



TUESDAY 23rd OCTOBER 2007

DAILY COMPANY NOTE - BP See page 2 for full details

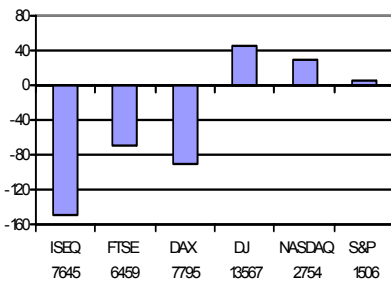
Daily Market Comment

Yesterday's Summary : European stock markets retreated sharply yesterday following concerns from the G7 meeting at the weekend that the rising cost of credit , record oil prices and the US housing slump will dampen economic growth. Equities were also pressured following disappointing results from Dow Components Caterpillar and 3M last week with both companies issuing weak outlooks due to the slowing US economy.

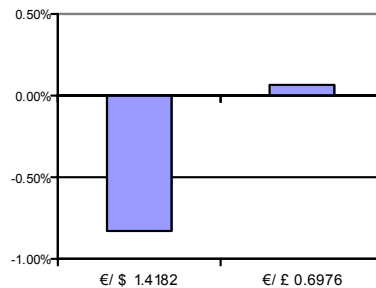
Overnight News : Shares in Apple surged by close to 8% in after hours trading after the group's fourth quarter results and outlook beat analyst expectations. Apple reported net profit that rose by 67% to \$904m on revenue that climbed by 29% to \$6.2bn. On its outlook for its first quarter of 2008, Apple expects to report EPS of \$1.42, which was ahead of the \$1.39 expected.

Breaking News : This morning, BHP Billiton announced that Iron Ore output rose by 7% to a record 25.9m tons in the three month period ending 30/09/07 boosted by strong demand from China. The company also said that demand for Copper, its largest revenue earner increased by 23% to 307,800. Shares in BHP rose by 1% following the release.

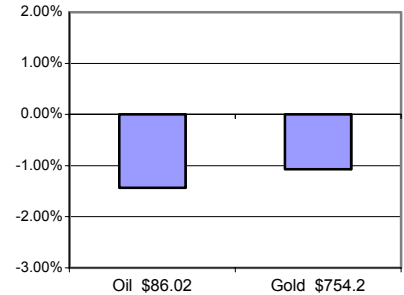
Equity Index's change on day



Currency daily % change



Oil/Gold daily % change



Paper Headlines

"Tullow Oil shares slip by 5.6pc following share drop in crude prices" - **Tullow Oil** - Irish Independent

"Private equity crux as funds see 40pc decline" - **Private Equity** - Irish Independent

"Victory for EU as Microsoft agrees to share secrets" - **Microsoft** - Irish Times

"German 'potential growth' rate rises" - **German Economy** - Irish Times

Market Themes and Movers

Crude oil trades lower as Middle East tension eases : Crude oil continued to trade lower at \$86 a barrel after Turkey signalled negotiations that may help avert military action against Kurdish rebels in northern Iraq. Turkey's Prime Minister, Recep Tayyip Erdogan said yesterday that Turkey will wait for US and Iraqi actions against the Kurdistan Workers' Party before mounting any raid. Crude oil had reached a record high of \$90.07 a barrel on October 19th after the dollar fell against the euro and Turkish lawmakers voted to allow military action against Kurdish rebels.

Fed must guard against bigger housing drop : Federal Reserve Bank of Chicago President, Charles L. Evans, said that policy makers must shield the US economy from 'high cost' events such as a worsening housing slump. Evans commented that he does not see this extreme outcome as been likely, however he pointed out that it is one of those high cost outcomes that the Fed must guard against. Evans also said that he is optimistic about chances for further improvements in inflation.

