

A drive to greater energy efficiency- gaining exposure

Energy efficiency- still relatively unexplored

There are unprecedented energy challenges now resulting from high oil and gas prices, increasing import dependency for major consuming nations and increasing evidence of climate change. The pressing need to reduce CO₂ emissions and the cost of energy consumed has given added impetus to the drive to improve energy efficiency. While there has been a clear shift of resources and investor attention into renewable energy, energy efficiency remains an area which is relatively under explored. One of the reasons for this is the difficulty in identifying the names which are exposed to this theme and also perhaps the misguided belief that this is just important for new goods and services- i.e. an important trend but one that will only play out over time.

Energy efficiency- a structural growth driver

We focus in this report on the potential for greater energy efficiency across several key areas i.e. through building insulation, fuel efficiency, more effective lighting systems, reducing stand-by losses, greater energy efficiency in applications and in industrial processes. We identify the Autos, Capital goods, Semiconductors and Building materials sectors as most exposed to this theme. Our view is that this now represents a significant market opportunity (as well as threat for laggards) as policy changes look set to force a structural shift in demand.

Energy efficiency- means an accelerated replacement cycle

Energy efficiency has long been a factor driving product replacement cycles, particularly in the OECD where energy intensity has decreased sharply over the last 30 years but we expect the pace of renewal to accelerate going forward, adding another strong structural driver to the growth rates of companies that are exposed to this theme. An accelerated replacement cycle is an important assumption because the rate of introduction of energy efficient/ climate-friendly technologies in the marketplace, without premature capital scrapping, would otherwise be limited to the rate of capital stock turnover, which for power plants for example is only every 30-50 years (see Chart 7).

Energy efficiency- we identify forty companies globally who will benefit from the drive to reduce CO₂ emissions

We identify forty companies globally who we believe are best placed to benefit from the drive to improve energy efficiency and thereby reduce the cost of energy and CO₂ emissions and they are in the ML energy efficiency index, which we launch today. Recognising that there are a considerable number of large integrated plays exposed to this theme, we have placed the stocks in the index in quartiles based on their exposure to the theme. We define exposure as % of 2006 revenues which can be attributed to this theme (see pg 39 for methodology).

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The energy efficiency plays

There are unprecedented energy challenges now resulting from high oil and gas prices, increasing import dependency for major consuming nations and increasing evidence of climate change. The pressing need to reduce CO₂ emissions and the cost of energy consumed has given added impetus to the drive to improve energy efficiency. While there has been a clear shift of resources and investor attention into renewable energy, energy efficiency remains an area which remains relatively under explored. One of the reasons for this is the difficulty in identifying the pure play names which are exposed to this theme and also perhaps the misguided belief that this is just important for new goods and services- i.e. an important trend but one that will only play out over time.

We expect the pace of product replacement to accelerate going forward, adding another strong structural driver to the growth rates of companies that are exposed to this theme

Energy efficiency has long been a factor driving product replacement cycles, particularly in the OECD where energy intensity has decreased sharply over the last 30 years but we expect the pace of renewal to accelerate going forward, adding another strong structural driver to the growth rates of companies that are exposed to this theme. An accelerated replacement cycle is an important assumption because the rate of introduction of energy efficient/ climate-friendly technologies in the marketplace, without premature capital scrapping, would otherwise be limited to the rate of capital stock turnover, which for power plants for example is only every 30-50 years (see Chart 7).

Importantly there is clearly a strong correlation between economic growth and the ability to implement low cost measures to reduce emissions as it is generally cheaper to apply energy efficient technologies to new power plants, houses or cars than to retrofit an old one, which is positive for countries like China and India where the rate of new additions outstrip by far the replacement of existing equipment.

Table 1: Exposure to the theme determines index weight

Exposure to the theme	Exposure factor	Index Weight
10% - 25%	0.25	1.22%
25% - 50%	0.50	2.44%
50% - 75%	0.75	3.66%
75% - 100%	1.00	4.88%

Source: Merrill Lynch

We identify forty companies globally who we believe are best placed to benefit from the drive to reduce global CO₂ emissions and these companies are in ML energy efficiency index, which we launch today. Recognising that there are a considerable number of large integrated plays exposed to this theme, we have placed the stocks in the index in quartiles based on their exposure to the theme. In defining exposure we look at the % of 2006 revenues for which energy efficiency is the main demand driver and in addition for completeness we include revenues for which energy efficiency is only a secondary demand driver, but assign a lower weighting to these revenues (see pg 39 for a detailed explanation of the methodology).

Which sectors are most exposed?

We focus in this report on the potential for greater energy efficiency across several key areas i.e. through building insulation, fuel efficiency, more effective lighting systems, reducing stand-by losses, greater energy efficiency in applications and in industrial processes.

We identify the Autos, Capital goods, Semiconductors and Building materials sectors as most exposed to this theme. Our view is that this now represents a significant market opportunity (as well as threat for laggards) as policy changes look set to force a structural shift in demand patterns.

We have chosen to highlight just those companies which we believe have a genuine competitive edge in fuel efficiency, building insulation, improving energy efficiency through the use of technology in products and across industrial processes. There are

There are forty stocks in the index in four sub-indices and the weighting to the various sub-indices is as follows; fuel efficiency – autos 22%, building insulation 18%, integrated plays 29% and energy efficient products/ solutions 31%.

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The ML Energy efficiency index is divided into four sub-indices:

The IEA estimates that the global manufacturing industry could improve its energy efficiency by between 18% to 26% overall (and at the same time reduce the sector's CO₂ emissions by 19-32%).

We believe that most OEMs will face rising cost while some suppliers could benefit from tightening fuel emission standards, as they help OEMs find new technologies which contribute to increased energy efficiency.

Energy consumption within residential, commercial and public buildings accounts for about 40% of total estimated global energy use- *the largest single component*. IEA estimates suggest that the potential savings are at least 500 Mtoe per year (or 30% of reference case energy use for the OECD by 2030).

The integrated plays- a focus on the capital goods sector: Although efficiency and productivity have been drivers of demand for capital goods for some time, the need to reduce emissions and energy scarcity has added impetus to the need to invest to reduce energy consumed. The IEA, based on the global adoption of available best practices and technologies, estimates that the global manufacturing industry could improve its energy efficiency by between 18% to 26% overall (and at the same time reduce the sector's CO₂ emissions by 19-32%). While not all of these potential savings are likely to occur without a strong framework of regulation and/or incentives, the potential over time is considerable. We expect capital goods companies to benefit more going forward from efforts to achieve these efficiencies. *We have chosen fourteen names globally for inclusion in the index, and within the ML energy efficiency index, the weighting to this sub-index is 29%.*

The fuel efficiency - Autos sub-index: The automotive industry is increasingly facing constraints on oil consumption and emissions. The confluence of energy security concerns and growing awareness of climate change are fuelling more stringent and widespread regulations on CO₂ emissions and energy efficiency. The incremental capital that needs to be dedicated is daunting and likely a drag even for the automakers with solid income and strong balance sheets. Furthermore, the process is likely to be evolutionary as opposed to revolutionary as all industry participants attempt to minimize investment risk. In light of these trends, we believe that most OEMs will face rising cost while some suppliers could benefit from tightening fuel emission standards, as they help OEMs find new technologies which contribute to increased energy efficiency. *We would highlight the 12 companies included in this sub-index as the best ways to capitalize on the trends in the changing fuel efficiency landscape. The weighting to this sub-index within the ML Energy Efficiency index is 22%.*

The building insulation sub- index: Energy consumption within residential, commercial and public buildings accounts for about 40% of total estimated global energy use- *the largest single component*. IEA estimates suggest that the potential savings from improvements in the end-uses of heating, cooling, ventilation and hot water is at least 500 Mtoe per year (or 30% of reference case energy use for the OECD by 2030). The UN IPCC in their report published in May on Climate change mitigation (see Chart 26) likewise identified the buildings sector as the segment of the market with the largest potential for energy efficiency gains and importantly the sector where the most gains could be made for the lowest cost. Going forward we see it as the segment of the market which is most prone to fast paced legislative changes as governments will almost inevitably target first the low hanging fruit. Although this sub-index has the fewest number of names, all of the companies in this section of the index have a high weighting to the theme. *The five names within this sub-index make up 18% of the ML Energy efficiency index.*

Table 2: Power savings potential using electronic power conversion and control

Application	Potential power savings
Stand by power (TV)	~90%
Power supply in a server	~12%
Lighting (electronic ballast)	~25%
Motor control	30-40%
Traction drives (energy recuperation)	20-30%
Climate control	30-40%

Source: Infineon

Energy efficient products/ solutions: The market for power semiconductors is expected to grow around 9% per annum through 2010 (source: iSuppli) driven by the need to improve energy efficiency throughout the electricity supply chain from generation, through distribution to end consumption. Focusing on consumption, there are a number of ways that chip companies can lower the amount of energy required including reducing standby power, lowering heat loss in power supplies and the introduction of variable speed drives in motors. We have included the leading companies in power semiconductors within this index (see Chart 20) , in addition we include companies who are best positioned in efficient lighting (both CFL and LEDs) and smart metering. This sub-index forms an important part of the ML Energy efficiency index as residential appliances account for over 30% of electricity consumption in most countries, and represent one of the fastest growing energy loads. The IEA that at least one-third of this could be saved cost-effectively by 2030. More efficient lighting is another major focus area. Globally incandescent lamps are estimated to have accounted for 970 TWh of final electricity consumption in 2005 and given rise to about 560 Mt of CO₂ emissions. In the hypothetical case that all these lamps were to be replaced by CFLs this cumulatively would reduce global net lighting costs by US\$1.3 trillion over the period 2008 to 2030. *We have chosen nine names for inclusion in this sub-index which makes up 31% of the ML Energy Efficiency index.*

Energy efficiency- moving to centre stage

The relatively low cost energy savings and carbon emission reduction potential that could come from improving energy efficiency in buildings, transportation, industrial processes etc is still relatively under-explored. One of the reasons for this is the sheer breadth and complexity of the challenge as it involves billions of small emitters rather than the limited number of big companies currently subject to heavy regulation under the European emissions trading scheme (the ETS) for instance. Governments also have the difficulty of trying to stimulate innovation and competition in the supply chain to provide more energy efficient products/solutions while also at the same time trying to influence consumer purchasing patterns.

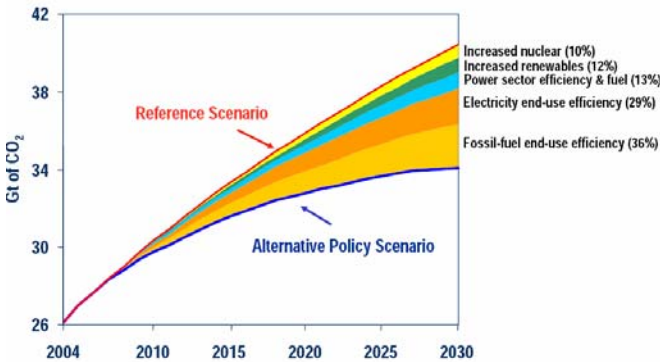
The European Union estimates that Europe wastes at least 20% of its energy, the direct cost of which at an oil price of US\$48/bl is more than EUR 100bn annually.

The European Union estimates that Europe wastes at least 20% of its energy, the direct cost of which at an oil price of US\$48/bl is more than EUR 100bn annually. Fuel savings (net of tax) are clearly significantly higher at current oil price levels at c EUR 150bn annually in Europe alone (see Chart 2). The additional investment in more efficient and innovative technologies is very clearly much lower than anticipated fuel savings.

Improved end-use efficiency accounts for nearly two-thirds of total energy savings and avoided CO₂ emissions in the IEA's "alternative energy policy" scenario (see Chart 1). Fuel savings from more efficient vehicles, industrial processes and heating applications contribute 36% and lower electricity demand from more efficient appliances, industrial motors and buildings 29%.

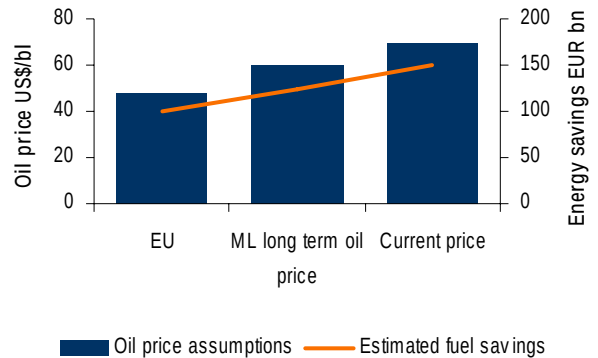
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Chart 1: The IEA expects 2/3rds of projected CO2 emission savings to come from greater energy efficiency



Source: IEA

Chart 2: Over EUR 150bn per annum in energy savings at current oil prices

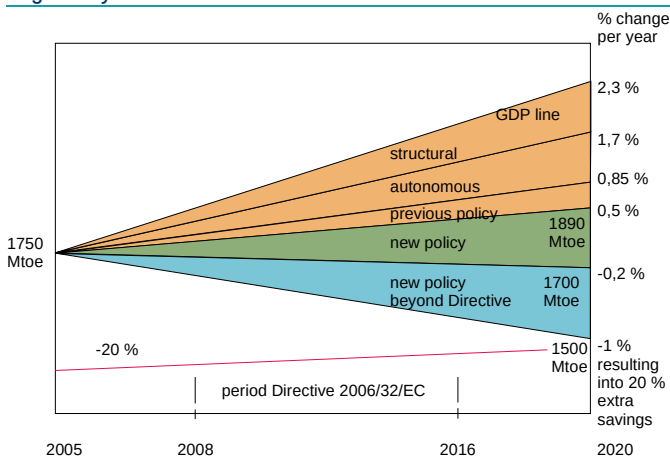


Source: European Union, Merrill Lynch

Policy changes- now afoot...Europe takes the lead

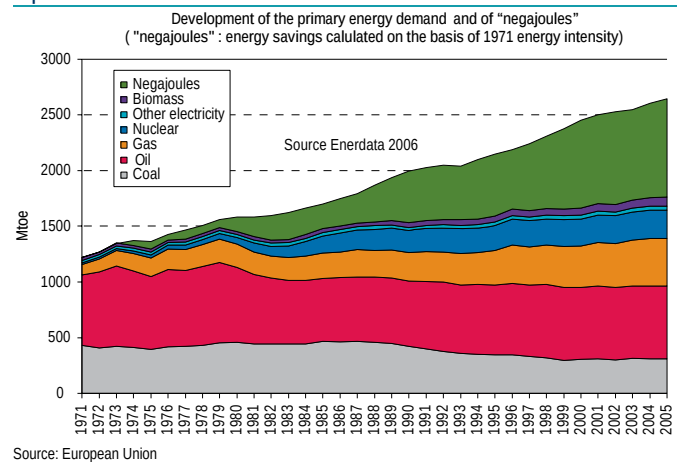
Even though energy efficiency has improved considerably in Europe over the last 30 years (see avoided energy consumption through savings -Chart 4) there still exists significant energy savings potential across most segments of the market. We show in Table 3 the European Union's expectation for energy savings to 2020. Importantly the targeted 20% reduction in energy consumption by 2020 (which equates to 1.5% pa annual reduction) should come in addition to what can be achieved by the natural replacement of technology and measures already in place (see Chart 3).

Chart 3: 20% (1.5% pa reduction) reduction in energy consumption targeted by 2020



Source: European Union

Chart 4: Energy savings set to become an even bigger part of the equation



Source: European Union

The five priority sectors for greater energy efficiency are 1) transport, 2) buildings, 3) improved energy efficiency requirements for equipment, 4) improving consumers' energy saving behaviour and 5) technology/innovation.

Table 3: Full energy savings potential in end-use sectors

	Energy consumption Mtoe (2005)	Energy consumption Mtoe (2020)	Energy saving potential (2020) Mtoe	Full energy saving potential 2020 (%)
Households	280	338	91	27%
Commercial buildings	157	211	63	30%
Transport	332	405	105	26%
Manufacturing Industry	297	382	95	25%

Source: European Union

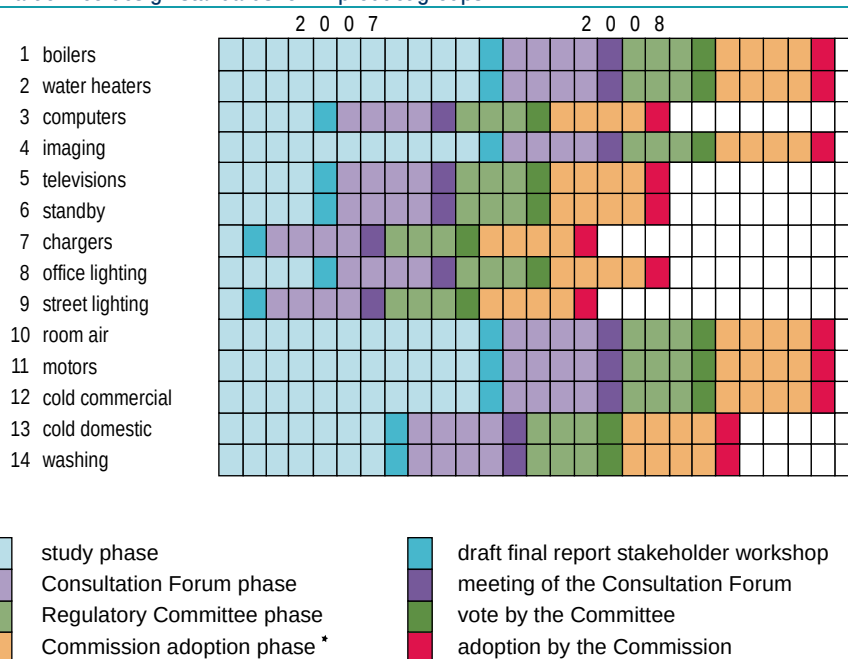
In each section of this note we look at the individual policies/ legislation that are set to drive a greater market share for energy efficient products/solutions. In Europe, a comprehensive framework of directives and regulations to improve energy efficiency in energy-using products, buildings and services is now in force in Community law.

