," he notes.

In 2011, Emil decided to seek recognition of his professionalism in geographical science and geospatial technologies. The UK Royal Geographical Society was identified as the one organization offering the international professional status he sought. Emil applied to become a Chartered Geographer in August. Two months later, he was awarded the prized accreditation.

The speed of this recognition came as little surprise. Emil has 12 years' professional experience in his specialities and has published a number of scientific papers in internationally-refereed journals. Prior to BP, he worked as an international consultant in GIS and Geomatic technologies and spent 18 months studying at Massachusetts Institute of Technology and Harvard Universities. He holds a BSc in Geography and an MSc in

GIS from Lund University in Sweden as well as an MSc in Landscape Sciences. Today he is studying for a PhD in Natural Sciences from Dresden University of Technology in Germany. BP, he believes, has provided many chances to develop both professionally and scientifically.

"The opportunities provided by BP to implement the GIS on projects related to the development of Pipeline Open Data Standards and risk assessment systems of the BTC, SCP and WREP pipelines allowed me to strengthen my professional and scientific knowledge and grow to the international level," says Emil. "The GIS-based environmental monitoring programmes also allowed me to develop professional and scientific knowledge in the broader scope of GIS application. I used this experience extensively in the regular GIS-based integrated analysis of in-line inspections programmes along pipelines. In future I hope to apply all the experience and knowledge I've gained in the development of geospatial data management and risk assessment principles at BP."

Language learning

We continue to promote English language training for national staff. By end 2011, around 280 employees were participating. Monthly English language conversation clubs took place. We also offered Azerbaijani language courses to expatriates in conjunction with talks on Azerbaijani history, culture and traditions.

Caspian Technician Training Centre

The Caspian Technician Training Centre (CTTC) provides a unique service to BP and its co-venturers in our pursuit of greater employee nationalization in the AGT region. Since the Centre's first graduation in 2004, some 686 technicians have been trained through its Foundation programme of whom 164 went on to the Post-foundation programme. In 2011, 63 technicians were deployed to onshore and offshore assets after graduation.

Safety performance at CTTC reached new levels in 2011 when the Centre achieved 1 million man hours with no lost injury time and 1 million accident-free kilometres travelled. Following an audit by Moody International, the CTTC extended its ISO certification to include Technical non-foundation training. It also became a regional centre of excellence in the BP group when our operations in Oman and Iraq began to use its services.

Ethics and compliance To be a trusted company, year after year, we work to a consistent and high set of standards and strive to live up to these standards in everything we do

Employees at a Code of conduct presentation

A group-wide review of the way we express BP's values, and the content of our leadership framework, was undertaken in 2010-11. BP has set out five values, which express our shared understanding of what we believe, how we aim to behave and what we aspire to be as an organization: safety, respect, excellence, courage and one team. The goal was to ensure that BP's values support our aspirations for the future, align explicitly with our code of conduct and translate into responsible behaviour in the work we do every day. *Find out more on page 4.*

Our code of conduct

Each employee of the BP group is obliged to observe and uphold the BP code of conduct (CoC). This code establishes BP's minimum expectations for all employees regardless of their location, work status or background. It represents BP's fundamental commitment to comply with every applicable legal requirement and the ethical standards set out in the code.

In cases where there are differences between the code and local legal regulations, either the code or local legal requirements should be applied – whichever sets the most stringent standard. Failure to follow the code is taken very seriously and may result in disciplinary action up to and including dismissal.

Specifically, the CoC prohibits illegal, corrupt and unethical practices including bribery and money laundering. It emphasizes BP's worldwide ban on any corporate political contribution, whether in cash or kind. And it provides guidance on the giving and receiving of gifts and entertainment and the avoidance of conflicts of interest.

Speaking up

The CoC encourages BP employees to raise concerns and to ask questions about ethics, compliance and the code itself. Our zero tolerance policy on retaliation goes hand in hand with the belief that speaking up is always the right thing to do.

OpenTalk – an independent global helpline – offers a confidential way of handling issues and questions raised by BP employees and contractors. The helpline is available anytime day or night, every day of the week. It can accommodate calls in more than 75 languages.

Business ethics

Following the enactment of the 2010 Bribery Act in the United Kingdom (effective 1 July 2011), new BP group anti-bribery and corruption and anti-money laundering standards were launched in 2011. These apply to every employee and officer in every BP wholly-owned entity anywhere in the world and in joint ventures to the extent possible and reasonable given BP's level of participation. They reinforce the importance of undertaking due diligence checks before dealing with a counterparty.

During the year, CoC e-learning modules covering conflict of interest, bribery, corruption and money laundering issues were provided by the company to BP and agency employees.

Contractors and ethics

BP seeks to work with third parties who operate under principles that are similar to our code of conduct. One of the code's provisions defines minimum standards of behaviour for every contractor working for or with BP. Bribery and money laundering are prohibited. These topics are included in regular performance discussions with our suppliers who are also requested to certify their compliance by signing off appropriate declarations.

2011 performance

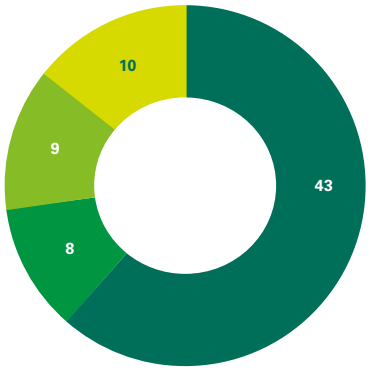
The annual ethics and compliance certification process of BP in Azerbaijan was carried out as usual in 2011. All BP's employees and agency staff were required to confirm alignment of their activities with the CoC. Any breaches were recorded on an online form.

Seventy six breaches of the CoC in BP were reported in the Azerbaijan-Georgia-Turkey region during the year. The violations were investigated thoroughly and followed up with corrective actions. A number of BP employees were dismissed and contractor and agency personnel released for non-compliance either with applicable local laws and regulations or failure to work within the CoC standards. Examples of non-compliance included substance abuse, violation of safety procedures, fraud and misuse of company assets.

Reported breaches in Azerbaijan

(by code of conduct chapter)

- Operating safely, responsibly and reliably
- Our people
- Our business partners
- Our assets and financial integrity



Stakeholder engagement We aim to conduct our business worldwide in ways that benefit local communities; in Azerbaijan we support sustainable development, sponsor educational initiatives and encourage revenue transparency

During 2011, we interacted with stakeholders in Azerbaijan in many ways:

Government

Our successful and mutually beneficial partnership with the government of Azerbaijan continued and was broadened.

- We held several meetings with President Ilham Aliyev to discuss our operations.
- In April, President Aliyev received the group chief executive of BP p.l.c., Robert Dudley. In July, the president received BP AGT president Rashid Javanshir on the occasion of his birthday and awarded him the 'Shohrat' order.
- An Intergovernmental Agreement between Turkey and Azerbaijan and other key Shah Deniz (SD) gas export-related agreements were signed.
- Rashid Javanshir hosted President Aliyev and his guests on the BP stand at the Caspian Gas and Oil Exhibition in June and demonstrated the scale of BP operations in the region via an interactive model.
- We worked with the State Oil Company of the Republic of Azerbaijan on issues of mutual interest within the framework of our production sharing agreements, host government agreements and other agreements.
- In July, BP's head of economics for Russia/CIS and senior economist visited Azerbaijan to present BP's annual Statistical Review of World Energy to government agencies, media, universities and the business community.
- We co-operated with the Ministry of Environment and Natural Resources, the Ministry of Transport, Ministry of Culture, Azerbaijan Institute of Archeology and Ethnography and Garadagh local authorities on issues related to the SD Stage 2 project and the planned expansion of Sangachal terminal.
- We supported economic policy analysis and forecasting competency in the Ministry of Economic Development.
- We co-financed the capacity-building component of a business enabling environment project launched by the International Finance Corporation.

Civil society

- Our involvement with the Azerbaijan Social Review Commission (ASRC), an independent external advisory group set up by BP to provide assurance, advice and challenge to our social performance in Azerbaijan, continued. In May 2011, we hosted an ASRC session, which discussed a number of performance-related issues. The fifth ASRC report to BP, containing several recommendations, was posted on BP in Azerbaijan's public website together with our response.
- We continued to support revenue transparency through the Extractive Industries Transparency Initiative.
- We consulted widely with civil society about the potential environmental impact of the Shafag-Asiman block 3D seismic survey project.
- We held a meeting with local NGOs to discuss *BP in Azerbaijan Sustainability Report 2010*.
- We met researchers interested in BP's activities in Azerbaijan, our views on energy issues in the Caspian Sea region and progress on the SD Stage 2 project.
- In 2011, few major suggestions raised by the civil society representatives during our meetings were proposals on broader engagement with communities and on wider involvement in our upcoming projects in Azerbaijan.

Read full ASRC report at:
bp.com/caspian/asrc

> BP is to be commended for establishing the Azerbaijan Social Review Commission as an independent external voice; that in itself demonstrated BP's concern for its social impact, and we believe it is a best practice example for the industry worldwide.
>
> The Azerbaijan Social Review Commission
> Fifth Report, August 2011

Employees

- We held several 'town hall' meetings to discuss topical issues.
- We maintained a regularly updated internal website.
- We published eight issues of the staff magazine 'Compass' in 2011 in the Azerbaijani (hard copy) and English (online version) languages.
- We released nine continuous improvement (CI) video stories to foster the understanding of CI culture among our employees.
- We highlighted 25 safety stories on BP AGT intranet including a safety video message from the regional president.

Local media representatives during a construction site visit

- We ran two driving safety campaigns aimed at improving safety culture among our employees and their family members.
- We held a gathering of 150 BP AGT senior leaders to discuss a new divisional model and safety and operational risk organizational structure.
- We held three technicians forums during the year to increase engagement with our frontline workforce.
- Seven 'listening lunches' were held in Azerbaijan to promote feedback and informal conversation between staff and senior level leaders.
- We recognized 171 employees with long service awards. Since 2008 about 800 employees have been acknowledged in this way.
- We maintained the compliance and ethics helpline, OpenTalk, throughout the year.
- We held nine family days for BP employees, contractors and their families attended by 259 people.

Communities

- We continued to support sustainable development initiatives in communities near our facilities in Azerbaijan.
- We interacted with communities close to Sangachal terminal throughout the year to enhance safety and manage non-technical risks.
- We operated a grievance mechanism along the BTC/SCP route.
- We worked with the Inter-Agency Security Committee forum, which facilitates dialogue between BP, community members and government security providers.
- Our employees contributed to community development and education through the employee engagement programme.

The media

- We issued quarterly business updates to the media to report the results of our activities in Azerbaijan.
- Our regional president met with local and international business journalists to update them on BP-operated projects.
- We arranged group and individual briefings for local and international journalists and provided regular updates and TV interviews on BP's activities in Azerbaijan.
- Two media workshops and 24 visits to our sites took place. Organizations that participated included the Financial Times, BBC, CNN, Die Welt and Dow Jones.
- We issued 16 press releases covering 2011 milestones and developments in our business.
- We made a 24-hour response line available to the media.
- We arranged for six local journalists to visit the UK in September-October 2011 to attend a two-week workshop on social media at the Thomson Foundation and meet with the UK media outlets.

Other interested parties

Business visits

We hosted Sangachal terminal site visits by representatives from about 30 countries, and guests of our co-venturer companies Itochu, Total, SOCAR, TPAO, LUKOIL and INPEX.

Students

- We continued to support efforts by Qafqaz University to broaden its scope to cover undergraduate education in engineering disciplines, including chemical and mechanical.
- We held feedback sessions with students from local universities to discuss our *BP in Azerbaijan Sustainability Report 2010*.
- We supported scholarship programmes inside and outside Azerbaijan.
- We engaged with students through our internship programme to give them on-job work experience throughout BP in Azerbaijan.

Contractors

- We hosted informational and networking events for our contractors to increase the participation of local companies in BP-operated projects.

General public

- In November, we participated in the Caspian International Environmental Exhibition and Conference – the biggest-such event held in the Caspian and Caucasus regions.
- Our website *bp.com/caspian* highlighted BP activities in Azerbaijan and the region. More than 480 people visited the site each day in 2011. In total, we received 395 enquiries during the year through our online enquiry form.

Keeping villages informed

Each year, meetings are held in communities close to Sangachal terminal including Azimkend and Umid villages. The objective is to explain current terminal operations and discuss any issues related to the future of the terminal. In 2011, these focused on upcoming development projects – Shah Deniz Stage 2 (SD2) infrastructure project associated with future expansion activities around Sangachal terminal.

A survey of opinion in the neighbouring communities ahead of the meetings allowed us to identify both the audiences to seek out and the type of communication best suited to ensure that information about our plans reached the right people in the right format. The SD2 infrastructure environmental and social impact assessment project and planned infrastructure activities at the terminal attracted much attention and provided us with a good opportunity to commence a constructive dialogue about SD2 and to understand possible grievances.

"Following the meetings we prepared a long-term communication plan designed to ensure that adequate actions are taken to mitigate communities' exposure to the expansion development, lessen our non-business risks and engage with villages on such issues as gas flaring and produced water," notes Guivami Rahimli, BP AGT stakeholder relations lead. "In particular we will be working in 2012 to create greater awareness in communities close to Sangachal of our underlying health, safety and environmental standards."

