

Rating: Buy  
S&P 500: 1269

## **BP plc**

### **Cash Flow per Barrel Lags**

<i>Symbol</i>	BP	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$m)</i>	50,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	5
<i>Price (US\$/sh)</i>	69.51	<i>Natural Gas and Oil Production/Ebitda (%)</i>	68
<i>Pricing Date</i>	7/25/06	<i>Adjusted Reserves/Production NTM</i>	9.3
<i>Shares (mm)</i>	3362	<i>EV/Ebitda</i>	5.6
<i>Market Capitalization (US\$m)</i>	233,700	<i>PV/Ebitda</i>	6.3
<i>Debt (US\$m)</i>	48,800	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$m)</i>	282,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	23.60
<i>Present Value (PV) (US\$m)</i>	317,700	<i>Present Value Proven Reserves(US\$/boe)</i>	12.00
<i>Net Present Value (US\$/share)</i>	80	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.00
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.77
<i>McDep Ratio - EV/PV</i>	0.89	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.4	<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.

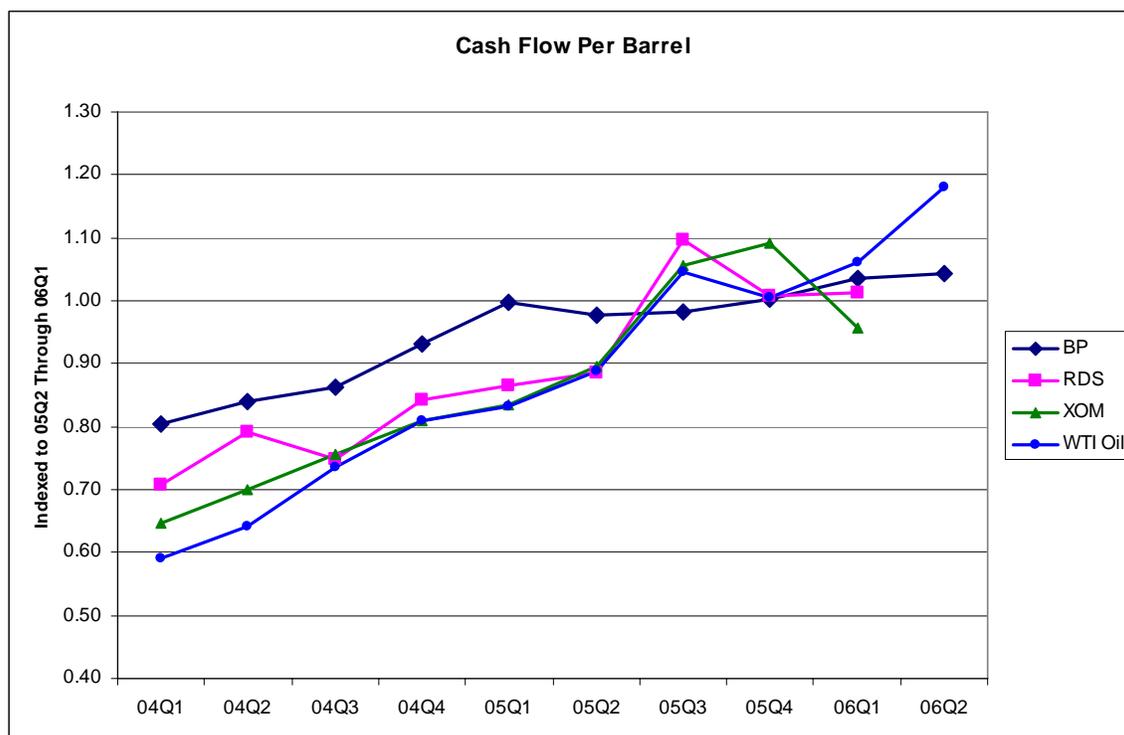
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

### **Summary and Recommendation**

Buy-recommended **BP plc (BP)** offers 15% appreciation potential to our estimate of net present value of \$80 a share that presumes a long-term oil price of \$60 a barrel. The estimate was revised from \$77 a share on June 6 when we revised our oil price from \$50 a barrel. Because BP's unlevered present value cash flow multiple (PV/Ebitda), though low at 6.3 times, is higher than for peer companies, we raised present value less than a 20% increase in oil price would normally imply. After taking account of second quarter 2006 results, our correlation of present value with adjusted reserve life and twelve months cash flow also indicates less net present value. In addition we see an apparent lag that appears in the company's cash flow per barrel trend (see chart Cash Flow per Barrel). We like the potential of the company's Russian resources that are less represented in today's cash flow than is likely to be the case in a few more years. Meanwhile, the futures price for oil delivered over the next six years continues in a multi-year uptrend with the current quote at \$73.

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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	2,630	11.9	8.7	23,000	7%
Rest of World Natural Gas	4,620	9.6	7.8	36,000	11%
Oil	26,940	8.8	5.7	154,000	48%
Downstream	16,220		6.5	105,000	33%
	50,410	9.3	6.3	318,000	100%
Debt (US\$mm)				48,800	
Net Present Value (US\$mm)				269,000	
Shares (mm)				3,362	
Net Present Value - Standard Estimate (US\$/sh)				80	
Net Present Value - Approximation by Correlation (US\$/sh)				71	

