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

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

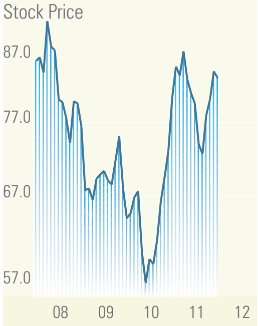
ExxonMobil's Earnings Hit By Lower Production Volumes, Downstream Margins

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

Pricing data through February 01, 2012.
Rating updated as of February 01, 2012.

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

Stock Price



Analyst Note Jan. 31, 2012

ExxonMobil reported a slight increase in fourth-quarter earnings as the benefit of higher price realizations was largely outweighed by the drop in production volumes and contraction in refining and chemical margins. The sharp drop in production, albeit including the effects of divestments and OPEC curtailments, will probably focus investor attention on the challenges Exxon is facing in driving production growth. While we certainly think the environment is becoming more challenging for the company, we hesitate to draw too many conclusions from one quarter. With a queue of projects slated for startup over the next few years, we expect Exxon can reverse some of the production declines. However, given that investment levels continue to rise as production wanes, execution and on-time delivery will be critical to demonstrate the value of past investment. Also, growth will need to emerge from areas other than U.S. natural gas, where low prices are probably weighing on returns.

Upstream earnings increased to $8.8 billion from $7.5 billion the year before, also reflecting the benefit on asset sales gains. Production volumes slipped significantly during the quarter, falling almost 9% from the same period a year ago. Liquids production fell about 11% as a result of OPEC quota effects, divestments, and natural field decline. Natural gas dropped 7% partially as a result of field decline and lower demand in Europe. However, U.S. natural gas production growth continued with volumes rising 3.5%. For the full year, Exxon increased production a little over 1%, with liquids volumes falling almost 5% and natural gas volumes increasing over 8%, primarily in the United States.

Downstream earnings registered similar declines to those of Exxon's integrated peers. For the fourth quarter, downstream segment earnings were $425 million, compared with $1.2 billion in the same period last year and $1.6 billion in the third quarter of 2011. The margin weakness during the quarter extended to the chemicals segment as well, where fourth-quarter earnings of $543 million were well below the $1.1 billion earned last year. Both segments probably saw their low points during the fourth quarter, and we would expect earnings to bounce back in the first part of 2012, though likely not to the levels of the second and third quarters of 2011.

Thesis Dec. 21, 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.

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

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

Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Exxon Mobil Corporation	USD	402,486	470,006	71,543	40,910
Royal Dutch Shell PLC	USD	227,950	470,886	55,116	31,208
Chevron Corp	USD	204,705	247,748	46,435	27,067
BP PLC	USD	143,923	367,361	36,979	23,218

Morningstar data as of February 01, 2012.

Given their long lead times, megaprojects have the potential for over investment risk if commodity prices 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. A good example of the latter case is Exxon's recent deal with Rosneft to explore for oil in the Russian Arctic.

Valuation, Growth and Profitability

We are maintaining our fair value estimate for ExxonMobil at $99 per share. 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 5.5 times our 2012 EBITDA estimate of $87 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 $4.04 per thousand cubic feet in 2011, $3.34 in 2012, and $3.99 in 2013. Our long-term natural gas price assumptions for 2014 and 2015 are $6.50 and $6.70, respectively. For oil, we use Brent prices of $110 per barrel in 2011, $102 in 2012, and $99 in 2013. Our long-term oil price assumptions for 2014 and 2015 are $99 and $102, respectively. We assume a cost of equity of 10%.

We forecast production growth of almost 4% during our forecast period, primarily driven by the addition of natural gas volumes. 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, but we anticipate weakness in 2012 and model a decline in earnings. However, we model margin improvement in the later years of our forecast as 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.

