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Industry View
Attractive

Oil & Gas

Majors due a catch-up

Integrateds – risk-reward positively skewed to year-end. Despite mixed equity markets, resilient oil prices and a stronger dollar, European Energy continues to lag the wider market by 12% YTD and sentiment remains at a low ebb – with uninspiring updates, gas market concerns, earnings downgrades and Macondo key factors. From a medium-term perspective we argue Big Oil needs to embrace change pro-actively in order to narrow the c.30% discount to fair value (see *"How Big Can Be Beautiful: Oil 1.01 – 1.04",* 3 September); nearer-term however, we believe the risk-reward is positively skewed to year-end and expect stronger performance during Q4. Top picks: Statoil, BG Group and Repsol YPF. Preferred Supermajor: BP

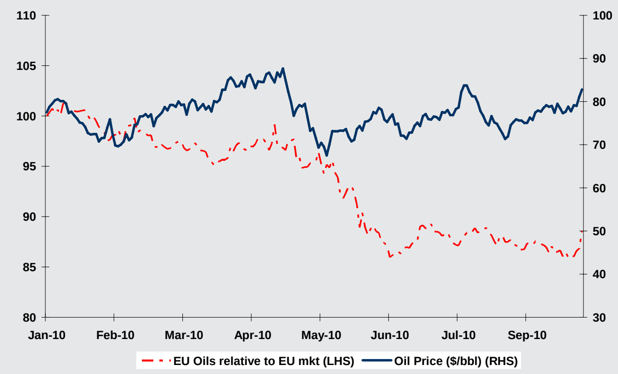
Bullish on crude prices to year-end … With global inventories showing signs of rolling over, demand robust and offshore stocks cleaning up, we see increased risks that oil prices breakout and trade higher into year-end. We also think refining will improve in Q4, underpinned by a pickup in heating oil demand from an undemanding Q3 base, while oil-linked EU contract gas prices continue to shield the group from weak global gas spot markets. With the Integrateds at 8.3x 2011e PE, we expect the group to modestly outperform.

… but stock specific catalysts are also key – Repsol continues to stand out. The recent Sinopec deal (for 40% of its Brazil assets) highlighted Repsol's potential to deliver stock specific catalysts that unlock value. From here, focus will shift to further exploration, YPF energy pricing upside and a potential stake sale in 2011.

Top picks – adding Statoil. With gas volumes set to pick up seasonally, oil gearing a positive differentiator and Intl E&P to be boosted in early 2011 by a start-up at Peregrino (Brazil), catalysts appear more attractive now following c.15% underperformance over the last four months. Please refer to *"Buy into Improving Operational Momentum"*, 6 October.

Q3 earnings – unlikely to sparkle. We estimate EPS will fall c.10% q/q, as robust oil pricing is offset by seasonality and weaker downstream margins. Of the group, q/q comps are relatively resilient at Total (-6% q/q), as key E&P projects continue to ramp-up.

EU Energy has underperformed by 12% YTD, despite robust oil pricing



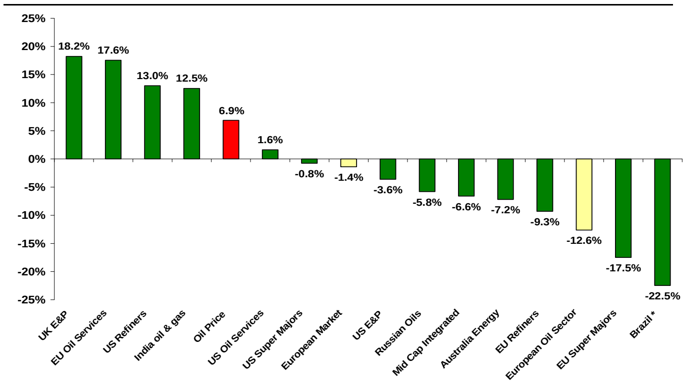
Source: Datastream, Morgan Stanley Research

Key dates

Date	Event
14-Oct	- Galp 3Q10 Trading Statement
15-Oct	- Total 3Q10 Trading Statement
21-Oct	- OMV 3Q10 Trading Statement
28-Oct	- Eni 3Q10 Results
28-Oct	- Galp 3Q10 Results
28-Oct	- RD Shell 3Q10 Results & dividend
29-Oct	- Total 3Q10 Results
02-Nov	- BG 3Q10 Results
02-Nov	- BP 3Q10 Results (delayed from 26th Oct)
03-Nov	- Statoil 3Q10 Results
03-Nov	- RD Shell ex-dividend
10-Nov	- OMV 3Q10 Results
11-Nov	- Repsol 3Q10 Results

European Integrated Oils – Key Charts

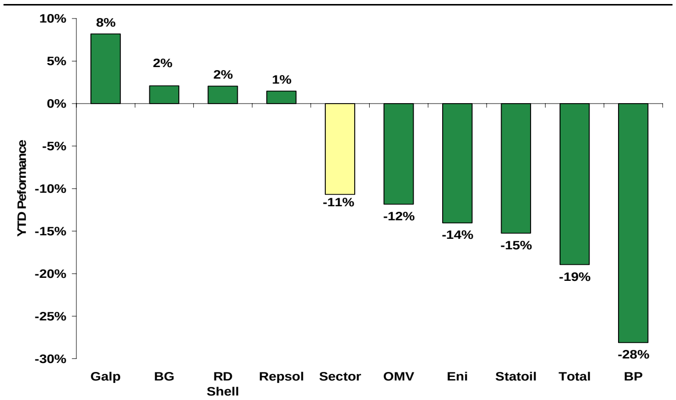
Exhibit 1
YTD Energy Performance: Led by the UK E&Ps



* Petrobras a proxy for Brazil Oil & Gas

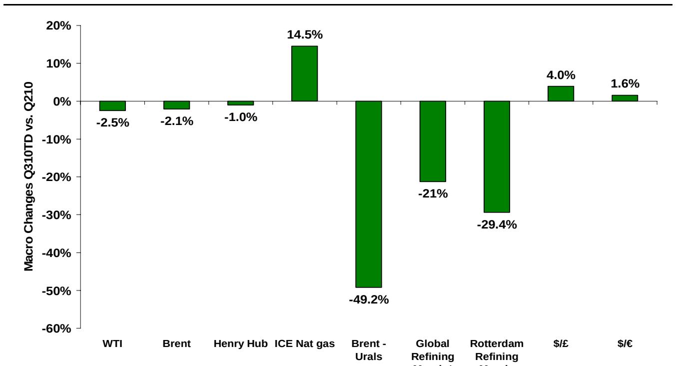
Source: Datastream, Morgan Stanley Research

Exhibit 2
Integrated Oils: 2010 YTD Performance



Source: Datastream, Morgan Stanley Research

Exhibit 3
Q3 Macro Environment – a weakening downstream



*BP Global Indicator Margin

Source: Company data, Datastream, Morgan Stanley Research

How Big Can Be Beautiful: Oil 1.01-1.04

Our 'Oil 1.01-1.04' plan sets out a way of unlocking the inherent value which remains 'locked' within European Big Oil:

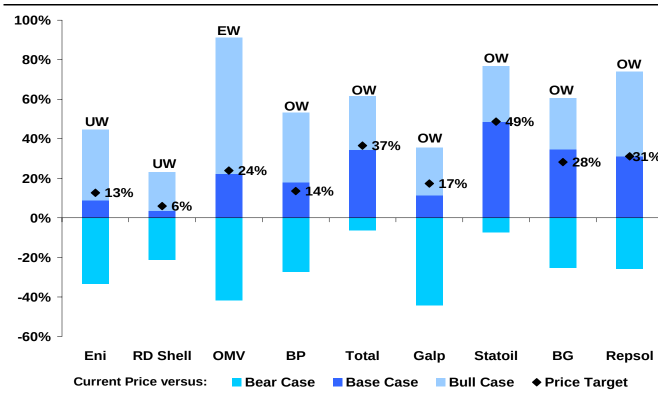
Oil 1.01: shrink-to-grow strategy. An accelerated portfolio rationalisation program of mature and/or low return assets.

Oil 1.02: raise exploration spend two- to threefold, and increase growth capex.

Oil 1.03: more aggressive M&A. Particularly with F&D costs in many cases higher than market EV/boe's.

Oil 1.04: cut the payout. Big Oil gets little credit for its premium yield. We think the market would be prepared to forsake some income yield for growth.

Exhibit 4
Sector Risk Reward in Order of Preference



Source: Morgan Stanley Research estimates

Exhibit 5
Integrated Oils: Q3 Reporting Season

Date	Event
14-Oct	- Galp 3Q10 Trading Statement
15-Oct	- Total 3Q10 Trading Statement
21-Oct	- OMV 3Q10 Trading Statement
28-Oct	- Eni 3Q10 Results
28-Oct	- Galp 3Q10 Results
28-Oct	- RD Shell 3Q10 Results & dividend
29-Oct	- Total 3Q10 Results
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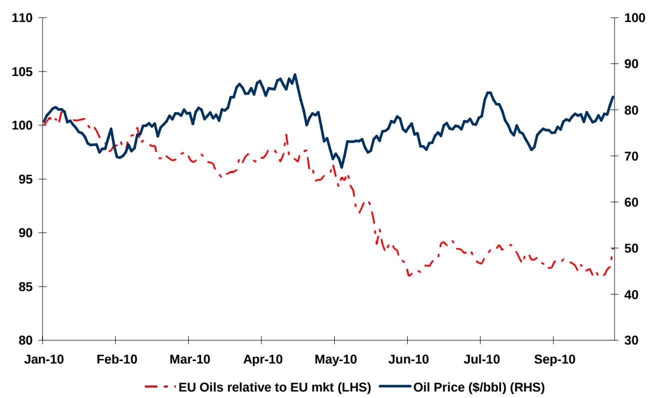
03-Nov	- Statoil 3Q10 Results
03-Nov	- RD Shell ex-dividend
10-Nov	- OMV 3Q10 Results
11-Nov	- Repsol 3Q10 Results

Source: Company data, Morgan Stanley Research

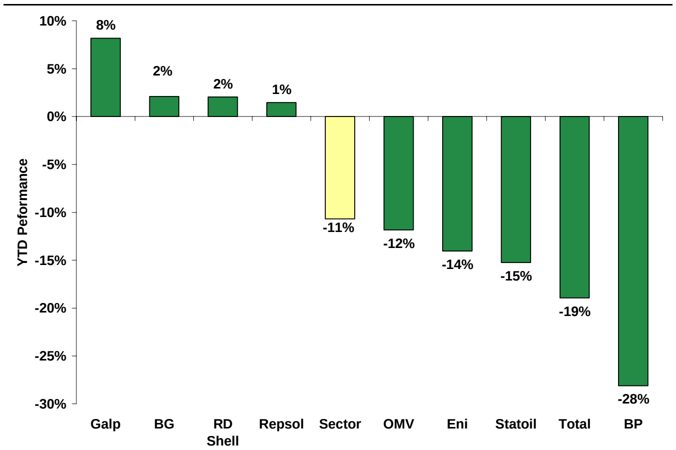
Recapping 2010 YTD – the majors have lagged…

Exhibit 6
EU Energy has underperformed by 12% YTD, despite robust oil pricing



Source: Datastream, Morgan Stanley Research

Exhibit 7
Integrated Oils: 2010 YTD Performance



Source: Datastream, Morgan Stanley Research

Whilst oil pricing has proved resilient, European Integrated oil has underperformed wider equity markets YTD and now lags the market by some 12%. We highlight four primary factors that have weighed on investor sentiment:

1) An uninspiring start to the year

In aggregate, Q1 strategy updates and Q409 earnings disappointed with many of the structural concerns that have plagued the sector in recent years re-emerging, including:

- **Volumes down and capex up:** With the exception of Total, expectations of 2010 volume growth were largely eliminated during early year strategy updates (our 2010e production growth estimates moved from an average of 1.5% growth to flat), while uncertainty around cost and capital efficiency underpinned concerns that capex budgets need to go up…again.

- **The market moved incrementally bearish on gas:** Sentiment worsened as demand struggled to show meaningful recovery (with industrial demand in particular remaining weak), while the production outlook from US shale gas and new LNG projects loosened the supply / demand balance and raised concerns on medium-term nat gas spot pricing.

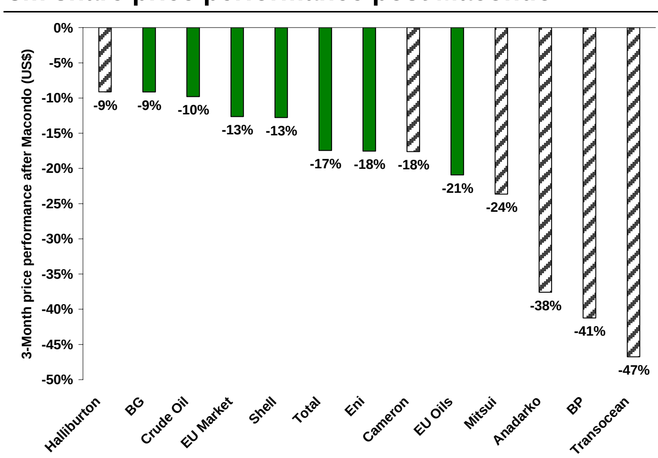
- **Sovereign risk – played its part:** Repsol and Galp's Iberian connections presented a headwind during H1, while Total and Eni offered investors a liquid means of underweighting Europe and suffered accordingly – in part as they are two of the larger constituents of the Eurostoxx 50 index.

2) The Macondo effect

Whilst in principle a company-specific event, the fallout from Macondo had an adverse effect on the group as a whole, amidst concerns / uncertainty regarding the length of the drilling moratorium, and the effect of the incident on regulatory frameworks and future IOC access to resource.

The sector underperformed the European market by c.10% over the two months post-Macondo.

Exhibit 8
3m share price performance post Macondo

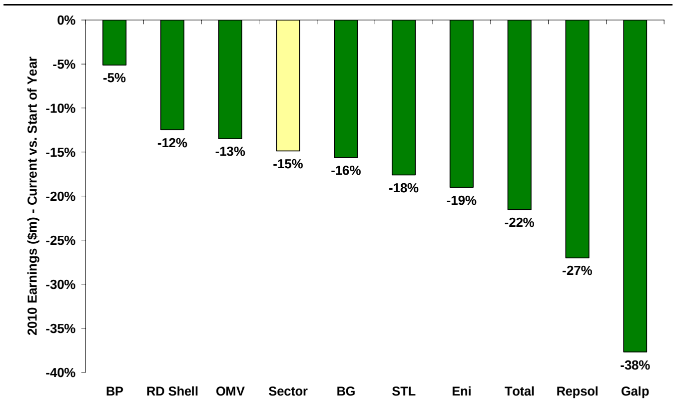


Source: DataStream, Morgan Stanley Research

3) Earnings downgrades

As a consequence of several of the points raised under section 1 coupled with weaker Q3 downstream margins (compared to H1), our 2010e earnings estimates have been lowered by some 15% compared to the beginning of the year.

Exhibit 9
2010e Earnings: MS estimates are down some 15% compared to the beginning of the year



Source: Morgan Stanley Research estimates

4) Mid-year review – no big changes

Total's recent mid-year strategy review had the potential to be an important data point for the group, in the sense that it represented the first formal update from 'Big Oil' post the Macondo incident. However, it ultimately failed to re-invigorate investor interest and sector-wide implicit risk premia remain high, in our opinion.

Whilst Total's update was solid, with a focus on the strength of the medium-term E&P portfolio and rationalization opportunities, the company appears unlikely to adopt a more radical restructuring strategy (as we outlined recently in *"How Big Can Be Beautiful: Oil 1.01-1.04"*) for the moment. With the market increasingly looking for signs that Big Oil management teams are prepared to consider embracing more pro-active change in order to halt the de-rating of the last decade, investors arguably needed a little more from the update for it to prove a company or sector-wide performance catalyst.

… Q3 unlikely to sparkle, but risk-reward is positively skewed

In general, the last 12 months has seen progressive earnings improvement, as crude prices recovered from the lows of early 2009 and downstream margins exhibited a trend of gradual improvement through H1 2010. From here however, earnings momentum looks set to flatten off – Q3 results season (starting late October) does not appear a stand out quarter on our estimates (see page 12) – nonetheless, we argue the sector risk-reward is positively skewed to year-end. We are:

- **Bullish on crude prices to year-end:** With global inventories showing signs of rolling over and demand set to pickup, we expect crude to trade higher into year-end.

- **Expect refining margins to improve in Q4:** Supported by stronger heating oil demand in the northern hemisphere versus an undemanding Q3 base.

- **Gas remains mixed – but Europeans assisted by contract price:** Gas markets remain weak, especially in the US, but the EU Integrateds continue to be shielded (for the moment) by the oil-linked nature of EU contract prices, which remains supportive.

- **The drag of Macondo was a 'one-off' effect:** With the initial spill now addressed, we expect sentiment towards the group will gradually improve from current lows as the drilling moratorium ends in late November and the market begins to get a clearer view on regulatory implications over the coming months.

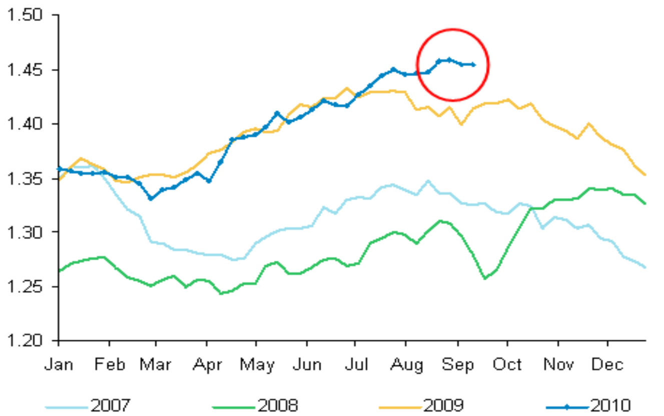
1) Upside risks on crude to year-end …

Our house view remains bullish on crude to year-end – we expect prices to remain range-bound through mid-October, before trading higher as refiners demand for crude picks up and inventories start to draw down from current bloated levels. For further details, please refer to our Commodity Strategist Hussein Allidina's recent report *"The Commodity Call: The Time to Buy Crude",* published 6 September.

Fundamentals improving, inventories starting to roll-over
Inventories are not high due to sluggish demand – global demand is averaging c.87mb/d, only 1% below Q407 highs of 87.7mb/d – which has helped drive floating oil storage levels down to 18m lows. It is more supply that has surprised to the upside (increased OPEC, Russian and Chinese crude production, together with NGLs and biofuels growth). We are

skeptical that positive supply surprises can be repeated, particularly with the (non-OPEC) new project pipeline thinning and argue underlying decline rates are still an issue. In addition, we have detected early signs that inventories – whilst still bloated in the US – are beginning to roll over globally.

Exhibit 10
Global inventories are bloated, but showing signs of stabilization

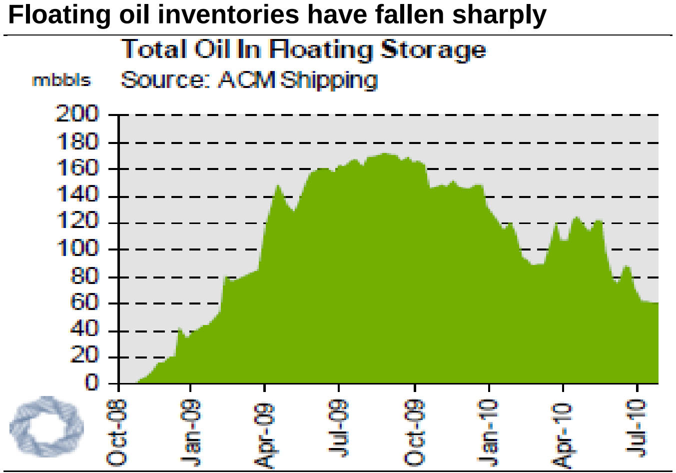


Source: Morgan Stanley Commodities Research

Refiners set to exit maintenance and boost crude demand
As refiners exit maintenance, in anticipation of increased demand for middle distillate (heating oil) through the winter months in the northern hemisphere, we expect robust crude demand to underpin a progressive draw in crude inventories from current elevated levels.

This should be supportive for prices, albeit we note that the potential for near-term company EPS upgrades is limited to a degree by the fact that consensus oil prices are already slightly ahead of the forward curve.

Exhibit 11
Floating oil inventories have fallen sharply



Source: Norwegian Energy

Expect the Integrateds to benefit … especially Statoil
We continue to argue that leverage should continue to work and that the E&Ps and Services (the latter selectively, with a bias for onshore names) are therefore our preferred means of obtaining oil price gearing. Nonetheless, the Integrateds are inexpensive at only 8.3x 2011e PE and we expect sentiment towards the group to benefit from any pickup in crude prices – and close some of the 12% YTD underperformance.

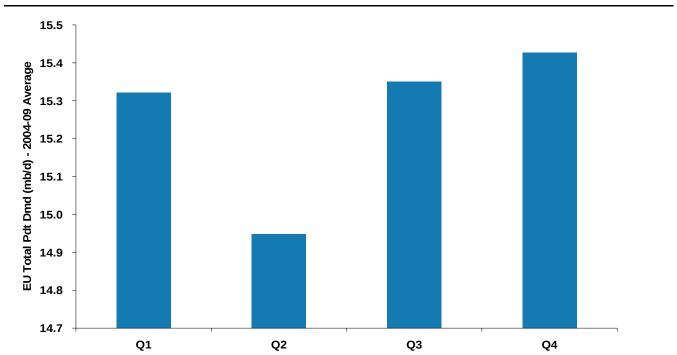
In particular, this scenario should prove supportive for Statoil, which is the most operationally geared of the larger-caps to oil prices. The shares have lagged (-15% relative to the sector over the last four months) and with production and margins set to step-up seasonally over the next 6 months we add the name to our preferred list.

2) … and demand is set to support downstream margins in Q4

Refining margins weakened in Q3 relative to H1 (BP's global indicator margin fell some 17% q/q from $5.5/bbl to $4.5/bbl) and the medium-term outlook remains mixed in our view, with the industry proving slow to close lower quartile assets. However, through to year-end, heating oil demand now becomes a tail wind compared to an undemanding Q3 base. Q4 is historically the strongest quarter for EU total product demand (particularly middle distillates) and with total product demand also running 800kb/d ahead of prior year levels in the US, we expect a pickup in margins over the next few months.

We argue that the most efficient means of obtaining leverage to this trade is through the independents (top picks Petroplus, Saras and MOL); however, the Integrateds demonstrated during H1 that when margins improve they *can* convert it into enhanced profitability. We therefore expect improved margins to support the group near term from here, while any signs of restructuring progress at the likes of Shell (Gothenburg) and Total (Lindsey) would be supportive.

