Exxon Mobil Corporation XOM (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
95.26 USD	109.00 USD	87.20 USD	136.25 USD	Low	Wide	Negative	Exemplary	AAA	Oil & Gas - Integrated

Exxon Third-Quarter Demonstrates why it's Our Preferred Major

See Page 2 for the full Analyst Note from 03 Nov 2014

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

Research as of 03 Nov 2014
Estimates as of 29 Oct 2014
Pricing data through 03 Nov 2014
Rating updated as of 03 Nov 2014

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

Contents

Investment Thesis 21 Mar 2014

ExxonMobil sets itself apart from the other majors as a superior capital allocator and operator and has historically consistently delivered higher returns on capital relative to peers. However, delivering returns on par with historical levels could be more difficult as it faces the ongoing challenge of reserve replacement. With a majority of the world's remaining resources in government hands, the firm's opportunities to expand its large production base are limited.

While we believe Exxon has an advantage in the current environment, that does not necessarily mean production and reserve gains will come easily or cheaply. Exxon's need for projects of a certain size in order to contribute meaningfully to its production profile and justify investment leaves it with a diminishing set of opportunities. Also, investing exclusively in large projects exposes it to a variety of risks including overinvestment risk, execution risk, and budgetary risk.

Greater competition is becoming an issue as more operators vie to partner in large projects with national oil companies. To gain access, Exxon must not only demonstrate its value but may also have to agree to terms that are not as advantageous as in the past. 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. A good example of the latter case is Exxon's recent deal with Rosneft to explore for oil in the Russian Arctic. If Exxon is able to exploit similar opportunities where it can add oil reserves with attractive terms thanks to its value proposition, then it can probably continue to deliver superior returns.

One way Exxon is tackling its growth/reserve replacement issues is by investing in projects like oil sands and LNG that produce at plateau production levels for longer than traditional projects and reduce its overall decline rates. Also, relatively little reinvestment is required after the large initial up-front capital, resulting in significant free cash flow generation after startup. Production for these projects will constitute more than half the 1 mmboe/d of new production capacity Exxon plans to add by 2017.

Vital Statistics

Market Cap (USD Mil)	406,255
52-Week High (USD)	104.76
52-Week Low (USD)	86.91
52-Week Total Return %	9.0
YTD Total Return %	-3.9
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	0.2
5-Yr Forward EPS CAGR %	4.6
Price/Fair Value	0.87

Valuation Summary and Forecasts

Fiscal Year:	2012	2013	2014(E)	2015(E)
Price/Earnings	8.9	13.7	*13.0*	*15.7*
EV/EBITDA	4.1	6.1	*5.9*	*6.7*
EV/EBIT	5.0	7.9	*7.7*	*9.6*
Free Cash Flow Yield %	5.6	2.6	*4.2*	*4.1*
Dividend Yield %	2.6	2.5	*2.8*	*3.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	2014(E)	2015(E)
Revenue	482,295	438,255	*447,904*	*442,669*
Revenue YoY %	-0.9	-9.1	*2.2*	*-1.2*
EBIT	79,053	57,720	*55,045*	*43,900*
EBIT YoY %	7.6	-27.0	*-4.6*	*-20.3*
Net Income, Adjusted	44,880	32,580	*31,285*	*25,145*
Net Income YoY %	9.3	-27.4	*-4.0*	*-19.6*
Diluted EPS	9.70	7.37	*7.34*	*6.06*
Diluted EPS YoY %	15.1	-24.0	*-0.5*	*-17.4*
Free Cash Flow	29,277	14,694	*17,332*	*16,764*
Free Cash Flow YoY %	-18.2	-49.8	*18.0*	*-3.3*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments. Analyst Note: Our forecast could differ with as reported and consensus figures due to unique modeling conventions.

Profile

Exxon is an integrated oil and gas company that explores for, produces, and refines oil around the world. In 2013, it produced 2.2 million barrels of oil and 11.9 billion cubic feet of natural gas a day. At year-end 2013, reserves stood at 25.2 billion barrels of oil equivalent (including 7.0 billion for equity companies), 53% of which are oil. The company is the world's largest refiner and one of the world's largest manufacturers of commodity and specialty chemicals.

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Morningstar Analysis

Exxon Third-Quarter Demonstrates why it's Our Preferred Major 03 Nov 2014

ExxonMobil reported strong second-quarter results that further demonstrate the competitive advantages, underlying portfolio improvements and financial performance that make it our preferred major. First, we have long pointed to Exxon's downstream operations (refining and chemical) as a competitive advantage that sets it apart from peers. This advantage was on display during the quarter as increases in downstream earnings offset lower upstream earnings, resulting in higher firmwide earnings despite lower commodity prices. Second, despite the lower total upstream earnings, unit margins are improving as liquid volumes increase as a portion of the portfolio. Total production slipped 4.7% from the third quarter last year. However, this includes the loss of low margin volumes from the UAE due to the concession expiring. Excluding these volumes, production only fell 1.0%, with liquids growing 0.6% and gas production falling 2.9%.

Earnings per barrel remained flat at about $18/boe despite a $9/bbl slide in oil prices. The improved margins are even more apparent when measured over the first nine months of the year. Despite oil prices averaging $2/bbl less, earnings per barrel year to date were $21/boe compared to $18/boe over the same period last year thanks to portfolio high-grading and the addition of higher margin production. Finally, the company is free cash flow positive as cash flow from operations and proceeds from asset sales exceeded capital spending and shareholder distributions through the first nine months of the year. We expect these trends to continue in the coming years as improving upstream margins, a strong downstream segment and lower capital spending combine to grow free cash flow (excluding asset sales). Combined with an attractive valuation, Exxon continues to rate as one of our preferred plays among the major integrated group. Our fair value and wide moat rating remain unchanged.

Valuation, Growth and Profitability 28 May 2014

We are maintaining our fair value estimate of $109 after updating our model with the latest guidance and first-quarter results.

To determine our fair value estimate, we employ Morningstar's standard two-stage DCF methodology rather than applying a multiple to year-five EBITDA as we did previously. With this methodology, a terminal value is derived using our assumptions of long-term earnings growth and return on new invested capital. This valuation methodology also more explicitly incorporates our moat rating, which reflects how long we expect a given firm to deliver excess returns on invested capital.

Our fair value estimate is approximately 6.4 times our 2015 EBITDA estimate of $77 billion. In our DCF model, our benchmark oil and gas prices are based on Nymex futures contracts for 2014-16. For natural gas, we use $4.51/mcf in 2014, $4.22 in 2015, and $4.24 in 2016. Our natural gas price assumptions for 2017 and 2018 are $5.40. For oil, we use Brent prices of $109 per barrel in 2014, $105 in 2015, and $100 in 2016. Our oil price assumptions for 2017 and 2018 are $100. We assume a cost of equity of 8%.

