BP PLC BP. (XLON) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
412.20 GBX	575.00 GBX	402.50 GBX	776.25 GBX	Medium	Narrow	Negative	Standard	A	Oil & Gas - Integrated

Phase II Macondo Ruling Reduces BP's Macondo Financial Exposure

See Page 2 for the full Analyst Note from 16 Jan 2015

Stephen Simko, CFA
Senior Equity Analyst
stephen.simko@morningstar.com
+1 (312) 384-5448

The primary analyst covering this company does not own its stock.

Research as of 16 Jan 2015
Estimates as of 04 Dec 2014
Pricing data through 20 Jan 2015
Rating updated as of 20 Jan 2015

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 28 Oct 2014

A key challenge faces the oil majors: Replacing reserves is becoming increasingly difficult. There's a lot of oil left in the world, but finding low-cost barrels has never been harder, in no small part because many governments now don't allow Western companies access to their resources.

Outside of Russia, BP produced the equivalent of 860 million barrels of oil and gas in 2013; this represents the level of reserves it needs to book annually to prevent reserves from declining. But there simply are not this many barrels of conventional (that is, low-cost) oil and gas reserves annually accessible to BP. This has forced the majors to increasingly focus on nonconventional resources (deep water, oil sands, and shale gas, for example). Therefore, at a given level of oil prices we'd expect BP's future returns to be lower as nonconventional resources are typically costlier to develop and produce. This is one of the reasons BP's finding and development costs have been rising in recent years.

On the legal front, BP still has a long way to go before settling the remaining liabilities from the Macondo oil spill in 2010. In all likelihood it will be a multiyear process that will stretch into the next decade. Currently, we forecast $29 billion in remaining cash outflows (after tax). The uncertainty surrounding BP's Macondo exposure is very high, but BP is well positioned to settle future liabilities without impairing its financial health or growth prospects so long as oil prices remain at or near current levels.

In Russia, BP's exposure now comes via a 20% stake in Rosneft, an investment that will provide lower cash dividends than TNK-BP (its prior Russian venture) and is inherently riskier given the government's large ownership stake. BP's Russian exposure has fallen, and its Rosneft stake accounts for 5% of our published valuation. At the same time, however, BP's Russian reserves have increased, and the potential resources Rosneft controls in Russia (such as Arctic leases and the Bazenhov Shale) are enormous. BP's Rosneft stake thus is clearly a high-risk/high-reward venture.

Vital Statistics

Market Cap (GBP Mil)	75,480
52-Week High (GBX)	526.80
52-Week Low (GBX)	364.40
52-Week Total Return %	-11.8
YTD Total Return %	0.3
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	-1.3
5-Yr Forward EPS CAGR %	7.2
Price/Fair Value	0.72

Valuation Summary and Forecasts

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Price/Earnings	79.6	115.4	*99.8*	*190.8*
EV/EBITDA	2.2	2.3	*2.7*	*3.5*
EV/EBIT	3.2	3.4	*4.8*	*8.8*
Free Cash Flow Yield %	-5.6	-9.0	*7.5*	*-3.4*
Dividend Yield %	6.6	5.9	*7.7*	*7.9*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Revenue	388,074	396,217	*375,284*	*269,886*
Revenue YoY %	0.4	2.1	*-5.3*	*-28.1*
EBIT	30,692	33,701	*18,675*	*10,321*
EBIT YoY %	-19.3	9.8	*-44.6*	*-44.7*
Net Income, Adjusted	17,049	13,428	*12,763*	*6,477*
Net Income YoY %	-21.3	-21.2	*-5.0*	*-49.3*
Diluted EPS	5.34	4.23	*4.13*	*2.16*
Diluted EPS YoY %	-21.4	-20.8	*-2.3*	*-47.7*
Free Cash Flow	8,613	15,044	*10,501*	*-800*
Free Cash Flow YoY %	-217.0	74.7	*-30.2*	*-107.6*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.
Analyst Note: Rosneft stake valued at market less 25% discount (not in forecasts); Macondo also not included in forecasts and removed from balance sheet beginning in 2013

Profile

BP is an integrated oil and gas firm with operations across six continents. BP's upstream operations (excluding Russia) produce roughly 2.1 million barrels of oil equivalent per day. Downstream operations include refining, chemicals, lubricants, and service stations. Due to the 2010 Deepwater Horizon oil spill, BP was forced to complete a $38 billion asset sale program; these divestments are largely responsible for proved reserves declining 20% since the end of 2009. BP also owns roughly 20% of Rosneft, Russia's state-owned oil company.

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Morningstar Analysis

Phase II Macondo Ruling Reduces BP's Macondo Financial Exposure 16 Jan 2015

BP received favorable news late Jan. 15 from the publication of the Phase 2 Macondo ruling by the U.S. District Court for the Eastern District of Louisiana. The second phase of MDL-2179 focused on the quantification of discharge, or how many barrels of oil spilled into the Gulf of Mexico during the 2010 incident.

The ruling states that 3.2 million net barrels were discharged, well below the U.S. Department of Energy's 4.1 million net barrels estimate that had been regularly used to estimate BP's worst-case Clean Water Act fine ($17.6 billion). By law, the maximum Clean Water Act fine is $4,300 per barrel, which implies that the worst-case fine is now officially $13.7 billion, a $3.9 billion reduction from the previous worst-case outcome.

Our earlier assumption for the fine was $9.4 billion, based on 3.6 million barrels spilled. Updating this assumption to line up with the court's ruling lowers our estimate to $8.3 billion, a $1.1 billion reduction. Our $2,600 per barrel fine assumption has not been altered, as this will be determined by Phase 3 of the trial.

This is unquestionably a positive development, and one that strengthens our belief that the company remains financially well-equipped to handle its Macondo obligations. Relative to its peers, BP today is also on very sound financial footing to support future capital outlays and dividends (the company's yield is currently above 6%). The updates are not overly material to our BP valuation, however. Our fair value estimate and economic moat rating are both unchanged.

For additional commentary on BP's exposure to Clean Water Act fines and MDL-2179. please see our September reports "BP: Examining Gross Negligence" and "BP Updates Investors on Gross Negligence Ruling." A comprehensive overview of BP's Macondo exposure can be found in April's "BP Macondo Handbook (2014 Edition)."

Valuation, Growth and Profitability 02 Dec 2014

Although we are updating our BP forecasts to reflect the recent decline in oil prices, the weakening of the British pound has offset the negative impact of this. As a result, we are maintaining our GBX 575 per share fair value. After a multiyear period of shrinking largely because of the fallout from the Macondo oil spill, BP's 2014 cash flow target of $30 billion-$31 billion is achievable, in our view, and we expect annual operating cash flow to reach $33 billion by 2017. Such cash flows should allow BP to maintain a healthy balance sheet while still increasing dividends and paying legal liabilities.

We value BP's 19.75% stake in Russia's state oil firm Rosneft at its market value, less a 25% discount to reflect the illiquidity of this holding. This currently equates to a value of roughly $7 billion, or roughly GBX 25 per share of our valuation. Cash flows from Rosneft are solely dividends received. For this year, BP's share of dividends is $690 million, which was paid in full by Rosneft in July. This represents about 2% of BP's total 2014 cash flow.

Macondo liabilities lower our fair value estimate by approximately $6 per ADS. We expect remaining aftertax cash outflows will total $29 billion. Such cash outflows will overwhelm the balance sheet provisions BP has booked to date; as a result we forecast a further $24 billion in income statement charges (after tax) will occur during the next 10 years. As a frame of reference, changes of roughly $5 billion in Macondo cash outflows correspond to a valuation impact of GBX 13 per share.

