

Rep. Les Gara

From: Tremaine, Richard (DOR) [richard.tremaine@alaska.gov]
Sent: Wednesday, October 31, 2007 4:21 PM
To: Rep. Les Gara
Cc: Williams, Michael D (DOR)
Subject: Review of estimates of BP and ConocoPhillips profit margins for 2006

Rep. Gara,

You provided estimated profit margins for 2006 ConocoPhillips and BP in the range of 36% to 37%.

I have preliminarily reviewed unaudited PPT filings for these two companies for 2006. I have had to estimate federal and state corporate income tax. My preliminary review suggests that your profit margins underestimate actual profit margins these two companies enjoyed for ANS operations in 2006 after PPT and income tax calculations.

I hope this answers your question.

Dick Tremaine
Economist
Alaska Department of Revenue

*distributed By
Rep Gara*



Alaska State Legislature

Senator Bill Wielechowski

Representative Les Gara

716 W. 4th Avenue, Anchorage, Alaska 99501

October 22, 2007

James Bowles
President of ConocoPhillips Alaska
700 G St.
Anchorage, AK 99501

Doug Suttles
President of BP Exploration (Alaska) Inc.
900 E. Benson Blvd.
Anchorage, AK 99508

Dear Sirs:

We are writing to ask that you confirm your companies' Alaska profit margins which, by our calculations from your 2006 annual reports, seem much higher than your companies earn elsewhere around the world. While your companies are presenting the public with selective information stating that costs in Alaska are high, we have not heard your companies mention to the public that under the current Alaska tax system, your companies are left with higher profit margins in Alaska than almost anywhere else in the world. We would appreciate confirmation that we are not missing any information when looking at your annual reports.

According to Conoco's 2006 Annual Report, that company earned \$2.3 billion in clear Alaska profit on 6.5 billion in total Alaska revenues. That leaves Conoco with a profit margin (profits earned as a percent of total revenue) of roughly 36%. That is the second highest profit margin Conoco reports of any other region where it does business around the world, and is a far higher margin than Conoco earns on average worldwide. According to Conoco's 2006 report, it's world profit margins are as follows:

<i>Region</i>	<i>Profit Margin</i>
Alaska	36%
Middle East/Africa	7%
Russia	Negative
Europe	22%
Lower 48	27%

Canada	30%
Pacific/Asia	42% (but \$1.5 billion in profit compared to \$2.3 billion in Alaska)
Worldwide Average	28%

According to BP's 2006 Annual Report, it earned \$2.2 billion in profits on \$6 billion in revenue in Alaska in 2006. That is more than triple the profit margin BP earns worldwide. While BP does not appear to report its profits in other areas by region, its Annual Report shows a roughly 36.5% profit margin in Alaska. According to BP's 2006 Annual Report, worldwide BP earned less than a 10% profit margin (\$22 billion in profit on \$274 billion in revenue).

In April, 2007, both companies completed their 2006 tax payments, and it is not clear whether those final payments are reflected in your 2006 annual reports, and we ask that you confirm whether or not that is the case.

Assuming the 2007 payments need to be subtracted from your companies' 2006 profit numbers, those numbers change very little. In April all Alaska oil producers paid, in total, supplemental "true up" tax payments of roughly \$1 billion. Companies only pay 65% of this amount (\$677 million), since 35% of this amount gets deducted from your Federal tax payments. Roughly 42% of Alaska's North Slope oil is produced by Conoco, and 35% by BP. The Department of Revenue will be asked to confirm these numbers, but our best estimate is that Conoco's profit would be reduced by \$285 million (42% of \$677 million), and that BP's profit would be reduced by \$237 million (35% of \$677 million).

Using these estimates, even assuming the true up payments were not reflected in your companies' 2006 profit reports, those profit numbers would be adjusted as follows: Conoco's profit margins and profits would be reduced from 36% to 31.4%, and \$2.3 billion to \$2.05 billion respectively. That would still leave Alaska as Conoco's second highest profit margin region in the world. BP's margins and profits would be reduced from 36.5% to 32.6%, and \$2.2 billion to \$1.96 billion respectively.

We would appreciate it if you would advise us whether your companies' 2006 annual reports reflected the 2006 true up payments made in 2007, and, if not, how much your companies paid in 2006 taxes, after the 35% federal tax deduction your receive.

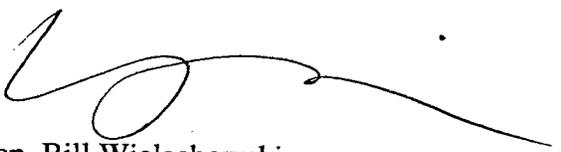
As we proceed with discussions on an appropriate oil tax, the public is entitled to know the profits your companies are making from holdings on the highly profitable Prudhoe Bay, Kuparuk and Alpine fields (Conoco has shares in all three).

Thank you.