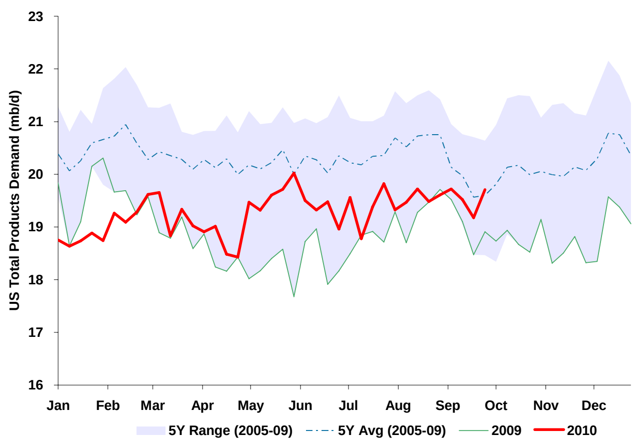
Exhibit 12
EU total oil product demand tends to peak in Q4



Source: IEA, Morgan Stanley Research

Exhibit 13

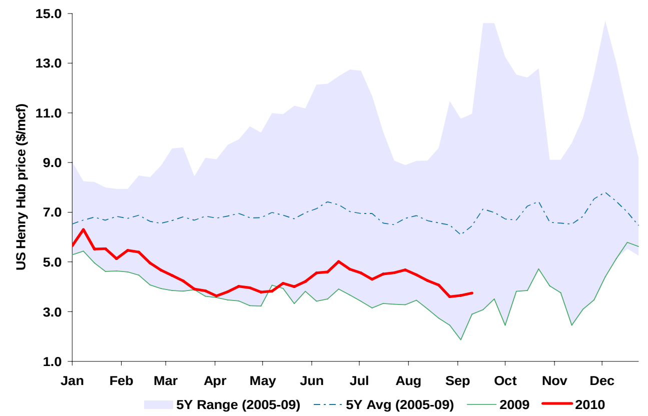
US total oil product demand – well above 2009 lows



Source: EIA, Morgan Stanley Research

Exhibit 14

US HH gas prices are bouncing along the bottom of the 5-year range



Source: DataStream, Morgan Stanley Research

3) Gas markets remain mixed, but the Europeans continue to be shielded

Sentiment towards gas markets globally remains weak, notably in the US where the strong production outlook for US shale gas, coupled with an anaemic demand recovery, leaves Henry Hub spot prices bouncing along the bottom of the 5-year range.

US gas prices remain challenged

On Henry Hub, the outlook for the immediate future remains difficult – our US teams' recent survey of per-well economics across major supply basins indicated that downward pressure on costs continues. The team concluded that higher activity levels in the basins where the lowest cost plays are prevalent (e.g. Eagleford, Marcellus and Granite Wash) appear sustainable at today's forward curve. For further details, please refer to *"Revised NG Supply Cost Survey Yields Few Surprises",* 16 August.

In addition, we highlight that the conclusions from our recent field trip to Houston, where we met a number of majors and independents operating in the US, were also relatively bearish as far as US nat gas is concerned. Many companies appear to be planning with a price range of $5-7/mmbtu, with many US independents now focusing portfolios towards unconventional liquid plays.

But European contract prices remain supportive for the EU Integrateds

Whilst the market has, and will continue to, debate the long-term validity of the European oil-linked contract gas pricing model, it is here to stay for the immediate term and continues to trend supportively for the group on the six-month lag basis – thereby shielding the Integrateds from US spot gas market concerns.

Ongoing Henry Hub weakness would be a negative for BP and Shell, which have the highest E&P exposures to US gas (9.5% and 5.5% of 2010e production respectively). However even for these two names, if we assume a scenario whereby we MTM 2011e at current Henry Hub spot prices (c.$3.75/mcf compared to our current forecast of $4.95/mcf) it only impacts our 2011e EPS forecasts by c.4% and 2% respectively.

Exhibit 15

European contract gas prices are set to continue to gradually rise

Source: Company data, Morgan Stanley Research

Potential Catalysts – Repsol and Statoil stand out

The recent announcement that Sinopec is to buy a 40% stake in **Repsol's** upstream Brazil assets (via a $7.1bn capital increase) not only replaces a prospective IPO, but highlights Repsol's position as the stand out name as far as visibility of stock specific catalysts that could unlock intrinsic value is concerned. It remains our preferred name of the peer group, with ongoing E&A in Brazil (look for an update on Albacora Leste deep in the Campos basin), Sierra Leone and Venezuela and management plans to sell down a further stake in YPF (Argentina) key potential catalysts.

Elsewhere, we highlight that:

1. With gas volumes set to pick up seasonally, oil gearing still a positive differentiator and the Intl E&P division set to be boosted by a start-up at Peregrino (Brazil, STL 60%) in early 2011, catalysts appear more attractive at **Statoil** now, after c.15% underperformance versus the EU Integrateds (ex-BP) over the last four months. Please refer to *"Buy into Improving Operational Momentum"*, published on 6 October.

2. The expected start-up of pilot production at Tupi in Q4 will be an important catalyst for **BG Group** (and **Galp**). In addition, investors will look towards BG's prospective FID (final investment decision) on QCLNG late in the year – with a government decision on the approval or otherwise of the EIS (environmental impact statement) due beforehand on 22 October.

3. Of the majors, **BP** appears the most likely at this stage to embrace change and look to advance an accelerated portfolio rationalization program (Oil 1.01). With the divestment target set at $25-30bn by end 2011, we think further (upstream) disposals are possible between now and the end of the year. Most recently, it was reported (*Upstream,* 4 October) that BP may sell its Vietnam assets to its Russian JV partner TNK-BP for c.$1bn (the company has not commented on the report).

Q4 and early 2011: Potential Catalysts

<u>BP – Restructuring and Macondo</u>

- **Divestments:** Further news flow on the $25-30bn disposal program by end 2011. BP has divested some $10bn of assets to-date – Apache deal $7bn & Colombia E&P $1.9bn.

- **Further internal restructuring:** Following the installation Bob Dudley as CEO (effective 1 October), and the recent creation of a new 'Safety & Operational Risk' division.

- **Macondo-related data-points:**

1. End of US GoM drilling moratorium: The 6m moratorium is due to end in late November.

2. Internal review recommendations: Indications of how BP intends to implement the 25 recommendations set out by the internal 'Deepwater Horizon Accident Investigation Report' (published 8 September).

3. Inspection of the failed BoP: The original Macondo BoP was replaced in early September, and taken into custody by the US Dept of Justice for inspection

4. Presidential Review: An update on the National Commission's investigation into the deepwater Horizon incident could come in early 2011

- **Dividend resumption:** Consensus expects a resumption with FY10 results on 1 Feb 2011. CEO Dudley was recently quoted as saying, "The board will get together and talk before the end of the year about restoring a dividend in some form in the first quarter" (BBC, 30 Sept).

RD Shell – Restructuring

- **Downstream:** Progress on the exclusive negotiations with private Finnish company St1 over the sale of Shell's Finnish / Swedish R&M assets (incl. the 80kb/d Gothenburg refinery).
- **Raised divestment target:** Target is $7-8bn in 2010/11e.
- **Brazil – sale of pre-salt blocks:** Recent reports indicated Shell is considering selling its stakes in four of its pre-salt blocks (BS-4, BM-S-8, BM-S-45 & BM-ES-28) (DJ, 13 Sept) (the company has not commented).
- **Production ramp-up:** From AOSP (Canada), Perdido (US GoM), Gbaran Ubie (Nigeria).

Total – Angola trip and Q3 results key

- **Angola trip (mid-Nov):** An important opportunity for management to highlight a differentiated African portfolio, which underpins the next wave of E&P growth in 2012/13.
- **Uganda farm-in:** Look for finalization of the Tullow farm-down to CNOOC/Total (1/3 each), by year-end.

Q3 results (29 Oct) and ex-div date (12 Nov): Market will seek a repeat of the improved financial performance of Q2.

- **Divestments:** Assets for potential sale include Joslyn (Canada) and Block 31 (Angola) in E&P, and the Lindsey refinery and UK marketing business in the downstream.
- **Further positive FID's:** The FID pipeline for the next six months includes Ofon II, Egina, Halfaya (Iraq) and GLNG.
- **Angola pre-salt bid round:** The government is planning an offshore bid round for 2011.

Eni - End of Galp shareholder agreement approaching

- **Galp Shareholder Agreement:** Unconfirmed press reports (Bloomberg, 16 July) link Eni with a sale of its 33% stake in Galp, once the lock-in agreement expires at year-end.
- **Venezuela:** Appraisal work on Perla 3 & 4 during H2.
- **Karachaganak risks:** Unconfirmed reports indicate that the Kazakh state is seeking to increase state participation in the project (Eni 33%) through KazMunaiGaz. (Business Week, 25 Aug).
- **G&P:** Downward pressure on margins and volumes through the rest of 2010, particularly in Italian gas marketing.
- **SRG:** News flow linked to a potential sale of Snam. This could unlock significant value, though we believe any sale is unlikely until 2012 at the earliest.

Statoil – Buy into Improving Operational momentum

- **Seasonal gas uplift:** We expect an improvement in Statoil's oil & gas volumes and spot gas sentiment during Q4.
- **Peregrino (Brazil) start-up:** Scheduled for early 2011e (STL 60%), plateau production 100kb/d (gross).
- **Oil Gearing:** An underappreciated differentiator.

BG – Brazil & Australia

- **Brazil – Tupi & Guara:** The start-up of Tupi 100kb/d (BM-S-11, BG 25%) pilot production in Q4 will be important in de-risking the pre-salt NPV/$bbl, while an update on the Guara EWT (BM-S-9, BG 30%) is also expected during Q4.
- **Karachaganak risks:** Unconfirmed reports indicate that the Kazakh state is seeking to increase state participation in the project (BG 33%) through KazMunaiGaz. (Business Week, 25 Aug).
- **QCLNG FID (Australia):** An FID is expected in late 2010, with potential for a third train, while a government decision on the environmental impact study (EIS) is due 22 Oct.
- **UK gas price reset:** On 1 Oct with Q3 results (MSe 45p/th).

Repsol – Brazil, Argentina & E&A

- **Repsol-Brazil:** Expect further data points on the recent announcement that Sinopec is to buy 40% of Repsol's E&P Brazil portfolio with Q3 results on 11 Nov. In addition, we expect confirmation that Albacora Leste is a major discovery (worth $1-1.5bn to Repsol-Brazil).
- **Sale/partial IPO of YPF:** Looking less likely before year-end but nonetheless, a value-accretive partial IPO in Argentina remains a core management goal. We argue recent delivery on sale of Brazil stake adds credibility to the target.
- **Brazil E&A and Tupi start-up:** Expect updates on Albacora Leste and the Guara (BM-S-9, REP 25%) EWT in Q4, while a successful start-up of Tupi pilot production (also Q4) will be an important step in de-risking development risk.
- **Perla gas pricing negotiations (Venezuela):** News flow on reserve estimates & gas pricing over the coming months.
- **E&A upside:** Including Brazil, Sierra Leone and Venezuela.

Galp – Tupi start-up & expiry of shareholder agreement

- **Tupi start-up (Brazil):** Galp is the leveraged play (10% stake) on a successful start-up at Tupi (BM-S-11).
- **Other Brazil E&A:** Appraisal wells on Tupi/Iracema (BM-S-11) and an exploration well at Jupiter (BM-S-24).
- **Angola/East Timor:** Galp plans to drill two exploration wells and four appraisal wells this year in Angola and East Timor.
- **Restructuring:** A potential sell-down of Galp's regulated gas assets.
- **Shareholder Agreement expiry:** The lock in period for Eni & Amorim (33% stakes each) is due to expire at end 2010.

OMV – new E&P head is the key

- **New E&P head is the man in the spotlight:** We believe the key to changing OMV's market rating is to create a credible growth plan to the E&P segment. The first key opportunity for this will be when new head Jaap Huijskes (ex Shell) presents his vision for the segment, possibly as early as the 10th Nov Q3 results presentation.
- **Petrom stake:** OMV has indicated it would consider buying the 11.8% stake in Petrom that the Romanian Economic Ministry intends to divest.
- **Nabucco open season:** Is due to launch in late 2010, with a view to seeking commitments from buyers for LT contracts.
- **Incoming CEO:** Wolfgang Ruttenstorfer's term as CEO ends in March 2011. He will be replaced by Gerhard Roiss – the former head of downstream.

Top Picks – Repsol, BG & Statoil

Repsol (OW, PT €26): Multiple catalysts to unlock value

Good news set to continue:
Repsol continues to stand out, in our view, as the name within the Integrated Oils group possessing visible stock specific catalysts with the potential to close the discount to fair value (our base case SOTP is €28.2/sh). The recent announcement that Sinopec is to buy a 40% stake in Repsol's upstream Brazil assets (via a $7.1bn capital increase in the Repsol-Brazil unit) superseded a proposed IPO for a same-sized stake and we expect further data points on the deal with the Q3 results in 11 Nov. In addition, we think Q3 results could provide a platform for confirmation that Albacora Leste (Campos basin, REP 10%) is a potential material discovery (we estimate it could be worth $1-1.5bn to Repsol-Brazil), while an update on the Guara (BM-S-9, REP 25%) EWT could also come during Q4.

Update on Guara EWT during Q4:
The Guara DST results from earlier this year have yet to be made public, and the consortium is pushing ahead with an EWT (extended well test) using the FPSO 'Dynamic Producer' through most of H2 2010. The DST and EWT will be important data points for narrowing development options – specifically how many producer and injector wells are likely to be required. Repsol indicates that 120kb/d pilot production will commence in 2013, with the FID (final investment decision) scheduled for late 2010.

YPF – Earnings momentum and partial sale / IPO:
YPF earnings momentum has built through the last few quarters, proving Repsol can translate rising domestic energy prices into improved profitability under a more stable fx scenario. We expect rising domestic gas, gasoline and international oil prices to continue to underpin earnings and comfortably offset the impact of production declines in a business being run with an emphasis on 'value' rather than 'volume'. We also argue that improved earnings places Repsol in a stronger position from which to sell down a partial (up to 24%) stake in YPF – whilst this now looks less likely to happen this year in our view (with management having been focused on the trade sale in Brazil), it remains a core management goal.

Further E&A upside:
The last 24 months has seen a step change in exploration success at Repsol – we view the ongoing E&A program as attractive and estimate the company is drilling for €2.2/sh in unrisked exploration upside over the next 12m, with key campaigns in Brazil, West Africa and Venezuela.

Valuation – at a 30% discount to our base case SOTP:
Repsol has outperformed EU large cap energy by over 20% YTD and now trades at 9.8x 2011e P/E and 5.5x EV/DACF. Despite the relative re-rating, it still trades at a 30% discount to our base case SOTP and remains inexpensive in absolute terms, in our opinion.

BG (OW, PT 1500p): A core OW in EU Energy

Leading medium-term growth:
We continue to view BG as a core OW in Energy portfolios – and see its offering of leading medium-term E&P growth (6-8% CAGR guidance range out to 2020) built around legacy positions in Brazil and Australia, coupled with its flexible LNG portfolio, as both genuinely differentiated and currently undervalued by the market. We maintain an OW rating and PT 1,500p/sh.

Brazil – Start-up of Tupi Pilot Production:
Post the Petrobras capitalization, the key catalyst for BG in Brazil to year-end is the start-up of pilot production on Tupi (BM-S-11, BG 25%), which is expected to reach 100kb/d (gross). Operational delivery on Tupi is the next step in de-risking the pre-salt NPV/bbl, with an efficient ramp-up and encouraging flow-rates translating into lower capex expectations and higher recovery factors.

Australia – Look to QCLNG FID in late 2010:
BG is in process of working toward an FID on QCLNG, and continues to expect to reach the decision by year-end. In the background, drilling in the Bowen basin could prove up sufficient resource for a potential 3rd train, with a start-up targeted for early 2014.

Intrinsic value is material, but be aware of near-term risks on volumes and Karachaganak:
Whilst we remain bullish on the BG investment case, we highlight two main risks nearer term: 1) *Karachaganak (BG 33%)* news flow related to Kazakh state seeking state participation in the project resulting in potential sale (unconfirmed report in *Business Week* on Aug 25); 2) *2011e volumes* – next year looks set to be another quieter year on the volume growth front – we now forecast 2.5%, with the more significant ramp-up in production set to take effect from 2012e, and believe market expectations on 2011e growth need to be re-based lower near term.

Statoil (OW, PT Nkr185): A geared laggard

The geared large-cap play on upside to crude prices: We expect oil markets to tighten into year-end as demand remains robust and global inventories roll-over. Oil gearing remains a positive differentiator for Statoil relative to the Integrated group and we believe oil price strength will trigger a relative re-rating following c.15% relative underperformance over the last four months versus the EU Integrateds ex-BP (during which time the correlation between Statoil and the oil price has weakened). We Reiterate our Overweight rating and price target Nkr185 (49% upside) – for further details please refer to *"Buy into Operational Momentum"*, published 6 October.

Sentiment around NCS gas set to improve in Q4 2010 / Q1 2011:
Market concerns regarding NCS gas volumes have been an important element of Statoil's recent underperformance, in our view. Q3, however, is always the weakest gas demand quarter and whilst Statoil has perhaps lost share to Gazprom / Qatar LNG in the last quarter, it is too early to conclude this is a start of a structural trend. On the contrary, gas demand (and volumes) is set to pick-up seasonally over the next 6 months, which will require Statoil to produce at / near full capacity. In terms of pricing, there is clearly a question mark over whether the oil-linked contract gas pricing methodology that dominates Europe today is sustainable in the long term. For the foreseeable future however, we see no significant threat to the pricing mechanism and highlight that European contract gas prices are in fact set to remain supportive through the next couple of quarters at least – based on the supportive trend in 6 month lagged oil prices.

Intl E&P to be boosted by Peregrino in early 2011:
Peregrino (Brazil, STL 60%) is due to start-up in early 2011 and ramp-up towards 100kb/d (gross) – which should provide a timely boost to the production momentum and profitability of Intl E&P division, where profitability has been mixed over the last few quarters. The underlying profitability of the division has been distorted in recent quarters by the scale and volatility of start-up costs associated with various projects, in our opinion, but we expect 2011+ to begin to show a clear picture and estimate Intl E&P production will grow some 15% next year.

Retail IPO set for Q4 – makes strategic sense
We do not see the proposed IPO of Statoil Retail and Fuel unit as a material catalyst in its own right. Nevertheless, we expect it to be seen as mildly supportive in that it makes clear strategic sense to allow management to focus on the core (upstream) businesses.

Previewing Q3: Unlikely to sparkle

Q3 reporting season kicks off with Shell, Eni and Galp all reporting in late October (28th) while in the meantime, we expect trading statements from Galp, Total and OMV on the 14th, 15th and 21st October respectively. In aggregate, Q3 earnings appear unlikely to stand out – with EPS c.10% down (in US$ terms) q/q, as resilient oil pricing is countered by adverse seasonality and weaker downstream margins.

An important quarter for Total

Whilst Q3 appearing unlikely to sparkle in aggregate, we highlight that, excluding BG (where sequential comps are assisted by a suppressed Q2 E&P number – due to a c.$255m write-down on the Mandarin well in Norway), comps appear relatively resilient at Total (-6% q/q) compared to the group (-10%).

This reflects the volume growth delivered over the last 12m, coupled with the higher margin nature of those barrels. After beginning to demonstrate the translation of operational progress into financial performance in Q2, it will be important for Total to *repeat* this momentum for Q3 if the shares are to rerate.

Exhibit 16

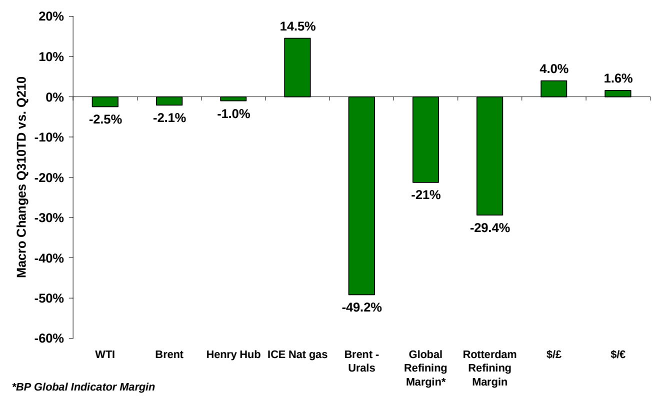
Summary Q3 Macro Environment

Hydrocarbons	Q310	Q210	Q309	Y/Y	Q/Q
Brent $/bbl	76.8	78.5	68.1	13%	-2%
WTI $/bbl	76.0	78.0	68.1	12%	-2%
Henry Hub $/mcf	4.17	4.21	3.09	35%	-1%
Refining Margins	**Q310**	**Q210**	**Q309**	**Y/Y**	**Q/Q**
Europe: Rotterdam	3.8	5.1	3.5	9%	-25%
USA: Gulf Coast	6.0	7.9	5.3	14%	-24%
Brent-Urals Spread	0.9	1.8	0.4	128%	-49%
Diesel - Fuel Oil ($/ton)	219	232	164	33%	-6%
Foreign Exchange	**Q310**	**Q210**	**Q309**	**Y/Y**	**Q/Q**
$/€	1.29	1.27	1.43	-10%	2%
$/£	1.55	1.49	1.64	-5%	4%
Nkr/$	6.16	6.23	6.12	1%	-1%

Source: Company data, Morgan Stanley Research

Exhibit 17

Q3 2010 – A weaker downstream environment



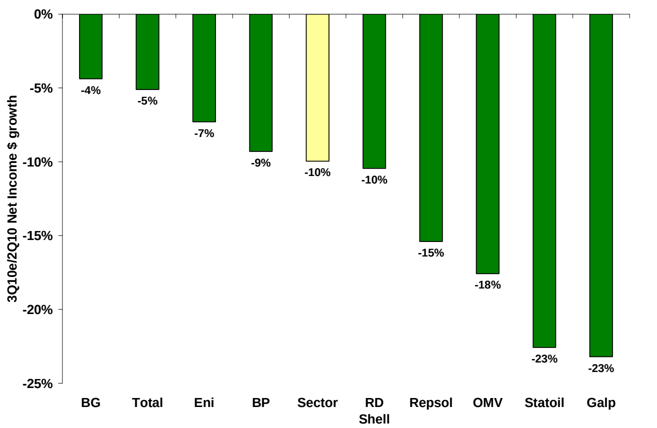
Source: Company data, Morgan Stanley Research

The Q3 operating environment

- **Oil Prices** have remained resilient, averaging over $76/bbl, although down 2% q/q.
- **Contract European gas prices** continue to strengthen mildly under the oil-linked 6-month lag pricing structure.
- **But the downstream environment has weakened:** We estimate that complex NWE refining margins fell 25% q/q (to an average of $3.8/bbl), while spreads - the light-heavy & diesel-fuel oil spreads – contracted c.50% and 6% respectively. Expect the market to look toward trading statements from Chevron and Total on 12 and 15 October respectively to gauge the impact of the quarterly downstream profitability of the majors.
- **FX:** The US dollar weakened against the euro and sterling 2% and 4% respectively (average Q3 rate versus average Q2 rate). This has a negative effect of sequential earnings.

