

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
 **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended 31 December 2006**
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
 SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-6262

BP p.l.c.

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

**1 St James's Square
London
SW1Y 4PD
United Kingdom**

(Address of principal executive offices)

Title of each class
Ordinary Shares of 25c each

Name of each exchange on which registered
**New York Stock Exchange*
Chicago Stock Exchange*
NYSE Arca***

*Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares of 25c each	19,510,496,490
Cumulative First Preference Shares of £1 each	7,232,838
Cumulative Second Preference Shares of £1 each	5,473,414

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Miscellaneous terms

ADR American depositary receipt.

ADS American depositary share.

Amoco The former Amoco Corporation and its subsidiaries.

Atlantic Richfield Atlantic Richfield Company and its subsidiaries.

Associate An entity over which the group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of an entity without having control or joint control over those policies.

Barrel 42 US gallons.

b/d Barrels per day.

BP, BP group or the group BP p.l.c. and its subsidiaries.

Burmah Castrol Burmah Castrol plc and its subsidiaries.

Cent or c One-hundredth of the US dollar.

The company BP p.l.c.

Dollar or \$ The US dollar.

EU European Union.

Gas Natural gas.

Hydrocarbons Crude oil and natural gas.

IFRS International Financial Reporting Standards.

Joint venture A contractual arrangement between the group and other venturers that undertake an economic activity that is subject to joint control. Joint control exists only where the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

Jointly controlled asset A joint venture where the venturers have a direct ownership interest in and jointly control the assets of the venture.

Jointly controlled entity A joint venture that involves the establishment of a company, partnership or other entity to engage in economic activity that the group jointly controls with fellow venturers.

Liquids Crude oil, condensate and natural gas liquids.

LNG Liquefied natural gas.

London Stock Exchange or LSE London Stock Exchange plc.

LPG Liquefied petroleum gas.

mb/d thousand barrels per day.

mboe/d thousand barrels of oil equivalent per day.

mmBtu million British thermal units.

mmcf/d million cubic feet per day.

MTBE Methyl tertiary butyl ether.

NGLs Natural gas liquids.

OPEC Organisation of Petroleum Exporting Countries.

Ordinary shares Ordinary fully paid shares in BP p.l.c. of 25c each.

Pence or p One-hundredth of a pound sterling.

Pound, sterling or £ The pound sterling.

Preference shares Cumulative First Preference Shares and Cumulative Second Preference Shares in BP p.l.c. of £1 each.

PSA Production-sharing agreement.

SEC The United States Securities and Exchange Commission.

Subsidiary An entity that is controlled by the BP group. Control is the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities.

Tonne 2,204.6 pounds.

UK United Kingdom of Great Britain and Northern Ireland.

UK GAAP Generally Accepted Accounting Practice in the UK.

US or USA United States of America.

US GAAP Generally Accepted Accounting Principles in the US.

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US GAAP

\$ million except per share amounts

	2006	2005	2004	2003	2002
Income statement data					
Revenues ^d	265,906	252,168	203,303	173,615	145,991
Profit for the year attributable to BP shareholders ^d	21,116	19,642	17,090	12,941	8,109
Comprehensive income	23,125	17,053	17,371	19,689	10,256
Profit per ordinary share – cents					
Basic	105.42	92.96	78.31	58.36	36.20
Diluted	104.63	91.91	76.88	57.79	36.02
Profit per American depository share – cents					
Basic	632.52	557.76	469.86	350.16	217.20
Diluted	627.78	551.46	461.28	346.74	216.12
Balance sheet data					
Total assets	219,288	213,722	206,139	186,576	164,103
Net assets	87,358	85,936	86,435	80,292	67,274
BP shareholders' equity	86,517	85,147	85,092	79,167	66,636

^a Excludes Innovene which was treated as a discontinued operation in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. (See *Financial statements – Note 5 on page 103*). Under US GAAP, Innovene is not treated as a discontinued operation.

^b There were no significant acquisitions in 2006 or in 2005. Capital expenditure in 2006 includes \$1 billion in respect of our investment in Rosneft. Capital expenditure and acquisitions for 2004 includes \$1,354 million for including TNK's interest in Slavneft within TNK-BP and \$1,355 million for the acquisition of Solvay's interests in BP Solvay Polyethylene Europe and BP Solvay Polyethylene North America. With the exception of the shares issued to Alfa Group and Access-Renova (AAR) in connection with TNK-BP (2004-2006), all capital expenditure and acquisitions during the last five years have been financed from cash flow from operations, disposal proceeds and external financing.

