

Expect record 2Q08 for European Major Oils


Merrill Lynch

Expect record 2Q08 for European Integrated Oils

2Q08 is expected to have been a record quarter for the European Integrated Oils group. In aggregate we forecast net income of US\$34 billion, up 10% on last quarter and 36% YoY, driven by the steep rise in oil prices, but partly offset by the contraction in oil refining, marketing and base chemical margins versus 2Q07. Best-in-class is expected to be BG (+95% YoY) benefiting from strong oil price leverage and LNG pricing, BP (+56%) on stronger US gas prices and Statoil (+49%) on strong oil price leverage and high Norwegian gas sales. Those with higher refining exposure (Galp, RD/Shell, Total, OMV) are likely to be at the other end of the performance scale.

Key trends: stable E&P volumes, rising capex

Two key trends to focus on in the quarter: (1) E&P volumes - despite the negative impact of rising oil prices on PSC entitlement volumes we still expect to see modest E&P volume growth (+0.8% YoY) across the group this quarter reflecting project startups and higher Norwegian gas sales (benefiting Statoil in particular); (2) the trend on capex will be closely watched as the run-rate implied from 1Q was closer to +40% than the aggregate company targets of +20% this year.

Dividend growth +19% YoY; an indicator of M&A?

We see 2Q/1H08 dividend growth of +19% YoY in US\$-terms across the group, but with record levels of free cash flow, low gearing (ca. 15% net debt/equity) and little apparent appetite for share buybacks year-to-date dividends could well move higher. Conversely, a more conservative dividend policy could point towards an increasing appetite for M&A as a way of growing resources in the current environment, a business strategy that the group has largely been absent from in recent years.

Investment summary

Our stock recommendations continue to be based around a beta-neutral philosophy (oil price and market). We favour positive change, growth, long-term resource access and news flow catalysts. Top-picks are mid-cap names BG Group, Repsol-YPF, OMV and Galp and from the large-cap stocks Eni and RD/Shell. We Lower price objectives for Total from EUR 57 to EUR 54/share and BP from 630p to 580p/share.

Alastair Syme >> +44 20 7995 2865
Research Analyst
MLPF&S (UK)
alastair_syme@ml.com

Mark Iannotti >> +44 20 7996 2665
Research Analyst
MLPF&S (UK)
mark_iannotti@ml.com

James Talbot +44 20 7996 1876
Specialist Sales
MLPF&S (UK)
james_talbot@ml.com

Alex Holbourn +44 20 7996 2214
Specialist Sales
MLPF&S (UK)
alexander_holbourn@ml.com

Table 1: Recommendations/price objectives

	Rating	Price	Objective
BG	Buy (A-1-7)	1218p	1600p
Repsol	Buy (A-1-7)	€ 24.4	€ 32
OMV	Buy (B-1-7)	€ 49.1	€ 64
Eni	Buy (A-1-7)	€ 23.2	€ 29
RD Shell	Buy (A-1-7)	1960p	2450p
Statoil	Neutral (B-2-8)	NOK 182	NOK 200
Total	Underperform (A-3-7)	€ 51.5	€ 54
BP	Underperform (A-3-7)	581p	580p

Source: Merrill Lynch.

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the NYSE/NASD rules.

Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

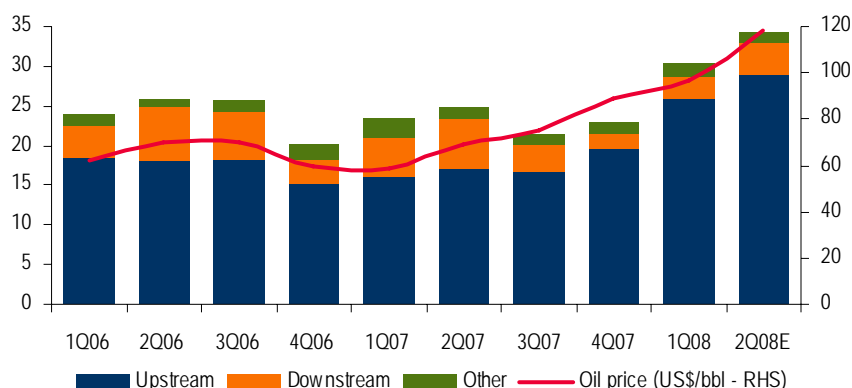
Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of Merrill Lynch in the US can receive independent, third-party research on companies covered in this report, at no cost to them, if such research is available. Customers can access this independent research at <http://www.ml.com/independentresearch> or can call 1-800-637-7455 to request a copy of this research.