These include:

- the Eco-Design Directive
- the Energy Star Regulation,
- the Labelling Directive
- the Directive on Energy End-Use Efficiency and Energy Services and
- the Energy Performance of Buildings Directive

The Commission will also begin this year the process of adopting minimum energy performance standards (eco-design requirements) for 14 priority product groups including boilers, water heaters, consumer electronics, copying machines, televisions, standby modes, chargers, lighting, electric motors and other products. We show the timetable for this in Chart 5 below.

Chart 5: Eco-design standards for 14 product groups



* includes WTO notification, translations and reinforced scrutiny by European Parliament

Source: European Union

...but also importantly in the big emitters

There is a growing awareness of the need for energy efficient policies in the developing world. Much work is underway in establishing and improving building codes, appliances standards and energy efficiency labels particularly in China. This encompasses basic building codes and a mandatory energy information label programme with a pilot scheme for refrigerators and air-conditioners.

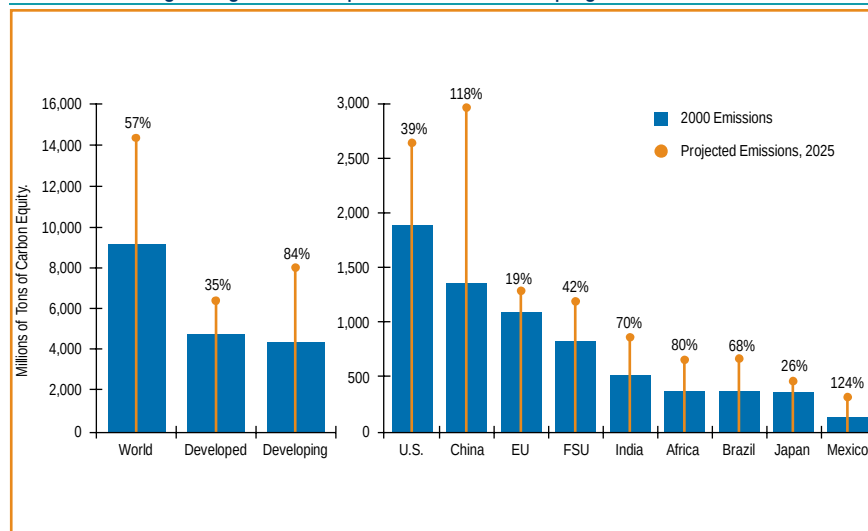
The challenge for China is to increase appliance efficiency and building standards to the best international levels. It has a number of specific advantages in this regard, it is a global manufacturer with low labour costs and particularly well placed to make major gains in energy efficiency at an investment cost which would be lower than that required to meet unconstrained demand.

Table 4: Energy efficiency policy directives in China

Policy	
China	Energy conservation level of residential and public buildings to be close to or reach modern medium developed countries by 2020.
China	The Top 1000 enterprises programme requires monitoring with targets to improve efficiencies of the largest energy consumers in 9 industrial sectors.

Source: IEA

Chart 6: Fastest growing emissions profile is in the developing world



Source: WRI

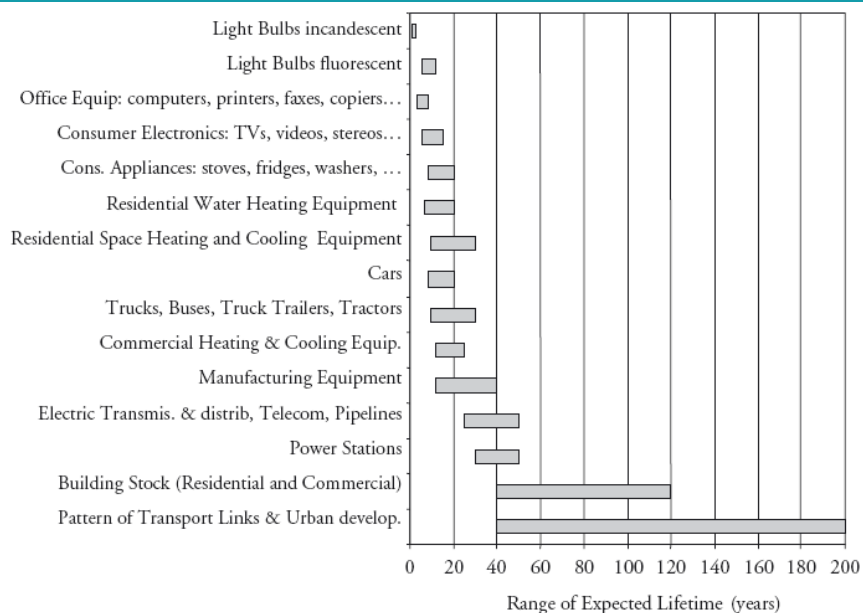
Will policy changes speed up the replacement cycle?

A key question for investors is whether policy changes will speed up the replacement cycle or just remain relevant for new goods and services- i.e. an important trend but one that will only play out over time. We believe that government policy decisions will mean that the replacement cycle speeds up. This is important because the rate of introduction of climate-friendly technologies in the marketplace, without premature capital scrapping, would otherwise have been limited to the rate of capital stock turnover.

There is clearly a strong correlation between economic growth and the ability to implement low cost measures to reduce emissions as it is generally cheaper to apply energy efficient technologies to new power plants, houses or cars than to retrofit an old one.

There is clearly a strong correlation between economic growth and the ability to implement low cost measures to reduce emissions as it is generally cheaper to apply energy efficient technologies to new power plants, houses or cars than to retrofit an old one. Developing countries are investing in a considerable amount of new energy infrastructure and energy intensive equipment and this presents a considerable challenge for climate change policy, as there is a risk of “locking-in” to high-emissions pathways if more efficient technologies are not more widely promoted. Clearly rapid growth can compromise energy efficiency as the pressure to build new capacity quickly and cheaply often outweighs the long term considerations on efficiency and running costs.

Chart 7: Will a move to greater energy efficiency speed up the replacement cycle?



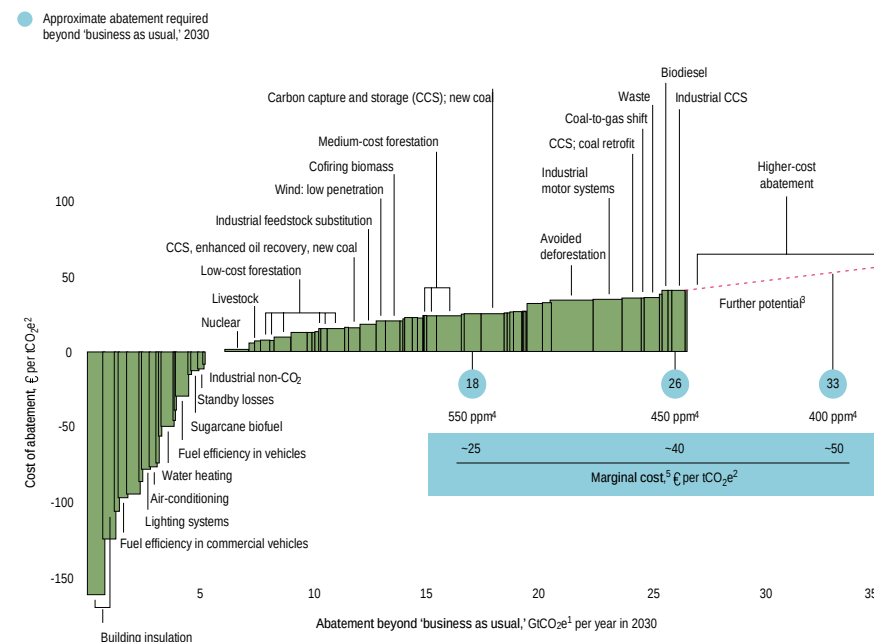
Source: OECD

CO₂ abatement through greater energy efficiency

We look at CO₂ abatement costs per tonne in Chart 8 as calculated by McKinsey consulting (defined as the annual additional operating cost less potential cost savings from reduced energy consumption divided by the amount of emissions avoided). These costs are negative where cost savings are considerable as they are for all energy efficiency measures shown in the chart below.

Chart 8: Global cost curve for greenhouse gas emissions

Global cost curve for greenhouse gas abatement measures beyond 'business as usual'; greenhouse gases measured in GtCO₂e²



Source: McKinsey Quarterly 2007 –Number One

Chart 9: Co2 emission intensity- a function of energy efficiency and carbon content of the fuel mix

$$\frac{\text{Carbon Intensity}}{\text{CO}_2/\text{GDP}} = \frac{\text{Energy Intensity}}{\text{Energy}/\text{GDP}} \times \frac{\text{Fuel Mix}}{\text{CO}_2/\text{Energy}}$$

Source: WRI

Policy frameworks need to encompass both a greater market share for renewable energy and energy efficiency to shape absolute emission trends.

Link between energy intensity and carbon intensity

Emission intensity, which is the level of greenhouse gas emissions per unit of economic output, is a composite of energy intensity and fuel mix. Energy intensity is the amount of energy consumed per unit of GDP and this reflects both a country's level of energy efficiency as well as its overall economic structure i.e. the carbon content of goods imported and exported.

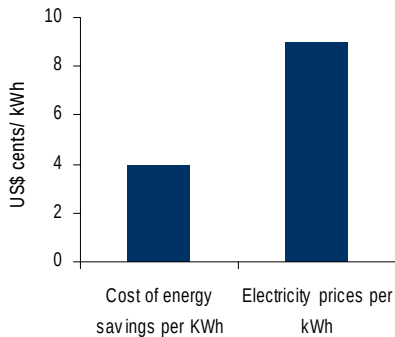
Clearly an economy that is dominated by heavy industrial production will have a higher energy intensity than one where the service sector is dominant and so energy intensity levels are typically not well correlated with development levels as intensity in developing countries is usually higher than in industrialised countries due to the smaller share of lower carbon service sectors.

The second important component of the equation is the fuel mix i.e. the carbon content of fuel consumed in a country. The promotion of a greater market share for renewable energy lowers carbon levels but policy frameworks need to encompass both a greater market share for renewable energy and energy efficiency to shape absolute emission trends.

Changing consumer perceptions

Increased capital spending to improve energy efficiency is generally more than offset by savings in consumer's energy expenditures over the life of equipment. In addition there are the benefits of energy security and lower CO₂ emissions but consumers generally will not be willing to assign a monetary value to these benefits.

Chart 10: Investment required to save energy is less than 50% of electricity price per kWh



Source: IEA

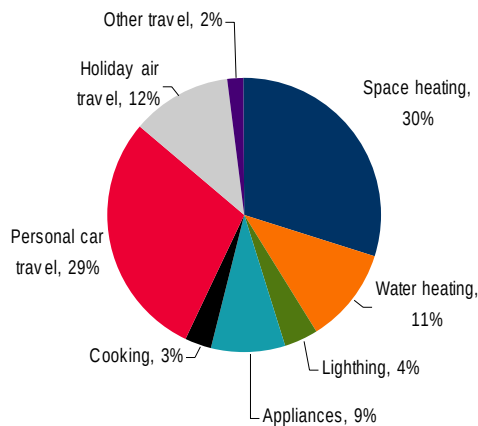
Mandatory energy performance requirements and labels are viewed as highly cost-effective policy tools for reducing the average energy consumption of equipment without reducing consumer choice or triggering sustained increases in prices and we expect to see these deployed more broadly.

IEA analysis estimates that the investment required to save 1 kWh of electricity in the residential and services sector in the non-OECD is around 1.5 US\$ cents and in the OECD 3-4 cents. Electricity prices in the OECD are around 9 US\$ cents and in the US 15 cents so intuitively with greater awareness, through improved labelling etc, consumers will increasingly be incentivised to make the more energy efficient choice.

We show in Chart 11 and Chart 12 the significant weighting of carbon emissions to individual actions. The challenge for governments is to put in place the right incentives to influence consumer purchasing decisions.

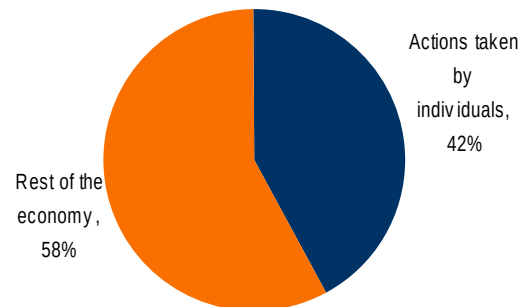
We ran a survey across research and sales at Merrill Lynch to see how high awareness levels currently are with respect to energy efficiency (see Appendix 1). We found that although more than 80% of respondents believe that CO₂ emission standards will get tougher over the next 12 months and high emitters penalised (see Chart 38), energy efficiency considerations still only modestly impact purchasing decisions.

Chart 11: Individual carbon emissions average per capita



Source: UK DTI- Energy White Paper

Chart 12: Carbon emissions from the UK economy



Source: UK DTI- Energy White Paper

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Table 5: The ML energy efficiency index- 40 stocks in 4 sub-indices

Ticker	Name	Country	MCap (USD Mn)	ML Ticker	ML Rating	Sub index	Exposure factor	Weight
KGP LN	KINGSPAN GROUP PLC	Ireland	4,617	KGSPF	Buy	Building Insulation	75%	3.7%
ROCKB DC	ROCKWOOL INTL A/S-B SHS	Denmark	2,916	N/R		Building Insulation	100%	4.9%
SGO FP	COMPAGNIE DE SAINT-GOBAIN	France	45,306	CODGF	Buy	Building Insulation	25%	1.2%
SHI LN	SIG PLC	UK	3,761	SIGYF	Neutral	Building Insulation	75%	3.7%
EAGA LN	EAGA PLC	UK	1,105	N/R		Building Insulation	100%	4.9%
								18.3%

Ticker	Name	Country	MCap (USD Mn)	ML Ticker	ML Rating	Sub index	Exposure factor	Weight
ITRI US	ITRON INC	United States	2,304			Energy efficient products / solutions	100%	4.9%
2448 TT	EPISTAR CORP	Taiwan	2,395	EPIPF	Buy	Energy efficient products / solutions	100%	4.9%
PHIA NA	PHILIPS ELECTRONICS NV	Netherlands	50,235	PHGFF	Buy	Energy efficient products / solutions	25%	1.2%
CREE US	CREE INC	United States	2,404			Energy efficient products / solutions	100%	4.9%
FCS US	FAIRCHILD SEMICON INTERNATIO	United States	2,429			Energy efficient products / solutions	75%	3.7%
IFX GY	INFINEON TECHNOLOGIES AG	Germany	13,344	IFNNF	Neutral	Energy efficient products / solutions	25%	1.2%
IRF US	INTL RECTIFIER CORP	United States	2,794			Energy efficient products / solutions	100%	4.9%
ONNN US	ON SEMICONDUCTOR CORPORATION	United States	3,275			Energy efficient products / solutions	75%	3.7%
STM FP	STMICROELECTRONICS NV	Switzerland	17,970	STM	Buy	Energy efficient products / solutions	25%	1.2%
								30.5%

