

**ACG CONTRACT AREA
FULL FIELD DEVELOPMENT
PHASE 1 PROJECT**

**ENVIRONMENTAL AND SOCIAL ACTION
PLAN**

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BP Exploration (Caspian Sea) Limited (“BP Exploration”) has been appointed to act on behalf of the parties to the PSA as operator for the Phase 1 Project and other stages of Full Field Development under the Joint Operating Agreement (the “JOA”) for the ACG Fields and acts in that capacity directly and through the provision of management services and personnel for Azerbaijan International Operating Company (“AIOC”). BP Exploration and AIOC, together with any substitute or additional entity appointed from time to time to undertake the responsibilities of the “Joint Operating Company” or “Operator” under the JOA or to perform any part of such function, are referred to in this ESAP as the “Operator”.

This ESAP refers in places to policies, plans and commitments of the Phase 1 Project, the Financing PSA Parties and BP Exploration (Caspian Sea) Limited as Operator for the Phase 1 Project that relate not only to the Phase 1 Project or a Permitted Transportation System, as defined in Section 8.1, but to the Single Development Programme (as defined in the PSA) as a

whole. For purposes of the CTA, such references are excluded to the extent they refer to activities other than those comprising the Phase 1 Project or a Permitted Transportation System.

All references to policies, plans, systems and programmes of the Phase 1 Project, BP Exploration (Caspian Sea) Limited, as Operator for the Phase 1 Project, or contractors for the Phase 1 Project refer to those in effect from time to time as required by the PSA, the JOA and all applicable laws, permits and authorizations. Therefore, if relevant policies, plans, systems or programmes change (subject to any restrictions on change in this ESAP), the updated policies, plans, systems or programmes will apply for purposes of this ESAP rather than those in effect as of the date of the ESAP. References to “Environmental and Social Impact Assessments”, “Environmental Impact Assessments”, “ESIAs” or “EIAs” are to environmental and social impact assessments relating to the Phase 1 Project or a Permitted Transportation System together with all related approvals from the relevant regulatory authorities, as such environmental and social impact assessments and related approvals may be amended, supplemented or replaced from time to time in accordance with any necessary authorization, approval, consent or review by the Ministry of Ecology and Natural Resources (“MENR”) in Azerbaijan or its successor, as applicable.

Except as otherwise expressly stated herein, this ESAP may be amended only as permitted under the CTA. The ESMS outlined herein is a working document, which by its nature, requires flexibility. Therefore, the ESMS may be modified using the management of change procedure outlined in Section 6.9.1.1. In the event that there is an inconsistency between the ESAP and the CTA, the CTA will prevail.

All information relating to reserve amounts or other physical characteristics of the ACG Contract Area are estimates only. In addition, measures, weights and amounts stated herein represent approximate figures. Actual measures, weights and amounts may vary depending on various factors including actual characteristics of available or appropriate equipment. Note, however, that environmental standards for pollutants referenced by this ESAP are not estimates.

A list of the abbreviations used in this ESAP is included for convenience of reference as Annex A.

The ESAP is being disclosed publicly by the Lending Agencies together with the ESIAs and a number of other environmental and social documents as part of a comprehensive public disclosure package. These documents are available in the World Bank InfoShop and on the internet at www.caspiandevlopmentandexport.com.

ursuant to the PSA, the PSA Parties are entitled to conduct Petroleum Operations within and with respect to the ACG Contract Area. The PSA defines Petroleum Operations as “all operations relating to the exploration, appraisal, development, extraction, production, stabilization, treatment (including processing of Natural Gas), stimulation, injection, gathering, storage, handling, lifting, transportation of Petroleum up to the Delivery Point . . . and marketing of Petroleum from, and abandonment operations with respect to, the Contract Area.” Among other things, the PSA states that the PSA Parties shall conduct Petroleum Operations (i) in a diligent, safe and efficient manner in accordance with generally accepted principles of the international petroleum industry; (ii) in accordance with Azerbaijani laws, to the extent applicable; and (iii) the order of priority of action should be the protection of life, environment and property. Environmental and technical standards for the conduct of Petroleum Operations are attached as an appendix to the PSA.

The Joint Operating Agreement (“JOA”) was executed in November 1994 and each of the PSA Parties is a party to it. The JOA defines the PSA Parties’ rights and obligations with respect to their operations under the PSA in the ACG Contract Area and provides that the PSA Parties shall establish a Joint Operating Company with responsibility for the management, coordination and implementation of Petroleum Operations on behalf of the PSA Parties. Pursuant to the JOA, the Joint Operating Company will conduct day to day Petroleum Operations on behalf of the PSA Parties. AIOC was initially formed to act as the Joint Operating Company, or Operator, and in 1999 the PSA Parties substituted BP Exploration to undertake the responsibilities of Operator with respect to Petroleum Operations. As noted above, BP Exploration acts as Operator directly

and through the provision of management services and personnel to AIOC to develop and operate the ACG Contract Area.

Each PSA Party currently expects to export crude oil production from the Phase 1 Project over one or more of the following routes: the existing Northern Route Export Pipeline (“NREP”), the existing Western Route Export Pipeline (“WREP”) and/or the Baku-Tbilisi-Ceyhan Oil Pipeline (“BTC”).

- WREP. The WREP, the development and operation of which are Petroleum Operations conducted by the PSA Parties pursuant to the PSA, was completed in 1999 and comprises a newly constructed/reconstructed pipeline running west from Azerbaijan to an export terminal at Supsa, Georgia on the Black Sea. The WREP currently has a nameplate capacity to transport up to 110,000 bpd and has had sustained throughput of approximately 125,000 bpd. As a result of planned de-bottlenecking activities, the WREP is expected to increase throughput capacity to 140,000 bpd.
- NREP. The NREP was completed in 1997 and comprises a newly constructed/reconstructed pipeline running north to Azerbaijan’s border with Russia, connecting into the Russian pipeline grid for delivery to Novorossisk, Russia on the Black Sea. The NREP includes a 312 km stretch of pipeline bypassing Chechnya, completed in April 2000. The NREP has a nameplate capacity to transport up to 105,000 bpd. The Operator operates the Azerbaijani portion of the NREP and the Russian pipeline company Transneft operates the Russian portion. Only the Azerbaijani portion of the NREP was developed and is operated as part of Petroleum Operations conducted by the PSA Parties pursuant to the PSA.
- Because the WREP and NREP constitute Petroleum Operations under the PSA and may be used to transport Phase 1 production, the Financing PSA Parties have agreed to provide the Lending Agencies with ongoing reporting on environmental and social matters relating to these routes, including with respect to the EIAs and mitigation plans and monitoring programmes for these routes, as provided in Section 8.3 of this ESAP.
- BTC. The BTC Pipeline, which will be owned and operated by persons other than the PSA Parties, is expected to cover a total distance of approximately 1,760 km from the Sangachal terminal through Georgia to a new terminal at Ceyhan on the Mediterranean coast of southern Turkey. The sponsors of the BTC Project have entered into a Participants Agreement, pursuant to which they have established a project company, the Baku-Tbilisi-Ceyhan Pipeline Company (“BTC Co.”), in order to develop, implement and carry out all activities related to the BTC Project. It is currently estimated that the BTC Pipeline will be physically complete in 2005.

The Azerbaijani, Georgian and Turkish governments have signed an Inter-Governmental Agreement (“IGA”) and the governments and BTC Co. have entered into individual Host Government Agreements (“HGAs”) relating to the BTC Project.

Article IV of the IGA requires that the environmental and safety standards for the construction, operation, repair, replacement, capacity expansion or extension and

maintenance of the project facilities comply with (i) international standards and best practices within the petroleum pipeline industry which shall “in no event be less stringent than those generally applied in the member states of the European Union” and (ii) the requirements set forth in the HGAs. The reference to EU standards provides a benchmark and floor for what will be considered “international standards and best practices” for purposes of the BTC Project. As a result, the IGA ensures that the BTC Project must meet or exceed EU standards.

The HGAs state, among other things, that BTC Co. shall comply with present and future Azerbaijani, Georgian and Turkish laws or regulations of general applicability with respect to public health, safety and protection and restoration of the environment to the extent that such laws and regulations are no more stringent than international petroleum industry practices in effect from time to time and do not conflict with the terms of the HGAs. The HGAs also obligate BTC Co. to comply with good international petroleum standards and practices generally observed by the international community with respect to comparable petroleum projects.

The Lending Agencies, together with a group of other lenders and political risk insurers, are separately providing financing to BTC Co. for the construction and development of the BTC Pipeline and BTC Co. will separately provide the Lending Agencies with ongoing reporting relating to environmental and social matters on the terms set out in its loan agreements with the Lending Agencies.

2.2 Mitigation of Potential Impact During Design

The environmental and social approach to the Phase 1 Project has been one of avoidance of adverse impacts and enhancement of potential benefits. Where it has not been possible to avoid adverse impacts, a sequential process of impact reduction, minimization and mitigation has been followed. This has been achieved through, among other things, an iterative engineering design programme, environmental risk assessment and extensive public consultation.

In keeping with this approach, the Phase 1 Project represents the result of a process of assessment of a number of alternative engineering and design options for the development of the ACG Fields, including a no development option. Screening criteria used during the various option evaluation processes included safety, technical feasibility, environmental implications, capital expenditure, schedule and ability to execute the project, operating expenditure, availability, operability, partner and government agreement and reputation.

The principal ESIA for the Phase 1 Project (the “Main ESIA”) contains a detailed discussion of the development and evaluation of engineering alternatives and construction planning, identification of environmental and social impacts and selection of mitigation and management measures. Numerous environmental and social studies were undertaken and considered throughout the selection process.

Additionally, in order to ensure consideration of the input of interested and potentially affected parties, BP Exploration (Caspian Sea) Limited, acting as Operator, and international and local ESIA consultants initiated a detailed stakeholder identification process targeting a wide range of stakeholders, defined as individuals or groups who may be affected by or have an interest in the

Phase 1 Project. These stakeholders were consulted at various stages of the Phase 1 Project's planning and development as part of the Public Consultation and Disclosure Programme as documented in the Public Consultation and Disclosure Plan ("PCDP") for the Phase 1 Project and their input, among other things, identified potential environmental and social impacts and influenced selection of mitigation and management measures. More detailed descriptions of the identification of stakeholders and the consultation process are included in Section 5 of the PCDP and Section 8 of the Main ESIA.

Mitigation of potential residual social impacts associated with the construction and operation of the Phase 1 Project will principally be achieved through the implementation of the social impact assessment in Section 5 of the Main ESIA, communication with the local population in accordance with the PCDP and implementation of the Resettlement Action Plan ("RAP"). Additional elements of the Phase 1 Project's environmental and social management system (for example, the management plans associated with employment and procurement) will also contribute to the mitigation of specific social issues.

2.3 Contact Information

The contact person for the Phase 1 Project on environmental and social affairs is the person listed below, or such other person or persons as the Financing PSA Parties may designate by written notice to the Lending Agencies from time to time.

Environment and Social Contact Person

Name:

Office Address:

Phone/Fax:

Mobile:

E-mail address:

[The appropriate contact person will be listed in the final ESAP]

3. SOURCE DOCUMENTS

The Phase 1 Project has produced a number of comprehensive environmental and social documents, including ESIA, Supplemental Lender Information Package (“SLIP”), a Resettlement Action Plan (“RAP”) and a Public Consultation and Disclosure Plan (“PCDP”) (together, the “Source Documents”), outlining commitments to eliminate or reduce key identified environmental and social impacts to acceptable levels.

3.1 Phase 1, WREP and NREP ESIA

The Phase 1 Project components have been the subject of the ESIA listed in Table 1 below. The ESIA set forth various environmental and social commitments relating to the Phase 1 Project. The ESIA process was undertaken in the context of the Operator’s environmental and social policies and the environmental and social policies of the PSA Parties in accordance with Appendix IX to the PSA. The Operator engaged URS Corporation (“URS”), an independent environmental and social consulting firm, to prepare the Main ESIA, which is listed below.

The Phase 1 ESIA have been publicly disclosed in Azerbaijan and internationally in electronic and hard copy formats. The documents have been issued in Azerbaijani, Russian and English and made available through a public internet site at www.caspiandevlopmentandexport.com. The Phase 1 ESIA was subject to a 60-day public disclosure period in Azerbaijan, during which the government and regulators had an opportunity to review and comment on it.

Approvals from the relevant regulatory authority, the MENR in Azerbaijan, have been received in relation to all of the ESIA listed in Table 1.

In addition to governmental and regulatory review, the ESIA has been reviewed by the Lending Agencies. In response to comments from this review, and to ensure the disclosure package meets relevant Lending Agency requirements, the Phase 1 Project has prepared a SLIP for Phase 1. The SLIP is being publicly disclosed by the Financing PSA Parties and Lending Agencies at the same time as the ESAP.

The Main ESIA and SLIP describe the existing environmental and social conditions at the project facilities, the design, construction and operation of the project facilities and the measures which will be taken to prevent, minimize and mitigate any potential adverse impacts of the Phase 1 Project on the ecology and population. In doing this, the Main ESIA and SLIP include various environmental, social and other commitments relating to the Phase 1 Project. As discussed more fully in the ESMS structure (see Sections 6 and 7), each of these commitments has been organized into a Commitments Register that tracks each commitment and indicates where responsibility for meeting each commitment lies. The Commitments Register is attached as Annex C.

Any material amendments or supplements to the Main ESIA will be publicly disclosed in Azerbaijan and internationally and any environmental and social commitments relating to material amendments, supplements or replacements relating to the Main ESIA will be integrated into the ESMS structure.

If the Main ESIA is amended, supplemented or replaced for any reason not described in Section 6.9.1.2, a copy of the draft document will be provided to the Lending Agencies for review, comment and approval at the same time it is supplied to the approving authority. If the Lending Agencies do not respond with comments within 15 days it will be assumed that they have no comments. The Lending Agencies will be provided with a copy of the approved document along with the approval letter from the MENR upon its effectiveness. Prior approval by the Lending Agencies is not required for the Phase 1 Project activities covered in the amended, supplemented or replaced ESIA to proceed, although the relevant approval by the MENR must be obtained.

The environmental and social programs of the Operator in effect from time to time relating to the Phase 1 Project will be structured, and Phase 1 Project development and operations will be conducted, to comply in all material respects with the ESIA's listed in Table 1.

Table 1 Phase 1 Project components that have been subjected to an ESIA

Project Documents	Coverage
<p>Azeri-Chirag-Gunashli Phase 1 Full Field Development Project Environmental and Social Impact Assessment (“Main ESIA”)</p> <p>This document was approved by MENR in February 2002.</p>	<ul style="list-style-type: none"> • Project alternatives • Project description • Policy, legal and administrative framework for the project in Azerbaijan • Methodology for environmental and socio-economic impact assessment • Baseline environmental and social data • Evaluation of environmental and social impacts and mitigation • Identification, management and monitoring of residual and cumulative environmental and social impacts
<p>ACG Phase 1 and Shah Deniz Stage 1 Development, Early Civil Engineering Work Programme ESIA</p> <p>This document was approved by MENR in November 2001.</p>	<ul style="list-style-type: none"> • Project alternatives • Project description • Policy, legal and administrative framework for the project in Azerbaijan • Methodology for environmental and socio-economic impact assessment • Baseline environmental and social data • Evaluation of environmental and social impacts and mitigation • Identification, management and monitoring of residual and cumulative environmental and social impacts

Project Documents	Coverage
<p>Azeri-Chirag-Gunashli Full Field Development Phase 1 Early Template Well Environmental and Social Impact Assessment</p> <p>This document was approved by MENR in February 2002.</p>	<ul style="list-style-type: none"> • Project alternatives • Project description • Policy, legal and administrative framework for the project in Azerbaijan • Methodology for environmental and socio-economic impact assessment • Baseline environmental and social data • Evaluation of environmental and social impacts and mitigation • Identification, management and monitoring of residual and cumulative environmental and social impacts

Various components of the WREP and NREP were the subject of the EIAs listed in Table 2, each of which has been publicly disclosed and approved by the relevant regulatory authorities, including the State Committee on Ecology in Azerbaijan and the Ministry of Environment in Georgia.

