

Rating: Buy
S&P 500: 1279

Exxon Mobil Corporation **Stronger than the Government**

<i>Symbol</i>	XOM	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	76,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	5
<i>Price (\$/sh)</i>	59.71	<i>Natural Gas and Oil Production/Ebitda (%)</i>	67
<i>Pricing Date</i>	3/8/06	<i>Adjusted Reserves/Production NTM</i>	11.7
<i>Shares (mm)</i>	6211	<i>EV/Ebitda</i>	5.2
<i>Market Capitalization (\$mm)</i>	371,000	<i>PV/Ebitda</i>	6.3
<i>Debt (\$mm)</i>	21,000	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (\$mm)</i>	392,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	33.80
<i>Present Value (PV) (\$mm)</i>	481,000	<i>Present Value Proven Reserves(\$/boe)</i>	15.00
<i>Net Present Value (\$/share)</i>	74	<i>Present Value Proven Reserves(\$/mcf)</i>	2.50
<i>Debt/Present Value</i>	0.04	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.69
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	2.1	<i>Indicated Annual Dividend (US\$/sh)</i>	1.28

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

Buy-recommended **Exxon Mobil Corporation (XOM)** got the endorsement in our subtitle from a Wall Street analyst on Bloomberg TV an hour before the leading energy company was to make an analyst presentation. With nearly a half trillion dollars of present value and essentially no debt, the stock may have lower investment risk than long-term U.S. government debt. The stock also has upside considering our vision of a price for light, sweet crude oil of \$150 a barrel in 2010. Management presented a chart demonstrating a near lock-step equal percentage gain in oil producing profit per barrel with oil price per barrel. Six-year oil futures currently trade at \$64 a barrel. Our estimate of present value of \$74 a share for XOM stock presumes \$50 oil. Stock price at a McDep Ratio of 0.82 implies the stock may be priced for crude oil as low as \$41 a barrel. The main surprise in our latest analysis is that Rest of World natural gas now accounts for 35% of value, up from 20%, partly as a result of proven reserves added in Qatar.

Reserves Point to Future Production

In its presentation to analysts on March 8, management outlined more than 3% per year volume growth generated from a long list of major supply projects. Asia Pacific/Middle East accounts for most of the gains from 2005 to 2010. XOM added six trillion cubic feet of reserves that appear to be associated with expanding liquefied natural gas in Qatar. The tiny sheikdom protected by the entire regional U.S. military command based there has the most natural gas reserves of any country in the world after Russia and Iran. Asia Pacific/Middle East is now the company's leading area for natural gas reserves (see table [Production and Reserves, 2005](#)).

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Exxon Mobil Corporation
Production and Reserves, 2005

	2005 Production		<u>12/31/2005 Proven Reserves</u>			Weighted Life Index (years)	2006 Adjusted R/P (years)
	(daily)	(annual)	Developed (bcf or mmb)	Undeveloped (bcf or mmb)	Weighted (bcf or mmb)		
North American Natural Gas							
U.S.	1,739	635	10,499	3,329	12,164	19.2	
Canada (100%)	918	335	1,527	178	1,616	4.8	
Total	2,657	970	12,026	3,507	13,780	14.2	14.9
Rest of World Natural Gas							
Europe	4,315	1,575	16,558	4,864	18,990	12.1	
Africa			376	465	609		
Asia Pacific/Middle East	2,114	772	13,343	13,055	19,871	25.8	
Russia/Caspian	77	28	1,062	1,032	1,578	56.1	
Other	88	32	313	306	466	14.5	
Total	6,594	2,407	31,652	19,722	41,513	17.2	17.3
Oil							
U.S.	477	174	2,006	520	2,266	13.0	
Canada	346	126	607	225	720	5.7	
Europe	546	199	665	229	780	3.9	
Africa	666	243	1,218	1,094	1,765	7.3	
Asia Pacific/Middle East	332	121	1,189	707	1,543	12.7	
Russia/Caspian	107	39	629	951	1,105	28.3	
Other	49	18	227	224	339	19.0	
Total	2,523	921	6,541	3,950	8,516	9.2	8.9

In oil, surprisingly, the mature U.S. is still the leading area for reserves. That tells how difficult it is for private companies to get access to large oil reserves.

