

**BP EXPLORATION (DELTA) LIMITED**

**REPORT OF THE DIRECTORS**

(Registered in England and Wales No 983913)

**ANNUAL REPORT AND ACCOUNTS 2003**

Board of Directors:- J E Lynch Jr  
H Mekawi  
J C Skipper  
S D Urban

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**REPORT OF THE DIRECTORS**

The directors present their report and accounts for the year ended 31 December 2003.

**Principal activity**

The company's principal activity during the year was the exploration for and production of oil and gas from its 5% interest in the Foinaven Field in the UKCS. The company also has a 10% interest in the East Delta Deep Marine Concession in Egypt. In 2003 the company acquired interests in four new oil concession agreements in Egypt - LL87 Area, Abu Zenima, East Morgan and North Ghara.

It is the intention of the directors that the above business of the company will continue for the foreseeable future.

**Review of activities and future developments**

The company has had a satisfactory year and the directors believe that the trend will continue.

The company is in a good position to take advantage of any opportunities which may arise in the future.

**Results and dividends**

The loss for the year amounts to £2.8 million before dividends of £20.0 million. The resulting loss of £22.8 million has been deducted from the retained profit brought forward at 1 January 2003 of £23.4 million. This movement, together with exchange adjustments taken directly to reserves of £2.1 million, gives a total retained profit carried forward at 31 December 2003 of £2.7 million. The directors do not propose the payment of a final dividend.

**Directors**

The present directors of the company are listed above.

H Mekawi, J C Skipper and S D Urban served as directors of the company throughout the financial year. Changes since 1 January 2003 are as follows:

Appointed

J E Lynch Jr

1 March 2003



**BP EXPLORATION (DELTA) LIMITED**

**REPORT OF THE DIRECTORS**

**Directors' interests**

The interests of the directors holding office at 31 December 2003, and their families, in the US \$0.25 ordinary shares of BP p.l.c., were as set out below:

	<u>31 December 2003</u>	<u>1 January 2003</u> (or date of appointment)
H Mekawi	4,768*	280*
J C Skipper	2,593	2,453
S D Urban	17,472*	17,472*
J E Lynch Jr	-	-

In addition, rights to subscribe for US \$0.25 ordinary shares in BP p.l.c. were granted to, or exercised by those directors between 1 January 2003, or date of appointment, and 31 December 2003 as follows:

	<u>Granted</u>	<u>Exercised</u>
J C Skipper	5,392	-
H Mekawi	53,220*	-
S D Urban	119,010*	111,156*
J E Lynch Jr	-	-

\* These holdings include shares held in the form of ADRS (American Depository Receipts).

No director had any interest in the shares or debentures of subsidiary undertakings of BP p.l.c at 31 December 2003.

**Policy with respect to payment of suppliers**

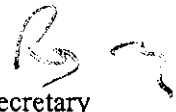
It is the company's policy to follow the CBI's prompt payment code of practice for all suppliers to the company. A copy of the code of practice may be obtained from the CBI.

The number of days' purchases represented by trade creditors at the year-end was 30.

**Auditors**

Ernst & Young LLP will continue in office as the company's auditor in accordance with the elective resolution passed by the company under Section 386 of the Companies Act 1985.

By order of the Board

  
Secretary  
23 July 2004

Registered Office:

Chertsey Road  
Sunbury-on-Thames  
Middlesex  
TW16 7BP

**BP EXPLORATION (DELTA) LIMITED**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS**

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

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

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

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

## **BP EXPLORATION (DELTA) LIMITED**

### **REPORT OF THE AUDITORS TO THE MEMBERS OF BP EXPLORATION (DELTA) LIMITED**

We have audited the accounts for the year ended 31 December 2003 which comprise Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, accounting policies and related notes 1 to 22. These accounts have been prepared on the basis of the accounting policies set out therein.

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

#### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

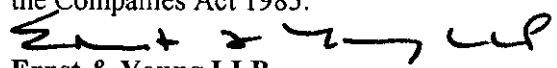
#### **Basis of audit opinion**

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

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

#### **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2003 and of the loss of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Ernst & Young LLP  
Registered Auditor  
ABERDEEN

23 July 2004

## **BP EXPLORATION (DELTA) LIMITED**

### **ACCOUNTING POLICIES**

#### **Accounting standards**

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

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

1. The SORP recommends that oil and gas reserve quantities be disclosed. The company is a wholly owned subsidiary of BP p.l.c. and, as such, the oil and gas reserve quantities of the company are included in the consolidated oil and gas reserve quantities disclosed in the Annual Report and Accounts of BP p.l.c. Consequently the directors have elected not to publish this information for the Company.

