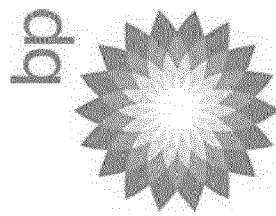


Considerations Around Optimal Credit Rating

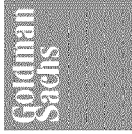
Should BP Target a “AA” Rating?



18-Feb-2013

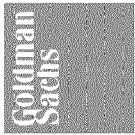
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Worldwide
Court Reporters, Inc.



Introduction and Background







































- As part of the recent broader dialogue with BP on the subject of capital structure, this pack analyses the specific question of “**should BP target a ‘AA’ credit rating?**”
- We have evaluated the question from three perspectives:
 - Financial merits
 - Operational merits
 - Strategic merits
- We have examined how the equity market views credit ratings and funding capacity
- We have also looked at a dynamic WACC analysis which evaluates optimal capital structure and credit rating over the business cycle
- Finally, we have illustratively shown from a quantitative perspective the credit metrics and net debt level required to upgrade BP from its current A2/A to AA rating



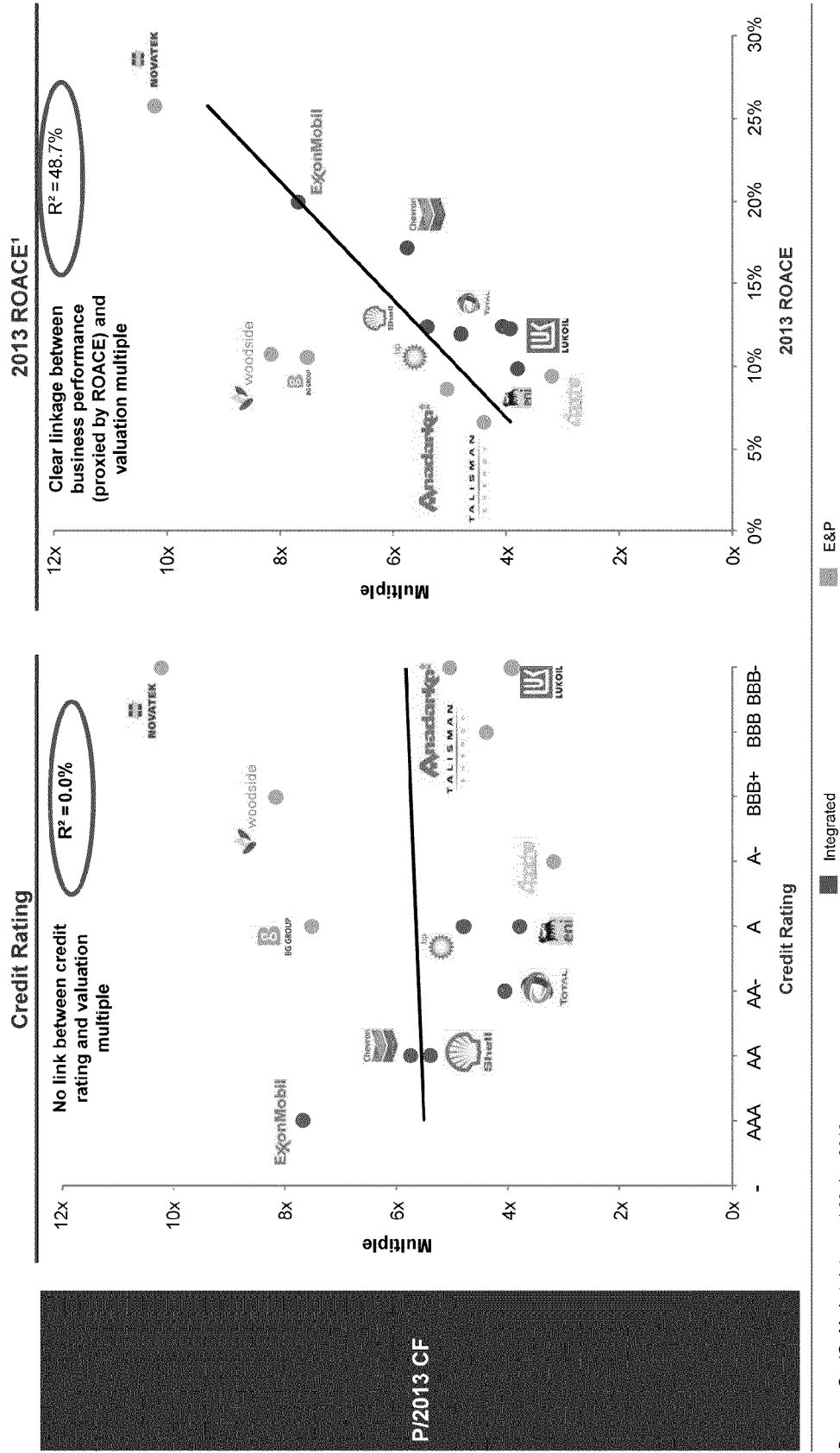
I. How does the Equity Market Perceive Credit Ratings

dit Rating In Context of Its Peer Group

reet position benchmarks favourably relative to the broader peer universe. Equity markets view outstanding Macondo liabilities to be a valuation issue rather than one or has generally maintained an underleveraged balance sheet to protect against “black swan” events
nonstrates, financial metrics alone are insufficient to justify an upgrade given its peer-leading quantitative profile – once a company is downgraded it is often challenging

