

Exxon Mobil Corp

A future with unconventional gas and XTO; reinstating coverage with a Neutral rating and \$68 price target

- Heavy emphasis on long term potential benefits** – Exxon Mobil held its first public call on the XTO acquisition following its completion on 25 June. The call provided further clarity on the strategic motives and long term merits of the deal, but we are left somewhat under-whelmed by the key messages: no cost synergy targets, no near term capex synergies and no clarity on sustaining capital needs of the acquired portfolio, no changes to reserve or resource estimates, reaffirmation of near term EPS and return dilution and some time before both effects will be neutralized. It is too early to judge how well Exxon Mobil will manage to retain and incentivise key XTO employees. Management emphasized the long term potential, as so often it does, saying that ‘XTO is not about today’. However, as the global economic outlook weakens, investor time horizons and risk appetite diminish we doubt that investors are willing to pay for the ‘long term’. So, we still find the wavelength of this deal out of sync with this market.
- Deal has already contributed to significant underperformance** – However, we anticipate little negative incremental reaction to the download. Since the deal was announced (11 Dec 2009), Exxon Mobil has generated a total return of -18% compared to -2% from the S&P Index and -8% from its peer, Chevron. The delta relative to Chevron amounts to \$32bn of ‘lost’ market value – almost equal to the size of the entire XTO acquisition (\$36bn). This deal was poorly received by the market and, in our view, it may take 1-2 years before investors become more positive on its economic merits – it will probably need evidence of a sustained recovery in US natural gas prices. That said, we believe in medium term gas price recovery potential and also agree with Exxon Mobil’s pro-gas outlook over the next 10-20 years. We can also see the key role that competitively priced unconventional gas will play supplying the US and potentially other regions – Exxon Mobil now clearly dominates the global unconventional play.
- Set a price target of \$68** – On a deal specific basis and 6-months horizon, we do not see any near term triggers for a rating expansion. The market’s confidence in the deal will likely build slowly, so we are reinstating coverage with a Neutral rating. We set a Jul-2011 price target of \$68 per share, a 20% discount to our SOTP and share price upside potential of 17%.

Neutral

XOM, XOM US

Price: \$58.81

Price Target: \$68.00

UK & US Integrated

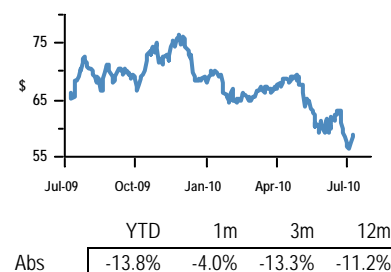
Fred Lucas^{AC}

(44-20) 7155 6131

fred.lucas@jpmorgan.com

J.P. Morgan Securities Ltd.

Price Performance



Exxon Mobil Corp (XOM;XOM US)

FYE Dec	2009A	2010E	2011E	2012E
Adj. EPS FY (\$)	4.01	5.44	6.14	7.11
Adj P/E FY	14.7	10.8	9.6	8.3
Dividend (Net) FY (\$)	1.68	1.76	1.84	1.92
Net Yield FY	2.9%	3.0%	3.1%	3.3%
Bloomberg EPS FY (\$)	3.89	5.65	6.65	7.83
Net Attributable Income FY (\$ mn)	19,420	26,538	30,597	34,865
BV/Sh FY (\$)				
Cash EPS FY (\$)	8.44	12.91	14.40	16.29

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Price (\$)	58.81
Date Of Price	08 Jul 10
Price Target (\$)	68.00
Price Target End Date	31 Jul 11
52-week Range (\$)	76.54 - 55.94
Mkt Cap (\$ bn)	278.0
Shares O/S (mn)	4,727

See page 13 for analyst certification and important disclosures, including non-US analyst disclosures.

J.P. Morgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Summary

Rex Tillerson (CEO) and David Rosenthal (VP IR) hosted yesterday's conference call – the company's first opportunity to disclose more information on the motives and merits of the \$36bn XTO acquisition (announced 11 December 2009 and completed 25 June 2010).

A new organization – XTO Energy Inc - has been created with a head office in Fort Worth, Texas. Keith Hutton, the former CEO of XTO, is EVP of this organisation. An Integration Team will take the next 12-18 months to better understand XTO's work practices and the intricacies of its portfolio.

Exxon Mobil has now established a clear leadership position in US unconventional gas and, in our view, the commercial and political relevance of unconventional gas will only continue to increase. XTO's US gas assets are low cost to develop and produce and offer resource upside – this secures their position in the domestic market's gas merit order of production. Under Exxon Mobil ownership, the performance of XTO assets should improve and there is additional scope for best practice transfer from XTO to Exxon Mobil.

Our key concern has been and remains the dilutive EPS and return effects of this acquisition – a real problem for investors that have long expected Exxon Mobil to sustain leading edge returns via ultimate capital discipline. Unfortunately, we believe that it will be years before this deal demonstrates an acceptable return to Exxon Mobil shareholders and even then the acquisition returns are likely to fall well below the average returns from the balance of Exxon Mobil's upstream portfolio.