#### **Accounting convention**

The accounts are prepared under the historical cost convention.

#### **Statement of cash flows**

The Group financial statements of the ultimate parent undertaking contain a consolidated cash flow statement. The Company has taken advantage of the exemption granted by the Financial Reporting Standard No. 1 (Revised), whereby it is not required to publish its own cash flow statement.

#### **Stock valuation**

Stocks are valued at cost to the company, using the first-in first-out method or at net realisable value, whichever is the lower.

#### **Foreign currencies**

Assets and liabilities of foreign currency branches are translated into sterling at closing rates of exchange. Income statements are translated at average rates of exchange. Exchange differences resulting from the retranslation of net investments in foreign currency branches at closing rates, together with differences between income statements translated at average rates and at closing rates of exchange and differences on long term monetary items, are dealt with in reserves.

All other exchange gains or losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of the profit/loss for the year.

#### **Depreciation**

Oil and gas production assets are depreciated using a unit-of-production method based upon estimated proven reserves. Other tangible and intangible assets, other than freehold land, are depreciated on the straight line method over their estimated useful lives. The company undertakes a review for impairment of a fixed asset or goodwill if events or changes in circumstances indicate that the carrying amount of the fixed asset or goodwill may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is the higher of net realisable value and value in use, the fixed asset or goodwill is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows.

## **BP EXPLORATION (DELTA) LIMITED**

### **ACCOUNTING POLICIES**

#### **Exploration expenditure**

Exploration expenditure is accounted for in accordance with the successful efforts method. Exploration and appraisal drilling expenditure is initially classified as an intangible fixed asset. When proved reserves of oil and gas are determined and development is sanctioned, the relevant expenditure is transferred to tangible production assets. All exploration expenditure determined as unsuccessful is charged against income. Exploration licence acquisition costs are amortised over the estimated period of exploration. Geological and geophysical exploration costs are charged against income as incurred.

#### **Decommissioning**

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

#### **Changes in unit-of-production factors**

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

#### **Environmental liabilities**

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

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognised is the best estimate of the expenditure required.

#### **Leases**

Rentals under operating leases are charged against income as incurred.

#### **Interest**

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

#### **Revenue recognition**

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

**BP EXPLORATION (DELTA) LIMITED**

**ACCOUNTING POLICIES**

**Discounting**

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

**Comparative figures**

Certain prior year figures have been restated to conform with the 2003 presentation. This restatement relates to the reclassification of certain items from Administration Expenses to Cost of Sales and has no effect on the profit/loss for the year.

**BP EXPLORATION (DELTA) LIMITED**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003**

		2003	2002
		£'000	Restated £'000
	<u>Note</u>		
<b>Turnover</b>	1	25,453	30,123
Cost of sales		(14,182)	(13,881)
		-----	-----
<b>Gross profit</b>		11,271	16,242
Exploration expense		(14,535)	(2,111)
Distribution and marketing expenses		(24)	(46)
		-----	-----
Other income	3	(3,288)	14,085
		612	45
		-----	-----
<b>Operating (loss)/profit being the (loss)/profit on ordinary activities before interest and taxation</b>	2	(2,676)	14,130
Interest payable and similar charges	4	(102)	(108)
		-----	-----
<b>(Loss)/profit on ordinary activities before taxation</b>		(2,778)	14,022
Taxation	5	-	-
		-----	-----
<b>(Loss)/profit for the year</b>		(2,778)	14,022
Distributions to shareholders	7	(20,000)	-
		-----	-----
<b>Retained (loss)/profit for the year</b>		(22,778)	14,022
		=====	=====

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

	2003	2002
	£'000	£'000
(Loss)/profit for the year	(2,778)	14,022
Currency translation differences	2,060	(1,207)
	-----	-----
<b>Total recognised gains and losses for the year</b>	(718)	12,815
	=====	=====