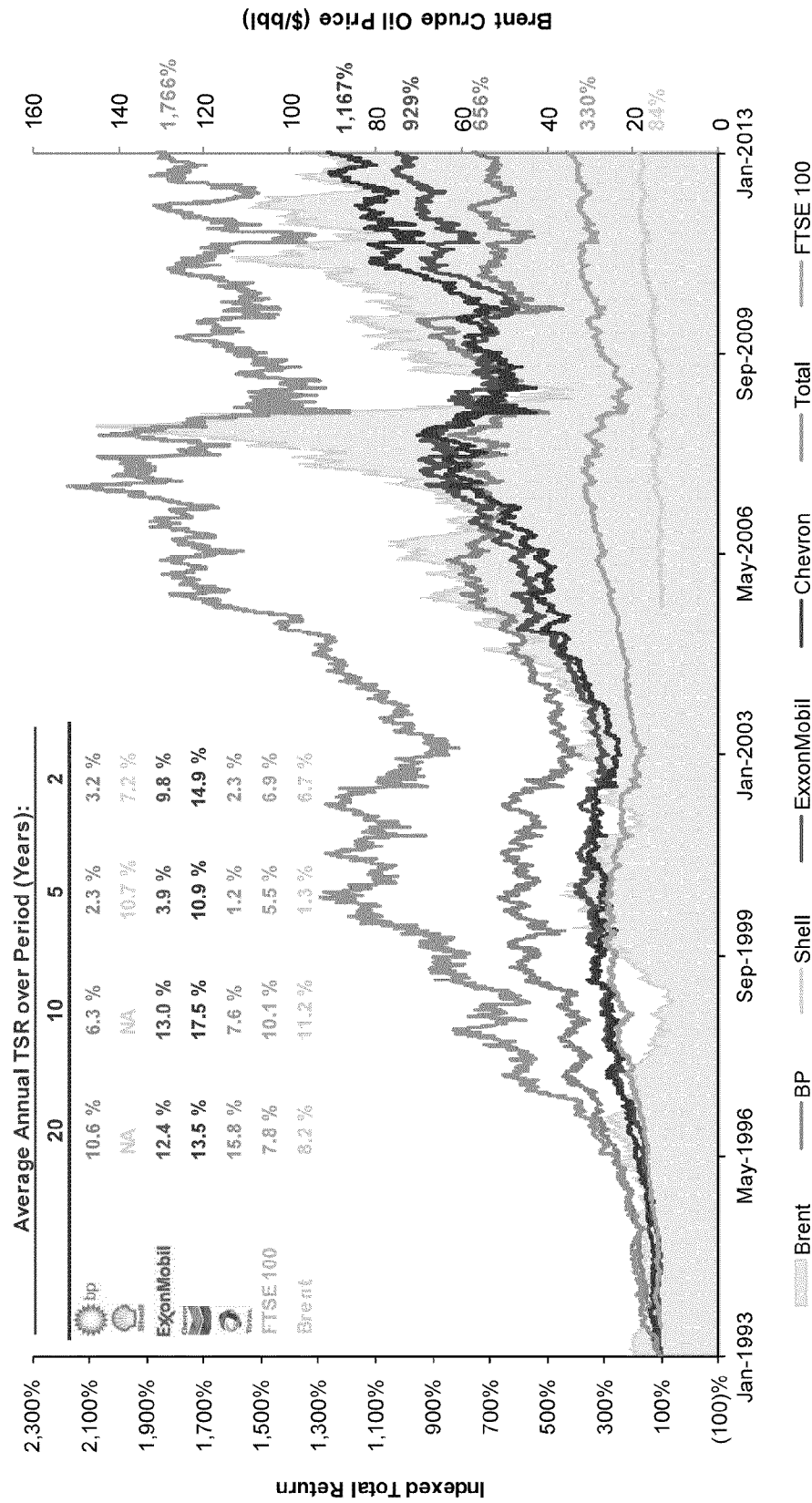
Company	Business Model	Scale			S&P Credit Metrics¹			Moody's Credit	
		2011 EBITDA (\$bn)	Market Cap. (\$bn)	Proven Reserves (bnboe)	FFO/Debt	Debt/EBITDA	FFO/ND	RCF/ND	
 ExxonMobil		\$69.7	\$418.4	24.9	120.8%	0.6x	124.0%	104.8%	
		\$55.9	\$234.6	14.3	70.7%	1.1x	78.7%	65.3%	
		\$51.2	\$229.4	11.2	132.5%	0.6x	605.3%	511.4%	
		\$41.7	\$122.1	11.4	68.1%	0.9x	77.6%	57.7%	
		\$39.5	\$83.8	5.4	73.0%	0.7x	NA	53.0%	
		\$19.0	\$92.6	3.2	152.4%	0.5x	386.8%	302.6%	
		\$26.8	\$98.9	4.0	39.5%	1.9x	56.8%	48.6%	
		\$43.7	\$143.1	17.7	36.0%	2.6x	52.2%	45.7%	
		\$34.8	\$94.6	7.1	43.2%	1.5x	43.4%	32.2%	
		\$10.1	\$61.6	3.2	40.9%	1.6x	51.3%	45.6%	
		\$12.6	\$33.4	3.0	94.8%	0.8x	136.1%	132.0%	
		\$2.9	\$30.9	1.3	37.1%	1.9x	37.3%	27.4%	
		\$60.0	\$111.1	123.4	122.3%	0.7x	103.8%	97.9%	
		\$4.7	\$12.2	1.5	39.6%	1.5x	62.2%	56.8%	
		\$33.1	\$126.2	12.9	29.8%	3.0x	43.8%	36.4%	
		\$8.1	\$40.3	2.5	18.8%	2.0x	51.0%	49.1%	
		\$15.1	\$130.3	1.9	81.4%	1.0x	NA	542.5%	
		\$16.5	57.0	17.3	177.0%	0.5x	222.4%	198.1%	
		\$2.8	34.4	9.4	74.8%	1.1x	83.4%	66.4%	

Equity markets focus on underlying business performance in assessing relative valuation multiples – growth, asset quality and execution competence. Credit quality not seen as a key factor in this determination. Greater focus on capital “unemployed”



Source: CapIQ, Market data as at 29-Jan-2013
¹ Sourced from GS Research.

