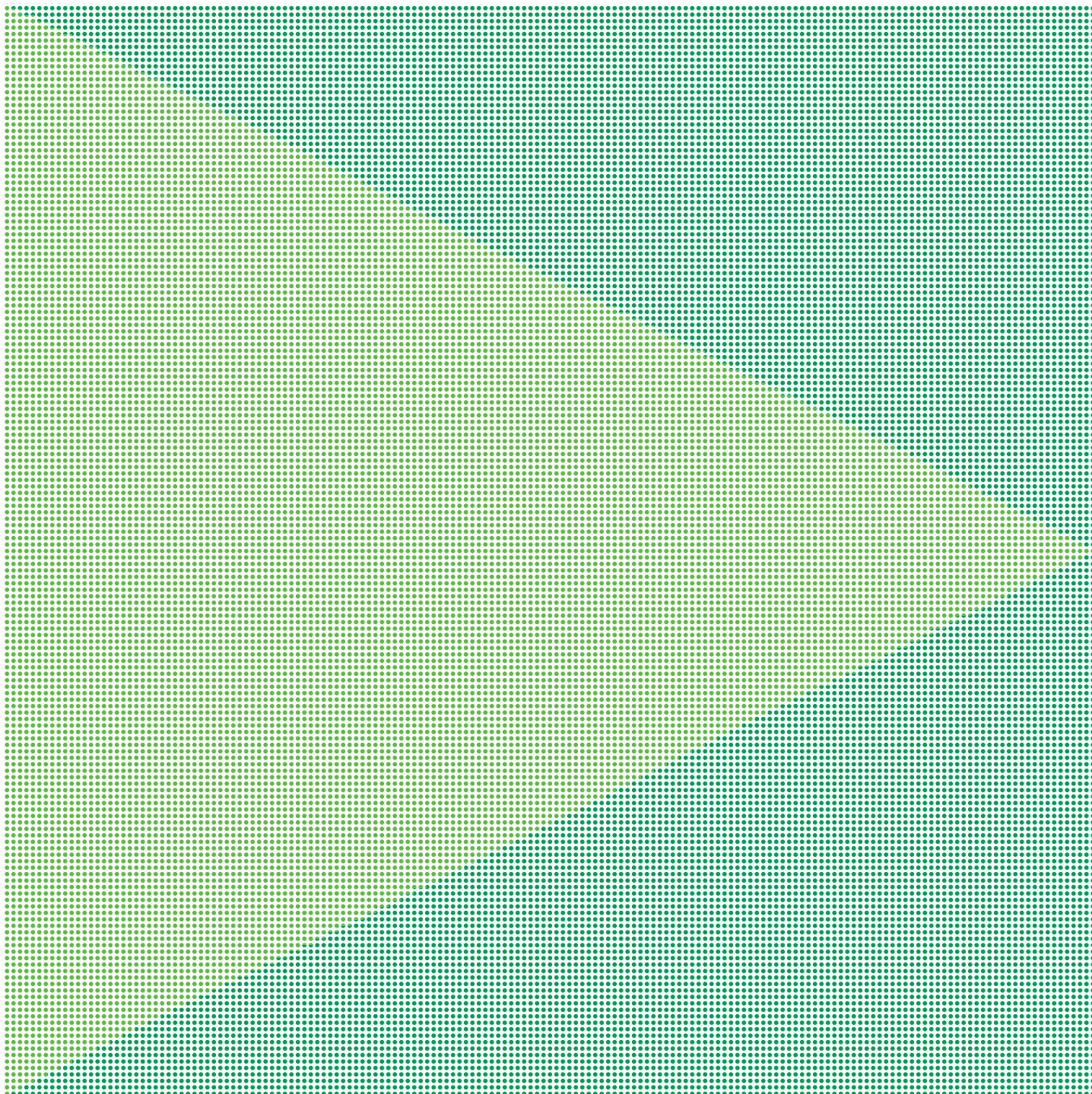




It starts here



This Annual Report and Accounts for the year ended 31 December 2003 contains the full Directors' Report on pages 2-36, 102-105 and 116-118, and the Directors' Remuneration Report on pages 106-115. The consolidated group accounts are on pages 37-101. The report of the auditors is on page 39.

BP p.l.c. is the parent company of the BP group of companies. Unless otherwise stated, the text does not distinguish between the activities and operations of the parent company and those of its subsidiary undertakings.

The term 'shareholders' in this Report means, unless the context otherwise requires, investors in the equity capital of BP p.l.c., both direct and/or indirect.

BP Annual Review 2003 and *BP Annual Report and Accounts 2003* may be downloaded from the BP website at www.bp.com/ara2003. No material on the BP website other than the items identified as *BP Annual Report and Accounts 2003* forms any part of *BP Annual Report and Accounts 2003*.

As BP shares, in the form of ADSs, are listed on the New York Stock Exchange (NYSE), an Annual Report on Form 20-F will be filed with the US Securities and Exchange Commission in accordance with the US Securities Exchange Act of 1934. When filed, copies may be obtained, free of charge (*see page 119*). BP intends to disclose on its website at www.bp.com significant ways (if any) in which its corporate governance practices differ from those mandated for US companies under NYSE listing standards.

Cautionary statement

BP Annual Report and Accounts 2003 contains forward-looking statements, particularly those regarding BP's asset portfolio and changes in it, capital expenditure, cash flow, charges for depreciation, costs, debt to equity ratio, dividends, environmental remediation costs, earnings, future performance, gearing, growth, industry growth and other trend projections, investments and divestments, margins, preparation for changes in accounting standards, production, productivity, reserves, returns and share repurchases. Forward-looking statements by their nature involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. It is believed that the expectations reflected in these statements are reasonable, but actual results may differ from those expressed in such statements, depending on a variety of factors, including industry product supply; demand and pricing; political stability and economic growth in relevant areas of the world; development and use of new technology; public expectations; successful partnering; the actions of competitors; natural disasters and other changes in business conditions; wars and acts of terrorism or sabotage; and other factors discussed elsewhere in this document.

The registered office of BP p.l.c. is: 1 St James's Square, London SW1Y 4PD, UK.
Telephone: +44 (0)20 7496 4000.
Registered in England and Wales No. 102498.
Stock exchange symbol 'BP'.

The strategy that has sustained BP through years of transition and growth has now opened a new era for the group. In the years ahead, our success will be measured not only by our status or history of investment. It will also be measured by our ability to direct our investments and people to where they can produce superior shareholder returns.

To put it directly, our strategy has brought us here; our ability to capture its potential will define our future.

Let's begin.

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Performance highlights

These tables and charts show the highlights of BP's achievements in 2003. They reflect more than our financial performance. Our strong profitability has allowed us to increase the dividend in dollar terms compared with 2002, and we are continuing to invest in the future. Environmental and safety performance remains a key element. We continue to make significant financial commitments in the communities in which we operate.

BP presents pro forma results, adjusted for special items, in addition to its reported results, to enable shareholders better to assess our performance against that of our competitors. The pro forma result is replacement cost profit before exceptional items, excluding acquisition amortization as defined in footnote ^a to the reconciliation table (*below*). The pro forma result, adjusted for special items, has been derived from our UK GAAP accounting information but is not in itself a recognized UK or US GAAP measure. References within *BP Annual Report and Accounts 2003* to 'operating result' and 'result' are to pro forma results, adjusted for special items. References to 'fixed assets', 'capital employed', 'operating capital employed' and 'net debt plus equity' are to these measures on a pro forma basis that excludes the fixed asset revaluation adjustment and goodwill consequent upon the Atlantic Richfield Company (ARCO) and Burmah Castrol acquisitions in 2000. 'Return', 'return on average capital employed' and the 'net debt ratio' (net debt/net debt plus equity) refer to ratios calculated using these measures.

Key financial measures

	\$ million	
	2003	2002
Pro forma result adjusted for special items	12,379	8,715
Replacement cost profit before exceptional items	9,543	4,698
Historical cost profit after exceptional items	10,267	6,845
Per ordinary share – cents		
Pro forma result adjusted for special items	55.83	38.90
Replacement cost profit before exceptional items	43.03	20.97
Historical cost profit after exceptional items	46.30	30.55
Dividends per ordinary share – cents	26.00	24.00
– pence	15.517	15.638
Dividends per ADS – dollars	1.56	1.44

Reconciliation of reported profit/loss to pro forma result adjusted for special items

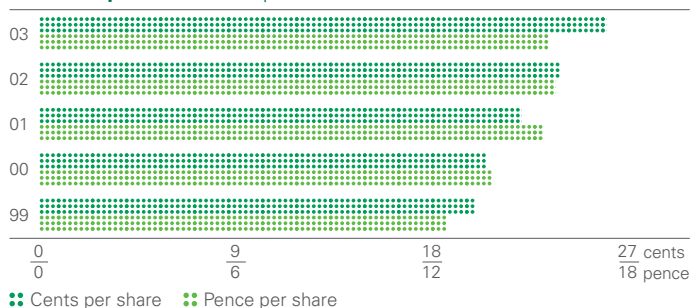
	2003				2002			
	Reported	Acquisition amortization ^a	Special items ^b	Pro forma result adjusted for special items	Reported	Acquisition amortization ^a	Special items ^b	Pro forma result adjusted for special items
Exploration and Production	13,937	1,566	474	15,977	9,206	1,780	1,019	12,005
Gas, Power and Renewables	472	–	–	472	354	–	30	384
Refining and Marketing	2,340	826	523	3,689	872	794	415	2,081
Petrochemicals ^c	568	–	38	606	515	–	250	765
Other businesses and corporate	(904)	–	64	(840)	(701)	–	186	(515)
Replacement cost operating profit	16,413	2,392	1,099	19,904	10,246	2,574	1,900	14,720
Interest expense	(851)	–	–	(851)	(1,279)	–	15	(1,264)
Taxation	(5,849)	–	(655)	(6,504)	(4,217)	–	(456)	(4,673)
Minority shareholders' interest (MSI)	(170)	–	–	(170)	(52)	–	(16)	(68)
Replacement cost profit before exceptional items	9,543	2,392	444	12,379	4,698	2,574	1,443	8,715
Exceptional items, net of tax	708	–	–	708	1,043	–	–	1,043
Replacement cost profit after exceptional items	10,251	–	–	10,251	5,741	–	–	5,741
Stock holding gains (losses), net of MSI	16	–	–	16	1,104	–	–	1,104
Historical cost profit	10,267	–	–	10,267	6,845	–	–	6,845

^a Acquisition amortization refers to depreciation relating to the fixed asset revaluation adjustment and amortization of goodwill consequent upon the ARCO and Burmah Castrol acquisitions.

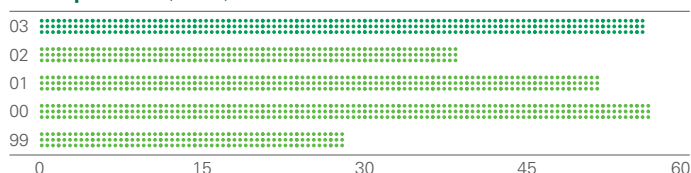
^b The special items refer to non-recurring charges and credits.

^c To reflect BP's increased focus on chemicals products derived from oil and gas, the Chemicals segment has been renamed Petrochemicals.

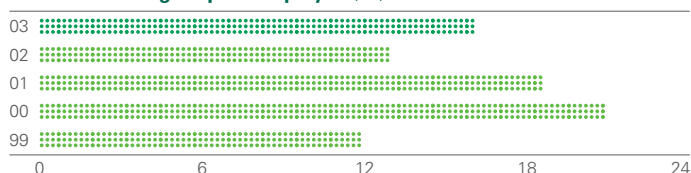
Dividends per share (cents/pence)



Result per share (cents)

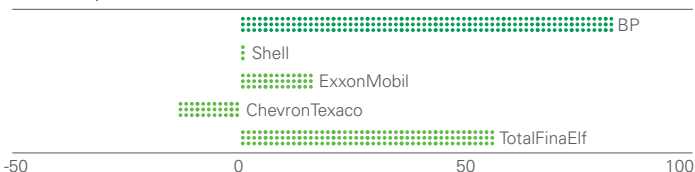


Return on average capital employed (%)

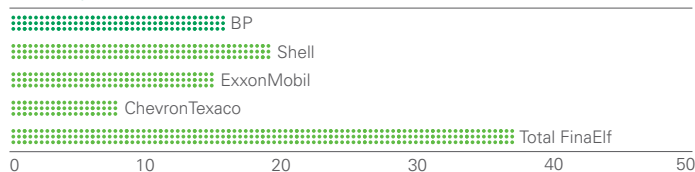


Shareholder returns against the market (%)

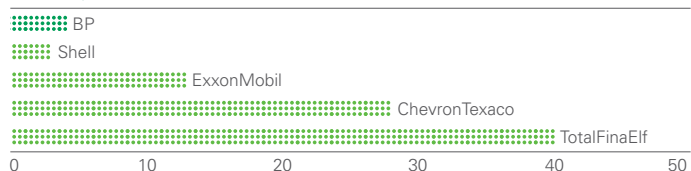
Over 10 years: 1994-2003



Over 5 years: 1999-2003



Over 3 years: 2001-2003



Shareholder returns comprise annual share price movements, with dividends reinvested, for investments held over the period shown.

Shareholder returns against the market reflect the returns generated above or below returns from equivalent investments in the overall market.

Environmental performance

	2003	2002
Greenhouse gas emissions (million tonnes) ^a	83.4 ^b	82.4
Total number of spills (>1 barrel) ^c	635	761
Percentage of major operations with ISO 14001 ^d	99	92

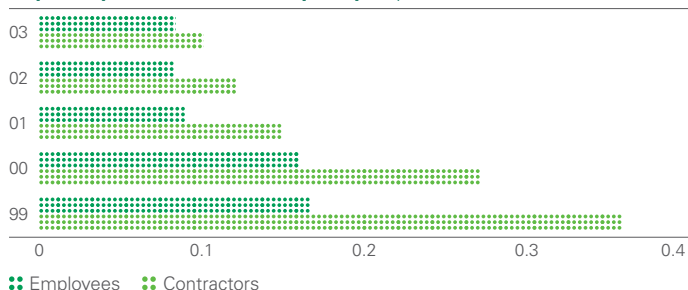
^a BP share of emissions of carbon dioxide and methane, expressed as an equivalent mass of carbon dioxide.

^b BP share of TNK-BP emissions is not included.

^c 1 barrel = 159 litres = 42 US gallons.

^d ISO 14001 is an international environmental management standard.

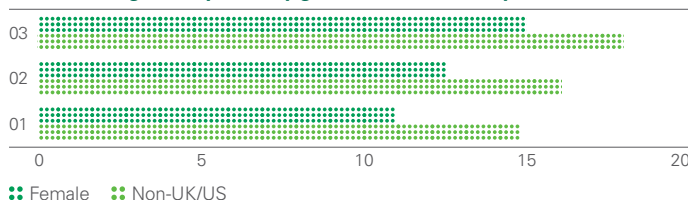
Days away from work case frequency^{a,b} (per 200,000 hours)



^a An injury or reported illness that results in a person being unable to work for a day (shift) or more.

^b 2002 data excludes Castrol and Veba contractors and Veba employees.

Senior management profile by gender and nationality^a (%)



^a Senior management includes the top 609 positions in BP.

Community investment

by region

	\$ million				
	2003	2002	2001	2000	1999
UK	12.7	13.9	14.9	15.4	10.4
(including UK charities)	2.8	3.2	4.7	4.1	5.3
Rest of Europe	8.2	6.2	8.0	5.3	3.5
USA	31.5	46.3	52.9	46.0	36.4
Rest of World	22.0	18.8	18.9	14.9	17.1
Total	74.4	85.2	94.7	81.6	67.4

by theme

	\$ million						
	2003	incl. UK charities 2003	2002	incl. UK charities 2002	2001	2000	1999
Community development	22.8	0.9	24.3	0.7	33.3	28.2	29.5
Education	27.1	0.4	24.2	0.8	29.5	21.3	14.8
Environment and health	15.4	1.0	19.8	1.1	15.5	8.3	4.7
Arts and culture	5.6	0.1	6.6	0.1	8.2	15.0	11.0
Other	3.5	0.4	10.3	0.5	8.2	8.8	7.4
Total	74.4	2.8	85.2	3.2	94.7	81.6	67.4

Chairman's letter



Dear Shareholder BP delivered sustained progress in 2003, with continued high oil prices leading to a strong year for the company. This performance has enabled BP to increase its total annual dividend per share to 26 cents, an increase in dollar terms of 8.3% over 2002. The weakening dollar/sterling exchange rate means this equates to a decrease in sterling terms of 0.8%.

In stewarding the company for you, its owners, the board must be responsive to the evolving nature of the group, as well as its surrounding economic and competitive landscape. In recent years, BP has grown through significant acquisitions to develop a strong portfolio of assets and leading market positions. It has been transformed into a major oil and gas company with a genuinely global reach. Today, we employ more than 103,000 people around the world. They display tremendous knowledge and skill and have provided the means for BP's development, performance and prospects. On behalf of the board, I would like to pay tribute to their achievements in 2003 and thank them for the value they have created.

Strategic direction

Building on these foundations, our challenge is to realize the potential of our portfolio in the coming years and make the most of the strategic positions we have established by being a first mover in key markets. We approach the future with confidence, in the belief that the scale of our operations worldwide and the progressive introduction of new producing assets will form the basis for both near-term performance and the generation of sustained shareholder value.

While there were signs of renewed global economic strength throughout 2003, geopolitics and energy markets remained unsettled. The map of areas in the world with accessible raw materials for our business has once again been redrawn.

Of particular significance is the TNK-BP joint venture in Russia, which commenced in August. Working with the TNK-BP board, we believe we can deliver value to the benefit of our shareholders and reinforce our position in this vital market.

Innovative transactions in newer markets – and the development of our existing operations – present significant

challenges for John Browne and his executive colleagues. Individually and collectively, they are an excellent team and enjoy our full confidence and support. BP's growth and transformation led to a review during 2003 of the ways in which the group is controlled and how decisions are made. We are confident that this will see the realization of BP as a truly global group.

Corporate governance

Some years ago, BP adopted an approach to governance based on fundamental principles that delineate the role, authority and accountability of the board and the executive management of the group. We have reported to shareholders annually on this topic. These governance policies are well embedded into our culture and ensure compliance with many new regulatory developments on both sides of the Atlantic. Our approach to governance and transparency is tailored to the nature of the group and its businesses. In our report on corporate governance on pages 102-105 we have set out an explanation of why we believe our approach is both conceptually sound and right for BP and its shareholders.

The board, which comprises a majority of independent non-executive directors, works to ensure that your long-term interests as owners are both protected and enhanced. Our work includes assessing the opportunities and risks confronting the group and monitoring the controls applied to manage and exploit them. In its oversight of the group, the board recognizes the need for the executive team to exercise its judgement in the management of the business, displaying innovation and entrepreneurship – the qualities that have led BP to its current position – but without compromising our standards of probity and transparency.

By its nature, the group's business brings BP into contact with many different societies, people and challenges in diverse parts of the world. Our activities are scrutinized by numerous regulatory authorities and other organizations that represent the interests of those who are affected by our operations. As your representatives, we believe it is essential to be responsive to those with whom we come into contact; it is equally essential

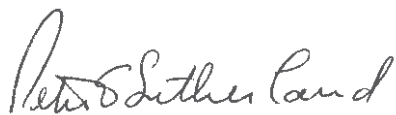
Sustained progress

to discharge our overall responsibility to you as shareholders, in order to protect and enhance the long-term value of your investment. We are mindful of this balance in managing our roles and activities, such as when making decisions about whether to pursue opportunities in environmentally sensitive areas. We only operate in such areas if we believe we can properly manage the environmental and social risks according to our own standards, as well as comply with applicable laws and regulations.

Board changes

Over the year, the board's focus has included its own succession and development planning. Our corporate governance report sets out the board's approach over the coming years to refresh its membership and ensure it continues to operate effectively and efficiently. Among the transitions ahead is the departure of Floris Maljers, who will step down at the 2004 annual general meeting. During the six years Floris has been on the board he has contributed greatly to its discussions and we thank him for his contribution. As we say goodbye to Floris, we are pleased to welcome Antony Burgmans to the board. He brings with him great experience of marketing matters and an important European perspective.

2003 also saw the retirement of Judith Hanratty as company secretary. Judith has been instrumental in the work of the board since her appointment in 1994. The rigour of our governance policies and the infrastructure that supports our work as a board owe much to her endeavours. We wish her well in her retirement.



Peter Sutherland

Chairman

9 February 2004

Throughout the year the board regularly monitors the way the company manages its risks and opportunities. The board is supported in this process by the work of its committees. These are described in more detail in the section on the work of the board in governance on pages 102-105 but brief details of three committees of particular importance to shareholders are given below. Each committee comprises solely independent non-executive directors and plays a key role in testing the decisions, processes and judgements of executive management.



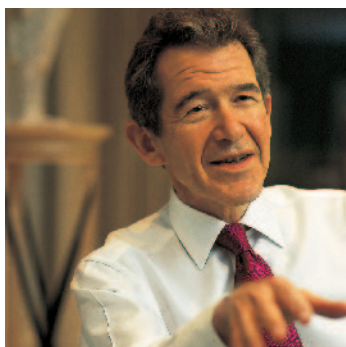
The **Audit Committee** is chaired by Sir Ian Prosser. It is responsible for monitoring all the reporting, accounting, control and financial aspects of executive management activities.



The **Ethics and Environment Assurance Committee** is chaired by Dr Walter Massey. It is responsible for monitoring the non-financial aspects of executive management activities.



The **Remuneration Committee** is chaired by Sir Robin Nicholson. It is responsible for determining the structure of rewards for the group chief executive and executive directors.



Dear Shareholder When I wrote to you last time, my team and I had as many questions as answers about the forthcoming year. Would our strategy endure a weak global economy, impending war in Iraq, continuing uncertainty over terrorism, increasingly complex regulation and a groundswell of anti-corporate sentiment? How would our competitors respond to the challenging position we had worked so hard to achieve?

I am pleased to say that BP rose convincingly to all these challenges. The group turned in one of the strongest performances in its history. We closed the year more secure in our strategic direction, more steadfast in our beliefs and more confident in our potential to deliver superior long-run total shareholder returns.

With the retirement of Rodney Chase, deputy group chief executive, and John Buchanan, chief financial officer, we moved new people into leadership positions. Dick Olver, Byron Grote and David Allen, long-term colleagues, have each in their new positions added considerable experience and judgement. Tony Hayward, John Manzoni, Ralph Alexander and Iain Conn, who are now in charge of our four business segments, have added to the strength of our team.

We recognize that in our people we possess the talent, creativity and commitment to deliver consistent and competitive returns and turn our strategy into reality. I offer my sincere thanks and appreciation to all our staff around the world.

Performance in perspective

In 2003, we were able to report a strong result, and to invest significantly for the future.

Our result was \$12.4 billion, up from \$8.7 billion in 2002. This was achieved against the backdrop of stronger oil and gas prices, which were higher than most had forecast. During the year, underlying oil demand increased as the world moved out of recession and the economic boom in China continued. OPEC maintained a managed supply throughout the year, despite well-publicized disruptions in Venezuela and Iraq, and inventories remained low.

Our improved result was founded on cash from our operations, which rose 12% to \$21.7 billion. This strong cash flow gave us the flexibility to use \$2.5 billion to strengthen our pension funds.

Excluding this pension funding, BP's operating cash flow rose to a total of 25% above 2002 levels. In addition, we divested \$6.4 billion of assets. We used this cash flow to invest \$14.0 billion in organic capital expenditure, to acquire \$2.6 billion

of new assets, to pay dividends of \$5.7 billion and to buy back \$2 billion of our own shares, while maintaining our year-end level of net debt at the same level as year-end 2002. All these are clear signals of a strong year and a healthy group.

In addition, pro forma return on average capital employed improved year-on-year from 13% to 16% through a disciplined focus on our revenue-generating assets.

The safety of our people remains of prime importance and our overall safety performance continued to improve. The frequency of serious injury among employees and contractors, as measured by days away from work cases, has decreased over a five-year period, from 0.25 in 1999 to 0.10 in 2003. However, individual incidents led to a large number of fatalities among employees and contractors, with 20 people losing their lives, mostly as a result of transport-related incidents. We deeply regret these fatalities and, in response, are tightening our standards on driving safety throughout the group.

Evidence of progress

These annual results must also be viewed in the context of our long-term strategy. In 2003, we took steps to strengthen the competitiveness of our portfolio of assets, markets and businesses. The significant milestones were:

- **New exploration and production profit centre progress**
Our new liquefied natural gas (LNG) facility in Trinidad started up earlier than scheduled, our new assets in the deepwater Gulf of Mexico increased production and new discoveries were made offshore Angola.
- **Oil and gas production volume growth** Our production volume increased by over 2% in 2003 compared with 2002.
- **Reserves replacement** BP's replacement of reserves significantly outpaced production for the 11th consecutive year, a milestone that underscores our distinctive ability to renew the assets that underpin our future growth.
- **First LNG deliveries** In the third quarter, the first cargo of LNG was delivered from Trinidad to the Bilbao electricity generation plant, in which BP has a 25% interest. This was followed by the first delivery of LNG, owned by BP, to the reopened Cove Point regasification terminal in the US.
- **TNK-BP** The agreement between BP and the Alfa Group and Access-Renova to form TNK-BP was completed in August. The new operation is proceeding well. BP's \$6.8 billion investment gave us a 50% stake in the third largest oil producer in one of the world's great hydrocarbon basins.

New possibilities

- **Caspian pipeline funding** After more than two years of monitoring and scrutiny of the project's environmental and social impact and an extensive public consultation process, the European Bank for Reconstruction and Development approved up to \$250 million in loans to the Baku-Tbilisi-Ceyhan (BTC) pipeline, managed by BP. The pipeline is on track for start-up in the first half of 2005.
- **BP Ultimate launch** BP launched BP Ultimate in the UK in October, building on the success of Amoco Ultimate in the US and other recent European launches. This upgraded diesel and unleaded fuel delivers greater performance with fewer emissions than standard fuel grades.
- **Customers for oil products** We have redirected our branded products to appeal to more customers and promote our brand values. We have also extended our brand footprint with the rollout of the new BP Connect offer, the reimagining of many sites in the US and Germany, and the expansion of our presence in new markets such as China.
- **SECCO** One of Asia's largest petrochemicals complexes, located in Shanghai and 50%-owned by BP, was half-way to completion by the end of 2003, on track for production in 2005.
- **Divestments** More than \$6 billion in proceeds from divestments resulted from our programme of high-grading our portfolio.

Strategy in context

Ten or so years ago, it might have been easy for BP to accept the status quo, to hold on to our heritage, accepting our position among middle-tier oil companies and offering shareholder returns with average prospects for long-term growth. Fortunately, BP is not a company whose character and aspirations allow it to accept the status quo.

Indeed, recent history points to many examples where BP has acted as 'first mover' to create distinctive asset and market positions. We saw greater opportunity for sustained growth in shareholder value by attaining global scale, with all the opportunities and efficiencies that such a position brings.

Over the last few years, we have continued to transform our exploration and production segment in the drive for secure and competitive returns. While continuing to seek maximum productivity from our existing base of oil and gas fields, we have also created a balanced portfolio of six new material profit centres: the deepwater Gulf of Mexico, Trinidad, Azerbaijan, Angola, gas in Asia Pacific and, most recently, Russia. At the same time, we have reinvested significant cash into our customer-facing businesses to build a strong second leg for the group.

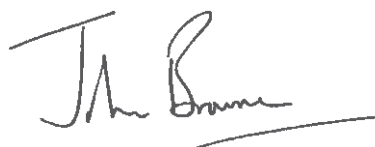
The future

In the process of becoming a major oil and gas company through mergers and acquisitions, we have established common values and processes throughout the group so that we can act with greater alignment. This allows us to harness the restless energy and imagination of our people within a management framework that has clarity of central strategic purpose and unified control. I believe this framework will drive operational excellence and competitive shareholder returns over time.

As we realize the possibilities before us, we also recognize the challenges they bring. Good performance year by year is not enough. We have to demonstrate that we can be a sustainably successful company in the long term, making a meaningful contribution to a sustainable world. We are continuing to develop practical responses to the critical issue of climate change. We are working to develop cleaner, more efficient fuels for our customers. We continue to strive to ensure that our activities not only benefit our shareholders but create mutual advantage for our customers, suppliers, partners and communities wherever we operate.

To do that, we must be guided by our values, being inclusive and meritocratic, having high ethical standards, striving for transparency and recognizing our impact on society. Most importantly, we must continue to renew our human capabilities by attracting, retaining and developing some of the world's best people.

We have come a long way, but there is much more to do. We are guided by a clear strategy, with a talented and committed workforce. The future is full of excitement and the future, as always, has just begun.



The Lord Browne of Madingley

Group Chief Executive

9 February 2004

As a supplier of energy, our job is to

fuel the world's

possibilities.

How should we begin?

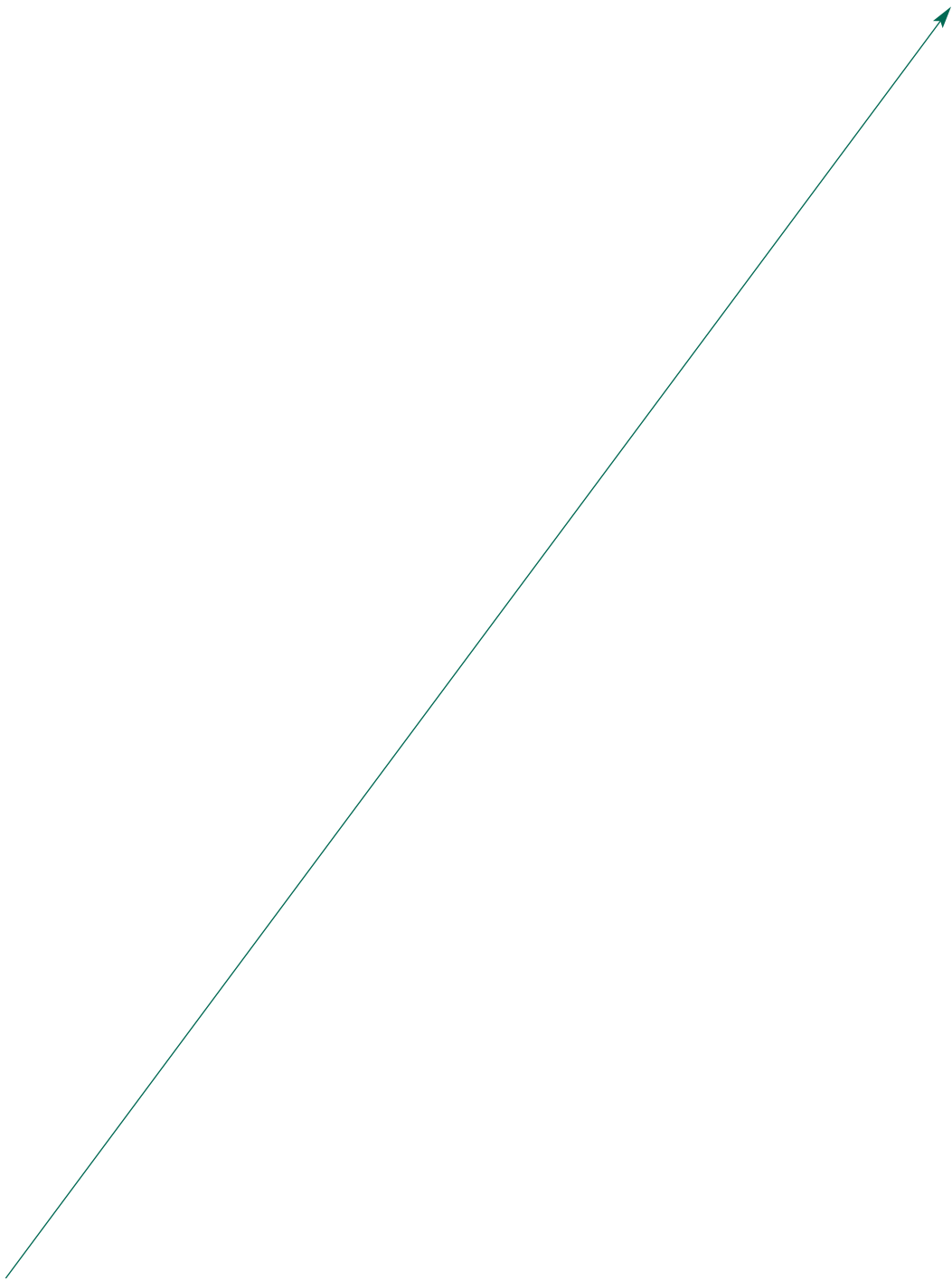
With a report about drilling for oil? Refining it?
Marketing products? Old story.
The fact is, neither this company, nor this
industry will ever be successful if they
focus only on history.

Because things are changing.

BP as we know it today began to take
shape just five short years ago. In that
time, we have brought together new
assets, people, technology, values and
knowledge to form a group that now fully
competes as one of the leaders in the oil
and gas industry. Our new era requires
new answers from us, coupled with new
definitions of performance.

It starts here.

a



Be more tomorrow than we are today

1

What defines BP? In industrial terms, we are classified as an oil, gas and petrochemicals company. Competitively, we are one of the leaders in the marketplaces where we do business. Economically, we participate in the global marketplace for an indispensable commodity – energy – in a sector defined by long-term business cycles.

But what BP is capable of as a company has been redefined in the past five years – and will be redefined again in another five, as we approach our centennial year in 2008. Why? Because the characteristics of our industry have changed. We contributed to that change. And we are determined to continue to drive further change for the benefit of our stakeholders.

In recent years, BP has grown significantly. We have instituted a disciplined financial framework that has provided stability and a platform for growth in a volatile global environment. We have

applied a coherent business strategy. And, from several heritage companies, we have become one, with our assets and market positions now assembled within a cohesive group, performing as one of the leaders in our industry.

If scale alone created a great company, we might be satisfied with where we stand today. But we are not – not yet. The current competitive landscape requires us to think and perform with a longer view, and to execute at an unprecedented level. Through our focus and new resources, we intend to offer investors the performance – the continuous improvement in productivity, the quality and consistency of our shareholder returns and positive relationships with society – necessary to produce superior long-term value. This is how we see true leadership measured today, and how we believe the world's great companies will be regarded in the future.

We intend to be one of them.

\$101 billion in
investments
from
2000 to 2003

\$27 billion in
portfolio
divestments
from
2000 to 2003

2.

Operate with diligence and determination

BP is preparing for an era of greater innovation and new productivity. We believe we have the assets, the market positions and the people. But we need to retain and expand the valuation investors place on us as an industry leader. This means we must operate these resources with discipline, using our strategic insights and rigorous performance culture to evaluate the opportunities before us and derive maximum value from each of them.

Financial discipline comes first. Our financial framework is the mechanism by which we seek to ensure prudent management of capital expenditure, divestments, debt, costs and competitive returns to shareholders as we continue to invest for the long-term future of BP. This discipline enables us to provide returns to our investors, building on a sustained track record of dividend growth.

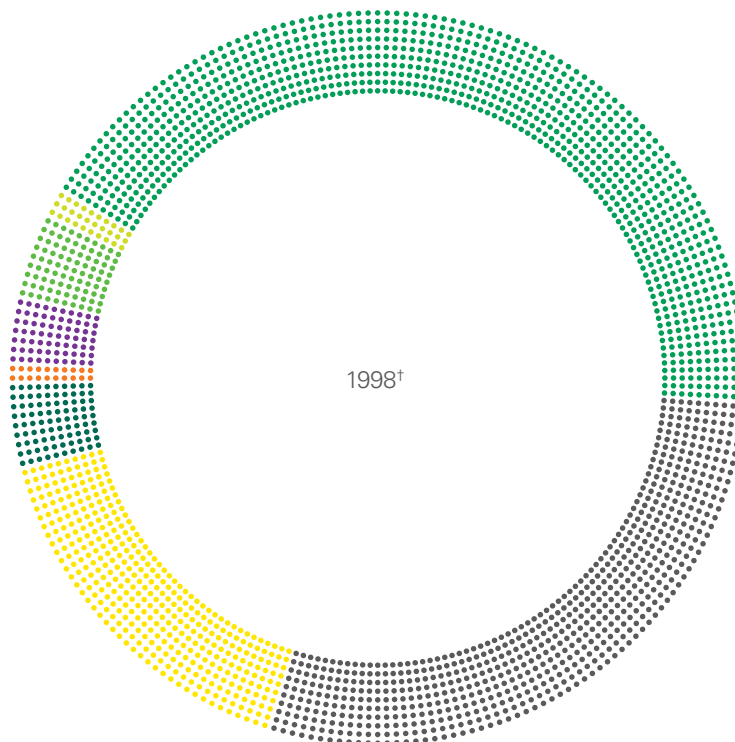
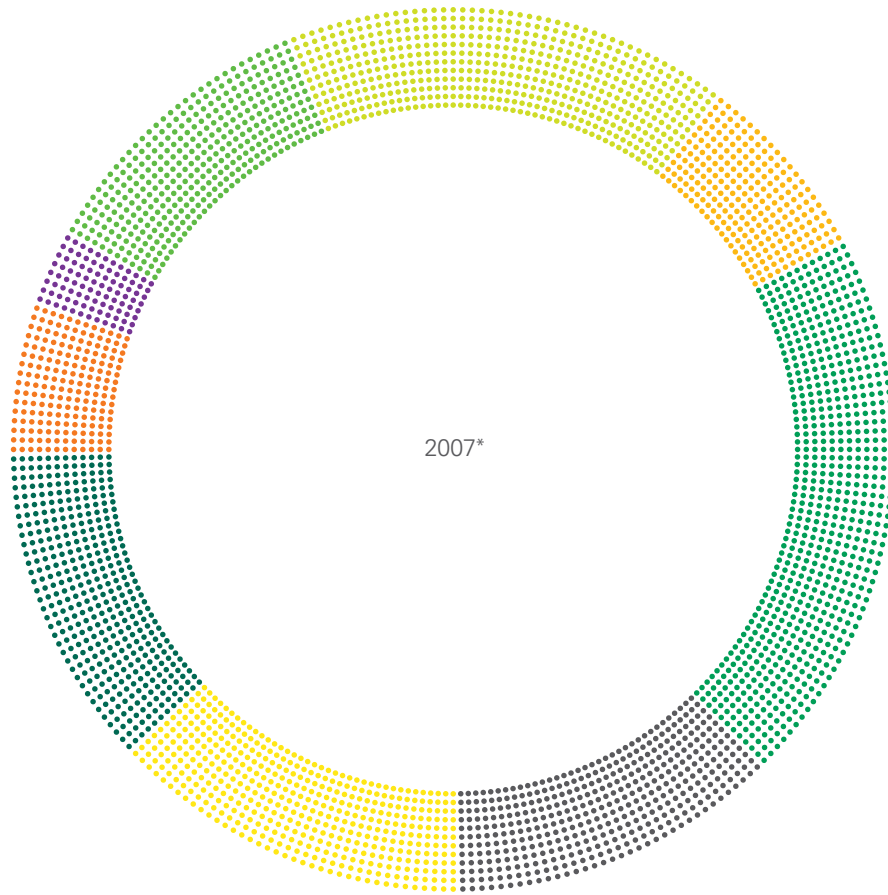
Operationally, we believe that BP now has a leading portfolio of assets and market positions in its sector. The composition of this

portfolio is designed to provide a buffer against a trading environment in which prices are determined by market forces outside our control. While collectively strong, these assets and market positions are a constant work in progress, with each project or business different or complex in its own way.

Managing a portfolio of this sophistication and geographic diversity requires a degree of corporate 'multi-tasking' that few players can pull off. However, as the conventional pattern of access and exploration changes in the next decade, we believe that building external relationships will become just as significant an activity as applying technology. These relationships will be essential throughout our businesses, from upstream development opportunities to access to new downstream markets.

We expect BP's diversity of global experience, sensitivity to local needs and delivery of mutual advantage to serve us well in this operating environment.





**Delivering diversification:
distribution of BP's production**

- North America
- North Sea
- South America, Middle East, Africa (excluding Angola)
- Gulf of Mexico deepwater
- Azerbaijan
- Asia Pacific
- Trinidad
- Russia
- Angola

*BP projection 2003.

†1998 data from *BP Financial and Operating Information 1998-2002*.

3.

Manage risk through constant renewal

In the equation for delivering long-term shareholder value in the oil, gas and petrochemicals industry, there is one constant: the need to manage risk. Few industries face the operating challenges that BP and its competitors experience on a daily basis: geographic, economic, technical or any combination of these.

For BP, maximizing value while managing risk is both a discipline and an opportunity. It is a discipline that enables us to make the right choices as consistently as possible. In recent years, we have spoken of BP's strategy as focused on a 'distinctive set of opportunities'. More explicitly, these opportunities are a series of large investments that allow us to direct our people, assets and market positions in a balanced way. This portfolio of investments helps insulate us against volatility in differing economic conditions, broadens our competitive horizons and supports consistent returns to shareholders.

This balance in choice continues to be a hallmark of our strategy.

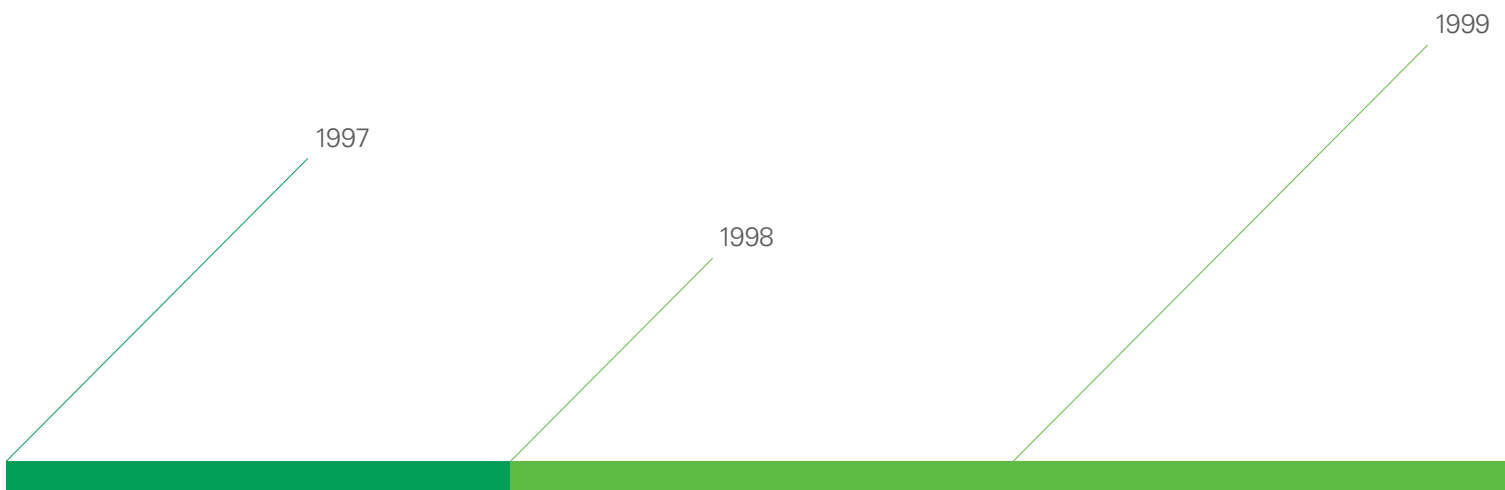
The stakes, however, are being raised. The opportunities that remain in our world are growing in their demands and complexity. Even the most attractive projects require a demonstration of staying power and a scale of financial, human and physical resources to answer industry challenges. How do we win in this environment?

It begins upstream, through renewal. BP maintains a portfolio of investments that offers diversified sources of growth and the ability to replace production while minimizing the effect on profitability. Diversity in investment choice also extends downstream to our customer-facing businesses. For BP, maximizing value is a function of making the best investment choices in the most promising places at the most advantageous moment.

We believe that this difference in portfolio quality provides BP with advantages in exploration and production efficiency and the potential both for margin improvement in all our businesses and for stronger cash flow.

4

Finish first by moving first BP's position as an industry leader is due in no small part to our actions as a 'first mover' – first to opportunity, first to market or first to deliver value. We have sought to act first whenever advantageous. By leveraging our strategic insight and rapid commercial execution, we have adapted quickly and have been in the forefront of necessary change.



Investing in Russia

Eight years after BP first sent teams to Russia to examine exploration prospects, we begin investment by acquiring a 10% stake in Sidanco. This underscores our belief in the potential of Russia, previously seen as unreachable for political reasons.

Taking a stand on climate change

In response to mounting evidence and concern about greenhouse gas emissions and the earth's rising temperature, BP becomes the first in our industry to state publicly the need for precautionary action. We take steps on environmental standards, including controlling our own emissions, supporting existing and new scientific work and developing emissions trading mechanisms in-house and with external bodies.

Engaging in large-scale mergers

Through our merger with Amoco, we take a major step to becoming a leader in the oil and gas industry. This action is the first in a series of major corporate deals in the sector that will continue for more than two years. The merger gives the combined companies the opportunity to compete with a distinctive set of people, assets and market positions. BP gains Amoco's strength in oil and gas production in North America, and its interests in Egypt, Trinidad, West Africa, Argentina and Azerbaijan. In refining and marketing, Amoco contributes its significant strength in the US to BP's existing positions in Europe, the US and Australia, and in emerging markets.

Anticipating growth in demand for gas

BP establishes a gas and power business segment, designed to focus and expand our capability to meet an increasing world demand for natural gas. To help build our position as a leading provider of natural gas for US consumers, to address that country's growing demand and to diversify its sources of supply, BP delivers the industry's first cargo of liquefied natural gas to east coast customers.

Some cases in point We were at the forefront of the process of restructuring in the oil and gas industry. This enabled us to align our scale and reach with the developing global pattern of energy supply and demand.