Refer to important disclosures on page 10 to 11. Analyst Certification on Page 7. Price Objective Basis/Risk on page 6.

2Q08 preview

2Q08 is expected to have been a record quarter for the European Integrated Oils group. In aggregate we forecast net income of US\$34 billion, up 10% on last quarter and 36% YoY, driven by the steep rise in oil prices, but partly offset by the contraction in oil refining, marketing and base chemical margins versus 2Q07.

Chart 1: European Integrated Oils aggregate net income (US\$ billion)



Source: Company reports and Merrill Lynch.

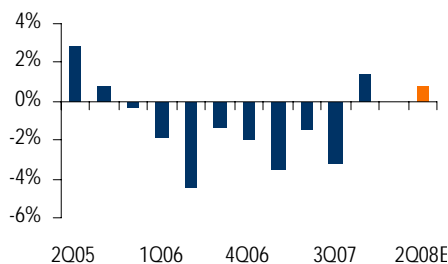
Best-in-class is expected to be BG (+95% YoY) benefiting from strong oil price leverage and LNG pricing, BP (+56%) on stronger US gas prices and Statoil (+49%) on strong oil price leverage and high Norwegian gas sales. Those with higher refining exposure (Galp, RD/Shell, Total, OMV) are likely to be at the other end of the performance scale.

Table 2: European Integrated Oils 2Q08 earnings forecasts (local currency, millions)

	Date	Currency	2Q08e	1Q08	2Q07	YoY reported	YoY US\$
BG	24-Jul	GBP	793	789	409	94%	95%
BP	29-Jul	USD	8,089	6,596	5,196	56%	56%
Eni	31-Jul	EUR	2,649	3,050	2,220	19%	38%
RD/Shell	31-Jul	USD	8,298	7,853	6,896	20%	20%
Repsol	31-Jul	EUR	856	811	729	17%	36%
Statoil	01-Aug	NOK	17,289	16,177	13,713	26%	49%
Total	01-Aug	EUR	3,551	3,254	3,100	15%	32%
OMV	06-Aug	EUR	508	411	435	17%	35%
Galp	06-Aug	EUR	125	109	167	-25%	-14%
Median							36%

Source: Merrill Lynch estimates.

Chart 2: Aggregate YoY E&P volume growth



Source: Merrill Lynch.

E&P volumes to remain stable, despite PSC effect

Despite the negative impact of rising oil prices on PSC entitlement volumes we still expect to see modest E&P volume growth across the group this quarter. Our forecast of +0.8% YoY reflects project startups (Angola, GoM etc.) and stronger Norwegian gas sales (benefiting Statoil in particular).

Capex - run-rate at 1Q08 was ahead of the +20% company targets

The trend on capex will be closely watched as the run-rate implied from 1Q was closer to +40% than the aggregate company targets of +20% this year. Only OMV and Total were close to target at 1Q08, all the others were ahead.

Expected dividend growth of 19%, but will M&A cause change?

Despite higher levels of capital spending, free cash flow continues to grow. With gearing remaining low (ca. 15% net debt/equity) across the group and little apparent appetite for share buybacks year-to-date there is, in our view, a real question around uses of excess capital. We forecast 2Q/1H08 dividend growth of +19% YoY in US\$-terms across the group, but there is certainly capacity to do more. Conversely, a more conservative dividend policy could signal an increasing appetite for M&A as a way of growing resources in the current environment, a business strategy that the group has largely been absent from in recent years.