Limited evidence that equity investors received long-term TSR outperformance for greater exposure to “riskier” credits. Other factors have led to shareholder value creation (or destruction)



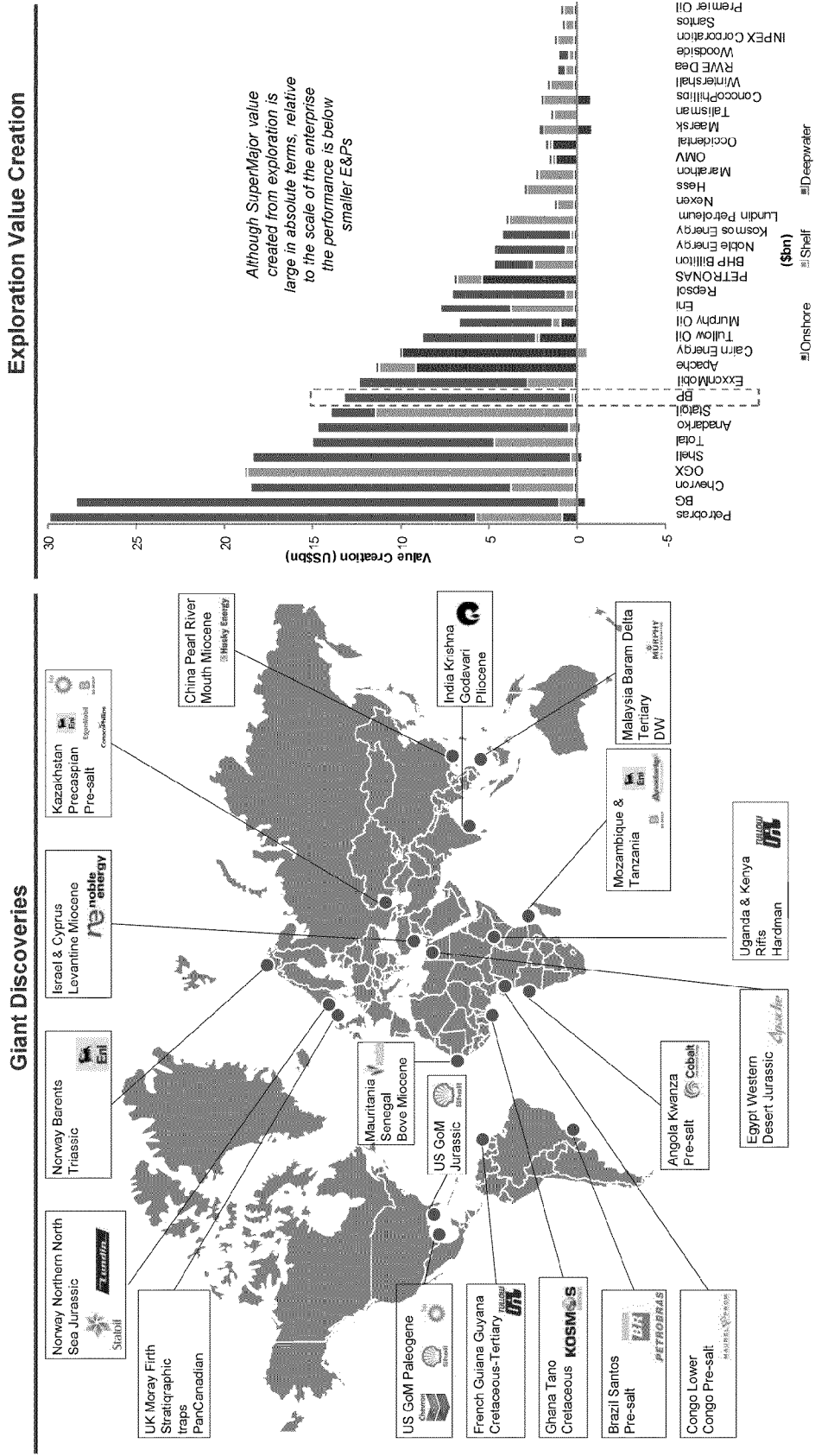
Source: Bloomberg as at 29-Jan-2013
Note: Shell TSR calculated from 15 July 2005 post the finalisation of its restructuring program.

1 How does the Equity Market Perceive Credit Ratings

E&P Access – Linkages Between Exploration Success and Credit Ratings

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In the prior decade DRO was a key component of opportunity – XOM, RDS, TOT and COP all secured access despite spread across credit rating spectrum. The industry has shifted to an exploration phase...



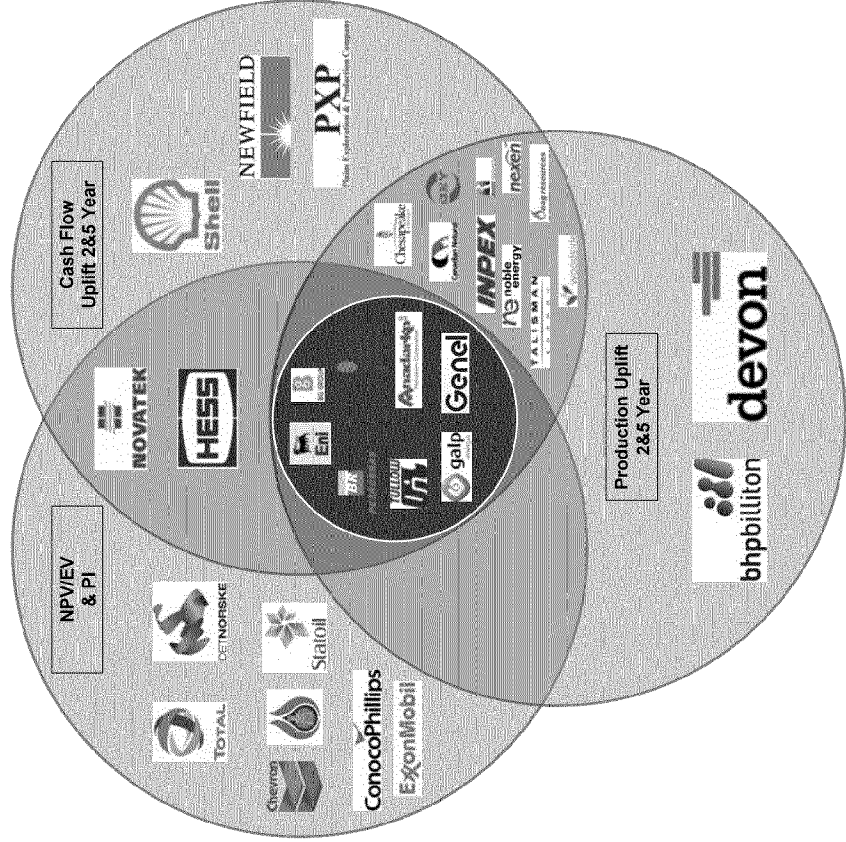
...no evidence of linkages between stronger credit ratings and superior exploration performance – other factors drive value creation