We forecast a CAGR for production of less than 1% during our forecast period. However, growth is negatively affected by the loss of low-margin volumes from the UAE and Iraq. Volumes should remain flat in 2014, after falling 1.5% in 2013, due to reduced volumes from the Netherlands and the UAE.

We expect Exxon to actually increase oil volumes at a greater rate than natural gas over our forecast period thanks to large project startups over the next five years. 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

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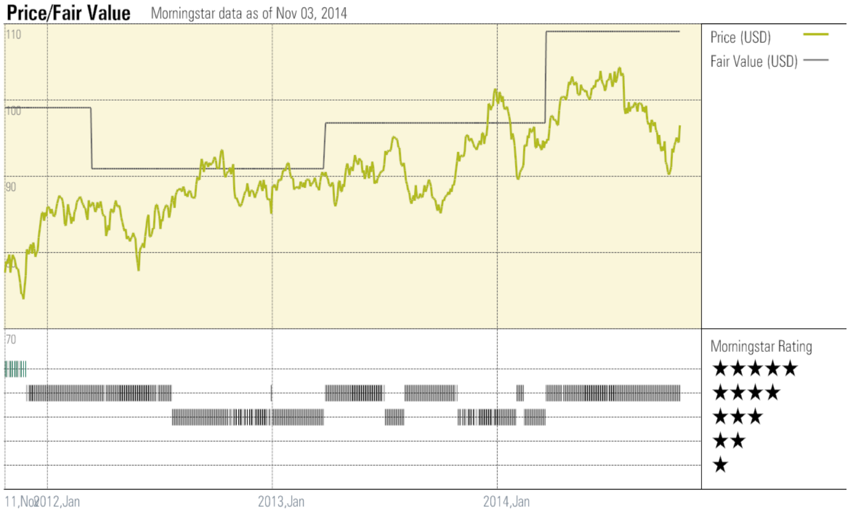
Price/Fair Value Morningstar data as of Nov 03, 2014



risk associated with larger projects.

We expect strong results from Exxon's U.S. downstream segment as wide crude differentials shift to the U.S. Gulf Coast, benefiting Exxon, which has 1.5 mmbbl/d of refining capacity in the region. Additionally, it should benefit from wide differentials and processing of 100% advantaged crude through its Mid-Continent U.S. and Canadian refiners (600 mb/d). International weakness will likely continue, however, especially in Europe, where Exxon operates 1.7 mmbbl/d of refining capacity. We anticipate chemical earnings to remain tied to economic activity though operations in the U.S. should benefit as well from increased cost-advantaged feedstock.

Scenario Analysis

We conduct our scenario analysis by testing two additional scenarios with varying oil and gas prices throughout our forecast. While our scenario analysis only encompasses the performance of the upstream segment, we believe it adequately captures the potential values of ExxonMobil. Since ExxonMobil's upstream segment has a large amount of operating leverage, higher oil and gas prices produce outsize earnings and higher valuations. Also, given that the upstream segment contributes the bulk of profits, we see oil and gas prices as the primary driver of ExxonMobil's valuation.

We also test a bull-case scenario that uses a 25% higher price deck than our base case for 2013-17. In this scenario, oil and gas prices are at levels more than necessary to fully fund capital spending plans and increase dividends. As a result, we anticipate management may increase share repurchases above the current $5 billion per quarter. Under these higher oil and gas prices, Exxon's fair value estimate increases to around $157.

We test a bear-case scenario that uses a 25% lower price deck than our base case for 2013-17. In this scenario, cash flow from operations would still probably cover capital spending of about $38 billion. However, share repurchases would likely be reduced somewhat without additional debt issuance. Under these lower oil and gas prices, Exxon's fair value estimate drops to around $61 per share.

Regardless of the oil price scenario, we do not anticipate significant variations in the capital expenditure forecast. ExxonMobil makes investment decisions based on lower oil and gas price assumptions to ensure return requirements are met throughout the cycle. Additionally, given the long lead time of projects and its financial strength, ExxonMobil maintains spending in lower commodity price environments.

Economic Moat

Exxon earns a wide moat by integrating a low-cost upstream and downstream business to capture economic rents along the oil and gas value chain. While its peers operate a similar business model with the same goal, they fail to do so as successfully, as evidenced in the lower margins and returns compared with Exxon. The superior returns Exxon generates from the integration of low-cost assets (an intangible asset that we consider to be part of its moat source) combined with a low cost of capital produces excess returns greater than peers'. Accordingly, we have greater confidence that Exxon can continue to deliver excess returns for longer, earning it a wide moat compared with a narrow moat for peers.

Exxon's upstream segment holds a low-cost position based on an evaluation of Exxon's oil- and gas-producing assets, using our E&P moat framework. Its reserve life of 16 years, finding and development, or F&D, costs of $20/boe, and cash operating margins of 70% all easily clear our hurdles to consider the assets low-cost. Exxon also continually delivers upstream segment margins and returns far superior to peers'. Exxon's upstream margins in 2012 were 31% compared with a peer average of 23%. Returns were 21% compared with 18% for peers. We think this is in part due to integration with the downstream segment.

Exxon's size and integration between refining and chemical manufacturing give it a low-cost position thanks to economies of scale and access to unique assets. During the last 10 years, Exxon's downstream averaged returns of 24%. Even in 2009, when the global refining and chemical markets buckled in the wake of the global recession, Exxon's downstream earned its cost of capital with returns of 10% while others did not.

The integration between refining and chemicals is an unequaled advantage. As a result, Exxon delivers wider margins and higher returns than peers' despite a similar business model designed to capture the rents involved in hydrocarbon production and processing

irrespective of commodity prices.

Moat Trend

Given the increasing competition among independent and national oil companies over fewer global resources, we believe ExxonMobil's moat trend is negative, as the company may find it difficult to continue to deliver superior results. To secure access to resources, ExxonMobil may have to settle for less attractive terms than it has in the past. ExxonMobil derives much of its moat from the resources it can bring to bear on large projects. As the availability of these projects declines, the company's competitive advantages become less useful. ExxonMobil's disciplined investment approach may prevent it from securing enough large projects sufficient to increase production and generate its required rate of return. The company is likely to continue to maintain its financial position given its expansive asset base, which will continue to provide steady cash flows. However, opportunities to reinvest are likely to become more scarce. At the same time, ExxonMobil should maintain its margins, given its focus on costs and operational excellence. The company should also continue to benefit from OPEC's presence in the market, which will keep oil prices at levels that maintain project economics.