Table 3: European Integrated Oils 2Q/1H08 dividends

	Declared	Currency	2Q/1H07 actual	2Q/1H08 MLE	YoY in US\$	2Q/1H08 consensus
BP	2Q results	USD	0.11	0.14	25%	0.14
RDS	2Q results	USD	0.36	0.40	12%	0.40
TOT	1H results*	EUR	1.00	1.04	19%	1.07
ENI	2Q results	EUR	0.60	0.65	24%	0.70
REP	Dec-08	EUR	0.50	0.55	19%	0.55
BG	2Q results	pence	3.60	3.89	5%	4.50

Median

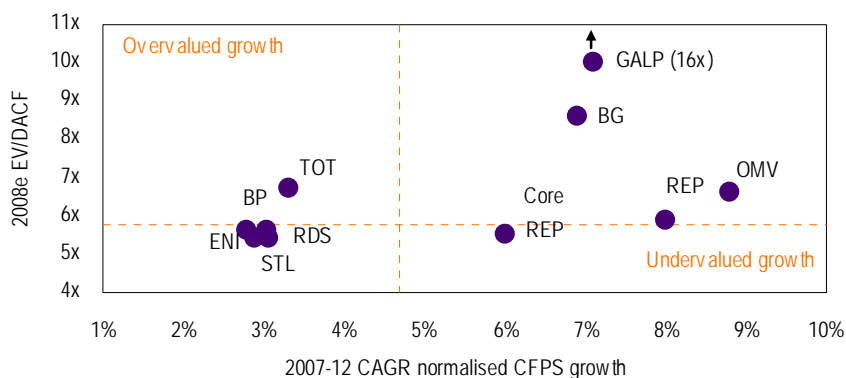
19%

Source: Merrill Lynch and Bloomberg. *Total declare the interim dividend with 1H results on 10 September,

Valuation and recommendations

Our stock recommendations continue to be based around a beta-neutral philosophy (oil price and market). That means we try and focus on the issues of change, growth (top-line and bottom-line), long-term access to resource and compelling news flow catalysts. Top picks are mid-caps **BG Group, Repsol-YPF, OMV, Galp** and from the large-cap group **Eni and RD/Shell**.

Chart 3: European integrated oils: growth-adjusted valuation



Source: Merrill Lynch.

Table 4: European integrated oils investment summary

	Rating	Price	Objective	Comments
BG	Buy (A-1-7)	1256p	1600p	Strong growth, high margins with a deep portfolio that supports a sustainable growth trend. Good recent exploration track-record. Still high on the list of global takeover candidates.
Repsol	Buy (A-1-7)	€ 26.6	€ 32	A strong restructuring story in 2008, led by the partial sell-down of Argentine business YPF and the re-positioning of the rump Repsol business around its core competitive strengths.
OMV	Buy (B-1-7)	€ 53	€ 64	Petrom still at the heart of the investment case where, despite market concerns, we see an emerging growth story '08-'09. Our valuation screens point to OMV as undervalued growth.
Eni	Buy (A-1-7)	€ 25.2	€ 29	A positive attitude to acquisitions and investment is helping provide much needed visibility to the business. Looks a bit very cheap versus peers, for much the same growth/financial outlook.
RD Shell	Buy (A-1-7)	2055p	2450p	Improving E&P business and resilient downstream earnings, the combination of which continues to impress on earnings delivery. A low growth / high yield play.
Statoil	Neutral (B-2-8)	NOK 195	NOK 200	What was a differentiated growth story now looks in the pack, with challenges ahead around bedding down a significant merger and with emerging long-term challenges on the Norwegian Continental Shelf.
Total	Underperform (A-3-7)	€ 53.6	€ 57	An improving operational story after a poor 2005-mid-07 period, but with a valuation that already reflects most of this improving growth trend.
BP	Underperform (A-3-7)	581p	630p	Despite an improvement in asset deliver the valuation remains expensive versus peers. Upstream growth story looks undifferentiated over 2008-10 period. Russia risk remains.

Source: Merrill Lynch.

