Exxon Mobil Corporation XOM [NYSE] | ★★★★★

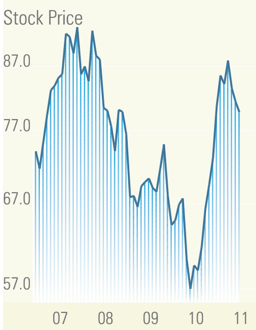
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
77.72 USD	99.00 USD	79.20 USD	123.80 USD	Low	Wide	B	AAA	Oil & Gas Integrated

ExxonMobil Earnings Rise on Higher Oil and Natural Gas Prices

by Allen Good
Senior Stock Analyst
Analysts covering this company do not own its stock.

Pricing data through August 03, 2011.
Rating updated as of August 03, 2011.

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



Analyst Note Jul. 28, 2011

ExxonMobil reported a 41% rise in second-quarter earnings from the same period a year ago, thanks largely to higher oil and natural gas prices and improved downstream results. Upstream earnings registered the largest gain, with earnings rising 60% to $8.5 billion during the quarter from $5.3 billion a year earlier. In addition to higher oil and natural gas realizations, particularly for international volumes, overall production increased 10% year over year. The bulk of the gains came from increased natural gas production due to the addition of XTO volumes compared with the previous year and the startup of the Qatari LNG projects. Natural gas volumes rose 22% from the second quarter last year, while oil volumes registered only a 1% gain due in part to the effect of higher prices on entitlement volumes and OPEC curtailments. We would expect these impressive year-over-year growth numbers to moderate in the second half of the year as comparables become more difficult because of the closing of the XTO transaction last June. Still, based on current guidance, ExxonMobil still maintains the greatest near-term growth profile of the major integrateds.

Downstream earnings also rose, but the gains were limited to the U.S. segment. Overall downstream second-quarter earnings increased 11% to $1.4 billion from $1.2 billion the year before. However the 67% increase in the U.S. segment was offset by a decline of 20% in the international segment. We witnessed similar international weakness in ConocoPhillips' earnings earlier this week, which could portend continued declines. Given ExxonMobil's large international refining footprint, it would be adversely affected. The chemical segment registered declines as lower volumes and unfavorable tax effects offset the benefit of higher margins. Earnings for the segment slipped 3% from the second quarter last year. Unlike the downstream segment, the international segment posted year-over-year earnings gains, while U.S. earnings fell. However, international earnings were well off first-quarter levels, and both segments saw volumes fall. ExxonMobil repurchased $5 billion worth of its own shares during the quarter and expects to repurchase the same amount in the third quarter.

Thesis Jun. 15, 2011

ExxonMobil sets itself apart among the other supermajors as a superior capital allocator and operator. Through a relentless pursuit of efficiency, technology, development, and operational improvement, it consistently delivers higher returns on capital relative to peers. With a majority of the world's remaining resources in government hands, opportunities for the company to grow its large production base are limited. However, we believe ExxonMobil's experience and expertise, particularly with large projects, should allow it to successfully compete for resources.

Resource nationalism is becoming an increasingly greater challenge to international oil companies' (IOCs) ability to grow production. Countries rich in oil and gas reserves are becoming less willing to allow outside energy companies free rein to exploit resources within their borders. Instead, they chose to look for dependable partners to work with their national oil companies (NOCs) to explore for, produce, and transport to market their oil and gas reserves. In our opinion, governments cannot find a better partner than ExxonMobil. With its deep pockets, expertise, and integrated operations, it can tackle nearly any megaproject regardless of scale, location, or operational difficulty.

