It starts here

Annual Review 2003

This Annual Review for the year ended 31 December 2003 comprises summaries of the Directors' Report and the Directors' Remuneration Report and a summary of the information in the annual accounts. This complies with the information required under the Companies (Summary Financial Statement) Regulations 1995. It does not contain sufficient information to allow as full an understanding of the results and the state of affairs of BP as the full Annual Report and Accounts 2003. Shareholders may obtain a copy of *BP Annual Report and Accounts 2003* on request, free of charge *(see page 45)*.

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 Review 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 45)*. 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 Review 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.

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 Review 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

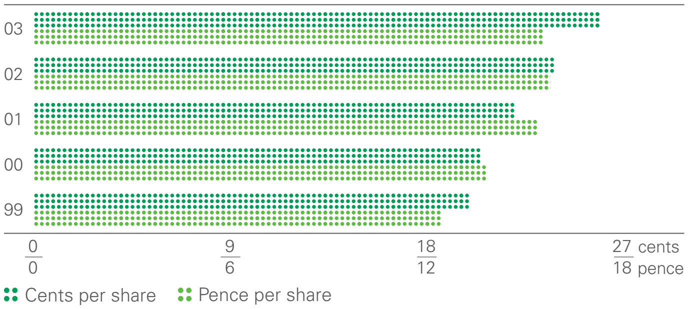
Reconciliation of reported profit/loss to pro forma result adjusted for special items

$ million

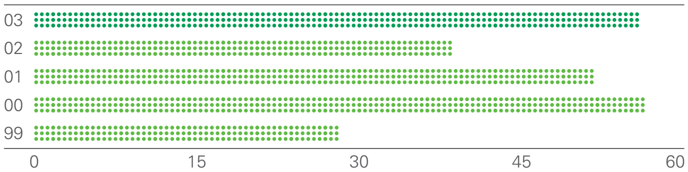
	2003				2002			
	Reported	Acquisition amortization[a]	Special items[b]	**Pro forma result adjusted for special items**	Reported	Acquisition amortization[a]	Special items[b]	**Pro forma result adjusted for special items**
Exploration and Production	**13,937**	1,566	474	**15,977**	9,206	1,780	1,019	**12,005**
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.

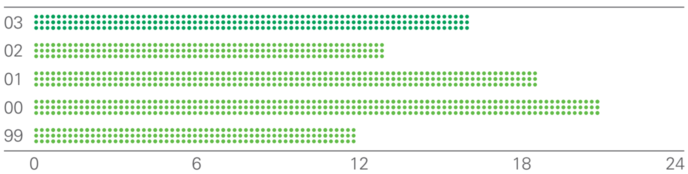
Dividends per share (cents/pence)



Result per share (cents)

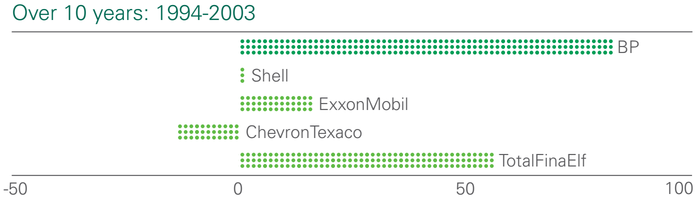


Return on average capital employed (%)

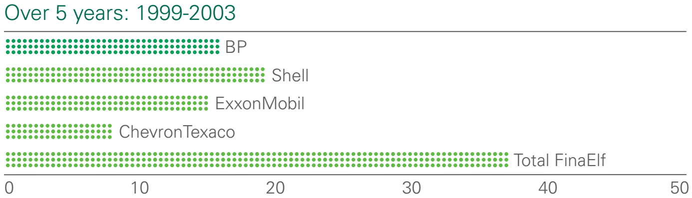


Shareholder returns against the market (%)

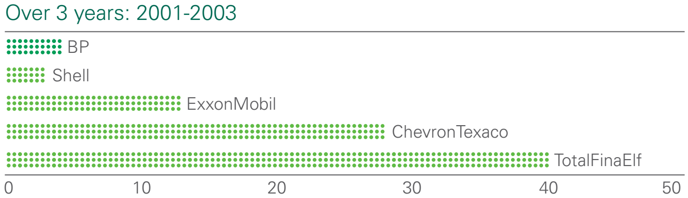
Over 10 years: 1994-2003



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.

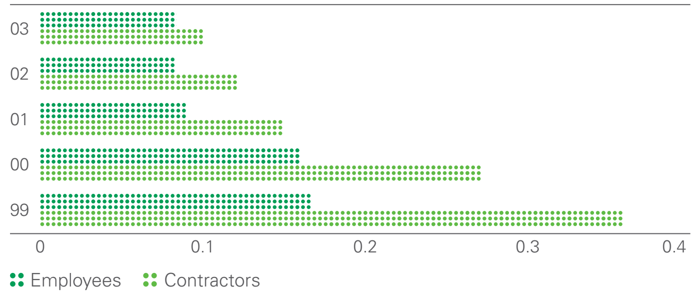
Shareholder returns against the market reflect the returns generated above or below returns from equivalent investments in the overall market.

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

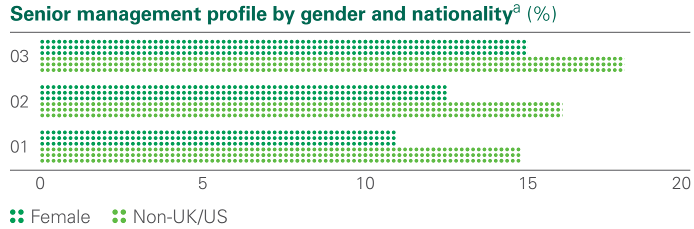
[a] BP share of emissions of carbon dioxide and methane, expressed as an equivalent mass of carbon dioxide.
[b] BP share of TNK-BP emissions is not included.
[c] 1 barrel = 159 litres = 42 US gallons.
[d] ISO 14001 is an international environmental management standard.

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 38-39 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 38-39 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.