ExxonMobil's recent move into U.S. shale gas along with large LNG projects increases the company's exposure to natural gas. Long-term trends suggest natural gas demand will increase, which could result in higher prices. If this occurs, ExxonMobil will be advantageously positioned and could see its moat trend stabilize.

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Bulls Say/Bears Say

Bulls Say

- Exxon's superior capital allocation and operational performance should continue to deliver high returns on capital.
- NOCs do not have the expertise to effectively explore for and produce oil and gas in their countries and will need to partner with private firms. Exxon is one the most attractive options as its recent deal with Rosneft demonstrates.
- With coordination between upstream and downstream operations, as well as integrated refining and chemical facilities, Exxon actually achieves a high level of integration that creates value as opposed to simply owning the assets like peers.

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 and free cash flow in recent years. Higher levels of investment place free cash flow and cash shareholder returns at risk if commodity prices slip. Low natural gas prices are weighing on profitability currently.
- Exxon is very discriminating when evaluating investment opportunities. It is unlikely to sign less favorable contracts, which could slow growth.

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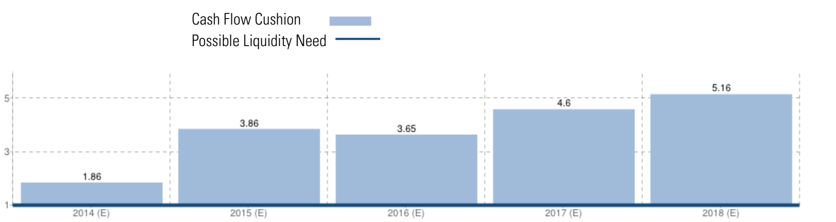
Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Cash and Equivalents (beginning of period)	4,913	6,269	626	-4,688	-1,805
Adjusted Available Cash Flow	7,765	5,496	10,490	18,688	17,513
Total Cash Available before Debt Service	12,678	11,765	11,116	14,000	15,708
Principal Payments	-1,034	-669	-669	-669	-669
Interest Payments	-325	-325	-325	-325	-325
Other Cash Obligations and Commitments	-5,449	-2,052	-2,052	-2,052	-2,052
Total Cash Obligations and Commitments	-6,808	-3,047	-3,047	-3,047	-3,047

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	4,913	25.9
Sum of 5-Year Adjusted Free Cash Flow	59,952	315.6
Sum of Cash and 5-Year Cash Generation	64,865	341.5
Revolver Availability	3,500	18.4
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	68,365	359.9
Sum of 5-Year Cash Commitments	-18,994	—

Credit Rating Pillars–Peer Group Comparison

	XOM	Sector	Universe
Business Risk	1	4.9	5.1
Cash Flow Cushion	4	6.3	6.0
Solvency Score	3	4.4	4.7
Distance to Default	2	3.8	3.8
Credit Rating	AAA	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health & Capital Structure

ExxonMobil's fortress-like balance sheet elevates it above its integrated peers. Its $21 billion worth of debt equates to a debt/capital ratio of only about 10.5%. The company's size and diverse operations ensure it will continue to generate substantial cash flow regardless of commodity price volatility. Recent investment in large, long-life, plateau production projects will ensure cash flow remains strong in the future. While these projects require generous investment up front, little reinvestment is required to maintain production.

Unlike peers that are seeing capital spending remain at elevated levels, Exxon expects spending to fall in the coming years. Capital spending will increase to $40 billion in 2014 before falling to below $37 billion in 2015 through 2017. As a result, we expect greater relative free cash flow generation in the long term as new projects come on line.

However, the days of building cash balances with windfalls from high oil prices may be over. Even with oil prices at $100/bbl, Exxon's dividends and share repurchases exceed free cash flow. Over the last two years, this development has resulted in rising debt and declining cash balance as share repurchases have continued, in part subsidized with asset sales. Last year, Exxon curtailed share repurchases to $3 billion per quarter from $5 billion. We think this level is sustainable with little incremental debt, however, based on our forecast for free cash flow to increase over the next five years.

Enterprise Risk

For a company with global operations, geopolitical risk is always an issue. Past 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,

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Credit Analysis

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.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
REX W. TILLERSON	CEO/Chairman of the Board/ Director,Director	2,111,333	18 Dec 2013	—
MR. STEPHEN D. PRYOR	President, Subsidiary/Vice President	993,958	26 Nov 2013	—
MR. MICHAEL J. DOLAN	Senior VP	688,876	05 May 2014	—
MR. ANDREW P. SWIGER	CFO/Senior VP	602,222	26 Nov 2013	—
MR. MARK W. ALBERS	Senior VP	580,724	16 Dec 2013	—
MR. THOMAS R. WALTERS	President, Subsidiary/Vice President	426,840	15 May 2014	—
MR. NEIL W. DUFFIN	President, Subsidiary	328,550	31 Jan 2014	—

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

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Mkt Idx	1.64	1.85	300	30 Sep 2014
SPDR® S&P 500 ETF	1.03	2.30	335	31 Oct 2014
Vanguard Five Hundred Index Fund	1.04	2.28	-203	30 Sep 2014
Vanguard Institutional Index Fund	1.01	2.28	-764	30 Sep 2014
Fidelity Spartan® 500 Index Fd	0.44	2.21	49	30 Sep 2014
Concentrated Holders				
iShares US Energy	0.06	22.33	17	31 Oct 2014
Fidelity® MSCI Energy ETF	0.01	21.92	—	31 Oct 2014
JNL/Mellon Cptl Oil & Gas Sector Fund	0.07	20.59	213	30 Jun 2014
ProFunds VP Oil & Gas	—	20.55	18	30 Jun 2014
Vanguard Energy Index Fund	0.19	20.44	-26	30 Sep 2014

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Columbia Insurance Company	0.24	6.26	10,607	31 Dec 2013
New Jersey Division of Pensions and Benefits	0.13	0.61	6,698	30 Jun 2010
State Farm Insurance Retirement Plan For U.S. Employees	0.14	3.68	6,542	31 Dec 2009
Stonewall Insurance Company	0.14	18.72	6,129	31 Dec 2013
Vanguard Group, Inc.	5.56	1.88	5,609	30 Jun 2014
Top 5 Sellers				
Capital Research Global Investors	0.21	0.32	-4,975	30 Jun 2014
Harris Associates L.P.	0.02	0.15	-2,817	30 Jun 2014
Scottish Widows PLC	—	1.91	-2,774	30 Jun 2014
Franklin Advisers, Inc.	0.28	0.92	-2,547	30 Jun 2014
Fidelity Management and Research Company	0.78	0.47	-2,424	30 Jun 2014

Management 21 Mar 2014

Rex Tillerson became chairman and CEO in 2006 and served previously as president. He has spent his career with Exxon, beginning in 1975 as a production engineer. The acquisition of XTO Energy raised concerns that he may be straying from the returns-focused strategy that has made ExxonMobil great and is instead investing in growth for the sake of growth. ExxonMobil's subsequent performance has lent weight to this argument as gas volumes have grown while prices have fallen, resulting in declining returns. However, while the acquisition has proven to be ill-timed given the drop in natural gas prices, we think ultimately it can deliver returns that meet ExxonMobil's requirements as prices rise and it leverages XTO's knowledge to exploit unconventional plays globally. In addition, management has set out to improve Exxon's eroding margins and declining earnings per barrel. Although higher commodity prices will help, delivering improvement and lowering its cost structure will be the key element to Exxon keeping its top spot among peers with respect to returns on capital.