UK Gaming sector receives a boost : The UK gaming sector received a boost today following press reports that Rank Group may be bought by rivals. The UK's Telegraph reported that Rank Group may be purchased by Ladbrokes or William Hill. Shares in Rank have fallen c. 40% since the group announced on 12/10/07 that profit will miss analyst forecasts as the recently introduced smoking ban has driven gamblers away from its Mecca Bingo and Grosvenor Casinos

Dolmen Squawk Box

- HSBC has raised BT Group's price target to £3.40 from £3.20. The price target is in line with our target and we remain positive on the company ahead of its 2Q results due on November 8th. BT is seen as a good defensive play in current turbulent markets and it also pays an attractive current year dividend yield of 5%.



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BP Plc

Stuart Draper **BUY**

Target **£6.50**
 Current **£6.05**

FTSE 100

Oil & Gas

Company Profile

BP operates through three business segments: Exploration and Production, Refining and Marketing and Gas, Power and Renewables. Exploration and Production activities include oil and natural gas exploration, development and production.

Q3 results: This morning, BP announced its results for the 3 months ended 30/09/07. Underlying replacement cost net profit, which excludes changes in the value of inventories and exceptional items, of \$4.21 bn, was c.2% ahead of the consensus forecast of \$4.13 bn, and was a decrease of 26.7%. Disruptions at the group's Texas City and Whiting US refineries resulted in daily refining throughputs falling by 6.1% to 2.15m barrels. These disruptions were caused by a maintenance program designed to increase safety, which should also help increase the group's US refining margins.

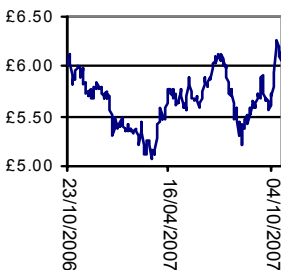
Refining margins : These refining margins continued to fall during Q3 2007, falling by 4.2% during the period to \$8.05 a barrel. The serious supply disruptions in 2005 helped drive margins higher at that stage, and they have been steadily declining since then. The group's global production also fell by 4.3% year on year to 3.65m barrels of oil equivalent per day, largely driven by a two month shutdown at BP's Central Area Transmission System gas pipeline network in the North Sea.

Production growth : However, BP announced that it has started commissioning the Atlantis field in the Gulf of Mexico, which is due to be on stream by year end at 200,000 barrels per day. On 1st October, the group began production at its Greater Plutonio project in Angola, which has a capacity of 240,000 barrels per day. Our view remains that what is not yet fully discounted by the share price is the potential for modest production growth to resume in 2008. BP's new chief executive, Tony Hayward, recently launched a wide-ranging reorganisation to simplify the way the company is run.

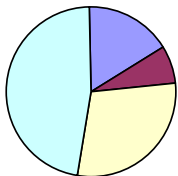
Further upside : Given the extent of its operations and the spread of its geographic risk, it is reasonable that BP should be rated at a 10% premium to the current energy sector average 2008 pe of c.10x. As a result, our current 12 month price target of £6.50 (7% further upside) is based on 11x 2008 eps of 59p. When combined with a current year dividend yield of c.3.5%, this provides sufficient further upside to justify re-iterating our BP BUY recommendation at current levels.

Statistics

Price Performance



Profit by division



- 17%UK
- 7%RoE
- 28%US
- 48%RoW

Major Shareholders	%
Legal & General	4.1
Barclays	3.6
M&G Investment	3.3
Standard Life	1.7

Shares Outstanding	19bn
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Share Data	
Current Price (£)	6.14
Mkt Cap (£m)	117bn
Reuters	BP.L
Bloomberg	BP/ LN
Sector	Oil & Gas
CEO	Tony Hayward
CFO	Byron Grote
Website	www.bp.com

Peer Group Multiples			
Company name	P/E 07	P/E 08	EPS Growth 07-08
BP	11.6	10.4	11.32%
Royal Dutch Shell	10.4	10.9	9.80%
Total SA	10.1	9.9	2.00%

Financial Data	2006	2007e	2008e
Revenue (£m)	132,953	134,941	134,492
PBT (£m)	17,321	15,260	16,300
EPS (£)	0.53	0.53	0.59
P/E(x)	11.6	12.2	11.1
DPS (£)	0.22	0.21	0.23
Yield	3.7%	3.5%	3.7%



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