While we believe ExxonMobil is better suited than the other supermajors for the current environment, that does not necessarily mean production and reserve gains will come easily. ExxonMobil needs projects of a certain size in order to contribute meaningfully to its production profile. However, today fewer projects of that caliber exist than have in years past. In addition, investing exclusively in large projects exposes the company to a variety of risks. Given their long lead times, megaprojects have the potential for over investment risk if commodity prices

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Exxon Mobil Corporation	USD	382,855	406,974	59,808	34,810
Royal Dutch Shell PLC	USD	219,377	437,671	47,963	27,695
Chevron Corp	USD	206,575	217,090	35,527	20,683
BP Plc	USD	136,314	344,417	31,307	20,096

Morningstar data as of August 03, 2011.

crash during development. Failure to meet deadlines or material and labor inflation could create cost overruns that damage project returns.

Given that the few untapped large resource pools left in the world are under government control, megaprojects generally are done in partnership with NOCs. Competition for these projects is intense. In order to gain access, ExxonMobil must not only demonstrate its value but may also have to agree to production sharing agreements that are not as advantageous as in the past. Meanwhile, competitors eager for access may be more willing to agree to the NOCs' less favorable terms. More often, management is faced with a tough decision: take less favorable terms on more projects, or focus on projects where its expertise is highly valued by the NOC or pursue frontier locations.

Valuation, Growth and Profitability

We are raising our fair value estimate for ExxonMobil to $99 per share from $91 per share to reflect changes in our long-term oil and natural gas price assumptions. The increase in oil prices is the primary driver of the increase, which offset the negative effect of the lower natural gas prices. While ExxonMobil's current production mix is evenly split between liquids and natural gas, we anticipate by 2015, natural gas will be a slight majority of ExxonMobil's production. However, a significant portion of those volumes will be LNG. As a result, we expect ExxonMobil's price realizations to improve, which also helped offset the lower assumed prices.

Our fair value is approximately 4.9 times our 2012 EBITDA estimate of $94.5 billion. In our discounted cash-flow model, our benchmark oil and gas prices are based on Nymex futures contracts for 2011-13. For natural gas, we use $4.57 per thousand cubic feet in 2011, $5.05 in 2012, and $5.29 in 2013. Our long-term natural gas price assumptions for 2014 and 2015 are $6.50 and $6.70, respectively. For oil, we use $101 per barrel in 2011, $104 in 2012, and $103 in 2013. Our long-term oil price assumptions for 2014 and 2015 are $95 and $98, respectively. We assume a cost of equity of 10.5%.

We forecast production growth of a little over 3% during our forecast period. Our forecast is slightly below management's forecast to compensate for the potential negative effects of higher oil prices related to production sharing contracts as well as the risk associated with larger projects. Full realization of management's guidance could offer upside to our valuation while extensive delays or reduced U.S. natural gas production due to lower prices could result in downside risk. Refining margins have staged a recovery in the past year and we model further improvement over our forecast period. ExxonMobil should benefit from highly complex facilities and access to growth markets. Meanwhile, we anticipate chemical earnings to remain strong with economic recovery. Both segments should benefit from integration, which can ensure profitability despite a downturn in market conditions.

Risk

For a company with global operations, geopolitical risk is always an issue. Recent events in Russia, Nigeria, and Venezuela underscore the risk associated with doing business in those countries. These risks will only become greater as Exxon expands its global production portfolio through partnerships with NOCs. By investing in large, capital-intensive projects, Exxon also runs the risk that commodity prices will decrease dramatically, making those projects no longer economical. Deterioration of refining fundamentals in the U.S. and Europe may continue to damage profitability long after an economic recovery.

Bulls Say

- Exxon's superior capital allocation and operational performance should drive high returns on capital.
- NOCs do not have the resources or expertise to effectively explore for and produce oil and gas in their countries. They will need to partner with private firms, and Exxon is the most attractive option.
- With high-performing operations and global integration, Exxon is one of the best-positioned firms to weather a drop in commodity prices. The diversity of its operations and a vast geographic footprint offer protection against regional economic weakness.
- Shareholder return is a focus of management. Over the past five years, Exxon paid almost $40 billion in dividends and repurchased $130 billion worth of stock.
- By combining XTO's expertise with ExxonMobil's operations management skills and financial resources, the company has a decided advantage in the development of unconventional resources.