07 July 2008

Table 5: Integrated Oils valuation

	P/E (x)				EV/DACF (x)				Dividend Yield				FCF Yield			
	2007	2008E	2009E	2010E	2007	2008E	2009E	2010E	2007	2008E	2009E	2010E	2007	2008E	2009E	2010E
BG Group	24.3	12.2	13.6	14.6	14.5	8.6	9.1	9.5	0.7%	0.8%	0.9%	1.0%	1.6%	4.2%	3.5%	3.1%
BP	12.6	7.3	7.5	8.2	8.4	5.4	5.5	5.8	4.0%	4.7%	4.9%	5.1%	2.5%	10.5%	9.1%	7.6%
Eni	9.3	7.8	7.8	8.0	6.8	5.6	5.7	5.6	5.2%	5.4%	5.6%	5.8%	5.3%	7.9%	6.8%	6.0%
Galp	32.0	25.3	22.9	18.9	25.0	17.0	15.3	12.3	2.0%	2.2%	2.4%	2.5%	3.0%	-0.8%	-2.9%	-0.8%
OMV	10.1	7.5	7.2	6.8	7.9	6.6	6.1	5.5	2.4%	2.5%	2.6%	2.8%	-7.1%	3.2%	1.9%	2.8%
Repsol YPF	11.8	8.5	9.2	9.1	6.7	5.9	6.0	5.7	3.8%	4.0%	4.2%	4.5%	1.2%	3.1%	2.5%	3.1%
RDSA	10.4	7.2	8.2	8.3	6.7	5.1	5.8	5.8	3.5%	3.8%	4.1%	4.3%	4.3%	8.3%	3.8%	3.6%
RDSB	10.2	7.0	8.0	8.2	6.6	5.0	5.7	5.7	3.6%	3.9%	4.2%	4.4%	4.3%	8.3%	3.8%	3.6%
Statoil	11.8	8.8	9.4	9.9	6.4	5.4	5.1	4.9	4.4%	3.8%	3.9%	4.0%	5.6%	7.3%	8.1%	7.6%
Total	10.0	8.0	8.3	8.5	7.3	6.7	6.4	6.3	3.9%	4.3%	4.6%	4.9%	5.0%	8.1%	6.6%	6.0%
Average	12.3	8.3	8.8	9.1	7.9	6.0	6.1	6.1	3.5%	3.7%	3.9%	4.1%	2.5%	6.8%	5.1%	4.8%
Weightd Avg	11.6	7.9	8.5	8.8	7.5	5.7	5.9	6.0	3.7%	4.0%	4.2%	4.4%	3.8%	7.9%	5.7%	5.2%

Source: Merrill Lynch

Investment thesis

Galp Energia

Galp's core business in Portuguese downstream oil and wholesale gas offers considerable growth, but it is the company's minority interests in deepwater Brazilian exploration that drive the potential upside in the shares. A back-to-back drilling programme in the Santos Basin sees a constant stream of news flow, with the opportunity of further discoveries to build on the company's existing world-class assets Tupi and Jupiter.

Price objective basis & risk

BG Group (BRGXF)

Our price objective of 1,600/share equates to a 2008 prospective PE multiple of 17.5x, some 90% higher than the sector average. Our PO reflects a view that BG's management has the opportunity set to continue to create shareholder value (particularly upstream/LNG) and deliver underlying earnings growth c. 2x the sector average over a multi year period. In addition, we see M&A potential as providing price support. Risks to our objective are Brazilian exploration disappointment, adverse currency moves and increased government intervention and regulation in Kazakhstan.

BP plc (BPAQF)

We set a price objective of 580p/share. At our target price the shares would trade on 10.3x 2009E P/E in line with the sector average multiple which we view as appropriate given BP's medium term growth, profitability and dividend distribution potential relative to industry peers. Risks (upward and downward) to our PO are sharp moves in oil and gas prices and the USD. Negative risks are unanticipated government intervention and regulation, project execution risk and the general risk of increased taxes and tariffs.

Eni (EIPAF)

Our price objective of EUR 29/share for Eni is based on a ca. 5% premium to the current large-cap European integrated oil peer group average, and a level that we believe is consistent with Eni's strong growth opportunity and superior dividend distribution relative to peers. Risks to our price objective are a significant decline in the price of oil or a contraction in downstream margins, currency (US\$-translation impact) and government regulatory or fiscal intervention.

Galp Energia (GLPEF)

Our price objective of EUR 20/share is based on our sum-of-parts, incorporating the Refining & Marketing business at 8x EV/DACF, Gas & Power at 9x EV/DACF and the Exploration & Production business at an average of US\$5.6/boe. Note that in the E&P segment we include an assessment of the risk potential of the ongoing exploration programme in Brazil. The premium we have built into the price objective reflects the reality that the risks are oil prices and refining margins, Portuguese electricity and natural gas prices and changes to Government regulation and fiscal terms.