Table 2 WREP and NREP Project components that have been subjected to an EIA

Project Documents	Coverage.
<p>Environmental Impact Assessment – Western Route Export Pipeline</p> <p>This document was approved in 1997.</p>	<ul style="list-style-type: none"> • Project alternatives • Project description • Policy, legal and administrative framework for the project in Azerbaijan • Methodology for environmental and socio-economic impact assessment • Baseline environmental and social data • Evaluation of environmental and social impacts and mitigation • Identification, management and monitoring of residual and cumulative environmental and social impacts
<p>Environmental Impact Assessment – Northern Route Export Pipeline</p> <p>This document was approved in 1996.</p>	<ul style="list-style-type: none"> • Project alternatives • Project description • Policy, legal and administrative framework for the project in Azerbaijan • Methodology for environmental and socio-economic impact assessment • Baseline environmental and social data • Evaluation of environmental and social impacts and mitigation • Identification, management and monitoring of residual and cumulative environmental and social impacts

Each element of the ESMS and the environmental and social plans of (i) the Phase 1 Project, (ii) the Operator and (iii) the contractors, in effect from time to time, will be structured and Phase 1 Project development and operations will be conducted to comply in all material respects with the ESIA's (as amended, supplemented or replaced from time to time) and the commitments in the SLIP reflected in this ESAP.

3.1.1 Additional ESIA Studies and Surveys

A number of studies and surveys have been completed in connection with the preparation of the ESIA's, as described in the ESIA's and related documents. As project implementation continues, several additional studies and surveys will be conducted as part of the Operator's efforts to manage and mitigate environmental impacts. Table 3 sets forth the studies and surveys expected to be completed prior to the commencement of relevant construction activities or operations. These studies and surveys have been targeted to specific issues or impacts. Any commitments arising out of these studies and surveys will be recorded and tracked through the Commitments

Register and the Contractor Implementation Plans and Procedures. Copies of the completed studies will be provided to the Lending Agencies.

Table 3 Additional ESIA Studies and Surveys

Target Area	Commitment	Source	Responsibility	Document
Existing Services	Contractor to undertake a study prior to making use of public utilities, infrastructure and services, to determine impacts and develops a plan to minimise these impacts. Consult with service providers prior to the use of any utilities to ensure increase in loadings is not detrimental. Apply the “No Net Loss” approach and provide compensation if appropriate.	ESIA Chapter 15	Principal contractors	Nearshore Pipeline Installation Management CCP Onshore Pipeline Installation Management CCP
Finger pier - Sediment transport	A sediment transport survey will be conducted to better understand sediment transport in Sangachal Bay and the changes to the coastline caused by the construction of finger piers.	ESIA Chapter 14	Operator	Environmental and Social Monitoring Plan
Drainage Channel	A digital terrain model of the terminal area will be developed to model the flow of channel discharge waters using computer based geographical information system technologies.	ESIA Chapter 14	Operator	Landscape Management Plan
Land restoration	Examination of the existing landscape around the Sangachal Terminal and make recommendations for landscape architecture works that will mitigate visual and environmental impacts resulting from the terminals’ development.	ESIA Chapter 14	Operator	Landscape Management Plan
Community Relations	The CLO’s responsibilities will include: survey potential local sub-contractors and suppliers.	ESIA Chapter 15	Operator	Community Liaison Management Plan
Oil Spills on International Waters (sensitivity studies)	BP to undertake sensitivity studies of the coastline between Azerbaijan and Iran, in order to identify areas of vulnerability and assist in oil spill response planning.	SLIP document	Operator	Oil Spill Contingency Plan
Drilling impacts	Periodic benthic surveys will be conducted around the platform installations to assess and monitor the impacts associated with drilling cuttings discharge. The Operator will continue to evaluate alternative options to discharge especially if it is found that cuttings discharge is resulting in adverse effects beyond those predicted.	ESIA Chapter 14	Operator	Environmental and Social Monitoring Plan

Target Area	Commitment	Source	Responsibility	Document
Coastal birds at Sangachal	Monitoring will be done on the effects of construction and operations on coastal birds at Sangachal. Surveys will be conducted for overwintering populations (December/January) and nesting populations (late May/early June migration – March/April).	ESIA Chapter 14	Operator	Environmental and Social Monitoring Plan
Sediment transport	A sediment transport study will be conducted to provide an understanding of the existing sediment transport conditions against which a qualitative assessment of the effects of the finger pier(s) and installed pipelines will have on the sediment erosion/deposition regimes.	SLIP document	Operator	Environmental and Social Monitoring Plan
Sediment characterisation	A sediment characterisation study will be conducted in the nearshore zone to provide an understanding of the nature of sediments in the area.	SLIP document	Operator	Environmental and Social Monitoring Plan
Terrestrial birds at Sangachal	Monitoring will be done on the effects of construction and operations on terrestrial at Sangachal. Surveys will be conducted for overwintering populations (December/January) and nesting populations (late May/early June migration – March/April).	ESIA Chapter 14	Operator	Environmental and Social Monitoring Plan
Flora at Sangachal	The effects of construction and operations on the flora at Sangachal will be monitored. A survey will be performed in mid-March.	ESIA Chapter 14	Operator	Environmental and Social Monitoring Plan
Mammals and herpetofauna at Sangachal	Any effects from construction and operations on the mammals and herpetofauna at Sangachal will be monitored. Surveys will be conducted mid-March (daytime and night-time).	ESIA Chapter 14	Operator	Environmental and Social Monitoring Plan
Drainage Channel - effect to ecology (wetland study)	An ecological study will be initiated to provide detailed information on species distribution within identified wetland habitats of risk (either by being deprived of water or by receiving additional in-flow) and make predictions (based on simple ecological mass-balance equations) on likely effects.	ESIA Chapter 14	Operator	Environmental and Social Monitoring Plan
Watershed analysis	Further investigations will be made to determine the changes to water flows into and out of the wetland area.	ESIA Chapter 14	Operator	Environmental and Social Monitoring Plan
Drainage Channel - scouring	Surveys of the areas at the end of the drainage channels following substantial rain events will also be completed to map any scouring that may have occurred as a result of high flow episodes.	ESIA Chapter 14	Operator	Environmental and Social Monitoring Plan

3.2 ESIA for Other Phases of ACG Development

The PSA Parties are required to prepare environmental impact assessments for construction of new facilities. The ESIA for the next stage of development of the ACG Fields, the Phase 2 development (which is not being financed as part of the Phase 1 financing) has been publicly disclosed and, following a consultation process, was approved by the MENR on March 13, 2003.

The ESIA for any future phases of development of the ACG Fields not being financed as part of the Phase 1 financing, including the planned Phase 3 development, will be publicly disclosed as part of the public consultation process both in Azerbaijan in accordance with the PSA and Azerbaijan law and internationally (by posting on a public internet site or similar means) for at least 60 days before being finalized.

3.3 Resettlement Action Plan

The Phase 1 Project is principally an offshore development project, and has only limited impact on local populations resulting from construction of additional facilities at the Sangachel terminal. To assess and address project impacts, the Phase 1 Project has produced a Resettlement Action Plan (“RAP”) in accordance with World Bank Operational Directive 4.30 “Involuntary Resettlement” (“World Bank OD 4.30”), which has been translated and publicly disclosed in Azerbaijan. The RAP, which focuses on the resettlement of certain seasonal herders and a café/garage owner, carefully assesses the project’s impact on affected communities. The RAP is based on, among other things, studies conducted to identify people who will be directly affected by the land acquisition and to assess the impact of the project on their income and livelihood, public consultation, consultation with non-governmental organizations (“NGOs”), international and local law and World Bank OD 4.30. The RAP and the land acquisition process laid out therein aim to ensure that compensation for land meets international standards and is in accordance with national law. Commitments relating to land acquisition and compensation for implementing the commitments lie with the Operator. Phase 1 land acquisition and resettlement activities will be conducted in accordance with the RAP in all material respects.

3.4 Public Consultation and Disclosure Plan

The Operator has created a Public Consultation and Disclosure Plan (“PCDP”) for Phase 1, which presents details with respect to public consultation and disclosure conducted during the ESIA process and procedures for future consultation over the life of the project. Specifically, the PCDP covers:

- Provision of information about the project and its potential impacts to project affected communities and other stakeholders;
- Provision of opportunities to project affected communities and other stakeholders to voice their opinions and concerns; and
- Provision of opportunities for project feedback and discussion with those communities concerning measures proposed.

The Operator’s public consultation activities will be conducted in accordance with the PCDP in all material respects.

4. PHASE 1 OFFSET and ADDITIONALITY PLANS

4.1 Environmental Offset Programme

Mitigation measures developed for the Phase 1 Project include two environmental offset programmes:

- Spur-thighed Tortoise, *Testudo graeca*, protection and augmentation; and
- Semi-desert Pilot Area Conservation Management.

The project also contributes to conservation and biodiversity actions that fall under the umbrella of regional planning and as such the implementation and management of these offset programmes is the responsibility of the BP Azerbaijan Business Unit. The total budget for environmental offsets is approximately \$ 250,000.

The Operator is currently implementing the Spur-thighed Tortoise protection and augmentation programme to mitigate for loss of habitat and possible direct mortality resulting from construction of the Sangachal Terminal. The Spur-thighed Tortoise is listed by IUCN and included in the red data book of Azerbaijan. While the population is relatively high within Azerbaijan, the Spur-thighed Tortoise is very susceptible to persecution (e.g., hunting, abuse) and other anthropogenic impacts.

This Spur-thighed Tortoise protection programme includes rescue and relocation of the tortoise to a breeding enclosure with the objective of breeding and subsequently releasing tortoises to the wild, thereby adding to currently viable populations in Azerbaijan. In addition to reintroduction of the species, the programme is designed to introduce conservation in practice to the region. Azerbaijan education institutions are closely involved with the development of this programme.

The Operator has also planned to offset the loss of semi-desert habitat resulting from the expansion of the Sangachal Terminal. This program is expected to commence in Q3 of 2003 and could last for duration of over two years. Semi-desert habitats are relatively common within Azerbaijan but many areas are degraded due to anthropogenic influences such as over-grazing, military activities and agricultural conversion. Sympathetic management of degraded areas, particularly within the framework of protected areas, will provide a potential pilot project for application elsewhere. This semi-desert habitat offset programme has been planned to maximize benefits to biodiversity in Azerbaijan and to utilize Azerbaijan local scientific expertise and involve local NGOs in its development. The programme will integrate with BP's biodiversity strategy for the Caspian region.

4.2 Environmental Additionality Programme

The Phase 1 Project is planning to develop a focused environmental additionality programme. The aim of this activity will be to orient the programme towards marine-based activities as after completion of the construction and fabrication programme the Phase 1 Project as a whole is predominantly focused on offshore operations. The programme will be developed in terms of its scope by competent marine scientific resources with overall objectives of capacity building and

working with national delivery teams. The project will also investigate the possible development of partnerships with other similar marine-based environmental programmes. In terms of schedule the aim will be to determine the scope of the programme during the third quarter of 2003 with a view to executing the work during the fourth quarter and onwards into 2004. The total budget for environmental additionality is approximately \$200,000.

4.3 Community Investment

The Operator is committed to providing benefits to Azerbaijan and the project community above and beyond the mitigation measures outlined in the source documents. The Phase 1 Project will have a wide range of economic and social benefits for Azerbaijan as a whole. These benefits include revenue creation, local access to employment, employment training and education programmes and opportunities for local procurement and Small and Medium-sized Enterprises development. To underline the commitment to the communities and the population in the areas near the Phase 1 Project, the Operator has developed a Community Investment Plan (“CIP”). The budgeted amount for community investment is approximately \$4.5 million.

The CIP aims to support human development projects that are sustainable and bring long-term benefits to the affected areas. The CIP’s goal is to create sustainable development for local populations in order to generate employment opportunities and a steadily improving quality of life, both during the period when the oil and gas development activities are more active and also in the longer term. The CIP was established with the aim to:

- Reinforce Operator business policy objectives;
- Enable a constructive relationship between the Operator and the community;
- Address any negative impacts of resource use and construction; and
- Target resources and skills where they can make a positive social and community contribution and be mutually beneficial.

The procedures for selecting and developing community investment projects are included in the CIP.

Community investment under this plan commenced in 2002 and will run through March 2007. The CIP will work across all the project affected communities, but will specifically target construction works in the Garadag Region in Azerbaijan, focusing mainly on the communities of Sangachal, Umid, Sahil, Lokbatan, Alyat, Gobustan and Umbaki, as they surround the main Phase 1 construction and operation activities. As projects are implemented and proven to be sustainable, effective, and efficient, the CIP may be extended to outlying communities.

The Operator’s community investment activities will be conducted in accordance with the CIP in all material respects.

References:

LEVEL 2 – PROJECT
Azerbaijan Business Unit Environmental Offset Programmes
ACG Phase 1 Community Investment Plan

5. ENVIRONMENTAL AND SOCIAL MANAGEMENT PHILOSOPHY

5.1 Overview

The goal of the Phase 1 Project ESMS is to describe measures and actions that have been or will be implemented by the Operator (or its agents) and, where appropriate, contractors during construction and operation of the project. As discussed in Section 3.1, the Operator has completed a number of comprehensive environmental and social studies and produced Source Documents outlining commitments to eliminate or reduce key identified environmental and social impacts to acceptable levels. The commitments outlined in the Source Documents have been distilled into a Commitments Register that lists each commitment and its source, assigns responsibility for fulfilling the commitment, tracks the commitment's status and creates a commitment "implementation trail" showing where the commitment fits into the ESMS and project management. The Commitments Register is attached hereto as Annex C. The Phase 1 commitments will be implemented by the Operator and, where appropriate, by contractors. Under the PSA, it is the responsibility of the PSA Parties to ensure that all environmental and social commitments undertaken on behalf of the Phase 1 Project, including any such commitments that may be delegated to the Operator or contractors, are in compliance with the terms and requirements of all documents, agreements, laws, permits and authorizations applicable to the project.

Successful implementation of the ESMS will require that the individual actions presented in the ESMS, are appropriately undertaken by the responsible project participant. The ESMS provides mechanisms for the Financing PSA Parties and the Operator to ensure that commitments are being implemented.

The information and statements contained in the ESMS structure, Construction ESMS and Operations ESMS are considered to be accurate and applicable to Phase 1 in its current form. However, as the project progresses through construction and on to commissioning and operations, changes in the scope of the ESMS are likely to occur. Accordingly, it may be necessary to modify or delete some of the environmental and social management measures and actions contained in the ESMS to properly reflect project changes. Similarly, it may be necessary to add new ESMS measures and actions to appropriately address new or unforeseen project situations. In either case, all modifications or augmentations of the project's environmental and social management strategies, measures and actions will be accomplished through the detailed change processes and mechanisms discussed in Section 6.9.1.1. Moreover, the Construction ESMS or Operations ESMS will not be amended, supplemented or replaced ("Modified") in a manner that is inconsistent with Applicable IFC Environmental and Social Policies and Guidelines in any material respect.

5.2 Legal, Regulatory and Policy Requirements

The environmental and social performance of the Phase 1 Project is governed by the requirements of the following (in order of precedence):

- The Constitution of the Republic of Azerbaijan;
- The PSA;

- The requirements of the PSA, including the requirement to comply with generally accepted international petroleum industry standards;
- National legislation and international conventions in force in Azerbaijan to the extent they do not conflict with the standards listed above; and
- BP Corporate Policies.

One of the primary functions of the ESMS is to ensure that the Phase 1 Project is developed, constructed and operated in a manner that complies with the legal and regulatory requirements described in more detail below in all material respects.