Safety and health

It was a strong year for safety and health performance and we undertook a number of important initiatives designed to sharpen safety awareness and improve the understanding of health issues

5

Platform turnarounds carried out safely and on time

A major **joint emergency response exercise** was successfully developed and executed

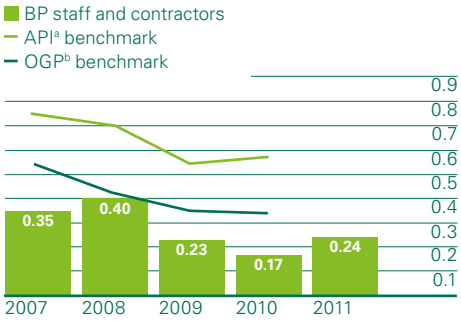
87%

Of actions resulting from the 2010 offshore safety and risk audit are closed

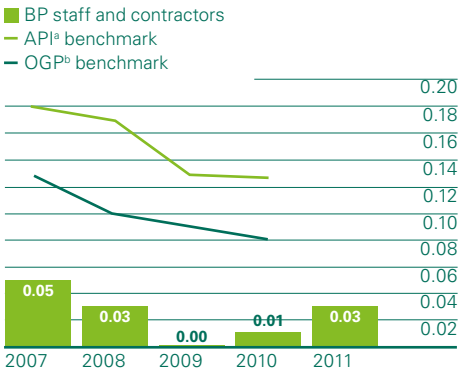
Safety Our focus on safety in Azerbaijan is unrelenting and we are constantly seeking ways to improve our safety performance

1. Working at height at Shah Deniz platform
2. Driver starting his morning shift

Recordable injury frequency
(per 200,000 hours worked)



Day away from work case frequency
(per 200,000 hours worked)



[a] The American Petroleum Institute.

[b] The International Association of Oil and Gas Producers.

Throughout the year, we held safety stand downs during which work was stopped to highlight specific safety issues. Numerous presentations were made on specific injury-prevention and health-related issues.

A record number of turnarounds on five of our six offshore platforms took place without any significant safety issues. Additionally we replaced the West Azeri platform flare tip using a specialized helicopter. This was the first time such a helicopter had been employed in the region. The replacement procedure took place successfully.

Six high potential incidents[c] were recorded in 2011 – three instances of dropped objects; a sheared valve stem on a breathing apparatus cylinder; a pressure safety malfunction resulting in wells failing to close as expected; and the unauthorized transportation of hazardous material to a supply base. Detailed investigations regarding all these incidents were conducted and the lessons learned were reported back.

Driving safety

Although we remained vigilant concerning driving safety our total vehicle accident rate in 2011 rose by 44% over 2010. However, no severe accidents occurred during the year.

Most of these incidents were of low speed and involved minimal damage to people, vehicles or assets. In response we

Safety performance of BP in Azerbaijan[d]

	2010	**2011**
Fatalities	0	**0**
High potential incident frequency[e]	0.045	**0.07**
Day away from work case frequency[f]	0.01	**0.03**
Recordable injury frequency[g]	0.17	**0.24**
Total vehicle accident rate[h]	0.88	**1.27**
Kilometres driven (millions)	17.02	**14.2**
Hours worked (millions)	17.97	**17.54**

[c] High potential incident is defined as 'an incident or unsafe/unhealthy condition or near miss, where the most serious probable outcome is a major incident'.

[d] This table includes BP staff and contractors. BP's injury and illness definitions are the US Occupational Health and Safety Administration definitions and their subsequent interpretation. Data does not include project-only data.

[e] The high potential incident frequencies are based on the number of high potential incidents per 200,000 labour hours worked.

[f] A day 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 labour hours worked.

[g] 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.

[h] Total vehicle accident rate is the number of reported road accidents per million vehicle kilometres travelled.

implemented several new programmes to bolster driving performance. These included a speed zone monitoring programme and random analyses of mobile phone use while driving.

We also redoubled our efforts to spread the message about the importance of safe driving, the hazards of driver fatigue and winter driving. Our regional president reinforced these efforts with a personal message to all employees urging them to pay closer attention to driving safety. A number of new safe driving initiatives are set to be introduced in 2012.

Safety culture

Apart from our group-wide operations and wells improvement plans, a number of actions were taken by other functions, such as engineering and logistics, procurement and supply chain management to improve our operating culture.

Fatigue was one of the topics raised in the offshore safety culture survey and a number of fatigue-related findings, such as boat transfer, crew change and shift hours were addressed during the year.

Process safety remained a major priority area for BP in Azerbaijan. In 2011, we enhanced our behaviour-based safety programme to reinforce the importance of, and focus on, this aspect of our overall safety performance and culture. In 2012-13, we intend to build process safety directly into our behavioural safety processes alongside personal safety.

Safety training and awareness

In 2011, we spent about $1.5 million on health, safety and environment/emergency response training activities in Azerbaijan, which is more than 26% of our overall training expenditure.

For the first time in Baku our safety training service provider offered Offshore Petroleum Industry Training Organization (OPITO) accredited training in lifeboat safety. OPITO is an international organization, which is the hydrocarbon industry's focal point for skills, learning and workforce development.

Operational safety

Since the beginning of 2011, all BP-operated drilling and wells activity has been conducted through our global wells organization, bringing functional wells expertise into a single organization with common global standards designed to deliver safe and compliant wells.

During the year, our wells team complied with the requirements contained in an interim guidance issued by the BP group following the Gulf of Mexico incident in 2010. These included the inspection of subsea blow out preventer systems, plans to upgrading those systems, assurance about further

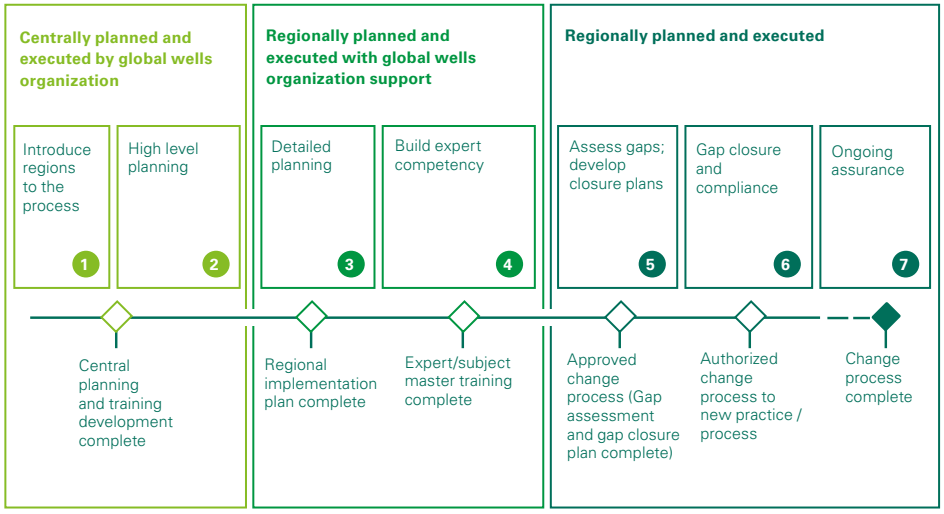
Maintaining safe and reliable operations

Turnarounds – periods when operating assets are taken offline to complete essential maintenance, inspection or project work that cannot be completed during normal operations – are an integral but always difficult part of the hydrocarbon business. Complex to plan and manage and hard to carry out on time and in limited space, they present many safety challenges. Yet they are critical to superior business performance. "Each turnaround," explains Sean O'Kane, BP in Azerbaijan's turnaround manager, "is planned 18 months in advance to ensure all goes well. Many people are involved and there are often serious logistical and management decisions to be made while combining different disciplines into a single team."

In 2011, five turnarounds – an unprecedented number for BP in Azerbaijan – were completed in the Caspian. At Shah Deniz it lasted nine days, at Chirag and the East and West Azeri platforms they lasted 14 days each and at Central Azeri 19 days.

During the turnarounds, we achieved major improvements to our pipeline capability and inspected numerous pressure vessels with no significant safety or operational findings. We also completed some routine maintenance and used a helicopter to change the flare tips on the West Azeri platform to aid combustion and reduce its environmental impact. In all, more than 80,500 man hours work was completed safely across the platforms during these turnarounds.

Seven steps of the regional strategic implementation plan



assessment of our cementing operations and reinforcement of authority levels for decision-making. Longer term, a regional strategic implementation plan was developed by our wells team in line with the global wells organization response to recommendations contained in the interim guidance.

The BP AGT regional plan includes a rigorously prioritized approach to safety improvement activities while ensuring that sufficient resources exist to operate safely and reliably. Activities are focused on reducing operating risk by enhancing our ability to implement each standardized process in a robust, systematic, auditable and sustainable manner. The implementation strategy includes a standardized seven step process characterized by high levels of internal and external scrutiny, precise assurance and verification, and deep embedding of the improvement objectives in wells team culture and operating systems.

Midstream audit and regional verification process

The BP group safety and operational risk (S&OR) function runs a systematic and structured operations-focused audit programme, conducted on a three-year cycle.

In June 2011, BP AGT's midstream facilities, including relevant onshore support functions, were subject to an extensive S&OR group audit. This was performed over a three-week period by a multi-disciplined team consisting of 21 auditors from the BP group. The audit reported a number of findings requiring actions with closure dates varying from several months to six years.

In order to close these actions, their completion has to be confirmed by regional and BP group verification teams. This tiered action closure verification process is designed to ensure the quality of action closure and is intended to reduce safety and operational risks.

By the end of first half of 2012, BP AGT had internally verified and closed 60% of the 2011 Midstream S&OR audit actions, as well as 87% of the actions resulting from the Offshore S&OR audit held in 2010.

Integrity management

Onshore

We continued to deploy several cutting-edge inspection techniques and technology in 2011 at Sangachal terminal, which were designed to inspect buried pipelines.

One initiative involved the use of long-range ultrasonic thickness (LRUT) measurement. This works by sending pulses of ultrasound along a pipe from the collar ring. Eight excavations were made allowing LRUT assessment up to 10 metres either side of the pipeline. Additionally, 30 buried closed drain systems were inspected using the same technique.

In addition, a phased array ultrasonic system was used to inspect weld conditions and flange face conditions on buried pipelines in the terminal in order to avoid time-consuming outages. We also piloted 'paperless' pipeline inspection in which a laptop equipped with 3D models and ultrasonic thickness inspection capabilities was employed successfully on site. This gave us valuable knowledge and confidence in taking this technology further as the tools are refined.

Offshore

2011 was a very busy year for the subsea pipeline team. It has responsibility for the integrity of pipelines from the pipeline inspection gauge (pig) launcher on an offshore platform through to the pig receiver at Sangachal terminal.

Three major inspection projects using specialized underwater equipment were completed without integrity issues reported:

- An in-line inspection of the 24-inch Chirag subsea oil export pipeline was carried out. The subsequent report confirmed that the pipeline was fit for ongoing operations.
- An external visual inspection and cathodic protection survey of 355km of subsea pipelines was carried out using remotely operated underwater vehicles deployed from diving support vessels.
- Shallow water sections of all subsea pipelines at Sangachal landfall were inspected using an autonomous underwater vehicle.

Regular pigging (internal inspection of pipelines by remote means) is one of the key activities used to manage internal pipeline corrosion and provide flow assurance.

Demonstrating leadership

Emin Abdullayev is an health, safety and environment (HSE) adviser on the Central Azeri platform. One day a crew member approached him and expressed concern about how they would get a co-worker off the derrick should he be injured. Emin listened carefully and later suggested a course of action.

Under Emin's guidance the emergency response team then developed a rescue scenario, which was successfully used to solve this particular problem. Running an exercise of this nature takes team work, careful planning and execution of a step-by-step plan to unearth the best solution. Thereafter sharing any lessons learned with other team members and assets supports standardization and sustainability in the region.

As a result of his resourcefulness, Emin was nominated for BP's individual award, called Team BP, and as a winner was awarded a trip to the 2012 London Olympic Games. "My success story is just one of many that happen every day at our sites in BP. It's important that we share these stories with each other so we can get better every day," says Emin. He adds: "Safety and compliance are of paramount importance in terms of how we do our business whether it is offshore or onshore. In many respects, in my opinion, this is due to correct objectives being set at the very top."

Following the successful replacement of a pig launcher outlet valve pigging of the Central Azeri pipeline was reinstated. New valves were also installed on East and West Azeri oil export pipeline pig launchers during the 2011 turnaround project. These installations make it possible to load and launch routine inspections through these pipelines.

During a gas outage on the Central Azeri platform, we were successful in isolating the 28-inch gas export pipeline from the Deepwater Gunashli platform's Production and Drilling Quarters. This facilitated a tie-in (connection of two sections of pipeline) for the new Chirag oil project into Deepwater Gunashli.

Marine operations

The marine operations team plays a key role in supporting our operations in Azerbaijan and 2011 marked a very busy and productive year for it. Work included fleet operations, rig movement and anchor responsibilities, emergency response and security-related duties as well as offshore supply commitments.

A new fast crew boat 'Aaron S. McCall' was added to our Caspian fleet. She has a cruising speed of 30 knots and gives us a third available crew boat, so cutting onshore/offshore transfer times by 30-60 minutes and reducing the potential for sea sickness. A feasibility study for a 'walk to work' transfer system from crew boat to platform was completed and is likely to be installed on the next generation of crew vessels in place of the 'frog' lifting device now used.

No vessel collisions occurred in 2011. In addition, five rig moves were completed to international standards without any recordable injuries. Marine operations also gave support to BP operations in the Azerbaijan-Georgia-Turkey (AGT) region with guard vessel coverage and emergency response rescue vessels. Over the course of 2011 no gaps in the coverage provided were recorded.

Emergency response

A feature of 2011 was a review by the crisis and continuity management and emergency response team of existing contingency arrangements in the AGT region. This included a business impact analysis for production operations. From the information obtained, BP was able to establish a recovery time profile and create a plan to bring production back on line after a significant interruption. It will be implemented during 2012.