OMV (OMVJF)

Our price objective of EUR 64/share is based on a ca. 10% premium to the average sector target multiple, a valuation that we believe is well supported OMV's superior earnings growth outlook. Risks to our price objective are a significant decline in the price of oil or a contraction in downstream margins, currency (particularly depreciation of the US\$ or Romanian Lei) and finally government regulatory or fiscal intervention (particularly in Romania).

RD Shell Shs A (RYDAF)

We have a price objective of 2,400p/share. At our price objective the shares would trade in line with key sector peers BP and Total on 2008/09E prospective P/E multiples and still be some 20% below the company's historical P/E multiple. Risks: significant economic slowdown that could negatively impact oil and gas prices and refining margins, adverse currency moves for the US dollar, risk of government intervention and regulation, project execution risk, general risk of changes in taxes and tariffs.

Repsol-YPF (REPYF)

Our price objective of EUR 32/share is based on three valuation components: a prospective mid-point value of YPF of US\$24 billion (100% basis), of which Repsol owns 85% today, the current market value of Gas Natural, and the prospective market value attributable to the rump Repsol business, putting it on a sector average multiple of 6.5x 2009e EV/DACF. Risks to our price objective are the Argentine political and economic environment (for YPF), the oil price/refining environment and the potential share overhang of Sacyr's 20% holding.

Royal Dtch Shell (RYDBF)

We have a price objective of 2,450p/share. At our price objective the shares would trade in line with key sector peers BP and Total on 2008/09E prospective P/E multiples and still be some 20% below the company's historical P/E multiple. Risks significant economic slowdown that could negatively impact oil and gas prices and refining margins, adverse currency moves for the US dollar, risk of government intervention and regulation, project execution risk, general risk of changes in taxes and tariffs.

StatoilHydro (SLDKF)

Our price objective of NOK 200/share for StatoilHydro is based on a ca. 10% discount to the current large-cap European integrated oil peer group average, and a level that we believe is consistent with concerns over long-term portfolio renewal on a business that has seen backlog (reserve life) shrink substantially over the last few years. Risks to our price objective are a significant decline in the price of oil or a contraction in downstream margins, currency (US\$-translation impact) and government regulatory or fiscal intervention.

Total (TTFNF)

Our price objective of EUR 54/share for Total is based on a ca.10% premium to the current large-cap European integrated oil peer group average, and a level that we believe is consistent with Total's strong growth and resource opportunity relative to peers. Risks to our price objective are a significant decline in the price of oil or a contraction in downstream margins, currency (US\$-translation impact) and government regulatory or fiscal intervention.

Analyst Certification

We, Mark Iannotti and Alastair Syme, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

