

Rating: Buy
S&P 500: 1511

BP plc Controversy Diminishing

| | | | |
|---------------------------------------|---------|--|--------|
| <i>Symbol</i> | BP | <i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i> | 48,200 |
| <i>Rating</i> | Buy | <i>North American Natural Gas/Ebitda (%)</i> | 5 |
| <i>Price (US\$/sh)</i> | 72.30 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 73 |
| <i>Pricing Date</i> | 7/24/07 | <i>Adjusted Reserves/Production NTM</i> | 9.7 |
| <i>Shares (mm)</i> | 3198 | <i>EV/Ebitda</i> | 5.9 |
| <i>Market Capitalization (US\$mm)</i> | 231,200 | <i>PV/Ebitda</i> | 6.9 |
| <i>Debt (US\$mm)</i> | 53,400 | <i>Undeveloped Reserves (%)</i> | 44 |
| <i>Enterprise Value (EV) (US\$mm)</i> | 284,600 | <i>Natural Gas and Oil Ebitda (US\$/boe)</i> | 25.30 |
| <i>Present Value (PV) (US\$mm)</i> | 331,600 | <i>Present Value Proven Reserves(US\$/boe)</i> | 14.00 |
| <i>Net Present Value (US\$/share)</i> | 87 | <i>Present Value Proven Reserves(US\$/mcfe)</i> | 2.33 |
| <i>Debt/Present Value</i> | 0.16 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 7.40 |
| <i>McDep Ratio - EV/PV</i> | 0.86 | <i>Price/Earnings Next Twelve Months</i> | 10 |
| <i>Dividend Yield (%/year)</i> | 3.6 | <i>Indicated Annual Dividend (US\$/sh)</i> | 2.60 |

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\$66 a barrel and natural gas, \$11 a million btu.

For historical analysis of BP since 2004 see www.mcdep.com/1bp.htm

Summary and Recommendation

Buy-recommended **BP plc (BP)** offers unlevered appreciation potential of 17% to estimated net present value (NPV) of \$87 a share revised up from \$80 a share on May 29 when we raised long-term oil price to \$66 a barrel from \$60. Second quarter results reported on July 24 trace a rising trend in unlevered cash flow (Ebitda) connected primarily to crude oil price (see table [Next Twelve Months Operating and Financial Estimates](#)). Concentrated 59% on oil production, NPV for the mega cap stock looks slightly high compared to our estimates for some thirty other producers (see table [Functional Cash Flow and Present Value](#)). Resolution of a dispute over Kovykta, a large undeveloped natural gas field in Russia, improves BP's prospects for profit as half-owner of large Russian producer, TNK-BP. New Chief Executive Tony Hayward also strives to restore operating shortfalls in refining that contributed to higher industry margins, but limited incremental profit for BP. Regardless, the trend in long-term oil price appears to be up despite volatility of short-term quotes (see chart [Six-Year Commodity Price Meter](#)). Finally, BP stock also has positive momentum as it trades above its 200-day average.

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Please see disclosures on the final page.

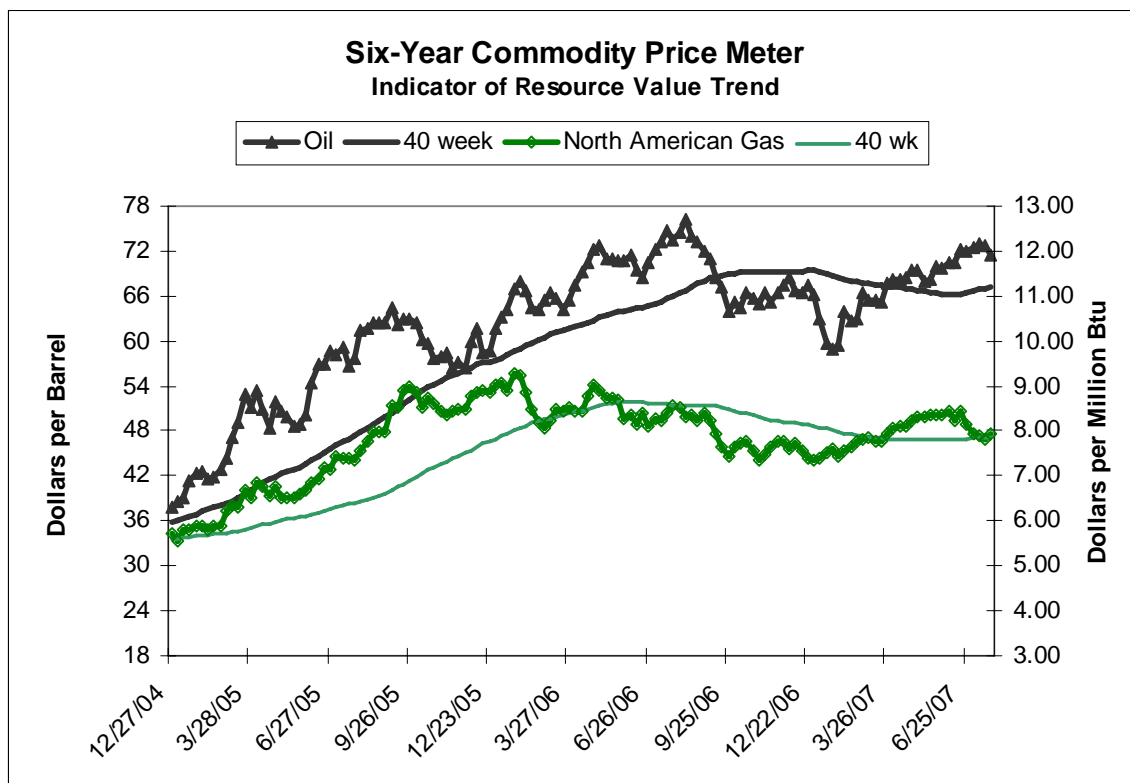
BP plc
Next Twelve Months Operating and Financial Estimates