Key points

- **Exxon Mobil playing the long term shift to unconventional gas supplies** – We are reminded that this deal is all about positioning Exxon Mobil as a leader in the global market for unconventional gas and, to a lesser extent, unconventional oil (shale). The acquisition is grounded by Exxon Mobil's US / global long term energy outlook. We also sense that such a major move in to unconventional gas also underlines the depletion challenges of conventional gas and, more broadly, the difficulties accessing attractive green field gas projects around the world (e.g. piped gas from Alaska or green field LNG in parts of West Africa). With 8.1m net acres of unconventional resource acreage (table 1), Exxon Mobil has, via this acquisition, leapfrogged the competition in one big step. It becomes the largest US gas producer, producing 50% or more than its closest rivals (Apache, Chesapeake and BP). Exxon Mobil's long term view of markets is generally not too apparent – this time it is and management is expressing a clear view about the long term importance of low cost gas supplies. Exxon Mobil's long term views are certainly worth noting – we believe that they have an information (technical, commercial and political) and forecasting edge over most other players (although it is clearly not a supreme advantage, otherwise Exxon Mobil would have presumably built more of an unconventional exposure organically). Management acknowledged that Exxon Mobil had reviewed a number of corporate acquisition

opportunities – this one fitted best and was also brought to them by the XTO board.

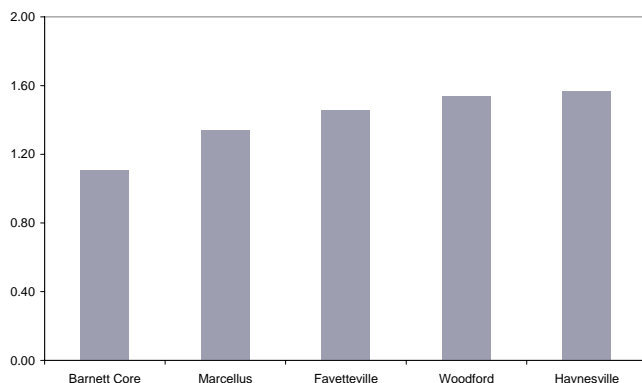
Table 1: Exxon Mobil - unconventional resource acreage positions

	Net acreage (k)		Net acreage (k)
USA		Canada	
Barnet Shale	265	Horn River Basin	310
Woodford Shale	210	Germany	
Fayetteville Shale	380	Lower Saxony Basin	850
Marcellus Shale	425	Coal Bed Methane	1,850
Haynesville / Bossier Shale	215	Poland	
Eagle Ford Shale	50	Podlasie and Lubline Basins	1,360
Bakken Shale	450	Indonesia	
Freestone Trend	380	Barito Basin CBM	290
San Juan-Raton Basins	400	Argentina	
Unita Basin	265	Neuquen Basin	110
Piceance Basins	300		
TOTAL	3,340	TOTAL	4,770

Source: Company reports.

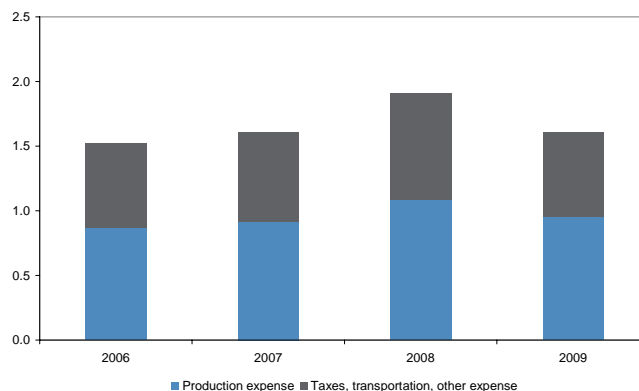
- No explicit near term capex synergies** – Management guided to simply add the 2010 capex for XTO (\$4bn or \$2bn H2 2010) to Exxon Mobil’s 2010 guidance spend of \$28bn. This implies an Exxon Mobil capital spend of around \$30bn in 2010 and potentially \$32bn in 2011. However, we recognize that this is still very early days (only 13 days since deal completion) - we still expect material capex optimization to have been achieved. Management was unsure about the sustaining capex requirement of the acquired portfolio. Management would also not comment on its ability or its desire to modify its capex opportunistically with the gas price. It did, however, indicate that the newly formed organization (XTO Energy Inc.) will ‘have some latitude’ to add to its acreage positions, as legacy XTO used to do by acquiring lease-line and adjacent shale acreage. As per Figure 1, XTO’s unit finding & development costs are competitive in all five of its core gas shale heartlands.

Figure 1: XTO - US unit finding & development costs (\$ per KCFE)



Source: Company reports.