Fire-fighting training at the Guzdek training facility

In November, we developed and executed a major emergency exercise, Khazar II, with the State Oil Company of Azerbaijan Republic (SOCAR), Export Pipelines Protection Department (EPPD) and Ministry of Emergency Situations (MES). The exercise took place on the area between the shoreline and Sangachal terminal and involved BP teams at various levels working jointly with local authorities.

The purpose of the exercise was to raise awareness of shared risks at those points where BP and SOCAR pipelines intersect. BP is now working with MES and EPPD to develop a comprehensive training and exercise programme to increase the effectiveness of the joint response operations. Special consideration will be given to safety of response operations.

Working with partners and contractors

A sustained effort was made throughout 2011 to continue to improve our relationships and processes with partners and contractors. Safety-related initiatives included engaging contractors through contractor safety forums, developing our management system assurance programme by deploying extra site resources to verify compliance and providing on-site coaching support.

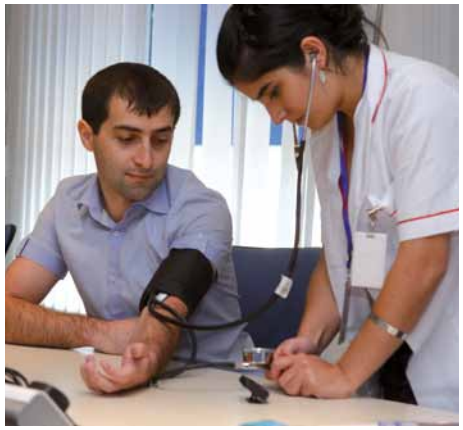
In November, the BP AGT wells team held a second contractor safety forum in Baku. On this occasion the focus was on dropped objects. Managers and specialists of 12 major contractor companies in the region participated, presented information and provided valuable ideas. As a result, several improvements have been suggested, including the provision of specialized training for all wells contractors to ensure a consistent approach, development of a dedicated website and regular forums about dropped objects.

During the year, we held management system audits at four of our major contractors prior to work being carried out for the platform turnarounds. The results identified some gaps in management systems, which the suppliers later addressed and specified in the bridging documents.

Our annual gap assessment against local operating management system took place and several improvements were made to existing practices and procedures. As a result of the assessment, 95% of HSE bridging plans were redeveloped by 88 suppliers. We also piloted an HSE-approved vendor list protocol for our approved vendors to help us in the pre-screening process. Additionally we conducted joint contractor safety management forums throughout 2011. The midstream supplier audit was particularly successful as no non-conformances were identified.

Health We launched or continued a series of interactive health campaigns and improvement initiatives in 2011

Employees taking part at the 'I work with Heart' heart health campaign



Several policies and procedures were updated to reflect changes in local legislation and updates in best practices. These included our substance abuse policy, audiometric health surveillance procedure, medical fitness for respiratory protective equipment usage and emergency response members' fitness for task improvement project.

Training for control of substances hazardous to health (COSHH) coordinators was undertaken with an accompanying upgrade to the assessors' pack. A COSHH trend analysis was completed in the offshore environment with a view to using the information in the overall COSHH improvement process. Key findings related to clarifying task descriptions, improving information and enhancing our air monitoring process.

We also hosted an international Health Impact Assessment (HIA)[a] training session attended by 14 health professionals from across the Azerbaijan-Georgia-Turkey (AGT) region. The objective was to ensure that there is a minimum compliment of trained health team members able to lead a subset of a full HIA and capable of managing table top exercises or rapid HIAs as required.

[a] HIA is a means of assessing the health impacts of policies, plans and projects in diverse economic sectors using quantitative, qualitative and participatory techniques.

Health initiatives and campaigns

A hand arm vibration workshop took place on all our offshore platforms. Part of the programme involved conducting an inventory of tools used in the exploration and production sector, conducting hand arm vibration measurements and implementing a set of controls to reduce vibration. Future work will include development of a health surveillance programme for those workers using vibrating hand tools.

In parallel, we took forward work that began in 2010 associated with work-related skin issues. In 2011, higher risk employees at Azerbaijan export pipeline sites, intermediate pigging stations and pump stations were assessed. They are now part of an ongoing surveillance programme.

A new ergonomics initiative got underway with the aim of improving the comfort, productivity, reliability and well-being of our employees. A new suite of software tools was piloted successfully with the information technology teams.

In the June-August period, we held a 'Smoke free inside, outside, everywhere' campaign across the AGT region. Activities included a publicity campaign, distribution of promotional items and awareness sessions for employees. The total number of participants in Azerbaijan was 570.

In September, BP in Azerbaijan held a heart health campaign as part of a BP group-wide initiative. Employees were provided with basic information to manage the health of their hearts and completed a lifestyle and statistical assessment that can be used year on year to compare results. Some 635 people took part in the campaign.

The BP group 'Run-A-Muck' health challenge campaign commenced in October to encourage fitness in a fun and competitive manner. Eight teams from BP in Azerbaijan, each comprising 10 employees, took up the challenge and registered at a special website. They began exercising daily and entering their results online. The best placed AGT region team, representing BP in Azerbaijan communications and external affairs employees, placed 27th out of 400 teams entered from across the world.

Environment

Wherever we do business, BP endeavours to handle environmental issues positively and to limit our potential impact on the environment

Environmental management We manage environmental issues and address our impact on the environment throughout the lifecycle of our projects and operations

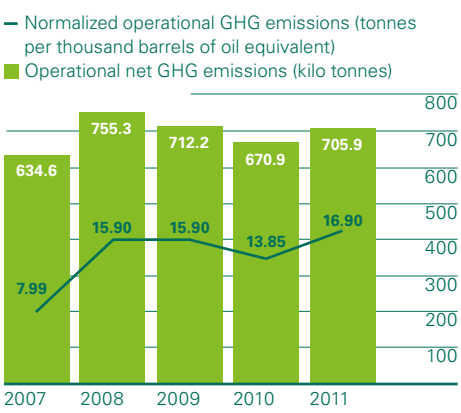
Greenhouse gases

Net greenhouse gas (GHG) emissions generated by BP in Azerbaijan in 2011 totalled about 706 kilo tonnes, an increase of some 5% on 2010.

The major contributor to this increase was the turnaround activity (TAR)[a] that took place at Shah Deniz and at four of five platforms in the Azeri-Chirag-Deepwater Gunashli (ACG) complex in late 2011. Gas handling restrictions during turnaround lead to higher flaring rates and affected our GHG emission volumes.

The growth in GHG emissions at waste management sites was due primarily to the commissioning and start-up of two new indirect thermal desorption (ITD)[b] units at Serenja hazardous waste management facility. The fall in GHG emissions at the Dada Gorgud drilling rig was due to the rig being non-operational in second quarter of 2011 and limited drilling activities in March and July.

BP in Azerbaijan net GHG emissions



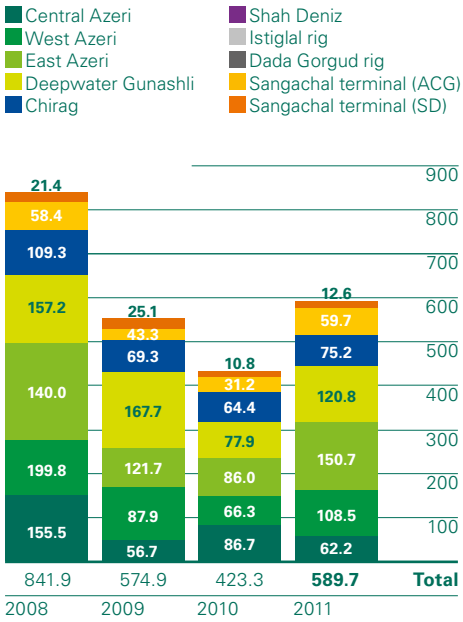
Flaring

In 2011, about 590 kilo tonnes of hydrocarbons were flared by BP in Azerbaijan – an increase of around 39% compared with 2010. The main reason for this rise was TAR-related activity at the ACG platforms. When platforms go to full production shutdown the pressure in gas handling systems needs to be reduced gradually. During such a reduction other gas disposal routes such as export, turbine feed and injection become unavailable as high pressures are required.

Offsetting this development we were able to make major improvements to the gas injection isolation valves at Central Azeri (CA). Additionally, the gas injection system and flare tip were changed at the West Azeri (WA) platform during the TAR activities, which should bring real sustainable reductions in flaring numbers in future.

BP in Azerbaijan gross flaring by asset

(kilo tonnes)



Energy consumption

In 2011, our consumption of fuel gas declined by around 132 kilo tonnes (about 14%) in comparison to 2010. Diesel consumption rose by about 0.1 kilo tonnes while electricity import decreased by 215 Megawatt hours (around 3%). Behind these fluctuations:

- At Sangachal terminal, the primary reason for the fall in fuel gas consumption was lower oil imports. In addition, less electricity was imported by the terminal.
- At the CA and DWG platforms, fuel gas consumption decreased due to prolonged downtimes in the use of the water injection system during the TAR and maintenance work.

ISO 14001 certification

BP group's operating management system requires us to 'maintain external ISO 14001 certification at major operating sites'. Successful ISO 14001 surveillance audits were conducted twice in 2011 at our facilities in Azerbaijan by Moody International Certification Group. In February, audits in Azerbaijan covered BP's management of drilling activities and chemical management at Sangachal terminal. The Chirag platform, the supply base of the Baku Deep Water Jacket Factory and the Serenja hazardous waste management facility were audited in September-October 2011. The advanced fluid facility at SPS was being audited for the first time. As a result of this audit it was added to the scope of the BP AGT environmental management system ISO 14001 certificate.

BP in Azerbaijan net GHG emissions per asset

(kilo tonnes)

Asset / Facility	2010	**2011**
Central Azeri (CA)	123.6	**130.0**
East Azeri (EA)	39.8	**44.6**
West Azeri (WA)	35.3	**52.6**
Deepwater Gunashli (DWG)	80.2	**88.8**
Chirag	36.1	**36.6**
Shah Deniz	2.1	**1.9**
Istiglal rig	2.6	**3.4**
Dada Gorgud rig	3.2	**2.0**
Sangachal terminal (Azeri-Chirag-Deepwater Gunashli)	239.5	**247.8**
Sangachal terminal (Shah Deniz)	46.2	**41.8**
Baku-Tbilisi-Ceyhan (BTC) pipeline in Azerbaijan	27.2	**22.7**
South Caucasus pipeline (SCP) in Azerbaijan	0.2	**0.2**
Western route export pipeline (WREP) in Azerbaijan	4.1	**4.0**
Logistics	29.6	**28.1**
Waste management sites	1.2	**1.7**

[a] Periods, when operating assets are taken offline to complete essential maintenance, inspection or project work that cannot be completed during normal operations.

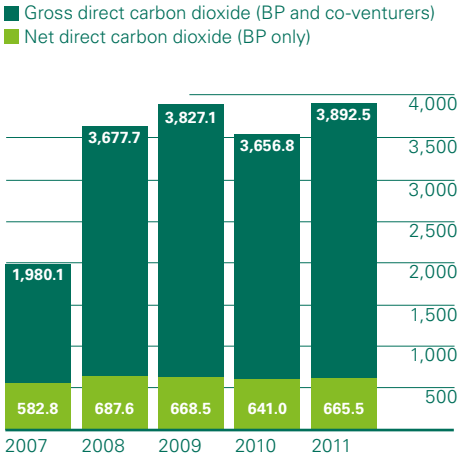
[b] A technique for treating drill cuttings. The ITD treatment method uses indirect heating of contaminated drill cuttings in order to distil and separate hydrocarbons and water from the solid rock fraction of the cuttings.

BP in Azerbaijan energy consumption

	2010	2011
Fuel gas (kilo tonnes)	963.7	**832.0**
Diesel (kilo tonnes)	48.8	**49.0**
Electricity import (Megawatt hours)	8,300[a]	**8,085**

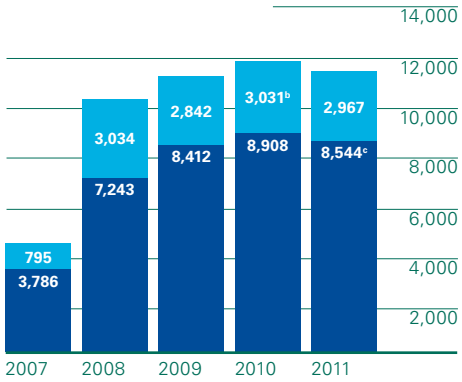
[a] Instead of 54,349 reported in *BP in Azerbaijan Sustainability Report 2010*.

BP in Azerbaijan direct CO_2 emissions
(kilo tonnes)



Visitors at BP stand at the Caspian International Environmental Exhibition, November 2011

BP in Azerbaijan gross non-GHG emissions – SOx and NOx
(tonnes)



[b] Instead of 3,396 indicated in *BP in Azerbaijan Sustainability Report 2010* due to misprint in the report for Istiglal and Dada Gogud rigs SOx figures.

[c] Total BP in Azerbaijan NOx emissions decreased by 4% due to less fuel gas consumption primarily at Sangachal terminal, DWG and Chirag platforms.

Following these audits nine corrective action requests were raised. They related to contract documentation and operational control, hazardous material handling and storage, emergency response records, document control and non-conformance. All 11 action requests raised as a result of the 2010 audits (six of which related to our office in Baku at Villa Petrolea) were closed by BP and verified for effectiveness by the external auditor.

Oil spills[d]

A total of five oil spills were recorded at our facilities in Azerbaijan in 2011 compared with 11 in 2010. All the spills occurred at offshore facilities and were fully recovered thanks, in part, to our in-house response and mitigation capabilities. All our oil spill response procedures undergo continuous improvement and validation through exercises and training and include involvement of external resources to meet BP and government's expectations.