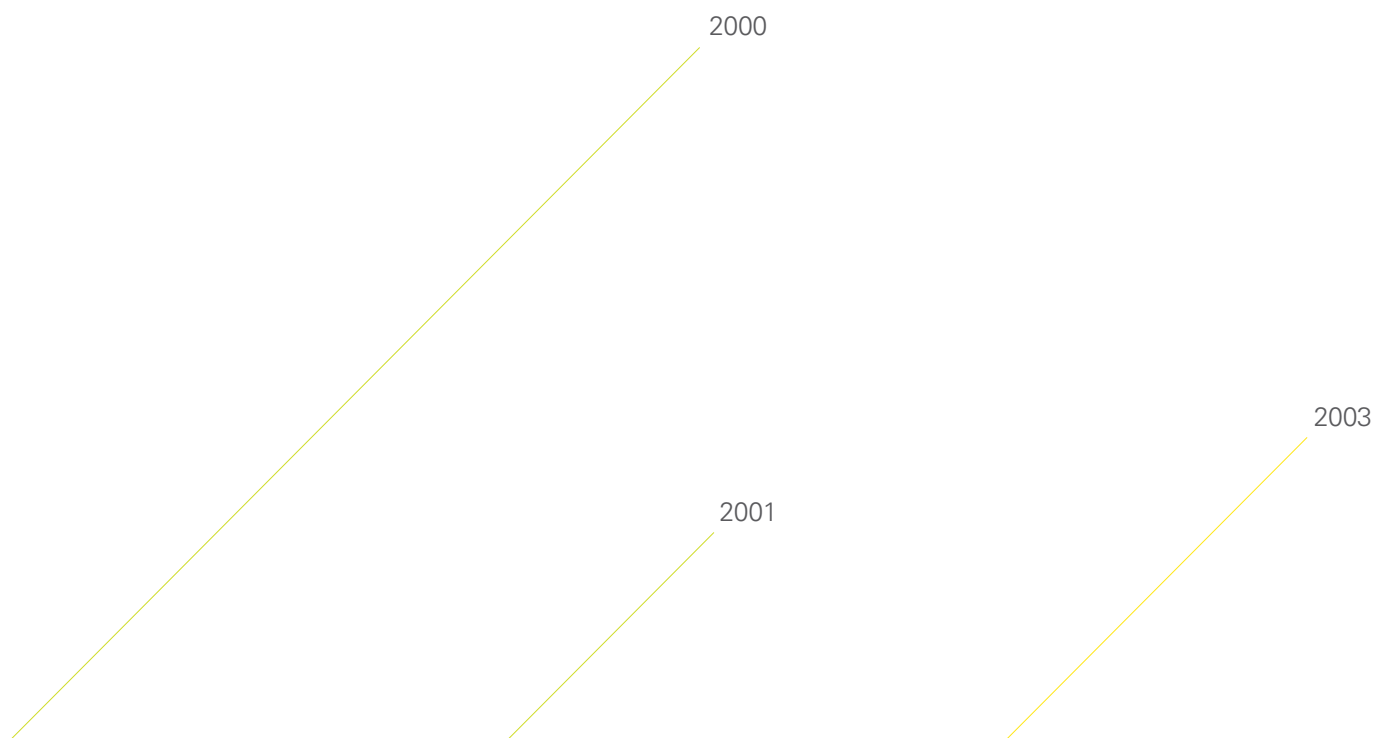
Our combinations with Amoco and ARCO moved us to become one of the top three in terms of performance, assets and returns to shareholders. We were the first

among our peers to respond publicly to the risks of global climate change. And we responded to political developments with investments in China and Russia, areas previously considered inaccessible to our industry.

These and other 'first mover' initiatives have enabled BP to capture added value and to develop distinctive positions and reputation. We are determined to maintain

the position and momentum we have gained in recent years. Our willingness to think ahead of the curve and beyond the traditional boundaries of our businesses remains as strong as ever.

Performing as a 'first mover' is as much a cultural attribute as a conscious choice. We believe it will be instrumental in the next phase of BP's – and our industry's – development.



Adding scale through acquisitions

ARCO joins the BP group to create coast-to-coast coverage of the US fuels market. Strategically, the ARCO deal also represents an opportunity to grow our natural gas business, particularly in the Far East. Together with BP's own production, the Amoco and ARCO transactions create an eight-fold increase in BP's gas production over 10 years. Our acquisition of Burmah Castrol strengthens BP's customer-facing businesses with a world-recognized premium lubricants brand.

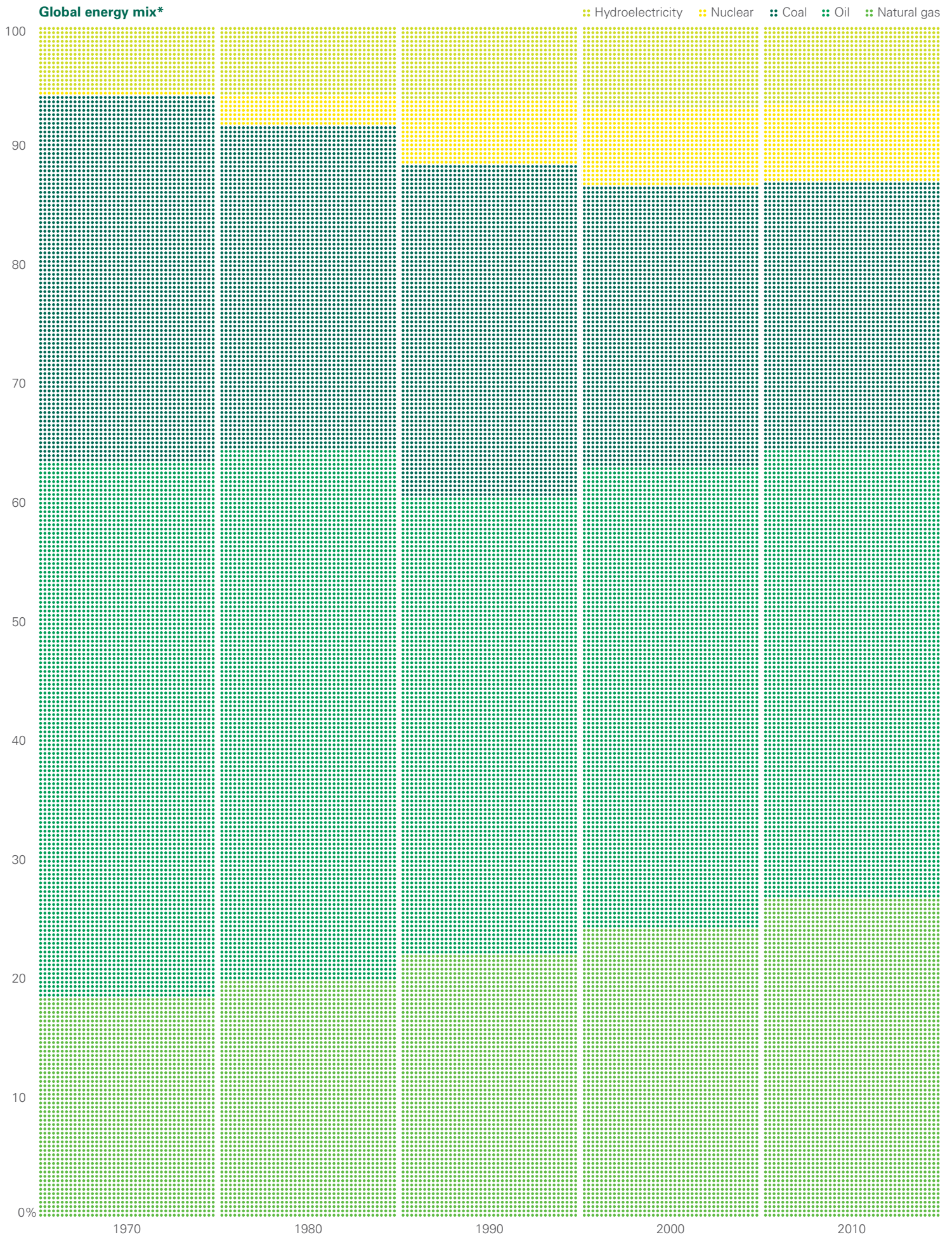
Positioning in Germany

As part of our strategy to build a strong second leg for the group, BP acquires Veba's retail and refining assets in Germany and central Europe. This makes BP the market leader in Germany and Austria and substantially strengthens our position in Poland and in several other central European countries. BP markets under the well regarded Aral brand in Germany.

Building advantage in Russia

BP acquires a 50% stake in TNK-BP, creating a sixth new upstream profit centre. TNK-BP is the third largest integrated oil company operating in Russia. It encompasses the full spectrum of vertical integration, from wellhead to leading positions in the marketing of petroleum products. TNK-BP is comparable in production size to the former Amoco before our merger, and has proved reserves of 3.6 billion barrels, of which 2.8 billion barrels are developed. TNK-BP's portfolio contains eight fields of greater than 250 million barrels, including Samotlor, the third largest oil field ever discovered.

Global energy mix*



*Data for 1970-2000 taken from *BP Statistical Review of World Energy*. Data for 2000-2010 taken from *World Energy Outlook 2002* © OECD/IEA 2002.

5.

Focus on the markets that matter

In the drive for sustainable advantage in our industry, raising the bar on the same objectives year after year can be a formula with limited potential. Instead, BP uses its restlessness for new opportunities to pursue the highest-quality targets, so catalysing the group to deliver its full potential. Doing this helps put us in the right markets, with the right products and brands, at the right time, for the right reasons.

Taken as a whole, the global energy market is an increasingly dynamic place. Patterns of supply and demand are shifting with changes in population, living standards, advances in technology and political change. BP must be equally responsive, investing where supply and demand are moving, not just where they are today.

Geographically, we are consciously managing a shift from our emphasis on established profit centres and markets to developing

markets, balancing risk and complexity against quality of return on capital and potential cash flow growth. The result is a significant presence in natural gas, the world's fastest-growing major fuel, which now contributes nearly half our daily production and booked reserves.

In our customer-facing businesses, our focus has taken us to leadership positions in petroleum product markets, with fuel volumes increasing more than 40% since 1998. Our investment in our retail businesses is primarily directed at markets in which our share and efficiency are strong relative to competitors. We focus on core petrochemicals products with strong market share and technological advantage. And we have a sizeable share in the world market for solar power, a stake that prepares us to innovate and to produce value from future technologies and energy sources over the long term.

Provide the greatest benefit
to the broadest constituency

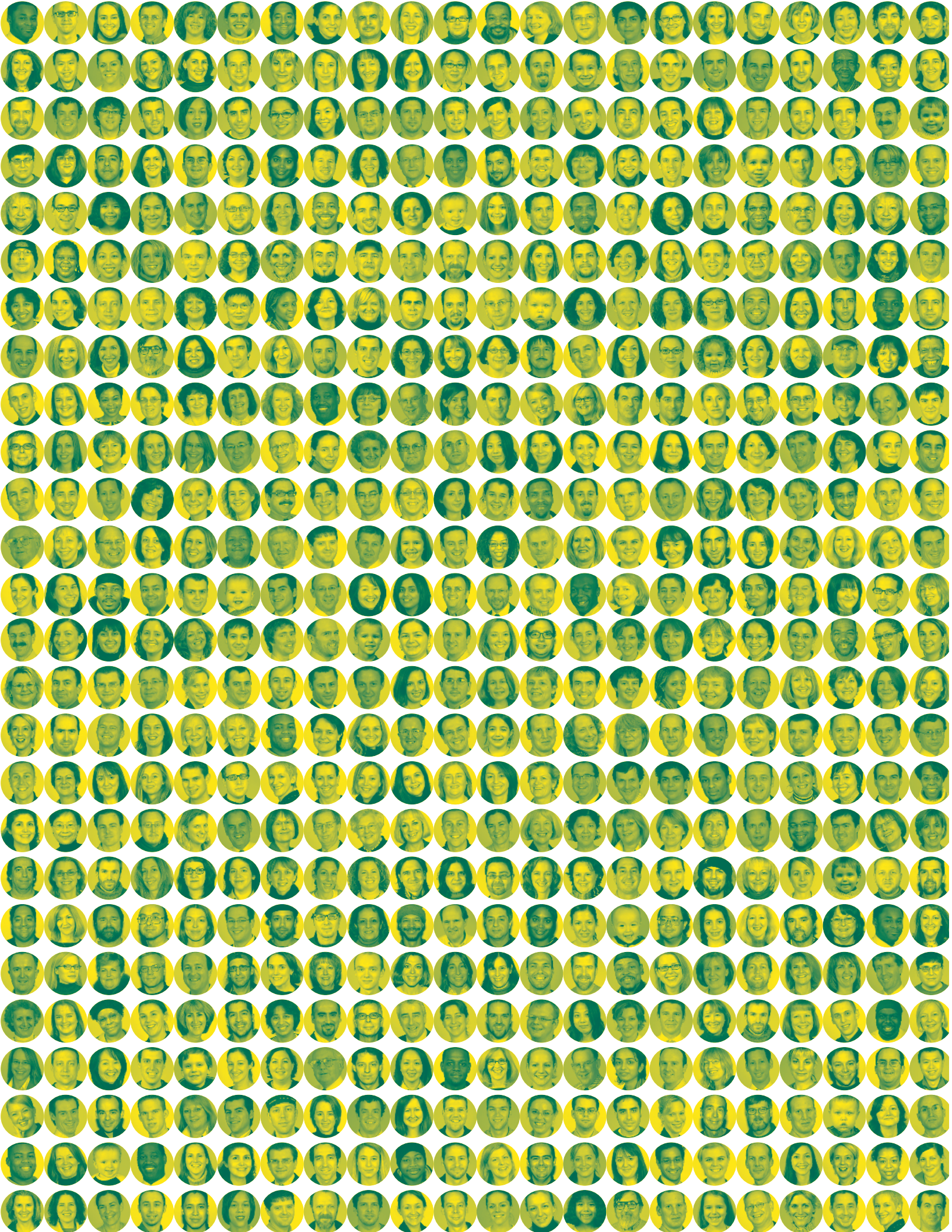
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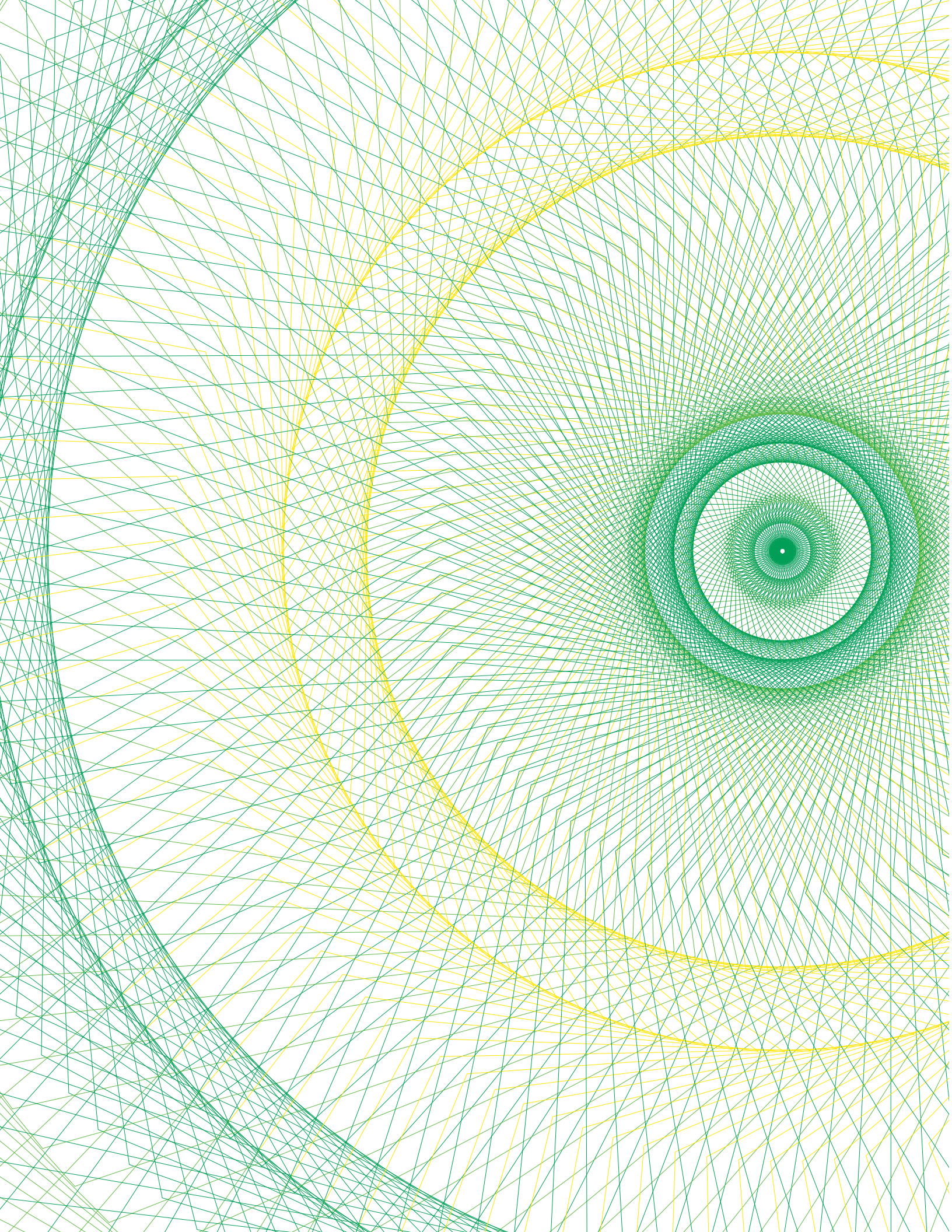
The nature of our business requires us to participate actively in a global marketplace serving around 13 million customers, each with their own constantly changing needs, desires and dreams. Such as mobility. Industry. Prosperity. Opportunity. Sustainability. These diverse and evolving demands create a constant tension between what we as a society can live with and what we cannot live without. And they have led us at BP to think beyond the expected to the ways in which we can most responsibly support human needs and fuel the world's progress.

Our publicly stated aspiration is to be numbered among the world's great companies. The idea – actually, the ideal – of economic, social and environmental sustainability has for years influenced corporate-level policies. At BP, it permeates the group, from the quality of corporate governance and the transparency of our reporting down to such project-level decisions as our partnership

choices, low-impact drilling and the launch of new, cleaner fuels in advance of regulatory requirements.

But why should an oil and gas company be a force for human progress? What is the business case for social responsibility and environmental sensitivity? The first answer is that, for any company with the scale and reach of BP, responsible conduct is a requirement. At BP, we make this requirement a business practice as well as a corporate principle. Secondly, we expect our conduct to be measured by responsible standards. Already, we see that living up to high standards for behaviour, environmental policies and human rights opens doors to new relationships and resources. It sparks innovation and permits investment. And it fosters constructive debate and co-operation rather than confrontation. For BP, that is the way we want to conduct our business.







7.

Engage thousands; act as one

In our industry, the evidence is that value can be created from scale. Larger assets and markets generate better returns. Controlling multiple assets saves money. Owning a diverse set of assets spreads risk. But scale is only a means to an end. Winners in this industry need integrated know-how and a 'one-company' mindset to overcome the challenges of complexity and distance that come from scale and reach.

Today, the BP group has more than 103,000 people working in over 100 countries within four main business segments. Yet we are all guided by one strategy. By encouraging our people to think and perform as 'one company' rather than as a collection of heritage companies, BP is aligning internal understanding of the brand and unlocking the group's vast human potential as a competitive advantage.

When we approach the BP group's operations in a more unified manner, value is added through the sharing of knowledge, services

and relationships, and a consistently expressed brand. Specifically, integration permits us to develop cross-segment knowledge, leverage our trading strength, combine technical, commercial and marketing capabilities and, ultimately, make value-maximizing business decisions. This mindset is critical to achieving success in big projects and managing their inherent risk.

We are operating the group's businesses in an increasingly coherent and optimized manner. At the same time, we are embedding within BP a new management framework that codifies the way in which we operate and defines authorities and accountabilities for all managers and their teams. It brings together the best of our business segment, regional and functional leadership in a way that focuses on higher-value activities and provides mechanisms for centralized and integrated activities. Guided by one strategy, performing and acting as 'one company', we intend our management culture to be a distinctive and sustainable resource.

Financial performance

Business environment

Trading conditions in 2003 were affected by tight supplies in oil and gas markets and by a world economic recovery, following two years of below-trend growth. The global economy is expected to strengthen further in 2004.

Average crude oil prices in 2003 were the highest for 20 years, driven by supply disruptions in Venezuela, Nigeria and Iraq, OPEC market management and a recovery in oil demand growth following three exceptionally weak years. The Brent price averaged \$28.83 per barrel, an increase of almost \$4 per barrel over the \$25.03 per barrel average seen in 2002, and moved in a range between \$22.88 and \$34.73 per barrel.

Natural gas prices in the US were also exceptionally strong during 2003. The Henry Hub First of the Month Index averaged \$5.37 per million British thermal units (mmBtu), up by more than \$2 per mmBtu compared with the 2002 average of \$3.22 per mmBtu. A combination of cold first-quarter weather and weak domestic production kept working gas inventories relatively low for much of the year. UK gas prices were also up strongly in 2003, averaging 20.28 pence per therm at the National Balancing Point compared with a 2002 average of 15.78 pence per therm.

Refining margins weakened somewhat towards the end of the year but were above historical average levels for 2003 as a whole, reflecting low commercial product inventories in key US and European markets. Retail margins for the year were relatively strong, especially in the US and Europe. Petrochemicals margins remained depressed in 2003, coming under pressure from high feedstock prices.

Results

BP's result for the year was \$12,379 million, compared with \$8,715 million in 2002. The result per share was 55.83 cents, an increase of 44%. The replacement cost operating result was \$19,904 million (2002 \$14,720 million). Replacement cost profit before exceptional items was \$9,543 million (2002 \$4,698 million).

The special items in 2003 and 2002 are shown in the table on page 25.

The return on average capital employed was 16%, compared with 13% in 2002. On a replacement cost before exceptional items basis, the 2003 return was 11% (2002 6%), and 11% (2002 8%) on a historical cost basis.

Net exceptional gains of \$708 million before tax include gains on the divestment of a further 20% interest in BP Trinidad and Tobago LLC and the sale of the group's interest in the Forties oil field in the UK North Sea, partly offset by net losses on a number of smaller transactions.

Interest expense was \$851 million, compared with \$1,264 million in 2002. The 2002 figure has been adjusted for special charges of \$15 million arising from the early redemption of bonds. The decrease mainly reflects lower average interest rates and lower average debt.

Corporate tax expense was \$6,504 million (2002 \$4,673 million), representing an effective tax rate of 34% on the pro forma result, adjusted for special items. The effective tax rate on replacement cost profit before exceptional items was 38%, compared with 47% in 2002.

Historical cost profit was \$10,267 million, including exceptional net gains after tax of \$708 million and stock holding gains of

Reconciliation of reported profit/loss to pro forma result adjusted for special items

	2003				2002			
	Reported	Acquisition amortization ^a	Special items ^b	Pro forma result adjusted for special items	Reported	Acquisition amortization ^a	Special items ^b	Pro forma result adjusted for special items
Exploration and Production	13,937	1,566	474	15,977	9,206	1,780	1,019	12,005
Gas, Power and Renewables	472	–	–	472	354	–	30	384
Refining and Marketing	2,340	826	523	3,689	872	794	415	2,081
Petrochemicals ^c	568	–	38	606	515	–	250	765
Other businesses and corporate	(904)	–	64	(840)	(701)	–	186	(515)
Replacement cost operating profit	16,413	2,392	1,099	19,904	10,246	2,574	1,900	14,720
Interest expense	(851)	–	–	(851)	(1,279)	–	15	(1,264)
Taxation	(5,849)	–	(655)	(6,504)	(4,217)	–	(456)	(4,673)
Minority shareholders' interest (MSI)	(170)	–	–	(170)	(52)	–	(16)	(68)
Replacement cost profit before exceptional items	9,543	2,392	444	12,379	4,698	2,574	1,443	8,715
Exceptional items, net of tax	708				1,043			
Replacement cost profit after exceptional items	10,251				5,741			
Stock holding gains (losses), net of MSI	16				1,104			
Historical cost profit	10,267				6,845			

^a Acquisition amortization refers to depreciation relating to the fixed asset revaluation adjustment and amortization of goodwill consequent upon the ARCO and Burmah Castrol acquisitions.

^b The special items refer to non-recurring charges and credits.

^c To reflect BP's increased focus on chemicals products derived from oil and gas, the Chemicals segment has been renamed Petrochemicals.

\$16 million. The corresponding figures for 2002 were \$6,845 million profit, \$1,043 million net gains and \$1,104 million gains respectively.

Capital expenditure and acquisitions amounted to \$20,075 million, including \$5,794 million for the acquisition of our interest in TNK-BP. Excluding acquisitions, capital expenditure was \$14,049 million, compared with \$13,321 million in 2002.

Net cash inflow for the year was \$1,342 million, compared with an outflow of \$344 million in 2002; higher operating cash flow and lower acquisition spending were partly offset by higher tax payments. Net cash outflow for capital expenditure and acquisitions, net of disposals, was \$9,735 million (2002 \$10,983 million). During 2003, we made incremental payments of \$2,533 million into a number of the group's pension funds.

The group's net debt, that is debt less cash and liquid resources, was \$20,193 million at the end of 2003, compared with \$20,273 million at the end of the previous year. The ratio of net debt to net debt plus equity was 24%, compared with 28% a year ago. We expect to keep this ratio in the range of 25-35%. On a reported basis, the percentage was 21% (2002 22%).

In addition to reported debt, BP uses conventional off balance sheet sources of finance such as operating leases and borrowings in joint ventures and associates. The group has access to significant sources of liquidity in the form of committed facilities and other arrangements.

Dividends and share repurchases

The total dividends announced for 2003 were \$5,753 million, against \$5,375 million in 2002. Dividends per share for 2003 were 26 cents, an increase of 8.3% compared with 2002. In sterling terms, the dividend was 0.8% lower as a result of the weakening dollar/sterling exchange rate. The board sets the dividend based on a balance of factors. It considers present earnings, together with long-term growth prospects and cash flow. It also considers the group's competitive position. The steady increases in the dollar dividend in recent years reflect the board's assessment of the group's capacity for a sustained dividend over the longer term.

BP intends to continue the operation of the Dividend Reinvestment Plan (DRIP) for shareholders who wish to receive their dividend in the form of shares rather than cash. The BP Direct Access Plan for US and Canadian investors also includes a dividend reinvestment feature.

The group aims to demonstrate financial discipline by balancing cash in and cash out over time. When trading conditions are favourable, cash flow may be in excess of what is needed for operational requirements, including funding the capital programme and dividend payments. As part of giving a return to shareholders, one of the steps we take from time to time is to repurchase our own shares. During 2003, a total of 299 million shares were repurchased and cancelled at a cost of \$1,999 million. The repurchased shares had a nominal value of \$74 million and represented 1.3% of ordinary shares in issue at the end of 2002. Since the inception of the share repurchase programme in 2000, 775 million shares have been repurchased and cancelled at a cost of \$6 billion. BP intends to continue making share repurchases, subject to market conditions and continuing authority at the April 2004 annual general meeting.

External environment

	2003	2002
BP average liquids realizations (\$/barrel)	27.25	22.69
Brent oil price (\$/barrel)	28.83	25.03
BP average natural gas realizations (\$/thousand cubic feet)	3.39	2.46
Henry Hub gas price (\$/mmBtu)	5.37	3.22
Global indicator refining margin (\$/barrel)	3.88	2.11
Chemicals indicator margin (\$/tonne)	113 ^a	104

^a Provisional.

Operating statistics

	2003	2002
Liquids production (thousand b/d)	2,121	2,018
Gas production (million cf/d)	8,613	8,707
Total production (thousand boe/d)	3,606	3,519
Gas sales (million cf/d)	26,269	21,621
Refinery throughputs (thousand b/d)	3,097	3,103
Marketing sales (thousand b/d)	4,032	4,180
Petrochemicals production (thousand tonnes)	27,943	26,988

Special items

	\$ million	
	2003	2002
Restructuring, integration and rationalization costs	389	774
Impairment charges and asset write-downs	357	985
Environmental charges	236	46
Insurance claim	–	(184)
Pipeline incident	–	62
Litigation	–	55
Other, including vacant space provisions	117	162
	1,099	1,900
Interest – bond redemption charges	–	15
Total special items before tax	1,099	1,915
Taxation ^a	(655)	(456)
Minority shareholders' interest	–	(16)
Total special items after tax	444	1,443

^a 2002 includes an adjustment to the North Sea deferred tax liability for the supplementary UK corporation tax as well as tax relief expected on impairments and related restructuring. 2003 includes tax restructuring benefits.

Capital investment

	\$ million	
	2003	2002
Exploration and Production	9,658	9,266
Gas, Power and Renewables	359	335
Refining and Marketing	3,006	2,682
Petrochemicals	775	810
Other businesses and corporate	251	228
Capital expenditure	14,049	13,321
Acquisitions	6,026	5,790
	20,075	19,111
Disposals	(6,432)	(6,782)
Net investment	13,643	12,329



Exploration and Production

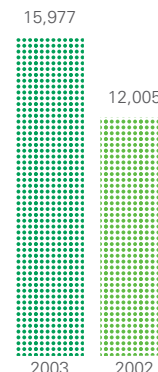
Strategy

- Create new profit centres by accessing areas with the potential for large oil and natural gas fields; exploring successfully and pursuing only the best projects for development.
- Manage the performance of producing assets by investing only in the best available opportunities and optimizing operating efficiency.
- Sell assets that are no longer strategic to us and have greater value to others.

Focus

BP invests in a portfolio of large, lower-cost oil and natural gas fields chosen for their potentially strong return on capital employed, and seeks to manage those assets safely with maximum capital and operating efficiency. We are currently developing six new profit centres in which we have a distinctive position: Trinidad, Angola, Azerbaijan, Gulf of Mexico, Asia Pacific gas and Russia. These new profit centres augment the production assets in our existing profit centres, providing greater reach, investment choice and opportunity for growth.

Segment operating result (\$ million)



Exploration and Production

The result for the year of \$15,977 million was an improvement of 33% over 2002, reflecting increased production, higher oil and gas prices and a reduction in exploration expense, partly offset by increases in our depreciation charge.

Our volume performance was made possible principally by incremental contributions from our TNK-BP joint venture in Russia and growth in the Gulf of Mexico and in our gas business in Trinidad. These production gains were partly offset by decline in our existing profit centres and divestments from our portfolio.

Across our portfolio, we advanced several projects from the build stage to the production phase. We also made significant progress on a number of other projects. Capital spending was down slightly compared with 2002 as we continued to exercise capital discipline across our portfolio. In 2003, the operating efficiency of our assets (actual production as a percentage of production capacity) improved to 88% from 87% in 2002.

We continued to make progress in our existing profit centres. We increased production in Alaska from a combination of improved drilling and operational efficiency, and in Norway we started

production from the Valhall South platform. We replaced reserves in our North American gas business, approved the developments of the Rhum field in the North Sea and North West Temsah in the Nile Delta, and discovered the Saqqara field in the Gulf of Suez.

Each of our six new profit centres met or exceeded expectations for performance in 2003.

In Trinidad, from where BP has prime access to US and European liquefied natural gas (LNG) markets, we continued to build on our integrated position in 2003. Train 3 started production in April, two months ahead of schedule, and we received government approval for the construction of Train 4, which is now under way. In July, the Kapok field in Trinidad began production, supplying gas to Train 3, and we sanctioned the Cannonball gas development.

In Azerbaijan, construction is now well advanced on the development of the Azeri field, and construction of the 1,760-kilometre Baku-Tbilisi-Ceyhan (BTC) pipeline began in May. When complete, which we expect to be in the first half of 2005, the BTC pipeline will export crude oil from the Caspian to world markets, avoiding the creation of additional maritime

shipping via the Bosphorus Straits. Also in 2003, construction began on the platform to develop the Shah Deniz field, which is expected to produce its first gas in 2006.

In the Gulf of Mexico, the Na Kika field started production and the Mardi Gras transportation system commenced operation. At the Holstein field, where oil production is expected to begin in late 2004, the spar is now on the Gulf Coast for the final stage of construction. Other Gulf of Mexico fields – Mad Dog, Thunder Horse and Atlantis – are on track to follow Holstein into production over the next few years.

In Angola, a number of other new fields began producing and we progressed several significant projects. The Jasmim and Xikomba fields began producing, the Kizomba A tension leg platform arrived on site and the Dalia and Greater Plutonio projects were sanctioned.

During the year, we completed a programme of asset disposals that improved our return on capital employed. The programme generated total proceeds exceeding \$4.9 billion and included assets in the US, North Sea, Norway, Malaysia, China and Algeria.

New oil and gas discoveries announced in 2003 included finds in Angola, the Gulf of Suez and the deepwater Gulf of Mexico.



Gas, Power and Renewables

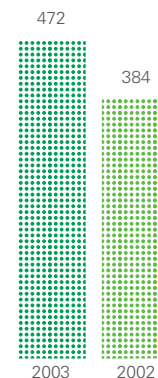
Strategy

- Capture distinctive world-scale market positions ahead of supply.
- Expand gross margin by providing distinctive products at lowest cost of goods sold to selected customer segments.
- Build a sustainable solar business and continue to assess the application of renewable and alternative energy sources.

Focus

In line with changing demand patterns for cleaner fuels, BP seeks to participate at scale in the fast-growing markets for natural gas, gas liquids and solar energy. We currently hold market leadership positions in North American gas and natural gas liquids (NGLs) and significant strength in both the liquefied natural gas (LNG) and solar markets. We are expanding our LNG business by accessing import terminals in China, North America and Europe.

Segment operating result (\$ million)



Recoverable oil and gas from these finds is expected to be around one billion barrels of oil equivalent. BP continued to lead its major competitors in giant field discoveries and reserves replacement ratio. The reserves replacement ratio for the year was 122%, with 1,321 billion barrels of oil equivalent booked through discoveries, extensions, revisions and improved recovery. Reserve replacement exceeded production for the 11th consecutive year. Including equity-accounted entities and the effect of acquisitions and disposals, additions to the year-end reserves were 158% of 2003 production.

In August, BP and the Alfa Group and Access-Renova completed the creation of the TNK-BP venture, establishing our newest profit centre and the third largest integrated oil company operating in Russia, in which BP owns a 50% interest. In terms of its scale, TNK-BP is comparable in production size to the former Amoco at the time of our merger. Oil production from TNK-BP grew by about 14% in 2003, contributing in excess of 650,000 barrels of oil a day in the fourth quarter of 2003, and holds the possibility of further strong growth. We expect TNK-BP to offer finding and development costs about half of BP's three-year average, with lifting and non-

cash costs that compare favourably with the average of our portfolio.

Gas, Power and Renewables

Our result was \$472 million, an increase of 23% over 2002 (73% when adjusted for the Ruhrgas divestment in 2002). The improved performance was underpinned by gross margin growth in our gas marketing businesses, including LNG. Facing the poorest trading environment in recent history, the NGLs business was able partially to mitigate the effect of reduced volumes and margins through a continued focus on cost, 98.8% availability of our plants, up from 98.5% in 2002, and the implementation of our new marketing programme. We also repositioned our solar business to be able to improve performance, which resulted in a restructuring charge of \$45 million.

Overall gas sales volumes rose 22%, with unit gas marketing margins stronger than we experienced in 2002. Contributing to this result were higher gas sales volumes in North America and an increase in LNG marketed directly by BP.

In North America, we are the number one wholesale gas marketer on the continent with average sales of 20.6 billion cubic feet per day. The combination of

a customer-focused approach and a favourable trading environment in 2003 saw gross margins improve. As we grow our business, we continue to access a wide portfolio of infrastructure across North America. Optimization of this portfolio benefits our group production and results in a lower cost of goods sold.

To support our LNG presence in the US, we applied for regulatory permits to build and operate an LNG terminal in New Jersey. Completion of the facility is targeted for 2008. In addition, we and our partners have signed an initial agreement with Sempra LNG Corp. for a 20-year supply of LNG from Indonesia to markets in the US and Mexico. We also delivered to the US both the first cargo from the newly commissioned Train 3 of the Atlantic LNG facility in Trinidad and Tobago and the first cargo delivered to the Cove Point regasification terminal, which was recommissioned after 23 years.

In Europe, LNG marketing activities are primarily focused on Spain and the UK. In Spain, we made the first delivery of LNG to the recently completed import and regasification facility in Bilbao, Europe's first integrated regasification and power project. To further underpin BP's market position in Spain, we signed



Refining and Marketing

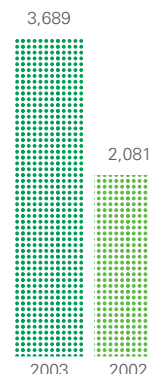
Strategy

- Focus on refining locations where scale, integration and operational excellence earn distinctive returns.
- Focus on retail fuel and convenience markets where supply advantage and distinctive offer can capture market share.
- Leverage our brand and technology to grow in automotive-related lubricants markets.
- Build strong strategic relationships in our business-to-business sector.
- Build on our existing strength in selected emerging markets, particularly China.

Focus

Our marketing businesses, underpinned by world-class manufacturing, create customer value for BP. Our retail, lubricants and business-to-business sectors reach 13 million customers a day. Our retail strategy provides differentiated fuel and convenience offers to some of the most attractive global markets. Our lubricants brands, BP and Castrol, offer customers benefits through technology and relationships. We seek deep business-to-business customer relationships that can evolve into strategic partnerships.

Segment operating result (\$ million)



a memorandum of understanding with Oman LNG for the supply of up to four million tonnes of LNG over a six-year period. We also announced a joint venture with Sonatrach that has secured long-term capacity rights to the UK Isle of Grain import regasification terminal. This venture is expected to allow the two companies to source and then supply LNG into the UK market, beginning in 2005.

In Asia, the BP-operated Tangguh project has agreements in various stages of completion covering over seven million tonnes a year of sales at plateau. BP acquired a 35% interest in SK Power (previously a subsidiary of SK Corporation of South Korea), which has begun construction of a power station in Gwangyang, South Korea. The power station will be a customer for the gas from our new Indonesian profit centre. We also took delivery of the final two LNG ships commissioned from Samsung, the *British Innovator* and the *British Merchant*.

Solar demand growth slowed slightly in 2003, compounding price and margin pressure created by production over-capacity in the industry. Our solar production capacity and revenues both grew. New technology production lines came on stream in India, the US,

Australia and Spain, allowing us to cease production of non-competitive technologies. As a result of this consolidation, BP took a restructuring charge of \$45 million in the third quarter, resulting in lower ongoing production costs and a more competitive product slate.

Refining and Marketing

Growth in margins, combined with improved operating performance, led to a result of \$3,689 million in 2003, a 77% improvement following a difficult 2002.

BP achieved substantial gains in productivity throughout the segment. We continued our focus on cost efficiency. Gains were made possible principally through initiatives in procurement, information technology practices, commercial optimization contributions and the benefits of integrating the Veba business.

Our performance in refining was underpinned by consistency in availability. This has collectively averaged 95.5% at our facilities in 2003, including record availability in the second quarter, compared with 96.1% for the whole of 2002. Refining throughputs were comparable with 2002, despite mandated divestments. We concentrated on optimizing our assets,

capturing margin and leveraging our global scale and presence.

Our customer-facing businesses – retailing, lubricants and business-to-business marketing – delivered higher profitability from a lower volume base as a result of our portfolio high-grading programme. BP's retail location sales continue to outpace the industry rate, despite slower growth in the US and German markets. As US and European economies recover, we expect to maintain and then grow our strong position through close management of our site operating models and differentiation in our customer offer.

A clear example of this differentiation is the launch of our BP Ultimate gasoline and diesel fuel in the UK, Spain and Greece in 2003. These upgraded products deliver greater performance with fewer emissions than standard fuel grades, and have produced very positive early results with customers. The reimagining of retail locations, including the full conversion of all BP service stations in Germany to Aral, continued in 2003. A total of 6,326 sites were reimaged with the BP helios, bringing the total number of sites with the helios to some 16,745 worldwide.

In our lubricants business, our Castrol



Petrochemicals

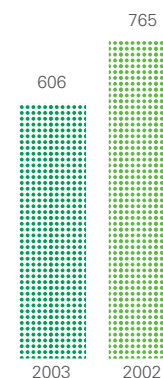
Strategy

- Focus portfolio on seven core products.
- Compete through technical superiority, operational excellence, deep customer relationships and accessing advantaged investment opportunities.
- Build organizational capability to increase margin capture and continue to drive cost efficiencies and improve returns throughout the business cycle.

Focus

BP focuses on seven core products – purified terephthalic acid (PTA), paraxylene, acetic acid, acrylonitrile, ethylene, high-density polyethylene (HDPE) and polypropylene (PP) – that enhance the everyday lives of consumers. Part of BP's customer-facing activity, these core products are eventually used in the manufacture of a wide variety of consumer goods, including plastic drinks bottles, computer housings, adhesives, inks, rigid packaging, pipes, food packaging and automobile components, as well as textiles for clothes and carpets. Our core products have been selected on the basis of growth characteristics, proprietary technology, leadership positions and group integration value.

Segment operating result (\$ million)



and BP brands are recognized around the world. In 2003, we maintained, and in many cases grew, market share. We are now focused on pursuing key customer segments and markets in the lubricants sector – in which we believe that brand presence and customer relationships give us a premium position.

Business-to-business activity strengthened in 2003, with a recovery in aviation fuels and the development of new partnerships and strategic relationships. These selected co-operations include joint technical developments, cross-marketing of products and services and the pursuit of common ground on environmental issues.

Petrochemicals

Petrochemicals delivered a result of \$606 million in 2003, a decrease of 21% from 2002. Our production for the year was a record 27,943 thousand tonnes, compared with 26,988 thousand tonnes in 2002. This reflected our capacity additions and lower

turnaround activity. Faced with the most challenging business environment in recent years, we delivered a stable operational performance, with returns steady.

Overall, chemicals indicator margins were similar to 2002, but fluctuated throughout the year. This performance reflects high and volatile feedstock costs, particularly in Europe, and slow growth in demand. The segment's result was further reduced by several non-routine items, continuing portfolio reductions and lower income from SARS-affected businesses in Asia.

Throughout the year, we continued to focus on our core products. Our operational priorities were safety, margin capture and driving cost efficiency in a difficult business environment. Overall, 2003 cash fixed costs were reduced compared with 2002, while the business grew. The operations at our sites continued to be good as utilization improved.

As a result of growth and portfolio management, our seven core products

now account for 70% of our capital employed in this segment.

Our production capacity increase in 2003 reflected our Asian PTA additions, the Veba acquisition, a world-scale HDPE plant in Cedar Bayou, Texas, and growth, albeit slow, in market demand. Projects under development in 2003 included the final commissioning of the BP Zhuhai Chemical Company in Guangdong province (our first PTA venture in China), the start-up of the CAPCO PTA plant in Taiwan, progress on our SECCO ethylene cracker joint venture near Shanghai and expansion of the Chocolate Bayou olefins facility on the US Gulf Coast.

Importantly, 2003 also brought a realignment of the petrochemicals organization. The segment is now structured around its core-product strategy, while retaining its executive leadership in key regions of the world. This more natural alignment of businesses with strategy is intended to provide greater organizational focus and operating performance.

Environmental and social performance

Our fundamental purpose, as defined by BP's board, is to maximize long-term shareholder value. This demands not only that we seek to maximize value through operational and financial performance year by year but also to act to ensure the long-term sustainability of the company.

Our strategy aims to deliver gains in business performance every year. But to maximize long-term shareholder value we must also act in ways that aim to benefit our people, the environment and society. This short report summarizes our performance. A more detailed account is published in *BP Sustainability Report 2003*.

BP: our business

The way we work is guided by values – integrity, honest dealing, treating everyone with respect and dignity, striving for mutual advantage and contributing to human progress. These values are developed into policies that govern areas including health, safety, security, environment, ethical conduct and business relationships.

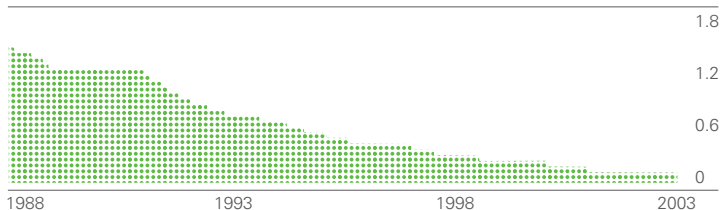
We use a system of risk management to assess the impact of activities on the environment, local economies and communities. Where appropriate, accountability for managing environmental and social impact is part of managers' performance contracts, with specific objectives and milestones.

People's safety is of the highest priority. Managers are accountable for ensuring that safety risks are properly addressed, staff are fully trained and facilities are well maintained. We closely monitor our safety performance. The number of serious injury cases (resulting in our employees or contractors being away from work for a day or more) has dropped from almost 38 per month in 1999 to 21 per month in 2003. In 2003, we achieved the target of maintaining our 2002 performance while introducing many new workforce members through our acquisition of Veba, whose injury rate was historically higher than that of BP.

Despite meeting this important target and reducing overall injury rates, we deeply regret to report 20 fatalities among our employees and contractors in 2003, compared with 13 in 2002 and 16 in 2001. The increased number is a serious cause for concern. Most involved transport-related incidents. We are therefore introducing a much tougher group-wide standard on driving safety, which we shall also recommend to our contractors.

As a global organization, we believe our workforce, leadership and recruitment should reflect the communities and diversity within which we operate. We are continuing to focus on employing and developing local staff and leaders in our operations worldwide.

Long-term improvement in safety performance (DAFWCF)^a 1988-2003



^a Days away from work case frequency (DAFWCF) is the annual frequency (per 200,000 hours) of injuries or reported illnesses that result in a person (employee or contractor) being unable to work for a day (shift) or more. Data before 1992 excludes contractors.

Various programmes developed and successfully implemented in countries such as China, Angola and Azerbaijan have ensured that we continue to build the number of locally based employees.

Our policy is to ensure equal opportunity in recruitment, career development, promotion, training and reward for all employees, including those with disabilities. All applicants and employees are assessed against clear criteria related to job requirements. Where existing employees become disabled, our policy is to provide continuing employment and training wherever practicable.

BP's leadership is becoming more diverse. Now 15% of this group are female and 18% are of nationalities other than the UK or US (*see chart*). We strive to build an environment in which everyone can feel part of a meritocratic organization. In our most recent survey of employee satisfaction, six in 10 employees considered BP a place where people accepted a variety of ideas, perspectives and working styles. Seven out of 10 felt BP protected against discrimination and harassment and encouraged people with diverse backgrounds to succeed. We have a solid base to build on, but much remains to be done.

During 2003, we made further progress in learning and development opportunities for employees. We continued to develop our internal leaders with the ongoing First Level Leaders programme, while piloting a Senior Level Leaders programme. We also created specialist academies to focus on two important sets of skills – project management, and sales and marketing.

We continue to support employee share ownership with share plans in almost 80 countries. Our award-winning ShareMatch plan, in which we match BP shares purchased by employees, is running in over 70 countries.

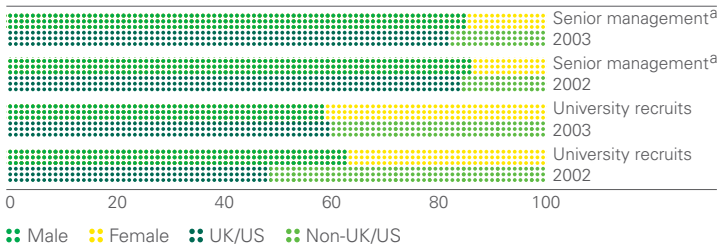
Communications with employees cover site events and group-produced media. These include global and local magazines, intranet sites, targeted e-mails and, most important, face-to-face communication. Team meetings are the core of our employee consultation, complemented by formal processes through works councils in parts of Europe. This communication, along with training programmes, enhances awareness of the financial and economic factors affecting BP's performance and contributes to employee development and motivation.

