Credit Opinion: BP Corporation North America, Inc. **April 2014**

Corporate Profile
BP Corporation North America, Inc. (BPCNAI) is an indirect wholly-owned subsidiary of BP plc (BP). It covers substantially all of BP's up- and downstream activities in North America and also supports the group's other North American subsidiaries in their external trading and borrowing activities. In fiscal 2013, BPCNAI reported revenues of USD141.2 billion and a net income of USD2.4 billion.

Credit Strengths
- Accounts for roughly 40% of BP's global assets and 43% of its proved reserves (of which just over half are located in the US).
- Controls operations throughout the oil and gas chain from exploration and production to refining and marketing.
- Mainly present in low risk OECD countries: around 90% of revenues are generated in the US alone.
- Closely integrated within BP, including financial integration with its outstanding public bonds guaranteed by BP, and has access to BP's liquidity facilities.

Comment [FL1]: Please confirm

Credit Challenges
- Various subsidiaries of BPCNAI hold the group's Gulf of Mexico assets.
- Some financial and contractual liabilities are not explicitly guaranteed by BP.
- BP can move assets and liabilities in and out of BPCNAI depending upon the group's structuring needs (and has done so in the past), which can impair the predictability of BPCNAI's creditworthiness.
- Produces only annual audited statements, resulting in less transparency than many of its peers.

Rating Rationale
BPCNAI's Baa1 senior unsecured issuer rating with a stable outlook reflects our expectation that while BP is likely to be burdened by litigation and other costs for a number of years, the group will be able to sustain consolidated financial metrics commensurate with an A2 rating under a range of likely outcomes for the ultimate total costs resulting from the Macondo oil spill.

The Baa1 issuer rating of BPCNAI (which is a measure of its stand-alone credit strength) also continues to reflect its scale and cash flow generation capacity and ultimately its importance to A2-rated BP. BPCNAI's significance to BP relates not only to its operational function -- accounting for just under 70% of BP's global hydrocarbon reserves (excluding share of Rosneft's reserves) -- but also to its role as guarantor of the debt of the group's regional subsidiaries and as contractual counterparty for their commercial agreements. We note that BPCNAI's capital structure is mainly funded through equity and intercompany loans advanced by BP International Ltd (which acts as the group's in-house bank and cash pooling entity).

In this context, the actions taken by BP management and, in particular, the timely execution of its USD38 billion disposal programme, have been highly supportive of BPCNAI's capacity to absorb the significant costs arising from the Gulf of Mexico oil spill. We also take comfort from BP's significant operating cash flow generating capacity, to which BPCNAI is a significant contributor (accounting for around 40% of group funds from operations in the period 2011-2013), as well as its prudent financial policies evidenced by management's stated intention to keep balance sheet gearing within the 10-20% range while uncertainties over the Macondo litigation remain.

That said, the two-notch differential between BPCNAI and BP reflects the fact that: 1) BPCNAI and its subsidiaries, which own the Gulf of Mexico assets, are directly exposed to the liabilities arising from the Macondo accident ; 2) BPCNAI does not benefit from a blanket BP plc guarantee, and assets have been periodically moved in and out of the company. In addition, BPCNAI produces only annual accounts, which detract from its predictability and transparency.

Rating Outlook

BPCNAI's rating outlook is stable, in line with the outlook on the rating of its parent, BP. This reflects our expectation that BP will be able to sustain a financial profile and credit metrics commensurate with its A2 rating and thereby continue to underpin BPCNAI's Baa1 rating under a range of likely outcomes for the ultimate total costs resulting from the oil spill.

What Could Change the Rating - Up

An overall positive outcome for legal actions and investigations (including the removal of the threat that BP could be found to be grossly negligent in civil court for the Gulf of Mexico spill), together with robust cash flow generation in line with management guidance and the maintenance of conservative financial policies at both parent's and BPCNAI's level could, over time, lead to upward pressures on the rating of BPCNAI and the narrowing of the gap between its rating and BP's ratings.

What Could Change the Rating - Down

Conversely, BPCNAI's rating could be downgraded in line with BP's rating, should the ultimate costs related to the Gulf of Mexico oil spill appear likely to exceed Moody's current range of assumptions due to higher-than-expected fines and settlements, or because a finding of gross negligence becomes more likely. In addition, the gap between BPCNAI's rating and that of its parent could widen, should BP take actions aimed at distancing itself from the financial liabilities to which BPCNAI and its subsidiaries are directly exposed, which we view as highly unlikely.

Key Indicators
BP Corporation North America, Inc. [1]

	2013	2012	2011
EBIT/ Average Book Capitalisation	6.7%	7.2%	12.2%
EBIT/ Interest	6.1x	5.9x	6.7x
RCF/ Net Debt	9.2%	40.3%	49.7%
Debt/ Book Capitalisation	22.8%	21.5%	24.8%
Debt/ Total Proved Reserves ($/boe)	$3.95	$3.86	$3.52
Total Proved Reserve Life Index	13.8	14.8	15.4

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™