Group chief executive's review

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 reimaging 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

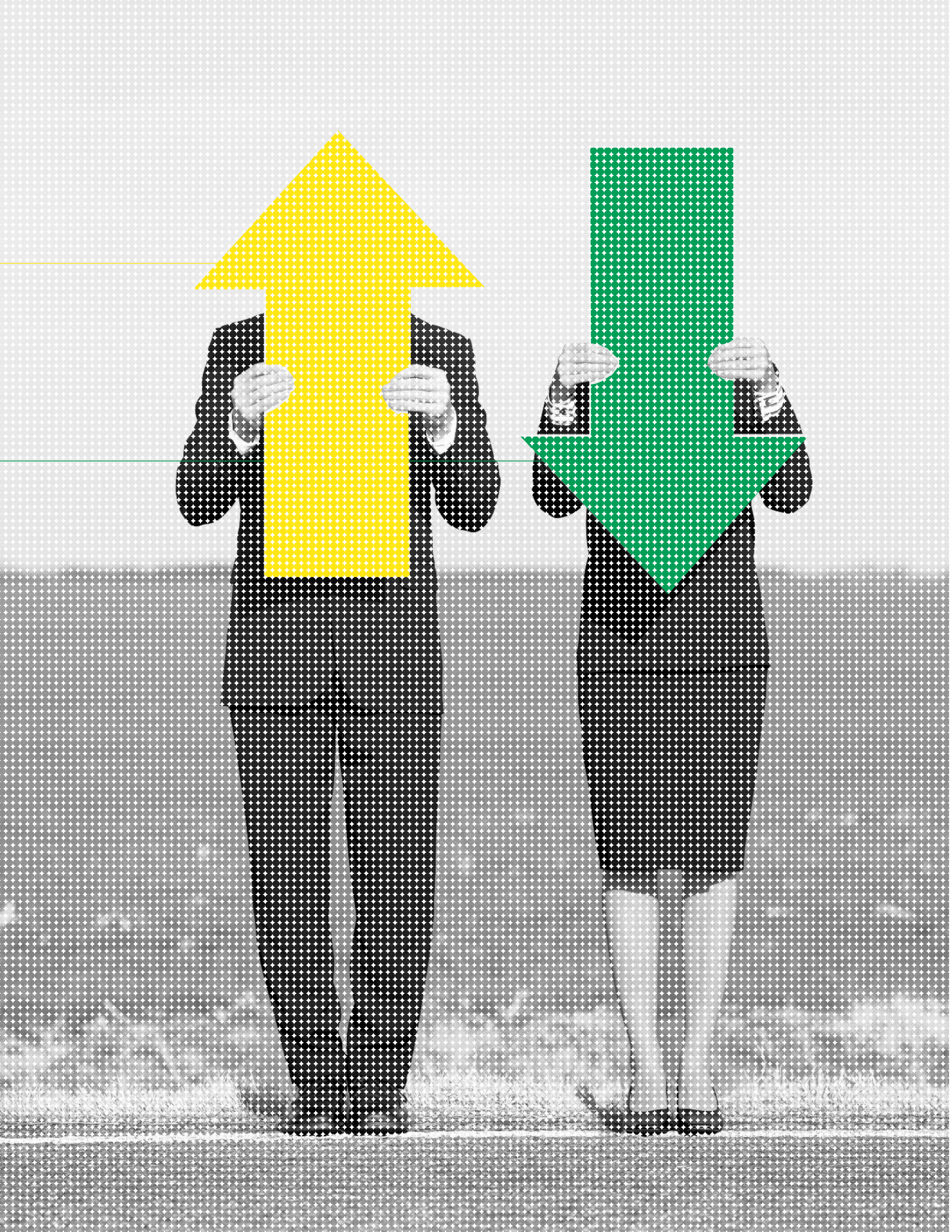
BP is preparing for an era of greater innovation and new productivity. We believe we have the assets, the market positions and the people. But we need to retain and expand the valuation investors place on us as an industry leader. This means we must operate these resources with discipline, using our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

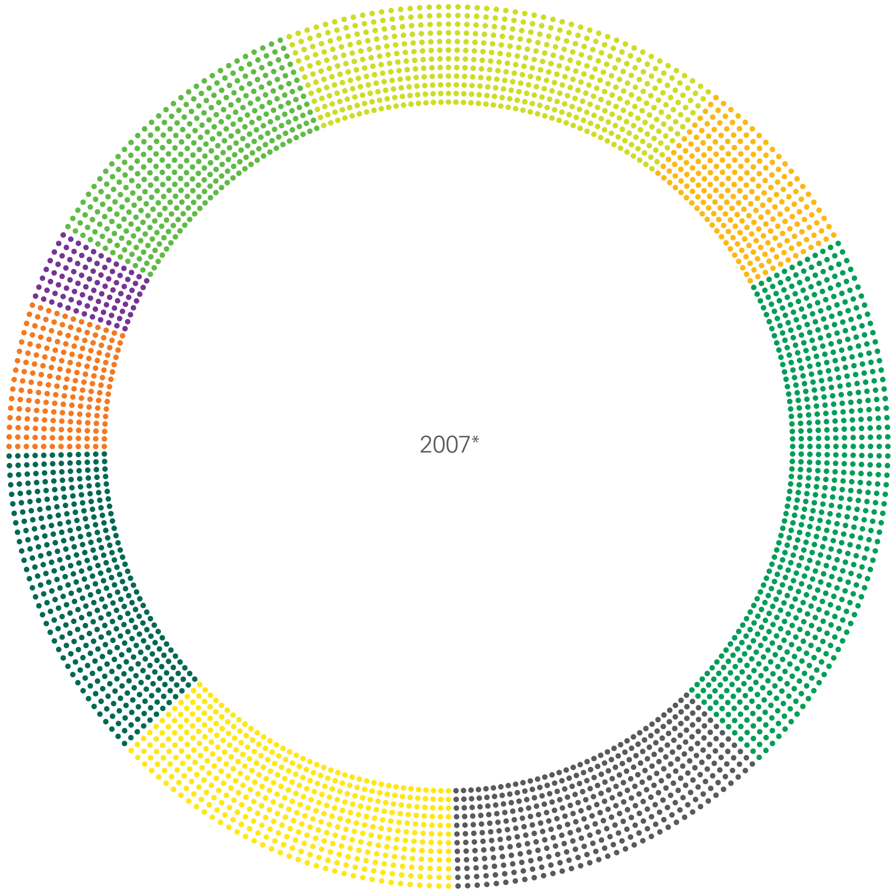
Financial discipline comes first. Our financial framework is the mechanism by which we seek to ensure prudent management of capital expenditure, divestments, debt, costs and competitive returns to shareholders as we continue to invest for the long-term future of BP. This discipline enables us to provide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

