

Rating: Buy  
 S&P 500: 1377

## BP plc Solid Cash Flow

|                                       |          |  |        |
|---------------------------------------|----------|--|--------|
| <i>Symbol</i>                         | BP       | <i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i> | 47,600 |
| <i>Rating</i>                         | Buy      | <i>North American Natural Gas/Ebitda (%)</i>             | 5      |
| <i>Price (US\$/sh)</i>                | 68.30    | <i>Natural Gas and Oil Production/Ebitda (%)</i>         | 66     |
| <i>Pricing Date</i>                   | 10/24/06 | <i>Adjusted Reserves/Production NTM</i>                  | 9.5    |
| <i>Shares (mm)</i>                    | 3303     | <i>EV/Ebitda</i>   | 5.8    |
| <i>Market Capitalization (US\$mm)</i> | 225,600  | <i>PV/Ebitda</i>   | 6.6    |
| <i>Debt (US\$mm)</i>                  | 49,200   | <i>Undeveloped Reserves (%)</i>                          | 50     |
| <i>Enterprise Value (EV) (US\$mm)</i> | 274,800  | <i>Natural Gas and Oil Ebitda (US\$/boe)</i>             | 22.10  |
| <i>Present Value (PV) (US\$mm)</i>    | 313,500  | <i>Present Value Proven Reserves(US\$/boe)</i>           | 11.50  |
| <i>Net Present Value (US\$/share)</i> | 80       | <i>Present Value Proven Reserves(US\$/mcf)</i>           | 1.92   |
| <i>Debt/Present Value</i>             | 0.16     | <i>Earnings Next Twelve Months (US\$/sh)</i>             | 7.24   |
| <i>McDep Ratio - EV/PV</i>            | 0.88     | <i>Price/Earnings Next Twelve Months</i>                 | 9      |
| <i>Dividend Yield (%/year)</i>        | 3.5      | <i>Indicated Annual Dividend (US\$/sh)</i>               | 2.36   |

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

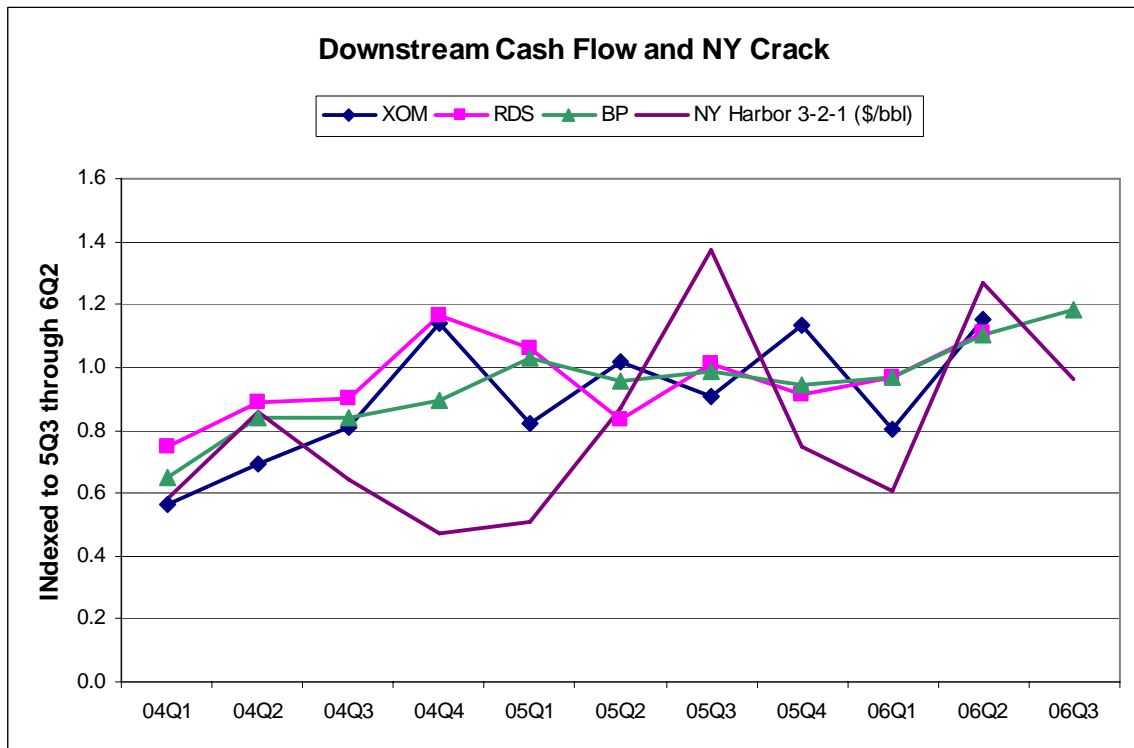
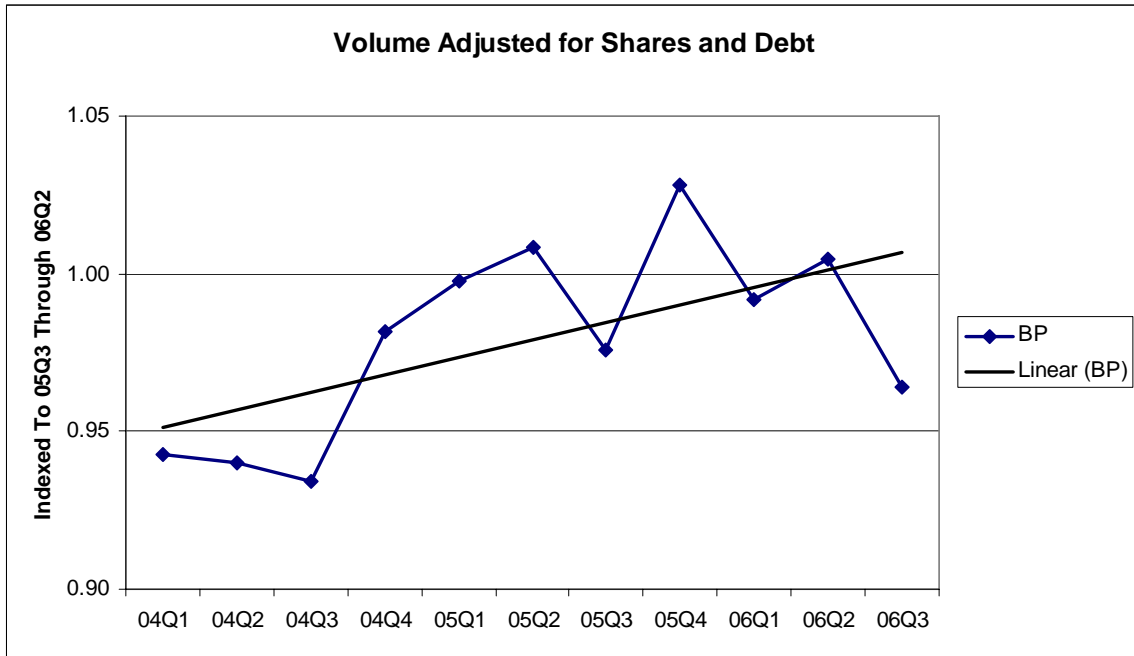
Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