Ticker	Name	Country	MCap (USD Mn)	ML Ticker	ML Rating	Sub index	Exposure factor	Weight
6041 JP	BOSCH CORP	Japan	2,224			Fuel efficiency- Autos	50%	2.4%
6201 JP	TOYOTA INDUSTRIES CORP	Japan	226,623	TOYOF	Buy	Fuel efficiency- Autos	25%	1.2%
BWA US	BORGWARNER INC	United States	5,249	BWA	Neutral	Fuel efficiency- Autos	75%	3.7%
CON GR	CONTINENTAL AG	Germany	21,340	CTTAF	Buy	Fuel efficiency- Autos	50%	2.4%
JCI US	JOHNSON CONTROLS INC	United States	23,311	JCI	Neutral	Fuel efficiency- Autos	25%	1.2%
MG/A CN	MAGNA INTERNATIONAL INC-CL A	Canada	10,097	MGA	Neutral	Fuel efficiency- Autos	25%	1.2%
ML FP	MICHELIN (CGDE)-B	France	20,359	MGDDF	Buy	Fuel efficiency- Autos	25%	1.2%
FR FP	VALEO SA	France	4,201	VLEEF	Buy	Fuel efficiency- Autos	50%	2.4%
AMS SJ	ANGLO PLATINUM LTD	South Africa	39,205	AGPPF	Buy	Fuel efficiency- Autos	25%	1.2%
AQP LN	AQUARIUS PLATINUM LIMITED	Australia	2,883	AQPMF	Buy	Fuel efficiency- Autos	25%	1.2%
JMAT LN	JOHNSON MATTHEY PLC	UK	7,624	JMPLF	Buy	Fuel efficiency- Autos	50%	2.4%
EPC GY	EPCOS AG	Germany	1,380	EPCOF	Neutral	Fuel efficiency- Autos	25%	1.2%
								22.0%

Ticker	Name	Country	MCap (USD Mn)	ML Ticker	ML Rating	Sub index	Exposure factor	Weight
6273 JP	SMC CORP	Japan	9,365	SMECF	Neutral	The integrated plays	50%	2.4%
6367 JP	DAIKIN INDUSTRIES LTD	Japan	11,049			The integrated plays	50%	1.2%
ABBN VX	ABB LTD-REG	Switzerland	55,187	ABLZF	Buy	The integrated plays	50%	2.4%
ALO FP	ALSTOM	France	23,860	AOMFF	Neutral	The integrated plays	50%	2.4%
ATCOA SS	ATLAS COPCO AB-A SHS	Sweden	14,896	ATLKF	Buy	The integrated plays	25%	1.2%
CBE US	COOPER INDUSTRIES LTD-CL A	United States	10,598	CBE	Buy	The integrated plays	50%	2.4%
EMR US	EMERSON ELECTRIC CO	United States	38,451	EMR	Buy	The integrated plays	50%	2.4%
ETN US	EATON CORP	United States	13,956	ETN	Neutral	The integrated plays	25%	1.2%
HUB/B US	HUBBELL INC -CL B	United States	2,923	HUBB	Buy	The integrated plays	25%	1.2%
ISYS LN	INVENSYS PLC	UK	6,458	IVNSF	Neutral	The integrated plays	25%	1.2%
SU FP	SCHNEIDER ELECTRIC SA	France	33,436	SBGSF	Buy	The integrated plays	50%	2.4%
SIE GY	SIEMENS AG-REG	Germany	132,754	SMAWF	Buy	The integrated plays	25%	2.4%
SPX LN	SPIRAX-SARCO ENGINEERING PLC	UK	1,541	SPXSF	Neutral	The integrated plays	100%	4.9%
ELUXB SS	ELECTROLUX AB-SER B	Sweden	7,190			The integrated plays	25%	1.2%
								29.3%

Source: Merrill Lynch, Bloomberg

Industrial processes- the integrated plays

Industrial productivity has always been one of the key drivers for capital goods demand, including the need to improve the energy efficiency of the equipment that is being used. With energy prices well above longer-term trends levels and manufacturing/industrial companies becoming increasingly aware of the need to justify their environmental credentials to key stakeholders, we expect 'energy efficiency' to become a more important driver of demand than has been the case historically.

With government (supra-national, national and local) also likely to begin to require greater standards of energy efficiency going forward, we expect companies to focus R&D efforts even more to meet the energy efficiency demands of their customer base.

Simply put, if society decides (independently or via regulation) that energy efficiency needs to be improved to reduce global emissions, then capital goods companies make many of the products or solutions that are used to achieve that goal.

Energy efficiency has always been a factor driving product replacement cycles, but we expect the pace of renewal to accelerate going forward, adding another strong structural driver to the growth rates of companies that have historically been cyclical in nature.

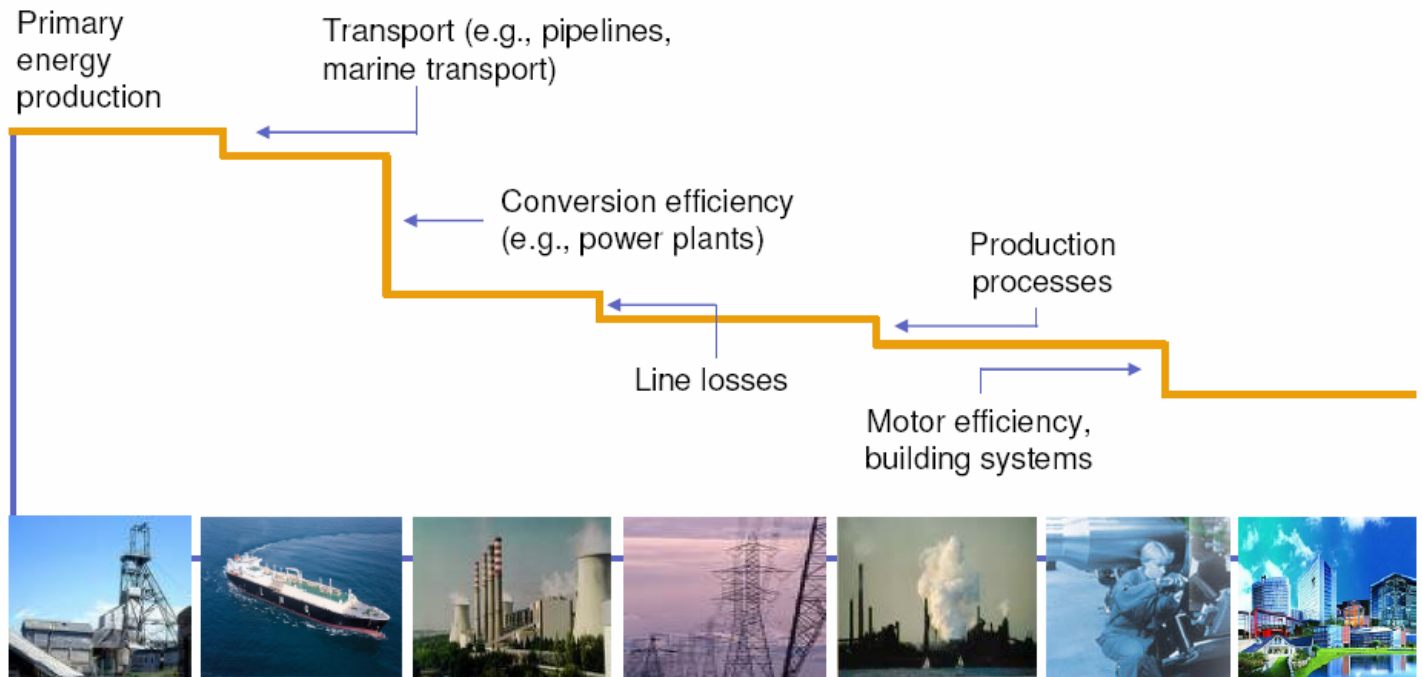
Energy efficiency has always been a factor driving product replacement cycles, but we expect the pace of renewal to accelerate going forward, adding another strong structural driver to the growth rates of companies that have historically been cyclical in nature.

Industrial use accounts for around a third of global energy consumption and 36% of carbon dioxide emissions (source: IEA), with the large primary metals industries (chemical, petrochemical, iron and steel, pulp and paper, metals and minerals, cement) accounting for around 2/3rds of this amount. While energy intensity has been declining in developed countries with the adoption of more efficient technologies, the expansion of the industrial base in emerging markets has kept overall industrial energy consumption growing strongly.

The IEA, based on the global adoption of available best practices and technologies, estimates that the global manufacturing industry could improve its energy efficiency by between 18% to 26% overall (and at the same time reduce the sector's CO₂ emissions by 19-32%).

Although efficiency and productivity have been drivers of demand for capital goods for some time, the need to reduce emissions and energy scarcity has added impetus to the need to invest to reduce energy consumed. The IEA, based on the global adoption of available best practices and technologies currently available, estimates that the global manufacturing industry could improve its energy efficiency by between 18% to 26% overall (and at the same time reduce the sector's CO₂ emissions by 19-32%). While not all of these potential savings are likely to occur without strong a strong framework of regulation and/or incentives, the potential over time is considerable. We expect capital goods companies to benefit more going forward from efforts to achieve these efficiencies.

Chart 13: An astonishing 80% of energy produced is lost between production and consumption



Source: ABB

In terms of where these savings come from, the US Department of Energy estimates that over half of the energy input into the US industrial/manufacturing base gets lost before it is used in the ultimate industrial process (heating, cooling, mechanical, etc). Of this, the biggest losses occur during power generation (thermal efficiencies) and during transmission and distribution of the electricity to the point of usage, underlying the need for optimising the efficiency of transmission and distribution systems (from high voltage to ultra low voltage). The biggest beneficiaries in our index of the need to improve efficiency of generation are Siemens and Alstom, with ABB, Schneider, Siemens, Cooper and Hubbell our preferred plays on efficiency of transmission and distribution.

Within the industrial facility (again in the US) the biggest energy wastages occur as a result of inefficient machine drives (refrigeration, fans, pumps, compressors, materials processing). Suppliers of energy efficient components (variable speed drives, motors, controls) going into these products include ABB, Siemens, Emerson and Invensys, with Atlas Copco integrating these products into energy efficient variants of their own equipment (variable speed drive compressors) and related services. In both cases, we see energy efficiency as a key driver of demand.

Other areas within the industrial plant where energy can be saved include:

- a) minimising heat transfer losses from local generation (Siemens, Alstom) and steam plant (Spirax Sarco),
- b) lower lighting and HVAC consumption (Siemens, Cooper, Hubbell) and
- c) general equipment efficiency (which benefits general demand for aftermarket services as well as efficient control and automation systems/products supplied by Rockwell, Schneider, ABB and Siemens).

The integrated plays selected for our index also offer energy efficiencies outside the industrial arena. In the construction segment (commercial and residential) Schneider, Siemens, Cooper, Daikin, Invensys and Emerson sell products that improve electrical efficiency within buildings (distribution, lighting, HVAC). In the consumer space, Electrolux and Daikin (and component suppliers Invensys and Emerson) offer products that improve efficiency of home appliances and air conditioning systems (both large contributors to household electricity bills).

Chart 14: Industrial final energy use increased by 61% between 1971 and 2004

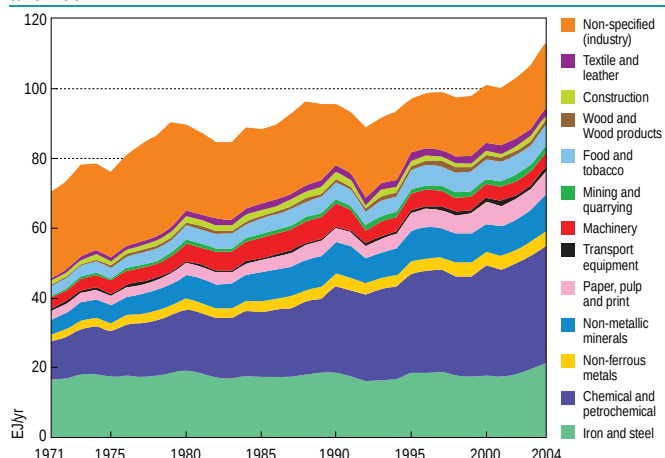
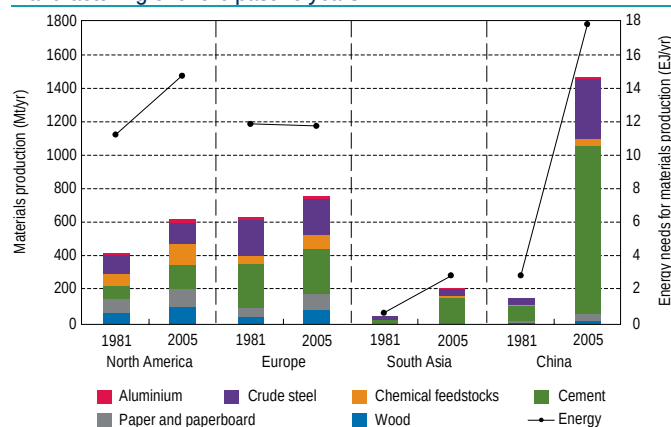


Chart 15: China accounts for the bulk of energy demand growth in manufacturing over the past 25 years



COMPANIES

Siemens

Siemens is a wide-ranging conglomerate but well exposed to energy efficiency as a driver of demand. Out of reported group revenues of EUR 83bn (FY07e), 14% revenues are derived from power generation (wind, fossil, nuclear) where efficiency remains key, 9% from the efficient transmission of electricity (inc HVDC technologies), 6% from building automation (including energy optimisation) and 17% from automation products and systems (including variable speed drives). Below the line the Bosch-Siemens joint venture offers exposure to energy efficient appliances. We estimate that 25% of the company's revenues are directly linked to the energy efficiency theme and in addition we estimate that another 25% of revenues have energy efficiency as a secondary demand driver. We have assigned a 50% energy efficiency rating to Siemens.

ABB

ABB offers one of the highest exposures to the energy efficiency theme in our index. Almost 50% of revenues are derived from the efficient transmission of electricity, with ABB supplying transformers, switchgear, software and solutions to utilities and large users of electricity (high voltage, medium voltage T&D). ABB's suite of products includes HVDC (high voltage, direct current) technologies, which minimise current loss over longer distances. The other 50% of revenues is derived from automation products (low voltage equipment, switches, fuses, drives and motors) and related systems that help optimise the efficiency of manufacturing plants and process industries. We estimate that 40% of the company's revenues are directly related to this theme and in addition for another 40% of revenues, energy efficiency is a secondary demand driver. We assign ABB a 50% energy efficiency rating in our index.

Atlas Copco

Atlas Copco's Compressor Technique (CT) division accounts for 50%+ of the groups earnings, and is the global market leader in stationary and portable air compressors. The supply of compressed air accounts for a large portion of the average manufacturing facilities energy use, and with over 70% of the lifetime cost of a stationary compressor being the energy it uses (15% capital cost, 15% service and repair) the incentive for customers to invest is considerable. Atlas Copco offers energy optimisation software and aftermarket services to customers to maximise the efficiency of their facilities, and is the global market leader in Variable Speed Drives (VSD) – which allow customers to flex their supply of compressed air to met demand (and thereby save energy). We estimate that 20% of the company's revenues are directly related to this theme and energy efficiency is a secondary demand driver for another 30% of revenues. We assign a 25% energy efficiency rating to Atlas Copco.

Schneider Electric

Almost 2/3rds of Schneider Electrics revenues (FY06 Eur 13.7bn) are derived from efficient electrical distribution, including medium voltage (transformers and switchgear), low voltage (wiring products and circuit breakers) and ultra terminal (switches and sockets) products and services. Energy efficiency is a key driver of demand for these products in commercial building and electrical distribution. Schneider's Automation and Control business (25% sales, contactors, circuit breakers, automation platforms) and recent acquisitions (building control, uninterruptible power supplies) also help optimise the efficient use of electricity. We estimate that 20% of revenues are directly related to this theme and in addition for the other 80% of the company's revenues, energy efficiency is a secondary demand driver. We give Schneider a 50% energy efficiency rating in our index.

Alstom

Around 60% of Alstom's Eur 14bn revenues (FY07) are derived from power generation, both i) selling the equipment (steam and gas turbine equipment, hydro and turbo generators, retrofit generation systems, boilers, heat recovery steam generators) and ii) offering related aftermarket products that optimise their operation. Thermal efficiency is a key consideration for all fossil fuel generation, with retrofit technologies allowing the reduction of emissions at the same time as maintaining existing generating capacity. Alstom's recent entry into the wind power industry offers further exposure to efficient and non-polluting electricity generation. We estimate direct exposure to this theme of around 50% and we assign a 50% energy efficiency rating to Alstom in our index.

Electrolux

Electrolux is a global market leader in the manufacture of domestic and industrial appliances, including fridges, freezers, washers, dryers and dishwashers. For all these products (as has been the case over the last few decades) energy efficiency has been a key driver of technological development, driven both by targeted government regulation and increasingly consumer preferences. In a difficult industry product differentiation is key, and we believe that Electrolux's increased spending in R&D over the last few years, combined with greater consumer awareness of the benefits of saving energy (and water), offer an improved pricing environment and volume growth. This stronger top line potential should support Electrolux's efforts to retain the fruits of its low cost country sourcing initiatives and relocation of manufacturing to low cost countries. As energy efficiency is not (yet) the only driver of consumer preferences for appliances, we see this as only a secondary driver for the company's revenues and assign Electrolux a 25% energy efficiency rating in our index.

Spirax Sarco

Spirax Sarco is the market leader in products which are geared to improving industrial efficiency by optimising the ways in which steam (the main vehicle for transferring heat, and a major user of industrial energy) is used at customer facilities. As Spirax-Sarco's products (steam traps, temperature and pressure controls, pumps, pipeline ancillaries) cost very little relative to the savings they generate (typically a 3-9 month payback period) and end markets are fragmented, pricing power tends to be excellent and earnings cyclicity is very low. Spirax-Sarco operates in very stable markets but we expect a greater customer focus on energy efficiency to drive faster growth rates going forward. As all of the company's revenues are directly linked to this theme, we assign a 100% energy efficiency rating to the company in our index.