[d] Oil spills are defined as any liquid hydrocarbon release of more than or equal to one barrel (159 litres, equivalent to 42 US gallons).

The volume of oil spilled (2,677 litres) was substantially (92%) less than that in 2010. All spills to the environment are reported to the Ministry of Ecology and Natural Resources (MENR) and to the State Oil Company of Azerbaijan Republic (SOCAR).

BP is a responsible operator in the Caspian and as such it takes any concern expressed to the company by any regulatory body seriously. In Azerbaijan, we have agreed procedures in place, which regulate our reporting to, and notification of, all relevant regulatory bodies including the MENR. These include notifications on unplanned material releases. We continue to work closely with MENR and regularly discuss with it and agree any action and preventive measure that may be required to ensure safe environmental operations in our region.

Waste management We aim to avoid, reduce and reuse the waste that is created by our operations and implement a lifecycle approach to waste management

RT Services industrial waste utilization site in Garadagh district

In total, we produced 51,205 tonnes of waste from our operations in Azerbaijan in 2011 – 40,672 tonnes of hazardous waste, and 10,533 tonnes of non-hazardous waste. This represents a 34% decrease in hazardous waste volumes in 2011 compared with 2010.

Some 43% (4,486 tonnes) of the non-hazardous waste, and 2% (759 tonnes) of the hazardous waste, was recycled or reused by local companies. The remainder was either treated and disposed by using approved methods and routes, stored temporarily at Serenja hazardous waste management facility (HWMF) or landfilled (non-hazardous only) in the BP dedicated non-hazardous waste landfill cell at Sumgayit.

In addition, we generated 260,667 tonnes of raw and treated sewage (a 41% decrease on 2010). Significant quantities of produced water from offshore were received at Sangachal terminal.

Our main focus in 2011 was on the identification and assessment of suitable disposal options for hazardous waste initially stored at Serenja HWMF. Assurance audits were carried out to verify compliance with our requirements at selected waste management facilities.

BP in Azerbaijan waste quantities

	2010	**2011**
Hazardous waste (tonnes)[a]	61,420	**40,672**
Non-hazardous waste (tonnes)	10,239	**10,533**
Produced water received by Sangachal terminal from offshore (tonnes)	1,213,951	**1,632,353**
Sewage (litres)	444,234[b]	**260,667**

[a] Includes drill cuttings and produced water filtration wastes.

[b] Instead of 425,936 indicated in *BP in Azerbaijan Sustainability Report 2010*.

BP in Azerbaijan drill cuttings discharged to water

(tonnes)

Asset / Facility	Drill cuttings with WBM discharged to water	Drill cuttings with SBM discharged to water	Total drill cuttings discharged to water
Central Azeri (CA), West Azeri (WA), East Azeri (EA), Deepwater Gunashli (DWG), Chirag, Shah Deniz (SD)	0	0	0
Dada Gorgud drilling rig	7,756	0	7,756
Istiglal drilling rig	7,349	0	7,349
Total	15,105	0	15,105

Drill cuttings

We continued to work on various options to drive down waste generation from our drilling operations. They included upgrades to utilized technologies and equipment and the implementation of interfield re-injection.

Offshore discharge and re-injection

Offshore re-injection is used for drill cuttings from the Azeri field. Due to the cessation of drilling activities at the Chirag platform, no synthetic-based muds (SBM) were used in 2011 and all our drilling discharges were water-based mud (WBM). These discharges all complied with the Azeri-Chirag-Deepwater Gunashli (ACG) production sharing agreement and contained low toxicity WBM – the most commonly used drilling mud worldwide. All the drill cuttings with WBM were discharged from the Istiglal and Dada Gorgud drilling rigs.

In total, 15,105 tonnes of drill cuttings and associated fluids (adhered drill mud) were discharged into the Caspian in 2011 – an 87% growth compared with 2010. The rise resulted from the increased number of completed wells compared with 2010. Most of these were related to the Chirag oil project – 10 in 2011 compared with six in 2010.

Much of our remedial work in 2011 was concentrated on single-step disposal and offshore re-injection of certain types of waste, such as drill cuttings and muds, brine, oily drains and pit cleaning materials. As a result, a total of 72,361 tonnes of waste was re-injected on the Azeri and DWG platforms in 2011, which represented a 46% increase on 2010.

Overall, the WBM cuttings and fluids discharge trend from the ACG platforms is declining due to a gradual move to drilling with low toxicity oil-based fluids through the upper hole sections.

Onshore management

We use onshore management for any drill cuttings that are not suitable for re-injection. A total of 16,867 tonnes of untreated drill cuttings was received at Serenja from offshore drilling operations in 2011 (39% less than in 2010) in addition to 9,122 tonnes of drilling mud and tank cleaning waste. Approximately 32,119 tonnes of drill cuttings were processed using indirect thermal desorption (IDT) units. Some 3,445 tonnes of base oil were recovered and returned to the drilling fluids supplier for re-use. Treated drill cuttings are stored at the Serenja facility.

A bioremediation project involving 7,000 tonnes of drill cuttings that began at Serenja HWMF in 2010 was completed successfully in 2011. Two additional ITD units have now been installed at Serenja, doubling the capacity for drill cuttings processing at the site.

Sewage

Analysis of treated sewage taken from the CA and WA platforms, as well as from the Dada Gorgud and Istiglal drilling rigs, showed that it was in compliance with requirements. The quality of effluent on offshore platforms – in particular, the levels of total suspended solid (TSS) and biological oxygen demand (BOD)[a] on the Chirag platform, as well as TSS, faecal coliforms[b] and BOD on the Shah Deniz platform – occasionally exceeded agreed specifications in 2011.

During the year, a sharp decrease in sewage treatment plant (STP) outages was recorded across all offshore facilities. In total, there were 17 releases from platforms in 2011 compared with 29 in 2010 (a fall of 41%). The vast majority of the 2011 releases related to the sewage treatment unit on the DWG platform (14 releases out of 17). There were also two instances of STP outages from the CA platform and one from the EA platform.

Meantime, we began a project to find a more sustainable solution to STP issues offshore. It was decided to replace the DWG STP with a new membrane technology STP, which will produce compliant effluent with minimum maintenance. This new unit is expected to be in place by spring 2013 and will be a pilot for potential replacement of the STPs on the Azeri platforms.

Significant improvements in sewage treatment were achieved at Sangachal terminal. An upgrade of the STP (installation of a seventh bioreactor) allowed us to treat all sewage water generated at the terminal and also to receive sewage from Serenja HWMF, the Baku Deep Water Jacket Factory, AMEC-Tekfen-Azfen (ATA) Yard, and camps in Shamkir and Yevlakh regions. Throughout the year, there were no non-compliances encountered in sewage treatment at the terminal.

Effluent discharges in 2011 on the BTC pipeline route consisted of treated sewage from pump station Azerbaijan 2 (PSA2), which includes the PSA2 camp and the intermediate pigging station Azerbaijan (IPA1). Sewage treatment systems at these three facilities have the same design and undergo the same three stages of treatment: biological treatment, ultra violet sterilization, and final polishing in reed beds.

Produced water

A total of 1,632,353 tonnes of produced water was received at Sangachal terminal in 2011 – 1,611,912 tonnes from ACG and 20,441 tonnes from SD offshore platforms. This represented a 34% rise on the 2010 results but was in line with the predicted produced water profile, which is based on increasing the ACG ratio of produced water flow rates to the terminal.

All ACG produced water was treated at the terminal's long-term produced water plant and transferred from Sangachal back offshore for re-injection. In 2011, we achieved a 98% (1,584,329 tonnes) re-injection rate for ACG produced water. The remaining 2% of produced water was discharged into the sea. One incident in December, when a mechanical failure occurred on the water injection system connecting the CA and WA platforms, accounted for the majority (93%) of this volume. Injection of biocides was stopped during the discharge to minimize potential environmental impact. There was no disposal of produced water by any onshore third-party contractor in 2011. Produced water from SD is currently stored in holding ponds at Sangachal terminal.

Hazardous liquid wastes

A local company, RT Services, licensed by the Ministry of Ecology and Natural Resources to provide industrial waste utilization services, treated 2,106 tonnes of contaminated brine in 2011 – a decrease of 68% compared with 2010. In addition, the Ekol-AAS JV treated 6,603 tonnes of oily water in 2011, which represents a decrease of nearly 52% compared with 2010.

As BP's representative I have been actively cooperating with my fellow environmentalists from all Caspian countries since the establishment of the Caspian Environmental Programme. The collaboration between governments, the private sector and non-governmental organizations within this programme is always useful and productive. As a result a number of good joint projects have been completed. The Caspian Environmental Information Centre project is next and will become, we hope, a strong example of data sharing and data transparency in the Caspian region.

Faig Askerov
Director
Regulatory compliance and environment, BP AGT

Establishing a web-based Caspian Environmental Information Centre

As part of the Caspian Environmental Programme, being developed and managed by coastal states to improve the Caspian environment and to promote sustainable development in the region, BP and its co-venturers in November signed an agreement with Grid Arendal – a Norway based NGO and member of UN Environment Programme – to set up a web-based Caspian Environmental Information Centre.

The aim of the initiative is to create an online environmental database in 2013, which will be used as a centralized, up-to-date and reliable hub for information on the Caspian basin environment. It will also promote environmental data collection and share best practices on environmental monitoring surveying and methodology. By so doing we believe it will enhance the efforts of regional experts to standardize and harmonize environmental studies and improve data transparency and communication. In addition, the centre will be used to promote sustainable development in the region.

[a] BOD is a measure of the oxygen used by microorganisms to decompose the waste. High levels of organic waste in an effluent lead to high BOD.

[b] Faecal coliforms are types of bacteria that mostly exist in faeces.

Environmental monitoring We have a rigorous and consistent approach to monitoring the impact our activities may have on the environment

Our environmental monitoring efforts consist of two main parts. Ambient monitoring focuses on the status of the surrounding environment in the vicinity of our facilities. Operational monitoring includes monitoring at source the discharges and emissions resulting from our operations.

Collecting seabed sediment samples during offshore environmental survey

Ambient environmental monitoring programme

BP in Azerbaijan's environmental monitoring programme has operated since 2004. It is designed to provide a systematic approach to ambient monitoring and the interpretation of results. In 2011, we conducted 23 surveys – nine offshore, one nearshore and 13 onshore. Their results will be released during 2012. By the end of 2011, a total of 113 monitoring studies had been completed over eight years.

Offshore surveys

Offshore surveys during the year consisted of routine monitoring of existing assets, a baseline survey for some new proposed wells and 'regional' environmental monitoring.

Routine seabed monitoring was conducted in the vicinity of the Shah Deniz (SD), West Azeri and Deepwater Gunashli platforms to assess the impact of production operations. Five baseline surveys were undertaken in the vicinity of the SD Stage 2 proposed wells to provide data on the current status of the benthic environment around the manifolds.

Regional surveys are undertaken to help us develop an understanding of natural changes in the marine environment. Sampling is carried out at locations some distance from our activities (and third-party operations). In 2011, a regional survey was conducted in the

Summary of ambient environmental survey results, 2010[a]

Offshore	
Azeri-Chirag-Deepwater Gunashli (ACG) contract area – regional survey	Sediments were generally heterogeneous in nature with a wide range in particle size and with low hydrocarbon concentrations. Stations, located in the north-western third of the contract area had the highest abundance and taxonomic richness and were numerically dominated by amphipods. Stations located on the southern half of the eastern flank were dominated numerically by oligochaetes. Stations on the southern two-thirds of the western flank had a low abundance and taxonomic richness and included the two stations, which may be influenced by mud volcano activity. Overall, there was very little variation in the physicochemical characteristics and the macrobenthic community from previous survey results.
ACG pipeline survey	A spatial division was identified between stations located to the east of Chilov Island extending into the ACG contract area and those to the south of Chilov island extending towards Sangachal Bay. At stations, extending into the contract area, the macrobenthic community was found to be higher in abundance and richness with amphipods being dominant numerically. At stations, extending towards Sangachal Bay, the macrobenthic communities were very sparse and were dominated numerically by polychaetes and bivalves. Hydrocarbon concentrations increased as the pipeline route approached the coast, with the highest concentrations being present at the western end of the pipeline. The highly weathered nature of the hydrocarbons present indicated that the contamination was from an old industrial source at coastal and/or nearshore locations. No fresh inputs were identified. Overall hydrocarbon levels were similar to those recorded in 2008.
ACG regional and pipeline water and plankton survey	Water samples taken within the ACG Contract Area and along the ACG Sangachal pipeline route, indicated a strongly stratified water column with low concentrations of inorganic nutrients, biological oxygen demand (BOD)[b], chemical oxygen demand (COD), and total suspended solids (TSS). The concentration of total hydrocarbon content (THC) and phenols were below the detection limit in all samples. The concentrations of heavy metals were generally low and similar to those observed on previous surveys. Higher concentrations of lead and cobalt were observed in surface waters, with the highest cobalt concentrations being observed in samples from nearshore pipeline stations. Other than TSS in all samples and the highest zinc concentration, the results for all parameters were within the maximum allowable concentrations for Azerbaijan fisheries waters. As previously observed, the zooplankton community was low in abundance and species richness and was numerically dominated by copepods. When compared with previous data, a lower average abundance and biomass for total zooplankton and *Acartia tonsa* were observed in 2010.
Chirag platform survey	Sediment around Chirag is heterogeneous and has changed little in composition since 2004. With the exception of one station, sediment hydrocarbon concentrations remained low and had decreased at most stations since 2008. This was also true for synthetic-based mud (LAO)[c], which is present in some of the cuttings discharged. The concentrations of most heavy metals have remained similar to, or have declined from, the levels reported in 2008. A clear 'footprint' is evident only for barium, cadmium and lead. The negative trend of general reduction in abundance and taxonomic richness observed at the Chirag survey area from 2000-08 reversed in 2010. There was a survey-wide increase in annelid abundance and amphipod abundance and taxonomic richness. No distinct change in the physicochemical characteristics was observed from 2008-10 to account for the sudden reversal of these trends.
East Azeri platform – environmental monitoring	Metal and hydrocarbon concentrations were, with the exception of barium and cadmium, within the range of baseline conditions for the ACG contract area. In many instances they were lower in 2010 than in 2008. The condition of the macrobenthic community throughout the survey area was better in 2010 than in 2008 and closer to the original baseline conditions. There was no evidence that any physical or chemical parameter was associated with impaired community structure or function, although it was clear that the dominant taxonomic groups were more diverse and abundant in coarser sediments.
Central Azeri platform – environmental monitoring	There was little evidence of change at the majority of stations. The overall area within which LAO was observed remained very similar to that observed in previous surveys. For the majority of trace metals the data showed no clear trends or gradients, which could be associated with platform activities. The macrobenthic community was dominated numerically by amphipods, which were also the most taxonomically rich group. As noted in 2008, there was a general tendency towards lower species richness and abundance at stations to the north of, and immediately to the south of, the platform. The 2010 data for sediment composition, chemistry and macrobenthic biology suggested that there is an area immediately around the platform in which some degree of sediment alteration is present. The data also indicated that there is a slightly lower macrobenthic community biomass and diversity in this area relative to more distant stations. However, there are no stations, which could be considered biologically impoverished compared with previous surveys.