Partially offsetting Macondo liabilities is BP's ability to shield future U.S. taxable profits by using tax-loss carryforwards arising from spill-related income statement charges. To date, BP has used $9.4 billion of these carryforwards; we project a further $9.5 billion of income will be shielded from taxes during the next decade. In total,

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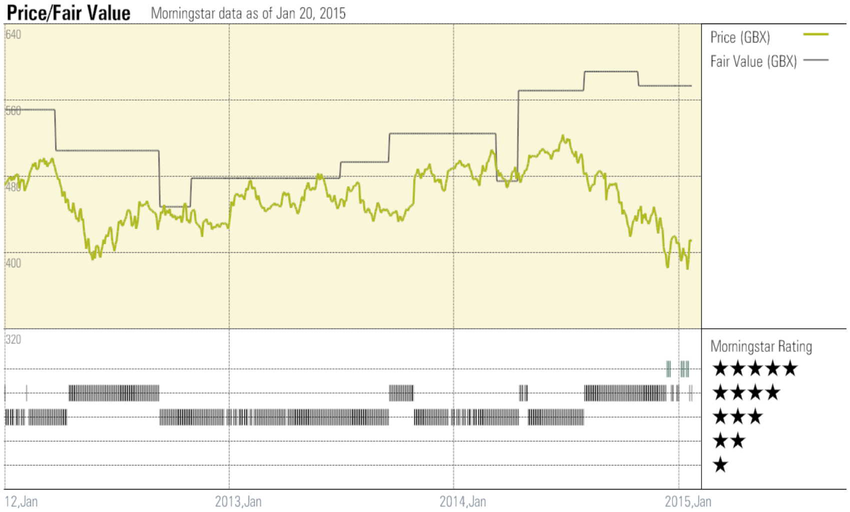
Price/Fair Value Morningstar data as of Jan 20, 2015



deferred tax assets reduce the negative impact of Macondo by roughly GBX 20 per share.

For oil and gas prices, our forecasts use prices based on Nymex futures contracts for 2014-16 and our own midcycle price assumptions for 2017-18. For Brent oil pricing we use $102 per barrel in 2014, $73 in 2015, $78 in 2016, $85 in 2017, and $100 in 2018. We expect WTI oil pricing to average $96 per barrel in 2014, $67 in 2015, $70 in 2016, $77 in 2017, and $90 in 2018. We forecast Henry Hub natural gas (U.S.) at $4.31 per Mcf in 2014, $3.79 in 2015, $3.89 in 2016, $4.35 in 2017, and $5.40 in 2018.

Scenario Analysis

We have tested two additional scenarios beyond our base case in order to assess the impact of changes to oil and gas prices on our BP valuation. To determine our alternative valuations, we test cash flows under two additional commodity price scenarios by stress-testing our 2014-18 oil and natural gas price forecasts.

In our bull case, holding all else constant, we assume 25% higher short-term oil and gas prices relative to 2014-17 futures. For our long-term pricing assumptions, this scenario employs $105 per barrel WTI and $115 per barrel Brent, while we use $6.30 per Mcf for Henry Hub natural gas. In such a pricing scenario BP's shares would be worth GBX 775. In this instance, cash flow and dividend growth would be all but assured during the next few years.

In our bear scenario, we assume 25% lower short-term oil and gas prices relative to 2014-17 futures. For our long-term assumptions, this scenario employs $75 per barrel WTI and $80 per barrel Brent, while we use $4.50 per Mcf for Henry Hub natural gas. Holding all other assumptions constant, BP would be valued at GBX 350 per share. In such a pricing environment, lower operating cash flows would force BP to reduce near-term capital spending plans to try to preserve its dividend. Such a scenario would lead to increased leverage, lower profits, and meaningfully lower near-term cash flows and production.

Regarding BP's remaining Macondo liabilities, $5 billion in cash flows equate to a $1 per ADS change to our fair value estimate. Our forecast of $29 billion in after-tax cash outflows reduces our fair value estimate by $6 per ADS. At the present time, we believe the remaining figure is most likely to be in the $20 billion-$40 billion range (post-tax).

Economic Moat

BP's economic moat relies mostly on its exploration and production activities that are part of its upstream operations. The company benefits from owning high-quality production assets and possessing skills and expertise developed through decades of exploration and production. Its financial clout provides BP with opportunities most oil and gas producers are unable to pursue. With its large operating cash flows, the company can maintain capital spending through commodity price cycles, even in light of the additional costs it will incur from oil-spill-related liabilities. The company remains highly leveraged to the price of oil (more than 80% of production is tied to oil prices),

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and therefore benefits from OPEC's ability to maintain a floor in oil prices. Although not the major source of its narrow moat, BP has one of the best-positioned refining footprints among the oil majors. Of its U.S. refineries, two are in the Midwest (Toledo and Whiting) and stand to benefit from cost-advantaged crude and low-cost natural gas for the foreseeable future.

Moat Trend

The integrated oil and gas model now faces much more challenging competitive dynamics, which we believe are eroding the economic moats of BP and the other oil majors. As a result, we believe the company's moat trend is negative. Although BP still possesses many competitive advantages--a very large portfolio of oil and gas resources, size/scale, and so on--we expect that on average each new barrel of oil and natural gas production will generate a lower return than the legacy barrels lost each year to natural field declines. Stated another way, for a given level of energy prices, we expect BP's returns on capital to decline as new reserves are increasingly costlier to develop and produce. This is because fewer low-cost conventional oil opportunities exist, pushing BP and the other majors into higher-cost oil plays or increasingly toward natural gas. Further, rising resource nationalism means governments are now capturing a greater portion of the economic rents from global oil and gas production.

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Bulls Say/Bears Say

Bulls Say

- Cash on hand of $31 billion as of Sept. 30 and the coming growth in operating cash flows have BP set up to increase shareholder distributions during the next few years as long as oil prices remain high.
- Though its Rosneft stake investment remains a risky one, BP now is less exposed to Russia than it was through its ownership of TNK-BP. Rosneft currently accounts for 5% of our BP fair value estimate.
- BP's Whiting refinery stands to benefit from cost-advantaged crude for many years to come, and its recent upgrade is expected to generate at least $1 billion in incremental cash flow.

Bears Say

- The remaining Macondo liabilities are daunting: Our valuation assumes $29 billion in remaining cash outflows after tax, reducing our fair value estimate by $6 per ADS.
- There is a long history of Western oil companies that have been mistreated by the Russian government. The sovereign risk and the illiquidity of BP's Rosneft stake should not be taken lightly.
- Though there's a good chance that cash flows will be growing in the coming years, capital investment will also remain high. This will limit BP's ability to increase its returns on capital in the coming years.

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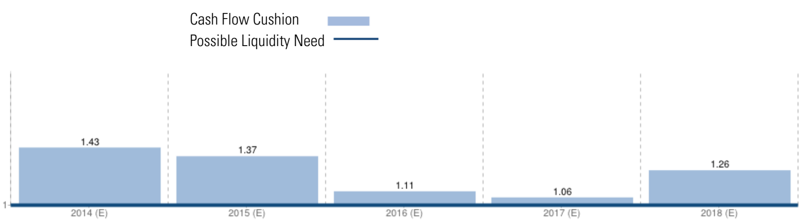
Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Cash and Equivalents (beginning of period)	22,987	25,979	15,785	10,963	8,267
Adjusted Available Cash Flow	2,348	-4,059	1,346	3,516	7,875
Total Cash Available before Debt Service	25,335	21,920	17,131	14,478	16,143
Principal Payments	-9,570	-7,812	-7,262	-5,438	-4,586
Interest Payments	-1,156	-1,270	-1,270	-1,265	-1,265
Other Cash Obligations and Commitments	-6,945	-6,933	-6,944	-6,938	-6,921
Total Cash Obligations and Commitments	-17,671	-16,015	-15,476	-13,641	-12,772

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	22,987	30.4
Sum of 5-Year Adjusted Free Cash Flow	11,027	14.6
Sum of Cash and 5-Year Cash Generation	34,014	45.0
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	34,014	45.0
Sum of 5-Year Cash Commitments	-75,575	—

Credit Rating Pillars–Peer Group Comparison

	BP.	Sector	Universe
Business Risk	4	5.4	5.1
Cash Flow Cushion	9	7.2	6.0
Solvency Score	7	4.2	4.7
Distance to Default	3	4.6	3.7
Credit Rating	A	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health & Capital Structure

The Macondo oil spill created an extraordinary need for capital, leading BP to shrink itself considerably to fortify its balance sheet in order to handle almost any financial scenario regarding spill-related liabilities; this was accomplished by selling $38 billion in assets during 2010-12. With the additional $12 billion in cash netted in 2012 from selling its TNK-BP stake, BP for now is again on sound financial footing. The company has multiple cash needs beyond the oil spill, namely $24 billion-$26 billion for annual capital expenditures and a $7.5 billion yearly dividend.