^c The number of ordinary shares shown have been used to calculate per share amounts for both IFRS and US GAAP.

^d Under US GAAP, Innovene is not treated as a discontinued operation. (See *Financial statements – Note 5 on page 103*). As such, the results of Innovene are included within revenues and profit for the year, as adjusted to accord with US GAAP.

Production and net proved oil and natural gas reserves

The following table shows our production for the last five years and the estimated net proved oil and natural gas reserves at the end of each of those years.

	2006	2005	2004	2003	2002
Crude oil production for subsidiaries (thousand barrels per day)	1,351	1,423	1,480	1,615	1,766
Crude oil production for equity-accounted entities (thousand barrels per day)	1,124	1,139	1,051	506	252
Natural gas production for subsidiaries (million cubic feet per day)	7,412	7,512	7,624	8,092	8,324
Natural gas production for equity-accounted entities (million cubic feet per day)	1,005	912	879	521	383
Estimated net proved crude oil reserves for subsidiaries (million barrels) ^{a b}	5,893	6,360	6,755	7,214	7,762
Estimated net proved crude oil reserves for equity-accounted entities (million barrels) ^{a c}	3,888	3,205	3,179	2,867	1,403
Estimated net proved natural gas reserves for subsidiaries (billion cubic feet) ^{a d}	42,168	44,448	45,650	45,155	45,844
Estimated net proved natural gas reserves for equity-accounted entities (billion cubic feet) ^{a e}	3,763	3,856	2,857	2,869	2,945

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

^b Includes 23 million barrels (29 million barrels at 31 December 2005 and 40 million barrels at 31 December 2004) in respect of the 30% minority interest in BP Trinidad and Tobago LLC.

^c Includes 179 million barrels (95 million barrels at 31 December 2005 and 127 million barrels at 31 December 2004) in respect of the 6.29% minority interest in TNK-BP (4.47% at 31 December 2005 and 5.9% at 31 December 2004).

^d Includes 3,537 billion cubic feet of natural gas (3,812 billion cubic feet at 31 December 2005 and 4,064 billion cubic feet at 31 December 2004) in respect of the 30% minority interest in BP Trinidad and Tobago LLC.

^e Includes 99 billion cubic feet (57 billion cubic feet at 31 December 2005 and 13 billion cubic feet at 31 December 2004) in respect of the 7.77% minority interest in TNK-BP (4.47% at 31 December 2005 and 5.9% at 31 December 2004).

During 2006, 329 million barrels of oil and natural gas, on an oil equivalent* basis (mmb), were added to BP's proved reserves for subsidiaries (excluding purchases and sales). After allowing for production, which amounted to 963mmb, BP's proved reserves for subsidiaries were 13,163mmb at 31 December 2006. These proved reserves are mainly located in the US (44%), Rest of Americas (20%), Asia Pacific (10%), Africa (9%) and the UK (8%).

For equity-accounted entities, 1,306mmb were added to proved reserves (excluding purchases and sales), production was 479mmb and proved reserves were 4,537mmb at 31 December 2006.

* Natural gas is converted to oil equivalent at 5.8 billion cubic feet (bcf) = 1 million barrels.

In 2005, there were no significant acquisitions. Disposal proceeds were \$11,200 million, which included net cash proceeds from the sale of Innovene to INEOS of \$8,304 million after selling costs, closing adjustments and liabilities. Innovene represented the majority of the Olefins and Derivatives business. Additionally, disposal proceeds included proceeds from the sale of the group's interest in the Ormen Lange field in Norway.

On 2 November 2004, Solvay exercised its option to sell its interests in BP Solvay Polyethylene Europe and BP Solvay Polyethylene North America to BP. Solvay held 50% of BP Solvay Polyethylene Europe and 51% of BP Solvay Polyethylene North America. On completion, the two entities, which manufactured and marketed high-density polyethylene, became wholly owned subsidiaries of BP. The total consideration for the acquisition was \$1,391 million. These two entities were subsequently included as part of the sale of Innovene to INEOS (*see above*).

