Total SA FP (XPAR) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
43.98 EUR	31.00 EUR	Very High	None	Negative	Standard	Oil & Gas - Integrated

Crude-Market Fundamentals Continue to Tighten, but the Recovery Still Has a Ways to Go

See Page 2 for the full Analyst Note from 23 Aug 2016

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

Research as of 23 Aug 2016
Estimates as of 14 Jan 2016
Pricing data through 02 Sep 2016
Rating updated as of 02 Sep 2016

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

Contents

Investment Thesis 14 Jan 2016

Before the significant decline in oil prices, Total SA's story centered on the company delivering on its long-promised cash flow and production growth. This has been a key focus for shareholders because capital expenditures have regularly outstripped cash flows in recent years. During 2011-14, Total SA's operating cash flow averaged $27 billion while capital expenditures were $30.5 billion, meaning that its $7 billion dividend has had to be funded by divestments and other financial engineering (for example, rising debt).

Asset sales in and of themselves aren't negative; the majors are constantly reshaping their portfolios, and asset sales are a part of this process. But plugging cash flow holes via divestitures is a different matter. Given the recent oil price tumble, it unfortunately now appears that Total SA will be forced to continue selling assets to fund its dividend. This will eat away at the company's future cash flow generating power, meaning its near-term outlook looks much like its recent past. If oil prices don't rebound in short order, Total SA's near-term production and cash flow growth will fall significantly short of the company's five-year targets that were put out at its most recent analyst day. For investors looking at the oil majors for a defensive way to play energy, Total SA screens as the most poorly positioned of the group to weather a prolonged period of weak oil prices.

Vital Statistics

Market Cap (EUR Mil)	105,093
52-Week High (EUR)	47.40
52-Week Low (EUR)	35.21
52-Week Total Return %	15.9
YTD Total Return %	9.6
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	-1.8
5-Yr Forward EPS CAGR %	-9.4
Price/Fair Value	1.42

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	7.1	7.6	—	*47.3*
EV/EBITDA	4.2	4.5	—	*7.5*
EV/EBIT	6.0	7.7	—	*26.6*
Free Cash Flow Yield %	-3.1	-2.8	—	*-3.0*
Dividend Yield %	5.2	6.1	—	*3.3*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	227,969	212,018	*161,745*	*143,786*
Revenue YoY %	-2.7	-7.0	*-23.7*	*-11.1*
EBIT	28,651	19,715	*11,478*	*5,581*
EBIT YoY %	-11.6	-31.2	*-41.8*	*-51.4*
Net Income, Adjusted	14,292	12,837	*8,540*	*2,211*
Net Income YoY %	-9.4	-10.2	*-33.5*	*-74.1*
Diluted EPS	6.29	5.63	*3.70*	*0.93*
Diluted EPS YoY %	-9.6	-10.6	*-34.3*	*-74.9*
Free Cash Flow	781	1,656	*858*	*-2,608*
Free Cash Flow YoY %	-89.4	112.0	*-48.2*	*-404.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Total SA is an integrated energy company with oil and gas production of more than 2 million barrels of oil equivalent a day (approximately 50% is oil). The company also operates a global refinery and chemical footprint, most of which is in Europe but also in Saudi Arabia, Korea, and Texas. Finally the company owns a multitude of downstream and marketing assets, a 18% interest in Novatek (Russia's second-largest natural gas producer), and roughly two thirds of SunPower, a U.S. solar company.

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Morningstar Analysis

Crude-Market Fundamentals Continue to Tighten, but the Recovery Still Has a Ways to Go 23 Aug 2016

Crude markets have tightened a good deal in recent months, as strong oil demand growth and supply issues have pulled forward the industry recovery by about a year compared with the outlook we published in April. Even so, 2017 fundamentals are far from robust from an oil price perspective, and don't appear supportive of prices moving much above the $50 per barrel threshold. Another large uptick in rig additions in the U.S. could be enough to eliminate near-term inventory draws altogether, which is the last thing oil markets need for a sustained price recovery to occur. With this in mind, we are setting our 2017 price forecast for West Texas Intermediate at $50 per barrel, which we believe is sufficient to prevent any further net shale activity increases in the coming quarters.

Stronger fundamentals look set to emerge in 2018. The root cause of potential supply shortages in the medium term is the major cuts in upstream capital expenditures during the past two years. As a result of low investment levels, capacity additions outside of shale are about to fall dramatically after 2017. Further, OPEC will have little spare capacity, as the cartel has also been cutting back on oilfield spending.

The industry is thus setting itself up to have few options to meet incremental supply needs besides U.S. tight oil in 2018-19. What some have suspected for some time is now looking likely: tight oil is set to become the key swing supplier for global crude markets.

Because of improving fundamentals being pulled in by about a year, we are raising our 2018 WTI oil price forecast to $65 from $52.50, which we believe is the level sufficient to drive a major increase in U.S. tight oil activity. However, we continue to believe that U.S. shale will overheat eventually in a high price environment. As a result, we’re lowering our 2019 WTI oil price forecast to $60 from $65. Our midcycle price outlook of $55 is unchanged.

We will be publishing updated reports and valuations this week.

Valuation, Growth and Profitability 07 Apr 2016

We are lowering our fair value estimate to EUR 31 per share from EUR 38. Our fair value estimate is derived using Morningstar's standard two-stage discounted cash flow methodology. With this methodology, a terminal value is derived using our assumptions for long-term earnings growth and return on new invested capital. This valuation methodology also more explicitly incorporates our moat rating, which reflects how long we expect a given firm to deliver excess returns on invested capital from a DCF analysis.