Thanks to all the cash raised from its recent divestments, BP now has its balance sheet in solid shape, including $31 billion in cash as of Sept. 30. This has pushed leverage levels down considerably. The key question given BP's capital requirements is what amount of Macondo cash outflows it can adequately handle without jeopardizing its financial health or dividend. Despite the recent decline in oil prices, we believe BP still is on very sound financial footing to support its capital budget and dividends, albeit likely by increasing balance sheet leverage if weak oil prices persist. In our current base forecast where Brent prices remain below $85 through 2017, we believe BP can handle almost any scenario of near-term Macondo cash outflows.

Enterprise Risk

BP's valuation carries heightened uncertainty because of the Macondo oil spill and its high-stakes exposure to the Russian government through its Rosneft partnership. With Macondo, the final dollar amounts of various fines and lawsuits are impossible to predict, but the reality is that remaining aftertax outflows are likely to fall in the $20 billion-$40 billion range. With respect to BP's 20% interest in Rosneft, being a Western company that holds such a large stake in Russia's national oil company creates a significant amount of sovereign risk (although this of course is reflected in Rosneft's share price). We think it's likely the market

Credit Analysis

won't give BP full credit for the value of its investment anytime soon; we ourselves discount the market value of BP's Rosneft shares by 25% to reflect our opinion of the illiquidity of this investment.Beyond these company-specific issues, BP's profits and cash flow are largely tied to hydrocarbon production and highly leveraged to movements in the price of oil. Periods of prolonged low oil prices weaken returns on capital, and new oil and gas projects would be unlikely to generate their projected economic results. BP employs huge amounts of capital in building out its production portfolio, and cost overruns and/or completion delays are continued sources of uncertainty. Greater reliance on highly technical projects is likely to increase these risks.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
CARL-HENRIC SVANBERG	Chairman,Director	1,076,695	22 Sep 2014	—
MR. ROBERT W DUDLEY	Chief Executive Officer,Director	728,067	25 Jun 2014	—
GEORGE DAVID	Director	579,000	07 Mar 2014	—
DR. BRIAN GILVARY	Chief Financial Officer,Director	547,605	12 Jan 2015	—
PAUL MILTON ANDERSON	Director	30,000	07 Mar 2014	—
PROF DAME ANN DOWLING CBE DBE	Director	22,320	07 Mar 2014	—
IAN DAVIS	Director	22,150	06 Jan 2015	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
L&G Pension PMC UK Eq Inx Acc	1.82	4.15	-3,070	31 Aug 2014
Undrly Fid DC L&G UK Equity Idx N	1.83	4.05	-7,195	30 Sep 2014
VA CollegeAmerica Cap World Gr and Inc	0.99	1.44	-10,850	31 Dec 2014
VA CollegeAmerica Cap Income Builder	0.71	0.92	-24,514	31 Dec 2014
Vanguard Total Intl Stock Idx Fund	0.66	0.57	2,376	31 Dec 2014
Concentrated Holders				
SPDR® MSCI Europe Energy ETF	—	18.37	436	30 Nov 2014
iShares STOXX Europe 600 Oil & Gas (DE)	0.05	14.92	5,079	31 Dec 2014
Etoile Energie Europe	—	14.74	—	31 Aug 2014
SPDR® S&P International Energy Sect ETF	—	10.78	—	16 Jan 2015
UBS UK Equity Income Fund	—	9.04	4	30 Nov 2014

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Capital Research and Management Company	3.04	0.56	42,187	31 Dec 2014
Invesco Asset Management Ltd.	0.61	1.80	24,989	30 Nov 2014
Government Pension Fund of Norway - Global	2.13	0.53	24,870	31 Dec 2011
Federated Equity Mgmt Co. Of Penn	0.22	2.99	12,095	30 Sep 2014
State Street Global Advisors	0.23	0.93	8,976	19 Jan 2015
Top 5 Sellers				
Grantham, Mayo, Van Otterloo & Co., LLC	0.41	1.84	-15,469	31 Oct 2014
Newton Capital Management Limited	0.14	1.92	-5,139	30 Sep 2014
Union Investment Luxembourg S.A.	0.02	0.88	-5,004	30 Sep 2014
Canada Life International	0.68	5.01	-4,393	30 Sep 2014
Legal and General	2.26	3.66	-3,395	30 Nov 2014

Management 30 Jul 2014

In the wake of the Macondo oil spill, Robert Dudley took over BP with the job of stabilizing the firm and rebuilding its tarnished reputation. Macondo is the second time BP has had to shore up its safety record in recent years, the first being the Texas City refinery explosion of 2005. Other notable incidents of the past decade include 6,500 barrels of oil leaking from the Trans-Alaska pipeline in 2007 and a record $303 million fine levied by the U.S. Commodities Futures Trading Commission for BP traders trying to corner the propane market in 2003-04. Even after Texas City, BP continued to record a great deal more safety violations than its peers in its U.S. refining operations, which along with Macondo strongly suggests that BP was fundamentally flawed in how it was running its operations and approaching safety risks.

It cannot be said with certainty whether BP is finally going to improve its safety performance, but we believe it will, if only because it is highly motivated to do so. BP can't afford any more slip-ups, given the damage these various accidents have done to its reputation and the value of the company. Evidence that the company has changed can be seen from Tony Hayward (CEO at the time of the spill) and upstream executives being forced out of the company, as well as an overhaul of the company's safety processes and management systems. Our sense is that Macondo will change BP's culture in a positive way, similar to how Exxon became extremely focused on safety following the 1989 Valdez oil spill. Since Valdez, Exxon's safety record has been excellent, and in the few years since Macondo, BP's has been very good as well.

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Today's ruling states that 3.2 million net barrels were discharged, well below the Department of Energy's 4.1 million net barrels estimate that has been regularly used to estimate BP's worst-case Clean Water Act fine ($17.6 billion). By law, the maximum Clean Water Act fine is $4,300 per barrel, which implies that worst case fine is now officially $13.7 billion, a $3.9 billion reduction from the prior worst-case outcome. This is unquestionably a positive development, and one that strengthens our belief that the company remains financially well-equipped to handle its future Macondo obligations.

Our published CWA fine assumption before today was $9.4 billion, based on 3.6 million barrels spilled. Updating this assumption to line up with today's ruling lowers our estimate to $8.3 billion, a $1.1 billion reduction. Our $2,600 per barrel fine assumption has not been altered, as this will be determined by Phase 3 of the trial.

Today's updates are not overly material to our BP valuation, however. Our fair value estimate and economic moat rating are both unchanged.

OPEC Inaction Tanks Oil Prices and Energy Stocks, but Integrated Oils Offer Safe Harbor 02 Dec 2014

Integrated oil stocks sold off in the aftermath of OPEC's Thanksgiving Day meeting. At the meeting, OPEC elected to maintain existing production quotas, dashing the market's hope that the cartel would step in and remove excess crude oil supply from the market. By our estimates, oil markets are oversupplied by roughly 1 million barrels a day, which may increase into early 2015 absent a production response. We think the market's reaction is overdone, particularly if you consider that 1 million-2 million barrels a day of excess supply is equivalent to 1.1%-2.2% of daily consumption, and depletion alone removes roughly 4% of total production each year. Moreover, the supply surge from U.S. shale oil has been well anticipated by the market, leaving us to wonder what has changed fundamentally in the market's awareness that has dropped the energy sector as a whole by 20% since Sept. 1. We suggest investors pay attention to oil demand, as any further weakness could spark another leg down in oil markets. That said, over the medium term we expect lower crude prices to stimulate demand, supporting our expectation of higher prices in the future.