During 2004, BP China and Sinopec announced the establishment of the BP-Sinopec (Zhejiang) Petroleum Co. Ltd, a retail joint venture between BP and Sinopec. Based on the existing service station network of Sinopec, the 30-year dual-branded joint venture has plans to build, operate and manage a network of 500 service stations in Hangzhou, Ningbo and Shaoxing. Also during 2004, BP China and PetroChina announced the establishment of BP-PetroChina Petroleum Company

Limited. Located in Guangdong, one of the most developed provinces in China, the 30-year dual-branded joint venture is intended to acquire, build, operate and manage 500 service stations in the province within three years of establishment. The initial investment in both joint ventures amounted to \$106 million. (*See Refining and Marketing on page 27 for further details.*)

Disposal proceeds in 2004 were \$4,961 million, which included \$2.3 billion from the sale of the group's investments in PetroChina and Sinopec. Additionally, it included proceeds from the sale of various oil and gas properties, the sale of our interest in Singapore Refining Company Private Limited, the sale of our specialty intermediate chemicals and Fabrics and Fibres businesses and the sale of two NGLs plants.

Recent development

In March 2007, BP announced its intention to acquire Chevron's Netherlands manufacturing company, Texaco Raffinaderij Pernis B.V., subject to required regulatory approvals. The acquisition includes Chevron's 31% minority shareholding in Nerefco, its 31% shareholding in the 22.5 MW wind farm co-located at the refinery as well as 22.8% shareholding in the TEAM joint venture crude terminal and shareholdings in two local pipelines linking the TEAM terminal to the refinery. Completion is expected by April 2007.

The following tables show BP's estimated net proved reserves as at 31 December 2006.

Estimated net proved reserves of liquids at 31 December 2006^{a b}

	million barrels		
	Developed	Undeveloped	Total
UK	458	146	604
Rest of Europe	189	97	286
USA	1,916	1,292	3,208
Rest of Americas	130	237	367 ^c
Asia Pacific	67	86	153
Africa	193	512	705
Russia	–	–	–
Other	88	482	570
Group	3,041	2,852	5,893
Equity-accounted entities			3,888 ^d

Estimated net proved reserves of natural gas at 31 December 2006^{a b}

	billion cubic feet		
	Developed	Undeveloped	Total
UK	1,968	825	2,793
Rest of Europe	242	56	298
USA	10,438	4,660	15,098
Rest of Americas	3,932	9,194	13,126 ^e
Asia Pacific	1,359	5,202	6,561
Africa	1,032	1,675	2,707
Russia	–	–	–
Other	331	1,254	1,585
Group	19,302	22,866	42,168
Equity-accounted entities			3,763 ^f

Net proved reserves on an oil equivalent basis (mmboe)

– Group	13,163
– Equity-accounted entities	4,537

^a Net proved reserves of crude oil and natural gas, stated as at 31 December 2006, exclude production royalties due to others, whether payable in cash or in kind, and include minority interests in consolidated operations. We disclose our share of reserves held in joint ventures and associates that are accounted for by the equity method although we do not control these entities or the assets held by such entities.

^b In certain deepwater fields, such as fields in the Gulf of Mexico, BP has claimed proved reserves before production flow tests are conducted, in part because of the significant safety, cost and environmental implications of conducting these tests. The industry has made substantial technological improvements in understanding, measuring and delineating reservoir properties without the need for flow tests. The general method of reserves assessment to determine reasonable certainty of commercial recovery that BP employs relies on the integration of three types of data: (1) well data used to assess the local characteristics and conditions of reservoirs and fluids; (2) field scale seismic data to allow the interpolation and extrapolation of these characteristics outside the immediate area of the local well control; and (3) data from relevant analogous fields. Well data includes appraisal wells or sidetrack holes, full logging suites, core data and fluid samples. BP considers the integration of this data in certain cases to be superior to a flow test in providing a better understanding of the overall reservoir performance. The collection of data from logs, cores, wireline formation testers, pressures and fluid samples calibrated to each other and to the seismic data can allow reservoir properties to be determined over a greater volume than the localized volume of investigation associated with a short term flow test. Historically, proved reserves recorded using these methods have been validated by actual production levels. As at the end of 2006, BP had proved reserves in 22 fields in the deepwater Gulf of Mexico that had been initially booked prior to production flow testing. Of these fields, 18 have been in production and two, Atlantis and Thunder Horse, are expected to begin production by the end of 2007 and by the end of 2008 respectively. Two other fields are in the early stages of development.

^c Includes 23 million barrels of crude oil in respect of the 30% minority interest in BP Trinidad and Tobago LLC.

^d Includes 179 million barrels of crude oil in respect of the 6.29% minority interest in TNK-BP.

^e Includes 3,537 billion cubic feet of natural gas in respect of the 30% minority interest in BP Trinidad and Tobago LLC.