**BP EXPLORATION (DELTA) LIMITED**

**BALANCE SHEET AT 31 DECEMBER 2003**

	<u>Note</u>	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
<b>Fixed assets</b>			
Intangible assets	8	12,061	5,522
Tangible assets	9	33,458	34,874
Investments	10	10,344	8,491
		-----	-----
		55,863	48,887
		-----	-----
<b>Current assets</b>			
Stock		344	213
Debtors	11	4,047	3,995
Bank		1	8,286
		-----	-----
		4,392	12,494
<b>Creditors - amounts falling due within one year</b>	12	(54,148)	(34,945)
		-----	-----
<b>Net current liabilities</b>		(49,756)	(22,451)
		-----	-----
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		6,107	26,436
<b>Provisions for liabilities and charges</b>	13	(3,400)	(3,011)
		-----	-----
<b>NET ASSETS</b>		<u>2,707</u>	<u>23,425</u>
		=====	=====
<b>Represented by</b>			
<b>Capital and reserves</b>			
Called up share capital	14	-	-
Profit and loss account	15	2,707	23,425
		-----	-----
<b>SHAREHOLDERS' FUNDS - EQUITY INTERESTS</b>		<u>2,707</u>	<u>23,425</u>
		=====	=====

  
Director

23 July 2004

**BP EXPLORATION (DELTA) LIMITED**

**NOTES TO THE ACCOUNTS**

**1. Turnover**

Turnover represents the selling value of petroleum products produced during the year attributable to the company and of petroleum purchased for resale, both of which are continuing, stated net of value added tax where applicable. The country of origin and destination is substantially the UK.

**2. Operating profit**

This is stated after charging:

	2003 <u>£'000</u>	2002 <u>£'000</u>
Operating lease rentals - plant and machinery	4,202	6,218
Depreciation of owned fixed assets (including amortisation of intangibles)	13,690	5,421
Exchange loss on foreign currency borrowings less deposits	67	320

Auditors' remuneration is dealt with in the accounts of the ultimate parent undertaking. No fees were paid to the auditors for other services.

**3. Other income**

	2003 <u>£'000</u>	2002 <u>£'000</u>
Interest income from fellow subsidiary undertakings	612 =====	45 =====

**4. Interest payable and similar charges**

	2003 <u>£'000</u>	2002 <u>£'000</u>
Loans from fellow subsidiary undertakings	20	24
Unwinding of discount on provisions	82	84
	----- 102 =====	----- 108 =====

## **BP EXPLORATION (DELTA) LIMITED**

### **NOTES TO THE ACCOUNTS**

#### **5. Taxation**

The Company is a member of a group for the purposes of relief under Section 402 of the Income & Corporation Taxes Act 1988.

No corporation tax has been provided in respect of the company's oil extraction activity in the UK and UK Continental Shelf because another group company, BP Exploration Operating Company Limited, has undertaken to provide for any current or deferred tax that arises.

In respect of the company's other activities, no corporation tax has been provided because another group company, BP International Limited, has undertaken to procure the claim or surrender of free group relief to the extent it is required and to provide for any current or deferred tax that arises.

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

	2003 <u>£'000</u>	2002 <u>£'000</u>
Profit before taxation	(2,778)	14,022
Current taxation	-	-
Effective current tax rate	0%	0%
	2003 %	2002 %
UK statutory corporation tax rate	30	30
Increase/(decrease) resulting from:		
UK supplementary tax at 10% on North Sea profits	(40)	-
Timing differences	98	-
Group relief	(250)	4
IRF tax provided in BPEOC	162	(34)
Effective current tax rate	<u>-</u>	<u>-</u>

#### **6. Directors**

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2002 £Nil).

#### **7. Distribution to shareholders**

	2003 <u>£'000</u>	2002 <u>£'000</u>
Ordinary Dividend – interim paid	<u>20,000</u>	<u>-</u>

**BP EXPLORATION (DELTA) LIMITED**

**NOTES TO THE ACCOUNTS**

**8. Intangible assets**

Exploration  
expenditure  
£'000

**Cost**

At 1 January 2003

7,971

Exchange adjustments

(808)

Additions

15,652

At 31 December 2003

-----  
22,815  
=====

**Depreciation**

At 1 January 2003

2,449

Exchange adjustments

(248)

Charge for the year

8,553

At 31 December 2003

-----  
10,754  
=====

**Net book amount**

At 31 December 2003

-----  
12,061  
=====

At 31 December 2002

-----  
5,522  
=====

**BP EXPLORATION (DELTA) LIMITED**

**NOTES TO THE ACCOUNTS**

**9. Tangible assets**

	Production Assets £'000	of which: Assets under Construction £'000
<b>Cost</b>		
At 1 January 2003	57,258	-
Additions	3,721	1,397
	-----	-----
At 31 December 2003	60,979	1,397
	=====	=====
<b>Depreciation</b>		
At 1 January 2003	22,384	-
Charge for the year	5,137	-
	-----	-----
At 31 December 2003	27,521	-
	=====	=====
<b>Net book amount</b>		
At 31 December 2003	33,458	1,397
	=====	=====
At 31 December 2002	34,874	-
	=====	=====
 Included within tangible assets		
	Cost £'000	Dep'n £'000
		Net £'000
<b>Capitalised interest</b>		
At 31 December 2003	1,794	977
	=====	=====
At 31 December 2002	1,794	863
	=====	=====