In our DCF model, our benchmark oil and gas prices are based on Nymex futures contracts for 2016-18. For natural gas, we use $2.13 per thousand cubic feet in 2016, $2.79 in 2017, and $2.83 in 2018. Our long-term assumption is $3.00. For oil, we use Brent prices of $39 per barrel in 2016, $45 in 2017, $53 in 2018 and $70 in 2019. Our long-term oil price assumption is $60.

Scenario Analysis

We have tested two additional scenarios beyond our base case to assess the impact of changes oil and gas prices have on our Total SA valuation. To determine our alternative valuations, we test cash flows under two additional commodity price scenarios by stress-testing our oil and natural gas price forecasts. In each scenario, we also adjust the company's capital spending, operating costs, and downstream profitability.

In our bull case, we examine Total SA's valuation in an oil and gas price environment 20% higher than our base case. In such a pricing scenario Total SA's ADSs would be worth EUR 48. In this instance, cash flow would be robust and

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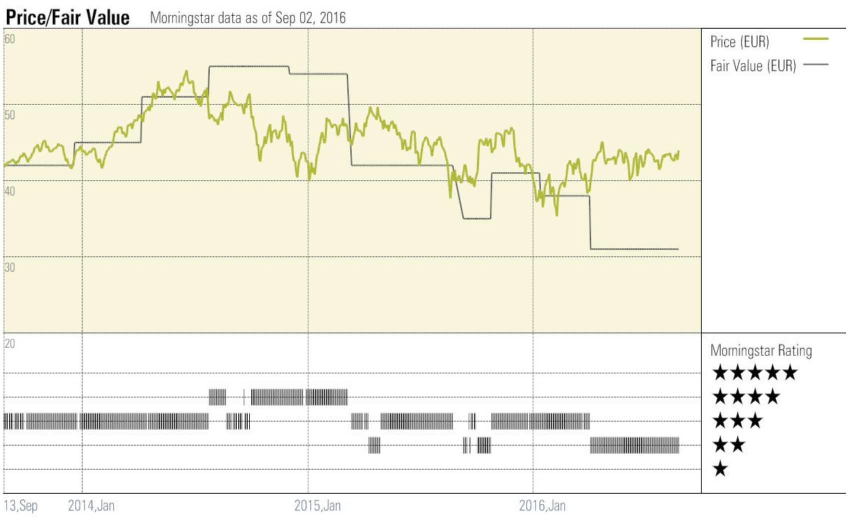

likely lead to the company scrapping its scrip dividend and increasing investment.

In our bear case, we examine the firm's valuation in an oil and gas price environment 20% lower than our base case. In such a pricing scenario Total SA's ADSs would be worth EUR 10. In this instance, weak earnings and cash flows would lead to dividend cuts, distressed asset sales, and likely shrinking reserves as the firm would be forced to stanch significant cash-flow shortfalls.

Economic Moat

Given our view that long-term oil prices will be well below $100 going forward because of the emergence of low-cost U.S. tight oil, we don't believe Total SA's oil and gas assets possess the cost structure or economics to provide it with a lasting competitive advantage. Despite plans to lower capital spending, cut costs, and delay high-cost projects, we believe Total SA will continue to generate weak returns on capital for the foreseeable future. The core issue here is that Total is simply too high up the global cost curve and lacks meaningful exposure to high-quality U.S. shale resources or other cost competitive growth options. Additionally, its downstream footprint is geographically disadvantaged and is far too exposed to Europe to be anything but a complete drag on creating value for the foreseeable future. Adding it up, we don't believe that Total SA still possesses an economic moat.

Moat Trend

The integrated oil and gas model now faces much more challenging competitive dynamics, which we believe are eroding the economic moats of Total and the other oil majors. As a result, we believe the company's moat trend is now negative. Although Total still possesses many competitive advantages--a very large portfolio of oil and gas resources, size/scale, and so on--we expect that on average each new barrel of oil and natural gas production will generate a lower return than the legacy barrels lost each year to natural field declines. Stated another way, for a given level of energy prices, we expect returns on capital to be lower since new reserves are increasingly costlier to develop and produce. This prospect of lower returns stems from the reality that fewer low-cost conventional oil opportunities exist today. This has pushed Total and the other supermajors into higher-cost plays (for example, oil sands, deep water, shale).

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Bulls Say/Bears Say

Bulls Say

- Total's heavy investment phase came to a close in 2014, which will provide much-needed relief as the company tries to grapple with lower oil prices.
- New projects focused on liquefied natural gas, oil sands, and Russian gas have low decline rates. All else equal, this should reduce the capital expenditures required to keep production volumes flat.
- Total's North American gas exposure is the lowest of the majors (2% of current production), meaning it is relatively underexposed to the challenged pricing facing its peers that have made larger investments there.

Bears Say

- Europe is a terrible region for refining and chemicals. Management is doing everything it can to reduce its exposure, but closing European refineries is costly and tends to be a very slow process.
- The break-even oil price on Total's oil new projects has been continually increasing during the past 10 years; in this current era of oil supply abundance, the firm finds itself far too high up the cost curve to be able to generate decent returns on capital.