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

	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>6/30/05</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>2006E</i>	<i>3/31/07</i>	<i>Twelve</i>
									<i>Months</i>
									<i>3/31/07</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	2,727	<b>2,547</b>	2,485	2,493	2,493	2,493	<b>2,491</b>	2,493	<b>2,493</b>
Overseas (or Int'l)	5,934	<b>5,911</b>	6,228	6,131	6,131	6,131	<b>6,155</b>	6,131	<b>6,131</b>
Total	8,661	<b>8,472</b>	8,713	8,624	8,624	8,624	<b>8,646</b>	8,624	<b>8,624</b>
Oil (mbd)	2,619	<b>2,562</b>	2,533	2,531	2,531	2,531	<b>2,531</b>	2,531	<b>2,531</b>
Total gas & oil (mmb)	370	<b>1,456</b>	359	361	365	365	<b>1,450</b>	357	<b>1,448</b>
Total gas & oil (mbd)	4,063	<b>3,966</b>	3,985	3,968	3,968	3,968	<b>3,972</b>	3,968	<b>3,968</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.76	<b>8.65</b>	8.97	6.81	6.41	8.47	<b>7.67</b>	10.62	<b>8.50</b>
U.S. (or North America)	5.83	<b>6.77</b>	6.91	5.44	5.12	6.77	<b>6.05</b>	8.48	<b>6.78</b>
Overseas (or Int'l)	3.71	<b>4.09</b>	4.99	4.03	4.50	4.73	<b>4.56</b>	4.96	<b>4.85</b>
Total	4.38	<b>4.90</b>	5.54	4.44	4.68	5.32	<b>4.99</b>	5.98	<b>5.41</b>
Oil (\$/bbl)									
WTI Cushing	53.05	<b>56.31</b>	63.33	70.47	74.90	76.58	<b>71.32</b>	77.63	<b>76.73</b>
Worldwide	45.95	<b>48.65</b>	55.88	62.86	66.81	68.32	<b>63.51</b>	69.25	<b>68.44</b>
Total gas & oil (\$/bbl)	38.96	<b>41.84</b>	47.63	49.74	52.78	55.12	<b>51.34</b>	57.16	<b>55.40</b>
NY Harbor 3-2-1 (\$/bbl)	10.59	<b>10.63</b>	7.40	15.39	16.36	11.35	<b>12.62</b>	12.25	<b>14.60</b>
BP Refining Indicator	8.42	<b>8.58</b>	6.28	12.59					
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	1,447	<b>6,327</b>	1,545	1,234	1,174	1,552	<b>5,505</b>	1,904	<b>6,167</b>
Overseas (or Int'l)	2,005	<b>8,834</b>	2,799	2,250	2,538	2,665	<b>10,253</b>	2,738	<b>10,847</b>
Total	3,452	<b>15,162</b>	4,344	3,484	3,712	4,217	<b>15,758</b>	4,641	<b>17,014</b>
Oil	10,951	<b>45,741</b>	12,739	14,478	15,558	15,908	<b>58,683</b>	15,774	<b>63,225</b>
Other	73,401	<b>270,551</b>	51,482	55,504	55,504	55,504	<b>217,992</b>	55,504	<b>222,014</b>
Total	87,804	<b>331,454</b>	68,565	73,466	74,773	75,628	<b>292,433</b>	75,919	<b>302,253</b>
<b>Expense (\$mm)</b>									
Production	7,203	<b>32,203</b>	9,683	10,462	11,116	11,544	<b>42,805</b>	11,689	<b>46,044</b>
Other	69,738	<b>255,582</b>	47,773	51,293	51,449	51,449	<b>201,963</b>	51,449	<b>205,794</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	7,200	<b>28,700</b>	7,400	7,500	8,154	8,581	<b>31,635</b>	8,727	<b>34,195</b>
Other	3,662	<b>14,969</b>	3,709	4,211	4,055	4,055	<b>16,029</b>	4,055	<b>16,220</b>
Total Ebitda	10,862	<b>43,669</b>	11,109	11,711	12,209	12,636	<b>47,664</b>	12,782	<b>50,415</b>
Exploration	139	<b>684</b>	189	97	97	97	<b>480</b>	97	<b>388</b>
Deprec., Deplet., & Amort.	2,375	<b>9,055</b>	2,184	2,308	2,308	2,308	<b>9,108</b>	2,308	<b>9,232</b>
Other non cash	585	<b>3,601</b>	442	(261)			<b>181</b>		
<b>Ebit</b>	7,763	<b>30,329</b>	8,294	9,567	9,804	10,231	<b>37,895</b>	10,377	<b>40,795</b>
Interest	128	<b>616</b>	191	153	153	153	<b>650</b>	153	<b>612</b>
<b>Ebt</b>	7,635	<b>29,713</b>	8,103	9,414	9,651	10,078	<b>37,245</b>	10,224	<b>40,183</b>
Income Tax	2,672	<b>10,400</b>	2,836	3,295	3,378	3,527	<b>13,036</b>	3,578	<b>14,064</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	6,555	<b>25,363</b>	7,211	7,347			<b>14,558</b>		
Other	2,380	<b>5,907</b>	868	2,667			<b>3,535</b>		
Unallocated	(3,972)	<b>(11,957)</b>	(2,812)	(3,895)			<b>(6,707)</b>		
Total	4,963	<b>19,313</b>	5,267	6,119	6,273	6,551	<b>24,209</b>	6,645	<b>26,119</b>
<b>Shares (millions)</b>	3,545	<b>3,524</b>	3,420	3,362	3,362	3,362	<b>3,374</b>	3,362	<b>3,362</b>
Per share (\$)	1.40	<b>5.48</b>	1.54	1.82	1.87	1.95	<b>7.17</b>	1.98	<b>7.77</b>
Ebitda Margin (E&P)	50%	<b>47%</b>	43%	42%	42%	43%	<b>42%</b>	43%	<b>43%</b>
Tax Rate	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	35%	<b>35%</b>

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