Exhibit 18

Q3 q/q Net Income growth (US$) – BG comps helped by suppressed Q2 upstream profitability



Source: Morgan Stanley Research estimates

Exhibit 19

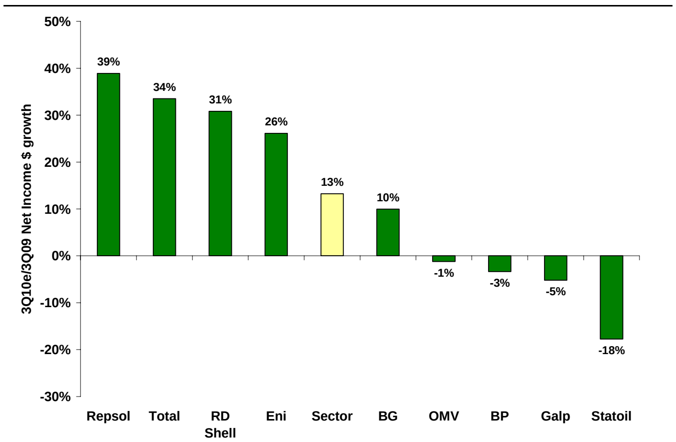
Integrated Oils: Q3 Reporting Season

Date	Event
14-Oct	- Galp 3Q10 Trading Statement
15-Oct	- Total 3Q10 Trading Statement
21-Oct	- OMV 3Q10 Trading Statement
28-Oct	- Eni 3Q10 Results
28-Oct	- Galp 3Q10 Results
28-Oct	- RD Shell 3Q10 Results & dividend
29-Oct	- Total 3Q10 Results
02-Nov	- BG 3Q10 Results
02-Nov	- BP 3Q10 Results (delayed from 26th Oct)
03-Nov	- Statoil 3Q10 Results
03-Nov	- RD Shell ex-dividend
10-Nov	- OMV 3Q10 Results
11-Nov	- Repsol 3Q10 Results

Source: Company data, Morgan Stanley Research

Exhibit 20

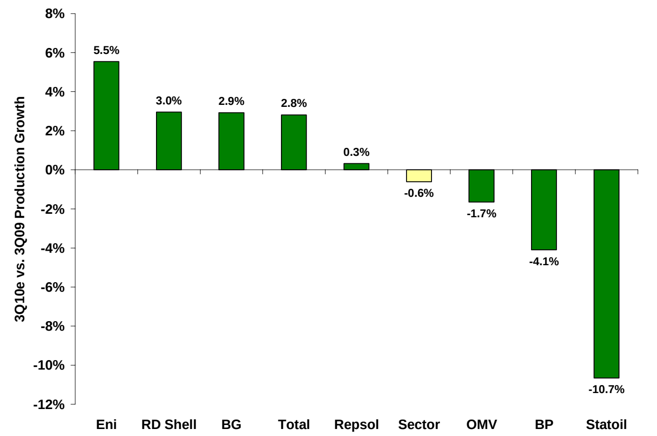
Q3 y/y Net Income Growth (US$)



Source: Morgan Stanley Research estimates

Exhibit 21

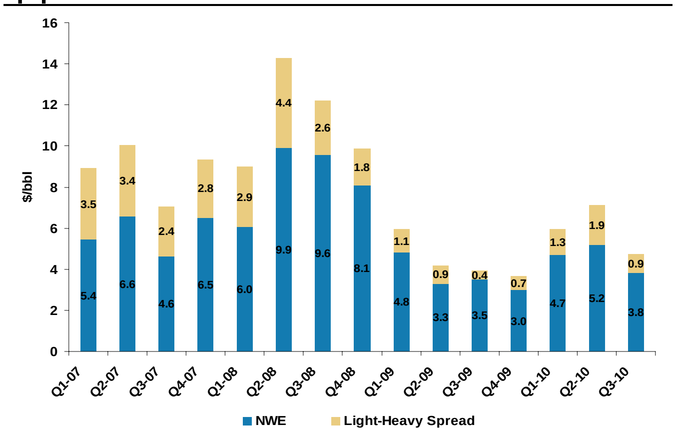
Q3 y/y Production Growth



Source: Morgan Stanley Research estimates

Exhibit 22

3QTD 'total' refining margins have declined $2.5/bbl q/q



Source: Bloomberg, Morgan Stanley Research

Exhibit 23

Q3 Earnings Estimate Summary

	Ccy	Q310e	Q210	Q309	q/q	y/y
RD Shell	US $	0.60	0.71	0.40	-16%	49%
BP	US $	24.06	26.51	15.69	-9%	53%
Total	€	1.24	1.32	0.84	-6%	49%
Eni	€	0.41	0.45	0.29	-8%	41%
Statoil	Nkr	2.57	3.34	3.08	-23%	-16%
BG	US $	0.26	0.26	0.23	-3%	11%
Repsol	€	0.35	0.43	0.23	-17%	55%
Galp	€	0.10	0.13	0.09	-24%	5%
OMV	€	0.86	1.05	0.78	-18%	10%
Sector					**-12%**	**38%**

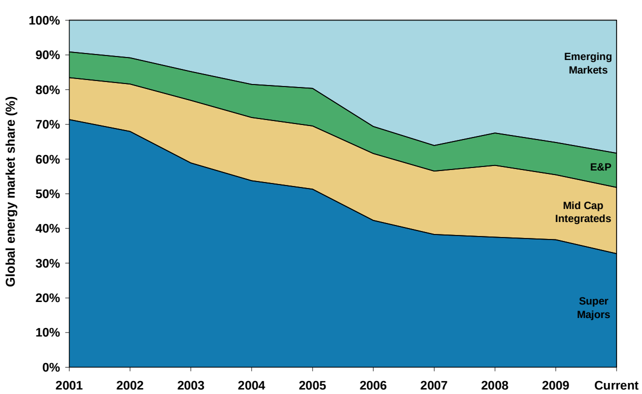
Source: Company data, e = Morgan Stanley Research estimates

How Big Can Be Beautiful: Oil 1.01-1.04

Whilst energy is inexpensive on both an absolute and relative basis and we see the risk-reward as positively skewed over the next few months, we continue to believe that from a longer-term perspective European Big Oil is at a crossroads.

The group has de-rated over the last decade, its marginalization in the context of global energy has been well documented and there is deep skepticism that the Supermajor model adds value. Whilst there is significant value in the group – the question is how to 'unlock' it in such large companies? If they adopt a 'do-nothing' policy, we think the de-rating ultimately continues – we think a concerted effort on the part of the management teams is needed to demonstrate that these companies really can generate impressive returns for shareholders. The question is, what should they do? For full details, please refer to *"How Big Can Be Beautiful: Oil 1.01-1.04"*, published on 3rd September.

Exhibit 24
Progressive market-cap marginalization



Source Datastream, Morgan Stanley Research.

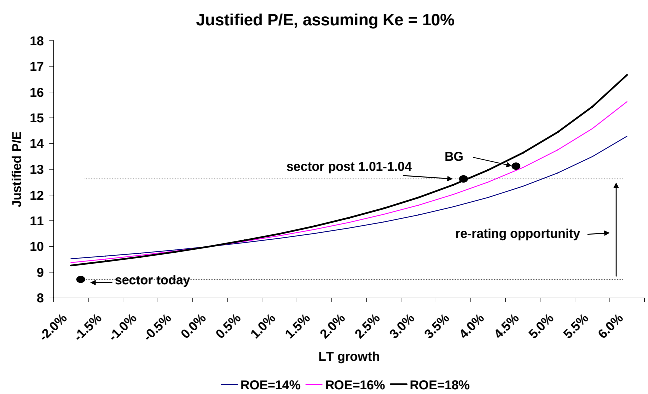
A four-point plan for European Big Oil…

While a one-strategy-fits-all is not the right approach, we outline a four-point plan (Oil 1.01-1.04) for Big Oil that should narrow the considerable discount to fair value. These are: Oil 1.01 – adopt a shrink-to-grow strategy and a more aggressive portfolio rationalization; 1.02 – increase exploration spend and growth capex; 1.03 – be bold with M&A; 1.04 – cut the payout. We think this would leave Big Oil with a more upstream, less downstream skew, offering notably better growth profiles with a technology and exploration bias. It offers a logic for growth which we think will go some way to unlocking the 30-50% discount the group trades to fair value. The opportunities are there and we think the group can ill afford to ignore them.

…Offers a 30-50% prize

Whilst the challenge is material, the upside is also significant. We estimate that successful implementation of Oil 1.01-1.04 could drive the sector to a new phase of growth, of between 3-5% for several years.

Exhibit 25
Growth of 3-5% post Oil 1.01-1.04 would justify a 30-50% multiple re-rating



Source: Morgan Stanley Research; Note: P/E = (roe-g) / (roe * (ke – g)). Roe = return on equity. Ke = cost of equity. g = long-term growth.

The logic for growth! Adopting Oil 1.01-1.04

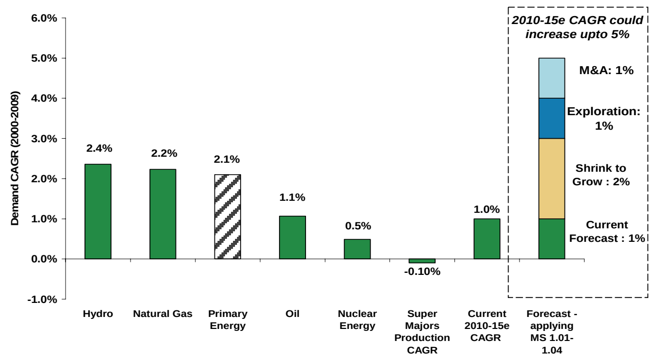
Oil 1.01: Adopt 'shrink to grow' strategy

With an accelerated portfolio rationalisation program that we estimate could dispose of $120bn of non-core assets – $75bn of which is in the upstream. Delivering on Oil 1.01 would leave Big Oil with the following characteristics:

- ***Substantially better growth prospects*** – Removing slow growth or declining assets would imply growth rates of c.2.5% (compared to 1.2% today).
- ***Relatively small refining and chemicals positions*** with selected exposure to high growth downstream markets.
- ***An upstream business that is technology focused*** with large project development expertise.
- ***Substantial balance sheet capacity*** – we estimate net gearing would fall to sub 10% (from 23% currently).

Exhibit 26

Oil 1.01 – 1.04 provides a logic to growth – and reverses perceptions of a shrinking market share



Source: BP Statistical Review, Morgan Stanley Research

Oil 1.02 (a): Increase exploration budgets two- to threefold

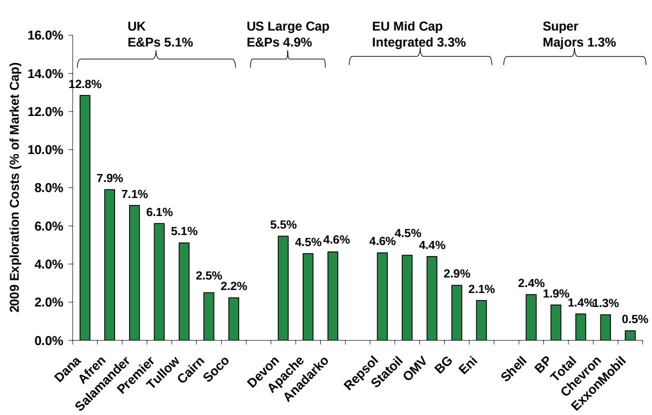
For too long, the majors have not spent enough on exploration – we think typically teams have been too risk averse. It's meant Big Oil has given up or not taken first-mover advantage on many high profile exploration plays – we think of pre-salt Brazil, the cretaceous play in Ghana, Greenland and the Falklands to name but a few examples.

Oil 1.02 (b): Increased development spend

The market has been critical of higher capex spend – some companies have been guilty of putting capital onto the balance sheet at the wrong time in the commodity cycle; nonetheless; without high spend levels, its difficult to see these companies grow. With cost inflation easing – this is an opportunity to lock-in for the long term.

Exhibit 27

Super majors relatively spend the least on exploration



Source: Company data, Morgan Stanley Research

Oil 1.03: Take bold M&A opportunities

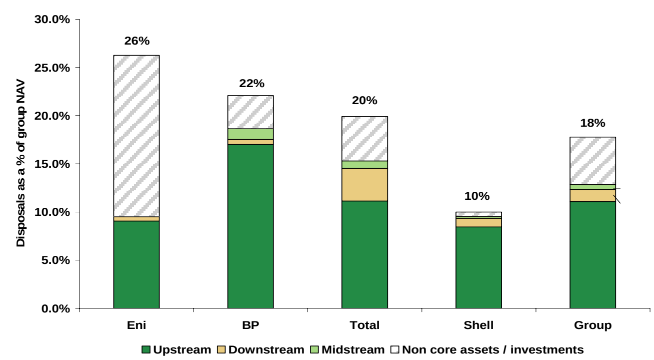
Investors and oil company management teams have been largely fearful of overpaying. However, we think Big Oil should revisit M&A as a way to replenish the exploration and development hopper, particularly with F&D in some cases being substantially higher than the implied EV/boe. We think there are a number of instances where the equity market is materially undervaluing assets or corporates. With consensus oil prices at $70-90/bbl, it appears the gap between asset buyers and sellers is as close as it has been for several years.

Oil 1.04: Cut the payout

Big Oil gets little credit for the above average payout it provides – the group has offered a premium yield for much of the last five years, but has underperformed the European market by some c.20% on a relative basis in the process. Increasingly, concerns have begun to turn to whether or not these yields are sustainable – either because of the risk of volatility in commodity prices, higher capex requirements and the consequent impact on the cash-cycle, or the effects of one-off events like Macondo (which wipe equity off the balance sheet). With a credible growth strategy we think investors will be prepared to forsake some income yield for growth – a 25% cut in the payout should free-up c. $13bn of cash to underpin growth investment (either post- or pre-transaction).

Exhibit 28

Based on our selection criteria, Eni would have the highest disposal potential on a relative basis*



Source: Morgan Stanley Research * Note that the companies have not given any indication that they intend to pursue such a strategy

Exhibit 29

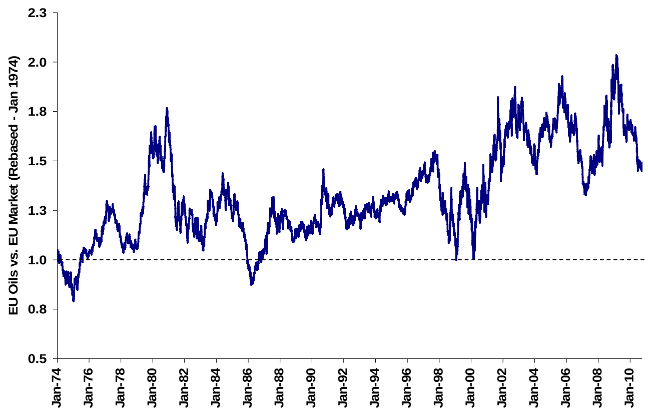
Summary of the potentially disposable assets

	Up-stream	Down-stream	Mid stream	Assoc.& Invest-ments	Total	% of Total NAV	% of Total Mar, Cap.
BP	25,754	779	1,690	5,204	33,427	22%	30%
Shell	21,525	2,304	455	1,211	25,495	10%	15%
Total	16,104	4,899	1,120	6,648	28,771	20%	27%
Eni	10,878	511	70	20,038	31,496	26%	39%
Group	74,262	8,493	3,335	33,100	119,190	18%	26%

Source: Morgan Stanley Research

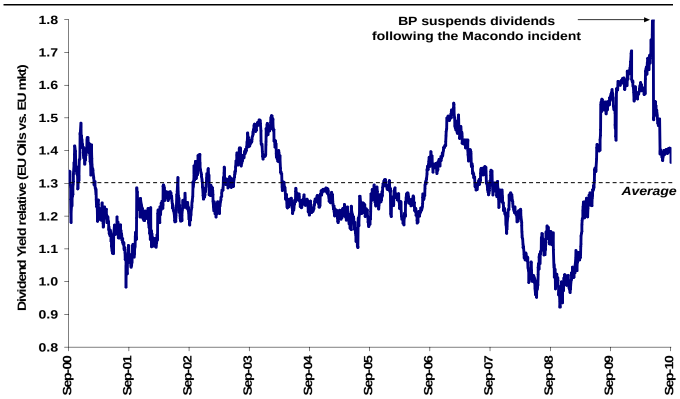
Valuation: Energy remains inexpensive

Exhibit 30
Sector c.50% off its highs



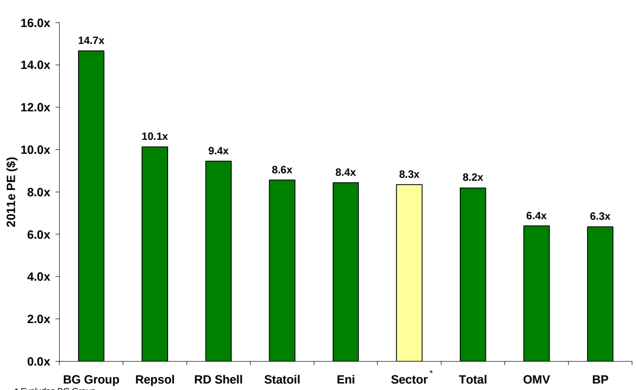
Source: Datastream, Morgan Stanley Research

Exhibit 31
Dividend yield – Sector is still inexpensive versus the market post BP suspension



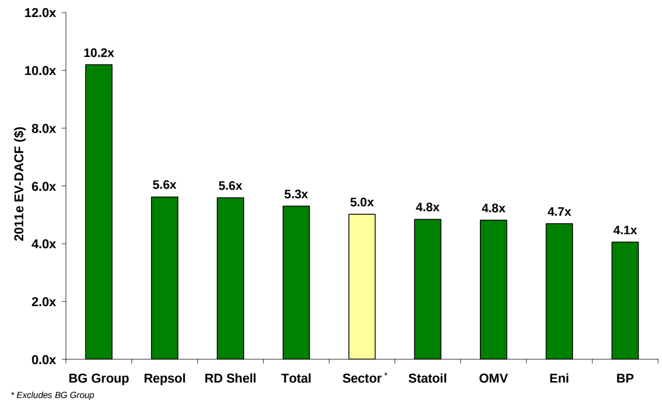
Source: Datastream, Morgan Stanley Research

Exhibit 32
2011e P/E multiples – $80/bbl



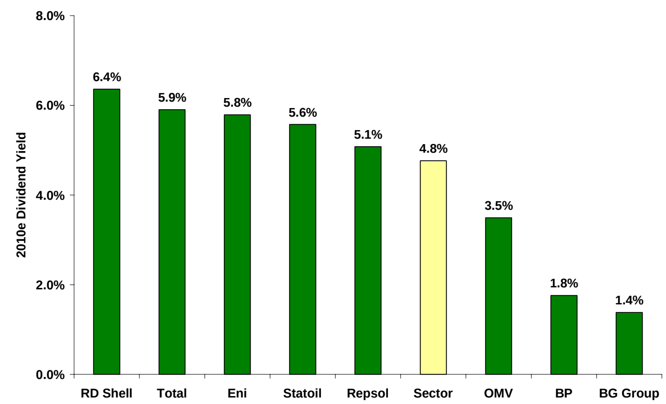
Source: Morgan Stanley Research estimates

Exhibit 33
2011e EV-DACF multiples – $80/bbl



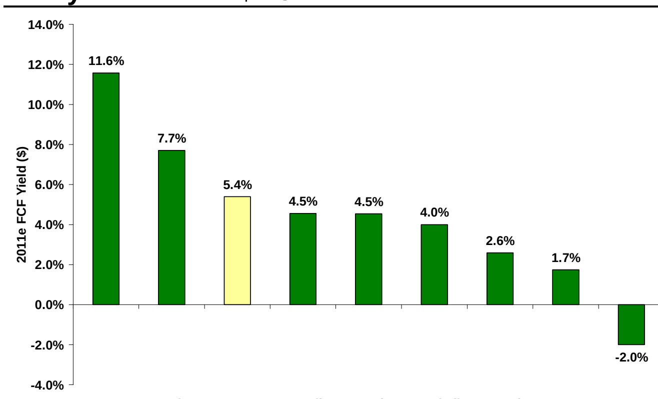
Source: Morgan Stanley Research estimates

Exhibit 34
2010e Dividend Yield



Source: Morgan Stanley Research estimates

Exhibit 35
FCF yield 2011e – $80/bbl



Source: Morgan Stanley Research estimates

Exhibit 36

European Integrateds: Valuation Summary 2008-12E

	P/E($)				EV/DACF				P/BV			
	2008	2009	2010E	2011E	2008	2009	2010E	2011E	2008	2009	2010E	2011E
BP	7.1	10.4	6.4	6.3	4.3	5.8	4.2	4.1	1.7	1.5	1.3	1.2
Shell	6.4	16.9	10.5	9.4	5.7	6.6	6.1	5.6	1.7	1.2	1.4	1.3
Total	7.7	11.4	8.5	8.2	5.8	6.8	5.7	5.3	2.1	1.7	1.5	1.3
Eni	7.6	11.7	9.2	8.4	4.6	5.3	5.2	4.7	2.4	1.7	1.4	1.3
Statoil	8.1	10.6	9.8	8.6	4.6	4.8	4.9	4.8	2.3	2.1	1.8	1.6
Repsol	9.3	16.3	12.4	10.1	5.5	5.6	6.0	5.6	1.3	1.0	1.1	1.0
BG Group	12.0	16.1	14.1	14.7	8.9	9.9	9.1	10.2	2.0	1.5	1.4	1.4
OMV	6.2	12.0	7.4	6.5	6.2	5.4	4.8	4.8	1.3	0.8	0.7	0.6
Galp	21.0	46.1	32.8	21.2	15.2	21.0	19.4	14.2	4.9	3.5	4.1	3.6

	Net debt ($ mn)				Gearing (%)				Interest cover			
	2008	2009	2010E	2011E	2008	2009	2010E	2011E	2008	2009	2010E	2011E
BP	25,007	26,288	16,241	12,641	21%	20%	15%	11%	28x	19x	32x	38x
Shell	8,081	25,314	33,583	32,353	23%	29%	31%	29%	43x	10x	15x	12x
Total	16,780	20,144	17,163	16,863	19%	21%	17%	16%	45x	38x	68x	80x
Eni	27,027	32,109	25,523	22,526	27%	32%	25%	22%	29x	24x	18x	27x
Statoil	14,562	15,976	12,778	12,996	28%	33%	26%	24%	NM	11x	-196x	86x
Repsol	12,789	22,181	20,670	21,647	29%	43%	39%	40%	15x	5x	6x	7x
BG Group	1,646	5,063	6,756	9,037	8%	18%	21%	24%	35x	31x	28x	20x
OMV	4,661	4,164	3,948	4,191	25%	23%	21%	20%	14x	5x	12x	11x
Galp	2,744	2,683	4,168	4,445	46%	45%	54%	54%	2x	5x	5x	4x

	NI ($ mn)				Cash flow from operations ($ mn)				FCF ($ mn)			
	2008	2009	2010E	2011E	2008	2009	2010E	2011E	2008	2009	2010E	2011E
BP	26,243	14,577	19,576	19,631	45,514	26,417	29,180	32,185	18,016	9,199	-505	14,425
Shell	29,010	10,909	17,644	19,612	45,006	22,156	29,669	37,766	10,643	-4,308	7,510	7,415
Total	20,480	10,845	13,912	14,493	27,468	17,221	25,130	25,659	4,439	3,465	7,495	5,388
Eni	15,004	7,133	8,870	9,650	32,065	15,702	23,777	24,965	7,394	-453	4,492	6,270
Statoil	10,725	6,158	6,822	7,677	18,591	12,634	13,491	16,579	7,688	1,722	4,271	2,990
Repsol	4,074	1,683	2,733	3,341	11,143	7,470	8,198	9,411	826	2,039	3,487	876
BG Group	5,711	3,489	3,866	4,240	8,001	5,497	6,837	7,018	2,960	-609	-1,486	-1,242
OMV	3,385	1,109	2,057	2,270	4,713	2,593	3,761	3,798	-1,217	-284	-45	200
Galp	757	256	460	711	1,177	1,109	159	1,289	-654	-132	-541	37