We continue to emphasize the importance of doing business with high standards of ethical conduct. To enhance our focus on compliance with laws, regulations and internal policies and standards, we appointed a senior-level group compliance and ethics officer to establish a new centralized compliance and ethics function.

In April 2003, we introduced a global employee concerns programme – OpenTalk – to give everyone in BP the opportunity to report possible breaches of company policy without fear of retaliation. Employees can raise issues, confidentially and anonymously, through an independent multilingual call centre, available 24 hours a day and by e-mail. During 2003, 258 reports were received and, where appropriate, action was taken.

Staff in positions of responsibility annually review ethical issues arising during the year with their teams. They certify to their manager that their personal actions and those of their teams have complied with policy, and disclose any areas of possible non-compliance. On completion of the process, the group chief executive prepares his personal certificate on behalf of the

Employee profile by gender and nationality (%)



^a Senior management includes the top 609 positions in BP.

company. We encourage open discussion, reporting and sharing of ethical issues. More than 500 ethics workshops were conducted worldwide during 2003 to provide awareness and training.

We continue to apply our strong anti-corruption policy, including prohibiting facilitation payments and identifying and correcting any areas of non-compliance. We take disciplinary measures where appropriate. In 2003, this included the dismissal of 165 people for unethical behaviour, including fraud, theft and dishonesty.

BP does not make corporate political contributions anywhere in the world and specifically made no donations to UK or other EU political parties or organizations in 2003.

Promoting health awareness among our employees, contractors and local communities provides long-term benefits to our people and our business. During 2003, in many locations we increased our capability to assess health risks and implemented local initiatives. We responded immediately to the SARS crisis, providing health support and minimizing travel risks. No BP employees contracted the illness.

BP and the environment

BP was the first major oil company to state publicly that the risks of climate change were serious and that precautionary action was justified. While uncertainties remain, we believe business planning and long-term strategy should be based on the need to stabilize atmospheric concentrations of greenhouse gases (GHGs).

In 2001, BP achieved its first GHG target – to lower operational emissions by 10% from 1990 levels. We then set a new target for 2012 – to maintain net emissions at 2001 levels through more efficient operations and cleaner products offering improved fuel efficiency. In 2003, operational emissions of 83.4 million tonnes (Mte) were 1Mte higher than 2002. Since 2001, operational efficiencies have already achieved 3.3Mte of sustainable reductions. Given that the scale of customer emissions from use of BP's products is much greater than our operational emissions, we now intend to demonstrate how cleaner products are reducing emissions. Overall, we remain confident that we are on track to meet our new target.

BP recognizes the need to protect and conserve sensitive areas that house the rich biodiversity of our planet. We will only work within or close to sensitive areas if we believe we can properly manage any risks to the environment. During 2003, after consultation and publication of an Environmental and Social Impact Assessment (ESIA), an access road and exploration well site were constructed within a national park in Bolivia, which has been designated as a World Conservation Union (IUCN) category I area. In 2002, after extensive consultation, an ESIA was also published

for the Baku-Tbilisi-Ceyhan (BTC) pipeline. The pipeline has been routed through a managed reserve in Georgia, which was listed for IUCN category IV designation during 2003. Our website details all known IUCN category I to VI areas where we have facilities.

By the end of 2003, 99% of our major operations had been independently assessed for certification to the ISO 14001 international standard on environmental management. This system drives continuous performance improvement at our sites to reduce air emissions, water discharges and accidental releases, including oil spills to sea or land.

Our own shipping fleet transports significant volumes of oil, gas and chemicals around the world. To mitigate the risks of major spills, we are undertaking a fleet renewal programme. At the end of 2003, our fleet numbered 28 oil tankers, with an average age of three years (25 are double-hulled; three are double-sided), and eight gas ships, with an average age of six years. Where we charter additional vessels, they are rigorously examined prior to use.

BP in society

Our operations bring us into contact with some of the most challenging issues facing society today. To address them, we seek to engage constructively with those who help build BP's success. We strive to ensure that our relationships with investors, non-governmental organizations (NGOs), customers, suppliers, communities and governments are founded on the basis of mutual advantage. Our relationships are forged over many years, developed by understanding the needs and aspirations of all those with whom we do business.

During 2003, we made progress on issues related to the construction of the BTC pipeline, a project that has attracted some NGO opposition, particularly over human rights issues. The pipeline will transport oil from the Caspian to the Mediterranean, so avoiding shipping through the Bosphorus. BP facilitated the signing of a joint statement by the three host governments committing them to internationally recognized human rights, labour rights and environmental standards, including a commitment to the Voluntary Principles on Security and Human Rights. While there is much work to be done to ensure that these standards are respected throughout the lifetime of the project, we believe we have created a strong foundation on which to build.

Our business activities affect and benefit people across the globe. We seek to extend these benefits as broadly as possible; for example, by creating economic opportunity for local people in the supply of goods and services to our operations worldwide. Education and training are key to unlocking this potential and remain a prime focus of our social investment. We continue to support many initiatives in the communities in which we operate, ranging from the UK Schools Link programme to the Enterprise Centre in Azerbaijan.

We believe that open and thriving societies create the best environment for business. During 2003, we contributed to international discussions concerning the issue of transparency, including the Extractive Industries Transparency Initiative. We hold transparency and accountability as core values in the conduct of our business. We have taken steps to encourage greater transparency in the operations of host country governments, for example, in Angola and Azerbaijan.

Other financial issues

Critical accounting policies

BP prepares its financial statements in accordance with UK generally accepted accounting practice (UK GAAP). The group's more significant accounting policies are summarized on pages 40-43. There have been no changes in accounting policy during 2003.

Inherent in the application of many of these accounting policies in the preparation of financial statements is the need for BP management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from the estimates and assumptions used.

The following summary provides further information about the critical accounting policies that could have a significant impact on the results of the group and should be read in conjunction with the Notes on Accounts.

The areas that require the most significant judgements and estimates are in relation to oil and natural gas accounting, including the estimation of reserves; impairment; and provisions for deferred taxation, decommissioning, environmental liabilities, pensions and other post-retirement benefits.

Oil and natural gas accounting

Accounting for oil and gas exploration activity is subject to special accounting rules that are unique to the oil and gas industry. In the UK these are contained in the Statement of Recommended Practice (SORP) 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities'.

The group follows the successful efforts method of accounting for its oil and natural gas exploration and production activities.

The acquisition of geological and geophysical seismic information, prior to the discovery of proved reserves, is expensed as incurred, similar to accounting for research and development costs.

Licence and property acquisition costs are initially capitalized as unproved properties within intangible assets. These costs are amortized on a straight-line basis until such time as either exploration drilling is determined to be successful, at which point the costs are transferred to proved properties not yet sanctioned within intangible assets, or it is unsuccessful and all costs are written off. Licence and property acquisition costs are not subject to periodic assessments for impairment.

For exploration wells, drilling costs are temporarily capitalized within intangible fixed assets, pending determination of whether potentially economic oil and gas reserves have been discovered by the drilling effort. This is usually made within one year after well completion, but can take longer, depending on the complexity of the geologic structure. If the well did not encounter potentially economic oil and gas quantities, the well costs are expensed as a dry hole and are reported in exploration expense. Exploration wells that discover potentially economic quantities of oil and gas and are in areas where major capital expenditure (e.g. offshore platform or a pipeline) would be required before production could begin, and where the economic viability of that major capital expenditure depends upon the successful completion of further exploration work in the area, remain capitalized on the balance sheet as long as additional exploration appraisal work is under way or firmly planned.

For complicated offshore exploration discoveries, it is not unusual to have exploration wells remain suspended on the balance sheet for several years while the company performs additional appraisal drilling and seismic work on the potential oil and gas field. As with licence and property acquisition costs, there is no periodic impairment assessment of suspended exploration well costs. All such carried costs are subject to regular technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value from, the discovery. If this is no longer the case, the costs are immediately expensed.

Once a project is sanctioned for development, the carrying values of licence and property acquisition costs and exploration and appraisal costs are transferred to production assets within tangible assets.

The capitalized exploration and development costs for proved oil and gas properties (which include the costs of drilling unsuccessful wells) are amortized on the basis of oil-equivalent barrels that are produced in a period as a percentage of the estimated proved reserves. The estimated proved reserves used in these unit-of-production calculations vary with the nature of the capitalized expenditure. The reserves used in the calculation of the unit-of-production amortization are as follows:

- (a) proved developed reserves for producing wells
- (b) total proved reserves for development costs
- (c) total proved reserves for licence and property acquisition costs
- (d) total proved reserves for future decommissioning costs.

The impact of changes in estimated proved reserves is dealt with prospectively by amortizing the remaining book value of the asset over the expected future production. If proved reserve estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down of the property's book value (*see discussion of impairment of fixed assets and goodwill below*).

Given the large number of producing fields in the group's portfolio, it is unlikely that any changes in reserve estimates, year on year, will have a significant effect on prospective charges for depreciation.

Oil and natural gas reserves

BP's oil and natural gas reserves are estimated by the group's petroleum engineers. These reserves are reassessed on an annual basis. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas liquids and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions and using planning assumptions. Accordingly, these estimates do not include probable or possible reserves. Estimated oil and gas reserves are based on available reservoir data and are subject to future revision. Significant amounts of the group's undeveloped reserves, principally in offshore areas, require the installation or completion of related infrastructure facilities such as platforms, pipelines and the drilling of development wells.

Proved reserves do not include reserves that are dependent on the renewal of exploration and production licences unless there is strong evidence to support the assumption of such renewal.

As discussed below, oil and natural gas reserves have a direct impact on certain amounts reported in the Accounts.

Impairment of fixed assets and goodwill

BP assesses its fixed assets, including goodwill, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Such indicators include changes in the group's business plans, changes in commodity prices leading to unprofitable performance and, for oil and gas properties, significant downward revisions of estimated proved reserve quantities. The assessment for impairment entails comparing the carrying value of the income-generating unit and associated goodwill with the recoverable amount of the asset, that is, the higher of net realizable value and value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows.

Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation and technology improvements on operating expenses, production profiles and the outlook for global or regional market supply-and-demand conditions for crude oil, natural gas, commodity chemicals and refined products.

For oil and natural gas properties, the expected future cash flows are estimated based on the group's plans to continue to produce and develop proved and associated risk-adjusted probable and possible reserves. Expected future cash flows from the sale or production of reserves are calculated based on a Brent oil price of \$20 per barrel and a Henry Hub gas price of \$3.50 per mmBtu. These represent 10-year historic average prices. The net present values of cash flows are determined using a discount rate of 9%, which represents BP's pre-tax weighted average cost of capital. The estimated future level of production is based on assumptions about future commodity prices, lifting and development costs, field decline rates, market demand and supply, economic regulatory climates and other factors.

Charges for impairment are recognized in the group's results from time to time as a result of, among other factors, adverse changes in the recoverable reserves from oil and natural gas fields, low plant utilization or reduced profitability. If there are low oil prices or natural gas prices or refining margins or chemicals margins over an extended period, the group may need to recognize significant impairment charges.

Deferred taxation

The group has approximately \$4,500 million of carry-forward tax losses in the UK, which are available to offset against future taxable income. To date, tax assets have been recognized on \$285 million of those losses (i.e. to the extent that it is regarded as more likely than not that suitable taxable income will arise). It is unlikely that the group's effective tax rate will be significantly affected in the near term by utilization of losses not previously recognized as deferred tax assets. Carry-forward tax losses in other taxing jurisdictions have not been recognized as deferred tax assets, and are unlikely to have a significant effect on the group's tax rate in the near term.

Deferred taxation is not generally provided in respect of liabilities that may arise on the distribution of accumulated reserves of overseas subsidiaries, joint ventures and associated undertakings.

Decommissioning costs

The group holds provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives. The largest asset removal obligations facing BP relate to the removal and disposal of oil and natural gas platforms and pipelines around the world. The estimated discounted costs of dismantling and removing these facilities are accrued on the installation of those facilities, reflecting our legal obligations at that time. Most of these removal events are many years in the future and the precise requirements that will have to be met when the removal event actually occurs are uncertain. Asset removal technologies and costs are constantly changing, as well as political, environmental, safety and public expectations. Consequently, the timing and amounts of future cash flows are subject to significant uncertainty.

The timing and amount of future expenditures are reviewed annually together with the interest rate to be used in discounting the cash flows. The interest rate used to determine the balance sheet obligation at year end 2003 was 2.5%, the same as at the end of 2002. The interest rate represents the real rate (i.e. adjusted for inflation) on long-dated government bonds.

Environmental costs

BP also makes judgements and estimates in recording costs and establishing provisions for environmental clean-up and remediation costs, which are based on current information on costs and expected plans for remediation. For environmental provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology.

The provision for environmental liabilities is reviewed at least annually. The interest rate used to determine the balance sheet obligation at 31 December 2003 was 2.5%, the same as at the previous balance sheet date.

Pensions and other post-retirement benefits

Accounting for pensions and other post-retirement benefits involves judgement about uncertain events, including estimated retirement dates, salary levels at retirement, mortality rates, rates of return on plan assets, determination of discount rates for measuring plan obligations, healthcare cost-trend rates and rates of utilization of healthcare services by retirees. These assumptions are based on the environment in each country. Determination of the projected benefit obligations for the group's defined benefit pension and post-retirement plans is important to the recorded amounts for such obligations on the balance sheet and to the amount of benefit expense in the income statement. The assumptions used may vary from year to year, which will affect future results of operations. Any differences between these assumptions and the actual outcome also affect future results of operations.

Pension and other post-retirement benefit assumptions are discussed and agreed with the independent actuaries in December each year. These assumptions are used to determine the projected benefit obligation at the year end and hence the liability or asset recorded on the group's balance sheet, and pension expense for the following year.

The pension and post-retirement costs charged or credited to income for the year ended 31 December 2003 and the prepayments and provisions for unfunded pension and post-retirement schemes at 31 December 2003 have been determined on the basis of Statement of Standard Accounting Practice No. 24 'Accounting for Pension Costs' (SSAP 24). With effect from 1 January 2004 BP has adopted a new UK accounting standard, Financial Reporting Standard No. 17 'Retirement Benefits' (FRS 17). FRS 17 requires that the assets and liabilities arising from an employer's retirement benefit obligations and any related funding should be included in the financial statements at fair value and that the operating costs of providing retirement benefits to employees should be recognized in the income statement in the periods in which the benefits are earned by employees. This contrasts with SSAP 24, which requires the cost of providing pensions to be recognized on a systematic and rational basis over the period during which the employer benefits from the employee's services. The difference between the amount charged in the income statement and the amount paid as contributions into the pension fund is shown as a prepayment or provision on the balance sheet.

Accounting policy changes in 2004

BP has changed its accounting policies for pensions and other post-retirement benefits and for shares held in employee share ownership plans for the benefit of employee share schemes.

The effect of adopting FRS 17 is to increase profit before taxation for 2003 by \$354 million and to reduce BP shareholders' interest at 31 December 2003 by \$5,523 million. Cost recognized for providing pension and other post-retirement benefits on a FRS 17 basis in 2003 is \$582 million; in 2004 it is expected to be \$1,009 million.

Urgent Issues Task Force Abstract 38 'Accounting for Employee Share Ownership Plan (ESOP) Trusts' (Abstract 38) changes the presentation of an entity's own shares held in an ESOP trust from requiring them to be recognized as assets to requiring them to be deducted in arriving at shareholders' funds. Transactions in an entity's own shares by an ESOP trust are similarly recorded as changes in shareholders' funds and do not give rise to gains or losses. This treatment is in line with the accounting for purchases and sales of own shares set out in Urgent Issues Task Force Abstract 37 'Purchases and Sales of Own Shares' (Abstract 37).

Abstract 37 requires a holding of an entity's own shares to be accounted for as a deduction in arriving at shareholders' funds, rather than being recorded as assets. Transactions in an entity's own shares are similarly recorded as changes in shareholders' funds and do not give rise to gains or losses. Abstract 37 applies where a company purchases treasury shares under new legislation that came into effect in December 2003.

Urgent Issues Task Force Abstract 17 'Employee Share Schemes' (Abstract 17) was amended by Abstract 38 to reflect the consequences for the profit and loss account of the changes in the presentation of an entity's own shares held by an ESOP trust. Amended Abstract 17 requires that the minimum expense should be the difference between the fair value of the shares at the date of award and the amount that an employee may be required to pay for the shares (i.e. the 'intrinsic value' of the award).

The expense was previously determined either as the intrinsic value or, where purchases of shares had been made by an ESOP trust at fair value, by reference to the cost or book value of shares that were available for the award. The effect of adopting Abstract 17 is to reduce BP shareholders' interest at 31 December 2003 by \$96 million; the impact on profit before taxation for 2003 is negligible.

Adoption of International Financial Reporting Standards

An 'International Accounting Standards Regulation' was adopted by the Council of the European Union (EU) in June 2002. This regulation requires all EU companies listed on an EU stock exchange to use 'endorsed' International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board (IASB), to report their consolidated results with effect from 1 January 2005. The IASB published 15 revised standards in December 2003 and intends to complete its development of IFRSs to be adopted in 2005 by 31 March 2004. A process of endorsement of IFRSs has been established by the EU for completion in sufficient time to allow adoption by companies in 2005.

BP has established a project team involving representatives of businesses and functions to plan for and achieve a smooth transition to IFRS. The project team is looking at all implementation aspects, including changes to accounting policies, systems impacts and the wider business issues that may arise from such a fundamental change. We expect that the group will be fully prepared for the transition in 2005. However, the implementation plan is dependent upon the completion of the standard-setting process by the IASB and the endorsement of such standards by the EU.

The group has not yet determined the full effects of adopting IFRS. Our preliminary view is that the major differences between our current accounting practice and IFRS will be in respect of hedge accounting, accounting for embedded derivatives and other items falling within the scope of the financial instruments standards, accounting for business combinations, deferred tax and share-based payments.

Financial risk management

The group co-ordinates certain key activities on a global basis in order to optimize its financial position and performance. These include the management of the currency, maturity and interest rate profile of finance debt, cash, other significant financial risks and relationships with banks and other financial institutions. International oil, natural gas and power trading and risk management relating to business operations are carried out by the group's oil, natural gas and power trading units.

The main financial risks faced by the group through its normal business activities are market risk, credit risk and liquidity risk. These risks and the group's approach to dealing with them are discussed below.

Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or oil, natural gas and power prices will adversely affect the value of the group's financial assets, liabilities

or expected future cash flows. Market risks are managed using a range of derivatives. The group also trades derivatives in conjunction with these risk management activities.

All derivative activity, whether for risk management or trading, is carried out by specialist teams who have the appropriate skills, experience and supervision. These teams are subject to close financial and management control, meeting generally accepted industry practice and reflecting the principles of the Group of Thirty Global Derivatives Study recommendations. A trading risk management committee has oversight of the quality of internal control in the group's trading function. Independent control functions monitor compliance with BP's policies. The control framework includes prescribed trading limits that are reviewed regularly by senior management, daily monitoring of risk exposure using value-at-risk principles, marking trading exposures to market and stress testing to assess the exposure to potentially extreme market situations.

For market risk management and trading, conventional exchange-traded derivative instruments such as futures and options are used, as well as non-exchange-traded instruments such as swaps, 'over-the-counter' options and forward contracts.

Where derivatives constitute a hedge, the group's exposure to market risk created by the derivative is offset by the opposite exposure arising from the asset, liability, cash flow or transaction being hedged. By contrast, where derivatives are held for trading purposes, changes in market risk factors give rise to gains and losses, which are recognized in earnings in the current period.

Currency exchange rates

Fluctuations in exchange rates can have significant effects on the group's reported profit. The effects of most exchange rate fluctuations are absorbed in business operating results through changing cost-competitiveness, lags in market adjustment to movements in rates, and conversion differences accounted for on specific transactions. For this reason the total effect of exchange rate fluctuations is not identifiable separately in the group's reported profit.

The main underlying economic currency of the group's cash flows is the US dollar. This is because BP's major products are priced internationally in US dollars. BP's foreign exchange management policy is to minimize economic and significant transactional exposures arising from currency movements against the US dollar. The group co-ordinates the handling of foreign exchange risks centrally, by netting off naturally occurring opposite exposures wherever possible, to reduce the risks, and then dealing with any material residual foreign exchange risks. Significant residual non-dollar exposures are managed using a range of derivatives.

In addition, most group borrowings are in US dollars or are hedged with respect to the US dollar.

Interest rates

The group is exposed to interest rate risk on short- and long-term floating rate instruments and as a result of the refinancing of fixed rate finance debt. The group is exposed predominantly to US dollar LIBOR (London Inter-Bank Offer Rate) interest rates as borrowings are mainly denominated in, or are swapped into, US dollars.

The group uses derivatives to manage the balance between fixed and floating rate debt.

Oil, natural gas and power prices

BP's trading function uses financial and commodity derivatives as part of the overall optimization of the value of the group's equity oil production and as part of the associated trading of crude oil, products and related instruments. They also use financial and commodity derivatives to manage certain of the group's exposures to price fluctuations on natural gas and power transactions.

Credit risk

Credit risk is the potential exposure of the group to loss in the event of non-performance by a counterparty. The credit risk arising from the group's normal commercial operations is controlled by individual operating units within guidelines. In addition, as a result of its use of derivatives, to manage market risk, the group has credit exposures through its dealings in the financial and specialized oil, natural gas and power markets. The group controls the related credit risk through credit approvals, limits, use of netting arrangements and monitoring procedures. Counterparty credit validation, independent of the dealers, is undertaken before contractual commitment.

Concentrations of credit risk

The primary activities of the group are oil and natural gas exploration and production, gas and power marketing and trading, oil refining and marketing and the manufacture and marketing of petrochemicals. The group's principal customers, suppliers and financial institutions with which it conducts business are located throughout the world. The credit ratings of interest rate and currency swap counterparties are all of at least investment grade. The credit quality is actively managed over the life of the swap.

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the group's business activities may not be available. The group has long-term debt ratings of Aa1 and AA+ assigned respectively by Moody's and Standard and Poor's. The group has access to a wide range of funding at competitive rates through the capital markets and banks. It co-ordinates relationships with banks, borrowing requirements, foreign exchange requirements and cash management centrally. The group believes it has access to sufficient funding and also has undrawn committed borrowing facilities to meet currently foreseeable borrowing requirements.

At 31 December 2003, the group had substantial amounts of undrawn borrowing facilities available, including committed facilities of \$3,700 million expiring in 2004 (\$3,600 million expiring in 2003). These facilities are with a number of international banks and borrowings under them would be at pre-agreed rates. The group expects to renew these facilities on an annual basis. Certain of these facilities support the group's commercial paper programme.

Insurance

The group generally restricts its purchase of insurance to situations where this is required for legal or contractual reasons. This is

because external insurance is not considered an economic means of financing losses for the group. Losses will therefore be borne as they arise rather than being spread over time through insurance premia with attendant transaction costs. The position will be reviewed periodically.

Environmental expenditure

Operating and capital expenditure on the prevention, control, abatement or elimination of air, water and solid waste pollution is often not incurred as a separately identifiable transaction. Instead, it forms part of a larger transaction that includes, for example, normal maintenance expenditure. The figures for environmental operating and capital expenditure in the table below are therefore estimates, based on the definitions and guidelines of the American Petroleum Institute.

	\$ million	
	2003	2002
Operating expenditure	498	485
Clean-ups	45	49
Capital expenditure	546	548
New provisions for environmental remediation	515	312
New provisions for decommissioning	1,159	308

Environmental operating and capital expenditures for 2003 were broadly in line with 2002. Similar levels of operating and capital expenditures are expected in the foreseeable future. In addition to operating and capital expenditures, we also create provisions for future environmental remediation. Expenditure against such provisions is normally in subsequent periods and is not included in environmental operating expenditure reported for such periods. The charge for new provisions in 2003 includes \$236 million resulting from a reassessment of environmental remediation provisions and \$255 million in respect of new environmental remediation provisions.

Provisions for environmental remediation are made when a clean-up is probable and the amount reasonably determinable. Generally, their timing coincides with commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the scale of any possible contamination, the timing and extent of corrective actions and also the group's share of the liability. Although the cost of any future remediation could be significant and may be material to the result of operations in the period in which it is recognized, we do not expect that such costs will have a material effect on the group's financial position or liquidity. We believe our provisions are sufficient for known requirements; and we do not believe that our costs will differ significantly from those of other companies engaged in similar industries, or that our competitive position will be adversely affected as a result.

In addition, we make provisions over the useful lives of our oil- and gas-producing assets and related pipelines to meet the cost of eventual decommissioning. Provisions for environmental remediation and decommissioning are usually set up on a

discounted basis, as required by Financial Reporting Standard No. 12, 'Provisions, Contingent Liabilities and Contingent Assets'. Further details of our environmental and decommissioning provisions appear in Note 29 on Accounts on page 66. New provisions for decommissioning in 2003 include increases in respect of reassessment of existing provisions and new provisions for certain fields on installation of facilities.

Creditor payment policy and practice

Statutory regulations issued under the UK Companies Act 1985 require companies to make a statement of their policy and practice in respect of the payment of trade creditors.

In view of the international nature of the group's operations there is no specific group-wide policy in respect of payments to suppliers. Relationships with suppliers are, however, governed by the group's policy commitment to long-term relationships founded on trust and mutual advantage. Within this overall policy, individual operating companies are responsible for agreeing terms and conditions for their business transactions and ensuring that suppliers are aware of the terms of payment. These terms are adhered to when payments are made, subject to terms and conditions being met by the supplier.

BP p.l.c. is a holding company with no business activity other than the holding of investments in the group and therefore had no trade creditors at 31 December 2003.

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Statement of directors' responsibilities in respect of the accounts

Company law requires the directors to prepare accounts for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required:

- To select suitable accounting policies and then apply them consistently.
- To make judgements and estimates that are reasonable and prudent.
- To state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.
- To prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors confirm that they have complied with these requirements, and having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the accounts.

Independent auditors' report

To the Members of BP p.l.c.

We have audited the group's accounts for the year ended 31 December 2003 which comprise the group income statement, balance sheets, group cash flow statement, statement of total recognized gains and losses, accounting policies and related notes 1 to 45. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report contained in *BP Annual Report and Accounts 2003* that is described as having been subject to audit.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and Accounts, including the accounts in accordance with applicable United Kingdom law and accounting standards as set out in the statement of directors' responsibilities in respect of the accounts.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report that is subject to audit in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the parts of the Directors' Remuneration Report that are subject to audit have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report, contained in *BP Annual Report and Accounts 2003*, is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement contained in *BP Annual Report and Accounts 2003* reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in *BP Annual Report and Accounts 2003* and consider whether it is consistent with the audited accounts. This other information comprises the United States Accounting Principles, the supplementary information on oil and natural gas quantities, the five-year summaries, the Directors' Report and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the parts of the Directors' Remuneration Report that are subject to audit. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the parts of the Directors' Remuneration Report that are subject to audit are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Directors' Remuneration Report that is subject to audit.

Opinion

In our opinion:

- the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 2003 and of the profit of the group for the year then ended; and
- the accounts and the part of the Directors' Remuneration Report that is subject to audit have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor
London
9 February 2004

Accounting policies

Accounting standards

These accounts are prepared in accordance with applicable UK accounting standards.

In addition to the requirements of accounting standards, the accounting for exploration and production activities is governed by the Statement of Recommended Practice ('SORP') 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' issued by the UK Oil Industry Accounting Committee on 7 June 2001. These accounts have been prepared in accordance with the provisions of the SORP.

Group consolidation

The group financial statements comprise a consolidation of the accounts of the parent company and its subsidiary undertakings (subsidiaries). The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passes.

An associated undertaking (associate) is an entity in which the group has a long-term equity interest and over which it exercises significant influence. The consolidated financial statements include the group proportion of the operating profit or loss, exceptional items, stock holding gains or losses, interest expense, taxation and net assets of associates (the equity method).

A joint venture is an entity in which the group has a long-term interest and shares control with one or more co-venturers. The consolidated financial statements include the group proportion of turnover, operating profit or loss, exceptional items, stock holding gains or losses, interest expense, taxation, gross assets, gross liabilities and minority shareholders' interest of the joint venture (the gross equity method).

Certain of the group's activities are conducted through joint arrangements and are included in the consolidated financial statements in proportion to the group's interest in the income, expenses, assets and liabilities of these joint arrangements.

On the acquisition of a subsidiary, or of an interest in a joint venture or associate, fair values reflecting conditions at the date of acquisition are attributed to the identifiable net assets acquired. When the cost of acquisition exceeds the fair values attributable to the group's share of such net assets the difference is treated as purchased goodwill. This is capitalized and amortized on a straight-line basis over its estimated useful economic life, which is usually 10 years.

Where an interest in a separate business of an acquired entity is held temporarily pending disposal, it is carried on the balance sheet at its estimated net proceeds of sale.

Accounting convention

The accounts are prepared under the historical cost convention, except as explained under stock valuation. Accounts prepared on this basis show the profits available to shareholders and are the most appropriate basis for presentation of the group's balance sheet. Profit or loss determined under the historical cost convention includes stock holding gains or losses and, as a consequence, does not necessarily reflect underlying trading results.

Replacement cost

The results of individual businesses and geographical areas are presented on a replacement cost basis. Replacement cost operating results exclude stock holding gains or losses and reflect the average cost of supplies incurred during the year, and thus provide insight into underlying trading results. Stock holding gains or losses represent the difference between the replacement cost of sales and the historical cost of sales calculated using the first-in first-out method.

Stock valuation

Stocks, other than stock held for trading purposes, are valued at cost to the group using the first-in first-out method or at net realizable value, whichever is the lower. Stores are valued at cost to the group mainly using the average method or net realizable value, whichever is the lower.

Stock held for trading purposes is marked-to-market and any gains or losses are recognized in the income statement rather than the statement of total recognized gains and losses. The directors consider that the nature of the group's trading activity is such that, in order for the accounts to show a true and fair view of the state of affairs of the group and the results for the year, it is necessary to depart from the requirements of Schedule 4 to the Companies Act 1985. Had the treatment in Schedule 4 been followed, the profit and loss account reserve would have been reduced by \$150 million (\$209 million) and a revaluation reserve established and increased accordingly.

Revenue recognition

Revenues associated with the sale of oil, natural gas liquids, liquefied natural gas, petroleum and chemical products and all other items are recognized when the title passes to the customer. Generally, revenues from the production of natural gas and oil properties in which the group has an interest with other producers are recognized on the basis of the group's working interest in those properties (the entitlement method). Differences between the production sold and the group's share of production are not significant.

Foreign currency transactions

Foreign currency transactions by group companies are booked in the functional currency at the exchange rate ruling on the date of transaction, or at the forward rate if hedged by a forward exchange contract. Foreign currency assets and liabilities are translated into the functional currency at rates of exchange ruling at the balance sheet date, or at the forward rate. Exchange differences are included in operating profit.

Assets and liabilities of overseas subsidiary and associated undertakings and joint ventures, including related goodwill, are translated into US dollars at rates of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiary and associated undertakings and joint ventures are translated into US dollars using average rates of exchange. Exchange adjustments arising when the opening net assets and the profits for the year retained by overseas subsidiary and associated undertakings and joint ventures are translated into US dollars are taken directly to reserves and reported in the

statement of total recognized gains and losses. Exchange gains and losses arising on long-term foreign currency borrowings used to finance the group's foreign currency investments are also dealt with in reserves.

Derivative financial instruments

The group uses derivative financial instruments (derivatives) to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates, and to manage some of its margin exposure from changes in oil, natural gas and power prices. Derivatives are also traded in conjunction with these risk management activities.

The purpose for which a derivative contract is used is identified at inception. To qualify as a derivative for risk management, the contract must be in accordance with established guidelines which ensure that it is effective in achieving its objective. All contracts not identified at inception as being for the purpose of risk management are designated as being held for trading purposes and accounted for using the fair value method, as are all oil price derivatives.

The group accounts for derivatives using the following methods:

Fair value method Derivatives are carried on the balance sheet at fair value ('marked-to-market') with changes in that value recognized in earnings of the period. This method is used for all derivatives which are held for trading purposes. Interest rate contracts traded by the group include futures, swaps, options and swaptions. Foreign exchange contracts traded include forwards and options. Oil, natural gas and power price contracts traded include swaps, options and futures.

Accrual method Amounts payable or receivable in respect of derivatives are recognized ratably in earnings over the period of the contracts. This method is used for derivatives held to manage interest rate risk. These are principally swap agreements used to manage the balance between fixed and floating interest rates on long-term finance debt. Other derivatives held for this purpose may include swaptions and futures contracts. Amounts payable or receivable in respect of these derivatives are recognized as adjustments to interest expense over the period of the contracts. Changes in the derivative's fair value are not recognized.

Deferral method Gains and losses from derivatives are deferred and recognized in earnings or as adjustments to carrying amounts, as appropriate, when the underlying debt matures or the hedged transaction occurs. This method is used for derivatives used to convert non-US dollar borrowings into US dollars, to hedge significant non-US dollar firm commitments or anticipated transactions, and to manage some of the group's exposure to natural gas and power price fluctuations. Derivatives used to convert non-US dollar borrowings into US dollars include foreign currency swap agreements and forward contracts. Gains and losses on these derivatives are deferred and recognized on maturity of the underlying debt, together with the matching loss or gain on the debt. Derivatives used to hedge significant non-US dollar transactions include foreign currency forward contracts and options and to hedge natural gas and power price exposures

include swaps, futures and options. Gains and losses on these contracts and option premia paid are also deferred and recognized in the income statement or as adjustments to carrying amounts, as appropriate, when the hedged transaction occurs.

Where derivatives used to manage interest rate risk or to convert non-US dollar debt or to hedge other anticipated cash flows are terminated before the underlying debt matures or the hedged transaction occurs, the resulting gain or loss is recognized on a basis that matches the timing and accounting treatment of the underlying debt or hedged transaction. When an anticipated transaction is no longer likely to occur or finance debt is terminated before maturity, any deferred gain or loss that has arisen on the related derivative is recognized in the income statement, together with any gain or loss on the terminated item.

The effect of these policies on the accounts is described as follows:

Reporting in the income statement Gains and losses on oil price contracts held for trading and for risk management purposes and natural gas and power price contracts held for trading purposes are reported in cost of sales in the income statement in the period in which the change in value occurs. Gains and losses on interest rate or foreign currency derivatives used for trading are reported in other income and cost of sales, respectively. Gains and losses in respect of derivatives used to manage interest rate exposures are recognized as adjustments to interest expense.

Where derivatives are used to convert non-US dollar borrowings into US dollars, the gains and losses are deferred and recognized on maturity of the underlying debt, together with the matching loss or gain on the debt. The two amounts offset each other in the income statement.

Gains and losses on derivatives identified as hedges of significant non-US dollar firm commitments or anticipated transactions are not recognized until the hedged transaction occurs. The treatment of the gain or loss arising on the designated derivative reflects the nature and accounting treatment of the hedged item. The gain or loss is recorded in cost of sales in the income statement or as an adjustment to carrying values in the balance sheet, as appropriate.

Gains and losses arising from natural gas and power price derivatives are recognized in earnings when the hedged transaction occurs. The gains or losses are reported as components of the related transactions.

Reporting in the balance sheet The carrying amounts of foreign exchange contracts that hedge finance debt are included within finance debt in the balance sheet. The carrying amounts of other derivatives, including option premia paid or received, are included in the balance sheet under debtors or creditors within current assets and current liabilities respectively, as appropriate.

Cash flow effects Interest rate swaps give rise, at specified intervals, to cash settlement of interest differentials. Under currency swaps the counterparties initially exchange a principal amount in two currencies, agreeing to re-exchange the currencies at a future date at the same exchange rate. The group's currency swaps have terms of up to six years.

Interest rate futures require an initial margin payment and daily settlement of margin calls. Interest rate forwards require settlement of the interest rate differential on a specified future date. Currency forwards require purchase or sale of an agreed amount of foreign currency at a specified exchange rate at a specified future date, generally over periods of up to three years for the group. Currency options involve the initial payment or receipt of a premium and will give rise to delivery of an agreed amount of currency at a specified future date if the option is exercised.

For oil, natural gas and power price futures and options traded on regulated exchanges, BP meets initial margin requirements by bank guarantees and daily margin calls in cash. For swaps and over-the-counter options, BP settles with the counterparty on conclusion of the pricing period.

In the statement of cash flows the effect of interest rate derivatives used to manage interest rate exposures is reflected in interest paid. The effect of foreign currency derivatives used for hedging non-US dollar debt is included under financing. The cash flow effects of foreign currency derivatives used to hedge non-US dollar firm commitments and anticipated transactions are included in net cash inflow from operating activities for items relating to earnings or in capital expenditure or acquisitions, as appropriate, for items of a capital nature. The cash flow effects of all oil, natural gas and power price derivatives and all traded derivatives are included in net cash inflow from operating activities.

Oil and natural gas exploration and development expenditure

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting.

Licence and property acquisition costs Exploration and property leasehold acquisition costs are capitalized within intangible fixed assets and amortized on a straight-line basis over the estimated period of exploration. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves'), amortization ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting sanction within intangible fixed assets. When development is sanctioned, the relevant expenditure is transferred to tangible production assets.

Exploration expenditure Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalized as an intangible asset until the drilling of the well is complete and the results have been evaluated. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to regular technical, commercial and management review to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to tangible production assets.

Development expenditure Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalized within tangible production assets.

Decommissioning

Provision for decommissioning is recognized in full on the installation of oil and natural gas production facilities. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production and transportation facilities.

Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

Depreciation

Oil and gas production assets are depreciated using a unit-of-production method. The cost of producing wells is amortized over proved developed reserves. Licence acquisition, decommissioning and field development costs are amortized over total proved reserves. The field development costs subject to amortization are expenditures incurred to date together with sanctioned future development expenditure.

Other tangible and intangible assets are depreciated on the straight-line method over their estimated useful lives. The average estimated useful lives of refineries are 20 years, chemicals manufacturing plants 20 years and service stations 15 years. Other intangibles are amortized over a maximum period of 20 years.

The group undertakes a review for impairment of a fixed asset or goodwill if events or changes in circumstances indicate that the carrying amount of the fixed asset or goodwill may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is, the higher of net realizable value and value in use, the fixed asset or goodwill is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows.

Maintenance expenditure

Expenditure on major maintenance, refits or repairs is capitalized where it enhances the performance of an asset above its originally assessed standard of performance; replaces an asset or part of an asset which was separately depreciated and which is then written off; or restores the economic benefits of an asset which has been fully depreciated. All other maintenance expenditure is charged to income as incurred.

Petroleum revenue tax

The charge for petroleum revenue tax is calculated using a unit-of-production method.

Changes in unit-of-production factors

Changes in factors which affect unit-of-production calculations are dealt with prospectively, not by immediate adjustment of prior years' amounts.

Environmental liabilities

Environmental expenditures that relate to current or future revenues are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings are expensed.

Liabilities for environmental costs are recognized when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years the amount recognized is the present value of the estimated future expenditure.

Leases

Assets held under leases which result in group companies receiving substantially all risks and rewards of ownership (finance leases) are capitalized as tangible fixed assets at the estimated present value of underlying lease payments. The corresponding finance lease obligation is included within finance debt. Rentals under operating leases are charged against income as incurred.

Research

Expenditure on research is written off in the year in which it is incurred.

Interest

Interest is capitalized gross during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects. All other interest is charged against income.

Pensions and other post-retirement benefits

The cost of providing pensions and other post-retirement benefits is charged to income on a systematic basis, with pension surpluses and deficits amortized over the average expected remaining service lives of current employees. The difference between the amounts charged to income and the contributions made to pension plans is included within other provisions or debtors as appropriate. The amounts accrued for other post-retirement benefits and unfunded pension liabilities are included within other provisions.

Deferred taxation

Deferred tax is recognized in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, tax in the future.

In particular:

- Provision is made for tax on gains arising from the disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the replacement assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, joint ventures and associated undertakings only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

Deferred tax assets are recognized only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Discounting

The unwinding of the discount on provisions is included within interest expense. Any change in the amount recognized for environmental and other provisions arising through changes in discount rates is included within interest expense.

Use of estimates

The preparation of accounts in conformity with generally accepted accounting practice requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates.

Comparative figures

Certain prior year figures have been restated to conform with the 2003 presentation.

Group income statement

For the year ended 31 December

		\$ million	
	Note	2003	2002
Turnover		236,045	180,186
Less: Joint ventures		3,474	1,465
Group turnover	1	232,571	178,721
Replacement cost of sales		202,041	155,528
Production taxes	2	1,723	1,274
Gross profit		28,807	21,919
Distribution and administration expenses	3	14,072	12,632
Exploration expense		542	644
		14,193	8,643
Other income	4	786	641
Group replacement cost operating profit	5	14,979	9,284
Share of profits of joint ventures	5	923	346
Share of profits of associated undertakings	5	511	616
Total replacement cost operating profit	5	16,413	10,246
Profit (loss) on sale of businesses or termination of operations	7	(28)	(33)
Profit (loss) on sale of fixed assets	7	859	1,201
Replacement cost profit before interest and tax	5	17,244	11,414
Stock holding gains (losses)	5	16	1,129
Historical cost profit before interest and tax	5	17,260	12,543
Interest expense	8	851	1,279
Profit before taxation		16,409	11,264
Taxation	11	5,972	4,342
Profit after taxation		10,437	6,922
Minority shareholders' interest (MSI)		170	77
Profit for the year		10,267	6,845
Distribution to shareholders	12	5,753	5,375
Retained profit for the year		4,514	1,470
Earnings per ordinary share – cents			
Basic	13	46.30	30.55
Diluted	13	45.87	30.41

Replacement cost results

Historical cost profit for the year		10,267	6,845
Stock holding (gains) losses (net of MSI)		(16)	(1,104)
Replacement cost profit for the year		10,251	5,741
Exceptional items (net of tax)	7	(708)	(1,043)
Replacement cost profit before exceptional items		9,543	4,698
Earnings per ordinary share – cents			
On replacement cost profit before exceptional items	13	43.03	20.97

Balance sheets

At 31 December

\$ million

	Note	Group			Parent
		2003	2002	2003	2002
Fixed assets					
Intangible assets	18	13,642	15,566	–	–
Tangible assets	19	91,911	87,682	–	–
Investments					
Joint ventures – Gross assets		16,485	4,829		
– Gross liabilities		(5,111)	(798)		
– Minority shareholders' interest		(365)	–		
– Net investment	20	11,009	4,031	–	–
Associated undertakings	20	4,870	4,626	2	3
Other	20	1,675	2,154	56,004	51,944
		17,554	10,811	56,006	51,947
Total fixed assets		123,107	114,059	56,006	51,947
Current assets					
Stocks	21	11,617	10,181	–	–
Debtors – amounts falling due:					
Within one year	22	31,384	26,905	865	1,892
After more than one year	22	9,332	6,245	27,105	11,689
Investments	23	185	215	–	–
Cash at bank and in hand		1,947	1,520	3	1
		54,465	45,066	27,973	13,582
Creditors – amounts falling due within one year					
Finance debt	27	9,456	10,086	–	–
Other creditors	28	41,128	36,215	6,802	9,906
Net current assets (liabilities)		3,881	(1,235)	21,171	3,676
Total assets less current liabilities		126,988	112,824	77,177	55,623
Creditors – amounts falling due after more than one year					
Finance debt	27	12,869	11,922	–	–
Other creditors	28	6,090	3,455	50	98
Provisions for liabilities and charges					
Deferred taxation	11	15,273	13,514	–	–
Other provisions	29	15,693	13,886	216	142
Net assets		77,063	70,047	76,911	55,383
Minority shareholders' interest – equity		1,125	638	–	–
BP shareholders' interest		75,938	69,409	76,911	55,383
Represented by					
Capital and reserves					
Called up share capital	30	5,552	5,616	5,552	5,616
Share premium account	31	3,957	3,794	3,957	3,794
Capital redemption reserve	31	523	449	523	449
Merger reserve	31	27,077	27,033	26,380	26,336
Other reserves	31	129	173	129	173
Profit and loss account	31	38,700	32,344	40,370	19,015
	32	75,938	69,409	76,911	55,383

The accounts on pages 40-81 were approved by a duly appointed and authorized committee of the board of directors on 9 February 2004 and were signed on its behalf by:

Peter Sutherland, Chairman

The Lord Browne of Madingley, Group Chief Executive

Group cash flow statement

For the year ended 31 December

		\$ million	
	Note	2003	2002
Net cash inflow from operating activities	33	21,698	19,342
Dividends from joint ventures		131	198
Dividends from associated undertakings		417	368
Servicing of finance and returns on investments			
Interest received		175	231
Interest paid		(1,006)	(1,204)
Dividends received		140	102
Dividends paid to minority shareholders		(20)	(40)
Net cash outflow from servicing of finance and returns on investments		(711)	(911)
Taxation			
UK corporation tax		(1,185)	(979)
Overseas tax		(3,619)	(2,115)
Tax paid		(4,804)	(3,094)
Capital expenditure and financial investment			
Payments for tangible and intangible fixed assets		(12,368)	(12,049)
Payments for fixed assets – investments		(72)	(67)
Proceeds from the sale of fixed assets	16	6,253	2,470
Net cash outflow for capital expenditure and financial investment		(6,187)	(9,646)
Acquisitions and disposals			
Acquisitions, net of cash acquired		(211)	(4,324)
Proceeds from the sale of businesses	16	179	1,974
Acquisition of investment in TNK-BP joint venture		(2,351)	–
Net investment in other joint ventures		(178)	(354)
Investments in associated undertakings		(987)	(971)
Proceeds from sale of investment in Ruhrgas	16	–	2,338
Net cash outflow for acquisitions and disposals		(3,548)	(1,337)
Equity dividends paid		(5,654)	(5,264)
Net cash inflow (outflow)		1,342	(344)
Financing	33	1,066	(181)
Management of liquid resources	33	(41)	(220)
Increase in cash	33	317	57
		1,342	(344)

Statement of total recognized gains and losses

For the year ended 31 December

	\$ million	
	2003	2002
Profit for the year	10,267	6,845
Currency translation differences (net of tax)	3,841	3,333
Total recognized gains and losses relating to the year	14,108	10,178
Prior year adjustment – change in accounting policy	–	(9,206)
Total recognized gains and losses since last annual accounts	14,108	972

Notes on accounts

1 Turnover

\$ million

	2003			2002		
Sales and operating revenue			278,859			222,231
Customs duties and sales taxes			46,288			43,510
Group turnover			232,571			178,721
Turnover ^a						
	Total sales	Sales between businesses	Sales to third parties	Total sales	Sales between businesses	Sales to third parties
By business						
Exploration and Production	31,341	23,279	8,062	25,753	18,556	7,197
Gas, Power and Renewables	65,445	1,963	63,482	37,357	1,320	36,037
Refining and Marketing	149,477	4,448	145,029	125,836	3,366	122,470
Petrochemicals	16,075	592	15,483	13,064	557	12,507
Other businesses and corporate	515	-	515	510	-	510
Group turnover	262,853	30,282	232,571	202,520	23,799	178,721
Share of sales by joint ventures			3,474			1,465
			236,045			180,186
	Total sales	Sales between areas	Sales to third parties	Total sales	Sales between areas	Sales to third parties
By geographical area						
UK ^b	54,971	15,275	39,696	48,748	14,673	34,075
Rest of Europe	50,582	8,672	41,910	46,518	7,980	38,538
USA	108,910	2,169	106,741	80,381	2,099	78,282
Rest of World	52,498	8,274	44,224	34,401	6,575	27,826
	266,961	34,390	232,571	210,048	31,327	178,721
Share of sales by joint ventures						
UK			144			129
Rest of Europe			290			298
USA			177			236
Rest of World			2,863			802
			3,474			1,465

^a Turnover to third parties is stated by origin, which is not materially different from turnover by destination. Transfers between group companies are made at market prices taking into account the volumes involved.