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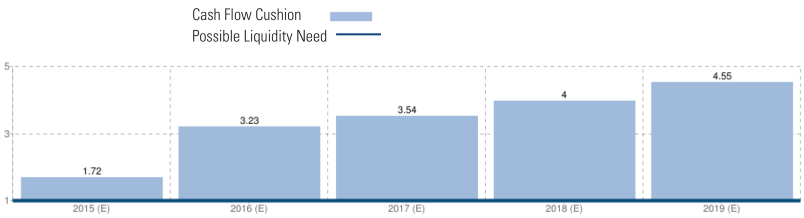
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	25,181	24,414	24,234	25,614	25,169
Adjusted Available Cash Flow	841	-6,067	-4,227	-4,118	-19
Total Cash Available before Debt Service	26,022	18,346	20,006	21,496	25,151
Principal Payments	-13,114	-3,370	-3,284	-3,015	-3,162
Interest Payments	-1,058	-1,312	-1,362	-1,362	-1,362
Other Cash Obligations and Commitments	-1,000	-1,000	-1,000	-1,000	-1,000
Total Cash Obligations and Commitments	-15,172	-5,682	-5,646	-5,377	-5,524

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	25,181	67.3
Sum of 5-Year Adjusted Free Cash Flow	-13,590	-36.3
Sum of Cash and 5-Year Cash Generation	11,591	31.0
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	11,591	31.0
Sum of 5-Year Cash Commitments	-37,402	—

Financial Health

The combination of falling short on its growth targets and declining oil prices means Total's promises to increase shareholder distributions are comically unrealistic. In reality, the company will be lucky if it's not forced to cut its dividend in future years given the large mismatch between expected cash flows and capital expenditures and dividends. Even after introducing a scrip dividend that likely will preserve roughly $2 billion in cash annually, we still forecast the company to be cash flow negative after dividends in each year between 2015-19. Neither the uplift from rising oil prices during our forecast nor capital expenditure and operating cost reductions are enough to fix this issue. Given the new oil price environment the industry finds itself in, Total is a complete mess.For U.S. investors, we advise that France has a 30% dividend withholding tax. The present tax treaty between the U.S. and France allows U.S. investors to use this tax as a credit only to offset U.S. earnings being reported to the IRS. Therefore, tax leakage from Total's dividends is possible, which would lessen dividends received. The lone country in Europe with no withholding tax is the United Kingdom, where BP and Shell (the two other European supermajors) happen to have at least one share class trading.

Enterprise Risk

Total's profits and cash flow are largely tied to oil and gas production and suffer markedly during periods of weak commodity prices. Additionally, long-term price depreciation would expose the company to weakening returns on capital as its large queue of new projects coming on line would be unlikely to generate their projected economic results. Total employs huge amounts of capital in building out its production portfolio, and cost overruns and/or completion delays are continued sources of uncertainty. The company's oil and gas production involves operating in politically unstable regions: during the last few years alone, production was materially reduced because of geopolitical and/or security issues in Libya, Nigeria, Syria, and Yemen. Further, sanctions put in place that target Russian gas producer Novatek could put at risk the value of Total's recent multibillion-dollar investments in the country.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

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

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Intl Stock Idx Fund	0.99	0.52	373	31 Jul 2016
Vanguard Wellington™	0.68	0.88	3,778	30 Jun 2016
VA CollegeAmerica EuroPacific Growth	0.49	0.51	3,453	30 Jun 2016
iShares MSCI EAFE (AU)	0.45	0.86	145	31 Aug 2016
VA CollegeAmerica Invmt Co of America	0.39	0.62	9,223	30 Jun 2016
Concentrated Holders				
Etoile Stratégie Taux	0.01	37.60	4	30 Jun 2016
iShares STOXX Europe 600 Oil & Gas (DE)	0.14	29.38	—	31 Aug 2016
Fructi Sécurité PEA Septembre 2016	0.01	23.59	—	30 Jun 2015
Barclays V8 PEA	—	21.95	-1	31 Mar 2016
Barclays Seven + 2	0.01	17.98	—	31 May 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Capital Research and Management Company	1.88	0.39	14,274	30 Jun 2016
T. Rowe Price Associates, Inc.	0.60	1.27	4,829	30 Jun 2016
Wellington Management Company LLP	0.72	0.88	4,065	31 Jul 2016
Government Pension Fund of Norway - Global	2.06	0.36	1,985	31 Dec 2013
British Columbia Inv Management Corp	0.06	0.25	1,453	31 Mar 2010
Top 5 Sellers				
Lyxor International Asset Management	0.80	6.88	-4,563	31 Aug 2016
Ireland National Pensions Reserve Fund	0.15	1.70	-1,715	31 Dec 2009
Baillie Gifford Overseas Limited	—	0.07	-1,130	30 Jun 2016
Thornburg Investment Management Inc	0.19	2.34	-1,118	31 Jul 2016
Allianz Global Investors GmbH – Frankfurt	0.19	1.63	-860	31 Jul 2016

Management 14 Jan 2016

The tragic death of CEO Christophe de Margerie in October led to the appointment of Patrick Pouyanné, who had previously been the president of the company's Refining and Chemicals segment. Pouyanné immediately vowed to see de Margerie's strategic vision through, which is characterized by attempting to grow production, cutting operating costs, and restructuring the firm's weak downstream areas (i.e., almost everything in Europe). It is, of course, too soon to evaluate Pouyanné and his track record as Total SA's leader, but the declared continuity of the firm's strategy makes us expect that Total SA will be run in much the same way as it has been in recent years. Combined with the the fact the French government constantly is meddling in Total SA's affairs, investors expecting more than mediocrity are likely to be disappointed.