ExxonMobil's record of generating shareholder returns deserves an Exemplary stewardship rating, in our opinion. Despite the XTO acquisition, we think Tillerson is likely to continue a disciplined capital allocation strategy, given his previous statements. Recent efforts to exploit more lucrative Kurdistan reserves at the risk of losing pre-existing, but likely lower-returning, Iraqi contracts provides us some evidence to his focus on returns. As a result, we are inclined to maintain the exemplary rating.

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Analyst Notes

Why the Majors' Quest to Improve Returns Is Likely to Fail; Exxon and BP Are Most Attractive 15 Oct 2014

Poor capital efficiency is at the heart of the major integrated firms' declining returns. In the past five years, the industry has invested greater amounts of capital with little to show for it. Earnings growth has stagnated despite higher oil prices as margins contracted on falling production and rising costs. In response, firms have announced plans to reduce spending in an effort to improve returns. Ultimately, we think most of these efforts will prove unsuccessful and returns will remain near current levels without higher oil prices. While production declines will reverse as new projects commence operation, we expect lower oil prices and higher depreciation charges to weigh on margins and earnings. Additionally, even as spending recedes from its 2013 peak, it will remain at historically high levels.

Over time, we expect spending to trend higher again as the industry is stuck on a treadmill where it must invest at greater levels just to maintain production. This cycle is behind the negative moat trends for many of the integrated firms and the reason we lowered Eni's and Statoil's moat ratings to none. All other fair value estimates and moat ratings are unchanged.

We do, however, forecast the combination of lower spending and incremental production to result in free cash flow growth over the next five years. With little capacity to improve returns, we favor companies that can drive greater relative free cash flow growth and are attractively valued. In this respect, ExxonMobil and BP stand apart from their peers.

We discuss in detail our view in the latest Energy Observer, "Capital Inefficiency: The Majors' Quest to Improve Returns and Why It's Likely to Fail."

Exxon's Sell-Off Unwarranted as Production Decline Hides Underlying Improvement 01 Aug 2014

As is usually the case with Exxon's quarterly earnings, production growth dominated the headlines. So with Exxon reporting a 6% year-over-year decline in production (7.5% sequential decline) shares sold off 4%, underperforming peers. However, we think the sell-off was unwarranted as the decline was largely expected and Exxon remains in position to deliver on its full-year plan of flat production (excluding the impacts of the UAE concession expiry and Iraq partial divestment) announced at its analyst day in March. More importantly, Exxon continues to demonstrate the mix shift and margin improvement central to our thesis. Along with improving returns and growing free cash flow over the next several years, we expect Exxon's shares to outperform. As a result, we continue to prefer Exxon relative to Chevron. With our fair value and moat rating unchanged, Exxon is now trading a 0.91 price to fair value compared with 0.98 for Chevron after Thursday's sell-off.

Earnings rose 28% to $8.8 billion from $6.9 billion the year before. Upstream earnings contributed the bulk of the gains increasing to $7.9 billion from $6.3 billion last year. Higher realizations and gains from asset sales offset the decline in production. The decline in production was largely driven by the expiration of Exxon's UAE concession. However, these barrels were low-margin, fixed-fee barrels that contributed little to earnings. Excluding this impact, production only fell 2.3% with liquids production actually increasing slightly. Natural gas volumes, however, fell 5% on lower European (weather) and U.S. (reduced investment) volumes. Sequential declines were driven primarily by maintenance activities. The mix improvement (along with the asset sales gain) resulted in improved margins. Earnings per barrel improved to $22/bbl from $17/bbl last year.

Downstream and chemical earnings both showed improvement as well. Downstream earnings increased to $711 million from $396 million last year on mix effects and

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Analyst Notes

asset sale gains which offset weaker margins. Chemical earnings improved to $841 million from $756 million as volume and mix effects offset flat margins. These two segments are often overlooked by the market, however, they are key contributors to Exxon's wide moat. While other integrated firms are paring investment in downstream, Exxon continues to push ahead with projects to capitalize on growing emerging market demand and increase feedstock flexibility. The reduced investments of its peers are warranted given their lower quality assets and poor financial performance. In contrast, we view Exxon as investing from a position of strength and see those investments allowing it to maintain its superior return on capital.

Cash flow, another tenet of our thesis, was strong during the quarter. Cash flow from operations and asset sale proceeds totaled $12.8 billion compared with $8 billion last year. Through the first half of the year Exxon has generated $29 billion in cash flow compared with $22 billion last year. The increase in asset sale proceeds is responsible for about $3 billion of the improvement. While technically special items, Exxon views asset sales as an ongoing part of their business and does not provide explicit guidance on future divestment activities, in contrast to peers. This likely hurts the firm, as the market perception is that it is not undergoing the same portfolio high-grading that its peers are. That's not the case, however. Exxon averages about $5 billion in asset proceeds per year. Additionally, one could argue that Exxon's portfolio is already of a higher quality and does not require the amount of rationalization. It also doesn't have the same need to raise funds to fund repurchases and dividends. As a result, Exxon's divestments are likely more opportunistic and thus value-enhancing. Its long history of returns on capital far in excess of peers suggests as much.

Firms With Assets in Iraq Should See Little Impact if Recent Turmoil Escalates 16 Jun 2014

Recent developments in Iraq have increased the risks for oil and gas firms operating in the country. However, after reviewing each company's relative exposure, we see little earnings impact if the situation worsens or if assets become inoperable. Seven companies we cover currently have assets in the country, but one of those, Chevron, has no production. For the others, Iraqi volumes constituted only a fraction of total production in 2013: ExxonMobil 1.8%, BP 1.9%, Total 0.3%, Occidental 2.2%, Eni 1.4%, and Shell 0.7%. Additionally, these companies operate under technical service contracts and only receive a modest remuneration fee of a few dollars per barrel after cost recovery. In other words, Iraqi barrels tend to be some of the least valuable in a company's portfolio, implying the earnings impact is much less than the relative amount of production would suggest. Also, thanks to rather quick cost recovery and an inability to increase investment due to government constraints, capital exposure is also limited. As our result, our moat ratings and fair value estimates are unchanged.