	Payout ratio (%)				Dividend Yield $ (%)				FCF yield $ (%)			
	2008	2009	2010E	2011E	2008	2009	2010E	2011E	2008	2009	2010E	2011E
BP	40%	72%	10%	41%	6%	7%	2%	6%	12%	6%	0%	12%
Shell	35%	93%	59%	54%	5%	7%	6%	6%	4%	-3%	4%	4%
Total	36%	67%	45%	46%	5%	6%	5%	6%	3%	3%	6%	5%
Eni	45%	72%	51%	49%	6%	6%	6%	6%	6%	-1%	6%	8%
Statoil	38%	49%	50%	50%	4%	5%	5%	6%	9%	3%	6%	5%
Repsol	46%	86%	54%	47%	5%	5%	4%	5%	2%	7%	10%	3%
BG Group	12%	19%	19%	19%	1%	1%	1%	1%	4%	-1%	-3%	-2%
OMV	15%	46%	21%	20%	2%	4%	3%	3%	-7%	-3%	0%	2%
Galp	52%	90%	47%	29%	2%	2%	1%	1%	-4%	-1%	-4%	0%

	Dividend per share				$ EPS growth (%)				EPS (local)			
	2008	2009	2010E	2011E	2008	2009	2010E	2011E	2008	2009	2010E	2011E
BP	p 29.58	p 36.42	p 7.00	p 28.33	41%	-44%	34%	0%	75.41	49.80	68.36	69.55
Shell	p 90.55	p 107.55	p 110.04	p 115.36	18%	-62%	61%	11%	249.64	114.76	188.10	212.81
Total	€ 2.28	€ 2.28	€ 2.28	€ 2.39	24%	-47%	28%	4%	6.20	3.48	4.96	5.18
Eni	€ 1.30	€ 1.00	€ 1.00	€ 1.05	17%	-53%	25%	9%	2.80	1.41	1.89	2.13
Statoil	kr 7.25	kr 6.00	kr 6.56	kr 7.47	45%	-43%	11%	13%	18.99	12.16	13.11	14.94
Repsol	€ 1.05	€ 0.85	€ 0.94	€ 1.03	5%	-59%	62%	22%	2.27	0.99	1.73	2.19
BG Group	p 11.23	p 12.35	p 14.20	p 15.83	62%	-39%	11%	10%	91.18	65.78	74.97	84.06
OMV	€ 1.00	€ 1.00	€ 0.85	€ 0.96	25%	-68%	72%	15%	6.45	2.16	4.01	4.80
Galp	€ 0.32	€ 0.20	€ 0.20	€ 0.20	31%	-66%	80%	55%	0.58	0.26	0.42	0.69

	Capital employed				ROACE (%)				Production growth (%)			
	2008	2009	2010E	2011E	2008	2009	2010E	2011E	2008	2009	2010E	2011E
BP	117,116	128,401	109,660	118,305	22%	13%	18%	18%	1%	4%	-3%	0%
Shell	136,947	163,449	175,614	183,502	20%	7%	11%	12%	-2%	-3%	3%	2%
Total	88,825	90,460	92,912	103,871	23%	12%	15%	14%	-2%	-3%	4%	0%
Eni	98,460	101,868	102,720	103,693	18%	9%	11%	12%	4%	-2%	1%	2%
Statoil	52,838	47,779	49,789	54,015	23%	13%	14%	16%	2%	3%	-3%	3%
Repsol	43,991	52,043	52,402	54,118	11%	5%	7%	8%	-8%	-5%	-1%	1%
BG Group	37,360	44,279	49,163	57,092	33%	16%	13%	13%	3%	4%	2%	2%
OMV	18,386	18,253	19,095	20,462	19%	8%	13%	13%	-1%	0%	0%	-3%
Galp	6,011	6,009	7,648	8,308	16%	6%	9%	12%	-25%	-3%	29%	48%

*** dividend includes special dividend**

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 37

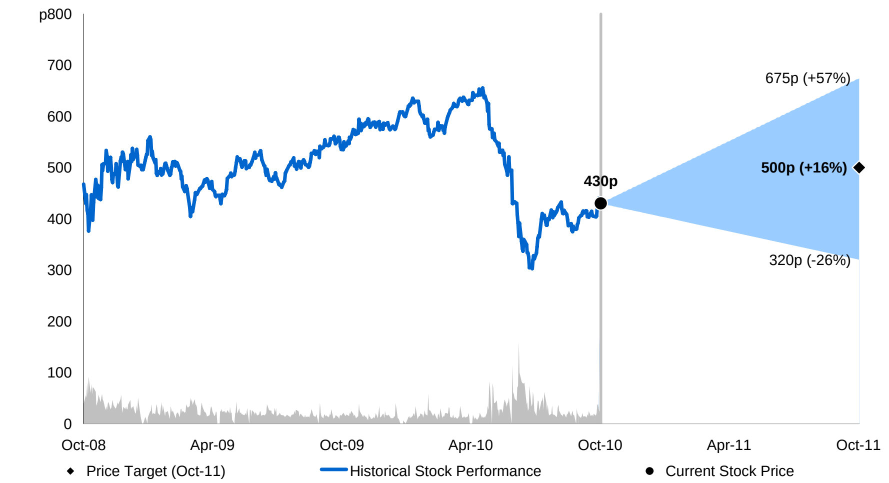
ModelWare EPS Changes 2009-12e

Old	Ccy	2009	2010e	2011e	2012e
RD Shell	US$	2.03	3.06	3.25	3.66
BP	US$	0.92	1.06	1.05	1.23
Total	€	3.78	5.31	5.26	5.94
Eni	€	1.28	2.08	2.13	2.44
Statoil	Nkr	12.16	13.67	15.26	17.49
BG	US$	1.03	1.18	1.40	1.65
Repsol	€	0.99	1.82	2.20	2.60
Galp	€	0.22	0.44	0.69	1.10
OMV	€	2.16	4.21	4.81	4.82
New	**Ccy**	**2009**	**2010e**	**2011e**	**2012e**
RD Shell	US$	2.04	2.91	3.21	3.58
BP	US$	0.92	1.05	1.06	1.20
Total	€	3.78	5.17	5.18	6.07
Eni	€	1.28	2.05	2.13	2.45
Statoil	Nkr	12.16	13.11	14.94	17.21
BG	US$	1.03	1.14	1.26	1.61
Repsol	€	0.99	1.73	2.19	2.59
Galp	€	0.22	0.43	0.69	1.09
OMV	€	2.16	4.01	4.80	4.81
Change	**Ccy**	**2009**	**2010e**	**2011e**	**2012e**
RD Shell	US$	1%	-5%	-1%	-2%
BP	US$	0%	-1%	0%	-2%
Total	€	0%	-3%	-2%	2%
Eni	€	0%	-1%	0%	1%
Statoil	Nkr	0%	-4%	-2%	-2%
BG	US$	0%	-3%	-10%	-2%
Repsol	€	0%	-5%	0%	0%
Galp	€	0%	-2%	0%	0%
OMV	€	0%	-5%	0%	0%

Source: Company data, Morgan Stanley Research estimates

Risk-Reward Snapshot: BP (BP.L, Overweight, PT 500p)

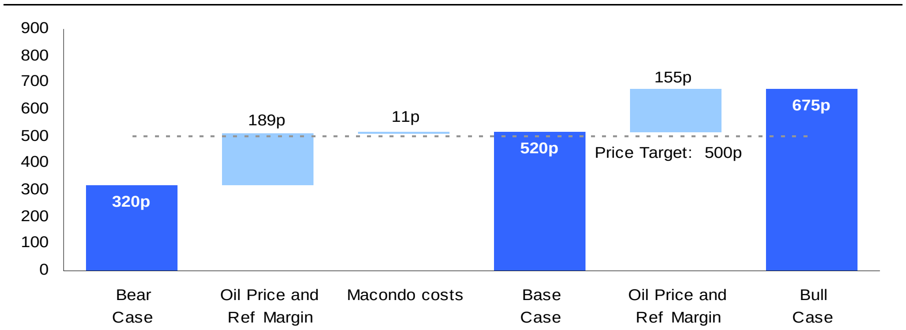
Uncertain outlook, but risk-reward is skewed to upside



Source: Company data, Morgan Stanley Research

Price Target 500p Potential Upside 16%	We set our 500p price target based on a DCF valuation at MS Base case (LT$90/bbl) Our DCF assumes a WACC of 7.5% and a 2% terminal growth rate. We estimate Macondo costs to be c.$40bn and assume a 30% depreciation in the value of the GoM portfolio due to moratorium to offshore drilling
Bull Case 675p (DCF)	**$105/bbl long-term oil prices; $7/bbl long-term refining margins:** We assume 7.5% WACC, 10% cost inflation and a 2% terminal growth rate. We estimate Macondo costs to be c.$40bn and assume a 24% depreciation in the value of the GoM portfolio.
Base Case 520p (DCF)	**$90/bbl long-term oil prices; $5.5/bbl long-term refining margins:** We assume 7.5% WACC, 10% cost inflation and a 2% terminal growth rate. We estimate Macondo costs to be c.$40bn and assume a 30% depreciation in the value of the GoM portfolio
Bear Case 320p (DCF)	**$70/bbl long-term oil prices; $4/bbl long-term refining margins:** We assume 7.5% WACC, a 2% terminal growth rate and no cost inflation. We estimate Macondo costs to be c.$40bn and assume a 50% depreciation to the GoM portfolio.

Bull, Base, Bear valuations



Source: Morgan Stanley Research

Why Overweight?

BP offers strong cash generation from a world-class portfolio: BP's resource base of c.64bn bbls is biased to high margin, conventional barrels.

Relatively attractive valuation: The shares are trading at 5.4x 2012 consensus PEs, which is a 20-25% discount to Total and Shell – we maintain our Overweight rating and argue that the relative call will be made between 450-500p/sh.

Key risks

Current uncertainty regarding the potential size of regulatory fines and punitive charges.

Significant delays and the possibility BP is banned from future offshore lease auctions in the GoM would have a negative read-through to the group's production targets.

Asset sale at unfavourable prices: Given company's determination to sell assets to ensure sufficient funds for the oil spill liabilities, there is a risk of selling assets at discounted prices.

Potential catalysts

Divestment program: Further asset disposals (target $25-30bn by end 2011).

Presidential review: An update on the outcome of the National Commission's investigation into the Horizon incident, which could come in early 2011.

Further internal restructuring: Following the installation of Bob Dudley as CEO (1 Oct) and the recent creation of a new 'Safety & Operational Risk' division.

Dividend resumption: Expected with the FY10 results in Feb 2011.

Exhibit 38

BP: Financial summary, 2008-2012E

Income Statement	2008	2009	2010E	2011E	2012E
Brent ($/bbl)	97.12	61.55	76.97	80.00	89.00
WTI ($/bbl)	99.72	61.75	77.47	81.00	90.00
US composite gas price ($/mmbtu)	9.04	3.99	4.60	4.95	5.50
BP Global indicator margin ($/bbl)	6.50	4.02	4.80	7.18	7.14
$/£ average	1.85	1.56	1.53	1.50	1.50
$:E average	1.47	1.39	1.30	1.25	1.25
Production (kboe/d)	3,838	3,998	3,877	3,863	3,977
Exploration & Production	39,580	21,616	27,226	28,133	32,266
Refining & Marketing	3,318	3,607	4,932	4,661	4,007
Other businesses & corporate	-590	-1,833	-1,151	-1,400	-1,400
Consolidation adjustments	466	-717	306	0	0
RC profit before interest & tax	**42,774**	**22,673**	**31,314**	**31,394**	**34,872**
Interest expense	-1,547	-1,205	-991	-826	-672
Other finance expense	591	-97	21	200	200
Replacement cost PBT	41,818	21,371	30,344	30,768	34,401
Taxation	-15,066	-6,613	-10,381	-10,769	-12,040
Replacement cost profit after tax	26,752	14,758	19,962	19,999	22,361
MSI	-509	-181	-386	-368	-386
RC profit for continuing operations	26,243	14,577	19,576	19,631	21,974
RC Profit for the period	**26,243**	**14,577**	**19,576**	**19,631**	**21,974**
Macondo expenses	0	0	-22,189	0	0
Post tax non-operating items	-650	-622	187	0	0
Reported RC profit	**25,593**	**13,955**	**-2,426**	**19,631**	**21,974**
Inventory holding gains (losses) for continuing ops	-532	3,922	322	240	720
Taxation (charge) credit on inventory holding gains and losses	2,052	-1,299	-117	0	0
Reported HC profit	**27,113**	**16,578**	**(2,221)**	**19,871**	**22,694**

Per share data (cents)	2008	2009	2010E	2011E	2012E
No. Shares (avg)	18,790	18,732	18,777	18,819	18,877
Rep HC EPS	144.3	88.5	-11.8	105.6	120.2
MS EPS (Adj RC EPS)	**139.7**	**77.8**	**104.3**	**104.3**	**116.4**
ModelWare EPS (US cents)	**147.8**	**91.8**	**105.3**	**105.6**	**120.2**
DPS (net US cents)	55.5	56.0	10.5	42.5	44.0
Rep HC profit EPS/ADS	865.8	531.0	-71.0	633.6	721.3
MS EPS/ADS (adj RC)	838.0	466.9	625.5	625.9	698.5
ModelWare EPS/ADS	886.5	550.9	632.1	633.6	721.3
DPS/ADS	333.2	336.0	63.0	254.9	263.8
MS EPS (Adj RC EPS, p)	75.4	49.8	68.4	69.5	77.6
DPS (p, net)	**29.6**	**36.4**	**7.0**	**28.3**	**29.3**
Payout ratio EPS (%)	39.8	72.0	10.1	40.7	37.8
Adj tax rate (%)	36.0	30.9	34.2	35.0	35.0

EV Valuation	2008	2009	2010E	2011E	2012E
Market capitalisation	154,710	149,054	124,373	124,645	125,031
Av Core net debt (inc. associates)	29,443	28,845	24,462	17,638	14,595
Buy-out of minorities	6,108	2,172	4,635	4,410	4,633
Pension provisions	0	0	0	0	0
Peripheral assets	0	0	0	0	0
EV	**190,261**	**180,071**	**153,470**	**146,694**	**144,259**
Net income before minorities	28,154	12,837	-2,157	19,999	22,361
DD&A + exploration	11,370	12,699	11,986	12,308	13,163
Other group non-cash items	1,656	1,453	7,371	191	173
Core associates non-cash items	1,602	1,624	1,610	1,573	1,610
Core post-tax interest + pension cost	1,221	946	830	725	618
Less: peripheral income/cash flow	0	0	0	0	0
DACF	**44,203**	**29,559**	**19,640**	**34,795**	**37,925**
EV/DACF $	4.3	6.1	7.8	4.2	3.8

Credit Rating (Moody's)	A2

Cash flow	2008	2009	2010E	2011E	2012E
Reported net income	27,113	16,578	(2,221)	19,871	22,694
MSI	509	181	386	368	386
DD&A	10,985	12,699	11,834	11,995	12,874
Exploration expenditure written off	385	-	152	313	289
Working Capital	4,759	(3,596)	11,623	(240)	(720)
Other	1,763	555	7,405	(121)	(64)
Cash flow from operations	**45,514**	**26,417**	**29,180**	**32,185**	**35,460**
Disposals	1,376	3,258	11,990	2,000	2,000
Shares issued	339	349	360	370	382
Total sources of funds	**47,229**	**30,024**	**41,529**	**34,556**	**37,841**
Capex	(22,739)	(20,814)	(18,062)	(18,000)	(22,000)
Acquisitions	(1,404)	(577)	(5,850)	-	-
Dividends	(10,342)	(10,483)	(2,626)	(7,901)	(8,296)
Share purchases	(2,906)	(142)	(21)	-	-
Other	(425)	(416)	(157)	(55)	(58)
Total uses of funds	**(37,816)**	**(32,432)**	**(31,716)**	**(30,956)**	**(35,354)**
Cash surplus / (deficit)	9,413	(2,408)	9,813	3,600	2,487
FX / other	(6,937)	1,127	234	0	0
Decrease in net debt	**2,476**	**(1,281)**	**10,047**	**3,600**	**2,487**
FX / other (for cash b/l)	-				
Net cash outflow/(inflow) from Borrowings	2,825				
Currency translation differences relating to cash & cash equivalent	(184)	110	(77)	-	-
(Decrease)/increase in cash	**12,054**	**(1,157)**	**6,045**	**3,600**	**2,487**

Balance sheet	2008	2009	2010E	2011E	2012E
Cash and Cash Equivalents	8,197	8,339	7,310	7,310	9,797
Net debt	25,007	26,288	16,241	12,641	10,153
Total debt	33,204	34,627	23,551	19,951	19,951
Equity (inc mins)	92,109	102,113	93,419	105,665	120,442
Capital employed	117,116	128,401	109,660	118,305	130,595
Debt/Equity (%)	36.0	33.9	25.2	18.9	16.6
Debt/Debt & Equity (%)	26.5	25.3	20.1	15.9	14.2
Net debt/Equity (%)	27.1	25.7	17.4	12.0	8.4
Net debt/Net debt & Equity (%)	21.4	20.5	14.8	10.7	7.8
ROAE (%)	26.5	15.1	21.3	19.8	19.4
ROACE (%)	22.1	12.5	18.0	18.0	18.2
Interest cover (x)	27.6	18.8	31.6	38.0	51.9

Valuation metrics	2008	2009	2010E	2011E	2012E
P/E $	**7.1**	**10.4**	**6.4**	**6.3**	**5.7**
P/B $	1.7	1.5	1.3	1.2	1.0
EV/DACF $	4.3	5.8	4.2	4.1	3.6
EV/EBITDA	3.5	5.2	3.5	3.4	3.0
FCF yield (%)	**11.6**	**6.2**	**-0.4**	**11.6**	**11.3**
Dividend yield (%)	**5.6**	**6.9**	**1.6**	**6.4**	**6.6**
Dividend cover (x)	2.7	1.6	10.0	2.5	2.7

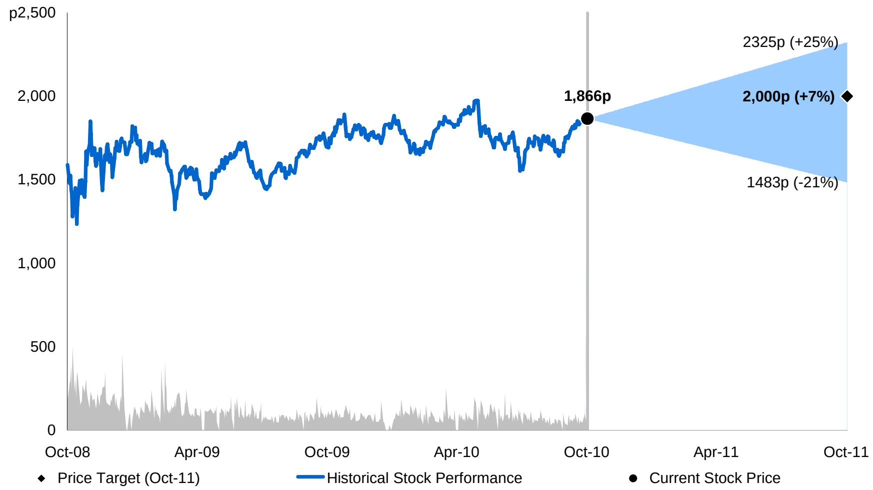
Momentum metrics	2008	2009	2010e	2011E	2012E
Volume Growth	1%	4%	-3%	0%	3%
EPS Growth (local)	52%	-34%	37%	2%	12%
NI Growth (local)	39%	-44%	34%	0%	12%
DPS Growth (local)	31%	23%	-81%	305%	3%
EPS Growth $	41%	-44%	34%	0%	12%
Exploration & Production EBIT growth	46%	-45%	26%	3%	15%
Refining & Marketing EBIT growth	-16%	9%	37%	-5%	-14%
Chemicals EBIT growth	0%	0%	0%	0%	0%

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Risk-Reward Snapshot: RD Shell (RDSB.L, Underweight, PT 2000p)

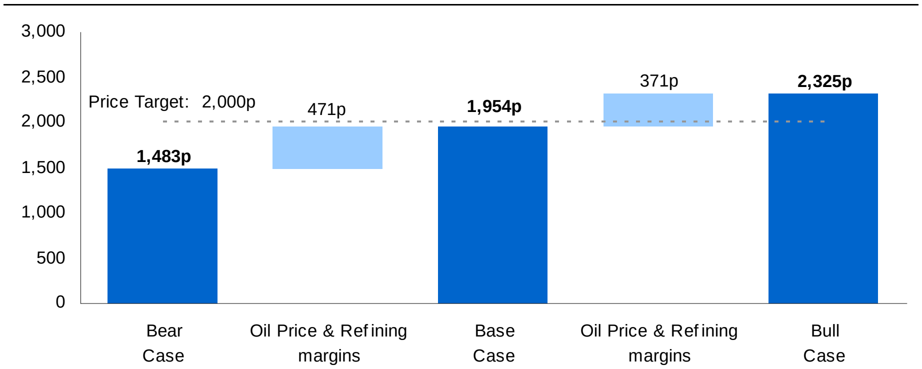
Still in transition



Source: Company data, Morgan Stanley Research

Price Target 2000p Potential Upside 7%	We set our price target based on a DCF valuation at MS Base case (LT US$90/bbl). Our DCF assumes a WACC of 7.5% and a 2% terminal growth rate.
Bull Case 2325p (DCF)	**$105/bbl long-term oil prices; $7/bbl long-term refining margins:** We assume a WACC of 7.5%, 10% cost inflation and a 2% terminal growth rate.
Base Case 1954p (DCF)	**$90/bbl long-term oil prices and $5.5/bbl long-term refining margins:** We assume a WACC of 7.5%, 10% cost inflation and a 2% terminal growth rate.
Bear Case 1483p (DCF)	**$70/bbl long-term oil prices and $4/bbl long-term refining margins:** We assume a WACC of 7.5%, 2% terminal growth and at bear case oil prices, zero additional cost inflation.

Bull, Base, Bear valuation



Source: Company data, Morgan Stanley Research

Why Underweight?

Inflection point on cash flow? Whilst the strategy update and recent Canada trip were positive updates, the inflection point from a cash perspective remains c.12 months away. While cash breakeven is set to fall as projects are delivered, it remains >$80/bbl on our estimates for the immediate future and capital spend remains structurally high.

Capital investment to remain structurally high: We see a risk that capital investment will stay in the high 20s (billion dollars/pa).

Still in transition: Repositioning the refining portfolio and reducing the cost base at Shell is likely to be neither easy nor quick.

Where could we be wrong?

A more radical restructuring plan: More material asset sales alongside downstream rationalization would likely raise investor confidence of genuine change at Shell.

Accelerated delivery in Qatar: Evidence of these GTL and LNG projects being ahead of schedule would surprise to the upside.