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Analyst Notes

Total's Earnings Fall on Lower Oil Prices; Cash Flow Continues to Fall Short 28 Jul 2016

Total's second-quarter adjusted income fell to $2.2 billion from $3.8 billion the year before as lower oil prices took a toll on upstream earnings and a weak margin environment reduced previously strong downstream earnings. Upstream adjusted net operating income fell to $1.1 billion from $1.6 billion as lower oil prices more than offset a 5% increase in volumes. Refining and chemical adjusted net operating income fell to $965 million from $1.6 billion last year as European refining margins contracted (Total's refining margin indicator fell to $35 per ton from $54 per ton) offsetting earnings growth by specialty chemicals. Marketing and services net adjusted operating income fell slightly to $378 million from $425 million.

Total continues to run a cash flow deficit, generating a little less than $5 billion during the first half of the year, falling well short of its $8 billion in capital spending and $2 billion in dividends. Total continues to target cash flow neutrality next year at $60 a barrel, but that is well above where future prices are currently trading. As a result, Total is going to have to take more dramatic actions absent a sharp recovery in oil prices in order for cash flow to cover a full cash dividend. We expect to receive more information on its latest plans in September at its scheduled investors day. For now, however, out fair value estimate and moat rating remain unchanged.

Total's First-Quarter Results as Good as Could be Hoped for in Current Environment 27 Apr 2016

Total's first-quarter results were surprisingly strong in the face of low oil prices, although investors should remember that the company has impaired billions of dollars of assets in recent years, which is providing a boost. Even so, the company's $500 million upstream profit ($750 million last quarter) and $1.1 billion downstream profit ($1 billion last quarter) were nonetheless impressive given weak oil prices and softening refining margins in Europe.

Free cash flow remains negative, which will continue to push up leverage, but cost cutting and falling capital expenditures in the coming years should help close this gap. Even so, we remain concerned that in a longer-term oil price environment below $70, Total will struggle to fund its dividend with organic cash flow (much as it had for years even before oil prices collapsed). Our fair value estimates are unchanged.

Crude Awakening: Relentless Shale Growth Will Drown Long-Term Oil Prices 06 Apr 2016

Thanks to ongoing productivity improvements, cost reductions, and slowing decline rates, U.S. shale's cost-competitive growth potential is much greater than the market currently realizes. U.S. tight oil has fundamentally altered the global supply picture, ensuring the industry has more low-cost resources to develop than it will need.

There is thus a major long-term structural issue facing crude markets: the world needs some U.S. production growth, but not nearly as much as tight oil can supply. Instead of a return to high long-term prices, the industry therefore needs to find the oil price that can keep a lid on U.S. shale activity. We believe that price is $55 WTI. Layering on our outlook for oil price differentials, this implies $60 Brent to be the balancing point upon which global oil prices will vacillate around. We had previously projected long-term Brent/WTI to be $70/64, respectively.

The potential for large amount of resources to become economically stranded is likely to foster continued pressure to drive development and operating costs down industrywide. This will result in cost compression at the marginal part of the cost curve so the higher-quality oil sands

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Analyst Notes

and deepwater projects can compete head-to-head with U. S. shale.

We've also revisited our assessment of U.S. natural gas market fundamentals. Based on a more optimistic outlook for low-cost production--primarily as a result of slowing declines in associated gas volumes, as well as improved productivity and resource potential from the Marcellus and Utica--we're lowering our long-term marginal cost for U.S. natural gas from $4/mcf to $3/mcf. Simply put, we continue to see more and more evidence U.S. shale producers can survive (and in some cases, thrive) at much lower prices than we previously assumed.

We will be publishing updated reports, valuations, and moat ratings on all companies and expect all updates to be live within a week.

Because low oil prices have cut industry investment so deeply, it could take time before this reality is obvious to investors. Indeed, stalling supply and growing oil demand are setting the stage for a medium-term oil price recovery. But higher prices will restart the shale growth machine, and when that happens, the industry is in for a crude awakening.

The implications of our outlook are clearly bearish, although some sectors will feel the impact much more than others. The long-term outlooks for the U.S. midstream and downstream sectors remain bright, as the both will benefit from the continued growth of tight oil and shale gas. That said, most midstream firms face stiff near-term headwinds, and we recommend investors be very selective in this area (our top picks remain Magellan Midstream and Enterprise Product Partners).

Beyond the clear negative implications for upstream producers, another area we believe faces major issues is oilfield services. This is largely due to structural overcapacity in many markets, including onshore and offshore rigs, offshore equipment, and even North American pressure pumping. While the best firms in the sector have great balance sheets and thus appear to be "defensive," we caution investors that consensus expectations for improving sector results in 2017-18 is far too bullish given the very weak outlook for upstream activity and structural overcapacity facing many end markets. Services equity valuations reflect a return to revenue and profit levels we don't think can be achieved in any but the highest of cyclical future peaks.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	Forecast 2015	Forecast 2016	5-Year Proj. CAGR
Revenue	-2.9	1.0	-2.7	-7.0	-23.7	-11.1	-1.8
EBIT	-19.4	-13.9	-11.6	-31.2	-41.8	-51.4	-1.2
EBITDA	-11.7	-9.4	-6.9	-18.3	-24.1	-21.7	-0.8
Net Income	-8.1	-4.7	-9.4	-10.2	-33.5	-74.1	-7.2
Diluted EPS	-8.4	-5.1	-9.6	-10.6	-34.3	-74.9	-9.4
Earnings Before Interest, after Tax	-25.3	-12.2	-14.2	-44.7	7.2	-60.4	6.0
Free Cash Flow	-30.0	51.6	-89.4	112.0	-48.2	-404.0	20.8