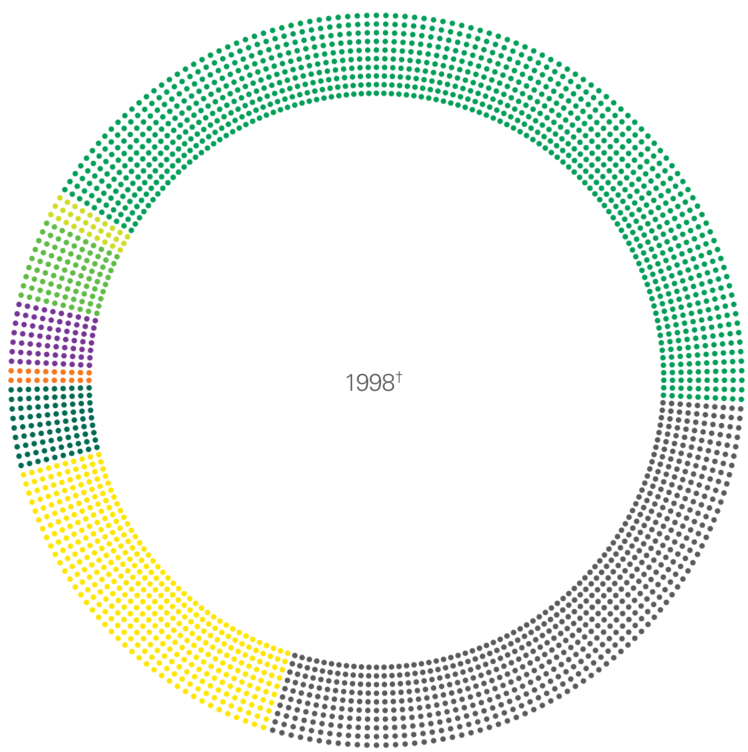
Operationally, we believe that BP now has a leading portfolio of assets and market positions in its sector. The composition of this portfolio is designed to provide a buffer against a trading environment in which prices are determined by market forces outside our control. While collectively strong, these 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.

1997

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.

1998

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.

1999

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.

2000

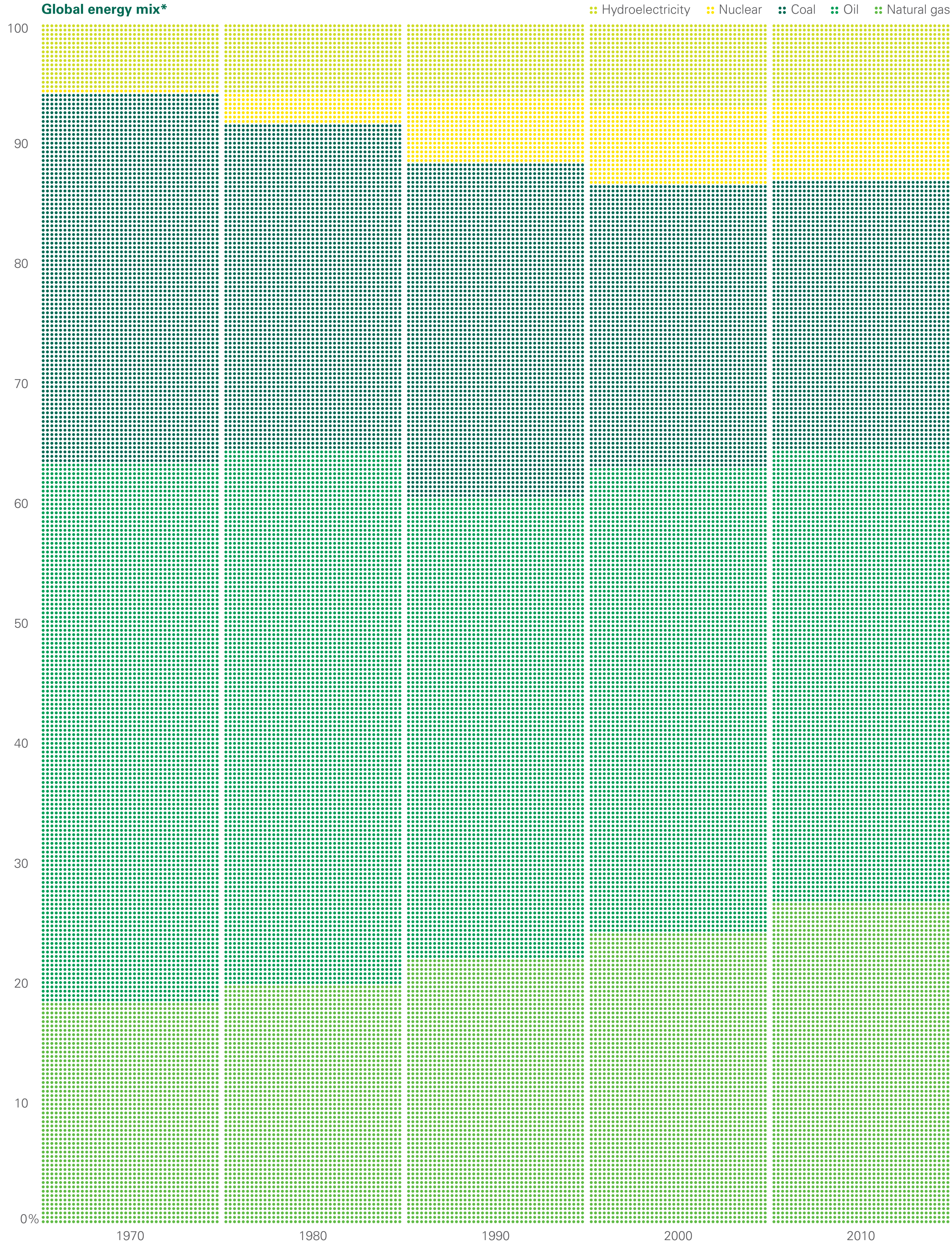
Adding scale through acquisitions
ARCO joins the BP group to create coast-to-coast coverage of the US fuels market. Strategically, the ARCO deal also represents an opportunity to grow our natural gas business, particularly in the Far East. Together with BP's own production, the Amoco and ARCO transactions 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.

2001

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.

2003

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.



*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.