Most companies stand to benefit if the recent rise in oil prices continues. With global demand and supply already tightly balanced, removal of Iraqi volumes could result in such a scenario. As of April, Iraq was producing about 3.3 million barrels a day, marking an increase of about 1 mmb/d since 2009. While that pales in comparison with the approximately 3 mmb/d the United States has added over the same time frame, it still has contributed to the delicate supply/demand balance and stable price environment of the past three years. With OPEC spare capacity sitting at about 2 mmb/d, essentially all held by Saudi Arabia, a disruption of Iraqi supplies could be ameliorated. However, as we've shown (see our May Energy Observer), the relationship between relatively high inventory levels and surplus of production relative to demand over the past three years has kept prices in check. The loss of Iraqi volumes, even if supplemented by increased Saudi production, would still probably disrupt that relationship and send Brent prices

Exxon Mobil Corporation XOM (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
95.26 USD	109.00 USD	87.20 USD	136.25 USD	Low	Wide	Negative	Exemplary	AAA	Oil & Gas - Integrated

Analyst Notes

through the upper range of $110/bbl seen the past three years.

Given the limited impact on any one company's production and the still uncertain threat to Iraqi production and the effect on oil prices, we don't see recent events as actionable. Instead, we continue to reiterate our preferred integrated names despite their Iraq exposure: ExxonMobil, Oxy, and BP. All of them would also realize a greater benefit from the rise in oil prices than any damage suffered from impairment of Iraqi assets.

Exxon Mobil Corporation XOM (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2011	2012	2013	Forecast 2014	Forecast 2015	5-Year Proj. CAGR
Revenue	4.6	26.9	-0.9	-9.1	2.2	-1.2	0.2
EBIT	2.7	38.1	7.6	-27.0	-4.6	-20.3	0.8
EBITDA	3.3	31.1	6.6	-21.1	-4.1	-11.9	2.5
Net Income	2.3	34.8	9.3	-27.4	-4.0	-19.6	1.7
Diluted EPS	5.8	35.4	15.1	-24.0	-0.5	-17.4	4.6
Earnings Before Interest, after Tax	3.5	36.7	-3.9	-15.8	1.1	-18.0	2.8
Free Cash Flow	-15.5	47.1	-18.2	-49.8	18.0	-3.3	16.6

Profitability	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Operating Margin %	14.9	15.1	16.4	13.2	12.3	9.9	12.1
EBITDA Margin %	18.4	18.3	19.7	17.1	16.0	14.3	16.9
Net Margin %	8.4	8.4	9.3	7.4	7.0	5.7	7.1
Free Cash Flow Margin %	5.6	7.4	6.1	3.4	3.9	3.8	5.5
ROIC %	18.5	20.8	19.4	15.2	14.3	11.5	13.7
Adjusted ROIC %	15.0	17.3	13.9	13.8	13.0	11.1	13.1
Return on Assets %	12.0	13.0	13.5	9.6	8.8	6.8	8.2
Return on Equity %	24.8	27.3	28.0	19.2	17.6	13.9	16.9

Leverage	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Debt/Capital	0.09	0.10	0.07	0.12	0.15	0.17	0.16
Total Debt/EBITDA	0.21	0.19	0.12	0.30	0.46	0.59	0.50
EBITDA/Interest Expense	2,991.15	360.68	290.34	8,322.44	221.07	194.82	229.99

Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	0.95	1.04	—	—
Price/Earnings	8.9	13.7	13.0	15.7
EV/EBITDA	4.1	6.1	5.9	6.7
EV/EBIT	5.0	7.9	7.7	9.6
Free Cash Flow Yield %	5.6	2.6	4.2	4.1
Dividend Yield %	2.6	2.5	2.8	3.0

Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	0.9
Weighted Average Cost of Capital %	7.7
Long-Run Tax Rate %	39.6
Stage II EBI Growth Rate %	2.0
Stage II Investment Rate %	13.3
Perpetuity Year	25

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

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	94,251	19.4	22.42
Present Value Stage II	271,897	56.0	64.68
Present Value Stage III	119,330	24.6	28.39
Total Firm Value	**485,478**	**100.0**	**115.48**
Cash and Equivalents	4,913	—	1.17
Debt	-22,699	—	-5.40
Preferred Stock	—	—	—
Other Adjustments	-25,537	—	-6.07
Equity Value	**442,155**	**—**	**105.17**
Projected Diluted Shares	4,204		
Fair Value per Share (USD)	—		

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

Exxon Mobil Corporation XOM (NYSE) | ★★★★

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95.26 USD	109.00 USD	87.20 USD	136.25 USD	Low	Wide	Negative	Exemplary	AAA	Oil & Gas - Integrated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2011	2012	2013	*2014*	*2015*
Revenue	**486,429**	**482,295**	**438,255**	***447,904***	***442,669***
Cost of Goods Sold	266,534	265,149	244,156	*248,924*	*250,551*
Gross Profit	**219,895**	**217,146**	**194,099**	***198,980***	***192,118***
Selling, General & Administrative Expenses	88,459	81,844	76,696	*82,410*	*81,806*
Other Operating Expense (Income)	40,268	38,521	40,525	*40,537*	*42,561*
Exploration Expense	2,081	1,840	1,976	*2,686*	*2,936*
Depreciation & Amortization (if reported separately)	15,583	15,888	17,182	*18,303*	*20,915*
Operating Income (ex charges)	**73,504**	**79,053**	**57,720**	***55,045***	***43,900***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**73,504**	**79,053**	**57,720**	***55,045***	***43,900***
Interest Expense	247	327	9	*325*	*325*
Interest Income	—	—	—	—	—
Pre-Tax Income	**73,257**	**78,726**	**57,711**	***54,720***	***43,575***
Income Tax Expense	31,051	31,045	24,263	*22,435*	*17,430*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-1,146	-2,801	-868	*-1,000*	*-1,000*
(Preferred Dividends)	—	—	—	—	—
Net Income	**41,060**	**44,880**	**32,580**	***31,285***	***25,145***
Weighted Average Diluted Shares Outstanding	4,875	4,628	4,419	*4,263*	*4,148*
Diluted Earnings Per Share	**8.42**	**9.70**	**7.37**	***7.34***	***6.06***
Adjusted Net Income	41,060	44,880	32,580	*31,285*	*25,145*
Diluted Earnings Per Share (Adjusted)	**8.42**	**9.70**	**7.37**	***7.34***	***6.06***
Dividends Per Common Share	1.85	2.18	2.46	*2.71*	*2.98*
EBITDA	**89,087**	**94,941**	**74,902**	***71,848***	***63,315***
Adjusted EBITDA	**89,087**	**94,941**	**74,902**	***71,848***	***63,315***

