

Rating: Buy  
S&P 500: 1255

## BP plc Temporary Setbacks

<i>Symbol</i>	BP	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$m)</i>	49,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	5
<i>Price (US\$/sh)</i>	67.50	<i>Natural Gas and Oil Production/Ebitda (%)</i>	64
<i>Pricing Date</i>	2/7/06	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	3465	<i>EV/Ebitda</i>	5.8
<i>Market Capitalization (US\$m)</i>	233,900	<i>PV/Ebitda</i>	6.4
<i>Debt (US\$m)</i>	48,500	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (US\$m)</i>	282,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	21.60
<i>Present Value (PV) (US\$m)</i>	315,300	<i>Present Value Proven Reserves(US\$/boe)</i>	11.20
<i>Net Present Value (US\$/share)</i>	77	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.87
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.16
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.3	<i>Indicated Annual Dividend (US\$/sh)</i>	2.25

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 14% appreciation potential to estimated net present value of \$77 a share presuming a long-term oil price of \$50 a barrel. Six-year futures are currently priced at \$66 a barrel. Unusual factors held fourth quarter results below the level that would justify our estimate of present value. The company recorded a billion dollar loss on a fixed-price natural gas contract and incurred more than a billion dollars in opportunity loss from the combination of a refinery accident at Texas City and hurricane damage. BP's McDep Ratio at 0.90 is higher than mega caps, but well within buy range. Unlevered cash flow multiple is the highest of peers, but still low at 5.8 times. Adjusted reserve life of 9.6 years is near the median of mega caps. The company's mix of business, 43% oil, 21% natural gas and 36% downstream is close to the median. Financial risk is low while political and geographic risk is well diversified.

Kurt H. Wulff, CFA

### Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>		<i>Price</i>		<i>Market</i>	<i>Net</i>	<i>Debt/</i>	
	<i>Rating</i>		<i>(\$/sh)</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
			<i>7-Feb</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
			<i>2006</i>					
<b>Mega Cap</b>								
BP plc	BP	B	67.50	3,465	234,000	77.00	0.15	0.90
Total S.A.	TOT	B	130.92	1,176	154,000	160.00	0.12	0.84
Exxon Mobil Corporation	XOM	B	60.55	6,211	376,000	74.00	0.04	0.83
Royal Dutch Shell plc	RDS-A	B	63.21	3,293	208,000	80.00	0.11	0.81
Chevron Corporation	CVX	B	57.74	2,236	129,000	85.00	0.11	0.71
ConocoPhillips	COP	B	60.10	1,693	102,000	95.00	0.22	0.71
					<i>Total or Median</i>			
					1,203,000		0.12	0.82

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**Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.**

			<i>Price</i> (\$/sh)	<i>Adjstd</i> <i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>	<i>Divd or</i> <i>Distrib</i>
	<i>Symbol/</i>		<i>7-Feb</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>
	<i>Rating</i>		<i>2006</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
<b>Mega Cap</b>							
BP plc	BP	B	67.50	9.6	6.4	5.8	9 3.3
Exxon Mobil Corporation	XOM	B	60.55	11.2	6.3	5.2	9 2.1
Total S.A.	TOT	B	130.92	9.2	6.0	5.0	8 2.7
Royal Dutch Shell plc	RDS-A	B	63.21	7.4	5.6	4.5	8 3.5
ConocoPhillips	COP	B	60.10	10.9	5.5	4.0	6 2.1
Chevron Corporation	CVX	B	57.74	9.7	5.5	3.9	7 3.1
	<i>Median</i>			<i>9.7</i>	<i>5.8</i>	<i>4.8</i>	<i>8 2.9</i>

**Home Country and Business Segments**

				<i>North</i>	<i>Rest</i>			<i>Total</i>
	<i>Symbol/</i>		<i>Non-</i>	<i>Amer.</i>	<i>of World</i>	<i>Oil</i>	<i>Down-</i>	<i>Present</i>
	<i>Rating</i>	<i>U.S.</i>	<i>U.S.</i>	<i>Natural</i>	<i>Natural</i>	<i>Prod'n</i>	<i>stream</i>	<i>Value</i>
		<i>Domicile</i>	<i>Gas</i>	<i>Gas</i>	<i>Gas</i>	<i>(%)</i>	<i>(%)</i>	<i>(US\$mm)</i>
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B		10	20	37	33	481,000
BP plc	BP	B	UK	9	12	43	36	315,000
Royal Dutch Shell plc	RDS-A	B	UK	3	19	32	46	295,000
Total S.A.	TOT	B	France	-	28	37	35	214,000
Chevron Corporation	CVX	B		9	9	51	30	214,000
ConocoPhillips	COP	B		23	7	43	28	207,000
	<i>Total or Median</i>			<i>9</i>	<i>15</i>	<i>40</i>	<i>34</i>	<i>1,726,000</i>

**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	2,410	14.5	11.6	28,000 9%
Rest of World Natural Gas	5,380	10.3	7.1	38,000 12%
Oil	23,550	8.6	5.8	136,000 43%
Downstream	17,740		6.4	113,000 36%
	49,080	9.6	6.4	315,000 100%
Debt (US\$mm)				48,500
Net Present Value (US\$mm)				266,800
Shares (mm)				3,465
Net Present Value - Standard Estimate (US\$/sh)				77
Net Present Value - Approximation by Correlation (US\$/sh)				69