As discussed in Section 2.1, SOCAR and the international oil companies participating in the Phase 1 Project entered into a PSA in September 1994. The PSA records the Azerbaijani government's support for the Phase 1 Project and sets forth the legal framework under which the Phase 1 Project will be developed, constructed and operated.

The environmental standards and practices governing all Petroleum Operations are set out in Article XXVI and Appendix IX of the PSA. The Financing PSA Parties are committed to meeting those standards and practices, or ensuring that those standards and practices are met, in the conduct of Petroleum Operations. Article XXVI of the PSA contains the following obligations with respect to the conduct of operations, emergencies and compliance with laws. References to "SOCAR" are to the State Oil Company of the Azerbaijan Republic:

- Conduct of Operations. The [PSA Parties] shall conduct the Petroleum Operations in a diligent, safe and efficient manner in accordance with generally accepted international petroleum industry standards and shall take all reasonable actions in accordance with said standards to minimize any potential disturbance to the general environment, including without limitation the surface, subsurface, sea, air, lakes, rivers, animal life, plant life, crops, other natural resources and property. The order of priority for actions shall be the protection of life, environment and property.
- Emergencies: In the event of emergency and accidents, including but not limited to explosions, blow-outs, leaks and other incidents which damage or might damage the environment, the [PSA Parties] shall promptly notify SOCAR of such circumstances and of its first steps to remedy the situation and the results of said efforts. The [PSA Parties] shall use all reasonable endeavours to take immediate steps to bring the emergency situation under control and protect against loss of life and loss of or damage to property and prevent harm to natural resources and to the general environment. The [PSA Parties] shall also report to SOCAR and appropriate Government authorities on the measures taken.
- Compliance: The [PSA Parties] shall comply with present and future Azerbaijani laws or regulations of general applicability with respect to public health, safety and protection and restoration of the environment, to the extent that such laws and regulations are no more stringent than the then current international petroleum industry standards and practices being at the date of execution of this Contract those shown in Appendix IX, with which the [PSA Parties] shall comply. If Appendix IX specifies more than one

standard with respect to a matter, the [PSA Parties] will use the standard most appropriate relative to the ecosystem of the Caspian Sea. In the event any regional or multi-governmental authority having jurisdiction enacts or promulgates environmental standards relating to the Contract Area, SOCAR and the [PSA Parties] will discuss the possible impact thereof on the project. The provisions of Article 23.2 shall apply to any compliance or attempted compliance by the [PSA Parties] with any such standards that adversely affect the rights or interests of the [PSA Parties] hereunder.

The PSA also includes provisions relating to baseline studies, preparation of an environmental impact assessment, environmental liability and other matters.

In 1999, the Contractor Management Committee (“CMC”) formed by the PSA Parties under the JOA approved a set of environmental standards for the design of the Phase 1 Project (the “Phase 1 Design Standards”). These standards build upon the standards set out in the PSA, taking into consideration international standards at the time of approval and local environmental conditions. The Phase 1 Design Standards serve as the standards for Phase 1 engineering and design. Therefore, while the PSA is the legal basis for conducting operations, the CMC-approved standards seek to supplement, enhance and further define those standards set forth in the PSA. These Phase 1 standards were approved by the MENR as part of the Main ESIA.

The environmental standards relevant to the Phase 1 Project are discussed in more detail in Appendixes 1 and 2 of the Main ESIA.

5.3 Lending Agency Policies and Guidelines and Good Practice

IFC and EBRD have informed the Financing PSA Parties that they will apply relevant IFC environmental and social policies and guidelines for purposes of project assessment and require ongoing compliance with those policies and guidelines. The Financing PSA Parties have agreed that they will vote their JOA shares in order to comply in all material respects with the IFC policies and guidelines that will be attached as an appendix to the CTA, and that, subject to the cure periods and other terms set out in the CTA, it will be an Event of Default for purposes of the relevant section of the CTA if the Operator fails in the development or operation of the Phase 1 Project to comply in any material respect with such IFC policies and guidelines. These policies and guidelines, in the form attached to the CTA and as interpreted by IFC as at the date of the CTA, are referred to as the “Applicable IFC Policies and Guidelines”, and are listed below:

- World Bank Operational Policy Note 11.03 “Management of Cultural Property” (September 1986)
- World Bank Operational Directive 4.30 “Involuntary Resettlement” (June 1990)
- World Bank Group Guidelines for Oil and Gas Development (Onshore) (July 1998)
- World Bank Guidelines: Thermal Power (July 1998)
- World Bank General Environmental Guidelines (July 1998)
- IFC Guidelines for Oil and Gas Development (Offshore) (December 2000)
- IFC Operational Policy 4.04 “Natural Habitats” (November 1998) (“IFC OP 4.04”)
- IFC Policy Statement on Forced Labor and Harmful Child Labor (March 1998)
- IFC Hazardous Materials Management Guidelines (December 2001)
- IFC General Health and Safety Guidelines (July 1998)

- IFC Waste Management Facilities Guidelines (July 1998)

If any of these policies or guidelines change between the date of the mandate letter for the Phase 1 financing and the date of the CTA, or new policies or guidelines are adopted, the policies and guidelines in effect at the date of the mandate letter between IFC and EBRD and the Financing PSA Parties, dated December 2001, shall apply.

In addition, the sections of IFC Operational Policy 4.01 “Environmental Assessment” (“OP 4.01”) relating to the contents of an ESAP or ESIA will constitute “Applicable IFC Policies and Guidelines” for purposes of preparation of the Operations ESAP as contemplated in Section 7 and any amendment, supplement or replacement to an ESIA.

The Operator has and will continue to take into account a number of good practice guides and manuals prepared by the Lending Agencies, including the following:

- IFC Doing Better Business Through Effective Public Consultation and Disclosure: A Good Practice Manual
- IFC Handbook for Preparing a Resettlement Action Plan
- IFC Investing in People: A Community Development Resource Guide for Company
- IFC Hazardous Materials Transportation Plan, Good Practice Manual
- Good Practice Guide for Management of HIV/AIDs in the Workplace

The Lending Agencies have also informed the Financing PSA Parties that they have applied a number of policies in the course of their review and appraisal of the Phase 1 Project, including policies relevant to the preparation of this ESAP, including the following:

- Policy on Disclosure of Information (IFC; September 1998)
- IFC Operational Policy 4.01 “Environmental Assessment” (“OP 4.01”), including Guidance Note C: Outline of an Environmental Action Plan
- IFC Operational Policy 7.50 “International Waterways” (November 1998)
- IFC Operational Policy 7.60 “Projects in Disputed Areas” (June 2001)
- EBRD Environmental Procedures (1996)

Except as described above, these policies do not constitute “Applicable IFC Policies and

- the policies are reflected in this ESAP or another finance document relating to the Phase 1 Project,
- the policies’ requirements have been met prior to the date of the CTA, or
- the policies are relevant to project appraisal and review and do not constitute a source of ongoing requirements.

5.4 JOA Voting Obligations

Under the CTA, each Financing PSA Party will agree that, among other things, it will exercise its voting rights under the JOA relating to the ACG Contract Area in favour of directing each

Operator to (and to the extent, if any, that it or any of its subsidiaries carry out Petroleum Operations directly, it shall and shall procure that its subsidiaries shall):

- Comply in all material respects with applicable Environmental Laws and all other laws applicable to it, the Phase 1 Project and such Financing PSA Party's Active Transportation Systems;
- Conduct the Petroleum Operations in accordance with prudent international oil industry practices;
- (A) conduct Petroleum operations relating to the Phase 1 Project and subsequent phases of ACG development in all material respects in accordance with the Applicable IFC Policies and Guidelines, and (B) conduct Petroleum Operations relating to existing ACG Facilities, including any Modifications to the Existing ACG Facilities, in all material respects in accordance with the Applicable Early Oil Policies and Guidelines, provided, in each case, that (x) conduct of Petroleum Operations in all material respects in accordance with the respective policies and guidelines shall not be deemed to subject subsequent phases of development (or Existing ACG Facilities, following repayment of the Early Oil Loans) to appraisal, comment or consultation procedures with the Lending Agencies, and, accordingly, plans, reports and other documents contemplated by such policies and guidelines shall not be required to be submitted for prior review or approval by the Lending Agencies; and (y) the community and public consultation requirements of such policies and guidelines (and consultation-related documentation requirements) shall, in the case of such subsequent non-financed phases (or Existing ACG Facilities, following repayment of the Early Oil Loan), be applied by the Operator on a basis resulting in an overall level of community and public consultation by the Operator with respect to each such phase that is substantially the same as the overall level of community and public consultations conducted by the Operator in connection with the Phase 1 Project.
- otherwise comply in all material respects with this ESAP;
- obtain and maintain all material authorisations of any Project Country or any Governmental Agency thereof which are necessary to be obtained by it to carry out the Phase 1 Project or for the Operator to operate (for the WREP or NREP), or such Financing PSA Party to ship Phase 1 production on, such Financing PSA Party's Active Transportation Systems and to comply in all material respects with the terms of those authorizations; and
- maintain in full force and effect any Insurances taken out by that Operator that are required to be maintained under the JOA.

As noted above, the section of the JOA voting covenant relating to Lending Agency policies and guidelines covers both the Phase 1 Project and also Existing ACG Facilities and future phases of ACG development not being financed by the Lending Agencies as part of the Phase 1 financing. The Financing PSA Parties have agreed to make covenants relating to these non-financed stages

ESAP. The Early Oil facilities, together with any other facilities constructed or under construction (other than the Phase 1 Project) at the date of the CTA are referred to as the “Existing ACG Facilities” in the CTA and in this ESAP.

The Operator is not a party to the CTA and has no direct commitments to the Lending Agencies under this ESAP. However, the Financing PSA Parties have each agreed to vote their respective JOA interests in favour of directing the Operator to comply in all material respects with this ESAP, as described above and, subject to applicable core periods, it will be an Event of Default under the CTA if the Phase 1 Project is not developed and operated in accordance with this ESAP in all material respects. Applicable Early Oil Policies and Guidelines will apply to Existing ACG Facilities because the Existing ACG Facilities were designed and built in accordance with the World Bank Group environmental and social policies and guidelines that were in effect at the time of the Early Oil financing, and which remain in effect for the Early Oil Project under the terms of that financing as of the date of the CTA.

5.5 Applicable World Bank Group Policies and Guidelines for NREP and WREP

Because the NREP and WREP are Existing ACG Facilities, the Applicable Early Oil Policies and Guidelines apply to them and shall constitute the “Applicable World Bank Group Policies and Guidelines” for the NREP and WREP for purposes of this ESAP and the CTA.

5.6 Environmental and Social Principles and Policy

BP’s policies on Health, Safety and Environment (“HSE”) are also applicable to the project. BP’s commitment to HSE management and performance is outlined within their corporate HSE management structure and contained within the BP corporate document “What We Stand For These principles are translated into BP Business Unit and project specific requirements through the (global) BP Business Unit HSE Commitments Statement “Getting HSE Right”.

BP corporate policy broadly covers five key themes:

- ethical conduct,
- employees,
- relationships,

- HSE, and
- control and finance.

These policies are outlined in more detail in Section 1.6.4 of the Regional Review and Section 1.5 of the Main ESIA. Both of these documents are available on the project website and will form part of the Lending Agencies’ public disclosure package.

BP’s HSE principles apply equally to all BP activities worldwide and are the foundation on which its business is built and carried out. BP is committed to good stewardship of the environment and its HSE policy embodies this commitment.

The Operator will pursue environmental and social goals through adherence to a common set of policies, commitments and expectations, which identify policy and regulatory requirements and provide the tools to assist in compliance and performance improvement throughout the businesses. These will be locally owned and administered by all Business Units. Local management systems will be arranged so they accommodate group HSE performance targets, Environmental Management System certification requirements, biodiversity and sustainable development.

BP also has a Business Unit HSE Policy for the Caspian Region, which applies to activities within Azerbaijan. The Operator has adopted this policy for the Phase 1 Project.

References:

LEVEL 1 – AIOC/BP
BP Corporate Policy “What We Stand For”
BP HSE Policy “Getting HSE Right”
LEVEL 2 – PROJECT
Azerbaijan Business Unit HSE Policy
LEVEL 3 – DELIVERY UNIT
ACG Phase 1 HSE Plan

5.7 Construction ESMS and Operations ESMS

The ESMS structure has been developed to account for both the construction and operations phases of the project. However, there are a number of differences between the construction phase and the operations phase, in particular, changes related to the Operator’s management and organizational structure.

The Construction ESMS concentrates on the ESMS components that are in place to manage the construction phase. The primary functions of the Construction ESMS are to ensure that (i) the project is constructed in accordance with relevant legal and regulatory standards and (ii) the commitments made in the Source Documents relating to construction are implemented either by the Operator directly or by the contractors in all material respects. The Construction ESMS is outlined in detail in Section 6.

Similarly, the Operations ESMS will ensure that (i) the project is operated in accordance with relevant legal and regulatory standards and (ii) the commitments made in the Source Documents relating to operations are implemented in all material respects. The Operations ESMS will cover the commercial life of the project and, in addition to meeting ESIA commitments. The Operations ESMS is outlined in Section 7. The Operations ESMS, which will be implemented prior to commencement of operations, will cover the commercial life of the project and, in addition to meeting ESIA commitments, will be certified under International Standard Organisation (“ISO”) 14001, which includes continuous environmental improvement, prior to production of first oil from the Phase 1 production platform.

Both the Construction ESMS and the Operations ESMS will be designed and implemented in a manner that is materially compliant with this Section 5.

6. CONSTRUCTION ESMS

In order for the Operator to effectively manage the environmental and social aspects of the Phase 1 Project, all parties with environmental and social responsibilities must understand those responsibilities and be committed to implementing actions and measures to fulfil their responsibilities.

This section will focus on the environmental and social responsibilities related to implementation and monitoring of the construction phase commitments outlined in the Commitments Register. Specifically, this section will:

- Set out the Operator's environmental and social objectives;
- Outline the organisation of the Construction ESMS and explain environmental and social responsibilities;
- Discuss environmental and social training and awareness;
- Describe how the Operator will translate commitments from the Source Documents into Contractor Control Plans;
- Describe the relationship between the Operator and the contractors;
- Discuss how the contractors will implement and monitor environmental and social commitments;
- Describe how the Operator will comply with its own environmental and social commitments;
- Explain how the Operator will monitor and audit the project's environmental and social performance;
- Outline the project's control plans and procedures (including management of change, stop work and emergency response);
- Outline how the Financing PSA Parties and the Operator will communicate internally and with external stakeholders;
- Set out communication, reporting and document control measures of the Construction ESMS.

The development and implementation of the ESMS is focused on complying with the environmental and social commitments and objectives identified in both the SLIP and the Main ESIA. This ESMS is part of the overall management framework for the Phase 1 Project and it has been developed in consideration of recognised management system standards in order to

provide a sound context for mitigation and monitoring of environmental and social management matters within the construction phase.

6.1 Key Features of the Phase 1 ESMS

The ESMS has been designed with the following key features in mind:

- (1) The management system integrates environmental and social management into the project.
- (2) The management system is multilevel and takes cognisance of the way the project is organised and structured.
- (3) The management system is dynamic and can accommodate change and improvements.
- (4) The environmental and social management components of the management system take advantage of elements which are common to project management and integrate with Health and Safety, Project Compliance, Security, Government and Public Affairs where appropriate.
- (5) The management system facilitates alignment between the construction and operations phases for the project.
- (6) The management system enables transparent translation of the ESIA commitments to action.
- (7) The management system is consistent with the requirements of ISO 14001.
- (8) The management system is underpinned by a series of delivery mechanisms, e.g., Contractor Control Plans and Contractor Implementation Plans and Procedures.
- (9) The management system is all inclusive – e.g., all environmental and social management issues are managed through this system; nothing is outside the system.

