

BP PLC
Form 11-K
June 26, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

- x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For fiscal year ended **December 31, 2006**

OR

- o TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-6262

- A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

BP DIRECTSAVE PLAN

4101 Winfield Road
Warrenville, Illinois 60555

- B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

BP p.l.c.
1 St. James s Square
London SW1Y 4PD England

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Savings Plan Investment Oversight Committee of BP Corporation
North America Inc.

We have audited the accompanying statements of assets available for benefits of the BP DirectSave Plan as of December 31, 2006 and 2005, and the related statement of changes in assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets available for benefits of the Plan at December 31, 2006 and 2005, and the changes in its assets available for benefits for the year ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of delinquent participant contributions for the year ended December 31, 2006, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

Chicago, Illinois
June 15, 2007

BP DIRECTSAVE PLAN**STATEMENTS OF ASSETS AVAILABLE FOR BENEFITS**
thousands of dollars

	December 31,	
	2006	2005
Investment in the BP Master Trust for Employee Savings Plans	\$ 3,393	\$ 3,107
Assets available for benefits, at fair value	3,393	3,107
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	9	7
Assets available for benefits	\$ 3,402	\$ 3,114

The accompanying notes are an integral part of these statements.

BP DIRECTSAVE PLAN**STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2006***thousands of dollars*

Additions of assets attributed to:	
Participant contributions	\$ 500
Company contributions	119
Rollover contributions	51
Net investment gain BP Master Trust for Employee Savings Plans	257
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Total additions	927
	<hr/>
Deductions of assets attributed to:	
Distributions to participants	639
	<hr/>
Total deductions	639
	<hr/>
Net increase in assets during the year	288
Assets available for benefits:	
Beginning of year	3,114
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End of year	\$ 3,402
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The accompanying notes are an integral part of this statement.

BP DIRECTSAVE PLAN

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF PLAN

The following description of the BP DirectSave Plan (the Plan) provides only general information. Participants should refer to the Plan document for more complete information.

The Plan, established on April 1, 1988, is a defined contribution plan which is subject to and complies with the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Employees of BP Corporation North America Inc. (the Company) and its subsidiaries who are hourly employees at Company-operated retail locations, plane fueling or fuel system operations are eligible to participate in the Plan. The Company is an indirect wholly owned subsidiary of BP p.l.c. (BP). The Company reserves the right to amend or terminate the Plan at any time.

The purpose of the Plan is to encourage eligible employees to regularly save part of their earnings and to assist them in accumulating additional financial security for their retirement. The Plan provides that both participant contributions and Company matching contributions be held in a trust by an independent trustee for the benefit of participating employees. Plan assets are held in the BP Master Trust for Employee Savings Plans (the Master Trust). The trustee of the Master Trust is State Street Bank and Trust Company.

Fidelity Investments Institutional Services Company, Inc. is the Plan's recordkeeper. The Company is the Plan sponsor and the Company's Vice President, Human Resources is the Plan administrator.

Under the Plan, participating employees may contribute up to 100% of their qualified pay on a pre-tax and/or after-tax basis, subject to Internal Revenue Service (IRS) limits. Participants who attain age 50 before the end of the applicable year are eligible to make additional elective deferrals (catch-up contributions), subject to IRS limits. Participants may elect to invest in numerous investment fund options offered under the Plan. Participants may change the percentage they contribute and the investment direction of their contributions at any time throughout the year. Except for eligible employees of Air BP, the Company makes matching contributions to the participant's account equal to \$0.50 for each \$1.00 of employee contributions up to 4% of compensation. Company contributions are invested in funds selected by participants. Participants are permitted to rollover amounts representing distributions from other qualified plans.

Participants may elect to sell any portion of their investment fund(s) and reinvest the proceeds in one or more of the other available investment alternatives. Except where the fund provider, the recordkeeper, or the Plan have restrictions or take discretionary action responsive to frequent trading or market timing concerns, there are no restrictions on the number of transactions a participant may authorize during the year. The Plan does not provide for participant loans.

The benefit to which a participant is entitled is the benefit which can be provided by the participant's vested account balance. Participants are immediately and fully vested in their participant contribution accounts. Vesting in Company matching contribution accounts is dependent upon specific criteria as described in the Plan document. Forfeitures of Company

BP DIRECTSAVE PLAN

NOTES TO FINANCIAL STATEMENTS (continued)

1. DESCRIPTION OF PLAN (continued)

contributions by participants who withdrew from the Plan before vesting amounted to \$22,550 during the year ended December 31, 2006. The Plan uses forfeitures to pay certain administrative expenses and to reduce future Company contributions.

All reasonable and necessary Plan administrative expenses are paid out of the Master Trust or paid by the Company. Generally, fees and expenses related to investment management of each investment option are paid out of the respective funds. As a result, the returns on those investments are net of the fees and expenses of the managers of those investment options and certain other brokerage commissions, fees and expenses incurred in connection with those investment options.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting. The financial statements of the Plan are prepared under the accrual method of accounting in accordance with U.S. generally accepted accounting principles.

Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires estimates and assumptions that affect certain reported amounts. Actual results may differ in some cases from the estimates.

New Accounting Pronouncement. In December 2005, the Financial Accounting Standards Board issued Staff Position FSP AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans (the FSP). Under the FSP, fully benefit-responsive investment contracts held by a defined contribution plan are required to be reported at fair value. However, for that portion of the assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts, contract value is the relevant measurement attribute, as contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan.

As required by the FSP, the statement of assets available for benefits presents the Plan's investment in the Master Trust at fair value, along with the amount necessary to adjust the Plan's interest in fully benefit-responsive investment contracts held by the Master Trust from fair value to contract value. The December 31, 2005 statement of assets available for benefits has been reclassified to conform with this presentation. The statement of changes in assets available for benefits is prepared on a contract value basis.

BP DIRECTSAVE PLAN

NOTES TO FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Valuation. All investments of the Master Trust, except as noted below, are stated at fair value generally as determined by quoted closing market prices, if available. Money market investments are valued at cost which approximates fair value. Other investments for which no quoted market prices are available are valued at fair value as determined by the trustee based on the advice of its investment consultants.

Investment assets underlying the synthetic guaranteed investment contracts (synthetic GICs) are stated at fair value as determined by quoted market prices. The fair value of wrap contracts is determined using the replacement cost method which incorporates the difference between current market level rates for contract level wrap fees and the wrap fee being charged discounted by the prevailing interpolated swap rate as of period end.

3. INCOME TAX STATUS

The Plan has received a determination letter from the IRS dated October 8, 2003, with respect to its qualified status under Section 401(a) of the Internal Revenue Code (IRC) and, therefore, the related trust is exempt from taxation. The Plan is required to operate in conformity with the IRC in order to maintain its qualification. Although the Plan has been amended since receiving the determination letter, the Plan administrator and the Company s tax counsel believe the Plan continues to meet the applicable tax qualification requirements of the IRC. The Plan sponsor reserves the right to make any amendments necessary to maintain the qualification of the Plan and trust.

4. RISKS AND UNCERTAINTIES

Investment securities held in the Master Trust are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect participants account balances and the amounts reported in the statements of assets available for benefits.

BP DIRECTSAVE PLAN

NOTES TO FINANCIAL STATEMENTS (continued)

5. MASTER TRUST

All investment assets of the Plan are held in the Master Trust with the assets of other BP sponsored savings plans.

The beneficial interest of the plans in the Master Trust is adjusted daily to reflect the effect of income collected and accrued, realized and unrealized gains and losses, contributions and withdrawals, and all other transactions. The Master Trust constitutes a single investment account as defined in the master trust reporting and disclosure rules and regulations of the Department of Labor.

In order to provide the BP Stock Fund liquidity, the Company has agreed to advance the Master Trust up to \$200 million. Amounts borrowed by the Master Trust under the revolving loan facility do not bear interest and are repayable within three days. There were no amounts borrowed during 2006 or 2005 under the agreement.

The Plan offers a stable value investment option. In connection with this investment option, the Master Trust entered into synthetic GICs that are fully benefit-responsive. The net assets of the Master Trust present the investment in synthetic GICs at fair value, along with the amount necessary to adjust the investment from fair value to contract value. The Master Trust's interest in the contracts represents the maximum potential credit loss from concentrations of credit risk associated with its investment.

The synthetic GICs provide for the payment of a fixed rate of interest for a specified period of time. The underlying assets are owned by the Master Trust. Under the contracts, realized and unrealized gains and losses on the underlying assets are not reflected immediately in net assets. Rather, the gains and losses are amortized, usually over time to maturity or the duration of the underlying investments, through adjustments to future interest crediting rates. These adjustments generally result in contract value, over time, converging with the market value of the underlying assets. Factors impacting future interest crediting rates include the current yield, duration and the existing difference between market and contract value of the underlying assets. Interest crediting rates, which cannot be less than 0%, are generally reset quarterly. The issuers of the synthetic GICs guarantee that all qualified participant withdrawals occur at contract value.

The average yield earned on synthetic GICs as of December 31, 2006 and 2005, based on actual earnings, was 5.40% and 5.12%, respectively. The average yield earned on synthetic GICs as of December 31, 2006 and 2005, based on the interest rate credited to participants, was 4.85% and 4.51%, respectively.