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

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>12/31/06</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	2,651	2,456	2,359	<b>2,561</b>	2,359	2,359	2,359	2,359	<b>2,359</b>
Overseas (or Int'l)	6,063	5,385	6,099	<b>5,911</b>	6,099	6,099	6,099	6,099	<b>6,099</b>
Total	8,714	7,841	8,458	<b>8,472</b>	8,458	8,458	8,458	8,458	<b>8,458</b>
Oil (mmb)	239	227	236	<b>940</b>	231	233	236	236	<b>936</b>
Oil (mbd)	2,593	2,472	2,564	<b>2,562</b>	2,564	2,564	2,564	2,564	<b>2,564</b>
Total gas & oil (mbd)	4,045	3,779	3,974	<b>3,966</b>	3,974	3,974	3,974	3,974	<b>3,974</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.10	8.56	13.00	<b>8.65</b>	9.26	8.31	8.62	9.63	<b>8.96</b>
U.S. (or North America)	5.72	6.77	9.48	<b>6.77</b>	6.75	6.06	6.29	7.02	<b>6.53</b>
Overseas (or Int'l)	3.65	3.83	4.99	<b>4.09</b>	5.24	5.50	5.77	6.06	<b>5.64</b>
Total	4.28	4.75	6.24	<b>4.90</b>	5.66	5.65	5.92	6.33	<b>5.89</b>
Oil (\$/bbl)									
WTI Cushing	48.31	62.52	60.02	<b>56.31</b>	65.23	66.74	68.15	68.81	<b>67.23</b>
Worldwide	39.88	54.80	52.44	<b>48.65</b>	57.00	58.31	59.54	60.12	<b>58.75</b>
Total gas & oil (\$/bbl)	34.78	45.70	47.12	<b>41.84</b>	48.82	49.66	51.01	52.26	<b>50.45</b>
NY Harbor 3-2-1 (\$/bbl)	5.72	16.70	9.06	<b>10.63</b>	6.59	10.77	11.99	9.62	<b>9.74</b>
BP Refining Indicator	5.60	12.35	7.60	<b>8.58</b>					
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	1,395	1,530	2,057	<b>6,327</b>	1,434	1,301	1,364	1,524	<b>5,622</b>
Overseas (or Int'l)	2,036	1,897	2,798	<b>8,834</b>	2,874	3,051	3,239	3,401	<b>12,566</b>
Total	3,431	3,427	4,856	<b>15,162</b>	4,308	4,352	4,603	4,925	<b>18,188</b>
Oil	9,514	12,463	12,370	<b>45,741</b>	13,153	13,606	14,046	14,182	<b>54,986</b>
Other	67,719	81,836	48,889	<b>270,551</b>	48,889	48,889	48,889	48,889	<b>195,558</b>
Total	80,664	97,725	66,115	<b>331,454</b>	66,350	66,847	67,539	67,996	<b>268,732</b>
<b>Expense</b>									
Production	6,045	9,089	9,926	<b>32,203</b>	10,043	10,292	10,637	10,866	<b>41,838</b>
Other	64,301	78,067	45,285	<b>255,582</b>	44,454	44,454	44,454	44,454	<b>177,818</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	6,900	6,800	7,300	<b>28,700</b>	7,418	7,666	8,012	8,240	<b>31,336</b>
Other	3,418	3,769	3,604	<b>14,969</b>	4,435	4,435	4,435	4,435	<b>17,740</b>
Total Ebitda	10,318	10,569	10,904	<b>43,669</b>	11,853	12,101	12,447	12,675	<b>49,076</b>
Exploration	151	177	208	<b>684</b>	208	208	208	208	<b>832</b>
Deprec., Deplet., & Amort.	4,383	2,041	2,351	<b>9,055</b>	2,351	2,351	2,351	2,351	<b>9,404</b>
Other non cash	-	1,420	1,350	<b>3,601</b>					
<b>Ebit</b>	5,784	6,931	6,995	<b>30,329</b>	9,294	9,542	9,888	10,116	<b>38,840</b>
Interest	189	144	172	<b>616</b>	172	172	172	172	<b>688</b>
<b>Ebt</b>	5,595	6,787	6,823	<b>29,713</b>	9,122	9,370	9,716	9,944	<b>38,152</b>
Income Tax	1,958	2,375	2,388	<b>10,400</b>	3,193	3,280	3,401	3,481	<b>13,353</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	5,489	6,535	6,567	<b>25,363</b>					
Other	2,198	1,579	(84)	<b>5,907</b>					
Unallocated	(4,050)	(3,703)	(2,048)	<b>(11,957)</b>					
Total	3,637	4,411	4,435	<b>19,313</b>	5,929	6,091	6,315	6,464	<b>24,799</b>
<b>Shares (millions)</b>	3,601	3,501	3,465	<b>3,524</b>	3,465	3,465	3,465	3,465	<b>3,465</b>
Per share (\$)	1.01	1.26	1.28	<b>5.48</b>	1.71	1.76	1.82	1.87	<b>7.16</b>
Ebitda Margin (E&P)	53%	43%	42%	<b>47%</b>	42%	43%	43%	43%	<b>43%</b>
Tax Rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>

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