Emerson Electric

Emerson Electric (2006 revenues: \$20bn) offers a broad range of products and services where energy efficiency is a key driver of demand. This includes A) climate control technologies (scroll compressors, electronic flow controls) that improve the efficiency of domestic and commercial air conditioning, B) energy efficient electric motors (appliances, commercial applications), C) Power Technologies (uninterruptible power supplies, power optimisation systems and products) and D) industrial motors and drives (motion control). We estimate that 15% of the company's revenues can be directly attributed to this theme and in addition for another 60% of revenues energy efficiency is a secondary demand driver. We assign a 50% energy efficiency weighting in our index to Emerson.

Invensys

The exposure of Invensys to the energy efficiency theme is spread across the two largest businesses in the group; Controls and Process Systems. Controls (30% revenues) produces components and systems use in domestic appliances (Electrolux, Whirlpool, GE), HVAC (heating, ventilation and cooling) systems and building systems. In all end markets applicable to Controls, energy efficiency is a key driver of demand and product development. In Process Systems, Invensys sells products and solutions into the global process automation industries (oil and gas, power, petrochemical) where energy efficiency and process optimisation is a key driver of demand. We estimate that 75% of the company's revenues are exposed to the energy efficiency theme but only as a secondary demand driver. On this basis we assign Invensys a 25% energy efficiency rating.

Eaton Corp

Eaton Corporation is a diversified industrial manufacturing company with 2006 revenues of \$12.4bn. Of this, \$4.2bn is derived from the Electrical division, which is a market leader in electrical control and power distribution products and services selling into industrial, utility, commercial and residential markets. Key products include circuit breakers, power distribution equipment, metering systems, power management software, uninterruptible power supplies and surge protection devices. Within the other divisions – Fluid Power (motors, motion control, power management), Truck (drivetrain systems) and Automotive (fuel management controls) – energy efficiency is also a key driver of product development and demand. We estimate that 60% of the company's revenues have energy efficiency as a secondary demand driver. We assign a 25% energy efficiency rating to Eaton in our index.

Cooper Industries

Cooper Industries is a global manufacturer of electrical products and tools with revenues of around \$5bn. The Electrical Products segment (\$4.5bn) supplies many products where energy efficiency is a key driver of demand. These include i) distribution switchgear and transformers, ii) energy automation systems and other related power system components used in electricity transmission and distribution (Power Systems), iii) electrical connection and control products (Wiring Devices), iv) industrial motor controls and industrial lighting (Crouse-Hinds), v) energy efficient lighting solutions (Cooper Lighting) and fuses, circuit breakers and power distribution products (Bussman). We estimate that 30% of the company's revenues are directly linked to energy efficiency and for another 40% of revenues energy efficiency is a secondary driver for demand. We assign the company a 50% energy efficiency rating in our index.

Daikin Industries

Daikin Industries is a Japanese maker of energy efficient air conditioners (85% revenues). Aside from rising living standards and rising global temperatures, air conditioner demand is driven by the need to reduce energy consumption without sacrificing comfort – with features such as centralised temperature control, manual overrides, automatic shutdown at pre-determined times, intermittent operation of different units all offering energy savings. Energy efficient design and use of components and refrigerants that minimise the impact of the air conditioners on the environment have become key selling points, as is the fact that in the average home air conditioners account for around a quarter of electricity consumed (Source: Daikin). We estimate that energy efficiency is a secondary demand driver for all of the company's revenues. On this basis, we assign a 25% energy efficiency rating to Daikin Industries.

Hubbell

Hubbell is one of the largest lighting manufacturers of lighting products in North America, produces transmission and distribution products to utilities and other high-energy use industries and also supplies a wide range of electricity control equipment for industrial users (wiring devices, lighting controls, test equipment, cable management systems, components). We estimate that for all of Hubbell (\$2.5bn) revenues energy efficiency is a secondary demand driver. We assign Hubbell a 25% energy efficiency rating in our index.

SMC

SMC is the world's largest manufacturer of pneumatic and electrical automation products (including actuators, valves, vacuum and air preparation products, dryers, chillers, fittings and tubings) which help control the motion, temperature and quality of both air and liquids used in industrial processes. With compressed air a large user of energy in many manufacturing and processing industries, optimising flows around the plant offers considerable saving potential. We estimate that 25% of the company's revenues are directly related to this theme and in addition energy efficiency is a secondary demand driver for the other 75% of revenues. We assign a 50% energy efficiency rating in our index to SMC.

Table 6: The integrated plays

Ticker	Name	Country	MCap (USD Mn)	ML Ticker	ML Rating	Sub index	Exposure factor	Weight
6273 JP	SMC CORP	Japan	9,365	SMECF	Neutral	The integrated plays	50%	2.4%
6367 JP	DAIKIN INDUSTRIES LTD	Japan	11,049			The integrated plays	50%	1.2%
ABBN VX	ABB LTD-REG	Switzerland	55,187	ABLZF	Buy	The integrated plays	50%	2.4%
ALO FP	ALSTOM	France	23,860	AOMFF	Neutral	The integrated plays	50%	2.4%
ATCOA SS	ATLAS COPCO AB-A SHS	Sweden	14,896	ATLKF	Buy	The integrated plays	25%	1.2%
CBE US	COOPER INDUSTRIES LTD-CL A	United States	10,598	CBE	Buy	The integrated plays	50%	2.4%
EMR US	EMERSON ELECTRIC CO	United States	38,451	EMR	Buy	The integrated plays	50%	2.4%
ETN US	EATON CORP	United States	13,956	ETN	Neutral	The integrated plays	25%	1.2%
HUB/B US	HUBBELL INC -CL B	United States	2,923	HUBB	Buy	The integrated plays	25%	1.2%
ISYS LN	INVENSYS PLC	UK	6,458	IVNSF	Neutral	The integrated plays	25%	1.2%
SU FP	SCHNEIDER ELECTRIC SA	France	33,436	SBGSF	Buy	The integrated plays	50%	2.4%
SIE GY	SIEMENS AG-REG	Germany	132,754	SMAWF	Buy	The integrated plays	25%	2.4%
SPX LN	SPIRAX-SARCO ENGINEERING PLC	UK	1,541	SPXSF	Neutral	The integrated plays	100%	4.9%
ELUXB SS	ELECTROLUX AB-SER B	Sweden	7,190			The integrated plays	25%	1.2%
								29.3%

Source: Merrill Lynch, Bloomberg

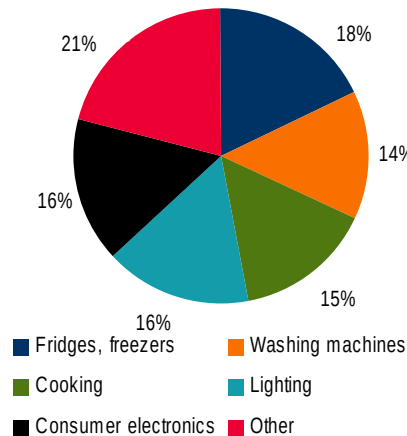
Energy efficiency through technology

The technology companies we have proposed for the Energy Efficiency index are involved in three separate initiatives.

Energy efficient lighting

Lighting accounts for 16% of UK domestic electricity consumption and an estimated 19% of global electricity use. Conventional incandescent lights are highly inefficient with only 5% of the input energy being converted into light and the rest being converted into waste heat. Shifting from inefficient incandescent lighting solutions (so called GLS or general lighting sources) where a very high proportion of energy is lost as heat to compact fluorescent or LED solutions could help significantly reduce energy consumption and cost. Globally incandescent lamps are estimated to have accounted for 970 TWh of final electricity consumption in 2005 and given rise to about 560 Mt of CO₂ emissions. About 61% of this demand was in the residential sector with most of the rest in commercial and public buildings. In the hypothetical case that all these lamps were to be replaced by CFLs the IEA estimates that this could reduce global net lighting costs by US\$1.3 trillion from 2008 to 2030.

Chart 16: UK domestic electricity consumption



Source: Energy Saving Trust

Chart 17: Philips estimates that power consumption can be reduced by over 50% in most lighting applications

Area of lighting	Energy saving	CO2 savings per lamp per year
Road lighting	HPL  57%  CosmoPolis	109 kg CO ₂
Shop Lighting	Halo  80%  CDM	115 kg CO ₂
Office & Industrial Lighting	TL8  61%  TL5	77 kg CO ₂
Home Lighting	GLS  85%  CFLi	34 kg CO ₂
LEDs	GLS  82%  LED	34 kg CO ₂

Source: Philips

To illustrate the potential cost savings from implementing energy efficient lighting in the home, the table below compares the annual cost of a 100W incandescent light socket and the equivalent compact fluorescent solution.

Table 7: Shifting to energy efficient lighting could reduce cost by over 60% per annum

GBP	Compact fluorescent	Incandescent
Cost/bulb	6.00	0.50
Life (years)	5	1
Electricity cost/yr	1.94	7.79
Total cost/yr	3.14	8.29
Saving	62%	

Source: Which? September 2006, Merrill Lynch estimates

Diverse LED end-markets driving growth

In the longer term, we expect light emitting diodes (LEDs) to enter mainstream lighting applications. The development of high brightness LEDs emitting white light and with long operational lives is driving adoption in niche applications at present but we think that over time they will be used in domestic lighting. LED's energy efficiency is currently in line with compact fluorescent solutions, but the higher manufacturing cost means that they have not yet started to substitute for mainstream incandescent and fluorescent lighting.

The key advantages of LED are: (1) Low power consumption driven by the highly efficient conversion of energy into light, resulting in lower consumption of energy requiring lower voltage and no maintenance; (2) long life – on an average LEDs can last 100,000 hours, or 11 years, even under extreme conditions; (3) variety of colors; (4) faster response time, and (5) environment friendly with lead- and mercury-free technology.

The disadvantages for LEDs include higher cost (partially due to sorting requirements of LEDs), problems with heat dissipation, and less standardisation.

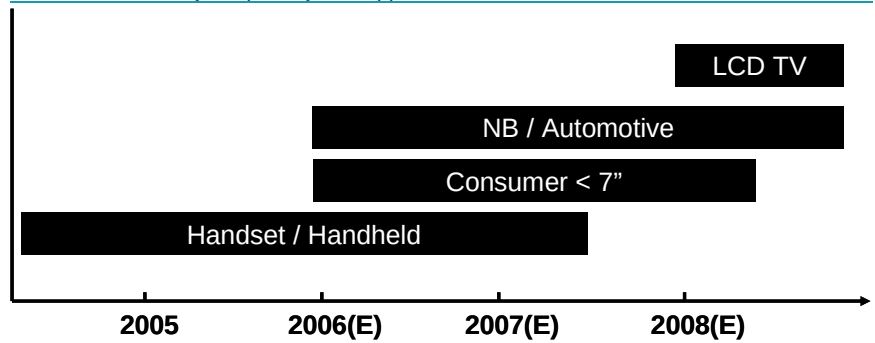
Table 8: Advantages and disadvantages of LEDs

Advantages	Disadvantages
longer lifetime	higher costs
lower power consumption	heat dissipation
smaller form factor	less standardization
thinner design	sorting requirement
no mercury content	

Source: Merrill Lynch

The recent advent and increasing adoption of white LEDs and high brightness LEDs has resulted in a wider base of potential end applications that LEDs can be used for. These include applications such as mobile devices, automotives, large-sized LCD displays including notebook and LCD TV, and ultimately, general lighting applications. Obviously, companies more geared to HB LEDs with the necessary patent and technology resources such as Cree, Epistar, Phillips and Everlight stand to benefit.

Chart 18: LED widely adopted by new applications



Source: Lite-On Tech

New policies

Several countries have announced regulatory measures that either will, or are likely to, result in the removal of inefficient incandescent lamps from the market. These include Australia, which has committed to phase-out low-efficacy incandescent lighting by 2010, California, which has legislation under development and the UK, which has been supporting CFL uptake in substantial volumes. The European Commission is also beginning a study to explore regulatory options.

Chart 19: Philips has a strong market position in most segments of the lighting market



Source: Philips

Companies Philips

Philips Electronics of the Netherlands is a leading global electronics company, with strong positions in lighting, consumer electronics, domestic appliances and medical equipment. Philips has significant non-consolidated holdings and joint ventures. The company retains a 20% stake in its former semiconductor business, NXP. In 2006, the company generated revenues of EUR5.5bn in lighting (19% of the total) including approximately EUR300m from its LED business, Lumileds. We estimate that 10% of the company's sales are directly related to energy efficient lighting and in addition for another 40% of revenues energy efficiency is a secondary driver for demand. We assign Philips a 25% energy efficiency rating.

Epistar

Taiwan's leading LED chip provider Epistar is one of our top picks in the LED sector. Epistar is a pure play upstream LED player and we are very positive on Epistar's LT growth prospects given 1) the rapidly growing end demand for LED chips, 2) its leadership position in the LED industry, and 3) the fundamental shift in value added between the upstream suppliers and downstream packagers as IP overhang issues become resolved while end demand continues to increase. We assign Epistar a 100% energy efficiency rating.

Cree

Historically the LED sector has been dominated by fully vertically integrated models that cover the full spectrum from front end wafer manufacturing through back end packaging, such as those exhibited by Nichia, Lumileds (Phillips), Toyoda Gosei, Osram (Siemens) and Cree, or the so-called "big five." We have chosen Cree for the energy efficiency index as we believe it is the best positioned listed name of the five large integrated names. We assign Cree a 100% energy efficiency rating.

Table 9: Power savings potential using electronic power conversion and control

Application	Potential power savings
Stand by power (TV)	~90%
Power supply in a server	~12%
Lighting (electronic ballast)	~25%
Motor control	30-40%
Traction drives (energy recuperation)	20-30%
Climate control	30-40%

Source: Infineon

Power conversion and motor control

The market for power semiconductors is expected to grow around 9% per annum through 2010 (source: iSuppli) driven by the need to improve energy efficiency throughout the electricity supply chain from generation, through distribution to end consumption. Focusing on consumption, there are a number of ways that chip companies can lower the amount of energy required including reducing standby power, lowering heat loss in power supplies and the introduction of variable speed drives in motors.

Reducing standby power

Infineon estimates that it could be possible to reduce standby power by up to 90%. Standby power consumption for most devices is small – typically ranging from 0.5 to 10 watts—but the number of devices drawing standby power is large. A European, Japanese, Australian, or North American home often contains twenty devices constantly drawing standby power. These include all devices with remote controls and external power supplies (or adapters), permanently illuminated digital displays and LEDs, and many new larger appliances, such as washing machines and air conditioners. As a result, standby power is responsible for 5 – 10% of total electricity use in most homes and an unknown amount in commercial buildings and factories. Standby power is responsible for roughly 1% of global carbon dioxide emissions.

Table 10: Standby power consumption

Device	Standby power consumption (W)	Annual standby cost (GBP)
Integrated digital TV	0.25-2.89	0.18-2.03
DVD player	0.10-6.10	0.07-4.27
DVD recorder	3.20-20.30	2.24-14.23
Freeview box	5.50-22.60	3.85-15.84

Source: Which? October 2006

Lowering heat loss in supplies

Heat loss from power supplies is a major source of energy loss as input voltages are converted to the required voltage for the device. Semiconductor companies like Infineon can use power efficient manufacturing processes and devices such as SiC diodes to reduce energy loss at higher switching frequencies, leading to higher energy efficiency, smaller transformers and lower costs.

Variable speed drives

Variable speed drives help reduce the power consumption of systems such as heating, air conditioning units and fridge freezers. By keeping a system on all the time but altering the output to maintain the target temperature, less energy is consumed than in existing systems where the system is either on or off.

Companies

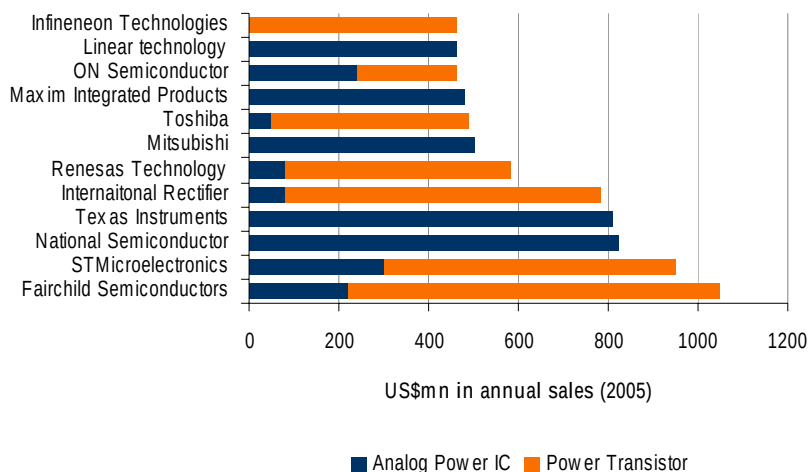
Infineon

Infineon is a broad range integrated semiconductor company. Its revenue base is split approximately 40% DRAM, 40% automotive/industrial/smartcard, and 20% communications chips, largely wireless. The company has a history of weak profitability but has been aggressively restructuring since CEO Wolfgang Ziebart took over in 2004. Infineon held a 9.4% share of the USD11.3bn global power semiconductor market (IMS Research) in 2005, representing approximately 13% of group revenues. In addition for another 39% of revenues energy efficiency is a secondary demand driver. We assign Infineon a 25% energy efficiency rating.