Bears Say

- As nations become more protective of their natural resources, the company will find it increasingly difficult to increase production and book reserves.
- Record-high commodity prices helped produce record profits. If commodity prices slip, so will profits.
- Exxon is very discriminating when evaluating investment opportunities. It is unlikely to sign less-favorable contracts, which could slow growth.
- Production growth will come from partnerships with NOCs, politically unstable countries, and difficult environments, which means unfavorable production sharing agreements, increased geopolitical risks, and increased production costs.
- Heavy exposure to the U.S. and European refining markets could limit future downstream profitability with both markets facing long-term challenges.

Financial Overview

Financial Health: As one of the few remaining firms with an AAA credit rating, ExxonMobil's financial health is beyond reproach. Cash flow from operations remains sufficient to finance capital expenditures while increasing dividend payments and buying back stock. More important, the large cash position and access to cheap debt give the company resources to make opportune acquisitions.

Company Overview

Profile: Exxon is an integrated oil and gas company that explores for, produces, and refines oil around the world. In 2010, it produced 2.4 million barrels of oil and 12.1 billion cubic feet of natural gas a day. At year-end 2010, reserves stood at 17.2 billion boe (plus 7.6 billion for equity companies), 47% of which are oil. The company is the world's largest refiner, with 36 refineries, and it is one of the world's largest manufacturers of commodity and specialty chemicals.

Management: Rex Tillerson is chairman and CEO of Exxon, a role he assumed in 2006. Previously, he served as president after spending his career with Exxon, beginning in 1975 as a production engineer. His recent acquisition of XTO Energy raised concerns he may be straying from the returns focused strategy that has made ExxonMobil great. However, we believe the acquisition will ultimately deliver returns that meet ExxonMobil's requirements. Also, given his previous statements, we think Tillerson is likely to continue a disciplined capital allocation strategy and deliver the high returns that his predecessor did.

Total compensation for Tillerson was only $29 million in 2010, which is reasonable, considering the size of the company and his peers' compensation. Exxon has a typical compensation structure consisting of a salary, cash bonus, and equity awards. Performance is not evaluated by typical quantitative measures but by the executives' performance relative to achievement of the company's long-term goals. Exxon gets credit for delaying 50% of bonus payment until later periods' earnings targets are met, and requiring longer vesting periods for equity awards. Low executive equity ownership relative to total shares outstanding is understandable, considering the size and history of the company.

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Jul. 15, 2011

Other Majors Unlikely to Follow ConocoPhillips' Lead

ConocoPhillips' decision this week to end its run as an integrated firm by spinning off its downstream assets likely has investors wondering who will be next. In our opinion, none of the other majors are likely to follow ConocoPhillips' lead, though a couple may make viable candidates. Most notable in our opinion is BP. The company's struggles over the past year and half are well-documented, and recent management missteps in Russia have likely compounded problems. A spin-off of its downstream assets may revitalize shares that currently trade at a substantial discount to peers'. The company already announced plans to sell its Texas City, Texas, and Carson, Calif., refineries. However, given the facilities' size, a buyer may be difficult to locate, in which case a spin-off may be necessary. Unresolved liability issues from Macondo may prevent any spin-off or separation in the near term, but if the outcome is successful for ConocoPhillips, BP management may be forced to seriously consider the move in the future in the event shares do not rebound.

The second most likely candidate in our opinion is Chevron. However, the company has already aggressively divested

Analyst Notes (continued)

downstream assets during the last year, leaving it with much less investment. Also, partial ownership stakes in refineries throughout Asia may complicate a spin-off. Still, management maintains a cautious outlook on the future of refining, which could eventually lead to greater action than piecemeal divestments. We view the remaining majors as unlikely to spin off any part of their businesses. Both ExxonMobil and Royal Dutch Shell have large global refining and chemical operations that make integration a valuable business model. Meanwhile, government involvement would likely complicate or prevent a spin-off for Total. Though we do not see any of these companies taking a similar action, ultimately a positive response from the market to ConocoPhillips' decision could change some minds.