6.2 Multilevel Management System

The overall Phase 1 ESMS is multilevel and the structure is as follows:

Level 1 – AIOC/BP (i.e., Operator wide)

Level 2 – Project (i.e., BP Azeri Project Performance Unit)

Level 3 – Delivery Unit (i.e., Offshore facilities 1 and 2, Terminal and Pipelines)

Level 4 – Contractor

This structure is illustrated in Table 4. Level 3 of this ESMS is primarily related to construction.

Table 4 Multilevel structure of Phase 1 Construction Stage

Level	Level Description	ESMS Description
1 – AIOC/BP (Operator)	BP Corporate BP Azerbaijan Business Unit AIOC	Key BP/AIOC policy and regulation elements which govern the project
2 – Project	Azeri Project Performance Unit (Performance Unit) (includes Phase 1)	Environmental and Social processes and procedures that apply across the project <ul style="list-style-type: none"> – Project ESMS Manual with specific Management System Elements – Contractor Control Plans – Phase 1 Environmental and Social Management Plans
3 - Delivery Unit	Construction Site Management and Assurance	Area HSE plans to comply with ESMS procedures Delivery Unit assurance system to include <ul style="list-style-type: none"> – Contractor Control Plans (as above)
4 - Contractor	Construction Management System	Contractor Specific Management System Elements including <ul style="list-style-type: none"> – Contractor Implementation Plans and Procedures – Procedures

It should be noted that there may be some overlap between various levels of the ESMS system.

Under the PSA, the PSA Parties are ultimately responsible for the management of the environmental and social commitments made in the Source Documents and ensuring that (i) these commitments are implemented, and (ii) the project’s environmental and social performance complies with applicable legal, regulatory and policy standards in all material respects. The PSA Parties have delegated responsibility for implementation of commitments related to the environmental and social impacts resulting from construction activities to the Operator, who in turn has delegated some responsibility to the contractors. The PSA Parties have not, however, delegated their role in assuring these commitments are met.

Although certain environmental and social activities are delegated to the contractor, a number of activities are independent of the contractors and comprise direct responsibilities of the Operator. These activities include the management of protected areas and species and environmental and social investment. The Operator is also responsible for implementing the land acquisition processes committed to in the RAP.

6.2.1 Structure and responsibility

The Phase 1 Project is an integral part of the BP Azeri Project Performance Unit, one of the Performance Units within the BP Azerbaijan Business Unit. The organisation charts for the Business Unit and the Azeri Project Performance Unit are shown in Figures 1 and 2.

Figure 1 BP Azerbaijan Business Unit Organisational Structure

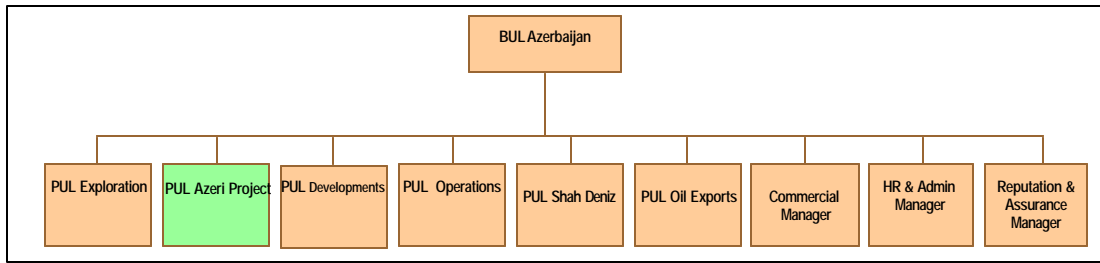
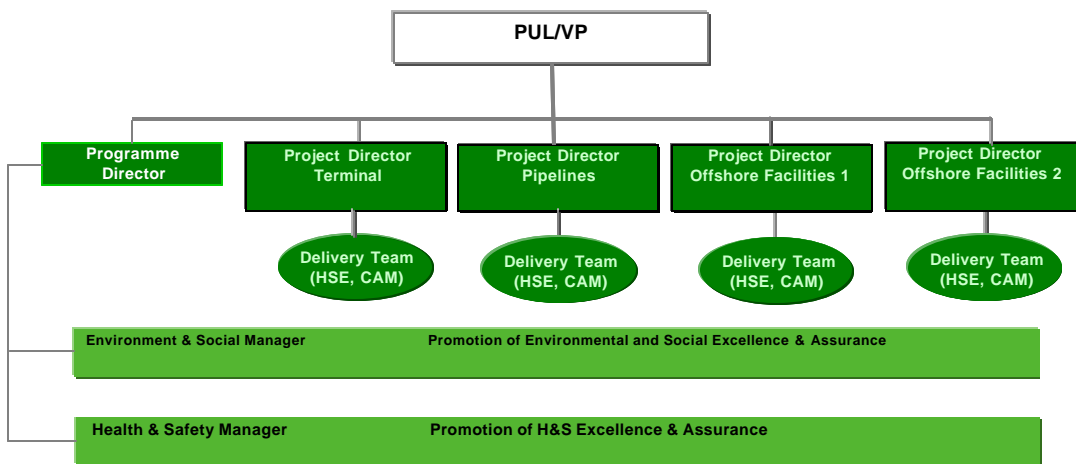


Figure 2 Azeri Project Performance Unit Organisational Chart



The organizational structure may change to improve the project’s environmental and social management should the need arise.

Community Liaison responsibilities will be allocated in each Delivery Unit.

Consideration of environmental and social matters forms part of the key responsibilities of all personnel who work in and for the Phase 1 Project including, but not limited to, employees of the Operator and contractors. The roles and responsibilities for each project position are defined by the job description for that position and where appropriate, include specific environmental and social responsibilities, depending on the area of expertise, project tasks and area of activity. It is the responsibility of all managers to ensure that work under their control is carried out in a safe, environmentally sound and socially responsible manner and that staff have the necessary training, competence and tools to conduct their work in accordance with environmental and social considerations. The accountabilities and environmental and social responsibilities of the key personnel for the project are summarised below in Table 5.

Table 5 Key Personnel Responsibilities

Role	Responsibility
Azeri Project Performance Unit Leader/Vice President AIOC	Responsible for overall environmental and social issues in Azeri Project Performance Unit.
Azeri Project Environmental and Social Assurance Manager	Responsible for providing overall environmental and social assurance to the Azeri Project management team.
Delivery Unit Manager(s)	Responsible for meeting applicable environmental and social project requirements in accordance to ESMS.
Delivery Unit HSE Manager(s)	Responsible for providing environmental and social assurance on Delivery Unit level to the respective Delivery Unit management team.
Environmental and Social Advisor(s)	Responsible for technical management, resource support and assurance of the site environmental and social teams and activities.

Contractors are responsible for managing and executing their activities in accordance with the ESMS and providing the necessary resources to ensure that environmental and social contractual obligations are implemented.

The roles and responsibilities of the Operator and its contractors with regards to environmental and social issues at Phase 1 construction sites are outlined in the Contractor Control Plans. Operator rules and responsibilities are also outlined in various management plans. Specific personnel roles and responsibilities are included in the Contractor Implementation Plans and Procedures.

Each contractor is responsible for the following:

- Developing and implementing site-specific Contractor Implementation Plans and Procedures in accordance with the Contractor Control Plans;
- Workforce training and ensuring that all personnel are aware of their responsibilities;
- Ensuring the performance of all subcontractors is in accordance with the requirements of the Contractor Implementation Plans and Procedures;
- Complying with all project standards, statutory requirements, permit and license conditions;
- Implementing an appropriate inspection and monitoring program; and
- Implementing and maintaining a reporting and action tracking system.

The Operator is responsible for the following:

- Communicating the contents and requirements of Contractor Control Plans to the contractors;
- Monitoring contractor compliance with the Contractor Control Plans;
- Approving the contractors' site-specific Contractor Implementation Plans and Procedures;
- Assuring contractor performance with respect to the requirements of this ESAP; and

- Coordinating and supervising of the inspection and audit program.

References:

LEVEL 2 – PROJECT
Job Descriptions
Azeri Project Performance Unit Organisational Chart
LEVEL 3 – DELIVERY UNIT
Job Descriptions
Delivery Unit Organisational Chart
LEVEL 4 – CONTRACTOR
Job Descriptions
Contractor Organisational Chart

6.2.2 Training, Awareness and Competence

The behaviour of people at all levels of the project is critical to its success and to the achievement of the environmental and social goals. Training and awareness programmes in environmental and social matters will be in place at the construction sites and will be incorporated into the overall project training program.

Training will include:

- A HSE induction programme that will be given to everyone working on site during the construction phase. The HSE programme will cover general environmental awareness, social responsibilities, site procedures and waste management.
- Specific awareness training to selected personnel in environmental and social sensitivities.
- Supplemental training during tool-box talks as required and, in particular, during periods of high environmental sensitivity or in situations where it is necessary to improve current procedure implementation.
- Formal training on various environmental and social impacts will be provided based on competency requirements.

As a part of Contractor Control Plans, the contractors will be required to provide a training and awareness programme to implement environmental and social procedures including programmes on overall environmental awareness and those necessary for specific job related issues. These programmes will be detailed in the Contractor Implementation Plans and Procedures.

Moreover, there is a specific ACG Phase 1 Recruitment, Employment and Training Contractor Control Plan that details roles and responsibilities pertaining to training for both the Operator and their employees.

References:

LEVEL 2 – PROJECT
ACG Phase 1 Recruitment, Employment and Training Contractor Control Plan
LEVEL 3 – DELIVERY UNIT
Delivery Unit HSE plan
LEVEL 4 – CONTRACTOR
Contractor Environmental and Social Awareness and Training Contractor Implementation Plan

6.3 Scope

The Construction ESMS covers the Phase 1 Project construction activities at the construction sites detailed in Table 6 below.

Table 6 Phase 1 Construction Sites

Construction site	Delivery Unit
Shelfproyektstroy (SPS) yard <ul style="list-style-type: none"> • The Phase 1 PDQ topsides construction assembly yard and associated facilities including installation offshore • The Phase 1 PDQ and C&WP jackets (PDQ & C&WP) construction assembly yards and associated facilities including installation offshore 	Offshore Facilities 1
AMEC-Tekfen-Azfen (ATA) joint-venture yard <ul style="list-style-type: none"> • The Phase 1 (C&WP) topsides construction assembly yard and associated facilities 	Offshore Facilities 2
The Phase 1 terminal expansion area at Sangachal	Terminal
Installation of the Phase 1 marine pipelines: onshore between the landfall and the terminal, nearshore and offshore	Pipelines

As well as addressing the construction activities over which the Operator has direct control, the ESMS considers those over whom the Operator can exert “significant influence”, including the environmental and social performance of its major contractors and suppliers and those benefits Phase 1 will create via additionality programmes.

6.4 ESMS Planning

As discussed in Section 3, an extensive process was undertaken to assess the environmental and social impacts with regard to the planning, design and implementation of the Phase 1 Project. Throughout this process, every effort was made to prevent environmental and social impacts, however, all environmental and social impacts could not be avoided. The ESMS is aimed at managing and mitigating the remaining, or “residual”, impacts.

6.4.1 Commitments to Action

As stated above, in the construction phase, environmental and social commitments will be implemented either by the Operator directly or through the Contractor Control Plans. In the operations phase, the commitments will be implemented directly by the Operator.

The commitments can be categorised in terms of mitigation or additionality and can be explained as follows:

- **Mitigation Commitments** - relate to measures that will be taken to directly mitigate or manage those impacts which could not be prevented through design. These commitments may either be geographically or aspect specific, e.g., air quality, landscape.
- **Offset Commitments** – relate to measures that will be taken to offset environmental impacts that cannot be mitigated directly. IFC Operational Policy 4.04 “Natural Habitats” (November 1998) requires that mitigation measures are implemented in cases where there would be significant conversion or degradation of natural habitats. Such mitigation measures may include offset mitigation.
- **Additionality Commitments** - relate to measures over and above any mitigation undertaken by the Operator, which provide benefits to local communities and environment. The aim of the additionality programmes is to contribute to long term sustainability in the areas in which the Operator operates.

6.4.2 Environmental and Social Impacts Register

The Main ESIA represents the culmination of an extensive and rigorous process to identify the potential environmental and social impacts associated with the project, assess their significance and recommend mitigation action where applicable. As discussed in Section 2.2, the ESIA process ran parallel to the project design phase to ensure that significant environmental and social aspects were taken into account during design. Significant impacts requiring additional mitigation and management in the project construction and operation phases were outlined in the ESIA and have been outlined in the Commitments Register.

In line with the evolving nature of management systems and appreciating the fact that Phase 1 construction has been underway since the beginning of 2002, each site is conducting ongoing Significant Aspects and Impacts Register Identification sessions. To the extent that these sessions identify any new or site-specific significant environmental and social impacts not included in the Main ESIA or Commitments Register, the Commitments Register and any related plans will be updated. The registers will remain “live” throughout the construction period and any new commitments will be tracked through to closure. Ongoing Significant Aspects and Impacts Identification involves both the Operator and contractor personnel and is run according to standard ESMS Significant Impact and Aspects Identification Procedures. The process identifies environmental and social aspects resulting from site activities and the significance of associated impacts are determined using specified criteria. Impact significance is determined using criteria covering the following issues:

- Community concerns,
- Environmental interaction,
- Social interaction,
- Legislation, project standards and policy,
- Reputation,
- Feasibility and cost, and
- Existing controls.

As a part of the ESMS and as a result of the process described above, each construction site has a Significant Environmental and Social Impact Register that has been developed and will be updated jointly by the Operator and the appropriate contractor.

References:

LEVEL 2 – PROJECT
ESIA
ACG Phase 1 Management Plans
Contractor Control Plans
Commitments Register
LEVEL 3 – DELIVERY UNIT
Significant Aspect and Impacts Register
Contractor Control Plans
Contract Requirements
LEVEL 4 – CONTRACTOR
Contractor Implementation Plans and Procedures

6.4.3 Legal and Other Requirements

One of the primary functions of the ESMS is to ensure compliance with the legal, regulatory and policy objectives set out in Section 5.2. The Operator’s Environmental Assurance Team will monitor changes in applicable laws, regulations and policies and communicate significant changes as appropriate.

6.4.4 Environmental and Social Objectives

The overall objective of the ESMS is to ensure that the project is constructed and operated in a manner that complies with applicable legal, regulatory and social requirements in all material respects and ensures that the commitments outlined in the Source Documents are implemented. The specific objectives and targets of the ESMS are derived from the mitigation measures included in the Source Documents.

Reference:

LEVEL 1 – AIOC/BP
Policy
LEVEL 2 – PROJECT
ESIA
Commitments Register
ACG Phase 1 Management Plans
Contractor Control Plans
LEVEL 3 – DELIVERY UNIT
Significant Aspect and Impacts Register
Contractor Control Plans
LEVEL 4 – CONTRACTOR
Contractor Implementation Plans and Procedures

6.4.5 Relationship Between the Operator and its Contractors

The Operator will manage environmental matters in accordance with the following strategy:

- The Operator has developed (and will continue to develop and supplement as necessary) Contractor Control Plans, which will be provided to the contractor and include a set of environmental requirements, specifications and procedures that the contractors will be contractually obligated to follow. Where appropriate, the Contractor Control Plans will contain an activity-specific Commitments Register which lists the environmental and social commitments each contractor is required to implement; and
- Prior to commencement of relevant construction activities, each contractor must:
 - Develop necessary Contractor Implementation Plans and Procedures; and
 - Establish an environmental and socio-economic quality assurance process that will define and assign environmental and socio-economic management-related duties to specific staff positions.

The Operator will review the Contractor Implementation Plans and Procedures and assurance processes. To be approved, the Contractor Implementation Plans and Procedures must be in harmony with and meet the level of protection of the project’s ESMS and provide mechanisms by which the contractor can implement the relevant commitments set forth in the Commitments Register and reiterated in the applicable Contractor Control Plan.