1 How does the Equity Market Perceive Credit Ratings

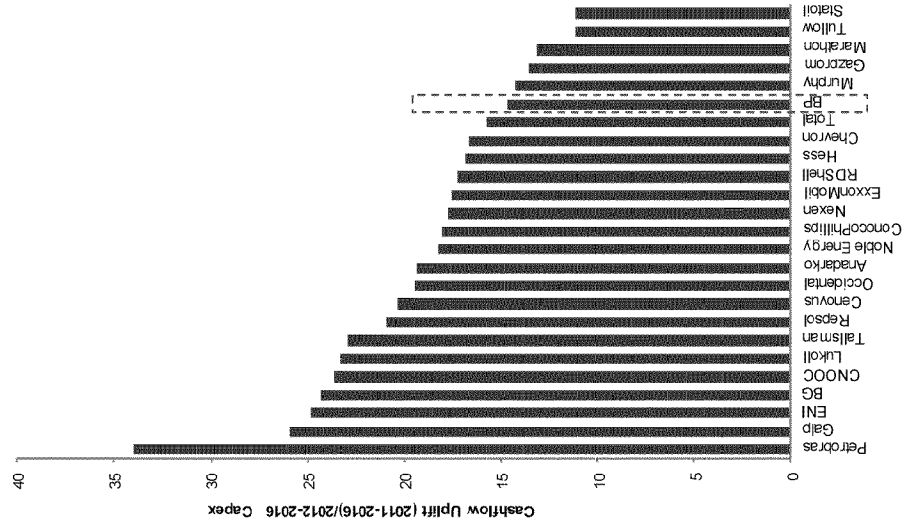
Linkages Between Pre-Eminent Global Upstream Projects and Credit Rating

- Optimal positioning in the Top 360 not linked to credit rating – none of the SuperMajors are positioned in the “sweet spot”
- Ultimately equity investors are buying energy companies for growth options (either volumes or commodity prices) and execution performance – credit quality only relevant to the extent it compromises underlying business performance

Top 360 Winners



Profitability Ranking



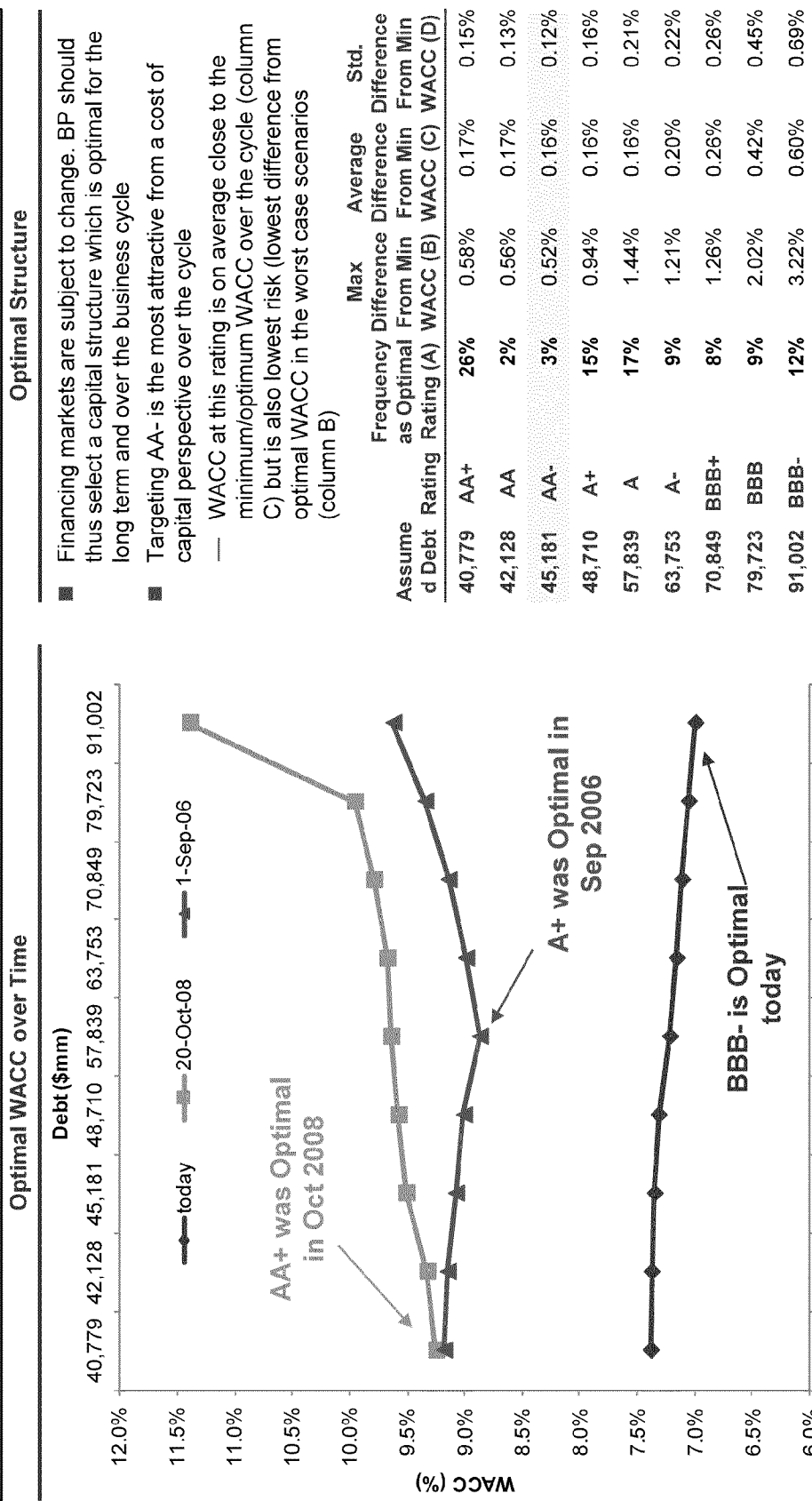


II. Would BP Benefit From a Higher Credit Rating?

2 Would BP Benefit From a Higher Credit Rating?

Dynamic WACC Analysis – Consider WACC Volatility to Select Optimal Capital Structure over Time

AA- is optimal through the cycle from a cost of capital perspective where WACC is least volatile and lowest risk
BBB- may be optimal in the current low rate and high commodity prices scenario but yet risky when market conditions reverse



Note: We estimate a company's WACC at each rating/leverage level for each month over the past 10 years based on historical changes in spreads for each rating and treasury rates. We keep the amount of debt constant and change the assumed EBITDA in the past according to the then oil price. We similarly use the costs of debt to calculate a long term coupon, and use those to calculate the FFO at the time. The rating of BP is assumed to change as the FFO / Debt changes over the same period.

