

Rating: Buy
 S&P 500: 1506

BP plc

Lower Net Present Value to \$75 a Share

<i>Symbol</i>	BP	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	45,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	4
<i>Price (US\$/sh)</i>	73.88	<i>Natural Gas and Oil Production/Ebitda (%)</i>	76
<i>Pricing Date</i>	10/22/07	<i>Adjusted Reserves/Production NTM</i>	10.0
<i>Shares (mm)</i>	3177	<i>EV/Ebitda</i>	6.4
<i>Market Capitalization (US\$mm)</i>	234,700	<i>PV/Ebitda</i>	6.5
<i>Debt (US\$mm)</i>	54,100	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	288,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	25.60
<i>Present Value (PV) (US\$mm)</i>	292,300	<i>Present Value Proven Reserves(US\$/boe)</i>	12.80
<i>Net Present Value (US\$/share)</i>	75	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.13
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.77
<i>McDep Ratio - EV/PV</i>	0.99	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	3.5	<i>Indicated Annual Dividend (US\$/sh)</i>	2.60

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\$66 a barrel and natural gas, \$11 a million btu.

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

Summary and Recommendation

A positive industry outlook supports our buy rating on **BP plc (BP)** stock despite a lowering of estimated net present value (NPV) to \$75 a share from \$87 a share. On the basis of third quarter results reported today we project lower unlevered cash flow (Ebitda) relative to revenue from oil and gas production. We also project lower downstream results as we use the latest twelve months as the indicator for the next twelve months (see table [Next Twelve Months Operating and Financial Estimates](#)). Lower cash flow translates to lower NPV to keep unlevered cash flow multiple (EV/Ebitda) in line with that for peer companies considering adjusted reserve life (see table [Functional Cash Flow and Present Value](#)). The good news is that NPV has appreciation potential as it is tied to oil at \$66 a barrel compared to the six-year quote of \$77 on a rising trend (see chart [Six-Year Commodity Price Meter](#)). Meanwhile, new Chief Executive Tony Hayward faces many challenges in a large and complex organization recovering from a string of operating difficulties from production in Alaska to refining in Texas. Finally, the stock is returning about 7.5% a year to shareholders counting share repurchase at about 4% a year and cash dividend of 3.5%.

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Please see disclosures on the final page.