^b UK area includes the UK-based international activities of Refining and Marketing.

2 Production taxes

\$ million

	2003	2002
UK petroleum revenue tax	300	309
Overseas production taxes	1,423	965
	1,723	1,274

3 Distribution and administration expenses

\$ million

	2003	2002
Distribution	12,559	11,431
Administration	1,513	1,201
	14,072	12,632

4 Other income

\$ million

	2003	2002
Income from other fixed asset investments	157	139
Other interest and miscellaneous income	629	502
	786	641
Income from listed investments included above	60	58

5 Analysis of historical cost profit

\$ million

	2003							
	Group replacement cost operating profit ^a	Joint ventures	Associated undertakings	Total replacement cost operating profit ^a	Exceptional items ^b	Replacement cost profit before interest and tax	Stock holding gains (losses) ^c	Historical cost profit before interest and tax
By business								
Exploration and Production	12,751	914	272	13,937	913	14,850	3	14,853
Gas, Power and Renewables	475	–	(3)	472	(6)	466	6	472
Refining and Marketing	2,176	29	135	2,340	(213)	2,127	(48)	2,079
Petrochemicals ^d	499	(20)	89	568	38	606	55	661
Other businesses and corporate ^e	(922)	–	18	(904)	99	(805)	–	(805)
	14,979	923	511	16,413	831	17,244	16	17,260
By geographical area								
UK ^f	2,602	(22)	14	2,594	717	3,311	(9)	3,302
Rest of Europe	2,191	2	15	2,208	(151)	2,057	(230)	1,827
USA	5,096	26	79	5,201	(347)	4,854	390	5,244
Rest of World	5,090	917	403	6,410	612	7,022	(135)	6,887
	14,979	923	511	16,413	831	17,244	16	17,260

2002

By business								
Exploration and Production	8,595	343	268	9,206	(726)	8,480	3	8,483
Gas, Power and Renewables	247	–	107	354	1,551	1,905	51	1,956
Refining and Marketing	668	24	180	872	613	1,485	1,049	2,534
Petrochemicals ^d	527	(21)	9	515	(256)	259	26	285
Other businesses and corporate ^e	(753)	–	52	(701)	(14)	(715)	–	(715)
	9,284	346	616	10,246	1,168	11,414	1,129	12,543
By geographical area								
UK ^f	1,701	(15)	10	1,696	(88)	1,608	88	1,696
Rest of Europe	1,572	(1)	132	1,703	1,817	3,520	283	3,803
USA	2,665	16	137	2,818	(242)	2,576	640	3,216
Rest of World	3,346	346	337	4,029	(319)	3,710	118	3,828
	9,284	346	616	10,246	1,168	11,414	1,129	12,543

^a Replacement cost operating profit is before stock holding gains and losses and interest expense, which is attributable to the corporate function. Transfers between group companies are made at market prices taking into account the volumes involved.

^b Exceptional items comprise profit or loss on the sale of fixed assets and the sale of businesses or termination of operations.

^c 2002 includes \$25 million minority shareholders' interest in stock holding gains.

^d Includes \$4 million stock holding gains (\$2 million gains) in respect of joint ventures and associated undertakings.

^e Other businesses and corporate comprises Finance, the group's coal asset and aluminium asset, its investments in PetroChina and Sinopec, interest income and costs relating to corporate activities worldwide.

^f UK area includes the UK-based international activities of Refining and Marketing.

6 Hire charges and expenditure on research

\$ million

	2003	2002
Hire charges under operating leases		
Tanker charters	440	397
Plant and machinery	457	621
Land and buildings	548	342
	1,445	1,360
Expenditure on research	349	373

7 Exceptional items

Exceptional items comprise profit (loss) on sale of fixed assets and the sale of businesses or termination of operations as follows:

	\$ million	
	2003	2002
Profit on sale of businesses or termination of operations – Group	–	195
Loss on sale of businesses or termination of operations – Group	(28)	(228)
	(28)	(33)
Profit on sale of fixed assets – Group	1,894	2,736
– Associated undertakings	–	2
Loss on sale of fixed assets – Group	(1,035)	(1,537)
Exceptional items	831	1,168
Taxation credit (charge):		
Sale of businesses or termination of operations	–	45
Sale of fixed assets	(123)	(170)
Exceptional items (net of tax)	708	1,043

Sale of businesses or termination of operations

The profit in 2002 relates mainly to the disposal of the group's retail network in Cyprus and the UK contract energy management business.

The loss on sale of businesses or termination of operations for 2003 relates to the sale of our European oil speciality products business. For 2002, the loss relates to the disposal of our plastic fabrications business, the sale of the former Burmah Castrol speciality chemicals business Fosroc Construction, our withdrawal from solar thin film manufacturing and the provision for the loss on divestment of the former Burmah Castrol speciality chemicals businesses Sericol and Fosroc Mining.

Sale of fixed assets

The major elements of the profit on sale of fixed assets in 2003 relate to the divestment of a further 20% interest in BP Trinidad and Tobago LLC to Repsol and the sale of the group's 96.14% interest in the Forties oil field in the UK North Sea. The sale of a package of UK Southern North Sea gas fields, the divestment of our interest in the In Amenas gas condensate project in Algeria to Statoil and the disposal of BP's interest in Kaltim Prima Coal also contributed to the profit on disposal. The major part of the profit during 2002 arises from the divestment of the group's shareholding in Ruhrgas. The other significant elements of the profit for the year are the gain on the redemption of certain preferred limited partnership interests BP retained following the Altura Energy common interest disposal in 2000 in exchange for BP loan notes held by the partnership, the profit on the sale of the group's interest in the Colonial pipeline in the US and the profit on the sale of a US downstream electronic payment system.

The loss on sale of fixed assets in 2003 includes losses on exploration and production properties in China, Norway and the US, the loss on the sale of refining and marketing assets in Germany and Central Europe and the provision for losses on sale in early 2004 of exploration and production properties in Canada and Venezuela. The major element of the loss on sale of fixed assets in 2002 relates to provisions for losses on sale of exploration and production properties in the US announced in early 2003.

Additional information on the sale of businesses and fixed assets is given in Note 16 Disposals.

8 Interest expense

	\$ million	
	2003	2002
Bank loans and overdrafts	38	134
Other loans ^a	628	852
Finance leases	34	40
	700	1,026
Capitalized at 3% (4%) ^b	190	100
Group	510	926
Joint ventures	89	58
Associated undertakings	45	83
Unwinding of discount on provisions	173	170
Unwinding of discount on deferred consideration for acquisition of investment in TNK-BP	34	–
Change in discount rate for provisions	–	42
Total charged against profit	851	1,279

^a Interest expense includes a charge of \$31 million (\$15 million) relating to early redemption of debt.

^b Tax relief on capitalized interest is \$68 million (\$36 million).

Notes on accounts

9 Auditors' remuneration

\$ million

	2003		2002	
	UK	Total	UK	Total
Audit fees – Ernst & Young				
Group audit	8	18	6	15
Audit-related regulatory reporting	2	5	2	4
Statutory audit of subsidiaries	3	13	2	10
	13	36	10	29
Fees for other services – Ernst & Young				
Further assurance services				
Acquisition and disposal due diligence	9	9	9	13
Pension scheme audits	–	1	–	1
Other further assurance services	5	9	5	8
Tax services				
Compliance services	3	17	3	23
Advisory services	–	2	2	4
Other services	–	–	1	1
	17	38	20	50

Group audit fees include \$2 million (\$2 million) in respect of the parent company.

The Audit Committee has established pre-approval policies and procedures for the engagement of Ernst & Young to render audit and certain assurance and tax services. The audit fees payable to Ernst & Young are reviewed by the Audit Committee in the context of other global companies for cost effectiveness. Ernst & Young performed further assurance and tax services which were not prohibited by regulatory or other professional requirements and were pre-approved by the committee. Ernst & Young is engaged for these services when their expertise and experience of BP are important. Most of this work is of an audit nature. Tax services were awarded either through a full competitive tender process or following an assessment of the expertise of Ernst & Young relative to that of other potential service providers. These services are for a fixed term.

Fees paid to major firms of accountants other than Ernst & Young for other services amount to \$44 million (\$33 million).

10 Depreciation and amounts provided

\$ million

Included in the income statement under the following headings:	2003	2002
Depreciation and amortization of goodwill and other intangibles		
Replacement cost of sales	9,748	9,346
Distribution	1,044	952
Administration	148	90
	10,940	10,388
Amounts provided against fixed asset investments		
Replacement cost of sales	–	13
	10,940	10,401
Depreciation of capitalized leased assets included above	46	49

The 2003 charge for depreciation and amortization of goodwill and other intangibles includes asset write-downs and impairment charges on exploration and production properties of \$738 million in total. This includes a charge of \$296 million for four fields in the Gulf of Mexico following technical reassessment and re-evaluation of future investment options; charges of \$133 million and \$49 million respectively for the Miller and Viscount fields in the UK North Sea as a result of a decision not to proceed with waterflood and gas import options and a reserve write-down respectively; a charge of \$105 million for the Yacheng field in China; a charge of \$108 million for the Kepadong field in Indonesia; and \$47 million for the Eugene Island/West Cameron fields in the US as a result of reserve write-downs following completion of our routine full technical reviews.

The charge for depreciation and amortization of goodwill and other intangibles in 2002 includes asset write-downs and impairment charges of \$1,390 million in total. Exploration and Production recognized a charge of \$1,091 million for the impairment of Shearwater in the North Sea, Rhourde El Baguel in Algeria, LL652 and Boqueron in Venezuela, Pagerungan in Indonesia and Badami in Alaska, following full technical reassessments and evaluations of future investment opportunities. In addition, the business took a \$94 million write-off in respect of its Gas-to-Liquids plant in Alaska. Petrochemicals wrote down the value of its Indonesian manufacturing assets by \$140 million following a review of immediate prospects and opportunities for future growth in a highly competitive regional market. Gas, Power and Renewables incurred an impairment charge of \$30 million in respect of a cogeneration power plant in the UK. Refining and Marketing recognized an impairment charge of \$35 million for its retail business in Venezuela.

In assessing the value in use of potentially impaired assets, a discount rate of 9% before tax has been used.

11 Taxation

\$ million

Tax on profit on ordinary activities	2003	2002
Current tax:		
UK corporation tax	11,435	1,304
Overseas tax relief	(10,293)	(301)
	1,142	1,003
Overseas	3,525	1,883
Group	4,667	2,886
Joint ventures	158	75
Associated undertakings	94	187
	4,919	3,148
Deferred tax:		
UK	426	433
Overseas	655	761
Group	1,081	1,194
Joint ventures	(14)	–
Associated undertakings	(14)	–
	1,053	1,194
Tax on profit on ordinary activities	5,972	4,342

Included in the charge for the year is a charge of \$123 million (\$125 million) relating to exceptional items.

\$ million

Tax included in statement of total recognized gains and losses	2003	2002
Current tax:		
UK	–	57
Overseas	(11)	(54)
	(11)	3
Deferred tax:		
UK	48	138
Overseas	–	1
	48	139
Tax included in statement of total recognized gains and losses	37	142

Factors affecting current tax charge

The following table provides a reconciliation of the UK statutory corporation tax rate to the effective current tax rate of the group on profit before taxation.

\$ million

	2003	2002
Analysis of profit before taxation:		
UK	5,513	2,822
Overseas	10,896	8,442
	16,409	11,264
Taxation	5,972	4,342
Effective tax rate	36%	39%

% of profit before tax

UK statutory corporation tax rate	30	30
Increase (decrease) resulting from:		
UK supplementary and overseas taxes at higher rates	10	9
Tax credits	–	(3)
Restructuring benefits	(2)	–
Current year losses unrelieved (prior year losses utilized)	(3)	1
No relief for inventory holding losses (inventory holding gains not taxed)	(1)	(2)
Acquisition amortization	4	7
Other	(2)	(3)
Effective tax rate	36	39
Current year timing differences	(6)	(11)
Effective current tax rate	30	28

Current year timing differences arise mainly from the excess of tax depreciation over book depreciation.

Notes on accounts

11 Taxation continued

Factors that may affect future tax charges

The group earns income in many different countries and, on average, pays taxes at rates higher than the UK statutory rate. The overall impact of these higher taxes, which include the supplementary charge of 10% on UK North Sea profits, is subject to changes in enacted tax rates and the country mix of the group's income. However, it is not expected to increase or decrease substantially in the near term.

The tax charge in 2002 reflected a benefit from US 'non-conventional fuel credits' which are no longer available after 31 December 2002. The effect of the loss of these credits on the overall tax charge was offset in 2003 by benefits from restructuring and planning initiatives.

The group has around \$4.5 billion (\$5.3 billion) of carry-forward tax losses in the UK, which would be available to offset against future taxable income. To date, tax assets have been recognized on \$285 million (\$840 million) of those losses (i.e. to the extent that it is regarded as more likely than not that suitable taxable income will arise). During 2003 the group disclaimed tax depreciation allowances, which will be available in future periods, in order to optimize the utilization of tax losses. This is reflected in the movement in tax losses carried forward between the end of 2002 and 2003. Carry-forward losses in other taxing jurisdictions have not been recognized as deferred tax assets, and are unlikely to have a significant effect on the group's tax rate in future years.

The group's profit before taxation includes stock holding gains or losses. These gains (or losses) are not taxed (or deductible) in certain jurisdictions in which the group operates, and therefore give rise to decreases or increases in the effective tax rate. However, over the longer term, significant changes in the tax rate would arise only in the event of a substantial and sustained change in oil prices.

The impact on the tax rate of acquisition amortization (non-deductible depreciation and amortization relating to the fixed asset revaluation adjustments and goodwill consequent upon the ARCO and Burmah Castrol acquisitions) is unlikely to change in the near term.

The major component of timing differences in the current year is accelerated tax depreciation. Based on current capital investment plans, the group expects to continue to be able to claim tax allowances in excess of depreciation in future years at a level similar to the current year.

Deferred tax

	\$ million	
	2003	2002
Analysis of provision:		
Depreciation	15,613	14,990
Other taxable timing differences	1,957	1,837
Petroleum revenue tax	(601)	(567)
Decommissioning and other provisions	(1,429)	(2,192)
Tax credit and loss carry forward	(105)	(273)
Other deductible timing differences	(162)	(281)
Deferred tax provision	15,273	13,514
of which – UK	3,741	2,906
– Overseas	11,532	10,608

	\$ million	
	2003	2002
Analysis of movements during the year:		
At 1 January	13,514	11,702
Exchange adjustments	630	477
Acquisitions	–	6
Charge for the year on ordinary activities	1,081	1,194
Charge for the year in the statement of total recognized gains and losses	48	139
Deletions/transfers	–	(4)
At 31 December	15,273	13,514

	\$ million	
	2003	2002
The charge for deferred tax on ordinary activities:		
Origination and reversal of timing differences	1,081	839
Effect of the introduction of supplementary UK corporation tax of 10% on opening liability	–	355
	1,081	1,194
The charge for deferred tax in the statement of total recognized gains and losses:		
Origination and reversal of timing differences	48	139

12 Distribution to shareholders

	pence per share		cents per share		\$ million	
	2003	2002	2003	2002	2003	2002
Preference dividends (non-equity)					2	2
Dividends per ordinary share: First quarterly	3.947	4.051	6.25	5.75	1,386	1,290
Second quarterly	4.039	3.875	6.50	6.00	1,433	1,346
Third quarterly	3.857	3.897	6.50	6.00	1,438	1,340
Fourth quarterly	3.674	3.815	6.75	6.25	1,494	1,397
	15.517	15.638	26.00	24.00	5,753	5,375

13 Earnings per ordinary share

	cents per share	
	2003	2002
Basic earnings per share	46.30	30.55
Diluted earnings per share	45.87	30.41

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders, i.e. profit for the year less preference dividends, related to the weighted average number of ordinary shares outstanding during the year. The profit attributable to ordinary shareholders is \$10,265 million (\$6,843 million). The average number of shares outstanding excludes the shares held by the Employee Share Ownership Plans.

The calculation of diluted earnings per share is based on profit attributable to ordinary shareholders, adjusted for the unwinding of the discount on the deferred consideration for the acquisition of our interest in TNK-BP, of \$10,289 million (\$6,843 million). The number of shares outstanding is adjusted to show the potential dilution if employee share options are converted into ordinary shares, and for the ordinary shares issuable, in three annual tranches, in respect of the TNK-BP joint venture. The number of ordinary shares outstanding for basic and diluted earnings per share may be reconciled as follows:

	shares thousand	
	2003	2002
Weighted average number of ordinary shares	22,170,741	22,397,126
Potential dilutive effect of ordinary shares issuable under employee share schemes	71,651	107,322
Potential dilutive effect of ordinary shares issuable as consideration for BP's interest in the TNK-BP joint venture	186,980	–
	22,429,372	22,504,448

In addition to basic earnings per share based on the historical cost profit for the year, a further measure, based on replacement cost profit before exceptional items, is provided as it is considered that this measure gives an indication of underlying performance.

	cents per share	
	2003	2002
Profit for the year	46.30	30.55
Stock holding (gains) losses	(0.07)	(4.93)
Replacement cost profit for the year	46.23	25.62
Exceptional items (net of tax)	(3.20)	(4.65)
Replacement cost profit before exceptional items	43.03	20.97

14 Operating leases

	\$ million			
	2003		2002	
Annual commitments under operating leases	Land and buildings	Other	Land and buildings	Other
Expiring within: 1 year	70	186	80	174
2 to 5 years	173	388	166	438
Thereafter	262	291	289	188
	505	865	535	800
Minimum future lease payments	Total		Total	
Payable within: 1 year	1,275		1,203	
2 to 5 years	3,488		3,255	
Thereafter	3,352		2,652	
	8,115		7,110	

Notes on accounts

15 Acquisitions

Acquisitions in 2003

BP made a number of minor acquisitions in 2003 for a total consideration of \$82 million. All these business combinations were accounted for using the acquisition method of accounting. No significant fair value adjustments were made to the acquired assets and liabilities. Goodwill of \$5 million arose on these acquisitions. In addition the group redeemed the outstanding stock in CH-Twenty, Inc., a subsidiary undertaking, for \$150 million.

On 29 August BP and the Alfa Group and Access-Renova (AAR) combined their Russian and Ukrainian oil and gas businesses to create TNK-BP, a new company owned and managed 50:50 by BP and AAR. TNK-BP is a joint venture and accounted for under the gross equity method. BP contributed its 29% interest in Sidanco, its 29% interest in Rusia Petroleum and its holding in the BP Moscow retail network. In addition BP paid AAR \$2,306 million in cash and will subsequently pay three annual tranches of \$1,250 million in BP ordinary shares, valued at market prices prior to each annual payment. Costs of the transaction amounted to \$45 million. In exceptional and unanticipated circumstances BP may be required to settle these annual tranches in cash rather than shares.

Acquisitions in 2002

During the year BP acquired the whole of Veba Oil (Veba) from E.ON in two stages. Veba owns Aral, Germany's biggest fuels retailer. In February BP paid \$1,072 million to subscribe for new shares issued by Veba and acquired \$1,520 million of outstanding loans from E.ON to Veba in return for a 51% interest in and operational control of Veba. In addition, there were acquisition expenses of \$30 million. Subsequently, on 30 June BP paid E.ON a further \$2,386 million to acquire the remaining 49% of Veba. There were further acquisition expenses of \$30 million. The total consideration of \$5,038 million was subject to final closing adjustments. Other transactions in 2002 included buying our co-venturers' 15% interest in the ARCO polypropylene joint venture and acquiring the 51% BP did not own in certain Chinese LPG ventures. All these business combinations have been accounted for using the acquisition method of accounting. The assets and liabilities acquired as part of the 2002 acquisitions are shown in aggregate in the table below. The identifiable assets and liabilities of Veba were not revalued on the acquisition of the 49% minority interest in June, as the difference between the fair values and the carrying amounts of the assets and liabilities was not material. Additional goodwill of \$203 million was originally recognized on the acquisition of the minority interest in Veba. This has been reduced to \$61 million following the revisions to the fair values described below.

The fair values of the assets and liabilities of Veba included in the accounts for the year ended 31 December 2002 have been subject to further investigation and review during 2003, as permitted by Financial Reporting Standard No. 7 'Fair Values in Acquisition Accounting'. The revisions to the previously reported fair values are as set out below.

	Fair value as previously reported	Revisions	Final fair value
			\$ million
Intangible fixed assets	–	–	–
Tangible fixed assets	4,945	(76)	4,869
Fixed assets – Investments	122	–	122
Businesses held for resale	1,369	–	1,369
Current assets (excluding cash)	3,031	–	3,031
Cash at bank and in hand	1,118	–	1,118
Finance debt	(1,002)	–	(1,002)
Other creditors	(3,394)	365	(3,029)
Deferred taxation	(6)	–	(6)
Other provisions	(1,107)	–	(1,107)
Net investment in equity accounted entities transferred to full consolidation	(191)	–	(191)
Net assets acquired	4,885	289	5,174
Minority interests	(2,201)	(142)	(2,343)
Goodwill	342	(147)	195
Consideration	3,026	–	3,026

Tangible fixed assets The fair value attributed to exploration and production assets has been revised following further technical studies.

Other creditors Liabilities existing at the date of acquisition have been revised following subsequent settlement.

16 Disposals

As part of the strategy to upgrade the quality of its asset portfolio, the group has an active programme to dispose of non-strategic assets. In the normal course of business in any particular year, the group may sell interests in exploration and production properties, service stations and pipeline interests as well as non-core businesses.

Divestments in 2003

Cash received in 2003 from disposals amounted to \$6,432 million. During the year the group divested interests in a number of exploration and production properties. The UK North Sea Forties oil field together with a package of 61 shallow-water assets in the Gulf of Mexico were sold to Apache for \$1,165 million. A 12.5% interest in the Tangguh liquefied natural gas project in Indonesia was sold to CNOOC for \$275 million. Interests in 14 UK Southern North Sea gas fields together with associated pipelines and onshore processing facilities, including the Bacton terminal, were sold to Perenco for \$120 million. BP sold 50% of its interest in the In Amenas gas condensate project and 49% of its interest in the In Salah gas development in Algeria to Statoil for \$980 million.

In January, Repsol exercised its option to acquire a further 20% interest in BP Trinidad and Tobago LLC. BP's interest in the company is now 70%.

In February, BP called its \$420 million Exchangeable Bonds which were exchangeable for Lukoil American Depositary Shares (ADSs). Bondholders converted to ADSs before the redemption date.

The group sold its 50% interest in Kaltim Prima Coal, an Indonesian company, for \$250 million.

As a condition of the approval of the acquisition of Veba, BP was, among other things, required to divest approximately 4% of its retail market share in Germany and a significant portion of its Bayernoil refining interests. The sale of 494 retail sites in the northern and northeastern part of Germany to PKN Orlen for \$146 million and the sale of retail and refinery assets in Germany and Central Europe to OMV for \$394 million completed the divestments required.

Divestments in 2002

The major asset transactions during the year included the sale of the group's shareholding in Ruhrgas, the sale of a US downstream electronic payment system, the group's interest in the Colonial pipeline in the US, the refinery at Yorktown, Virginia, and the redemption of certain preferred partnership interests BP retained following the disposal in 2000 of the Altura Energy common interest in exchange for BP loan notes held by the partnership. The group entered into sale and leaseback transactions for certain chemicals manufacturing facilities in the UK, a solar manufacturing facility in Spain and an LNG tanker.

In addition BP sold two-thirds of its interest in the European ethylene pipeline company, ARG, in accordance with EU Commission requirements in relation to the Veba acquisition.

BP closed its polypropylene production facility at Cedar Bayou, Texas, a high density polyethylene unit at Deer Park, Texas, and one of four polypropylene units at Chocolate Bayou, Texas.

BP sold its plastic fabrications business, Fosroc Construction, its UK contract energy management business and its downstream retail businesses in Cyprus and Japan. The group also announced its withdrawal from solar thin-film manufacturing.

Total proceeds received for disposals represent the following amounts shown in the cash flow statement:

	\$ million	
	2003	2002
Proceeds from the sale of businesses	179	1,974
Proceeds from the sale of fixed assets	6,253	2,470
Proceeds from the sale of investment in Ruhrgas	-	2,338
	6,432	6,782

	\$ million	
	2003	2002
The disposals comprise the following:		
Intangible assets	322	205
Tangible assets ^a	6,212	2,545
Fixed assets – Investments	890	1,769
Net assets of businesses held for resale	-	1,369
Finance debt	(420)	(1,135)
Current assets less current liabilities	(498)	533
Other provisions	(971)	(109)
	5,535	5,177
Profit (loss) on sale of businesses or termination of operations	(28)	(33)
Profit (loss) on sale of fixed assets	859	1,199
Total consideration	6,366	6,343
Decrease in amounts receivable from disposals	66	439
Net cash inflow	6,432	6,782

^a Includes provision for loss on disposal of \$275 million (\$1,204 million).

Notes on accounts

17 Group balance sheet analysis

\$ million

	Capital expenditure and acquisitions		Operating capital employed	
	2003	2002	2003	2002
By business				
Exploration and Production	15,452	9,699	64,572	62,117
Gas, Power and Renewables	359	408	3,919	2,642
Refining and Marketing	3,080	7,753	32,081	31,006
Petrochemicals	775	823	13,669	12,631
Other businesses and corporate	409	428	3,769	490
	20,075	19,111	118,010	108,886
By geographical area				
UK ^a	1,619	1,637	20,611	20,949
Rest of Europe	1,277	6,556	11,919	11,877
USA	6,291	6,095	49,444	47,953
Rest of World	10,888	4,823	36,036	28,107
	20,075	19,111	118,010	108,886
Operating capital employed			118,010	108,886
Liabilities for current and deferred taxation			(18,622)	(16,831)
Capital employed			99,388	92,055
Financed by:				
Finance debt			22,325	22,008
Minority shareholders' interest			1,125	638
BP shareholders' interest			75,938	69,409
			99,388	92,055

^a UK area includes the UK-based international activities of Refining and Marketing.

18 Intangible assets

\$ million

	Exploration expenditure	Goodwill	Other intangibles	Total
Cost				
At 1 January 2003	5,630	14,037	807	20,474
Exchange adjustments	72	671	2	745
Acquisitions	–	5	–	5
Additions	579	–	112	691
Transfers	(820)	–	–	(820)
Fair value adjustments	–	(289)	–	(289)
Deletions	(484)	(40)	(88)	(612)
At 31 December 2003	4,977	14,384	833	20,194
Depreciation				
At 1 January 2003	686	3,599	623	4,908
Exchange adjustments	10	263	2	275
Charge for the year	297	1,376	52	1,725
Transfers	(66)	–	–	(66)
Deletions	(186)	(23)	(81)	(290)
At 31 December 2003	741	5,215	596	6,552
Net book amount				
At 31 December 2003	4,236	9,169	237	13,642
At 31 December 2002	4,944	10,438	184	15,566

19 Tangible assets – property, plant and equipment

\$ million

	Exploration and Production	Gas, Power and Renewables	Refining and Marketing	Petrochemicals	Other businesses and corporate	Total	Of which: assets under construction
Cost							
At 1 January 2003	110,712	2,344	36,848	17,054	2,204	169,162	12,127
Exchange adjustments	3,718	222	3,570	1,199	111	8,820	216
Acquisitions	–	–	34	–	–	34	–
Additions	9,384	275	2,918	529	185	13,291	10,800
Transfers	1,088	–	(84)	–	–	1,004	(7,359)
Fair value adjustments	(76)	–	–	–	–	(76)	–
Deletions	(14,064)	(102)	(1,807)	(240)	(242)	(16,455)	(1,827)
At 31 December 2003	110,762	2,739	41,479	18,542	2,258	175,780	13,957
Depreciation							
At 1 January 2003	58,508	744	14,415	6,974	839	81,480	
Exchange adjustments	1,052	66	1,519	367	59	3,063	
Charge for the year	6,342	130	2,164	739	137	9,512	
Provision for loss on disposal	275	–	–	–	–	275	
Transfers	66	–	(9)	–	–	57	
Deletions	(9,313)	(70)	(865)	(129)	(141)	(10,518)	
At 31 December 2003	56,930	870	17,224	7,951	894	83,869	
Net book amount							
At 31 December 2003	53,832	1,869	24,255	10,591	1,364	91,911	13,957
At 31 December 2002	52,204	1,600	22,433	10,080	1,365	87,682	12,127

Assets held under finance leases, capitalized interest, decommissioning asset and land at net book amount included above:

\$ million

	Leased assets			Capitalized interest		
	Cost	Depreciation	Net	Cost	Depreciation	Net
At 31 December 2003	2,737	955	1,782	3,281	2,127	1,154
At 31 December 2002	1,694	904	790	3,329	1,617	1,712

\$ million

	Decommissioning asset		
	Cost	Depreciation	Net
At 31 December 2003	3,686	1,606	2,080
At 31 December 2002	2,848	1,551	1,297

\$ million

	Freehold land		Leasehold land	
		Over 50 years unexpired		Other
At 31 December 2003	3,466	71		203
At 31 December 2002	2,919	48		171

Notes on accounts

20 Fixed assets – investments

\$ million

Group	Joint ventures		Associated undertakings		Other loans	Own shares ^a	Listed investments ^b	Other ^c	Total
	Net assets (liabilities)	Loans	Net assets (liabilities)	Loans					
Cost									
At 1 January 2003	2,776	1,255	4,015	1,261	157	159	1,609	257	11,489
Exchange adjustments	70	52	58	138	14	8	21	7	368
Additions and net movements in joint ventures and associated undertakings	841	34	681	85	–	63	4	5	1,713
Acquisitions	5,794	–	35	–	–	–	–	–	5,829
Transfers	595	–	(984)	(64)	(37)	–	–	–	(490)
Deletions	(287)	(121)	187	(344)	(5)	(134)	(350)	(90)	(1,144)
At 31 December 2003	9,789	1,220	3,992	1,076	129	96	1,284	179	17,765
Amounts provided									
At 1 January 2003	–	–	219	431	19	–	–	9	678
Exchange adjustments	–	–	2	–	–	–	–	2	4
Provided in the year	–	–	–	–	–	–	–	–	–
Transfers	–	–	(200)	–	(17)	–	–	–	(217)
Deletions	–	–	–	(254)	–	–	–	–	(254)
At 31 December 2003	–	–	21	177	2	–	–	11	211
Net book amount									
At 31 December 2003	9,789	1,220	3,971	899	127	96	1,284	168	17,554
At 31 December 2002	2,776	1,255	3,796	830	138	159	1,609	248	10,811

\$ million

Parent	Subsidiary undertakings ^d		Associated undertakings ^d		Own shares ^a	Total
	Shares	Shares	Loans	Loans		
Cost						
At 1 January 2003	51,790	3	2	–	159	51,954
Exchange adjustments	–	–	–	–	8	8
Additions	4,125	–	–	–	63	4,188
Deletions	(2)	(1)	–	–	(134)	(137)
At 31 December 2003	55,913	2	2	–	96	56,013
Amounts provided						
At 1 January 2003	5	–	2	–	–	7
Provided in the year	–	–	–	–	–	–
At 31 December 2003	5	–	2	–	–	7
Net book amount						
At 31 December 2003	55,908	2	–	–	96	56,006
At 31 December 2002	51,785	3	–	–	159	51,947

^a Own shares are held in Employee Share Ownership Plans (ESOPs) to meet the future requirements of the employee share plans (see Note 34) and prior to award under the Long Term Performance Plan (see Note 35). At 31 December 2003, the ESOPs held 7,811,544 shares (18,673,675 shares) for the employee share schemes and 4,118,835 shares (3,901,317 shares) for the Long Term Performance Plan. The market value of these shares at 31 December 2003 was \$96 million (\$154 million).

^b The market value of listed investments at 31 December 2003 was \$3,212 million (\$1,661 million).

^c Other investments are unlisted.

^d Substantially all the investments in subsidiary and associated undertakings are unlisted.

21 Stocks

\$ million

	2003	2002
Petroleum	6,623	6,138
Chemicals	1,165	966
Other	961	675
	8,749	7,779
Stores	938	893
	9,687	8,672
Trading stocks	1,930	1,509
	11,617	10,181
Replacement cost	11,717	10,610

22 Debtors

\$ million

	Group				Parent			
	Within 1 year	2003 After 1 year	Within 1 year	2002 After 1 year	Within 1 year	2003 After 1 year	Within 1 year	2002 After 1 year
Trade	23,487	–	18,798	–	–	–	–	–
Group undertakings	–	–	–	–	774	23,715	1,860	9,140
Joint ventures	44	–	70	–	–	–	–	–
Associated undertakings	337	53	282	96	–	–	–	–
Prepayments and accrued income	3,445	2,023	2,716	1,771	6	–	9	–
Taxation recoverable	78	14	94	9	–	–	–	–
Pension prepayment	–	6,814	–	3,899	–	3,354	–	2,516
Other	3,993	428	4,945	470	85	36	23	33
	31,384	9,332	26,905	6,245	865	27,105	1,892	11,689

23 Current assets – investments

\$ million

	2003	2002
Listed – UK	42	32
– Foreign	37	29
	79	61
Unlisted	106	154
	185	215
Stock exchange value of listed investments	79	61

24 Financial instruments

An outline of the group's financial risks and the policies and objectives pursued in relation to those risks is set out in the financial risk management section of the Other Financial Issues on pages 34 and 35.

Financial instruments comprise primary financial instruments (cash, fixed and current asset investments, debtors, creditors, finance debt and provisions) and derivative financial instruments (interest rate contracts, foreign exchange contracts, oil price contracts, natural gas price contracts and power price contracts). Interest rate contracts include futures contracts, swap agreements and options. Foreign exchange contracts include forwards, futures contracts, swap agreements and options. Oil, natural gas and power price contracts are those that require settlement in cash and include futures contracts, swap agreements and options. Oil, natural gas and power price contracts that require physical delivery are not financial instruments. However, if it is normal market practice for a particular type of oil, natural gas and power contract, despite having contract terms that require settlement by delivery, to be extinguished other than by physical delivery (e.g. by cash payment) it is called a cash-settled commodity contract. Contracts of this type are included with derivatives in the disclosures in Notes 25 and 26.

With the exception of the table of currency exposures shown on page 61, short-term debtors and creditors that arise directly from the group's operations have been excluded from the disclosures contained in this note, as permitted by Financial Reporting Standard No. 13 'Derivatives and Other Financial Instruments: Disclosures'.

Maturity profile of financial liabilities

The profile of the maturity of the financial liabilities included in the group's balance sheet at 31 December is shown in the table below.

\$ million

	2003			2002		
	Finance debt	Other financial liabilities	Total	Finance debt	Other financial liabilities	Total
Due within: 1 year	9,456	–	9,456	10,086	–	10,086
1 to 2 years	2,702	2,087	4,789	913	597	1,510
2 to 5 years	5,105	1,834	6,939	5,083	332	5,415
Thereafter	5,062	2,266	7,328	5,926	2,218	8,144
	22,325	6,187	28,512	22,008	3,147	25,155

Notes on accounts

24 Financial instruments continued

Interest rate and currency of financial liabilities

The interest rate and currency profile of the financial liabilities of the group, at 31 December, after taking into account the effect of interest rate swaps, currency swaps and forward contracts, is set out below.

	2003							
	Fixed rate			Floating rate		Interest free		
	Weighted average interest rate %	Weighted average time for which rate is fixed Years	Amount \$ million	Weighted average interest rate %	Amount \$ million	Weighted average time until maturity Years	Amount \$ million	Total \$ million
Finance debt								
US dollar	8	14	578	2	20,991	–	–	21,569
Sterling	–	–	–	4	107	–	–	107
Other currencies	9	15	141	3	508	–	–	649
			719		21,606			22,325
Other financial liabilities								
US dollar	3	3	2,899	5	242	4	2,081	5,222
Sterling	–	–	–	–	–	5	267	267
Other currencies	5	4	303	–	–	6	395	698
			3,202		242		2,743	6,187
Total			3,921		21,848		2,743	28,512
								2002
Finance debt								
US dollar	7	7	7,818	2	13,287	–	–	21,105
Sterling	–	–	–	4	103	–	–	103
Other currencies	7	11	317	5	483	–	–	800
			8,135		13,873			22,008
Other financial liabilities								
US dollar	6	6	392	8	776	5	1,205	2,373
Sterling	–	–	–	–	–	6	171	171
Other currencies	–	–	–	–	–	2	603	603
			392		776		1,979	3,147
Total			8,527		14,649		1,979	25,155
								\$ million
								2003
Analysis of the above financial liabilities by balance sheet caption:								2002
Creditors – amounts falling due within one year								
– Finance debt							9,456	10,086
Creditors – amounts falling due after more than one year								
– Finance debt							12,869	11,922
– Other creditors							4,542	1,953
Provisions for liabilities and charges								
– Other provisions							1,645	1,194
							28,512	25,155

The other financial liabilities comprise various accruals, sundry creditors and provisions relating to the group's normal commercial operations, with payment dates spread over a number of years.

The proportion of floating rate debt at 31 December 2003 was 97% of total finance debt outstanding. Aside from debt issued in the US municipal bond markets, interest rates on floating rate debt denominated in US dollars are linked principally to London Inter-Bank Offer Rate (LIBOR), while rates on debt in other currencies are based on local market equivalents. The group monitors interest rate risk using a process of sensitivity analysis. Assuming no changes to the finance debt and hedges described above, it is estimated that a change of 1% in the general level of interest rates on 1 January 2004 would change 2004 profit before tax by approximately \$210 million.

24 Financial instruments continued

Interest rate swaps and futures are used by the group to modify the interest characteristics of its long-term finance debt from a fixed to a floating rate basis or vice versa. The following table indicates the types of instruments used and their weighted average interest rates as at 31 December.

	\$ million except percentages	
	2003	2002
Receive fixed rate swaps – notional amount	7,432	3,789
Average receive fixed rate	3.1%	5.0%
Average pay floating rate	1.1%	1.5%
Pay fixed rate swaps – notional amount	–	2,169
Average pay fixed rate	–	6.6%
Average receive floating rate	–	1.5%

Currency exchange rate risk

The monetary assets and monetary liabilities of the group in currencies other than the functional currency of individual operating units are summarized below. These currency exposures arise from normal trading activities.

	\$ million				
	2003				
	Net foreign currency monetary assets (liabilities)				
Functional currency	US dollar	Sterling	Euro	Other currencies	Total
US dollar	–	191	(24)	39	206
Sterling	67	–	308	34	409
Other currencies	(1,148)	(25)	(27)	(131)	(1,331)
Total	(1,081)	166	257	(58)	(716)
					2002
US dollar	–	323	2	301	626
Sterling	412	–	409	(33)	788
Other currencies	(717)	(10)	(194)	(49)	(970)
Total	(305)	313	217	219	444

In accordance with its policy for managing its foreign exchange rate risk, the group enters into various types of foreign exchange contracts, such as currency swaps, forwards and options. The fair values and carrying amounts of these derivatives are shown in the fair value table in Note 26.

Interest rate and currency of financial assets

The following table shows the interest rate and currency profile of the group's material financial assets at 31 December.

	Fixed rate			Floating rate			Interest free		
	Weighted average interest rate %	Weighted average time for which rate is fixed Years	Amount \$ million	Weighted average interest rate %	Amount \$ million	Weighted average time until maturity Years	Amount \$ million	Total \$ million	
US dollar	–	–	–	2	656	2	154	810	
Sterling	8	2	91	3	907	2	257	1,255	
Other currencies	3	2	19	1	189	1	1,866	2,074	
			110		1,752		2,277	4,139	
									2002
US dollar	3	2	180	1	873	2	1,094	2,147	
Sterling	7	2	94	5	171	2	235	500	
Other currencies	2	1	34	1	208	1	1,264	1,506	
			308		1,252		2,593	4,153	

Notes on accounts

24 Financial instruments continued

	\$ million	
	2003	2002
Analysis of the above financial assets by balance sheet caption:		
Fixed assets – Investments	1,579	1,995
Current assets – Debtors – amounts falling due after more than one year	428	423
– Investments	185	215
– Cash at bank and in hand	1,947	1,520
	4,139	4,153

The floating rate financial assets earn interest at various rates set principally with respect to LIBOR or the local market equivalent. Fixed asset investments included in the table above are held for the long term and have no maturity period. They are excluded from the calculation of weighted average time until maturity.

25 Derivative financial instruments

In the normal course of business the group is a party to derivative financial instruments (derivatives) with off balance sheet risk, primarily to manage its exposure to fluctuations in foreign currency exchange rates and interest rates, including management of the balance between floating rate and fixed rate debt. The group also manages certain of its exposures to movements in oil, natural gas and power prices. In addition, the group trades derivatives in conjunction with these risk management activities.

Risk management

Gains and losses on derivatives used for risk management purposes are deferred and recognized in earnings or as adjustments to carrying amounts, as appropriate, when the underlying debt matures or the hedged transaction occurs. When an anticipated transaction is no longer likely to occur or finance debt is terminated before maturity, any deferred gain or loss that has arisen on the related derivative is recognized in the income statement, together with any gain or loss on the terminated item. Where such derivatives used for hedging purposes are terminated before the underlying debt matures or the hedged transaction occurs, the resulting gain or loss is recognized on a basis that matches the timing and accounting treatment of the underlying hedged item. The unrecognized and carried-forward gains and losses on derivatives used for hedging, and the movements therein, are shown in the following table.

	Unrecognized			Carried forward in the balance sheet		
	Gains	Losses	Total	Gains	Losses	Total
Gains and losses at 1 January 2003	526	(450)	76	352	(28)	324
of which accounted for in income in 2003	96	(51)	45	200	(14)	186
Gains and losses at 31 December 2003	331	(130)	201	1,003	(425)	578
of which expected to be recognized in income in 2004	98	(28)	70	438	(75)	363
Gains and losses at 1 January 2002	109	(235)	(126)	113	(327)	(214)
of which accounted for in income in 2002	60	(19)	41	50	(162)	(112)
Gains and losses at 31 December 2002	526	(450)	76	352	(28)	324
of which expected to be recognized in income in 2003	96	(51)	45	200	(14)	186

Trading activities

The group maintains active trading positions in a variety of derivatives. This activity is undertaken in conjunction with risk management activities. Derivatives held for trading purposes are marked-to-market and any gain or loss recognized in the income statement. For traded derivatives, many positions have been neutralized, with trading initiatives being concluded by taking opposite positions to fix a gain or loss, thereby achieving a zero net market risk.

The following table shows the fair value at 31 December of derivatives and other financial instruments held for trading purposes. The fair values at the year end are not materially unrepresentative of the position throughout the year.

	\$ million			
	2003		2002	
	Fair value asset	Fair value liability	Fair value asset	Fair value liability
Interest rate contracts	–	–	–	–
Foreign exchange contracts	30	(54)	29	(17)
Oil price contracts	586	(667)	440	(418)
Natural gas price contracts	858	(711)	1,112	(955)
Power price contracts	548	(514)	182	(163)
	2,022	(1,946)	1,763	(1,553)

25 Derivative financial instruments *continued*

The group measures its market risk exposure, i.e. potential gain or loss in fair values, on its trading activity using value-at-risk techniques. These techniques are based on a variance/covariance model or a Monte Carlo simulation and make a statistical assessment of the market risk arising from possible future changes in market values over a 24-hour period. The calculation of the range of potential changes in fair value takes into account a snapshot of the end-of-day exposures, and the history of one-day price movements over the previous 12 months, together with the correlation of these price movements. The potential movement in fair values is expressed to three standard deviations which is equivalent to a 99.7% confidence level. This means that, in broad terms, one would expect to see an increase or a decrease in fair values greater than the value at risk on only one occasion per year if the portfolio were left unchanged.

The group calculates value at risk on all instruments that are held for trading purposes and that therefore give an exposure to market risk. The value-at-risk model takes account of derivative financial instruments such as interest rate forward and futures contracts, swap agreements, options and swaptions; foreign exchange forward and futures contracts, swap agreements and options; and oil, natural gas and power price futures, swap agreements and options. Financial assets and liabilities and physical crude oil and refined products that are treated as trading positions are also included in these calculations. The value-at-risk calculation for oil, natural gas and power price exposure also includes cash-settled commodity contracts such as forward contracts.

The following table shows values at risk for trading activities.

									\$ million
									2003
									2002
	High	Low	Average	Year end	High	Low	Average	Year end	
Interest rate trading	1	–	–	–	–	–	–	–	–
Foreign exchange trading	4	–	2	1	2	–	1	–	–
Oil price trading	34	17	26	27	34	14	23	19	19
Natural gas price trading	29	4	16	18	18	1	6	9	9
Power price trading	13	–	4	6	9	1	4	3	3

The presentation of trading results shown in the table below includes certain activities of BP's trading units that involve the use of derivative financial instruments in conjunction with physical and paper trading of oil, natural gas and power. It is considered that a more comprehensive representation of the group's oil, natural gas and power price trading activities is given by aggregating the gain or loss on such derivatives together with the gain or loss arising from the physical and paper trades to which they relate, representing the net result of the trading portfolio.

			\$ million
			2003
			2002
	Net gain (loss)	Net gain (loss)	
Interest rate trading	9	–	–
Foreign exchange trading	118	90	90
Oil price trading	825	597	597
Natural gas price trading	341	199	199
Power price trading	119	74	74
	1,412	960	960

Notes on accounts

26 Fair values of financial assets and liabilities

The estimated fair value of the group's financial instruments is shown in the table below. The table also shows the 'net carrying amount' of the financial asset or liability. This amount represents the net book value, i.e. market value when acquired or later marked-to-market. Interest rate contracts include futures contracts, swap agreements and options. Foreign exchange contracts include forward and futures contracts, swap agreements and options. Oil, natural gas and power price contracts include futures contracts, swap agreements and options and cash-settled commodity contracts such as forward contracts.