Exxon Mobil Corporation XOM (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
95.26 USD	109.00 USD	87.20 USD	136.25 USD	Low	Wide	Negative	Exemplary	AAA	Oil & Gas - Integrated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	*Forecast* 2014	*Forecast* 2015
Cash and Equivalents	13,068	9,923	4,913	*6,269*	*626*
Investments	—	—	—	—	—
Accounts Receivable	38,642	34,987	33,152	*33,152*	*33,152*
Inventory	15,024	14,542	16,135	*16,135*	*16,135*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	6,229	5,008	5,108	*5,108*	*5,108*
Current Assets	**72,963**	**64,460**	**59,308**	***60,664***	***55,021***
Net Property Plant, and Equipment	214,664	226,949	243,650	*259,306*	*269,495*
Goodwill	—	—	—	—	—
Other Intangibles	9,092	7,668	7,522	*9,022*	*10,522*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	34,333	34,718	36,328	*38,144*	*40,052*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**331,052**	**333,795**	**346,808**	***367,137***	***375,089***
Accounts Payable	57,067	50,728	48,085	*48,085*	*48,085*
Short-Term Debt	7,711	3,653	15,808	*1,034*	*669*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	12,727	9,758	7,831	*7,831*	*7,831*
Current Liabilities	**77,505**	**64,139**	**71,724**	***56,950***	***56,585***
Long-Term Debt	9,322	7,928	6,891	*31,891*	*36,891*
Deferred Tax Liabilities (Long-Term)	36,618	37,570	40,530	*42,557*	*44,684*
Other Long-Term Operating Liabilities	21,869	27,231	26,522	*27,848*	*29,241*
Long-Term Non-Operating Liabilities	24,994	25,267	20,646	*20,646*	*20,646*
Total Liabilities	**170,308**	**162,135**	**166,313**	***179,892***	***188,047***
Preferred Stock	—	—	—	—	—
Common Stock	9,512	9,653	10,077	*10,077*	*10,077*
Additional Paid-in Capital	—	—	—	—	—
Retained Earnings (Deficit)	330,939	365,727	387,432	*407,182*	*419,979*
(Treasury Stock)	-176,932	-197,333	-212,781	*-225,781*	*-238,781*
Other Equity	-9,123	-12,184	-10,725	*-10,725*	*-10,725*
Shareholder's Equity	**154,396**	**165,863**	**174,003**	***180,753***	***180,550***
Minority Interest	6,348	5,797	6,492	*6,492*	*6,492*
Total Equity	**160,744**	**171,660**	**180,495**	***187,245***	***187,042***

Exxon Mobil Corporation XOM (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
95.26 USD	109.00 USD	87.20 USD	136.25 USD	Low	Wide	Negative	Exemplary	AAA	Oil & Gas - Integrated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	*Forecast 2014*	*Forecast 2015*
Net Income	42,206	47,681	33,448	*32,285*	*26,145*
Depreciation	15,583	15,888	17,182	*18,303*	*20,915*
Amortization	—	—	—	*-1,500*	*-1,500*
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	142	3,142	754	*2,027*	*2,128*
Other Non-Cash Adjustments	-1,574	-11,168	-1,750	—	—
(Increase) Decrease in Accounts Receivable	-7,906	-1,082	-305	—	—
(Increase) Decrease in Inventory	-2,208	-1,873	-1,812	—	—
Change in Other Short-Term Assets	222	-42	-105	—	—
Increase (Decrease) in Accounts Payable	8,880	3,624	-2,498	—	—
Change in Other Short-Term Liabilities	—	—	—	—	—
Cash From Operations	**55,345**	**56,170**	**44,914**	***51,114***	***47,688***
(Capital Expenditures)	-30,975	-34,271	-33,669	*-33,959*	*-31,104*
Net (Acquisitions), Asset Sales, and Disposals	11,133	7,655	2,707	—	—
Net Sales (Purchases) of Investments	-2,467	952	-3,311	—	—
Other Investing Cash Flows	144	63	72	*-490*	*-515*
Cash From Investing	**-22,165**	**-25,601**	**-34,201**	***-34,449***	***-31,619***
Common Stock Issuance (or Repurchase)	-21,131	-20,875	-15,948	*-13,000*	*-13,000*
Common Stock (Dividends)	-9,020	-10,092	-10,875	*-11,535*	*-12,348*
Short-Term Debt Issuance (or Retirement)	1,521	-3,756	11,272	*-14,774*	*-365*
Long-Term Debt Issuance (or Retirement)	436	848	332	*25,000*	*5,000*
Other Financing Cash Flows	-62	7	-257	*-1,000*	*-1,000*
Cash From Financing	**-28,256**	**-33,868**	**-15,476**	***-15,309***	***-21,713***
Exchange Rates, Discontinued Ops, etc. (net)	-85	217	-175	—	—
Net Change in Cash	**4,839**	**-3,082**	**-4,938**	***1,356***	***-5,644***

Exxon Mobil Corporation XOM (NYSE) | ★★★★

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95.26 USD	109.00 USD	87.20 USD	136.25 USD	Low	Wide	Negative	Exemplary	AAA	Oil & Gas - Integrated