Figure 2: XTO – unit cash operating costs (\$ per KCFE)

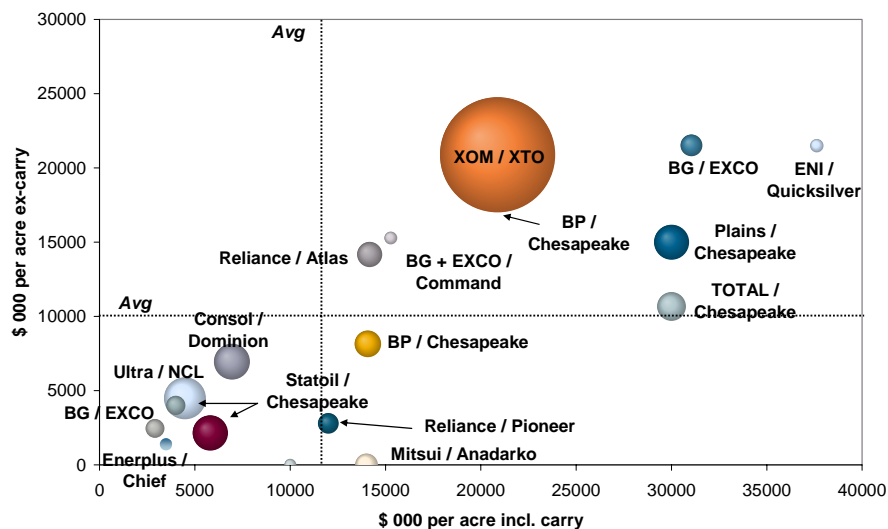


Source: Company reports.

- **No target operating cost reductions, but an intention to reduce costs** – We note that management acknowledged that the cost environment in some of the US gas shale areas is ‘quite heated’. This is consistent with our latest market intelligence which suggests that smaller players facing lease expiries and with the benefit of some price hedging remain very active in certain shale areas. Exxon Mobil clearly believes that XTO managed its operating costs efficiently across the cycle – this is supported by XTO unit opex data (Figure 2). Even though this data excludes gas gathering and processing and G&A expenses, it shows that XTO assets will generate a substantial operating cash flow given a US gas price of \$4-5 per mmbtu. Management frequently complimented XTO on the efficiency of its operations, going so far as to suggest that there will be benefits as Exxon Mobil learns best practice from XTO and applies it to both its unconventional and conventional resource businesses. Management acknowledged that having downsized post-Mobil in the Lower 48, Exxon Mobil lost some of its competitive advantages. To that end, Exxon Mobil is retaining most of XTO’s 3,300 employees. So, whilst we expect medium term efficiency gains, we have no target nor do we have any real visibility on the potential for operating cost savings. That said, we can see how the scale of Exxon Mobil’s US gas shale presence and its global procurement and resource deployment powers ought to lead to a competitive cost position relative to its smaller competitors, whatever the cost environment.
- **Less than 10% pro forma EPS dilution** – Exxon Mobil reaffirmed EPS dilution arising from the acquisition. Management cautioned that the acquisition would not be EPS accretive ‘for some time’. It indicated that had the deal been effective throughout Q1 2010, reported diluted clean EPS of \$1.33 would have been reduced by around 10 cents or 8%. However, we note that when the deal was first announced, consensus 2010 (2011) earnings for XTO (source IBES) were \$1,261m (\$1,255m). When the deal was completed, 2010 (2011) consensus earnings had fallen by 11% (36%) to 1,128m (\$804m). So, adjusting for the fall in the value of Exxon Mobil’s share price (down 19% from announcement to completion), which reduced the equity value of the deal by 19% from \$30.3bn to \$24.5bn, the implied 2011E XTO exit multiple has actually increased from 24x to almost 31x. This creates the near term return dilution that so concerns Exxon Mobil shareholders, in our view. We do not make any material changes to our current Exxon Mobil 2010-12 EPS estimates that remain below consensus (JPM 2010E \$5.44 versus IBES \$5.65, JPM 2011E \$6.14 versus IBES \$6.65 – see Figure 10).
- **Share buy back to rise to \$3.0bn Q3 2010 from \$2.5bn in Q2** – The intensity of Exxon Mobil’s share buy back has been constrained since end 2009 by technical issues related to the XTO acquisition between its announcement (11 December 2009) and completion (25 June 2010). Following guidance for \$2.5bn in Q2 2010, Exxon Mobil now guides for a \$3.0bn buy back program in Q3 2010. We sense an expectation that this quarterly rate might have been increased more. We reduce our expected buy back from \$12.5bn to \$11.5bn in FY 2010 (Q1 and Q2 at \$2.5bn, Q3 at \$3.0bn and Q4E at \$3.5bn). We are not sure whether this may herald a diminished interest in share repurchases.
- **Transaction still looks ‘pricey’, in our view** – When we compare the US shale acreage costs of this deal to other recent comparable gas shale transactions, we still believe it was a relatively expensive land grab for Exxon Mobil shareholders (Figure 3) and one which will take years to generate an acceptable return on

capital. We accept that assigning the full acquisition cost (\$36bn) to just the US oil and gas shale acreage (1,250 million net acres gas shale plus 450 million net acres oil shale) omits any potential value in the international gas shale acreage (365 million net acres) – so the headline \$ per acre is inflated accordingly. On a more conventional \$ per boe metric, \$4.7 per boe of resources (45 TCFe or 7.5 bn boe) looks a little more reasonable. Management highlighted the potential to improve recovery factors as a key to raising the deal's long term returns, but did not quantify the upside to the 45 TCFe.

