

Rating: Buy
S&P 500: 1192

BP plc Nice Return for Low Risk

<i>Symbol</i>	BP	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i>	45,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	60.20	<i>Natural Gas and Oil Production/Ebitda (%)</i>	71
<i>Pricing Date</i>	5/31/05	<i>Adjusted Reserves/Production NTM</i>	9.4
<i>Shares (mm)</i>	3574	<i>EV/Ebitda</i>	5.5
<i>Market Capitalization (US\$mm)</i>	215,200	<i>PV/Ebitda</i>	5.8
<i>Debt (US\$mm)</i>	32,800	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (US\$mm)</i>	247,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	21.60
<i>Present Value (PV) (US\$mm)</i>	261,500	<i>Present Value Proven Reserves(US\$/boe)</i>	10.30
<i>Net Present Value (US\$/share)</i>	64	<i>Present Value Proven Reserves(US\$/mcfe)</i>	1.72
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.30
<i>McDep Ratio - EV/PV</i>	0.95	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	3.4	<i>Indicated Annual Dividend (US\$/sh)</i>	2.04

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

Delivering a total return to investors of 15% a year for the past ten years, buy-recommended **BP plc (BP)** would return more than 11% per year for the next ten years assuming a constant real oil price of \$38 a barrel. The current average futures price for oil for the next six years is more than \$50 in a rising trend. Risk is low with globally diversified, integrated operations and miniscule debt. Large dividend increases seem likely along with large scale stock repurchase.

Present Value Low Relative to Cash Flow

Estimated originally on a discounted cash flow basis assuming \$40 oil, present value looks low relative to next twelve months cash flow (see table Functional Cash Flow and Present Value). Cash flow multiple for the company compares closely to our current correlation with adjusted reserve life index for thirty producers. North American Natural Gas equals the correlation multiple. Overseas Natural Gas is above by 0.3. Oil equals the correlation multiple. The downstream multiple is 0.1 above the median of fourteen companies.

Cash Flow Rising with Commodity Price

A dynamic measure, projected cash flow is updated frequently with latest futures quotes (see table Next Twelve Months Operating and Financial Estimates). Recent quarterly results also influence projections.

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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	3,280	12.9	8.2	27,000	10%
Overseas Natural Gas	5,050	10.3	6.3	32,000	12%
Oil	23,550	8.5	5.1	119,000	45%
Downstream	13,240		6.3	84,000	32%
	45,120	9.4	5.8	262,000	100%
Debt (US\$mm)					32,800
Net Present Value (US\$mm)					228,700
Shares (mm)					3,574
Net Present Value (US\$/sh)					64

Oil Price Trend Rising

Average oil price for the next six years has reached about \$50 a barrel suggesting that recent quotes have staying power. Moreover the trend appears to be continuing upward (see chart Oil Six-Year Futures Strip and 40-Week Average).

Futures Guide Estimates of Next Twelve Months Cash Flow

The quarterly trend of futures illustrates (1) gradually higher oil cash flow, (2) buildup in natural gas to a winter peak and (3) a downstream summer peak (see chart Futures as Cash Flow Indicators). Cash flow estimates reflect the trend in Light, Sweet Crude Oil traded on the New York Mercantile Exchange though different grades of crude oil can exhibit their own patterns. Nymex natural gas guides our estimates of cash flow in North America though regional differences can be pronounced. Refining crack spreads calculated from futures prices are indicative of market pressures, but not broad enough to justify continuous adjustment of downstream projections.