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	11.9	13.8	12.6	9.3	7.1	3.9	6.4
EBITDA Margin %	17.5	18.8	18.0	15.8	15.7	13.8	14.9
Net Margin %	6.4	6.7	6.3	6.1	5.3	1.5	3.2
Free Cash Flow Margin %	1.4	3.1	0.3	0.8	0.5	-1.8	0.2
ROIC %	9.7	13.0	10.7	5.3	4.4	2.1	3.8
Adjusted ROIC %	9.7	13.1	10.8	5.3	4.4	2.1	3.8
Return on Assets %	4.3	6.2	4.8	1.8	3.6	0.9	2.2
Return on Equity %	10.4	15.1	11.6	4.5	9.0	2.2	5.5

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	0.34	0.32	0.31	0.38	0.36	0.38	0.38
Total Debt/EBITDA	1.27	1.00	1.12	1.69	2.22	3.07	2.63
EBITDA/Interest Expense	47.26	50.97	46.07	44.75	24.01	15.16	19.43

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.99	0.79	—	—
Price/Earnings	7.1	7.6	—	47.3
EV/EBITDA	4.2	4.5	—	7.5
EV/EBIT	6.0	7.7	—	26.6
Free Cash Flow Yield %	-3.1	-2.8	—	-3.0
Dividend Yield %	5.2	6.1	—	3.3

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	7.3
Long-Run Tax Rate %	50.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	36.4
Perpetuity Year	10

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

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,359	1.2	0.58
Present Value Stage II	21,149	18.9	9.06
Present Value Stage III	89,223	79.9	38.24
Total Firm Value	**111,731**	**100.0**	**47.89**
Cash and Equivalents	25,181	—	10.79
Debt	-56,423	—	-24.18
Preferred Stock	—	—	—
Other Adjustments	13,145	—	5.63
Equity Value	**93,634**	**—**	**40.13**
Projected Diluted Shares	2,333		
Fair Value per Share (EUR)	—		

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

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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2012	2013	2014	*2015 (Forecast)*	*2016 (Forecast)*
Revenue	**234,216**	**227,969**	**212,018**	***161,745***	***143,786***
Cost of Goods Sold	192,181	189,613	181,324	*136,529*	*123,851*
Gross Profit	**42,035**	**38,356**	**30,694**	***25,216***	***19,935***
Selling, General & Administrative Expenses	—	—	—	—	—
Income from Equity Investments	-2,582	-3,415	-2,662	*-1,871*	*-965*
Exploration Expense	1,857	2,169	1,964	*1,692*	*1,008*
Depreciation & Amortization (if reported separately)	10,350	10,951	11,677	*13,917*	*14,311*
Operating Income (ex charges)	**32,410**	**28,651**	**19,715**	***11,478***	***5,581***
Restructuring & Other Cash Charges	—	-10	879	—	—
Impairment Charges (if reported separately)	1,887	1,053	7,100	—	—
Other Non-Cash (Income)/Charges	-719	510	-1,623	*-1,505*	—
Operating Income (incl charges)	**31,242**	**27,098**	**13,359**	***12,983***	***5,581***
Interest Expense	863	889	748	*1,058*	*1,312*
Interest Income	128	85	108	*93*	*70*
Pre-Tax Income	**30,507**	**26,294**	**12,719**	***12,019***	***4,338***
Income Tax Expense	16,747	14,767	8,614	*3,701*	*2,105*
Other After-Tax Cash Gains (Losses)	76	-6	145	*68*	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-188	-293	-6	*102*	*-22*
(Preferred Dividends)	—	—	—	—	—
Net Income	**13,648**	**11,228**	**4,244**	***8,487***	***2,211***
Weighted Average Diluted Shares Outstanding	2,267	2,272	2,281	*2,308*	*2,380*
Diluted Earnings Per Share	**6.02**	**4.94**	**1.86**	***3.68***	***0.93***
Adjusted Net Income	15,772	14,292	12,837	*8,540*	*2,211*
Diluted Earnings Per Share (Adjusted)	**6.96**	**6.29**	**5.63**	***3.70***	***0.93***
Dividends Per Common Share	3.01	3.16	3.25	*2.72*	*2.75*
EBITDA	**42,821**	**39,403**	**27,118**	***26,901***	***19,892***
Adjusted EBITDA	**43,989**	**40,956**	**33,474**	***25,396***	***19,892***

Total SA FP (XPAR) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
43.98 EUR	31.00 EUR	Very High	None	Negative	Standard	Oil & Gas - Integrated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast *2015*	Forecast *2016*
Cash and Equivalents	22,470	20,939	25,181	*24,414*	*24,234*
Investments	—	—	—	—	—
Accounts Receivable	25,339	23,422	15,704	*15,067*	*15,067*
Inventory	22,954	22,097	15,196	*16,832*	*16,832*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	18,317	18,145	21,896	*21,896*	*21,896*
Current Assets	**89,080**	**84,603**	**77,977**	***78,208***	***78,029***
Net Property Plant, and Equipment	109,630	124,897	126,150	*131,250*	*137,138*
Goodwill	1,156	1,208	—	—	—
Other Intangibles	15,809	17,187	14,682	*14,682*	*14,682*
Deferred Tax Assets (Long-Term)	2,982	3,838	4,079	*4,079*	*4,079*
Other Long-Term Operating Assets	7,229	7,490	6,910	*6,910*	*6,910*
Long-Term Non-Operating Assets	—	—	—	*1,505*	*1,505*
Total Assets	**225,886**	**239,223**	**229,798**	***236,634***	***242,343***
Accounts Payable	28,563	30,282	24,150	*22,817*	*22,817*
Short-Term Debt	14,535	11,193	10,942	*13,114*	*13,114*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	21,508	20,193	18,581	*18,581*	*18,581*
Current Liabilities	**64,606**	**61,668**	**53,673**	***54,512***	***54,512***
Long-Term Debt	29,392	34,574	45,481	*43,363*	*48,000*
Deferred Tax Liabilities (Long-Term)	16,006	17,850	14,810	*15,069*	*15,216*
Other Long-Term Operating Liabilities	15,285	17,517	17,545	*17,545*	*17,545*
Long-Term Non-Operating Liabilities	4,939	4,235	4,758	*4,758*	*4,758*
Total Liabilities	**130,228**	**135,844**	**136,267**	***135,247***	***140,032***
Preferred Stock	—	—	—	—	—
Common Stock	7,454	7,493	7,518	*7,518*	*7,518*
Additional Paid-in Capital	—	—	—	*2,112*	*4,730*
Retained Earnings (Deficit)	92,485	98,254	94,646	*100,492*	*98,776*
(Treasury Stock)	-4,274	-4,303	-4,354	*-4,354*	*-4,354*
Other Equity	-1,696	-1,203	-7,480	*-7,480*	*-7,480*
Shareholder's Equity	**93,969**	**100,241**	**90,330**	***98,288***	***99,190***
Minority Interest	1,689	3,138	3,201	*3,099*	*3,121*
Total Equity	**95,658**	**103,379**	**93,531**	***101,387***	***102,311***