### Summary and Recommendation

Buy-recommended **BP plc (BP)** at a McDep Ratio of 0.88 offers unlevered appreciation potential of 14% to estimated present value. Futures investors who price oil at \$66 a barrel for delivery over the next six years seem to validate estimated present value that presumes a long-term oil price of \$60 a barrel. Oil and gas production volume may be advancing 2% a year, but dipped in the third quarter reported on October 24 (see chart). Downstream cash flow as we calculate it seems to smooth out the volatility of margins and International Financial Reporting Standards (see chart). Despite the company's unfavorable recent publicity, the cash flow implications of latest corporate results appear to be favorable. We see a swing from slightly negative to slightly positive in the comparison of our estimate of present value with that from a correlation with some thirty natural gas and oil producers (see table on page 4). Stock price below the 200-day average confirms that BP is currently out of favor with investors. On the contrary, we include BP stock at a half weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean energy to support global growth.

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**BP plc**  
**Next Twelve Months Operating and Financial Estimates**

|                            | <i>Q3</i>      | <i>Q2</i>      | <i>Q3</i>      | <i>Q4E</i>      | <i>Year</i>    | <i>Q1E</i>     | <i>Q2E</i>     | <i>Q3E</i>     | <i>Next<br/>Twelve<br/>Months</i> |
|----------------------------|----------------|----------------|----------------|-----------------|----------------|----------------|----------------|----------------|-----------------------------------|
|                            | <i>9/30/05</i> | <i>6/30/06</i> | <i>9/30/06</i> | <i>12/31/06</i> | <i>2006E</i>   | <i>3/31/07</i> | <i>6/30/07</i> | <i>9/30/07</i> | <i>9/30/07</i>                    |
| <b>Volume</b>              |                |                |                |                 |                |                |                |                |                                   |
| Natural Gas (mmcf)         |                |                |                |                 |                |                |                |                |                                   |
| U.S. (or North America)    | 2,456          | 2,493          | 2,332          | 2,332           | <b>2,410</b>   | 2,332          | 2,332          | 2,332          | <b>2,332</b>                      |
| Overseas (or Int'l)        | 5,385          | 6,131          | 5,754          | 6,099           | <b>6,052</b>   | 6,228          | 6,131          | 5,754          | <b>6,052</b>                      |
| Total                      | 7,841          | 8,624          | 8,086          | 8,431           | <b>8,462</b>   | 8,560          | 8,463          | 8,086          | <b>8,384</b>                      |
| Oil (mbd)                  | 2,472          | 2,531          | 2,422          | 2,513           | <b>2,499</b>   | 2,513          | 2,513          | 2,513          | <b>2,513</b>                      |
| Total gas & oil (mmb)      | 348            | 361            | 347            | 360             | <b>1,427</b>   | 355            | 357            | 355            | <b>1,427</b>                      |
| Total gas & oil (mbd)      | 3,779          | 3,968          | 3,770          | 3,918           | <b>3,910</b>   | 3,939          | 3,923          | 3,860          | <b>3,910</b>                      |
| <b>Price</b>               |                |                |                |                 |                |                |                |                |                                   |
| Natural gas (\$/mcf)       |                |                |                |                 |                |                |                |                |                                   |
| Henry Hub (\$/mmbtu)       | 8.56           | 6.81           | 6.58           | 6.30            | <b>7.17</b>    | 8.19           | 7.61           | 7.81           | <b>7.48</b>                       |
| U.S. (or North America)    | 6.77           | 5.44           | 5.51           | 5.27            | <b>5.79</b>    | 6.86           | 6.37           | 6.54           | <b>6.25</b>                       |
| Overseas (or Int'l)        | 3.83           | 4.03           | 4.08           | 4.99            | <b>4.53</b>    | 4.99           | 4.03           | 4.08           | <b>4.53</b>                       |
| Total                      | 4.75           | 4.44           | 4.49           | 5.07            | <b>4.89</b>    | 5.50           | 4.68           | 4.79           | <b>5.01</b>                       |
| Oil (\$/bbl)               |                |                |                |                 |                |                |                |                |                                   |
| WTI Cushing                | 62.52          | 70.47          | 70.42          | 58.64           | <b>65.71</b>   | 61.56          | 63.85          | 65.29          | <b>62.34</b>                      |
| Worldwide                  | 54.80          | 62.86          | 64.15          | 53.42           | <b>59.04</b>   | 56.08          | 58.17          | 59.48          | <b>56.79</b>                      |
| Total gas & oil (\$/bbl)   | 45.70          | 49.74          | 50.85          | 45.16           | <b>48.32</b>   | 47.72          | 47.34          | 48.74          | <b>47.23</b>                      |
| NY Harbor 3-2-1 (\$/bbl)   | 16.70          | 15.39          | 11.67          | 6.84            | <b>10.32</b>   | 7.57           | 11.57          | 11.80          | <b>9.44</b>                       |
| BP Refining Indicator      | 12.35          | 12.59          | 8.40           |                 |                |                |                |                |                                   |
| <b>Revenue (\$mm)</b>      |                |                |                |                 |                |                |                |                |                                   |
