

Rating: Buy
 S&P 500: 1197

BP plc

Lower Net Present Value to \$77 a Share

<i>Symbol</i>	BP	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$m)</i>	48,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	8
<i>Price (US\$/sh)</i>	65.42	<i>Natural Gas and Oil Production/Ebitda (%)</i>	63
<i>Pricing Date</i>	10/25/05	<i>Adjusted Reserves/Production NTM</i>	9.4
<i>Shares (mm)</i>	3501	<i>EV/Ebitda</i>	5.4
<i>Market Capitalization (US\$m)</i>	229,000	<i>PV/Ebitda</i>	6.3
<i>Debt (US\$m)</i>	32,800	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (US\$m)</i>	261,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	20.50
<i>Present Value (PV) (US\$m)</i>	302,300	<i>Present Value Proven Reserves(US\$/boe)</i>	10.60
<i>Net Present Value (US\$/share)</i>	77	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.77
<i>Debt/Present Value</i>	0.11	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.17
<i>McDep Ratio - EV/PV</i>	0.87	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.3	<i>Indicated Annual Dividend (US\$/sh)</i>	2.14

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.

Summary and Recommendation

Buy-recommended **BP plc (BP)** offers 18% appreciation potential to estimated net present value of \$77 a share, adjusted from \$82 a share. Strengthening industry conditions have not translated to rising cash flow for BP for the past two quarters. Adjusting for the hurricanes and one-time events, we project cash flow for the Next Twelve Months of \$48 billion and determine that the present value of the continuing stream is worth \$302 billion instead of \$323 billion previously. Of course, our analysis cannot really be that precise and we remain confident that BP is a cheap stock and an attractive investment.

Cash Flow and Reserve Life Point to Present Value

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies. Net present value indicated by the current combined correlation is about \$5 a share lower than our ongoing standard estimate for BP (see table Functional Cash Flow and Present Value).

Please see disclosures on the final page.

BP plc
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	4,060	12.5	7.1	29,000	10%
Rest of World Natural Gas	4,080	10.6	8.6	35,000	12%
Oil	22,190	8.4	5.8	128,000	42%
Downstream	17,740		6.2	110,000	36%
	48,070	9.4	6.3	302,000	100%
Debt (US\$mm)				32,800	
Net Present Value (US\$mm)				269,600	
Shares (mm)				3,501	
Net Present Value (US\$/sh)				77	
Over (-)/ Under (+) Correlation (US\$/sh)				(5)	

Cash Flow by Quarter Depends on Latest Results and Futures Prices

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

Here are some brief comments that the quarterly projection evokes. A dip in volumes in the latest quarter would be restored in future quarters. Oil volumes include production in Russia that has extra future cash flow potential. We project a wider gap than previously between BP's U.S. natural gas price and the industry reference, Henry Hub. Overseas, or rest of world, natural gas price have shown little of the appreciation ultimately expected. Reported earnings for the third quarter not only reflect hurricane impact, but also one-time deductions recorded on the line "Other non-cash".

Please see disclosures on the final page.