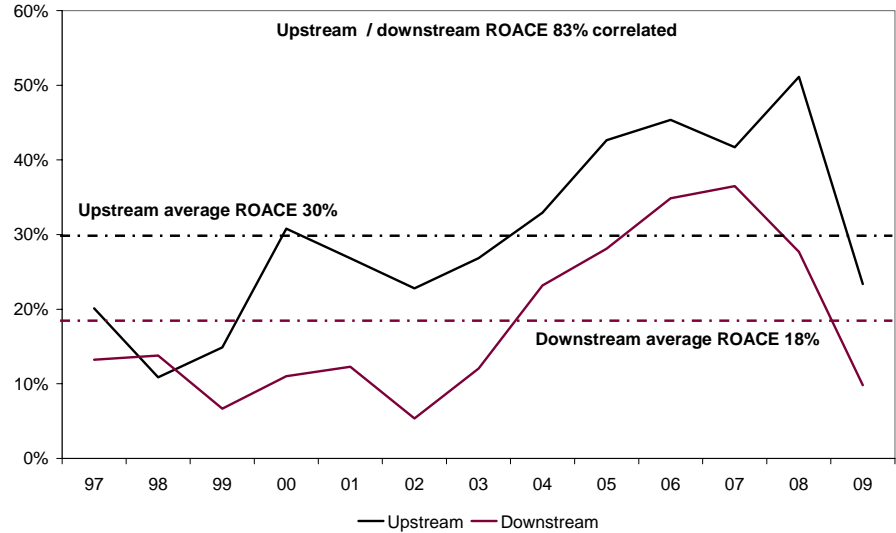
Figure 3: US gas shale transaction - size and acreage multiples



Source: J.P. Morgan. Blob size corresponds to monetary EV of deal.

- Return dilution to Exxon Mobil is unavoidable and will take many years to shake off** – We note that 2010 consensus earnings for XTO (\$804m, source IBES) implies a simple net return of just over 2% on acquisition capital of around \$36bn (comprising debt of \$11bn and Exxon Mobil equity of \$25bn). Clearly, the deal needs capex / operating synergies and a higher natural gas price to generate a more reasonable return of 10-15%. Indeed, without revealing its long term US gas price forecast, management acknowledged that it assumes the US gas price will be higher than it is today. Even so, returns of 10-15% will be more than half Exxon Mobil's long run historic upstream returns of 30% measured 1997-2010 (Figure 4). On the one hand, management was open on this issue, acknowledging that it will take time before the deal shows an acceptable return. However, management also denied that Exxon Mobil was moving away from a return focused business model.

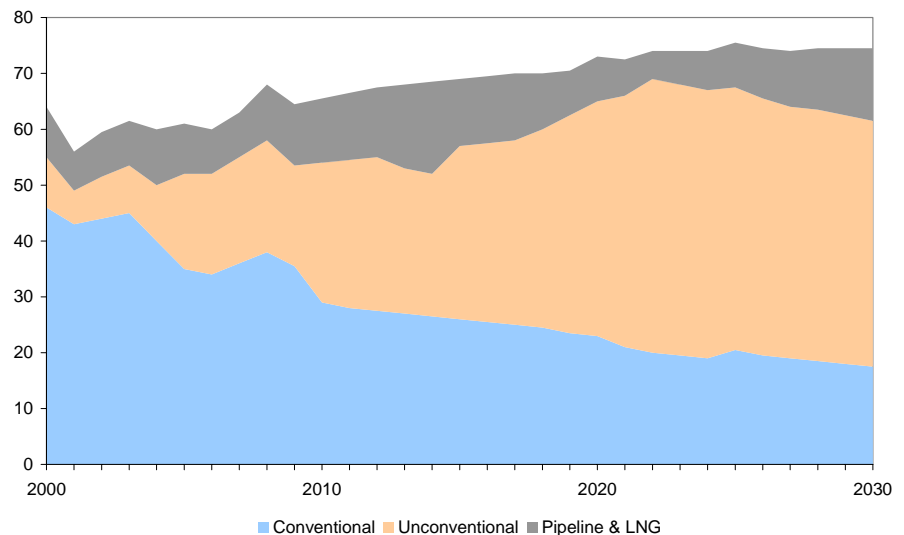
Figure 4: Exxon Mobil - historic segment post-tax ROACE



Source: J.P. Morgan.