Buy Oil and Gas Producers at Mid Decade

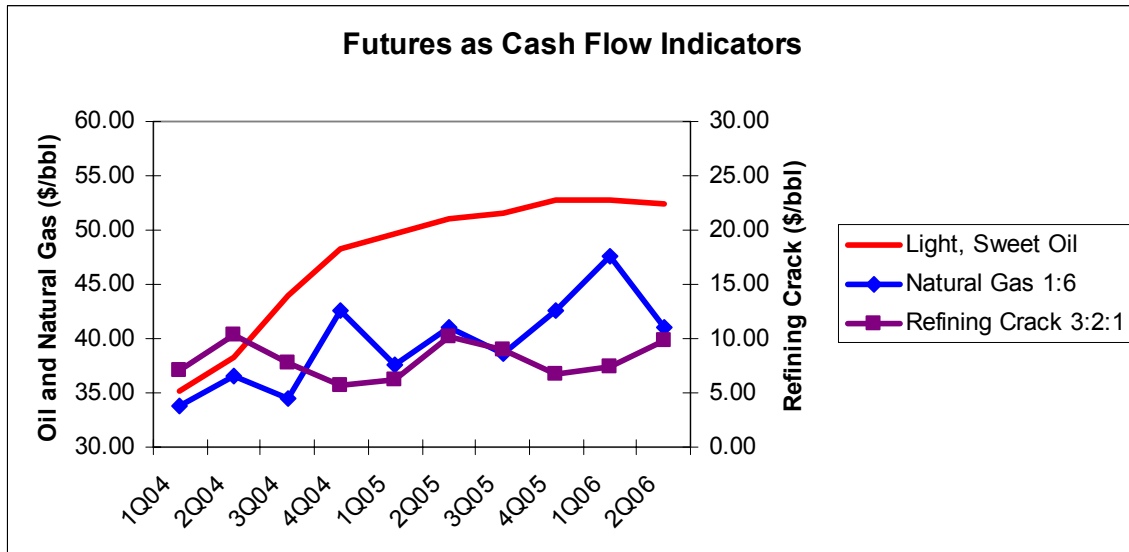
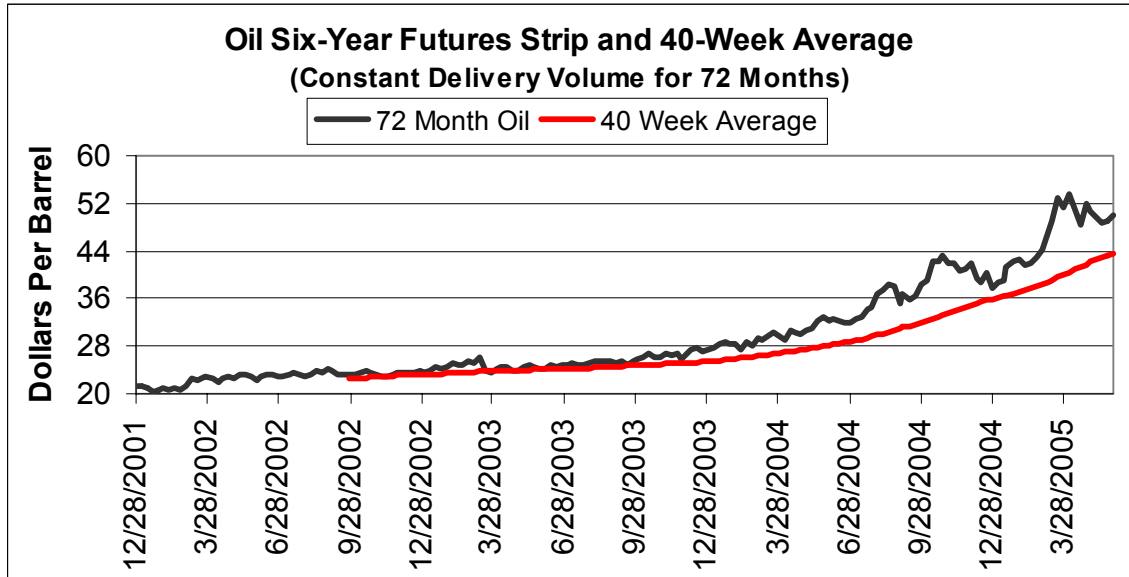
Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. A McDep Ratio of 1.0 implies that a stock would be priced at present value assuming a constant real oil price of US\$40 (see table Rank by McDep Ratio).