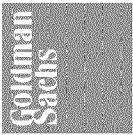
2 Would BP Benefit From a Higher Credit Rating?

AA Credit Rating Impact on BP – Evaluating the Question Through Financial, Operational and Strategic Lenses

In concept a stronger credit rating may offer BP financial, operational and strategic advantages. However, in reality the benefits are less clear cut and indeed come at a certain cost

Impact of AA vs. Status Quo			On Balance	
	Pros	Cons		
① Financial	✓ Lower funding costs - 35bps lower for AA vs. single A ¹	✗ More restrictive financial policies	▲	The pros in the current market environment are marginal; necessary to weigh against loss of financial flexibility
	✓ Pool of capital – market capacity - 5% higher for AA vs. single A ¹			
② Operational	✓ Broadly neutral to very marginal positive impact given BP is already under leveraged vs. peer group	✗ Marginally restricted ability to payout dividend given the stringent target metrics from rating agencies	▲	Equity investors focussed on maintaining an investment grade rating – concerns only arise in “stretched” circumstances (e.g., Repsol / YPF, BG, BP / Macondo)
	✓ Increased negotiating strength with host governments/NOCs	✗ Questionable relevance - limited differentiation by host govt. between AA and A for most access opportunities. Driven by skillset and commitment to invest / drive activity	▲	Limited empirical evidence of access restrictions due to credit rating – Independent E&Ps have been the most successful explorers in recent years
③ Strategic	✓ Leverage perceived AA strength to enter into long-term contracts	✗ No material negative impact on relationship with business counterparties	▲	Limited empirical evidence of disadvantages from current credit rating
	✓ Potentially greater position in negotiating private deals	✗ Restricted ability to execute debt-funded M&A	▲	Pro argument likely to be imperceptible vs. status quo. Somewhat moot for BP given appetite for large-scale M&A
	✗ No material upside gain in terms of asset disposals	✗ Restricted ability to sell mature, cash-generative assets	▲	Con requires meaningful consideration for BP in light of plan to sell \$2-3bn of assets per annum
	✓ Status quo position: already integrated across the value chain	✗ Downstream scale relative to agency guidance (i.e., underweight vs. AA)	▲	Limits ability to significantly reduce downstream exposure

¹ Difference in yields and issuance volume per issuer between 2002 and 2012
Source: iBoxx Indices / Dealogic



III. The Path to AA Credit Rating from A2/A

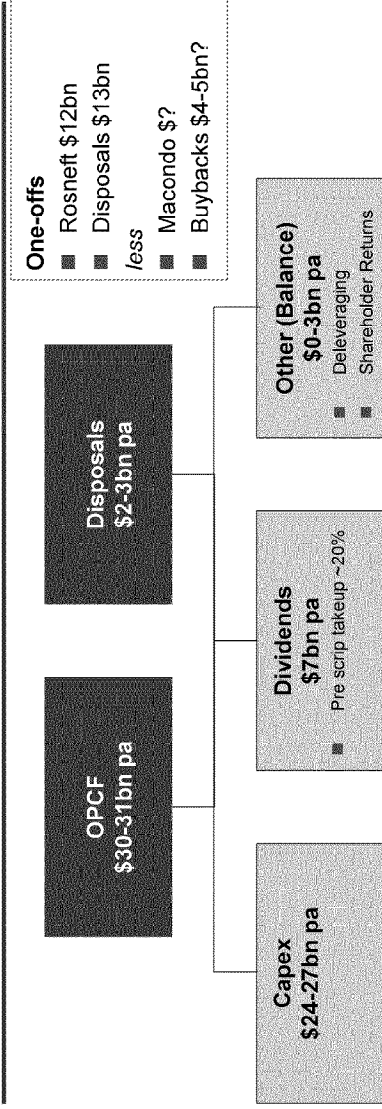
3 The Path to AA Credit Rating from A2/A

Implications for BP and Sector Backdrop

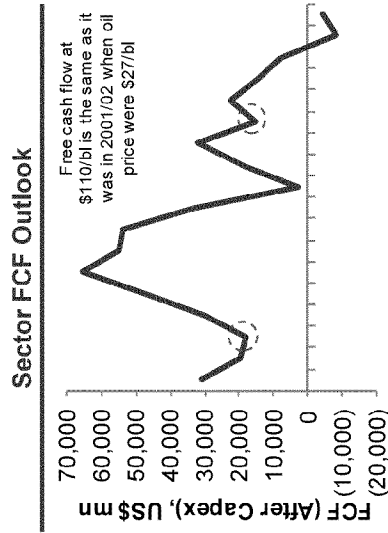
AA rating implies that BP's unadjusted net debt should be approximately zero vs. \$27.5bn currently. Challenging to achieve given BP's stated FCF outlook

S&P Guidance		BP Implied Position	
Company	Rating	FFO/Net Debt Target	
ExxonMobil	AAA	75-100%	■ GS estimated 2014 adjusted FFO= \$30.4bn
Shell	AA	70-75%	— Includes post-tax \$2.6bn Macondo payment
Chevron	AA	70%	— Assumes incremental liabilities beyond DoJ/SEC settlement
TOTAL	AA-	>60%	■ @75% FFO/ND (per S&P AA guidance) implied adjusted net debt ¹ = \$40.5bn
Staroil	A+	c.60%	— Close to zero net debt on an unadjusted basis (based on \$39bn 2011 adjustments)
Eni	A	>55%	— Implies net gearing ² of 1.2% and compares with YE 2012 net debt of \$27.5bn
ConocoPhillips	A	>50%	
	A	>45%	