Jul. 12, 2011

Chevron's Interim Update Indicates Strong 2Q for Majors

Late Monday, Chevron released its second-quarter interim update, which indicated earnings would be higher than in the first quarter. Upstream earnings are expected to increase thanks to higher oil prices, despite a decline in production volumes from the first quarter. The lower production volumes are largely a result of maintenance activity in Kazakhstan. Downstream earnings are expected to rise from the first quarter as a result of higher worldwide refining margins. Given the rise in commodity price benchmarks throughout the quarter, the increase in earnings comes as little surprise and is in line with our expectations. We would expect Chevron's integrated peers ExxonMobil, Shell, BP, ConocoPhillips, and Total to benefit as well from the same factors and report a similar improvement in second-quarter earnings, barring any company-specific factors that could affect results.

Jun. 15, 2011

Oil and Gas Midcycle Price Update

We are updating our assumptions for midcycle oil and gas prices, reflecting fundamental changes in supply and demand that we believe to be structural in nature and significant in impact. We are raising our midcycle price assumption for West Texas Intermediate crude oil to $95 per barrel from $82/bbl and lowering our midcycle price assumption for Henry Hub natural gas to $6.50 per thousand cubic feet from $8.00/mcf.

Our midcycle oil and gas prices are based on an assessment of a base case in which our estimate of marginal costs of production sets prices; a low case, reflecting our estimate of the points at which, if sustained, investment in new oil and gas production dries up; and a high case, reflecting our estimate of the points at which demand collapses. For oil, we estimate a marginal cost of $85/bbl, and assume a low case price of $50/bbl and a high case price of $150/bbl. For gas, our analysis suggests a marginal cost of $6.50/mcf, a low-case price of $4.00/mcf, and a high-case price of $9.00/mcf. We equal-weight our three scenarios for each commodity to determine midcycle prices, as we believe downside risks are roughly balanced by upside potential.

In our view, while we may not have quite reached a peak in total liquids production, we expect future crude oil supply additions to struggle to offset depletion and increasing demand from emerging markets. We believe that demographic and economic shifts in emerging markets support continued strong demand for crude oil and refined products, even in the face of historically high prices. Meanwhile, high prices drive demand destruction in developed nations, notably in 2008, but also in evidence this year. Effectively, emerging markets have been bidding

Analyst Notes (continued)

away the incremental barrel of production from OECD nations, as supply growth has failed to keep pace with demand.

During the past decade, oil demand from emerging markets has increased by 50%, while developed nations have seen demand peak and decline by 5.5%. Looking forward, we believe that China, India, and the Middle East will continue to support robust demand growth, to the extent that supply availability will allow, thanks to growing gross domestic product per capita, urbanization, low vehicle penetration compared with developed nations, and subsidized fuel prices.

Our natural gas focus is on North American gas fundamentals, which have been transformed in recent years by horizontal drilling and hydraulic fracturing, or fracking. The primary target of horizontal wells has been shale formations underlying conventional hydrocarbon reservoirs, and the impact on gas production has been profound. In 2000, shale gas accounted for roughly 1% of U.S. production, and by 2010 shale production had exceeded 13 billion cubic feet per day, or 23% of production. Gas prices responded to the glut of new production, and by our estimates, it is now uneconomic to drill in most areas of dry-gas shales. We expect some moderation in supply growth as producers shift focus to liquids-rich drilling opportunities that offer higher returns in today