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

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

Analyst Notes

Jan. 31, 2012

ExxonMobil's Earnings Hit By Lower Production Volumes, Downstream Margins

ExxonMobil reported a slight increase in fourth-quarter earnings as the benefit of higher price realizations was largely outweighed by the drop in production volumes and contraction in refining and chemical margins. The sharp drop in production, albeit including the effects of divestments and OPEC curtailments, will probably focus investor attention on the challenges Exxon is facing in driving production growth. While we certainly think the environment is becoming more challenging for the company, we hesitate to draw too many conclusions from one quarter. With a queue of projects slated for startup over the next few years, we expect Exxon can reverse some of the production declines. However, given that investment levels continue to rise as production wanes, execution and on-time delivery will be critical to demonstrate the value of past investment. Also, growth will need to emerge from areas other than U.S. natural gas, where low prices are probably weighing on returns.

Upstream earnings increased to $8.8 billion from $7.5 billion the year before, also reflecting the benefit on asset sales gains. Production volumes slipped significantly during the quarter, falling almost 9% from the same period a year ago. Liquids production fell about 11% as a result of OPEC quota effects, divestments, and natural field decline. Natural gas dropped 7% partially as a result of field decline and lower demand in Europe. However, U.S. natural gas production growth continued with volumes rising 3.5%. For the full year, Exxon increased production a little over 1%, with liquids volumes falling almost 5% and natural gas volumes increasing over 8%, primarily in the United States.

Downstream earnings registered similar declines to those of Exxon's integrated peers. For the fourth quarter, downstream segment earnings were $425 million, compared with $1.2 billion in the same period last year and $1.6 billion in the third quarter of 2011. The margin weakness during the quarter extended to the chemicals segment as well, where fourth-quarter earnings of $543 million were well below the $1.1 billion earned last year. Both segments probably saw their low points during the fourth quarter, and we would expect earnings to bounce back in the first part of 2012, though likely not to the levels of the second and third quarters of 2011.

Jan. 12, 2012

Chevron's Interim Update Dims Outlook for All Majors' Fourth-Quarter Earnings

After market close on Wednesday, Chevron released its interim update indicating fourth-quarter earnings would be significantly below third-quarter results as a result of weak downstream segment results. While Chevron suffered from company specific events during the quarter--such as the absence of asset sale gains that benefited third-quarter results and a large turnaround at its Richmond refinery--the report indicated that the strong downstream earnings reported by the majors throughout 2011 likely did not extend into the fourth quarter as global refining margins weakened. Specifically, Chevron cited a substantial decline in Gulf Coast refining margins, which was likely due to a narrowing of heavy crude differentials.

However, the weakness is unlikely to be contained to the Gulf Coast for the other major integrated firms. Poor refining margins during the quarter in Europe will likely negatively affect Royal Dutch Shell's and Total's earnings. ConocoPhillips likely will see lower quarterly downstream earnings given the narrowing of the WTI/Brent spread

Analyst Notes (continued)

during the period, which was previously boosting margins at its Mid-Continent refiners. Though not overly exposed to one specific region given its wide geographic footprint, we expect ExxonMobil will still see downstream earnings fall from third-quarter levels.

Chevron expects upstream earnings to remain essentially flat with third-quarter levels as increased international production and higher U.S. liquids realizations offset lower international liquids realizations and U.S. natural gas realizations. However, it appears Chevron will fall short of its revised full-year production target of 2.73 mmboe/d. Though only based on data through November, full-year production is likely to be closer to 2.67 to 2.68 mmboe/d. The other majors should report similar changes in realizations with the fall in U.S. natural gas prices particularly hurting large domestic natural gas producers ConocoPhillips and ExxonMobil. Chevron also expects to report a foreign exchange loss for the fourth quarter, compared to a gain of $450 million in the third quarter.