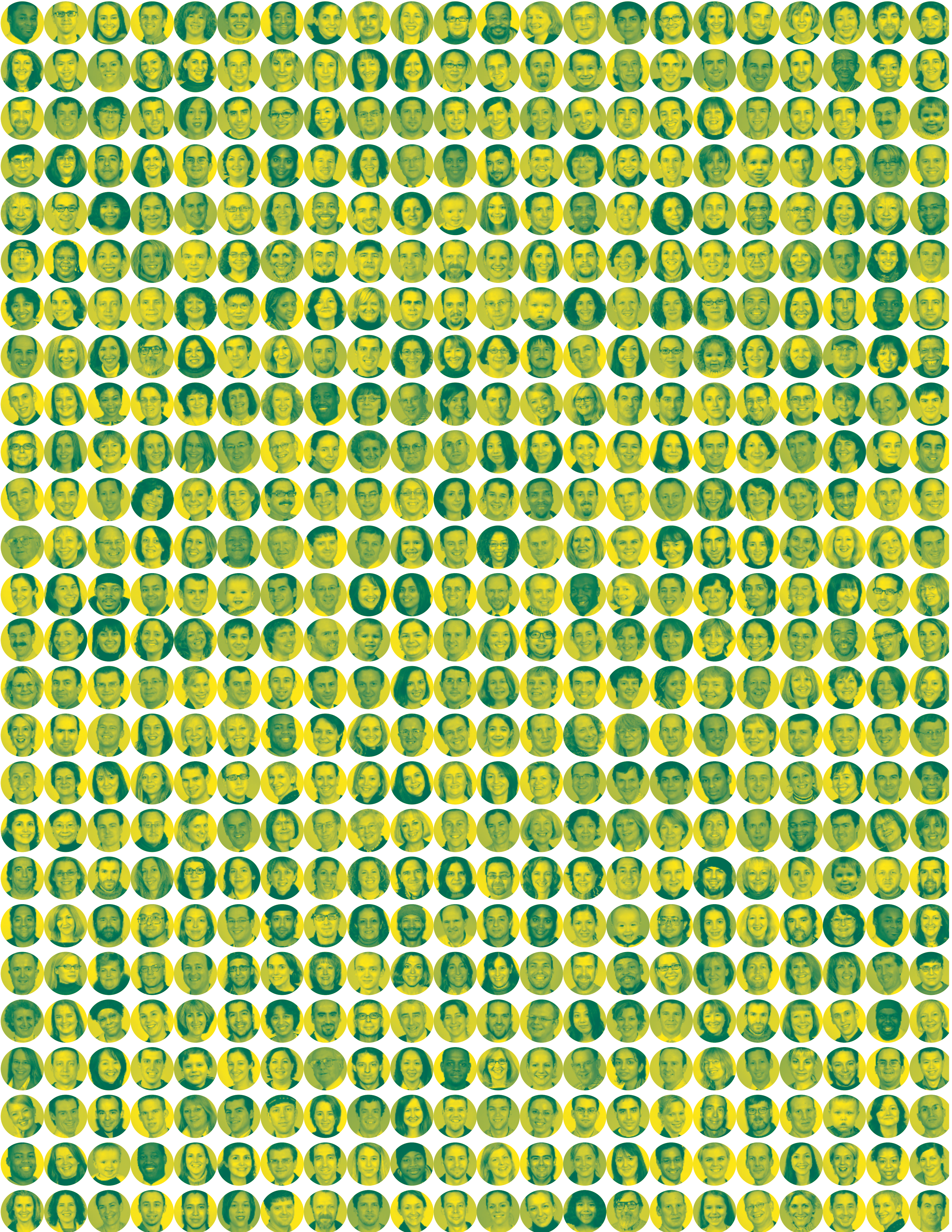
Provide the greatest benefit to the broadest constituency

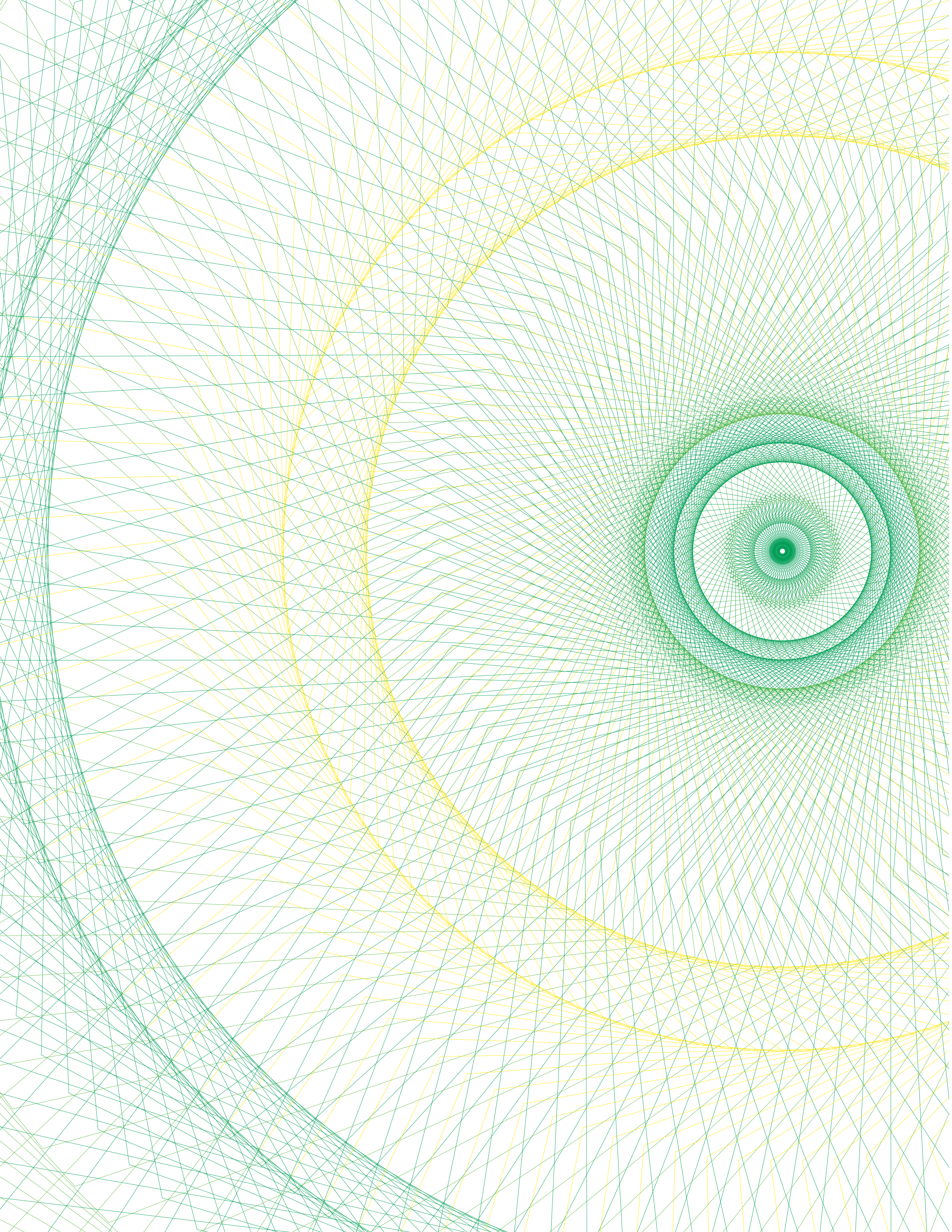
6.