Short-term debtors and creditors that arise directly from the group's operations have been excluded from the disclosures contained in this note, as permitted by Financial Reporting Standard No. 13 'Derivatives and Other Financial Instruments: Disclosures'.

The fair value and carrying amounts of finance debt shown below exclude the effects of currency swaps, interest rate swaps and forward contracts (which are included for presentation in the balance sheet). Long-term borrowings in the table below include debt that matures in the year from 31 December 2003, whereas in the balance sheet long-term debt of current maturity is reported under amounts falling due within one year. Long-term borrowings also include US Industrial Revenue/Municipal Bonds classified on the balance sheet as repayable within one year.

	\$ million			
	2003		2002	
	Net fair value asset (liability)	Net carrying amount asset (liability)	Net fair value asset (liability)	Net carrying amount asset (liability)
Primary financial instruments				
Fixed assets – investments	3,507	1,579	2,047	1,995
Current assets				
– Debtors – amounts falling due after more than one year	428	428	423	423
– Investments	185	185	215	215
– Cash at bank and in hand	1,947	1,947	1,520	1,520
Finance debt				
– Short-term borrowings	(5,059)	(5,059)	(5,504)	(5,504)
– Long-term borrowings	(16,190)	(15,559)	(15,476)	(14,609)
– Net obligations under finance leases	(2,479)	(2,452)	(2,183)	(2,172)
Creditors – amounts falling due after more than one year				
– Other creditors	(4,542)	(4,542)	(1,953)	(1,953)
Provisions for liabilities and charges				
– Other provisions	(1,645)	(1,645)	(1,194)	(1,194)
Derivative financial or commodity instruments				
Risk management – interest rate contracts	5	–	(63)	–
– foreign exchange contracts	941	745	416	277
– oil price contracts	(5)	(5)	9	9
– natural gas price contracts	(5)	(5)	5	5
– power price contracts	(10)	(10)	–	–
Trading				
– interest rate contracts	–	–	–	–
– foreign exchange contracts	(24)	(24)	12	12
– oil price contracts	(81)	(81)	22	22
– natural gas price contracts	147	147	157	157
– power price contracts	34	34	19	19

The following methods and assumptions were used by the group in estimating its fair value disclosures for its financial instruments:

Fixed assets – Investments The carrying amount reported in the balance sheet for unlisted fixed asset investments approximates their fair value. The fair value of listed fixed asset investments has been determined by reference to market prices.

Current assets – Debtors falling due after more than one year The fair value of other debtors due after one year is estimated not to be materially different from its carrying value.

Current assets – Investments and cash at bank and in hand The carrying amount reported in the balance sheet for unlisted current asset investments and cash at bank and in hand approximates their fair value. The fair value of listed current asset investments has been determined by reference to market prices.

Finance debt The carrying amount of the group's short-term borrowings, which mainly comprise commercial paper, bank loans and overdrafts, approximates their fair value. The fair value of the group's long-term borrowings and finance lease obligations is estimated using quoted prices or, where these are not available, discounted cash flow analyses, based on the group's current incremental borrowing rates for similar types and maturities of borrowing.

Creditors – Amounts falling due after more than one year – Other creditors Deferred consideration for the acquisition of our interest in TNK-BP is discounted to the present value of the future payments. The carrying value thus approximates the fair value. The remaining liabilities are predominantly interest-free. In view of their short maturities, the reported carrying amount is estimated to approximate the fair value.

Provisions for liabilities and charges – Other provisions Where the liability will not be settled for a number of years the amount recognized is the present value of the estimated future expenditure. The carrying amount of provisions thus approximates the fair value.

Derivative financial instruments and cash-settled commodity contracts The fair values of the group's interest rate and foreign exchange contracts are based on pricing models that take into account relevant market data. The fair values of the group's oil, natural gas and power price contracts (futures contracts, swap agreements, options and forward contracts) are based on market prices.

27 Finance debt

\$ million

	2003			2002		
	Within 1 year	After 1 year	Total	Within 1 year	After 1 year	Total
Bank loans	205	253	458	476	344	820
Other loans	9,161	10,524	19,685	9,526	9,656	19,182
Total borrowings	9,366	10,777	20,143	10,002	10,000	20,002
Net obligations under finance leases	90	2,092	2,182	84	1,922	2,006
	9,456	12,869	22,325	10,086	11,922	22,008

Where finance debt is swapped into another currency, the finance debt is accounted in the swap currency and not in the original currency of denomination. Total finance debt includes an asset of \$745 million (\$277 million) for the carrying value of currency swaps and forward contracts.

Included within Other loans repayable within one year are US Industrial Revenue/Municipal Bonds of \$2,503 million (\$1,881 million) with maturity periods ranging up to 35 years. They are classified as repayable within one year, as required under UK GAAP, as the bondholders typically have the option to tender these bonds for repayment on interest reset dates. Any bonds that are tendered are usually remarketed and BP has not experienced any significant repurchases. BP considers these bonds to represent long-term funding when assessing the maturity profile of its finance debt.

At 31 December 2003, the group's share of third party finance debt of joint ventures and associated undertakings was \$2,151 million (\$457 million) and \$922 million (\$849 million) respectively. These amounts are not reflected in the group's debt on the balance sheet.

\$ million

Analysis of borrowings by year of repayment	2003			2002		
	Bank loans	Other loans	Total	Bank loans	Other loans	Total
Due after 10 years	–	721	721	–	1,417	1,417
Due within 10 years	–	17	17	1	371	372
9 years	–	337	337	43	310	353
8 years	–	291	291	–	15	15
7 years	–	–	–	–	1,699	1,699
6 years	7	1,700	1,707	–	516	516
5 years	7	938	945	–	1,603	1,603
4 years	8	1,291	1,299	161	344	505
3 years	193	2,593	2,786	19	2,671	2,690
2 years	38	2,636	2,674	120	710	830
1 year	253	10,524	10,777	344	9,656	10,000
	458	19,685	20,143	820	19,182	20,002

Amounts included above repayable by instalments, part of which falls due after five years from 31 December, are as follows:

After 5 years	14	541
Within 5 years	82	103
	96	644

Interest rates on borrowings repayable wholly or partly more than five years from 31 December 2003 range from 1% to 12% with a weighted average of 4%. The weighted average interest rate on finance debt is 2%.

\$ million

Obligations under finance leases	2003	2002
Minimum future lease payments payable within: 1 year	127	106
2 to 5 years	979	836
Thereafter	3,528	3,481
	4,634	4,423
Less finance charges	2,452	2,417
Net obligations	2,182	2,006

28 Other creditors

\$ million

	Group						Parent	
	2003		2002		2003		2002	
	Within 1 year	After 1 year	Within 1 year	After 1 year	Within 1 year	After 1 year	Within 1 year	After 1 year
Trade	20,858	–	17,454	–	–	–	–	–
Group undertakings	–	–	–	–	5,061	–	8,289	44
Joint ventures	126	–	22	–	–	–	–	–
Associated undertakings	322	4	287	12	–	–	–	–
Production taxes	421	1,544	421	1,455	–	–	–	–
Taxation on profits	3,441	–	3,420	–	–	–	–	–
Social security	96	–	81	–	46	–	32	–
Accruals and deferred income	6,411	1,321	5,763	1,002	22	50	–	54
Dividends	1,495	–	1,398	–	1,495	–	1,398	–
Other	7,958	3,221	7,369	986	178	–	187	–
	41,128	6,090	36,215	3,455	6,802	50	9,906	98

29 Other provisions

\$ million

	Group						Parent
	Decommissioning	Environmental	Unfunded pension plans	Other post-retirement benefits	Other	Total	Other provisions
At 1 January 2003	4,168	2,122	3,146	2,762	1,688	13,886	142
Exchange adjustments	257	28	603	–	28	916	–
New provisions	1,159	515	478	377	364	2,893	97
Unwinding of discount	107	46	–	–	20	173	–
Utilized/deleted	(971)	(413)	(273)	(215)	(303)	(2,175)	(23)
At 31 December 2003	4,720	2,298	3,954	2,924	1,797	15,693	216

The group makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines on a discounted basis on the installation of those facilities. At 31 December 2003, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was \$4,720 million (\$4,168 million). The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 2.5% (2.5%). These costs are expected to be incurred over the next 30 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

Provisions for environmental remediation are made when a clean-up is probable and the amount reasonably determinable. Generally, this coincides with commitment to a formal plan of action or, if earlier, on divestment or closure of inactive sites. The provision for environmental liabilities at 31 December 2003 was \$2,298 million (\$2,122 million). The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 2.5% (2.5%). These costs are expected to be incurred over the next 10 years. The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the scale of any possible contamination, the timing and extent of corrective actions, and also the group's share of liability.

The group also holds provisions for potential future awards under the long-term performance plans, expected rental shortfalls on surplus properties and sundry other liabilities. To the extent that these liabilities are not expected to be settled within the next three years, the provisions are discounted using a real discount rate of 2.5% (2.5%).

30 Called up share capital

The company's authorized ordinary share capital remains unchanged at 36 billion shares of 25 cents each, amounting to \$9 billion. In addition the company has authorized preference share capital of 12,750,000 shares of £1 each (\$21 million). During 2003, the number of ordinary shares in issue decreased by 256,040,761. The number of ordinary shares bought back for cancellation exceeded the number issued for employee share schemes and in connection with the ARCO acquisition. Further details of movements in share capital are shown in Note 31.

The allotted, called up and fully paid share capital at 31 December was as follows:

	2003		2002	
	Shares	\$ million	Shares	\$ million
Non-equity				
8% cumulative first preference shares of £1 each	7,232,838	12	7,232,838	12
9% cumulative second preference shares of £1 each	5,473,414	9	5,473,414	9
Equity				
Ordinary shares of 25 cents each	22,122,610,104	5,531	22,378,650,865	5,595
		5,552		5,616

Voting on substantive resolutions tabled at a general meeting is on a poll. On a poll, shareholders present in person or by proxy have two votes for every £5 in nominal amount of the first and second preference shares held and one vote for every ordinary share held. On a show of hands vote on other resolutions (procedural matters) at a general meeting, shareholders present in person or by proxy have one vote each.

In the event of the winding up of the company, preference shareholders would be entitled to a sum equal to the capital paid up on the preference shares plus an amount in respect of accrued and unpaid dividends and a premium equal to the higher of (i) 10% of the capital paid up on the preference shares and (ii) the excess of the average market price of such shares on the London Stock Exchange during the previous six months over par value.

31 Capital and reserves

\$ million

Group	Share capital	Share premium account	Capital redemption reserve	Merger reserve	Other reserves	Profit and loss account	Total
At 1 January 2003	5,616	3,794	449	27,033	173	32,344	69,409
Currency translation differences (net of tax)	–	–	–	–	–	3,841	3,841
Employee share schemes	8	127	–	–	–	–	135
ARCO	2	36	–	44	(44)	–	38
Repurchase of ordinary share capital	(74)	–	74	–	–	(1,999)	(1,999)
Profit for the year	–	–	–	–	–	10,267	10,267
Dividends	–	–	–	–	–	(5,753)	(5,753)
At 31 December 2003	5,552	3,957	523	27,077	129	38,700	75,938
Parent							
At 1 January 2003	5,616	3,794	449	26,336	173	19,015	55,383
Employee share schemes	8	127	–	–	–	–	135
ARCO	2	36	–	44	(44)	–	38
Repurchase of ordinary share capital	(74)	–	74	–	–	(1,999)	(1,999)
Profit for the year	–	–	–	–	–	29,107	29,107
Dividends	–	–	–	–	–	(5,753)	(5,753)
At 31 December 2003	5,552	3,957	523	26,380	129	40,370	76,911

Employee share schemes

During the year 32,889,234 ordinary shares were issued under the BP, Amoco and Burmah Castrol employee share schemes.

ARCO

9,786,396 ordinary shares were issued in respect of ARCO employee share option schemes.

Repurchase of ordinary share capital

The company purchased for cancellation 298,716,391 ordinary shares for a total consideration of \$1,999 million.

As a consolidated income statement is presented, a separate income statement for the parent company is not required to be published.

The profit and loss account reserve includes the following amounts, the distribution of which is limited by statutory or other restrictions:

\$ million

	2003	2002
Parent company	24,107	9,547
Subsidiary undertakings	2,115	5,620
Joint ventures and associated undertakings	566	870
	26,788	16,037

Notes on accounts

32 Reconciliation of movements in shareholders' interest

	Note	2003	2002
Profit for the year		10,267	6,845
Currency translation differences (net of tax)		3,841	3,333
Dividends	12	(5,753)	(5,375)
Issue of ordinary share capital		173	195
Repurchase of ordinary share capital		(1,999)	(750)
Net increase in shareholders' interest		6,529	4,248
Shareholders' interest at 1 January		69,409	65,161
Shareholders' interest at 31 December		75,938	69,409

33 Group cash flow statement analysis

	2003	2002
Reconciliation of historical cost profit before interest and tax to net cash inflow from operating activities		
Historical cost profit before interest and tax	17,260	12,543
Depreciation and amounts provided	10,940	10,401
Exploration expenditure written off	297	385
Share of profits of joint ventures and associated undertakings	(1,438)	(966)
Interest and other income	(341)	(358)
(Profit) loss on sale of fixed assets and businesses or termination of operations	(831)	(1,166)
Charge for provisions	1,734	1,277
Utilization of provisions	(1,204)	(1,427)
(Increase) decrease in stocks	(841)	(1,521)
(Increase) decrease in debtors	(5,628)	(2,672)
Increase (decrease) in creditors	1,750	2,846
Net cash inflow from operating activities	21,698	19,342

	2003	2002
Financing		
Long-term borrowing	(4,322)	(3,707)
Repayments of long-term borrowing	3,560	2,369
Short-term borrowing	(4,706)	(9,849)
Repayments of short-term borrowing	4,708	10,451
	(760)	(736)
Issue of ordinary share capital for employee share schemes	(173)	(195)
Repurchase of ordinary share capital	1,999	750
Net cash outflow (inflow)	1,066	(181)

Management of liquid resources

Liquid resources comprise current asset investments, which are principally commercial paper issued by other companies. The net cash inflow from the management of liquid resources was \$41 million (\$220 million).

Commercial paper

Net movements in commercial paper are included within short-term borrowings or repayment of short-term borrowings as appropriate.

	2003				2002			
	Finance debt	Cash	Current asset investments	Net debt	Finance debt	Cash	Current asset investments	Net debt
Movement in net debt								
At 1 January	(22,008)	1,520	215	(20,273)	(21,417)	1,358	450	(19,609)
Exchange adjustments	(199)	110	11	(78)	(64)	105	(15)	26
Debt acquired	(15)	–	–	(15)	(1,002)	–	–	(1,002)
Net cash flow	(760)	317	(41)	(484)	(736)	57	(220)	(899)
Partnership interests exchanged for BP loan notes	–	–	–	–	1,135	–	–	1,135
Debt transferred to TNK-BP	93	–	–	93	–	–	–	–
Exchange of Exchangeable Bonds for Lukoil American Depository Shares	420	–	–	420	–	–	–	–
Other movements	144	–	–	144	76	–	–	76
At 31 December	(22,325)	1,947	185	(20,193)	(22,008)	1,520	215	(20,273)

34 Employee share plans

Employee share options granted during the year^a (options thousands)

	2003	2002
Executive Directors' Incentive Plan	2,728	2,068
BP Share Option Plan	78,109	66,771
Savings-related schemes	23,922	9,719
	104,759	78,558

^a The exercise prices for BP options granted during the year were £3.88/\$6.32 (weighted average price) for Executive Directors' Incentive Plan (2,728,026 options); £3.91/\$6.38 (weighted average price) for 78,108,230 options granted under the BP Share Option Plan; and £3.50/\$5.70 (23,922,346 options) for savings-related and similar plans.

BP offers most of its employees the opportunity to acquire a shareholding in the company through savings-related and/or matching share plan arrangements. Such arrangements are now in place in nearly 80 countries. BP also uses long-term performance plans (see Note 35) and the granting of share options as elements of remuneration for executive directors and senior employees.

During 2003, share options were granted to the executive directors under the Executive Directors' Incentive Plan (EDIP). For these options the option exercise price was the market value (as determined in accordance with the plan rules) on the grant date. The options granted to executive directors reflect BP's performance in terms of total shareholder return, that is, share price increase with all dividends reinvested, relative to the FTSE Global 100 group of companies over the three years preceding the grant as well as the underlying health of the business and the competitive marketplace. Options are not granted in any year unless the criteria for an award of shares under the share element of the EDIP (see Note 35) have been met. Options vest over three years (one-third each after one, two and three years respectively) and have a life of seven years after the grant.

Share options were also granted in 2003 under the BP Share Option Plan to certain categories of employees. Subject to certain vesting requirements the options are exercisable between the third and tenth anniversaries of the date of grant. There are no performance conditions attaching to the options granted during the year.

Under the BP ShareSave Plan (a savings-related share option plan) employees save on a monthly basis over a three- or five-year period towards the purchase of shares at a price fixed when the option is granted. The option price is usually set at a 20% discount to the market price at the time of grant. The option must be exercised within six months of maturity of the savings contract; otherwise it lapses. The plan is run in the UK and a small number of other countries.

Under the BP ShareMatch Plan, BP matches employees' own contributions of shares, up to a predetermined limit. The shares are then held in trust for a defined minimum period. The plan is run in the UK and in over 70 other countries.

BP does not recognize an expense in respect of share options granted to employees. If the fair value of options granted in any particular year is estimated and this value amortized over the vesting period of the options, an indication of the cost of granting options to employees can be made. The fair value of each share option granted has been estimated using a Black Scholes option pricing model with the following assumptions:

	2003	2002
Risk-free interest rate	3.5%	4.0%
Expected volatility	30%	26%
Expected life in years	1 to 5	1 to 5
Expected dividend yield	4.00%	3.75%
Weighted average fair value of options granted (\$)	1.44	1.64

The additional expense that would have been recognized in 2003 on this basis would be \$79 million (\$90 million) and the impact on earnings per share would be 1 cent (1 cent).

The company sponsors a number of savings plans covering most US employees. Under these plans, most employees may contribute up to 100% of their salary subject to certain regulatory limits. Most employees are eligible for a dollar-for-dollar company-matched contribution for the first 7% of eligible pay contributed on a before-tax or after-tax basis, or a combination of both. The precise arrangement may vary in certain business units. Company contributions are initially invested in a fund primarily comprised of BP ADSs but employees may transfer those amounts and may invest their own contributions in more than 200 investment options. The company's contributions generally vest over a period of three years. Company contributions to savings plans during the year were \$130 million (\$125 million).

An Employee Share Ownership Plan (ESOP) was established in 1997 to acquire BP shares to satisfy future requirements of certain employee share plans. The company provides funding to the ESOP. The assets and liabilities of the ESOP are recognized as assets and liabilities of the company within the accounts. The ESOP has waived its rights to dividends.

During 2003, the ESOP released 16,892,853 shares (15,332,235 shares) for the matching share plans. The cost of shares released for these plans has been charged in these accounts. At 31 December 2003, the ESOP held 7,811,544 shares (18,673,675 shares).

Notes on accounts

34 Employee share plans continued

Shares issued in respect of options exercised during the year (shares thousands)	2003	2002
Savings-related schemes	5,325	10,412
BP, Amoco and Burmah Castrol executive share option plans	27,564	23,409
	32,889	33,821

Options outstanding at 31 December	2003	2002
BP options (shares thousands)	461,886	410,986
Exercise period	2004-2013	2003-2012
Price	£1.86-£6.40	£1.50-£6.40
Price	\$3.47-\$9.97	\$3.47-\$9.97

Details of directors' individual participation in share schemes are given in the directors' remuneration report on pages 106-115.

35 Long-term performance plans

During 2003, the company operated two long-term performance plans: the Executive Directors' Incentive Plan (EDIP) for executive directors and the Long Term Performance Plan (LTPP) for senior employees. Executive directors participated in the LTPP prior to 2002 or to their appointment as an executive director, whichever was the later. Both plans are incentive schemes under which the company may award shares to participants or fund the purchase of shares for participants if long-term targets are met. Awards were made in 2003 in respect of the 2000-2002 LTPP. Further details of the plans are given in the directors' remuneration report on pages 106-115.

The costs of potential future awards for both the EDIP and LTPP are accrued over the three-year performance periods of each plan. The amount charged in 2003 was \$94 million (\$51 million). The value of awards under the 2000-2002 LTPP made in 2003 was \$35 million (1999-2001 LTPP \$125 million). Employees are able to defer the date of their potential award beyond the end of the performance period. The amount charged in respect of the increase in deferred awards after the expiry of the relevant performance periods was \$17 million (\$19 million).

Employee Share Ownership Plans (ESOPs) have been established to acquire BP shares to satisfy any awards made to participants under the EDIP and LTPP and then to hold them for the participants during the retention period of the plan. In order to hedge the cost of potential future awards and deferred awards the ESOPs may, from time to time over the performance period of the plans, purchase BP shares in the open market. The company provides funding to the ESOPs. The assets and liabilities of the ESOPs are recognized as assets and liabilities of the company within these accounts. The ESOPs have waived their rights to dividends on shares held for future awards.

At 31 December 2003, the ESOPs held 4,118,835 shares (3,901,317 shares) for potential future awards.

36 Employee costs and numbers

\$ million

Employee costs	2003	2002
Wages and salaries	7,142	6,519
Social security costs	622	490
Pension and other post-retirement benefit costs	936	440
	8,700	7,449
Number of employees at 31 December	2003	2002
Exploration and Production	15,350	16,800
Gas, Power and Renewables	3,550	4,400
Refining and Marketing ^a	66,150	72,300
Petrochemicals	15,950	18,950
Other businesses and corporate	2,700	2,800
	103,700	115,250

^a Includes 26,950 (30,250) service station staff.

	2003					2002				
Average number of employees	UK	Rest of Europe	USA	Rest of World	Total	UK	Rest of Europe	USA	Rest of World	Total
Exploration and Production	3,200	750	5,200	6,900	16,050	3,750	800	5,550	6,800	16,900
Gas, Power and Renewables	250	950	1,250	1,550	4,000	500	850	1,400	1,550	4,300
Refining and Marketing	9,900	19,600	26,950	12,300	68,750	10,200	20,650	28,650	11,550	71,050
Petrochemicals	2,650	5,950	6,250	1,800	16,650	3,200	6,300	6,650	5,150	21,300
Other businesses and corporate	1,250	–	1,350	100	2,700	1,250	–	1,400	100	2,750
	17,250	27,250	41,000	22,650	108,150	18,900	28,600	43,650	25,150	116,300

37 Directors' remuneration

\$ million

	2003	2002
Total for all directors		
Emoluments	17	14
Ex-gratia payment to executive director retiring in 2003	1	–
Gains made on the exercise of share options	1	–
Amounts awarded under incentive schemes	4	14

Emoluments

These amounts comprise fees paid to the non-executive chairman and the non-executive directors and, for executive directors, salary and benefits earned during the relevant financial year, plus bonuses awarded for the year.

Pension contributions

Six executive directors participated in a non-contributory pension scheme established for UK staff by a separate trust fund to which contributions are made by BP based on actuarial advice. One US executive director participated in the US BP Retirement Accumulation Plan during 2003.

Office facilities for former chairmen and deputy chairmen

It is customary for the company to make available to former chairmen and deputy chairmen, who were previously employed executives, the use of office and basic secretarial facilities following their retirement. The cost involved in doing so is not significant.

Further information

Full details of individual directors' remuneration are given in the directors' remuneration report on pages 106-115.

38 Loans to officers

During the year Miss J C Hanratty repaid a low interest loan of \$43,000 made to her prior to her appointment as company secretary on 1 October 1994.

Notes on accounts

39 Pensions

Most group companies have pension plans, the forms and benefits of which vary with conditions and practices in the countries concerned. Pension benefits may be provided through defined contribution plans (money purchase schemes) or defined benefit plans (final salary schemes). For defined contribution plans, retirement benefits are determined by the value of funds arising from contributions paid in respect of each employee. For defined benefit plans, retirement benefits are based on the employees' pensionable salary and length of service. Defined benefit plans may be externally funded or unfunded. The assets of funded plans are generally held in separately administered trusts.

Contributions to funded defined benefit plans are based on advice from independent actuaries using actuarial methods, the objective of which is to provide adequate funds to meet pension obligations as they fall due. The cumulative difference, since the adoption of Statement of Standard Accounting Practice No. 24 'Accounting for Pension Costs' (SSAP 24), between the contributions paid by BP to the pension funds and the pension expense recorded each year is reflected in the balance sheet. If the cumulative contributions exceed pension expense the difference is shown as a prepayment on the balance sheet. If the cumulative contributions are less than pension expense the difference is shown as a provision on the balance sheet. For unfunded plans, where assets are not held with the specific purpose of matching pension obligations, the accrued liability for pension benefits is included within other provisions. The majority of the group's employees are members of defined benefit plans. The pension plans in the UK and US are reviewed annually by the independent actuaries and subject to a formal actuarial valuation at least every three years. The date of the latest actuarial valuation for the UK and US plans was 1 January 2003. The date of the most recent actuarial reviews was 31 December 2003.

During 2003 contributions of \$258 million and \$2,189 million were made to the UK plans and US plans respectively. In addition contributions of \$86 million were made to other funded defined benefit plans. The aggregate level of contributions in 2004 is expected to be approximately \$400 million.

The pension assumptions for the principal plans are set out below. The assumptions used to evaluate accrued pension benefits at 31 December in any year are used to determine pension expense for the following year, that is, the assumptions at 31 December 2003 are used to determine the pension liabilities at that date and the pension cost for 2004. This applies for both accounting bases described in this note.

	UK			USA			Other		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
	%								
Rate of return on assets	6.0	6.25	6.0	8.0	8.0	10.0	6.0	6.0	6.5
Discount rate	6.0	6.25	6.0	6.0	6.75	7.25	5.5	5.75	6.25
Future salary increases	4.0	4.0	4.5	4.0	4.0	4.0	4.0	4.0	3.25
Future pension increases	2.5	2.5	2.5	nil	nil	nil	2.5	2.5	2.0
Dividend growth	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

n/a = not applicable.

Pension costs for the UK and US plans have been derived using the projected unit method and by amortizing surpluses and deficits on a straight-line basis over the average expected remaining service lives of the current employees. An analysis of pension expense is set out below.

	\$ million	
	2003	2002
Defined benefit plans:		
UK	(371)	(297)
USA	283	133
Other	477	175
	389	11
Defined contribution plans	170	153
	559	164

At 31 December 2003, the market value and actuarial value of assets in the UK and US funded pension plans and the market value and actuarial value of those assets in relation to the benefits that had accrued to members of those plans, after allowing for expected future increases in salaries, are set out below.

	UK		USA	
	2003	2002	2003	2002
Market value of plan assets (\$ million)	19,224	15,138	6,857	4,206
– as a percentage of accrued benefits	117%	111%	88%	62%
Actuarial value of plan assets (\$ million)	20,785	19,074	7,445	5,818
– as a percentage of accrued benefits	126%	140%	97%	86%
Prepayment (\$ million)	3,670	2,688	3,144	1,211

At 31 December 2003, the obligation for accrued benefits in respect of the unfunded and other funded plans was \$4,637 million (\$3,694 million). Of this amount, \$3,954 million (\$3,146 million) has been provided in these accounts.

39 Pensions continued

The assumed rate of investment return and discount rate have a significant effect on the amounts reported. A one-percentage-point change in these assumptions for the UK and US plans would have the following effects:

	\$ million	
	One-percentage point	
	Increase	Decrease
Investment return:		
Effect on pension expense in 2004	(270)	270
Discount rate:		
Effect on pension expense in 2004	(320)	420
Effect on pension obligation at 31 December 2003	(3,290)	4,240

For 2003 and 2002 the group has accounted for pensions in accordance with SSAP 24. However, there is a new accounting standard, Financial Reporting Standard No. 17 'Retirement Benefits' (FRS 17), which changes the basis of accounting for pensions and other post-retirement benefits and requires certain disclosures in the periods prior to adoption. The additional disclosures for the year ended 31 December 2003 and earlier periods are shown in the following tables. The group has adopted FRS 17 with effect from 1 January 2004.

The expected long-term rates of return and market values of the various categories of asset held by the significant defined benefit plans and the main assumptions used to evaluate plan liabilities at 31 December on an FRS 17 basis are set out below.

	2003		2002		2001	
	Expected long-term rate of return %	Market value \$ million	Expected long-term rate of return %	Market value \$ million	Expected long-term rate of return %	Market value \$ million
UK plans						
Equities	7.5	14,642	7.5	10,815	7.5	12,228
Bonds	4.75	2,477	5.0	2,263	5.5	2,449
Property	6.5	1,336	6.5	1,352	6.5	1,057
Cash	4.0	769	4.0	708	4.5	1,146
		19,224		15,138		16,880
Present value of plan liabilities		17,766		14,822		12,746
Surplus in the plans		1,458		316		4,134
Deferred tax		(437)		(95)		(1,240)
At 31 December		1,021		221		2,894
US plans						
Equities	8.5	5,650	8.5	3,371	11.0	4,537
Bonds	4.75	1,018	5.5	720	7.0	942
Property	8.0	41	8.0	49	8.0	51
Cash	3.5	148	3.5	66	4.0	95
		6,857		4,206		5,625
Present value of plan liabilities		7,709		6,765		6,146
Deficit in the plans		(852)		(2,559)		(521)
Deferred tax		307		921		188
At 31 December		(545)		(1,638)		(333)
Other plans						
Equities	7.5	686	7.5	515	7.5	557
Bonds	4.75	737	5.0	672	5.5	375
Property	6.5	129	6.5	101	6.5	90
Cash	4.0	187	4.0	159	4.5	142
		1,739		1,447		1,164
Present value of plan liabilities		6,376		5,141		3,101
Deficit in the plans		(4,637)		(3,694)		(1,937)
Deferred tax		302		249		231
At 31 December		(4,335)		(3,445)		(1,706)

Notes on accounts

39 Pensions continued

	UK			USA			Other		
Other main assumptions for FRS 17 disclosures as at 31 December	2003	2002	2001	2003	2002	2001	2003	2002	2001
Discount rate for plan liabilities	5.5	5.75	6.0	6.0	6.75	7.25	5.5	5.75	6.25
Rate of increase in salaries	4.0	4.0	4.5	4.0	4.0	4.0	4.0	4.0	3.25
Rate of increase for pensions in payment	2.5	2.5	2.5	nil	nil	nil	2.5	2.5	2.0
Rate of increase in deferred pensions	2.5	2.5	2.5	nil	nil	nil	2.5	2.5	2.0
Inflation	2.5	2.5	2.5	2.5	2.5	3.0	2.5	2.5	2.0

\$ million

	2003				2002			
Analysis of the amount that would be charged to operating profit on an FRS 17 basis	UK	USA	Other	Total	UK	USA	Other	Total
Current service cost	290	177	116	583	278	150	81	509
Past service cost	–	14	–	14	–	38	4	42
Settlement, curtailment and special termination benefits	–	(11)	87	76	–	75	(84)	(9)
Payments to defined contribution plans	–	134	36	170	–	126	27	153
Total operating charge	290	314	239	843	278	389	28	695

Analysis of the amount that would be credited (charged) to other finance income on an FRS 17 basis

Expected return on pension plan assets	1,053	351	94	1,498	1,204	530	72	1,806
Interest on pension plan liabilities	(848)	(432)	(301)	(1,581)	(773)	(421)	(258)	(1,452)
Other finance income (expense)	205	(81)	(207)	(83)	431	109	(186)	354

Analysis of the amount that would be recognized in the statement of total recognized gains and losses on an FRS 17 basis

Actual return less expected return on pension plan assets	1,639	749	2	2,390	(3,874)	(1,305)	(137)	(5,316)
Experience gains and losses arising on the plan liabilities	641	30	135	806	212	(290)	90	12
Change in assumptions underlying the present value of the plan liabilities	(1,437)	(1,030)	(279)	(2,746)	(480)	(343)	(440)	(1,263)
Actuarial gain (loss) recognized in statement of total recognized gains and losses	843	(251)	(142)	450	(4,142)	(1,938)	(487)	(6,567)

Movement in surplus (deficit) during the year on an FRS 17 basis

Surplus (deficit) in schemes at 1 January	316	(2,559)	(3,694)	(5,937)	4,134	(521)	(1,937)	1,676
Movement in year:								
Current service cost	(290)	(177)	(116)	(583)	(278)	(150)	(81)	(509)
Past service cost	–	(14)	–	(14)	–	(38)	(4)	(42)
Settlement, curtailment and special termination benefits	–	11	(87)	(76)	–	(75)	84	9
Acquisitions	–	–	1	1	–	(14)	(1,036)	(1,050)
Other finance income (expense)	205	(81)	(207)	(83)	431	109	(186)	354
Actuarial gain (loss)	843	(251)	(142)	450	(4,142)	(1,938)	(487)	(6,567)
Employers' contributions	258	2,219	295	2,772	3	68	251	322
Exchange adjustments	126	–	(687)	(561)	168	–	(298)	(130)
Surplus (deficit) in plans at 31 December	1,458	(852)	(4,637)	(4,031)	316	(2,559)	(3,694)	(5,937)

39 Pensions continued
2003
2002
History of experience gains and losses

which would be recognized on an FRS 17 basis

	UK	USA	Other	Total	UK	USA	Other	Total
Difference between the expected and actual return on plan assets:								
Amount (\$ million)	1,639	749	2	2,390	(3,874)	(1,305)	(137)	(5,316)
Percentage of plan assets	9%	11%	0%	9%	(26)%	(31)%	(9)%	(26)%
Experience gains and losses on plan liabilities:								
Amount (\$ million)	641	30	135	806	212	(290)	90	12
Percentage of the present value of the plan liabilities	4%	0%	2%	3%	1%	(4)%	2%	0%
Total amount recognized in statement of total recognized gains and losses:								
Amount (\$ million)	843	(251)	(142)	450	(4,142)	(1,938)	(487)	(6,567)
Percentage of the present value of the plan liabilities	5%	(3)%	(2)%	1%	(28)%	(29)%	(9)%	(25)%

\$ million

2003
2002

	Net assets	Profit and loss account reserve	Net assets	Profit and loss account reserve
Group net assets and reserve reconciliation				
As reported	77,063	38,700	70,047	32,344
SSAP 24 pension prepayment (net of deferred tax)	(4,581)	(4,581)	(2,669)	(2,669)
SSAP 24 pension provision (net of deferred tax)	3,676	3,676	2,883	2,883
FRS 17 pension asset (net of deferred tax)	1,021	1,021	221	221
FRS 17 pension liability (net of deferred tax)	(4,880)	(4,880)	(5,083)	(5,083)
Including FRS 17 pension assets and liabilities (net of deferred tax)	72,299	33,936	65,399	27,696

40 Other post-retirement benefits

Certain group companies in the US provide post-retirement healthcare and life insurance benefits to their retired employees and dependants. The entitlement to these benefits is usually based on the employee remaining in service until retirement age and completion of a minimum period of service. The plans are funded to a limited extent and the accrued net liability for post-retirement benefits is included within other provisions. The cost of providing post-retirement benefits is assessed annually by independent actuaries using the projected unit method. The date of the latest actuarial valuation was 1 January 2003 and the date of the most recent actuarial review was 31 December 2003.

The assumptions used in calculating the charge for post-retirement benefits are consistent with those shown in Note 39 for US pension plans. The charge to income for post-retirement benefits is as follows:

	2003	2002
Service cost	54	37
Interest on post-retirement benefit liabilities	259	219
Expected return on plan assets	(2)	(4)
Amortization of variances	77	21
Curtailement	(11)	3
	377	276

\$ million

At 31 December 2003, the independent actuaries reassessed the obligation for post-retirement benefits at \$4,143 million (\$4,326 million). The discount rate used to assess the obligation at 31 December 2003 of the plans was 6.0% (6.75%). The provision for post-retirement benefits at 31 December 2003 was \$2,924 million (\$2,762 million).

	2004	2005	2006	2007	2008	2009 and subsequent years
Assumed future healthcare cost trend rate						
Beneficiaries aged under 65	11%	9%	8%	7%	6%	5%
Beneficiaries aged over 65	14%	12%	10%	8%	7%	6%

Notes on accounts

40 Other post-retirement benefits *continued*

The assumed healthcare cost trend rate has a significant effect on the amounts reported. A one-percentage-point change in the assumed healthcare cost trend rate would have the following effects:

	\$ million	
	One-percentage point	
	Increase	Decrease
Effect on post-retirement benefit expense in 2004	92	(73)
Effect on post-retirement obligation at 31 December 2003	561	(451)

BP's post-retirement medical plans provide prescription drug coverage for Medicare-eligible retired employees. The group's obligation for other post-retirement benefits at 31 December 2003 does not reflect the effects of the recent Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act). The provisions of the Act provide for a federal subsidy for plans that provide prescription drug benefits and meet certain qualifications, and alternatively would allow prescription drug plan sponsors to co-ordinate with the Medicare benefit. Specific authoritative accounting guidance is pending and when that guidance is issued, it could require BP to change its actuarially determined obligation for post-retirement benefits and net cost for post-retirement benefits in subsequent periods.

As indicated in Note 39 Pensions, certain additional disclosures are required by FRS 17 for the periods prior to adoption. The additional disclosures for the year ended 31 December 2003 are set out below:

	2003		2002		2001	
	Expected long-term rate of return %	Market value \$ million	Expected long-term rate of return %	Market value \$ million	Expected long-term rate of return %	Market value \$ million
Equities	8.5	24	8.5	24	11.0	30
Bonds	4.75	9	5.5	9	7.0	11
		33		33		41
Present value of plan liabilities		4,143		4,326		3,080
Other post-retirement benefits liability before deferred tax		(4,110)		(4,293)		(3,039)
Deferred tax		1,480		1,545		1,124
		(2,630)		(2,748)		(1,915)

	\$ million	
	2003	2002
<i>Analysis of the amount that would be charged to operating profit on an FRS 17 basis</i>		
Current service cost	54	37
Past service cost	14	–
Settlement, curtailment and special termination benefits	(669)	(78)
Total operating income	(601)	(41)

<i>Analysis of the amount that would be charged to other finance costs on an FRS 17 basis</i>		
Expected return on plan assets	2	4
Interest on plan liabilities	(259)	(219)
Other finance expense	(257)	(215)

<i>Analysis of the amount that would be recognized in the statement of total recognized gains and losses on an FRS 17 basis</i>		
Actual return less expected return on plan assets	2	(8)
Experience gains and losses arising on the plan liabilities	67	(89)
Change in assumptions underlying the present value of the plan liabilities	(443)	(1,165)
Actuarial loss recognized in statement of total recognized gains and losses	(374)	(1,262)

40 Other post-retirement benefits continued

\$ million

	2003	2002
Movement in deficit during the year on an FRS 17 basis		
Deficit in plans at 1 January	(4,293)	(3,039)
Movement in year:		
Current service cost	(54)	(37)
Past service cost	(14)	–
Settlement, curtailment and special termination benefits	669	78
Acquisitions	–	(36)
Other finance expense	(257)	(215)
Actuarial loss	(374)	(1,262)
Employers' contributions	213	218
Deficit in schemes at 31 December	(4,110)	(4,293)

History of experience gains and losses which would be recognized on an FRS 17 basis

	2003	2002
Difference between the expected and actual return on plan assets:		
Amount (\$ million)	2	(8)
Percentage of plan assets	6%	(24)%
Experience gains and losses on plan liabilities:		
Amount (\$ million)	67	(89)
Percentage of the present value of the plan liabilities	2%	(2)%
Total amount recognized in statement of total recognized gains and losses:		
Amount (\$ million)	(374)	(1,262)
Percentage of the present value of the plan liabilities	(9)%	(29)%

\$ million

	2003		2002	
	Net assets	Profit and loss account reserve	Net assets	Profit and loss account reserve
Group net assets and reserve reconciliation				
As reported	77,063	38,700	70,047	32,344
SSAP 24 other post-retirement benefit provision (net of deferred tax)	1,871	1,871	1,795	1,795
FRS 17 other post-retirement benefit provision (net of deferred tax)	(2,630)	(2,630)	(2,748)	(2,748)
Including FRS 17 other post-retirement benefits liability (net of deferred tax)	76,304	37,941	69,094	31,391

41 Joint ventures and associated undertakings

The significant joint ventures and associated undertakings of the BP group at 31 December 2003 are shown in Note 44. The principal joint venture is the TNK-BP joint venture. Summarized financial information for the group's share of joint ventures is shown below.

\$ million

	2003			2002
	TNK-BP	Other	Total	Total
Turnover	1,864	1,610	3,474	1,465
Profit for the period before tax	475	360	835	288
Taxation	83	61	144	75
Profit for the period after tax	392	299	691	213
Fixed assets	8,389	4,778	13,167	4,026
Current assets	1,950	1,368	3,318	803
	10,339	6,146	16,485	4,829
Liabilities due within one year	1,575	752	2,327	284
Liabilities due after one year	1,350	1,434	2,784	514
	7,414	3,960	11,374	4,031
Minority shareholders' interest	365	–	365	–
	7,049	3,960	11,009	4,031

Notes on accounts

41 Joint ventures and associated undertakings *continued*

The joint venture TNK-BP was created on 29 August 2003. See Note 15 for further information. TNK-BP, in which BP holds a 50% interest, is an integrated oil company operating, inter alia, in Russia.

The amounts shown above for TNK-BP's assets and liabilities reflect the preliminary fair value exercise undertaken in 2003. As permitted by Financial Reporting Standard No. 7 'Fair Values in Acquisition Accounting', these preliminary valuations may be revised in 2004.

The results for TNK-BP for the period from 29 August to 31 December 2003 have been estimated. Any difference between the estimated and actual results for this period will be included in the results for 2004.

Transactions between the significant joint ventures and associated undertakings and the group are summarized below.

Sales to joint ventures and associated undertakings

		2003		2002	
Product	Sales	Amount receivable at 31 December	Sales	Amount receivable at 31 December	
				2003	2002
Joint ventures					
BP Solvay Polyethylene Europe	Chemicals feedstocks	259	33	308	55
Pan American Energy	Crude oil	171	5	124	10
Watson Cogeneration	Natural gas	73	6	118	5
Associated undertakings					
BP Solvay Polyethylene North America	Chemicals feedstocks	241	17	143	14
China American Petrochemical Co.	Chemicals feedstocks	240	67	117	22
Ruhrgas ^a	Natural gas	–	–	98	–
Samsung Petrochemical Co.	Chemicals feedstocks	55	10	35	5

Purchases from joint ventures and associated undertakings

		2003		2002	
Product	Purchases	Amount payable at 31 December	Purchases	Amount payable at 31 December	
				2003	2002
Joint ventures					
BP Solvay Polyethylene Europe	Chemicals feedstocks	18	14	–	–
Pan American Energy	Crude oil	381	48	200	12
TNK-BP ^b	Crude oil and oil products	349	52	–	–
Watson Cogeneration	Electricity and steam	248	12	94	10
Associated undertakings					
Abu Dhabi Marine Areas	Crude oil	661	61	504	55
Abu Dhabi Petroleum Co.	Crude oil	1,122	118	759	77
BP Solvay Polyethylene North America	Chemicals feedstocks	11	1	7	1
China American Petrochemical Co.	Petrochemicals	197	83	77	15
Ruhrgas ^a	Natural gas	–	–	5	–
Samsung Petrochemical Co	Chemicals feedstocks	187	38	114	6

^a The Ruhrgas sales and purchases shown above relate to the period prior to its disposal on 31 July 2002.

^b The TNK-BP purchases shown above relate to the period from 29 August to 31 December 2003.

42 Contingent liabilities

There were contingent liabilities at 31 December 2003 in respect of guarantees and indemnities entered into as part of the ordinary course of the group's business. No material losses are likely to arise from such contingent liabilities.

Approximately 200 lawsuits were filed in State and Federal Courts in Alaska seeking compensatory and punitive damages arising out of the Exxon Valdez oil spill in Prince William Sound in March 1989. Most of those suits named Exxon (now ExxonMobil), Alyeska Pipeline Service Company (Alyeska), which operates the oil terminal at Valdez, and the other oil companies which own Alyeska. Alyeska initially responded to the spill until the response was taken over by Exxon. BP owns a 47% interest (reduced during 2001 from 50% by a sale of 3% to Phillips) in Alyeska through a subsidiary of BP America Inc. and briefly indirectly owned a further 20% interest in Alyeska following BP's combination with Atlantic Richfield Company (Atlantic Richfield). Alyeska and its owners have settled all the claims against them under these lawsuits. Exxon has indicated that it may file a claim for contribution against Alyeska for a portion of the costs and damages which it has incurred. If any claims are asserted by Exxon which affect Alyeska and its owners, BP will defend the claims vigorously.

Since 1987, Atlantic Richfield, a current subsidiary of BP, has been named as a co-defendant in numerous lawsuits brought in the US alleging injury to persons and property caused by lead pigment in paint. The majority of the lawsuits have been abandoned or dismissed as against Atlantic Richfield. Atlantic Richfield (and in one case two of its affiliates) is named in these lawsuits as alleged successor to International Smelting & Refining which, along with a predecessor company, manufactured lead pigment during the period 1920-1946. Plaintiffs include individuals and governmental entities. Several of the lawsuits purport to be class actions. The lawsuits (depending on plaintiff) seek various remedies including: compensation to lead-poisoned children; cost to find and remove lead paint from buildings; medical monitoring and screening programmes; public warning and education on lead hazards; reimbursement of government healthcare costs and special education for lead-poisoned citizens; and punitive damages. No case has been settled or tried to conclusion. While the amounts claimed could be substantial and it is not possible to predict the outcome of these legal actions, Atlantic Richfield believes that it has valid defences and it intends to defend such actions vigorously. Consequently, BP believes that the impact of these lawsuits on the group's results of operations, financial position or liquidity will not be material.

The group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the group to take future action to remediate the effects on the environment of prior disposal or release of chemicals or petroleum substances by the group or other parties. Such contingencies may exist for various sites including refineries, chemical plants, oil fields, service stations, terminals and waste disposal sites. In addition, the group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost are inherently difficult to estimate. However, the estimated cost of known environmental obligations has been provided in these accounts in accordance with the group's accounting policies. While the amounts of future costs could be significant and could be material to the group's results of operations in the period in which they are recognized, BP does not expect these costs to have a material effect on the group's financial position or liquidity.

The group generally restricts its purchase of insurance to situations where this is required for legal or contractual reasons. This is because external insurance is not considered an economic means of financing losses for the group. Losses will therefore be borne as they arise rather than being spread over time through insurance premia with attendant transaction costs. The position is reviewed periodically.

The parent company has issued guarantees under which amounts outstanding at 31 December 2003 were \$20,903 million (\$19,952 million), including \$20,847 million (\$19,896 million) in respect of borrowings by its subsidiary undertakings and \$56 million (\$56 million) in respect of liabilities of other third parties. In addition, other group companies have issued guarantees under which amounts outstanding at 31 December 2003 were \$635 million (\$338 million) in respect of borrowings of joint ventures and associated undertakings and \$304 million (\$237 million) in respect of liabilities of other third parties.