Jan. 06, 2012

European Refinery Closures Unlikely to Materially Impact Majors

The recent announcement byPetroplus that it would temporarily shutdown three of its refineries is unlikely to materially benefit any of the major integrated companies with significant exposure to Europe--Total (with 87% of its total refining capacity in Europe), Royal Dutch Shell (39%), BP (32%), and ExxonMobil (28%). Combined, Petroplus' three refineries facing shutdown total only 337.3 mb/d, or about 2% of total European capacity, which is unlikely to be enough to affect margins over time given a secular decline in demand compounded by weak economic conditions. Since 2008, Europe already has lost about 1,350 mb/d of refining capacity with little benefit to margins. In contrast to the U.S. where margins rebounded sharply in 2011, European margins continue to languish thanks to the decline in demand and higher feedstock costs in part a result of lost production from Libya. Also, the operating environment is unlikely to improve anytime soon. Given the dim outlook for refining in the region, most of the major integrated firms previously mentioned, plus Chevron and ConocoPhillips, were already completely exiting or reducing their exposure to Europe. While the loss of production from the three refineries may result in a short-term rise in margins, ultimately any supply deficit likely will be met with imports. In which case, large exporters to Europe, such as Valero, may see some benefit.

Dec. 09, 2011

Majors Step Up Capital Spending

Over the past week, both Chevronand ConocoPhillipsreleased detailed 2012 capital spending plans. While peers ExxonMobiland the European major integrated firms have yet to release their 2012 plans, we expect the same themes found in Chevron and ConocoPhillips' plans will hold across the sector. Most prominent is the overall step up in spending levels from 2011. While some of the reasons for the increased spending are company specific, we expect those firms who have yet to announce their plans will see similar increases. Also noticeable is the increasing amount of spending directed toward upstream activities. This comes as little surprise given that integrated firms not only typically earn higher returns in upstream projects, but they have also actively reduced their downstream asset base over the past few years. Finally, while the amount will vary, many of the firms' upstream budgets, with the exception ofBP's , will likely include significant LNG spending. This also comes as little surprise given the amount and size of LNG projects currently in development, particularly in Australia.

Chevron Sees Spending Rise Thanks to LNG Projects. Chevron expects capital and exploratory spending of $32.7 billion (including $3 billion by affiliates that do not require cash outlays) in 2012 compared with $28 billion (plus $4.5 billion for the Atlas Energy acquisition) in 2011. The rise in spending is in part attributable to the company's two larger LNG projects in Australia, which are expected to reach peak spending levels in 2012 and 2013. Upstream spending is expected to comprise 87% of the total budget compared with 85% in last year's plan, though absolute downstream spending is expected to rise slightly. Despite the higher level of spending, Chevron's production growth will be anemic over the next couple of years until volumes increase in 2014 with the start up of Gorgon in Australia and Jack/St. Malo and Big Foot in the Gulf of Mexico

ConocoPhillips' Increased Upstream Budget Focuses on North America. ConocoPhillips expects capital spending of $15.5 billion in 2012 compared with approximately $13.5 billion in 2011. The year-over-year increase is entirely attributable to greater E&P spending, which comprises 90% of the total budget, growing to $14 billion in 2012 from $12 billion this year. Refining and marketing spending will remain flat at about $1.2 billion. The bulk of upstream spending (60%) will focus on North America to develop the company's liquid-rich unconventional plays--Eagle Ford, Bakken, and Permian--and its SAGD oil sands projects in Canada. International spending will go toward development of its Australia Pacific LNG joint venture and North Sea projects. Meanwhile, ConocoPhillips will extend its share repurchase efforts and asset sales into 2012. After repurchasing $11 billion worth of shares in 2011, it has approved an additional $10 billion repurchase program. The program will be funded with additional asset sales. ConocoPhillips aims to sell another $5 billion to $10 billion worth of assets in 2012 after divesting $10.5 billion worth in 2011.

Similar Themes Likely to Play Out with European Firms. Though detailed plans on 2012 spending have yet to be provided, Shelland Totalhave given broad outlines of their spending plans for the next couple years (BP will publish its 2012 budget at the beginning of next year). Without question, the trends we see in Europe echo those in the U.S.: capital spending is increasing, upstream is making up larger portions of the capital spending budget (85%-plus at each company), and Shell and Total have major LNG projects in the works. Specifically for Total, we expect its capital expenditure budget to increase to an average of $23 billion for 2012-14 after spending about $20 billion in 2011.

