



# COUNTRY SUSTAINABILITY REPORT

## AZERBAIJAN



## ABOUT THIS COUNTRY REPORT

*The present report is part of the Sustainability Reports that Saipem began to publish in 2003, aware of the importance of informing stakeholders on the sustainability approach Saipem implements in the areas of the world where it operates.*

*The report focuses on a specific country or area and describes the principles, activities and performance achieved by Saipem and its Operating Companies toward sustainable development.*

*The report has been structured to provide easy access to key indicators and information. It is divided into two parts: the first part gives an overview of Saipem and its business around the world, while the second part focuses on the specific country. The latter part is composed of a first section describing the country, a second section describing Saipem's presence in the country and its sustainability approach, and finally a third section reporting the overall sustainability performance of Saipem, addressed to different stakeholders.*

*The report has been structured taking the GRI Guidelines as a reference, identifying those indicators most representative of Saipem presence in the country.*

*The Country Sustainability Reports, together with the annual Saipem Sustainability Report and the Project Sustainability Reports, represent the main Saipem tools for communicating its vision for Sustainability to all its stakeholders.*

*This Local Sustainability Report has been developed in accordance with the principles of materiality, stakeholder inclusiveness, sustainability context and completeness. As for the yearly Corporate Saipem Sustainability Report, this Local Report is strongly focused on stakeholders. All relevant and legitimate stakeholders in Azerbaijan have been identified and their needs analysed. This Report is intended to describe Saipem's performance and its engagement with its stakeholders in Azerbaijan.*

*A set of Key Performance Indicators (KPIs) was selected to support the information provided to stakeholders.*

*Data is taken from the information systems used for the general management and accounting of the companies' operations or from public data made available by recognised institutions.*

*This Local Sustainability Report illustrates Saipem's activities in Azerbaijan conducted by Saipem Asia Azerbaijan Branch and BOS Shelf.*

*All data has been reported for 2009, unless otherwise specified, and, when available, for previous financial years.*

*Information and data updated at 2009.*

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# MESSAGE FROM THE CEO



*Umberto Vergine*

Saipem is an international Oil&Gas contractor with approximately 48,000 employees and operations in more than 60 countries.

Saipem plays a significant role in its market sector and contributes substantially to the economic development of the countries in which it operates.

We consider business sustainability to be an integral part of our strategy. Our commitment is to create long-term value for all our stakeholders, especially locally, by identifying common goals and agreeing on specific initiatives. Given

the wide range and complexity of our activities, our engagement with local stakeholders requires a comprehensive approach to sustainability. Furthermore, the variety of projects undertaken and the differences between countries where these activities are performed demand that a distinctive local approach be developed.

We publish these Reports on our Local Business Sustainability in order to favour open dialogue and enhance the development of local relationships, helping us to ensure that we operate at all times in an increasingly sustainable manner.

## MISSION

*Pursuing the satisfaction of our clients in the energy industry, we tackle each challenge with safe, reliable and innovative solutions. We entrust our competent and multi-local teams to provide sustainable development for our Company and the communities in which we operate.*

# OVERVIEW OF SAIPEM IN AZERBAIJAN

Saipem is represented in Azerbaijan by Saipem Asia Azerbaijan Branch and BOS Shelf Llc, a Company between SOCAR (State Oil Company of Azerbaijan Republic) and Star Gulf (Saipem Group Company). The two companies have been involved into the Azeri-Chirag-Gunashli (ACG) Project since 2001, contributing to the development of the largest oil project in Azerbaijan through their strong partnership with SOCAR and its affiliates.

To share its know-how and strengthen its position in the country, in November 2007, Saipem Asia Azerbaijan Branch formed an Alliance with SOCAR, further confirming its commitment and strategy to a sustainable development of its business in Azerbaijan and the Caspian Sea region.

The sustainable business approach of Saipem Companies in Azerbaijan contributes to the development of local communities, mainly by offering employment opportunities, training and the transfer of know-how, and also working effectively with local suppliers and subcontractors.

To develop the local content and in line with the nationalisation programme, Saipem initiated a system of Competency Assessment through the creation of training scheme, utilising specialist trainers both in and out of the country, promoting and supporting the advancement of Azerbaijani Nationals.

Local employees at BOS Shelf:

**100%**

Local employees Saipem Asia Azerbaijan Branch:

**88%**

Total purchased from Azerbaijani vendors:

**59%**

(Data 2009)

# LETTER FROM THE MANAGEMENT



Dear colleagues and stakeholders,  
I am pleased to introduce the Azerbaijan Country Case Study prepared in 2010. This document endeavours to describe Saipem efforts to responsibly operate in Azerbaijan, one of the fast paced developing countries in the entire Caspian region, and covers the progresses made in meeting the needs of our stakeholders while contributing to a sustainable development of our community, in strict cooperation with the State Oil Company of Azerbaijan Republic (SOCAR) and our Client.

The way we do things in Azerbaijan can be mainly summarised in a number of distinctive aspects of our approach to the work, mainly based on continuous attention to achieve safe and effective operations for our stakeholders, a methodical encouragement of know-how transfer, a careful development of the Azerbaijani workforce towards positions with increasing responsibilities and constant creation of opportunities for local suppliers. As a result of this attitude, Saipem has generated an increased wealth for the entire Azerbaijani community directly and indirectly involved in our activities. This Case Study will also show Saipem passionate attention to the promotion of our Health and Safety culture and belief. To such extent, the implementation of our Leadership in Health and Safety Program has successfully contributed to disseminate the strong commitment of Saipem to a sustained improvement in our safety performances. I would like to close this introduction letter by thanking all people in Saipem that have contributed, and continue to do so with their daily responsible work, to cast the bases for our long standing and deep rooted presence in Azerbaijan. I do hope you will find this study interesting.

**Mr. Luca Cattedri**  
Branch Manager of Saipem Asia Azerbaijan Branch  
General Manager of SOCAR/Saipem Alliance



By presenting this study, I am pleased to present BOS Shelf through the perspective of Sustainability.

BOS Shelf Sustainability Policy is closely linked with the Company's Strategy which has been formalised from the beginning of operations in 2001 and continues to develop nowadays.

Since the beginning of operations we are meeting many opportunities to improve our productivity, the care for our people, and the safeguard of the environment in which we work and live. I do remain convinced that this way of thinking and acting brings the Company to the higher achievements and we can continuously improve.

As a local Company, BOS Shelf pays high attention to the local values, intimately knowing, integrating with and truly adapting to the local contexts; training and employing local workers, working with local businesses, helping local communities. We do belong to the community we are working in and willing to make as much contribution into progressive development of each sector connected to our operations, as possible.

The nature of our business has always required us to pay serious attention to social and environmental factors, when implementing our projects. Without this comprehensive approach, we would not have been able to succeed in our past projects. We are now even more determined to provide our customers with improved services and outstanding results. BOS Shelf is committed to follow Sustainability Policy of Saipem Group actively, which, I am sure, will support Company's healthy and permanent development in Azerbaijan for future years.

**Mr. Ikhtiyar Akhundov**  
General Director BOS Shelf LLC

# LETTER FROM SOCAR (STATE OIL COMPANY OF AZERBAIJAN REPUBLIC)

## *Partner in the SOCAR/Saipem Alliance*

The State Oil Company of Azerbaijan Republic, incorporated in 1992, is responsible for managing all oil and gas assets and activities for the Republic of Azerbaijan and currently employs more than 60,000 people. SOCAR holds a direct stake in the Azerbaijan International Operating Company, which operates the giant ACG oil fields situated in the Caspian Sea, as well as in the 1 million barrel-per-day BTC crude export pipeline between Baku and the port of Ceyhan in Turkey. In addition, SOCAR is responsible for marketing all State volumes on the part of the Azerbaijan State Oil Fund SOFAZ, and holds participations in a range of other onshore and offshore fields and projects in Azerbaijan including its large new gas fields such as Shah Deniz and Absheron.

SOCAR moreover operates two refineries in the outskirts of Baku and in recent years has started its international expansion with mid to downstream investments in Georgia and Turkey, and the establishment of its international trading and development arm SOCAR Trading in Switzerland.

Within SOCAR, the Investments Division is involved with encouraging, facilitating, executing, and monitoring the activities of foreign and domestic investors entering in contracts with SOCAR in order to assure the compliance with the legislative, financial, and regulatory norms and obligations in place in Azerbaijan so as to harmonise those investments with the Azerbaijan jurisdiction and SOCAR policies and objectives.

Significant developments being made since the signature of the so called Contract of Century for development of Azeri-Chirag-Guneshli field, signed in 1994 between SOCAR and 11 major oil companies.

Remarkable achievements have been attained and strong relationships have been secured by SOCAR with the main oil companies participating in the Production Sharing Agreement and the main contractors operating in the country to realise ambitious objectives.

'Saipem Group has been successfully working in Azerbaijan since 2001 with Saipem Asia Azerbaijan and BOS Shelf, safely completing the fabrication and installation of six oil platforms.

The sustainable business approach of Saipem Group in Azerbaijan since the beginning of its operations has greatly contributed to the development of the welfare of our local communities. Enhancement of local content with a constant increment of local employment and a continuous development of local suppliers have always been among those distinguished characteristics of Saipem Group





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SAIPEM SUSTAINABILITY

which have complied with SOCAR's sustainability and operational philosophies. Following all these major achievements of Saipem Group in Azerbaijan, in November 2007, SOCAR formed with Saipem Asia Azerbaijan an Alliance for the joint execution of major offshore projects in country, in order to consolidate the already established good business relationship between the two companies.

The unmatched capabilities of SOCAR in providing vessels, equipment and infrastructures, required for offshore operations in the Caspian Sea, together with Saipem world-class expertise in managing and implementing offshore assignments in connection with oil and gas exploration and development projects, have become a powerful incentive to the successful development of this Alliance. The basis of the decision of SOCAR to join forces together with Saipem Group Companies was proved by the award of three main contracts:

- 5 years Inspection, Maintenance and Repair Services Contract for BP AIOC in June 2008;
- 5 years 'Master Agreement for the Provision of Transportation and Installation Services' in October 2009;
- Fabrication of the COP Jacket in June 2010.

I am glad to say that today SOCAR and Saipem Group have created a strong bond in working together over the years.

Investments to increase in-country fabrication capacity and upgrade the BDWJF yard have created a significant opportunity for increasing local employment for Azerbaijani nationals.

Both Saipem Asia Azerbaijan and BOS Shelf are implementing a system of Competency Assessment through the creation of ad-hoc training programs in order to promote and support the advancement of Azerbaijani nationals.

It is understood and appreciated by SOCAR that the Saipem Group Nationalisation programme forms the very heart of SOCAR's and Saipem's long term relationship with the objective of developing our workforce in order to gradually and systematically replace expatriate personnel with national resources and increase the utilisation of local suppliers and subcontractors.

Over the years, Saipem Group is constantly replacing their own foreign personnel with Azerbaijanis in compliance with SOCAR's policy.

Today I can certainly assert that the decision of working with Saipem Group Companies under contractual agreements has proved to be the right one, and I do hope that our successful and fruitful cooperation will bring more business opportunities to both Companies, thus ensuring and consolidating Saipem's presence in Azerbaijan for many years to come'.

**Mr. Vagif Aliyev**  
Chief Investments Division of SOCAR



# INTRODUCTION TO SAIPEM

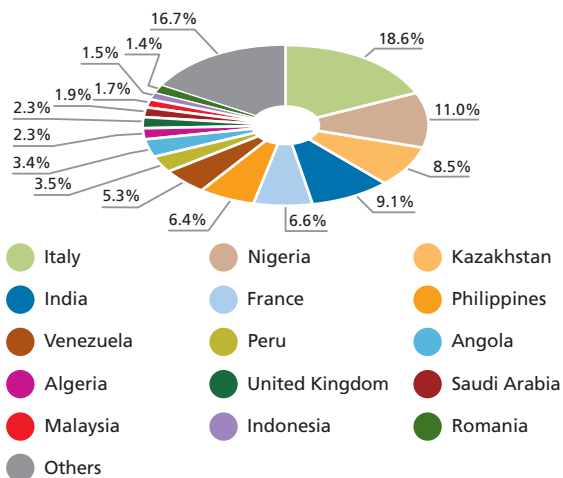
Saipem is an international group with a strong bias towards oil and gas related activities in remote areas and deepwater. The Company began operations in the 1950s and it is now a leader in the provision of engineering, procurement,

project management and construction services with distinctive capabilities in the design and the execution of large-scale offshore and onshore projects.

The organisation, since providing many different kinds of services, has been rationalised into three global Business Units: Onshore, Offshore, Drilling. It enjoys a superior competitive position for the provision of EPIC/EPC services to the oil industry both onshore and offshore; with a particular focus on the toughest and most technologically challenging projects – activities in remote areas, deepwater, difficult oil. The Group is a truly global contractor, with strong local presence in strategic and emerging areas such as West Africa, Americas, Central Asia, Middle East, North Africa and South East Asia.

Saipem is an international company employing over 38,000 people from around 115 nationalities. The major part of its human resources (85% in 2009) is locally employed.

**Saipem workforce distribution by nationality (2009)**



★ Operating and Engineering Hubs



● Engineering Centres



□ Yards and Main Logistic Bases

▲ Other Main Areas and Representative Offices



# SAIPEM'S SUSTAINABILITY APPROACH

Saipem believes that a correct, open and cooperative relationship with all stakeholders is vital for the success of each complex project Saipem carries out, frequently in very remote and most challenging areas.