43 Capital commitments

Authorized future capital expenditure by group companies for which contracts had been placed at 31 December 2003 amounted to \$6,420 million (\$5,966 million).

Notes on accounts

44 Subsidiary and associated undertakings and joint ventures

The more important subsidiary and associated undertakings and joint ventures of the group at 31 December 2003 and the group percentage of ordinary share capital or joint venture interest (to nearest whole number) are set out below. The principal country of operation is generally indicated by the company's country of incorporation or by its name. Those held directly by the parent company are marked with an asterisk (*), the percentage owned being that of the group unless otherwise indicated. A complete list of investments in subsidiary and associated undertakings and joint ventures will be attached to the parent company's annual return made to the Registrar of Companies. Advantage has been taken of the exemption conferred by regulation 7 of The Partnerships and Unlimited Companies (Accounts) Regulations 1993 from the requirements to deliver to the Registrar of Companies and publish the annual accounts of the CaTO Finance V Limited Partnership.

Subsidiary undertakings	%	Country of incorporation	Principal activities	Subsidiary undertakings	%	Country of incorporation	Principal activities
International				Africa			
BP Chemicals Investments	100	England	Petrochemicals	BP Southern Africa	75	South Africa	Refining and marketing
BP Exploration Op. Co.	100	England	Exploration and production	Australasia			
BP Global Investments	100	England	Investment holding	Australia			
BP International	100	England	Integrated oil operations	BP Australia	100	Australia	Integrated oil operations
BP Oil International	100	England	Integrated oil operations	BP Australia Capital Markets	100	Australia	Finance
*BP Shipping	100	England	Shipping	BP Developments Australia	100	Australia	Exploration and production
*Burmah Castrol	100	Scotland	Lubricants	BP Finance Australia	100	Australia	Finance
Europe				New Zealand			
UK				BP Oil New Zealand	100	New Zealand	Marketing
BP Capital Markets	100	England	Finance	Western Hemisphere			
BP Chemicals	100	England	Petrochemicals	Canada			
BP Oil UK	100	England	Refining and marketing	BP Canada Energy	100	Canada	Exploration and production
*Britoil	100	Scotland	Exploration and production	BP Canada Finance	100	Canada	Finance
Jupiter Insurance	100	Guernsey	Insurance	Trinidad			
France				BP Trinidad (LNG)	100	Netherlands	Exploration and production
BP France	100	France	Refining and marketing and petrochemicals	BP Trinidad and Tobago	70	US	Exploration and production
Germany				US			
Deutsche BP	100	Germany	Refining and marketing and petrochemicals	Atlantic Richfield Co.			
Veba Oil	100	Germany	Refining and marketing and petrochemicals	*BP America			
Netherlands				BP America			
BP Capital	100	Netherlands	Finance	Production Company			
BP Nederland	100	Netherlands	Refining and marketing	BP Amoco Chemical Company			
Norway				BP Company	100	US	Exploration and production, gas, power and renewables, refining and marketing, pipelines and petrochemicals
BP Norge	100	Norway	Exploration and production	North America			
Spain				BP Corporation			
BP España	100	Spain	Refining and marketing	North America			
Middle East				BP Products			
BP Egypt Co.	100	US	Exploration and production	North America			
BP Egypt Gas Co.	100	US	Exploration and production	BP West Coast Products			
Far East				Standard Oil Co. America			
Indonesia				BP Capital Markets			
BP Kangean	100	US	Exploration and production				
Singapore							Finance
*BP Singapore Pte	100	Singapore	Refining and marketing				
Associated undertakings				Country of incorporation			
				Principal activities			
Abu Dhabi							
Abu Dhabi Marine Areas	37	England		Crude oil production			
Abu Dhabi Petroleum Co.	24	England		Crude oil production			
Korea							
Samsung Petrochemical Co.	47	England		Petrochemicals			
Taiwan							
China American Petrochemical Co.	59	Taiwan		Petrochemicals			
US							
BP Solvay Polyethylene North America	49	US		Petrochemicals			
Joint ventures				Country of incorporation or registration			
				Principal activities			
BP Solvay Polyethylene Europe				Petrochemicals			
CaTO Finance V Limited Partnership	50	England		Finance			
Lukarco	46	Netherlands		Exploration and production, pipelines			
Pan American Energy	60	US		Exploration and production			
Shanghai Secco Petrochemical Co.	50	China		Petrochemicals			
TNK-BP	50	British Virgin Islands		Integrated oil operations			
Unimar Company Texas (Partnership)	50	US		Exploration and production			
Watson Cogeneration	51	US		Power generation			

45 Oil and natural gas exploration and production activities^a

\$ million

	2003				2002					
	UK	Rest of Europe	USA	Rest of World	Total	UK	Rest of Europe	USA	Rest of World	Total
Capitalized costs at 31 December										
Gross capitalized costs										
Proved properties	25,212	4,506	43,937	27,321	100,976	26,804	4,029	46,996	24,604	102,433
Unproved properties	266	211	1,127	2,900	4,504	294	179	1,045	3,669	5,187
	25,478	4,717	45,064	30,221	105,480	27,098	4,208	48,041	28,273	107,620
Accumulated depreciation	15,346	2,912	20,024	13,723	52,005	16,394	2,591	22,613	12,653	54,251
Net capitalized costs	10,132	1,805	25,040	16,498	53,475	10,704	1,617	25,428	15,620	53,369

The group's share of joint ventures' and associated undertakings' net capitalized costs at 31 December 2003 was \$10,232 million (\$4,350 million).

	UK	Rest of Europe	USA	Rest of World	Total	UK	Rest of Europe	USA	Rest of World	Total
Costs incurred for the year ended 31 December										
Acquisition of properties										
Proved	–	–	–	–	–	–	4	–	59	63
Unproved	–	–	–	–	–	–	–	29	8	37
	–	–	–	–	–	–	4	29	67	100
Exploration and appraisal costs ^b	20	69	290	447	826	28	68	441	571	1,108
Development costs	740	236	3,486	3,085	7,547	895	219	3,618	2,503	7,235
Total costs	760	305	3,776	3,532	8,373	923	291	4,088	3,141	8,443

The group's share of joint ventures' and associated undertakings' costs incurred in 2003 was \$6,282 million (\$850 million).

	UK	Rest of Europe	USA	Rest of World	Total	UK	Rest of Europe	USA	Rest of World	Total
Results of operations for the year ended 31 December										
Turnover ^c										
Third parties	2,257	441	1,543	2,864	7,105	2,249	465	1,321	2,497	6,532
Sales between businesses	2,901	568	11,056	6,290	20,815	3,169	594	7,857	4,952	16,572
	5,158	1,009	12,599	9,154	27,920	5,418	1,059	9,178	7,449	23,104
Exploration expenditure	17	37	204	284	542	27	47	258	312	644
Production costs	619	120	1,452	1,005	3,196	662	101	1,419	950	3,132
Production taxes	233	14	439	971	1,657	279	7	288	670	1,244
Other costs (income) ^d	(151)	57	2,023	1,621	3,550	315	36	1,558	1,494	3,403
Depreciation	1,830	169	3,404	1,363	6,766	1,875	154	3,129	1,544	6,702
	2,548	397	7,522	5,244	15,711	3,158	345	6,652	4,970	15,125
Profit before taxation ^e	2,610	612	5,077	3,910	12,209	2,260	714	2,526	2,479	7,979
Allocable taxes	1,115	358	2,117	1,466	5,056	1,375	412	890	887	3,564
Results of operations	1,495	254	2,960	2,444	7,153	885	302	1,636	1,592	4,415

The group's share of joint ventures' and associated undertakings' results of operations in 2003 was a profit of \$851 million (\$372 million) after deducting a tax charge of \$171 million (\$110 million).

^a This note relates to the requirements contained within the UK Statement of Recommended Practice 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities'. Mid-stream activities of natural gas gathering and distribution and the operation of the main pipelines and tankers are excluded. The main mid-stream activities are the Alaskan transportation facilities, the Forties Pipeline system and the Central Area Transmission System. The group's share of joint ventures' and associated undertakings' activities is excluded from the tables and included in the footnotes, with the exception of the Abu Dhabi operations which are included in the income and expenditure items above. Profits (losses) on sale of fixed assets and businesses or termination of operations relating to the oil and natural gas exploration and production activities, which have been accounted as exceptional items, are also excluded.

^b Includes exploration and appraisal drilling expenditure and licence acquisition costs which are capitalized within intangible fixed assets and geological and geophysical exploration costs which are charged to income as incurred.

^c Turnover represents proceeds from the sale of production and other crude oil and gas including royalty oil sold on behalf of others where royalty is payable in cash.

^d Includes the value of royalty oil sold on behalf of others where royalty is payable in cash, property taxes and other government take.

^e The exploration and production total replacement cost operating profit comprises:

	2003	2002
Exploration and production activities		
– Group (as above)	12,209	7,979
– Joint ventures and associated undertakings	1,022	482
Mid-stream activities	706	745
Total replacement cost operating profit	13,937	9,206

Supplementary information on oil and natural gas quantities

Movements in estimated net proved reserves

2003

Subsidiary	Crude oil ^a million barrels					Natural gas ^a billion cubic feet				
	UK	Rest of Europe	USA	Rest of World	Total	UK	Rest of Europe	USA	Rest of World	Total
At 1 January 2003										
Developed	858	250	2,225	1,002	4,335	3,215	216	12,102	8,240	23,773
Undeveloped	269	99	1,336	1,723	3,427	651	44	2,259	19,117	22,071
	1,127	349	3,561	2,725	7,762	3,866	260	14,361	27,357	45,844
Changes attributable to:										
Revisions of previous estimates	5	(3)	(246)	87	(157)	(64)	27	(777)	(854)	(1,668)
Purchases of reserves-in-place	–	–	–	42	42	–	–	1	85	86
Extensions, discoveries and other additions	6	16	240	439	701	397	1,213	293	828	2,731
Improved recovery	38	5	84	45	172	72	1	2,083	290	2,446
Production ^b	(138)	(30)	(237)	(157)	(562)	(528)	(43)	(1,224) ^c	(1,241)	(3,036)
Sales of reserves-in-place	(144)	(19)	(164)	(182)	(509)	(253)	(33)	(900)	(1,241)	(2,427)
	(233)	(31)	(323)	274	(313)	(376)	1,165	(524)	(2,133)	(1,868)
At 31 December 2003										
Developed	678	231	1,885	782	3,576	2,673	214	11,290	6,896	21,073
Undeveloped	216	87	1,353	2,217	3,873	817	1,211	2,547	18,328	22,903
	894	318	3,238	2,999	7,449	3,490	1,425	13,837	25,224	43,976
Equity-accounted entities (BP share)										
At 1 January 2003										
Developed	–	–	–	1,178	1,178	–	–	–	1,506	1,506
Undeveloped	–	–	–	225	225	–	–	–	1,439	1,439
	–	–	–	1,403	1,403	–	–	–	2,945	2,945
Changes attributable to:										
Revisions of previous estimates	–	–	–	5	5	–	–	–	233	233
Purchases of reserves-in-place	–	–	–	1,600	1,600	–	–	–	–	–
Extensions, discoveries and other additions	–	–	–	6	6	–	–	–	12	12
Improved recovery	–	–	–	42	42	–	–	–	35	35
Production	–	–	–	(184)	(184)	–	–	–	(190)	(190)
Sales of reserves-in-place	–	–	–	(5)	(5)	–	–	–	(482)	(482)
	–	–	–	1,464	1,464	–	–	–	(392)	(392)
At 31 December 2003										
Developed	–	–	–	2,296	2,296	–	–	–	1,625	1,625
Undeveloped	–	–	–	571	571	–	–	–	928	928
	–	–	–	2,867	2,867	–	–	–	2,553	2,553
Total group and BP share of equity-accounted entities^d	894	318	3,238	5,866	10,316	3,490	1,425	13,837	27,777	46,529

^a Crude oil includes natural gas liquids and condensate. Net proved reserves of crude oil and natural gas exclude production royalties due to others, whether royalty is payable in cash or in kind.

^b Excludes NGLs (natural gas liquids) from processing plants in which an interest is held of 70 thousand barrels a day.

^c Includes 69 billion cubic feet of natural gas consumed in Alaskan operations.

^d Includes 152 million barrels of crude oil and 4,505 billion cubic feet of natural gas in respect of the 30% minority interest in BP Trinidad and Tobago LLC and the 5.4% minority interest in TNK-BP.

Supplementary information on oil and natural gas quantities

BP net share of production
thousand barrels a day^a

Group production interests – oil (includes NGLs and condensate)		Field	Interest %	2003	2002
UK	Offshore	ETAP ^b	Various	56	61
		Foinaven ^c	Various	55	72
		Schiehallion/Loyal ^c	Various	42	43
		Magnus ^c	85.0	39	31
		Harding ^c	70.0	34	42
		Andrew ^c	62.8	17	23
		Forties ^{c,d}	96.1	10	50
		Other	Various	95	107
		Wytch Farm ^c	67.8	29	32
					377
Rest of Europe	Netherlands	Various	Various	22	28
	Norway	Draugen	18.4	25	37
		Valhall ^c	28.1	21	21
		Ula ^c	80.0	16	18
			84	104	
USA	Alaska	Prudhoe Bay ^c	26.4	105	113
		Kuparuk	39.2	73	74
		Northstar ^c	98.6	46	36
		Milne Point ^c	100.0	44	44
		Other	Various	43	42
		Lower 48 onshore	Various	Various	160
	Gulf of Mexico	Mars	28.5	43	41
		Horn Mountain ^c	66.6	42	1
		King ^c	100.0	31	12
		Ursa	22.7	17	20
		Pompano ^c	73.6	15	23
		Other	Various	107	167
			726	765	
Rest of World	Angola	Various	Various	35	29
	Australia	Various	16.7	40	43
	Azerbaijan	ACG (Chirag) ^c	34.1	38	38
	Canada	Various	Various	13	16
	Colombia	Various	Various	53	46
	Egypt	Various	Various	73	85
	Trinidad	Various	100.0	74	67
	Venezuela	Various	Various	53	51
	Other	Various	Various	49	61
			428	436	
Total group				1,615	1,766
Equity-accounted entities (BP share)	Abu Dhabi	Various	Various	138	113
	Argentina – Pan American Energy	Various	Various	60	53
	Russia – TNK-BP	Various ^e	Various	228	–
	– Sidanco	Various ^f	Various	68	73
	Other	Various	Various	12	13
Total equity-accounted entities				506	252
Total group and BP share of equity-accounted entities^g				2,121	2,018

^a Net of royalty, whether payable in cash or in kind.

^b Out of nine fields, BP operates six and Shell three.

^c BP operator.

^d Interest divested during 2003.

^e Production from 29 August 2003 averaged 665 thousand barrels a day.

^f Production to 29 August 2003 averaged 103 thousand barrels a day.

^g Includes NGLs (natural gas liquids) from processing plants in which an interest is held of 70 thousand barrels a day (69 thousand barrels a day in 2002).

Supplementary information on oil and natural gas quantities

			BP net share of production million cubic feet a day ^a			
Group production interests – natural gas		Field	Interest %	2003	2002	
UK	Offshore	Bruce ^b	37.0	222	221	
		Braes	Various	174	116	
		Marnock ^b	62.0	98	135	
		West Sole ^b	100.0	73	72	
		Shearwater	27.5	70	66	
		Armada	18.2	58	71	
		Britannia	9.0	55	56	
		Other	Various	696	813	
				1,446	1,550	
Rest of Europe	Netherlands	P/18-2 ^b	48.7	30	41	
		Other	Various	37	46	
	Norway	Various	Various	52	60	
						119
USA	Lower 48 onshore	San Juan Coal ^b	Various	578	601	
		San Juan Conventional	Various	224	196	
		Arkoma	Various	201	206	
		Hugoton ^b	Various	182	169	
		Tuscaloosa	Various	136	138	
		Jonah ^b	75.2	119	113	
		Wamsutter ^b	70.5	111	108	
		Other	Various	558	715	
		Gulf of Mexico	Marlin ^b	78.2	93	106
			Kings Peak ^b	100.0	91	16
	Mica		50.0	57	58	
	Alaska	Other	Various	695	1,005	
		Various	Various	83	52	
					3,128	3,483
	Rest of World	Australia	Various	16.7	285	295
Canada		Kirby ^b	95.0	48	66	
		Other	Various	374	448	
		China	Yacheng ^b	34.3	74	102
Egypt		Ha'py ^b	50.0	83	74	
		Temsah	50.0	66	84	
		Other	Various	104	98	
Indonesia		Sanga-Sanga (direct) ^b	26.3	165	174	
		Pagerungan ^b	100.0	121	189	
		Other ^b	46.0	97	94	
Sharjah		Sajaa ^b	40.0	101	110	
		Other	40.0	19	24	
Trinidad		Amherstia ^b	100.0	624	492	
		Mahogany ^b	100.0	503	521	
		Immortelle ^b	100.0	235	154	
		Parang ^b	100.0	152	–	
		Flamboyant ^b	100.0	68	40	
Other		Other ^b	100.0	112	31	
		Various	Various	168	148	
				3,399	3,144	
Total group				8,092	8,324	
Equity-accounted entities (BP share)	Argentina – Pan American Energy	Various	Various	281	251	
	Russia – TNK-BP	Various	Various	96	–	
	– Sidanco	Various	Various	33	6	
	Other	Various	Various	111	126	
Total equity-accounted entities				521	383	
Total group and BP share of equity-accounted entities				8,613	8,707	

^a Net of royalty, whether payable in cash or in kind.

^b BP operator.

Five-year summaries

Summarized group income statement

	\$ million				
	1999	2000	2001	2002	2003
Turnover	101,180	161,826	175,389	180,186	236,045
Less: joint ventures	17,614	13,764	1,171	1,465	3,474
Group turnover	83,566	148,062	174,218	178,721	232,571
Replacement cost of sales	68,615	120,797	147,001	155,528	202,041
Production taxes	1,017	2,061	1,689	1,274	1,723
Gross profit	13,934	25,204	25,528	21,919	28,807
Distribution and administration expenses ^a	6,064	9,331	10,918	12,632	14,072
Exploration expense	548	599	480	644	542
	7,322	15,274	14,130	8,643	14,193
Other income	414	805	694	641	786
Group replacement cost operating profit	7,736	16,079	14,824	9,284	14,979
Share of profits of joint ventures	555	808	443	346	923
Share of profits of associated undertakings	603	792	760	616	511
Total replacement cost operating profit	8,894	17,679	16,027	10,246	16,413
Exceptional items	(2,280)	220	535	1,168	831
Replacement cost profit before interest and tax	6,614	17,899	16,562	11,414	17,244
Stock holding gains (losses)	1,728	728	(1,900)	1,129	16
Historical cost profit before interest and tax	8,342	18,627	14,662	12,543	17,260
Interest expense	1,316	1,770	1,670	1,279	851
Profit before taxation	7,026	16,857	12,992	11,264	16,409
Taxation	2,322	6,648	6,375	4,342	5,972
Profit after taxation	4,704	10,209	6,617	6,922	10,437
Minority shareholders' interest (MSI)	138	89	61	77	170
Profit for the year	4,566	10,120	6,556	6,845	10,267
Distribution to shareholders	3,884	4,625	4,935	5,375	5,753
Retained profit for the year	682	5,495	1,621	1,470	4,514
Earnings per ordinary share – cents					
Basic	23.55	46.77	29.21	30.55	46.30
Diluted	23.42	46.46	29.04	30.41	45.87
Dividends per ordinary share – cents	20.00	20.50	22.00	24.00	26.00

Replacement cost results^b

Historical cost profit	4,566	10,120	6,556	6,845	10,267
Stock holding (gains) losses (net of MSI)	(1,728)	(728)	1,900	(1,104)	(16)
Replacement cost profit for the year	2,838	9,392	8,456	5,741	10,251
Exceptional items (net of tax and MSI)	1,824	(78)	(165)	(1,043)	(708)
Replacement cost profit before exceptional items	4,662	9,314	8,291	4,698	9,543
Earnings per ordinary share – cents					
On replacement cost profit before exceptional items	24.05	41.15	36.95	20.97	43.03
^a Research and development expenditure amounted to:	310	434	385	373	349

^b Replacement cost profit excludes stock holding gains and losses. The effect of this is to set against income for the period the average cost of supplies incurred in the same period rather than applying costs obtained by using the first-in first-out method. Profit on the replacement cost basis therefore reflects more immediately changes in purchase costs and provides an indication of the underlying trend in trading performance in a continuing business. This basis is used to assist in the interpretation of operating profit.

US dollar/sterling exchange rates

Average exchange rate for the year	1.62	1.51	1.44	1.50	1.63
Year end exchange rate	1.62	1.49	1.45	1.60	1.78

Summarized group income statement (by quarter)

Replacement cost results	Q1	Q2	Q3	Q4	1999	Q1	Q2	Q3	Q4	2000
Total replacement cost operating profit (loss) by business ^a										
Exploration and Production	750	1,465	2,183	2,585	6,983	3,203	3,007	3,538	4,224	13,972
Gas, Power and Renewables	87	67	134	94	382	135	106	125	166	532
Refining and Marketing	316	520	554	224	1,614	584	1,172	951	779	3,486
Petrochemicals	206	198	143	139	686	259	320	263	(82)	760
Other businesses and corporate ^b	(113)	(175)	(166)	(317)	(771)	(220)	(291)	(209)	(351)	(1,071)
Total replacement cost operating profit	1,246	2,075	2,848	2,725	8,894	3,961	4,314	4,668	4,736	17,679
Interest expense	304	328	355	329	1,316	296	403	460	611	1,770
Replacement cost profit before taxation	942	1,747	2,493	2,396	7,578	3,665	3,911	4,208	4,125	15,909
Taxation (excluding exceptional items)	345	641	914	878	2,778	1,354	1,608	1,784	1,760	6,506
Replacement cost profit after taxation	597	1,106	1,579	1,518	4,800	2,311	2,303	2,424	2,365	9,403
Minority shareholders' interest (MSI)	11	25	49	53	138	68	(5)	12	14	89
Replacement cost profit before exceptional items	586	1,081	1,530	1,465	4,662	2,243	2,308	2,412	2,351	9,314
Earnings on replacement cost profit before exceptional items										
per ordinary share – cents	3.02	5.59	7.89	7.55	24.05	11.55	10.40	10.67	10.42	43.04
per ADS – dollars	0.18	0.34	0.47	0.45	1.44	0.69	0.62	0.64	0.63	2.58
Historical cost results										
Replacement cost profit before exceptional items	586	1,081	1,530	1,465	4,662	2,243	2,308	2,412	2,351	9,314
Exceptional items (net of tax and MSI)	(846)	(149)	(401)	(428)	(1,824)	(56)	57	49	28	78
Replacement cost profit for the period	(260)	932	1,129	1,037	2,838	2,187	2,365	2,461	2,379	9,392
Stock holding gains (losses)	7	572	643	506	1,728	532	213	544	(561)	728
Historical cost profit (loss) for the period	(253)	1,504	1,772	1,543	4,566	2,719	2,578	3,005	1,818	10,120
Earnings on historical cost profit										
per ordinary share – cents										
Basic	(1.31)	7.77	9.14	7.95	23.55	14.00	11.56	13.34	7.87	46.77
Diluted	(1.31)	7.72	9.10	7.91	23.42	13.90	11.47	13.26	7.83	46.46
per ADS – dollars										
Basic	(0.08)	0.47	0.55	0.47	1.41	0.84	0.69	0.80	0.47	2.80
Diluted	(0.08)	0.46	0.55	0.47	1.40	0.83	0.69	0.80	0.47	2.79

^a Total replacement cost operating profit is before exceptional items, stock holding gains and losses and interest expense.

^b Other businesses and corporate comprises Finance, the group's coal asset and aluminium asset, its investments in PetroChina and Sinopec, interest income and costs relating to corporate activities worldwide.

\$ million

Q1	Q2	Q3	Q4	2001	Q1	Q2	Q3	Q4	2002	Q1	Q2	Q3	Q4	2003
4,666	3,427	2,627	1,641	12,361	1,928	2,458	1,572	3,248	9,206	4,326	3,153	3,520	2,938	13,937
100	161	125	102	488	111	114	57	72	354	194	103	98	77	472
740	1,464	990	379	3,573	68	603	237	(36)	872	631	889	455	365	2,340
81	9	105	(67)	128	76	203	132	104	515	139	313	81	35	568
(115)	(116)	(117)	(175)	(523)	(125)	(128)	(241)	(207)	(701)	(165)	(134)	(310)	(295)	(904)
5,472	4,945	3,730	1,880	16,027	2,058	3,250	1,757	3,181	10,246	5,125	4,324	3,844	3,120	16,413
446	441	369	414	1,670	333	314	300	332	1,279	220	191	213	227	851
5,026	4,504	3,361	1,466	14,357	1,725	2,936	1,457	2,849	8,967	4,905	4,133	3,631	2,893	15,562
2,017	1,838	1,413	737	6,005	792	1,591	688	1,146	4,217	1,751	1,619	1,446	1,033	5,849
3,009	2,666	1,948	729	8,352	933	1,345	769	1,703	4,750	3,154	2,514	2,185	1,860	9,713
8	18	12	23	61	9	34	3	6	52	26	60	43	41	170
3,001	2,648	1,936	706	8,291	924	1,311	766	1,697	4,698	3,128	2,454	2,142	1,819	9,543
13.35	11.80	8.63	3.17	36.95	4.12	5.85	3.42	7.58	20.97	14.01	11.08	9.71	8.23	43.03
0.80	0.71	0.52	0.19	2.22	0.25	0.35	0.21	0.45	1.26	0.84	0.67	0.58	0.49	2.58

3,001	2,648	1,936	706	8,291	924	1,311	766	1,697	4,698	3,128	2,454	2,142	1,819	9,543
67	53	57	(12)	165	(70)	216	1,769	(872)	1,043	340	131	168	69	708
3,068	2,701	1,993	694	8,456	854	1,527	2,535	825	5,741	3,468	2,585	2,310	1,888	10,251
(238)	40	(405)	(1,297)	(1,900)	442	531	305	(174)	1,104	799	(951)	84	84	16
2,830	2,741	1,588	(603)	6,556	1,296	2,058	2,840	651	6,845	4,267	1,634	2,394	1,972	10,267
12.59	12.21	7.08	(2.67)	29.21	5.78	9.18	12.67	2.92	30.55	19.11	7.41	10.85	8.93	46.30
12.51	12.14	7.03	(2.64)	29.04	5.75	9.13	12.61	2.92	30.41	19.05	7.39	10.74	8.69	45.87
0.76	0.73	0.43	(0.16)	1.76	0.35	0.55	0.76	0.17	1.83	1.15	0.44	0.65	0.54	2.78
0.75	0.73	0.42	(0.16)	1.74	0.35	0.54	0.76	0.17	1.82	1.14	0.45	0.64	0.52	2.75

Replacement cost operating profit analysed by business and geographical area

By business	Q1	Q2	Q3	Q4	1999	Q1	Q2	Q3	Q4	2000
Exploration and Production										
UK	318	458	673	861	2,310	1,088	876	997	1,082	4,043
Rest of Europe	75	74	163	175	487	188	185	221	232	826
USA	192	425	597	922	2,136	1,191	986	1,233	1,664	5,074
Rest of World	165	508	750	627	2,050	736	960	1,087	1,246	4,029
	750	1,465	2,183	2,585	6,983	3,203	3,007	3,538	4,224	13,972
Gas, Power and Renewables										
UK	3	1	–	1	5	(5)	4	14	–	13
Rest of Europe	49	26	44	47	166	54	11	28	57	150
USA	14	14	54	(26)	56	9	39	7	16	71
Rest of World	21	26	36	72	155	77	52	76	93	298
	87	67	134	94	382	135	106	125	166	532
Refining and Marketing										
UK ^a	(22)	67	102	51	198	33	148	63	(71)	173
Rest of Europe	100	58	91	46	295	36	130	233	354	753
USA	100	311	248	120	779	409	803	587	375	2,174
Rest of World	138	84	113	7	342	106	91	68	121	386
	316	520	554	224	1,614	584	1,172	951	779	3,486
Petrochemicals										
UK	42	(26)	(1)	(76)	(61)	(31)	(33)	(17)	10	(71)
Rest of Europe	61	21	8	76	166	78	118	75	15	286
USA	107	137	111	114	469	158	177	149	46	530
Rest of World	(4)	66	25	25	112	54	58	56	(153)	15
	206	198	143	139	686	259	320	263	(82)	760
Other businesses and corporate										
UK	6	(103)	(106)	(138)	(341)	(111)	(29)	(58)	(187)	(385)
Rest of Europe	(3)	12	44	–	53	10	17	21	(50)	(2)
USA	(125)	(82)	(93)	(183)	(483)	(125)	(285)	(159)	(112)	(681)
Rest of World	9	(2)	(11)	4	–	6	6	(13)	(2)	(3)
	(113)	(175)	(166)	(317)	(771)	(220)	(291)	(209)	(351)	(1,071)
By geographical area										
UK ^a	347	397	668	699	2,111	974	966	999	834	3,773
Rest of Europe	282	191	350	344	1,167	366	461	578	608	2,013
USA	288	805	917	947	2,957	1,642	1,720	1,817	1,989	7,168
Rest of World	329	682	913	735	2,659	979	1,167	1,274	1,305	4,725
Total replacement cost operating profit	1,246	2,075	2,848	2,725	8,894	3,961	4,314	4,668	4,736	17,679

^a UK area includes the UK-based international activities of Refining and Marketing.

Exceptional items

	Q1	Q2	Q3	Q4	1999	Q1	Q2	Q3	Q4	2000
Exploration and Production	(9)	8	(419)	(105)	(525)	38	168	9	(96)	119
Gas, Power and Renewables	(5)	–	(6)	15	4	–	–	(1)	3	2
Refining and Marketing	49	59	18	(50)	76	19	5	161	(87)	98
Petrochemicals	62	102	89	(126)	127	(210)	–	(30)	28	(212)
Other businesses and corporate	–	(7)	1	(13)	(19)	(4)	(12)	(1)	230	213
Profit (loss) on sale of fixed assets and businesses or termination of operations	97	162	(317)	(279)	(337)	(157)	161	138	78	220
Restructuring costs	(1,155)	(348)	(184)	(256)	(1,943)	–	–	–	–	–
Exceptional items before taxation	(1,058)	(186)	(501)	(535)	(2,280)	(157)	161	138	78	220
Taxation	212	37	100	107	456	101	(104)	(89)	(50)	(142)
Exceptional items after taxation and MSI	(846)	(149)	(401)	(428)	(1,824)	(56)	57	49	28	78

\$ million

Q1	Q2	Q3	Q4	2001	Q1	Q2	Q3	Q4	2002	Q1	Q2	Q3	Q4	2003
1,154	970	729	571	3,424	727	649	185	965	2,526	1,134	473	582	700	2,889
226	190	188	144	748	152	172	213	177	714	193	141	124	152	610
2,111	1,200	836	426	4,573	322	771	661	1,081	2,835	1,805	1,441	1,368	680	5,294
1,175	1,067	874	500	3,616	727	866	513	1,025	3,131	1,194	1,098	1,446	1,406	5,144
4,666	3,427	2,627	1,641	12,361	1,928	2,458	1,572	3,248	9,206	4,326	3,153	3,520	2,938	13,937
10	37	34	(29)	52	2	1	(66)	(31)	(94)	3	18	13	40	74
63	35	27	64	189	47	35	17	1	100	(9)	(5)	(12)	(11)	(37)
25	86	82	36	229	(25)	13	28	9	25	36	85	54	(3)	172
2	3	(18)	31	18	87	65	78	93	323	164	5	43	51	263
100	161	125	102	488	111	114	57	72	354	194	103	98	77	472
(111)	(116)	(51)	(197)	(475)	(124)	(61)	(158)	(155)	(498)	26	(31)	(119)	(84)	(208)
136	177	222	227	762	139	249	236	(53)	571	337	423	325	141	1,226
594	1,262	683	46	2,585	(79)	279	55	80	335	97	323	51	161	632
121	141	136	303	701	132	136	104	92	464	171	174	198	147	690
740	1,464	990	379	3,573	68	603	237	(36)	872	631	889	455	365	2,340
(50)	(33)	(58)	(75)	(216)	(31)	(10)	6	(47)	(82)	(56)	(1)	(94)	(26)	(177)
80	19	87	(1)	185	47	64	161	65	337	110	225	85	37	457
-	(14)	48	(19)	15	12	53	37	24	126	30	61	31	(10)	112
51	37	28	28	144	48	96	(72)	62	134	55	28	59	34	176
81	9	105	(67)	128	76	203	132	104	515	139	313	81	35	568
(76)	(44)	(102)	105	(117)	(44)	(75)	(98)	61	(156)	(76)	(122)	(99)	313	16
(20)	8	(12)	(46)	(70)	1	6	(7)	(19)	(19)	(7)	(2)	3	(42)	(48)
(58)	(62)	(105)	(283)	(508)	(83)	(44)	(126)	(250)	(503)	(98)	(51)	(225)	(635)	(1,009)
39	(18)	102	49	172	1	(15)	(10)	1	(23)	16	41	11	69	137
(115)	(116)	(117)	(175)	(523)	(125)	(128)	(241)	(207)	(701)	(165)	(134)	(310)	(295)	(904)
927	814	552	375	2,668	530	504	(131)	793	1,696	1,031	337	283	943	2,594
485	429	512	388	1,814	386	526	620	171	1,703	624	782	525	277	2,208
2,672	2,472	1,544	206	6,894	147	1,072	655	944	2,818	1,870	1,859	1,279	193	5,201
1,388	1,230	1,122	911	4,651	995	1,148	613	1,273	4,029	1,600	1,346	1,757	1,707	6,410
5,472	4,945	3,730	1,880	16,027	2,058	3,250	1,757	3,181	10,246	5,125	4,324	3,844	3,120	16,413

\$ million

Q1	Q2	Q3	Q4	2001	Q1	Q2	Q3	Q4	2002	Q1	Q2	Q3	Q4	2003
(42)	319	3	(85)	195	5	427	(25)	(1,133)	(726)	433	333	196	(49)	913
(1)	-	-	1	-	-	(1)	1,585	(33)	1,551	-	6	(2)	(10)	(6)
265	(59)	247	18	471	(45)	31	262	365	613	(52)	(49)	(21)	(91)	(213)
(6)	(80)	(81)	(130)	(297)	(60)	(85)	11	(122)	(256)	7	2	13	16	38
2	(9)	15	158	166	(9)	4	(39)	30	(14)	6	(12)	(14)	119	99
218	171	184	(38)	535	(109)	376	1,794	(893)	1,168	394	280	172	(15)	831
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
218	171	184	(38)	535	(109)	376	1,794	(893)	1,168	394	280	172	(15)	831
(151)	(118)	(127)	26	(370)	39	(160)	(25)	21	(125)	(54)	(149)	(4)	84	(123)
67	53	57	(12)	165	(70)	216	1,769	(872)	1,043	340	131	168	69	708

Turnover

	\$ million				
	1999	2000	2001	2002	2003
By business					
Exploration and Production	19,133	30,942	28,229	25,753	31,341
Gas, Power and Renewables	8,247	21,203	39,442	37,357	65,445
Refining and Marketing	60,143	107,883	120,233	125,836	149,477
Petrochemicals	9,392	11,247	11,515	13,064	16,075
Other businesses and corporate	24	59	549	510	515
	96,939	171,334	199,968	202,520	262,853
Less: Sales between businesses	13,373	23,272	25,750	23,799	30,282
Group turnover	83,566	148,062	174,218	178,721	232,571
Add: Share of joint venture sales	17,614	13,764	1,171	1,465	3,474
Turnover	101,180	161,826	175,389	180,186	236,045
By geographical area					
UK ^a	30,223	45,400	47,618	48,748	54,971
Rest of Europe	5,973	20,553	36,701	46,518	50,582
USA	38,786	71,084	84,696	80,381	108,910
Rest of World	19,465	31,014	33,911	34,401	52,498
	94,447	168,051	202,926	210,048	266,961
Less: Sales between areas	10,881	19,989	28,708	31,327	34,390
Group turnover	83,566	148,062	174,218	178,721	232,571

^a UK area includes the UK-based international activities of Refining and Marketing.

Taxation

	\$ million				
	1999	2000	2001	2002	2003
Production taxes provided for					
UK petroleum revenue tax	237	707	600	309	300
Overseas production taxes	780	1,354	1,089	965	1,423
	1,017	2,061	1,689	1,274	1,723
Production taxes paid					
UK petroleum revenue tax	323	676	410	231	424
Overseas production taxes	683	1,466	1,114	930	1,386
	1,006	2,142	1,524	1,161	1,810
Tax on profit on ordinary activities					
Current tax:					
UK	512	1,195	988	1,003	1,142
Overseas	1,143	3,704	3,846	1,883	3,525
Group	1,655	4,899	4,834	2,886	4,667
Joint ventures	5	57	94	75	158
Associated undertakings	99	128	203	187	94
	1,759	5,084	5,131	3,148	4,919
Deferred tax:					
UK	91	12	(48)	433	426
Overseas	472	1,552	1,292	761	655
Group	563	1,564	1,244	1,194	1,081
Joint ventures	–	–	–	–	(14)
Associated undertakings	–	–	–	–	(14)
	563	1,564	1,244	1,194	1,053
Tax on profit on ordinary activities	2,322	6,648	6,375	4,342	5,972
Tax charge excluding exceptional items	2,778	6,506	6,005	4,217	5,849
Effective tax rates on					
Replacement cost basis, before exceptional items	37%	41%	42%	47%	38%
Historical cost basis, after exceptional items	33%	39%	49%	39%	36%
Profit taxes paid (including exceptional items)					
UK	559	869	1,058	979	1,185
Overseas	701	5,329	3,602	2,115	3,619
	1,260	6,198	4,660	3,094	4,804

Depreciation and amounts provided

	\$ million				
	1999	2000	2001	2002	2003
Exploration and Production ^a					
UK	1,346	1,500	1,399	1,923	1,892
Rest of Europe	147	98	115	154	168
USA	1,233	2,564	3,170	3,172	3,502
Rest of World	674	770	1,121	1,550	1,388
	3,400	4,932	5,805	6,799	6,950
Gas, Power and Renewables					
UK	–	1	4	32	32
Rest of Europe	1	3	3	4	22
USA	34	31	38	52	52
Rest of World	18	20	22	29	35
	53	55	67	117	141
Refining and Marketing ^a					
UK ^b	28	323	603	653	762
Rest of Europe	4	145	278	547	644
USA	564	1,080	1,228	1,222	1,301
Rest of World	169	204	193	236	251
	765	1,752	2,302	2,658	2,958
Petrochemicals					
UK	159	99	122	184	200
Rest of Europe	104	109	117	162	194
USA	268	299	271	286	285
Rest of World	101	197	78	117	72
	632	704	588	749	751
Other businesses and corporate					
UK	19	12	29	29	77
Rest of Europe	2	1	–	–	–
USA	167	70	67	48	47
Rest of World	11	–	–	1	16
	199	83	96	78	140
By geographical area					
UK ^b	1,552	1,935	2,157	2,821	2,963
Rest of Europe	258	356	513	867	1,028
USA	2,266	4,044	4,774	4,780	5,187
Rest of World	973	1,191	1,414	1,933	1,762
Total* ^c	5,049	7,526	8,858	10,401	10,940
Excludes the following amounts of depreciation of the BP/Mobil European joint venture	308	172	–	–	–
*Includes exceptional items of:	84	–	–	–	–
^a Acquisition amortization:					
Exploration and Production	–	1,214	1,815	1,780	1,566
Refining and Marketing	–	477	770	794	826

^b UK area includes the UK-based international activities of Refining and Marketing.

^c Includes amounts provided against fixed asset investments.

Group balance sheet

\$ million

	1999	2000	2001	2002	2003
Tangible assets^a					
Exploration and Production	34,442	46,751	48,270	52,204	53,832
Gas, Power and Renewables	1,053	1,440	1,644	1,600	1,869
Refining and Marketing	8,651	17,619	16,903	22,433	24,255
Petrochemicals	7,780	8,360	9,242	10,080	10,591
Other businesses and corporate	705	1,003	1,351	1,365	1,364
	52,631	75,173	77,410	87,682	91,911
Intangible assets^a	3,344	17,897	16,489	15,566	13,642
Investments^a					
Net investment in joint ventures ^b	5,204	2,884	3,861	4,031	11,009
Associated undertakings	4,254	5,375	5,433	4,626	4,870
Other	571	3,414	2,669	2,154	1,675
	10,029	11,673	11,963	10,811	17,554
Total fixed assets	66,004	104,743	105,862	114,059	123,107
Current assets					
Business held for resale	–	636	–	–	–
Stocks	5,124	9,234	7,631	10,181	11,617
Debtors	16,802	28,418	26,669	33,150	40,716
Investments	220	661	450	215	185
Cash at bank and in hand	1,331	1,170	1,358	1,520	1,947
	23,477	40,119	36,108	45,066	54,465
Creditors – amounts falling due within one year					
Finance debt	4,900	6,418	9,090	10,086	9,456
Other creditors	18,375	32,110	28,524	36,215	41,128
Net current assets (liabilities)	202	1,591	(1,506)	(1,235)	3,881
Total assets less current liabilities	66,206	106,334	104,356	112,824	126,988
Creditors – amounts falling due after one year					
Finance debt	9,644	14,772	12,327	11,922	12,869
Other creditors	2,245	3,842	3,086	3,455	6,090
Provisions for liabilities and charges					
Deferred taxation	7,953	10,595	11,702	13,514	15,273
Other provisions	8,272	10,973	11,482	13,886	15,693
Net assets	38,092	66,152	65,759	70,047	77,063
Minority shareholders' interest – equity	1,061	568	598	638	1,125
BP shareholders' interest	37,031	65,584	65,161	69,409	75,938
Represented by					
Called up share capital	4,892	5,653	5,629	5,616	5,552
Share premium account	3,354	3,385	3,590	3,794	3,957
Capital redemption reserve	330	385	424	449	523
Merger reserve	697	26,869	26,983	27,033	27,077
Other reserves	–	456	223	173	129
Profit and loss account	27,758	28,836	28,312	32,344	38,700
Capital and reserves	37,031	65,584	65,161	69,409	75,938
^a Fixed asset revaluation adjustment and goodwill consequent upon the ARCO and Burmah Castrol acquisitions:					
Tangible assets	–	9,085	6,787	5,804	3,983
Intangible assets	–	12,927	11,663	10,439	9,125
Fixed asset investments	–	584	432	429	254
	–	22,596	18,882	16,672	13,362
^b Net investment in joint ventures					
Gross assets	9,948	3,641	4,661	4,829	16,485
Gross liabilities	(4,744)	(757)	(800)	(798)	(5,111)
Minority shareholders' interest	–	–	–	–	(365)
	5,204	2,884	3,861	4,031	11,009

Capital employed

\$ million

By business	1999	2000	2001	2002	2003
Exploration and Production ^a					
UK	9,299	10,459	10,088	9,977	10,009
Rest of Europe	906	814	1,049	1,451	1,475
USA	15,556	27,639	28,974	28,012	26,671
Rest of World	10,468	18,089	20,035	22,677	26,417
	36,229	57,001	60,146	62,117	64,572
Gas, Power and Renewables					
UK	51	405	426	405	763
Rest of Europe	769	763	938	426	425
USA	768	864	844	783	1,402
Rest of World	846	1,176	917	1,028	1,329
	2,434	3,208	3,125	2,642	3,919
Refining and Marketing ^a					
UK ^b	2,026	6,731	6,113	6,824	7,432
Rest of Europe	1,323	3,244	2,621	6,991	6,524
USA	6,627	14,026	12,984	13,303	13,515
Rest of World	3,233	4,306	3,601	3,888	4,610
	13,209	28,307	25,319	31,006	32,081
Petrochemicals					
UK	2,395	2,989	2,976	3,605	3,737
Rest of Europe	1,913	1,990	2,421	3,055	3,482
USA	4,052	4,211	4,352	4,215	4,204
Rest of World	1,688	1,818	2,247	1,756	2,246
	10,048	11,008	11,996	12,631	13,669
Other businesses and corporate					
UK	527	(491)	(126)	138	(1,330)
Rest of Europe	(27)	276	317	(46)	13
USA	168	(1,338)	(2,215)	1,640	3,652
Rest of World	252	3,647	3,429	(1,242)	1,434
	920	2,094	1,405	490	3,769
By geographical area					
UK ^b	14,298	20,093	19,477	20,949	20,611
Rest of Europe	4,884	7,087	7,346	11,877	11,919
USA	27,171	45,402	44,939	47,953	49,444
Rest of World	16,487	29,036	30,229	28,107	36,036
Total operating capital employed	62,840	101,618	101,991	108,886	118,010
Liabilities for current and deferred taxation	(10,204)	(14,276)	(14,815)	(16,831)	(18,622)
Capital employed	52,636	87,342	87,176	92,055	99,388
Financed by					
Finance debt	14,544	21,190	21,417	22,008	22,325
Minority shareholders' interest	1,061	568	598	638	1,125
BP shareholders' interest	37,031	65,584	65,161	69,409	75,938
Capital employed	52,636	87,342	87,176	92,055	99,388
^a Capital employed acquisition adjustment consequent upon the ARCO and Burmah Castrol acquisitions:					
Exploration and Production	–	14,348	11,506	9,737	6,983
Refining and Marketing	–	8,248	7,376	6,935	6,379
	–	22,596	18,882	16,672	13,362

^b UK area includes the UK-based international activities of Refining and Marketing.