Dividend: An upside case to the dividend beyond 2011.

Potential Catalysts

Downstream: Progress on disposal program in both E&P and the downstream (including current negotiations with St1 on Swedish / Finnish downstream operations). Target is $7-8bn during 2010-11.

Brazil: recent reports have indicated Shell is considering selling its stakes in four pre-salt blocks (DJ, 13 Sept).

Improvements in **gas** and **refining** markets.

Exhibit 39

RD Shell: Financial Summary, 2008-12E

Income Statement	2008	2009	2010E	2011E	2012E
Brent ($/bbl)	97.14	61.55	76.96	80.00	89.00
WTI ($/bbl)	99.72	61.75	77.47	81.00	90.00
US composite gas price ($/mmbtu)	8.85	3.90	4.67	4.95	5.50
RDS refining margin composite ($/bbl)	7.74	2.53	4.52	7.12	7.12
$/£ average	1.85	1.56	1.53	1.50	1.50
$:E average	1.47	1.39	1.30	1.25	1.25
Production (kboe/d)	3,248	3,152	3,252	3,312	3,415
Upstream	23,019	8,488	14,603	16,123	18,296
Downstream	5,694	1,940	3,737	4,880	4,791
Total Operating segments	**28,713**	**10,428**	**18,340**	**21,003**	**23,087**
Corporate ex-currency	677	599	-356	-1,024	-1,066
Minority interests	-380	-118	-340	-368	-404
CCS Earnings (adj)	**29,010**	**10,909**	**17,644**	**19,612**	**21,616**
Currency exchange gains/(losses)	-650	644	-223	0	0
Total special items	3,006	-1,749	396	0	0
CCS Earnings (rep)	**31,366**	**9,804**	**17,817**	**19,612**	**21,616**
CCS adjustments for Oil Products	-5,089	2,714	77	120	360
Net Income (rep)	**26,277**	**12,518**	**17,895**	**19,732**	**21,976**

Cash flow	2008	2009	2010E	2011E	2012E
Net income	26,277	12,518	17,895	19,732	21,976
Minority adjustments	199	200	340	368	404
DD&A	13,656	14,458	14,380	16,987	17,243
Exploration expensed (current period)	1,447	1,186	868	800	800
Working capital	7,935	-2,331	-5,741	-120	-360
Other	-4,508	-3,875	1,928	0	0
Cash flow from operations	**45,006**	**22,156**	**29,669**	**37,766**	**40,064**
Disposals	4,961	1,220	3,392	4,000	4,000
Other	525	27	204	0	0
Total sources of funds	**50,492**	**23,403**	**33,265**	**41,766**	**44,064**
Capex	-27,335	-29,024	-27,422	-30,000	-30,000
Acquisitions	-9,000	0	-4,700	0	0
Dividends	-9,516	-10,526	-10,156	-10,537	-10,853
Share purchases	-3,573	0	61	0	0
Total uses of funds	**-49,424**	**-39,550**	**-42,217**	**-40,537**	**-40,853**
Cash surplus/(deficit)	1,068	-16,147	-8,952	1,229	3,211
Change in mins	40	62	318	0	0
FX/other (incl Sakhalin receipts from mins)	-746	-1,148	365	0	0
Decrease in net debt	**362**	**-17,233**	**-8,269**	**1,229**	**3,211**

Per share data	2008	2009	2010E	2011E	2012E
Average shares in issue during period - diluted	6,172	6,129	6,141	6,144	6,144
Shares in issue at end of period - diluted	6,124	6,125	6,134	6,134	6,134
ADR ratio	2.0	2.0	2.0	2.0	2.0
HC EPS (Rep)	4.2	2.0	2.9	3.2	3.6
EPS, pence	211	132	191	214	238
ModelWare EPS (US$)	4.2	2.0	2.9	3.2	3.6
CC EPS (Rep)	5.1	1.6	2.9	3.2	3.5
CC EPS (MS adj)	4.7	1.8	2.9	3.2	3.5
DPS (€, net)	1.1	1.2	1.3	1.4	1.4
HC EPS (Rep), pence	212	132	191	214	238
CC EPS (Rep), pence	271	104	190	213	235
CC EPS (MS adj), pence	**250**	**115**	**188**	**213**	**235**
DPS (net), pence	**91**	**108**	**110**	**115**	**119**
EPS (Rep), €	2.74	1.48	2.23	2.57	2.86
EPS (MS adj), €	3.16	1.29	2.21	2.55	2.81
EPS (Rep), ADR	8.48	4.08	5.83	6.42	7.15
EPS (MS adj), ADR	9.39	3.56	5.75	6.38	7.04

Balance sheet	2008	2009	2010E	2011E	2012E
Cash and Cash Equivalents	15,188	9,719	12,008	12,008	12,008
Net debt	8,081	25,314	33,583	32,353	29,143
Total debt	23,269	35,033	45,591	44,361	41,151
Net assets after minority interests	127,285	136,431	140,356	149,474	160,517
Minorities	1,581	1,704	1,675	1,675	1,675
Equity	128,866	138,135	142,031	151,149	162,192
Capital employed	136,947	163,449	175,614	183,502	191,335
Net debt/Equity (%)	6.3	18.3	23.6	21.4	18.0
Net debt/Net debt & Equity (%)	5.9	15.5	19.1	17.6	15.2
ROAE (%)	21.6	8.2	12.8	13.5	13.9
ROACE (%)	20.4	7.0	10.7	11.5	12.1
Interest cover (x)	43.0	10.3	15.3	11.7	12.5

EV Valuation	2008	2009	2010E	2011E	2012E
Market capitalisation	238,639	160,399	185,817	185,432	185,432
Av Core net debt (inc. associates)	9,691	18,126	30,877	34,397	32,177
Buy-out of minorities	4,560	1,416	4,076	4,411	4,848
Pension provisions	0	0	0	0	0
Peripheral assets	0	0	0	0	0
EV	**252,889**	**179,941**	**220,769**	**224,239**	**222,457**
Net income before minorities	31,746	9,922	18,157	19,979	22,020
DD&A + exploration	15,103	15,644	15,248	17,787	18,043
Other Group non-cash items	-6,387	-3,802	1,913	0	0
Core associates non-cash items	708	779	788	808	828
Core post-tax interest + pension cost	-148	-169	408	860	888
less: peripheral income/cash flow	0	0	0	0	0
DACF	**41,022**	**22,374**	**36,514**	**39,435**	**41,780**
EV/DACF $	6.2	8.0	6.0	5.7	5.3
B EV/DACF $	5.7	8.4	6.4	6.0	5.6
A EV/DACF $	6.5	7.8	5.8	5.5	5.1

Valuation metrics	2008	2009	2010E	2011E	2012E
P/E $	**6.4**	**16.9**	**10.5**	**9.4**	**8.6**
P/B	1.7	1.2	1.4	1.3	1.2
EV/DACF $	6.2	8.0	6.0	5.7	5.3
EV/EBITDA	3.7	5.1	4.6	4.1	3.8
FCF yield (%)	**4.5**	**-2.7**	**4.0**	**4.0**	**5.3**
Dividend yield (%)	**4.8**	**6.5**	**5.6**	**5.7**	**5.9**
Dividend cover (x)	2.8	1.1	1.7	1.8	2.0

Momentum metrics	2008	2009	2010e	2011E	2012E
Volume Growth	-2%	-3%	3%	2%	3%
EPS Growth (local)	18%	-62%	61%	11%	10%
NI Growth (local)	16%	-69%	82%	10%	10%
DPS Growth (local)	5%	10%	9%	6%	3%
EPS Growth $	18%	-62%	61%	11%	10%
Upstream PAT growth	38%	-63%	72%	10%	13%
Downstream PAT growth	-31%	-66%	93%	31%	-2%

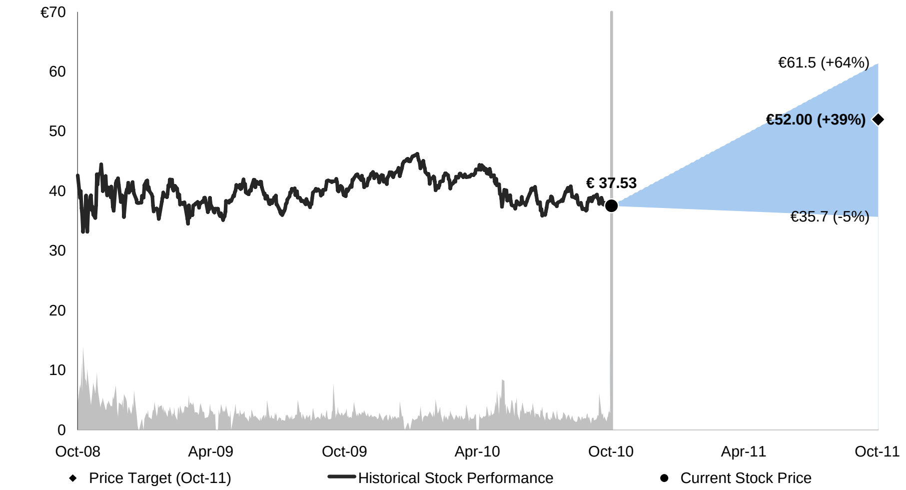
Credit Rating (Moody's)	Aa1

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Risk-Reward Snapshot: Total (TOTF.PA, Overweight, PT €52)

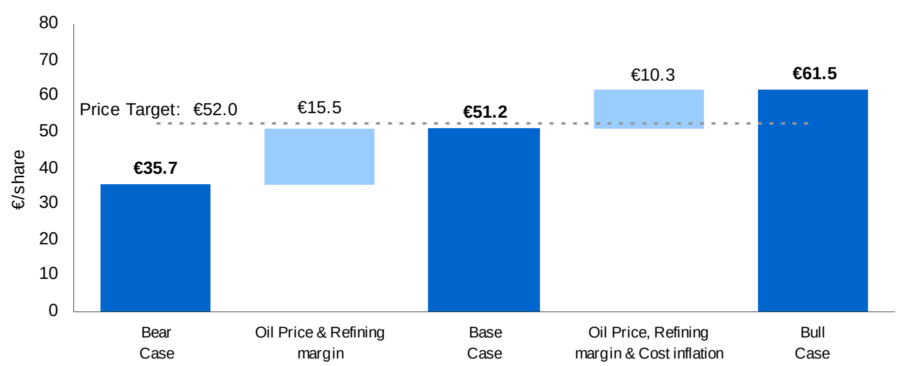
Positively skewed risk-reward



Source: Factset, Morgan Stanley Research

Price Target €52 Potential Upside +39%	We set our price target based on a DCF valuation at MS Base case (US$90/bbl LT), supported by a SOTP valuation of €50.9/sh. Our DCF assumes a 7.5% WACC and 2% terminal growth rate.
Bull Case €61.5 (DCF)	**$105/bbl long-term oil price, $7/bbl long-term refining margins:** We also assume a 7.5% WACC, 10% cost inflation and 2% terminal growth.
Base Case €51.2 (DCF)	**$90/bbl long-term oil price and $5.5/bbl long-term refining margins:** We also assume a 7.5% WACC, 10% cost inflation and 2% terminal growth.
Bear Case €35.7 (DCF)	**$70/bbl long-term oil price and $4/bbl long-term refining margins:** We also assume a 7.5% WACC, 2% terminal growth rate and at bear case oil prices zero additional cost inflation.

Bull, Base, Bear valuations



Source: Morgan Stanley Research

Why Overweight?

Upstream growth: 2010e volume growth of c. 4% is sector leading and we believe the medium-term portfolio, is competitive, with 2012 underpinned by the next wave of growth (Angola LNG, Usan, Pazflor, Kashagan Ph 1).

Balanced portfolio: Total possesses a balanced long-term portfolio, in our view, with a mix of conventional and unconventional projects.

Valuation inexpensive: At 8.2x 2011e P/E, Total is trading at a discount to the group, while the stock offers a 2010e dividend yield of 5.9%.

Key Value Drivers

Delivery of growth projects: Five key growth projects are in ramp-up phase and should deliver c.US$2bn cash flow this year.

Balance sheet strength: A robust balance sheet, with ND/E at c.20%. The sale of Sanofi (€2.5bn pa) provides cash flexibility & supports the dividend.

Potential Catalysts

E&P entry into Uganda: Finalization of the Tullow farm-down to CNOOC/Total (1/3 each), post the approval of Heritage's sale to Tullow.

Angola field trip: Total is running a trip to Angola in November, which we expect to highlight the strength of the company's West Africa portfolio.

Restructuring: Joselyn and Block 31 in E&P and the Lindsey refinery (UK, 220kb/d) and UK marketing business in the downstream.

UTS: Progress on $1.15bn acquisition of UTS (Canada) announced in July.

The FID pipeline for the next 6m now includes Halfaya (Iraq), GLNG, Ofon 2 and Egina.

Exhibit 40

Total: Financial Summary, 2008-12

Income Statement	2008	2009	2010E	2011E	2012E
Brent ($/bbl)	96.97	61.51	77.03	80.00	89.00
WTI ($/bbl)	99.60	61.42	77.49	81.00	90.00
Total Realised Gas price ($/mbtu)	7.40	5.31	5.14	5.60	6.25
Total TRCV Refining margin ($/bbl)	5.14	2.02	2.68	4.00	4.00
$:€ average	1.47	1.39	1.25	1.25	1.25
Oil & Gas production kboe/d	2,341	2,281	2,376	2,381	2,456
Exploration & Production	23,639	12,879	18,055	18,269	21,400
Refining & Marketing	3,602	1,026	1,447	2,226	2,157
Chemicals	873	249	927	1,208	1,251
Corporate & other	-549	-524	-493	-500	-500
Group Operating Profit	**27,565**	**13,630**	**19,936**	**21,204**	**24,307**
Other Income	6	-184	-187	-400	-400
Cost of Net Debt	-527	-398	-304	-264	-270
Financial Income	403	298	173	300	300
Profit Before Tax	**27,447**	**13,346**	**19,618**	**20,840**	**23,937**
Tax charge	-15,457	-7,302	-10,749	-11,774	-13,525
Equity in Income (loss) of Affiliate	2,316	1,918	2,511	2,791	3,370
Consolidated Net Income	**14,306**	**7,962**	**11,380**	**11,856**	**13,783**
Minority Interest	386	178	250	262	270
Adjusted Net Income	**13,920**	**7,784**	**11,130**	**11,594**	**13,513**

Cash flow	2008	2009	2010E	2011E	2012E
Reported income (inc mins)	10,953	8,629	11,841	11,856	13,783
Affiliates net income	-311	-378	-183	0	0
DD&A	6,197	7,107	7,344	7,574	8,179
Exploration Expense (write off)	0	0	430	1,097	1,199
Other	1,830	-2,998	672	0	0
Cash Flow From Operations	**18,669**	**12,360**	**20,104**	**20,527**	**23,161**
Disposals	2,585	3,081	3,184	2,054	0
Shares issued	262	41	11	0	0
Total Sources of Funds	**21,516**	**15,482**	**23,299**	**22,582**	**23,161**
Capex	-13,081	-13,189	-13,595	-16,217	-17,199
Acquisitions	-559	-160	0	0	0
Dividends	-4,945	-5,086	-5,245	-5,525	-5,779
Share Buybacks/repayments	-1,189	22	49	-400	-800
Other	1,830	-2,998	672	0	0
Total Uses of Funds	**-14,695**	**-16,258**	**-17,948**	**-22,342**	**-23,984**
Cash surplus / (deficit)	6,821	-776	5,351	240	-823
FX / other	-5,989	-2,277	-3,834	0	0
Decrease in net debt	**832**	**-3,053**	**728**	**240**	**-823**

Per share data (€)	2008	2009	2010E	2011E	2012E
No. Shares (avg)	2,247	2,237	2,243	2,238	2,227
End Period number of shares	2,366	2,366	2,366	2,359	2,344
Reported EPS	4.70	3.78	5.17	5.18	6.07
Adj. EPS	**6.20**	**3.48**	**4.96**	**5.18**	**6.07**
ModelWare EPS	4.70	3.78	5.17	5.18	6.07
DPS	**2.28**	**2.28**	**2.28**	**2.39**	**2.51**
Adj. EPADS	9.17	4.85	6.40	6.48	7.59
DPS/ADS	3.29	3.24	2.87	2.99	3.14
Payout ratio EPS (%)	35.8	66.9	44.9	46.2	41.4
Tax Rate (%)	56.3	54.7	54.8	56.5	56.5

Balance sheet	2008	2009	2010E	2011E	2012E
Equity	48,992	52,552	64,131	69,801	76,735
Minorities	958	987	887	948	1,012
Total Debt	23,913	26,431	30,165	29,925	30,748
Cash	12,321	11,662	14,832	14,832	14,832
Net Debt	11,405	14,458	13,730	13,490	14,313
Total Capital Employed	61,542	68,308	80,351	85,842	93,663
Average Capital Employed	60,372	64,925	74,329	83,097	89,753
Net debt/Equity (%)	22.8	27.0	21.1	19.1	18.4
Net debt/Net debt & Equity (%)	18.6	21.3	17.4	16.0	15.5
Interest cover(x)	44.9	38.0	67.7	80.3	90.1

EV Valuation	2008	2009	2010E	2011E	2012E
Market capitalisation (Eur)	106,829	89,045	84,169	84,001	83,565
net debt	11,405	14,458	13,730	13,490	14,313
Associates net debt	0	0	0	0	0
Core net debt (inc. associates)	0	0	0	0	0
Av Core net debt (inc. associates)	11,821	12,932	14,094	13,610	13,902
Buy-out of minorities & Pref Shareholders (BV)	958	987	887	948	1,012
EV	**119,608**	**102,963**	**99,149**	**98,559**	**98,479**
Sanofi Market Value	8,650	5,709	2,795	492	492
EV ex Sanofi	**110,959**	**97,254**	**96,354**	**98,068**	**97,987**
RC Modelware net income (clean, LIFO)	13,920	7,784	11,130	11,594	13,513
Minorities	386	178	250	262	270
DD&A	6,197	7,107	7,344	7,574	8,179
Exploration write-off	0	0	430	1,097	1,199
Core associates non-cash items	0	0	0	0	0
Core post-tax interest	230	180	137	115	117
DACF	**20,733**	**15,249**	**19,291**	**20,642**	**23,278**
EV/DACF	**5.8**	**6.8**	**5.1**	**4.8**	**4.2**

Valuation metrics	2008	2009	2010E	2011E	2012E
P/E $	**7.7**	**11.4**	**8.3**	**7.9**	**6.8**
P/B	2.1	1.7	1.4	1.3	1.2
EV/DACF $	5.8	6.8	5.6	5.2	4.6
EV/EBITDA	3.6	5.2	3.7	3.4	3.0
FCF yield (%)	**2.8**	**2.8**	**6.5**	**4.7**	**6.5**
Dividend yield (%)	**4.8**	**5.7**	**5.5**	**5.8**	**6.1**
Dividend cover	2.7	1.5	2.2	2.2	2.4

Momentum metrics	2008	2009	2010e	2011E	2012E
Volume Growth	**-2%**	**-3%**	**4%**	**0%**	**3%**
EPS Growth (local)	15%	-44%	43%	4%	17%
NI Growth (local)	14%	-44%	43%	4%	17%
DPS Growth (local)	10%	0%	0%	5%	5%
EPS Growth $	24%	-47%	28%	4%	17%
Exploration & Production EBIT growth	21%	-46%	40%	1%	17%
Refining & Marketing EBIT growth	10%	-72%	41%	54%	-3%
Chemicals EBIT growth	-24%	-71%	272%	30%	4%

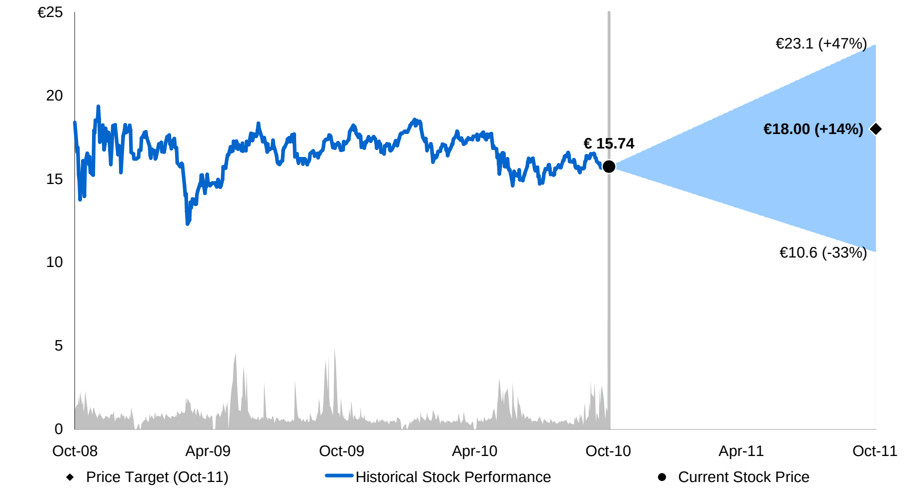
Credit Rating (Moody's)	Aa1

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Risk-Reward Snapshot: Eni (ENI.MI, Underweight, PT €18.0)

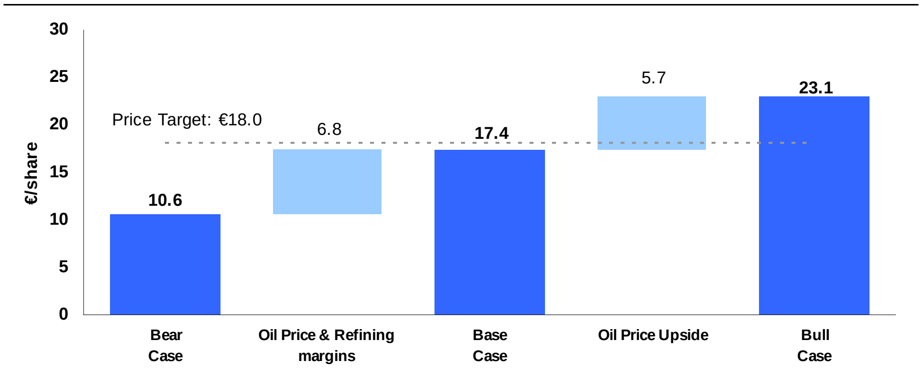
Value, but lacking in near-term catalysts



Source: FactSet, (historical price data) Morgan Stanley Research estimates

Price Target €18.0 Potential Upside 14%	Our price target of €18.0 is set at MS Base Case DCF valuation (long-term oil $90/bbl). This incorporates a one-third weighting to the market recognizing the full €6.6/sh of 'hidden' value we believe exists within Eni's Gas & Power business.
Bull Case €23.1 (DCF)	**$105/bbl long-term oil price, $7/bbl long-term refining margins:** WACC of 7.5%, 10% E&P cost inflation and 2% terminal growth.
Base Case €17.4 (DCF)	**$90/bbl long-term oil prices, base gas marketing margins and a recovery in Italy gas volumes:** WACC of 7.5%, E&P cost inflation 10% and 2% terminal growth. Again, this valuation requires that €6.6/sh of 'hidden' G&P value be fully unlocked.
Bear Case €10.6 (DCF)	**$70/bbl long-term oil prices, Italy gas marketing margins down 20% from base and G&P volumes down 10%:** WACC of 7.5%, 2% terminal growth and zero E&P cost inflation. We assume that G&P hidden value of €6.6/sh remains locked.