[a] The results of our offshore, nearshore and onshore ambient monitoring in 2011 will be released during 2012.

[b] Biological oxygen demand (BOD) is a measure of the oxygen used by microorganisms to decompose the waste. High levels of organic waste in an effluent lead to high BOD.

[c] Linear alpha olefin.

Summary of ambient environmental survey results, 2010

Offshore	
SDX-5 post drill survey	In general, survey stations around the SDX-5 well site were found to have very fine, well sorted silt sediments with low variation in metal and hydrocarbon concentrations. Comparison to previous baseline data indicated change at one station adjacent to the well location. Samples from this location indicated water-based mud-contaminated drill cuttings, with coarser grained sediments the presence of, very high concentrations of barium and an absence of the metal relationships evident at all other stations.
Nearshore	
Sangachal benthic survey	Nearshore stations were found to have high silt-clay content whereas outer stations had a high carbonate and low silt-clay composition. This pattern was reflected in the sediment metal content, with the distribution of iron, copper, chromium, lead and zinc higher at stations with high silt-clay content and low at stations where carbonate content was dominant. Hydrocarbon concentrations were relatively unchanged at the majority of stations from 2008-10. However, a general reduction in phenol concentrations was observed between years. Overall concentrations and patterns of distribution of metals in sediments were similar to those observed in 2006 and 2008. The macrobenthic community was dominated by annelids and bivalves. In general, a higher species richness and abundance was found at stations to the east and north-east of the bay. No association was identified between the community structure and the physico-chemical patterns. Overall, the physical and chemical characteristics of the sediments did not account unambiguously for the observed changes in macrobenthic biology.
Onshore	
Sangachal terminal (ST) – soil and vegetation survey	The 2010 surveys were carried out using the same methods as in previous surveys. They focused on monitoring early warning indicators of change in ecosystem function based on hydrological function, soil stability and biotic integrity. In general, perennial vegetation cover was higher compared with earlier surveys carried out since 2006. Microbiotic crust cover was patchy, with some areas having relatively high crust cover and others having no crust cover. There were small increases in crust cover, reversing a trend of decreasing crust cover observed in 2008 and 2009. A soil survey was carried out at each of the monitoring locations and mineral soil composition was within normal ranges encountered in this ecosystem. The overall site condition was relatively stable between the spring and autumn surveys, and relative to earlier surveys. Although there appears to be no significant deterioration of ecosystem condition in the areas surrounding the Sangachal terminal, increasing third-party activities around the facility are a cause for concern.
Sangachal terminal – air quality monitoring	Average annual NOx, SO_2 and VOC[a] results were all below World Bank / World Health Organization guidelines. The standard for benzene was exceeded at a couple of sites, probably due to third-party activities, and should be interpreted with caution. Real time monitoring station average results for NO, NO_2, NOx and SO_2 were all below guideline levels.
Sangachal terminal – bird surveys	A survey of bird species occurring in the vicinity of ST was repeated three times during the year, using the same monitoring locations and methods each time. During the survey, 86 species of birds were observed – slightly less than in the 2009 and 2008 surveys. However, eight new species not observed in 2009 or 2008 were recorded. Four bird species of concern (three IUCN[b] Red List and one Azerbaijan Red Book species) were also encountered. Bird species richness and the number of individual birds do not appear to be affected by operations at ST. While this survey suggests that there are no significant harmful effects from the terminal on bird species diversity or numbers, continued surveying is recommended to monitor changes in the dynamics of avifaunal populations, particularly given increased third-party activity nearby.
Sangachal terminal – ground and surface water monitoring	Ground and surface water monitoring at ST found produced water-derived contaminants in a few wells. The source of the contamination was identified quickly and all required preventive measures taken. A risk assessment study confirmed there were no risks to population or environment.
Sangachal terminal – wetland survey	Wetlands around ST consist of a somewhat more diverse flora with both desert and wetland species present. Patches of oiled land were encountered near the third-party power station south of the terminal. Areas surrounding ST remain relatively free of contamination.
Sangachal terminal – mammals and herpetofauna survey	The abundance of animal species around ST is low and is typical of desert environments. Increased species diversity was encountered in some wetland areas south and east of the terminal where riparian species were more common.

[a] SO_2 – sulphur dioxide. VOC – volatile organic compound.

[b] International Union for the Conservation of Nature and Natural Resources.

vicinity of the SD 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

We carried out a Sangachal seabed survey in 2011 to identify baseline conditions in Sangachal Bay prior to SD Stage 2 expansion at the terminal as well as to detail the current

Analyzing samples for environmental monitoring

environmental status of the bay and any BP in Azerbaijan or third-party impact on it. The resulting data will be compared with the results of previous surveys.

Onshore surveys

A number of onshore ambient environmental monitoring surveys were conducted during 2011. At Sangachal terminal, the focus was on vegetation and soil stability, mammals and herpetofauna survey, bird populations, air quality, noise, and ground and surface water. At Serenja hazardous waste management facility, the focus was on air quality and ground water. Along the Baku-Tbilisi-Ceyhan (BTC) pipeline, we concentrated on air quality, ground water, noise and vegetation monitoring. Air quality monitoring and noise monitoring took place along the Western route export pipeline.

As part of our commitment to prevent erosion on the BTC right of way corridor, data in our geographical information system was used to identify locations vulnerable to erosion and determine rates of erosion (if any) to assist in planning remedial work. Details from vegetation cover analysis were used on a yearly basis

for non-agricultural areas only to track the right of way (RoW) vegetation recovery trend and overall RoW vegetation performance.

Operational environmental monitoring

Comprehensive operational environmental monitoring was undertaken at BP's Azerbaijan facilities in 2011. All the results were in compliance with the requirements of project-specific commitments such as production sharing agreements and environmental and social impact assessments with the exception of the following:

- Coliform bacteria analysis results at pump station Azerbaijan (PSA)2 and intermediate pigging station Azerbaijan (IPA)1 during heavy rains, ranging from 700 per 100ml (millilitres) to 16,000 per 100ml compared with the standard of 400 per 100ml.
- All results from the PSA2 reed bed were in compliance with ESAP standards with exception of total phosphorus in March and September: 8.4 and 7.9 mg/l (milligrammes per litre) against 2 mg/l.
- Monitoring results of the BTC PSA2 main oil line turbines indicated that NOx concentrations were higher than the 75mg/m^3 (milligrammes per cube metre) limit specified in the BTC ESAP for this plant, but lower than the 125 mg/m^3 limit specified in the BTC Azerbaijan environmental and social impact assessment document.
- Environmental noise monitoring results at the ABV-7 generator located close to PSA2 camp were above night time standards.

Summary of ambient environmental survey results, 2010

Onshore	
Serenja hazardous wastes management facility (HWMF) – air quality monitoring	Two rounds of air quality monitoring at Serenja HWMF found that air quality was within international standards with the exception of particulate matter. Relatively high particulate matter levels found in nearby settlements were probably due to large-scale construction works currently being carried out in the area.
Serenja HWMF – groundwater monitoring	Analysis of results over the entire monitoring period suggested that there is no consistent or persistent contamination of ground water in the vicinity of the Serenja HWMF site.
Sangachal terminal – noise monitoring	Night and daytime noise level monitoring was carried out in 2010 around three neighbouring ST residential areas – Azimkend village, Umid village, and Sangachal settlement. The results complied with World Bank standards during daytime. At night, there was a minor excess at Sangachal settlement probably due to noise from the settlement itself, the adjacent power station, and intense traffic due to heavy trucks carrying stones from a nearby quarry.
Export pipelines (Azerbaijan) – noise monitoring	Ambient environmental noise monitoring was undertaken around Export Pipelines in Azerbaijan above ground installations and block valves to ensure that the level of the emitted noise was within the project specifications. No limit was exceeded during 2010.
Export pipelines (Azerbaijan) – surface and groundwater quality monitoring	Surface and ground water quality monitoring data acquired from surveys conducted at various locations along the Baku-Tbilisi-Ceyhan/South Caucasus pipeline (BTC/SCP) route, proved to be comparable with baseline data.
Export pipelines (Azerbaijan) – ambient air quality monitoring	Ambient air quality monitoring in 2010 was undertaken at BTC pump station PSA2 in Azerbaijan and pigging station IPA1. The results demonstrated compliance with the BTC environmental and social action plan (ESAP) for all parameters.
Export pipelines (Azerbaijan) – vegetation cover and species diversity	In 2010, biorestoration monitoring covered four years of percentage cover values and two years of species-diversity data. It was collected from 55 transects along the pipeline. Vegetation cover data indicated that over half of the Right of Way (RoW) transects had vegetation cover equal to or greater than adjacent, undisturbed areas within a margin of 10%. At the majority of transects (84%), the vegetation cover in the RoW corridor has shown to be increasing over four years' monitoring. In general, vegetation recovery in the corridor is following the pattern that would be expected. Cover establishes relatively quickly as species colonize the RoW, but this mostly comprises ruderal species that are not characteristic of the adjacent, undisturbed vegetation.
Rare species monitoring	In the BTC construction ESAP, it was required to translocate *Iris acutiloba* off the RoW prior to construction and relocate them in the RoW afterwards. This was done and monitoring of the relocation programme continued during 2010. Results identified 2,645 individual plant stems off the RoW and 671 individuals on the RoW. The continuing decline in the numbers of translocated *Iris acutiloba* is believed to be a result of intensive grazing and the low nutritional resources in plant stems. Due to the low survival rate the next round of monitoring has been postponed until 2012 and an offset programme is planned. In addition, 11,787 *Iris acutiloba* from Garadagh cement plant that would have been destroyed due to a development project there were replanted in November-December 2010 in the Gobustan RoW corridor at kilometre points 7, 11.8, 24.1, 25 and 26.

BP-SOCAR co-operation develops in the environmental area

BP and the State Oil Company of the Republic of Azerbaijan (SOCAR) continued to co-operate on environmental issues during 2011. Special emphasis was placed on sharing best practice in surveying and monitoring.

SOCAR representatives participated, for example, as observers in several environmental surveys conducted by BP in Azerbaijan. They included offshore environmental surveys, a mammals and herpetofauna survey, a wetland survey, surface and groundwater monitoring around Sangachal terminal and ambient air quality monitoring around Sangachal terminal and Serenja HWMF. This facilitated on-the-job training and has led to increased collaboration between the organizations.

"We are going to continue this cooperation with SOCAR to ensure that experiences are shared and a sustainable approach is encouraged to the use of natural resources and the protection of the environment in Azerbaijan," says Saadat Gaffarova, BP's environmental permitting specialist and interface for governmental environmental stakeholders in Azerbaijan. "The relationship between BP and SOCAR environmentalists can serve as a great example of industry cooperation", adds Saadat.

Society

We strive to make positive impacts on local societies and economies and aim to build enduring relationships with the communities in which we operate

$1.2 billion

Spent jointly with our co-venturers for operations and projects in Azerbaijan

117

Communities across the country benefited from our joint development initiatives

5

New laboratories for chemical engineering students opened with our support

Good governance We believe that our support to revenue transparency initiatives and good governance projects in Azerbaijan may bring wide socio-economic benefits to the country

Presenting BP's annual Statistical Review of World Energy to government agencies

BP has been a long-standing supporter of the Extractive Industries Transparency Initiative (EITI). Launched in London in 2003, it was designed to help create a voluntary, worldwide standardized process for the transparent reporting of company payments and government revenues in extractive industries including the hydrocarbon sector.

In Azerbaijan, BP has been working with government, civil society and other extractive industry companies within the framework of this initiative from its inception. In March 2011, BP in Azerbaijan submitted its fourteenth EITI report covering the period of January-December 2010. We continue to disclose our own disaggregated data in this publication. Our fifteenth EITI report covering the data for the 2011 calendar year, which we submitted in March 2012, can be read on page 53.