Total SA FP (XPAR) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
43.98 EUR	31.00 EUR	Very High	None	Negative	Standard	Oil & Gas - Integrated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2012	2013	2014	*Forecast 2015*	*Forecast 2016*
Net Income	13,836	11,521	4,250	*8,385*	*2,233*
Depreciation	11,579	12,305	13,759	*13,917*	*14,311*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	1,887	1,053	7,100	—	—
Deferred Taxes	1,889	1,567	-1,980	*259*	*147*
Other Non-Cash Adjustments	-1,725	-458	-2,001	*-1,505*	—
(Increase) Decrease in Accounts Receivable	1,392	2,525	4,480	*637*	—
(Increase) Decrease in Inventory	—	—	—	*-1,636*	—
Change in Other Short-Term Assets	—	—	—	—	—
Increase (Decrease) in Accounts Payable	—	—	—	*-1,333*	—
Change in Other Short-Term Liabilities	—	—	—	—	—
Cash From Operations	**28,858**	**28,513**	**25,608**	***18,725***	***16,692***
(Capital Expenditures)	-27,824	-32,782	-28,969	*-23,251*	*-20,200*
Net (Acquisitions), Asset Sales, and Disposals	5,892	4,750	4,650	*4,234*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	—	—	—	—
Cash From Investing	**-21,932**	**-28,032**	**-24,319**	***-19,017***	***-20,200***
Common Stock Issuance (or Repurchase)	-47	247	131	*2,112*	*2,618*
Common Stock (Dividends)	-6,793	-7,284	-7,462	*-2,642*	*-3,927*
Short-Term Debt Issuance (or Retirement)	-3,540	-9,037	-2,374	*2,172*	—
Long-Term Debt Issuance (or Retirement)	6,780	11,102	15,786	*-2,118*	*4,637*
Other Financing Cash Flows	-1,217	3,451	-172	—	—
Cash From Financing	**-4,817**	**-1,521**	**5,909**	***-475***	***3,328***
Exchange Rates, Discontinued Ops, etc. (net)	153	831	-2,217	—	—
Net Change in Cash	**2,262**	**-209**	**4,981**	***-767***	***-180***

Total SA FP (XPAR) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
43.98 EUR	31.00 EUR	Very High	None	Negative	Standard	Oil & Gas - Integrated

Comparable Company Analysis

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

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Exxon Mobil Corp XOM USA	1.10	12.2	20.2	32.4	5.9	8.8	11.9	31.9	84.1	39.9	2.2	1.9	2.1	0.9	1.2	1.3
Royal Dutch Shell PLC RDS.B USA	1.35	9.7	—	51.3	2.9	—	12.2	12.5	—	NM	0.9	—	1.3	0.3	—	1.0
Chevron Corp CVX USA	1.05	11.1	36.7	82.8	4.6	7.4	10.3	-53.6	NM	NM	1.4	1.1	1.3	1.0	1.2	2.0
BP PLC BP USA	1.40	9.7	—	420.8	3.8	—	8.6	11.0	—	NM	0.9	—	1.1	0.3	—	0.5
Eni SpA ENI ITA	1.72	42.7	—	52.8	3.8	—	6.0	17.7	—	NM	0.8	—	0.9	0.5	—	0.8
Average		17.1	28.5	128.0	4.2	8.1	9.8	3.9	84.1	39.9	1.2	1.5	1.3	0.6	1.2	1.1
Total SA FP FR	**1.42**	**7.6**	**—**	***47.3***	**4.5**	**—**	***7.5***	**NM**	**—**	***NM***	**1.3**	**—**	***1.2***	**0.6**	**—**	***0.8***