Base, Bull, Bear Valuations:



Source: Morgan Stanley Research estimates

Why Underweight?

G&P value to stay hidden: We see material upside potential from G&P restructuring (up to €6.6/sh), but we expect that value to remain 'hidden', at least for the next 12 months.

G&P: We expect Italian gas marketing to remain under volume and margin pressure during 2010.

Structural risks in G&P: We expect Italian gas marketing to start showing structural pressures on margins and volumes through 2010.

Value, but lacking in catalysts: Eni is not expensive, but we see no material positive catalysts on a one-year view and similarly attractive valuations at Total and Repsol.

Where could we be wrong?

Sale of regulated gas business: If Eni were to announce plans to sell some of Snam Rete Gas, it could prove supportive as investors anticipate a wider sale of G&P assets and a potential special dividend.

Potential Catalysts

Venezuela: Appraisal work on the Perla 3 & 4 prospects in Venezuela scheduled for H2.

Galp Shareholder Agreement: Unconfirmed press reports (Bloomberg, 16 July) continue to link Eni with the sale of its 33% stake, once the lock-in period expires at year-end.

Karachaganak: News flow related to Kazakh state seeking state participation in the project resulting in potential sale (unconfirmed report on *Business Week* on August 25th).

News flow linked to potential sale of Snam Rete Gas.

Exhibit 41

Eni: Financial Summary, 2008-12E

Income Statement	2008	2009	2010E	2011E	2012E
Brent ($/bbl)	97.0	61.3	77.0	80.0	89.0
WTI ($/bbl)	99.6	61.5	77.4	81.0	90.0
$:€ average	1.47	1.39	1.30	1.25	1.25
Production (kboe/d)	1,797	1,769	1,792	1,819	1,852
Rotterdam refining margin (	8.86	3.63	4.75	5.50	5.50
Exploration & Production	17,416	9,484	13,455	14,183	16,329
Gas and Power	3,541	3,757	3,502	3,768	3,955
Refining & Marketing	566	(357)	(218)	295	288
Petrochemicals	(375)	(426)	(23)	32	128
Oilfield Services & Enginee	1,041	1,120	1,206	1,397	1,658
Corporate item & other acti	(521)	(600)	(498)	(500)	(500)
Unrealized Profit in Invento	125	-	(165)	-	-
Operating Profit	**21,793**	**12,978**	**17,259**	**19,174**	**21,858**
Interest Expense	(764)	(551)	(911)	(675)	(616)
Net Income from Investmer	1,252	700	921	800	800
Profit Before Taxes	**22,281**	**13,127**	**17,269**	**19,300**	**22,041**
Tax charge	(11,449)	(7,059)	(9,611)	(10,452)	(11,951)
Profit After Taxes	**10,832**	**6,068**	**7,658**	**8,848**	**10,090**
Minority Interest	(631)	(950)	(826)	(1,128)	(1,221)
Adjusted Net Income	**10,201**	**5,118**	**6,832**	**7,720**	**8,869**
Post tax excepts and non-o	(1,376)	(367)	599	-	-
Reported net income (FIF	**8,825**	**4,617**	**7,431**	**7,720**	**8,869**

Cash flow	2008	2009	2010E	2011E	2012E
Reported income (inc mins)	9,558	5,567	8,257	8,848	10,090
DD&A	8,422	9,765	9,647	11,124	11,772
Other	1,609	-1,962	298	0	0
Working capital changes	2,212	-2,104	113	0	0
Cash Flow From Operatio	**21,801**	**11,266**	**18,315**	**19,972**	**21,863**
Disposals	320	3,585	1,718	0	0
Other	1,798	740	1,066	0	0
Total Sources of Funds	**22,775**	**15,591**	**21,099**	**19,972**	**21,863**
Capex	-14,562	-13,695	-14,742	-14,956	-15,553
Acquisitions	-385	-332	-115	0	0
Dividends	-5,216	-2,954	-3,975	-3,622	-3,985
Share purchases	-768	0	0	0	0
Other	-4,159	-3,046	-673	245	0
Total Uses of Funds	**-25,090**	**-20,027**	**-19,505**	**-18,333**	**-19,537**
Cash surplus / (deficit)	-2,315	-4,436	1,594	1,639	2,325
FX / other	7	-160	69	0	0
Decrease/(Increase) in ne	**-2,308**	**-4,596**	**1,663**	**1,639**	**2,325**
Net cash from borrowings	980	4,282	-366	0	0
(Decrease)/increase in ca	**-1,328**	**-314**	**1,297**	**1,639**	**2,325**

Per share data	2008	2009	2010E	2011E	2012E
No. Shares (avg)	3,629	3,617	3,622	3,622	3,622
End Period number of shar	3,611	3,622	3,622	3,622	3,622
Reported EPS (FIFO)	2.43	1.28	2.05	2.13	2.45
Adj. EPS	**2.80**	**1.41**	**1.89**	**2.13**	**2.45**
ModelWare EPS	2.43	1.28	2.05	2.13	2.45
DPS	**1.30**	**1.00**	**1.00**	**1.05**	**1.10**
Adj. EPADS	8.29	3.92	4.90	5.33	6.12
DPS/ADS	3.74	2.84	2.52	2.63	2.75
Payout ratio EPS (%)	45%	72%	51%	49%	45%
Adj tax rate (%)	51%	54%	56%	54%	54%

Balance sheet	2008	2009	2010E	2011E	2012E
Total debt	20,865	24,800	21,471	19,833	17,508
Cash and cash equivalents	2,489	1,762	1,812	1,812	1,812
Net debt	18,376	23,038	19,659	18,021	15,696
Equity inc mins	48,510	50,051	59,463	64,933	71,039
Net Debt/Equity (%)	**38%**	**46%**	**33%**	**28%**	**22%**
Net Debt/(Net Debt + Equit	27%	32%	25%	22%	18%
ROACE (%)	18%	9%	11%	12%	12%
Interest cover (x)	28.5	23.6	17.6	26.6	33.0

EV Valuation	2008	2009	2010E	2011E	2012E
Market capitalisation (Eur)	77,582	59,999	57,017	57,017	57,017
net debt	18,376	23,038	19,659	18,021	15,696
Av Core net debt (inc. asso	17,352	20,707	21,349	18,840	16,858
Buy-out of minorities (MV)	6,310	9,500	8,255	11,279	12,212
EV inc 100% SRG & SPM	**101,244**	**90,206**	**86,621**	**87,136**	**86,087**
Adjusted net income (clean	10,201	5,118	6,832	7,720	8,869
Minorities	631	950	826	1,128	1,221
DD&A	8,422	9,765	9,647	11,124	11,772
Write-off	2,560	801	89	0	0
Core associates non-cash i	0	0	0	0	0
Core post-tax interest	371	255	404	309	282
DACF inc 100% SRG & S	**22,185**	**16,888**	**17,798**	**20,281**	**22,145**
EV/DACF	**4.6**	**5.3**	**4.9**	**4.3**	**3.9**

Credit Rating (Moody's)	Aa2

Valuation metrics	2008	2009	2010E	2011E	2012E
P/E $	**7.6**	**11.7**	**9.0**	**8.2**	**7.2**
P/B	2.4	1.7	1.3	1.2	1.1
EV/DACF $	**4.6**	**5.3**	**5.1**	**4.6**	**4.2**
EV/EBITDA	3.4	4.1	3.2	2.9	2.6
FCF yield (%)	**6.5**	**-0.5**	**5.7**	**7.9**	**9.9**
Dividend yield (%)	**6.1**	**6.0**	**5.9**	**6.0**	**6.3**
Dividend cover (x)	2.2	1.4	1.9	2.0	2.2

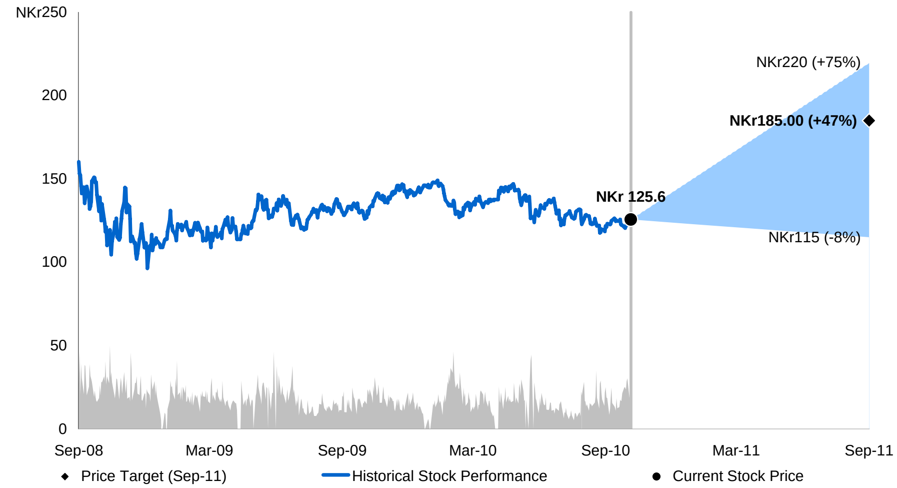
Momentum metrics	2008	2009	2010e	2011E	2012E
Volume Growth	4%	-2%	1%	2%	2%
EPS Growth (local)	17%	-52%	24%	9%	15%
NI Growth (local)	8%	-48%	61%	4%	15%
DPS Growth (local)	118%	92%	102%	91%	100%
EPS Growth $	17%	-53%	25%	9%	15%
Exploration & Production E	24%	-46%	42%	5%	15%
Gas and Power EBIT growt	-13%	6%	-7%	8%	5%
Refining & Marketing EBIT	72%	-163%	NM	NM	-2%

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Risk-Reward Snapshot: Statoil (STL.OL, Overweight, PT Nkr185)

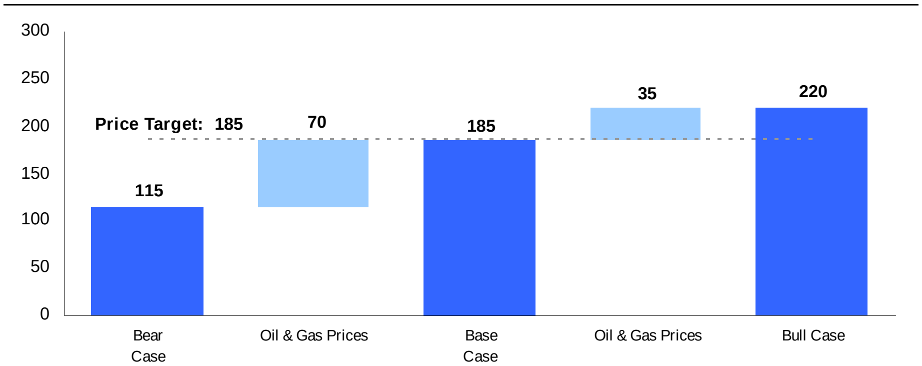
Buy into Q4/Q1 operational momentum after share price weakness



Source: FactSet, (historical price data) Morgan Stanley Research

Price Target Nkr185 Potential Upside 48%	We set our price target based on our DCF valuation at MS Base case oil prices assumption (long-term $90/bbl). Our implied target 2012 PE of 10.6x is a 10% premium to our sector target, justified by Statoil's leading gearing to oil prices into a tightening global oil supply/demand market, in our opinion.
Bull Case Nkr220 (DCF)	**$105/bbl long-term oil prices, $7/bbl long-term refining margins:** We also assume a 7.5% WACC, 10% cost inflation and a 2% terminal growth rate.
Base Case Nkr185 (DCF)	**$90/bbl long-term oil prices and $5.5/bbl long-term refining margins:** We assume a 7.5% WACC, 10% cost inflation and 2% terminal growth.
Bear Case Nkr115 (DCF)	**$70/bbl long-term oil price and $4/bbl refining margins:** We assume a 7.5% WACC, 2% terminal growth and at bear case oil prices no further cost inflation.

Base, Bull, Bear Valuations



Source: Morgan Stanley Research estimates

Why Overweight?

Oil leverage is still a positive differentiator: Statoil is the geared play on oil prices amongst the Integrateds peer group, and we continue to see a picture whereby global oil markets will tighten over the next three years.

Near-term gas concerns overdone: Q3 gas volumes will be weak, but there will be inevitably be a strong pickup in demand into winter, and in the background, supply discipline from all major players has firmed up the sustainability of the dominant oil-linked gas pricing contract model.

Risk-reward positively skewed: Statoil exhibits more upside to our price target and less bear case downside than OMV (the other Integrated play on oil price gearing).

2011e oil growth: Concerns over international E&P profitability should reduce as high-value Peregrino oil comes on-stream in Q1 2011.

Where could we be wrong?

European gas markets: Supply discipline could fall next summer, so driving down spot prices and resuming pressure on oil-linked gas contracts. **Other downside risks** include Norwegian government reluctance to open new acreage, double dip recession and Iraq development risks.

Potential Catalysts

Gas set to pickup seasonally: Gas demand (and volumes) is set to pick up materially over the next 6m.

Peregrino start-up (Brazil, STL 60%): Scheduled for early 2011e, plateau production 100kb/d.

Q3 results: We expect gas volumes will be down c.15% y/y with the 2nd Nov results.

Exhibit 42

Statoil: Financial Summary, 2008-12E

Income Statement	2008	2009	2010E	2011E	2012E
Brent ($/bbl)	96.97	61.26	77.21	80.00	89.00
STL Group liquid realisations	2.42	1.89	1.74	2.18	2.37
Norwegian Gas Price (NKr/sm)	8.86	3.62	4.73	5.50	5.50
FCC Margin ($/bbl)	8.25	4.35	5.30	6.00	6.00
NKr / $ exchange rate	5.64	6.29	6.12	6.20	6.20
Production (equity kboe/d)	1,925	1,963	1,949	2,014	2,029
Production (ent. kboe/d)	1,751	1,807	1,762	1,817	1,822
E&P Norway	168,053	102,655	119,101	139,433	144,511
International E&P	16,707	9,260	14,966	22,013	31,662
Natural Gas	11,877	16,518	13,266	11,951	12,406
Manufacturing & Marketing	8,404	3,531	3,140	3,906	3,956
Other & Eliminations	-1,709	-1,138	-550	-1,500	-1,500
EBIT	**203,332**	**130,826**	**149,923**	**175,803**	**191,035**
Net Financial Items	4,224	-1,050	-1,668	-1,463	-1,184
PBT	**207,556**	**129,876**	**148,255**	**174,339**	**189,851**
Taxation	-147,012	-91,724	-106,524	-125,739	-134,019
Minority interest	-5	598	38	-1,000	-1,000
Clean Net Income	**60,539**	**38,750**	**41,770**	**47,600**	**54,832**
Post-tax except. and non-operating items	-17,274	-20,437	-7,900	0	0
Reported Net Income	**43,265**	**18,313**	**33,870**	**47,600**	**54,832**

Per share data	2008	2009	2010E	2011E	2012E
No. Shares (avg)	3,188	3,186	3,186	3,186	3,186
End Period No of Shares	3,186	3,186	3,186	3,186	3,186
Reported EPS	13.57	5.75	10.64	14.94	17.21
Adj. EPS	**18.99**	**12.16**	**13.11**	**14.94**	**17.21**
ModelWare EPS	18.99	12.16	13.11	14.94	17.21
DPS - Ordinary	4.40	6.00	6.56	7.47	8.61
DPS - Ordinary + Special	**7.25**	**6.00**	**6.56**	**7.47**	**8.61**
EPS/ADR ($)	3.36	1.93	2.14	2.41	2.78
Dividend /ADR ($)	1.06	1.06	1.06	1.20	1.39
Payout ratio Adj EPS (+spec div) (%)	38%	49%	50%	50%	50%
Tax rate (%)	71%	71%	72%	72%	71%

EV Valuation	2008	2009	2010E	2011E	2012E
Market capitalisation	487,688	412,587	395,064	395,064	395,064
Group net debt	82,201	100,531	78,231	80,575	70,067
Core net debt (inc. associates)	82,201	100,531	78,231	80,575	70,067
Avg. Net Debt	66,785	91,366	89,381	79,403	75,321
Buy-out of minorities	60	-7,176	-456	12,000	12,000
Pension provisions	0	0	0	0	0
Peripheral assets	0	0	0	0	0
EV	**569,949**	**505,942**	**472,839**	**487,639**	**477,131**
Net income before minorities	60,544	38,152	41,732	48,600	55,832
DD&A + exploration	46,868	61,054	51,274	51,677	56,130
Other group non-cash items	18,607	6,420	5,791	2,515	2,680
Post-tax interest + pension cost	-1,232	308	469	408	348
DACF	**124,787**	**105,934**	**99,266**	**103,201**	**114,991**
EV/DACF	**4.6**	**4.8**	**4.8**	**4.7**	**4.1**

Credit Rating (Moody's)	Aa2

Cash flow	2008	2009	2010E	2011E	2012E
Reported profit before tax	180,467	114,890	137,338	174,339	189,851
Reported Taxation	-137,197	-97,175	-103,507	-125,739	-134,019
DD&A	42,996	54,056	48,725	50,677	55,130
Exploration write-off	3,872	6,998	2,549	1,000	1,000
Other	18,607	6,420	5,791	2,515	2,680
Working Capital	-3,805	-5,687	-8,300	0	0
Cash flow from operations	**104,940**	**79,502**	**82,597**	**102,793**	**114,643**
Disposals	5,371	1,430	19,739	0	0
Shares issued/ MSI	0	0	0	0	0
Total sources of funds	**110,311**	**80,932**	**102,335**	**102,793**	**114,643**
Capex	-65,350	-74,355	-64,749	-84,252	-80,335
Acquisitions	-13,120	0	-4,809	0	0
Dividends	-27,082	-23,085	-19,095	-20,885	-23,800
Financial Investments & Other	-2,377	32,288	-1,029	0	0
Share purchases	-308	-343	-161	0	0
Total uses of funds	**-108,237**	**-65,495**	**-89,843**	**-105,137**	**-104,135**
Cash surplus / (deficit)	2074	15437	12492	-2344	10508
FX / other	707	-2851	3921	0	0
Decrease in net debt	**2,781**	**12,586**	**16,413**	**-2,344**	**10,508**

Balance sheet	2008	2009	2010E	2011E	2012E
Cash and cash equivalents	18,638	24,723	18,815	18,815	18,815
Net debt	82,201	100,531	78,231	80,575	70,067
Total debt	100,839	125,254	97,046	99,390	88,882
Equity (inc msi)	216,055	200,118	226,603	254,318	286,350
Capital employed	298,256	300,649	304,834	334,894	356,418
Debt/Equity (%)	47%	63%	43%	39%	31%
Debt/Debt & Equity (%)	32%	38%	30%	28%	24%
Net Debt/Equity (%)	38%	50%	35%	32%	24%
Net Debt/Net Debt & Equity (%)	28%	33%	26%	24%	20%
ROAE (%)	31%	18%	20%	20%	21%
ROACE (%)	23%	13%	14%	16%	17%
Interest cover(x)	NM	10.5	-196.5	86.0	109.2

Valuation metrics	2008	2009	2010E	2011E	2012E
P/E $	**8.1**	**10.6**	**9.5**	**8.3**	**7.2**
P/B	2.3	2.1	1.7	1.6	1.4
EV/DACF $	**4.6**	**4.8**	**4.8**	**4.7**	**4.1**
EV/EBITDA	2.3	2.8	2.4	2.2	1.9
FCF yield (%)	**8.9**	**2.6**	**6.6**	**4.7**	**8.7**
Dividend yield (%)	**3.9**	**5.1**	**5.2**	**6.0**	**6.9**
Dividend cover (x)	2.6	2.0	2.0	2.0	2.0

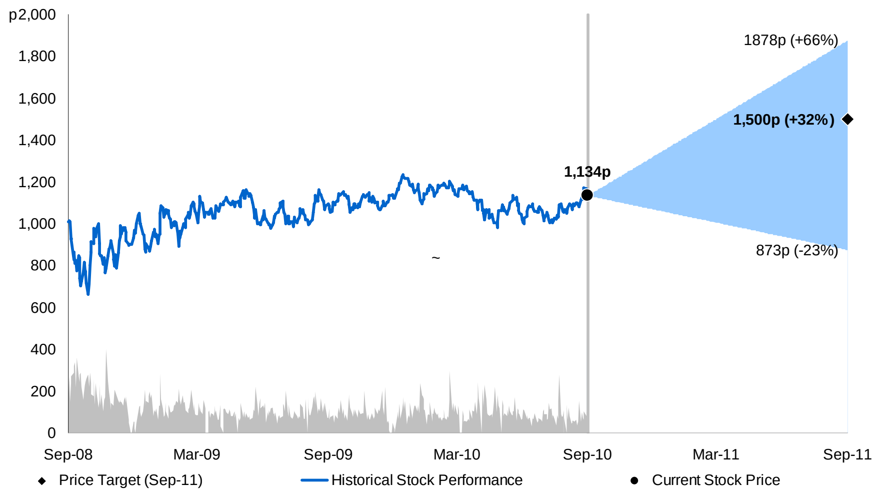
Momentum metrics	2008	2009	2010e	2011E	2012E
Volume Growth	2%	3%	-3%	3%	0%
EPS Growth (local)	15%	-43%	30%	33%	9%
NI Growth (local)	39%	-36%	8%	14%	15%
DPS Growth (local)	-15%	-17%	9%	14%	15%
EPS Growth $	45%	-43%	11%	13%	15%
E&P Norway EBIT growth	36%	-39%	16%	17%	4%
International E&P EBIT growth	6%	-45%	62%	47%	44%
Natural Gas EBIT growth	81%	39%	-20%	-10%	4%

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Risk-Reward Snapshot: BG Group (BG.L, Overweight, PT 1500p)

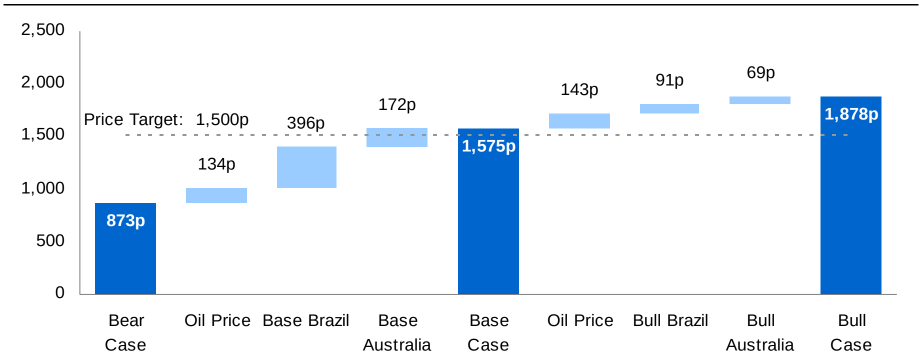
A core OW in EU Energy, offering leading medium term growth



Source: Factset, Morgan Stanley Research

Price Target 1,500p Potential Upside 32%	We set our price target around our NAV of c.£16/sh and our base case DCF valuation with additional value for Brazil and Australia of 1,575p/sh. We assume MS Base case oil prices (LT $90/bbl) in both cases.
Bull Case 1,878p (DCF + Brazil + Australia)	**DCF value of 1,150p/sh assuming US$105/bbl oil price**, 7.5% WACC and 0% long-term growth plus value for BG's Santos Basin, Brazil resource position worth 487p/sh and value for the Australian upstream and LNG businesses (241p/sh).
Base Case 1,575p (DCF + Brazil + Australia)	**DCF value of 1,007p/sh assuming US$90/bbl+ oil price**, 7.5% WACC and 0% long-term growth plus value for BG's Santos Basin, Brazil resource position worth 396p/sh and value for the Australian upstream and LNG businesses (172p/sh).
Bear Case 873p (DCF)	**DCF value of 873p/sh assuming US$70/bbl oil price**, 7.5% WACC and 0% long-term growth plus no additional value for BG's Brazilian and Australian assets.