Oct. 27, 2011

ExxonMobil's Earnings Rise on Higher Oil Prices Despite Drop in Production

ExxonMobil reported a 41% rise in third-quarter earnings from the same period a year ago, thanks largely to higher price realizations and strong downstream results. Upstream earnings rose 53.5% to $8.4 billion from $5.5 billion a year earlier, as higher oil prices more than offset the effects of lower production volumes. In the first quarter without favorable comparables thanks to the XTO acquisition, production slipped 3.8%. Liquids production was down 7.1%. Excluding impacts of entitlement volumes, OPEC quota effects, and divestments, liquids production was down 1%. Increased volumes from Iraq, Qatar, and Russia partially offset field decline. Natural gas production growth was flat year over year, with growth only in Europe and North America. However, North American natural gas production only grew 5.1%, suggesting that ExxonMobil may be slowing drilling in the face of low prices. We look forward to management comments on Thursday's conference call for further insight. On a positive note, profitability remained strong, with net income per barrel rising slightly to $21.48 from $21.29 in the second quarter despite the sequential drop in production and lower oil prices.

Downstream segment earnings continued to show strength, increasing 36.1% to $1.6 billion from $1.2 billion a year earlier. Increased refining margins offset unfavorable foreign exchange impacts and lower gains on assets sales in the prior period. Unsurprisingly, given the margin strength during the quarter, the U.S. downstream segment was responsible for the earnings improvement. Domestic downstream earnings rose $646 million while non-U.S. downstream earnings fell $227 million. However, earnings for both segments rose from the second quarter as a result of continued global margin strength. Chemical earnings proved to be a weakness this quarter, as earnings fell 18.4% to $1.0 billion from $1.2 billion a year earlier. A 5% decline in prime product volumes and unfavorable tax effects offset margin improvement.

Overall, the quarter held few surprises. However, production volumes and chemical earnings are tracking below our full-year estimates, while downstream earnings will probably finish the year stronger than we anticipated. We plan to make some slight adjustments to our production outlook for the year, but expect our fair value estimate to remain unchanged.

Sept. 21, 2011

Apache Expands North Sea Position

Apache announced Wednesday the acquisition of ExxonMobil's Mobil North Sea LLC assets for $1.75 billion. The assets are currently producing 28.7 thousand barrels of oil equivalent per day, with estimated proved reserves of 68 million boe as of year-end 2010, which works out to $61,047 per flowing barrel and $26 per proved boe. These metrics are in line with Apache's purchase last year of assets from BP and Devon. The Mobil North Sea properties will increase Apache's North Sea production by more than 50%

Sept. 02, 2011

ExxonMobil Trumps Rivals, Secures Agreement With Rosneft

On Tuesday, ExxonMobil announced it had entered an agreement with Russian oil company Rosneft to jointly explore and develop oil and gas resources in Russia, the United States, and other countries not specified. Absent the share swap, the agreement is essentially the same as the one BP and Rosneft agreed to earlier this year before BP's Russian partner TNK scuttled the deal. Not knowing the precise financial terms, it is difficult to judge the transaction. However, at the very least, the agreement provides ExxonMobil access to Russia and a potential path to future oil volume growth while denying other majors such as Royal Dutch Shell the same opportunity. The deal also validates our long-held thesis that ExxonMobil is a preferred partner for national oil companies. Given its expertise, technology, and project management ability in harsh environments, ExxonMobil presents a compelling option for Rosneft. ExxonMobil's relationship with Rosneft as a result of its participation in the Sakhalin project in eastern Russia probably made it a more natural partner as well.