In September 2011, we hosted a meeting of local and foreign companies that participate in the EITI process in Azerbaijan. We have been sharing our EITI experience on different occasions over several years with local and international audiences.

Advisory Services on Macroeconomic Management and Institutional Reform

The 'Advisory Services on Macroeconomic Management and Institutional Reform' technical assistance project continued during the year. The implementing partner – a Warsaw-based think tank called Center for Social and Economic Research (CASE) – supported the Ministry of Economic Development of the Republic of Azerbaijan (MED) in work designed to enhance economic planning capability by improving forecasting and economic policy analysis skills. The total value of our contract with CASE is $1.25 million.

As part of CASE-related activities in 2011, the analytical content of regular macroeconomic reports, prepared by the Department of Economic Policy, Analysis and Forecasting was expanded. Templates for future use by MED staff, containing analysis of recent economic developments and economic policy in Azerbaijan, were prepared. Additionally, forecast values based on the macroeconomic framework of the Azerbaijan economy for 2011-2015 were elaborated and updated.

The advisory services project on macroeconomic management and institutional reforms, implemented in our ministry through the sponsorship of BP and its co-venturers since 2008, has yielded a great result. As a result of the project a new and strong forecasting department has been created. A comprehensive forecasting framework and models on sectors have been developed. And our macroeconomic model has been improved.

The newly developed inflation-forecasting model has greatly contributed to analyses of inflation and its determinants in Azerbaijan. The updated database for inflation forecasting has enabled our experts in Azerbaijan to produce preliminary inflation forecasts for the years of 2011-12 and to develop a strategy for effectively combating inflation in the country. The uniqueness of project is that it greatly invested in the development of human capital in our ministry. We look forward to continue our cooperation with BP.

Sevinj Hasanova
Deputy Minister, Ministry of Economic Development

In tandem, a study on 'Money and Inflation in Azerbaijan' presenting a possible approach to inflation modeling was published. A series of works dedicated to the situation in the global economy, monetary policy and impact of oil revenues on inflation was also prepared.

Enterprise development

BP supports enterprise development in Azerbaijan in order to build a sustainable local supply chain, stimulate domestic industry and underpin the company's license to operate in the Caspian region

MQS company, participating in our supplier development programmes, provides oil and gas projects in the Caspian region with a wide range of services

We and our co-venturers in Azerbaijan, signed new long-term contracts worth about $700 million with 38 local companies in 2011.

Since 2007, a total of 187 local companies have taken part in enterprise development and training programmes with 28 of them completing the course during 2011. Eleven of these companies subsequently have won contracts with BP and its co-venturers worth a combined total of more than $62 million, as well as seven with other international companies and 18 with local companies.

As part of our ongoing efforts to widen business opportunities for local companies we identified and conducted capability assessments of 226 potential suppliers during the year. Up-to-date information about local small and medium enterprises (SMEs) active in a diverse range of the market categories was provided to the procurement department for further consideration in future BP tenders. Categories covered included closed circuit television, heating ventilation and air conditioning, fabrication, equipment, web-design, translation, engineering and design, information technologies end user services, provision of fibre optic and copper cable maintenance and video conference services.

Our local content provisions were updated and included in BP's procurement templates and a new regional procurement and supply chain management handbook. The revised guidelines provide users with a structural methodology on our local content tools and procedures.

On 21 June 2011, BP, on behalf of its co-venturers, hosted a 'Meet the Buyer' exhibition in the Hyatt Conference Centre in Baku. The event was designed to provide an opportunity for local companies to present their products and services to potential buyers among international supplier organizations represented in Azerbaijan.

Other activities in 2011 included the development of a supply chain localization programme, which covers localization strategy, implementation steps and monitoring mechanisms. The aim is to develop, endorse and align BP's localization strategy in such a way that it supports the development of national capability for certain labour intensive contracts. The strategy will be implemented in 2012.

During the year, we also developed and agreed a supplier quality management strategy for the region. This will support the localisation programme in the creation of a pool of technically capable competitive local suppliers.

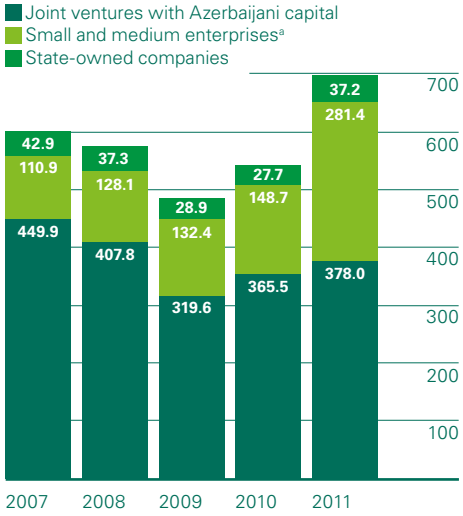
Our spend in Azerbaijan in 2011

BP and its co-venturers' operations and projects expenditure in Azerbaijan in 2011 totalled of more than $1.2 billion – an increase of almost 17% over 2010.

As part of this, our sustainable in-country operations-only expenditure with local suppliers rose to about $947 million – also a 17% increase over the last year reflecting growing linkages between our enterprise

BP and co-venturers' direct operations and projects spend in Azerbaijan

($ million)



[a] This amount includes also expenditure with physical persons.

Local EDTP-participating companies presenting their products and services at the 'Meet the Byer' event

development efforts and our demand planning. The total included a 77% rise in direct expenditure with local SMEs to $255 million[a], an increase of 8% in spending with joint ventures to $285 million and growth of 33% to $36 million in our expenditure with state-owned companies. Our indirect sustainable local spend through foreign suppliers in Azerbaijan fell by 2% to $368.5 million in 2011.

Altogether we and our co-ventures did business with 265 companies and individuals in Azerbaijan in 2011 of which 204 (77%) were SMEs.

An enterprise e-centre at *ecbaku.com* continues to provide up-to-date online information about projects supported by BP and our co-venturers in Azerbaijan to give useful insights on how to work with BP and other international and local companies.

Outlook for 2012

We believe that to build a sustainable, long-term local supply chain we must continue to support capability development in Azerbaijan and continue to require our lead foreign contractors to support our efforts, maintain and expand local supply chains and introduce new competition for our existing local contractors.

We expect to sustain our implementation of the localization programme in 2012 through category planning, supplier development and our selection procedures. New emphasis will be put on labour intensive service categories in production operations and manufacturing.

As detailed planning begins on the Shah Deniz Stage 2 project there will also be new prospects to link skill requirements and supply opportunities in the construction phase with a view to maximizing in-country fabrication. This will enhance Azerbaijan's industrial infrastructure and improve workforce skills.

Enterprise development and training programme

Our enterprise development and training programme (EDTP) in Azerbaijan was launched in 2007. Its aim is to help local hydrocarbon sector companies achieve international standards and so increase local content in our projects. In 2011, EDTP activities included market surveys, the identification of potential local suppliers, detailed gap analysis and the creation and implementation of relevant development plans.

In total, we and our co-venturers spent $806,000 on EDTP over the course of the year.

[a] This amount includes also expenditure with physical persons.

Meet the Buyer

In June 2011, we hosted a showcase event in Baku – 'Meet the Buyer' – with our co-venturers in the ballroom of Baku's Hyatt Hotel conference centre. Conceived to increase local companies' involvement in BP-operated oil and gas projects, the event was also designed to improve two-way relationships and to broaden knowledge and business contacts across Azerbaijani industrial and service sectors.

Some 90 local companies – participants in the EDTP programme – took part. They represented a wide swathe of the Azerbaijani economy including business services, operations support, engineering, construction, logistics and waste management.

Opportunities were provided for the local companies to present their products and services and to meet representatives of leading international and large local companies active in the oil and gas industry supply chain. The event also offered a chance for potential foreign buyers to explore the local market and to find out first-hand what is available.

Feedback from the participating companies proved to be extremely positive. Agateyyub Jafarov, manager of Seabak Company information technologies management and support provider said: "The event was a very efficient way of promoting local companies. It yielded outstanding results for our company. We have been invited to take part in several tenders, signed some new contracts and made beneficial partnerships, which will certainly lead us to new business in the future."

Some 187 local companies participated in the programme. As a result, 33 development plans and gap analyses were produced to support the training of participating companies and 28 companies successfully completed the programme. A total of 93 companies have completed the programme successfully since 2007 out of some 1,000 companies that have taken part. More than 360 action plans and gap analyses have been produced to support participating companies in delivering improvements. Contracts worth more than $62 million were signed by EDTP-participating companies with BP in Azerbaijan in 2011.

Since EDTP's inception participating local companies have invested about $8.8 million in new capital equipment and hired approximately 527 employees including 315 in 2011. The programme has assisted local companies in securing contracts valued at more than $184 million with other local and international companies of which more than $125 million have been with BP in Azerbaijan.

Business enabling environment project

The business enabling environment (BEE) project was set up to assist the government of Azerbaijan in improving legislation in the spheres of permits/licensing and business registration. Together with our co-venturers we are financing a BEE project implemented by the International Finance Corporation.

During the first half of 2011, the results of a 'Taxpayers Satisfaction Survey' conducted in 2010 were summarized and presented to the Ministry of Taxes. The findings highlighted the impact of earlier tax reforms and demonstrated potential savings to the private sector through the increased use of the online filing tax system.

As part of the focus on business inspections the BEE project organized an international seminar on the topic and five roundtable discussions during 2011 to enhance official understanding of the reform process. In co-operation with the European Union Twinning Project, a study tour was made to inspect the reform process in Lithuania. Six ministries from Azerbaijan were represented on the tour as well as the President's Administration, the Cabinet of Ministers and the Parliament.

Other BEE initiatives in 2011 included an outreach campaign to boost legal awareness of tax issues among entrepreneurs. As part of this project, five regional seminars on fire safety requirements and the use of checklists were held in cooperation with the State Fire Inspection Service of the Ministry of Emergency Situations. The seminars involved 310 entrepreneurs and 145 inspectors from every part of Azerbaijan. In addition, the project worked with the Ministry of Justice to improve the functioning of the e-Registry of inspections and to develop a guide for entrepreneurs using the e-Registry.

The year also saw the launch of a trial version of an SME website in the Azerbaijani and Russian languages at *biznesinfo.az*. Material on business regulations, compliance requirements, self-learning tools, analytical assessments, market overviews and investment-related information is carried on the website. It is expected to be fully operational in 2012.

Micro and small lending and advisory programme

Under a 2006 agreement we and our co-venturers committed $6 million through the European Bank for Reconstruction and Development for use as loans and technical assistance to private sector development in Azerbaijan and Georgia. The objective was to widen access to finance and to encourage a strong microfinance sector in both countries.

As part of the programme a 'master manual' on human resources development was prepared for regional financial institutions in 2011. This will enable institutions to handle issues related to the selection, training and quality control of lending staff.

In April, a workshop was held with the Azerbaijan Micro-Finance Organization to introduce management information systems used by financial institutions around the world. Twenty two seminars on seven different topics were also conducted with 309 financial experts representing eight financial institutions. The main subject area related to the capacity building of loan officers.

Over the course of the year, micro and small lending to target groups stabilized. About one in five loans went to a female borrower and lending expanded successfully outside the capital. Nearly a quarter of all the loans (worth more than $4 million) in 2011 went to agricultural enterprises.

EDTP-participating AZECOLAB provides full range of chemical and physical laboratory analyses for environmental impact assessment

Working with communities Sustainable development near our operating facilities remained the main focus of our community development programme in 2011

Various initiatives were undertaken during the year impacting 117 communities across Azerbaijan. Our focus, as before, was on income generation and the creation of wider economic opportunity. Together with our co-ventures, we allocated about $800,000 to Community Development Initiative (CDI) programmes in 2011 and supported various projects. They included:

Goranboy region greenhouse project

The primary goal of this project was to foster rural development through the establishment of greenhouse agriculture in the Goranboy district. Implemented by Ganja Agrobusiness Association (GABA), the programme launched in June 2010 and ended in November 2011. In that period, 27 greenhouses were constructed. Agricultural training on pest and disease control, fertilization, the growing of vegetables and the cultivation of seedlings was provided. The total budget for the venture was $171,255 of which $34,071 was spent in 2011.

Expansion of economic opportunities programme

The objective of this programme was to create a better entrepreneurial environment in the Kurdamir, Ujar and Agdash communities and to support youth employment opportunities. Implemented by UMID Support to Social Development (SSD), it began in October 2009 and was completed in May 2011. In 2011, eight entities improved their skill base and 13 business plans originated by communities were supported.

In parallel, 44 young people sharpened their business knowledge and skills, 42 graduated successfully from the apprenticeship courses and 14 received grants to set up their own businesses. The budget of the project was $326,155 of which $58,270 was spent in 2011.

Community-based support for dairy producers

The objective of this project is to expand dairy production by small and medium-sized farmers and to promote regional milk collection centres to link with commercial dairy processors in Azerbaijan. The project's main funder is the US Agency for International Development together with BP in Azerbaijan and its co-venturers. It is being implemented by Umid SSD and is due to finish in July 2012. Three milk collection points were established in 2011 in villages in Yevlakh, Samukh and Goranboy districts. Some 460 people including 125 women participated in 29 training sessions on topics such as milk storage and cattle rearing. A project budget was $106,835 of which $39,998 was spent in 2011.

Income generation and capacity building programme

This is a two-year project being implemented by GABA in collaboration with the Azerbaijan State Agricultural University located in Ganja. It is designed to provide sustainable income generation and capacity-building opportunities for community members involved in the agricultural sector. Among its goals is the construction of 132 greenhouses, a community bakery and 96 beekeeping hives, plus training to manage these facilities and businesses. The project began in November 2011. Its budget was $787,629 of which $4,974 was spent in 2011.