Our regular distinction between North American Natural Gas and Rest of World reflects the different pricing conditions in the two geographic areas. In the U.S and Canada natural gas is priced primarily on a monthly index basis that is almost completely short-term market sensitive. In the rest of the world natural gas is priced primarily on indices that respond more slowly to changing market conditions. The rest of the world is currently lagging the U.S. and Canada despite recent short term declines in North America.

Oil is priced similarly around the world. We take account of differences in taxation by normalizing cash flow.

Adjusted Reserves/Production Increases to 11.7 from 11.2 Years

Normally we summarize a company's reserve position in adjusted life index. The longer the life the higher our estimated present value, or the market's assessment of enterprise value, can be as a multiple of next twelve months cash flow (see table Functional Cash Flow and Present Value).

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Exxon Mobil Corporation
Functional Cash Flow and Present Value

	<i>NTM</i> <u>Ebitda</u>	<i>Adjusted</i> <u>R/P</u>	<i>PV/</i> <u>Ebitda</u>	<i>Present</i> <u>Value</u>	
North American Natural Gas	4,120	14.9	9.7	40,000	8%
Rest of World Natural Gas	12,460	17.3	10.4	130,000	27%
Oil	34,650	8.9	4.8	166,000	35%
Downstream	24,800		5.8	145,000	30%
	76,030	11.7	6.3	481,000	100%
Debt				21,000	
Net Present Value (\$mm)				460,000	
Shares				6,211	
Net Present Value - Standard Estimate (US\$/sh)				74	
Net Present Value - Approximation by Correlation (US\$/sh)				78	

ExxonMobil's index increases by a half year from that in our most recent published analysis in January. Some of the increase is our own doing as we restore arbitrary reductions we made previously when reported reserves exceeded 20 years in some geographic segments. The changes do not prompt a revision to present value, but contribute to a cushion between our official estimate and the approximation by correlation with 30 companies.

Forward estimates complete the summary detail for valuing ExxonMobil (see table Next Twelve Months Operating and Financial Estimates). Futures prices drive the estimates of production cash flow and earnings. There are no widely quoted futures that seem appropriate to drive estimates for downstream operations.

Futures Favor Oil

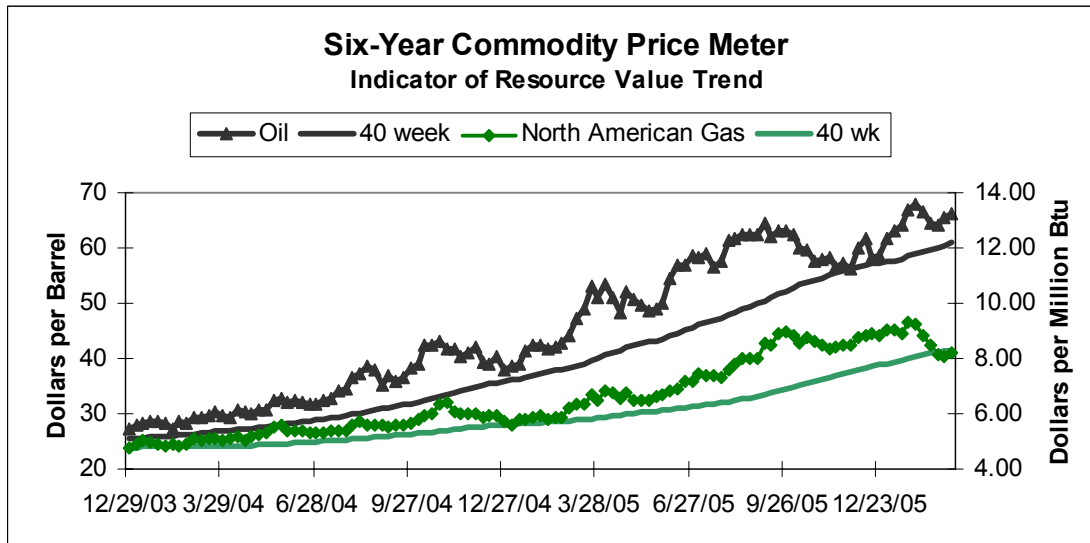
Not only does there appear to be a wide gap between the price of oil reflected in ExxonMobil's stock price and the quote for six-year oil futures, but also the trend in oil price continues to look favorable. The current quote trades above the 40-week average as it has for several years (see chart Six-Year Commodity Price Meter).