Saipem has a presence in many locations around the world, operating with a decentralised organisation in order to respond to local needs and sustainability issues. Everywhere it works, the Company plays an active role in the local communities, mainly offering employment opportunities, and personnel training; by working effectively with local suppliers and subcontractors, creating economic and

social value, and finally by contributing to infrastructures construction (e.g. access roads, construction camps with all the facilities such as hospitals, power generation, etc.).

Saipem's international workforce and breath of internationalism is another facet of sustainability: all personnel are treated with dignity, always respecting their rights, cultural values, local customs and traditions, their diversity and identity.

For each project, social, economic and environmental effects are continuously monitored, as well as the satisfaction of customer's requirements.



# SAIPEM AT A GLANCE

## OFFSHORE

Saipem's pioneering work in pipeline installation (over 29,000 km laid since late 1950s) is matched by its experience in installing offshore platforms, in which it has mastered both the heavy lift and the float-over techniques.

Saipem has now evolved into an integrated EPCI contractor, having completed some 120 offshore construction projects over the last ten years, including groundbreaking achievements from complex deepwater developments to major trunk line systems.

FPSO (Floating Production Storage and Offloading) units are also part of Saipem's offshore line of products, both as new-built delivered turnkey to the customer, and as tanker conversions leased to and operated for the customer, as well as marine terminals and conventional buoy moorings.

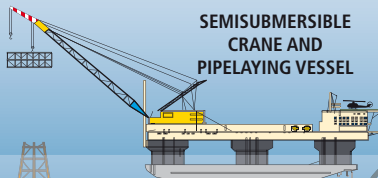
Saipem owns a strong, technologically advanced and highly-versatile fleet, and world class engineering and project

management expertise. Saipem capabilities are also supported by significant fabrication capabilities based at the core of major oil and gas provinces (Angola, Azerbaijan, Congo, Kazakhstan, Nigeria, UAE, Mediterranean Sea and Indonesia), with a potential of fabrication of 130,000 tonnes per year.

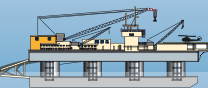
These unique capabilities and competences, together with a long-standing presence in strategic frontier markets, represent an industrial model that is particularly well suited to EPCI (Engineering, Procurement, Construction, Installation) projects.

## DRILLING

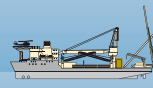
Saipem vast experience in managing drilling activities, associated with an adequate technological and operational level, have progressively developed the Company's actual capabilities. Over many decades of performance, Saipem has drilled over 7,100 wells, 1,750 of which have been offshore, totalling an overall depth of about 17.8 million m.



SEMISUBMERSIBLE PIPELAYING VESSEL



J-LAYING VESSEL



DRILL SHIP



Offshore, Saipem operates both in shallow and deep water using jack-ups, semisubmersible units, a tender assisted drilling vessel and a drill ship. For Onshore, Saipem operates with around 100 rigs self-owned.

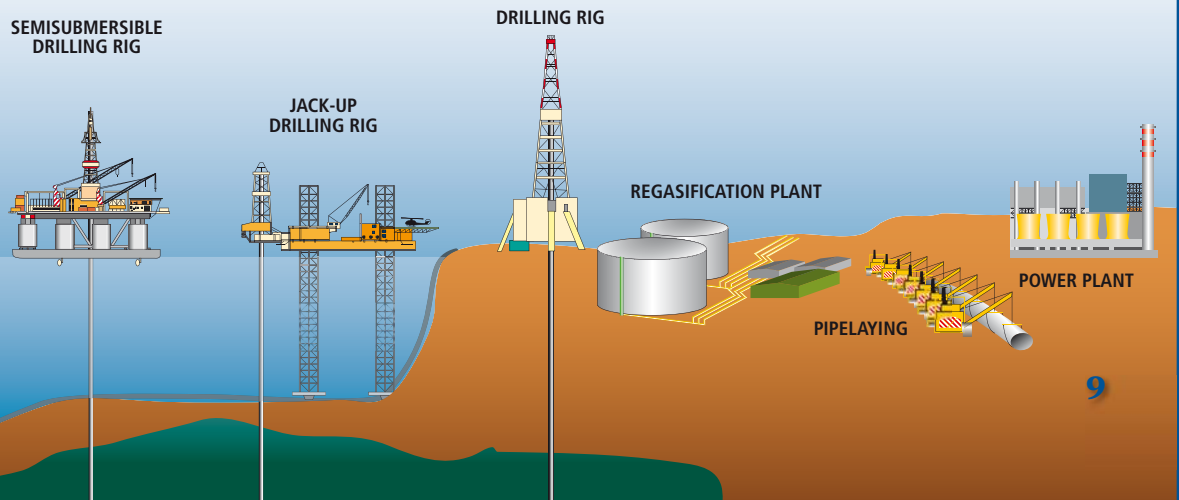
## ONSHORE

Saipem offers a complete range of services, from feasibility and front-end studies to design, engineering, procurement, and field construction, most often on an EPC and LSTK contractual basis, for complex oil & gas facilities, including production, treatment, liquefaction, refining and petrochemical plants, as well as for oil & gas transportation systems, such as pipelines, pumping and compression stations and terminals.

Saipem's expertise focuses on the design and execution of large projects with a high degree of complexity in terms of engineering, technology and project management, with a strong bias towards challenging projects in most difficult environments and remote areas.

Saipem has designed and built numerous 'mega' oil & gas production facilities, 37 grass-roots refineries and more than 500 individual refining process units, as well as more than 400 plants worldwide to produce chemicals from natural gas, including the world's largest ammonia/urea complexes. In particular, land pipeline design and construction has historically been one of the mainstays of Saipem business. The Company has laid a record of 100,000 km of pipelines on five continents. In recent years, the Company has designed and constructed more than 40 power plants and four Integrated Gasification Combined Cycle plants, two of which are the world's largest, the latter with the power output of about 550 MW each.

Saipem plays also a significant role in the design and execution of a large scale civil and marine infrastructure projects, such as the High Speed Railways, port facilities and marine terminals, and it also offers integrated environmental remediation services, such as those relating to soil and ground water and contaminated sites.



# SAIPEM IN THE WORLD

REST OF EUROPE		2007	2008	2009
Revenues	(€ million)	954	878	860
Investments	(€ million)	14	9	11
Workforce	(units)	3,618	4,793	4,220
Local Workforce	(% of total)	85	73	81
Energy Consumption	(toe)	44,386	63,095	55,930
HSE Training	(hours)	43,991	29,444	28,602

ITALY		2007	2008	2009
Revenues	(€ million)			
Investments	(€ million)			
Workforce	(units)			
Local Workforce	(% of total)			
Energy Consumption	(toe)			
HSE Training	(hours)			

AMERICAS		2007	2008	2009
Revenues	(€ million)	745	590	598
Investments	(€ million)	188	233	45
Workforce	(units)	4,021	4,562	5,218
Local Workforce	(% of total)	71	87	79
Energy Consumption	(toe)	52,392	115,130	157,889
HSE Training	(hours)	68,401	74,357	113,346

WEST AFRICA		2007	2008	2009
Revenues	(€ million)	1,677	1,950	2,315
Investments	(€ million)	54	49	61
Workforce	(units)	5,814	6,471	8,160
Local Workforce	(% of total)	69	67	70
Energy Consumption	(toe)	52,744	56,633	63,411
HSE Training	(hours)	102,014	146,953	148,707

NORTH AFRICA		2007	2008	2009
Revenues	(€ million)			
Investments	(€ million)			
Workforce	(units)			
Local Workforce	(% of total)			
Energy Consumption	(toe)			
HSE Training	(hours)			

## Additional data for investments

Further investments not allocated by Areas were (in € million) 1,184 in 2007, 1,463 in 2008 and 1,211 in 2009.

2007	2008	2009
1,051	1,135	1,139
18	68	106
5,295	5,982	5,853
98	91	88
69,382	14,566	17,021
8,441	125,996	247,367

CIS		2007	2008	2009
Revenues	(€ million)	1,031	1,092	1,186
Investments	(€ million)	75	107	95
Workforce	(units)	6,486	5,566	5,603
Local Workforce	(% of total)	78	72	72
Energy Consumption	(toe)	65,738	86,502	34,221
HSE Training	(hours)	369,070	325,588	131,206

REST OF ASIA-PACIFIC		2007	2008	2009
Revenues	(€ million)	1,433	1,375	1,534
Investments	(€ million)	4	26	74
Workforce	(units)	2,429	3,533	3,925
Local Workforce	(% of total)	65	66	66
Energy Consumption	(toe)	45,997	34,682	64,054
HSE Training	(hours)	73,365	86,170	94,297

2007	2008	2009
727	1,475	1,791
42	8	4
1,690	1,783	1,749
43	55	69
33,160	35,991	32,766
36,765	47,626	45,258

SAUDI ARABIA		2007	2008	2009
Revenues	(€ million)	1,912	1,599	869
Investments	(€ million)	65	81	8
Workforce	(units)	4,937	5,300	3,324
Local Workforce	(% of total)	97	96	96
Energy Consumption	(toe)	59,322	64,439	47,402
HSE Training	(hours)	89,275	210,281	50,112

# AZERBAIJAN



## COUNTRY OVERVIEW

*Bounded by the Caspian Sea to the east and the Greater Caucasus mountain range to the north, the Republic of Azerbaijan has a total land area of 86,600 sq. km. Sharing borders with Georgia, Russia, Turkey, Iran, and Armenia, Azerbaijan has long been the centre of the region's oil industry. With a population of about 9 million, Azerbaijan enjoys a young demographic profile with some 23.8*

*percent of the population under 15 years old and only 9.3 percent of retirement age. As a crossroads of tribal migration and military campaigns, Azerbaijan underwent a series of invasions and was part of several larger jurisdictions such as Arab Caliphate, Seljuk Turks, Persian Sefavids and Tsarist and Soviet Russia. Azerbaijan was a part of the Russian Empire from the early 19<sup>th</sup> century*

*to 1918, an independent democratic state from 1918 to 1920 as the region's first, albeit short-lived, secular democracy, and a part of the Soviet Union from 1922 to 1991, when Azerbaijan proclaimed its independence on October 18. On November 12, 1995, the Constitution of the independent Azerbaijan was adopted and received nationwide support in a national referendum.*

## SOCIAL OVERVIEW

During late 1980s and early 1990s, Azerbaijan endured the collapse of the Soviet Union, with economic downfall, and a devastating war against neighbouring Armenia. The impact of this economic downfall was severe: in 1995 GDP was only 42 percent of its 1990 pre-independence level. Unemployment was endemic: out of a total population of 8 million, approximately one million Azerbaijanis were refugees and internally displaced people who had fled the areas occupied

by Armenian forces and another 2 million had left the country, mainly for Russia, to find work. This situation changed with the 'Contract of the Century', which not only provided massive oil revenues for the government, but also offered an opportunity to a large part of the Azerbaijani private sector to rebuild itself by working with the world major oil and gas service companies. Particular commitment has been given to the development of various sectors of Azerbaijani economy to guarantee economic stability and the

### Social indicators

Population growth rate (2009) <sup>(1)</sup>	(%)	1.3
Ethnic groups (1999 census) <sup>(1)</sup>	(%)	Azeri 90.6, Dagestani 2.2, Russian 1.8, Armenian 1.5, others 3.9. Note: the separatist Nagorno-Karabakh region is populated almost entirely by Armenians
Median age <sup>(2)</sup>	(years)	28.5
Life expectancy (2005-2010) <sup>(1)</sup>	(years)	71.2/63.8 (women/men)
Literacy rate <sup>(1)</sup>	(%)	99.5%

(1) State Statistical Committee Azerbaijan 2010.

(2) CIA World Fact book - Azerbaijan - updated on November 3, 2010 (<https://www.cia.gov/library/publications/the-world-factbook/geos/aj.html>).



Baku, capital city of Azerbaijan

implementation of major projects in various areas, including transportation, agriculture, industry, education and social services.

Nowadays, the 4.3 million workforce (April 2010) is still mainly occupied in agriculture (38%) but the percentage of occupation in the industry and construction (13%) is increasing thanks to more than a dozen oil production-sharing agreements (PSAs) with international Companies and rising employment and further development of Azerbaijani resources by foreign companies. The population is evenly distributed between urban and rural areas, with 53.9% residing in towns and cities. Azerbaijan is a positive model of peaceful co-existence of religious communities.

Although predominantly Muslim (93% of population), the country traditionally counts various ethnic groups, religions, and cultural traditions (mainly Russian Orthodox 2.5%, Armenian Orthodox Church 2.3%).

## ECONOMY AND ENERGY OVERVIEW

Azerbaijan has been famed for its oil springs and natural gas sources since ancient times. Baku is the oldest oil field in the world. The very first industrial oil production operation was implemented in Azerbaijan and at the dawn of the 19<sup>th</sup> century, Azerbaijan became the largest oil country in the world. The Country has important oil reserves and a significant agricultural potential

### Economic indicators

Gross Domestic Product (GDP) (current prices) - 2009 <sup>(1)</sup>	(billion \$)	43
GDP (Purchasing power parity) - 2009 <sup>(1)</sup>	(billion \$)	86
GDP per capita (2009 est) <sup>(1)</sup>	(\$)	4,807
Inflation rate (2010) <sup>(2)</sup>	(%)	4.9
Labour force (2010) <sup>(2)</sup>	(units)	4,338,900

(1) International Monetary Fund, World Economic Outlook Database, April 2010.

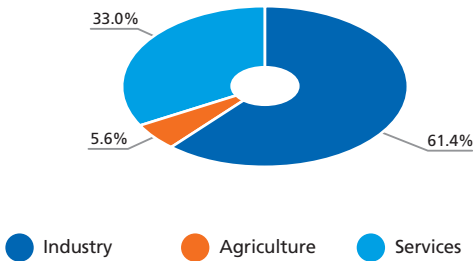
(2) State Statistical Committee Azerbaijan 2010.