Building youth skills

This project aims to improve the skills and entrepreneurial capacities of young people in 30 communities in five western districts of Azerbaijan – Goranboy, Samukh, Shamkir, Tovuz and Agstafa along the Baku-Tbilisi-Ceyhan/South Caucasus pipeline route; and three communities in the Garadagh district of Baku – Umid, Sahil and Sangachal. It is being implemented by UMID SSD and is expected to end in 2012. About $490,203 of the $500,000 budget was spent in 2011.

More than 200 young people were involved in apprenticeship courses and 20 graduates received grants in 2011 amounting to $9,192. Waste collection points were set up in Sangachal settlement to the value of $11,216. Ten training sessions focused on the writing of business plans and were attended by 96 apprentices. Training was also conducted in marketing and safety at work. Seventeen social events took place.

Youth economic development project

Implemented by the Eurasia Partnership Foundation, this project ended in February 2011. Created to improve entrepreneurial opportunities for young community members in Agstafa, Goranboy, Samukh, Tovuz regions, it was intended to help participants acquire relevant skills to open their own businesses.

Vocational training leads to income generation

Aytan Gasimova, is a 26-year old who lives with her parents in Bayramli village near the city of Shamkir in north-western Azerbaijan. She has three brothers. One is in the army and the two others work in Russia. In 2002, she graduated from secondary school.

Through a friend Aytan heard that BP with its co-venturers were sponsoring vocational training at Ganja Vocational Training Centre (GVTC). The pair decided to attend the training courses together as it is uncommon for single women in their village to travel alone.

Soon after, both the young women enrolled in a knitting course. Aytan quickly mastered the skills involved and started making dresses for herself and for people in her village. She also mastered the 'art' of trading, buying yarn for $0.80, knitting a hat in two hours and then selling it for $5. Soon she was spending eight hours a day at knitting and also giving haircuts to her friends. According to her teacher Zitta Gordina, "Aytan is one of the best students in the group. She learns quickly and is very creative."

On completing the BP-funded course Aytan entered two other classes at GVTC to study more advanced knitting and cosmetology. Her tuition and transport fees were covered by the money she is earning from knitting. Now she is thinking of opening a knitting circle in Bayramli and encouraging other young girls to follow her example.

Five youth fund committees were set up. Members were given training on the structure, values and principles of youth funds as well as learning about business leadership, business decision-making, financial management and reporting and business organization. Nineteen business plans were developed. The project budget was $138,551 of which $8,103 was spent in 2011.

Centre of entrepreneurship for empowering youth

This project, being overseen by Azerbaijan Community Development Research, Training and Resource Centre, will create a Business and Management Unit within Ganja Vocational Training Centre. Its remit is to reinforce the facility's drive to foster youth entrepreneurship.

Up to 150 students are acquiring basic skills in accounting, cosmetology, welding, computer technology, computer repair, sewing and knitting. Additionally, they are receiving training in business start-ups, financial management, micro-credit, business planning, budgeting and marketing. The project has a budget of $98,845 of which $88,959 was spent in 2011. About 394 young people have benefited so far from the programme.

Supporting pre-school education

This one-year project was set up to improve the quality of pre-school education and increase access to kindergartens in selected communities. It ended in December 2011. Unemployed female teachers in Deller Jeyir village were selected through open competition and contracted to work at a community-based pre-school and child development centre. The programme was considered an important tool in providing basic learning opportunities for 5-6 years old children in the targeted communities who had never enrolled in any kind of early development or pre-school education programme. Implemented by the Centre for Innovation in Education, the project had a budget of $103,475 of which $93,303 was spent in 2011.

Employee engagement programme

BP's employee engagement programme (EEP) is designed to encourage our staff to volunteer their time and talents through time-matching. In 2011, about 30 employees participated in EEP via various educational projects and donated 442 hours, equivalent to $8,855 for the implementation of Caspian Engineers Society summer school project.

From November 2009 to December 2011, a local non-governmental organization called Saglam Hayat, using EEP-generated money, implemented 12 EEP projects worth about $79,000.

The BP library initiative

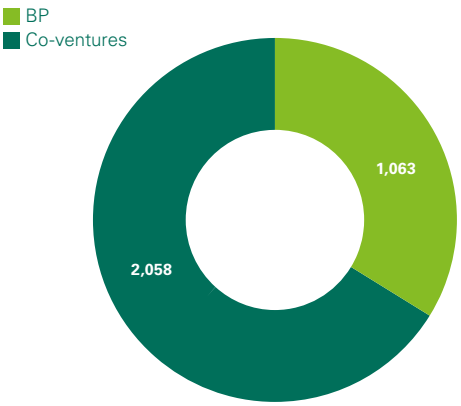
The aim of this initiative is to enhance schoolchildrens' access to libraries by repairing, renovating and replenishing libraries in three selected pilot schools. In addition to the renovation of school libraries in Hajigabul and Yevlakh, the scope of the project was extended in 2011 to include school no.2 in Kurdamir district.

The cost of the project for 2011 was about $12,000. In total, about 194 teachers and 2,480 schoolchildren, including 114 teachers and 915 schoolchildren in 2011 benefited from the projects, which totalled of $30,891.

In addition to the school library project, other charities benefited from donations by BP in Azerbaijan employees. They included 20 disabled school children who took part in a month of summer courses. The fee of the courses was $1,899. Another initiative involved the sale of more than 500 artworks made by 30 disabled children and refugees, which were sold at exhibitions arranged with the participation of our employees. About $10,000 was raised, which was distributed among the owners of the artworks on the basis of number of their sold artworks.

BP and co-venturers' social spend in Azerbaijan

($ thousand)



A greenhouse makes the difference

At one time not so long ago, Shamsi Namazov, a resident of Yolpaq village of the Goranboy district, was a farmer with a big problem.

The owner of a three hectare share of a public land plot and a quarter hectare of homestead land, Shamsi managed to keep two heads of cattle and grow vegetables in field conditions on part of his share of the public land plot. But yields were always low, quality was poor, plant protection was lacking, the climate was difficult and the soil needed improving. Not surprisingly, profits were minimal. Life was hard.

Hearing of a project to spread the use of greenhouses sponsored by BP and its co-venturers, Shamsi decided to enrol. In return he received a greenhouse on 0.015ha of his plot and enough products and finance to introduce a four vegetable (cucumber-greens-tomato-cucumber) rotation growing system.

By also taking part in all the training sessions on vegetable-growing held as part of the project, Shamsi was soon able to grow vegetables more successfully, not only in the greenhouse but also outdoors on a trellis in the open field. His income rose sharply. Seeing his progress, neighbours sought information from him on plant protection, sowing time and growing techniques. Before long Shamsi was producing early seedlings and distributing them to surrounding farmers on condition they paid for them after harvesting. He was on his way to a better future.

Educational initiatives

Programmes designed to widen educational opportunity are an important element in our ongoing efforts to promote and underpin sustainable business development in Azerbaijan

Students with the faculty trainer at the BP summer geology field course

Old wisdom goes "Give a man a fish, you feed him for a day. Teach a man to fish, you feed him for a life". This is certainly true of the efforts BP is making to build local capacity and talent in countries where it operates including Azerbaijan. A good example here is the support the company is giving to Qafqaz University to expand and upgrade its new School of Engineering. I am truly pleased that by the end of 2010-11 academic year about 30 students with top test scores had enrolled and among them few presidential scholarship winners. It gives me confidence that our company is having a positive impact on the lives of many of our young people.

Ibrahim Ismayilov
Sustainable development initiative manager, BP AGT

BP together with its co-venturers continued to support a range of undergraduate, graduate and further education initiatives and scholarship programmes in Azerbaijan in 2011. Our emphasis was on science-based disciplines, including petroleum, chemical, and mechanical engineering.

Qafqaz University project

At the Baku-based Qafqaz University we sponsored five new laboratories in 2011 in the chemical engineering department originally set up with help from BP two years earlier. Fitted with modern equipment, these laboratories specialize in general chemistry, analytical chemistry, organic chemistry, chemical engineering and physical chemistry.

In the meantime, the mechanical engineering department at Qafqaz (also set up with our support) welcomed its first 16 students in 2011. The department expects to open new mechanical engineering laboratories in 2012. The total value of the project is over $2.2 million of which BP's contribution is about $1.2 million.

School of Project Management

The School of Project Management (SPM), established by BP and its co-venturers in 2010, completed a successful first year in 2011. It is designed to develop the project management skills of individuals working in both the private and public sectors in Azerbaijan. To this end it offers access to a globally-recognized, comprehensive project management programme devised by the industry leader, ESI International. The dual focus is on improving immediate project management performance and creating enduring project management capabilities in the country. The total budget is $1 million and it is planned to complete the project in 2013.

BP bursary programme

The BP bursary programme financed by BP in Azerbaijan commenced in 2007. It was set up to support the education of petroleum engineering and geosciences students at the State Oil Academy. By the start of 2012, about 257 first and second year students, including 77 students in 2011, had received a BP bursary. Of these, 33 first year students who entered the academy with the best admission scores received laptop computers courtesy of BP while 34 second year students were sponsored to attend English language courses.

The cooperation between BP and Qafqaz University is having as much impact on boosting the progress of the engineering discipline in Qafqaz University as the Baku-Tbilisi-Ceyhan pipeline project has had on the rapid development of Azerbaijan. This project will ensure the development of world-class engineers for Azerbaijan.

Ahmet Sanic
Rector, Qafqaz University

BP summer students geology field course

In the summer of 2011, we sponsored a field course in sedimentology and structural geology for undergraduate and graduate students. Twenty two students from local and foreign universities were selected from 82 applicants following knowledge-based assessments. The course was led by representatives of Azerbaijan's National Academy of Sciences and the University of Michigan in the US.

Azerbaijani oil and gas scholarship programme

This programme, funded by BP and co-venturers, allows Azerbaijani students to pursue undergraduate and post-graduate studies in engineering and geosciences at universities in Turkey and Azerbaijan. Five graduate students and 65 undergraduate students were supported in 2011. Ten students were hired as summer interns and 11 as Challengers[a] during the year. The value of the scholarships provided by BP and its co-venturers in 2011 amounted to more than $200,000.

South Caspian basin modelling centre

Four years ago, we launched the South Caspian basin modelling centre at the Geology Institute of the National Academy of Sciences. Today the centre serves as a home for advanced geological modelling equipment and facilitates subsurface modelling of the challenging South Caspian basin. It is supported by experts working in related disciplines such as geology, geophysics, geochemistry and biostratigraphy.

In 2011, work at the institute concentrated on geothermal history and subsiding modeling of the nearshore/onshore transition zone of the Absheron Archipelago. Results were presented at an international conference in Vienna. BP also supported a technical research project on 'Organic Geochemistry and Petroleum Potential of Maykop Formation (Azerbaijan)' to be implemented by the Geology Institute of the National Academy of Science at the University of Leoben in Germany.

BP business journalism training

Around 200 national journalists have taken part in the BP-funded English language training courses for business journalists, which have run for more than a decade. In 2006, we decided to build on the success of this initiative by launching a formal business journalism training programme. In 2011, this included a two-week workshop arranged in Cardiff (UK) for six leading Azerbaijani business journalists – representatives of local broadcast and print and online media. The workshop helped the journalists to enhance their skills in social media and video editing and to catch up with developments in international journalism.

[a] More info on Challengers on page 24.

School children enjoy interactive exhibits at CEC

Caspian Energy Centre

In 2011, 4,360 people visited the centre. Of these visitors more than one thousand (around 25%) were guests of the Government of Azerbaijan or our co-venture companies, foreign embassies in Baku or representatives of diverse organizations interested in our activities. Another 3,100 visitors were schoolchildren, students or teachers accompanying students. The balance was made up of BP employees, contractors and their family members visiting on nine family day events organized during the year.

Past and future heritage in the pipeline corridor

In September 2011, BP on behalf of its co-venturers in the Baku-Tbilisi-Ceyhan (BTC) and South Caucasus pipeline (SCP) projects, hosted the public presentation of a book sponsored by the co-venturers and titled 'Past and future heritage in the pipelines corridor – Azerbaijan, Georgia, Turkey.'

In a speech at the event Rashid Javanshir, BP's Regional President for Azerbaijan, Georgia and Turkey, said: "We are very proud to have made this valuable contribution to the research of the ancient cultures of some of the world's oldest civilizations, which reside along our pipelines route linking the Caspian to the Mediterranean".

The book presents many new discoveries arising from excavations undertaken during construction work along the BTC/SCP route. These discoveries, which were made by the Institute of Archaeology and Ethnography of Azerbaijan, the Georgian National Museum and Turkey's Gazi University, contain some priceless artefacts. They have now been handed to the three governments for storing, studying and preservation for future generations. The book also contains valuable research material and scientific information about all the archaeological discoveries along BTC and SCP.

The BTC/SCP cultural heritage programme in Azerbaijan and Georgia, which began in 2008, ended in 2011. It had a budget of $1,078,000 of which $79,060 was spent in its final year.