Bear to bull values: potential upside to option value in Brazil



Source: Morgan Stanley Research

Why Overweight?

An exceptional asset base set to deliver top-quartile growth rates to 2020.

Offshore Brazil has seen better than anticipated flow rates that should underpin robust economics for the pre salt developments.

Exposure to a global gas arbitrage provides alternative leverage to commodity prices and further upside from BG's strong position in LNG.

Key value drivers

Brazil economics: Encouraging flow rates translate to lower number of wells that result in lowering capex and as a result improve the Brazilian field economics.

The LNG business should provide continued upside as BG benefits from tight long-term LNG markets and a flexible supply base. The Asia Pacific gas strategy remains in place, with QGC offering substantial upside.

US Shale: Industry-leading initial production rates in BG's Haynesville position. Drilling activities are being ramped up with 14 rigs scheduled to be operating by 1Q10.

Potential catalysts

Brazil: Update on Tupi pilot startup (Q4 10), Guara EWT results (Oct), Brazil presidential elections (Oct)

Australia LNG: FID on QCLNG expected late 2010 with potential for third train.

Karachaganak: News flow related to Kazakh state seeking state participation in the project resulting in potential sale (unconfirmed report on *Business Week* on August 25th).

UK gas price reset: MSe: 45p/th (Oct 1, published with Q3 results).

Exhibit 43

BG: Financial Summary, 2008-12E

Income Statement	2008	2009	2010E	2011E	2012E
Brent ($/bbl)	97.13	61.48	77.63	80.00	89.00
WTI ($/bbl)	99.74	61.71	78.04	81.00	90.00
BG Realised Oil Price ($/bbl)	97.47	61.47	77.39	80.07	89.07
US Henry Hub Gas Price ($/mmcf)	8.79	3.78	4.59	5.60	5.60
BG Realised UK Gas Price (p/th)	41.99	41.90	39.11	46.27	47.54
BG Realised International Gas Price (p/th)	22.23	18.22	22.56	29.39	29.88
£/$ Average	1.85	1.57	1.53	1.50	1.50
Production (kboe/d)	619	644	655	671	787
LNG Liquefaction (mt)	7.16	7.16	7.16	8.29	8.29
Total LNG Volumes (incl spot) (mt)	13.50	13.50	13.50	13.50	15.03
T&D volumes (bcm)	15.75	16.69	17.76	18.55	19.44
Power Generation (MW)	3.00	3.00	1.36	1.36	1.36
Exploration & Production	6,583	3,220	4,096	5,408	7,509
Liquefied Natural Gas	2,914	2,381	2,070	1,734	1,713
Transmission and Distribution	311	662	555	554	570
Power Generation	223	246	184	233	238
Other activities	-36	-19	2	-48	-48
Op. Profit (business performance pre excpt.)	**9,996**	**6,490**	**6,906**	**7,880**	**9,982**
Net Interest Expense	40	-218	-118	-360	-413
Profit Before Taxes (pre exceptionals)	**10,035**	**6,272**	**6,789**	**7,521**	**9,569**
Tax charge (clean)	-4,274	-2,632	-2,801	-3,159	-4,019
Profit After Taxes	5,762	3,640	3,987	4,362	5,550
Minority Interest	-51	-151	-121	-122	-125
Net Income - Business Performance	**5,711**	**3,489**	**3,866**	**4,240**	**5,425**
Goodwill Amortisation	0	0	0	0	0
Net Income - Business Perf. pre-Goodwill	**5,711**	**3,489**	**3,866**	**4,240**	**5,425**
Post tax excepts and non-operating items	0	0	0	0	0
Net income - reported	**5,711**	**3,489**	**3,866**	**4,240**	**5,425**

Per share data (cents)	2008	2009	2010E	2011E	2012E
No of shares	3,382	3,389	3,381	3,363	3,363
Reported EPS	1.69	1.03	1.14	1.26	1.61
Clean EPS	1.69	1.03	1.14	1.26	1.61
ModelWare EPS	**1.69**	**1.03**	**1.14**	**1.26**	**1.61**
DPS(gross)	**16.15**	**19.63**	**21.59**	**23.75**	**26.13**
MS EPADS ($)	8.05	5.23	5.42	6.28	8.02
Gross Dividend per ADS ($)	0.97	0.98	1.01	1.13	8.02
ModelWareSM EPADS ($)	8.40	5.23	5.42	6.28	1.24
Reported EPADS ($)	8.40	5.23	5.42	6.28	8.02
Payout ratio (%)	956.0	1,906.7	1,888.6	1,883.8	1,619.7
Tax rate (%)	42.6	42.0	41.3	42.0	42.0

EV Valuation	2008	2009	2010E	2011E	2012E
Market capitalisation	36,897	35,859	34,974	34,974	34,974
Net debt	1,145	3,135	5,620	6,606	6,779
Core net debt (inc. associates)	1,145	3,135	5,620	6,606	6,779
Av Core net debt (inc. associates)	604	2,140	4,377	6,113	6,692
Buy-out of minorities (BV)	126	199	232	267	304
EV	**37,627**	**38,198**	**39,583**	**41,354**	**41,970**
Net income (clean)	3,068	2,263	2,389	2,817	3,597
Minorities	25	96	65	71	73
DD&A	880	1,131	1,446	1,398	1,468
Exploration write-off	240	349	252	149	134
Core associates non-cash items	0	0	0	0	0
Interest expense	(25)	144	138	193	254
tax rate	0	0	0	0	0
Core post-tax interest	(14)	84	80	112	147
DACF	**4,199**	**3,923**	**4,232**	**4,546**	**5,420**
EV/DACF	8.96	9.74	9.35	9.10	7.74

Credit Rating (S&Ps)	A

Cash flow	2008	2009	2010E	2011E	2012E
Net income - reported	5,711	3,489	3,866	4,240	5,425
Minority Interest	-51	-151	-121	-122	-125
Reported income (inc mins)	5,762	3,640	3,987	4,362	5,550
DD&A	1,619	1,750	2,208	2,112	2,251
Exploration expenditure written off	433	541	378	223	202
Working Capital	-77	-661	168	0	0
Other	265	227	95	320	468
Cash flow from operations	**8,001**	**5,497**	**6,837**	**7,018**	**8,471**
Disposals	32	5	1,041	0	0
Shares issued	48	99	53	0	0
Total sources of funds	**8,082**	**5,601**	**7,931**	**7,018**	**8,471**
Capex	-5,118	-6,767	-8,155	-8,260	-8,260
Acquisitions	-3,308	-1,094	-594	0	0
Dividends	-738	-690	-740	-820	-898
Share purchases	-390	-4	-2	0	0
Total uses of funds	**-9,554**	**-8,555**	**-9,491**	**-9,080**	**-9,158**
Cash surplus / (deficit)	-1,473	-2,954	-1,561	-2,062	-687
FX / other	-50	-463	-132	-219	-402
Decrease in net debt	**-1,523**	**-3,417**	**-1,693**	**-2,281**	**-1,089**

Balance sheet	2008	2009	2010E	2011E	2012E
Cash and cash equivalents	1,485	1,119	1,779	1,779	1,779
Net debt	1,646	5,063	6,756	9,037	10,126
Total debt	3,131	6,182	8,535	10,816	11,905
Equity	18,343	22,909	25,166	28,648	33,237
Minority shareholders interests	181	321	316	377	440
Equity (inc mins)	18,524	23,230	25,483	29,025	33,677
Capital employed	20,170	28,293	32,238	38,061	43,803
Debt/Equity (%)	16.9	26.6	33.5	37.3	35.3
Debt/Debt & Equity (%)	14.5	21.0	25.1	27.1	26.1
Net debt/Equity (%)	8.9	21.8	26.5	31.1	30.1
Net debt/Net debt & Equity (%)	8.2	17.9	21.0	23.7	23.1
ROAE (%)	34.4	16.7	15.9	15.6	17.3
ROACE (%)	32.8	15.5	13.4	13.0	14.1
Interest cover (x)	36.6	25.6	30.5	30.7	40.2

Valuation metrics	2008	2009	2010E	2011E	2012E
P/E $	**12.0**	**15.8**	**14.6**	**12.4**	**9.7**
P/B	2.9	2.5	2.2	1.9	1.7
EV/DACF $	9.0	9.7	9.3	9.2	7.8
EV/EBITDA	6.0	7.2	6.8	6.3	5.2
FCF yield (%)	**4.2**	**-1.0**	**-1.8**	**-0.2**	**2.9**
Dividend yield (%)	**1.0**	**1.2**	**1.3**	**1.4**	**1.6**
Dividend cover (x)	0.1	0.1	0.1	0.1	0.1

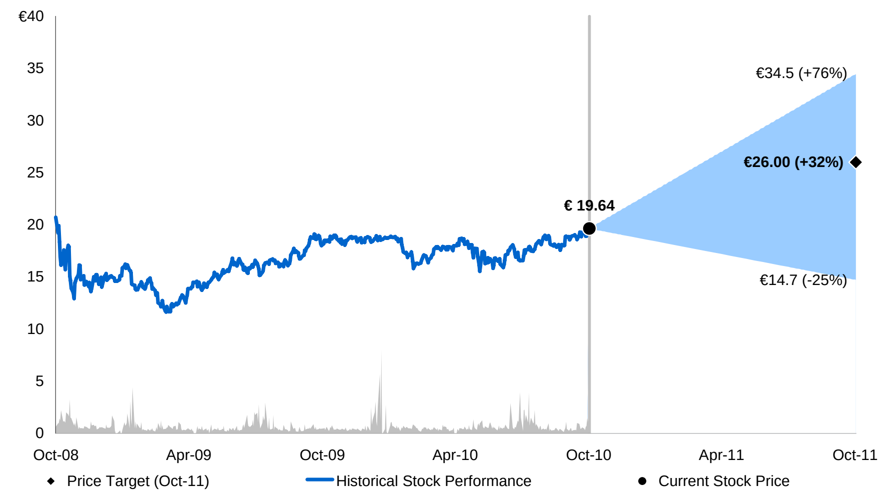
Momentum metrics	2008	2009	2010e	2011E	2012E
Volume Growth	3%	4%	2%	2%	17%
EPS Growth (local)	74%	-39%	11%	10%	28%
NI Growth (local)	72%	-39%	11%	10%	28%
DPS Growth (local)	20%	22%	10%	10%	10%
EPS Growth $	61%	-38%	4%	16%	28%
Exploration & Production EBIT growth	47%	-51%	27%	32%	39%
Liquefied Natural Gas EBIT growth	204%	-18%	-13%	-16%	-1%
Transmission and Distribution EBIT growth	-35%	113%	-16%	0%	3%
Power Generation EBIT growth	-9%	10%	-25%	27%	2%

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Risk-Reward Snapshot: Repsol (REP.MC, Overweight, PT €26)

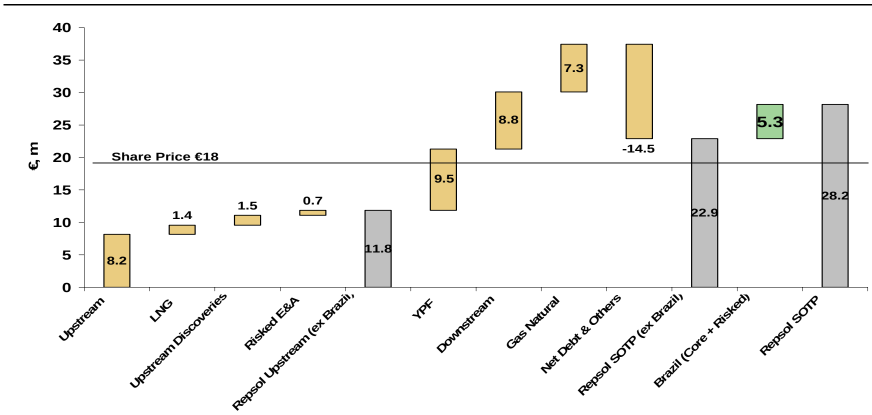
Value, leading EPS momentum and catalysts in Brazil & Argentina



Source: Company data, Morgan Stanley Research

Price Target €26.0 Potential Upside 32%	Our price target is based on our Base Case oil price assumption DCF valuation of €24.4 plus €1.6/sh for risked exploration upside. It is supported by our base sum-of-the-parts of €28.2/sh and implies a target 2011 EV/DACF of 6.6x; inline with our sector target multiple.
Bull Case €34.5 (DCF)	**$105/bbl long-term oil prices, $7/bbl long-term refining margins:** We assume a 7.4% WACC 2% terminal growth and include €4.5/sh for risked exploration upside.
Base Case €26.0 (DCF)	**$90/bbl long-term oil prices and $5.5/bbl long-term refining margins:** We assume a 7.5% WACC, and 2% terminal growth. We also include €1.6/sh for risked exploration upside.
Bear Case €14.7 (DCF)	**$70/bbl long-term oil prices and no E&A upside:** We assume a 7.5% WACC, 2% terminal growth and long-term refining margins of $4.0/bbl. We include zero exploration value.

Potential catalyst impact – multiple paths to unlock the base case



Source: Morgan Stanley Research estimates

Why Overweight?

Valuation outcomes the most positively skewed in the sector: Upside from YPF, Upstream and Downstream all drive a bull-bear-base case valuation outlook with a material positive skew.

Leading 2010 EPS momentum: Production growth, Argentine energy price rises and a modest refining margin recovery should drive Repsol to deliver the highest EPS growth in the sector in 2010.

Brazil catalysts: Valuation of Repsol's Brazil E&P portfolio under the recent Sinopec deal was supportive vs. our base case ($10.6bn for 100% of the assets, vs. MSe base case $8.3bn), while Tupi production starts up in Q4.

Argentina catalysts: A value-accretive partial YPF IPO is looking less likely in 2010, but remains a core management goal.

Where could we be wrong?

Outside of commodity prices, risks to our stance include a reversal in Argentine price increases, exploration disappointment and Brazil development hurdles.

Potential Catalysts

- **Brazil:** Further data points on the recent deal announced with Sinopec (for 40% of its Brazil E&P assets) with Q3 results (11 Nov) and an update on the potential of Albacora Leste (Campos basin, REP 10%).
- **Brazil:** Update on Guara EWT in Q4.
- **Perla gas (Venezuela):** News flow on reserve estimates and gas pricing over the coming months.
- **Further E&A upside:** Through Brazil, plus Sierra Leone and Venezuela.

Exhibit 44

Repsol: Financial Summary, 2008-12E

Income Statement €m	2008	2009	2010E	2011E	2012E
Brent ($/bbl)	96.97	61.64	77.21	80.00	89.00
WTI ($/bbl)	99.61	61.76	77.92	81.00	90.00
US Henry Hub ($/mscf)	8.86	3.89	4.61	4.95	5.50
Argentinean Gas Prices ($/	2.31	2.23	2.56	2.91	3.30
$/€ average	1.47	1.40	1.29	1.25	1.25
$/ARS	3.19	3.73	3.87	3.85	3.85
Production (kboe/d)	951	905	892	905	877
Upstream	2,227	884	1,642	1,914	2,243
LNG	125	50	107	120	140
Downstream	1,621	568	1,014	1,428	1,518
YPF	1,317	789	1,568	1,540	2,087
Gas Natural SDG	568	745	838	924	970
Other and Corporate	-356	-354	-310	-320	-320
Operating profit	**5,502**	**2,682**	**4,859**	**5,606**	**6,638**
Total financial (expense)/in	-372	-541	-874	-854	-962
Income before tax & minc	**5,130**	**2,141**	**3,984**	**4,751**	**5,676**
Tax expense	-2,293	-857	-1,738	-1,948	-2,327
Share of Affiliates	66	86	106	100	100
Minority interests	-126	-165	-238	-230	-283
Clean Net Income	**2,777**	**1,206**	**2,115**	**2,673**	**3,165**
Post tax non-operating iten	-66	263	181	0	0
Net income - reported	**2,711**	**1,468**	**2,296**	**2,673**	**3,165**

Per share data (€)	2008	2009	2010E	2011E	2012E
No of shares	1,221	1,221	1,221	1,221	1,221
Reported EPS	2.22	1.20	1.88	2.19	2.59
Clean EPS	**2.27**	**0.99**	**1.73**	**2.19**	**2.59**
Modelware EPS	2.27	0.99	1.73	2.19	2.59
Dividend per share	**1.05**	**0.85**	**0.94**	**1.03**	**1.04**
- ADR factor	1.00	1.00	1.00	1.00	1.00
Earnings per ADR ($) (clea	3.36	1.37	2.24	2.74	3.24
Payout ratio (%)	46.2	86.1	54.0	47.0	40.0
Tax rate (%)	44.7	40.0	43.6	41.0	41.0

EV Valuation	2008	2009	2010E	2011E	2012E
Market capitalisation	25,831	19,656	23,978	23,978	23,978
Net debt	8,718	15,889	15,992	17,318	17,681
Minority interest	1,170	1,440	1,749	1,979	2,262
EV	**35,717**	**33,399**	**41,667**	**42,612**	**43,740**
Net income before minoritie	2,837	1,653	2,546	2,903	3,449
DD&A + exploration	3,500	3,956	4,085	4,303	4,287
Interest expense	372	541	874	854	962
Core post-tax interest	205.7	324.6	492.9	504.0	567.4
DACF	**6,543**	**5,934**	**7,123**	**7,710**	**8,303**
EV/DACF	**5.5**	**5.6**	**5.8**	**5.5**	**5.3**

Credit Rating (Moody's)	Baa1

Cash flow €m	2008	2009	2010E	2011E	2012E
Net income - reported	2,711	1,468	2,296	2,673	3,165
Minority interests	126	185	250	230	283
DD&A	3,091	3,620	3,720	3,893	3,887
Changes in Working Capita	1,187	-590	-1,010	0	0
Other	481	668	1,087	732	829
Cash flow from operation	**7,596**	**5,351**	**6,343**	**7,529**	**8,165**
Total investments	-4,914	-4,348	-4,462	-6,644	-6,200
Long term financial investm	-747	-4,655	-126	0	0
Investment in Intangible as:	-99	0	0	0	0
Divestments	1,045	1,149	824	0	0
Cash flow from investmer	**-4,715**	**-7,854**	**-3,764**	**-6,644**	**-6,200**
Loan proceeds and other L	447	10,618	5,251	0	0
Repayment of LT loans anc	-623	-776	-894	-854	-962
Dividend paid	-1,608	-1,935	-700	-1,199	-1,254
Capital increase	-245	0	0	0	0
Other	309	-5,371	-5,419	0	0
Cash flow from financing	**-1,720**	**2,536**	**-1,762**	**-2,053**	**-2,215**
Change in cash & equival	**1,161**	**33**	**817**	**-1,168**	**-250**
			1,804	152	1,136

Balance sheet €m	2008	2009	2010E	2011E	2012E
Cash and cash equivalents	3,385	3,021	3,947	2,678	2,328
Net debt	8,718	15,889	15,992	17,318	17,681
Total debt	12,103	18,910	19,939	19,996	20,009
Equity (inc mins)	21,270	21,391	24,551	25,976	27,926
Net debt/Equity (%)	**41.0**	**74.3**	**65.1**	**66.7**	**63.3**
Net debt/Net debt & Equit	**29.1**	**42.6**	**39.4**	**40.0**	**38.8**
ROACE (%)	10.7	5.0	7.3	8.1	9.0
Interest Cover (x)	14.8	5.0	5.6	6.6	6.9

Valuation metrics	2008	2009	2010E	2011E	2012E
P/E $	**9.3**	**16.3**	**12.0**	**9.8**	**8.3**
P/B	1.3	1.0	1.1	1.0	0.9
EV/DACF $	5.5	5.6	5.8	5.5	5.3
EV/EBITDA	4.1	5.5	4.9	4.5	4.2
FCF yield (%)	**2.2**	**7.4**	**10.6**	**2.7**	**6.6**
Dividend yield (%)	**5.0**	**5.3**	**4.5**	**4.8**	**4.8**
Dividend cover (x)	2.2	1.2	1.9	2.1	2.5

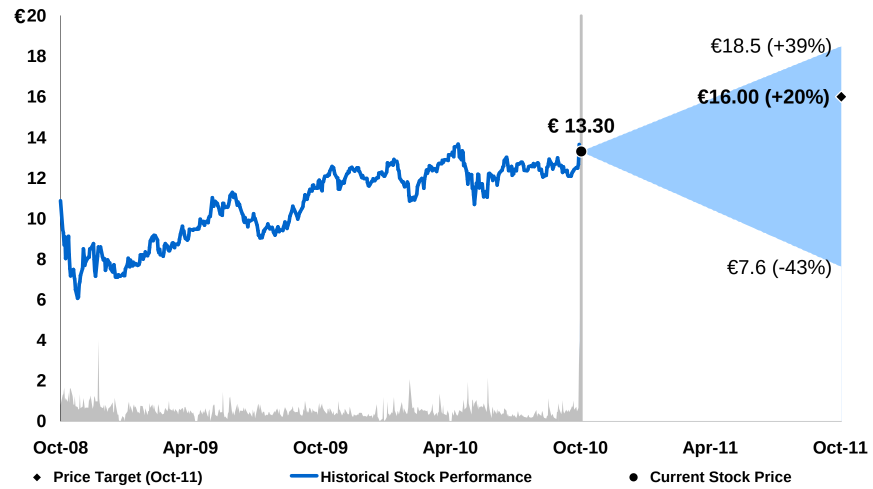
Momentum metrics	2008	2009	2010e	2011E	2012E
Volume Growth	-8%	-5%	-1%	1%	-3%
EPS Growth (local)	-2%	-57%	75%	26%	18%
NI Growth (local)	-2%	-57%	75%	26%	18%
DPS Growth (local)	5%	-19%	10%	10%	1%
EPS Growth $	5%	-59%	62%	22%	18%
Upstream EBIT growth	16%	-60%	86%	17%	17%
LNG EBIT growth	17%	-60%	114%	12%	17%
Downstream EBIT growth	0%	-65%	79%	41%	6%
YPF EBIT growth	-3%	-40%	99%	-2%	36%
Gas Natural SDG EBIT gro	15%	31%	12%	10%	5%

e = Morgan Stanley Research estimates

Source Company data, Morgan Stanley Research

Risk-Reward Snapshot: Galp (GALP.LS, Overweight, PT €16)

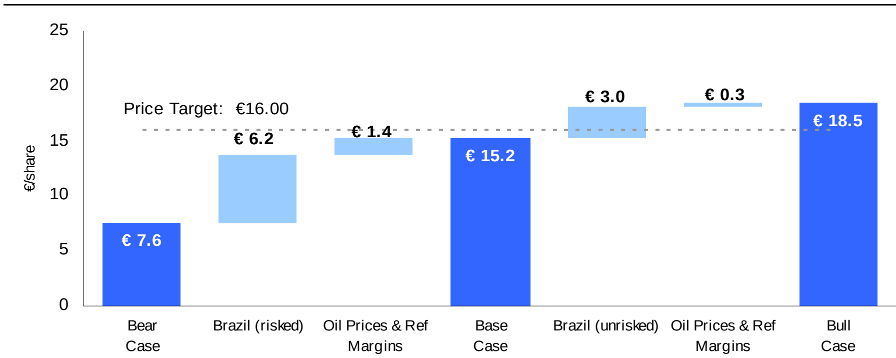
The leveraged play on pre-salt Brazil



Source: Factset, Morgan Stanley Research

Price Target €16 Potential Upside 20%	Our price target is based on MS Base case oil price DCF valuation (LT $90/bbl) of €9.8/sh, plus €6.2/sh in risked value for Galp's Brazilian assets. We assume $6/bbl refining margins along with a WACC of 7.5% and zero terminal growth rate
Bull Case €18.5 (DCF + Brazil)	**$105/bbl long-term oil prices and €9.2/sh un-risked Brazil value:** We also assume $7/bbl long-term refining margins, a WACC of 7.5%, 10% cost inflation and zero terminal growth on the existing asset base.
Base Case €15.2 (DCF + Brazil)	**$90/bbl long-term oil prices and €6.2/sh in risked Brazil value:** We also assume $5.5/bbl long-term refining margins, a 7.5% WACC and zero terminal growth on existing assets.
Bear Case €7.6 (DCF)	**$70/bbl long-term oil prices and no value for Brazil:** We assume $4/bbl long-term refining margins, a 7.5% WACC, zero terminal growth and at bear case oil prices no additional cost inflation.