STMicroelectronics

ST designs, develops, manufactures and markets a broad range of integrated and discrete semiconductors used in a wide variety of applications. Key divisions are Computer Peripheral, Telecom, Consumer and Automotive. Growth drivers are cellular phones, set-top boxes, smart cards and emerging digital consumer applications. ST generated 9% of its revenues from power semiconductors in 2005 (IMS Research estimates). In addition we estimate that energy efficiency is a secondary demand driver for another 75% of the company's revenues. We assign STMicroelectronics a 25% energy efficiency rating.

Chart 20: Main players in the power semi market



Source: iSuppli Mar 2006

Fairchild Semiconductors

Fairchild Semiconductor is the #1 global supplier of power analog, power discrete, and optoelectronic components that optimize system power. Fairchild offers one of industry's broadest portfolios of components for electronic applications in the computing, communications, consumer, industrial, and automotive segments. Consumer demand for longer battery life in portable electronics; the desire to save costs and reduce the size and weight of power supplies (battery chargers); improving operating costs and extending service life for electronic devices are key growth drivers. We estimate that around 75% of the company's revenues are directly related to this theme and assign Fairchild a 75% energy efficiency rating.

International rectifier

International Rectifier is a pioneer in advanced power management technology, from analog and mixed signal ICs to advanced circuit devices, power systems, and components. IR's power management technology is used in computers, appliances, lighting, automobiles, satellites, and defense systems. We assign International rectifier a 100% energy efficiency rating.

ON Semiconductor

ON Semiconductor is a global supplier of power management analog products. The company has a complete power management portfolio in the six major product categories, which include DC-DC converters, AC-DC converters, linear regulators, Pulse Width Modulation (PWM) controllers, Power Factor Modulation (PFM) controllers, Power Factor Correction (PFC) pre-regulators and battery charging and management integrated circuits. We estimate that around 75% of the company's revenues are directly related to this theme and assign ON Semiconductor a 75% energy efficiency rating.

Smart Metering

The terms smart metering and advanced metering refer to the same technologies and are used interchangeable in industry. They are defined basically as metering systems that take interval measurements, transmit data automatically and support two way communications. With 1.4bn electricity meters in the world and annual demand for 110mn meters, the replacement of old electromechanical meters with new smart meters represents a tremendous opportunity.

While the energy efficiency merit of smart metering is clear, justifying the enormous cost of its deployment to utilities that make their money from selling energy rather than saving it has historically proven difficult.

Table 11: Smart metering roll-outs

Utility	Location	No of meters	Dates
P,G&E	California	9.2 million	2006-2011
SCE	California	5.0 million	2008-2012
SDG &E	California	2.3 million	2008-2010
TXU	Texas	2.0 million	2005
DTE	Michigan	4.0 million	2007
Hydro one	Ontario	1.2 million	2006-2010
Enel	Italy	30.0 million	2001-2006
Vattenfall	Sweden	0.7 million	2004-2008
E.ON Sverige	Sweden	0.37 million	2004-2008
Citipower	Australia	2.4 million	2008-2012

Source: New Energy finance

As with most other parts of the energy efficiency debate, legislation is now forcing a gradual roll-out. The major developments in legislation are the US Energy policy act of 2005 and in Europe the Energy End use Efficiency and Energy services directive, both ask utilities to employ smart metering or justify why it is not possible.

The US has taken the lead in encouraging the roll-out of smart metering largely due to the several energy crisis and increasing tight supply; smart metering market penetration is now at 6% in the US and could surge in the next few years based on legislative drivers and cost reductions. In Europe, 35mn of 245mn electricity meters are already smart meters but this is dominated by Enel's 30mn rollout in Italy in 2006.

Companies

Itron

The global leading provider of solid-state meters—including automated meter reading (AMR) and advanced metering infrastructure (AMI) technology, Itron offers project management, installation and consulting services. It is one of the few pure play names in this space and we assign Itron a 100% energy efficiency rating.

Table 12: Energy efficiency products/ solutions

Ticker	Name	Country	MCap (USD Mn)	ML Ticker	ML Rating	Sub index	Exposure factor	Weight
ITRI US	ITRON INC	United States	2,304			Energy efficient products / solutions	100%	4.9%
2448 TT	EPISTAR CORP	Taiwan	2,395	EPIPF	Buy	Energy efficient products / solutions	100%	4.9%
PHIA NA	PHILIPS ELECTRONICS NV	Netherlands	50,235	PHGFF	Buy	Energy efficient products / solutions	25%	1.2%
CREE US	CREE INC	United States	2,404			Energy efficient products / solutions	100%	4.9%
FCS US	FAIRCHILD SEMICON INTERNATIO	United States	2,429			Energy efficient products / solutions	75%	3.7%
IFX GY	INFINEON TECHNOLOGIES AG	Germany	13,344	IFNNF	Neutral	Energy efficient products / solutions	25%	1.2%
IRF US	INTL RECTIFIER CORP	United States	2,794			Energy efficient products / solutions	100%	4.9%
ONNN US	ON SEMICONDUCTOR CORPORATION	United States	3,275			Energy efficient products / solutions	75%	3.7%
STM FP	STMICROELECTRONICS NV	Switzerland	17,970	STM	Buy	Energy efficient products / solutions	25%	1.2%
								30.5%

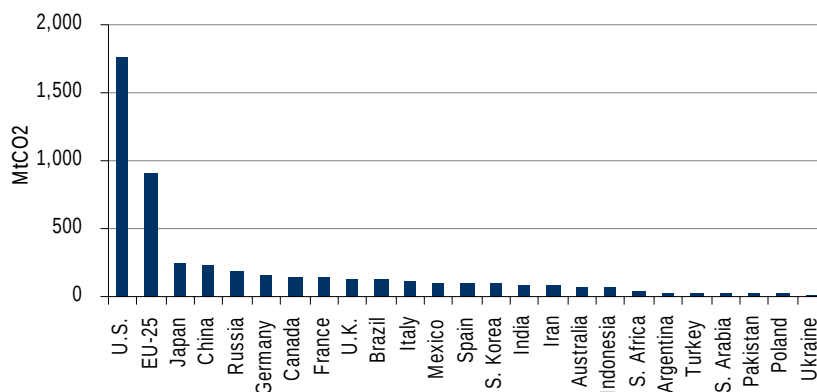
Source: Merrill Lynch, Bloomberg

Pressure for change builds in the auto industry

Global pressure to reduce CO₂ emissions

The automotive industry is increasingly facing constraints on oil consumption and accompanying emissions which look to be contributing to global climate change. The confluence of energy security concerns and growing awareness of climate change are fuelling more stringent and widespread regulations on CO₂ emissions and energy efficiency.

Chart 21: CO₂ Emissions from the Transport Sector

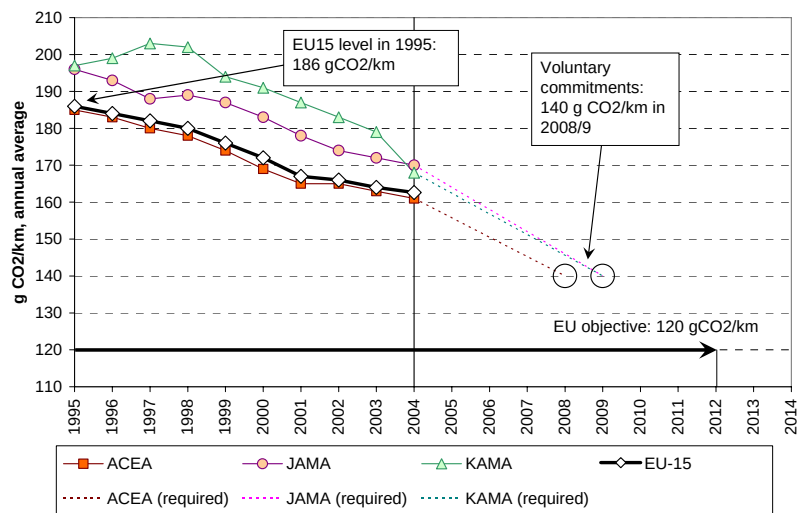


Source: Navigating the Numbers, WRI 2005.

From an industry's self-commitment...

In March 1998, the auto industry group ACEA and the European Commission agreed to the "ACEA Agreement," a collective undertaking by the European automobile manufacturers association and its members to voluntarily reduce the carbon dioxide (CO₂) emissions rates of vehicles sold in the European Union. Specifically, the agreement established industry-wide targets for average vehicle emissions from new vehicles sold in Europe to reach 140 g CO₂/km by 2008, with the ultimate objective of 120 g CO₂/km by 2012. In addition, an intermediate target range of 165-170 gCO₂/km was established for 2003 to monitor the industry's progress towards the 2008 target.

Chart 22: Average EU-15 new cars' CO₂ emissions



Source: European Commission.

...to likely regulation in Europe from 2008¹ 140g target unlikely to be reached

In August 2006 the European Commission released a Monitoring Report documenting automakers' progress towards achieving the emissions targets through 2004. The Commission concluded that the progress to date is not satisfactory. Emissions from newly registered cars in the EU-15 were 161 g CO₂/km in 2004 - having achieved the intermediate target range for 2003 (see Chart 22). However, according to the report, automakers need to "substantially increase their efforts" and improve fuel efficiency by more than 3% annually in order to reach the target.

Only five of the top 20 car brands in Europe (Fiat, Citroen, Renault, Ford and Peugeot) are on track to meet these voluntary targets, according to environmental lobby group Transport & Environment, based in Brussels.

Prompting likely regulation by the EC

In Europe, the threat by the European Commission to regulate on CO₂ emissions has prompted significant lobbying actions from the OEMs and their governments. New rules should be unveiled in 2008 and substitute the industry's self-commitment to reduce CO₂ emissions. It is still early to speculate on who will be hurt most by the change given the lack of information on the exact content of the regulation and the possible fines.

No clear technological answer yet - A clear cost for OEMs

Several new technologies emerge - no clear winner yet

Although many global automakers often highlight specific powertrain strategies, most are exploring a number of options as the ultimate winner is unclear. Most OEMs point to fuel cells as the holy grail of powertrain technology, but considering the timing of introduction (10+ years) it is a dubious solution, and other technologies could emerge. In the interim the alternatives being explored are increased diesel penetration, increased ethanol & bio-fuel use, and the popular hybrid (gasoline- and soon diesel-hybrids).

¹ Please refer to our global report *Energy Security & Climate Change, Investing in the clean car revolution* published on November 6, 2006 for more details.

Generally a drag for automakers

The scale of the investment in all new powertrain technology is massive, and it is important to remember the capital that has been committed to the traditional internal combustion gas engine has been depreciated over decades. Therefore, the incremental capital that needs to be dedicated is daunting and likely a drag even for the automakers with solid income and strong balance sheets. Furthermore, the process is likely to be evolutionary as opposed to revolutionary as all industry participants attempt to minimize investment risk.

Implementing Measures for Deployment of Fuel Efficient Tyres

There is now consensus that aggressive policies for promoting the deployment of fuel-efficient tyres and proper tyre maintenance can achieve as much as a 5% reduction in overall vehicle fuel consumption. In April 2006, the IEA recommended for implementation by G8 Heads of State an energy efficiency policy on tyres. This recommendation was based on international best practice and consisted of two elements: maximum allowable levels of rolling resistance for major categories of tyres; and measures to promote proper inflation levels of tyres.

Since then, experts have reached a consensus that international test procedures for measuring tyre rolling resistance are necessary for effective deployment of fuel efficient tyres. Following this, many activities to establish the test procedures can be expected at international fora including the International Standard Organization and the World Forum for harmonization of vehicle regulations

Improving automotive fuel efficiency through electronics

Engine efficiency can be improved through better automotive electronics and improving fuel injection technology, for instance through the use of ceramic piezoactuators in place of existing solenoid valves. These piezoactuators improve fuel efficiency by 10-15% in vehicles and are currently used mainly on diesel engines with the first petrol engines ramping. Piezoactuators offer low mass and short switching times, enabling the injection process to be divided into seven injection events at four times the switching speed. Whereas solenoid valves have a fixed displacement, the displacement of a piezoactuator can be varied. Key benefits are lower fuel consumption, and reduced exhaust and noise emissions.

Auto- catalysts - Diesel market could add incremental revenues in the US

One of the quickest ways to achieve a significant change in fuel economy, we believe, is through a larger market share for diesel with potential improvements in energy efficiency of around 20% (depending on the cars compared) over petrol engines. The experience in Europe, where market share has now almost reached 50%, shows that there is huge potential in the US where diesel accounted for only less than 4% of new light duty vehicle sales in 2006. The twin benefit for automotive catalysts manufacturers of a growing diesel market in the US is that, due to current US emission standards, a) there are higher catalyst revenues available per vehicle as compared with petrol and b) the market for DPF's would expand more rapidly. There are challenges to a mass market US light duty diesel market – refinancing capacity, refuelling infrastructure, US consumer legacy issues – but in crude terms every 1% of the market in the US that is diesel rather than gasoline would add, we believe, 0.2% to the growth rate for the global auto-catalysts industry.

Auto suppliers best positioned to benefit

In light of these trends, we believe that most OEMs will face rising costs while suppliers with niche products in this space could benefit from tightening fuel emission standards, as they provide new technologies that contribute to increase energy efficiency.

We would highlight the following companies as ways to capitalise on this trends and which fit in with the changing fuel efficiency landscape.

BorgWarner

BWA is perhaps the company in our global universe most leveraged to the trends outlined in this report. In auto industry terms, BorgWarner is a relatively small (\$4.3 billion revenues in 2005), fast-growing (11% CAGR revenue growth implied by 2006-2008 backlog), technology-driven supplier. The company is best known for its manual transmissions, a business it has since exited, but the design, engineering, manufacturing skills honed from the development of such complex systems serve the company well today. Almost all of BorgWarner's key products offer the benefits of higher fuel efficiency and/or lower emissions. We estimate that these products account for c80% of the company's revenues and thus we assign BorgWarner a 75% energy efficiency weighting.

Valeo

We estimate that about 35% of Valeo revenues are directly related to fuel economy and in addition another 10% of revenues have energy efficiency as a secondary demand driver. Valeo is focusing its growth strategy around three domains: Powertrain Efficiency (PE, EUR3.75bn revenues in 2006), Comfort Enhancement (CE, EUR3.3bn) and Driving Assistance (DA, EUR2.5bn). Valeo has acquired early 2005 JCI engine management business, now integrated in its PE domain, sold its Motors and Actuators business in October 2006, and is in the process of selling its wiring harnesses businesses now viewed as non core. Valeo's PE domain includes transmissions (among world leaders), engine cooling (world leader), electrical systems (among world leaders) and engine management systems and is attracting a rising proportion of Valeo's R&D efforts. We give Valeo a 50% energy efficiency rating

Continental

Continental is a play on energy efficiency via its exposure to hybrids and its effort to lower tyres rolling resistance. Continental has just been selected by GM in their efforts to catch-up with Toyota in co-developing "E-Flex" electric vehicle propulsion system. The company is also working with VW on hybrid technology. On the rolling resistance side, Continental now puts a strong accent in the progress achieved by its truck tyres' range in reducing rolling resistance – responsible for about 20% of vehicles fuel consumption. We estimate that 20% of revenues are directly exposed to the energy efficiency theme and in addition for another 40% of revenues energy efficiency is a secondary demand driver. We have given Continental a 50% energy efficiency rating.

Michelin

Michelin's exposure to energy efficiency derives from the company's efforts to reduce rolling resistance and promote green tyres. Michelin estimates that tyre rolling resistance accounts for 4% of anthropogenic CO₂ emissions, more than 20% of the overall road transport emissions. Michelin believes that the EC efforts to reduce CO₂ emissions provide an opportunity to shift the market towards more energy efficient tyres. We estimate that energy efficiency is a secondary demand driver for 75% of revenues. We give Michelin a 25% energy efficiency rating.

Magna International

Magna's market-leading high-pressure hydro-forming business is a critical technology for creating lighter, stronger vehicles and thus we believe it will play a key role in the intensifying drive for higher fuel economy. We estimate that 15% of revenues are directly exposed to this theme and give Magna a 25% energy efficiency rating.