Five-year performance data[a]

For the year ended 31 December	2007	2008	2009	2010	**2011**
Operating					
Total hydrocarbons produced (thousand barrels of oil equivalent per day)[b]	779	881	1,023	1,036	**922**
Financial[c]					
OPEX (operating expenditure) – total spend, gross ($ million)	615	1,154	1,174	831	**1,206**
CAPEX (capital expenditure) – total spend, gross ($ million)	3,404	2,659	1,443	2,096	**2,636**
Safety[d]					
Fatalities – employees	0	0	0	0	**0**
Fatalities – contractors	0	0	1	0	**0**
Days away from work cases – workforce	5	3	0	1	**3**
Days away from work case frequency – workforce	0.05	0.03	0	0.01	**0.03**
Recordable injuries – workforce	38	44	21	15	**21**
Recordable injury frequency – workforce	0.35	0.40	0.23	0.17	**0.24**
Hours worked – employees (million hours)[e]	6.42	7.13	5.04	5.37	**5.80**
Hours worked – contractors (million hours)[f]	15.24	15.09	12.58	12.60	**11.74**
Environment					
Direct carbon dioxide (CO_2)[g], gross[h] (kilo tonnes)	1,980.1	3,667.7	3,827.1	3,656.8	**3,892.5**
Indirect carbon dioxide (CO_2),[i] gross (kilo tonnes)	0.3	0.5	0.4	0.5	**0.6**
Direct methane (CH_4), gross (kilo tonnes)	9.4	20.8	15.6	10.5	**13.5**
Direct greenhouse gas (GHG) emissions, gross (kilo tonnes CO_2 equivalent)	2,176.2	4,113.9	4,155.4	3,876.4	**4,177.0**
Flaring (exploration and production), gross (tonnes)	280,774	841,856	574, 922	423,265	**589,717**
Sulphur dioxide (SOx), gross (tonnes)	795	3,034	2,842	3,396	**2,967**
Nitrogen oxides (NOx), gross (tonnes)	3,786	7,243	8,412	8,908	**8,544**
Non-methane hydrocarbon, gross (tonnes)	3,014	4,965	2,816	2,398	**2,787**
Number of oil spills[j]	12	12	12	11	**5**
Volume of oil spilled (litres)	40,327	12,154	9,831	32,181	**2,677**
Volume of oil unrecovered (litres)	1,532	1,112	1,039	392	**0**
Discharges to water – drill cuttings with synthetic-based mud (tonnes)	6,811	808	890	3,308	**0**
Employees					
Number of permanent employees	2,199	2,201	2,328	2,470	**2,701**
Number of professional staff	1,949	1,994	2,237	2,378	**2,652**
National	1,462	1,632	1,889	2,067	**2,272**
National (%)	75%	82%	84%	87%	**86%**
Expatriate	487	362	348	311	**380**
Senior level Azerbaijani managers	69	102	117	131	**149**
Social spend					
Total for BP and co-venturers, ($ million)	7.4	6.4	3.4	4.8	**3.1[k]**

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

[b] Calculation is based on production of thousand barrels of oil equivalent (mboe) per day. It includes Azeri-Chirag-Deepwater Gunashli oil, Shah Deniz gas and condensate, associated gas delivered to State Oil Company of the Republic of Azerbaijan.

[c] BP AGT and its co-venturers.

[d] The safety performance data was previously reported for BP AGT.

[e] Hours worked by employees – are identified as hours worked by individuals who have a contract of employment with BP; this definition is consistent with BP's group definition.

[f] 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.

[g] Direct emissions are the physical emissions from operations.

[h] Gross numbers represents total of all partners participating interest in production sharing agreements (PSA). Net numbers represents BP's participating interest in PSA.

[i] Indirect emissions are a consequence of the import by operations of steam, electricity and heat from third-party sources.

[j] Oil spills are defined as any liquid hydrocarbon release of more than or equal to one barrel (159 litres, equivalent to 42 US gallons).

[k] This is the cash-out number.

Five-year EITI reported data[a]

	2007			2008			2009			2010			**2011**		
	1 January - 31 December			1 January - 31 December			1 January - 31 December			1 January - 31 December			**1 January - 31 December**		
	Value	Volume		Value	Volume		Value	Volume		Value	Volume		**Value**	**Volume[b]**	
	$ million	Oil mmboe	Gas (natural, associated) thousand ncm	$ million	Oil mmboe	Gas (natural, associated) thousand ncm	$ million	Oil mmboe	Gas (natural, associated) thousand ncm	$ million	Oil mmboe	Gas (natural, associated) thousand ncm	**$ million**	**Oil mmboe**	**Gas (natural, associated) thousand ncm**
1. Payments/allocations of foreign company to host government															
1a) Host Government's production entitlement in foreign company's Production Stream															
- in kind (SOFAZ)[c]		10.360			51.283			65.743			76.035			**66.366**	
- in cash[d]	0.615			33.448			20.561			68.403			**93.113**		
Profit tax	799.735			797.721			264.887			328.302			**613.970**		
Signing bonuses and other bonuses	12.750			0.845			0.000			0.000			**20.000**		
Other payments, including:															
a) transportation tariff (SOFAZ)	0.000			0.025			1.372			1.222			**1.246**		
b) acreage fee (SOFAZ)	0.450			0.900			0.000			0.000			**0.000**		
2. Payments/allocations of foreign company to host state-owned company															
Other payments, including:															
a) transportation tariff (SOCAR)[e]	0.277			n/a			n/a			n/a			**n/a**		
b) associated gas (SOFAZ)[f]			2,295,332.278			1,967,495.330			3,640,412.268			3,190,738.758			**3,114,485.482**

[a] The 2003- 06 data can be found on page 60 of *BP in Azerbaijan Sustainability Report 2007*. The figures do not include the payments made on behalf of Devon Energy Caspian Co.

[b] mmboe – million barrels of oil equivalent; ncm – normal cubic metres.

[c] These figures were erroneously put in the Value column in *BP in Azerbaijan Sustainability Report 2010*.

[d] In kind – State Oil Fund of the Republic of Azerbaijan; in cash – the payment for Shah Deniz gas.

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

[f] BP as the operator of Azerbaijan International Operating Company, reports the total gross number for associated gas delivered to SOCAR, within BP's template.

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. Ernst & Young's scope of work and their conclusions are provided below.

Independent assurance statement to BP management

The *BP in Azerbaijan Sustainability Report 2011* (the Report) has been prepared by the management of BP in 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 2011, 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 2011, including risk matrices and outputs from stakeholder engagement.
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 in 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 claims regarding BP in 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 sustainability performance.

Our independence

As auditors to BP p.l.c., Ernst & Young is required to comply with the requirements set out in the Auditing Practices Board's (APB) Ethical Standards for Auditors. Ernst & Young's independence policies 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. Our partners and staff are required to confirm their compliance with the firm's policies each year.

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 2011.

ERNST & YOUNG
Quality In Everything We Do

Ernst & Young LLP London
29 June 2012

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

Report process and feedback By publishing this report each year we aim to provide a full and transparent account of our performance and activities in Azerbaijan and to respond to feedback on previous reports

This is the ninth BP in Azerbaijan Sustainability Report. It describes our activities in the country during 2011 and reflects feedback we received about previous reports. BP group auditors Ernst & Young have provided external assurance. Their job has been to ensure that the report offers a balanced representation of our performance in Azerbaijan in 2011 and that figures and statements are correct and supported by documentation.

BP's approach to sustainability reporting
bp.com/sustainability

Summary of BP group's financial and operating performance
bp.com/summaryreview

Feedback

The 2010 Sustainability Report was produced in Azerbaijani and English and circulated widely both internally and externally, in hard copy and through our website. All our major stakeholders received a copy and feedback was requested. We also organized live feedback sessions involving about 200 individuals including media representatives, students and non-governmental organizations (NGOs). In general, their reactions were positive.

Students from the Academy of Public Administration, Baku State University, State Economic University, Khazar University, Qafqaz University and State Oil Academy participated in a joint feedback session. This was the first time students from the six major higher education institutions in Azerbaijan had assembled together to discuss the Sustainability Report. Recruitment-related issues and BP's internship programme most interested this group. The students also favoured the inclusion of more information in the report on employees' career development, on team building and social activities and on new technologies in use in the Caspian region.

Media feedback was mostly positive and the 2010 Sustainability Report was regarded as being as comprehensive and informative as the year before. Suggestions for the future mostly concentrated on the inclusion of greater technical detail in the 'Our operations' section of the report. Other ideas included further improvements to the Azerbaijani translation.

Civil society representatives regarded the report as very informative. They were pleased to note that many of their previous recommendations had been accepted by BP and were reflected in the 2010 publication. Their main suggestion related to environmental management and specifically to the inclusion of more information on environmental programmes in Caspian Sea. The feedback also revealed a desire for more information in future reports on those NGOs that have contracts with BP to implement projects related to sustainable development.

Our response

In response to the feedback we have included more information on our employees' social activities, more detail on employee learning opportunities and BP's team-building activities in Azerbaijan. In addition, we have tried to illustrate the figures with more diagrams and have included two case studies – one related to the turnarounds at BP's offshore facilities and the other about innovative technology deployed in the Caspian region – as suggested by our stakeholders.

We continue to report information about our spending in Azerbaijan, our recruitment practices, our safety and environmental performance and our payments to the Government of Azerbaijan in line with joint efforts to enhance revenue transparency.

For ethical and privacy reasons, and in accordance with BP group policy, we do not disclose payments to individual employees or contractors or market-sensitive information. An aggregated account of the BP group's revenues and expenditures worldwide can be read in the company's 2011 annual report.

Should you have any feedback to this report, please get in touch with us using the contact details printed on the last page.

Araz Yusubov
Transparency and public reporting team leader, BP AGT

How to…

… visit the Caspian Energy Centre

The Caspian Energy Centre (CEC) is located 55 km from the centre of Baku, at Sangachal oil and gas terminal, near the Salyan highway. Visits are free of charge and take place from Monday to Friday between 10.00 and 16.00 hours.

All visits to the CEC are pre-arranged. School and university student visits must be accompanied by parents or teachers. Adults (16 years old and up) need to provide their names and ID card numbers before a visit.

Phones: +994 (0)12 446 8181 / 446 8141
Email: *cec@bp.com*
cec.az

… get a contract

Go to the Enterprise E-centre – a web portal that carries information on our development projects and gives guidance on how our procurement system works.
ecbaku.com

… apply for a community programme grant

Learn more about grants for community programmes at our website *bp.com/caspian*

You may also contact us at *cdi@bp.com*

… apply for a job

Visit the Careers section of our website at *bp.com/caspian/careers*

There you can learn more about the technicians' recruitment programme, the graduate and intern recruitment programmes and any experienced professional vacancies at BP in Azerbaijan.

Please note: The graduate and intern recruitment campaign usually starts in October and is announced in the local media.

… raise a grievance/concern, request information

To express your grievance or concerns, or to request information, please contact our community liaison officers:

Garadagh, Absheron, Hajigabul, Agsu, Kurdamir
+994 (0)55 225 0251/225 0245
Ujar, Agdash, Yevlakh,Goranboy
+994 (0)55 225 0257/225 0254
Samukh, Shamkir, Tovuz, Agstafa
+994 (0)55 250 5831/225 0260

Public Information Centres' numbers:

Kurdamir +994 (0)145 505 45
Yevlakh +994 (0)166 658 84
Ganja +994 (0)22 573 890
bp.com/caspian/contactus

For all security-related grievances and concerns please call 114.

… raise a difficult issue

Use the OpenTalk 24-hour phone numbers:

Azerbaijan: +994 (0)12 497 9888
International Collect: +1 704 540 2242
Fax: +1 704 556 0732
Letter: BP OpenTalk, 13950 Ballantyne Corporate Place, PMB 3767, Charlotte, NC 28277, USA.
Online form: *opentalkweb.com*

Further queries about OpenTalk should be referred to BP in Azerbaijan.

Further information

Contact us
Araz Yusubov
Transparency and public reporting team leader

Tamam Bayatly
External communications manager

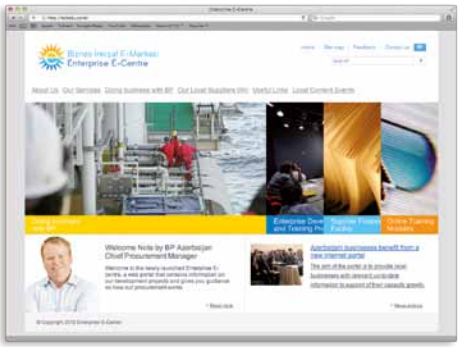
BP AGT region
Hyatt tower 3,
2 floor, Izmir street 1033,
Baku, Azerbaijan.

Online feedback may be sent through *bp.com/caspian/contactus*

To leave feedback or to ask questions, call the communications and external affairs department at +994 (0)12 497 9000

bp.com/caspian
This is the main information source about our Caspian region energy projects. It includes project details, news items, environmental and social impact assessments, legal agreements governing the projects, lenders' reports, civil society monitoring reports and BP's responses, earlier BP in Azerbaijan Sustainability Reports and other documents. The site is bi-lingual and is updated regularly.

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



ecbaku.com
This site provides up-to-date information about development projects and gives useful insights on how to work with BP and other international and local companies.

Acknowledgements
Design Maxmedia LLC
Printing Max Offset printing house
Photography Chingiz Samedzade, Mehmet Binay, Shahin Abasaliyev, Stewart Convey

Paper This report is printed on recycled paper. The paper has been certified independently according to the rules of the Forest Stewardship Council (FSC).

Afag Sultanova Judo 57kg • Jabrail Hasanov Free style wrestling 66kg • Ilham Zakiyev Judo 100kg+
Olokhan Musayev Shot put F54/55/56 • Oleg Panyutin Triple jump F12 • Farida Azizova Taekwondo 67 kg
Rovshan Bayramov Greco-Roman wrestling 55kg

Team Azerbaijan: fuelling their future

As BP celebrates the twentieth anniversary of its presence in Azerbaijan, we are proud to support Azerbaijan's National Olympic Committee and National Paralympic Committee for the London 2012 Games. We are also delighted to support seven Azerbaijani athletes, and BP will be sharing the excitement of the entire country as we watch their progress.

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