The Operator will develop assurance plans to monitor contractors’ activities, together with the assurance monitoring plans. Monitoring and auditing are discussed in detail in Sections 6.6 and 6.7.

6.4.6 Environmental and Social Management Programme

Each Phase 1 construction site will have an Environmental and Social Management Programme comprised of:

- (1) A site-specific Significant Environmental and Social Impacts Register;
- (2) Contractor Implementation Plans and Procedures and site-specific procedures; and
- (3) Summary of all objectives and targets.

References:

LEVEL 2 – PROJECT
ACG Phase 1 Management Plans
Contractor Control Plans
LEVEL 3 – DELIVERY UNIT
Significant Aspect and Impacts Register
Contract Requirements
Contractor Control Plans
LEVEL 4 – CONTRACTOR
Contractor Implementation Plans and Procedures

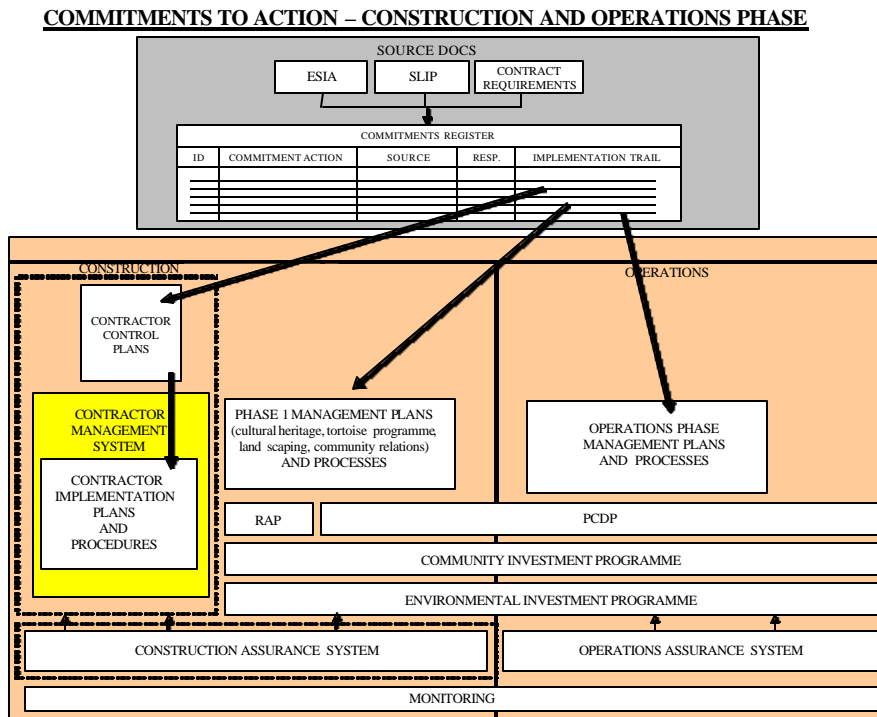
6.5 Implementation

6.5.1 Commitment Implementation and Contractor Control Plans

As set forth in Section 6.4.2, the Operator has developed a Commitments Register to enhance transparency and as a management tool, which contains all of the commitments made in the Source Documents relating to known environmental and social impacts. The Commitments Register serves as the linking mechanism between the Source Documents and the ESMS. Commitments arising from the mitigation measures that will be managed by the project are primarily translated through to the ESMS by means of Operator management plans and Contractor Control Plans, which are discussed in more detail below. The Commitments Register and Contractor Control Plans are summaries and management tools, and to the extent they include commitments drawn from the Source Documents, those commitments are qualified for purposes of this ESAP by the text of the relevant Source Document.

These plans contain either instructions on how the commitments will be implemented by the Operator or a description of the mechanisms that will allow the Operator to ensure that the contractors fulfil their contractual commitments and, in turn, implement the mitigation actions for which they are responsible. The latter set of management plans are termed “Contractor Control Plans”. The contractor, in turn, will implement its obligations through Contractor Implementation Plans and Procedures. This process is described in further detail in Figure 3.

Figure 3 Contractor Control Plans – Commitments to Action



6.5.2 Contractor Control Plans

The primary means of assigning operational control of contractor executed activities during the construction phase of the project will be the Contractor Control Plans. These plans contain minimum procedural requirements that each contractor must follow and implement at their work sites and act as the primary link between the Source Documents, the Commitments Register and the contractor.

These plans fulfil the following purposes:

- They translate Source Documents commitments into implementation by the contractor (the construction contract is integral to this process);
- They serve as a key tool by which the Operator can verify that the Contractor Implementation Plans and Procedures and method statements that specify how the activities specific to a contract will be carried out to ensure compliance with project commitments comply with the Source Documents; and
- They provide transparency and assurance that commitments made through the ESIA process are being translated through to the contractor who is responsible for implementation.

The Contractor Control Plans represent a performance-based approach to mitigation insofar as they describe performance targets to be met by the contractor when implementing mitigation measures and outline procedures that the Operator intends to adopt to ensure that these targets

are met or exceeded. Where possible and appropriate, the performance targets are defined in terms of numerical standards. In instances where such standards have not been developed or are not defined, qualitative measures based on industry best practice form the basis of an auditing programme.

Specifically, the Contractor Control Plans include the following elements:

- Introduction,
- Policy and Control Standards,
- Required Roles and Responsibilities,
- Impact Mitigation,
- Verification and Monitoring, and
- Record Keeping and Reporting requirements.

There are ten issue-based Contractor Control Plans for the Phase 1 Project and two activity based plans. The Contractor Control Plans include:

- Pollution Prevention Management,
- Waste Management,
- Oil Spill Response (construction),
- Fauna Management,
- Aggregates Management,
- Transport Management,
- Recruitment, Employment and Training,
- Procurement and Supply Chain Management,
- Construction Camp Management,
- Communicable Diseases Awareness and Prevention,
- Onshore Pipeline Installation Environmental and Social Management, and
- Near Shore Pipeline Installation Environmental and Social Management.
- Marine Construction (will be developed prior to offshore construction activities)

The Contractor Control Plans are attached to this ESAP as Appendix D. Each Contractor Control Plan has been developed for the construction phase of the project and will be revised as necessary as the project progresses.

The ESIA's prepared for the Phase 1 Project include a number of plans to be produced by contractors. In some cases, the title or content of the Contractor Control Plan differs from the title or content of that plan as set out in the relevant ESIA. Table 7 indicates how the Contractor Control Plans and Operator management plans relate to the plans listed in the ESIA's programmes.

Table 7 Contractor Control Plans and Operator Management Plans

Reference In ESIA	Encompassed In
Community Relations Programme	Community Liaison Management Plan
Social Investment Strategy	Community Investment Plan
Employment Strategy	Recruitment, Employment and Training CCP
Training Strategy	Recruitment, Employment and Training CCP
Recruitment Plan	Recruitment, Employment and Training CCP
Procurement Strategy	Procurement and Supply Chain Management CCP
Traffic Management Plan	Transport Management CCP
Infrastructure Impact Management Plan	Transport Management CCP Construction Camp Management CCP Community Liaison Management Plan
A mitigation plan specific to the shore approach	Nearshore Pipeline Installation Environmental and Social Management CCP
Pipeline contractor will develop an installation plan	Nearshore Pipeline Installation Environmental and Social Management CIPP Onshore Pipeline Installation Environmental and Social Management CIPP
Develop an environmental management plan in order to minimise direct impacts to animals in the area	Tortoise Protection and Augmentation Management Plan Fauna Management CCP
Mitigation programme to compensate for habitat loss	Environmental Offset Programme
Habitat compensation programme	Environmental Offset Programme
Spur-thighed tortoise augmentation programme	Tortoise Protection and Augmentation Management Plan
Oil Spill Contingency Plan	Oil Spill Response Framework Document
Vessel Management Plan	Marine Construction CCP

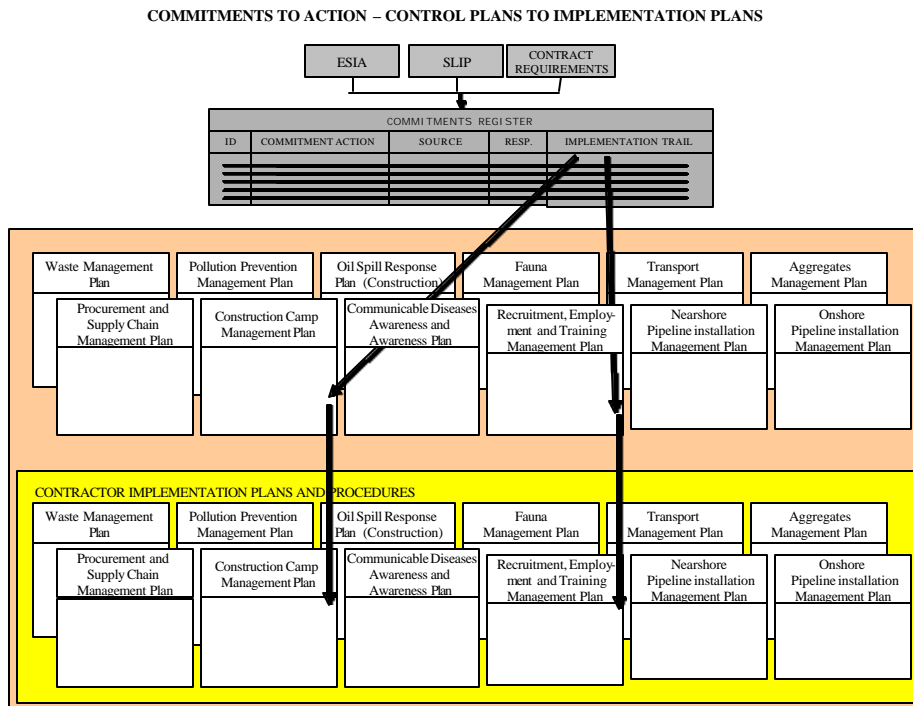
The information and statements contained in the Contractor Control Plans are considered to be accurate and applicable to the Phase 1 Project in its current form. However, as the project progresses through final design and engineering and construction, changes in the scope of the plans may occur. Accordingly, it may be necessary to modify or delete some of the environmental and social management measures and actions contained in the Contractor Control Plans to properly reflect project changes. Similarly, it may be necessary to add new environmental and social measures and actions to appropriately address new or unforeseen project situations. In either case, all modification or augmentations of the Contractor Control Plans will be accomplished through detailed change processes and mechanisms. Moreover, any Modification of the Construction ESMS or Operations ESMS will not be implemented in a manner that would conflict with the Applicable IFC Environmental and Social Policies and Guidelines in any material respect. A description of any modifications or amendments made to the Contractor Control Plans will be included in the next project report provided to the Lending Agencies under Section 9, and a copy of the amended or modified plan (marked to show changes where practicable) will be made available on request.

6.5.3 Contractor Implementation Plans and Procedures

Each contractor will develop procedures for implementation of the commitments assigned to it in the Commitments Register, which will be documented in Contractor Implementation Plans and

Procedures. The linkage from the Contractor Control Plans to the Contractor Implementation Plans and Procedures is outlined in Figure 4.

Figure 4 Contractor Control Plans to Contractor Implementation Plans and Procedures



Prior to the start of relevant construction, each contractor is contractually obligated to produce implementation plans, procedures and method statements that specify how the activities relevant to their contract will be carried out in a manner that will meet the environmental and social commitments set out in the Contractor Control Plans, which embody the commitments and conditions, legislation and contractual requirements set out in the Source Documents. Each contractor is also contractually obligated to have an environmental and social assurance organization in place to ensure that the project’s environmental and social goals and objectives are satisfied. The contractors’ assurance functions are discussed in more detail in Sections 6.6 and 6.7. This inherently flexible approach is essential to accommodating each individual contractor’s preferences and experience, and in recognizing the critical importance of accounting for local conditions in the design and implementation of the mitigation measures.

The Operator must approve Contractor Implementation Plans and Procedures and method statements prior to the commencement of the relevant construction activity.

6.5.4 Key Performance Indicators

In addition to the project specific objectives and goals, the Operator and contractors have developed a set of Key Performance Indicators (“KPIs”) and related targets that address the mitigation of impacts or implementation of additional programs.

The ESMS objectives and targets are used by the contractors to develop KPIs for environmental and social management within each of their Contractor Implementation Plans and Procedures, which the Operator will review and approve. As discussed more fully in Section 6.7, the Operator will audit the contractor's performance against the Contractor Control Plans and KPIs to ensure that the project's environmental and social commitments are carried out.

The environmental and social objectives and targets and KPIs for each site will be assigned actions to achieve the desired performance, delivery dates and responsible parties.

Each contractor's KPIs will cover the following topics among others:

- Training,
- Compliance with procedures,
- Compliance with environmental standards,
- Waste management,
- Spills,
- Transport,
- Recruitment, and
- Procurement and supply chain management.

KPIs will also be developed for the Operator management plans for the project to allow the performance of the mitigation measures to be monitored.

6.5.5 Project Commitments

The Operator management plans contain certain mitigation measures that are the responsibility of the Operator. These plans include the following:

- The Community Relations Plan,
- The Cultural Heritage Management Plan,
- The Landscape Management Plan,
- The Tortoise Management Plan, and
- Construction Health and Safety Management Principles.

These plans are attached hereto as Annex D.

The Operator has programmes to address the implementation of Source Document commitments that are under its direct control. These commitments generally cover:

- The management of sensitive flora and fauna species and habitats,
- Land Acquisition and Compensation, and
- CIP.

The CIP commitments are detailed in the plan documents outlined in Section 4 and land acquisition and compensation commitments are set out in the RAP discussed in Section 3.3.

References:

LEVEL 2 – PROJECT
Contractor Control Plans
LEVEL 3 – DELIVERY UNIT
Contractor Control Plans
LEVEL 4 – CONTRACTOR
Contractor Implementation Plans and Procedures

6.6 Checking and Corrective Action

6.6.1 Monitoring, Measurement and Reporting

The principal objective of the monitoring programme is to ensure that the Contractor Control Plans and Contractor Implementation Plans and Procedures that have been developed as part of the ESMS for each site are adhered to, which serves to ensure that the contractors are in compliance with their approved Contractor Implementation Plans and Procedures. In addition the monitoring programme aims to ensure that the measures included in the project environmental and social management plans are adhered to. Monitoring takes the form of environmental, ecological and social monitoring of the construction activities at each of the sites that has been identified as a potential to have environmental and social impacts.

Each Delivery Unit is responsible for ensuring that the contractors are meeting their commitments for monitoring according to requirements in the Contractor Control Plans and the frequency included in the site-specific Contractor Implementation Plans and Procedures. Monitoring of the environmental and social effects of the construction activities will enable the contractors and the Operator to evaluate the effectiveness of the mitigation measures. It will also allow the contractors and the Operator to identify any environmental or social problems early and implement preventative or corrective action measures to correct the problem.

The environmental and social monitoring register is appended as Annex F. Monitoring and measurement at the construction sites will be recorded to check compliance against applicable standards and guidelines.

The requirements for each component to be monitored may contain, but will not be restricted to the following elements:

- Parameter to be measured,
- Method used for sampling,
- Sampling location,
- Responsible person,
- Frequency and timing,
- Detection limits,
- Relevant legislation and standards, and
- Report issued to and retained by.

The Operator has also developed an ecological monitoring programme to measure and monitor actual impacts on environmental resources. Monitoring measures include terrestrial and marine flora and fauna studies, which will be conducted using rigorous and robust internationally recognised methodologies. The location and frequency of these studies will be dependant on the resources under investigation. Some ecological studies will be designed to develop a robust set of data to account for natural temporal variations. This data will form the basis of a long-term monitoring programme for the project. The results of ecological monitoring studies will be compared with existing baseline information gathered through several environmental surveys and studies carried out for the project.