Comparable Company Analysis

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

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Royal Dutch Shell PLC RDS.A USA	1.03	11.5	9.6	13.1	4.6	4.2	4.7	NM	15.4	61.1	1.2	1.2	1.2	0.5	0.5	0.6
Chevron Corp CVX USA	0.88	11.3	12.1	15.3	4.9	4.8	5.7	NM	164.1	NM	1.6	1.4	1.4	1.0	1.0	1.2
Total SA TOT USA	0.84	9.7	11.9	12.6	4.2	4.6	4.3	NM	NM	NM	1.5	1.3	1.2	0.6	0.6	0.6
BP PLC BP USA	0.76	11.5	10.2	11.3	3.8	2.8	3.1	NM	17.8	NM	1.2	1.0	1.0	0.4	0.3	0.4
Average		11.0	11.0	13.1	4.4	4.1	4.5	—	65.8	61.1	1.4	1.2	1.2	0.6	0.6	0.7
Exxon Mobil Corporation XOM US	**0.87**	**13.7**	**13.0**	**15.7**	**6.1**	**5.9**	**6.7**	**39.0**	**23.7**	**24.5**	**2.5**	**2.2**	**2.3**	**1.0**	**0.9**	**0.9**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Royal Dutch Shell PLC RDS.A USA	357,512 USD	7.2	8.7	8.0	6.9	8.2	7.6	9.2	9.9	9.0	4.6	5.0	4.7	3.3	4.2	5.3
Chevron Corp CVX USA	253,753 USD	12.8	10.2	7.9	12.6	10.1	7.8	15.0	12.1	9.2	8.8	7.0	5.2	3.1	3.7	4.0
Total SA TOT USA	239,223 USD	8.6	7.3	7.7	8.1	6.9	7.4	11.6	10.8	10.0	4.8	4.6	4.3	5.0	5.6	5.4
BP PLC BP USA	300,791 USD	7.1	6.9	6.2	7.2	7.1	6.4	18.5	7.8	6.8	7.8	3.4	3.0	3.6	4.5	4.5
Average		8.9	8.3	7.5	8.7	8.1	7.3	13.6	10.2	8.8	6.5	5.0	4.3	3.8	4.5	4.8
Exxon Mobil Corporation XOM US	**346,808** USD	**15.2**	**14.3**	**11.5**	**13.8**	**13.0**	**11.1**	**19.2**	**17.6**	**13.9**	**9.6**	**8.8**	**6.8**	**2.5**	**2.8**	**3.0**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Royal Dutch Shell PLC RDS.A USA	459,599 USD	-4.6	-2.6	-12.5	-32.3	-1.6	-7.9	-20.3	17.5	-26.5	-94.6	NM	-97.0	2.4	9.3	—
Chevron Corp CVX USA	228,848 USD	-5.4	-3.2	-14.1	-22.5	-5.1	-28.2	-16.8	-12.7	-21.1	-108.5	-249.5	-236.5	11.1	10.0	10.0
Total SA TOT USA	227,969 USD	-2.7	-3.2	-5.6	-9.6	-17.0	5.1	-9.6	-22.3	-5.5	-89.5	120.0	-81.1	5.1	3.0	-3.3
BP PLC BP USA	396,217 USD	2.1	-4.9	-13.2	9.8	-39.2	-18.7	-20.8	-1.5	-9.8	74.7	-18.6	-86.1	10.6	7.1	4.0
Average		-2.7	-3.5	-11.4	-13.7	-15.7	-12.4	-16.9	-4.8	-15.7	-54.5	-49.4	-125.2	7.3	7.4	3.6
Exxon Mobil Corporation XOM US	**438,255** USD	**-9.1**	**2.2**	**-1.2**	**-27.0**	**-4.6**	**-20.3**	**-24.0**	**-0.5**	**-17.4**	**-49.8**	**18.0**	**-3.3**	**12.8**	**10.0**	**10.0**

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Exxon Mobil Corporation XOM (NYSE) | ★★★★

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Comparable Company Analysis

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

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Royal Dutch Shell PLC RDS.A USA	19,492 USD	17.0	17.5	18.0	12.4	13.1	13.4	7.7	7.8	8.2	4.2	5.1	4.3	-0.3	3.2	0.9
Chevron Corp CVX USA	21,423 USD	41.1	43.8	46.5	21.9	21.9	21.2	15.7	15.4	12.8	9.4	8.3	7.5	-1.3	0.6	-1.6
Total SA TOT USA	14,292 USD	16.8	16.4	17.9	18.0	15.8	18.1	12.1	10.4	11.6	6.3	5.1	5.1	-1.3	-1.4	0.0
BP PLC BP USA	13,428 USD	17.9	14.6	15.7	12.6	9.4	9.8	8.5	5.4	5.1	3.4	3.4	3.5	-2.3	1.9	0.0
Average		23.2	23.1	24.5	16.2	15.1	15.6	11.0	9.8	9.4	5.8	5.5	5.1	-1.3	1.1	-0.2
Exxon Mobil Corporation XOM US	**32,580** USD	**44.3**	**44.4**	**43.4**	**17.1**	**16.0**	**14.3**	**13.2**	**12.3**	**9.9**	**7.4**	**7.0**	**5.7**	**2.6**	**3.8**	**3.8**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Royal Dutch Shell PLC RDS.A USA	44,562 USD	24.8	23.2	22.9	19.8	18.8	18.6	34.6	32.7	31.5	0.8	0.7	0.8	2.0	1.9	1.9
Chevron Corp CVX USA	20,334 USD	13.6	19.6	22.4	12.0	16.4	18.3	—	144.9	122.5	0.4	0.6	0.9	1.7	1.8	1.8
Total SA TOT USA	45,767 USD	45.7	44.0	42.6	31.4	30.6	29.9	46.1	43.4	41.2	1.1	1.3	1.2	2.4	2.3	2.3
BP PLC BP USA	48,192 USD	35.7	39.8	39.7	26.3	28.5	28.4	46.7	30.7	25.3	1.0	1.5	1.7	2.2	2.3	2.3
Average		30.0	31.7	31.9	22.4	23.6	23.8	42.5	62.9	55.1	0.8	1.0	1.2	2.1	2.1	2.1
Exxon Mobil Corporation XOM US	**22,699** USD	**13.1**	**18.2**	**20.8**	**11.5**	**15.4**	**17.2**	**8,322.4**	**221.1**	**194.8**	**0.3**	**0.5**	**0.6**	**2.0**	**2.0**	**2.1**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Royal Dutch Shell PLC RDS.A USA	222,887 USD	1.54	3.86	1.50	1.11	1.29	1.14	0.79	0.97	0.81	1.16	4.12	1.60	66.1	65.8	70.3
Chevron Corp CVX USA	221,757 USD	8.55	7.93	1.78	1.52	1.48	1.14	1.33	1.29	0.94	44.16	40.38	—	35.2	44.3	61.8
Total SA TOT USA	132,233 USD	9.22	6.58	3.40	1.37	1.28	1.16	1.01	0.92	0.80	1.87	1.34	0.69	63.9	67.5	68.2
BP PLC BP USA	129,584 USD	1.21	1.50	1.01	1.37	1.39	1.26	0.95	0.99	0.86	3.11	4.29	2.85	29.6	69.3	81.1
Average		5.13	4.97	1.92	1.34	1.36	1.18	1.02	1.04	0.85	12.58	12.53	1.71	48.7	61.7	70.4
Exxon Mobil Corporation XOM US	**406,255** USD	**1.11**	**1.47**	**0.15**	**0.83**	**1.07**	**0.97**	**0.60**	**0.78**	**0.69**	**0.31**	**6.06**	**0.94**	**33.4**	**36.9**	**49.1**

