

2006 ANNUAL REPORT of BP

CHARTER FOR DEVELOPMENT Of the Alaskan North Slope

Pursuant to Section II.E. of the Charter for Development of the Alaskan North Slope, BP Exploration (Alaska) Inc. (BP) provides the following report describing performance of its Charter commitments during 2005. This Annual Report supplements the individual Charter reports BP also provided to the Alaska Department of Environmental Conservation (ADEC) in March and April of 2006 for certain of the environmental commitments.

ENVIRONMENTAL AND COMMUNITY COMMITMENTS

NORTH SLOPE ENVIRONMENTAL COMMITMENTS

Cleanup of Abandoned (Orphan) Sites.

The 2005 Orphan Site program activities were successfully completed on schedule for a total program cost for the year of approximately \$1,147,000. The Orphan Sites Program concluded on December 31, 2005 per Paragraph II.A.1 of the Charter Agreement for a total program spend of approximately \$9,990,000 since initiated by BP in 2000. The details of the Orphan Site Program was set out in the BP's April 21, 2006 submittal to ADEC.

Three major program tasks were performed in 2005, including: (1) removal of abandoned drums and fuel at 14 remote Foothill sites (Drum Caches 10, 11, 15-25, and Happy Valley Lodge); (2) removal via detonation of abandoned explosives at the Ikillik River Explosives Cache; and (3) excavation of contaminated gravel at the Frontier Rock and Sand Pad in Deadhorse. As in previous years, the Foothill drums were cleaned, crushed, and transported to Fairbanks for metal recycling; the residual hydrocarbons were also transported to Fairbanks for re-use through energy recovery. Contaminated gravel from the Frontier Pad was transported to the Childs Pad in Deadhorse and treated via landfarm; it remains at that location for future re-use, if desired.

From 2001 through the present, 3,516 drums have been recovered from 26 individual caches across the North Slope Foothills area. Liquid and hazardous wastes were removed from all locations and all drums were removed, cleaned, crushed, and shipped to Fairbanks for scrap metal recycling.

Cleanup of Abandoned Empty Barrels – Seismic Operations.

No drums were identified or reported during Fall 2004 or Spring 2005.

Cleanup of Existing Sites.

BP met with ADEC during the Spring Annual Meeting in March 2005 to review the status of each site and discuss site activities for 2006. During that meeting, BP agreed to provide sampling and analysis plans for those sites at which significant assessment activities were planned, conduct additional assessment at two locations and provide monitoring reports. In 2005, BP monitored seven locations, performed site assessments at the Milne Point Unit Unlined Relief Pit site and the ARCO Pad 3 East end site, and performed corrective action at the East Dock Bioventing site.

Closure of Inactive Reserve Pits.

BP is the operator for 50 production reserve pits under the Charter Inactive Reserve Pit closure program. Closure activities for production reserve pits include dewatering, drill waste excavation and disposal via the Grind and Inject Facility, field testing to verify pit cleanout, sampling of the pit water the following year, and submittal of the final closure report. Of these 50 sites, final closure has been received for 23 sites by the end of 2005.

BP is also responsible for the closure of 49 exploration reserve pits. Closure activities in 2005 were performed at two exploration sites, Highland State 1 and Chevron Tract Well/Kuparuk 7-11-12. At the Highland State 1 site, the reserve pit was excavated, backfilled, and the pad removed. At the Chevron Tract Well/Kuparuk 7-11-12 site, the reserve pit was excavated but the gravel pad was left in place for continued use as a vehicle pull-off and storage area. Activities at both sites were completed in early May 2005. The sites were inspected by agency representatives in summer 2005 and no issues were identified. ADEC closure of both sites was received on December 7, 2005.

North Slope Spill Response

BP continues its support of an independent professional North Slope spill response organization, as well as a variety of projects for Arctic spill response research and development (R&D) through Alaska Clean Seas (ACS), the National Oceanographic and Atmospheric Administration, the Minerals Management Service and the National Institute of Standards and Technology. During 2005, BP and ConocoPhillips funded over \$142,000 for this effort, for a cumulative spend under the Charter of over \$1,528,000 in such spill research and development.

Research and development focused on viscous oil pumping, detecting spilled oil under ice, mapping environmentally sensitive areas, and determining the sensitivity of the current oil well blowout plume model. Additionally, innovative methods to contain oil from sub-sea pipeline leaks and the use of ground based infrared devices for discovering oil spills under snow and ice are being evaluated. BP representatives also continue to participate in planning teams to develop long-range plans for future research and development.

Corrosion Monitoring.

BP met with ADEC on May 3, 2005 and September 13-15, 2005 to confer on corrosion management programs. The 2005 Annual Report of monitoring, maintenance and inspection practices was submitted to ADEC in March 2006.

Additional Expenditure Commitment.

ADEC requested funds for both the additional cleanup of abandoned sites and for projects associated with corrosion monitoring, pipeline structural issues and Arctic spill response. BPXA funded \$312,600 in 2005 under the Additional Expenditure Commitment provision of the Charter.

Payment of Unspent Funds.

In the event BP does not spend the total amounts specified in the Charter for cleanup of abandoned sites, North Slope spill response and additional expenditures, any unspent balance will be paid in 2010 as directed by the ADEC Commissioner.

MARINE ENVIRONMENTAL COMMITMENTS

OPA 90.

BP continues to support its commitment to the vessel retirement or replacement requirements of the federal Oil Pollution Act of 1990 (OPA 90). It has never lobbied for a reduction in the requirements or taken any other action to extend retirement dates of non-double-hulled tankers in its fleet beyond the currently scheduled retirement dates.

Replacement Vessels.

With the current new-build construction schedule, BP plans to have phased out all single hull vessels, dependent upon the delivery dates of the new builds, well in advance of the mid-2007 goal. Three of four planned new tankers, the Alaskan Frontier, Alaskan Explorer and the Alaskan Navigator have been delivered. The Alaskan Legend is scheduled for delivery third or fourth quarter 2006.

Marine Operations.

Alaska Tanker Company (ATC) operates ANS tankers, and BP Oil Shipping Company USA is a partial owner of ATC. ATC uses performance management programs for the regular review of its practices related to its management and operations, including a safe environment, training and qualifications, and vessel operation, maintenance and management procedures. ATC is certified for

International Safety Management (ISM), ISO 9001 (Quality Management Systems), ISO 14001 (Environmental Management System), and ECOPRO (State of Washington Exceptional Compliance Program). ADEC attended the management review of ATC's ISO 9001 program in January 2005 and February 2006.

ALASKA HIRE

See Alaska Hire & Purchasing Report at <http://alaska.bp.com/statereports/alaskahirereport.asp>. BP also furnishes the Department of Labor with quarterly reports regarding its employment of Alaska residents.

COMMUNITY CHARITABLE GIVING

The BP Board of Community Advisors met in January, 2005, at which time they reviewed 2004 community spend and plans for 2005.

BP spent nearly \$7.6 million in support of community programs in 2005, consistent with the formula detailed in the Charter.

Approximately \$2.2 million was contributed to the University of Alaska Foundation (1/3 of community investment).