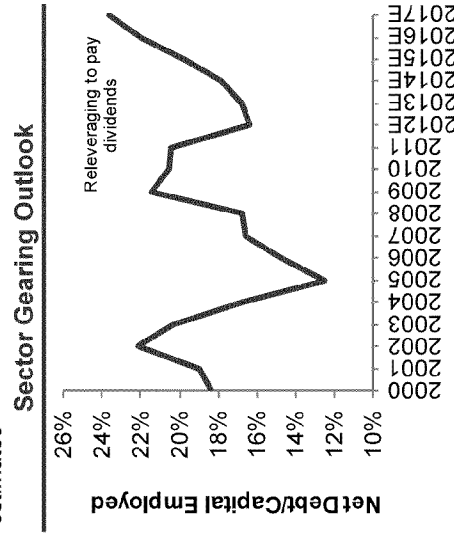
BP's Free Cash Flow Picture



Sector is moving in the opposite direction: negative FCF, releveraging to pay dividends

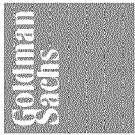


Source: Company data, Goldman Sachs Research estimates



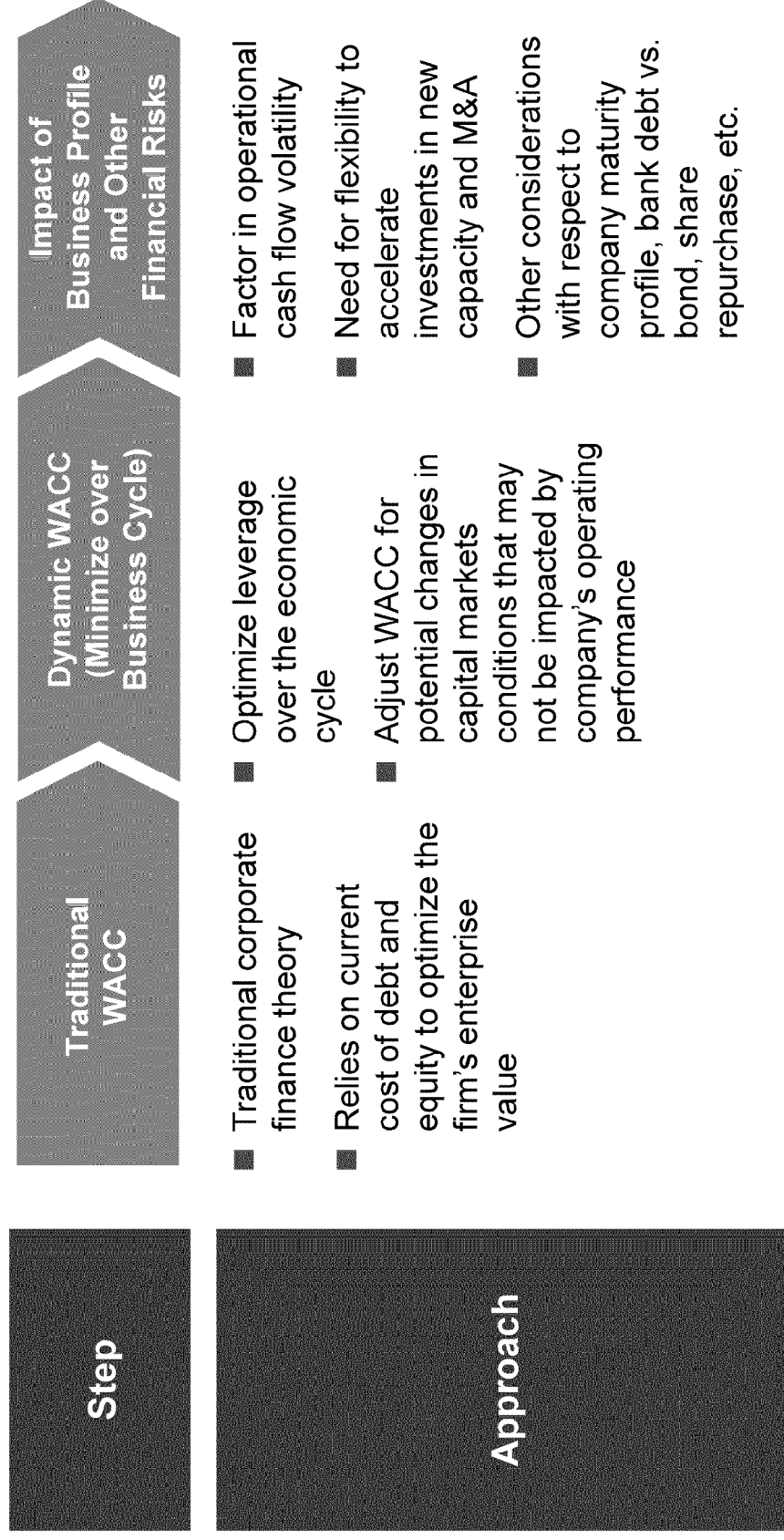
Source: Company data, Goldman Sachs Research estimates; Datastream

¹ Total adjustments per 2011 AR= \$39bn (operating leases, pensions, operating cash requirement, cash guarantees and ARO)
² Total equity at Q4 2012 at \$119.6bn (includes minority interests).



Appendix A: Rationale for Dynamic WACC Analysis

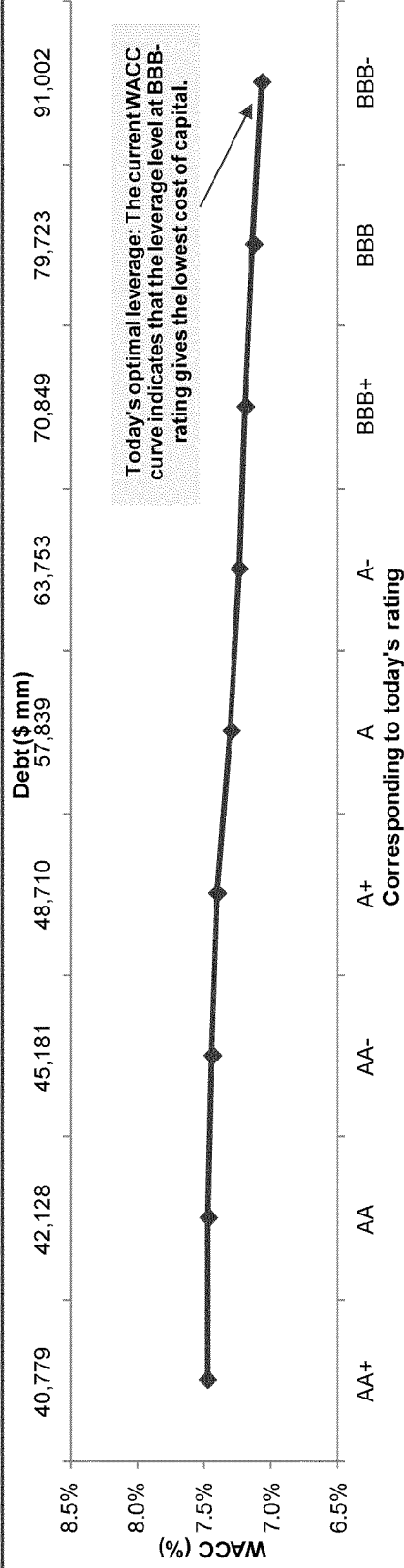
Optimizing the Capital Structure: An Integrated Cost-of-Capital Approach