We'd like more financial details, but resource potential is certainly promising. The only monetary terms specified were the joint $3.2 billion of planned investment in the

Analyst Notes (continued)

Kara and Black seas. Rosneft will hold a 66.7% interest and ExxonMobil a 33.3% interest in both those ventures, though ExxonMobil will probably shoulder the bulk of the up-front exploration costs for both areas. Rosneft estimates the two fields could hold recoverable oil resources of 36 billion and 9 billion barrels, respectively. If proved true, the deal could result in substantial oil volume growth for ExxonMobil in the next decade. However, those estimates place the Kara Sea among the largest discoveries of the past 50 years, so we think some skepticism is required, given the lack of exploration to date. According to Rosneft, drilling on the first exploration wells will not begin until 2015. Meanwhile, the companies will jointly study developing tight oil resources in western Siberia and create a research center for the future exploration of Arctic projects in offshore Russia.

In our opinion, the deal structure is more attractive than the one agreed to by BP. We think the financial terms are likely more attractive than those BP agreed to, since ExxonMobil was negotiating from a stronger position. We like the exchange of equity interests in assets as opposed to the proposed BP-Rosneft deal, which entailed a direct interest in each company. Rosneft will have an opportunity to gain equity interest in ExxonMobil's deep-water projects in the Gulf of Mexico and tight oil fields in Texas, but only those in the exploratory phase. None of ExxonMobil's current discoveries are included in the agreement. As result, Rosneft will take on a similar amount of exploration risk as ExxonMobil. The announcement of the exact assets is likely to come late next year. We think this structure, which relies on cross-ownership of exploration assets, could mitigate some of the risk, including political, for ExxonMobil as opposed to a share swap or direct investment in Rosneft. We assume ExxonMobil would have to see certain development or exploratory milestones met before Rosneft could gain any interest in its U.S. assets. Ultimately, though, the value of the assets swapped and the resources subsequently discovered will determine how good of a deal this is for ExxonMobil.

Aug. 31, 2011

ExxonMobil Expands Russian Presence Through Agreement With Rosneft

ExxonMobil announced Tuesday that it has entered an agreement with Russian oil company Rosneft to jointly explore and develop oil and gas resources in Russia, the United States, and other countries not specified. While the announcement created a lot of headlines, it was short on details. Not knowing the precise financial terms, it is difficult to judge the deal. However, at the very least, the agreement provides ExxonMobil access to Russia and a potential path to future oil volume growth while denying other majors such as Royal Dutch Shell the same opportunity. The deal also validates our long-held thesis that ExxonMobil is a preferred partner for national oil companies. Given its expertise, technology and project management ability, ExxonMobil presents a compelling option for Rosneft. Also, unlike BP, ExxonMobil was not using the deal to bolster investor confidence, which probably strengthened its negotiating position. ExxonMobil's relationship with Rosneft as a result of its participation in the Sakhalin project in eastern Russia likely made it a more natural partner as well.

The only monetary terms specified were the joint $3.2 billion of planned investment in the Kara and Black seas, though the timing of the investment was not disclosed. Rosneft will hold a 66.7% interest and ExxonMobil a 33.3% interest in both those ventures. The deal appears to rest more on an exchange of assets as opposed to the proposed BP-Rosneft deal from earlier this year, which included

Analyst Notes (continued)

essentially the same assets in Russia and entailed a direct interest in each company. Rosneft will have an opportunity to gain equity interest in ExxonMobil's deep-water projects in the Gulf of Mexico and tight oil fields in Texas. Meanwhile, the companies will jointly study developing tight oil resources in western Siberia and create a research center for future exploration of Arctic projects in offshore Russia. We think this structure could mitigate some of the risk, including political, for ExxonMobil as opposed to a share swap or direct investment in Rosneft. We assume ExxonMobil would have to see certain development or exploratory milestones met before Rosneft could gain any interest in its U.S. assets. However, ultimately the value of the assets swapped between the two firms will determine how good of a deal this is for ExxonMobil.

Disclaimers & Disclosures

No Morningstar employees are officers or directors of this company. Morningstar Inc. does not own more than 1% of the shares of this company. Analysts covering this company do not own its stock. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security.