Bosch

Bosch is the pioneer of electronic engine control which calculates the best possible injection process and thus improves fuel economy and lowers emissions of modern diesel engines. It is working on diesel- hybrids whose fuel savings compared to a simple diesel can amount to as much as 25 percent. Its product range also includes market leading piezo injection technology, and in addition exhaust gas treatment systems for cars. We estimate that around 50% of revenues are directly linked to the energy efficiency theme across a suite of products. We give Bosch a 50% energy efficiency rating.

EPCOS

EPCOS is the largest manufacturer of passive electronic components in Europe and the fourth-largest in the world. It is involved in the design and production of capacitors (26% of sales), ceramic components (27%), surface acoustic wave (SAW) components (33%), and Ferrites (14%). EPCOS holds the strongest market position in SAW filters, where it has a 38% market share. We estimate that the company's fuel injection piezoactuator business will represent around 13% of group sales in FY07, albeit still loss-making, but the company has 49% exposure to the automotive and industrial segment, and we estimate that for another 36% of revenues energy efficiency is a secondary demand driver. We give EPCOS a 25% energy efficiency rating.

Toyota

The market leader in hybrid technology, we see Toyota maintaining its leading position in these markets and forecast 80% market share to 2012 despite new entrants. Toyota's 2006 hybrid retail sales were 312,500 units. The hybrid sales composition is estimated at around 3% of FY March 2007 consolidated sales revenue of 24 tri. yen. In addition we estimate that for another 26% of revenues energy efficiency is a secondary demand driver. We give Toyota a 25% energy efficiency rating.

Johnson controls

Present in hybrid vehicle battery technology and in addition battery management systems and smart electronic power distribution modules. We believe it fits well in the energy efficiency theme and we estimate that around 20% of revenues can be attributed to energy efficiency. We assign Johnson controls a 25% energy efficiency rating.

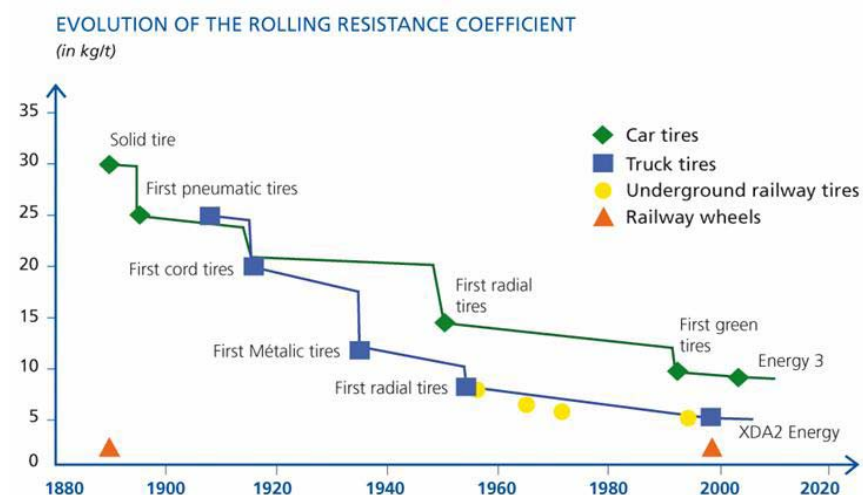
Johnson Matthey

JMAT is the joint leader in the autocatalysts industry globally with 31% market share. It has a higher market share (we estimate 40%) in diesel technology, including a very strong position in the emerging heavy duty market, where new legislation is driving strong growth in bus and truck applications. There is significant upside to industry growth if diesel technology takes hold in the currently dormant US market (only 4% of US light duty vehicles are diesel, contrasting with Europe's 50%). 40% of pro-forma FY March 2007 sales derived from autocatalysts, on our estimates and in addition we estimate that for another 30% of revenues energy efficiency is a secondary demand driver. We give Johnson Matthey a 50% energy efficiency rating.

In addition for completeness, we include our two top Platinum picks:

AngloPlatinum and Aquarius - Sales of platinum, palladium and rhodium comprised +90% of revenue for AngloPlat and Aquarius in FY2006. Roughly 50% of global demand of each of these three metals is derived from the auto-catalyst sector, suggesting that on revenue, EBITDA and profits, 40% of the companies profitability is derived from this segment of demand but as energy efficiency is a secondary driver of demand, we assign both of these companies only a 25% energy efficiency rating.

Chart 23: Michelin - a big focus on reducing rolling resistance in tyres



Source: Michelin

Table 13: Fuel efficiency sub-index

Ticker	Name	Country	MCap (USD Mn)	ML Ticker	ML Rating	Sub index	Exposure factor	Weight
6041 JP	BOSCH CORP	Japan	2,224			Fuel efficiency- Autos	50%	2.4%
6201 JP	TOYOTA INDUSTRIES CORP	Japan	226,623	TOYOF	Buy	Fuel efficiency- Autos	25%	1.2%
BWA US	BORGWARNER INC	United States	5,249	BWA	Neutral	Fuel efficiency- Autos	75%	3.7%
CON GR	CONTINENTAL AG	Germany	21,340	CTTAF	Buy	Fuel efficiency- Autos	50%	2.4%
JCI US	JOHNSON CONTROLS INC	United States	23,311	JCI	Neutral	Fuel efficiency- Autos	25%	1.2%
MG/A CN	MAGNA INTERNATIONAL INC-CL A	Canada	10,097	MGA	Neutral	Fuel efficiency- Autos	25%	1.2%
ML FP	MICHELIN (CGDE)-B	France	20,359	MGDDF	Buy	Fuel efficiency- Autos	25%	1.2%
FR FP	VALEO SA	France	4,201	VLEEF	Buy	Fuel efficiency- Autos	50%	2.4%
AMS SJ	ANGLO PLATINUM LTD	South Africa	39,205	AGPPF	Buy	Fuel efficiency- Autos	25%	1.2%
AQP LN	AQUARIUS PLATINUM LIMITED	Australia	2,883	AQPMF	Buy	Fuel efficiency- Autos	25%	1.2%
JMAT LN	JOHNSON MATTHEY PLC	UK	7,624	JMPLF	Buy	Fuel efficiency- Autos	50%	2.4%
EPC GY	EPCOS AG	Germany	1,380	EPCOF	Neutral	Fuel efficiency- Autos	25%	1.2%
								22.0%

Source: Merrill Lynch, Bloomberg

Building sector -the largest wins

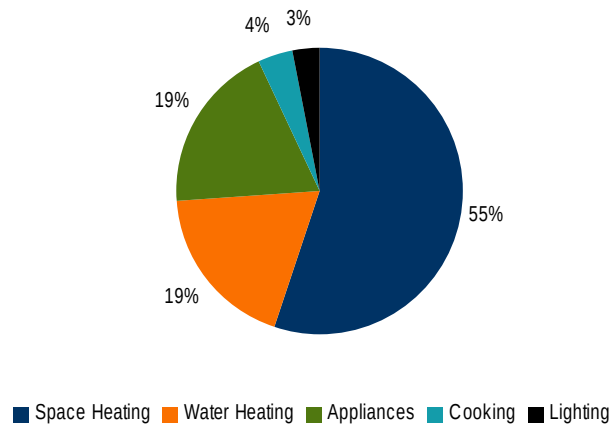
Energy consumption within residential, commercial and public buildings accounts for about 40% of total estimated global energy use- the largest single component. IEA estimates suggest that the potential savings from improvements in the end-uses of heating, cooling, ventilation and hot water is at least 500 Mtoe per year (or 30% of reference case energy use for the OECD) by 2030 by applying energy efficient standards to new and refurbished buildings.

The UN IPCC in their report published in May on Climate change mitigation (see Chart 26) likewise identified the buildings sector as the segment of the market with the largest potential for energy efficiency gains and it is widely seen as the one sector where the most gains could be made for the lowest cost. Going forward we see it as the sector which is most prone to fast paced legislative changes as the existing timetable for energy efficiency legislation accelerates and almost inevitably will target first the low hanging fruit.

That said, in most parts of the world it has been an area that has received far less attention or publicity than others (such as air transport or manufacturing) in terms of efforts to promote greater efficiency of consumption. While there appears to have been a general consensus among governments, public bodies and corporates, in terms of raising safety and build quality standards in the past 25 years, it is only within the past 5-10 years that specific energy-efficiency issues have moved toward the top of agendas- and even then the pace of progress has varied dramatically from country to country.

We might generalise and identify three principal areas in which efforts have been focussed in this regard: Heat Generation, Heat Retention and Heat Exclusion. The first two categories are especially significant in the context of the following pie chart:

Chart 24: Residential energy end use



Source: IEA

It is evident that central heating and hot water generation are by far the dominant uses of energy in a typical home. In that respect, efforts to improve **Heat Generation** are focused in particular on the area of boilers, radiators and related transmission systems. For example, Europe-wide we would note a trend over the past decade away from traditional free standing boilers which require a separate (and demonstrably more energy-inefficient) hot water storage system toward combination boilers which heat water as and when it is required. Once such heat has been generated, then clearly another source of efficiency-gain is in the area of **Heat Retention**.

Savings can be achieved in this area in two principal areas:

- **Window and Door Glazing:** Probably one of the first forms of energy saving, dating back to the early-mid 1970s, but the use of double, and more recently triple, glazing has been shown to reduce heat loss by, respectively, 30% and up to 70%.
- **Insulation:** This can take many forms but will primarily include wall and roof insulation

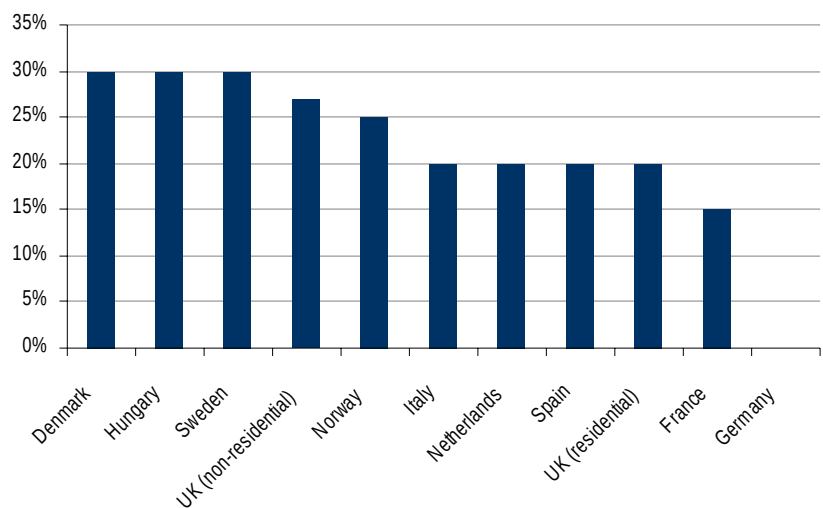
Heat Exclusion is a smaller, but faster-growing area of potential energy inefficiency, and focuses principally on the need for more efficient methods or forms of air-conditioning.

The role of government

There is no doubt that Governments will play a critical role in promoting greater energy efficiency within the building sector and the increased use of more energy-efficient products. While manufacturers may develop innovative products for the market, historic precedent in most countries suggests that both builders and consumers need to be “persuaded” or “incentivised” to utilise these products: which is why government legislation is vital.

In this regard note that the European Energy Performance Buildings Directive (EPBD) introduced in 2002 across the EU (and which sought up to 30% reductions in energy consumption in new buildings) has to be implemented by member states by the end of 2009. Rockwool has estimated that this directive could add an extra 4-6% to total European insulation demand by 2009.

Chart 25: Potential energy reductions in new buildings: 2009 target



Source: Sweden- electrically-heated buildings only; Netherlands- Residential only.

In addition, a second wave of legislation- the EU Energy End Use Efficiency and Energy Services Directive- must be implemented by end May 2008 and requires EU member states to reduce their energy consumption by at least 9% by 2017. This second directive could add another 4-6% to total insulation demand by the end of that period.

A third and final piece of legislation, the EU Action Plan for Energy Efficiency was published in 2006, covers the period 2007-13 and seeks a 20% reduction in energy consumption by 2020. This most recent Action Plan builds on and tightens the previous EPBD and Energy End Use/Energy Services Directives. Given the scale of the reductions being sought by the Action Plan, the potential impact on European insulation demand from 2013 could be several times that of the first and second waves.

We have identified these five stocks as been best placed to benefit from this theme.

Kingspan

Kingspan is Ireland's second largest building materials group. About 60% of revenues derive from the manufacture of insulation panels and boards which are utilised in external cladding and internal cavity walls. 80% of sales are in the UK and Ireland, and a further 10% in Eastern Europe. We assign Kingspan a 75% energy efficiency rating.

Rockwool

Rockwool is the World's and Europe's largest manufacturer of insulation mineral fibres. More than 90% of group sales are in insulation products. Geographically, some 80% of sales are within Europe, with Germany the largest single market accounting for 15% of group sales, but Eastern Europe collectively now taking 22% of group revenues. We assign Rockwool a 100% energy efficiency rating.

Saint Gobain

Within this diversified building conglomerate, the manufacture and distribution of insulation products and wallboard (following the 2006 acquisition of BPB) accounts for about 15% of group sales. The bulk of these sales, in turn, are in mainland Europe. We assign Saint Gobain a 25% energy efficiency rating

SIG

SIG is a specialist distributor of insulation boards, panels and related products- this accounts for some 90% of group sales. SIG is market leader in the UK & Ireland and has strong positions in Germany, France and Benelux. We assign SIG a 75% energy efficiency rating.

EAGA

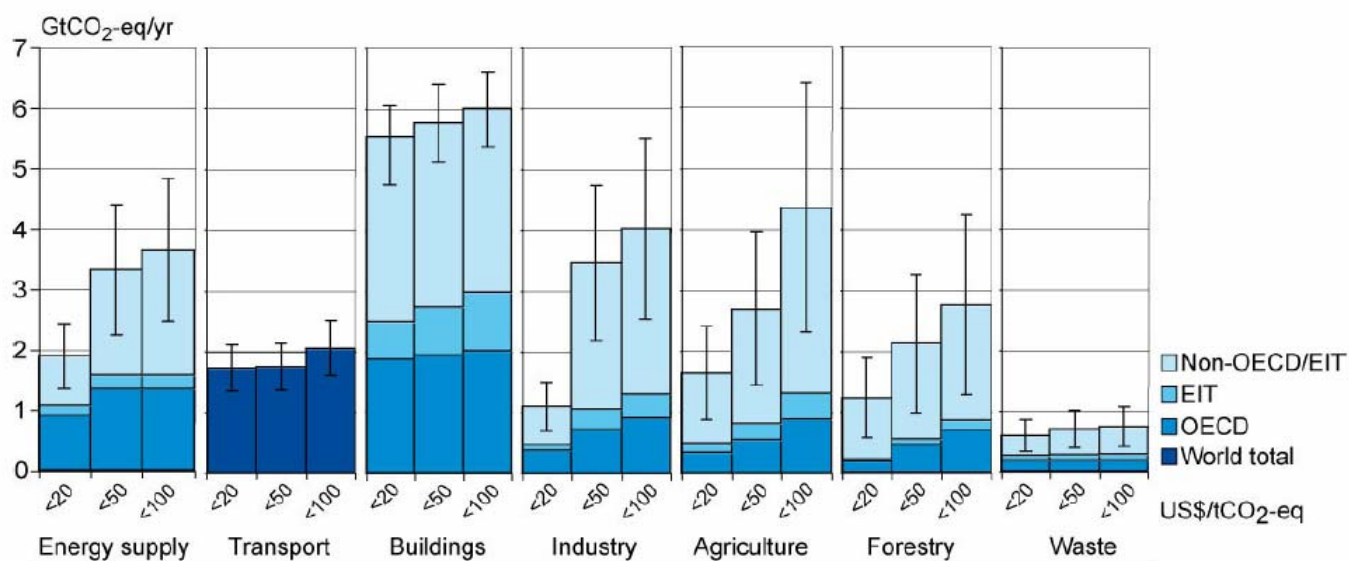
EAGA is the UK's leading provider of residential energy efficiency solutions. It works with utility companies under the UK Energy Efficiency Commitment scheme (EEC) and is a large and rapidly growing supplier into the social housing sector. As all of the company's revenues are directly linked to this theme, we assign EAGA a 100% energy efficiency rating.