Research Methodology for Valuing Companies

Components of Our Methodology

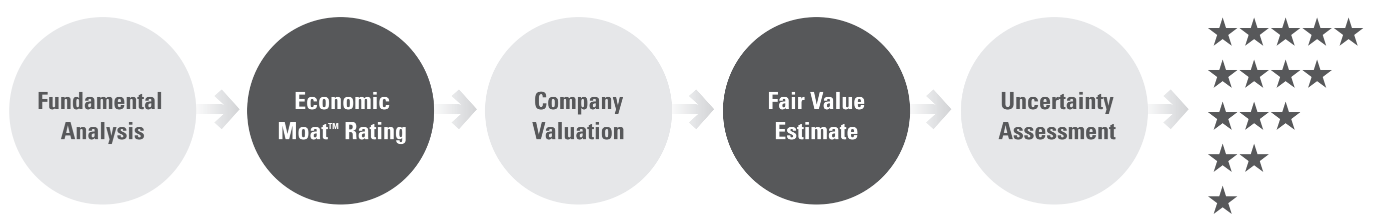
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Fundamental Analysis	Economic Moat™ Rating	Company Valuation	Fair Value Estimate	Uncertainty Assessment	Stars
Analyst conducts company and industry research: ► Financial statement analysis ► Channel checks ► Trade-show visits ► Industry and company reports and journals ► Conference calls ► Management and site visits	Strength of competitive advantage is rated: None, Narrow, or Wide Advantages that confer an economic moat: **High Switching Costs** (Microsoft) **Cost advantage** (Wal-Mart) **Intangible assets** (Johnson & Johnson) **Network Effect** (Mastercard) **Efficient Scale** (Lockheed Martin)	Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows. Assumptions are entered into Morningstar's proprietary discounted cash-flow model.	Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.	The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme. The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.	The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks. The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

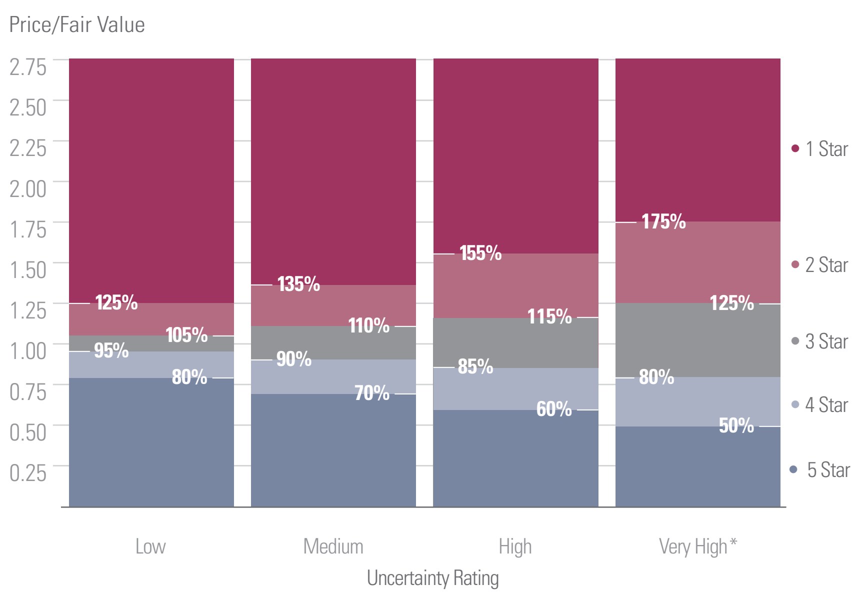
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

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

Morningstar Margin of Safety and Star Rating Bands



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

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

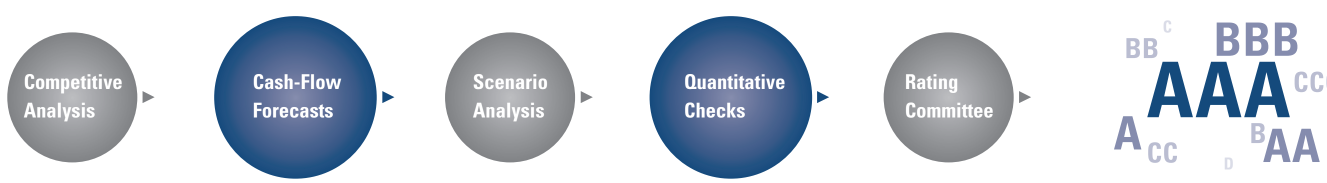
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Competitive Analysis

Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Cash-Flow Forecasts

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Scenario Analysis

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

Quantitative Checks

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Rating Committee

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

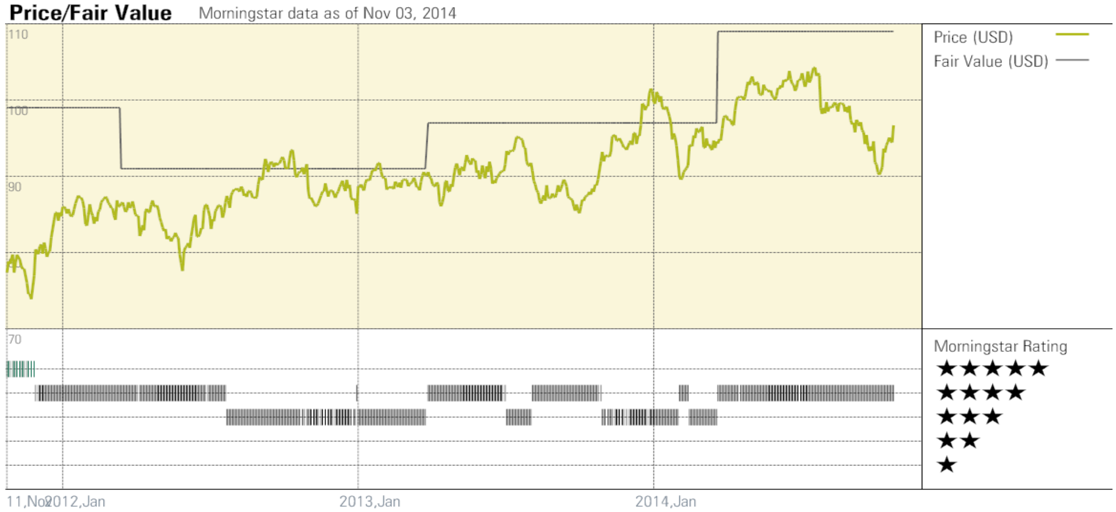
Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Exxon Mobil Corporation XOM (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
95.26 USD	109.00 USD	87.20 USD	136.25 USD	Low	Wide	Negative	Exemplary	AAA	Oil & Gas - Integrated

Price/Fair Value Morningstar data as of Nov 03, 2014



The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from http://global.morningstar.com/equitydisclosures.

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