**Energy supply and consumption**

	Production	Imports	Exports	Consumption
Crude Oil	42,806	-	(34,954)	-
Petroleum Products	-	75	(3,182)	2,511
Gas	9,083	-	(1,529)	2,590
Hydro	203	-	-	-
Combustible Renewable and Waste	2	3	-	4
Electricity	-	47	(68)	1,325
Heat	-	-	-	340
<b>Total (*)</b>	<b>52,094</b>	<b>124</b>	<b>(39,732)</b>	<b>6,770</b>

(\*) Totals may not add up due to rounding.  
 All values are expressed in thousand tonnes of oil equivalent (ktoe) on a net calorific value basis.  
 Source: IEA Energy Statistics, 2007 ([http://www.iea.org/stats/balancetable.asp?COUNTRY\\_CODE=AZ](http://www.iea.org/stats/balancetable.asp?COUNTRY_CODE=AZ)).

**GDP by sector (2009)**



based on a wide variety of 9 climatic zones. Since 1994, the State Oil Company of Azerbaijan Republic (SOCAR) has signed 28 Production Sharing Agreements (PSA) with the first signed for development of Azeri-Chirag-Guneshli (ACG) field in September 1994 – so called ‘Contract of the Century’ –, covering an offshore contract area of 432 square kilometres. The ACG field occupies the third place among the world’s 20 largest oil fields. The daily oil production from the ACG field exceeds 900,000 barrels. Within the next 30 years, Azerbaijan oil

production is expected to surpass the total number of barrels produced for the past 130 years. Azerbaijan plays the role of a strong gas exporter that has recently joined the world energy market. The Shah Deniz (SD) Production Sharing Agreement (PSA) was signed in October 1996, covering an offshore contract area of approximately 800 square kilometres. Major gas volumes produced from Shah Deniz and other successful development fields are being exported to Europe. SOCAR has a 25% stake in the Baku-Tbilisi-Ceyhan pipeline and 10% in South Caucasus Pipeline. It also has stakes in the Baku-Supsa Pipeline and Baku-Novorossiysk Pipeline. All these contracts help to ensure the rapid growth of new investments into Azerbaijan. Nowadays, Azerbaijan, with annual growth exceeding 10% since 2000, is considered to be a very reliable host country for the stable export of oil and gas produced in Central Asia to world markets. In 2009 Azerbaijan’s gross domestic product increased by 9.3%, with growth in 2010 estimated at 9.8%. Connecting South Eastern Europe with the vast regions of growing importance such as central Asia and the Caspian Sea, Azerbaijan has the largest and the fastest growing economy in the South Caucasus.





Volcanic mud in  
Baku

## ENVIRONMENTAL ASPECTS

*'... It should be major responsibility for each of us to take care of the rich resources that nature has endowed us and save these matchless treasures for the future mankind...'*

Heydar Aliyev

National Leader of Azerbaijan Republic

Nowadays, Azerbaijan faces serious environmental challenges. Soil throughout the region has been contaminated by DDT and toxic defoliants used in cotton production during the Soviet era. Over-fishing by poachers is threatening the survival

of Caspian sturgeon stocks, source of most of the world's supply of caviar. Furthermore, Caspian petroleum and petrochemicals industries also have contributed to current air and water pollution problems.

### While oil is welfare, nature is life


The age of environmental problems in Azerbaijan is equal to the history of oil production. Use of primitive technologies in production, storage, transportation and refinery of oil in the late XIX and early XX centuries caused pollution of lands, lakes and small ponds due to oil and sludge water. With the production of oil by 'open fountain' method onshore and offshore Caspian Sea, waste waters and drilling fluids, streamed into the

### Environmental indicators

Area <sup>(1)</sup>	(ha)	8,660,000
Freshwater withdrawal <sup>(1)</sup>	(billion m <sup>3</sup> /y)	7.9
CO <sub>2</sub> emissions per year (2006) <sup>(2)</sup>	(t CO <sub>2</sub> eq)	35,024,000
CO <sub>2</sub> emissions per capita per year (2006) <sup>(2)</sup>	(t CO <sub>2</sub> eq)	4.0
Threatened species (2009) <sup>(2)</sup>	(No.)	44
Forested area (2007) <sup>(2)</sup>	(% of land area)	11.3
Protected areas <sup>(1)</sup>	(ha)	514,200

(1) State Statistical Committee of Azerbaijan 2010.

(2) UN Statistics Divisions - World Statistics Pocketbook - Azerbaijan.  
[http://unstats.un.org/unsd/pocketbook/country\\_profiles.pdf](http://unstats.un.org/unsd/pocketbook/country_profiles.pdf)



Azerbaijan  
mountain  
environment

sea for nearly 60 years, have negatively impacted the environment. Old and corroded metal constructions settled down on the sea bed have become another pollution source.

From exploration to transportation and refining, Azerbaijan's Caspian Sea oil production endangers the environment.

The activities associated with the oil industry can harm biological processes, with significant environmental and economic repercussions. To this end, Azerbaijan Government has taken action against environmental problems accumulated over many years and has implemented a national environmental program.

In 1996 Azerbaijan Government adopted the Regulations for Conducting Environmental Impact Assessment in the Republic of Azerbaijan (UNDP/ State Environmental Committee, 1996). According to the Environmental Protection Law, an EIA study is now compulsory for all projects having a potential impact on the environment. In addition, the Environmental Protection Law, adopted in 1999, states the main principles for nature preservation, determines objectives for environmental monitoring and establishes the 'ecological insurance' for dangerous activities. The National Environmental Plan, approved in 2003, covers all existing environmental problems.

Main references:  
PricewaterhouseCoopers 'Doing Business and Investing in Azerbaijan' 2010 Report.  
Baker & Mckenzie 'Doing Business in Azerbaijan' 2009 report.

Up to 2010, the area preserved by the State has increased from 478,000 ha to 876,200 ha, that is more than 10% of the total land of Azerbaijan. Forest restoration and tree-planting works covered 70,000 ha of land area. Large projects on renovation of the central sewage system, upgrading of sewage disposal plants and construction of new plants are being implemented.

Azerbaijan also actively participates in an oil industry programme, called the 'Caspian Environmental Program', jointly established in 1998 by Caspian basin countries and international organisations (UNDP, UNEP, World Bank, UE Action Aid and GEF). The goal of the program is the development of joint efforts and cooperation of coastal countries for the improvement of the environmental situation of the Caspian Sea and its coastal ecosystems.

In accordance with the decree of the President of Azerbaijan Republic to improve environmental situation in Absheron Peninsula signed on September 28, 2006, a State Ecological Program (SEP) has been implemented which includes comprehensive measures focusing on cleanup and remediation of more than 10,000 ha of oil polluted lands nearby Baku city and on Absheron peninsula. Program implementation includes the participation of SOCAR and various Ministries.

# SAIPEM PRESENCE IN AZERBAIJAN

Saipem is represented in Azerbaijan by Saipem Asia Azerbaijan Branch and BOS Shelf. The two companies have been involved into the Azeri-Chirag-Gunashli (ACG) development project since 2001, consolidating their position as a world class Fabrication, Transportation & Installation (T&I) Contractor for BP/AIOC.

## BOS Shelf Llc

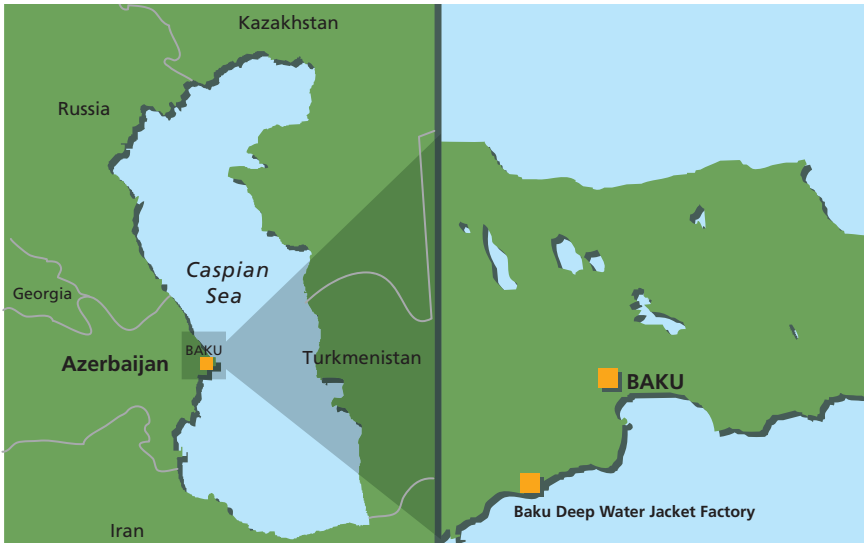
BOS Shelf Llc, created in 2001 between SOCAR (State Oil Company of the Azerbaijan Republic), and Star Gulf Llc (Saipem Group company), operates at Baku Deep Water Jacket Factory (BDWJF). The Yard of BDWJF, located 35 km south of Baku, has been operational since 1978 with the scope of providing construction services to the offshore oil and gas industry in the Azerbaijan sector and other areas of the Caspian Sea. BOS Shelf has managed the Yard since 2001 and it remains the largest of its kind in the Caspian region.

In November 2001, BOS Shelf was

awarded a contract by AIOC to construct two jackets, piles and a subsea template for Phase I of Azeri-Chirag-Gunashli (ACG) field development. The works were carried out at BDWJF Yard. In order to undertake the project according to international and Client's high standards, an extensive upgrading and refurbishment was required to the workshops, construction area, the quayside, offices and general infrastructures.

Successful execution of ACG Phase I in terms of safety, quality, cost and schedule paved the way for BOS Shelf being awarded ACG Phases II and III work comprising four jackets and all associated piles. The scopes of these Phases were completed ahead of schedule, maintaining the success of Phase I.

In 2010, BOS Shelf has been awarded different contracts for the construction of 18,000 tonnes jacket, piles and subsea template for AIOC Chirag Oil Project. All these activities will be undertaken at BDWJF Yard.



## MAIN PROJECTS

Project & Contract Reference	Client	Description
<b>Completed Projects since 2001</b>		
<b>Saipem SpA Azerbaijan</b>		
ACG Phase 1 Project FFD-C-007	Azerbaijan International Operating Co (AIOC)	Transport and Installation of the DQ Drilling Template, DQ Jacket & Topsides and C&WP Jacket & Topsides including Engineering and Upgrade, Strengthening & Refurbishment of Installation Vessel Derrick Barge Azerbaijan (DBA) and Transport Barge STB-1.
ACG Phase 1 Project FFD-C-007 Amendment 01	AIOC	Transport and installation of the West Azeri Drilling Template including Engineering.
ACG Phase 2 Project FFD-C-007 Amendment 02	AIOC	Transport and Installation of the East Azeri Drilling Template, WA Jacket & Topsides and EA Jacket & Topsides including Engineering and Upgrading & Refurbishing the DBA and Strengthening & Refurbishing the STB-1.
ACG Phase 2 Project FFD-C-007 Amendment 04	AIOC	Transport and Installation of the West Azeri Drilling Template No. 2 including Engineering.
ACG Phase 3 FFD-C-007 Amendment 05	AIOC	Transport and Installation of the DUQ Drilling Template, DUQ Jacket & Topsides and PCWU Jacket & Topsides including Engineering and DBA Upgrade & Refurbishment and STB-1 Strengthening & Modifications.
ACG Phase 1 & 2 Project FFD-C-007 Amendment 08	AIOC	DBA and STB-1 Care and Maintenance.
ACG Project FFD-C-007 Amendment 10	AIOC	Chirag Conductor Guide Frame Remedial Works from the DBA equipped with a modular Saturation Diving Spread including provision of all diving equipment, personnel and consumables.
ACG Project FFD-C-007 Amendment 11	AIOC	Shah Deniz 2 Borehole Survey.
ACG Project FFD-C-007 Amendment 12	AIOC	Dewatering Services at DWG WYEs from the DBA in Saturation Diving Mode including provision of all diving equipment, personnel and consumables.
<b>Current Projects</b>		
<b>Saipem Asia Azerbaijan Branch</b>		
IMR Project C-08-BPCS-126525	BP Exploration Ltd (Caspian Sea)	Inspection Repair and Maintenance Works utilising Diving Support Vessel 'Tofiq Ismaylov' and Maintaining DSV in ready to use condition, for the Planned and Unplanned Works, remedial/repair works to underwater structures, pipelines and subsea equipment.
Master Agreement CAS-MA-008	BP Exploration Ltd (Caspian Sea)	Transport & Installation Services in the Caspian Region.
Call Off 001 COP-C-034 Under Master Agreement CAS-MA-008	AIOC	Transport & Installation of the West Chirag Pre-drilling Template and Jacket Pin Piles including Reactivation of Heavy Lift Vessel DBA.
Call Off 002 (Operations) Under Master Agreement CAS-MA-008	AIOC	Replacement of the Chirag 1 Platform Crane.
Call Off 003 (COP-C-070) Under Master Agreement CAS-MA-008	AIOC	Transport & Installation Engineering Services for West Chirag Jacket Design Review.