| Natural Gas                |                |                |                |                 |                |                |                |                |                                   |
| U.S. (or North America)    | 1,530          | 1,234          | 1,182          | 1,132           | <b>5,093</b>   | 1,439          | 1,351          | 1,402          | <b>5,324</b>                      |
| Overseas (or Int'l)        | 1,897          | 2,250          | 2,158          | 2,798           | <b>10,005</b>  | 2,799          | 2,250          | 2,158          | <b>10,005</b>                     |
| Total                      | 3,427          | 3,484          | 3,340          | 3,930           | <b>15,099</b>  | 4,238          | 3,601          | 3,560          | <b>15,329</b>                     |
| Oil                        | 12,463         | 14,478         | 14,294         | 12,348          | <b>53,859</b>  | 12,681         | 13,299         | 13,748         | <b>52,076</b>                     |
| Other                      | 81,836         | 55,504         | 55,368         | 55,368          | <b>217,721</b> | 55,368         | 55,368         | 55,368         | <b>221,471</b>                    |
| Total                      | 97,725         | 73,466         | 73,002         | 71,645          | <b>286,678</b> | 72,287         | 72,268         | 72,676         | <b>288,876</b>                    |
| <b>Expense</b>             |                |                |                |                 |                |                |                |                |                                   |
| Production                 | 9,089          | 10,462         | 9,346          | 8,668           | <b>38,160</b>  | 8,988          | 8,979          | 9,183          | <b>35,819</b>                     |
| Other                      | 78,067         | 51,293         | 50,842         | 51,763          | <b>201,671</b> | 51,659         | 51,157         | 50,842         | <b>205,421</b>                    |
| <b>Ebitda (\$mm)</b>       |                |                |                |                 |                |                |                |                |                                   |
| Exploration and Production | 6,800          | 7,500          | 8,288          | 7,610           | <b>30,798</b>  | 7,930          | 7,921          | 8,125          | <b>31,586</b>                     |
| Other                      | 3,769          | 4,211          | 4,526          | 3,604           | <b>16,050</b>  | 3,709          | 4,211          | 4,526          | <b>16,050</b>                     |
| Total Ebitda               | 10,569         | 11,711         | 12,814         | 11,214          | <b>46,848</b>  | 11,639         | 12,132         | 12,651         | <b>47,636</b>                     |
| Exploration                | 177            | 97             | 351            | 351             | <b>988</b>     | 351            | 351            | 351            | <b>1,404</b>                      |
| Deprec., Deplet., & Amort. | 2,041          | 2,308          | 2,194          | 2,194           | <b>8,880</b>   | 2,194          | 2,194          | 2,194          | <b>8,776</b>                      |
| Other non cash             | 1,420          | (261)          | (106)          |                 | <b>75</b>      |                |                |                |                                   |
| <b>Ebit</b>                | 6,931          | 9,567          | 10,375         | 8,669           | <b>36,905</b>  | 9,094          | 9,587          | 10,106         | <b>37,456</b>                     |
| Interest                   | 144            | 153            | 169            | 169             | <b>682</b>     | 169            | 169            | 169            | <b>676</b>                        |
| <b>Ebt</b>                 | 6,787          | 9,414          | 10,206         | 8,500           | <b>36,223</b>  | 8,925          | 9,418          | 9,937          | <b>36,780</b>                     |
| Income Tax                 | 2,375          | 3,295          | 3,572          | 2,975           | <b>12,678</b>  | 3,124          | 3,296          | 3,478          | <b>12,873</b>                     |
| <b>Net Income (\$mm)</b>   |                |                |                |                 |                |                |                |                |                                   |
| Exploration and Production | 6,535          | 7,347          | 7,469          |                 | <b>22,027</b>  |                |                |                |                                   |
| Other                      | 1,579          | 2,667          | 2,140          |                 | <b>5,675</b>   |                |                |                |                                   |
| Unallocated                | (3,703)        | (3,895)        | (2,975)        |                 | <b>(9,682)</b> |                |                |                |                                   |
| Total                      | 4,411          | 6,119          | 6,634          | 5,525           | <b>23,545</b>  | 5,801          | 6,122          | 6,459          | <b>23,907</b>                     |
| <b>Shares (millions)</b>   | 3,501          | 3,362          | 3,303          | 3,303           | <b>3,344</b>   | 3,303          | 3,303          | 3,303          | <b>3,303</b>                      |
| Per share (\$)             | 1.26           | 1.82           | 2.01           | 1.67            | <b>7.04</b>    | 1.76           | 1.85           | 1.96           | <b>7.24</b>                       |
| Ebitda Margin (E&P)        | 43%            | 42%            | 47%            | 47%             | <b>45%</b>     | 47%            | 47%            | 47%            | <b>47%</b>                        |
| Tax Rate                   | 35%            | 35%            | 35%            | 35%             | <b>35%</b>     | 35%            | 35%            | 35%            | <b>35%</b>                        |