- Heavy emphasis on the long term benefits** – Exxon Mobil’s CEO emphasized that his desire to pursue this deal was strongly influenced by Exxon Mobil’s outlook for global gas demand and, more specifically, for the continued heavy decline in US conventional gas production. Between 2000 and 2030, Exxon Mobil expects US conventional gas supplies to fall by more than 50%. By 2030, it also expects US unconventional gas supplies to have doubled to over 40 bcfpd from c.20 bcfpd in 2010 (Figure 5). As a reminder, this transaction continues to underline the potentially important role that unconventional gas will play, both in the US and the world’s gas markets. Management acknowledged that Exxon Mobil would have found it very difficult to replicate XTO’s position organically.

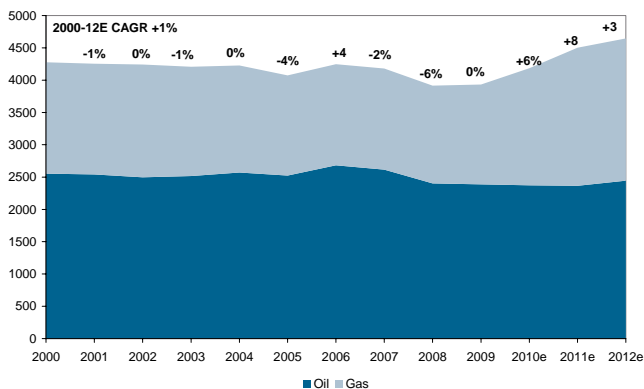
Figure 5: US gas - sources of supply (BCFPD)



Source: J.P. Morgan.

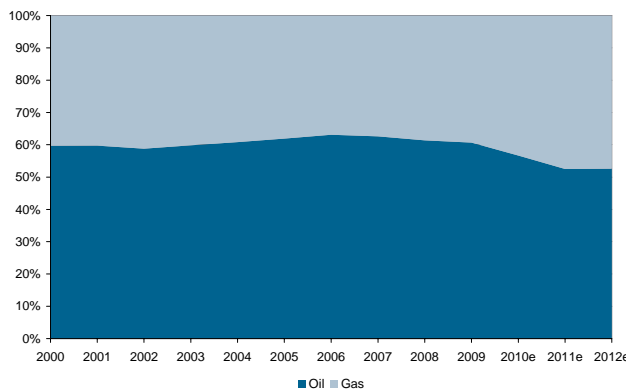
- XTO’s price hedges will be left to run-off, but some of its debt may be opportunistically retired** – Although Exxon Mobil will continue to assess the merits of canceling or offsetting the price hedges that XTO has in place, its guidance, for now, is to expect them to run-off naturally: 2010E 1.2 bcpfd or 50% of XTO gas output and 70 kboepd or 82% of XTO liquids output. The hedged volumes decline significantly in 2011 to just 0.25 bcpfd of gas. Unsurprisingly, Exxon Mobil will not add any new hedges to XTO’s books – its financial policy remains one which accepts market price risk since it has no financial reason to do otherwise. Management does not feel that Exxon Mobil’s capacity to reinvest will be competitively disadvantaged by not hedging. XTO’s debt of \$11bn may, however, be opportunistically retired since Exxon Mobil’s borrowing costs are well below those of legacy XTO. If Exxon Mobil’s positive US gas price outlook proves correct (as we suspect it will), the competitive relevance of hedging should diminish anyway.
- Positive production impact** – We maintain our production outlook that shows Exxon Mobil now entering a period of well above trend production growth (Figure 6). Our model shows Exxon Mobil’s gas mix rising from c.44% of total output in 2010 to 47% by 2012 (figure 7). Without being at all specific, management expects the XTO portfolio of assets to sustain a growing production profile from the current level of 485 kboepd as the acreage is drilled. Management did not give any details on which specific play areas will be drilled as a priority. However, it commented that XTO is currently operating over 70 rigs, up 50% from year end 2009, and has plans to drill 1,000 wells.

Figure 6: Exxon Mobil - production outlook



Source: J.P. Morgan.

Figure 7: Exxon Mobil - production mix, oil versus gas



Source: J.P. Morgan.