Project & Contract Reference	Client	Description
<b>Completed Projects since 2001</b>		
<b>BOS Shelf Llc</b>		
ACG Phase 1 Project FFD-C-004	AIOC	Engineering and Fabrication of the CA and CWP Jacket and associated piles and CA Template.
ACG Phase 2 Project FFD-C-610	AIOC	Engineering and Fabrication of the WA and EA Jacket and associated piles and WA, WA 2 and EA Template.
ACG Phase 3 FFD-C-1007	AIOC	Engineering and Fabrication of DUQ Drilling Template, DUQ Jacket and PCWU Jacket and associated piles.
Petronas Carigalis EWT SBM.SO17240.S01	Single Buoy Moorings	Assembly and commissioning of a prefabricated cruciform shaped Mobile Offshore Production Unit.
Gedabek Gold Ore Processing Plant	AIMC Azerbaijan International Mining Co	Construction of an Onshore Gold Ore Processing Plant.
Istiglal Remobilisation Campaign	Caspian Drilling Co (CDC)	Miscellaneous Upgrades for remobilization offshore of Istiglal Drilling Rig.
ACG COP Project COP-C-027	AIOC	Engineering and Fabrication of COP Drilling Template and upgrades of Facilities.
<b>Ongoing Projects</b>		
ACG COP Project COP-C-031	AIOC	Engineering and Fabrication of COP Jacket and associated piles and Riser Support Frame for brownfield activities.
Absheron Exploratory Well - ABX2	Total Absheron BV	Logistics support to Drilling Operations.

BOS Shelf has a capacity of 60,000 tonnes of offshore construction per annum. The yard has an erection area of 220,000 m<sup>2</sup> incorporating a skidway with a dedicated push/pull system for loading out structures of 20,000 tonnes from quayside to transportation barge. Workshop upgrades have provided five plate rolling lines with a capacity for plate thicknesses from 10 mm to 150 mm. These rolling lines are followed up in the production train by latest welding and NDT technology completing the plate to tubular process. This gives self-sufficiency in the construction of large diameter tubulars on site and simplifies logistics, thereby reducing costs.

### Saipem Azerbaijan

In 2001 Saipem SpA opened a Representative Office in Baku and a logistic base at BDWJF. The facilities were set up primarily to manage and carry out the transportation

and installation activities of the ACG Project (Azeri-Chirag-Gunashli). The Project's scope grew progressively in three consecutive phases. The sum of installations comprised:

- 5 pre-drilling templates;
- six 16,670 t jackets;
- six 15,500 t floatover topsides;
- 2 link bridges 600 t.

The main vessels used to complete these installations were the SOCAR-owned launch barge STB-1 and the heavy lift crane barge Derrick Barge Azerbaijan (DBA). The STB-1 was strengthened with over 1,300 t of structural steel and equipment to give it the capability of providing for the specific requirements of floatover operations.

The DBA underwent extensive upgrades to bring it to an acceptable standard in order to support operations and carryout lifted installations.

Additional activities were awarded that included seabed clean-ups, pipe spool wet-storage and the installation of a

complex array of brownfield modules to increase compression capacity on ACG Phase 1. The ACG Project phases 1, 2 and 3 were completed in March 2008 after over six years of activities. In July 2008, the newly formed Saipem Asia Azerbaijan Branch was awarded a 5 year project for BP Caspian Sea Ltd, referred to as the Inspection Maintenance and Repair Project (IMR). The scope of the project is the inspection, maintenance and repair of BP/AIOC subsea assets associated with ACG and Shah Deniz fields and, in particular, the provision of a quick response capability so as to promptly intervene in case of damage or malfunction of assets to limit loss of containment, structural failure and unintended release of stored energy and thereby avoid injuries to people and damages to the environment. Saipem, in close cooperation with its alliance partner SOCAR, has the responsibility to provide, operate, maintain and upgrade the Diving Support Vessel Tofik Ismayilov, inclusive of the Saturation and Air diving systems and the provision of modern Work Class and eyeball ROV spreads. In October 2009, Saipem Asia Azerbaijan Branch was awarded a 5-year Master Agreement by BP Caspian Sea Ltd, associated to the provision of

Transportation & Installation Services in the Azerbaijan part of the Caspian Sea.

The Master Agreement, focusing on the next two major developments of BP in the Caspian region, namely the Chirag Oil Project (COP) and the Shah Deniz, Stage 2 project (SD 2), establishes the main principles and contractual conditions; while the specific works will be defined by means of Call Offs.

The Chirag Oil Project is a \$6 billion development and is planned to increase oil production and recovery of an additional 360 million barrels of oil from the ACG field through a new offshore facility to be installed between Deepwater Gunashli and Chirag platforms.

Shah Deniz Stage 2 gas development will include an additional offshore platform (SDB), subsea pipelines, subsea wells and infrastructure, expansion of the onshore processing terminal at Sangachal and expansion of the South Caucasus Pipeline (SCP).

In July 2010 Saipem has successfully completed on time Call Off 001 of the Master Agreement – Chirag Oil Project (COP) for Transport and Installation for West Chirag Pre-drilling Template and Jacket Pin Piles – and Call Off 002, for Replacement of the Chirag 1 Platform Crane.

View of the BOS Shelf Fabrication Yard

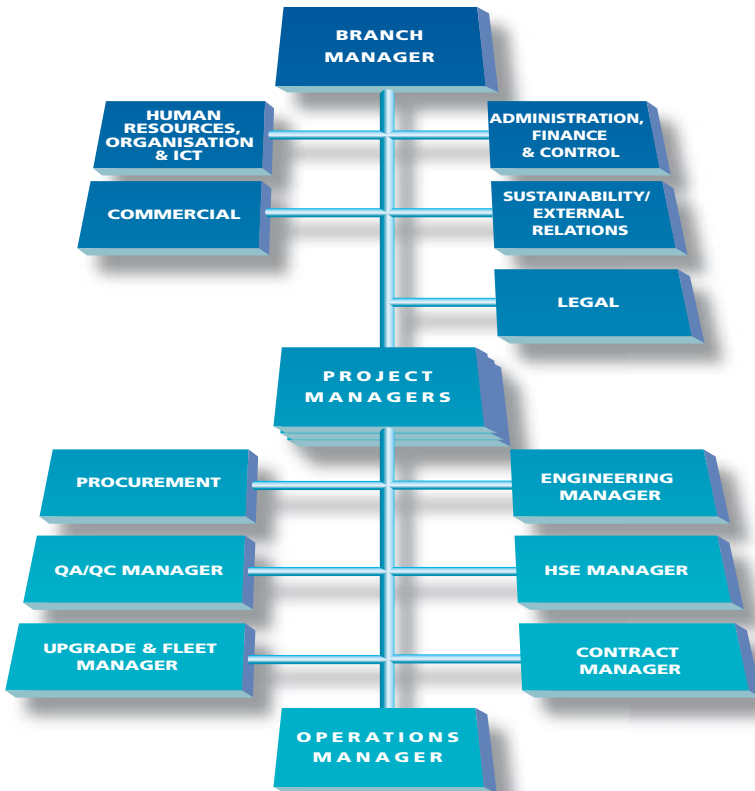


## COMPANY ORGANISATION AND MANAGEMENT SYSTEM

All activities of Saipem Asia Azerbaijan Branch are under the responsibility and supervision of its Branch Manager, reporting directly to BU Offshore Manager for the Mediterranean Sea, Middle East and Caspian region. Saipem Branch includes Departments that directly respond to the Branch Manager and others that are more projects orientated and therefore directly report to the Project Managers who directly report to the Branch Manager. Aware of the importance of the sustainability programme to consolidate its presence in Azerbaijan, Saipem

Asia Azerbaijan Branch has identified a Sustainability Facilitator that directly reports to the Branch Manager and coordinates all initiatives related to local stakeholders' engagement and the development of community's welfare. All sustainability initiatives of Saipem Asia Azerbaijan Branch are thoroughly planned in close collaboration with Project Management, HSE, Procurement and HRO Departments, assessed and approved by the Branch Manager and in full compliance with Saipem Sustainability policy. Saipem Azerbaijan Branch intends to keep relations with local communities and other local stakeholders, maintaining with them a transparent and direct communication on sustainability initiatives and periodic community meetings.

**Saipem Asia Azerbaijan Branch organisation chart**



BOS Shelf acts under the responsibility of the General Director, who is supported by a number of staff and Departments' managers to develop the operations for engineering, procurement & construction. BOS Shelf Management system is certified ISO 9001:2008.

In order to manage the performance of the activities effectively, BOS shelf developed an Environmental Management System which is based on the international ISO standard.

All parts of the organisation have tight connection and constant communication between each other with direct reporting system to the General Director. In addition, following the purpose of providing better services and continual improvement of the work performance, the Project Management Team conducts coordination meetings, construction meetings and Client meeting on a weekly basis, which allows achieving agreements in problems and issues raised during the working week. All meetings are recorded and distributed to relevant departments and client.

This system is cascaded from Top Management to the level of each section

and department. The progress meetings and teambuilding presentations help to keep personnel as an integral body.

In addition, monthly reports submitted to client allow company management to record the progress in implementation of work. This helps to improve the cooperation with the client and see the general situation of the projects in every single stage.

The established internal organisation and the efficient system of communication of the company with clients, vendors and local authorities, during the entire period of the project operations, give the company a capability to fulfil the projects ahead of schedule, in accordance with international standards.

### THE APPROACH TO SUSTAINABILITY IN AZERBAIJAN

Saipem Azerbaijan Branch and BOS Shelf have been conducting operations in Azerbaijan for almost ten years now. Maximizing Local Content, in terms of

**BOS Shelf organisation chart**







*Marine personnel on DBA after Jacket Launch Completion*

employment and suppliers, has been one of the fundamental features of Saipem sustainability and operational business philosophy in Azerbaijan. This focuses on the development of enduring relationships with local and national companies, clients and suppliers, having beneficial effects on Saipem projects' costs and diminishing the overall risk profile.

This sustainable business approach of Saipem Companies in Azerbaijan, working effectively with local suppliers and subcontractors, provides significant social benefits to the country and greatly contributes to the development of local communities, mainly by offering employment opportunities, training and the transfer of know-how.

Saipem Companies in Azerbaijan, conscious of their substantial contribution to the local community, are consistently committed to recruiting from within the local environment. The employment and development of local personnel is fundamental to Saipem objectives of long term sustainability and business growth. Particular attention has been placed by Saipem on local content programmes designed to accelerate the replacement of expatriates with local people in an increasing number of managerial and non-managerial positions.

To support the development of local content and in line with Saipem nationalisation programme, Saipem Companies have initiated

integrated programmes of English language assessments and specialised Competency Assessment and development programmes and trainings for vessel crew, office based personnel and site based personnel. These schemes use specialised trainers both from within and outside Azerbaijan, promoting and supporting the development of Azerbaijani Nationals.

Another important contributing factor to the recent success of Local Content policy of Saipem in the country was a clear target set to gradually substitute the international contractors with local companies in different sectors of activity. The increase of Saipem expenditures with Azerbaijani companies, encouraged also by the Client, generates new jobs, skills and investments in local enterprise development in the country.

In addition, a long-term relationship with the local population, communities and authorities in Azerbaijan has been fundamental for the success of the companies. Saipem management, both as BOS Shelf and Saipem Azerbaijan Branch, is committed to a close and fruitful cooperation with local communities and authorities in achieving the objective of creating a long term value in the region.

To reach this objective, Saipem Companies, in cooperation with clients and in close relationship with subcontractors, are involved in the realisation of social projects aimed at improving the quality of life of the local population.

# SUSTAINABILITY PERFORMANCE

## PEOPLE

### Total Workforce

The total number of personnel in Saipem Asia Azerbaijan Branch at mid 2010 was 347, comprising 200 direct employees, of which 73% are local.

Further 147 people are not directly employed by Saipem but seconded personnel on Saipem Asia Azerbaijan Branch payroll and include SOCAR marine crew (71% locals).

BOS Shelf has presently 267 employees all of whom are Azerbaijani Nationals (mid 2010).

Saipem companies in Azerbaijan have focused on the development of national resources, including key personnel. Since

2001 BOS Shelf has worked on the promotion of local content by offering career opportunities and focusing on the development of local talented people.

Saipem Azerbaijan Branch is working on a programme aimed at replacing international personnel with locals previously trained also through overseas assignments within Saipem Group. The desire for growth and the professionalism of employees, coupled with the willingness, experience and ability of the management, senior staff and know-how owners to coach and mentor the upcoming generations is a significant factor in the success, not only of the project but also of the company. These personnel under development are gradually replacing expatriates on both onshore and offshore projects.

Saipem's project team is now made up of many nationalities from around the world. In spite of the fact that people are from different countries and have different cultural backgrounds, the team is well integrated and fosters a synergetic

### Workforce

#### Saipem Asia Azerbaijan Branch

Category		2007	2008	2009
Managers	Local	3	2	6
	International	21	21	15
White Collar	Local	141	116	163
	International	135	47	35
Blue Collar	Local	462	284	270
	International	240	9	7
<b>Total</b>		<b>1,002</b>	<b>479</b>	<b>496</b>

#### BOS Shelf Llc

Category		2007	2008	2009
Managers	Local	1	1	1
	International	-	-	-
White Collar	Local	67	64	57
	International	-	-	-
Blue Collar	Local	264	236	191
	International	5	3	-
<b>Total</b>		<b>337</b>	<b>301</b>	<b>249</b>

effect in the achievement of Saipem projects' objectives. Working in a multicultural environment is enriching and Saipem makes an active contribution towards cultural integration through the organisation of social events, such as team building events, and the provision of language training for local and international staff. Moreover, to encourage expatriates and their families to better integrate from the beginning of their assignment, Saipem has also launched the 'Cultural introduction days' to enable people to have a clear understanding of the country reality and culture.