^f Includes 99 billion cubic feet of natural gas in respect of the 7.77% minority interest in TNK-BP.

The following tables show BP's production by major field for 2006, 2005 and 2004.

Production	Field or Area	Interest	BP net share of production ^a		
			2006	2005	2004
%					
thousand barrels per day					
Alaska	Prudhoe Bay ^b	26.4	71	89	97
	Kuparuk	39.2	57	62	68
	Northstar ^b	98.6	38	46	49
	Milne Point ^b	100.0	31	37	44
	Other	Various	27	34	37
Total Alaska			224	268	295
Lower 48 onshore ^c	Various	Various	125	130	142
Gulf of Mexico deepwater ^c	Na Kika ^b	50.0	41	44	27
	Horn Mountain ^b	66.6	23	26	41
	King ^b	100.0	28	24	26
	Mars	28.5	19	21	35
	Ursa	22.7	21	19	29
	Other	Various	63	64	47
Gulf of Mexico Shelf ^c	Other	Various	3	16	24
Total Gulf of Mexico			198	214	229
Total USA			547	612	666
UK offshore ^c	ETAP ^d	Various	49	49	55
	Foinaven ^b	Various	37	39	48
	Magnus ^b	85.0	30	30	34
	Schiehallion/Loyal ^b	Various	26	28	39
	Harding ^b	70.0	17	22	27
	Andrew ^b	62.8	7	12	12
	Other	Various	69	75	89
Total UK offshore			235	255	304
Onshore	Wytch Farm ^b	67.8	18	22	26
Total UK			253	277	330
Netherlands	Various	Various	1	1	1
Norway	Valhall ^b	28.1	21	25	25
	Draugen	18.4	15	20	27
	Ula ^b	80.0	14	17	16
	Other	Various	10	12	8
Total Rest of Europe			61	75	77
Angola	Kizomba A	26.7	54	56	16
	Girassol	16.7	17	34	31
	Xikomba	26.7	4	10	18
	Other	Various	58	28	6
Australia	Various	15.8	34	36	36
Azerbaijan	Azeri-Chirag-Gunashli ^b	34.1	145	76	39
Canada ^c	Various	Various	8	10	11
Colombia	Various ^b	Various	34	41	48
Egypt	Various	Various	42	47	57
Trinidad & Tobago ^c	Various ^b	100.0	40	40	59
Venezuela ^c	Various	Various	26	55	55
Other ^c	Various	Various	28	26	31
Total Rest of World			490	459	407
Total group^e			1,351	1,423	1,480
Equity-accounted entities (BP share)					
Abu Dhabi ^f	Various	Various	163	148	142
Argentina – Pan American Energy	Various	Various	69	67	64
Russia – TNK-BP ^c	Various	Various	876	911	831
Other ^c	Various	Various	16	13	14
Total equity-accounted entities			1,124	1,139	1,051

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

^b BP-operated.

^c In 2006, BP divested its producing properties on the Outer Continental Shelf of the Gulf of Mexico and its interest in the Staffjord oil and gas field in the UK. Our interests in the Boqueron, Desarrollo Zulia Occidental (DZO) and Josepin projects in Venezuela were reduced following a decision by the Venezuelan government. TNK-BP disposed of its non-core interests in the Urdmurtneft assets. In 2005, BP divested the Teak, Samaan and Poui assets in Trinidad and sold interests in certain properties in the Gulf of Mexico. In addition, BP exchanged the Gulf of Mexico deepwater Blind Faith prospect for Kerr McGee's interest in the Arkoma Red Oak and Williburton fields. TNK-BP disposed of non-core producing assets in the Saratov region. In 2004, BP agreed with AAR to incorporate their 50% interest in Slavneft into TNK-BP, an equity-accounted entity. BP also acquired minor additional working interests in Canada and the US. BP diluted its working interests in King's Peak and divested the Swordfish assets in the deepwater Gulf of Mexico. Additionally, BP sold various properties including its interest in the South Pass 60 in the Gulf of Mexico Shelf, various assets in Alberta, Canada and the Kangean PSA in Indonesia.

^d Volumes relate to six BP-operated fields within ETAP. BP has no interests in the remaining three ETAP fields which are operated by Shell.

^e Includes 55 thousand net barrels of oil equivalent per day (mboe/d) of NGLs from processing plants in which BP has an interest (2005 58mboe/d and 2004 67mboe/d).

^f The BP group holds proportionate interests, through associates, in onshore and offshore concessions in Abu Dhabi expiring in 2014 and 2018, respectively.