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Exxon Mobil Corp XOM USA	— USD	12.0	4.5	3.4	12.0	4.5	3.4	18.7	9.4	6.5	9.3	4.7	3.3	3.0	3.7	3.0
Royal Dutch Shell PLC RDS.B USA	— USD	7.3	1.5	0.9	7.3	1.5	0.9	8.6	0.9	2.0	4.2	0.5	0.9	6.5	—	4.4
Chevron Corp CVX USA	— USD	12.9	1.2	0.9	13.2	1.2	0.9	12.7	3.0	1.5	7.4	1.7	0.9	3.8	4.7	4.3
BP PLC BP USA	— USD	5.8	1.6	1.0	6.1	1.7	1.1	3.1	-1.6	-0.7	1.3	-0.6	-0.3	5.8	—	5.7
Eni SpA ENI ITA	— EUR	5.7	2.8	1.3	5.7	2.8	1.3	2.2	3.4	2.1	0.9	1.4	0.8	8.1	—	5.8
Average		8.7	2.3	1.5	8.9	2.3	1.5	9.1	3.0	2.3	4.6	1.5	1.1	5.4	4.2	4.6
Total SA FP FR	— USD	**5.3**	***4.4***	***2.1***	**5.3**	***4.4***	***2.1***	**4.5**	***9.0***	***2.2***	**1.8**	***3.6***	***0.9***	**6.1**	**—**	***3.3***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Exxon Mobil Corp XOM USA	411,939 USD	-6.0	-34.7	1.7	-10.1	-57.1	-31.9	3.0	-49.3	-30.3	15.3	-59.5	72.3	—	—	5.0
Royal Dutch Shell PLC RDS.B USA	431,344 USD	-6.2	-31.9	-27.3	-12.9	-87.2	-41.9	15.4	-60.1	-65.1	NM	-80.9	29.9	4.4	—	—
Chevron Corp CVX USA	211,970 USD	-7.4	-34.7	-33.2	-13.1	-84.5	-46.7	-8.6	-75.9	-50.5	-255.5	-296.1	-75.4	8.0	—	1.7
BP PLC BP USA	358,678 USD	-9.5	-36.1	-15.9	-53.3	-45.2	-102.4	-6.9	-51.7	-95.6	27.5	-79.8	-99.2	6.9	2.6	—
Eni SpA ENI ITA	110,948 EUR	-4.7	-36.2	-13.0	-13.5	-58.3	-69.2	-61.1	49.3	-48.6	NM	-67.9	-86.3	-3.4	-1.7	-27.3
Average		-6.8	-34.7	-17.5	-20.6	-66.5	-58.4	-11.6	-37.5	-58.0	-70.9	-116.8	-31.7	4.0	0.4	-6.9
Total SA FP FR	**212,018** USD	**-7.0**	***-23.7***	***-11.1***	**-31.2**	***-41.8***	***-51.4***	**-10.6**	***-34.3***	***-74.9***	**112.0**	***-48.2***	***-404.0***	**2.7**	***-16.1***	***0.9***

Total SA FP (XPAR) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
43.98 EUR	31.00 EUR	Very High	None	Negative	Standard	Oil & Gas - Integrated

Comparable Company Analysis

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

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Exxon Mobil Corp XOM USA	32,520 USD	45.1	51.7	50.5	16.8	15.0	12.3	12.6	8.3	5.6	7.9	6.0	4.1	3.0	1.4	3.3
Royal Dutch Shell PLC RDS.B USA	22,562 USD	17.2	16.8	17.7	13.9	10.4	10.8	8.2	1.5	1.2	5.2	3.1	1.5	2.7	0.4	-0.1
Chevron Corp CVX USA	19,241 USD	43.5	49.6	65.2	22.6	18.7	23.5	14.7	3.5	2.8	9.1	3.3	2.5	-1.9	-7.3	-1.8
BP PLC BP USA	12,136 USD	14.0	17.2	15.6	9.5	10.4	8.3	4.4	3.8	-0.1	3.4	2.5	0.1	2.7	0.7	-0.8
Eni SpA ENI ITA	1,234 EUR	23.6	27.1	27.0	16.1	17.8	17.4	7.1	4.7	1.7	1.1	2.6	1.5	2.6	0.3	-1.7
Average		28.7	32.5	35.2	15.8	14.5	14.5	9.4	4.4	2.2	5.3	3.5	1.9	1.8	-0.9	-0.2
Total SA FP FR	**12,837** USD	**14.5**	**15.6**	**13.9**	**15.8**	**15.7**	**13.8**	**9.3**	**7.1**	**3.9**	**6.1**	**5.3**	**1.5**	**-1.6**	**-2.8**	**-2.4**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Exxon Mobil Corp XOM USA	29,121 USD	16.7	22.7	29.5	14.3	18.5	22.8	242.0	129.7	66.6	0.4	1.0	1.5	2.0	2.0	2.0
Royal Dutch Shell PLC RDS.B USA	45,540 USD	26.5	33.1	35.0	20.9	24.9	25.9	33.2	17.1	12.6	0.8	1.8	2.4	2.1	2.1	2.1
Chevron Corp CVX USA	27,750 USD	17.9	25.2	27.2	15.2	20.1	21.4	—	—	319.9	0.6	1.5	1.8	1.7	1.7	1.8
BP PLC BP USA	52,854 USD	47.4	55.4	58.8	32.2	35.7	37.0	29.5	20.5	13.0	1.6	2.4	3.5	2.4	2.7	2.8
Eni SpA ENI ITA	25,891 EUR	43.3	44.8	46.2	30.2	31.0	31.6	2.3	1.9	1.6	1.4	2.1	2.4	2.4	2.5	2.5
Average		30.4	36.2	39.3	22.6	26.0	27.7	76.8	42.3	82.7	1.0	1.8	2.3	2.1	2.2	2.2
Total SA FP FR	**56,423** USD	**62.5**	**57.5**	**61.6**	**38.5**	**36.5**	**38.1**	**44.8**	**24.0**	**15.2**	**1.7**	**2.2**	**3.1**	**2.5**	**2.4**	**2.4**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Exxon Mobil Corp XOM USA	360,095 USD	1.09	0.88	3.27	0.82	0.79	1.47	0.56	0.49	1.01	0.27	0.20	24.32	32.4	63.9	96.2
Royal Dutch Shell PLC RDS.B USA	205,574 USD	3.42	3.71	2.28	1.16	1.24	1.12	0.93	0.98	0.86	3.00	4.60	2.83	78.8	761.0	377.5
Chevron Corp CVX USA	189,048 USD	6.96	6.04	1.57	1.32	1.34	1.02	1.12	1.10	0.78	3.49	2.30	0.60	41.5	172.1	353.2
BP PLC BP USA	105,445 USD	1.61	1.83	1.38	1.41	1.43	1.30	1.11	1.11	0.98	4.33	3.69	2.79	190.9	-416.5	NM
Eni SpA ENI ITA	49,861 EUR	3.28	2.68	1.79	1.46	1.38	1.30	1.26	1.20	1.11	1.81	1.47	0.98	314.1	200.3	242.8
Average		3.27	3.03	2.06	1.23	1.24	1.24	1.00	0.98	0.95	2.58	2.45	6.30	131.5	156.2	267.4
Total SA FP FR	**105,093** EUR	**11.04**	**10.58**	**10.18**	**1.45**	**1.43**	**1.43**	**1.17**	**1.13**	**1.12**	**2.30**	**1.86**	**1.85**	**174.4**	**74.1**	**296.0**