## People Management

Every new employee joining Saipem Companies in Azerbaijan is required to sign a letter accepting the Saipem Code of Ethics. The Code is an important tool providing principles that sets standards of behaviour for employees within Saipem Group. Managing human resources according to a code of ethics has the benefit of demonstrating fair staff management, integrity, openness and honesty, by developing an atmosphere of trust throughout the organisation which is an important motivating factor for employees. This combination of principled management and committed staff leads to innovation and increasing productivity within the company. The inclusion and cascading of company

targets to employees and the measuring of employees contribution against the achievement of company's targets is carried out on an annual basis, similar to everywhere in the Saipem world. The assignment of shared professional and Company targets to employees fosters understanding, co-operation and transparency; improving internal communication within the Company with relation to the expected Company results. The detailed training program for personnel, including internal and external training, mainly derives from skill gaps identified during this process.

## Training

Saipem's employment strategy in Azerbaijan is preferably addressed to the employment and training of local personnel, who will gradually substitute expatriates.

Training is a key element within the Saipem business culture, as it creates a significant competitive advantage for Saipem, by:

- Enhancing the development of key personnel;
- Meeting local content targets;
- Meeting HSE standards and enhancing the company's safety culture;
- Providing projects with know-how and skills required for operations;
- Being successful in bids with major projects and National Oil Companies.



Saipem Riggers Team

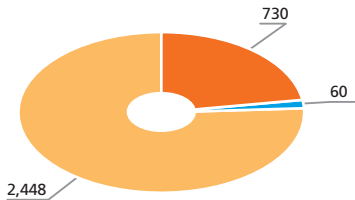
Azerbaijan is one of those countries where Saipem addressed from the beginning the project requirement for the development of highly qualified professionals with implementation of a structured plan in terms of recruitment, training and

development. The SOCAR/Saipem Alliance established in November 2008 in the frame of the IMR Project, further supported and supports Saipem's focus on the development of local resources.

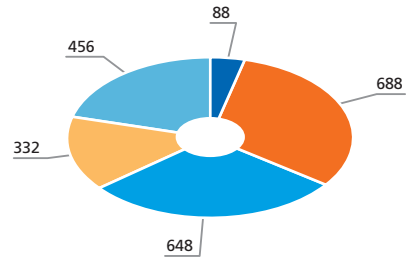
### Training for Saipem Asia Azerbaijan Branch employees

	2008	2009
Training hours	3,238	2,212
Training participants	317	50

Training hours per type (2008)

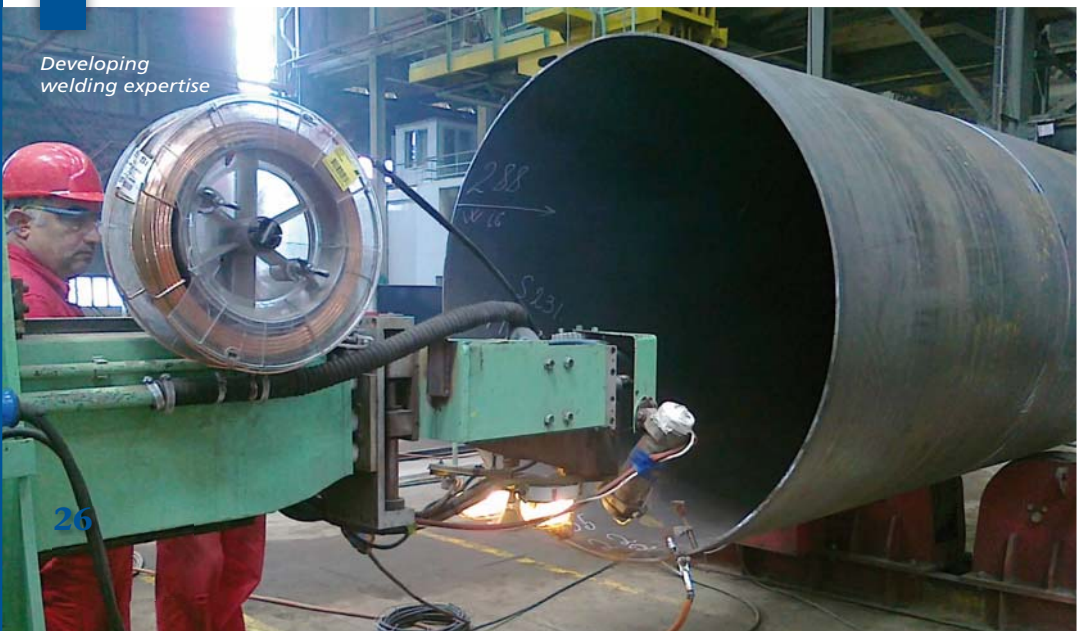


Training hours per type (2009)



- Managerial behaviour and skills
- Technical professional skills
- Other professional skills
- Health, Safety, Environment and Quality
- Information Technology and Languages
- Managerial behaviour and skills
- Technical professional skills
- Other professional skills
- Health, Safety, Environment and Quality
- Information Technology and Languages

Developing welding expertise



Local Content in Azerbaijan supports:

- Meeting the requirements of local government and authorities in order to support the economic development of local communities in Azerbaijan;
- Reducing structural costs and increasing Saipem's business;

- Bridging the skills gap - essential for Saipem's business to be sustainable. To develop local resources, supporting the achievement of nationalisation targets and providing input to tailored training programmes, Saipem has implemented a series of management

## Training programme for Azerbaijani Marine Personnel

In the framework of the SOCAR/Saipem Alliance and in accordance with Saipem Sustainability policy, Saipem Asia Azerbaijan Branch has undertaken a programme to train, according to International Standards, Azerbaijani Marine personnel of SOCAR units, seconded by Saipem.

The programme is intended to train local resources, promoting the transfer of know-how and the development of locals towards positions of increasing responsibilities, and ultimately to replace expatriates with local Marine personnel. To enable the Azerbaijani Marine personnel to take full advantage of the technical courses managed by Saipem, it was a prerequisite that approximately 60 people from two of the SOCAR divisions, namely CSOF (Caspian Sea Oil Fleet) and CODERO (Caspian Office for Diving & Emergency Rescue Operations), first attended an English language programme, organised by Saipem. Training courses were conducted partly in Azerbaijan and partly abroad, with some of the work in class and part gained through practical experience.

Furthermore, the technical training was addressed to three categories of specialised personnel:

1. Diving personnel of CODERO, attending 3 courses:

- ALST (Assistant Life Support Technician): the course was carried out in Aberdeen, UK;
- Cylinder Testing Course carried out in Aberdeen, UK;
- Hat maintenance courses - DIVEX (in Baku, AZ) - Divers Life Support Systems. All technicians must be skilled in the maintenance and repair of Kirby Morgan Hats to be qualified as Dive Technicians.

Achievement to date: 3 Dive Technicians (2 electrical and 1 mechanical) on board Diving Support Vessels (DSV).

2. ROV (Remotely Operated Vehicle) personnel of CODERO, attending 3 courses:

- IMCA (International Marine Contractors Association) training for ROV pilot technicians;
- Saipem Sonsub ROV Pilot Technician Assessment Course, carried out in Aberdeen, UK;
- Cougar & Innovator Introduction Course at Sonsub UK Ltd, Aberdeen;
- ASSET Cylinder Testing Course.

Achievement to date: Nine technicians were trained, three of them have been placed as trainees on the DSV. One technician has graduated to a

fully qualified member of the ROV crew on board the DSV.

3. Marine personnel of CSOF attended the following courses:

- STCW (Standards of Training, Certification and Watchkeeping for Seafarers) certificate of Competency;
- GMDSS (Global Maritime Distress Safety System) and Radar courses, performed in Baku by local subcontractor Caspian Shipping Company;
- Dynamic Positioning (DP), carried out in India;
- AMOS Planned Maintenance System for the vessels (addressed to both vessels and base personnel);
- FRC (Fast Rescue Craft) training.

In addition to continuing with the above and also with the development of new training schemes, Saipem's future plans include supporting the development and utilisation of the recently launched SOCAR training facilities thereby strengthening the development of training programmes in Azerbaijan by local companies. The extended duration of the IMR work and future T&I activities will facilitate the complete development of the skills and competence of the Azerbaijani nationals employed.

### Training for seconded marine personnel under the SOCAR/Saipem Alliance

	2008	2009
Training hours	864	12,160
Training participants	30	89

## Interview with Saipem Asia Azerbaijan Branch Senior QA/QC Supervisor Mr. Parviz Nasirov

**What were your expectations in joining Saipem and what did you find?**

*I had worked in oil and gas industry before but in quite a narrow area. I was familiar with Saipem before joining the company and I was looking forward to enjoying a wide work scope in the oil and gas sector. The multicultural nature of the company was also very attractive to me and I must say that the teamwork I have experienced in offshore operations especially was even greater than my initial expectations. I can say that so far, I have not been disappointed.*

**Did you have any difficulties at the beginning?**

*I cannot say that I didn't have any difficulties. I did have some difficulties, but I was always sure that there was a way to sort out all the problems. The support I received from my colleagues and management was indispensable.*

**What activities and projects were assigned to you?**

*I joined Saipem at the beginning of 2004 and was assigned as QA/QC Supervisor on the STB-1 Barge refurbishment & upgrade Project. This was a good experience, since I could use all my qualifications and skills. Straight after I was assigned*

*as QA/QC Supervisor on the Derrick Barge 'Azerbaijan' working on offshore projects, such as transportation & installation of templates, jackets, topsides, etc. On this project I have extensively increased my skills and gained experience. In 5 years I have developed to the level of Senior QA/QC Supervisor. I also had the opportunity to work on the Crawler*



*in the Adriatic Sea for the ALNG project. It was my first offshore pipelay experience which again was another learning experience I enjoyed. Currently I am working on the IMR project.*

**Do you think you have changed from when you first arrived in Saipem and, if so, in what way?**

*Yes I do. I think that I've become more responsible, not only in terms of my professional behaviour, but also in how I view my responsibility for the overall teamwork. I believe that most of the team players in Saipem think like that. I've started to think about responsibility in a wider context. I think*

*that employees must be responsible not just for his/her particular part of the job, but for his contribution to the total job. Moreover, since joining Saipem in February 2004 I have developed the ability to apply my theoretical learning and put it into practice in my work that brings a very particular job satisfaction!*

**What is your perception of the company?**

*I have been with Saipem now for seven years and I can say that I have not just colleagues in the company. My colleagues have also become my friends.*

**What do you consider are the company's strengths?**

*For me, one of the biggest strengths of Saipem is the ability to share the experience between projects – people, departments – both in an official and unofficial way. Especially in the offshore projects in which I have worked, the teamwork has been impressive.*

**Can you mention what values you perceived in Saipem?**

*Respect for the person. 'People, Ideas, Energy' - the emphasis placed on respect for the individual, which is also demonstrated in LiS and in safe work practices. This is one of the most important values for Saipem. Generally, people and the environment are the first priorities in the Saipem culture.*



Preparation for  
Template Lifting

tools. The Competency Assessment and Development programmes is the most important tool for first identifying the skills gap and then developing a training programme to bridge the gaps.

BOS Shelf has always been committed to train local personnel to the standards required for the projects, in line with customer's requirements and the market. To comply with these requirements, BOS Shelf's Training Officer, in coordination with the Operations Manager and Supervisors establishes training programs tailored to cover different disciplines including welding, fitting, rigging, construction and inspection. After completion of the training period, all successful trainees receive a certificate of competence. Moreover, the capabilities and skills of the local personnel are further promoted with continuous technical programs and trainings. During the years of top activity, BOS shelf involved 400 employees annually in training

programs, amounting up to more than 85,000 training hours per annum. All departments were involved in these activities which included managerial, technical trainings, technology and languages.

The company is mainly committed to technically train its employees according to international standards, therefore training programmes includes improvement and development of qualifications for riggers, welders and fitters, in specialised training schools created and operated at the BOS Shelf site:

1. One Welding Training Centre with a yearly capacity of training up to 360 welders.
2. One Fitter Training Centre with a yearly capacity of training up to 900 Junior Fitters.
3. One fully equipped Training Room with multimedia devices.
4. 60 Training modules available for staff and workforce qualification and permanent improvement.

## Safety

### 'Where Safety Leads to Quality' Slogan of BOS Shelf LLC

Saipem deems that people are its most important asset and hence Health and Safety issues have always been of paramount importance within all its business activities. As a result, Saipem Companies in Azerbaijan have been fully committed to the HSE matters at each level of responsibility, since the very beginning of its operations.

An HSE management system has been developed both in BOS Shelf and in Saipem Azerbaijan, to create a safe and healthy working environment, not only by complying with the health and safety legislation, but also to act responsibly in preventing injuries, illnesses, damages and losses resulting from activities during the field operations.

It is recognized that safe working practices and due consideration of environmental factors contribute directly to the overall efficiency and success of the business and therefore health, safety and environmental issues have equal status with other project objectives.

The HSE Management System of BOS Shelf has achieved the important objective of the third party certification

according to the standard OHSAS 18001:2007 Occupational Health and Safety Management (certification obtained in 2007) and the ISO 14001:2004 Environmental Management System (certification obtained in 2005).

From the BOS Shelf yard refurbishment in 2001 to date, the site has achieved a radical improvement in HSE performances which are now fully visible and resulted in 10 million man hours being achieved without a LTI for work carried out on the ACG Project.

Safety issues are considered to be line management responsibilities and consequently are an integral part of the duties of all personnel, from supervisors to every employee that has a clear responsibility to prevent injury to him/herself and to other people.

With the award of the T&I phase of the ACG Project by the BP/AIOC in 2001, Saipem Azerbaijan started a great effort for the promotion, implementation and enhancement of a positive HSE culture among workers, also taking into consideration differences in culture and language.