| | <i>Q2</i> | <i>Q3</i> | <i>Year</i> | <i>Q1</i> | <i>Q2</i> | <i>Q3E</i> | <i>Q4E</i> | <i>Year</i> | <i>Next Twelve Months</i> |
|----------------------------|----------------|----------------|-----------------|----------------|----------------|----------------|-----------------|----------------|-----------------------------------|
| | <i>6/30/06</i> | <i>9/30/06</i> | <i>2006</i> | <i>3/31/07</i> | <i>6/30/07</i> | <i>9/30/07</i> | <i>12/31/07</i> | <i>2007E</i> | <i>6/30/08</i> |
| Volume | | | | | | | | | |
| Natural Gas (mmcf) | | | | | | | | | |
| U.S. (or North America) | 2,493 | 2,332 | 2,376 | 2,163 | 2,165 | 2,165 | 2,165 | 2,165 | 2,165 |
| Overseas (or Int'l) | 6,131 | 5,754 | 6,042 | 6,339 | 5,694 | 5,754 | 6,060 | 5,960 | 5,960 |
| Total | 8,624 | 8,086 | 8,418 | 8,502 | 7,859 | 7,919 | 8,225 | 8,125 | 8,125 |
| Oil (mbd) | 2,531 | 2,422 | 2,475 | 2,446 | 2,449 | 2,449 | 2,449 | 2,448 | 2,449 |
| Total gas & oil (mmb) | 361 | 347 | 1,415 | 348 | 342 | 347 | 351 | 1,388 | 1,388 |
| Total gas & oil (mbd) | 3,968 | 3,770 | 3,878 | 3,863 | 3,759 | 3,769 | 3,820 | 3,802 | 3,803 |
| Price | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 6.81 | 6.58 | 7.23 | 6.81 | 7.56 | 6.36 | 7.22 | 6.99 | 7.49 |
| U.S. (or North America) | 5.44 | 5.51 | 5.74 | 5.76 | 5.94 | 5.00 | 5.68 | 5.59 | 5.88 |
| Overseas (or Int'l) | 4.03 | 4.08 | 4.32 | 4.55 | 3.88 | 4.08 | 4.14 | 4.17 | 4.17 |
| Total | 4.44 | 4.49 | 4.72 | 4.86 | 4.45 | 4.33 | 4.55 | 4.55 | 4.63 |
| Oil (\$/bbl) | | | | | | | | | |
| WTI Cushing | 70.47 | 70.42 | 66.05 | 58.08 | 64.91 | 74.48 | 74.58 | 68.01 | 74.07 |
| Worldwide | 62.86 | 64.15 | 59.27 | 53.43 | 59.71 | 68.52 | 68.62 | 62.63 | 68.15 |
| Total gas & oil (\$/bbl) | 49.74 | 50.85 | 48.07 | 44.53 | 48.21 | 53.62 | 53.78 | 50.05 | 53.77 |
| NY Harbor 3-2-1 (\$/bbl) | 15.39 | 11.67 | 10.50 | 11.68 | 24.96 | 14.68 | 10.24 | 15.39 | 13.10 |
| BP Refining Indicator | 12.59 | 8.40 | 8.39 | 9.45 | | | | | |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | | | | | | | | | |
| U.S. (or North America) | 1,234 | 1,182 | 4,978 | 1,121 | 1,170 | 996 | 1,131 | 4,418 | 4,646 |
| Overseas (or Int'l) | 2,250 | 2,158 | 9,518 | 2,597 | 2,012 | 2,158 | 2,311 | 9,078 | 9,078 |
| Total | 3,484 | 3,340 | 14,496 | 3,719 | 3,183 | 3,154 | 3,441 | 13,497 | 13,724 |
| Oil | 14,478 | 14,294 | 53,543 | 11,762 | 13,308 | 15,438 | 15,460 | 55,967 | 60,915 |
| Other | 55,504 | 55,368 | 209,827 | 47,235 | 57,902 | 57,902 | 57,902 | 220,941 | 231,607 |
| Total | 73,466 | 73,002 | 277,865 | 62,716 | 74,392 | 76,494 | 76,803 | 290,404 | 306,246 |
| Expense | | | | | | | | | |