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies

Economic Moat
Financial Health
Stewardship
Uncertainty
Moat Trend

Morningstar Fair Value

Margin of Safety
Market Pricing

Morningstar Rating™ For Stocks
★★★★★

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

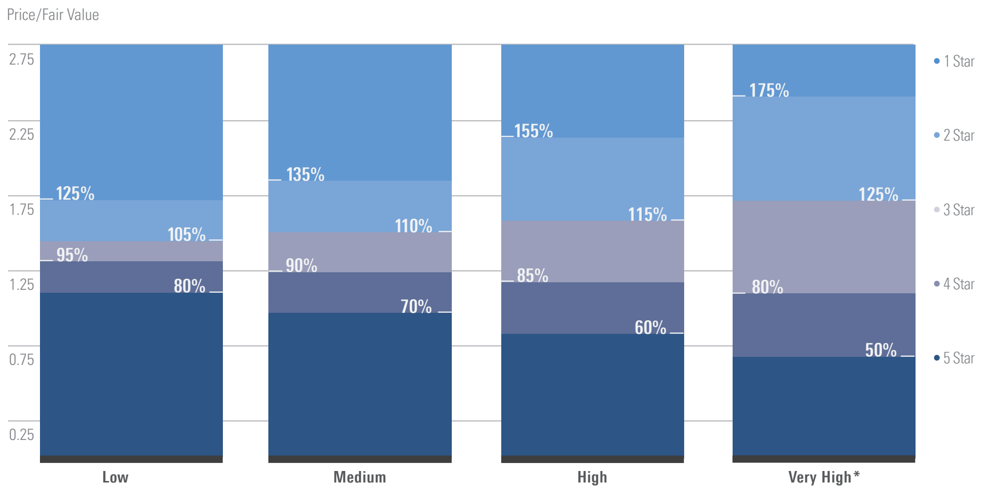
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



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

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

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

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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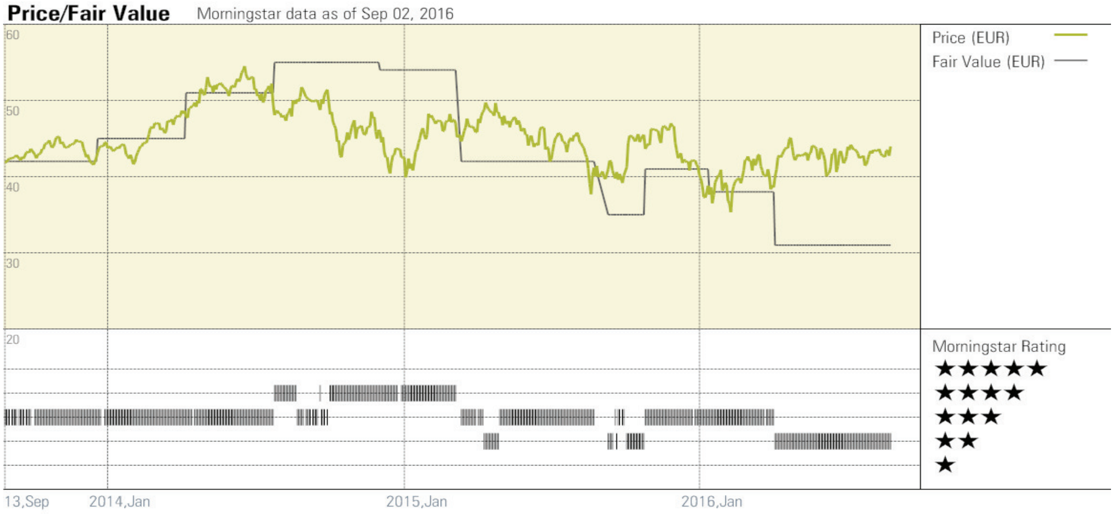
Total SA FP (XPAR) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
43.98 EUR	31.00 EUR	Very High	None	Negative	Standard	Oil & Gas - Integrated



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Total SA FP (XPAR) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
43.98 EUR	31.00 EUR	Very High	None	Negative	Standard	Oil & Gas - Integrated

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Total SA FP (XPAR) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
43.98 EUR	31.00 EUR	Very High	None	Negative	Standard	Oil & Gas - Integrated

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