6.6.1.1. Environmental Monitoring

The Operator and contractors will carry out environmental monitoring at the construction sites. Actual monitoring at each site will vary based on site-specific activities. Environmental monitoring may include, but will not be limited to, monitoring of:

- Air emissions from temporary power generation (above 500 hp),
- Soils and surface waters,
- Sanitary water,
- Fuel usage and run hours,
- Power use,
- Water use,
- Noise emissions,
- Waste prevention, minimisation and re-use,
- Waste recovery and recycling,
- Waste segregation and storage,
- Waste disposal tracking including chain of custody documentation,
- Hazardous materials management,
- Onshore pipeline installation, and
- Near shore pipeline installation.

6.6.1.2. Ecological Monitoring

Ecological monitoring will include, but will not necessarily be limited to, the following:

- Mammals and herpetofauna,
- Flora,
- Terrestrial and coastal birds,
- Groundwater at Sangachal,
- Watershed analysis and terminal drainage,
- Habitat and species recolonisation post installation of the onshore sections of the Phase 1 pipelines,
- Habitat and species recolonisation post installation of the near shore sections of the Phase 1 pipelines,

- Flora and fauna in the near shore zone including:
 - sea grass,
 - benthic communities,
 - fish monitoring,
 - Sediment transportation in Sangachal Bay, and
 - Workforce Training in environmental awareness and mitigation measures.

6.6.1.3. Social Monitoring

Social monitoring measures will include, but will not necessarily be limited to, the following:

- Recruitment numbers, specifically the number of Azerbaijan nationals employed and particularly Azerbaijan nationals local to the project development area,
- Workforce training in behaviour and communicable disease awareness and prevention,
- Workforce skills training,
- Complaints received and the number of repeat complaints received,
- Procurement strategy and sourcing of supplies, and
- Archaeology – a watching brief.

Monitoring of project resettlement activities is covered by the RAP, as described in Section 6.7.2.

References:

LEVEL 1 – AIOC/BP
BP corporate internal environmental reporting
LEVEL 2 – PROJECT
Business Unit ecological surveys
LEVEL 3 – DELIVERY UNIT
Delivery Unit Environmental monitoring
LEVEL 4 – CONTRACTOR
Contractor monitoring according to Contract Implementation Plans

6.7 Auditing

Auditing is integral to the Operator’s environmental and social activities. For the purpose of this document, the term auditing is used broadly and covers all actions taken by the Financing PSA Parties or the Operator to ensure that the commitments set out in the Commitments Register are being appropriately implemented. A large proportion of the Operator’s environmental and social role during the construction phase will be related to auditing and, more specifically, assuring that the construction contractors are implementing environmental and social commitments related to their respective activities in a manner consistent with the Contractor Control Plans. Additionally, there are auditing measures in place for those activities that remain under the Operator’s direct control. Project auditing will rely in part on results of the monitoring activities discussed above. In addition to Operator auditing, a number of external bodies, including NGOs

and the Lending Agencies, will provide independent assurance that the environmental and social commitments are being implemented to the extent described in this ESAP.

A formal internal audit programme is in place to evaluate compliance with the ESMS, Contractor Control Plans and Contractor Implementation Plans and Procedures. The audit programme will involve regular auditing of contractor field operations, as well as of their reporting and documentation.

Contractors are responsible for developing and implementing audit programmes consistent with the ESMS and Source Documents requirements to gain assurance that their activities and activities of the subcontractors comply with the environmental and social requirements therein.

The results of the auditing will be used to indicate areas of non-compliance and to allow for corrective measures to be implemented.

Audit schedules are set to ensure environmental integrity can be verified through compliance with regulations, standards, policies and the procedures set out in the project Contractor Control Plans and site-specific Contractor Implementation Plans and Procedures.

The primary objective of audits is to:

- (1) Review compliance with applicable regulations and standards.
- (2) Review performance of the contractor in implementing the measures documented in their site-specific Contractor Implementation Plans and Procedures.
- (3) Ensure systems are in place to maintain compliance.
- (4) Monitor the need for, and implementation of, corrective action in the event that the described mitigation measure does not, or appears unlikely to, meet the nominated level of performance.
- (5) Provide a mechanism for implementing new mitigation measures or altering existing practices based on performance, thus facilitating continual improvement.
- (6) Provide an assurance mechanism for the Delivery Unit manager.

An audit schedule has been produced by each Delivery Unit and documented in site-specific HSE plans.

BP corporate audits, Project Health Safety and Environment Review (“PHSER”) and peer reviews, will be undertaken to give assurance that the project adheres to BP’s expectations for HSE standards. The PHSER is an internal BP corporate audit that will be undertaken at all stages of the project to ensure the project adheres to BP’s expectations. This will be carried out by independent BP personnel. A peer review is another internal BP corporate tool that can be used for single discipline checks of the project to ensure compliance with BP’s expectations.

Internal audits by the Performance Unit of the Delivery Unit will be carried out periodically to ensure that the Delivery Unit is in compliance with the overall environmental and social requirements.

The environmental and social audit schedule will be flexible. The decision on the type and frequency of audits will be commensurate with the magnitude and significance of potential impact, the uncertainties associated with the predicted impact and the necessity of repeat audits as indicated by actions and follow-up from previous audits. At present, internal Delivery Unit environmental compliance audits are scheduled to be carried out twice a year to ensure the continually changing construction activities are in compliance with the ESMS.

Construction site audits, inspections and reviews will be carried out more frequently. The frequency and type of inspections and audits conducted by the contractor will be included in the site-specific Contractor Implementation Plans and Procedures.

Reference:

LEVEL 1 – AIOC/BP
BP corporate Audit – PHSER
Internal BP review – PEER review
LEVEL 2 – PROJECT
ACG Phase 1 Performance Unit assurance audits
LEVEL 3 – DELIVERY UNIT
Delivery Unit audit schedule as detailed in each Delivery Units HSE Plan
DU weekly inspection and review of Contractor Implementation Plan delivery
LEVEL 4 – CONTRACTOR
Contractor Audit schedule as detailed in their HSE plan

6.7.1 Contractor Compliance Check Auditing

The contractor will be responsible for auditing the performance of the mitigation measures against its Contractor Implementation Plans and Procedures and KPIs. Each contractor will implement its quality system to ensure appropriate rigor and control and will be required to audit its environmental and social performance against KPIs and report performance to the Operator on a monthly basis. The contractor is also required to ensure that KPIs are communicated to all relevant parties prior to the start of construction.

The Operator will audit KPIs as part of its overall assessment of the contractor’s performance.

There is a contractual mechanism in place which enables the Operator to withhold up to 5% of an invoice if HSE performance is unsatisfactory. The Operator will measure the contractor’s performance against KPIs as part of its performance assessment.

6.7.2 Land Acquisition Auditing

The acquisition and use of land for the Phase 1 Project will require a distinct programme of monitoring and review activities as described in the RAP. The RAP has been prepared in

accordance with World Bank OD 4.30 and has been publicly disclosed. Primary responsibility for project resettlement monitoring will rest with the Operator. The Sangachal terminal CLO will have day-to-day responsibility for undertaking monitoring of project affected people throughout resettlement preparation, physical relocation and reestablishment periods. The Operator will also support expert RAP monitoring as set forth in the RAP and summarized in Table 8.

Table 8 presents the expected auditing framework associated with land acquisition and RAP activities. Copies of the RAP Monitoring Reports and RAP Completion Audit Report will be provided to the Lending Agencies. Moreover, the Expert RAP Monitoring Panel's reports will be made public after they are presented to the ACG Phase 1 Participants through publication on the project website, with translation of the executive summary of the report into the same languages as the RAP. Although only the Phase 1 portion of the report is required for purposes of this ESAP, it is expected that the reports shown below will cover both the Phase 1 and BTC projects.

Table 8 RAP Auditing Programme and Reports

Monitoring Report Type	Frequency	Prepared By	For	Comment
Internal RAP Monitoring Report	Quarterly	ACG Phase 1	ACG Phase 1 Management Team (may also be reviewed by Expert RAP Monitoring Panel during 6-monthly reviews) with copy provided to IFC	<ul style="list-style-type: none"> • 10-15 page report (plus supporting documentation) summarising progress against the RAP • Outline of any issues and agreed related actions; summary schedule of grievance status • Summaries of the minutes of any stakeholder or affected people consultations or meetings
Expert RAP Monitoring Report	Six monthly	Expert RAP Monitoring Panel, comprising 3 international resettlement consultants	ACG Phase 1 Participants with copies provided to IFC and EBRD Report to be made publicly available after distribution to Phase 1 Participants	<ul style="list-style-type: none"> • 25-35 page report (plus supporting documentation) summarising assessment of progress towards living standard restoration, livelihood restoration • World Bank OD 4.30 standards compliance • Discussion of any RAP issues of concerns • Identification of any areas of non-compliance and agreed corrective actions • Summary of resettlement status
RAP Completion Audit Report	One-off, 24 months following construction completion or at such	Expert RAP Monitoring Panel	ACG Phase 1 Participants with copies provided to IFC and EBRD Reports to be	<p>RAP Completion Audit to verify that</p> <ul style="list-style-type: none"> • ACG Phase 1 has complied with undertakings defined in the RAP • Land acquisition and compensation has been completed in compliance with

Monitoring Report Type	Frequency	Prepared By	For	Comment
	time as Expert RAP Monitoring Panel assesses living standards and livelihoods restoration is complete		made publicly available after distribution to Phase 1 Financing Participants	World Bank OD 4.30 principles

References:

LEVEL 2 – PROJECT
Resettlement Action Plan

6.7.3 CIP Auditing

The Operator will audit implementation of the CIP as part of its internal auditing process. The CIP is outlined in Section 4.3.

6.7.4 Non-conformances

Phase 1 has a non-conformance and corrective and preventative action system that will be implemented at all levels of the project. The project non-conformances will be classified into following three levels:

Level I: A non-conformance situation not consistent with the original requirements but not believed to present an immediate threat to an identified important resource, community or employee health and safety. Repeated Level I concerns may become Level II concerns if left unattended.

Level II: A non-conformance situation that has not yet resulted in clearly identified damage or irreversible impact to sensitive important resource, but requires expeditious corrective action and site specific attention to prevent such effects. Repeated Level II concerns may become Level III concerns if left unattended or are continuously recurring.

Level III: A critical non-conformance situation, typically including material damage to a specifically protected sensitive resource or a reasonable expectation of impending material damage. Intentional disregard of specific prohibitions is also classified as Level III.

It is expected Level 1 non-conformance issues will be revealed as a result of audits or other relevant project assurance mechanisms. All Level 1 non-conformances will be assigned actions

to mitigate and rectify the issue. The actions will be recorded in an action tracking system and monitored for progress and completion.

Level II non-conformance will be classified as Near Miss and reported as part of the project's HSE reporting system. Near Miss reporting should describe an issue and identify actions to mitigate its cause(s). A Near Miss, most serious probable outcome of which would likely be a major environmental incident, material harm to community or employees, will be reported as High Potential Incident ("HiPo") within the project and Business Unit. Any HiPo will require an investigation to reveal a root cause and identify actions for mitigation.

All Near Miss and HiPo actions will be recorded in an action tracking system and monitored for progress and completion.

The Operator will notify the Lending Agencies of all Level III non-compliances as Serious Incidents as set out in the CTA and summarized in Section 6.9.1.5. A summary of any Level II and III non-compliances, and corrective actions will be included in the project's next periodic report. Additional information regarding corrective actions will be provided, if available, upon reasonable request.

6.8 Management Review

In addition to compliance audits, management system audits or reviews may be carried out for the project.

Management review is an essential part of the ESMS and is a mechanism to assess the effectiveness of the system. This review will be carried out for the Azeri Project Performance Unit as the organisation managing the Phase 1 Project. The quarterly project leadership HSE assurance meeting has been selected as a forum for the review. The subjects to be discussed (at a minimum) are as follows:

- Outcomes of internal and external audits and reviews,
- Non-conformances, and
- Improvement actions.

The results of the management review will be communicated and implemented within the project. The ESMS documents and procedures will be amended as necessary.

The Construction ESMS will not be Modified in a manner that is inconsistent with Applicable IFC Environmental and Social Policies and Guidelines in any material respect.

Reference:

LEVEL 2 – PROJECT
Quarterly HSE assurance meetings

6.9 Administration

6.9.1 Phase 1 Control Plans and Procedures

6.9.1.1. Management of Change

The Operator recognizes that, as is the case with any major natural resources project, change will be an inevitable feature of the project. A systematized approach to change is necessary for effective management of the project. Therefore, the Operator has put in place a procedure to manage all change initiated during the course of project development and execution.

The purpose of management of change is to ensure that strategic changes to project scope are fully assessed by the Operator and subsequently formally endorsed by the Vice President for AIOC (the “Vice President”). The procedure for change management shall ensure that:

- (1) Risks from changes are at an acceptable level; and
- (2) Changes are consistent with project goals and objectives.

The process for assessment and approval of change will be common across the project and can be initiated throughout the project management, including contractors.

Change control procedures will address the management of change. Prior to adoption, changes will be assessed to evaluate their impact on the project goals and targets and to ensure the impact is fully understood. A change justification will be developed to record this process. The assessment process will consider what the environmental and social impact and the impact on the ESIA of the change will be, including risk levels and mitigation costs.

The Vice President must endorse strategic changes, including change to the project strategy and contracting strategy before such changes are implemented.

Changes that are not considered strategic will be approved by the relevant project management team or Delivery Unit. If a change impacts another Delivery Unit then the relevant interface manager shall be involved in the appropriate change management process. The Vice President has the responsibility for all final change approvals.

The change acceptance/rejection decision will be communicated to all those impacted and involved and, if necessary, the change register will be updated. All approved changes will subsequently be incorporated into the relevant controlled project documents, i.e., HSE Philosophy, ESMS.

Changes originating from contractors will be reviewed by the Delivery Unit manager and HSE manager at a minimum. If a change is endorsed, written approval will be given to the contractor and the change instruction will be copied to all relevant personnel as identified in the change notice distribution matrix.

Reference:

LEVEL 2 – PROJECT
Procedures for approval by VP
LEVEL 3 – DELIVERY UNIT
Procedures for approval by VP
LEVEL 4 – CONTRACTOR
Procedures for approval by Delivery Unit

6.9.1.2. Notification of Change

The Financing PSA Parties will notify the Lending Agencies of changes to the Phase 1 Development Plan affecting the ESIA through both periodic and other reporting. Decisions regarding the notification method will be based on the three tiered notification of change structure outlined below. The Lending Agencies will not be notified of a Class I change. The annual report will include a description of any Class II change. The Lending Agencies will be notified of a Class III change at least 15 days before the relevant change is implemented. Any Class III notification will include relevant details of the impact and any mitigation measures to be taken to minimize and/or reduce the impact (and any additional environmental and social impact assessment undertaken to determine the extent of the impact and appropriate mitigation measures).

If the ESIA(s) are amended or supplemented to encompass a Class III change, or a new ESIA is produced, a draft of the updated, amended or new ESIA will be provided to the Lending Agencies for review and comment at least 15 days before the relevant change is implemented. If there is no response within that time frame, it will be presumed that there are no comments. Prior Lending Agency approval will not be required for construction to continue based on an updated, amended or new ESIA, although the Phase 1 ESIA as updated, amended or replaced will be required to comply with Applicable IFC Environmental and Social Policies and Guidelines and applicable laws, in all material respects. The Independent Environmental Consultant's annual report and the project annual report will document the construction status in the change area, the impacts and the mitigation measures.