While we plan to update our fair value estimates to reflect current crude oil strip prices, reductions should be modest for the oil majors. We think the market reaction among integrated firms has been overdone based on our long-term outlook. The integrated group is generally more insulated from oil price movements because of their large gas production and downstream operations, which can act as an earnings offset. Also, we do not think dividends from the higher-quality firms will come under threat thanks to relatively strong balance sheets and managements' aversion to cuts.

We view the current pullback in stock prices as a good opportunity to buy quality franchises at a discount. ExxonMobil and BP are our preferred plays, given valuation and greater free cash flow growth relative to peers.

Adjusting BP's Fair Value Estimate to Reflect Lower Oil Prices; Remains an Attractive Energy Play 28 Oct 2014

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Analyst Notes

In tandem with reviewing BP's third-quarter results, we are reducing our fair value estimate to $56 per ADS/GBX 575 per share as we adjust our near-term forecasts to reflect the recent drop in oil prices. BP's decision to fortify its balance sheet post-Macondo ($31 billion in cash, 15% gearing as of Sept. 30) is looking very smart now: the company today is in a position where it can absorb $80-$90 oil pricing for multiple years while continuing to fund its dividend, investment plans, and legal liabilities. Underscoring its financial strength, the company announced it is raising its dividend by 1.5%. This remains our top pick of the oil majors.

At present, each $5 per barrel change in oil prices affects BP's operating cash flow by about $1.5 billion. As we update our 2015-16 oil price forecasts, BP finds itself in a position where cash flow will be less than expected just two months ago (when 2015 Brent futures were $15 per barrel higher). But BP's financial health should remain robust if it can complete the remaining $6 billion of its $10 billion divestiture plan by the end of 2015. According to management, roughly half of this figure is close to being completed in the coming few months at prices the company views as fair.

Macondo Updates: Beyond the Fifth Circuit Court's September gross negligence ruling (which we covered in detail at the time), the other Macondo-related item of note this quarter is that BP's $20 billion trust fund has now been fully used to provision future liabilities. Since the oil spill, this trust fund could be matched against eligible costs, namely those related to the Plaintiff Steering Committee settlement, spill response efforts, and National Resource Damages. Going forward, any future balance sheet provisions in these areas will trigger income statement charges.

Fortunately, $4 billion of cash remains in the trust fund (which is not on BP's balance sheet), so near-term charges won't correspond to immediate cash outflows. The key trust-related expense that remains is business/economics loss (BEL) claims, which thus far in 2015 has seen rather small payouts ($120 million during the third quarter compared with $810 million last year). There is a tremendous amount of uncertainty as to how BEL payouts will trend from here, but to err on the conservative side we are estimating $2.5 billion of payments will occur from this point forward. As of now, we are forecasting 2015-16 Macondo cash outflows to be roughly $4 billion in total.

Why the Majors' Quest to Improve Returns Is Likely to Fail; Exxon and BP Are Most Attractive 15 Oct 2014

Poor capital efficiency is at the heart of the major integrated firms' declining returns. In the past five years, the industry has invested greater amounts of capital with little to show for it. Earnings growth has stagnated despite higher oil prices as margins contracted on falling production and rising costs. In response, firms have announced plans to reduce spending in an effort to improve returns. Ultimately, we think most of these efforts will prove unsuccessful and returns will remain near current levels without higher oil prices. While production declines will reverse as new projects commence operation, we expect lower oil prices and higher depreciation charges to weigh on margins and earnings. Additionally, even as spending recedes from its 2013 peak, it will remain at historically high levels.

Over time, we expect spending to trend higher again as the industry is stuck on a treadmill where it must invest at greater levels just to maintain production. This cycle is behind the negative moat trends for many of the integrated firms and the reason we lowered Eni's and Statoil's moat ratings to none. All other fair value estimates and moat ratings are unchanged.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
412.20 GBX	575.00 GBX	402.50 GBX	776.25 GBX	Medium	Narrow	Negative	Standard	A	Oil & Gas - Integrated

Analyst Notes

We do, however, forecast the combination of lower spending and incremental production to result in free cash flow growth over the next five years. With little capacity to improve returns, we favor companies that can drive greater relative free cash flow growth and are attractively valued. In this respect, ExxonMobil and BP stand apart from their peers.

We discuss in detail our view in the latest Energy Observer, "Capital Inefficiency: The Majors' Quest to Improve Returns and Why It's Likely to Fail."

BP: Notes From Monday's Legal Update Call 09 Sep 2014

BP held a conference call with investors Monday to discuss publicly the implications of last week's gross negligence ruling. The incremental color reaffirms our notion that the shares oversold on the ruling. The company also reaffirmed its guidance from earlier this year for multiyear cash flow growth underpinning rising shareholder distributions. Additionally, BP made it clear that it doesn't view accelerated asset sales or other forms of protecting its balance sheet as necessary at this time. We reiterate our belief that the company is the most attractively priced of the oil majors. Our fair value estimate and moat ratings are unchanged.

BP confirmed that last week's ruling will be appealed imminently in the Fifth Circuit Court. The appeals process will be identical to what BP used recently to appeal the issue of causation in its plaintiffs' steering committee settlement. BP thus will have three separate appeals it can attempt: a three-judge panel hearing and en banc rehearing within the Fifth Circuit and a writ of certiorari appeal to the Supreme Court. If these fail and a Clean Water Act fine is issued in 2015 or 2016, the fine amount can then be appealed as well. With such legal options still available and sure to be employed, any CWA-related cash outflows are unlikely to take place for quite some time.

Thanks to $50 billion of divestments since 2010, BP today has $27.5 billion of cash and a 16% gearing ratio. Were the worst-case $17.6 billion CWA fine to be levied, BP's gearing would rise to 24% if the fine were financed solely by expanding the balance sheet. Such a gearing level is not considered particularly high for an oil major; BP's gearing regularly ranged between 20% and 30% before the spill. The idea that BP is now at risk financially or will be forced to make distressed asset sales today looks very unlikely.

Because of the inability to accurately estimate what the CWA fine will be, BP said it does not intend to increase its current $3.5 billion provision in the near term. As such, charges related to this fine aren't expected to happen anytime soon, although they will still be required at the time the fine amount is eventually finalized. Further, it's actually possible that the company will reverse the $3.5 billion CWA provision on its books, as a key assumption that underpins this is no longer accurate (that BP would not be found grossly negligent). Such a reversal would generate an income statement gain, but then lead to a larger charge in the future.

BP: Examining the Impact of Today's Gross Negligence Ruling 04 Sep 2014

Today BP was found to have acted with gross negligence in the 2010 Macondo oil spill, which has led to shares dramatically selling off. Unquestionably, this is negative news, but the considerations below support the notion that shares are currently overselling. We are lowering our U.S. fair value estimate by $1 per ADS, while our British valuation is unchanged as this negative development is offset by the recent weakening of the British pound. Today's announcement neither impairs BP's financial health nor materially scuppers the notion that growing cash flows will lead to increasing shareholder distributions.

Given the implications of today's ruling, we our updating our valuation to assume BP's Clean Water Act fine will be $2,600 per barrel spilled, the midpoint between maximum

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Analyst Notes

fines under gross negligence/nongross negligence scenarios. We continue to assume 3.65 million net barrels were discharged, which is an average of two of the key U. S. government estimates. Taken together, this equates to a total CWA fine of $9.4 billion. Previously, we had assumed BP would settle the CWA penalty for $4 billion, or the maximum statutory per-barrel fine of $1,100 in the absence of gross negligence.