Table 14: Building insulation sub-index

Ticker	Name	Country	MCap (USD Mn)	ML Ticker	ML Rating	Sub index	Exposure factor	Weight
KGP LN	KINGSPAN GROUP PLC	Ireland	4,617	KGSPF	Buy	Building Insulation	75%	3.7%
ROCKB DC	ROCKWOOL INTL A/S-B SHS	Denmark	2,916	N/R		Building Insulation	100%	4.9%
SGO FP	COMPAGNIE DE SAINT-GOBAIN	France	45,306	CODGF	Buy	Building Insulation	25%	1.2%
SHI LN	SIG PLC	UK	3,761	SIGYF	Neutral	Building Insulation	75%	3.7%
EAGA LN	EAGA PLC	UK	1,105	N/R		Building Insulation	100%	4.9%
								18.3%

Source: Merrill Lynch, Bloomberg

Chart 26: Potential for CO2 reduction for different segments of the market (per region) – the buildings sector has by far the greatest potential



Source: UN IPCC

A Road Map to Zero Carbon in the UK

		2002	2006	2007	2008	2009	2010	2013	2016
1	Part L1A Regulations Energy / Carbon Reduction Levels	Base start point	-23% (April 2006)				-25% (cumulative -48%)	-44% (cumulative -92%)	Zero Carbon Home
2	Code for Sustainable Homes (Dec 2006) Rating Levels			Level 3 *** (April 2007)			Level 4 ****	Level 5 ***** (zero emissions from heating, hot water, ventilation & lighting)	Level 6 ***** (zero energy emissions)
				(includes: energy, CO, and potable water consumption, materials, water run-off, site waste, lighting and white goods)					
3	Environmental Impact of Materials			Comply with BRE Green Guide 'D' Rating (April 2007)		Roof Structure & Finishes External Walls Intermediate Floors Internal Walls Windows / Doors		Three assemblies to comply with 'D' Rating	
4	Reduction of Surface Water Run-off			April 2007 peak and annual run-off no greater than previous levels					
5	Site Waste Management			April 2007 minimise construction waste					
6	Energy Performance Certification				June 2007 (incorporated into Home Information Pack)				
7	Fiscal Policy: Zero Stamp Duty for Renewables			3yr commitment (April 2007)					
8	Local Authority 10-20% Renewables Policy		10% Implemented by Local Authorities at Planning Approval Up to 20% Implemented by Mayor of London at Planning Approval						
9	Design for Manufacture Competition (DfMC 2)			Q1 2007 Carbon Neutral House Competition - 20-25,000 Units across 10 sites					

Source: Kingspan

The ML energy efficiency index- Index methodology

The objective of the ML energy efficiency Index is to provide exposure to stocks likely to benefit from the need to reduce carbon dioxide emissions globally.

The pressure to reduce global emissions will boost demand for energy efficient solutions. Governments are also likely to begin requiring greater standards of energy efficiency. Together with the fact that energy prices are well above long-term trends and the increasing demand for energy is likely to keep prices at high levels, this will all continue to give further incentive to switch to energy efficient solutions.

The objective of the ML Energy Efficiency Index is to provide exposure to stocks likely to benefit from the need to reduce carbon dioxide emissions globally.

Stock selection

In defining meaningful exposure we look at the % of revenues which have energy efficiency as the main demand driver and in addition for completeness we include revenues which have energy efficiency as only a secondary demand driver, but assign a lower weighting to these revenues.

The composition of the ML energy efficiency index is reviewed twice a year, on the fifth trading day of May and November. The index review is carried out with the help of a committee of analysts, the energy efficiency index committee. After consultation with the relevant ML industry analysts around the world, the committee identifies stocks that have meaningful exposure to any of the four sub-sectors related to the energy efficiency theme, i.e. building insulation, energy efficient products & solutions, auto fuel efficiency and integrated plays. In defining meaningful exposure we look at the % of revenues which have energy efficiency as the main demand driver and in addition for completeness we include revenues which have energy efficiency as only a secondary demand driver, but assign a lower weighting to these revenues.

Once the committee has decided, the universe of stocks based on the criteria set out above, those stocks will be assessed by liquidity, market cap and country of listing according to the following rules in order to create the index composition:

1. Liquidity: the six-month average daily turnover must be at least US\$ 5mn
2. Market cap: the full market cap must be at least US\$ 1bn
3. Country of listing: Stocks must have a main listing in a developed market (according to major international global index providers). Stocks from the larger and more developed emerging markets, such as Korea or Taiwan, will be considered on a case-by-case basis. Otherwise, emerging market stocks will only be included if they have an ADR or GDR that pass the above liquidity constraints

We believe the imposition of these rules should ensure the index remains tradable. All stocks that pass the above screening will make up the eligible universe of stocks to be in the index. However, at least fifteen stocks and at most fifty stocks will be included in the index at any review. Should the universe of stocks based on the criteria listed above consist of fewer than fifteen stocks, the market cap (and subsequently liquidity) constraints will be relaxed in order to ensure at least fifteen stocks are selected for inclusion to the index. If the universe consists of less than fifty stocks, all names will be included in the index. If more than fifty stocks pass the screening, then the fifty most liquid will be selected.

The new index composition will be implemented on the close of the fifth trading day after the review (i.e. on the close of the tenth trading day of each May and November). Stocks are weighted according to their exposure to the Energy Efficiency theme. Merrill Lynch research analysts specialising in this market will determine to which extent each company captures the energy efficiency theme. From this, an exposure factor is derived as follows.

Table 16: Exposure to the theme determines index weighting

Exposure to the theme	Exposure factor	Weighting
10% - 25%	0.25	1.22%
25% - 50%	0.50	2.44%
50% - 75%	0.75	3.66%
75% - 100%	1.00	4.88%

Source: Merrill Lynch

Criteria for inclusion

We have looked at % of sales where energy efficiency is the primary demand driver and also for completeness where it is more of a secondary demand driver and assigned a 25% weighting to these revenues (see Table 17 below). As a general guideline stocks with an overall exposure to the theme of less than 10% are not eligible for inclusion to the index.

Table 17: Exposure to energy efficiency as% of 2006 revenues

Ticker	Name	Country	% sales where energy efficiency is a primary demand driver	Weighting	% sales where energy efficiency is a secondary demand driver	Weighting	Overall	Exposure factor	Weight
Building insulation									18.3%
EAGA LN	EAGA PLC	UK	100%	100%	0%	25%	100%	1.00	4.88%
KGP LN	KINGSPAN GROUP PLC	Ireland	60%	100%	0%	25%	60%	0.75	3.66%
ROCKB DC	ROCKWOOL INTL A/S-B SHS	Denmark	100%	100%	0%	25%	100%	1.00	4.88%
SGO FP	COMPAGNIE DE SAINT-GOBAIN	France	15%	100%	0%	25%	15%	0.25	1.22%
SHI LN	SIG PLC	UK	90%	100%	0%	25%	90%	0.75	3.66%
Energy efficient products & solutions									30.5%
2448 TT	EPISTAR CORP	Taiwan	100%	100%	0%	25%	100%	1.00	4.88%
CREE US	CREE INC	United States	100%	100%	0%	25%	100%	1.00	4.88%
FCS US	FAIRCHILD SEMICON INTERNATIO	United States	77%	100%	0%	25%	77%	0.75	3.66%
IFX GY	INFINEON TECHNOLOGIES AG	Germany	13%	100%	39%	25%	23%	0.25	1.22%
IRF US	INTL RECTIFIER CORP	United States	100%	100%	0%	25%	100%	1.00	4.88%
ITRI US	ITRON INC	United States	100%	100%	0%	25%	100%	1.00	4.88%
ONNN US	ON SEMICONDUCTOR CORPORATION	United States	76%	100%	0%	25%	76%	0.75	3.66%
PHIA NA	PHILIPS ELECTRONICS NV	Netherlands	10%	100%	40%	25%	20%	0.25	1.22%
STM FP	STMICROELECTRONICS NV	Switzerland	9%	100%	75%	25%	28%	0.25	1.22%
Auto fuel efficiency									22.0%
6041 JP	BOSCH CORP	Japan	50%	100%	0%	25%	50%	0.50	2.44%
7203 JP	TOYOTA MOTOR CORP	Japan	3%	100%	26%	25%	10%	0.25	1.22%
AMS SJ	ANGLO PLATINUM LTD	South Africa	0%	100%	40%	25%	10%	0.25	1.22%
AQP LN	AQUARIUS PLATINUM LIMITED	Australia	0%	100%	40%	25%	10%	0.25	1.22%
BWA US	BORGWARNER INC	United States	80%	100%	0%	25%	80%	0.75	3.66%
CON GR	CONTINENTAL AG	Germany	20%	100%	40%	25%	30%	0.50	2.44%
EPC GY	EPCOS AG	Germany	13%	100%	36%	25%	22%	0.25	1.22%
FR FP	VALEO SA	France	35%	100%	10%	25%	38%	0.50	2.44%
JCI US	JOHNSON CONTROLS INC	United States	20%	100%	0%	25%	20%	0.25	1.22%
JMAT LN	JOHNSON MATTHEY PLC	UK	40%	100%	30%	25%	48%	0.50	2.44%
MG/A CN	MAGNA INTERNATIONAL INC-CL A	Canada	15%	100%	0%	25%	15%	0.25	1.22%
ML FP	MICHELIN (CGDE)-B	France	0%	100%	75%	25%	19%	0.25	1.22%
Integrated plays									29.3%
6273 JP	SMC CORP	Japan	25%	100%	75%	25%	44%	0.50	2.44%
6367 JP	DAIKIN INDUSTRIES LTD	Japan	0%	100%	100%	25%	25%	0.25	1.22%
ABBN VX	ABB LTD-REG	Switzerland	40%	100%	40%	25%	50%	0.50	2.44%

Table 17: Exposure to energy efficiency as% of 2006 revenues

Ticker	Name	Country	% sales where energy efficiency is a primary demand		% sales where energy efficiency is a secondary demand		Overall	Exposure factor	Weight
			driver	Weighting	driver	Weighting			
ALO FP	ALSTOM	France	60%	100%	0%	25%	60%	0.50	2.44%
ATCOA SS	ATLAS COPCO AB-A SHS	Sweden	20%	100%	30%	25%	28%	0.25	1.22%
CBE US	COOPER INDUSTRIES LTD-CL A	United States	30%	100%	40%	25%	40%	0.50	2.44%
ELUXB SS	ELECTROLUX AB-SER B	Sweden	0%	100%	100%	25%	25%	0.25	1.22%
EMR US	EMERSON ELECTRIC CO	United States	15%	100%	60%	25%	30%	0.50	2.44%
ETN US	EATON CORP	United States	0%	100%	60%	25%	15%	0.25	1.22%
HUB/B US	HUBBELL INC -CL B	United States	0%	100%	100%	25%	25%	0.25	1.22%
ISYS LN	INVENSYS PLC	UK	0%	100%	75%	25%	19%	0.25	1.22%
SIE GY	SIEMENS AG-REG	Germany	25%	100%	25%	25%	31%	0.50	2.44%
SPX LN	SPIRAX-SARCO ENGINEERING PLC	UK	100%	100%	0%	25%	100%	1.00	4.88%
SU FP	SCHNEIDER ELECTRIC SA	France	20%	100%	80%	25%	40%	0.50	2.44%

Source: Merrill Lynch, Bloomberg

The weight of a stock is calculated as the ratio of its factor and the sum of factors across all constituents. Based on the current composition and factors the weights are as follows: 4.88%, 3.66%, 2.44% and 1.22%, for factors of 1.00, 0.75, 0.50 and 0.25 respectively (see Table 16 above). The index is calculated daily on a price-return (i.e. no dividends re-invested) and total- return basis (i.e. dividends re-invested) and published on Bloomberg under the tickers MLEIEEFD (price-return US\$), MLEIEEFE (price-return EUR), MLEIEEFT (total-return US\$) and MLEIEEFR (total-return EUR).

In addition to the above function, the Energy Efficiency index Committee will have the following responsibilities:

1. Ensure the rules of the index remain relevant following any structural changes to the theme.
2. Decide on extending the implementation of changes to the index from one trading session to any period up to five trading sessions. This will be done in the event that a material increase in the liquidity/capacity of the index is required in order to minimise market impact. Any such decision will be announced in advance.
3. Deciding whether to include large IPOed stocks with a trading history of less than six months on a 'fast-entry' basis without waiting for the next index review date if the committee deems such stocks will have a significant impact on the theme. In such cases, the IPO stock will be added on the close of its 15th trading day, and replace the least liquid constituent at that time.
4. Moreover, the committee will also exercise discretion on the treatment of non-standard corporate events (e.g. take-overs of constituents by non-constituents, spin-offs, etc) and any related re-weighting.

Index composition and weights

Applying the criteria outlined in the above section to determine a stock selection universe, we subsequently apply the rules described previously to screen for liquidity, market cap and country in order to ascertain the constituents of the index.

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The table below shows the current composition of the ML Energy Efficiency index (as of 12-Jun-07 close), along with the liquidity, weight, market cap and dividend yield of each constituent. In fact, based on the latter, we calculate the gross dividend yield (excluding special dividends) of the index during the last twelve months as 1.09%. It is worth noting that a recent IPO, namely Eaga (UK) is included in the index as it passes all relevant screens despite its listing in early Jun-07.

Table 18: ML energy efficiency index composition

Ticker	Name	FTSE Super Sector	Country	Exposure factor	Weight	MCap (USD Mn)	Liquidity (USD Mn) *	Div yield **
Building insulation sub group					18.3%			
EAGA LN	EAGA PLC	Industrial Goods & Services	UK	1.00	4.88%	1,105	6	0.0%
KGP LN	KINGSPAN GROUP PLC	Construction & Materials	Ireland	0.75	3.66%	4,617	13	1.0%
ROCKB DC	ROCKWOOL INTL A/S-B SHS	Construction & Materials	Denmark	1.00	4.88%	2,916	7	0.6%
SGO FP	COMPAGNIE DE SAINT-GOBAIN	Construction & Materials	France	0.25	1.22%	45,306	220	1.7%
SHI LN	SIG PLC	Industrial Goods & Services	UK	0.75	3.66%	3,761	24	1.7%
Energy efficient products & solutions sub group					30.5%			
2448 TT	EPISTAR CORP	Industrial Goods & Services	Taiwan	1.00	4.88%	2,395	30	1.1%
CREE US	CREE INC	Technology	United States	1.00	4.88%	2,404	32	0.0%
FCS US	FAIRCHILD SEMICON INTERNATIO	Technology	United States	0.75	3.66%	2,429	29	0.0%
IFX GY	INFINEON TECHNOLOGIES AG	Technology	Germany	0.25	1.22%	13,344	162	0.0%
IRF US	INTL RECTIFIER CORP	Technology	United States	1.00	4.88%	2,794	46	0.0%
ITRI US	ITRON INC	Industrial Goods & Services	United States	1.00	4.88%	2,304	36	0.0%
ONNN US	ON SEMICONDUCTOR CORPORATION	Technology	United States	0.75	3.66%	3,275	84	0.0%
PHIA NA	PHILIPS ELECTRONICS NV	Personal & Household Goods	Netherlands	0.25	1.22%	50,235	301	2.0%
STM FP	STMICROELECTRONICS NV	Technology	Switzerland	0.25	1.22%	17,970	106	1.6%
Auto fuel efficiency sub group					22.0%			
6041 JP	BOSCH CORP	Automobiles & Parts	Japan	0.50	2.44%	2,224	9	1.7%
7203 JP	TOYOTA MOTOR CORP	Automobiles & Parts	Japan	0.25	1.22%	226,623	549	1.6%
AMS SJ	ANGLO PLATINUM LTD	Basic Resources	South Africa	0.25	1.22%	39,205	50	4.6%
AQP LN	AQUARIUS PLATINUM LIMITED	Basic Resources	Australia	0.25	1.22%	2,883	24	1.0%
BWA US	BORGWARNER INC	Automobiles & Parts	United States	0.75	3.66%	5,249	34	0.8%
CON GR	CONTINENTAL AG	Automobiles & Parts	Germany	0.50	2.44%	21,340	222	2.0%
EPC GY	EPCOS AG	Industrial Goods & Services	Germany	0.25	1.22%	1,380	16	1.3%
FR FP	VALEO SA	Automobiles & Parts	France	0.50	2.44%	4,201	45	2.8%
JCI US	JOHNSON CONTROLS INC	Automobiles & Parts	United States	0.25	1.22%	23,311	105	0.8%
JMAT LN	JOHNSON MATTHEY PLC	Chemicals	UK	0.50	2.44%	7,624	65	0.7%
MG/A CN	MAGNA INTERNATIONAL INC-CL A	Automobiles & Parts	Canada	0.25	1.22%	10,097	26	1.3%
ML FP	MICHELIN (CGDE)-B	Automobiles & Parts	France	0.25	1.22%	20,359	125	1.5%
Integrated plays sub group					29.3%			
6273 JP	SMC CORP	Industrial Goods & Services	Japan	0.50	2.44%	9,365	43	0.2%
6367 JP	DAIKIN INDUSTRIES LTD	Industrial Goods & Services	Japan	0.25	1.22%	11,049	56	0.7%
ABBV VX	ABB LTD-REG	Industrial Goods & Services	Switzerland	0.50	2.44%	55,187	345	0.9%
ALO FP	ALSTOM	Industrial Goods & Services	France	0.50	2.44%	23,860	136	0.0%
ATCOA SS	ATLAS COPCO AB-A SHS	Industrial Goods & Services	Sweden	0.25	1.22%	14,896	175	2.3%
CBE US	COOPER INDUSTRIES LTD-CL A	Industrial Goods & Services	United States	0.50	2.44%	10,598	66	1.4%
ELUXB SS	ELECTROLUX AB-SER B	Personal & Household Goods	Sweden	0.25	1.22%	7,190	86	2.4%
EMR US	EMERSON ELECTRIC CO	Industrial Goods & Services	United States	0.50	2.44%	38,451	128	2.1%
ETN US	EATON CORP	Industrial Goods & Services	United States	0.25	1.22%	13,956	97	1.8%
HUB/B US	HUBBELL INC -CL B	Industrial Goods & Services	United States	0.25	1.22%	2,923	13	2.4%
ISYS LN	INVENSYS PLC	Industrial Goods & Services	UK	0.25	1.22%	6,458	63	0.0%
SIE GY	SIEMENS AG-REG	Industrial Goods & Services	Germany	0.50	2.44%	132,754	943	1.5%
SPX LN	SPIRAX-SARCO ENGINEERING PLC	Industrial Goods & Services	UK	1.00	4.88%	1,541	6	3.0%
SU FP	SCHNEIDER ELECTRIC SA	Industrial Goods & Services	France	0.50	2.44%	33,436	179	2.9%

Source: Merrill Lynch, Bloomberg. * Average daily value traded during the last 6 months

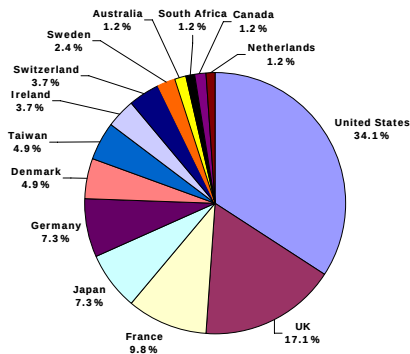
** Dividend yield measured as the total amount of dividends received between 13-Jun-06 to 12-Jun-07 divided by the share price on 13-Jun-07

Based on the liquidity numbers shown above we estimate the overall liquidity and capacity of the index. In particular, we calculate that a US\$500 Mn programme trade across all the names in the index would represent approximately 60% of the average daily volume per stock.