- **Class 1:** changes include to the facilities, access, construction camp, or other locational changes within the corridor width/area described and studied in the ESIA/source documents.
- **Class II** changes include changes requiring development or other project activity outside of the ESIA study area where no sensitive habitats (primary forest, etc.) or species are disturbed. The Operator will cause Phase 1 cultural properties survey, or other appropriate environmental and social studies or surveys, relevant to the change to be conducted. The change will not impact significant cultural or archaeological finds, either because none exist or they can be avoided. The change will not result in significant impacts to communities or landowners that are not covered by mitigation, compensation or other measures previously adopted by the project.
- **Class III** changes include Phase 1 Project activities or facilities not described in an ESIA where either (i) one or more of the following are encountered or impacted: significant cultural properties where data recovery will be required, natural habitat, sensitive species

or (ii) physical relocation or economic displacement of households not covered by the principles and types of compensation measures contained in the RAP will be required.

6.9.1.3. Emergency preparedness and response

The emergency response in BP Azerbaijan overall is governed by the BP Azerbaijan Incident Management System (“IMS”). This is the overarching emergency response system for all BP Exploration activities. This system is outlined in the BP Azerbaijan Business Unit Incident Management Plan (“IMP”), which covers the procedures to be followed in case of events such as:

- Fires/Explosions,
- Spills (Oil)/Releases (Gas),
- Injury/ Casualty/ Medevac,
- Transportation Accident, and
- Natural Disasters.

The Operator and Delivery Units provide a link to IMS by means of the bridging documents for each construction site. The bridging documents link into the existing document structure of IMS and the main contractor emergency response plans. The call-out list and contact details in the bridging documents will be kept up to date by each Delivery Unit.

The process of reporting and following up environmental and social incidents is outlined in the Incident Reporting and Investigation Procedures outlined in Section 6.9.1.5.

References:

LEVEL 1 – AIOC/BP
Incident Management Plan
LEVEL 3 – DELIVERY UNIT
Delivery Unit Emergency Response Bridging Document
LEVEL 4 – CONTRACTOR
Contractor Emergency Response Plan

6.9.1.4. Stop work

The Operator and Delivery Units will ensure that all personnel are made aware of their responsibility for bringing all health, safety, environmental, social and security concerns to the immediate notice of their supervisor. Supervisors will be responsible for ensuring that action is taken to follow-up the concerns in accordance with agreed worksite reporting procedures. All personnel have the right to stop work in the event that they consider any activity unsafe.

Provision will be made with contractors, subcontractors and others for Delivery Unit representatives to stop work if they observe an activity that is imminently unsafe, for example, a significant failure to comply with the HSE Plan or a breach of agreed standards and procedures. The activity shall not restart until agreement over revised working practices is reached and the representative is satisfied that the unsafe practice will not be repeated.

6.9.1.5. Internal Incident Reporting and Investigation

The Operator has developed an incident reporting and investigation procedure designed to promptly identify and respond to incidents and will initiate an investigation into any significant incident to identify:

- The facts surrounding the accident/incident are established,
- Management systems and practices are thoroughly reviewed,
- Root causes are identified, and
- Recommendations are made to prevent any recurrence.

Incident reporting and investigation will apply to all significant Phase 1-related accidents and incidents including the following types of incident:

- Fatalities,
- Workplace injuries and illness,
- Security breaches,
- Spills and leaks,
- Significant environmental and community incidents,
- Vehicle accidents, and
- High potential near misses.

Depending on the character of the incident, it will be reported within BP's Azerbaijan Business Unit, to the PSA Parties, to related projects (BTC, SCP) and to the Lending Agencies (as described in Section 6.9.1.6).

6.9.1.6. Lender Incident Reporting

The requirement for incident reporting to the Lending Agencies are set out in the CTA and summarized in this Section. The following types of incident reports will be provided:

- **Litigation.** The Financing PSA Parties will provide to the Lending Agencies details of litigation, arbitration or administrative proceeding instituted or threatened:
 - Which could have a Material Adverse Effect
 - Which would involve liability in excess of US\$ 5 million
 - Which involves SOCAR or the government of a Project Country and (i) to which the Financing PSA Party or its subsidiaries is a party, or (ii) which materially affect it, or its subsidiaries or the Phase 1 Project or its Active Transportation Systems.
 - Notices of default, material demands made against it, the Operator, its related Borrower or Sponsor/Guarantor under a Project Document or Insurances, or affecting any of its Subsidiaries or the Phase 1 Project Facilities or its Active Transportation Systems, which could have a Material Adverse Effect (together with details of proposed action) promptly upon having such knowledge.
- **Damage to Project Facilities.** The Financing PSA Parties will provide details of any damage to the Phase 1 Project Facilities or Active Transportation Systems where

reinstatement is likely to exceed US \$10 million and details of insurance claims promptly after becoming aware of such damage or destruction.

- **Incident Reports.** The Financing PSA Parties will provide the Lending Agencies with a copy of any report distributed to the CMC or Steering Committee regarding accidents or incidents affecting the ACG Contract Area promptly.
- **Serious Incidents.** The Financing PSA Parties will provide notice to the Lending Agencies within four business days of the Operator becoming aware of any accident or incident that has a material adverse effect on the environment (including social or community impact) or worker health and safety that occurs as a result of Phase 1 Project Operations.
- **BTC Pipeline.** The BTC Shippers will provide the Lending Agencies copies of all material reports and certificates delivered by either party under the BTC Transportation Agreements or the ACG Transportation Agreement, as applicable promptly upon receipt or delivery.
- **Environmental Standards for other ACG projects.** To assist the Lending Agencies in monitoring compliance with the JOA voting covenant, the Financing PSA Parties will provide details of all decisions of the CMC or Steering Committee relating to the adoption of environmental or social standards for non-financed ACG projects.

A number of Events of Default relate to environmental and social matters and as a result would trigger reporting by the Financing PSA Parties. For example, an Event of Default will occur if:

- Subject to certain cure periods and notice requirements, (i) a PSA Party, any subsidiary of a Financing PSA party or any Operator fails in the development and operation of the project to comply in any material respect with any applicable Environmental Law; (ii) a PSA Party or any Operator fails in the development and operation of the project to carry out some material respect of the ESAP; or (iii) any Operator fails in the development and operation of the project to comply in any material respect with the Applicable IFC Policies and Guidelines, and
- Subject to certain cure periods and notice requirements, the ESIA's, related approvals or environmental plans described in the ESAP are modified in contravention of the World Bank operational directives identified in the ESAP.

Pursuant to this structure each Financing PSA Party is obligated to promptly notify the Lending Agencies if it has knowledge of any material non-compliance (or any potential material non-compliance) with the ESAP, Environmental Law or Applicable IFC Environmental and Social Policies, provide notice of serious HSE incidents within four business days and promptly provide the Lending Agencies with a copy of any report to the CMC or the Steering Committee regarding HSE accidents or incidents affecting the ACG Contract Area.

6.9.2 Communication

The Operator plans to communicate openly to the public, employees, neighbours, public interest groups and contractors regarding the significant environmental and socio-economic aspects of the project. The Phase 1 Project Environmental Team is responsible for all external and internal communication with regards to environmental and social matters for the project. Where appropriate, this will be undertaken in liaison with Government and Public Relations, the

Environmental Department and Regulatory Affairs. Overall responsibility for internal and external communication on environmental and social matters relating to the Azeri Project Performance Unit lies with the Performance Unit Environmental Manager. The HSE function within each Delivery Unit of the Azeri Project is responsible for all site-level internal and external environmental communication. Where necessary, the Azeri Project Environmental team will assist individual sites with regards to communication on environmental matters.

6.9.2.1. Stakeholder Communications and Consulting

Communication with stakeholders is a key element for success of the Phase 1 Project. The Operator is committed to maintaining active and ongoing communication with all organisations and individuals with an interest in Phase 1 Project (e.g., media, NGOs, regulatory and government bodies, local community).

The consultation and disclosure programme initiated for the ESIA will continue throughout the life of the project. As discussed in Section 3.4, the Operator has created a PCDP for Phase 1.

In the construction phase, BP will take overall responsibility for consultation with all stakeholders in relation to the project, including designing the structure of all consultation activities on behalf of the Operator and Phase 1 Project.

Ongoing public consultation for both the Azerbaijan public and affected local communities will be held concurrently with all related projects (e.g., Shah Deniz Stage 1) and coordinated under an integrated BP Azerbaijan Business Unit consultation programme. In addition to the consultation programme, a number of other specific actions have been or are being undertaken including:

- Development of a Community Relations Programme;
- Development of the Community Relations Plan, which includes procedures for:
 - Establishment of a permanent CLO at the Sangachal terminal;
 - Establishment of Information Centres at the Sahil, Sangachal and Umid Construction Camps and an Enterprise Centre in Baku;
- The provision of information on recruitment issues and the recruitment process;
- Regular communications with key stakeholders via a Communications Plan, which is being developed for Phase 1 by the Operator's Government and Public Affairs

- Establishment of a website for providing information on all the BP projects; and
- The introduction of a community complaints procedure.

The responsibility for communication with the media lies with the BP Press Office within GPR, which will provide a quick response to questions on all aspects of BP's operations. Regular press conferences hosted by senior management are expected to occur and smaller briefings on specialised topics are expected to be conducted when appropriate to provide consistent and up to date information in a timely fashion. The Press Office will also communicate the project's activities through regular press releases and statements, supported by question and answer documents.

References:

LEVEL 1 – AIOC/BP
Best Practice Manual: Effective Public Consultation and Disclosure, IFC
LEVEL 2 – PROJECT
ACG Phase 1 Public Consultation and Disclosure Plan
ACG Phase 1 Community Relations Plan
ACG Phase 1 Communications Plan
www.caspiandevlopmentandexport.com

6.9.2.2. Internal Communication

Internal communication between the various project groups and between the Operator and its contractors on environmental and social matters will have two key components: (i) meetings and informal communication and (ii) reports and other written communication. A series of meetings, communications and networks have been established by the Operator under the Area HSE Assurance Plan. These communication measures are outlined in Table 9. Internal reporting is discussed in Section 6.9.3.1. These schedules may change to reflect project needs and operations over time.

Table 9 Internal Environmental and Social Meetings

Meeting	Purpose
Risk Matrix Workshops	Held periodically to provide a forum for updating the HSE risk matrix.
Project Management Meetings	Held regularly by the project with a fixed HSE agenda item.
Contract Account Manager Meeting With the Contractor	Held regularly for performance monitoring and general assurance purposes.
Project HSE Network and Forum	Chaired by the Area HSE Manager to serve as a means of communicating HSE information.
Contractor HSE Assurance Meetings	Held at least once each quarter to discuss the effectiveness of the assurance process and follow up of audits by contractors. The meetings will be chaired by the Contract Account Managers and attended by HSE representatives from the Operator.
HSE Workshops	Held whenever there is a need to gain common alignment on issues or themes.
PULT HSE Meetings	Attended by the Project Managers, a representative from the Contract Account Managers and the Area HSE Manager. The Performance unit Leader will set the agenda.

6.9.3 Reporting

6.9.3.1. Internal Reporting

There is a comprehensive reporting programme in place for the Phase 1 Project which encompasses both internal and external reporting.

The following list represents the standard parameters that will be reported internally:

- KPIs and Measures,
- Environmental and Social Incidents,
- Monitoring Results,
- Major Audit Findings, and
- Additionality Programmes.

Contractors are required to report to the Operator on environmental and social issues on a monthly basis. Contractor reports will cover the following:

- KPIs and Measures,
- Environmental and Social Incidents,
- Monitoring Results, and
- Audit Findings.

6.9.3.2. External Reporting

The external reporting required by Lending Agencies is set forth in Section 9.

6.9.4 Record keeping

The management of environmental records will be consistent with the project's document procedure. Documents will be legible, dated and readily identifiable, each with a unique number and a revision number to identify the most current version of the document, following the document numbering system for the project.

Controlled documents will be identified in a document register, which will be maintained by the document controller throughout the construction phase of the project. The document register identifies the current revision of the document, the date issued and the document custodian. These records will be available to all project personnel for viewing.

Construction contractors will be responsible for ensuring their documents are in conformance with the Operator's document control system. The Contractor Control Plans specify the Operator and contractor roles and responsibilities with regards to record keeping. Specific personnel responsibilities will be detailed in the Contractor Implementation Plans and Procedures.

Management of construction site base records, i.e., waste transfer notes, MSDS and laboratory analyses, will be handled by site-specific document control procedures.

Reference:

LEVEL 2 – PROJECT
Performance Unit record keeping
LEVEL 3 – DELIVERY UNIT
CAM record keeping
LEVEL 4 – CONTRACTOR
Records of site monitoring

6.9.5 Document control

Information and communication provide the foundation for identifying, assessing, controlling and responding to potential environmental and social impacts resulting from the project. Information will be made available and will be readily accessible to all personnel who require it and, particularly, those who have a responsibility to ensure effective management of the project's environmental and social impacts.

Project document control will be managed via a "Documentum" database. This database will provide a broad range of document management functions including, but not limited to, different levels of access, a search engine and accessibility by outside contractors via the internet. The database will have a designated ESMS area for document storage, which will support access by all relevant project personnel to the Operator's procedures, programmes and plans.

The Operator's aim is to ensure the correct and efficient preparation, review, approval, registration, distribution and disposal of documents and to control the validity and availability of information. Thus, the document control system has been designed to ensure that eligible personnel will have access to the correct documentation, whilst securing information against misuse by others.

The Documentum database will manage all documents produced as a result of the ESMS and arising from the project activities, including construction. It will also include a definition of responsibilities for maintaining the database. Contractors will be responsible for controlling and issuing their documents to the relevant personnel.

References:

LEVEL 2 – PROJECT
Project Document Control
LEVEL 3 – DELIVERY UNIT
Delivery Unit Document Control (complies with level 2)
LEVEL 4 – CONTRACTOR
Contractor Document Control System

7. OPERATIONS ESAP AND OPERATIONS ESMS

The portions of this ESAP relating to the Construction ESMS will be updated or modified as appropriate to reflect the transition from construction to operations (this ESAP, as so updated or modified, is referred to as the “Operations ESAP”). The Operations ESAP will be developed prior to first oil production at the platform, will be in effect at the commencement of first oil production, and will comply with the sections of OP 4.01 relating to the content of an ESAP. A draft of the Operations ESAP will be provided to the Lending Agencies for review at least 120 days prior to first oil production at the platform. The Operator intends to have the Operations ESMS reflecting the Operations ESAP certified to ISO 14001 within 9 months of commencement of crude oil production from Phase 1 and the Operations ESMS will comply with the Applicable IFC Environmental and Social Guidelines in all material respects. Lending Agency approval is not required for operations to commence based on the Operations ESAP, although it will be an event of default under the CTA, subject to applicable cure periods, if the Operations ESAP does not comply after the commencement of oil production with Applicable IFC Environmental and Social Policies in all material respects.

Similar to the construction management system, one of the primary functions of the Operations ESAP will be to ensure that the commitments made in the ESIA relating to operations are implemented in all material respects. The Operations ESAP will cover the commercial life of the Phase 1 Project during the ACG PSA and will implement a structure by which the Operator can effectively manage and monitor implementation of the operational commitment found in the Source Documents.

The operations phase of the Phase 1 Project will commence when the new offshore and onshore facilities are installed and commissioned. The Central Azeri PDQ offshore platform together with offshore gas and oil export pipelines and the expanded onshore terminal is expected to be commissioned in the third quarter (pipelines) and fourth quarter (PDQ) of 2004. The C&WP platform will be installed and become operational after approximately 12 months.

As mentioned previously, despite many common elements with the construction phase ESMS, the operations phase management system of the project will be developed later. However, the ESMS structure for the Phase 1 Project takes into account future operations and was developed based on ISO 14001 requirements. Additionally, it utilises some materials from the Early Oil Project Environmental Management System in order to ensure consistency and facilitate a smooth transition to the Operations ESMS.

The lender review period for ESIA's and Class III Changes will be increased from 15 to 30 days after operations commence.

The Operations ESMS will comply with commitments made in the ESIA.