How much worse could the CWA fine ultimately be? The $17.6 billion maximum fine discussed above is $8.2 billion more than our new CWA forecast. In other words, the absolute worst-case scenario would reduce our valuation by a further $1.70 per ADS (GBX 17 per share).

Two key dynamics are likely to lessen the blow of the CWA fine, whatever it ultimately turns out to be. First, this fine is likely to involve a term structure for payments, similar to the $4.5 billion DOJ/SEC deal reached in 2012. That settlement has a five-year payment structure. Second, the ability to appeal any legal ruling provides BP with the ability to delay and even manage future cash outflows. We continue to assume BP pays its Clean Water Act fine over a five-year period beginning in 2017.

Given that no initial fine will be levied until 2015 at the earliest and that such a fine will surely be appealed, BP's near-term financial health and cash flow growth are by no means at risk. Unchanged are that major near-term Macondo cash flows will be DOJ/SEC settlement payments ($2 billion of payments between now and the end of 2016) and business/economic loss (BEL) claims. With more than $4 billion in the $20 billion trust available to pay BEL claims (this is not on BP's balance sheet), it still looks like near-term cash outflows through 2016 will be about $1 billion annually.

Despite being unquestionably negative news, our take is shares are overreacting relative to the valuation impact this ruling is likely to have. We continue to view BP shares as attractively priced and it remains our top pick of the majors.

BP will be attending Morningstar's Management Behind the Moat Conference, which will be held Sept. 17-18 in Chicago. Please contact us if you'd be interested in setting up a one-on-one meeting with the company.

We View BP Shares' Sell-Off on Russian Sanctions/ Yukos Case as Great Buying Opportunity 30 Jul 2014

BP's solid second-quarter results were overwhelmed by negative news out of Russia, causing the shares to sell off more than 3%. The past two days have seen additional sanctions enacted by the EU and U.S. as well as a $50 billion ruling against the Russian government by a Hague tribunal for the 2003-05 expropriation of oil company Yukos' key assets. These assets are now owned by Russia's state oil company Rosneft, of which BP owns 19.75%.

Despite an increasingly cloudy outlook in Russia, BP's ability to profit from its Rosneft stake has yet to be affected. BP received its 2013 cash dividend of $690 million just last week, and the U.S. government has intimated that BP CEO Bob Dudley can continue to serve on Rosneft's board. While Rosneft faces new challenges because of the sanctions, our understanding is that these have yet to impair its near-term operating outlook. With respect to the Yukos ruling, this suit is being brought specifically against the Russian state and is likely to result in arbitration between the government and former Yukos shareholders. In other words, Rosneft is not a party to this legal situation.

We estimate BP's Rosneft stake to be worth $3.10 per ADS (GBX 31 per share), or 5% of our fair value. We value this holding at its market price, less a 25% illiquidity discount. With Rosneft's shares down 17% this year, we believe this is a sufficiently conservative valuation approach. Further, BP's shares appear undervalued excluding Rosneft, as we

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412.20 GBX	575.00 GBX	402.50 GBX	776.25 GBX	Medium	Narrow	Negative	Standard	A	Oil & Gas - Integrated

Analyst Notes

estimate shares to be worth $57 per ADS (GBX 560 per share) ex-Rosneft.

Almost all of BP's value lies outside Russia, and here the company's outlook continues to improve. Indeed, we are slightly raising our fair value estimate to reflect the company's continued operational progress and the recent rise in oil prices. Critically, our long-held expectation of rising cash flows and dividends is achievable with or without Rosneft's cash dividends (2% of BP's cash flow).

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
412.20 GBX	575.00 GBX	402.50 GBX	776.25 GBX	Medium	Narrow	Negative	Standard	A	Oil & Gas - Integrated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2011	2012	2013	*2014* (Forecast)	*2015* (Forecast)	*5-Year Proj. CAGR*
Revenue	*8.7*	25.1	0.4	2.1	*-5.3*	*-28.1*	*-1.3*
EBIT	*-4.9*	-2.9	-19.3	9.8	*-44.6*	*-44.7*	*-4.3*
EBITDA	*-0.3*	-2.3	-10.2	13.1	*-32.5*	*-23.5*	*-2.8*
Net Income	*-12.0*	10.1	-21.3	-21.2	*-5.0*	*-49.3*	*5.9*
Diluted EPS	*-12.0*	9.3	-21.4	-20.8	*-2.3*	*-47.7*	*7.2*
Earnings Before Interest, after Tax	—	-359.6	-38.5	-11.4	*-13.7*	*-31.0*	*7.0*
Free Cash Flow	*-5.7*	-141.0	-217.0	74.7	*-30.2*	*-107.6*	*-6.0*

Profitability	3-Year Hist. Avg	2011	2012	2013	*2014*	*2015*	*5-Year Proj. Avg*
Operating Margin %	*8.8*	9.8	7.9	8.5	*5.0*	*3.8*	*5.4*
EBITDA Margin %	*12.2*	12.7	11.4	12.6	*9.0*	*9.6*	*10.3*
Net Margin %	*4.5*	5.6	4.4	3.4	*3.4*	*2.4*	*3.5*
Free Cash Flow Margin %	*1.4*	-1.9	2.2	3.8	*2.8*	*-0.3*	*1.8*
ROIC %	*10.1*	14.8	8.4	7.1	*6.0*	*4.2*	*6.4*
Adjusted ROIC %	*9.9*	13.9	8.5	7.2	*6.3*	*4.6*	*6.6*
Return on Assets %	*6.9*	9.1	3.7	7.8	*2.9*	*1.8*	*3.1*
Return on Equity %	*17.7*	24.9	9.6	18.5	*6.5*	*4.1*	*7.1*

Leverage	3-Year Hist. Avg	2011	2012	2013	*2014*	*2015*	*5-Year Proj. Avg*
Debt/Capital	*0.28*	0.28	0.29	0.26	*0.29*	*0.29*	*0.29*
Total Debt/EBITDA	*0.99*	0.90	1.11	0.97	*1.59*	*2.08*	*1.64*
EBITDA/Interest Expense	*40.28*	39.44	34.66	46.74	*29.12*	*20.29*	*27.06*

Valuation Summary and Forecasts

	2012	2013	*2014(E)*	*2015(E)*
Price/Fair Value	0.89	0.93	—	—
Price/Earnings	79.6	115.4	*99.8*	*190.8*
EV/EBITDA	2.2	2.3	*2.7*	*3.5*
EV/EBIT	3.2	3.4	*4.8*	*8.8*
Free Cash Flow Yield %	-5.6	-9.0	*7.5*	*-3.4*
Dividend Yield %	6.6	5.9	*7.7*	*7.9*

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	2.4
Weighted Average Cost of Capital %	8.0
Long-Run Tax Rate %	39.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	25.0
Perpetuity Year	25