Geographic and sector allocation

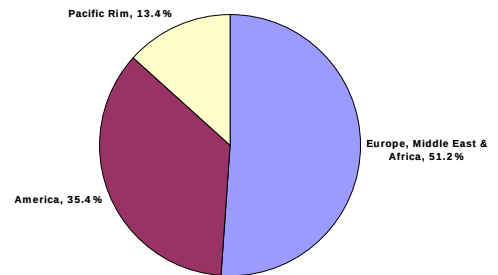
The charts below provide the sector and geographic breakdown of the index. The index is well diversified with companies from fourteen countries (twelve developed and two emerging). The constituents are also spread evenly among the sub indices with the integrated plays representing 29.3%, energy efficient products & solutions 30.5% of the index, building insulation 18.3% and auto fuel efficiency 22%.

Chart 27: Country split



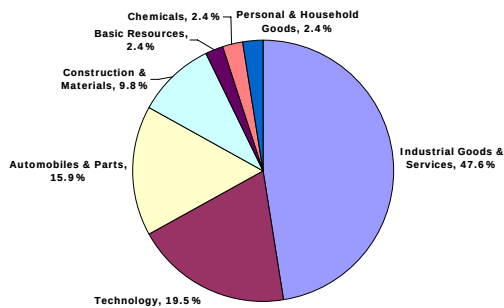
Source: Merrill Lynch

Chart 28: Regional split



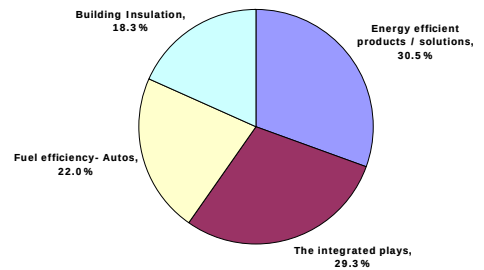
Source: Merrill Lynch

Chart 29: Sector split



Source: Merrill Lynch

Chart 30: Sub-index split



Source: Merrill Lynch

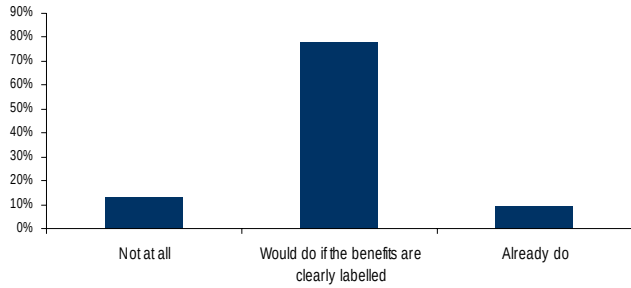
Appendix 1- Results of an internal ML energy efficiency survey

These are the results of an internal ML survey on energy efficiency conducted between Wed June 13th and Friday June 22nd.

The results are derived from a total of 92 respondents from equity research and equity sales.

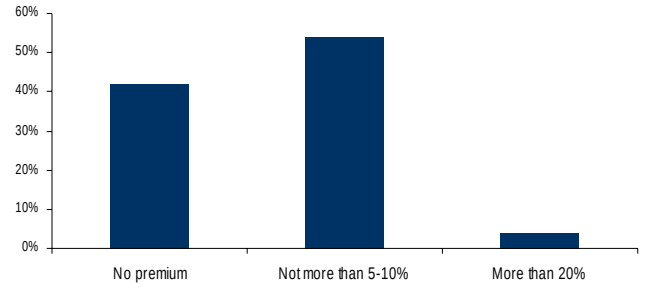
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Chart 31: How likely are you to consider a low stand-by power feature in your purchasing decision?



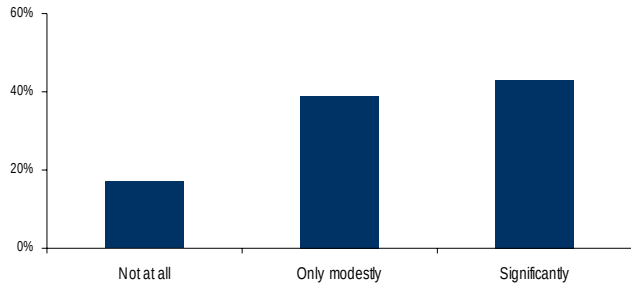
Source: Merrill Lynch

Chart 32: How much of a premium would you be prepared to pay for a low stand-by power feature device?



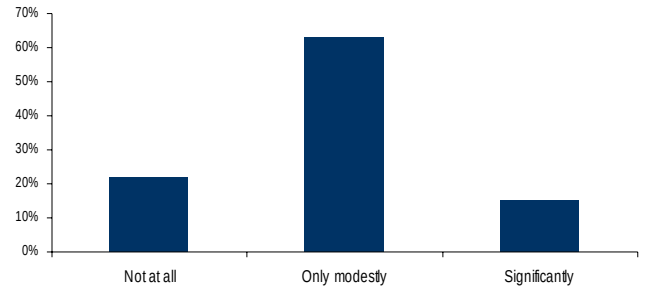
Source: Merrill Lynch

Chart 33: How much would the use of a smart meter influence the amount of energy your household consumes?



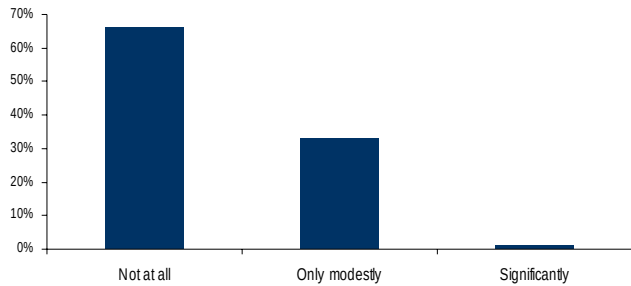
Source: Merrill Lynch

Chart 34: How much would the energy rating of a new home influence your purchasing decision?



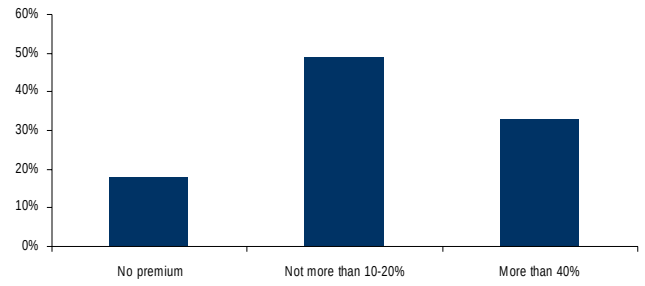
Source: Merrill Lynch

Chart 35: How much would the CO2 emissions of a flight influence your travel plans?



Source: Merrill Lynch

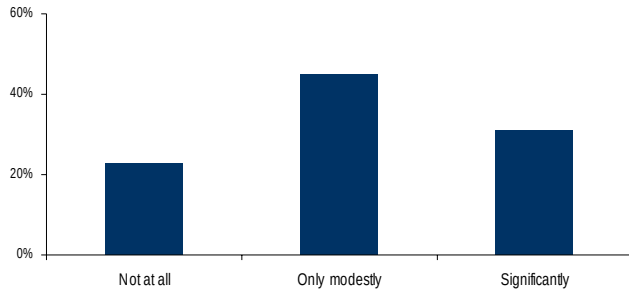
Chart 36: How much of a premium are you prepared to pay for energy efficient light bulbs?



Source: Merrill Lynch

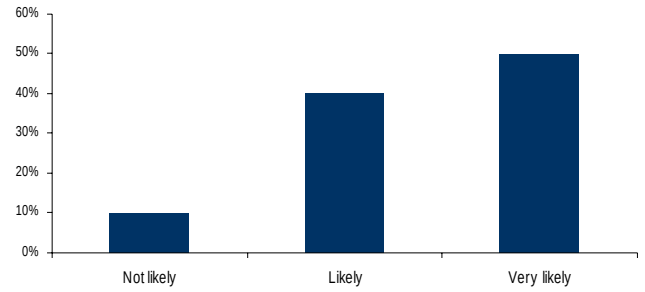
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Chart 37: How much would the CO2 emissions of a new car influence your purchasing decision?



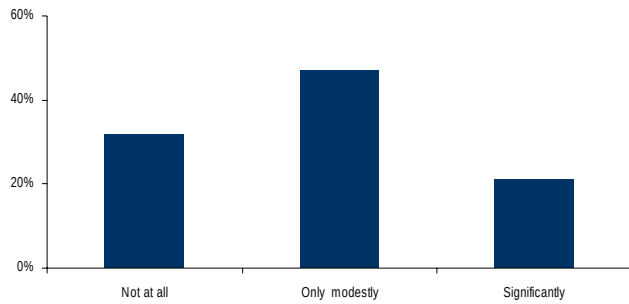
Source: Merrill Lynch

Chart 38: How likely do you think it is that CO2 emission standards get tougher and higher emitters are penalised over the next 12 months?



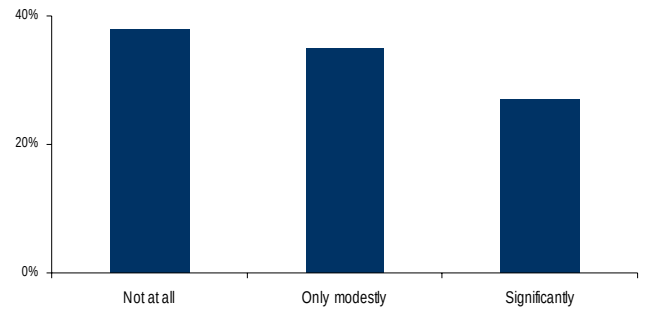
Source: Merrill Lynch

Chart 39: How much more do your companies highlight energy efficiency in their operations compared to 12 months ago?



Source: Merrill Lynch

Chart 40: How much more do your companies highlight energy efficiency in the products/ services they offer compared to 12 mths ago?



Source: Merrill Lynch

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Table 19: Companies mentioned table

Ticker	Name	MCap (USD Mn)	ML Ticker	ML Rating	Sub index	Price	Rating
KGP LN	KINGSPAN GROUP PLC	4,617	KGSPF	Buy	Building Insulation	19.1	B-1-7
ROCKB DC	ROCKWOOL INTL A/S-B SHS	2,916	N/R		Building Insulation		
SGO FP	COMPAGNIE DE SAINT-GOBAIN	45,306	CODGF	Buy	Building Insulation	84.7	A-1-7
SHI LN	SIG PLC	3,761	SIGYF	Neutral	Building Insulation	107.3	B-2-7
EAGA LN	EAGA PLC	1,105	N/R		Building Insulation		

Ticker	Name	MCap (USD Mn)	ML Ticker	ML Rating	Sub index		
ITRI US	ITRON INC	2,304			Energy efficient products / solutions		
2448 TT	EPISTAR CORP	2,395	EPIPF	Buy	Energy efficient products / solutions	156.0	C-1-7
PHIA NA	PHILIPS ELECTRONICS NV	50,235	PHGFF	Buy	Energy efficient products / solutions	33.0	B-1-7
CREE US	CREE INC	2,404			Energy efficient products / solutions		
FCS US	FAIRCHILD SEMICON INTERNATIO	2,429			Energy efficient products / solutions		
IFX GY	INFINEON TECHNOLOGIES AG	13,344	IFNNF	Neutral	Energy efficient products / solutions	0.01	B-2-7
IRF US	INTL RECTIFIER CORP	2,794			Energy efficient products / solutions		
ONNN US	ON SEMICONDUCTOR CORPORATION	3,275			Energy efficient products / solutions		
STM FP	STMICROELECTRONICS NV	17,970	STM	Buy	Energy efficient products / solutions	0.02	B-1-7

Ticker	Name	MCap (USD Mn)	ML Ticker	ML Rating	Sub index		
6041 JP	BOSCH CORP	2,224			Fuel efficiency- Autos		
6201 JP	TOYOTA INDUSTRIES CORP	226,623	TOYOF	Buy	Fuel efficiency- Autos	7,630.0	B-1-7
BWA US	BORGWARNER INC	5,249	BWA	Neutral	Fuel efficiency- Autos	92.4	B-2-7
CON GR	CONTINENTAL AG	21,340	CTTAF	Buy	Fuel efficiency- Autos	106.4	B-1-7
JCI US	JOHNSON CONTROLS INC	23,311	JCI	Neutral	Fuel efficiency- Autos	122.0	A-2-7
MG/A CN	MAGNA INTERNATIONAL INC-CL A	10,097	MGA	Neutral	Fuel efficiency- Autos	93.9	B-2-7
ML FP	MICHELIN (CGDE)-B	20,359	MGDDF	Buy	Fuel efficiency- Autos	104.6	B-1-7
FR FP	VALEO SA	4,201	VLEEF	Buy	Fuel efficiency- Autos	39.5	B-1-7
AMS SJ	ANGLO PLATINUM LTD	39,205	AGPPF	Buy	Fuel efficiency- Autos	1,135.0	C-1-7
AQP LN	AQUARIUS PLATINUM LIMITED	2,883	AQPMF	Buy	Fuel efficiency- Autos	1,725.0	C-1-7
JMAT LN	JOHNSON MATTHEY PLC	7,624	JMPLF	Buy	Fuel efficiency- Autos	1,780.0	A-1-7
EPC GY	EPCOS AG	1,380	EPCOF	Neutral	Fuel efficiency- Autos	15.5	C-2-7

Ticker	Name	MCap (USD Mn)	ML Ticker	ML Rating	Sub index		
6273 JP	SMC CORP	9,365	SMECF	Neutral	The integrated plays	15,820.0	B-2-7
6367 JP	DAIKIN INDUSTRIES LTD	11,049			The integrated plays		
ABBN VX	ABB LTD-REG	55,187	ABLZF	Buy	The integrated plays	29.9	B-1-7
ALO FP	ALSTOM	23,860	AOMFF	Neutral	The integrated plays	135.6	C-2-7
ATCOA SS	ATLAS COPCO AB-A SHS	14,896	ATLKF	Buy	The integrated plays	120.0	B-1-7
CBE US	COOPER INDUSTRIES LTD-CL A	10,598	CBE	Buy	The integrated plays	58.4	B-1-7
EMR US	EMERSON ELECTRIC CO	38,451	EMR	Buy	The integrated plays	49.4	A-1-7
ETN US	EATON CORP	13,956	ETN	Neutral	The integrated plays	98.4	B-2-7
HUB/B US	HUBBELL INC -CL B	2,923	HUBB	Buy	The integrated plays	57.5	B-1-7
ISYS LN	INVENSYS PLC	6,458	IVNSF	Neutral	The integrated plays	408.0	C-2-9
SU FP	SCHNEIDER ELECTRIC SA	33,436	SBGSF	Buy	The integrated plays	103.2	A-1-7
SIE GY	SIEMENS AG-REG	132,754	SMAWF	Buy	The integrated plays	110.9	B-1-7
SPX LN	SPIRAX-SARCO ENGINEERING PLC	1,541	SPXSF	Neutral	The integrated plays	1,010.0	A-2-7
ELUXB SS	ELECTROLUX AB-SER B	7,190			The integrated plays		

Source: Merrill Lynch, Bloomberg

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