Dynamic WACC Analysis

Traditional Approach: Minimize Current Weighted Average Cost of Capital

BP's Optimal WACC Today

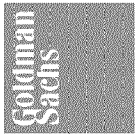


Pro Forma Capital Structure

	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
Assumed FFO / Adj Net Debt	72.5%	70.0%	65.0%	60.0%	50.0%	45.0%	40.0%	35.0%	30.0%
PF Total Debt (\$mm)	40,779	42,128	45,181	48,710	57,839	63,753	70,849	79,723	91,002
PF Market Cap (\$mm)	170,416	169,067	166,014	162,485	153,356	147,442	140,346	131,472	120,193
Debt Capacity vs. LTM (\$mm)	(29,162)	(27,813)	(24,760)	(21,231)	(12,102)	(6,188)	908	9,782	21,061
WACC Calculation:									
Cost of Debt	2.42%	2.52%	2.62%	2.72%	2.82%	2.92%	3.12%	3.32%	3.57%
Leveraged Beta	0.92	0.93	0.94	0.95	0.99	1.02	1.06	1.11	1.19
Cost of Equity	8.84%	8.87%	8.95%	9.04%	9.31%	9.50%	9.74%	10.09%	10.61%
WACC	7.48%	7.47%	7.44%	7.41%	7.30%	7.24%	7.19%	7.13%	7.07%

Represents breakpoints "through the cycle" and does not necessarily reflect the way ratings agencies view BP today

Note: Assumptions from previous analysis and discussions with BP: Pro forma adjusted FFO of \$30,115mm (LTM), adjusted net debt of \$53,900mm, permanent cash of \$1,500mm (assumes excess cash is kept as reserve). Current levered beta taken to be the Bloomberg 10y beta vs. SPX. Marginal tax rate assumed to be 35%. Equity risk premium assumed to be 6.62%. Currently rated A

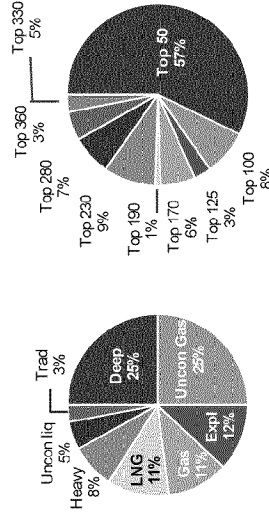


Appendix B: BP Top 360 Profile

BP's Top 360 Profile



Reserve Analysis			Balanced Exposure	28.6% IRR	P/I 1.80x
Reserve Analysis			Reserve Analysis by Devt Status and Win Zone		
Top 360 reverses mmbae (as % 2010)	19,255	159%	NPV Analysis		
Top 360 split oil/gas (%)	51%	49%	NPV Analysis		
Top 360 split licence/PSC (%)	47%	53%	NPV Analysis		
% of projects operated/non-operated	42%	58%	NPV Analysis		
Capex Analysis			NPV Analysis		
Upstream/Infrastructure (%)	52%	8%	NPV Analysis		



Summary of 20 Largest Fields and Entire Top 360 Portfolio Analysis (Net Company Share)

Field	Country	State	Operator	Sanction (Year)	Start (Year)	Reserves (bn boe)	Capex (US\$ bn)	Peak Prod		Win zone	P/I	IRR	NPV ₂₀₁₂ (US\$ mn)	Duration (Years)		
								(Kb/d)	(% 2011)						(Year)	
Khazzan & Makarem	Oman	100%	BP	NA	2016	2.50	18.71	204	(6%)	2027	Unconventional Gas	1.39x	29.2%	1482	0.59	40
ACG	Azerbaijan	36%	BP	1996	1997	1.96	12.44	298	(12%)	2017	Exploitation	2.04x	37.35%	10,100	7.85	28
Tangguluh	Indonesia	37%	BP	2005	2009	1.18	7.31	86	(4%)	2019	LNG	1.75x	19.1%	7026	8.11	43
Warmsuiter	US	100%	BP	NA	2007	1.04	8.37	170	(7%)	2030	Unconventional Gas	0.88x	7.6%	843	0.82	44
Sunrise	Canada	50%	Husky Energy	2010	2014	1.01	13.14	90	(4%)	2021	Heavy Oil	1.39x	17.2%	1873	1.85	35
Thunder Horse	US	75%	BP	2001	2008	0.76	7.55	178	(7%)	2009	Deepwater	2.58x	25.3%	17,906	24.93	25
Shah Deniz	Azerbaijan	26%	BP	2003	2006	0.72	6.43	126	(5%)	2020	Gas	1.62x	22.9%	2785	4.23	25
D6	India	30%	Reliance	2004	2006	0.42	2.38	96	(4%)	2010	Gas	1.62x	24.0%	2003	6.03	26
Brower LNG	Australia	18%	Woodside	2014	2018	0.55	7.58	55	(2%)	2024	LNG	1.30x	13.4%	1071	1.94	31
Med Dog	US	61%	BP	2001	2005	0.54	6.52	136	(5%)	2017	Deepwater	2.72x	31.4%	9709	17.36	33
West Nile Delta Domestic	Egypt	70%	BP	2013	2017	0.46	3.93	76	(3%)	2020	Gas	1.19x	14.2%	348	0.75	26
Rumaila Expansion	Iraq	51%	BP	2010	2010	0.44	22.02	1,274	(52%)	2030	Exploitation	1.12x	41.8%	1366	0.27	21
Kaskida	US	100%	BP	2015	2019	0.42	9.99	137	(6%)	2020	Deepwater	1.58x	20.1%	3125	6.06	23
Atlantics	US	56%	BP	2003	2007	0.40	3.11	91	(4%)	2016	Deepwater	2.95x	27.0%	9086	22.95	25
In Salah	Algeria	33%	BP/Statoil	2001	2004	0.40	1.71	44	(2%)	2012	Gas	1.54x	28.7%	657	2.27	31
Eagle Ford Wet Gas	US	75	Aggregated Ownership	NA	2009	0.39	5.97	79	(3%)	2018	Unconventional Liquids	1.38x	27.8%	1688	4.34	41
Greater Plutonio	Angola	50%	BP	2004	2007	0.37	2.04	100	(4%)	2010	Deepwater	2.46x	41.5%	1749	7.17	18
Fayetteville Shale	US	5%	Aggregated Ownership	NA	2004	0.34	3.44	47	(2%)	2026	Unconventional Gas	1.01x	10.3%	272	0.85	58
Tiber	US	62%	BP	2016	2020	0.32	7.18	105	(4%)	2021	Deepwater	1.72x	22.8%	2481	6.67	21
Pike	Canada	50%	Davon Energy	2014	2017	0.30	3.25	35	(1%)	2023	Heavy Oil	1.52x	18.0%	654	2.18	29
Average (Portfolio)	34%	No of Projects (OP)	65	(27)	0.33	3.53	78	(3%)				1.80x	28.6%	1873	4.97	31
T360 Average	29%				1.66	12.94	247					1.71x	23.1%	7729	4.95	35