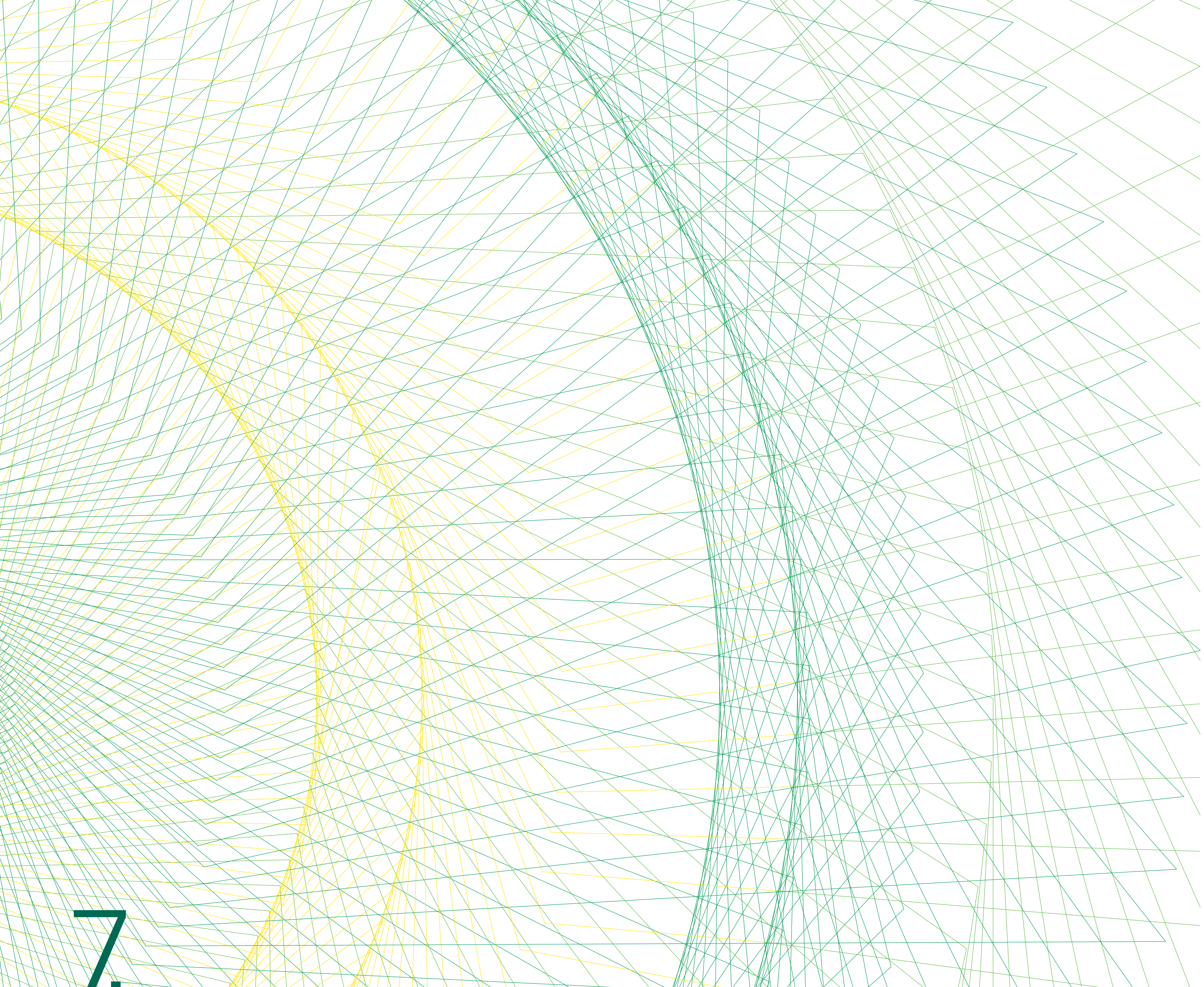
The nature of our business requires us to participate actively in a global marketplace serving around 13 million customers, each with their own constantly changing needs, desires and dreams. Such as mobility. Industry. Prosperity. Opportunity. Sustainability. These diverse and evolving demands create 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 $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.

BP has a financial risk management process that addresses the various risk exposures we encounter in the financial markets; these include market risk, credit risk and liquidity risk.

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.

BP 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.

Critical accounting policies

The group's accounts are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP). This requires the directors to adopt those accounting policies most appropriate to its particular circumstance for the accounts to give a true and fair view. In preparing the accounts the directors are required to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. Actual outcomes could differ from the estimates and assumptions used.

The areas that require the most significant judgements and estimates to be used in the preparation of consolidated accounts relate 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.

Adoption of International Financial Reporting Standards

An 'International Accounting Standards Regulation' was adopted by the Council of the European Union (EU) in June 2002, requiring all EU companies listed on an EU stock exchange to use 'endorsed' International Financial Reporting Standards (IFRS) to report their consolidated results with effect from 1 January 2005.

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. We expect that the group will be fully prepared for the transition in 2005.

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.

Creditor payment policy and practice

As a general policy, the group encourages 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.

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

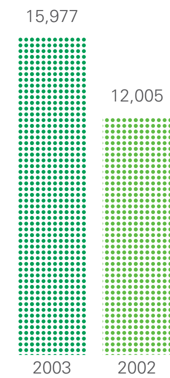
Business performance

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 Bosporus 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

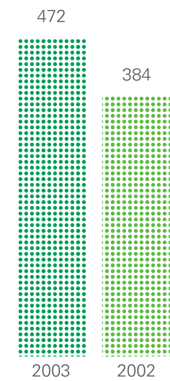
Strategy

- 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

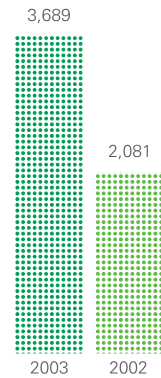
Strategy

- 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 reimaging 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

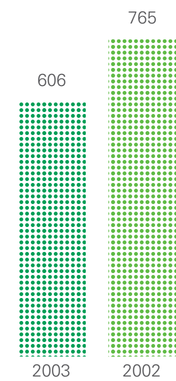
Strategy

- 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.

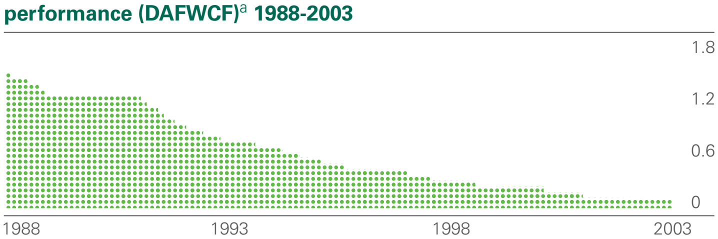
We use a system of risk management to assess the impact of activities on the environment, local economies and communities. Where appropriate, accountability for managing environmental and social impact is part of managers' performance contracts, with specific objectives and milestones.

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.