Natural gas

Production	Field or Area	Interest	million cubic feet per day		
			BP net share of production ^a		
		%	2006	2005	2004
Lower 48 onshore ^b	San Juan ^c	Various	765	753	772
	Arkoma ^c	Various	225	198	183
	Hugoton ^c	Various	137	151	158
	Tuscaloosa ^c	Various	86	111	96
	Wamsutter ^c	70.5	113	110	105
	Jonah ^c	65.0	133	97	114
	Other	Various	461	465	514
Total Lower 48 onshore			1,920	1,885	1,942
Gulf of Mexico deepwater ^b	Na Kika ^c	50.0	97	133	133
	Marlin ^c	78.2	16	52	43
	Other	Various	210	235	313
Gulf of Mexico Shelf ^b	Other	Various	66	160	240
Total Gulf of Mexico			389	580	729
Alaska	Various	Various	67	81	78
Total USA			2,376	2,546	2,749
UK offshore ^b	Braes ^d	Various	101	165	147
	Bruce ^c	37.0	107	161	163
	West Sole ^c	100.0	56	55	67
	Marnock ^c	62.0	42	47	70
	Britannia	9.0	42	46	54
	Shearwater	27.5	31	37	76
	Armada	18.2	28	30	50
	Other	Various	529	549	547
Total UK			936	1,090	1,174
Netherlands	P/18-2 ^c	48.7	23	25	34
	Other	Various	33	37	46
Norway	Various	Various	35	46	45
Total Rest of Europe			91	108	125
Australia	Various	15.8	364	367	308
Canada ^b	Various	Various	282	307	349
China	Yacheng ^c	34.3	102	98	99
Egypt	Ha'py ^c	50.0	99	106	80
	Other	Various	172	83	115
Indonesia ^b	Sanga-Sanga(direct) ^c	26.3	84	110	137
	Other ^c	46.0	80	128	144
Sharjah	Sajaa ^c	40.0	111	113	103
	Other	40.0	9	10	14
Trinidad & Tobago ^b	Kapok ^c	100.0	946	1,005	553
	Mahogany ^c	100.0	321	303	453
	Amherstia ^c	100.0	176	289	408
	Parang ^c	100.0	120	154	137
	Immortelle ^c	100.0	219	132	172
	Cassia ^c	100.0	30	83	85
	Other ^c	100.0	453	21	111
Other ^b	Various	Various	441	459	308
Total Rest of World			4,009	3,768	3,576
Total group^e			7,412	7,512	7,624
Equity-accounted entities (BP share)					
Argentina – Pan American Energy	Various	Various	362	343	317
Russia – TNK-BP ^b	Various	Various	544	482	458
Other ^b	Various	Various	99	87	104
Total equity-accounted entities^b			1,005	912	879

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

^b In 2006, BP divested its producing properties on the Outer Continental Shelf of the Gulf of Mexico and its interest in the Statfjord oil and gas field in the UK. Our interests in the Boqueron, Desarrollo Zulia Occidental (DZO) and Jusepin projects in Venezuela were reduced following a decision by the Venezuelan government. TNK-BP disposed of its non-core interests in the Urdmurtneft assets. In 2005, BP divested the Teak, Samaan and Poui assets in Trinidad and sold interests in certain properties in the Gulf of Mexico. In addition, BP exchanged the Gulf of Mexico deepwater Blind Faith prospect for Kerr McGee's interest in the Arkoma Red Oak and Williburton fields. TNK-BP disposed of non-core producing assets in the Saratov region. In 2004, BP agreed with AAR to incorporate their 50% interest in Slavneft into TNK-BP, an equity-accounted entity. BP also acquired minor additional working interests in Canada and the US. BP diluted its working interests in King's Peak and divested the Swordfish assets in the deepwater Gulf of Mexico. Additionally, BP sold various properties including its interest in the South Pass 60 in the Gulf of Mexico Shelf, various assets in Alberta, Canada and the Kangean PSA in Indonesia.

^c BP-operated.

^d Includes 4 million and 7 million cubic feet a day of natural gas received as in-kind tariff payments in 2005 and 2004 respectively.

^e Natural gas production volumes exclude gas consumed in operations within the lease boundaries of the producing field, but the related reserves are included in the group's reserves.

United States

2006 liquids production at 547 thousand barrels per day (mb/d) decreased 11% from 2005, while natural gas production at 2,376 million cubic feet per day (mmcf/d) decreased 7% compared with 2005.