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Apr. 28, 2011

ExxonMobil Posts Earnings Improvement Across All Segments

ExxonMobil reported a 69% rise in first-quarter earnings from the same period a year ago, thanks largely to higher oil and natural gas realizations. However, the earnings improvement was not confined to the upstream segment, as the downstream and chemical segments both reported robust earnings improvements from the first quarter last year. While only one quarter, we see the strength in each segment as supporting evidence of the value in ExxonMobil's integrated model. Highlighting the strength of the refining market, downstream earnings increased to $1.1 billion in the first quarter compared with $37 million last year. The bulk of the improvement came in the United States, where ExxonMobil reported downstream earnings of $694 million compared with a loss of $60 million last year on only slightly higher throughput volumes. While the international downstream posted year-over-year gains, profit fell significantly from the fourth quarter. We hope to glean additional information as to why--and as to whether this is a market trend or operational issue--on Thursday's conference call. Chemical earnings increased 21% to $1.5 billion from the year before as improved margins helped to offset lower sales volumes and the absence of asset sales, which benefited last year's earnings.

Upstream earnings increased 49% to $8.7 billion from the year before, thanks to higher oil price realizations as well as greater production volumes. While U.S. upstream delivered the bulk of the production gains thanks to the addition of XTO volumes, the international upstream segment saw the greatest earnings improvement. Despite essentially flat volumes as a result of entitlement volumes and OPEC curtailments, the international segment posted a 57% increase in earnings thanks to greater exposure to oil. Meanwhile, the U.S. upstream segment registered earnings growth of only 17% despite total production growth of 76% as natural gas realizations fell from last year. We expect this dichotomy to continue until U.S. natural gas prices recover.

Apr. 01, 2011

New U.K. Tax Regime Casts Doubt on North Sea Investment for Oil and Gas Companies

The recent decision by the Chancellor of the Exchequer to raise taxes on oil profits from United Kingdom North Sea production could threaten future investment and asset sales in the region. Potentially more important, in our opinion, is the tax changes represent another form of

Analyst Notes (continued)

nationalization already prevalent around the world. The new tax regime makes one of the few remaining accessible basins less attractive and could further limit opportunities for exploration and production for national oil companies.

Effective as of late last week, the supplementary charge on oil and gas production was increased to 32% from 20%, bringing the total tax burden including income taxes to 62%. Following the announcement, Statoil placed plans for a $10 billion development of the Mariner and Bressay fields in the U.K. on hold. Under the new tax regime, Statoil's profits may be reduced to the point that investment no longer makes sense. The company also said it will be less likely to buy U.K. assets. Total also believes the new taxes could affect its future exploration spending in the area. The company currently plans to spend about $275 million on North Sea exploration and is the second largest U.K. producer after BP. The impact on Canadian producers Nexen and Talisman Energy may be felt in their other operating regions. Both producers view North Sea operations as a source of stable cash flow generation and funding for their international exploration and development budgets outside of the North Sea.

We think the rapid increase in Brent crude that spurred the tax increase may offset lower North Sea profitability in the near term. If Brent declines significantly from current levels, the impact may be altogether muted--the marginal tax increase is based on a trigger price of $75 per barrel on a

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Exxon Mobil Corporation XOM

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
406,974	382,855	Oil & Gas Integrated	Energy

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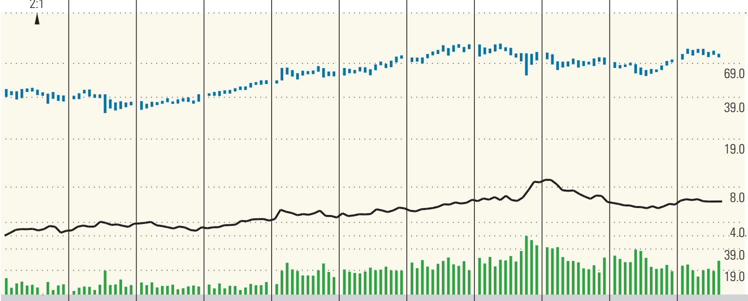
Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★★★★	77.72	99.00	Low	Wide	B

per share prices in USD

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD
Annual Price High	45.84	44.54	41.13	52.05	65.96	79.00	95.27	96.12	82.73	73.69	88.23
Low	35.01	29.86	31.58	39.91	49.25	56.42	69.02	56.51	61.86	55.94	73.64
Recent Splits	2:1										



