

Rating: Buy
 S&P 500: 1447
 Intraday

BP plc Difficult Execution

<i>Symbol</i>	BP	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	43,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	5
<i>Price (US\$/sh)</i>	63.26	<i>Natural Gas and Oil Production/Ebitda (%)</i>	64
<i>Pricing Date</i>	2/6/07	<i>Adjusted Reserves/Production NTM</i>	9.8
<i>Shares (mm)</i>	3268	<i>EV/Ebitda</i>	6.0
<i>Market Capitalization (US\$mm)</i>	206,700	<i>PV/Ebitda</i>	7.3
<i>Debt (US\$mm)</i>	53,400	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	260,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	20.00
<i>Present Value (PV) (US\$mm)</i>	314,900	<i>Present Value Proven Reserves(US\$/boe)</i>	11.20
<i>Net Present Value (US\$/share)</i>	80	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.87
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.16
<i>McDep Ratio - EV/PV</i>	0.83	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	3.7	<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.

Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

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

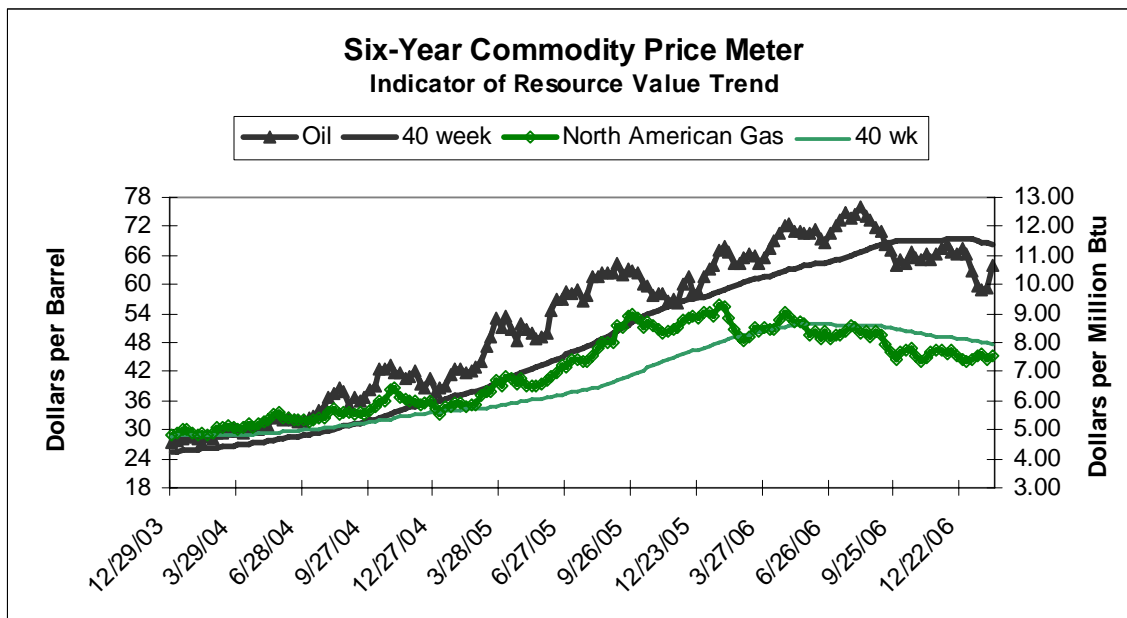
Summary and Recommendation

Estimated net present value (NPV) remains \$80 a share for buy-recommended **BP plc (BP)** though fourth quarter 2006 cash flow and earnings reported on February 6 were below our projections. Future growth in Russia may help justify NPV that otherwise looks high compared to that indicated by a correlation with reserve life and cash flow for some thirty companies (see table, Functional Cash Flow and Present Value). Prospects could be further strengthened if oil for delivery over the next six years, priced currently at \$64 a barrel, resumes an uptrend by crossing above the 40-week average later in 2007 (see chart, Six-Year Commodity Price Meter). Looking for a higher cash flow margin (Ebitda Margin (E&P)) in 2007, we presume some extra charges taken in 2006 will not recur (see table, Next Twelve Months Operating and Financial Estimates). Price below the 200-day average confirms that BP stock remains out of favor with investors. With patience, we include BP stock at a half weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean energy for global growth.