Crude oil production decreased 63mb/d from 2005, with production from new projects being offset by divestments and natural reservoir decline. The NGLs component of liquids production remained essentially flat compared with 2005, with a slight decline of 2mb/d. Gas production was lower (170mmcf/d) because of divestments and natural reservoir decline.

Development expenditure in the US (excluding midstream) during 2006 was \$3,579 million, compared with \$2,965 million in 2005 and \$3,247 million in 2004. The annual increase is the result of various development projects in progress.

On 19 April 2006, BP announced the sale of its producing properties on the Outer Continental Shelf of the Gulf of Mexico to Apache Corporation for \$1.3 billion. The major part of the sale was completed in June 2006 after receiving regulatory approval. In the third quarter of 2006, we completed the sale of our remaining Gulf of Mexico Shelf assets that were subject to pre-emption rights. BP retained certain decommissioning obligations related to the disposed assets.

Our activities within the US take place in three main areas. Significant events during 2006 within each of these are indicated below.

Deepwater Gulf of Mexico

Deepwater Gulf of Mexico is one of our new profit centres and our largest area of growth in the US. In 2006, our deepwater Gulf of Mexico crude oil production was 195mb/d and gas production was 323mmcf/d.

Significant events were:

- Offshore repair work on the Thunder Horse platform (BP 75% and operator) was completed during 2006. However, tests conducted during the commissioning of the platform revealed metallurgical failure in components of the subsea system. In September 2006, we announced our plan to retrieve and replace all the subsea components we believed could be at risk. We currently estimate that this will cost around \$650 million (BP net). Production is expected to start up by the end of 2008.
- The Mars platform (BP 28.5%) suffered heavy damage from Hurricane Katrina in August 2005. Production resumed in May 2006 and was 190mboe/d gross by September 2006, a 20% increase over pre-Katrina rates.
- Expansion of the Mars and Na Kika fields also continued during 2006 and first production from these projects is expected in 2007.
- Progress continued on the Atlantis project (BP 56% and operator) during 2006. The semi-submersible platform will be the deepest moored floating production facility in the world in approximately 7,100 feet of water. First oil is expected by the end of 2007.
- On 31 August 2006, we announced a significant oil exploration discovery on the Kaskida prospect in approximately 5,900 feet of water.
- Development of the King Subsea Pump project (BP 100% and operator) continued during 2006, with first production expected by the end of 2007. This is the first subsea multi-phase pump application in water depths greater than 3,000 feet.
- In July 2006, we completed the sale of our 28% interest in the Shenzi discovery to Repsol for \$2,145 million.

Lower 48 states

In the Lower 48 states (Onshore), our 2006 natural gas production was 1,920mmcf/d, which was up 2% compared with 2005. Liquids production was 125mb/d, down 4% compared with 2005 as a result of normal field decline. In 2006, we drilled approximately 330 wells as operator and continued to maintain a level programme of drilling activity throughout the year.

Production is derived primarily from two main areas:

- In the Western Basins (Colorado, New Mexico and Wyoming), our assets produced 218mboe/d in 2006.
- In the Gulf Coast and Mid-Continental basins (Kansas, Louisiana, Oklahoma and Texas), our assets produced 183mboe/d in 2006.
- The development of recovery technology continues to be a fundamental strategy in accessing our North America tight gas resources. Through the use of horizontal drilling and advanced hydraulic

fracturing techniques, we are achieving well rates up to 10 times higher than more conventional techniques and per-well recoveries some five times higher.

Significant events were:

- Drilling continued during 2006 on the Wamsutter natural gas expansion project. The multi-year drilling programme is expected to increase production significantly by the end of 2010. We are currently testing horizontal fracturing technology and carrying out wireless seismic studies on the reservoir.
- In January 2007, we announced our investment of up to \$2.4 billion over the next 13 years in the Coal Bed Methane Field development project in the San Juan Basin of Colorado. The project includes the drilling of more than 700 wells, nearly all from existing well sites, and the installation of associated field facilities.
- In October 2006, we completed the sale of five onshore properties in South Louisiana to Swift Energy for approximately \$160 million.

Alaska

In Alaska, BP net crude oil production in 2006 was 224mb/d, a decrease of 16% from 2005, due to mature field decline and operational issues associated with transit pipelines described below.

BP operates 13 North Slope oil fields (including Prudhoe Bay, Northstar and Milne Point) and four North Slope pipelines and owns a significant interest in six other producing fields. Our 26.4% interest in the Prudhoe Bay natural gas resource is a large undeveloped source of natural gas.