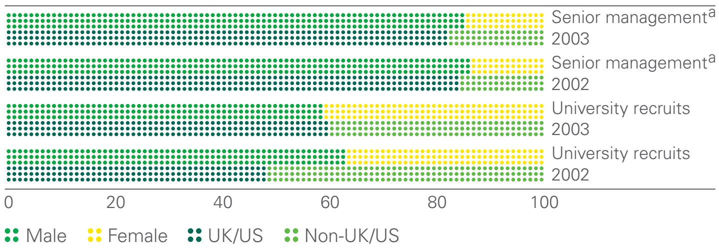
Communications with employees cover site events and group-produced media. These include global and local magazines, intranet sites, targeted e-mails and, most important, face-to-face communication. Team meetings are the core of our employee consultation, complemented by formal processes through works 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 Bosporus. 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.

Summary group income statement
For the year ended 31 December

	Note	2003	2002
			$ million
Group turnover		**232,571**	178,721
Group replacement cost operating profit	3	**14,979**	9,284
Share of profits of joint ventures		**923**	346
Share of profits of associated undertakings		**511**	616
Total replacement cost operating profit	4	**16,413**	10,246
Profit (loss) on sale of businesses or termination of operations	5	**(28)**	(33)
Profit (loss) on sale of fixed assets	5	**859**	1,201
Replacement cost profit before interest and tax		**17,244**	11,414
Stock holding gains (losses)		**16**	1,129
Historical cost profit before interest and tax		**17,260**	12,543
Interest expense		**851**	1,279
Profit before taxation		**16,409**	11,264
Taxation		**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	6	**5,753**	5,375
Retained profit for the year		**4,514**	1,470
Earnings per ordinary share – cents			
Basic	7	**46.30**	30.55
Diluted	7	**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	2	**10,251**	5,741
Exceptional items (net of tax)	5	**(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	7	**43.03**	20.97

The summary financial statement on pages 1-36 and 38-45 was approved by a duly appointed and authorized committee of the board of directors on 9 February 2004 and signed on its behalf by:

Peter Sutherland, Chairman

The Lord Browne of Madingley, Group Chief Executive

Summary group balance sheet

At 31 December

	2003 ($ million)	2002 ($ million)
Fixed assets		
Intangible assets	**13,642**	15,566
Tangible assets	**91,911**	87,682
Investments	**17,554**	10,811
	123,107	114,059
Current assets		
Stocks	**11,617**	10,181
Debtors	**40,716**	33,150
Investments	**185**	215
Cash at bank and in hand	**1,947**	1,520
	54,465	45,066
Creditors – amounts falling due within one year		
Finance debt	**9,456**	10,086
Other creditors	**41,128**	36,215
Net current assets (liabilities)	**3,881**	(1,235)
Total assets less current liabilities	**126,988**	112,824
Creditors – amounts falling due after more than one year		
Finance debt	**12,869**	11,922
Other creditors	**6,090**	3,455
Provisions for liabilities and charges		
Deferred taxation	**15,273**	13,514
Other provisions	**15,693**	13,886
Net assets	**77,063**	70,047
Minority shareholders' interest – equity	**1,125**	638
BP shareholders' interest	**75,938**	69,409
Represented by		
Capital and reserves		
Called up share capital	**5,552**	5,616
Reserves	**70,386**	63,793
	75,938	69,409

Movements in BP shareholders' interest

At 31 December 2002	69,409
Profit for the year	10,267
Distribution to shareholders	(5,753)
Currency translation differences (net of tax)	3,841
Issue of ordinary share capital for employee share schemes	173
Repurchase of ordinary share capital	(1,999)
At 31 December 2003	75,938

Summary group cash flow statement

For the year ended 31 December

	2003	2002
		$ million
Net cash inflow from operating activities[a]	21,698	19,342
Dividends from joint ventures	131	198
Dividends from associated undertakings	417	368
Net cash outflow from servicing of finance and returns on investments	(711)	(911)
Tax paid	(4,804)	(3,094)
Net cash outflow for capital expenditure and financial investment	(6,187)	(9,646)
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	1,066	(181)
Management of liquid resources	(41)	(220)
Increase in cash	317	57
	1,342	(344)

[a]**Reconciliation of historical cost profit before interest and tax to net cash inflow from operating activities** $ million

	2003	2002
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)
(Increase) decrease in working capital and other items	(4,189)	(1,497)
Net cash inflow from operating activities	21,698	19,342

Notes

1 Presentation of the accounts

These summarized financial statements represent an abridged version of the financial statements in *BP Annual Report and Accounts 2003*.

2 Replacement cost profit

Replacement cost profits reflect the current cost of supplies. The replacement cost profit is arrived at by excluding stock holding gains and losses from the historical cost profit.

3 Other income $ million

	2003	2002
Group replacement cost operating profit includes:		
Income from other fixed asset investments	157	139
Other interest and miscellaneous income	629	502

4 Analysis of total replacement cost operating profit

$ million

	2003	2002
By business		
Exploration and Production	13,937	9,206
Gas, Power and Renewables	472	354
Refining and Marketing	2,340	872
Petrochemicals	568	515
Other businesses and corporate	(904)	(701)
	16,413	10,246

$ million

	2003	2002
By geographical area		
UK	2,594	1,696
Rest of Europe	2,208	1,703
USA	5,201	2,818
Rest of World	6,410	4,029
	16,413	10,246

5 Exceptional items

	2003	2002
	$ million	
Exceptional items comprise profit (loss) on sale of fixed assets and businesses or termination of operations as follows:		
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 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.

6 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

7 Earnings per ordinary share

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.

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.

8 Capital expenditure and acquisitions

$ million

	2003	2002
By business		
Exploration and Production	**15,452**	9,699
Gas, Power and Renewables	**359**	408
Refining and Marketing	**3,080**	7,753
Petrochemicals	**775**	823
Other businesses and corporate	**409**	428
	20,075	19,111

$ million

	2003	2002
By geographical area		
UK	**1,619**	1,637
Rest of Europe	**1,277**	6,556
USA	**6,291**	6,095
Rest of World	**10,888**	4,823
	20,075	19,111

9 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

Further details of individual directors' remuneration are given in the summary directors' remuneration report on pages 40-43.

Independent auditors' statement

To the Members of BP p.l.c.

We have examined the group's summary financial statement for the year ended 31 December 2003. This report is made solely to the company's members, as a body, in accordance with section 251 of the Companies Act 1985. To the fullest extent required 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 *BP Annual Review 2003* in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within *BP Annual Review 2003* with the full annual accounts, Directors' Report and Directors' Remuneration Report and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in *BP Annual Review 2003* and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion the summary financial statement is consistent with the full annual accounts, Directors' Report and Directors' Remuneration Report of BP p.l.c. for the year ended 31 December 2003 and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder.

Ernst & Young LLP
Registered Auditor
London
9 February 2004

The auditors have issued an unqualified audit report on the annual accounts containing no statement under section 237 (2) or section 237 (3) of the Companies Act 1985.