Kurt H. Wulff, CFA

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	2,100	13.6	11.4	24,000	8%
Rest of World Natural Gas	4,210	9.7	8.6	36,000	11%
Oil	21,330	9.2	7.5	160,000	51%
Downstream	15,520		6.1	95,000	30%
	43,160	9.8	7.3	315,000	100%
Debt (US\$mm)					53,400
Net Present Value (US\$mm)					261,400
Shares (mm)					3,268
Net Present Value - Standard Estimate (US\$/sh)					80
Net Present Value - Approximation by Correlation (US\$/sh)					73



Please see disclosures on the final page.

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>12/31/05</i>	<i>9/30/06</i>	<i>12/31/06</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>12/31/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	2,359	2,332	2,196	2,376	2,196	2,196	2,196	2,196	2,196
Overseas (or Int'l)	6,099	5,754	6,060	6,042	6,228	6,131	5,754	6,060	6,042
Total	8,458	8,086	8,256	8,418	8,424	8,327	7,950	8,256	8,238
Oil (mbd)	2,564	2,422	2,416	2,475	2,416	2,416	2,416	2,416	2,416
Total gas & oil (mmb)	366	347	349	1,415	344	346	344	349	1,383
Total gas & oil (mbd)	3,974	3,770	3,792	3,878	3,820	3,804	3,741	3,792	3,789
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	13.00	6.58	6.57	7.23	6.84	7.69	7.92	8.55	7.75
U.S. (or North America)	9.48	5.51	5.03	5.74	5.24	5.89	6.06	6.55	5.94
Overseas (or Int'l)	4.99	4.08	4.14	4.32	4.99	4.03	4.08	4.14	4.32
Total	6.24	4.49	4.38	4.72	5.06	4.52	4.63	4.78	4.75
Oil (\$/bbl)									
WTI Cushing	60.02	70.42	59.99	66.05	57.21	60.15	61.91	63.14	60.60
Worldwide	52.44	64.15	54.13	59.27	51.62	54.27	55.86	56.97	54.70
Total gas & oil (\$/bbl)	47.12	50.85	44.02	48.07	43.80	44.37	45.90	46.71	45.20
NY Harbor 3-2-1 (\$/bbl)	9.06	11.67	7.54	10.50	7.37	12.11	11.94	8.10	9.88
BP Refining Indicator	7.60	8.40	6.30						
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	2,057	1,182	1,016	4,978	1,035	1,177	1,225	1,323	4,760
Overseas (or Int'l)	2,798	2,158	2,311	9,518	2,799	2,250	2,158	2,311	9,518
Total	4,856	3,340	3,327	14,496	3,834	3,428	3,383	3,633	14,278
Oil	12,370	14,294	12,032	53,543	11,224	11,931	12,415	12,662	48,232
Other	48,889	55,368	47,474	209,827	47,474	47,474	47,474	47,474	189,894
Total	66,115	73,002	62,832	277,865	62,532	62,832	63,272	63,769	252,405
Expense									
Production	9,926	9,346	9,061	38,553	8,433	8,583	8,803	9,051	34,869
Other	45,285	50,842	44,396	194,303	43,765	43,263	42,948	44,396	174,371
Ebitda (\$mm)									
Exploration and Production	7,300	8,288	6,297	29,485	6,626	6,776	6,996	7,244	27,641
Other	3,604	4,526	3,078	15,523	3,709	4,211	4,526	3,078	15,523
Total Ebitda	10,904	12,814	9,375	45,008	10,334	10,987	11,522	10,322	43,165
Exploration	208	351	408	1,045	408	408	408	408	1,632
Deprec., Deplet., & Amort.	2,351	2,194	2,441	9,127	2,441	2,441	2,441	2,441	9,764
Other non cash	1,350	(106)	-	75					
Ebit	6,995	10,375	6,526	34,761	7,485	8,138	8,673	7,473	31,769
Interest	172	169	205	718	205	205	205	205	820
Ebt	6,823	10,206	6,321	34,043	7,280	7,933	8,468	7,268	30,949
Income Tax	2,388	3,572	2,212	11,915	2,548	2,776	2,964	2,544	10,832
Net Income (\$mm)									
Exploration and Production	6,567	7,469	5,240	27,267					
Other	(84)	2,140	620	6,295					
Unallocated	(2,048)	(2,975)	(1,751)	(11,434)					
Total	4,435	6,634	4,109	22,128	4,732	5,156	5,504	4,724	20,117
Shares (millions)	3,465	3,303	3,268	3,340	3,268	3,268	3,268	3,268	3,268
Per share (\$)	1.28	2.01	1.26	6.63	1.45	1.58	1.68	1.45	6.16
Ebitda Margin (E&P)	42%	47%	41%	43%	44%	44%	44%	44%	44%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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