Group cash flow statement

	\$ million				
	1999	2000	2001	2002	2003
Net cash inflow from operating activities	10,290	20,416	22,409	19,342	21,698
Dividends from joint ventures	949	645	104	198	131
Dividends from associated undertakings	219	394	528	368	417
Servicing of finance and returns on investments					
Interest received	179	444	256	231	175
Interest paid	(1,065)	(1,354)	(1,282)	(1,204)	(1,006)
Dividends received	34	42	132	102	140
Dividends paid to minority shareholders	(151)	(24)	(54)	(40)	(20)
Net cash outflow from servicing of finance and returns on investments	(1,003)	(892)	(948)	(911)	(711)
Taxation					
UK corporation tax	(559)	(869)	(1,058)	(979)	(1,185)
Overseas tax	(701)	(5,329)	(3,602)	(2,115)	(3,619)
Tax paid	(1,260)	(6,198)	(4,660)	(3,094)	(4,804)
Capital expenditure and financial investment					
Payments for tangible and intangible fixed assets	(6,371)	(8,837)	(12,142)	(12,049)	(12,368)
Payments for fixed assets – investments	(163)	(1,264)	(72)	(67)	(72)
Proceeds from the sale of fixed assets	1,149	3,029	2,365	2,470	6,253
Net cash outflow for capital expenditure and financial investment	(5,385)	(7,072)	(9,849)	(9,646)	(6,187)
Acquisitions and disposals					
Acquisitions, net of cash acquired	(102)	(6,265)	(1,210)	(4,324)	(211)
Proceeds from the sale of businesses	1,292	8,333	538	1,974	179
Acquisition of investment in TNK-BP joint venture	–	–	–	–	(2,351)
Net investment in other joint ventures	(750)	(218)	(497)	(354)	(178)
Investments in associated undertakings	(197)	(985)	(586)	(971)	(987)
Proceeds from sale of investment in Ruhrgas	–	–	–	2,338	–
Net cash (outflow) inflow from acquisitions and disposals	243	865	(1,755)	(1,337)	(3,548)
Equity dividends paid	(4,135)	(4,415)	(4,827)	(5,264)	(5,654)
Net cash inflow (outflow) before financing	(82)	3,743	1,002	(344)	1,342
Financing	(954)	3,413	972	(181)	1,066
Management of liquid resources	(93)	452	(211)	(220)	(41)
Increase (decrease) in cash	965	(122)	241	57	317
	(82)	3,743	1,002	(344)	1,342

Movement in net debt

	\$ million				
	1999	2000	2001	2002	2003
Opening balance					
Finance debt	13,755	14,544	21,190	21,417	22,008
Cash	405	1,331	1,170	1,358	1,520
Current asset investments	470	220	661	450	215
Opening net debt	12,880	12,993	19,359	19,609	20,273
Closing balance					
Finance debt	14,544	21,190	21,417	22,008	22,325
Cash	1,331	1,170	1,358	1,520	1,947
Current asset investments	220	661	450	215	185
Closing net debt	12,993	19,359	19,609	20,273	20,193
Decrease (increase) in net debt	(113)	(6,366)	(250)	(664)	80
Movement in cash/bank overdrafts	965	(122)	241	57	317
Increase (decrease) in current asset investments	(93)	452	(211)	(220)	(41)
Net cash (inflow) outflow from financing (excluding share capital)	(709)	1,374	(128)	(736)	(760)
Partnership interests exchanged for BP loan notes	–	–	–	1,135	–
Debt transferred to TNK-BP	–	–	–	–	93
Exchange of Exchangeable Bonds for Lukoil American Depositary Shares	–	–	–	–	420
Other movements	(217)	(44)	(36)	76	144
Debt acquired	–	(8,072)	(55)	(1,002)	(15)
Movement in net debt before exchange effects	(54)	(6,412)	(189)	(690)	158
Exchange adjustments	(59)	46	(61)	26	(78)
Decrease (increase) in net debt	(113)	(6,366)	(250)	(664)	80

Consolidated statement of cash flows presented on a US GAAP format

	\$ million				
	1999	2000	2001	2002	2003
Operating activities					
Profit after taxation	4,704	10,209	6,617	6,922	10,437
Adjustments to reconcile profits after tax to net cash provided by operating activities:					
Depreciation and amounts provided	4,965	7,526	8,858	10,401	10,940
Exploration expenditure written off	304	264	238	385	297
Share of (profit) loss of joint ventures and associated undertakings less dividends received	(232)	(377)	(60)	3	(532)
Loss (profit) on sale of businesses and fixed assets	379	(196)	(537)	(1,166)	(831)
Working capital movement (see analysis below)	(1,877)	(2,848)	1,319	(1,416)	(4,953)
Deferred taxation	563	1,564	1,244	1,194	1,053
Other	94	(1,538)	(111)	(280)	530
Net cash provided by operating activities	8,900	14,604	17,568	16,043	16,941
Investing activities					
Capital expenditures	(6,314)	(10,220)	(12,295)	(12,216)	(12,630)
Acquisitions, net of cash acquired	(102)	(6,265)	(1,210)	(4,324)	(211)
Acquisition of investment in TNK-BP joint venture	–	–	–	–	(2,351)
Investment in associated undertakings	(197)	(985)	(586)	(971)	(987)
Net investment in joint ventures	(750)	(218)	(497)	(354)	(178)
Proceeds from disposal of assets	2,441	11,362	2,903	6,782	6,432
Net cash used in investing activities	(4,922)	(6,326)	(11,685)	(11,083)	(9,925)
Financing activities					
Proceeds from shares issued (repurchased)	245	(2,039)	(1,100)	(555)	(1,826)
Proceeds from long-term financing	2,140	1,680	1,296	3,707	4,322
Repayments of long-term financing	(2,268)	(2,353)	(2,602)	(2,369)	(3,560)
Net increase (decrease) in short-term debt	837	(701)	1,434	(602)	(2)
Dividends paid – BP shareholders	(4,135)	(4,415)	(4,827)	(5,264)	(5,654)
– Minority shareholders	(151)	(24)	(54)	(40)	(20)
Net cash used in financing activities	(3,332)	(7,852)	(5,853)	(5,123)	(6,740)
Currency translation differences relating to cash and cash equivalents	15	(50)	(53)	90	121
Increase (decrease) in cash and cash equivalents	661	376	(23)	(73)	397
Cash and cash equivalents at beginning of year	794	1,455	1,831	1,808	1,735
Cash and cash equivalents at end of year	1,455	1,831	1,808	1,735	2,132
Analysis of working capital movement					
(Increase)/decrease in stocks	(1,562)	(1,449)	1,490	(1,521)	(841)
(Increase)/decrease in debtors	(3,854)	(5,501)	1,905	(2,750)	(5,611)
Increase (decrease) in creditors	3,539	4,102	(2,076)	2,855	1,499
Total working capital movement	(1,877)	(2,848)	1,319	(1,416)	(4,953)

Capital expenditure and acquisitions

	\$ million				
	1999	2000	2001	2002	2003
By business					
Exploration and Production ^a	4,194	6,383	8,861	9,699	15,452
Gas, Power and Renewables	151	376	492	408	359
Refining and Marketing ^{b,c}	1,571	8,693	2,415	7,753	3,080
Petrochemicals	1,215	1,585	1,926	823	775
Other businesses and corporate ^d	214	30,576	430	428	409
	7,345	47,613	14,124	19,111	20,075
By geographical area					
UK ^{b,e}	1,518	7,438	2,128	1,637	1,619
Rest of Europe ^c	831	2,041	1,787	6,556	1,277
USA ^d	2,963	34,037	6,160	6,095	6,291
Rest of World ^a	2,033	4,097	4,049	4,823	10,888
	7,345	47,613	14,124	19,111	20,075

^a 2003 includes \$5,794 million for the acquisition of our interest in TNK-BP.

^b 2000 includes \$4,779 million for the acquisition of Burmah Castrol.

^c 2002 includes \$5,038 million for the acquisition of Veba.

^d 2000 includes \$27,506 million for the acquisition of ARCO.

^e UK area includes the UK-based international activities of Refining and Marketing.

Ratios

	%				
	1999	2000	2001	2002	2003
Return on average capital employed					
– replacement cost profit before exceptional items	10.5	13.5	10.5	6.0	10.5
– historical cost profit after exceptional items	10.3	14.8	8.5	8.4	11.3
(Based on profit after taxation before deducting interest expense) ^a					
Return on average BP shareholders' interest					
– replacement cost profit before exceptional items	12.7	18.1	12.7	7.0	13.1
– historical cost profit after exceptional items	12.4	19.7	10.0	10.2	14.1
(Based on profit after taxation and minority shareholders' interest)					
Payout ratio					
– replacement cost profit before exceptional items	83.3	49.7	59.5	114.4	60.3
– historical cost profit after exceptional items	85.1	45.7	75.3	78.5	56.0
(Dividend: profit)					
Debt to debt-plus-equity ratio	27.6	24.3	24.6	23.9	22.5
Finance debt: finance debt plus BP and minority shareholders' interest)					
Debt to equity ratio	38.2	32.0	32.6	31.4	29.0
Finance debt: BP and minority shareholders' interest)					
Net debt to net debt-plus-equity ratio	25.4	22.6	23.0	22.4	20.8
Net debt to equity ratio	34.1	29.3	29.8	28.9	26.2
(Net debt equals finance debt less cash and liquid resources)					

^a Excludes interest on joint venture and associated undertakings debt as well as unwinding of discount on provisions and effect of change in discount rate on provisions and unwinding of discount on deferred consideration for acquisition of investment in TNK-BP, and is on a post-tax basis, using a deemed tax rate equal to the US statutory tax rate.

Share price

	Pence per 25 cent ordinary share				
	1999	2000	2001	2002	2003
High	643	671	647	625	455
Daily average	552	579	575	512	418
Low	411	445	492	393	357
End year	622	540	534	427	453

United States accounting principles

The following is a summary of adjustments to profit for the year and to BP shareholders' interest which would be required if generally accepted accounting principles in the United States (US GAAP) had been applied instead of those generally accepted in the United Kingdom (UK GAAP). The results are stated using the first-in first-out method of stock valuation.

	\$ million				
Profit for the year (historical cost) under US GAAP	1999	2000	2001	2002	2003
Profit for the year as reported	4,566	10,120	6,556	6,845	10,267
Adjustments:					
Deferred taxation/business combinations	(24)	71	(815)	(315)	33
Provisions	9	(68)	(182)	8	49
Revisions to fair market values	–	–	(911)	–	289
Sale and leaseback	62	(34)	(36)	24	69
Goodwill	–	43	60	1,302	1,376
Derivative financial instruments	–	–	(313)	540	12
Gain arising on asset exchange	–	–	157	(18)	(17)
Other	(17)	51	10	11	13
Profit for the year before cumulative effect of accounting changes as adjusted to accord with US GAAP	4,596	10,183	4,526	8,397	12,091
Cumulative effect of accounting changes:					
Provisions	–	–	–	–	1,002
Derivative financial instruments	–	–	(362)	–	50
Profit for the year as adjusted to accord with US GAAP	4,596	10,183	4,164	8,397	13,143
Dividend requirements on preference shares	2	2	2	2	2
Profit for the year applicable to ordinary shares as adjusted to accord with US GAAP	4,594	10,181	4,162	8,395	13,141
Per ordinary share – cents					
Basic – before cumulative effect of accounting changes	23.70	47.05	20.16	37.48	54.53
Cumulative effect of accounting changes	–	–	(1.61)	–	4.74
	23.70	47.05	18.55	37.48	59.27
Diluted – before cumulative effect of accounting changes	23.56	46.74	20.04	37.30	54.01
Cumulative effect of accounting changes	–	–	(1.60)	–	4.69
	23.56	46.74	18.44	37.30	58.70
Per American depositary share – cents ^a					
Basic – before cumulative effect of accounting changes	142.20	282.30	120.96	224.88	327.18
Cumulative effect of accounting changes	–	–	(9.66)	–	28.44
	142.20	282.30	111.30	224.88	355.62
Diluted – before cumulative effect of accounting changes	141.36	280.44	120.24	223.80	324.06
Cumulative effect of accounting changes	–	–	(9.60)	–	28.14
	141.36	280.44	110.64	223.80	352.20

	\$ million				
BP shareholders' interest under US GAAP	1999	2000	2001	2002	2003
BP shareholders' interest as reported	37,031	65,584	65,161	69,409	75,938
Adjustments:					
Deferred taxation/business combinations	959	1,043	243	(78)	(65)
Provisions	(335)	(913)	(1,054)	(1,088)	(128)
Sale and leaseback	(77)	(104)	(134)	(106)	(37)
Goodwill	–	(563)	(1,414)	(84)	1,669
Derivative financial instruments	–	–	(675)	(135)	(72)
Gain arising on asset exchange	–	–	157	142	129
Ordinary shares held for future awards to employees	(456)	(360)	(266)	(159)	(96)
Dividends	972	1,178	1,288	1,398	1,495
Investments	–	(112)	(2)	34	1,251
Additional minimum pension liability	(144)	(145)	(942)	(2,164)	(277)
Other	(112)	(54)	(40)	(48)	(43)
BP shareholders' interest as adjusted to accord with US GAAP	37,838	65,554	62,322	67,121	79,764

^a One American depositary share is equivalent to six 25 cent ordinary shares.

Statistics

Crude oil, natural gas and natural gas liquids production (net of royalties)	1999	2000	2001	2002	2003
UK	580	534	485	462	377
USA	804	729	744	765	726
Other	677	665	702	791	1,018
Crude oil and liquids production (thousand barrels a day)	2,061	1,928	1,931	2,018	2,121
UK	1,301	1,652	1,713	1,555	1,446
USA	2,369	3,054	3,554	3,483	3,128
Other	2,397	2,903	3,365	3,669	4,039
Natural gas production (million cubic feet a day)	6,067	7,609	8,632	8,707	8,613
Total production (thousand barrels oil equivalent a day)	3,107	3,240	3,419	3,519	3,606
Group refinery throughputs ^a (thousand barrels a day)	2,522 ^b	2,916 ^b	2,929	3,103	3,097
For BP by others	19	12	14	14	–
Total	2,541	2,928	2,943	3,117	3,097

^a Includes crude oil and other feedstock input to BP's crude distillation units both for BP and third parties.

^b Includes BP share of the BP/Mobil joint venture.

Crude oil and refined petroleum product sales

thousand barrels a day

Crude oil	4,984	5,984	4,473	4,671	5,007
Refined petroleum products	5,002 ^c	5,859 ^c	6,206	6,563	6,723
Total oil sales	9,986	11,843	10,679	11,234	11,730

^c Includes BP share of the BP/Mobil joint venture.

Estimated net proved reserves of crude oil^d

millions of barrels at 31 December

Developed	4,828	4,318	4,308	4,335	3,576
Undeveloped	1,707	2,190	2,909	3,427	3,873
Group companies	6,535	6,508	7,217	7,762	7,449
Equity-accounted entities (BP share)	1,037	1,135	1,159	1,403	2,867

^d Net proved reserves of crude oil exclude production royalties due to others.

Estimated net proved reserves of natural gas^e

billions of cubic feet at 31 December

Developed	20,498	24,269	23,749	23,773	21,073
Undeveloped	13,304	16,831	19,210	22,071	22,903
Group companies	33,802	41,100	42,959	45,844	43,976
Equity-accounted entities (BP share)	1,724	2,818	3,216	2,945	2,553

^e Net proved reserves of natural gas exclude production royalties due to others.

Average realizations

BP average crude oil and natural gas liquids realizations	\$/bbl	16.7	26.6	22.5	22.7	27.3
Brent oil price	\$/bbl	17.9	28.4	24.4	25.0	28.8
Henry Hub gas price	\$/mcf	2.3	3.9	4.3	3.2	5.4

Further information is included in *BP Financial and Operating Information 1999-2003* (see page 119).

Employee numbers

	year end				
	1999	2000	2001	2002	2003
By business					
Exploration and Production	12,500	16,000	16,550	16,800	15,350
Gas, Power and Renewables	2,950	3,400	4,200	4,400	3,550
Refining and Marketing	24,900	39,500	36,100	42,050	39,200
Petrochemicals	18,700	17,600	21,950	18,950	15,950
Other businesses and corporate	1,600	3,100	2,850	2,800	2,700
Sub-total	60,650	79,600	81,650	85,000	76,750
Service station staff	19,750	27,600	28,500	30,250	26,950
Total	80,400	107,200	110,150	115,250	103,700
By geographical area					
UK	18,250	18,900	19,650	17,750	17,050
Rest of Europe	17,350	22,500	22,800	29,850	25,250
USA	30,150	44,000	42,750	43,200	39,100
Rest of World	14,650	21,800	24,950	24,450	22,300
Total	80,400	107,200	110,150	115,250	103,700

Glossary

Term used in BP Annual Report and Accounts	US equivalent or definition
Accounts	Financial statements
Acquisition accounting	Purchase accounting
Associated undertakings	Equity affiliates
Called up share capital	Ordinary shares, capital stock or common stock issued and fully paid
Capital allowances	Tax depreciation
Capital redemption reserve	Other additional capital
Cash at bank	Cash
Creditors	Accounts payable and accrued liabilities
Creditors: amounts falling due within one year	Current liabilities
Creditors: amounts falling due after more than one year	Long-term liabilities
Debtors: amounts falling due after more than one year	Other non-current assets
Decommissioning	Dismantlement, restoration and abandonment
Employee share schemes	Employee stock benefit plans
Employment costs	Payroll costs
Finance lease	Capital lease
Financial year	Fiscal year
Fixed asset investment	Non-current investments
Freehold	Ownership with absolute rights in perpetuity
Hire charges	Rent
Interest payable	Interest expense
Interest receivable	Interest income
Merger accounting	Pooling of interests accounting
Net asset value	Book value
Other debtors	Other current assets
Own shares	Treasury stock
Profit	Income or earnings
Profit and loss account (statement)	Income statement
Profit and loss account (under 'capital and reserves' in balance sheet)	Retained earnings
Profit for year	Net income
Profit on sale of fixed assets or businesses	Gain on disposal of properties or long-term investments
Provision for doubtful debts	Allowance for doubtful accounts
Provisions	Non-current liabilities other than debt and specific accounts payable
Redundancy charges	Severance costs
Reserves	Retained earnings
Scrip dividend	Stock dividend
Shareholders' funds	Shareholders' equity
Share premium account	Amounts subscribed for share capital in excess of nominal value
Stocks	Inventories
Tangible fixed assets	Property, plant and equipment
Trade debtors	Accounts receivable (net)
Turnover	Sales and other operating revenue

BP has long recognized the importance of good governance. The board has adopted and operates within a robust set of governance policies that go beyond regulatory compliance and are designed to place the interests of our shareholders at the heart of all we do. Formulated in 1997, these policies, which use a principles-based approach, anticipated many developments in UK governance practices.

Reports by Derek Higgs (now Sir Derek) and Sir Robert Smith have prompted changes to the UK Combined Code on Corporate Governance. BP is already largely compliant with the provisions of the new edition of the Combined Code. While BP has no obligation to report on the application of the new code this year, this report will seek to identify and explain to shareholders those areas in which the board has adopted governance processes that differ from those set out in the new code, and the reasons why it considers it in the company's best interest to have done so.

In the US, high-profile corporate and accounting failures led to the introduction of the Sarbanes-Oxley Act of 2002, which mandates processes and standards for corporate behaviour. BP has securities registered with the US Securities and Exchange Commission (SEC) and is obliged to comply with those provisions of the act applicable to foreign private issuers as outlined in its Annual Report on Form 20-F filed with the SEC.

Accountability to shareholders

The board governance policies emphasize the importance of the relationship between the board and the shareholders, underlining the board's role in representing and promoting the interests of shareholders. The board is accountable to shareholders for the performance and activities of the entire group (including, for example, the system of internal control and the review of its effectiveness). The board is accountable in a variety of ways. Directors are required to stand for re-election regularly (currently every three years). New directors are subject to election at the first opportunity following their appointment. Names submitted to shareholders for re-election are accompanied by detailed biographies. The board has indicated that in future all directors should be subject to annual re-election. Shareholders will be asked to approve necessary changes to the Articles of Association to permit such a move at the 2004 annual general meeting (AGM).

The board is required to be proactive in obtaining an understanding of shareholder preferences and to evaluate systematically the economic, social, environmental and ethical matters that may influence or affect the interests of its shareholders. In carrying out its work, the board has to exercise judgement on how best to further the interests of shareholders. The board seeks to do so by maximizing the expected value of the shareholders' interests in the company, not by eliminating the possibility of any adverse outcomes for shareholders. The board considers reports on contacts with shareholders so it can promote and represent shareholder interests through its policy-making and monitoring functions and its active consideration of group strategy. As a result, shareholder interests are embedded in the goals established by the board for the company.

Shareholder communication, meetings and voting

The board makes use of a number of formal communication channels to account to shareholders for the performance of the company. These include the Annual Report and Accounts, the Annual Review, the Annual Report on Form 20-F, quarterly announcements made through stock exchanges on which BP shares are listed, as well as through the AGM. Presentations given at appropriate intervals to representatives of the investment community are available simultaneously to all shareholders, by live internet broadcast or open conference call. Less formal processes include the chairman's contact with institutional shareholders, which is supported by the dialogue with shareholders concerning the governance and operation of the group maintained by the company secretary's office.

Given the size and geographical diversity of BP's shareholder base, the opportunities for shareholder interaction at the AGM are limited. However, the chairman and all board committee chairmen were present at the 2003 AGM to answer questions from shareholders. All votes, whether by proxy or in person, at shareholder meetings are counted since votes on all matters, except procedural issues, are taken by way of a poll. BP has also pioneered the use of electronic communications to facilitate the exercise of shareholder control rights.

The work of the board in governance

The board's governance policies regulate its relationship with shareholders, the conduct of board affairs and the board's relationship with the group chief executive. The policies recognize the board's separate and unique role as the link in the chain of authority between the shareholders and the group chief executive.

The dual role played by the group chief executive and executive directors as both members of the board and leaders of the executive management is also recognized and addressed. The policies require a majority of the board to be composed of independent non-executive directors and delegate all aspects of the relationship between the board and the group chief executive to the non-executive directors.

To discharge its governance function in the most effective manner, the board has laid down rules for its own activities in a *board process policy* that covers the conduct of members at meetings; the cycle of board activities and the setting of agendas; the provision of information to the board; board officers and their roles; board committees – their tasks and composition; qualifications for board membership and the process of the nomination committee; the assessment of board performance; the remuneration of non-executive directors; the process for directors to obtain independent advice; and the appointment and role of the company secretary. The responsibility for implementation of this policy, which includes training of directors, is placed on the chairman.

At its heart, the board process policy recognizes that the board's capacity, as a group, is limited. The board therefore reserves to itself the making of broad policy decisions, delegating more detailed considerations involved in meeting its stated requirements either to board committees and officers (in the case of its own processes) or to the group chief executive (in the case of the management of the company's business activity). The board's role is to set general policy and to monitor its implementation by the group chief executive. To this end, the *board-executive linkage policy* sets out how the board delegates authority to the group chief executive and the extent of that authority. In its *goals policy*, the board states the long-term outcome it expects the group chief executive to deliver. The restrictions on the manner in which the group chief executive may achieve the required results are set out in the *executive limitations policy*, which addresses ethics, health, safety, the environment, financial distress, internal control, risk preferences, treatment of employees and political considerations.

The group chief executive explains how he intends to deliver the required outcome in annual and medium-term plans, which also respond to the group's comprehensive assessment of risks. Progress towards the expected outcome forms the basis of a report to the board that covers actual results and a forecast of results for the current year. This report is reviewed at each board meeting.

The board-executive linkage policy also sets out how the group chief executive's performance will be monitored and recognizes that, in the multitude of changing circumstances, judgement is always involved. The group chief executive is obliged through dialogue and systematic review to discuss with the board all material matters currently or prospectively affecting the company and its performance and all strategic projects or

developments. This key dialogue specifically includes any materially under-performing business activities and actions that breach the executive limitations policy. It also includes social, environmental and ethical considerations. The systems set out in the board-executive linkage policy are designed to manage, rather than to eliminate, the risk of failure to achieve the board goals policy or observe the executive limitations policy. They provide reasonable, not absolute, assurance against material misstatement or loss.

Board committees

The board process policy allocates the tasks of monitoring executive actions and assessing performance to the following committees:

- *Audit Committee* – to monitor all reporting, accounting, financial and control aspects of the executive management's activities.
- *Ethics and Environment Assurance Committee* – to monitor the non-financial aspects of the executive management's activities.
- *Remuneration Committee* – to determine performance contracts, targets and the structure of the rewards for the group chief executive and the executive directors and to monitor the policies being applied in remunerating other senior executives.

These tasks prescribe the authority and the role of the committees.

Reports for each of these committees for 2003 appear on pages 104-105.

The board process policy establishes two further committees, whose tasks are focused on assessing the overall performance of the group chief executive, the structure and effectiveness of the business organization (including the board) and succession planning for both executive and non-executive directors. The *Chairman's Committee* comprises all the non-executive directors. It considers broad issues of governance, including matters referred to it for an opinion from any other board committee. The *Nomination Committee*, formally tasked with the identification and evaluation of candidates for appointment or reappointment as director or company secretary, has been established with a fluid membership comprising the chairman, group chief executive and three non-executive directors drawn from the body of non-executives from time to time. External search consultants are retained to propose candidates for appointment to the board, with requisite skills and experience identified in the results of the board's annual evaluation processes.

During 2003, discussions on board succession planning for both executive and non-executive director appointments (and the appointment of the new company secretary) took place in the wider forum of the chairman's committee, so as to allow the broadest possible non-executive director participation (see section on 'Board succession planning'). The board has determined that from now on the nomination committee will comprise the chairman, the senior independent director and the chairmen of each of the audit, the ethics and environment assurance and the remuneration committees. The group chief executive will be invited to attend meetings and participate in discussions when appropriate.

Board meetings and board attendance

In addition to the AGM (which all directors attended), the board met eight times during 2003, five times in the UK and three times in the US. Two of these meetings were two-day strategy discussions.

All directors attended all board meetings, except that Mr Davis, Mr Maljers, Dr Massey and Sir Robin Nicholson were absent from one board meeting each. However, whenever necessary, absent board members joined meetings by video-link for relevant items.

The chairman, senior independent director and company secretary

Between board meetings the chairman has responsibility for ensuring the integrity and effectiveness of the board/executive relationship. The board governance policies require the chairman and deputy chairman

to be non-executive directors; throughout 2003 the posts were held by Mr Sutherland and Sir Ian Prosser respectively. Sir Ian also acts as the senior independent director and is the director whom shareholders may contact if they feel their concerns are not being addressed through normal channels. The company secretary reports to the chairman and is not part of the executive management. The company secretary's office provides support to all the non-executive directors, ensuring that board and board committee processes are demonstrably independent of the executive management of the group.

Board succession planning

The board is composed of the chairman, eleven non-executive and six executive directors. A number of current directors are approaching the board's mandatory retirement age for non-executive directors (age 70). To manage the process of board succession without compromising the effectiveness of the board and its committees, the board has agreed the following timetable of non-executive appointments and retirements, subject always to directors' continued re-election. Mr Maljers retires from the board at the 2004 AGM, while Mr Knight and Sir Robin Nicholson will retire at the 2005 AGM. Mr Bryan and Mr Miles will retire at the 2006 AGM and Mr Wilson at the 2007 AGM. Mr Burgmans joined the board in February 2004 as a non-executive director. An additional non-executive director is expected to join the board during 2004, with at least one further new non-executive director to be appointed before the 2005 AGM. Further non-executive directors will be appointed over the coming years.

In making appointments as non-executive directors, the opportunity is taken to ensure a broad range of skill-sets, in particular those skills identified following consideration of the board and board committee evaluation processes (see page 104).

The number of directors will therefore increase in the short term. While this will create a large board by UK standards, BP believes that this is necessary to allow not only sufficient executive director representation to cover the breadth of the group's business activity but also sufficient non-executive representation to reflect the scale and complexity of the company and to staff the board committees. A board of this size will also allow necessary succession planning for key roles.

Independence

The qualification for board membership includes a requirement that all non-executive directors be free from any relationship with the executive management of the company that could materially interfere with the exercise of their independent judgement. In the board's view, all non-executive directors fulfil this requirement. It has therefore determined all twelve to be independent directors.

Two current directors, Mr Knight and Sir Robin Nicholson, were appointed to the BP board in 1987. Mr Miles was appointed in 1994. The length of their respective service on the board exceeds the nine years referred to in the new Combined Code, which provides that an explanation be made to shareholders concerning their continuing independence. The board considers that the integrity and independence of character of these directors are beyond doubt, while their experience and long-term perspective on BP's business during its recent period of growth provide a valuable and unique contribution to the board. Both Mr Knight and Sir Robin will retire at next year's AGM, having seen through ongoing work in the remuneration committee as outlined in the directors' remuneration report. Sir Robin is standing for re-election in 2004. Mr Miles will continue until 2006.

Those directors who joined the BP board in 1998 after service on the board of Amoco Corporation are considered independent since the most senior executive management of BP comprises individuals who were not previously Amoco employees. Moreover, the scope and scale of

the BP group are fundamentally different from those of the former Amoco Corporation.

The board has satisfied itself that there is no compromise to the independence of those directors who serve together as directors on the boards of outside entities (or who have other appointments in outside entities) and that, where necessary, appropriate processes are in place to manage any possible conflict of interest.

Sir Robin Nicholson received fees during 2003 for representing the board on the BP Technology Advisory Council. Since these fees relate to board representation, they do not compromise Sir Robin's independence. Mr Miles received fees for his service as a director of BP Pension Trustees Limited (BPPT) during 2003. These fees, payable to all non-employed BPPT directors, are modest in size and as such are not considered to affect Mr Miles's independence. However, he has agreed that from now on no such fees should be payable in respect of his service as a director of BPPT. Full details of these fees are disclosed on page 114.

Induction, training and evaluation

Directors receive induction on their appointment to the board as appropriate, covering matters such as the operation and activities of the group (including key financial, business, social and environmental risks to the group's activities), the role of the board and the matters reserved for its decision, the tasks and membership of the principal board committees, and the powers delegated to those committees, the board's governance policies and practices, and the latest financial information about the group. The training and induction processes for directors are evolving to take into account the development of the group and applicable governance standards. Throughout their period in office the directors are updated on BP's business, the environment in which it operates and other matters. With the agreement of the board, executive directors are permitted to take up external board appointments. It is the company's policy that executive directors may retain any fees received in respect of such external appointments.

Directors are advised on appointment of their legal and other duties and obligations as directors of a listed company. The board regularly considers the implications of these duties under BP's board governance policies. The directors addressed developments in corporate regulation and governance affecting BP and their role as directors, endorsing the approach to be taken by the company.

During 2003, the board continued annual evaluation processes to assess its performance and identify areas in which the effectiveness of the board, its policies or process might be enhanced. Directors completed questionnaires and subsequently met with the chairman to discuss their views. The results of the evaluation process were presented to the board and the matters identified addressed. Board committees have begun to conduct more structured evaluation of their performance, leading to refinements in their processes, composition and work programmes.

Audit committee report

The committee, chaired by Sir Ian Prosser, met nine times during 2003. Members of the audit committee (all independent non-executive directors) are listed on pages 116-117. The external auditors' lead partner and the BP general auditor (head of internal audit) attend each meeting at the request of the committee chairman. Audit committee meetings were fully attended, except that Mr Bryan, Mr Davis, Mr Miles and Mr Wilson were each unable to attend one meeting. The board considers that the membership of the audit committee as a whole has sufficient recent and relevant financial experience to discharge its functions, but it has determined not to identify any single member as having such experience.

The audit committee's tasks (*outlined on page 103*) are considered by the committee to be broader than those envisaged under the new

Combined Code Provision C.3.3. The committee is satisfied that it addresses each of those matters identified as properly falling within an audit committee's purview.

The committee structures its work programme so as to discharge its tasks, which include systematic monitoring and obtaining assurance that the legally required standards of disclosure are being fully and fairly observed and that the executive limitations relating to financial matters are being observed. All annual and quarterly financial reports are reviewed by the committee through a process of engaging with the representatives of executive management (specifically the chief financial officer, the group chief accounting officer and the group controller) as well as with the external and internal auditors. The committee discusses significant accounting policies, estimates and judgements applied in the preparation of these reports and obtains assurance from the external auditors of their support or any area of difference. The committee gives its recommendation to the board concerning the adoption and publication of all financial reports to shareholders.

The committee keeps under review the scope and results of external audit work, its cost-effectiveness and the independence and objectivity of the auditors. It requires the auditors to rotate their lead audit partner every five years and, in accordance with its policy on non-audit services provided by the auditors, the committee reviews and approves the award of any such work. This is limited to defined audit-related work and tax services that fall within specific categories. Further details may be found in Note 9 on Accounts on page 50.

The committee has considered the appointment of the auditor for the group for 2004 and recommended to the board that Ernst & Young LLP be proposed for reappointment, having noted with satisfaction the scope and results of their audit work, their objectivity and independence, and having received due assurance regarding Ernst & Young's objectivity, independence and viability in the year ahead. The board duly endorsed the committee's recommendation.

Aside from its review of all financial reports and monitoring of external audit work, the committee considers the internal audit programme and reviews matters identified in it. The committee also receives regular reports on development in financial reporting practices so as to keep abreast of current thinking on accounting policies and standards.

During the course of the year the committee considered a number of matters including internal financial control and risk management systems within three major business segments, the integration of Veba in Europe, the company's risk management processes in Indonesia and the monitoring of international accounting developments.

The committee has also adopted group-wide procedures to ensure that it is alerted to issues of fraud or matters of concern raised related to the finances and financial accounting policies of the group.

Ethics and environment assurance committee report

The committee, chaired by Dr Massey, met four times during 2003. Members of the ethics and environment assurance committee (all independent non-executive directors) are listed on pages 116-117. The external auditors' lead partner and the BP general auditor (head of internal audit) attend each meeting at the request of the committee chairman. Committee meetings were fully attended, except that Mr Maljers was unable to attend two meetings and Mr Wilson one meeting.

The committee considers matters relating to the executive management's processes to address environmental, social and reputation issues and the systems in place to manage non-financial risks to the group. It receives a report at each meeting from the deputy group chief executive on behalf of the executive management of the group. During the course of the year, the committee considered a number

of specific topics, including environmental remediation, the company's system of certifying adherence by staff to its ethical standards, greenhouse gas emissions and the management of risk in shipping operations. The company also sought and received regular reports on health, safety, security and environmental (HSSE) performance and the company's employee concerns programme – OpenTalk.

Remuneration committee report

The committee, chaired by Sir Robin Nicholson, met six times during 2003. Members of the remuneration committee (all independent non-executive directors) are listed on page 106. The directors' remuneration report for 2003 is set out on pages 106-115.

Combined Code compliance

BP complied throughout 2003 with the provisions of Section 1 of the applicable 2002 edition of the Combined Code Principles of Good Governance and Code of Best Practice, except in the following aspect. During 2003, not all the members of the nomination committee were identified since three of its members are selected from among the non-executive directors when a meeting is arranged. Leaving part of the committee membership unspecified allowed the board to manage the potential for conflicts of interest in recommending candidates for re-election as directors. However, as is noted on page 103, the nomination committee now comprises the chairman, the senior independent director and the chairmen of the audit, the ethics and environment assurance and the remuneration committees.

Internal control review

The board governance policies include a process for the board to review regularly the effectiveness of the system of internal control as required by Code provision D.2.1. As part of this process, the board, the audit and the ethics and environment assurance committees requested, received and reviewed reports from executive management, including management of the principal business segments, at their regular meetings. That enabled them to assess the effectiveness of the system of internal control in operation for managing significant risks throughout the year. These risks included those areas identified in the Disclosure Guidelines on Socially Responsible Investment issued by the Association of British Insurers. This process did not extend to joint ventures or associates.

The executive management presented a report to the January 2004 meetings of both the audit and the ethics and environment assurance committees to support the board in its annual assessment of internal control. The report identified and evaluated significant risks and described the executive management's assurance process. It described the changes since the last annual assessment in the nature and potential impact of significant risks and the continuing development of the internal control systems in place to manage them. Significant incidents that occurred during the year and management's response to them were also described. The report also included an assessment of future potentially significant risks. The two committees engage with executive management throughout the year to monitor their management of these risks.

In the board's view, the information it received was sufficient to enable it to review the effectiveness of the company's system of internal control in accordance with the Guidance for Directors on Internal Control (Turnbull).

Directors' interests

in BP ordinary shares or calculated equivalents

	At 31 Dec 2003	At 1 Jan 2003 or on appointment	Change from 31 Dec 2003- 9 Feb 2004
Current directors (excluding director appointed in 2004)			
Dr D C Allen	371,365 ^a	306,565 ^{a,b}	–
Lord Browne	1,816,054 ^c	1,681,652 ^c	–
J H Bryan	158,760 ^d	98,760 ^d	–
E B Davis, Jr	65,162 ^d	63,814 ^d	–
Dr B E Grote	788,313 ^d	722,562 ^d	–
Dr A B Hayward	121,692	92,465 ^b	83
Dr D S Julius	15,000	2,000	–
C F Knight	95,610 ^d	92,238 ^d	–
F A Maljers	33,492 ^d	33,492 ^d	–
J A Manzoni	127,821	95,817 ^b	83
Dr W E Massey	49,261 ^d	48,232 ^d	–
H M P Miles	22,145	22,145	–
Sir Robin Nicholson	3,897	3,758	–
R L Olver	798,326	738,563	83
Sir Ian Prosser	16,301	2,826	–
P D Sutherland	30,079	7,079	–
M H Wilson	60,000 ^d	43,200 ^d	–

	At retirement	At 1 Jan 2003	
Director leaving the board in 2003			
R F Chase	902,817 ^e	810,826	

	On appointment 5 Feb 2004	Change from 5 Feb 2004- 9 Feb 2004
Director appointed in 2004		
A Burgmans	10,000	–

^a Includes 25,368 shares held as ADSs.

^b At appointment on 1 February 2003.

^c Includes 50,368 shares held as ADSs throughout 2003.

^d Held as ADSs.

^e On leaving the board on 23 April 2003.

In disclosing the above interests to the company under the Companies Act 1985, directors did not distinguish their beneficial and non-beneficial interests.

Executive directors are also deemed to have an interest in such shares of the company held from time to time by BP QUEST Company Limited and The BP Employee Share Ownership Plan (No. 2) to facilitate the operation of the company's option schemes.

No director has any interest in the preference shares or debentures of the company, or in the shares or loan stock of any subsidiary company.

Directors' remuneration report

The directors' remuneration report covers all directors, both executive and non-executive, and is set out on pages 106-115.

It is divided into two parts. Executive directors' remuneration is in the first part, which was prepared by the remuneration committee.

Non-executive directors' remuneration is in the second part, which was prepared by the company secretary on behalf of the board.

The report has been approved by the board and signed on its behalf by the company secretary. This report is subject to the approval of shareholders at the annual general meeting (AGM).

Part 1 – Executive directors' remuneration

Dear Shareholder

The remuneration committee's well-defined policy of relating pay to the performance of the company continues to be central in determining the remuneration of the executive directors. As is commented on elsewhere in *BP Annual Report and Accounts 2003*, the company produced strong financial results in 2003 as well as excellent progress on the implementation of the company's strategic plans.

The outcome of the committee's assessment for 2003 has therefore been an increase in the performance-related annual bonus and share element of the Executive Directors' Incentive Plan, compared with the reductions in 2002. Share option grants, made in February 2003, were maintained at the same level as 2002. Salaries, other than for promotions, were increased by up to 5% mid-year to maintain our competitive position. Further details on the above are set out in the committee's report.

The independent process and advice the committee utilizes continue to give us confidence in our policy and its application. We also value our dialogue with major shareholders. During 2004, we will be conducting a comprehensive review of our plans and policies with an expectation of bringing new long-term plans to shareholders for approval in 2005 when our current Executive Directors' Incentive Plan expires.

I am confident that our approach will continue to align executive directors' remuneration with the interests of shareholders as well as retain and engage the world-class team of individuals we have leading the company.



Sir Robin Nicholson

Chairman, Remuneration Committee

9 February 2004

The remuneration committee

Tasks

The committee's tasks as set out in the board governance policies are:

- To determine on behalf of the board the terms of engagement and remuneration of the group chief executive and the executive directors and to report on those to the shareholders.
- To determine on behalf of the board matters of policy over which the company has authority relating to the establishment or operation of the company's pension scheme of which the executive directors are members.
- To nominate on behalf of the board any trustees (or directors of corporate trustees) of such scheme.
- To monitor the policies being applied by the group chief executive in remunerating senior executives other than executive directors.

Constitution and operation

The committee members are all non-executive directors. The membership throughout 2003 was: Sir Robin Nicholson (chairman), Mr Davis, Dr Julius, Mr Knight and Sir Ian Prosser. Currently, each member is subject to re-election every three years; however, annual re-election is proposed from 2005. The board considers all committee members to be independent (*see pages 103-104*). They have no personal financial interest, other than as shareholders, in the committee's decisions. They have no conflicts of interest arising from cross-directorships with the executive directors nor from being involved in the day-to-day business of the company. The committee met six times in the period under review. There was a full attendance record, except that Sir Ian and Mr Davis were each unable to attend one meeting. Mr Sutherland, as chairman of the board, also attended committee meetings.

The committee is accountable to shareholders through its annual report on executive directors' remuneration. It will consider the outcome of the vote at the AGM on the remuneration report, and the views of investors will be taken into account by the committee in its future decisions. The committee also values its dialogue with major shareholders on remuneration matters.

Advice

Advice is provided to the committee by the company secretary's office, which is independent of executive management and reports to the non-executive chairman. Mr Aronson, who is an independent consultant within the company secretary's office, was appointed in 2000 by the committee as its secretary and special adviser. He does not provide any other services to the group. Advice was also received in 2003 from Mr Jackson (company secretary), Miss Hanratty (former company secretary) and Mrs Martin (senior counsel, company secretary's office).

The committee, in consultation with Mr Aronson and the company secretary, also appoints external professional advisers to provide specialist advice and services on particular remuneration matters. This allows for a range of external independent opinion to be sourced by the committee. This advice is then subject to an independent review by Mr Aronson. The committee assesses this advice, applying its own judgement. Procedures to ensure the independence of advice are subject to annual review.

The committee appointed Towers Perrin as its principal external adviser during 2003 on matters of executive directors' remuneration. Towers Perrin also provided some limited ad hoc remuneration and benefits advice to parts of the group, mainly comprising pensions advice in Canada.

Lord Browne (group chief executive) was consulted on matters relating to the other executive directors who report to him and, together with Dr Allen (group chief of staff), on matters relating to the performance of the company. Neither was present when matters affecting his own remuneration were considered.

Policy on executive directors' remuneration

Main principles

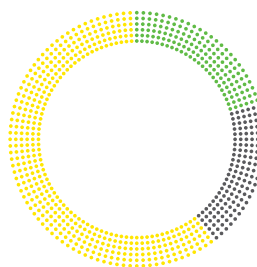
The remuneration committee's reward policy reflects its aim to align executive directors' remuneration with shareholders' interests and to engage world-class executive talent for the benefit of the group. The main principles of the policy are:

- Total rewards should be set at appropriate levels to reflect the competitive global market in which BP operates.
- The majority of the total reward should be linked to the achievement of demanding performance targets.
- Executive directors' incentives should be aligned with the interests of ordinary shareholders. This is achieved through setting performance targets that take account of measures of shareholders' interests and through the committee's policy that each executive director should hold a significant shareholding in the company, equivalent in value to 5 x the director's base salary.
- The performance targets in the Executive Directors' Incentive Plan should encompass demanding comparisons of BP's shareholder returns and earnings with those of other companies in its own industry and in the broader marketplace.
- The wider scene, including pay and employment conditions elsewhere in the group, should be taken into account, especially when determining annual salary increases.

The company's existing policy on executive directors' remuneration will remain in place for 2004. The committee is conducting a comprehensive review of its policies in the course of 2004 prior to the expiry of the current Executive Directors' Incentive Plan in April 2005. This review will take into account changes in BP's business environment and its strategy. New policies will be described in the next remuneration report for shareholder approval and specific shareholder authorization will be sought for any new long-term share incentive plans. All statements in this report in relation to remuneration policy for years after 2004 should be read in this light.

Elements of remuneration

The executive directors' total remuneration consists of salary, annual bonus, long-term incentives, pensions and other benefits. This reward structure is regularly reviewed by the committee to ensure that it is achieving its objectives. In 2004, over three-quarters of executive directors' potential direct remuneration will again be performance-related (see illustrative chart below).



On-target remuneration elements

- Base salary
- Performance-related annual bonus
- Performance-related long-term incentives include a share element and share options

This chart reflects on-target values for annual bonus and share element, and a Black Scholes value for the share option element.

Salary

Each executive director receives a fixed sum payable monthly in cash. The committee expects to review salaries in 2004 in line with global markets. In doing so the committee considers appropriate comparator groups in both Europe and the US, which are defined and analysed by external remuneration advisers engaged independently by the committee.

Annual bonus

Each executive director is eligible to participate in an annual performance-based bonus scheme. The remuneration committee reviews and sets bonus targets and levels of eligibility annually.

The target level is 100% of base salary (except for Lord Browne, for whom, as group chief executive, it is considered appropriate to have a target of 110%). There is a stretch level of 150% of base salary for substantially exceeding targets. Outstanding performance may be recognized by bonus payments in excess of the stretch level at the discretion of the remuneration committee. Executive directors' annual bonus awards for 2004 will be based on a mix of demanding financial targets relating to the company's annual plan and leadership objectives established at the beginning of the year. In addition to stretching milestones and long-run metrics to track the enactment of strategy, they include areas such as people, safety, environment and organization.

Long-term incentives

Long-term incentives are provided under the Executive Directors' Incentive Plan (EDIP), which was approved by shareholders in April 2000. It has three elements: a share element, a share option element and a cash element. Each executive director participates in this plan. The committee's policy, subject to unforeseen circumstances, is that this should continue until the plan expires or is renewed in April 2005.

The performance conditions in the share element and share option element of the EDIP were selected to ensure that executive directors' long-term remuneration under the EDIP is appropriately balanced between elements testing BP's performance against that of competitors in the oil industry and elements testing BP's performance against that of leading global companies.

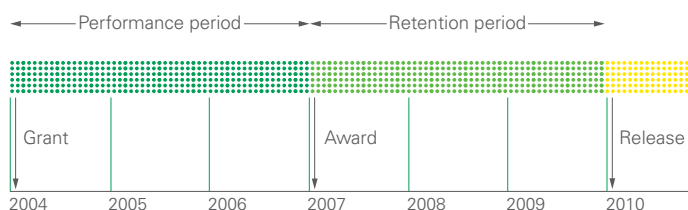
The committee's policy is that each executive director should hold shares equivalent in value to 5 x the director's base salary within five years of being appointed an executive director. As is reflected in the table of Directors' interests on page 105, Lord Browne, Mr Olver and Dr Grote all have holdings in excess of the guidelines. The recent appointees are expected to attain this level within five years of their appointments. This policy is reflected in the terms of the EDIP, as shares awarded under the share element will only be released at the end of the three-year retention period (*as described below*) if the minimum shareholding guidelines have been met.

1. Share element

The share element permits the remuneration committee to grant 'performance units' to executive directors. These are notional units that give the directors the right to be considered for an award of shares (without payment by the directors) at the end of a three-year performance period, if demanding performance conditions are met. The committee determines the number of units to be awarded each year. The maximum value that may be granted in any one year will not normally exceed twice the base salary. The maximum number of shares that may be awarded for each performance unit is two.

Shares awarded are then held in trust for three years before they are released to the individual. This gives the executive directors a six-year incentive structure, and is designed to ensure that their interests are aligned with those of shareholders.