Bull, Base, Bear valuation:



Source: Company data, Morgan Stanley Research

Why Overweight?

Leveraged play on Brazil: Brazil remains one of the most exciting hydrocarbon stories of the decade and Galp is the geared play on development progress on Tupi (BM-S-11, Galp 10%), in our view.

Tupi pilot production: Pilot production from Tupi (BM-S-11) on schedule for October 2010 (100kboe/d by 2011).

A focus on transformational projects: Management continues to focus on downstream asset upgrades (Sines conversion), synergies from the Exxon and Agip acquisitions and further E&A work in Brazil outside of Tupi.

Key Value Drivers

Upstream business development: Brazil discoveries and Angola fields should help Galp to more than double production by 2012.

Enhancing downstream business value from successful upgrades at Sines and Oporto in 2011.

Potential Catalysts

Shareholder Agreement: The lock-in period for Eni and Amorim expires at end 2010.

Brazil: 1) Start-up of pilot production from Tupi (BM-S-11) during Q4 (Galp 10%); and 2) Other Brazil E&A including results on the appraisal wells currently being drilled in Tupi and Iracema.

Angola/East Timor E&A: Galp plans to drill a further two exploration wells and four appraisal wells in 2010.

Gas assets: A sell-down of Galp's regulated gas assets.

Exhibit 45

Galp: Financial Summary, 2008-12E

Income Statement	2008	2009	2010E	2011E	2012E
Brent crude price $/bbl	96.94	61.52	77.44	81.00	90.00
Brent-Urals Differential $/bbl	3.15	0.80	1.52	2.50	3.00
Rotterdam Gross Margin $/bbl	8.47	3.89	4.70	5.50	5.50
€/$ average	1.47	1.39	1.30	1.25	1.25
Refining Throughput m bbls	92	85	95	100	101
Production Kboe/d	10	10	13	19	26
Exploration & Production EBITDA	219	121	216	345	525
Refining & Marketing EBITDA	515	269	378	586	840
Gas & Power EBITDA	238	134	228	290	343
Other EBITDA	4	6	8	2	2
Adjusted EBITDA	**977**	**529**	**830**	**1,223**	**1,709**
Depreciation	-248	-273	-310	-388	-430
Exploration & Production EBIT	141	67	145	261	415
Refining & Marketing EBIT	373	79	181	328	583
Gas & Power EBIT	211	104	187	247	281
Other EBIT	4	5	7	0	0
Adjusted EBIT	**729**	**255**	**520**	**835**	**1,279**
Net financial income	-61	-75	-120	-208	-224
Share of profit of associates	48	70	67	104	121
Adjusted Profit before tax	716	250	467	731	1,176
Adjusted income tax expense	-197	-61	-107	-157	-264
Net profit (loss) for the period	519	189	359	574	912
Minority Interests	-5	-6	-5	-5	-6
Adjusted net income	**514**	**184**	**355**	**569**	**907**
Inventory gains and losses	-405	160	97	0	0
Exceptional items	-4	-27	-11	0	0
Reported net income	**105**	**317**	**441**	**569**	**907**

Per share data (€)	2008	2009	2010E	2011E	2012E
No. Shares (avg, basic)	829	829	829	829	829
No. Shares (avg, diluted)	829	829	829	829	829
Rep EPS - basic (€)	0.08	0.42	0.53	0.69	1.09
Rep EPS - diluted (€)	0.08	0.42	0.53	0.69	1.09
Adj EPS - basic (€)	**0.58**	**0.26**	**0.42**	**0.69**	**1.09**
Adj EPS - diluted (€)	0.58	0.26	0.42	0.69	1.09
ModelWare EPS (€)	0.62	0.22	0.43	0.69	1.09
DPS (€)	**0.32**	**0.20**	**0.20**	**0.20**	**0.30**
Payout ratio (%)	55.4	77.2	47.1	29.1	27.4
Tax rate (%)	27.5	33.7	26.8	25.0	25.0

EV Valuation	2008	2009	2010E	2011E	2012E
Market Capitalisation	10,805	8,458	11,029	11,029	11,029
Net Debt	1,864	1,927	3,212	3,556	3,317
Average Net Debt	1,299	1,895	2,570	3,384	3,436
EV	**12,104**	**10,354**	**13,599**	**14,413**	**14,465**
Clean NI	514	184	355	569	907
Depreciation	238	260	290	367	407
Interest expense	61	75	122	208	224
Tax rate %	0	0	0	0	0
Post tax interest	44	50	89	156	168
DACF - Group	**796**	**493**	**734**	**1,092**	**1,482**
EV/DACF	**15.2**	**21.0**	**18.5**	**13.2**	**9.8**

Credit Rating	NA

Cash flow	2008	2009	2010E	2011E	2012E
Net income	69	348	438	569	907
Minority Interest	5	6	5	5	6
DD&A	238	260	290	367	407
Working Capital	474	164	-616	-35	-23
Other	14	19	6	126	126
Cash flow from operations	**800**	**796**	**122**	**1,032**	**1,422**
Disposals	0	0	0	0	0
Shares issued	0	0	0	0	0
Total sources of funds	**800**	**796**	**122**	**1,032**	**1,422**
Capex	-770	-727	-1,155	-1,037	-795
Acquisitions	-788	-50	0	0	0
Dividends	-272	-182	-175	-166	-207
Other	-35	-51	-66	-172	-181
Total uses of funds	**-1,866**	**-1,011**	**-1,396**	**-1,375**	**-1,183**
Cash surplus / (deficit)	-1,066	-214	-1,274	-343	239
FX / other	22	117	0	0	0
Decrease in net debt	**-1,044**	**-98**	**-1,274**	**-343**	**239**

Balance sheet	2008	2009	2010E	2011E	2012E
Cash and cash equivalents	127	244	214	214	214
Net debt	1,864	1,927	3,212	3,556	3,317
Total debt	1,991	2,171	3,426	3,770	3,531
Equity (inc mins)	2,219	2,389	2,682	3,090	3,795
Capital employed	4,083	4,316	5,895	6,646	7,112
Debt/Equity (%)	89.7	90.9	127.7	122.0	93.0
Debt/Debt & Equity (%)	47.3	47.6	56.1	55.0	48.2
Net debt/Equity (%)	84.0	80.7	119.8	115.1	87.4
Net debt/Net debt & Equity (%)	45.7	44.7	54.5	53.5	46.6
ROAE (%)	22.4	8.2	14.2	19.9	26.5
ROACE (%)	15.5	5.7	8.8	11.6	15.7
Interest cover (x)	1.6	5.2	5.2	3.9	5.5

Valuation metrics	2008	2009	2010E	2011E	2012E
P/E $	**4.9**	**3.5**	**4.1**	**3.6**	**2.9**
P/B	4.9	3.5	4.1	3.6	2.9
EV/DACF $	15.2	21.0	19.4	14.2	10.5
EV/EBITDA	12.5	20.1	16.8	12.0	8.6
FCF yield (%)	**-4.1**	**-1.1**	**-3.6**	**0.2**	**5.4**
Dividend yield (%)	**2.5**	**2.0**	**1.5**	**1.5**	**2.3**
Dividend cover (x)	1.8	1.3	2.1	3.4	3.6

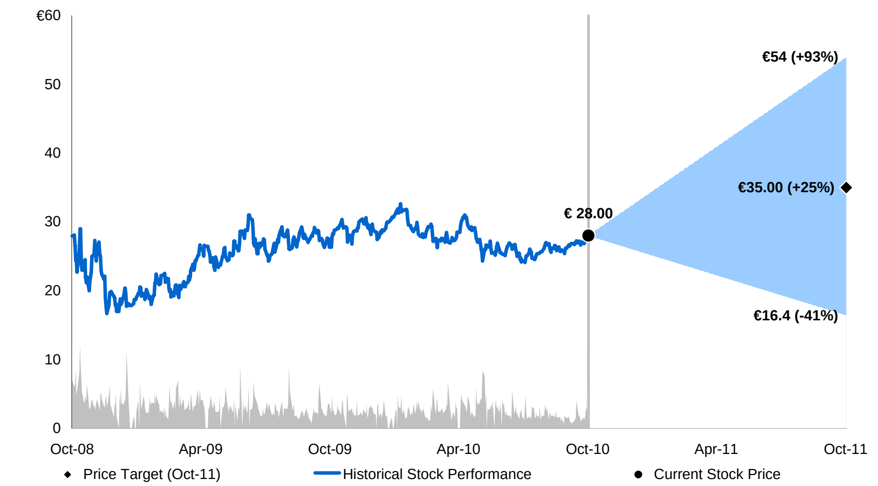
Momentum metrics	2008	2009	2010e	2011E	2012E
Volume Growth	-25%	-3%	29%	48%	39%
EPS Growth (local)	21%	-64%	93%	60%	59%
NI Growth (local)	21%	-64%	93%	60%	59%
DPS Growth (local)	0%	-38%	0%	0%	50%
EPS Growth $	31%	-66%	80%	55%	59%
Exploration & Production EBIT growth	8%	-52%	117%	80%	59%
Refining & Marketing EBIT growth	41%	-79%	127%	81%	78%
Gas & Power EBIT growth	-4%	-51%	80%	32%	14%

e = Morgan Stanley Research estimates

Source Company data, Morgan Stanley Research

Risk-Reward Snapshot: OMV (OMVV.VI, Equal-weight, PT €35)

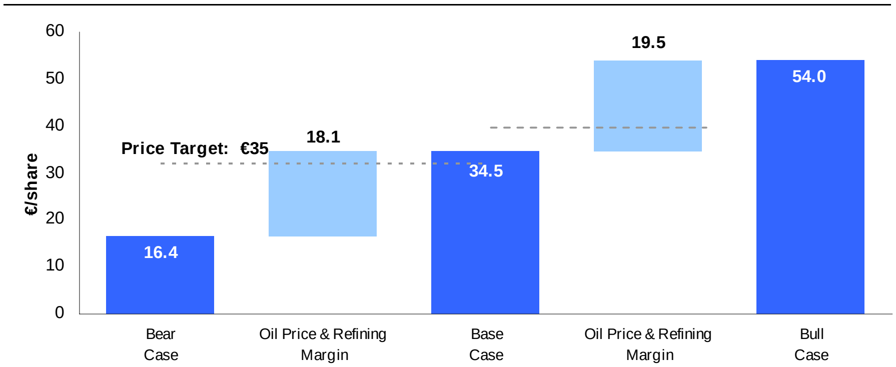
Inexpensive oil gearing, but with higher than average risks



Source: Factset, Morgan Stanley Research

Price Target €35 Potential Upside 25%	We set our price target based on a DCF valuation at MS Base case (LT US$90/bbl). We assume a WACC of 8.5% and a 2% terminal growth rate. We believe a higher WACC relative to the group is justified by OMV's CEE exposure to loss-making refineries, a weak production outlook and a low upstream reserve life.
Bull Case €54.0 (DCF)	**$105/bbl long-term oil price and $7/bbl long-term refining margins.** We assume an 8.5% WACC, 2% terminal growth rate and 5% E&P cost inflation.
Base Case €34.5 (DCF)	**$90/bbl long-term oil price, and $5.5/bbl long-term refining margins.** Again, we assume an 8.5% WACC, 2% terminal growth and 5% E&P cost inflation.
Bear Case €16.4 (DCF)	**$70/bbl long-term oil price and $4/bbl refining margins.** We assume an 8.5% WACC, 2% terminal growth and, at our bear case, oil prices 5% cost deflation.

Bull, Base, Bear valuations:



Source: Company data, Morgan Stanley Research

Why Equal-weight?
…Attractions are offset by risks:

High oil leverage into a fundamentally challenged oil supply market: OMV is one of the most geared large-cap energy names in Europe to oil prices.

High refining gearing into a steadily recovery refining environment: Of the larger European names, OMV is one of the most geared to this theme.

Relatively attractive valuation: OMV also has an attractive 2011e dividend yield, an upper-quartile 2011e FCF yield and comfortable gearing (ND/ND&E).

Where could we be wrong?

E&P M&A: Organic production targets are modest at +/-5% by 2015 vs. a 2009 base. The risk is that management attempts to deliver growth via M&A, and that such M&A proves costly or fails to complete (following several failed M&A attempts in recent years – MOL, Petrol Ofisi, Cez).

Iraq gas and Nabucco: We remain sceptical that Iraq will allow OMV to export and so achieve acceptable pricing for its Pearl gas. Nabucco remains core to OMV's G&P vision but here also we see significant risks to Nabucco being built in the next 10 years.

Potential Catalysts

Petrom stake: OMV has indicated it would consider buying the Romanian Economic Ministry's 11.8% stake.

Incoming CEO: Wolfgang Ruttenstorfer's term as CEO ends in March 2011, to be replaced by Gerhard Roiss.

Exhibit 46

OMV: Financial Summary, 2008-12E

Income Statement	2008	2009	2010E	2011E	2012E
Brent ($/bbl)	96.97	61.45	77.42	80.00	89.00
Urals crude price $/bbl	94.15	60.58	76.03	77.50	86.50
$:€ average	1.47	1.40	1.30	1.25	1.25
Group Production (kboe/d)	317	317	317	308	297
Petrom Production (kboe/d)	194	187	183	176	166
OMV Refining Margin ($/bbl)	6.12	2.00	3.13	6.38	6.55
E&P OMV	1,486	845	1,403	1,474	1,546
E&P Petrom	1,095	742	865	914	999
R&M OMV	737	-62	194	414	330
R&M Petrom	-89	-159	-4	-69	-57
Gas	216	219	191	205	208
Gas (Petrom)	59	37	29	35	35
Corporate	-91	-68	-94	-100	-100
EBIT	**3,451**	**1,512**	**2,530**	**2,872**	**2,961**
Financials	-31	-191	-75	-112	-130
Profit From Ordinary Items before Tax	3,420	1,321	2,454	2,760	2,831
Taxation	-1,111	-531	-869	-943	-969
Minorities	-382	-145	-388	-383	-423
Adjusted Net Income	**1,927**	**645**	**1,197**	**1,433**	**1,438**
Post tax excepts and non-operating items	-553	-49	72	0	0
Reported Net Income	**1,375**	**595**	**1,269**	**1,433**	**1,438**

Cash flow	2008	2009	2010E	2011E	2012E
Reported net income (incl. minorities)	1,529	717	1,658	1,816	1,861
DD&A	1,293	1,320	1,281	1,222	1,235
Other	-95	-32	-241	0	0
Working Capital	488	-157	201	0	0
Cash flow from operations	**3,215**	**1,847**	**2,898**	**3,039**	**3,097**
Disposals	267	1,533	21	0	0
Shares issued/ MSI	0	0	0	0	0
Total sources of funds	**3,482**	**3,379**	**2,919**	**3,039**	**3,097**
Capex	-3,558	-2,206	-2,732	-2,878	-2,786
Acquisitions	-27	-13	-16	0	0
Dividends	-547	-336	-323	-470	-497
Financial Investments	-110	-523	-31	0	0
Pensions	1	0	0	0	0
Share purchases	0	1	0	0	0
Total uses of funds	**-4,242**	**-3,078**	**-3,102**	**-3,349**	**-3,283**
Cash surplus / (deficit)	-760	302	-183	-310	-186
Decrease in net debt	**0**	**0**	**0**	**0**	**0**
FX / other (for cash b/l)	-18	-5	16	0	0
Net cash outflow/(inflow) from Borrowings	1,660	1,048	587	0	0
Management of liquid resources	-905	-1,371	-169	0	0
(Decrease)/increase in cash	-23	-26	251	-310	-186

Per share data	2008	2009	2010E	2011E	2012E
No. Shares (avg)	299	299	299	299	299
End Period No of Shares	299	299	299	299	299
Adj. EPS	**6.45**	**2.16**	**4.01**	**4.80**	**4.81**
Modelware EPS	6.45	2.16	4.01	4.80	4.81
DPS	**1.00**	**1.00**	**0.85**	**0.96**	**0.96**
EPS/ADR ($)	1.92	0.61	1.04	1.20	1.20
Dividend /ADR ($)	0.26	0.30	0.21	0.24	0.24
Payout ratio EPS (%)	15.5	46.3	21.2	20.0	20.0
Tax Rate (%)	32.5	40.2	35.4	34.2	34.2

Balance sheet	2008	2009	2010E	2011E	2012E
Net debt	3,179	2,966	3,042	3,352	3,539
Total debt	4,133	3,871	4,262	4,262	4,262
Equity (inc msi)	9,363	10,035	11,671	13,017	14,382
Capital employed	12,543	13,001	14,714	16,370	17,921
Debt/Equity (%)	44.1	38.6	36.5	32.7	29.6
Debt/Debt & Equity (%)	30.6	27.8	26.7	24.7	22.9
Net Debt/Equity (%)	34.0	29.6	26.1	25.8	24.6
Net Debt/Net Debt & Equity (%)	25.3	22.8	20.7	20.5	19.7
ROAE (%)	24.7	7.9	13.6	14.0	12.9
ROACE (%)	19.4	7.8	12.9	12.8	12.0
Interest cover (x)	14.4	5.0	12.3	11.2	10.7

EV Valuation	2008	2009	2010E	2011E	2012E
Market capitalisation	11,980	7,738	8,366	8,366	8,366
Petrom Cash	0	0	0	0	0
Net Debt	3,179	2,966	3,042	3,352	3,539
Buy-out of minorities	2,594	987	2,249	2,249	2,249
Pension provisions	0	0	0	0	0
Peripheral assets	0	0	0	0	0
EV	**17,754**	**11,692**	**13,657**	**13,967**	**14,153**
Net income before minorities	1,529	717	1,658	1,816	1,861
DD&A + exploration	1,293	1,320	1,281	1,222	1,235
Other group non-cash items	0	0	0	0	0
Post-tax interest + pension cost	21	114	49	74	85
DACF	**2,843**	**2,151**	**2,987**	**3,113**	**3,182**
EV/DACF	**6.2**	**5.4**	**4.6**	**4.5**	**4.4**

Valuation metrics	2008	2009	2010E	2011E	2012E
P/E $	**6.2**	**12.0**	**7.4**	**6.4**	**6.4**
P/B	1.3	0.8	0.7	0.6	0.6
EV/DACF $	6.2	5.4	4.8	4.8	4.8
EV/EBITDA	3.7	4.1	3.6	3.4	3.4
FCF yield (%)	**-6.9**	**-2.6**	**-0.4**	**1.7**	**3.4**
Dividend yield (%)	**2.5**	**3.9**	**2.9**	**3.1**	**3.1**
Dividend cover (x)	6.5	2.2	4.7	5.0	5.0

Momentum metrics	2008	2009	2010e	2011E	2012E
Volume Growth	-1%	0%	0%	-3%	-3%
EPS Growth (local)	17%	-67%	86%	20%	0%
NI Growth (local)	21%	-66%	101%	15%	2%
DPS Growth (local)	-20%	0%	-15%	13%	0%
EPS Growth $	25%	-68%	72%	15%	0%
Exploration & Production EBIT growth	30%	-39%	43%	5%	7%
Refining & Marketing EBIT growth	188%	-134%	-186%	81%	-21%
Gas EBIT growth	10%	-7%	-14%	9%	1%

Credit Rating (Moody's)	A3

e = Morgan Stanley Research estimates

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(as of September 30, 2010)

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Overweight/Buy	**1115**	**42%**	**394**	**43%**	**35%**
Equal-weight/Hold	**1146**	**43%**	**413**	**45%**	**36%**
Not-Rated/Hold	**14**	**1%**	**4**	**0%**	**29%**
Underweight/Sell	**381**	**14%**	**99**	**11%**	**26%**
Total	**2,656**		**910**		

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Company (Ticker)	Rating (as of)	Price* (10/06/2010)
James R Hubbard, CFA		
ERG (ERG.MI)	E (09/21/2009)	€9.67
Eni SpA (ENI.MI)	U (01/12/2010)	€16.12
Neste Oil (NES1V.HE)	U (06/29/2010)	€11.44
OMV AG (OMVV.VI)	E (07/27/2009)	€28.26
Petroplus (PPHN.VX)	O (10/15/2009)	SFr11.99
Repsol-YPF (REP.MC)	O (09/17/2008)	€20.23
Saras (SRS.MI)	O (07/27/2009)	€1.48
Statoil (STL.OL)	O (06/05/2009)	NKr127.9
Theepan Jothilingam, CFA		
Afren (AFRE.L)	O (01/12/2010)	116p
BG Group (BG.L)	O (09/29/2008)	1,175p
BP plc (BP.L)	O (06/25/2008)	436p
Cairn Energy (CNE.L)	++	452p
Dana Petroleum (DNX.L)	NA (09/24/2010)	1,800p
Galp Energia (GALP.LS)	O (02/23/2007)	€13.62
Premier Oil (PMO.L)	O (05/14/2010)	1,675p
Royal Dutch Shell (RDSa.L)	U (01/12/2010)	1,972p
Royal Dutch Shell (RDSb.L)	U (01/12/2010)	1,909p
SOCO International (SIA.L)	O (01/12/2010)	448p
Salamander Energy PLC (SMDR.L)	E (03/01/2010)	274p
TOTAL (TOTF.PA)	O (03/15/2007)	€38.69
Tullow Oil (TLW.L)	O (01/15/2007)	1,297p
Matthew P Lofting, CFA		
Sasol (SOLJ.J)	O (06/14/2007)	ZAc32,690

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* Historical prices are not split adjusted.