7.1 Oil Spill Response

Oil spill modelling was carried out for a set of identified risk scenarios for unplanned events relevant to the Phase 1 Project as part of the ESIA process. In addition, an oil spill model specific to the Caspian was developed based on the internationally accepted OSIS (Oil Spill Information System) model. The Operator has developed a number of oil spill response plans as

part of the Early Oil Project relating to Petroleum Operations under the PSA that are also relevant to the Phase 1 Project. In addition, a Framework Oil Spill Response Plan was developed specifically for the Phase 1 Project. A Phase 1 Oil Spill Response Plan based on the framework plan will be developed prior to the commencement of operations and is expected to be completed in the fourth quarter of 2003. The various oil spill response plans currently in place or planned are identified in Tables 10 and 11 below, together with the Operator's current target dates for completion of such plans.

All modification to the OSRP will utilise the management of change process outlined in Section 6.9.1.1. Any material Modifications to the plans set out in Table 10 will be summarized in the annual report to the Lending Agencies as required by Section 92. Phase 1 operations will be conducted in all material respects in accordance with the Phase 1 OSRPs.

Table 10 Phase 1 Oil Spill Response Plans

Plan	Target Dates	Coverage
Phase 1 Framework Document for the Prevention and Response to Oil Spills (agreed July 2002)	Complete	Potential Oil Spill Risks and Consequences <ul style="list-style-type: none"> Existing Emergency and Oil Spill Response Arrangements Development of an Oil Spill Contingency Plan ("OSRP")
Phase 1 Oil Spill Response Plan	Will be completed ahead of commencement of operations	Implements Phase 1 Framework Document

The final ESAP will be updated to reflect OSRPs produced prior to the date of the CTA and will contain an agenda for production of any remaining OSRPs that will cover:

- Timing for production relative to commencement of first oil to platform or first oil at the terminal, as appropriate,
- Provision of draft OSRPs for lenders for review before first oil to platform or first oil at the terminal, as appropriate,
- Approval of the OSRPs by an independent oil spill response plan consultant based on compliance with the Applicable IFC Policies and Guidelines on behalf of the lenders, and
- A requirement for an oil spill response exercise before first oil to platform or first oil at the terminal, as appropriate.

The Operator's oil spill response activities will be conducted in accordance with the OSRPs in all material respects

It will be an event of default under the CTA, subject to cure periods, if the Phase 1 OSRPs do not comply after first oil at the platform or at the terminal, as appropriate, with the Applicable IFC Policies and Guidelines in all material respects.

In addition to the Phase 1 Oil Spill Response Plan, the Operator has developed plans relating to other aspects of ACG operations, including the NREP and WREP. These plans are listed below.

Table 11 Other Oil Spill Response Plans

Programme / Plan / Study	Dates	Coverage
BP Azerbaijan Business Unit Oil Spill Response Plan	Existing	<ul style="list-style-type: none"> • Onshore and offshore incidents • Incident reporting • Oil spill mitigation • Contractor databases • Response resources • Availability • Covers WREP, NREP and Sangachal
NREP Containment Manual (part of Business Unit Oil Spill Response Plan)	Existing	<ul style="list-style-type: none"> • Detailed topographical silhouette of the altitude covered by the pipeline • Describes location of the block valves, river and road crossings, pump stations • Overview map of the pipeline
WREP Containment Manual (part of Business Unit Oil Spill Response Plan)	Existing	<ul style="list-style-type: none"> • Detailed topographical silhouette of the altitude covered by the pipeline • Describes location of the block valves, river and road crossings, pump stations • Overview map of the pipeline
Black Sea Offshore Oil Spill Response Plan	Existing	<ul style="list-style-type: none"> • Offshore incidents • Oil spill mitigation
Early Oil Project Oil Spill Response Plan (covering Sangachal Terminal)	Existing	<ul style="list-style-type: none"> • Onshore incidents • Incident reporting • Oil spill mitigation • Response resources

Any material modifications to the WREP or NREP oil spill response plans listed in Table 11 will be described in the annual report to the Lending Agencies, as provided in Section 9.2.

8. TRANSPORTATION SYSTEMS

8.1 Permitted Transportation Systems

Each Financing PSA Party has agreed with the Lending Agencies that it will only ship crude oil produced from the Phase 1 Project on transportation systems that are Permitted Transportation Systems for purposes of the CTA. As a continuing condition, if an event or circumstance occurs that would cause any of the representations and warranties given by a Financing PSA Party in respect of its Permitted Transportation Systems to be incorrect, the relevant transportation system will cease to be a Permitted Transportation System following a 90 day cure period. The Permitted Transportation Systems designated by each Financing PSA Party at the date of the CTA will be included in an Appendix to the CTA. As noted in Section 5.6, the “Applicable IFC Policies and Guidelines” for the NREP and WREP will be those in effect and identified as the “Applicable World Bank Policies and Guidelines” for purposes of the Early Oil financing.

8.2 Compliance with Applicable Law

Each Financing PSA Party will promptly notify the Lending Agencies if, to its knowledge, the operator for any of its Permitted Transportation Systems fails in the development or operation of such system to comply in any material respect with any applicable Environmental Law or, for the WREP and NREP, Applicable World Bank Group Policies and Guidelines.

8.3 Annual Report

The annual report required by Section 9.2 will cover the WREP and NREP to the extent each such route is: (i) designated by a Financing PSA Party as a Permitted Transportation System, (ii) actually used in the relevant year by that Financing PSA Party for transportation of ACG production and (iii) not specifically covered in the annual report provided to the Lending Agencies in connection with the Early Oil Project Financing. If the WREP or NREP is not designated as a Permitted Transportation System or actually used for Phase 1 production, it will not be required to be covered in the annual report, and none of the other ongoing reporting obligations set out in this ESAP shall apply.

8.4 Expansions

To the extent the WREP or NREP is designated as a Permitted Transportation Route and actually used for ACG production, each Financing PSA Party will notify the Lending Agencies prior to any proposed expansion to the WREP or NREP not already planned and covered by an ESIA or EIA as of the date of the CTA that would change that system’s capacity or operations in any material respect, and following such notification shall provide the Lending Agencies with information reasonably required to enable them to determine whether the expansion complies with Applicable World Bank Group Policies and Guidelines (“Required Information”). Any expansion or proposed expansion of capacity of the WREP or NREP as to which a Lending Agency has not objected within 90 days of receipt of the Required Information will be deemed to be part of that Permitted Transportation System. Any disagreement regarding compliance of an expansion with Applicable World Bank Group Policies and Guidelines will be referred for expedited arbitration in accordance with the relevant section of the CTA. The Financing PSA

Parties will not use any expanded capacity on the WREP or NREP to which a Lending Agency has correctly objected for purposes of transportation of Phase 1 Project production.

9. AUDIT PROGRAMME AND ANNUAL REPORT

9.1 Project Audit Programme

The Operator will undertake an internal audit programme to review the environmental and social activities of the Operator and its contractors. The scope and extent of the audit programme will be in accordance with the Construction ESMS and Operations ESMS developed for the Phase 1 Project. A summary of the results of the audits that are relevant to the Phase 1 Project will be provided in the annual report to the Lending Agencies described below.

9.2 Project Annual Report (Construction)

The Financing PSA Parties will provide annual reports focusing on environmental, social, health and safety matters arising in connection with the Phase 1 Project, the Financing PSA Party's Permitted Transportation Systems and, if any Phase 1 Project activities are carried out directly by them, the relevant Financing PSA Party or any of its subsidiaries to facilitate Lending Agency monitoring and give the Lending Agencies additional assurance that the Financing PSA Parties are complying with their environmental and social obligations. The annual reports on environmental and social matters will include, among other things, a statement that the Phase 1 Project has been operated in compliance with the ESAP, applicable Environmental Laws and Applicable IFC Environmental and Social Policies and Guidelines in all material respects, or a description of any non-compliance and the steps being taken to remedy it. A detailed table of contents showing the topics to be covered in the annual report is attached hereto as Annex B. The first annual report will relate to the first full calendar year after loan signing.

The annual report will be provided in English not more than 120 days after the end of each calendar year. The full project report will be publicly released and made available on the Operator's website in English. The executive summary of this report will be translated into Russian and Azeri, publicly released and made available on the Operator's website.

Annual environmental and social reports will continue in the operations phase. Following completion of construction, the annual report will not cover items that are relevant only to construction.

The Financing PSA Parties will provide semi annual project reports (coordinated with the annual report) and the Lender Independent Environmental Consultant will conduct semi annual verification visits during construction. The Lender Independent Environmental Consultant will conduct annual verification visits during operations. Semi annual project reports and verification visits will continue until first oil at the platform. The scope of the semi annual reports and verification visits will be set forth in the updated ESAP developed prior to loan signing. The semi annual reports and verification visits will be alternated such that either a report or verification visit is provided or occurs each quarter during construction.

9.3 Other Periodic Reporting

A variety of other reports will be made available to the Lending Agencies on a periodic basis. These include the following:

- **RAP Monitoring.** The Financing PSA Parties will provide the Lending Agencies with copies of the Operator's quarterly RAP monitoring reports, the Expert Panel's six monthly RAP Monitoring Report and the Expert Panel's Completion Certificate. The Independent Environmental Consultant may review these reports and audit the findings as part of its annual audit. The project will include a discussion of RAP monitoring and compliance in its annual report.
- **CDAP reports.** The Financing Parties will provide the Lending Agencies with any reports publicly released by the Caspian Development Advisory Panel.

9.4 Other Information

Additional information relating to any alleged breach of any Environmental Law, and any remedial actions taken or to be taken with respect thereto, shall be provided to a Lending Agency from time to time upon its reasonable request for such information, provided that such information relates to the Phase 1 Project and either is within the possession of the Financing PSA Parties or is information that it is legally entitled to obtain.

Phase 1 ESAP Abbreviations

ACG	-	Azeri, Chirag and deep water Gunashili
AIOC	-	Azerbaijan International Operating Company
ATA	-	AMEC-Tekfen-Azfen
ATS	-	Action Tracking System
AZBU	-	Azerbaijan Business Unit
Bpd	-	Barrels per day
BTC	-	Baku-Tbilisi-Ceyhan Oil Pipeline
BUL	-	Business Unit Leader
C&WP	-	Compression and Water Platform
CAM	-	Contractor Accountable Manager
CIP	-	Community Investment Plan
CMC	-	PSA Parties Contractor Management Committee
CTA	-	Common Terms Agreement
E&S	-	Environmental and Social
EBRD	-	European Bank for Reconstruction and Development
EIA	-	Environmental Impact Assessment
ESAP	-	Environmental and Social Action Plan
ESIAs	-	Environmental and Social Impact Assessments
ESMS	-	Environmental and Social Management Systems
EU	-	European Union
GPR	-	Government and Public Affairs Department
HGAs	-	Host Government Agreements
HiPo	-	High Potential Incident
hp	-	Horsepower
HSE	-	Health, Safety and Environment
IFC	-	International Finance Corporation
IFI	-	International Financial Institution
IGA	-	Health and Safety
IMP	-	BP Azerbaijan Business Unit Incident Management Plan
IMS	-	BP Azerbaijan Incident Management System
ISO	-	International Standard Organization
IUCN	-	International Union for Conservation of Nature and Natural Resources
JOA	-	Joint Operating Agreement
KM	-	Kilometer(s)
KPIs	-	Key Performance Indicators
MENR	-	Ministry of Ecology and Natural Resources
NGO	-	Non-Governmental Organization
NREP	-	Northern Route Export Pipeline

OSIS	-	Oil Spill Information System
OSRP	-	Oil Spill Response Plan
PCDP	-	Public Consultation and Disclosure Plan
PDQ	-	Pre-Drilling and Quarters
PHSER	-	Project Health, Safety and Environment Review
PSA	-	Agreement on the Joint Development and Production Sharing for the Azeri and Chirag Fields and the Deep Water Portion of the Gunashli Field in the Azerbaijan Section of the Caspian Sea
RAP	-	Resettlement Action Plan
RFPs	-	Requests for Proposals
SCP	-	South Caucasus Pipeline
SLIP	-	Supplemental Lender Information Package
SOCAR	-	State Oil Company of the Azerbaijan Republic
SPS	-	Shelfproyektstroy
TPAO	-	Türkiye Petrolleri A.O.
WREP	-	Western Route Export Pipeline

Financing PSA Parties' Annual Report*

Each annual report shall separately address each of the topics listed below for Phase 1 Project activities conducted in Azerbaijan and, to the extent provided in Section 8.3, Permitted Transportation Systems.

1. Executive Summary.
2. Description of highlights and key achievements and brief summary of construction progress during the year.
3. ESIA and Permitting
 - 3.1. Summary of any material modifications to the ESIA during the year.
 - 3.2. Summary of material permits issued during the year and any applicable conditions.
 - 3.3. Summary of any Class II changes during the year and update on any Class III changes reported during the year.
4. ESAP implementation
 - 4.1. Update on any ESAP commitments to Lending Agencies s in relation to preparation of studies or reports or other actions during the year.
 - 4.2. Summary of any significant changes in the ESMS and any activities significantly affecting the ESMS during the year.
 - 4.3. Update on Contractor Implementation Plans and Procedures approved by the Financing PSA Parties or any significant changes to existing Contractor Implementation Plans and Procedures approved by the Financing PSA Parties during the year.
 - 4.4. A statement that the Phase 1 Project has been operated in compliance with the ESAP, applicable Environmental Laws and Applicable IFC Environmental and Social Policies and Guidelines in all material respects, or a description of any non-compliance and the steps being taken to remedy it.

* Following completion of construction, the annual report will not include items that are relevant only to construction. In addition, if matters are covered in the Operations ESAP that are not reflected in the contents for the annual report, this Annex B will be amended as appropriate to cover those matters.

5. Compliance with Standards and Applicable Law

- 5.1. Summary of any notices of non-compliance, remedial action, any fines or penalties paid and final disposition of any regulatory proceedings.
- 5.2. Volumes of oil produced and exported.
- 5.3. Summary of air emissions, including assessment of gas utilization and flaring.
- 5.4. Summary of offshore produced water discharge volumes and quality, drilling discharge volumes and quality and other waste summaries.

6. Update on any reportable incidents or non-compliances and the Operator's response to such incident or non-compliance during the year.

7. Oil Spill Response

- 7.1. Summary of oil spill response plans completed, updated or amended during year (as described in the ESAP).
- 7.2. Spill summaries.
- 7.3. Spill response and remediation summaries.
- 7.4. Summary of material modifications to the oil spill response plans described in the ESAP.

8. CIP Programming

- 8.1. Summary of programming for the past year.
- 8.2. Comparison of actual total expenditures and budgeted total expenditures.
- 8.3. Description of expected budget and programming for the coming year.

9. Environmental and Social Monitoring Programme

- 9.1. Summary of ESMS monitoring commitments completed during the year, including summary of results, comparison of environmental performance to applicable Environmental Standards and summary of performance against KPIs.
- 9.2. Summary of environmental and social training.

10. Project Communication

10.1. Update of ongoing communication with external stakeholders.

10.2. Update of community liaison activities.

11. Summary of results of RAP Monitoring

12. Summary of Key Health and Safety Statistics

12.1. Lost time.

12.2. Injuries.

12.3. Fatalities.

13. Audits

13.1. Summary of the results of the Operator's internal environmental and social audit programmes.

Commitments Register

Contractor Control Plans

1. Pollution Prevention Management
2. Waste Management
3. Oil Spill Response (construction)
4. Fauna Management
5. Aggregates Management
6. Transport Management
7. Recruitment, Employment and Training
8. Procurement and Supply Chain Management
9. Construction Camp Management
10. Communicable Diseases Awareness and Prevention
11. Onshore Pipeline Installation Environmental and Social Management
12. Near Shore Pipeline Installation Environmental and Social Management

Management Plans

1. The Community Liaison Plan
2. The Cultural Heritage Management Plan
3. The Landscape Management Plan
4. The Tortoise Management Plan
5. Construction Health and Safety Management Principles

Monitoring Register