Several tools and methods were successfully used by Saipem Azerbaijan, all over the years, to achieve excellence throughout its projects activities, including the following:

#### Safety statistics

	2006	2007	2008	2009
Worked man hours	6,013,548	3,402,125	1,824,027	1,580,580
LTI Frequency Rate	0.17	0.00	0.00	0.00
TRI Frequency Rate	2.00	0.59	0.55	1.27

#### Leading indicators

	2006	2007	2008	2009
HSE training hours	122,076	40,111	14,387	11,908
SHOC Cards	102,486	34,432	10,742	10,273
Tool Box Talks	19,515	13,039	8,346	8,501
HSE meetings	485	394	138	129
Job Safety Analysis	11,528	16,245	9,708	12,147
HSE Inspections	2,649	2,171	720	474
HSE Management visits	741	465	89	84






*ToolBox Talks at  
BOS Shelf Jacket  
Fabrication Area*

- Training, supervision and information to all personnel involved, with HSE induction and intensive training courses, including behavioural training, but also with coaching activities carried out by the HSE personnel to the workforce;
- Documented risk assessments for all activities, both routine and non-routine;
- A two-way open and effective communication system as part of the HSE awareness program to promote active information, involvement and co-ordination between workforce, HSE personnel and management;
- Sharing Lessons Learned, both positive and negative and establishing a continuous improvement framework;
- Involvement of Senior Management both in face-to-face discussions with the workforce, and also in site visits and inspections;
- HSE Incentive Programs;
- Extended use of interpreters for translation into Azerbaijani language;
- English and Italian language courses for locals.

#### **Incentive scheme**

Recognising the importance of protecting the workers and promoting a culture for health and safety among them, a 'Project HSE Performance and Incentive Program' has been set up in BOS Shelf. The scheme is addressed to every Project's workplace that must satisfy several HSE requirements in order to be eligible for qualification into the Program.

During the performance of the work all Managers, Superintendents, Supervisors, HSE Officers and representatives shall monitor the HSE practices, adherence to procedures and safe working practices. Any proactive behaviour, example of due care, pro-active HSE action, stop of unsafe work, application of best practices, along with other visible and recognizable dedication to HSE issues by a particular individual will be noted. Before any selection of personnel for award, Supervisors forward the nominees and the reason for nominating, to the HSES Manager. The HSES Manager reviews, on a quarterly basis, the reasons for



BOS Shelf  
workshop No. 1

nomination and selects personnel for awards on the basis of achievements, initiatives and behaviours. The objective of this incentive scheme is to enhance the HSE performance of worksites by providing awards as challenging tools to the workers, and encouraging them to become more proactive in identifying work hazards, reporting unsafe conditions, near miss and preventing the occurrence of accidents.

Similarly, Saipem Azerbaijan has developed an HSE incentive procedure with the aim of providing a tool to improve Saipem and subcontractor personnel commitment in providing a safe, secure and healthy work environment and to ensure any damage to the environment is avoided. The scope of this scheme is to include all employees and subcontractors who are involved in onshore or offshore construction, operation or maintenance activities, including lifting and marine operations. All employees are eligible for being awarded for a particularly remarkable performance or outstanding achievement in the wider field of HSE. During the performance of the work all Managers, Superintendents, Supervisors, HSE personnel and representatives shall monitor the HSE practices and adherence to procedures and safe working practices. Any remarkable behaviour, example of due care, proactive HSE action, application of best practices, along with other visible and recognizable dedication to HSE issues by a particular individual or work team will be noted and brought forward. The Vessel Master/Site Manager consider the proposals for the award and decide, in consultation with the HSE Advisor Officer, Offshore Construction Manager and Client Representative, the person who will receive the relevant award.

### Leadership in Safety (LiS)

In 2007, Saipem Corporate HSE Department began the development of the Leadership in Safety (LiS), an innovative and highly interactive training program with the far reaching aim of creating a strong safety culture within Saipem. In order to achieve this cultural change, a LiS workshop has been designed to begin the process to convert Saipem leaders into fully matured Safety Leaders. The motto of this training program, as expressed by Mr. Pietro Franco Tali, Saipem CEO, is 'The safer we become, the more efficient we become... so literally, the safer the better'.

By sponsoring two LiS workshops held in Baku on February 2009, Saipem Azerbaijan also entered into the family of Saipem branches where the process of dissemination of Leadership in Safety has been launched, as a part of implementation of Saipem Safety Vision program.

Both workshops were successfully conducted and left indelible impression in the minds of participants. Every workshop was opened by welcome speech of Saipem Asia Azerbaijan Branch Manager, emphasizing the importance of this event and wishing everybody to get the best benefit from participation in it. Also, as an essential part of the workshop, all participants were introduced to and received training on the Five Stars Intervention program.

The Leadership in Safety workshop was carried out in June 2008 to BOS Shelf's management. Subsequently BOS Shelf organised the programme for spreading the safety culture to the entire workforce, including subcontractors and partners.

In 2010 the program was expanded in the LiHS (Leadership in Health and Safety) as a wider commitment to spread a safety and health culture both at workplace and in the private life.

## Health

Saipem Companies in Azerbaijan provide medical coverage for all its employees in both offshore and onshore projects including also subcontractors.

Medical coverage is conducted by project doctors and a Health Coordinator together with contracted medical facilities.

A first aid station is available in all Saipem sites and a Site Clinic is present in the BOS Shelf Fabrication Yard, equipped with all necessary equipments, ambulance and medicine, and provides coverage and assistance during 24 hours. During offshore operations, sick-bays on board of the vessels are present, where trained doctors and nurses arrange and perform all necessary medical, prophylactic, hygienic and other activities. A MEDEVAC (Medical Evacuation) plan has been prepared to ensure that any patient, if required, could be transported and evacuated in the soonest and safest way. The assessment of occupational health hazards is conducted mainly based on preventive health activities by implementing Health Risk Assessments (HRA), medical fitness programs (pre-employment and periodical medical examinations), infectious diseases prevention programs through

vaccination, primary and secondary prophylaxis, hygienic surveillance, as well as education and training of the workforce. The HRA is conducted through the implementation of appropriate measures to detect and evaluate possible health risks for the workforce, taking into consideration all operational, climatic and hygienic aspects, and their suitable control with the purpose of excluding or minimising the negative consequences on employees' health.

Saipem Companies in Azerbaijan implement and conduct different Saipem prophylactic/preventive programs and campaigns such as the Cardio-Vascular Diseases Prevention Program, Anti-Smoking Campaign, Sexually Diseases Prevention Program, aimed at improving employees' health and lifestyle, and prevent possible diseases and complications.

Saipem Companies in Azerbaijan arrange, conduct and supervise on its sites and Yard all hygienic, sanitary and housekeeping issues related to catering services and general hygiene (fresh and sewage water checks, food safety, pest control, trainings, etc.).

Saipem Companies also organise and perform first aid trainings, drills and exercises.



*Drills for emergency response*

## ENVIRONMENT

Saipem onshore logistic sites and the BOS Shelf Fabrication Yard are situated in the Baku Deep Water Jacket Factory, located at 32 km from Baku city, which is the first populated area near the Yard.

Therefore the yard does not create problems related to nuisance to nearby communities. Saipem Azerbaijan projects' activities are situated in the offshore waters of the Middle Caspian, at 120 km Southeast of Azerbaijan Capital Baku.

### Environmental Management System

Saipem Companies have set up environmental programmes fully in line with the Corporate standards, Azerbaijani legislation and the Clients' environmental requirements.

Saipem Azerbaijan branch and BOS Shelf, fully aware of their responsibility towards society for preserving the environment, have expressed in their HSE Policy their commitment to achieve the highest standards for the protection and conservation of the environment.

Therefore, they have set up an Environmental Management System (EMS) to describe the environmental

background against which Saipem Companies conduct their operations, the measures they adopt to ensure their operations will not have any detrimental effects on the environment, the business practices for environmental protection, and procedures for identification and reduction of negative impacts and a rational use of resources.

The Environmental Management System of BOS Shelf has been certified by a third party according to the international standard ISO 14001:2004 'Environmental Management System'.

The analyses of environmental aspects and associated impacts have been conducted for all Saipem and BOS Shelf respective offshore and onshore operations in Azerbaijan, together with the legal, regulatory and contractual framework. The resulting management and operational responsibilities have been defined in an Environmental Management Plan (EMP), along with training, communication and reporting requirements.

Thus, the EMP describes how Saipem Companies in Azerbaijan manage environmental issues during all phases of the projects. The EMP is an umbrella document under which all

*BOS Shelf  
Yard and the  
surrounding  
environment*



other environmental protection and monitoring plans are documented, evaluated and communicated. In accordance with the annual HSE assurance programme and schedule, Saipem Azerbaijan and BOS Shelf conduct internal environmental audits. The activities and sites are also periodically audited by the Client, a third party organisation and governmental bodies, which have always resulted in a positive assessment thanks to the high environmental standards applied.

Starting in 2010, Saipem Azerbaijan has implemented the Corporate environmental campaign in commemoration of the World Environment Day (June 5), as a series of awareness campaigns on energy saving, oil spill prevention, waste segregation, water saving and reuse, and the ecological footprint minimization.

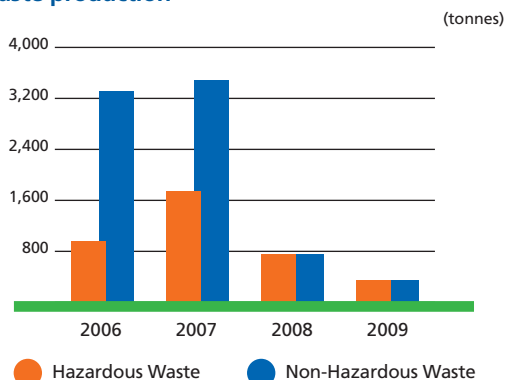
### Waste Management

Saipem strategy on waste management is the reduction of waste generation through prevention, minimization and re-use. Saipem Companies in Azerbaijan have developed Waste Management Programmes that employ the following key waste management measures:

- management of waste types according to the waste management hierarchy;
- use of approved waste contractors;
- training of all personnel on waste prevention/minimization/reuse and segregation opportunities;
- reviews waste activities on a regular basis, in order to identify any new and/or additional waste prevention/minimization/reuse opportunities; and
- monitoring the workforce compliance with waste reduction strategies.

In particular, key personnel at various Saipem sites and vessels have been provided with training courses focusing on waste classification according to legislation and the waste types generated by the project; segregation and use of colour-coding and correct types of waste skips; waste minimization rationale and strategies.

### Waste production



Note. The high production of non-hazardous waste in the period 2006-2007 is related to the activities conducted in the BOS Shelf Fabrication Yard during the ACG project which was concluded at the end of 2007. In 2007 the tank cleaning works on DBA FDD refurbishment generated a high amount of oily/bilge water classified as hazardous waste.

All subcontractors are required to comply with the Waste Management Programme and are trained to reach these objectives. No non-conformance reports have been received during last 5 years of Saipem operations which represents an important and successful achievement for Saipem companies in Azerbaijan.

### Oil Spill Prevention and Mitigation Measures

Both Saipem and BOS Shelf have dedicated Emergency Spill Response Team for handling different types of situations.

The Spill Response Team, in coordination with the Field Safety Manager, is responsible for ensuring projects' personnel are adequately prepared to deal with all possible hazardous material spill scenarios. A spill risk assessment is initially undertaken on the site and at regular intervals. This comprises an inventory of materials and an assessment of all site hazards that could potentially result in a spill.

Oil spill drills are carried out regularly in order to enhance the readiness of the Emergency Response Team.

Any spills, which have, or potentially have a negative impact on the environment, require an Emergency Response Action.

All emergency preparedness and response procedures are periodically

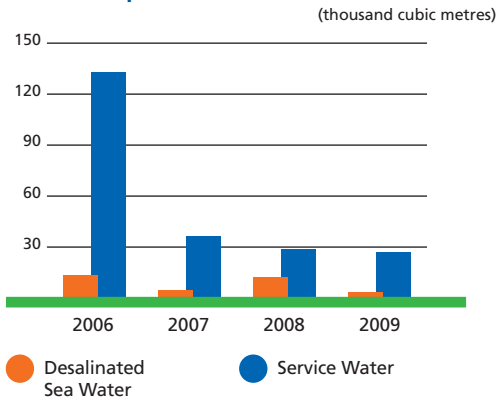
reviewed and, where necessary, revised, taking into account any lessons learned from incidents or scenarios or emergency mock drills.

### Water Pollution

Azerbaijan is signatory to the MARPOL Convention (International Convention for the Prevention of Pollution from Ships), which imposes requirements on ships for the prevention of sea pollution and imposes even stricter regulations locally. A 'zero discharge policy' for oily water residues is strictly enforced.

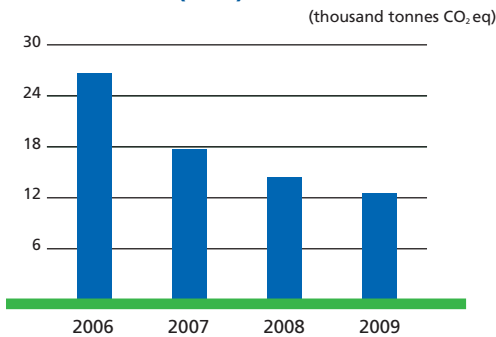
Sewage treatment plants have to be designed and constructed in accordance with MARPOL requirements and approved by the government. Saipem Azerbaijan installed a sewage treatment plant in two SOCAR vessels used for transportation, installation and diving support, operating according to the applicable national and international laws and standards.

### Water consumption (\*)



(\*) Not including non-desalinated sea water.  
Note. The high amount of service water in 2006 is related to the ACG project, for the activities conducted in the BOS Shelf Fabrication Yard.