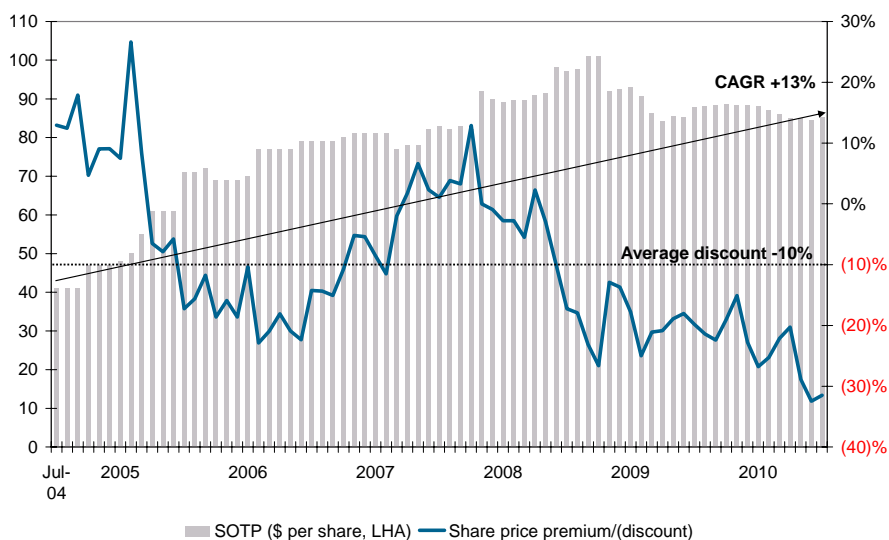
- No change to exploration strategy** – Although this deal clearly shifts Exxon Mobil’s exploration to the onshore and to unconventional gassy resource plays, management did not signal a retrenchment from Exxon Mobil’s new concept offshore exploration areas, even though they have so far revealed little by way of tangible to benefit to shareholders e.g. pre-salt Santos Basin, offshore Brazil.
- Relationship with BP is unchanged** - As an aside, management commented that Exxon Mobil’s various JVs with BP are unaffected by the Macondo incident. Exxon Mobil has always exercised heavy influence as a non-operator and understands the risks very well.
- Limited impact on our Exxon Mobil sum-of-the-parts value** – When we adjust for the new Exxon Mobil shares issued (416m), incremental acquisition debt

(\$11bn) and the acquired resources (14.5 TCFe proven and 45 TCFe total resources), our sum-of-the-parts value for Exxon Mobil is little changed at around \$85 per share (Figure 9). We note that Exxon Mobil's pro forma resource base of 82 bn boe is 24% larger than its closest rival (RD Shell 66 bn boe) and 29% larger than its second closest rival (BP 63.6 bn boe). We also note that management estimates that approximately 25% of Exxon Mobil's total resource base is now unconventional oil and gas.

Derivation of price target

- As per Figure 8, Exxon Mobil is now languishing at the most extreme discount that we have ever recorded – 32% versus an historical average discount of 10%. We do not expect Exxon Mobil to revisit its trend discount of 10% near term, especially given the perceived higher risk profile of the space following the Macondo well incident and the deteriorating global economic outlook. We define a July 2011 price target of \$68 per share, a 20% discount to our SOTP value. This equates to a 2010E (2011E) PER of 12.5x (11.1x).

Figure 8: Exxon Mobil - sum-of-the-parts history and share price rating



Source: J.P. Morgan.