Developing viscous oil is an important part of the Alaska business. We are continually looking to develop viscous oil production in various fields through the application of advanced technology.

Significant events were:

- BP, along with ExxonMobil, ConocoPhillips and the Executive Branch of the State of Alaska, reached agreement on a gas pipeline fiscal contract. Two special sessions of the legislature called by the former governor ended without legislative ratification of the contract. The change of governor, which took place in December 2006, has temporarily delayed continued negotiations with the State of Alaska until a clear process leading to ratification of the gas pipeline fiscal contract is defined by the new administration. BP stands ready to execute a modified fiscal contract that is agreeable to all the parties.
- The State of Alaska significantly increased production taxes by adopting a new Petroleum Production Tax (PPT) bill on 19 August 2006, effective from 1 April 2006. The key terms of the PPT include a 22.5% oil tax rate with capital credits and a clause whereby the oil tax rate increases as the net margin rises above \$40/bbl.
- On 27 November 2006, the State of Alaska Department of Natural Resources (DNR) issued a decision regarding the Plan of Development (POD) submitted by ExxonMobil on behalf of the Point Thompson Unit owners (BP 32%) on 18 October 2006. The DNR decision was to reject the modified POD, deny the proposed settlement of the expansion lease acreage and terminate the Point Thompson Unit. BP, along with the other owners, is studying options available in response to this decision. BP intends to pursue vigorously the retention of its interest in the Point Thompson Unit and remains committed to its development in conjunction with our broader gas strategy and the proposal to construct a gas pipeline from Alaska, through Canada, to the Midwest US.
- Alaska viscous and heavy oil assets produced their 100 millionth barrel (gross) in November 2006. West Sak 1J Phase 1 viscous project has drilled more than half the planned 31 development wells, Milne Point is planning the NW Schrader Bluff winter appraisal programme and the Orion Phase II sanction in Prudhoe Bay is expected in the first quarter of 2007. Orion Phase II completes GC-2 viscous oil facility modifications and develops eight additional producer wells and 22 injector wells; first oil is planned for 2009.
- On 2 March 2006, a transit pipeline in the Western operating area of the Prudhoe Bay field was discovered to have spilled approximately 4,800 barrels of crude oil over approximately two acres. The processing facility that feeds into the transit line was immediately shut down. An investigation team determined that the leak was caused by internal corrosion. Spill clean-up was completed and business operations resumed in April 2006 using a separate bypass line. (*See also Environmental Protection – Health, Safety and Environmental Regulation on page 35.*)

- On 7 August 2006, an orderly and phased shutdown of the Eastern Operating Area of the Prudhoe Bay oil field began following the discovery of unexpected corrosion and a small spill from a Prudhoe Bay oil transit line. In September, we determined that the oil transit lines in the Eastern Operating Area of Prudhoe Bay could be returned to service for the purposes of in-line inspection. By the end of October we had returned to service all three flow stations previously shut down.
- Current production from Prudhoe Bay is more than 400,000 barrels of oil and natural gas liquids per day (gross). BP has a 26.4% interest in the Prudhoe Bay field.
- In response to the recent corrosion discoveries, BP has decided to replace the main oil transit lines (16 miles) in both the Eastern and Western Operating Areas of Prudhoe Bay. In addition, BP plans to spend over \$550 million (net) over the next two years on integrity management in Alaska. BP has retained three eminent corrosion experts to evaluate independently and make recommendations for improving the corrosion programme in Alaska. BP has also asked an independent ombudsman to undertake a review of worker allegations raised on the North Slope of Alaska since the acquisition of ARCO in 2000 to determine whether the problems have been addressed and rectified.
- In February 2007, BP temporarily shut down its Northstar production facility to repair welds in the low pressure gas piping system. BP is currently finalising inspections and has begun repairs.

United Kingdom

We are the largest producer of oil and second largest producer of gas in the UK. BP remains the largest overall producer of hydrocarbons in the UK. In 2006, total liquids production was 253mb/d, a 9% decrease on 2005, and gas production was 936mmcf/d, a 14% decrease on 2005. This decrease in production was driven by the natural decline, operational issues and lower seasonal gas demand. Our activities in the North Sea are focused on safe operations, efficient delivery of production and midstream operations, in-field drilling and selected new field developments. Our development expenditure (excluding midstream) in the UK was \$794 million in 2006, compared with \$790 million in 2005 and \$679 million in 2004.

