MOODY'S ANALYTICS

EDF™ CASE STUDY

BP p.l.c.

Moody's Capital Markets Research, Inc.

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About

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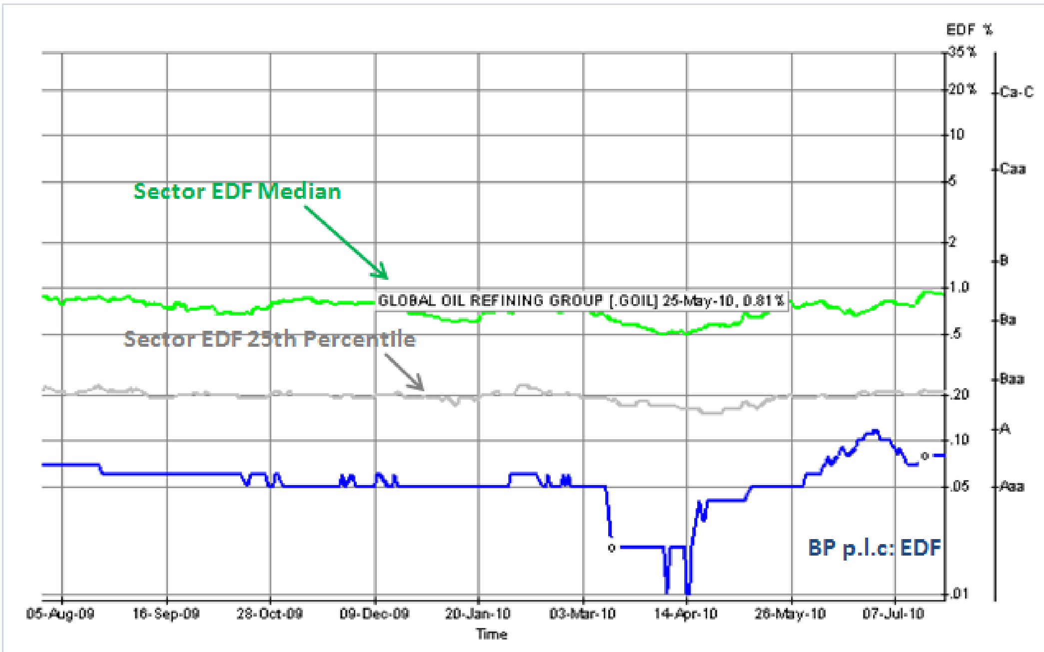
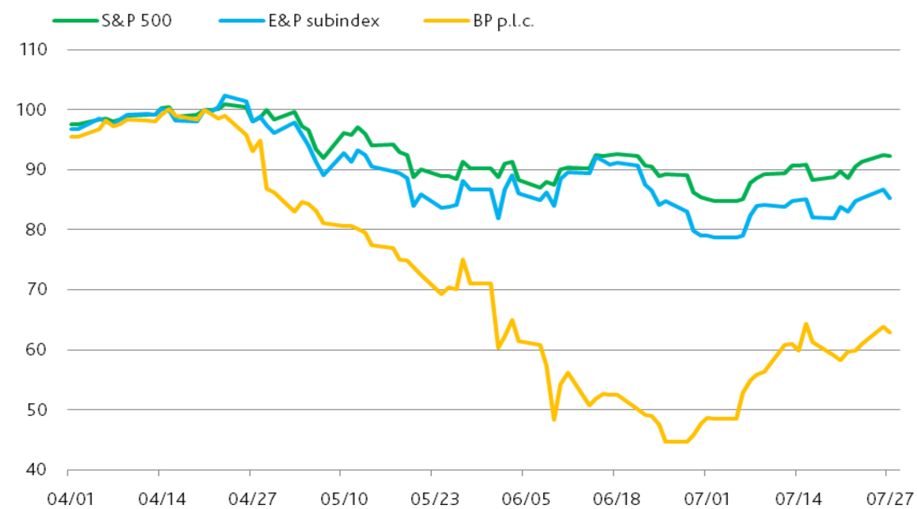
Prior to the April 20 drilling rig explosion that caused the oil spill in the Gulf of Mexico, BP p.l.c. was among the safest companies in a global peer group of 155 oil companies, with a one-year EDF™ credit metric of 1 bp.

