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

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

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

Throughout our work in Azerbaijan, our vision is to ensure that our investment brings positive environmental, economic, and social benefits to the country and region. Environmental, economic, and social considerations are all integrated into our business decision-making and action planning. Our aim is to deliver benefits which promote economic development in tandem with social and environmental improvement, while continuing to deliver excellent performance for shareholders. This is a major challenge, but is one that is now woven into the fabric of the way we do business.

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

David Woodward
Associate President BP Azerbaijan
1. Our business in Azerbaijan
### Legal structure
BP operates within a number of legal entities in Azerbaijan, reflecting the evolution of our involvement in the country and the region since 1992. The principal legal structure for our activities is BP Exploration (Caspian Sea) Ltd. Other legal entities exist which are linked to our exploration and pipeline projects. The Azerbaijan International Operating Company (AIOC) is one of these, set up as part of the 1994 ‘Production Sharing Agreement’ with the Azerbaijan Government. BP is the operator of AIOC.

### The Azerbaijan Business Unit (‘BU’)
The Azerbaijan BU operates in Azerbaijan under a number of Production Sharing Agreements and Host Government Agreements signed with the Government of Azerbaijan, and in Georgia and Turkey under Host Government Agreements that cover the export pipelines and terminals.

### Location of BU headquarters
Villa Petrolea, 2 Neftchilar Prospekti (Bayil), Baku, Azerbaijan.
Tel: (994 12) 4979000; Fax: (994 12) 4979602

### Employees
Total number of employees in the Business Unit (2003): 1,196 (for Azerbaijan)
Total number of Azerbaijani employees (2003): 967

### Development / Production assets
- **Azeri - Chirag - Deepwater Gunashli (ACG):** an oil field development which produced first oil in 1997, now undergoing full field development
- **Shah Deniz (SD):** a gas and condensate development project targeting the delivery of first gas to market by winter 2006

### Estimated reserves
- **ACG:** recoverable reserves of 5.4 billion barrels
- **SD:** recoverable reserves are 22.1tcf of gas and 750mmbbl of condensate

### Storage and transportation
- **Western Route Export Pipeline (WREP):** an 830km pipeline, and eight manned pump stations, running from Sangachal to Supsa in Georgia
- **Northern Route Export Pipeline (NREP):** 231km of pipeline in Azerbaijan, with pump, injection, and metering stations running from Sangachal to the Russian border
- **Supsa Terminal:** an oil storage and shipping terminal in Georgia, on the Black Sea
- **The Sangachal Terminal, south of Baku:**
- **Baku-Tbilisi-Ceyhan oil pipeline project (BTC):** under construction and for planned completion in 2005. 443km of the 1,762km pipeline is in Azerbaijan; 249km is in Georgia; and 1070km is in Turkey
- **South Caucasus Pipeline (SCP):** a gas pipeline under construction, parallel to BTC as far as Georgia and Turkey border, for planned completion in 2006

### Exploration activity
- **Inam:** focused on a large geological structure south of Shah Deniz
- **Araz - Alov - Sharq:** a frontier exploration area where we are working within an international exploration consortium
- **Rioni:** an exploration licence held in the Eastern Black Sea

### Capital expenditure
Estimated $21 billion on the three principal projects (ACG, BTC and Shah Deniz/SCP).

### Oil production
AIOC 1997 - 2003: 229.3 million barrels
BP Azerbaijan in perspective

History of our engagement in Azerbaijan

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

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
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<tbody>
<tr>
<td>September 1994</td>
<td>ACG Production Sharing Agreement signed between BP, partners and Azerbaijan Government - Azerbaijan’s first offshore ‘PSA’, referred to as ‘the Contract of the Century’</td>
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<tr>
<td>February 1995</td>
<td>Formation of AIOC - the Azerbaijan International Operating Company, comprising 10 parent companies, including BP as the largest single shareholder</td>
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<tr>
<td>October 1995</td>
<td>ACG ‘Early Oil Project’ sanctioned, an initiative to allow the ‘early’ export of oil from the Chirag field</td>
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<tr>
<td>June 1996</td>
<td>Shah Deniz PSA signed</td>
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<td>September 1997</td>
<td>Azerbaijan Working Group established to develop the Baku-Tbilisi-Ceyhan (BTC) export pipeline</td>
</tr>
<tr>
<td>November 1997</td>
<td>First Oil produced from the Chirag platform</td>
</tr>
<tr>
<td>July 1998</td>
<td>Signature of Inam and Araz-Alov-Sharg PSAs</td>
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<tr>
<td>December 1998</td>
<td>Western Route Export Pipeline starts operations</td>
</tr>
<tr>
<td>November 1999</td>
<td>At a summit in Istanbul, Azerbaijan, Georgia and Turkey signed the Inter-Governmental Agreement (IGA) in support of the Baku-Tbilisi-Ceyhan Main Export Pipeline</td>
</tr>
<tr>
<td>August 2001</td>
<td>ACG Phase 1 sanction</td>
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<tr>
<td>May 2002</td>
<td>Opening of the Enterprise Centre in Baku, to help local companies develop their businesses</td>
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<tr>
<td>September 2002</td>
<td>ACG Phase 2 sanction</td>
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<tr>
<td>September 2002</td>
<td>Presidents of Azerbaijan, Georgia, and Turkey participate in BTC ground-breaking ceremony</td>
</tr>
<tr>
<td>February 2003</td>
<td>Shah Deniz Stage 1 sanction</td>
</tr>
<tr>
<td>April 2003</td>
<td>Construction of BTC pipeline commences in Azerbaijan, Georgia and Turkey</td>
</tr>
<tr>
<td>May 2003</td>
<td>200 million barrels production from the ACG ‘Early Oil Project’</td>
</tr>
<tr>
<td>February 2004</td>
<td>Signature of financing deal for BTC - completing the agreements for third party financing of the pipeline project</td>
</tr>
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</table>
Overview