Source: Company data, Goldman Sachs Research estimates

BP's Top 360 Profile

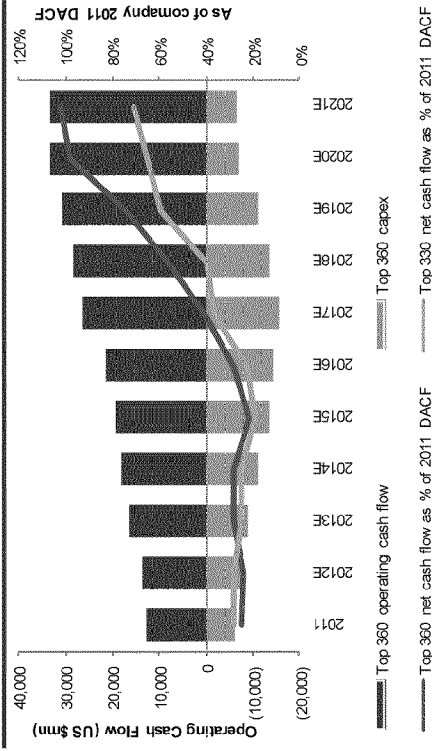


T360 Reserves 19.3 Bnboe

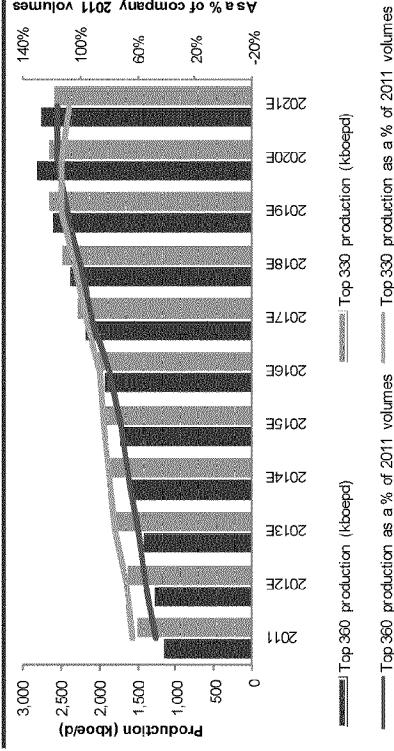
NPV₂₀₁₂ 63% EV

Duration 31 Years

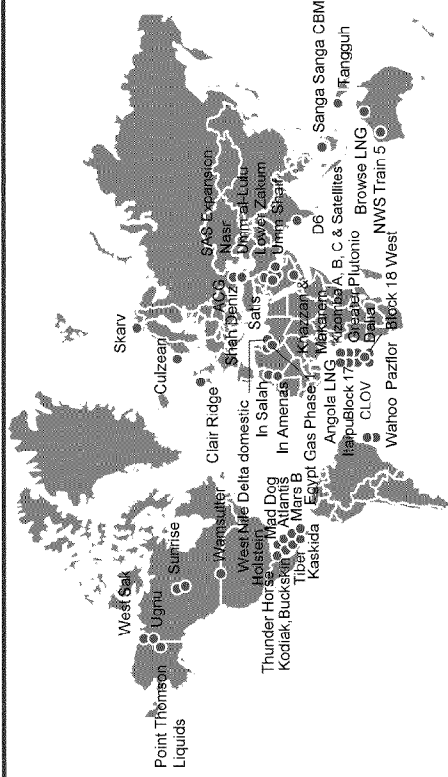
Net Cash Flow Profile



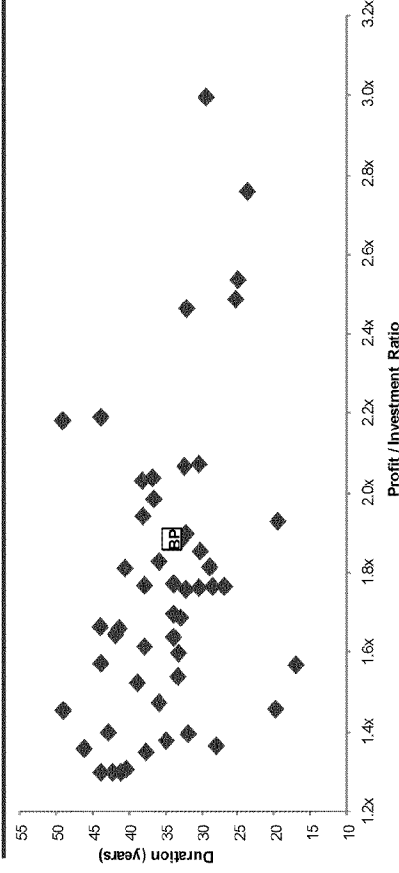
Production Profile



Map of the Projects



Duration vs. P/I Ratio



Source: Company data, Goldman Sachs Research estimates



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