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

	2003	2002
Profit for the year	**10,267**	6,845
Deferred taxation/business combinations	**33**	(315)
Provisions	**49**	8
Revisions to fair market values	**289**	–
Sale and leaseback	**69**	24
Goodwill	**1,376**	1,302
Derivative financial instruments	**12**	540
Gain arising on asset exchange	**(17)**	(18)
Other	**13**	11
Profit for the year before cumulative effect of accounting changes as adjusted to accord with US GAAP	**12,091**	8,397
Provisions	**1,002**	–
Derivative financial instruments	**50**	–
Profit for the year as adjusted to accord with US GAAP	**13,143**	8,397
Dividend requirement on preference shares	**2**	2
Profit for the year applicable to ordinary shares as adjusted to accord with US GAAP	**13,141**	8,395
Per ordinary share – cents		
Basic – before cumulative effect of accounting changes	**54.53**	37.48
Cumulative effect of accounting changes	**4.74**	–
	59.27	37.48
Diluted – before cumulative effect of accounting changes	**54.01**	37.30
Cumulative effect of accounting changes	**4.69**	–
	58.70	37.30
Per American depositary share[a] – cents		
Basic – before cumulative effect of accounting changes	**327.18**	224.88
Cumulative effect of accounting changes	**28.44**	–
	355.62	224.88
Diluted – before cumulative effect of accounting changes	**324.06**	223.80
Cumulative effect of accounting changes	**28.14**	–
	352.20	223.80

$ million

	2003	2002
BP shareholders' interest	**75,938**	69,409
Deferred taxation/business combinations	**(65)**	(78)
Provisions	**(128)**	(1,088)
Sale and leaseback	**(37)**	(106)
Goodwill	**1,669**	(84)
Derivative financial instruments	**(72)**	(135)
Gain arising on asset exchange	**129**	142
Ordinary shares held for future awards to employees	**(96)**	(159)
Dividends	**1,495**	1,398
Investments	**1,251**	34
Additional minimum pension liability	**(277)**	(2,164)
Other	**(43)**	(48)
BP shareholders' interest as adjusted to accord with US GAAP	**79,764**	67,121

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

Summary corporate governance

This is a summary of the full corporate governance report which is set out on pages 102-105 of *BP Annual Report and Accounts 2003*, a copy of which is available, free of charge *(see page 45)*.

BP has long recognized the importance of good governance. The board operates within a robust set of governance policies that go beyond regulatory compliance and are designed to place the interests of 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.

Accountability to shareholders

The board governance policies emphasize the importance of the relationship between the board and the shareholders. The board is accountable to shareholders for the performance and activities of the entire group. It is accountable in a variety of ways, not least in the requirement for all directors to be subject to regular re-election. The 2004 annual general meeting (AGM) will be asked to approve a move to annual re-election for all directors. Names submitted to shareholders for re-election are accompanied by detailed biographies.

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. The board promotes these 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, including the Annual Report and Accounts and the Annual Review. Presentations given at appropriate intervals to representatives of the investment community are available simultaneously by live internet broadcast or open conference call. The chairman and the company secretary's office participate in dialogue with shareholders concerning the governance and operation of the group. The board considers the results of contacts with shareholders.

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. Votes on all matters, except procedural issues, are taken by way of a poll. BP has pioneered the use of electronic communications to facilitate the exercise of shareholder control rights.

The work of the board in governance

The board has established four key governance policies, which represent a principled approach to corporate governance. These policies regulate its relationship with shareholders, the conduct of board affairs and its relationship with the group chief executive.

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 meetings; the cycle of board activities; the provision of information; board officers and their roles; board committees, their tasks and composition; qualifications for board membership and nominations process; assessment of board performance; and obtaining independent advice.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 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). 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. On all these matters, the board's role is to set general policy and to monitor the implementation of that policy by the group chief executive.

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 is set out in a monthly report 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 specifically includes any materially under-performing business activities and actions that breach the executive limitations policy. This dialogue is a key feature of the board/executive relationship.

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

- *Audit Committee* (4-6 non-executive directors) – monitoring all reporting, accounting, control and financial aspects of the executive management's activities. This includes 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 likewise being observed. The committee reviews all documents to be placed before shareholders and makes recommendations to the board about their adoption and publication. The committee keeps under review the scope and results of audit work, its cost-effectiveness and the independence and objectivity of the auditors. It also reviews the work of the internal audit function. The auditor's lead partner and the BP general auditor (head of internal audit) attend each meeting at the request of the committee chairman.
- *Ethics and Environment Assurance Committee* (4-6 non-executive directors) – monitoring the non-financial aspects of the executive management's activities. The auditor's lead partner and the BP general auditor (head of internal audit) attend each meeting at the request of the committee chairman.
- *Remuneration Committee* (4-6 non-executive directors) – determining performance contracts and targets and the structure of the rewards for the group chief executive and the executive directors and monitoring the policies being applied by the group chief executive in remunerating other senior executives. A summary of the directors' remuneration report 2003 appears on pages 40 to 43.

Full reports for each of these committees appear in *BP Annual Report and Accounts 2003*.

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. These are the *Chairman's Committee*, which comprises all the non-executive directors; and the *Nomination Committee*, which is formally tasked with the identification and evaluation of candidates for appointment or reappointment as director or company secretary. The nomination committee was 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. 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.

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. 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.

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.

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 acts as the senior independent director. 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 appointments and retirements, subject 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 below)*.

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 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. A full explanation is provided in *BP Annual Report and Accounts 2003*.

Induction, training and evaluation

The training and induction processes for directors are evolving to take into account the development of the group and applicable governance standards. Directors receive induction on their appointment to the board as appropriate. Throughout their period in office the directors are updated on BP's business, the environment in which it operates and other matters.

The board has continued its annual evaluation processes to assess its performance and identify areas in which the effectiveness of the board, its policies or process might be enhanced. Board committees have begun to conduct more structured evaluation of their performance annually, leading to refinements to their processes, composition and work programmes.

Combined Code compliance

BP complied throughout 2003 with the provisions of Section 1 of the applicable 2002 edition of the Combined Code, except in the following aspect. 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 its work.

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 and the 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).

Summary directors' remuneration report

This is a summary of the directors' remuneration report which is set out on pages 106-115 of *BP Annual Report and Accounts 2003*, a copy of which shareholders may obtain, free of charge *(see page 45)*.