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	25,107	12.0	1.42
Present Value Stage II	121,361	57.8	6.86
Present Value Stage III	63,391	30.2	3.59
Total Firm Value	**209,859**	**100.0**	**11.87**
Cash and Equivalents	22,987	—	1.30
Debt	-48,192	—	-2.73
Preferred Stock	—	—	—
Other Adjustments	-30,308	—	-1.71
Equity Value	**154,346**	**—**	**8.73**
Projected Diluted Shares	17,679		
Fair Value per Share (GBX)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2011	2012	2013	*2014 (Forecast)*	*2015 (Forecast)*
Revenue	**386,463**	**388,074**	**396,217**	***375,284***	***269,886***
Cost of Goods Sold	313,563	321,705	325,448	*322,158*	*225,444*
Gross Profit	**72,900**	**66,369**	**70,769**	***53,126***	***44,442***
Selling, General & Administrative Expenses	13,958	13,357	13,070	*13,330*	*13,715*
Exploration Expense	1,520	1,475	3,441	*2,275*	*1,825*
Other Operating Expense (Income)	8,280	8,158	7,047	*3,844*	*3,139*
Depreciation & Amortization (if reported separately)	11,135	12,687	13,510	*15,002*	*15,442*
Operating Income (ex charges)	**38,007**	**30,692**	**33,701**	***18,675***	***10,321***
Restructuring & Other Cash Charges	-3,800	4,995	430	*313*	—
Impairment Charges (if reported separately)	2,058	6,275	1,961	*2,197*	—
Other Non-Cash (Income)/Charges	-68	-347	-459	*-243*	—
Operating Income (incl charges)	**39,817**	**19,769**	**31,769**	***16,408***	***10,321***
Interest Expense	1,246	1,273	1,068	*1,156*	*1,270*
Interest Income	263	201	—	*-232*	—
Pre-Tax Income	**38,834**	**18,697**	**30,701**	***15,019***	***9,051***
Income Tax Expense	12,737	6,880	6,463	*6,087*	*3,525*
Other After-Tax Cash Gains (Losses)	—	-566	-480	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-397	-234	-307	*-229*	*-99*
(Preferred Dividends)	—	—	—	—	—
Net Income	**25,700**	**11,017**	**23,451**	***8,704***	***5,427***
Weighted Average Diluted Shares Outstanding	19,136	19,158	19,046	*18,522*	*17,956*
Diluted Earnings Per Share	**1.34**	**0.58**	**1.23**	***0.47***	***0.30***
Adjusted Net Income	21,658	17,049	13,428	*12,763*	*6,477*
Diluted Earnings Per Share (Adjusted)	**1.13**	**0.89**	**0.71**	***0.69***	***0.36***
Dividends Per Common Share	0.84	1.98	2.19	*2.35*	*2.40*
EBITDA	**50,952**	**33,201**	**47,989**	***31,410***	***25,763***
Adjusted EBITDA	**49,142**	**44,124**	**49,921**	***33,677***	***25,763***

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412.20 GBX	575.00 GBX	402.50 GBX	776.25 GBX	Medium	Narrow	Negative	Standard	A	Oil & Gas - Integrated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	*Forecast* 2014	*Forecast* 2015
Cash and Equivalents	14,355	19,954	22,987	*25,979*	*15,785*
Investments	—	—	—	—	—
Accounts Receivable	43,526	37,611	37,374	*34,958*	*34,958*
Inventory	25,661	28,203	29,231	*27,361*	*27,361*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	14,042	25,616	4,791	*4,791*	*4,791*
Current Assets	**97,584**	**111,384**	**94,383**	***93,090***	***82,895***
Net Property Plant, and Equipment	119,214	125,331	133,690	*139,677*	*148,535*
Goodwill	12,100	12,190	12,181	*12,181*	*12,181*
Other Intangibles	21,102	24,632	22,039	*21,720*	*21,720*
Deferred Tax Assets (Long-Term)	611	874	985	*985*	*985*
Other Long-Term Operating Assets	42,440	26,043	36,137	*36,137*	*36,137*
Long-Term Non-Operating Assets	17	12	1,376	*1,619*	*1,619*
Total Assets	**293,068**	**300,466**	**300,791**	***305,409***	***304,072***
Accounts Payable	52,405	46,673	46,129	*46,338*	*46,338*
Short-Term Debt	9,044	10,033	7,381	*6,453*	*6,453*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	22,869	20,469	15,321	*15,321*	*15,321*
Current Liabilities	**84,318**	**77,175**	**68,831**	***68,112***	***68,112***
Long-Term Debt	35,169	38,767	40,811	*47,157*	*47,157*
Deferred Tax Liabilities (Long-Term)	15,078	15,243	17,439	*18,535*	*19,063*
Other Long-Term Operating Liabilities	34,003	35,902	27,810	*27,810*	*27,810*
Long-Term Non-Operating Liabilities	12,018	13,627	9,778	*9,778*	*9,778*
Total Liabilities	**180,586**	**180,714**	**164,669**	***171,391***	***171,920***
Preferred Stock	—	—	—	—	—
Common Stock	—	—	—	—	—
Additional Paid-in Capital	5,224	5,261	5,261	*5,261*	*5,261*
Retained Earnings (Deficit)	106,241	113,285	129,756	*132,647*	*132,082*
(Treasury Stock)	—	—	—	*-4,996*	*-6,296*
Other Equity	—	—	—	—	—
Shareholder's Equity	**111,465**	**118,546**	**135,017**	***132,912***	***131,047***
Minority Interest	1,017	1,206	1,105	*1,105*	*1,105*
Total Equity	**112,482**	**119,752**	**136,122**	***134,017***	***132,152***

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412.20 GBX	575.00 GBX	402.50 GBX	776.25 GBX	Medium	Narrow	Negative	Standard	A	Oil & Gas - Integrated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	*Forecast 2014*	*Forecast 2015*
Net Income	30,799	11,649	23,914	*8,933*	*5,526*
Depreciation	11,135	13,432	16,220	*15,002*	*15,442*
Amortization	—	—	—	—	—
Stock-Based Compensation	-88	156	297	*267*	*274*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-1,201	—	—	*1,096*	*529*
Other Non-Cash Adjustments	-1,799	2,154	-12,488	*-243*	—
(Increase) Decrease in Accounts Receivable	—	-6,912	-6,843	*2,416*	—
(Increase) Decrease in Inventory	-3,988	—	—	*1,870*	—
Change in Other Short-Term Assets	-9,913	—	—	*-638*	—
Increase (Decrease) in Accounts Payable	—	—	—	*209*	—
Change in Other Short-Term Liabilities	-2,791	—	—	—	—
Cash From Operations	**22,154**	**20,479**	**21,100**	***28,910***	***21,771***
(Capital Expenditures)	-18,757	-25,018	-30,032	*-23,222*	*-24,300*
Net (Acquisitions), Asset Sales, and Disposals	-8,177	11,598	21,999	*3,190*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	301	245	178	—	—
Cash From Investing	**-26,633**	**-13,175**	**-7,855**	***-20,032***	***-24,300***
Common Stock Issuance (or Repurchase)	74	122	-5,358	*-4,996*	*-1,300*
Common Stock (Dividends)	-4,317	-5,376	-5,910	*-5,813*	*-5,992*
Short-Term Debt Issuance (or Retirement)	2,227	-666	-1,987	*-928*	—
Long-Term Debt Issuance (or Retirement)	2,498	3,910	2,855	*6,346*	—
Other Financing Cash Flows	—	—	—	*-495*	*-374*
Cash From Financing	**482**	**-2,010**	**-10,400**	***-5,886***	***-7,666***
Exchange Rates, Discontinued Ops, etc. (net)	-492	64	40	—	—
Net Change in Cash	**-4,489**	**5,358**	**2,885**	***2,992***	***-10,195***

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412.20 GBX	575.00 GBX	402.50 GBX	776.25 GBX	Medium	Narrow	Negative	Standard	A	Oil & Gas - Integrated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Exxon Mobil Corporation XOM USA	0.84	13.7	*11.9*	*17.5*	6.1	*5.3*	*6.8*	39.0	*19.2*	*26.2*	2.5	*2.1*	*2.2*	1.0	*0.9*	*0.9*
Royal Dutch Shell PLC RDS.A USA	0.98	11.5	*8.7*	*14.6*	4.6	*3.9*	*5.2*	NM	*15.5*	*NM*	1.2	*1.1*	*1.1*	0.5	*0.5*	*0.6*
Chevron Corp CVX USA	0.85	11.3	*11.2*	*21.6*	4.9	*4.4*	*6.7*	NM	*260.5*	*NM*	1.6	*1.3*	*1.3*	1.0	*0.9*	*1.3*
Total SA TOT USA	0.77	9.7	*10.5*	*15.2*	4.2	*4.2*	*4.7*	NM	*NM*	*NM*	1.5	*1.1*	*1.1*	0.6	*0.5*	*0.6*
Average		11.6	*10.6*	*17.2*	5.0	*4.5*	*5.9*	39.0	*98.4*	*26.2*	1.7	*1.4*	*1.4*	0.8	*0.7*	*0.9*
BP PLC BP. GB	**0.72**	**115.4**	***99.8***	***190.8***	**2.3**	***2.7***	***3.5***	**NM**	***13.3***	***NM***	**0.7**	***0.6***	***0.6***	**0.3**	***0.2***	***0.3***