The futures market does not think as highly of natural gas as we believe is justified. During the past several years six-year and one-year natural gas has traded between about oil divided by 5 and oil divided by 8. Natural gas and refined oil deliver the same heating value when the natural gas price is the oil price divided by 5. We believe that 5 is the long-term norm. Yet six-year natural gas is priced currently at oil divided by 8, the low end of the range. The current situation appears to offer temporary relief for consumers while an adjustment to higher long term price is underway.

Exxon Mobil Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>Twelve</i>
									<i>Months</i>
									<i>3/31/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	2,532	2,648	2,532	2,532	2,532	2,532	2,532	2,532	2,532
Overseas (or Int'l)	7,290	6,591	7,949	5,964	5,184	7,290	6,591	7,949	6,591
Total	9,822	9,240	10,481	8,496	7,716	9,822	9,123	10,481	9,123
Oil (mbd)	2,629	2,521	2,629	2,629	2,629	2,629	2,629	2,629	2,629
Total gas & oil (mmb)	392	1,482	394	368	360	392	1,515	394	1,515
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	13.00	8.65	8.97	6.76	7.31	8.64	7.92	10.31	8.26
U.S. (or North America)	11.34	7.96	7.83	5.90	6.38	7.54	6.91	8.99	7.19
Overseas (or Int'l)	6.99	5.99	7.34	7.71	8.09	8.50	7.89	8.92	8.36
Total	8.11	6.56	7.46	7.17	7.53	8.25	7.62	8.94	8.04
Oil (\$/bbl)									
WTI Cushing	60.02	56.31	63.12	63.79	66.10	67.18	65.05	67.70	66.20
Worldwide	52.89	50.18	55.63	56.22	58.25	59.21	57.34	59.66	58.33
Total gas & oil (\$/bbl)	51.27	46.07	51.28	51.59	53.96	55.48	53.08	57.25	54.63
NY Harbor 3-2-1 (\$/bbl)	9.06	10.63	4.93	8.56	9.01	8.18	7.67	8.93	8.67
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	2,642	7,700	1,783	1,359	1,486	1,756	6,383	2,049	6,649
Overseas (or Int'l)	4,688	14,407	5,251	4,182	3,859	5,698	18,991	6,382	20,122
Total	7,330	22,107	7,034	5,541	5,345	7,454	25,374	8,431	26,771
Oil	12,793	46,182	13,162	13,450	14,090	14,320	55,021	14,117	55,976
Other	79,540	302,709	79,540	79,540	79,540	79,540	318,159	79,540	318,159
Total	99,662	370,998	99,735	98,531	98,975	101,314	398,555	102,088	400,907
Expense (\$mm)									
Production	7,598	26,033	7,634	7,032	7,254	8,424	30,344	8,811	31,521
Other	73,300	281,314	73,340	73,340	73,340	73,340	293,359	73,340	293,359
Ebitda (\$mm)									
Exploration and Production	12,524	42,256	12,561	11,959	12,181	13,350	50,051	13,737	51,227
Other	6,240	21,395	6,200	6,200	6,200	6,200	24,800	6,200	24,800
Total Ebitda	18,764	63,651	18,761	18,159	18,381	19,550	74,851	19,937	76,027
Exploration	332	969	332	350	350	350	1,382	350	1,400
Deprec., Deplet., & Amort.	2,516	10,101	2,516	2,516	2,516	2,516	10,064	2,516	10,064
Other non cash	-	-	-	-	-	-	-	-	-
Ebit	15,916	52,581	15,913	15,293	15,515	16,684	63,405	17,071	64,563
Interest	150	600	150	150	150	150	600	150	600
Ebt	15,766	51,981	15,763	15,143	15,365	16,534	62,805	16,921	63,963
Income Tax	5,518	18,193	5,517	5,300	5,378	5,787	21,982	5,922	22,387
Net Income (\$mm)									
Exploration and Production	7,038	22,729	-	-	-	-	-	-	-
Other	3,225	11,285	-	-	-	-	-	-	-
Unallocated	(15)	(227)	-	-	-	-	-	-	-
Total	10,248	33,787	10,246	9,843	9,987	10,747	40,823	10,999	41,576
Shares (millions)									
Per share (\$)	6,211	6,315	6,211	6,211	6,211	6,211	6,211	6,211	6,211
Per share (\$)	1.65	5.35	1.65	1.58	1.61	1.73	6.57	1.77	6.69
Ebitda Margin (E&P)	62%	62%	62%	63%	63%	61%	62%	61%	62%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