Part 1 – Executive directors' remuneration

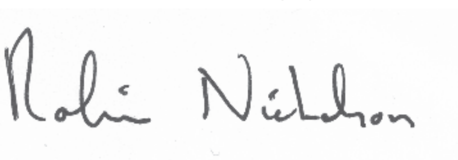
Dear Shareholder

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 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 are set out in the board governance policies adopted by the board and include:

- Determining the terms of engagement and remuneration of the group chief executive and the executive directors and reporting on those to the shareholders.
- Determining 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.
- Nominating on behalf of the board any trustees of such scheme.
- Monitoring 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 of the committee is subject to re-election every three years; however, annual re-election is proposed from 2005. The board considers all the members of the committee to be independent *(see page 39)*. The committee met six times in 2003. There was a full attendance record, except that Sir Ian and Mr Davis were each unable to attend one meeting.

Advice

The committee receives independent advice from the company secretary's office, which is independent of executive management and reports to the non-executive chairman. Mr Aronson, an independent consultant within the company secretary's office, was appointed by the committee as its secretary and special adviser. The committee also appoints external independent professional advisers to provide additional specialist advice on particular matters.

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:

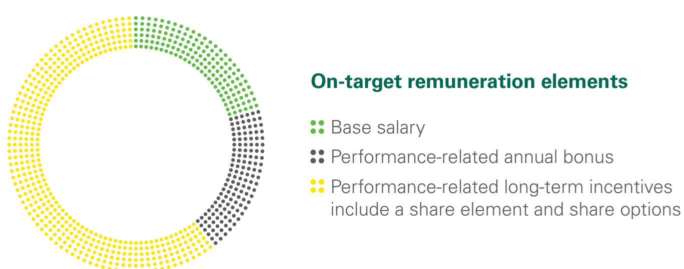
- Total rewards should be set at appropriate levels to reflect the competitive global market in which BP operates.
- The majority of the total reward should be linked to the achievement of demanding performance targets.
- Executive directors' incentives should be aligned with the interests of ordinary 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. 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.

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)*.



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 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.

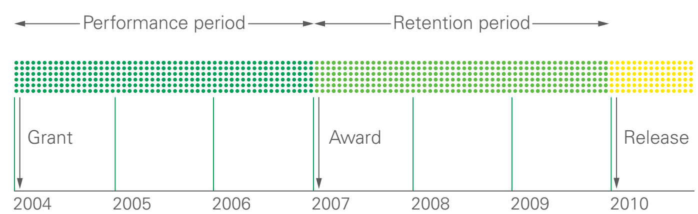
Long-term incentives

Long-term incentives are provided under the Executive Directors' Incentive Plan (EDIP). 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 committee's policy that each executive director should hold shares equivalent in value to 5 x the director's base salary is reflected in the terms of the plan.

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. A maximum of two shares may be awarded for each unit. 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. Shares will only be released at the end of the retention period if the company's minimum shareholding guidelines have been met.

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). The committee reviews and approves annually the performance measures and the comparator companies.

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 three-year pre-grant performance requirement. Options may be granted to executive directors at an exercise price no lower than the market value of a share at the date the option is granted. 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.

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.

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.

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. No other executive director is eligible for consideration for a superannuation payment on retirement, as the committee decided in 1996 that appointees to the board after that time should cease to be eligible for consideration for such a payment.

US director

Dr Grote as a US director participates in the US BP Retirement Accumulation Plan (US Plan), which features a cash balance formula, and in the Supplemental Executive Retirement Benefit, which is a non-qualified top-up arrangement.

Service contracts

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.

Information subject to audit

Summary of 2003 remuneration

	Annual remuneration								**Long-term remuneration**					
									Share element of EDIP/LTPP				**Grants under EDIP**	
									2001-2003 plan		2000-2002 plan			
									(to be awarded in Feb 2004)		(awarded in Feb 2003)		(granted in Feb 2003)	
	Salary (thousand)		Annual performance bonus (thousand)		Non-cash benefits & other emoluments (thousand)		Total (thousand)		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)
	2002	2003	2002	2003	2002	2003	2002	**2003**						
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.

[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.

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.

Share options

Share option grants in 2003 as shown in the table above were maintained at the same level as in 2002.

Share element of EDIP and Long Term Performance Plans (LTPPs)
For the 2001-2003 share element of the EDIP and the LTPP, 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 in 2004 as highlighted in the table on page 42.

Further details of share options and all long-term awards are set out in *BP Annual Report and Accounts 2003*.

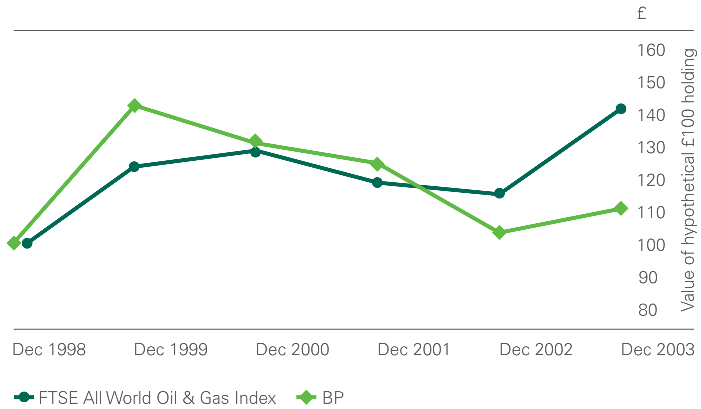
Past directors
Following Dr Buchanan's retirement from the BP p.l.c. board on 21 November 2002, he remained as an employee until his normal retirement date of 8 June 2003. During that period he received a pro rata normal salary of £227,000 and a pro rata bonus of £289,425.

Following Mr Chase's retirement in May 2003, he was engaged as a consultant to BP in relation to the TNK-BP transaction. Under this 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.

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.



Part 2 – Non-executive directors' remuneration

Non-executive directors' remuneration (including that of the chairman) is set by the board within limits approved from time to time by the shareholders. The company will be asked to approve an increase in this limit (fixed since 1998) at the 2004 AGM. In setting the level and structure of remuneration within that limit, the board is guided by the need to attract and retain world-class non-executive directors, and to ensure that their reward is proportional to their contribution to the company.

Non-executive directors have letters of appointment which recognize that, subject to the Articles of Association, their service is at the discretion of shareholders. Their remuneration is in the form of cash fees paid monthly, with increments for positions of additional responsibility to reflect the additional workload and consequent potential liability.

Non-executive directors are encouraged to establish a holding in BP shares broadly related to one year's base fee. No share options are granted to non-executive directors.

Non-executive directors' annual fee structure
The current fee structure for non-executive directors, last reviewed during 2002, is set out in the table below. All fees are fixed and paid in pounds sterling.

£ 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.

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.

Board of directors

Executive directors

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.

R L Olver

Deputy Group Chief Executive

Dick Olver (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.

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.

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.

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.

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

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

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

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

A 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.

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

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

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

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 Vendex KBB.

Member of the Chairman's and Ethics and Environment Assurance Committees

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

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

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

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.