Figure 9: Exxon Mobil – sum-of-the-parts value

EXXON MOBIL SUM-OF-PARTS VALUE		Valuation parameter				(\$m)	(% GAV)
09/07/2010 18:52		Proven oil (mmb) YE 2009	Proven gas (bcf) YE 2009	Oil (\$/bbl)	Gas (\$/boe)		
Upstream							
- US including XTO	Developed	1,490	14,832	15.2	17.4	67,190	14%
	Undeveloped	482	11,470	13.5	15.5	37,114	8%
- Europe	Developed	386	12,782	13.5	13.5	35,059	7%
	Undeveloped	131	3,391	11.9	11.9	8,498	2%
- Asia Pacific / Middle East	Developed	2,388	25,329	7.4	7.4	50,055	11%
	Undeveloped	506	10,260	5.9	5.9	13,400	3%
- Africa	Developed	1,122	739	11.6	11.6	14,493	3%
	Undeveloped	785	181	9.5	9.5	7,754	2%
- Middle East	Developed	0	0	9.5	9.5	0	0%
	Undeveloped	0	0	8.2	8.2	0	0%
- Russia / Caspian	Developed	641	1,139	6.9	6.9	5,765	1%
	Undeveloped	802	1,016	5.9	5.9	5,804	1%
- Canada / South America	Imperial Oil (IMO CN) enterprise value		69.6%	C\$38.92	847.6	21,842	5%
	Other - Sabre Offshore Energy Project - 51.0%	41	1,071	14.0	14.0	3,156	1%
	Terra Nova - 22.0%	77	0	14.0	14.0	1,078	0%
	Hibernia - 33.1%	215	0	14.0	14.0	3,012	1%
- Bitumen / Synthetic Oil	Developed	1,159	0	0.0	0.0	0	0%
	Undeveloped	1,587	0	0.0	0.0	0	0%
	Total YE 2009 proven reserves SEC	11,632	82,328	25,826		274,222	58%
	SMDCF of proven reserves at YE 2009 \$m	108,135		Implied \$ per proven boe		10.6	0%
- World	Probable reserves	8,142	61,181	2.25		42,054	9%
	Possible reserves	16,329	122,692	0.25		9,371	2%
	Total hydrocarbon resources at YE 2009	36,104	266,201	82,000		7,500	2%
	Pipelines					333,147	71%
				Implied 2010E EV/EBITDAX		7.0	
				Implied \$ per resources boe		4.1	
		Net refining capacity (mbopd)	Average size (mbopd)	(\$/bopd)			
Refining	Europe less France	1,388	300	7.5		10,410	2%
	US Gulf Coast	1,518	404	10.0		15,180	3%
	US Midwest	300	150	9.0		2,700	1%
	US West Coast	150	150	10.0		1,500	0%
	Asia Pacific less Japan and Malaysia	732	327	5.0		3,660	1%
	Latin America, Africa, Saudi Arabia etc	330	111	2.5		825	0%
	Shipping - International Marine Transportation Limited	4,418				810	0%
	Esso Thailand [ESSO TB] enterprise value - Thailand		67.5%	3,461	€5.3	1,150	0%
	Esso STE [ES FP] enterprise value - France		75.6%	13	€100.3	1,475	0%
	Esso Malaysia Berhad [ESSO MK] enterprise value - Malaysia		65.0%	270	€2.5	138	0%
	TonenGeneral Sekiyu K.K. [5012 JP] enterprise value - Japan		50.0%	565	800	3,023	1%
						40,871	9%
		Site number ex. Canada / Japan		(\$m per site)			
Marketing	US - owned / leased	1,921		1.5		2,882	1%
	US - distributors / resellers	8,295		0.8		6,221	1%
	Europe - owned / leased	4,153		1.0		4,153	1%
	Europe - distributors / resellers	2,674		0.6		1,604	0%
	Asia Pacific - owned / leased less Japan, Malaysia	1,655		0.9		1,490	0%
	Asia Pacific - distributors / resellers	2,910		0.4		1,164	0%
	Latin America - owned / leased	587		0.6		352	0%
	Latin America - distributors / resellers	1,350		0.4		540	0%
	Middle East / Africa - owned / leased	331		1.0		331	0%
	Middle East / Africa - distributors / resellers	150		0.5		75	0%
		Capital employed (\$m)		Capital employed multiple (x)			
	Lubricants - Exxon, Mobil, Mobil1	3,000		2.5		7,500	2%
	Aviation, commercial, bitumen, LPG, marine					1,500	0%
						27,812	6%
				Implied 2010E EV/EBITDA downstream		15.7	
		2010E EBITDA (\$m)		EBITDA multiple (x)			
Chemicals		5,312		9.0		47,806	10%
			Capital employed - \$m	16,560		2.9	
		Net capacity (million T)		(\$m per million T)			
LNG	- Arun LNG (30%)	Trains 1-4 operational	2.4	500		1,200	0%
	- RasGas	Trains 1-7	10.7	900		9,673	2%
	- Qatar LNG	Trains 1-5	4.7	900		4,243	1%
	- Nigeria LNG	Technical study	1.0	50		50	0%
	- Angola LNG	Engineering study underway	0.0	100	0.0%	0	0%
	- Gorgon LNG	Conditional govt. approval	0.8	100		84	0%
	- LNG carriers / terminals	Q-Flex and Q-Max vessels, terminals UK / Italy / US (Golden Pass)				1,500	0%
						16,750	4%
		2010E earnings		PER (x)		1,800	0%
Power	60% - 3 stations in HK (6,300 MW) - Black Point (2,500 M)	200		9.00			
	51% - 1 station in PRC (600 MW)						
Corporate infrastructure	Offices, real estate, patents					3,250	1%
Miscellaneous	Coal - Monterey coal mine (sold Q1 2009)	100%				150	0%
	Helium - world's largest wholesale marketer (4 mmcfpd)					500	0%
						472,085	100%
Gross corporate asset value						10,862	
	Consolidated cash @ end 2009					(9,605)	
	Consolidated debt @ end 2009					(11,000)	
	Other liabilities including XTO debt					462,342	
Enterprise value						(4,230)	(1)%
	Associate debt less minority share of debt @ end 2009					(7,571)	(2)%
	Funded pension fund deficit @ end 2009					(4,954)	(1)%
	Unfunded pension fund obligations @ end 2009					(4,052)	(1)%
	NPV of post-retirement healthcare and life insurance obligations at end 2009					(3,226)	(1)%
	Potential litigation provisions - Valdez, US retailers, Alabama royalties (1995)					438,309	(1)%
	Sum-of-parts equity value					85.3	(5)%
	Sum-of-parts value \$ per share						
	Implied share price premium / (discount) to S&P	5,139	million shares in issue at year end Q1 2010 (fully diluted) adjusted for XTO			\$58.45	(31)%

Source: J.P. Morgan.