07 July 2008

EMEA - Oil & Gas Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Afren	AFRNF	AFR LN	Andrew Knott
	AMEC	AMCBF	AMEC LN	Alejandro Demichelis
	BG	BRGY	BRGY US	Mark Iannotti
	BG Group	BRGX	BG/ LN	Mark Iannotti
	Bourbon	BOUBF	GBB FP	Alejandro Demichelis
	BowLeven	BWLVF	BLVN LN	Andrew Knott
	Cairn Energy	CRNCF	CNE LN	Andrew Knott
	Dana	DNPXF	DNX LN	Andrew Knott
	Eni	E	E US	Alastair Syme
	Eni	EIPAF	ENI IM	Alastair Syme
	ERG SpA	ERGZF	ERG IM	James Schofield
	Galp Energia	GLPEF	GALP PL	Alastair Syme
	Gazprom	RGZPF	GAZP RU	Hootan Yazhari, CFA
	Gazprom-ADR Regs	OGZPY	OGZD LI	Hootan Yazhari, CFA
	Imperial Energy	IEGYF	IEC LN	Taleh Musayev
	KazMunaiGas-GDR	XZKEF	KMG LI	Alina Chapovskaya
	Lukoil	LUKOF	LKOH RU	Hootan Yazhari, CFA
	Lukoil	LUKOY	LUKOY US	Hootan Yazhari, CFA
	Lundin Petroleum	LNDNF	LUPE SS	Andrew Knott
	Motor Oil-Hellas	MOHCF	MOH GA	James Schofield
	Oilexco	OILXF	OIL CN	Andrew Knott
	Oilexco	XOLEF	OIL LN	Andrew Knott
	OMV	OMVJF	OMV AV	Alastair Syme
	OMV	OMVKY	OMVKY US	Alastair Syme
	Petroleum Geo	PGEJF	PGS NO	Alejandro Demichelis
	Petroleum Geo-Sv-ADR	PGSVY	PGSVY US	Alejandro Demichelis
	Premier Oil	PMOIF	PMO LN	Andrew Knott
	Premier Oil	PMOY	PMOY US	Andrew Knott
	RD Shell Shs A	RDSA	RDSA US	Mark Iannotti
	RD Shell Shs A	RYDAF	RDSA LN	Mark Iannotti
	Regal Petroleum	RGPMF	RPT LN	Andrew Knott
	Repsol-YPF	REP	REP US	Alastair Syme
	Repsol-YPF	REPYF	REP SM	Alastair Syme
	ROC Oil	XLOOF	ROC LN	Andrew Knott
	Royal Ditch Shell	RDSB	RDS/B US	Mark Iannotti
	Royal Ditch Shell	RYDBF	RDSB LN	Mark Iannotti
	Saipem	SAPMF	SPM IM	Alejandro Demichelis
	Salamander	SALDF	SMDR LN	Andrew Knott
	Saras SPA	SAAFF	SRS IM	James Schofield
	SBO	SBOEF	SBO AV	Alejandro Demichelis
	Soco Intl	SOCLF	SIA LN	Andrew Knott
	Subsea 7 Inc	SBEAF	SUB NO	Alejandro Demichelis
	Tatneft	AOTTF	TATN RU	Alina Chapovskaya
	Tatneft	XFTTF	ATAD LI	Alina Chapovskaya
	Tecnicas Reunida	TNISF	TRE SM	Alejandro Demichelis
	Tullow Oil	TUWLF	TLW LN	Andrew Knott
	Wellstream	WELLF	WSM LN	Alejandro Demichelis
NEUTRAL				
	Aker Solutions	AKKV	AKSO NO	Alejandro Demichelis
	Expro	EXPRF	EXR LN	Alejandro Demichelis
	Gazprom Neft	GZPFY	GZPFY US	Hootan Yazhari, CFA
	Gazprom Neft	XGSOF	SIBN RU	Hootan Yazhari, CFA
	Neste Oil	NTOIF	NES1V FH	James Schofield
	Novatek	NVFI	NVTK RU	Alina Chapovskaya
	Novatek GDR	XAOOF	NVTK LI	Alina Chapovskaya
	PKN Orlen	PSKOF	PKN PW	Hootan Yazhari, CFA
	PKN Orlen	PSKZF	POKD LI	Hootan Yazhari, CFA
	Rosneft	OJSCF	ROSN LI	Hootan Yazhari, CFA
	Rosneft	XRNOF	ROSN RU	Hootan Yazhari, CFA
	SBM Offshore	SBFFF	SBMO NA	Alejandro Demichelis
	SeaDrill	SDRLF	SDRL NO	Alejandro Demichelis