### Greenhouse Gases (GHG)



## CUSTOMERS

All operations carried out by Saipem and major operations of BOS Shelf in Azerbaijan since 2001, are part of the Azeri-Chirag-Guneshli (ACG) Contract with the main Client BP as a single operator of AIOC (Azerbaijan International Operating Co) – the consortium of Oil Companies signatories of ACG Product Sharing Agreement.

Saipem Companies in Azerbaijan are strongly focused on the satisfaction of the Client not only as respect of contract clauses and Clients' requirements, but also through the promotion of a direct and continuous interface and cooperation with the Client, that helps

### Energy consumption

		2006	2007	2008	2009
Diesel	(t)	6,414	4,568	4,134	3,591
Electric Energy	(kWh)	10,744,312	4,850,299	1,567,650	1,381,552
Gasoline	(t)	456	340	244	196
Natural gas (methane)	(m <sup>3</sup> )	15,234	5,820	-	-

## BOS Shelf successful story. Letter from BP Representative

The successful completion of the Azeri, Chirag and Gunashli (ACG) project's six jackets ranging from 14,000 tonnes to 17,000 tonnes in water depths of 150 to 180 metres, six sets of piles, and four subsea pre drilling templates and their piles and one prototype subsea Pin Pile Installation Frame (PPIF) can be attributed to the following factors.

- Good planning and teamwork.
- BOS Shelf working in close harmony with the client's site team and successfully training, re-training and managing a multi national workforce.
- Always keeping safety at the forefront.

The safety performance over the almost seven years of the project was excellent, with a total commitment from all parties to 'no accidents, no harm to people and no damage to the environment'. It is fair to say that people readily accepted the concept and worked to the highest standards to achieve the goals set out by Azerbaijan



International Operating Co (AIOC) operated by BP.

All three phases of the project were completed on or ahead of time. Considering the environment of re-generation and upgrade of the yard, which had lay dormant for several years, this was a great challenge, which was overcome, beginning with the removal of an old 17,000 tonnes jacket (built during the time of Soviet control over the country) and the upgrading of the yard from an almost derelict yard to a modern working environment. Another important factor was the re-training

of 2,000+ personnel drawn mostly from the former workforce and bringing them up to date with current western working practices. This resulted in the meeting current world standards in quality, safety and productivity.

The cooperation of all the parties during all the three phases was a characteristic that also contributed greatly to the success of the project. Sub-contractors employed with the main contract were quickly absorbed into the team and accepted all the principles and standards being used to control and carry out the project.

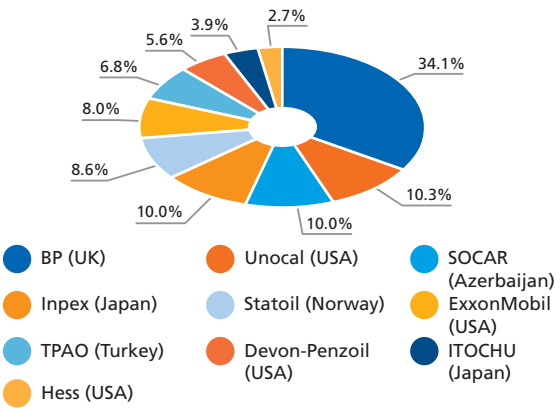
The social impact in the local area where the majority of the workforce came from has been very good and the development and re-opening of the local college for training the future potential workforce shows that it was correct to recruit and use local people.

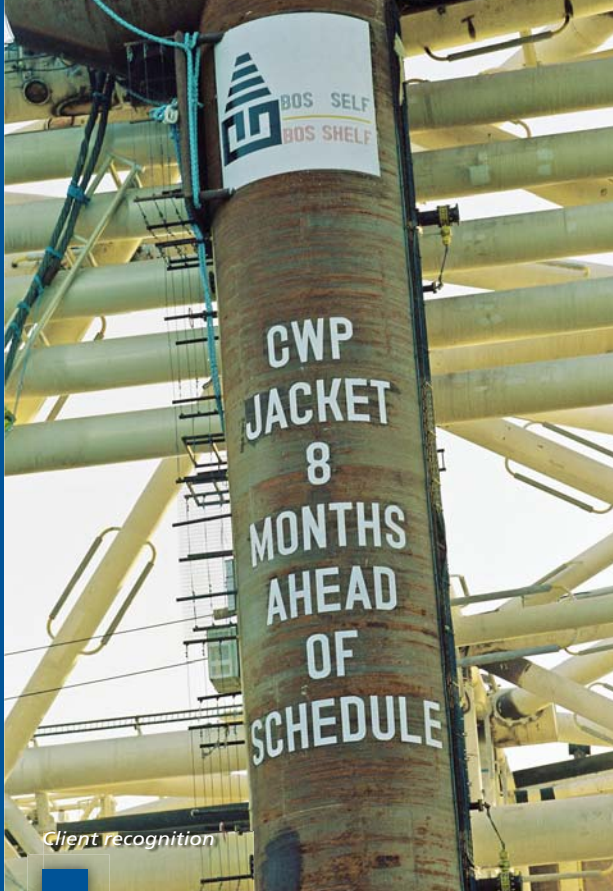
**Archie M. Cormack**  
Jacketed Templates and Piles  
Delivery Manager BP

discussing and quickly accommodating any issues that may arise during project execution.

This was demonstrated during the execution of ACG Project for BP/AIOC. Weekly engineering meetings provided a forum not only to gauge progress but as an opportunity to openly exchange information and ideas. Monthly progress meetings were convened to discuss and smooth contract issues and potential areas of concern. Quarterly Progress Reports (QPR) prepared jointly by the Client and the Contractor describes the state of play for each activity highlighting successes, achievements, issues emerged and resolutions adopted. BP Representatives resident in Saipem and BOS Shelf locations, offices and construction sites, is a welcome day-to-

### Overview of the Consortium of signatories of ACG PSA with percentage of the Equity Share





Client recognition

day interface that helps rapid responses to contractual issues and also builds a professional working relationship based on confidence and trust.

The strict collaboration with the Client helped to reach successful results also in term of health and safety, environmental and social performance in each activity and project.

#### Awards

As a result of BOS Shelf's high HSE commitments, the Company obtained 6 Certification Awards from the Client AIOC during the ACG Projects between 2002 and 2005; in particular in 2005 an award was obtained in recognition of leadership and support in the achievement of 5,000,000 man-hours on Jackets & Piles without a DAFWC (Day Away From Work Case). As the installation schedules and safety performance often exceeded the required standards, Saipem Azerbaijan Branch's efficient and safe work,

commitment and success have been fully appreciated and awarded by BP in 2002 with the BP Azerbaijan's President's Award 'Award to Azeri Project T&I

Team for excellent safety performance during Transporting & Placing of the Subsea Template and the Refurbishment of the DBA' and in 2008 with the BP Azerbaijan's President's Award (Strategic Performance Unit Leader, BP Azerbaijan) for 'Award to the DBA offshore performance for completing over 800 offshore days without a Fatality, DAFWC, HIPO or MIA'.

In addition to that, several personal HSE Awards have been given by BP to Saipem HSE Team members for their great contribution to the improvement of the overall HSE Management System and Performance.

## PARTNERS

### SOCAR as partner of Saipem in SOCAR/Saipem Alliance

The State Oil Company of Azerbaijan Republic (SOCAR) is the government-owned entity responsible for all aspects of exploration and development related to oil and gas fields both onshore and offshore for the Republic of Azerbaijan. SOCAR holds a direct stake in the Azerbaijan International Operating Company, which operates the giant ACG oil fields situated in the Caspian Sea, as well as in the 1 million barrel-per-day BTC crude export pipeline between Baku and the port of Ceyhan in Turkey. In addition, SOCAR is responsible for marketing all State volumes on the part of the Azerbaijan State Oil Fund SOFAZ, and holds participations in a range of other onshore and offshore fields and projects in Azerbaijan including its large new gas fields such as Shah Deniz and Absheron.

It also implements large-scale scientific research and engineering activities. SOCAR is organised with 21 structural units; besides this, 36 joint ventures and 4 alliances were established by the company. The biggest units of SOCAR which have been directly involved in the ACG operations through Saipem, BOS Shelf and other big contractors of



AIOC, are Caspian Sea Oil Fleet (CSOF), Company of Diving and Emergency Rescue Operations (CODERO), Baku Deep Water Jacket Factory (BDWJF). Since 1994, SOCAR has signed 25 major Production Sharing Agreements (PSAs) with consortiums of foreign oil companies, plus two major pipeline agreements for BTC (Baku-Tbilisi-Ceyhan) and SCP (Southern Caucasus Pipeline).

SOCAR, as a company representing the government of Azerbaijan in the ACG PSA, has been one of the most important stakeholders for Saipem in Azerbaijan since the beginning of its operations.

Saipem Azerbaijan, as a leading offshore contractor of ACG PSA, has been utilising SOCAR's vessels, equipments, marine personnel, port and dry dock

facilities and many other assets and premises to implement the projects. In order to optimise the utilisation of SOCAR and Saipem resources, assets, capabilities and expertise in the field of the engineering, procurement, laying, trenching, installation and commissioning of offshore infrastructures in the Caspian Sea region, the companies in November 2007 joined forces to form an Alliance where Saipem Asia Azerbaijan Branch acts as the Alliance Operator. Alliance with SOCAR is intended to strengthen Saipem position in the country and the whole Caspian region.

High local requirements have been imposed by SOCAR to Saipem during negotiations for the Alliance. With regard to the Azerbaijani personnel, Saipem has been committed to develop



*BOS Shelf employees at workshop*



Main SOCAR vessels operating in the Caspian Sea



training and resource development programs to assure that Azerbaijani people employed or contracted for the Alliance can perform according to internationally recognised industry standards. In order to maximize the local content, the Alliance Operator is required to purchase, where possible, goods and services from local suppliers, if they comply with international industry.

## SUPPLIERS & SUBCONTRACTORS

Saipem demands high standards for subcontractors and suppliers, both considering the technical and the quality aspects but also the HSE and social values. Such standards, found in Saipem's statement on values and corporate policies on ethics, social responsibility and HSE, extend to all parties that work for or with the company. Being aware that local vendors may not currently meet these strict standards, Saipem is therefore also committed to working with vendors to improve their skills and capacity in these areas.

Local vendors are engaged in accordance with Saipem internal supply chain procedure and are assessed in terms of economic, financial, technical and organisational capabilities and in compliance with the standards set by the fundamental ILO Conventions and HSE issues. Suppliers and subcontractors satisfying all these requirements are included in the approved Vendor List, and periodically audited to guarantee their continuous respect of Saipem procedures and standards. Feedbacks from periodical audits are communicated to relevant corporate functions.

At the beginning of its activity in Azerbaijan, Saipem Companies used to encourage local companies to participate to tenders. Later on, Saipem proactively participated and supported local vendors to be successful in tenders vis-à-vis international partners. Local companies in their turn improved themselves, in term of professionalism and quality, in order to respond to oil & gas market requirements. Local suppliers could raise their awareness about Saipem's business requirements and get technical assistance in order

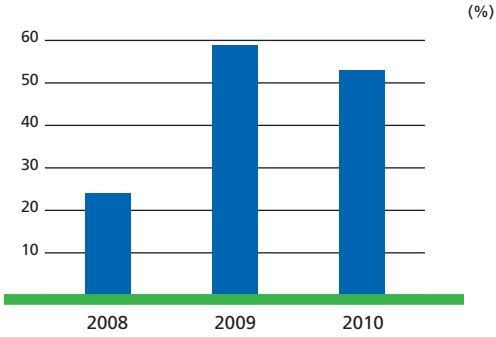
to bid for and win supply contracts with Saipem and other international companies in Azerbaijan. Such achievement should not be viewed separately in the prism of one year but rather as a cumulative journey of multiple years of Saipem's active involvement in local content development in Azerbaijan. Further to that, it is now evident that local suppliers' market is becoming more mature.

Nowadays, Saipem companies in Azerbaijan benefit from the presence of the Azerbaijan Enterprise Centre in order to identify local suppliers and subcontractors. Azerbaijan Enterprise Centre (EEC) was launched in 2010 by BP on behalf of its co-ventures to guide local enterprises through development process in support of major oil and gas developments in Azerbaijan. Their selection process includes an audit on HSE and quality aspects, according to international standard.

A large number of local suppliers were already utilised on ACG projects. A number of local subcontractors and suppliers, which are units of SOCAR, have been involved in the operations conducted by Saipem Azerbaijan Branch by providing a large range of services and materials, such as Baku Deep Water Jacket Factory (BDWJF), Caspian Marine Services, Caspian Sea Oil Fleet (CSOF) and Neftgaztikinti Trestii.

After the signature of the Alliance contract with SOCAR in 2008, this approach became a real strategy.

**Percentage of purchased from local Vendors**



Note. For 2010 only the first semester is considered.

According to the Alliance, a comprehensive programme for training and resources' development has been implemented for marine personnel of CSOF, assuring that the local personnel employed by the Alliance can get a proper certification according to international industry standards.

**Upgrade of Local vessels**

Due to the geographical restrictions for working in the Caspian Sea, which imposes restrictions of width and depth of vessels, the mobilisation and utilisation of Saipem fleet was not possible, therefore Saipem Azerbaijan has implemented a BP program to improve the Caspian vessels utilised as marine equipments for the ACG T&I project. These vessels, in particular the



*Operations in BOS Shelf workshop*

Derrick Barge 'Azerbaijan' (DBA) and the cargo barge STB1, are owned and operated by SOCAR/CSOF.

Saipem added some international key personnel on the vessels to the crew which is composed of Azerbaijani nationals, creating a team that could share international expertise and experience from one side and knowledge of the local conditions on the other. Moreover, a program for improvement of the accommodation and public spaces on the vessels was carried out, this included also the construction of a sewage treatment plant and a new system for waste collection and disposal. Important interventions were also realised to improve the safety conditions during operations.