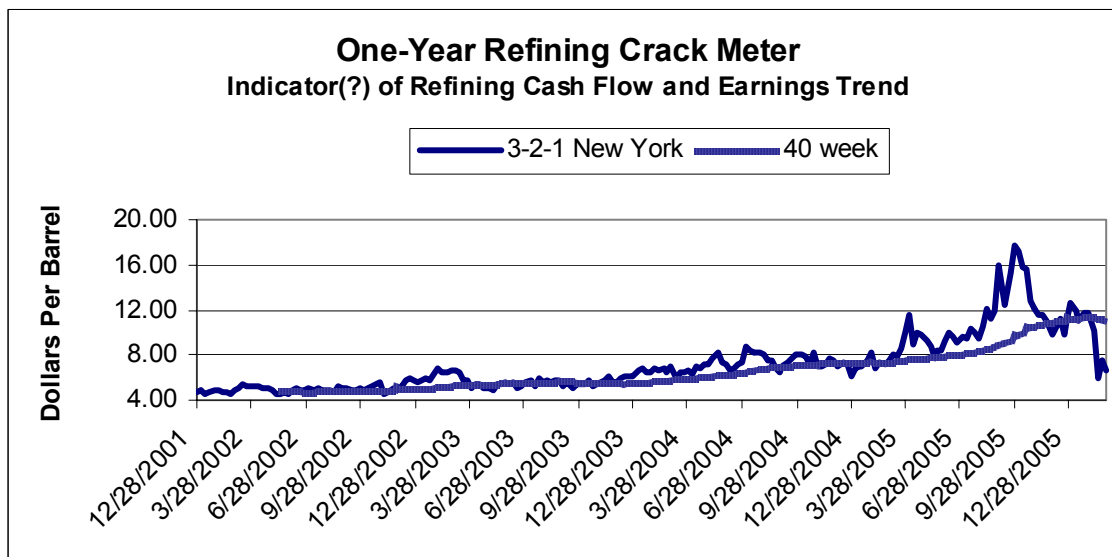
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Futures Confused on Refining

Futures investors have even more difficulty anticipating refining margin, or crack, the difference between the prices of heating oil and gasoline compared to crude oil. There are no publicly quoted six-year futures for refining crack and the one-year data is sketchy. Further, the crack widely quoted applies primarily to simpler refineries that run light, sweet crude while most refining investment is geared to the more intensive processing of heavy, sour crude.

In the absence of an obvious commodity market quote, we rely on our judgment as to the outlook for refining and downstream operations. The main consideration is that the trend to cleaner fuel that favors natural gas also favors more intensive refining. Not only must refined products be cleaner, they must also be derived increasingly from heavy oil. The world capacity to produce light oil apparently peaked in 2004 when Saudi Arabia reached its limits of light oil producing capacity.



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