BP plc
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>Months</i>
											<i>9/30/06</i>
Volume											
Natural Gas (mmcf)											
U.S. (or North America)	2,651	2,756	2,648	2,727	2,456	2,727	2,654	2,727	2,727	2,727	2,727
Overseas (or Int'l)	6,063	5,771	6,097	5,934	5,385	5,934	5,869	5,934	5,934	5,934	5,934
Total	8,714	8,527	8,745	8,661	7,841	8,661	8,523	8,661	8,661	8,661	8,661
Oil (mbd)	2,593	2,531	2,593	2,619	2,472	2,619	2,576	2,619	2,619	2,619	2,619
Total gas & oil (mmb)	372	1,445	373	370	348	374	1,464	366	370	374	1,483
Price											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	8.56	13.38	8.74	13.36	10.43	10.40	11.89
U.S. (or North America)	5.72	5.11	5.31	5.83	6.77	10.58	7.15	10.56	8.24	8.22	9.40
Overseas (or Int'l)	3.65	3.26	3.80	3.71	3.83	4.02	3.84	4.22	4.43	4.65	4.33
Total	4.28	3.86	4.26	4.38	4.75	6.09	4.87	6.22	5.63	5.78	5.93
Oil (\$/bbl)											
WTI Cushing	48.31	41.44	49.65	53.05	62.52	61.00	56.56	60.75	61.06	61.09	60.97
Worldwide	39.88	35.51	41.74	45.95	54.80	53.47	48.93	53.25	53.52	53.54	53.45
Total gas & oil (\$/bbl)	34.78	31.07	35.92	38.96	45.70	47.44	41.95	47.59	46.51	46.83	47.09
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	10.59	16.70	11.65	11.28	12.38	13.91	13.95	12.97
BP Refining Indicator	5.60	6.08	5.94	8.42	12.35						
Revenue (\$mm)											
Natural Gas											
U.S. (or North America)	1,395	5,145	1,294	1,447	1,530	2,654	6,924	2,593	2,045	2,062	9,354
Overseas (or Int'l)	2,036	6,860	2,134	2,005	1,897	2,195	8,231	2,254	2,393	2,541	9,383
Total	3,431	12,005	3,427	3,452	3,427	4,849	15,155	4,847	4,439	4,603	18,737
Oil	9,514	32,895	9,957	10,951	12,463	12,883	46,254	12,552	12,755	12,901	51,091
Other	67,719	250,250	66,425	73,401	81,836	81,836	303,497	81,836	81,836	81,836	327,343
Total	80,664	295,150	79,810	87,804	97,725	99,567	364,906	99,234	99,029	99,340	397,170
Expense											
Production	6,045	20,154	5,985	7,203	9,089	10,010	32,288	9,844	9,741	9,897	39,493
Other	64,301	237,942	62,492	69,738	78,067	77,401	287,698	77,401	77,401	77,401	309,603
Ebitda (\$mm)											
Exploration and Production	6,900	24,747	7,400	7,200	6,800	7,721	29,121	7,555	7,452	7,607	30,335
Other	3,418	12,307	3,934	3,662	3,769	4,435	15,799	4,435	4,435	4,435	17,740
Total Ebitda	10,318	37,054	11,334	10,862	10,569	12,156	44,921	11,990	11,887	12,042	48,075
Exploration	151	274	160	139	177	177	653	177	177	177	708
Deprec., Deplet., & Amort.	4,383	12,583	2,288	2,375	2,041	2,041	8,745	2,041	2,041	2,041	8,164
Other non cash	-	(518)	246	585	1,420						
Ebit	5,784	24,715	8,640	7,763	6,931	9,938	33,272	9,772	9,669	9,824	39,203
Interest	189	642	172	128	144	144	588	144	144	144	576
Ebt	5,595	24,073	8,468	7,635	6,787	9,794	32,684	9,628	9,525	9,680	38,627
Income Tax	1,958	8,426	2,964	2,672	2,375	3,428	11,439	3,370	3,334	3,388	13,519
Net Income (\$mm)											
Exploration and Production	5,489	19,759	5,706	6,555	6,535						
Other	2,198	6,917	2,032	2,380	1,579						
Unallocated	(4,050)	(11,029)	(2,234)	(3,972)	(3,703)						
Total	3,637	15,647	5,504	4,963	4,411	6,366	21,244	6,258	6,191	6,292	25,107
Shares (millions)											
Per share (\$)	1.01	4.30	1.54	1.40	1.26	1.82	6.02	1.79	1.77	1.80	7.17
Ebitda Margin (E&P)	53%	55%	55%	50%	43%	44%	47%	43%	43%	43%	43%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.

Industry Conditions Support Long-Term Price Expectation

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years at \$58 a barrel exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

Oil and Gas Commodity and Stock Price
Tuesday, October 25, 2005

	<u>Units</u>	<u>Futures Price</u>		<u>McDep Ratio</u>
		<u>Six-Year</u>	<u>One-Year</u>	<u>Denominator</u>
Crude Oil	\$/barrel	57.67	63.14	50
Natural Gas	\$/million btu	8.59	12.39	10
Oil Refining	\$/barrel		13.05	10
	<u>Stocks</u>			<u>Median</u>
	Mega Cap			0.78
	BP			0.87

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

Buy Mega Cap Energy Stocks

Energy is necessary for world economic growth and clean energy provides a better quality of life. Mega Cap major oil companies are among the leading global suppliers of clean energy. Headquartered in the U.K., France and the U.S., buy recommendations also offer political diversification. McDep Ratios that compare Enterprise Value with Present Value of energy and other businesses imply that the stock market undervalues the fundamental prospects. Stocks are ranked in descending order of McDep Ratio connoting “buy low, sell high” (see table Rank by McDep Ratio).

Kurt H. Wulff, CFA

Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>		<i>Price (\$/sh) 25-Oct 2005</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Mega Cap								
BP plc	BP	B	65.42	3,501	229,000	77.00	0.11	0.87
Total S.A.	TOT	B	124.68	1,182	147,000	160.00	0.12	0.81
Exxon Mobil Corporation	XOM	B	57.20	6,370	364,000	74.00	0.04	0.78
Royal Dutch Shell plc	RDS-A	B	59.88	3,372	202,000	84.00	0.09	0.74
Chevron Corporation	CVX	B	58.67	2,256	132,000	90.00	0.12	0.69
	<i>Total or Median</i>				<i>1,074,000</i>		<i>0.11</i>	<i>0.78</i>

Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

Please see disclosures on the final page.