All works carried out for vessels' improvement were conducted taking also into account local content; therefore while at the beginning works and activities were carried out by using international subcontractors, later on an effort has been made to improve the quality and capacity of local subcontractors. The last phase of vessels' improvement works was carried out mainly by local vendors such as Caspian Shipyard Company (JV between SOCAR and Keppel) for steelworks and Turan Nir for various naval architectural and repairs works on DBA vessel. In 2008, for the new sub-sea Inspection, Maintenance and Repair (IMR) project, Saipem, in close cooperation with its Alliance partner SOCAR, invested on the upgrading of the Diving Support Vessel Tofik Ismayilov, introducing a new

Saturation and Air diving systems, the provision of modern Work Class and the eyeball ROV.

#### **Collaboration with a local subcontractor for catering services**

The local company Caspian Catering Services (CCS), funded in 2008 with a Multinational Professional Management Team with over forty years experience in catering industry both onshore and offshore, has been awarded catering and cleaning services on board of Derrick Barge Azerbaijan during Transport & Installation campaign in 2010.

The QHSE departments from Saipem Azerbaijan and CCS were deeply involved to implement and upgrade all procedures applicable for catering and cleaning activities on board of installation vessel.

The company has been audited by BP Health Advisor with the purpose to verify the existing Safety Management System of the company and its capability to comply with BP requirements for health, hygiene and safety. The specific HSE Plan and HACCP (Hazard Analyses and Critical Control Points), developed jointly by Saipem and CCS for the T&I Project, have been approved by the Client.

Positive results have been possible due to the close collaboration between Saipem and CCS from the beginning of the bidding process.

Through 2010, CCS further developed its expertise through strong partnerships with Caspian Marine Services, BUE



## Message from the Ambassador of Italy in Azerbaijan

*Saipem is a proud representation of the Italian presence in Azerbaijan. It is the oldest Italian energy company working in this country. For the last 10 years Saipem have demonstrated to be a serious, reliable and efficient partner of Azerbaijan. Saipem symbolises the dynamism*

*and commitment of Italy in support of development of the energy sector in Azerbaijan. I hope that Saipem will consolidate and even expand its presence in this market, taking advantage of the encouraging prospects of the oil & gas sectors in Azerbaijan.*

**Mr. Mario Baldi**



Topaz, Caspian Shipyard Company for providing catering and cleaning services on various vessels and barges. Nowadays, their offer includes pest controls, turn-key camp construction and related services such as survey, maintenance and ad-hoc purchasing services.

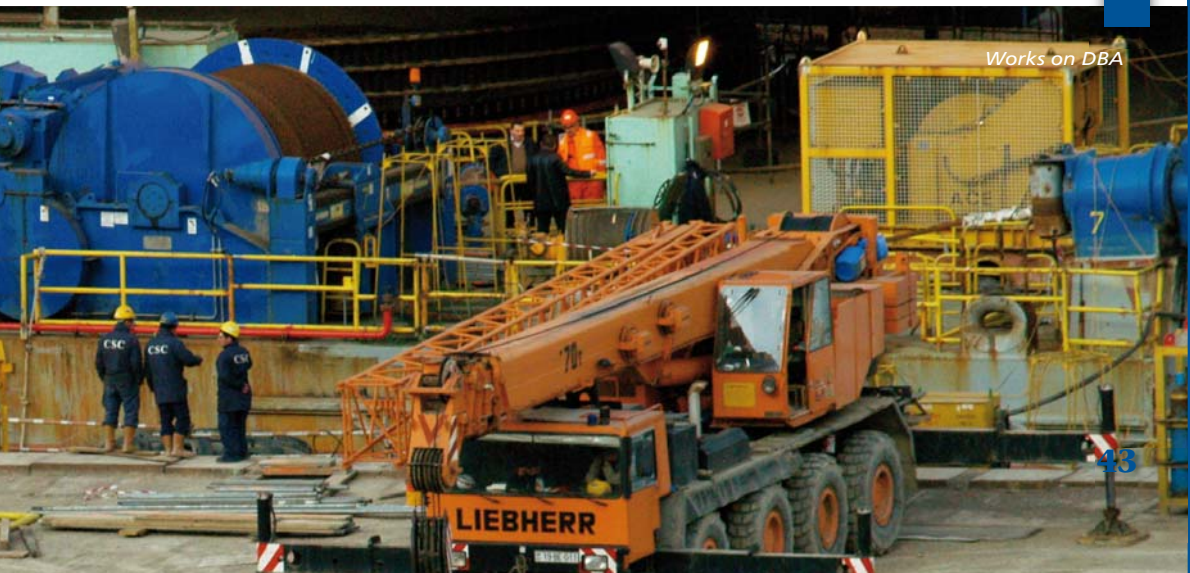
willingness and their primary interest in continuing with a sustainable business strategy, thereby contributing to the development of Azerbaijan.

### LOCAL COMMUNITIES AND AUTHORITIES

During the Caspian International Oil & Gas Exhibition, the largest oil and gas industry event in Caspian region, the President of Azerbaijan Mr. Ilham Aliyev made personal visits to Saipem and BOS Shelf stands, commending Saipem Companies on their commitment to activities in Azerbaijan with their continuous presence since 2001. The President of Azerbaijan indicated his appreciation for the work undertaken by Saipem and Saipem confirmed their

Saipem Companies in Azerbaijan are committed to maintaining a fruitful relationship with local communities, understanding their needs and expectations and collaborating to improve the quality of life, by offering work opportunities and promoting local entrepreneurship development. Saipem Companies are also involved in various activities mainly addressed to young people and children, considered the future of Azerbaijan, by focusing on their education and wellbeing but also on their cultural development. The activities cover the following areas:

- Education;
- Health;
- Socio economic development;
- Cultural promotion.



Works on DBA



Saipem and BOS Shelf at the Caspian International Oil & Gas Exhibition

**Education**

In 2003 several oil companies operating in Azerbaijan – BP, Chevron, Exxon, Statoil, Inpex, Devon – joined the local representatives of Junior Achievement Worldwide, the Junior Achievement Azerbaijan (JAA), in a program of ‘Sustainability for the Future’. This program is fully supported by the Ministry of Education and the Ministry of Youth and Sport of the Azerbaijan Republic. Part of JAA’s curriculum is the School for Economics Education Program (SEE), focusing on the theoretical and practical aspects of modern economics and business skills. This program was offered to secondary school and college students, to foster work-readiness, financial literacy and entrepreneurial skills. Up to 2010, the program has been introduced into 260 schools and 4 universities throughout 26 regions in Azerbaijan. In 2010, Saipem Azerbaijan joined JAA. As an Associate Partner of this program, Saipem looks forward to actively supporting it by offering talented

students, particularly those from the Oil and Gas Universities, the opportunity to undertake an internship with Saipem Azerbaijan during their summer recess. This would impart valuable work experience in an operational environment and enhance opportunities for future recruitment within Saipem or other organisations in the oil and gas sector.

Further, a direct involvement with students is planned by holding a ‘Career Day’ at Saipem offices. Here industry opportunities can be outlined and discussed in the full range of engineering and service disciplines required by Saipem in the performance of their business.

Moreover, in collaboration with the Italian embassy in Azerbaijan, Saipem is promoting Italian language courses for young people, also supporting language travels to Italy, while BOS Shelf is active in the education of talented children through grants, in collaboration with the Ministry of Youth and Sport of

Azerbaijan and the Embassy of France in Azerbaijan.

### Health

Saipem Azerbaijan Branch has organised a health support campaign for children. In particular children with heart diseases have been cured thanks to the collaboration between eminent Italian surgeons, invited by Saipem to Azerbaijan, and the SOCAR Hospital for Oil and Gas Workers. Clinical checks have been organised for children with congenital blood disorders, and specific treatments, which were prescribed in Italy, have been supported by Saipem.

### Socio-economic development

Saipem companies in Azerbaijan directly contribute to the socio-economic development of the areas where they work by hiring people as local personnel, occupied in their offices, logistics base, fabrication yard, and in

offshore project activities.

To increase its contribution to Azerbaijan economy, in 2006 BOS Shelf became a member of AZPROMO (Azerbaijani Export & Investment Promotion) Foundation, a joint Public-Private Initiative established by the Government of Azerbaijan in 2003. The scope of the initiative is promoting a public-private dialogue serving as a bridge between investors, local producers and the Government. The organisation has the key objective of contributing towards achieving a balanced development of the economy of Azerbaijan and implementing measures necessary for attracting and promoting investments to create new jobs, particularly in its rural regions, within the poverty reduction strategy framework. As a member of AZPROMO, BOS Shelf has widely contributed to the definition of a new law that will result in an increased



*The importance  
of history  
and culture  
preservation*

competitiveness of Azeri companies in the international market.

### Cultural promotion

Saipem is aware of the importance of maintaining and promoting a cultural awareness among people, especially young people, as an essential part of their retaining custody of the Azeri tradition for the future, and as a way to guarantee their health and wellbeing development. To this scope, Saipem Companies are working to support local initiatives in the organisation of holiday festivals, art exhibitions, concerts, sporting activities and the Azerbaijan Chess school events. All this promotes a healthy lifestyle in a nurturing

environment for young people. Community leaders regularly meet to identify ideas for further education initiatives and to select worthy arts and language students who can receive grants for carrying out courses in Italy.

Moreover, BOS Shelf has been active and, together with the Embassy of France in Azerbaijan and the Ministry of Youth and Sport of Azerbaijan, has been participating in projects that support talented children in their educational development. In addition, BOS Shelf was one of the leading sponsors of the Dan Ulduzu festival for the period from 2004 to 2006, organised by Ministry of Youth and Sport of Azerbaijan Republic.

Initiatives for cultural promotion





# FUTURE CHALLENGES

## **BOS Shelf**

Combining an experienced multi-national management team and a well trained workforce of around 3,000 people, with an international organisation and support, particularly in Engineering and Procurement, BOS Shelf has the capacity and capability to successfully undertake EPIC Projects for the Oil and Gas Industry. This allows the company to play major roles in the biggest contracts in Azerbaijan as well as in other regions of the Caspian Sea. BOS Shelf is now working to promote its capabilities both at national and international level, by offering real project advantages to all potential Clients.

The capability to perform large scale projects is underpinned by the evidence of past achievements, which includes on-time and within budget delivery of Jackets and Topsides for international clients. This has been formally recognized by the recent inclusion of the Company in the North Caspian Operating Company's Vendor list for these categories of work on the Kashagan Project.

BOS Shelf strategy will continue to focus on the improvement and upgrading of the employees' skills and education, particularly local employees, through an intensive training and educational programme. Besides, safety remains a primary goal for BOS Shelf, and 'zero injuries' will remain the main target. In this context, the most important responsibility for the company is guaranteeing a safe and healthy daily return of each employee back home.

Following the strategy of the company to actively participate in the community where it operates, the company is fully committed to create a long-term value and continue achieving high targets in the nearest future.

## **Saipem Asia Azerbaijan Branch**

Saipem in Azerbaijan will continue organising its Sustainability initiatives as an integral part of its business strategy in the country.

Its Sustainability Team will enhance cross functional working group with an increased involvement of Saipem stakeholders to improve its relationships based on an open, transparent, and honest dialogue with all the parties involved with the development of Saipem business model.

Main efforts for the years to come will be concentrated at creating a sustainable development of the community in which we operate by:

- Increasing the local content in Azerbaijan to ensure the implementation of integrated projects for the selection, training, and development of local resources to facilitate the development of local resources capable of covering key managerial and technical positions to replace expatriate and international resources.
- Enlarging the network of local suppliers and subcontractors.
- Reinforcing Saipem leading project management and engineering capabilities.
- Strengthening the assets.



## GLOSSARY & ACRONYMS

**ACG**

Azeri, Chirag and Gunashli

**AIOC**

Azerbaijan International Operating Co

**BTC**

Baku-Tbilisi-Ceyhan Pipeline

**DAFWC**

Day Away From Work Case

**DBA**

Derrick Barge Azerbaijan

**EPIC**

Engineering, Procurement, Installation and Construction

**EPC**

Engineering, Procurement and Construction

**HIPO**

High Potential

**ILO**

International Labour Organisation

**LTI**

Lost Time Injury. Any work-related injury, which renders the injured person temporarily unable to perform any regular job or restricted work on any day/shift after the day on which the injury occurred. In this case 'any day' includes rest day, weekend day, holiday. The day of the accident is not counted when calculating lost workdays. Fatalities and permanent total disabilities are included in the calculation of the total the number of the Lost Time Injuries

**LTIFR**

Lost Time Injury Frequency Rate

$$LTIFR = \frac{\text{No. LTI} \times 1,000,000}{\text{Total worked man hours}}$$

**MARPOL**

International Convention for the Prevention of Pollution from Ships

**MIA**

Major Incident Announcement

**PSA**

Product Sharing Agreement

**SOCAR**

State Oil Company of Azerbaijan Republic

**TRI**

Total Recordable Incidents. Term to define the sum of Lost Time Injuries (including fatalities and permanent disability cases), work restricted cases and medical treatment cases

**TRIFR**

Total Recordable Incidents Frequency Rate

$$TRIFR = \frac{\text{No. TRI} \times 1,000,000}{\text{Total worked man hours}}$$

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#### Feedback

What you think of this Report matters to us.  
As we are constantly striving to improve our reporting, we would very much welcome your feedback. We will also be pleased to answer any questions you may have.

Contact us at: [sustainability@saipem.com](mailto:sustainability@saipem.com)

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