Exxon Mobil Corporation XOM

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
470,006	402,486	Oil & Gas Integrated	Energy

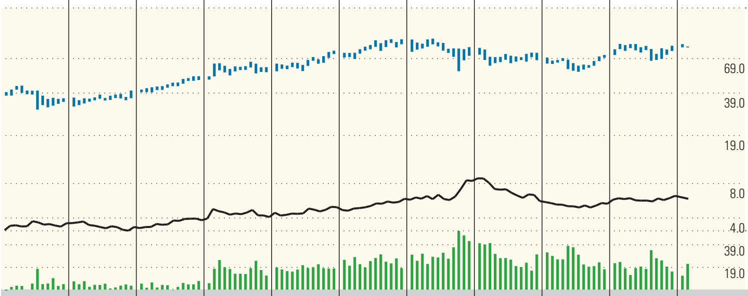
Exxon is an integrated oil and gas company that explores for, produces, and refines oil around the world. In 2010, it produced 2.4 million barrels of oil and 12.1 billion cubic feet of natural gas a day. At year-end 2010, reserves stood at 17.2 billion boe (plus 7.6 billion for equity companies), 47% 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.

5959 Las Colinas Boulevard
Irving, TX 75039-2298
Phone: 1 972 444-1000Website: http://www.exxonmobil.com

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★★★	83.97	99.00	Low	Wide	B

per share prices in USD

44.58	41.13	52.05	65.96	79.00	95.27	96.12	82.73	73.69	88.23	87.94	Annual Price High
29.99	31.58	39.91	49.25	56.42	69.02	56.51	61.86	55.94	67.03	83.38	Low
											Recent Splits



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
88.23 - 67.03
10 Year High/Low
96.12 - 29.99
Bear-Market Rank
3 (10=worst)
Trading Volume Million

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
-8.6	19.9	27.6	11.8	39.8	23.1	-13.1	-12.5	9.8	18.4	-0.9	Total Return %
14.8	-6.5	18.6	8.8	26.2	19.6	25.4	-35.9	-3.0	18.4	-6.2	+/- Market
-0.2	-14.8	5.2	-13.6	8.4	-6.7	22.1	-32.0	3.8	13.3	-6.8	+/- Industry
2.6	2.4	2.1	2.0	1.7	1.5	1.9	2.4	2.4	2.2	2.2	Dividend Yield %
235511	271002	330693	349512	450501	511887	406067	322334	364064	406272	402486	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
213488	204506	246738	298035	370680	377635	404552	477359	310586	383221	470006	Revenue USD Mil
47.7	46.4	47.3	45.1	42.5	43.5	42.4	39.5	31.8	31.6	30.7	Gross Margin %
46888	40157	56722	69918	91469	69107	103607	118578	34777	52959	71543	Oper Income USD Mil
22.0	19.6	23.0	23.5	24.7	18.3	25.6	24.8	11.2	13.8	15.2	Operating Margin %
15320	11460	21510	25330	36130	39500	40610	45220	19280	30460	40910	Net Income USD Mil
—	1.68	3.23	3.89	5.71	6.62	7.28	8.69	3.98	6.22	8.28	Earnings Per Share USD
—	0.92	0.98	1.06	1.14	1.28	1.37	1.55	1.66	1.74	1.82	Dividends USD
—	6821	6659	6512	6327	5967	5578	5149	4832	4897	4940	Shares Mil
11.09	13.60	15.77	17.87	19.52	22.29	22.21	23.39	29.49	32.53	32.53	Book Value Per Share USD
22889	21268	28498	40551	48138	49286	52002	59725	28438	48413	57649	Oper Cash Flow USD Mil
-9989	-11437	-12859	-11986	-13839	-15462	-15387	-19318	-22491	-26871	-30011	Cap Spending USD Mil
12900	9831	15639	28565	34299	33824	36615	40407	5947	21542	27638	Free Cash Flow USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
10.5	7.8	13.2	13.7	17.9	18.5	17.6	19.2	8.4	11.4	13.1	Return on Assets %
21.3	15.5	26.1	26.4	33.9	35.1	34.5	38.5	17.3	23.7	27.2	Return on Equity %
7.2	5.6	8.7	8.5	9.7	10.5	10.0	9.5	6.2	7.9	8.7	Net Margin %
1.46	1.38	1.51	1.61	1.84	1.77	1.75	2.03	1.35	1.43	1.51	Asset Turnover
2.0	2.0	1.9	1.9	1.9	1.9	2.0	2.0	2.1	2.1	2.1	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	09-11	Financial Health
5567	5116	7574	17396	27035	26960	27651	23166	3174	-3649	-5595	Working Capital USD Mil
7099	6655	4756	5013	6220	6645	7183	7025	7129	12227	9331	Long-Term Debt USD Mil
73161	74597	89915	101756	111186	113844	121762	112965	110569	146839	155939	Total Equity USD Mil
0.10	0.09	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.08	0.06	Debt/Equity