EMEA - Oil & Gas Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	StatoilHydro	SLDKF	STL NO	Alastair Syme
	StatoilHydro	STO	STO US	Alastair Syme
	Surgut ADR Pref	SGTPY	SGTPY US	Alina Chapovskaya
	Surgutneftegas	SGTZF	SNGS RU	Alina Chapovskaya
	Surgutneftegas	SGTZY	SGTZY US	Alina Chapovskaya
	SURGUTNEFTEG-PFD	XSRGF	SNGSP RU	Alina Chapovskaya
	Technip	TKPPY	TKPPY US	Alejandro Demichelis
	Technip	TNHPF	TEC FP	Alejandro Demichelis
	Vallourec	VLOUF	VK FP	Alejandro Demichelis
	Wood Group	WDGJF	WG/ LN	Alejandro Demichelis
UNDERPERFORM				
	Acergy SA	ACGY	ACGY US	Alejandro Demichelis
	Acergy SA	ACGYF	ACY NO	Alejandro Demichelis
	BP plc	BP	BP US	Mark Iannotti
	BP plc	BPAQF	BP/ LN	Mark Iannotti
	CEPSA	CEPPF	CEP SM	James Schofield
	CGG-Veritas	CGPVF	GA FP	Alejandro Demichelis
	CGG-Veritas-ADR	CGV	CGV US	Alejandro Demichelis
	Gas Plus	XAGSF	GSP IM	Andrew Knott
	Hellenic Petro	HLCPF	ELPE GA	James Schofield
	INA	XIGDF	INARA CZ	Hootan Yazhari, CFA
	INA-G	XIAIF	HINA LI	Hootan Yazhari, CFA
	MOL	MGYOY	MOLD LI	Hootan Yazhari, CFA
	MOL	MMGYF	MOL HB	Hootan Yazhari, CFA
	ORL	XORFF	ORL IT	Hootan Yazhari, CFA
	Petrofac Ltd	POFCF	PFC LN	Alejandro Demichelis
	Petroplus	PEPFF	PPHN VX	James Schofield
	TGS-NOPEC	TGSNF	TGS NO	Alejandro Demichelis
	Total	TOT	TOT US	Alastair Syme
	Total	TTFNF	FP FP	Alastair Syme
	Venture Production	VTPRF	VPC LN	Andrew Knott
REVIEW				
	Tupras	TUPRF	TUPRS TI	Hootan Yazhari, CFA

Important Disclosures

Investment Rating Distribution: Energy Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	159	61.15%	Buy	51	35.92%
Neutral	50	19.23%	Neutral	12	29.27%
Sell	51	19.62%	Sell	10	23.81%

Investment Rating Distribution: Global Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1664	47.42%	Buy	441	29.46%
Neutral	803	22.88%	Neutral	224	31.46%
Sell	1042	29.70%	Sell	217	22.84%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent Merrill Lynch Comment referencing the stock.

Price charts for the securities referenced in this research report are available at <http://www.ml.com/research/pricecharts.asp>, or call 1-888-ML-CHART to have them mailed.

MLPF&S or an affiliate was a manager of a public offering of securities of this company within the last 12 months: Galp Energia.
The company is or was, within the last 12 months, an investment banking client of MLPF&S and/or one or more of its affiliates: BP plc, Eni, OMV, Repsol-YPF, Royal Ditch Shell, StatoilHydro, Total SA.
MLPF&S or an affiliate has received compensation from the company for non-investment banking services or products within the past 12 months: BP plc.
In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: BG, BP plc, Eni, Galp Energia, OMV, Repsol-YPF, Royal Ditch Shell, StatoilHydro, Total SA.
An officer, director or employee of MLPF&S or one of its affiliates is an officer or director of this company: Total SA.
MLPF&S or an affiliate has received compensation for investment banking services from this company within the past 12 months: BP plc, Eni, OMV, Repsol-YPF, Royal Ditch Shell, StatoilHydro, Total SA.
MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: BG, BP plc, Eni, Galp Energia, OMV, Repsol-YPF, Royal Ditch Shell, StatoilHydro, Total SA.
MLPF&S together with its affiliates beneficially owns one percent or more of the common stock of this company. If this report was issued on or after the 10th day of the month, it reflects the ownership position on the last day of the previous month. Reports issued before the 10th day of a month reflect the ownership position at the end of the second month preceding the date of the report: Eni, Galp Energia, Repsol-YPF, Royal Ditch Shell, Total SA.
The company is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one or more of its affiliates: BP plc.
The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

MLPF&S or one of its affiliates has a significant financial interest in the fixed income instruments of the issuer. If this report was issued on or after the 10th day of a month, it reflects a significant financial interest on the last day of the previous month. Reports issued before the 10th day of a month reflect a significant financial interest at the end of the second month preceding the date of the report: Repsol-YPF, Total SA.

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.; Merrill Lynch (Malaysia): Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow; Merrill Lynch (Turkey): Merrill Lynch Yatirim Bankasi A.S.; Merrill Lynch (Dubai): Merrill Lynch International Bank Ltd, Dubai Branch; MLPF&S (Zürich rep. office): MLPF&S Incorporated Zürich representative office.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

Copyright 2008 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.