**10. Fixed assets - investments**

	Other £'000
<b>Cost</b>	
At 1 January 2003	8,491
Additions	1,853
	-----
At 31 December 2003	10,344
	=====
<b>Net book amount</b>	
At 31 December 2003	10,344
	=====
At 31 December 2002	8,491
	=====

**BP EXPLORATION (DELTA) LIMITED**

**NOTES TO THE ACCOUNTS**

**11. Debtors**

	2003	2002
	<u>£'000</u>	<u>£'000</u>
Trade	245	181
Parent and fellow subsidiary undertakings	1,871	2,328
Other debtors	1,931	1,486
	<u>-----</u>	<u>-----</u>
	4,047	3,995
	<u>=====</u>	<u>=====</u>

**12. Other Creditors**

	2003	2002
	<u>£'000</u>	<u>£'000</u>
Trade	5,362	6,125
Parent and fellow subsidiary undertakings	40,275	27,807
Other creditors	8,511	1,013
	<u>-----</u>	<u>-----</u>
	54,148	34,945
	<u>=====</u>	<u>=====</u>

**13. Provisions for liabilities and charges**

	Decommissioning <u>£'000</u>
At 1 January 2003	3,011
Unwinding of discount	82
Change in cost of abandonment	307
	<u>-----</u>
At 31 December 2003	3,400
	<u>=====</u>

The group makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines on a discounted basis at the commencement of production. At 31 December 2003, the provision for the costs of decommissioning these production facilities at the end of their economic lives was £3.4 million (2002: £3.0 million). The provision has been estimated using existing technology, at current prices and discounted using a real discount rate 2.5% (2002: 2.5%). These costs are expected to be incurred over the next 9 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

**14. Called up share capital**

	2003	2002
	<u>£</u>	<u>£</u>
Authorised, issued and fully paid:		
100 ordinary shares of £1 each	100	100
	<u>=====</u>	<u>=====</u>

**BP EXPLORATION (DELTA) LIMITED**

**NOTES TO THE ACCOUNTS**

**15. Reconciliation of shareholders' funds and movements on reserves**

	Share Capital £'000	Profit & loss account £'000	Total £'000
At 1 January 2003	-	23,425	23,425
Profit for the year	-	(22,778)	(22,778)
Exchange adjustments	-	2,060	2,060
	-----	-----	-----
At 31 December 2003	-	2,707	2,707
	=====	=====	=====

**16. Reconciliation of movements in shareholders' interest**

	2003 £'000	2002 £'000
(Loss)/profit for the year	(2,778)	14,022
Currency translation differences	2,060	(1,207)
Dividends	(20,000)	-
	-----	-----
Net (decrease)/increase in shareholders' interests	(20,718)	12,815
Shareholders' interest at 1 January	23,425	10,610
	-----	-----
Shareholders' interest at 31 December	2,707	23,425
	=====	=====

**17. Operating lease commitments**

At 31 December the company had annual commitments under non-cancellable operating leases as set out below:

	2003 Other £'000	2002 Other £'000
Expiring: Between 2 to 5 years	4,043	5,167
	=====	=====

**18. Capital commitments**

Authorised and contracted future capital expenditure is estimated at £1.76 million (2002 £2.2 million).

**19. Contingent liabilities**

There were contingent liabilities at 31 December 2003 in respect of guarantees and indemnities entered into as part of, and claims arising from, the ordinary course of the company's business, upon which no material losses are likely to arise.

**BP EXPLORATION (DELTA) LIMITED**

**NOTES TO THE ACCOUNTS**

**20. Related party transactions**

The company has taken advantage of the exemption contained within Financial Reporting Standard No 8 "Related Party Disclosures", and has not disclosed transactions with group companies.

**21. Pensions**

The company does not directly employ any staff and therefore does not directly bear any pension charge.

**22. Ultimate parent undertaking**

The ultimate parent undertaking of the group of undertakings for which group accounts are drawn up, and of which the company is a member, is BP p.l.c., a company registered in England and Wales. Copies of BP p.l.c.'s accounts can be obtained from 1 St James's Square, London SW1Y 4PD.