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
21.7	13.0	13.2	9.8	11.7	12.9	9.2	17.1	11.8	10.2	10.1	Price/Earnings
—	—	—	—	—	—	—	—	—	0.6	0.7	P/E vs. Market
1.2	1.1	1.1	1.0	1.2	1.3	0.9	1.1	0.9	0.9	0.9	Price/Sales
3.2	3.0	3.3	3.1	4.0	4.2	3.6	2.9	2.5	2.6	2.6	Price/Book
11.2	9.6	8.2	7.5	9.5	10.1	6.9	11.6	7.4	7.3	7.2	Price/Cash Flow

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 %	2.3	5.3	4.2	9.6
+/- Industry	0.5	-9.6	-0.1	-1.9
+/- Market	1.0	-11.7	6.0	8.7

Profitability Analysis

Grade: C	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	27.2	29.8	20.8	22.4
Return on Assets %	13.1	15.0	9.3	9.5
Fixed Asset Turns	2.3	3.1	2.3	7.5
Inventory Turns	21.0	21.5	14.1	15.9
Revenue/Employee USD K	5622.1	4802.4*	—	1048.4
Gross Margin %	30.7	37.8	27.7	38.3
Operating Margin %	15.2	18.8	14.4	16.6
Net Margin %	8.7	8.8	7.8	11.1
Free Cash Flow/Rev %	5.9	6.8	4.3	0.1
R&D/Rev %	—	—	—	9.8

Financial Position

Grade: A	12-10 USD Mil	09-11 USD Mil
Cash	7825	11022
Inventories	12976	16730
Receivables	32284	34368
Current Assets	58984	69376
Fixed Assets	199548	209194
Intangibles	8640	9315
Total Assets	302510	323227
Payables	9812	12968
Short-Term Debt	2787	7431
Current Liabilities	62633	74971
Long-Term Debt	12227	9331
Total Liabilities	155671	167288
Total Equity	146839	155939

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	10.1	12.2	8.8	14.4
Forward P/E	10.2	—	—	13.7
Price/Cash Flow	7.2	8.6	6.0	7.3
Price/Free Cash Flow	15.0	22.4	62.9	16.9
Dividend Yield %	2.2	—	2.8	2.0
Price/Book	2.6	3.2	1.7	1.9
Price/Sales	0.9	1.0	0.7	1.2
PEG Ratio	0.8	—	—	1.5

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

Quarterly Results

Revenue USD Mil	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	105186.0	114004.0	125486.0	125330.0
Prior Year Period	89841.0	90251.0	92486.0	95298.0

Rev Growth %	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	17.1	26.3	35.7	31.5
Prior Year Period	6.1	41.0	24.2	15.9

Earnings Per Share USD	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	1.84	2.14	2.18	2.13
Prior Year Period	1.27	1.33	1.60	1.44

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Exxon Mobil Corporat	402486	470006	10.1	27.2
Royal Dutch Shell PL	227950	470886	7.2	20.3
Chevron Corp	204705	247748	7.6	24.3

Major Fund Holders

	% of shares
	—
	—
	—

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

MORNINGSTAR®

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."