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**BP plc**  
**Functional Cash Flow and Present Value**

|  | <i>NTM Ebitda</i>      | <i>Adjusted</i>   | <i>PV/</i>           | <i>Present</i>         |         |
|--|------------------------|-------------------|----------------------|------------------------|---------|
|  | <u><i>(US\$mm)</i></u> | <u><i>R/P</i></u> | <u><i>Ebitda</i></u> | <u><i>(US\$mm)</i></u> |         |
| North American Natural Gas                                 | 2,490                  | 12.8              | 9.6                  | 24,000                 | 8%      |
| Rest of World Natural Gas                                  | 4,690                  | 9.7               | 7.7                  | 36,000                 | 12%     |
| Oil  | 24,410                 | 8.9               | 6.5                  | 158,000                | 50%     |
| Downstream   | 16,050                 |                   | 5.9                  | 95,000                 | 30%     |
|  | 47,640                 | 9.5               | 6.6                  | 313,000                | 100%    |
| Debt (US\$mm)  |                        |                   |                      |                        | 49,200  |
| Net Present Value (US\$mm)                                 |                        |                   |                      |                        | 264,200 |
| Shares (mm)  |                        |                   |                      |                        | 3,303   |
| Net Present Value - Standard Estimate (US\$/sh)            |                        |                   |                      |                        | 80      |
| Net Present Value - Approximation by Correlation (US\$/sh) |                        |                   |                      |                        | 82      |

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