Significant events were:

- Drilling continued during 2006 on the Clair Phase 1 development (BP 28.6% and operator) programme and is scheduled to continue through 2008.
- In September 2006, BP reached an agreement, subject to Department of Trade and Industry (DTI) approval, to acquire acreage in the UK Central North Sea that contains two discovered fields and further exploration potential.
- BP and its partner approved the front end engineering and design for the Harding Area Gas Project (BP 70% and operator) in July 2006. This represents the first stage of a development project to allow the production of gas from the Harding area and prolong the life of the field beyond 2015.
- Progress continued during the year on the Magnus Expansion Project (BP 85% and operator), with first oil achieved in October 2006.
- The UK government approved the North West Hutton decommissioning programme in April 2006. BP, on behalf of the owners of North West Hutton (BP 26% and operator), awarded a contract in October 2006 for the offshore removal and onshore recycling of the installation. Detailed engineering work for removal has begun. Platform removal is expected to start in 2008 and to be completed by the end of 2009.
- In December 2005, the UK government announced a 10% supplemental tax increase on North Sea oil profits, taking the total corporate tax rate to 50%. This tax increase became law in July 2006, with effect from 1 January 2006.
- In March 2006, we reached agreement for the sale of our 4.84% interest in the Statfjord oil and gas field. This sale was completed in June 2006.

Rest of Europe

Development expenditure, excluding midstream, in the Rest of Europe was \$214 million, compared with \$188 million in 2005 and \$262 million in 2004.

Norway

In 2006, our total production in Norway was 66mboe/d, a 20% decrease on 2005. This decrease in production was driven by natural decline.

Significant activities were:

- Progress on the Valhall (BP 28.1% and operator) redevelopment project continued during 2006. A new platform is scheduled to become operational in 2010, with expected oil production capacity of 150mb/d and gas handling capacity of 175mmcf/d.
- Drilling continued through 2006 on the Valhall flank development and water injection projects. The flank drilling programme was completed in September 2006 and water injection drilling will continue during 2007.
- In March 2006, we reached agreement for the sale of our interest in the Luva gas discovery, in the North Sea. This sale was completed in the second quarter of 2006.

Netherlands

In May 2006, we announced our intention to sell our exploration and production and gas infrastructure business in the Netherlands. This includes onshore and offshore production assets and the onshore gas supply facility, Piek Gas Installatie, at Alkmaar. The sale was completed on 1 February 2007 to the Abu Dhabi National Energy Company, TAQA.

Rest of World

Development expenditure, excluding midstream, in Rest of World was \$4,522 million in 2006, compared with \$3,735 million in 2005 and \$3,082 million in 2004.

Rest of Americas

Canada

- In Canada, our natural gas and liquids production was 57mboe/d in 2006, a decrease of 10% compared with 2005. The year-on-year decrease in production is mainly due to natural field decline.
- BP has been successful in obtaining new licences in British Columbia and Alberta land sales. The acquired acreage will form part of the Noel tight gas development project in north-eastern British Columbia. The project will involve drilling up to 180 horizontal wells and innovative fracturing technology to develop the remainder of the resources.

Trinidad

- In Trinidad, natural gas production volumes increased by 14% to 2,265mmcf/d in 2006. The increase was driven by higher demand due to the ramp-up of Atlantic LNG Train 4. Liquids production declined by 2mb/d (5%) to 38mb/d in 2006.
- Cannonball (BP 100%), Trinidad's first major offshore construction project executed locally, started production in March 2006. Production increased during the year and the asset is currently providing gas for the Atlantic LNG trains.
- BP sanctioned the development projects for Red Mango (BP 100%) in April 2006 and for Cashima (BP 100%) in August 2006. First production is expected by the end of 2007 and in 2008 respectively.

Venezuela

- In Venezuela, our 2006 liquids production reduced by 25mb/d compared with 2005, mainly as a result of the enforced reduction of our interests in the non-BP-operated Jusepin property and the Boqueron and Desarrollo Zulia Occidental (DZO) reactivation projects, which BP operated until 31 March 2006 under operating service agreements on behalf of the state oil company, Petroleos de Venezuela S.A. (PDVSA).
- In August 2006, BP signed conversion agreements to co-operate with PDVSA in setting up incorporated joint ventures in which PDVSA would be the majority shareholder. The structures for the incorporated joint ventures were established in December 2006 and these are now the operators of the Boqueron and DZO properties.