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Exxon Mobil Corporation XOM USA	346,808 USD	15.2	*16.1*	*11.0*	13.8	*14.6*	*10.6*	19.2	*18.2*	*12.0*	9.6	*9.2*	*6.0*	2.5	*3.0*	*3.2*
Royal Dutch Shell PLC RDS.A USA	357,512 USD	7.2	*8.8*	*6.6*	6.9	*8.1*	*6.4*	9.2	*10.0*	*7.4*	4.6	*5.1*	*3.9*	3.3	*4.6*	*5.8*
Chevron Corp CVX USA	253,753 USD	12.8	*10.0*	*5.1*	12.6	*9.8*	*5.1*	15.0	*11.8*	*6.0*	8.8	*6.8*	*3.3*	3.1	*4.1*	*4.4*
Total SA TOT USA	239,223 USD	8.6	*7.2*	*5.8*	8.1	*6.9*	*5.6*	11.6	*10.7*	*7.3*	4.8	*4.5*	*3.1*	5.0	*6.3*	*5.9*
Average		11.0	*10.5*	*7.1*	10.4	*9.9*	*6.9*	13.8	*12.7*	*8.2*	7.0	*6.4*	*4.1*	3.5	*4.5*	*4.8*
BP PLC BP. GB	**300,791** USD	**7.1**	***6.0***	***4.2***	**7.2**	***6.3***	***4.6***	**18.5**	***6.5***	***4.1***	**7.8**	***2.9***	***1.8***	**5.9**	***7.7***	***7.9***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Exxon Mobil Corporation XOM USA	438,255 USD	-9.1	*1.7*	*-3.7*	-27.0	*-1.2*	*-33.6*	-24.0	*3.5*	*-31.6*	-49.8	*88.7*	*-44.3*	12.8	*10.0*	*10.0*
Royal Dutch Shell PLC RDS.A USA	459,599 USD	-4.6	*-2.7*	*-26.7*	-32.3	*-1.5*	*-31.9*	-20.3	*18.8*	*-40.3*	-94.6	*NM*	*-123.2*	2.4	*9.3*	—
Chevron Corp CVX USA	228,848 USD	-5.4	*-3.6*	*-28.5*	-22.5	*-8.0*	*-52.8*	-16.8	*-15.5*	*-48.1*	-108.5	*-201.1*	*-722.9*	11.1	*10.0*	*10.0*
Total SA TOT USA	227,969 USD	-2.7	*-3.2*	*-14.5*	-9.6	*-17.4*	*-24.5*	-9.6	*-22.6*	*-31.3*	-89.5	*251.7*	*-205.6*	5.1	*2.7*	*-7.5*
Average		-5.5	*-2.0*	*-18.4*	-22.9	*-7.0*	*-35.7*	-17.7	*-4.0*	*-37.8*	-85.6	*46.4*	*-274.0*	7.9	*8.0*	*4.2*
BP PLC BP. GB	**396,217** USD	**2.1**	***-5.3***	***-28.1***	**9.8**	***-44.6***	***-44.7***	**-20.8**	***-2.3***	***-47.7***	**74.7**	***-30.2***	***-107.6***	**10.6**	***7.1***	***2.4***

BP PLC BP. (XLON) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
412.20 GBX	575.00 GBX	402.50 GBX	776.25 GBX	Medium	Narrow	Negative	Standard	A	Oil & Gas - Integrated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2013	2014(E)	2015(E)	EBITDA Margin % 2013	2014(E)	2015(E)	Operating Margin % 2013	2014(E)	2015(E)	Net Margin % 2013	2014(E)	2015(E)	Free Cash Flow Margin % 2013	2014(E)	2015(E)
Exxon Mobil Corporation XOM USA	32,580 USD	44.3	*44.7*	*41.9*	17.1	*17.0*	*13.8*	13.2	*12.8*	*8.8*	7.4	*7.3*	*5.0*	2.6	*4.5*	*3.4*
Royal Dutch Shell PLC RDS.A USA	19,492 USD	17.0	*17.5*	*18.0*	12.4	*13.2*	*13.5*	7.7	*7.8*	*7.2*	4.2	*5.2*	*4.2*	-0.3	*3.0*	*-0.3*
Chevron Corp CVX USA	21,423 USD	41.1	*43.5*	*48.0*	21.9	*21.5*	*20.0*	15.7	*15.0*	*9.9*	9.4	*8.1*	*5.8*	-1.3	*0.4*	*-5.2*
Total SA TOT USA	14,292 USD	16.8	*16.4*	*16.4*	18.0	*15.8*	*16.4*	12.1	*10.3*	*9.1*	6.3	*5.0*	*4.0*	-1.3	*-1.0*	*-1.8*
Average		29.8	*30.5*	*31.1*	17.4	*16.9*	*15.9*	12.2	*11.5*	*8.8*	6.8	*6.4*	*4.8*	-0.1	*1.7*	*-1.0*
BP PLC BP. GB	**13,428** USD	**17.9**	***14.2***	***16.5***	**12.6**	***9.0***	***9.6***	**8.5**	***5.0***	***3.8***	**3.4**	***3.4***	***2.4***	**-2.3**	***1.5***	***-0.9***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2013	2014(E)	2015(E)	Debt/Total Cap % 2013	2014(E)	2015(E)	EBITDA/Interest Exp. 2013	2014(E)	2015(E)	Total Debt/EBITDA 2013	2014(E)	2015(E)	Assets/Equity 2013	2014(E)	2015(E)
Exxon Mobil Corporation XOM USA	22,699 USD	13.1	*12.1*	*17.8*	11.5	*10.8*	*15.1*	8,322.4	*232.5*	*181.7*	0.3	*0.3*	*0.5*	2.0	*2.0*	*2.0*
Royal Dutch Shell PLC RDS.A USA	44,562 USD	24.8	*23.1*	*22.9*	19.8	*18.8*	*18.6*	34.6	*32.8*	*26.5*	0.8	*0.7*	*1.0*	2.0	*1.9*	*1.9*
Chevron Corp CVX USA	20,334 USD	13.6	*19.7*	*30.0*	12.0	*16.4*	*23.1*	—	*141.8*	*95.6*	0.4	*0.6*	*1.4*	1.7	*1.8*	*1.9*
Total SA TOT USA	45,767 USD	45.7	*44.0*	*43.7*	31.4	*30.6*	*30.4*	46.1	*43.3*	*33.8*	1.1	*1.3*	*1.5*	2.4	*2.3*	*2.3*
Average		24.3	*24.7*	*28.6*	18.7	*19.2*	*21.8*	2,801.0	*112.6*	*84.4*	0.7	*0.7*	*1.1*	2.0	*2.0*	*2.0*
BP PLC BP. GB	**48,192** USD	**35.7**	***40.3***	***40.9***	**26.3**	***28.7***	***29.0***	**46.7**	***29.1***	***20.3***	**1.0**	***1.6***	***2.1***	**2.2**	***2.3***	***2.3***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2013	2014(E)	2015(E)	Current Ratio 2013	2014(E)	2015(E)	Quick Ratio 2013	2014(E)	2015(E)	Cash/Short-Term Debt 2013	2014(E)	2015(E)	Payout Ratio % 2013	2014(E)	2015(E)
Exxon Mobil Corporation XOM USA	385,850 USD	1.11	*1.36*	*0.94*	0.83	*1.06*	*1.03*	0.60	*0.77*	*0.75*	0.31	*5.61*	*5.82*	33.4	*35.5*	*57.1*
Royal Dutch Shell PLC RDS.A USA	204,937 USD	1.54	*3.75*	*0.62*	1.11	*1.30*	*1.12*	0.79	*0.97*	*0.78*	1.16	*4.01*	*0.67*	66.1	*64.9*	*85.5*
Chevron Corp CVX USA	198,721 USD	8.55	*7.62*	*4.07*	1.52	*1.46*	*1.27*	1.33	*1.27*	*1.07*	44.16	*38.81*	—	35.2	*45.8*	*97.0*
Total SA TOT USA	115,829 USD	9.22	*7.03*	*2.58*	1.37	*1.28*	*1.11*	1.01	*0.92*	*0.75*	1.87	*1.43*	*0.53*	63.9	*67.6*	*89.8*
Average		5.11	*4.94*	*2.05*	1.21	*1.28*	*1.13*	0.93	*0.98*	*0.84*	11.88	*12.47*	*2.34*	49.7	*53.5*	*82.4*
BP PLC BP. GB	**75,480** GBP	**1.21**	***1.40***	***0.88***	**1.37**	***1.37***	***1.22***	**0.95**	***0.97***	***0.82***	**3.11**	***4.03***	***2.45***	**29.6**	***83.2***	***132.4***