Sincerely,



Rep. Les Gara



Sen. Bill Wielechowski

ConocoPhillips 2006 Alaska Profits

• Results of Operations

Year Ended December 31	Millions of Dollars										Equity Affiliates	
	Consolidated Operations											
	Alaska	Lower 48	Total U.S.	Canada	Europe	Asia Pacific	Middle East and Africa	Russia and Caspian	Other Areas	Total		
2006												
Sales												
Transfers	\$ 6,304	3,408	9,712	2,951	5,950	3,755	1,965	—	140	24,473	5,161	
Other revenues	210	4,023	4,233	—	2,954	9	542	—	—	7,738	2,821	
	2	56	58	145	14	(8)	127	—	4	340	108	
Total revenues	6,516	7,487	14,003	3,096	8,918	3,756	2,634	—	144	32,551	8,090	
Production costs excluding taxes	708	893	1,601	706	814	324	215	—	27	3,687	739	
Taxes other than income taxes	914	554	1,468	52	37	91	10	1	30	1,689	3,444	
Exploration expenses	105	222	327	246	73	121	44	32	17	860	46	
Depreciation, depletion and amortization	460	2,272	2,732	1,155	1,200	512	220	1	21	5,841	461	
Property impairments	—	15	15	131	—	10	—	—	19	175	—	
Transportation costs	610	555	1,165	104	316	89	18	—	10	1,702	420	
Other related expenses	11	44	55	15	87	18	38	43	28	284	52	
Accretion	34	36	70	39	97	8	2	—	—	216	6	
Provision for income taxes	3,674	2,896	6,570	648	6,294	2,583	2,087	(77)	(8)	18,097	2,922	
Results of operations for producing activities	1,409	1,064	2,473	(193)	4,578	1,061	1,931	(13)	(7)	9,830	891	
Other earnings	2,265	1,832	4,097	841	1,716	1,522	156	(64)	(1)	8,267	2,031	
Net income (loss)	68	183	251	191	335	62	32	(4)	(25)	842	133	
Results of operations for producing activities of equity affiliates	\$ 2,333	2,015	4,348	1,032	2,051	1,584	188	(68)	(26)	9,109	2,164	
	\$ —	—	—	—	—	—	(6)	1,229	808	—	2,031	

BP (Alaska) Inc. 2006 Profits

Income statement	\$ million				
For the year ended 31 December	2006				
	Issuer	Guarantor	Other subsidiaries	Eliminations and reclassifications	BP group
	BP Exploration (Alaska) Inc.	BP p.l.c.			
Sales and other operating revenues	4,812	-	265,906	(4,812)	265,906
Earnings from jointly controlled entities - after interest and tax	-	-	3,553	-	3,553
Earnings from associates - after interest and tax	-	-	442	-	442
Equity-accounted income of subsidiaries - after interest and tax	570	23,119	-	(23,689)	-
Interest and other revenues	627	187	881	(994)	701
Total revenues	6,009	23,306	270,782	(29,495)	270,602
Gains on sale of businesses and fixed assets	-	105	3,714	(105)	3,714
Total revenues and other income	6,009	23,411	274,496	(29,600)	274,316

Purchases	566	-	191,429	(4,812)	187,183
Production and manufacturing expenses	814	-	22,479	-	23,293
Production and similar taxes	665	-	2,956	-	3,621
Depreciation, depletion and amortization	374	-	8,754	-	9,128
Impairment and losses on sale of businesses and fixed assets	109	-	440	-	549
Exploration expense	14	-	1,031	-	1,045
Distribution and administration expenses	20	278	14,264	(115)	14,447
Fair value (gain) loss on embedded derivatives	-	-	(608)	-	(608)
Profit before interest and taxation from continuing operations	3,447	23,133	33,751	(24,673)	35,658
Finance costs	-	702	895	(879)	718
Other finance expense (income)	11	(675)	462	-	(202)
Profit before taxation from continuing operations	3,436	23,106	32,394	(23,794)	35,142
Taxation	1,243	686	10,587	-	12,516
Profit from continuing operations	2,193	22,420	21,807	(23,794)	22,626

operations					
Profit (loss) from Innovene operations	-	-	(25)	-	(25)
Profit for the year	2,193	22,420	21,782	(23,794)	22,601
Attributable to					
BP					
shareholders	2,193	22,420	21,496	(23,794)	22,315
Minority interest	-	-	286	-	286
	2,193	22,420	21,782	(23,794)	22,601

The following is a summary of the adjustments to the profit for the year attributable to BP shareholders which would be required if US GAAP had been applied instead of IFRS.

	Issuer	Guarantor	Other subsidiaries	Eliminations and reclassifications	BP group
Profit as reported	2,193	22,420	21,496	(23,794)	22,315

Source: Figures from BP-PLC SEC Filings for 2006; pg.185
Available at: <http://www.sec.gov/Archives/edgar/data/313807/000115697307000346/b848881-20f.htm>