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

Progress

During 2003, we with our AIOC partners, spent $89m on ACG operational expenditure, and $2,129m on ACG capital expenditure, primarily on the construction of the Azeri project. In 2003, ACG production from Chirag totalled 478 million barrels (131,000 barrels per day).

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

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

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

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

Plans

We, with our AIOC partners are planning to spend a further $91m in operating expenditure and $2,364m capital expenditure in 2004 on ACG activities.

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

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

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

The BTC pipeline is being built to transport oil from the Caspian Sea starting at the Sangachal Terminal south of Baku, through Georgia, to a new marine terminal at Ceyhan on the Turkish Mediterranean coast. From there, tankers will ship the oil to international markets. The pipeline’s construction will enable the export of oil from the Caspian without having to transit the environmentally sensitive and already congested Turkish straits. Extensive environmental and social impact assessments (ESIAs) have been carried out along the entire length of the pipeline, including extensive study of and resulting changes to the pipeline route. The pipeline, which will be approximately 1,762 km in length, is being constructed to a tight schedule, with first oil due to be exported from the terminal at Ceyhan in the second half of 2005. The project’s estimated capital cost is $2.95 billion. Linefill and financing costs bring the total project cost to $3.6 billion.

Progress and plans

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

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

In the first 7 months of 2004 pipeline construction in Azerbaijan progressed in accordance with the construction schedule. Of the total 443km of the pipeline length in this country we have cleared about 427km of the ROW, have strung about 425km of line-pipe, and have welded over 420km of pipe. In addition, we have trenched about 300km of land, lowered 285km of pipe in the ground, backfilled 262km of land and reinstated about 175km. Work continues to progress at the Pump Station PS-A2 site near Yaldilli in the Yevlakh district, and at Intermediate Pigging Station IP-A1 near Kurdamar. We have also completed the construction of camps at Mungan and Kurdamar in the course of the year, and begun work on a further camp at Yevlakh, which was completed in early 2004, and two further sites at Poylu and Samukh, nearer the Georgian border.

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

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

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

BTC - facts and figures

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

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

In completing the financing arrangements, the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) expressed their faith in the projects, and acknowledged the extensive effort, which has been made to engage with stakeholders throughout the project’s life.

Links:
www.caspiandevelopmentandexport.com

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

Noreen Doyle
First Vice President of the European Bank for Reconstruction and Development at the ceremony to mark the financing of the BTC pipeline in Baku, February 2004.
Overview
The Shah Deniz gas field is located offshore in the Azerbaijani portion of the Caspian Sea, 100km south-east of Baku. It is one of the largest accumulations of offshore gas to be discovered in recent years: recoverable reserves of the Shah Deniz field are 22.1tcf of gas and 750mmbl of condensate, with potential for further hydrocarbons at deeper horizons. Gas will be delivered through the 690km long South Caucasus Pipeline (the SCP) from Sangachal in Azerbaijan through to the Georgian / Turkish border for delivery to Turkish gas markets. The SCP will be constructed in the same right of way as the BTC pipeline, and will also be buried underground.

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

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

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

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

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

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

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

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

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

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

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

All SCP engineering and procurement activities are continuing on schedule.

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

Plans
Remaining Shah Deniz & SCP 2004 milestones:
- Drilling equipment set arrives in Baku (from Norway) - 3Q
- Complete pre-drill programme - 3Q
- TPG500 platform strips arrive in Baku (from Singapore) - 3Q/4Q
- Commence TPG mating in Floating Dry Dock - 4Q.
- Commence SCP pipeline construction - 4Q.
Exploration

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

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

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

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

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