Certain events may limit the ability of the Plan to transact at contract value with the issuer. Such events include (i) amendments to Plan documents or the Plan's administration (including complete or partial plan termination or merger with another plan); (ii) changes to the Plan's prohibition on competing investment options or deletion of equity wash provisions; (iii) the failure of the Plan or the trust to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA; (iv) bankruptcy of the Plan sponsor or other plan sponsor event (for example, divestitures or

BP DIRECTSAVE PLAN

NOTES TO FINANCIAL STATEMENTS (continued)

5. MASTER TRUST (continued)

spin-offs of a subsidiary) which cause a significant withdrawal from the plan; and (v) the delivery of any communication to plan participants designed to influence a participant not to invest in the investment option. At this time, the Plan sponsor does not believe that the occurrence of any such event, which would limit the Plan's ability to transact at contract value with participants, is probable.

Contract termination occurs whenever the contract value or market value reaches zero or upon certain events of default. If the contract terminates due to an issuer default or if the market value of the underlying portfolio reaches zero, the issuer will generally be required to pay any excess contract value at the date of termination. If the Plan defaults in its obligation under the agreements and the default is not cured within the time permitted, the Plan will receive the market value as of the date of termination. Contract termination also may occur by either party upon election and notice.

Certain Master Trust investments include American Depositary Shares of BP p.l.c. (BP ADSs). Transactions in BP ADSs qualify as party-in-interest transactions under the provisions of ERISA. Purchases and sales of BP ADSs during 2006 amounted to \$791 million and \$1,151 million, respectively.

As of December 31, 2006 and 2005, the Plan's percentage interest in the Master Trust was 0.03%. The net assets of the Master Trust as of December 31, 2006 and December 31, 2005, and changes in net assets of the Master Trust for the year ended December 31, 2006 are as follows:

BP DIRECTSAVE PLAN

NOTES TO FINANCIAL STATEMENTS (continued)

5. MASTER TRUST (continued)NET ASSETS
thousands of dollars

December 31,

	2006	2005
Investments at fair value:		
BP ADSs	\$ 3,104,307	\$ 3,287,442
Registered investment companies	3,626,087	3,089,405
Common collective trust funds	1,359,194	1,223,761
Money market and short-term investment funds	801,204	805,012
Synthetic guaranteed investment contracts	621,465	654,616
Total investments, at fair value	9,512,257	9,060,236
Receivables:		
Dividends and interest	1,008	809
Securities sold		2,373
Total assets	9,513,265	9,063,418
Accrued liabilities:		
Securities purchased	1,792	
Fees and expenses	621	362
Total liabilities	2,413	362
Net assets, at fair value	9,510,852	9,063,056
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	8,904	6,878
Net assets	\$ 9,519,756	\$ 9,069,934

BP DIRECTSAVE PLAN**NOTES TO FINANCIAL STATEMENTS (continued)****5. MASTER TRUST (continued)****CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006***thousands of dollars*

Additions of assets attributed to:	
Transfer of assets from participating plans:	
Participant contributions	\$ 247,193
Rollover contributions	57,687
Company contributions	149,531
Loan repayments	51,378
Litigation settlement	4,425
Interest and dividends	386,306
Net realized and unrealized appreciation in fair value of investments:	
BP ADSs	174,472
Registered investment companies	174,190
Common collective trust funds	241,857
	<hr/>
Total additions	1,487,039
	<hr/>
Deductions of assets attributed to:	
Transfer of assets to participating plans:	
Distributions to participants	989,326
Loans to participants	45,378
Administrative expenses	2,513
	<hr/>
Total deductions	1,037,217
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Net increase in assets during the year	449,822
Net assets:	
Beginning of year	9,069,934
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End of year	\$ 9,519,756
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BP DIRECTSAVE PLAN**NOTES TO FINANCIAL STATEMENTS (continued)****6. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500**

Following is a reconciliation of assets available for benefits as of December 31, 2006 per the financial statements to the Form 5500 (*in thousands*):

Assets available for benefits as stated in the financial statements	\$ 3,402
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	(9)
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Assets available for benefits as stated in the Plan's Form 5500	\$ 3,393
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Following is a reconciliation of net investment gain for the year ended December 31, 2006 per the financial statements to the Form 5500 (*in thousands*):

Net investment gain as stated in the financial statements	\$ 257
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	(9)
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Net investment gain as stated in the Plan's Form 5500	\$ 248
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BP DIRECTSAVE PLAN

SCHEDULE H, LINE 4a SCHEDULE OF DELINQUENT PARTICIPANT

CONTRIBUTIONS

Year ended December 31, 2006

Participant Contributions Transferred Late to Plan	Total that Constitute Nonexempt Prohibited Transactions
Certain participant contributions withheld during April 2006 and June 2006 totaling \$535 were deposited in September 2006 and March 2007.	\$535

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

BP DIRECTSAVE PLAN

By Plan Administrator

Date: June 26, 2007

/s/ Patricia H. Miller

Patricia H. Miller
Vice-President, Human Resources
BP Corporation North America Inc.

BP DIRECTSAVE PLAN

EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
23	<u>Consent of Independent Registered Public Accounting Firm</u>