1-year EDF of BP p.l.c. and Global Refining Group



In the two months since the accident, however, BP's stock price dropped by as much as 55 percent.

Equity prices (indexed at 4/20 = 100)



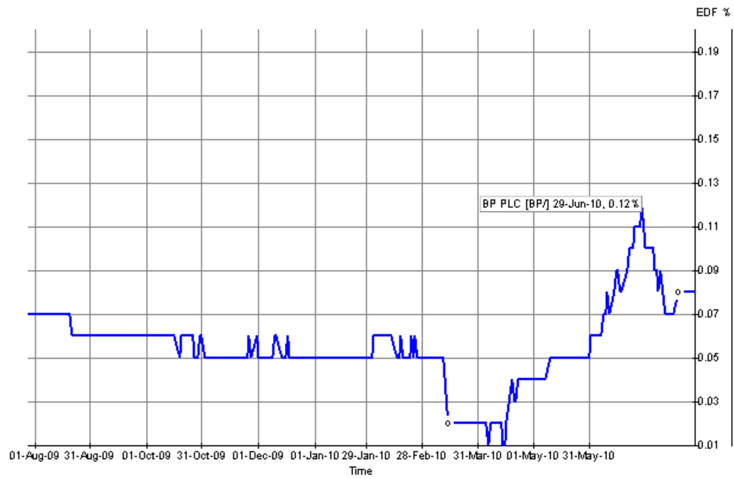
Although the drop in BP's share price was substantial, it has had only a minor impact on the two principal factors that drive the model that calculates EDFs, namely market leverage and asset volatility.

» *Market leverage.* Because BP has relatively little debt outstanding, the drop in share price did not have a major impact on equity as a share of the capital structure. On April 20, when the stock price was 60.48, equity as a percentage of enterprise value was almost 88%. On June 25, when the stock price closed at a low of 27.02, equity as a percentage of enterprise value was still more than 77%.

» *Asset volatility.* The impact of the drop in share price on BP's EDF has been only moderate, because of its low historical asset volatility. EDFs for large Western European corporate issuers such as BP reflect an average of asset volatility levels over the past five years. The drop in the company's share price since the beginning of the oil spill (which also increased asset volatility) occurred only during the past two months.

These two factors together explain why BP's one-year EDF reached a high of only 0.12%, on June 29.

Company 1-year EDF History



What-If Scenario Analysis

BP's current low EDF does not reflect likely changes in the company's capital structure and its decision to suspend its dividend. But we can use the CreditEdge platform to adjust the model inputs, making the following assumptions

» The market value of assets declines by roughly £5 billion due to $7 billion in announced asset sales.

» Future debt issuance to fund spill-related costs increases short-term and long-term liabilities by £5 billion each.

» Dividends are reduced to zero.

Input

Market Value of Assets	160,512.000	150,590.672
Market Capital		76,288.477
Share Price		4.060
Shares Outstanding		18,790.266
Default Point		59,343.949
Estimated Short Term Liabilities	45,715.656	40,715.656
Estimated Long Term Liabilities	40,400.820	35,400.820
Adjusted Total Liabilities		76,116.477
Other		
Adjusted Common Dividends	0.000	2,255.179
Adjusted Preferred Dividends	0.000	1.282

Output

	1 YR	2 YR	3 YR	4 YR	5 YR	6 YR	7 YR	8 YR	9 YR	10 YR
EDF (Annualized)	0.08%	0.10%	0.12%	0.15%	0.19%	0.21%	0.23%	0.24%	0.25%	0.25%
	0.08%	0.10%	0.12%	0.14%	0.16%	0.18%	0.19%	0.20%	0.21%	0.22%
Credit Category (Spot)	Aa3	Aa3	Aa3	Aa3	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2
	Aa3	Aa3	Aa2	Aa2	Aa2	Aaa	Aaa	Aaa	Aaa	Aaa

Conclusion

The net effect of our change in assumptions is no change in the one-year EDF of 0.08%. In spite of the large drop in BP's stock price, and the assumed increase in its liabilities and its assumed asset sales, the oil spill has resulted in only a small increase in the probability that BP will default.

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