Timeline for 2004-2006 EDIP share element



The share element compares BP's performance against the oil and gas sector over three years on a rolling basis. This is assessed in terms of a three-year total shareholder return against the market (SHRAM), return on average capital employed (ROACE) and earnings per share growth, based on pro forma results adjusted for special items (EPS). SHRAM is the primary measure, accounting for nearly two-thirds of the potential total award. All calculations are reviewed by the auditors to ensure that they meet an independent objective standard. The relative position of the company within the comparator group determines the number of shares awarded per performance unit.

For the 2001-2003 plan, BP's three-year SHRAM was measured against the other oil majors: ExxonMobil, Shell, TotalFinaElf, ChevronTexaco, ENI and Repsol. Owing to the reduced number of oil majors, for the 2002-2004, 2003-2005 and 2004-2006 plans BP's three-year SHRAM is measured against the companies in the FTSE All World Oil & Gas Index. Companies within the index are weighted according to their market capitalization at the beginning of each three-year period in order to give greatest emphasis to oil majors.

The committee reviews and approves annually the performance measures and the comparator companies. The policy for the 2004-2006 plan is to continue with the SHRAM measure adopted by the committee in relation to the 2002-2004 and 2003-2005 plans.

BP's ROACE and EPS for all the plans since 2002 are measured against ExxonMobil, Shell, TotalFinaElf and ChevronTexaco.

2. Share option element

The share option element of the EDIP is designed to reflect BP's performance relative to a wider selection of global companies. It has a disclosed three-year pre-grant performance requirement that differentiates it from traditional share option schemes. Under this element, options may be granted to executive directors at an exercise price no lower than the market value (as determined in accordance with the plan rules) of a share at the date the option is granted. Reflecting the pre-grant performance requirement, options vest over three years after grant (one-third each after one, two and three years respectively). They have a life of seven years after grant.

In accordance with the framework approved by shareholders in 2000, it is the committee's policy to continue to exercise its judgement in 2004 to decide the number of options to be granted to each executive director, taking into account BP's total shareholder return (TSR) compared with the TSR for the FTSE Global 100 group of companies over the three years preceding the grant. The committee will not grant options in any year unless the criteria for an award of shares under the share element have been met. These methods of calculation were chosen to enable the committee to take into account not only the TSR position but also the underlying health of the business and the competitive marketplace.

The value of the grants is designed to reflect global market practice for executive pay. Following grant, the options are not subject to any performance conditions. The remuneration committee has favoured this approach for two main reasons. First, it has the effect of treating share options as a reward both for past performance (because BP's ranking within a comparator group will have been taken into account in determining the number of shares under option) and as an incentive for future performance (because the participant's gain under the option will depend on share price growth after the grant under the option). Second, BP operates internationally and the application of a performance condition after grant has not been a feature of option schemes operated by major international companies based outside the UK. The use of options and the types of conditions to be attached to them will be considered by the committee as part of the more general review that is being conducted prior to the expiry of the current plan in 2005.

3. Cash element

The cash element allows the remuneration committee to grant cash rather than share-based incentives in exceptional circumstances. This element was not used in 2003 and the committee has no present intention to use it in 2004.

Pensions

Executive directors are eligible to participate in the appropriate pension schemes applying in their home countries.

UK directors

UK directors are members of the BP Pension Scheme. The scheme offers Inland Revenue-approved retirement benefits based on final salary. The BP pension scheme forms the principal section of the BP Pension Fund, which has been set up under a trust deed. Company contributions to the fund are made on the advice of the actuary appointed by the trustee.

Scheme members' core benefits are non-contributory. They include a pension accrual of 1/60th of basic salary for each year of service, subject to a maximum of two-thirds of final basic salary; and a dependant's benefit of two-thirds of the member's pension. Bonuses are not pensionable for UK directors. The scheme pension is not integrated with state pension benefits.

Normal retirement age is 60, but scheme members who have 30 or more years' pensionable service at age 55 can elect to retire early without an actuarial reduction being applied to their pension.

Pensions payable from the fund are guaranteed to be increased annually in line with changes in the Retail Prices Index, up to a maximum of 5% a year.

Directors appointed prior to 2003 accrue pension on a non-contributory basis at the enhanced rate of 2/60ths of their final salary for each year of service as executive directors (up to the same two-thirds limit). None of the directors is affected by the pensionable earnings cap.

In accordance with the company's long-standing practice for executive directors who retire from BP on or after age 55 having accrued at least 30 years' service, Mr Chase received from the company in 2003 an ex-gratia lump-sum superannuation payment equal to one year's base salary following his retirement. Lord Browne remains eligible for consideration for such a payment. In the case of these individuals, all matters relating to such superannuation payments are considered by the remuneration committee. Any such payments are additional to their pension entitlements referred to above. No other executive director is eligible for consideration for a superannuation payment on retirement, as the remuneration committee decided in 1996 that appointees to the board after that time should cease to be eligible for consideration for such a payment.

The UK government has recently announced important proposals on pensions, the impact of which will be reviewed by the committee in 2004.

US director

Dr Grote as a US director participates in the US BP Retirement Accumulation Plan (US plan), which features a cash balance formula. The current design of the US plan became effective on 1 July 2000.

Consistent with US tax regulations, pension benefits are provided through a combination of tax-qualified and non-qualified benefit restoration plans, as applicable.

The Supplemental Executive Retirement Benefit (supplemental plan) is a non-qualified top-up arrangement that became effective on 1 January 2002 for US employees above a specified salary level.

The benefit formula is 1.3% of final average earnings, which comprise base salary and bonus in accordance with standard US practice (as specified under the qualified arrangement) multiplied by years of service, with an offset for benefits payable under all other BP qualified and non-qualified pension arrangements. This benefit is unfunded and therefore paid from corporate assets.

Dr Grote is an eligible participant under the supplemental plan, and his pension accrual for 2003 includes the total amount that may become payable under all plans.

Other benefits

- Benefits and other share schemes: Executive directors are eligible to participate in regular employee benefit plans and in all-employee share schemes and savings plans applying in their home countries. Benefits in kind are not pensionable.
- Resettlement allowance: Expatriates may receive a resettlement allowance for a limited period.

Service contracts

Policy

The committee's policy on executive directors' service contracts is for them to contain a maximum notice period of one year. This policy has now been fully implemented.

Since January 2003, the committee has included a provision in new service contracts to allow for severance payments to be phased

where appropriate to do so. It will also consider mitigation to reduce compensation to a departing director where appropriate to do so. A large proportion of each executive director's total remuneration is linked to performance and therefore will not be payable to the extent that the relevant targets are not met.

Specific contracts

Director	Contract date	Current salary
Lord Browne	11 November 1993	£1,348,200
R L Olver	31 December 1997	£584,400
Dr B E Grote	7 August 2000	\$782,800
Dr D C Allen	29 January 2003	£400,000
Dr A B Hayward	29 January 2003	£400,000
J A Manzoni	29 January 2003	£400,000
Director leaving the board in 2003		
R F Chase	30 November 1993	

All service contracts expire at normal retirement date and have a notice period of one year.

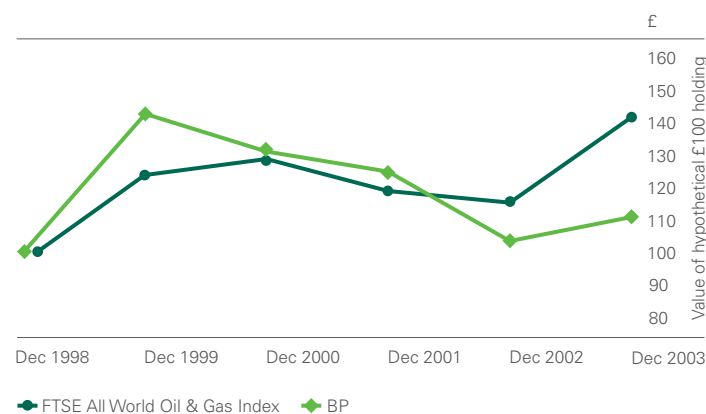
The service contracts of Mr Olver, Dr Allen, Dr Hayward and Mr Manzoni may also be terminated by the company at any time with immediate effect on payment in lieu of notice equivalent to one year's salary or the amount of salary that would have been paid if the contract had terminated on the expiry of the remainder of the notice period.

Dr Grote's service contract is with BP Exploration (Alaska) Inc. He is seconded to BP p.l.c. under a secondment agreement dated 7 August 2000. At 31 December 2003, this secondment agreement had an unexpired term of four years. The secondment may be terminated by one month's notice by either party and terminates automatically on the termination of Dr Grote's service contract.

There are no other provisions for compensation payable on early termination of the above contracts. In the event of early termination under any of the above contracts by the company other than for cause (or under a specific termination payment provision), the relevant director's then current salary and benefits would be taken into account in calculating any liability of the company.

Historical TSR performance

This graph shows the growth in the value of a hypothetical £100 holding in BP p.l.c. ordinary shares over five years relative to the FTSE All World Oil & Gas Index, which is considered to be the most relevant broad equity market index for this purpose as it relates directly to BP's sector. The graph is included to meet a legislative requirement and is not directly relevant to the performance criteria approved by shareholders for the company's long-term incentive plans.



Summary of 2003 remuneration

	Annual remuneration								Long-term remuneration									
	Salary				Annual performance bonus		Non-cash benefits & other emoluments		Total		Share element of EDIP/LTPP				Grants under EDIP			
	2002		2003		2002		2003		2002		2003		2001-2003 plan (to be awarded in Feb 2004)		2000-2002 plan (awarded in Feb 2003)		(granted in Feb 2003)	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	Expected award ^a (shares)	Value ^b (thousand)	Actual award (shares)	Value ^c (thousand)	2003-2005 share element ^d (perform- ance units)	Share option element ^e (options)		
Lord Browne	£1,284	£1,316	£1,695	£1,882	£52	£79	£3,031	£3,277	352,750	£1,503	224,000	£887	632,512	1,348,032				
Dr D C Allen ^f	n/a	£367	n/a	£459	n/a	£2	n/a	£828	62,518	£266	n/a	n/a	197,044	220,000				
Dr B E Grote	\$713	\$770	\$856	\$1,001	\$302 ^g	\$179 ^g	\$1,871	\$1,950	131,750	\$1,063	68,000	\$449	233,638	349,038				
Dr A B Hayward ^f	n/a	£367	n/a	£459	n/a	£3	n/a	£829	54,825	£234	n/a	n/a	197,044	220,000				
J A Manzoni ^f	n/a	£367	n/a	£477	n/a	£34	n/a	£878	51,170	£218	n/a	n/a	197,044	220,000				
R L Olver	£530	£570	£636	£741	£37	£43	£1,203	£1,354	144,500	£616	117,600	£466	274,138	370,956				
Director leaving the board in 2003																		
R F Chase ^h	£640	£231	£768	£295	£32	£30	£1,440	£556	174,250	£742	139,200	£551	-	-				

Amounts shown are in the currency received by executive directors. Annual bonus is shown in the year it was earned. Share option grants in 2003 were maintained at the same level as in 2002.

^a Gross award of shares based on a performance assessment by the remuneration committee and on the other terms of the plan. Sufficient shares are sold to pay for tax applicable. Remaining shares are held in trust until 2007 when they are released to the individual.

^b Based on closing price of BP shares on 9 February 2004 (£4.26 per share/\$48.40 per ADS).

^c Based on average market price on date of award (£3.96 per share/\$39.62 per ADS).

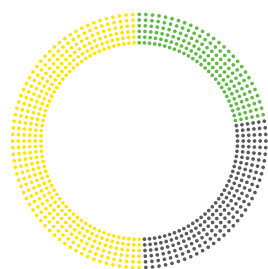
^d Performance units granted under the 2003-2005 share element of the EDIP are converted to shares at the end of the performance period. Maximum of two shares per performance unit.

^e Options granted in February 2003 have a grant price of £3.88 per share. Dr Grote holds options over ADSs; the above numbers reflect calculated equivalents.

^f Reflects remuneration received since appointment as executive director on 1 February 2003.

^g Includes resettlement allowances for Dr Grote of \$300,000 and \$175,000 in 2002 and 2003 respectively.

^h Amounts for Mr Chase reflect the period until his retirement in May 2003.



2003 actual remuneration elements

- Base salary
- Performance-related annual bonus
- Performance-related long-term incentives include a share element and share options

This chart reflects the average mix of total remuneration received by executive directors in 2003 and includes actual salary, bonus and share element award as well as a Black Scholes value of options granted.

Salary

Base salaries for Lord Browne, Mr Olver and Dr Grote were increased by 5% per annum with effect from 1 July 2003, following a review of appropriate comparator groups. Apart from the 5% promotional increases for Mr Olver and Dr Grote on their appointments to deputy group chief executive and chief financial officer respectively, the three directors had received no salary increases since January 2002. Dr Allen, Dr Hayward and Mr Manzoni have received no salary increases since their appointments to the board in February 2003.

Annual bonus

The annual bonus awards for 2003 are based on a mix of financial targets and leadership objectives established at the beginning of the year. Assessment of all the results produced an award of around 85% of stretch level (stretch level is 150% of base salary). All calculations in relation to the annual bonus have been reviewed by the auditors.

Past directors

Following Dr Buchanan's retirement from the BP p.l.c. board on 21 November 2002, he remained as an employee until his normal retirement date of 8 June 2003. During that period he received a pro rata normal salary of £227,000 and a pro rata bonus of £289,425.

Following Mr Chase's retirement in May 2003, he was engaged as a consultant to BP in relation to the TNK-BP transaction. Under the

consultancy agreement, he receives \$50,000 gross per month plus expenses. This consultancy will end in May 2004.

On 21 July 2003, Mr Chase was appointed as a BP-nominated director of TNK-BP Limited, a joint-venture company owned 50% by BP. During 2003, he received emoluments of \$120,000 from TNK-BP Limited.

Long-term awards for both former directors are in accordance with scheme rules as outlined in the table on page 112.

Share options

Share option grants in 2003 (as shown in the table below) were maintained at the same level as in 2002.

	Option type	At 1 Jan 2003	Granted	Exercised	At 31 Dec 2003	Option price	Market price at date of exercise	Date from which first exercisable	Expiry date
Lord Browne	SAYE	3,661 ^a	–	–	–	£4.52	–	1 Sept 2007	28 Feb 2008
	SAYE	–	4,550	–	4,550	£3.50	–	1 Sept 2008	28 Feb 2009
	EDIP	408,522	–	–	408,522	£5.99	–	15 May 2001	15 May 2007
	EDIP	1,269,843	–	–	1,269,843	£5.67	–	19 Feb 2002	19 Feb 2008
	EDIP	1,348,032	–	–	1,348,032	£5.72	–	18 Feb 2003	18 Feb 2009
	EDIP	–	1,348,032	–	1,348,032	£3.88	–	17 Feb 2004	17 Feb 2010
Dr B E Grote ^b	SAR	40,000	–	40,000	–	\$13.63	\$39.20	23 Mar 1996	23 Mar 2003
	SAR	40,800	–	–	40,800	\$16.63	–	25 Mar 1997	25 Mar 2004
	SAR	35,600	–	–	35,600	\$19.16	–	28 Feb 1998	28 Feb 2005
	SAR	35,200	–	–	35,200	\$25.27	–	6 Mar 1999	6 Mar 2006
	SAR	40,000	–	–	40,000	\$33.34	–	28 Feb 2000	28 Feb 2007
	BPA	10,404	–	–	10,404	\$53.90	–	15 Mar 2000	14 Mar 2009
	BPA	12,600	–	–	12,600	\$48.94	–	28 Mar 2001	27 Mar 2010
	EDIP	40,182	–	–	40,182	\$49.65	–	19 Feb 2002	19 Feb 2008
	EDIP	58,173	–	–	58,173	\$48.82	–	18 Feb 2003	18 Feb 2009
	EDIP	–	58,173	–	58,173	\$37.76	–	17 Feb 2004	17 Feb 2010
	R L Olver	SAYE	2,386	–	2,386	–	£2.89	£3.89	1 Sept 2002
SAYE		1,137 ^a	–	–	–	£5.11	–	1 Sept 2004	28 Feb 2005
SAYE		840 ^a	–	–	–	£4.52	–	1 Sept 2005	28 Feb 2006
SAYE		–	2,642	–	2,642	£3.50	–	1 Sept 2006	28 Feb 2007
EDIP		71,847	–	–	71,847	£5.99	–	15 May 2001	15 May 2007
EDIP		260,319	–	–	260,319	£5.67	–	19 Feb 2002	19 Feb 2008
EDIP		370,956	–	–	370,956	£5.72	–	18 Feb 2003	18 Feb 2009
EDIP		–	370,956	–	370,956	£3.88	–	17 Feb 2004	17 Feb 2010
Directors appointed to the board in 2003									
Dr D C Allen	EXEC	33,600 ^c	–	33,600	–	£1.50	£4.15	23 Mar 1996	23 Mar 2003
	EXEC	37,000 ^c	–	–	37,000	£5.99	–	15 May 2003	15 May 2010
	EXEC	87,950 ^c	–	–	87,950	£5.67	–	23 Feb 2004	23 Feb 2011
	EXEC	175,000 ^c	–	–	175,000	£5.72	–	18 Feb 2005	18 Feb 2012
	EDIP	–	220,000	–	220,000	£3.88	–	17 Feb 2004	17 Feb 2010
Dr A B Hayward	SAYE	3,302 ^c	–	–	3,302	£5.11	–	1 Sept 2006	28 Feb 2007
	EXEC	34,000 ^c	–	–	34,000	£5.99	–	15 May 2003	15 May 2010
	EXEC	77,400 ^c	–	–	77,400	£5.67	–	23 Feb 2004	23 Feb 2011
	EXEC	160,000 ^c	–	–	160,000	£5.72	–	18 Feb 2005	18 Feb 2012
	EDIP	–	220,000	–	220,000	£3.88	–	17 Feb 2004	17 Feb 2010
J A Manzoni	SAYE	2,600 ^c	–	2,600	–	£3.72	£4.33	1 Sept 2003	28 Feb 2004
	SAYE	750 ^c	–	–	750	£4.50	–	1 Sept 2004	28 Feb 2005
	SAYE	878 ^c	–	–	878	£4.52	–	1 Sept 2007	28 Feb 2008
	SAYE	–	2,548	–	2,548	£3.50	–	1 Sept 2008	28 Feb 2009
	EXEC	12,000 ^c	–	–	12,000	£2.04	–	28 Feb 1998	28 Feb 2005
	EXEC	34,000 ^c	–	–	34,000	£5.99	–	15 May 2003	15 May 2010
	EXEC	72,250 ^c	–	–	72,250	£5.67	–	23 Feb 2004	23 Feb 2011
	EXEC	175,000 ^c	–	–	175,000	£5.72	–	18 Feb 2005	18 Feb 2012
	EDIP	–	220,000	–	220,000	£3.88	–	17 Feb 2004	17 Feb 2010
Director leaving the board in 2003									
R F Chase	SAYE	3,388	–	–	3,388 ^d	£4.98	–	1 Sept 2005	28 Feb 2006
	EDIP	85,215	–	–	85,215 ^d	£5.99	–	15 May 2001	15 May 2007
	EDIP	312,171	–	–	312,171 ^d	£5.67	–	19 Feb 2002	19 Feb 2008

The closing market prices of an ordinary share and of an ADS on 31 December 2003 were £4.53 and \$49.35 respectively. During 2003, the highest market prices were £4.55 and \$49.35 respectively, and the lowest market prices were £3.57 and \$35.37 respectively.

EDIP = Executive Directors' Incentive Plan adopted by shareholders in April 2000 as described on pages 107-108. The awards are made taking into consideration the ranking of the company's TSR against the TSR of the FTSE Global 100 group of companies over the three-year period prior to the grant.

BPA = BP Amoco share option plan, which applied to US executive directors prior to the adoption of the EDIP.

SAR = Stock Appreciation Rights under BP America Inc. Share Appreciation Plan. In keeping with the US market practice, none of the options under the BPA and SAR is subject to performance conditions because they were granted under American plans to the relevant individual.

SAYE = Save As You Earn employee share option scheme. These options are not subject to performance conditions because this is an all-employee share scheme governed by specific tax legislation.

EXEC = Executive Share Option Scheme. These options were granted to the relevant individuals prior to their appointments as directors and are not subject to performance conditions.

^a Options surrendered on 3 July 2003 for nil cash consideration.

^b Numbers shown are ADSs under option. One ADS is equivalent to six ordinary shares.

^c On appointment to the board of BP p.l.c. on 1 February 2003.

^d On leaving the board of BP p.l.c. on 23 April 2003.

Long Term Performance Plans (LTTPs) and share element of EDIP

Under the Long Term Performance Plans and the share element of the EDIP, performance units are granted at the beginning of the period and converted into an award of shares at the end of the three-year period, depending on performance. There is a maximum of two shares per performance unit.

Since the adoption of the EDIP in April 2000, the executive directors have ceased to be eligible for grants under the BP share option plan and the LTTPs. However, they are not required to relinquish rights under those plans that had already been granted prior to their appointments as executive directors (including performance units under the LTTPs that have yet to

mature into share awards). Dr Allen, Dr Hayward and Mr Manzoni therefore have rights under the 2000-2002, 2001-2003 and 2002-2004 LTTPs.

For the 2001-2003 share element of the EDIP and the LTTP, BP's performance was assessed in terms of SHRAM, ROACE and EPS growth – each relative to that of ExxonMobil, Shell, TotalFinaElf, ChevronTexaco, ENI and Repsol.

BP's SHRAM came in at sixth place among the comparator group, fourth place on EPS growth and first place on ROACE.

Based on a performance assessment of 85 points out of 200, the remuneration committee expects to make awards of shares to executive directors as highlighted in the 2001-2003 lines of the table below.

Long Term Performance Plans (LTTPs) and share element of EDIP

	Performance period ^a	Date of grant of performance units	Market price of each share at date of grant of performance units £	LTTP/Share element interests			Interests vested in 2003		
				Performance units ^b			Number of ordinary shares awarded ^c	Share award date	Market price of each share at share award date £
				At 1 Jan 2003	Granted 2003	At 31 Dec 2003			
Lord Browne	2000–2002	23 Feb 2000	4.59	280,000	–	–	224,000	17 Feb 2003	3.96
	2001–2003	19 Feb 2001	5.80	415,000	–	415,000	352,750	expected award Feb 2004	
	2002–2004	18 Feb 2002	5.73	475,556	–	475,556	–	–	–
	2003–2005	17 Feb 2003	3.96	–	632,512	632,512	–	–	–
Dr B E Grote	2000–2002	23 Feb 2000	4.59	85,000	–	–	68,000	17 Feb 2003	3.96
	2001–2003	19 Feb 2001	5.80	155,000	–	155,000	131,750	expected award Feb 2004	
	2002–2004	18 Feb 2002	5.73	182,613	–	182,613	–	–	–
	2003–2005	17 Feb 2003	3.96	–	233,638	233,638	–	–	–
R L Olver	2000–2002	23 Feb 2000	4.59	147,000	–	–	117,600	17 Feb 2003	3.96
	2001–2003	19 Feb 2001	5.80	170,000	–	170,000	144,500	expected award Feb 2004	
	2002–2004	18 Feb 2002	5.73	196,296	–	196,296	–	–	–
	2003–2005	17 Feb 2003	3.96	–	274,138	274,138	–	–	–
Directors appointed to the board in 2003									
Dr D C Allen	2000–2002	10 Feb 2000	4.53	65,000 ^d	–	–	52,000	17 Feb 2003	3.96
	2001–2003	12 Mar 2001	5.88	73,550^d	–	73,550	62,518	expected award Feb 2004	
	2002–2004	6 Mar 2002	5.99	80,000 ^d	–	80,000	–	–	–
	2003–2005	17 Feb 2003	3.96	–	197,044	197,044	–	–	–
Dr A B Hayward	2000–2002	10 Feb 2000	4.53	50,000 ^d	–	–	40,000	17 Feb 2003	3.96
	2001–2003	12 Mar 2001	5.88	64,500^d	–	64,500	54,825	expected award Feb 2004	
	2002–2004	6 Mar 2002	5.99	73,500 ^d	–	73,500	–	–	–
	2003–2005	17 Feb 2003	3.96	–	197,044	197,044	–	–	–
J A Manzoni	2000–2002	10 Feb 2000	4.53	50,000 ^d	–	–	40,000	17 Feb 2003	3.96
	2001–2003	12 Mar 2001	5.88	60,200^d	–	60,200	51,170	expected award Feb 2004	
	2002–2004	6 Mar 2002	5.99	80,000 ^d	–	80,000	–	–	–
	2003–2005	17 Feb 2003	3.96	–	197,044	197,044	–	–	–
Director leaving the board in 2003									
R F Chase	2000–2002	23 Feb 2000	4.59	174,000	–	–	139,200	17 Feb 2003	3.96
	2001–2003	19 Feb 2001	5.80	205,000	–	205,000^e	174,250	expected award Feb 2004	
	2002–2004	18 Feb 2002	5.73	237,037	–	237,037 ^e	–	–	–
	2002–2004	13 Mar 2002	6.17	34,994	–	34,994 ^e	–	–	–
Former directors									
Dr J G S Buchanan	1998–2000	5 Feb 1998	4.05	159,900	–	159,900	319,800 ^f	expected award Feb 2004	
	2000–2002	23 Feb 2000	4.59	154,000	–	–	123,200	17 Feb 2003	3.96
	2001–2003	19 Feb 2001	5.80	165,000	–	165,000	140,250	expected award Feb 2004	
	2002–2004	18 Feb 2002	5.73	192,593	–	192,593	–	–	–
W D Ford	2002–2004	13 Mar 2002	6.17	28,433	–	28,433	–	–	–
	2000–2002	23 Feb 2000	4.59	132,000	–	–	105,600	17 Feb 2003	3.96
2001–2003	19 Feb 2001	5.80	170,000	–	170,000	144,500	expected award Feb 2004		
Dr C S Gibson-Smith	2000–2002	23 Feb 2000	4.59	140,000	–	–	112,000	17 Feb 2003	3.96

^a For the performance period 2000-2002, performance units were granted under the LTTPs. Dr Allen, Dr Hayward and Mr Manzoni also continue to have units granted under the 2001-2003 and 2002-2004 LTTPs which were granted prior to their appointments as executive directors. All other units were granted under the EDIP as explained on pages 107-108. BP's performance is assessed in terms of a three-year SHRAM against the oil majors. For 1998-2000 this included ExxonMobil, Shell, TotalFinaElf, ChevronTexaco; for 2000-2002 and 2001-2003 this included ExxonMobil, Shell, TotalFinaElf, ChevronTexaco, ENI, Repsol; for 2002-2004 and 2003-2005 it is measured against the FTSE All World Oil & Gas Index. For the 2000-2002, 2001-2003 and 2002-2004 plans, performance is also assessed in terms of ROACE and EPS growth. For 2000-2002 and 2001-2003, they are measured against ExxonMobil, Shell, TotalFinaElf, ChevronTexaco, ENI, Repsol and for 2002-2004 and 2003-2005 against ExxonMobil, Shell, TotalFinaElf, ChevronTexaco. Each performance period ends on 31 December of the third year.

^b Represents number of performance units, each having a maximum potential of two shares depending on performance.

^c Represents awards of shares made or expected to be made at the end of the relevant performance period based on performance achieved under rules of the plan.

^d On appointment to the board of BP p.l.c. on 1 February 2003.

^e On leaving the board of BP p.l.c. on 23 April 2003.

^f Dr Buchanan elected to defer to 2004 the determination of whether an award should be made for the 1998-2000 performance period. This number does not include accumulated dividends.

Pensions

thousand	Service at 31 Dec 2003	Accrued pension entitlement at 31 Dec 2003	Additional pension earned during the year ended 31 Dec 2003	Transfer value of accrued benefit ^a at 31 Dec 2002 (A)	Transfer value of accrued benefit ^a at 31 Dec 2003 (B)	Amount of B-A less contributions made by the director in 2003
Lord Browne (UK)	37 years	£899	£43	£12,762	£13,921	£1,159
Dr D C Allen (UK)	25 years	£168	£41	£1,522	£2,089	£567
Dr B E Grote (USA)	24 years	\$371	\$102	\$3,493	\$4,814	\$1,321
Dr A B Hayward (UK)	22 years	£170	£53	£1,302	£1,967	£665
J A Manzoni (UK)	20 years	£135	£34	£1,007	£1,395	£388
R L Olver (UK)	30 years	£390	£36	£5,473	£6,271	£798
Director leaving the board in 2003						
R F Chase (UK) ^b	39 years	£427	–	£7,766	£7,919	£153

^a Transfer values have been calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.

^b Mr Chase retired on 11 May 2003 and elected to take a lump sum of £1,124,178 in lieu of part of his entitlement. The figures in the table include the allowance for this lump sum. Mr Chase, in addition, received a superannuation payment of £640,000, as is described on page 109.

Part 2 – Non-executive directors’ remuneration

Policy on non-executive directors’ remuneration

The board sets the level of remuneration for all non-executive directors within the limit approved from time to time by shareholders. In line with BP’s governance policies, the remuneration of the chairman is set by the board rather than the remuneration committee, since the performance of the chairman is a matter for the board as a whole rather than any one committee.

The board has adopted the following policies to guide its current and future decision-making with regard to non-executive directors’ remuneration.

- Within the limits set by the shareholders from time to time, remuneration should be sufficient to attract, motivate and retain world-class non-executive talent.
- Remuneration of non-executive directors is set by the board and should be proportional to their contribution towards the interests of the company.
- Remuneration practice should be consistent with recognized best-practice standards for non-executive directors’ remuneration.
- Remuneration should be in the form of cash fees, payable monthly.
- Non-executive directors should not receive share options from the company.
- Non-executive directors should be encouraged to establish a holding in BP shares broadly related to one year’s base fee, to be held directly or indirectly in a manner compatible with their personal investment activities, and any applicable legal and regulatory requirements.

Elements of remuneration

Non-executive directors’ pay comprises cash fees, paid monthly, with increments for positions of additional responsibility, reflecting additional workload and consequent potential liability. For all non-executive directors except the chairman, a fixed sum allowance is paid for transatlantic travel undertaken for the purpose of attending a board or board committee meeting. In addition, non-executive directors receive reimbursement of reasonable travel and related business expenses. No share or share option awards are made to any non-executive director in respect of service on the board.

Letters of appointment

Non-executive directors have letters of appointment, which recognize that, subject to the Articles of Association, their service is at the discretion of the shareholders. At the 2004 annual general meeting, shareholders will be asked to approve an amendment to the Articles so that all directors will stand for re-election annually, rather than the current practice of standing for re-election at the first meeting following their appointment and subsequently at intervals of no more than three years.

Non-executive directors’ annual fee structure

The fees paid to non-executive directors are set by the board within the limits set by shareholders in accordance with the Articles. The company will be asked to approve an increase in this limit (fixed since 1998) at the 2004 AGM. All fees are fixed and paid in pounds sterling. Fees payable to non-executive directors were last reviewed during 2002.

£ thousand	
Chairman	390 ^a
Deputy chairman	85 ^b
Board member	65
Committee chairmanship fee	15
Transatlantic attendance allowance ^c	5

^a The chairman is not eligible for committee chairmanship fees or transatlantic attendance allowance but has the use of a fully maintained office and a chauffeured car for company business.

^b The deputy chairman receives a £20,000 increment on top of the standard board fee. In addition, the deputy chairman is eligible for committee chairmanship fees and the transatlantic attendance allowance. The deputy chairman is currently chairman of the audit committee.

^c This allowance is payable to non-executive directors undertaking transatlantic travel for the purpose of attending a board meeting or board committee meeting.

Long-term incentives (residual)

The table on page 115 sets out the residual entitlements of non-executive directors who were formerly non-executive directors of Amoco Corporation under the Amoco Non-Employee Directors’ Restricted Stock Plan.

Information subject to audit

Remuneration of non-executive directors

£ thousand	2003	2002
Current directors		
J H Bryan	95	80
E B Davis, Jr	90	80
Dr D S Julius	80	63
C F Knight	95	63
F A Maljers	80	63
Dr W E Massey	110	90
H M P Miles ^a	80	63
Sir Robin Nicholson ^b	95	73
Sir Ian Prosser	115	98
P D Sutherland	390	335
M H Wilson	95	77

^a Also received £600 each year for serving as a director of BP Pension Trustees Limited.

^b Also received £20,000 each year for serving as the board’s representative on the BP Technology Advisory Council.

Amoco Non-Employee Directors' Restricted Stock Plan

Non-executive directors of Amoco Corporation were allocated restricted stock in the Amoco Non-Employee Directors' Restricted Stock Plan by way of remuneration for their service on the board of Amoco Corporation prior to its merger with BP in 1998. On merger, interests in Amoco shares in the plan were converted into interests in BP ADSs. Under the terms of the plan, the restricted stock will vest upon the retirement of the non-executive director having reached age 70 or upon earlier retirement at the discretion of the board. Since the merger, no further entitlements have accrued to any director under the plan. These residual interests require disclosure under the directors' remuneration report regulations 2002 as interests in a long-term incentive scheme.

	Interest in BP ADSs at 1 January 2003 and 31 December 2003 ^a	Date on which director, reaches age 70 ^b
J H Bryan	5,546	5 October 2006
E B Davis, Jr	4,490	5 August 2014
F A Maljers	2,906	12 August 2003 ^c
Dr W E Massey	3,346	5 April 2008
M H Wilson	3,170	4 November 2007

^a No awards were granted or vested and no other awards lapsed during the year.

^b For the purposes of the regulations, the date on which the director retires from the board at or after the age of 70 is the end of the qualifying period. If the director retires prior to this date, the board may waive the restrictions.

^c The award to Mr Maljers will vest on 15 April 2004, being the date of the AGM at which he will retire from the board.

Superannuation gratuities

In accordance with the company's long-standing practice, non-executive directors who retire from the board after at least six years' service are, at the time of their retirement, eligible for consideration for a superannuation gratuity. The board is authorized to make such payments under the company's Articles. The amount of the payment is determined at the board's discretion (having regard to the director's period of service as a director and other relevant factors).

In 2002, the board revised its policy with respect to such payments so that: (i) non-executive directors appointed to the board after 1 July 2002 would not be eligible for consideration for such a payment; and (ii) while non-executive directors in service at 1 July 2002 would remain eligible for consideration for a payment, service after that date would not be taken into account by the board in considering the amount of any such payment.

The board made no superannuation gratuity payments during the year.

This directors' remuneration report was approved by the board and signed on its behalf by David J Jackson, company secretary, on 9 February 2004.

Board of directors



Executive directors

1 The Lord Browne of Madingley, FREng

Group Chief Executive

Lord Browne (55) joined BP in 1966 and subsequently held a variety of exploration and production and finance posts in the UK, US and Canada. He was appointed an executive director in 1991 and group chief executive in 1995. He is a non-executive director of Intel Corporation and Goldman Sachs. He was knighted in 1998 and made a life peer in 2001.

2 R L Oliver

Deputy Group Chief Executive

Dick Oliver (57) joined BP in 1973. His early career involved a wide range of oil, gas and refining projects in the UK, Canada, the Middle East and Norway. In 1990, he was made chief of staff to the chairman of BP and head of corporate strategy. In 1992, he led BP's growth in deepwater exploration in the Gulf of Mexico and was appointed deputy chief executive of exploration and production in 1995. He became chief executive of exploration and production and an executive director of BP in 1998, and deputy group chief executive in 2003. He is a non-executive director of Reuters Group.

3 Dr D C Allen

Group Chief of Staff

David Allen (49) joined BP in 1978 and subsequently undertook a number of corporate and exploration and production roles in London and New York. He moved to BP's corporate planning function in 1986, becoming group vice president in 1999. He was appointed an executive vice president and group chief of staff in 2000 and an executive director of BP in 2003.

4 Dr B E Grote

Chief Financial Officer

Byron Grote (55) joined BP in 1987 following the acquisition of Standard Oil (Ohio) where he had worked since 1979. He became group treasurer in 1992 and in 1994 regional chief executive in Latin America. In 1999, he was appointed an executive vice president of exploration and production, and chief executive of chemicals in 2000. He was appointed an executive director of BP in 2000 and chief financial officer in 2002.

5 Dr A B Hayward

Chief Executive,

Exploration and Production

Tony Hayward (46) joined BP in 1982. He became a director of exploration and production in 1997, the segment in which he had previously held a series of roles. In 2000, he was made group treasurer and became an executive vice president in 2002. He was appointed chief operating officer for exploration and production in 2002 and an executive director of BP in 2003. He is a non-executive director of Corus Group.

6 J A Manzoni

Chief Executive,

Refining and Marketing

John Manzoni (44) joined BP in 1983. He undertook a number of roles in BP's North Sea and Alaskan operations, as well as in investor relations, before becoming group vice president for European marketing. In 2000, he became BP regional president for the eastern US and in 2001 an executive vice president and chief executive for gas and power. He was appointed chief executive of refining and marketing in 2002 and an executive director of BP in 2003.

Non-executive directors

7 P D Sutherland, KCMG

Chairman

Peter Sutherland (57) rejoined BP's board in 1995, having been a non-executive director from 1990 to 1993, and was appointed chairman in 1997. He is non-executive chairman of Goldman Sachs International and a non-executive director of Telefonaktiebolaget LM Ericsson, Investor AB and The Royal Bank of Scotland Group. He was awarded an honorary KCMG in 2003.

Chairman of the Chairman's and Nomination Committees

8 Sir Ian Prosser

Deputy Chairman

Sir Ian (60) joined BP's board in 1997 and was appointed non-executive deputy chairman in 1999. He retired as chairman of InterContinental Hotels Group PLC on 31 December 2003. He was a non-executive director of The Boots Company from 1984 to 1996, of Lloyds Bank PLC from 1988 to 1995 and of Lloyds TSB Group from 1995 to 1999. In 1999, he was appointed a non-executive director of GlaxoSmithKline.

Member of the Chairman's, Nomination and Remuneration Committees and chairman of the Audit Committee

9 J H Bryan

John Bryan (67) joined BP's board in 1998, having previously been a director of Amoco. He serves on the boards of Bank One Corporation, General Motors Corporation and Goldman Sachs. He retired as chairman of Sara Lee Corporation in 2001. He is chairman of Millennium Park Inc., Chicago.

Member of the Chairman's and Audit Committees

10 Antony Burgmans

Antony Burgmans (57) joined BP's board in February 2004. He was appointed to the board of Unilever in 1991. In 1999, he became chairman of Unilever NV and vice chairman of Unilever PLC. He is also a member of the supervisory board of ABN AMRO Bank NV and the international advisory board of Allianz AG.



10 E B Davis, Jr

Erroll B Davis, Jr (59) joined BP's board in 1998, having previously been a director of Amoco. He is chairman and chief executive officer of Alliant Energy. He is a director of the Wisconsin Association of Manufacturers and Commerce, the Edison Electric Institute and the Electric Power Research Institute. He is a non-executive director of PPG Industries and a lifetime member of the board of trustees of Carnegie Mellon University.

Member of the Chairman's, Audit and Remuneration Committees

12 Dr D S Julius, CBE

DeAnne Julius (54) joined BP's board in 2001. From 1986 until 1997 she held a succession of posts, including chief economist at British Airways and Royal Dutch Shell Group. From 1997 to 2001 she was a full-time member of the Monetary Policy Committee of the Bank of England. She is chairman of the Royal Institute of International Affairs and a non-executive director of the Court of the Bank of England, Lloyds TSB, Serco and the Roche Group.

Member of the Chairman's and Remuneration Committees

13 C F Knight

Charles Knight (68) joined BP's board in 1987. He was employed by Lester B Knight and Associates of Chicago, consulting engineers, from 1961 to 1973. In 1972, he joined Emerson Electric Co. and became chairman in 1974. He is a non-executive director of Anheuser-Busch, Morgan Stanley Dean Witter, SBC Communications and IBM.

Member of the Chairman's and Remuneration Committees

14 F A Maljers, KBE

Floris Maljers (70) joined BP's board in 1998, having previously been a director of Amoco. A member of the supervisory board of SHV Holding, he is also chairman of the supervisory boards of KLM, Royal Dutch Airlines and Vindex KBB.

Member of the Chairman's and Ethics and Environment Assurance Committees

15 Dr W E Massey

Walter Massey (65) joined BP's board in 1998, having previously been a director of Amoco. He is president of Morehouse College, a non-executive director of Motorola, Bank of America and McDonald's Corporation and a member of President Bush's Council of Advisors on Science & Technology.

Member of the Chairman's and Nomination Committees and chairman of the Ethics and Environment Assurance Committee

16 H M P Miles, OBE

Michael Miles (67) joined BP's board in 1994. He was appointed deputy managing director of Cathay Pacific in 1976, managing director in 1978 and chairman in 1984. In 1988, he became an executive director of John Swire & Sons Ltd. He was chairman of Swire Pacific between 1984 and 1988. He is chairman of Schroders plc and non-executive chairman of Johnson Matthey PLC and a director of BP Pension Trustees Ltd.

Member of the Chairman's, Audit and Ethics and Environment Assurance Committees

17 Sir Robin Nicholson, FREng, FRS

Sir Robin (69) joined BP's board in 1987. He represents the board on the BP Technology Advisory Council. In 1976, he became managing director of Inco Europe Limited. He was chief scientific adviser in the Cabinet Office from 1981 to 1985. Between 1986 and 1996 he was an executive director of Pilkington. He is a non-executive director of Rolls-Royce plc and pro-chancellor of UMIST.

Member of the Chairman's and Nomination Committees and chairman of the Remuneration Committee

18 M H Wilson

Michael Wilson (66) joined BP's board in 1998, having previously been a director of Amoco. He was a member of the Canadian Parliament from 1979 to 1983 and held various ministerial posts, including Industry, Science and Technology, Finance, and International Trade. He is chairman of UBS Global Asset Management (Canada) Co. and a non-executive director of Manufacturers Life Insurance Company.

Member of the Chairman's, Audit and Ethics and Environment Assurance Committees

Changes to the board

Antony Burgmans was appointed a non-executive director on 5 February 2004.

Company secretary

David Jackson (51) was appointed company secretary on 24 July 2003. He was company secretary and general counsel of Powergen plc between 1989 and 2002. A solicitor, he is a member of the Listing Authorities Advisory Committee and a director of Business in the Community.

Judith Hanratty retired as company secretary on 24 July 2003.

Shareholdings and Annual General Meeting

Register of members holding BP ordinary shares as at 31 December 2003

Range of holdings	Number of shareholders	Percentage of total shareholders	Percentage of total share capital
1 – 200	58,510	16.43	0.02
201 – 1,000	137,333	38.56	0.31
1,001 – 10,000	143,555	40.31	1.99
10,001 – 100,000	14,534	4.08	1.35
100,001 – 1,000,000	1,340	0.37	2.15
Over 1,000,000 ^a	896	0.25	94.18
	356,168	100.00	100.00

^a Includes JPMorgan Chase Bank, holding 30.05% of the total share capital as the approved depository for ADSs, a breakdown of which is shown in the table below.

Register of holders of American depository shares as at 31 December 2003^a

Range of holdings	Number of ADS holders	Percentage of total ADS holders	Percentage of total ADSs
1 – 200	40,184	23.43	0.04
201 – 1,000	40,270	23.48	0.32
1,001 – 10,000	69,534	40.54	3.69
10,001 – 100,000	20,737	12.09	8.08
100,001 – 1,000,000	790	0.46	2.11
Over 1,000,000 ^b	12	0.00	85.76
	171,527	100.00	100.00

^a One ADS represents six ordinary shares.

^b One of the holders of ADSs represents some 710,550 underlying holders.

At 31 December 2003, there were also 1,861 preference shareholders.

Substantial shareholdings

At the date of this report, the company has been notified that JPMorgan Chase Bank, as depository for American depository shares (ADSs), holds interests through its nominee, Guaranty Nominees Limited, in 6,759,202,467 ordinary shares (30.53% of the company's ordinary share capital). Included in this total is part of the holding of the Kuwait Investment Office (KIO). Either directly or through nominees, the KIO holds interests in 715,040,000 ordinary shares (3.23% of the company's ordinary share capital). Barclays plc holds interests in 680,417,015 ordinary shares (3.07% of the company's ordinary share capital).

At the date of this report, the company has been notified of the following interests in preference shares. Co-operative Insurance Society Limited holds interests in 1,550,538 8% 1st preference shares (21.44% of that class) and 1,789,796 9% 2nd preference shares (32.70% of that class). Prudential plc holds interests in 528,150 8% 1st preference shares (7.30% of that class) and 644,450 9% 2nd preference shares (11.77% of that class).

It should be noted that the total preference shares in issue comprise only 0.43% of the company's total issued nominal share capital, the rest being ordinary shares.

Annual General Meeting

The 2004 annual general meeting will be held on Thursday 15 April 2004 at 11.00 a.m. at the Royal Festival Hall, Belvedere Road, London SE1 8XX, UK. A separate notice convening the meeting is sent to shareholders with this Report, together with an explanation of the items of special business to be considered at the meeting.

All resolutions of which notice has been given will be decided on a poll.

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution for their reappointment is included in the notice of the annual general meeting.

By order of the board

David J Jackson

Secretary

9 February 2004

Further information

Administration

If you have any queries about the administration of shareholdings, such as change of address, change of ownership, dividend payments, the dividend reinvestment plan or the ADS direct access plan, please contact the Registrar or ADS Depository.

UK – Registrar's Office

The BP Registrar
Lloyds TSB Registrars
The Causeway, Worthing, West Sussex BN99 6DA
Telephone: +44 (0)121 415 7005
Freephone in UK: 0800 701107
Textphone: 0870 600 3950
Fax: +44 (0)1903 833371

US – ADS Administration

JPMorgan Chase Bank
PO Box 43013, Providence, RI 02940-3013
Telephone: +1 781 575 3346
Toll-free in US and Canada: +1 877 638 5672

Canada – ADS Administration

CIBC Mellon Trust Company, 199 Bay Street
Commerce Court West, Securities Level, Toronto, Ontario M5L 1G9
Telephone: +1 416 643 5500
Toll-free in Canada and US: +1 800 387 0825

Japan

The Mitsubishi Trust and Banking Corporation
7-7 Nishi-Ikebukuro 1-chome, Toshima-ku, Tokyo 171-8508
Telephone: +81 3 5391 7029
Fax: +81 3 5391 2041

Publications

Copies of *BP Annual Review 2003*, *BP Annual Report on Form 20-F 2003*, *BP Sustainability Report 2003*, *BP Financial and Operating Information 1999–2003*, *BP Statistical Review of World Energy* and other BP publications may be obtained, free of charge, from the following sources:

US and Canada

Toll-free: +1 800 638 5672
Fax: +1 630 821 3456
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To elect to receive your company documents (such as Annual Report and Notice of Meeting) electronically, please register at www.bp.com/edelivery

Internet

The BP website is at www.bp.com

Audio cassettes/CDs for visually impaired shareholders

Highlights from *BP Annual Report and Accounts 2003* are available on audio cassette and CD. Copies can be obtained, free of charge, from the sources listed under 'Publications'.

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