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
88.23 - 58.05
10 Year High/Low
96.12 - 29.86
Bear-Market Rank
3 (10=worst)
Trading Volume Million

Growth Rates Compound Annual

Grade: C	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	23.4	-1.8	0.7	5.1
Operating Income %	52.3	-20.0	-10.4	0.5
Earnings/Share %	56.3	-5.1	1.7	10.6
Dividends %	4.8	8.3	8.8	7.0
Book Value/Share %	26.1	9.8	10.5	11.2
Stock Total Return %	26.8	1.3	4.6	8.3
+/- Industry	8.6	2.5	0.8	-1.8
+/- Market	9.5	0.6	4.4	7.5

Profitability Analysis

Grade: C	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	26.4	29.8	15.7	24.1
Return on Assets %	12.4	15.0	7.1	9.2
Fixed Asset Turns	2.4	3.1	1.8	7.3
Inventory Turns	18.7	21.5	11.1	15.1
Revenue/Employee USD K	4868.1	4802.4*	—	980.8
Gross Margin %	31.6	37.8	28.5	39.5
Operating Margin %	14.7	18.8	13.6	15.9
Net Margin %	8.6	8.8	7.1	10.8
Free Cash Flow/Rev %	5.9	6.8	2.1	0.1
R&D/Rev %	—	—	—	9.8

Financial Position

Grade: A	12-10 USD Mil	03-11 USD Mil
Cash	7825	12833
Inventories	12976	16262
Receivables	32284	35146
Current Assets	58984	72022
Fixed Assets	199548	203726
Intangibles	8640	8578
Total Assets	302510	319533
Payables	9812	12316
Short-Term Debt	2787	3560
Current Liabilities	62633	73576
Long-Term Debt	12227	12316
Total Liabilities	155671	168053
Total Equity	146839	151480

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	11.1	12.5	10.2	14.5
Forward P/E	8.9	—	—	13.0
Price/Cash Flow	7.4	9.1	6.4	8.2
Price/Free Cash Flow	16.0	22.1	36.4	17.1
Dividend Yield %	2.3	—	2.8	1.9
Price/Book	2.5	3.4	1.7	2.0
Price/Sales	0.9	1.1	0.8	1.2
PEG Ratio	1.5	—	—	1.4

*3Yr Avg data is displayed in place of 5Yr Avg

Stock Performance

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD
Total Return %	-7.5	-8.8	20.1	27.6	11.8	38.7	24.1	-13.1	-12.5	9.8	7.5
+/- Market	5.5	14.6	-6.3	18.6	8.8	25.1	20.6	25.4	-35.9	-3.0	7.3
+/- Industry	-0.7	-0.4	-14.6	5.2	-13.6	7.3	-5.7	22.1	-32.0	3.8	4.0
Dividend Yield %	1.8	2.6	2.4	2.1	2.0	1.7	1.5	1.9	2.4	2.4	2.3
Market Cap USD Mil	268833	235108	271002	330693	349512	446944	511887	406067	322334	364064	382855

Financials

Financials	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM
Revenue USD Mil	213488	204506	246738	298035	370680	377635	404552	477359	310586	383221	406974
Gross Margin %	47.7	46.4	47.3	45.1	42.5	43.5	42.4	39.5	31.8	31.6	31.6
Oper Income USD Mil	46888	40157	56722	69918	91469	69107	103607	118578	34777	52959	59808
Operating Margin %	22.0	19.6	23.0	23.5	24.7	18.3	25.6	24.8	11.2	13.8	14.7
Net Income USD Mil	15320	11460	21510	25330	36130	39500	40610	45220	19280	30460	34810
Earnings Per Share USD	2.21	1.68	3.23	3.89	5.71	6.62	7.28	8.69	3.98	6.22	7.02
Dividends USD	0.91	0.92	0.98	1.06	1.14	1.28	1.37	1.55	1.66	1.74	1.76
Shares Mil	6932	6821	6659	6512	6327	5967	5578	5149	4832	4897	4956
Book Value Per Share USD	10.70	11.09	13.60	15.77	17.87	19.52	22.29	22.21	23.39	29.49	30.75
Oper Cash Flow USD Mil	22889	21268	28498	40551	48138	49286	52002	59725	28438	48413	52223
Cap Spending USD Mil	-9989	-11437	-12859	-11986	-13839	-15462	-15387	-19318	-22491	-26871	-28166
Free Cash Flow USD Mil	12900	9831	15639	28565	34299	33824	36615	40407	5947	21542	24057