Kurt H. Wulff, CFA

BP plc
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</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>Twelve</i>
										<i>Months</i>
										<i>6/30/06</i>
Volume										
Natural Gas (mmcf)										
U.S. (or North America)	2,651	2,756	2,648	2,648	2,648	2,648	2,663	2,648	2,648	2,648
Overseas (or Int'l)	6,063	5,771	6,097	6,097	6,097	6,097	6,130	6,097	6,097	6,097
Total	8,714	8,527	8,745	8,745	8,745	8,745	8,793	8,745	8,745	8,745
Oil (mmbd)	2,593	2,531	2,593	2,593	2,593	2,593	2,593	2,593	2,593	2,593
Total gas & oil (mmb)	372	1,445	373	369	373	373	1,487	365	369	1,478
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.83	6.43	7.11	6.66	7.94	6.84	7.08
U.S. (or North America)	5.72	5.11	5.31	5.79	5.45	6.02	5.64	6.73	5.80	6.00
Overseas (or Int'l)	3.65	3.26	3.80	3.91	3.95	4.04	3.93	4.04	4.02	4.01
Total	4.28	3.86	4.26	4.48	4.41	4.64	4.45	4.86	4.56	4.61
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	51.05	51.57	52.68	51.24	52.78	52.47	52.38
Worldwide	39.88	35.51	41.74	42.92	43.36	44.29	43.08	44.37	44.11	44.03
Total gas & oil (\$/bbl)	34.78	31.07	35.92	37.15	37.27	38.37	37.17	38.89	38.08	38.15
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	10.24	8.89	6.64	7.99	7.40	9.77	8.18
BP Refining Indicator	5.60	6.08	5.94							
Revenue (\$mm)										
Natural Gas										
U.S. (or North America)	1,395	5,145	1,294	1,395	1,328	1,467	5,484	1,604	1,397	5,796
Overseas (or Int'l)	2,036	6,860	2,134	2,170	2,216	2,264	8,784	2,219	2,230	8,930
Total	3,431	12,005	3,427	3,565	3,544	3,731	14,268	3,823	3,627	14,726
Oil	9,514	32,895	9,957	10,127	10,343	10,566	40,994	10,356	10,409	41,673
Other	67,719	250,250	66,425	66,425	66,425	66,425	265,701	66,425	66,425	265,701
Total	80,664	295,150	79,810	80,118	80,313	80,722	320,963	80,604	80,461	322,100
Expense (\$mm)										
Production	6,045	20,154	5,985	6,046	6,085	6,167	24,283	6,143	6,115	24,511
Other	64,301	237,942	62,843	63,116	63,116	63,116	252,193	63,116	63,116	252,466
Ebitda (\$mm)										
Exploration and Production	6,900	24,747	7,400	7,647	7,802	8,130	30,978	8,035	7,921	31,888
Other	3,418	12,307	3,582	3,309	3,309	3,309	13,509	3,309	3,309	13,236
Total Ebitda	10,318	37,054	10,982	10,956	11,111	11,439	44,487	11,344	11,230	45,123
Exploration	151	274	160	160	160	160	640	160	160	640
Deprec., Deplet., & Amort.	4,383	12,583	2,288	2,288	2,288	2,288	9,152	2,288	2,288	9,152
Other non cash	-	(518)	246							
Ebit	5,784	24,715	8,288	8,508	8,663	8,991	34,449	8,896	8,782	35,331
Interest	189	642	172	172	172	172	688	172	172	688
Ebt	5,595	24,073	8,116	8,336	8,491	8,819	33,761	8,724	8,610	34,643
Income Tax	1,958	8,426	2,612	2,917	2,972	3,087	11,588	3,053	3,013	12,125
Net Income (\$mm)										
Exploration and Production	5,489	19,759	5,706							
Other	2,198	6,917	2,032							
Unallocated	(4,050)	(11,029)	(2,234)							
Total	3,637	15,647	5,504	5,418	5,519	5,732	22,173	5,671	5,596	22,518
Shares (millions)	3,601	3,638	3,574	3,574	3,574	3,574	3,574	3,574	3,574	3,574
Per share (\$)	1.01	4.30	1.54	1.52	1.54	1.60	6.20	1.59	1.57	6.30
Ebitda Margin (E&P)	53%	55%	55%	56%	56%	57%	56%	57%	56%	57%
Tax Rate	35%	35%	32%	35%	35%	35%	34%	35%	35%	35%

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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>Present</i>	<i>Present</i>	<i>McDep</i>
			<i>31-May</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	<i>Ratio</i>
			<i>2005</i>			<i>(\$/sh)</i>		
Mega Cap								
BP plc	BP	B	60.20	3,574	215,000	64.00	0.13	0.95
Shell Transport and Trading Co. plc	SC	B	52.45	1,587	83,000	56.00	0.14	0.95
Exxon Mobil Corporation	XOM	B	56.20	6,421	361,000	60.00	0.06	0.94
Royal Dutch Petroleum	RD	B	58.58	2,018	118,000	66.00	0.14	0.90
Total S.A.	TOT	B	111.19	1,192	133,000	126.00	0.15	0.90
Chevron Corporation	CVX	B	53.78	2,311	124,000	70.00	0.13	0.80
<i>Total or Median</i>					<i>1,034,000</i>		<i>0.13</i>	<i>0.92</i>

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