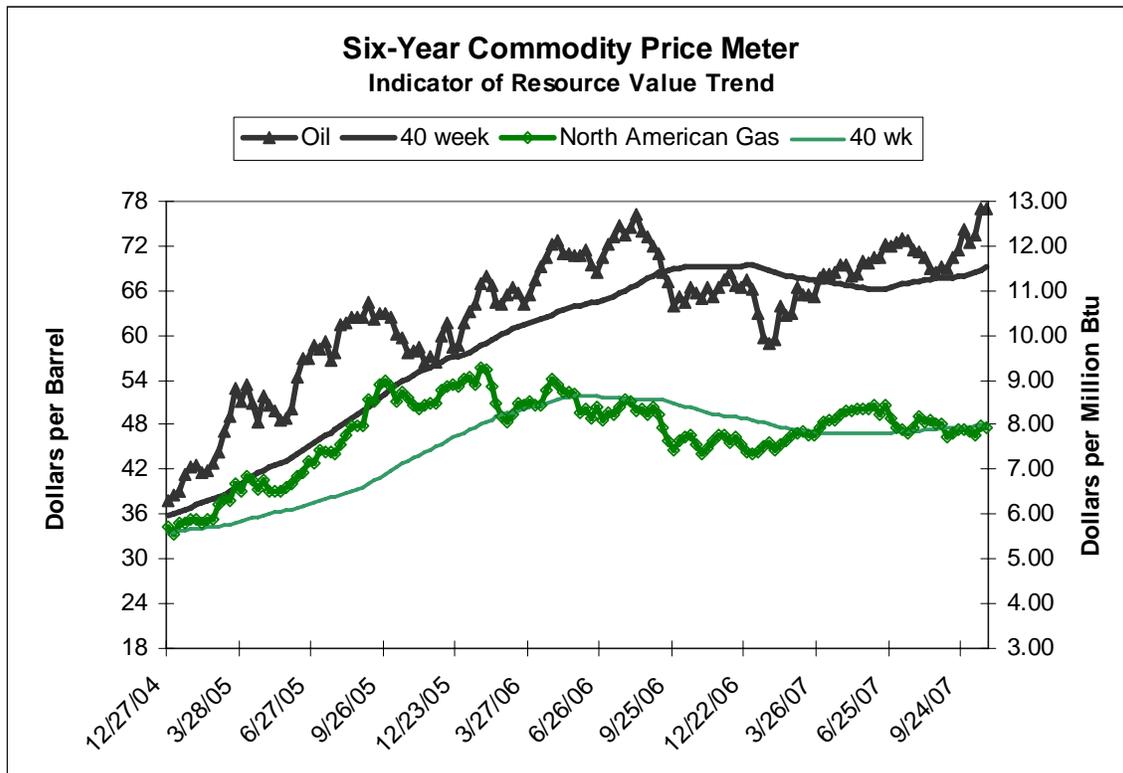
BP plc
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/06</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>9/30/08</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	2,332	2,165	2,186	2,186	2,175	2,186	2,186	2,186	2,186
Overseas (or Int'l)	5,754	5,694	5,693	6,060	5,945	6,339	5,694	5,693	5,962
Total	8,086	7,859	7,879	8,246	8,120	8,525	7,880	7,879	8,154
Oil (mbd)	2,422	2,449	2,292	2,292	2,369	2,292	2,292	2,292	2,292
Total gas & oil (mmb)	347	342	332	337	1,359	338	328	332	1,335
Total gas & oil (mbd)	3,770	3,759	3,605	3,666	3,722	3,713	3,605	3,605	3,647
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.58	7.56	6.16	6.95	6.87	7.87	7.53	7.76	7.53
U.S. (or North America)	5.51	5.94	4.64	5.24	5.39	5.93	5.68	5.85	5.67
Overseas (or Int'l)	4.08	3.88	3.66	4.14	4.07	4.55	3.88	3.66	4.07
Total	4.49	4.45	3.93	4.43	4.42	4.91	4.38	4.26	4.50
Oil (\$/bbl)									
WTI Cushing	70.42	64.91	75.48	86.12	71.15	84.42	82.44	80.91	83.47
Worldwide	64.15	62.48	71.12	81.15	66.84	79.55	77.68	76.24	78.66
Total gas & oil (\$/bbl)	50.85	50.01	53.80	60.70	52.19	60.37	58.96	57.79	59.47
NY Harbor 3-2-1 (\$/bbl)	11.67	24.96	12.64	5.49	13.69	9.38	14.14	14.02	10.76
BP Refining Indicator	8.40	16.66	8.05						
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	1,182	1,170	933	1,053	4,278	1,181	1,129	1,176	4,539
Overseas (or Int'l)	2,158	2,012	1,916	2,311	8,836	2,626	2,012	1,916	8,865
Total	3,340	3,183	2,849	3,364	13,114	3,807	3,142	3,091	13,404
Oil	14,294	13,924	14,997	17,111	57,794	16,591	16,203	16,077	65,982
Other	55,368	57,285	54,993	54,993	214,506	54,993	54,993	54,993	219,970
Total	73,002	74,392	72,838	75,468	285,414	75,391	74,337	74,161	299,357
Expense (\$mm)									
Production	8,900	10,267	10,292	11,608	41,430	11,627	11,100	11,012	45,347
Other	51,288	52,974	53,038	53,157	203,531	52,120	50,681	53,038	208,996
Ebitda (\$mm)									
Exploration and Production	8,734	6,839	7,553	8,804	29,415	8,771	8,318	8,242	34,136
Other	4,080	4,312	1,955	1,836	10,975	2,872	4,312	1,955	10,975
Total Ebitda	12,814	11,151	9,508	10,640	40,390	11,643	12,630	10,197	45,111
Exploration	351	155	244	244	799	244	244	244	976
Deprec., Deplet., & Amort.	2,194	2,535	2,505	2,505	10,064	2,505	2,505	2,505	10,020
Other non cash	(106)								
Ebit	10,375	8,461	6,759	7,891	29,527	8,894	9,881	7,448	34,115
Interest	169	251	262	262	1,039	262	262	262	1,048
Ebt	10,206	8,210	6,497	7,629	28,488	8,632	9,619	7,186	33,067
Income Tax	3,572	2,874	2,274	2,670	9,971	3,021	3,367	2,515	11,573
Net Income (\$mm)									
Exploration and Production	7,469	6,494	6,321		18,110				
Other	2,140	2,199	671		4,134				
Unallocated	(2,975)	(3,356)	(2,769)		(8,686)				
Total	6,634	5,337	4,223	4,959	18,517	5,611	6,252	4,671	21,493
Shares (millions)	3,303	3,198	3,177	3,177	3,195	3,177	3,177	3,177	3,177
Per share (\$)	2.01	1.67	1.33	1.56	5.80	1.77	1.97	1.47	6.77
Ebitda Margin (E&P)	50%	40%	42%	43%	41%	43%	43%	43%	43%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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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	1,950	14.7	13.3	26,000	9%
Rest of World Natural Gas	3,810	9.3	6.6	25,000	9%
Oil	28,380	9.6	6.6	186,000	64%
Downstream	10,970		5.0	55,000	19%
	45,110	10.0	6.5	292,000	100%
Debt (US\$mm)					54,100
Net Present Value (US\$mm)					238,300
Shares (mm)					3,177
Net Present Value - Standard Estimate (US\$/sh)					75
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					71



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