| Production | 11,175 | 8,900 | 35,996 | 9,262 | 9,651 | 10,702 | 10,856 | 40,471 | 41,265 |
| Other | 50,580 | 51,288 | 196,860 | 44,363 | 53,590 | 53,822 | 56,066 | 207,841 | 218,507 |
| Ebitda (\$mm) | | | | | | | | | |
| Exploration and Production | 6,787 | 8,734 | 32,042 | 6,219 | 6,839 | 8,738 | 8,883 | 30,680 | 35,080 |
| Other | 4,923 | 4,080 | 12,966 | 2,872 | 4,312 | 4,080 | 1,836 | 13,100 | 13,100 |
| Total Ebitda | 11,711 | 12,814 | 45,008 | 9,091 | 11,151 | 12,818 | 10,719 | 43,779 | 48,180 |
| Exploration | 97 | 351 | 1,045 | 156 | 155 | 155 | 155 | 621 | 620 |
| Deprec., Deplet., & Amort. | 2,308 | 2,194 | 9,127 | 2,519 | 2,535 | 2,535 | 2,535 | 10,124 | 10,140 |
| Other non cash | (261) | (106) | 75 | | | | | | |
| Ebit | 9,567 | 10,375 | 34,761 | 6,416 | 8,461 | 10,128 | 8,029 | 33,034 | 37,420 |
| Interest | 153 | 169 | 718 | 264 | 251 | 251 | 251 | 1,017 | 1,004 |
| Ebt | 9,414 | 10,206 | 34,043 | 6,152 | 8,210 | 9,877 | 7,778 | 32,017 | 36,416 |
| Income Tax | 3,295 | 3,572 | 11,915 | 2,153 | 2,874 | 3,457 | 2,722 | 11,206 | 12,746 |
| Net Income (\$mm) | | | | | | | | | |
| Exploration and Production | 7,347 | 7,469 | 27,267 | 5,295 | 6,494 | | | 11,789 | |
| Other | 2,667 | 2,140 | 6,295 | 1,264 | 2,199 | | | 3,463 | |
| Unallocated | (3,895) | (2,975) | (11,434) | (2,560) | (3,356) | | | (5,917) | |
| Total | 6,119 | 6,634 | 22,128 | 3,999 | 5,337 | 6,420 | 5,056 | 20,811 | 23,671 |
| Shares (millions) | | | | | | | | | |
| Per share (\$) | 1.82 | 2.01 | 6.63 | 1.24 | 1.67 | 2.01 | 1.58 | 6.49 | 7.40 |
| Ebitda Margin (E&P) | 38% | 50% | 47% | 40% | 41% | 47% | 47% | 44% | 47% |
| Tax Rate | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% |

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BP plc
Functional Cash Flow and Present Value

| | <i>NTM Ebitda</i> <i>(US\$mm)</i> | <i>Adjusted</i> <i>R/P</i> | <i>PV/</i> <i>Ebitda</i> | <i>Present</i> <i>Value</i> <i>(US\$mm)</i> | |
|--|--------------------------------------|-------------------------------|-----------------------------|---|---------|
| North American Natural Gas | 2,180 | 14.9 | 13.3 | 29,000 | 9% |
| Rest of World Natural Gas | 4,270 | 9.3 | 7.0 | 30,000 | 9% |
| Oil | 28,630 | 9.0 | 6.8 | 196,000 | 59% |
| Downstream | 13,100 | 5.9 | 5.9 | 77,000 | 23% |
| | 48,180 | 9.7 | 6.9 | 332,000 | 100% |
| Debt (US\$mm) | | | | | 53,400 |
| Net Present Value (US\$mm) | | | | | 278,200 |
| Shares (mm) | | | | | 3,198 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 87 |
| Net Present Value - Approximation by Correlation (US\$/sh) | | | | | 85 |



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