Research Methodology for Valuing Companies

Components of Our Methodology

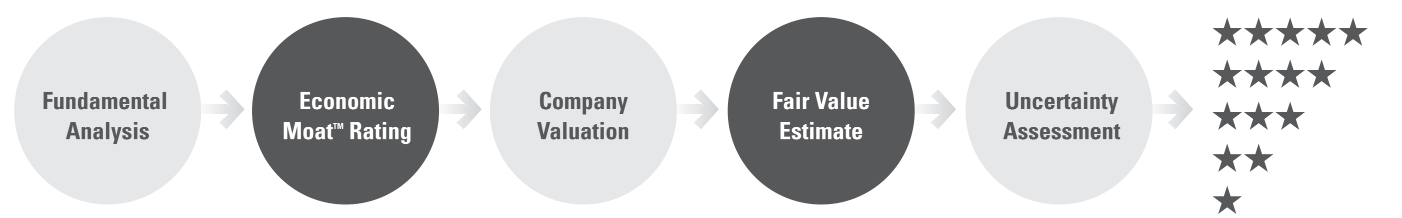
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Fundamental Analysis	Economic Moat™ Rating	Company Valuation	Fair Value Estimate	Uncertainty Assessment	Morningstar Rating
Analyst conducts company and industry research: ► Financial statement analysis ► Channel checks ► Trade-show visits ► Industry and company reports and journals ► Conference calls ► Management and site visits	Strength of competitive advantage is rated: None, Narrow, or Wide Advantages that confer an economic moat: **High Switching Costs** (Microsoft) **Cost advantage** (Wal-Mart) **Intangible assets** (Johnson & Johnson) **Network Effect** (Mastercard) **Efficient Scale** (Lockheed Martin)	Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows. Assumptions are entered into Morningstar's proprietary discounted cash-flow model.	Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.	The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme. The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.	The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks. The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

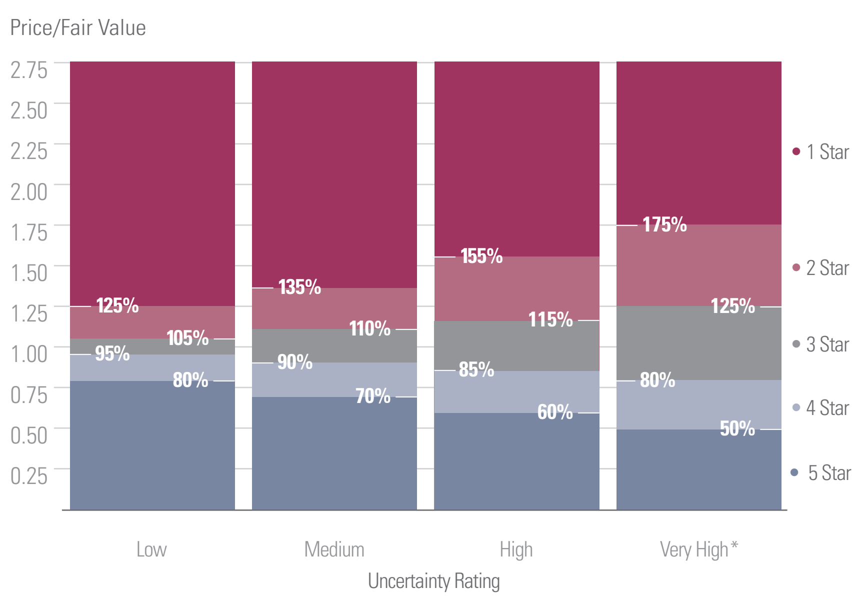
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

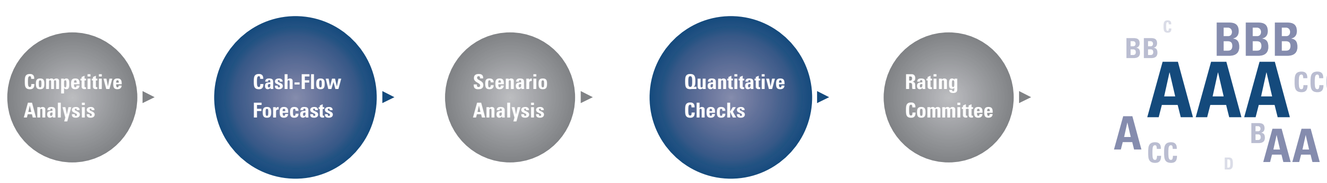
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

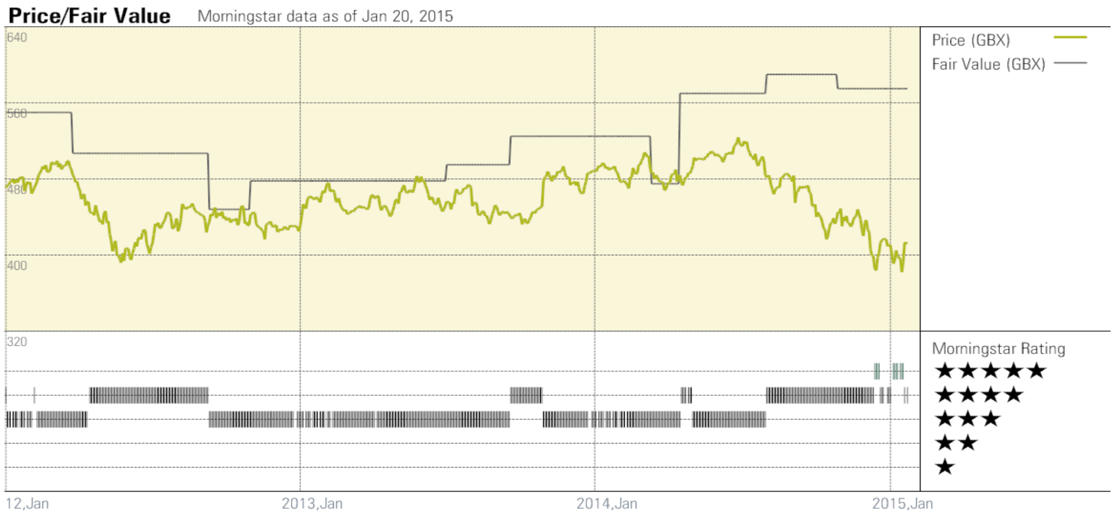
We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

BP PLC BP. (XLON) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
412.20 GBX	575.00 GBX	402.50 GBX	776.25 GBX	Medium	Narrow	Negative	Standard	A	Oil & Gas - Integrated



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Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from http://global.morningstar.com/equitydisclosures.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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