Profitability	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM
Return on Assets %	10.5	7.8	13.2	13.7	17.9	18.5	17.6	19.2	8.4	11.4	12.4
Return on Equity %	21.3	15.5	26.1	26.4	33.9	35.1	34.5	38.5	17.3	23.7	26.4
Net Margin %	7.2	5.6	8.7	8.5	9.7	10.5	10.0	9.5	6.2	7.9	8.6
Asset Turnover	1.46	1.38	1.51	1.61	1.84	1.77	1.75	2.03	1.35	1.43	1.45
Financial Leverage	2.0	2.0	1.9	1.9	1.9	1.9	2.0	2.0	2.1	2.1	2.1

Financial Health	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	03-11
Working Capital USD Mil	5567	5116	7574	17396	27035	26960	27651	23166	3174	-3649	-1554
Long-Term Debt USD Mil	7099	6655	4756	5013	6220	6645	7183	7025	7129	12227	12316
Total Equity USD Mil	73161	74597	89915	101756	111186	113844	121762	112965	110569	146839	151480
Debt/Equity	0.10	0.09	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.22	0.21

Valuation	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM
Price/Earnings	18.0	21.7	13.0	13.2	9.8	11.6	12.9	9.2	17.1	11.8	11.1
P/E vs. Market	—	—	—	—	—	—	—	—	—	0.7	0.8
Price/Sales	1.3	1.2	1.1	1.1	1.0	1.2	1.3	0.9	1.1	0.9	0.9
Price/Book	3.7	3.1	3.0	3.3	3.1	3.9	4.2	3.6	2.9	2.5	2.5
Price/Cash Flow	11.9	11.2	9.6	8.2	7.5	9.4	10.1	6.9	11.6	7.4	7.4

Quarterly Results

Revenue USD Mil	Jun 10	Sep 10	Dec 10	Mar 11
Most Recent Period	92486.0	95298.0	105186.0	114004.0
Prior Year Period	74457.0	82260.0	89841.0	90251.0

Rev Growth %	Jun 10	Sep 10	Dec 10	Mar 11
Most Recent Period	24.2	15.9	17.1	26.3
Prior Year Period	-46.1	-40.3	6.1	41.0

Earnings Per Share USD	Jun 10	Sep 10	Dec 10	Mar 11
Most Recent Period	1.60	1.44	1.84	2.14
Prior Year Period	0.81	0.98	1.27	1.33

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Exxon Mobil Corporat	382855	406974	11.1	26.4
Royal Dutch Shell PL	219377	437671	7.7	18.3
Chevron Corp	206575	217090	10.0	20.1

Major Fund Holders

	% of shares
	—
	—
	—

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies

Competitive Analysis → **Economic Moat™ Rating** → Company Valuation → **Fair Value Estimate** → Uncertainty Assessment → ★★★★★

Competitive Analysis: Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade-show visits
- Competitor, supplier, distributor, and customer interviews

Economic Moat™ Rating: The depth of the firm's competitive advantage is rated:

- None
- Narrow
- Wide

Company Valuation: Analyst considers company financial statements and competitive position to forecast future cash flows.

Assumptions are input into a discounted cash-flow model.

Fair Value Estimate: DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.

Uncertainty Assessment: An uncertainty assessment establishes the margin of safety required for the stock rating.

★★★★★:
★
★★
★★★
★★★★
★★★★★
The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."