Figure 10: Exxon Mobil – summary financials and valuation

Earnings - \$m *	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Exploration & Production	12,802	16,675	22,729	26,258	26,455	33,781	17,107	24,273	25,634	27,142
Gas & Power	0	0	0	0	0	0	0	0	0	0
Oil Products	3,516	6,256	7,882	8,454	9,573	8,151	1,781	1,438	3,292	5,402
Chemicals	1,432	3,428	3,403	4,382	4,563	2,957	2,309	3,597	4,356	4,991
Corporate	(720)	(479)	(154)	24	(23)	(830)	(1,777)	(2,770)	(2,684)	(2,689)
Net income	17,030	25,880	33,860	39,118	40,568	44,059	19,420	26,538	30,597	34,865
Net interest	-	-	-	-	-	-	-	-	-	-
Tax	-	-	-	-	-	-	-	-	-	-
Tax rate	-	-	-	-	-	-	-	-	-	-
Post tax income	17,030	25,880	33,860	39,118	40,568	44,059	19,420	26,538	30,597	34,865
Minorities	-	-	-	-	-	-	-	-	-	-
Net income	17,030	25,880	33,860	39,118	40,568	44,059	19,420	26,538	30,597	34,865
EPS (\$)	2.56	3.97	5.35	6.56	7.27	8.47	4.01	5.44	6.14	7.11
Growth (%)	50%	55%	35%	23%	11%	17%	(53)%	36%	13%	16%
DPS (\$)	0.98	1.06	1.14	1.28	1.40	1.60	1.68	1.76	1.84	1.92
Growth (%)	7%	8%	8%	12%	9%	14%	5%	5%	5%	4%
* Before exceptionals and specials.										
Cash flow - \$m	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Operating cash flow	28,498	40,551	48,138	49,286	52,002	59,725	28,438	41,944	47,716	52,745
Interest, tax, other	-	-	-	-	-	-	-	-	-	-
Capital expenditure	(13,668)	(14,273)	(16,649)	(18,066)	(18,425)	(21,813)	(25,243)	(26,156)	(27,299)	(27,632)
Net acquisitions / divestments	2,826	3,967	6,379	3,836	4,595	6,559	2,269	(10,000)	0	0
Other	(2,297)	(6,453)	(3,263)	530	5,929	(3,976)	766	(184)	(215)	(249)
Equity free cash flow **	15,359	23,792	34,605	35,586	44,101	40,495	6,230	5,604	20,202	24,865
Dividends	(6,515)	(6,896)	(7,185)	(7,628)	(7,621)	(8,058)	(8,023)	(8,459)	(9,013)	(9,263)
Net share repurchases	(5,447)	(8,991)	(17,280)	(28,385)	(30,743)	(34,981)	(18,951)	(11,500)	(10,000)	(10,000)
Net cash flow	3,397	7,905	10,140	(427)	5,737	(2,544)	(20,744)	(14,355)	1,189	5,602
Debt adjusted cash flow (DACF)	28,407	40,309	47,354	47,967	50,554	58,844	28,709	42,499	48,139	52,955
Balance sheet - \$m	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Year end net debt / (cash)	(1,081)	(14,842)	(25,284)	(24,501)	(24,934)	(22,582)	(1,257)	13,098	11,909	6,307
Year end book equity	89,915	101,756	111,186	113,844	121,762	117,523	115,392	146,828	158,412	174,014
Net debt / equity (%)	(1)%	(15)%	(23)%	(22)%	(20)%	(19)%	(1)%	9%	8%	4%
Net debt / equity + net debt (%)	(1)%	(17)%	(29)%	(27)%	(26)%	(24)%	(1)%	8%	7%	3%
Year end capital employed	88,834	86,914	85,902	89,343	96,828	94,941	114,135	159,926	170,321	180,321
Average capital employed	88,588	87,874	86,408	87,623	93,086	95,885	104,538	137,030	165,123	175,321
Post tax net ROACE (%)	19%	29%	39%	45%	44%	46%	19%	19%	19%	20%
Valuation	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Share price (\$)	58.8									
Average shares in issue - m	6,634	6,482	6,290	5,930	5,557	5,186	4,821	4,854	4,953	4,876
Equity market value - \$m	390,146	381,206	369,915	348,714	326,829	304,989	283,530	285,491	291,261	286,734
Year end net debt / (cash) - \$m	(1,081)	(14,842)	(25,284)	(24,501)	(24,934)	(22,582)	(1,257)	13,098	11,909	6,307
Market enterprise value - \$m	389,065	366,364	344,631	324,213	301,895	282,407	282,273	298,588	303,170	293,040
PER (x)	23.0	14.8	11.0	9.0	8.1	6.9	14.7	10.8	9.6	8.3
EV/DACF (x)	13.7	9.1	7.3	6.8	6.0	4.8	9.8	7.0	6.3	5.5
Dividend yield (%)	1.7%	1.8%	1.9%	2.2%	2.4%	2.7%	2.9%	3.0%	3.1%	3.3%
Free cash flow equity yield (%) **	3.9%	6.2%	9.4%	10.2%	13.5%	13.3%	2.2%	2.0%	6.9%	8.7%
Key operational data	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Oil production - kbopd	2,516	2,571	2,523	2,681	2,616	2,403	2,387	2,372	2,365	2,444
Growth (%)	1%	2%	(2)%	6%	(2)%	(8)%	(1)%	(1)%	(0)%	3%
Gas production - mmcfpd	10,149	9,932	9,311	9,405	9,384	9,081	9,273	10,878	12,828	13,222
Growth (%)	(3)%	(2)%	(6)%	1%	(0)%	(3)%	2%	17%	18%	3%
Oil equivalent production - kboepd	4,208	4,226	4,075	4,249	4,180	3,916	3,933	4,185	4,503	4,647
Growth (%)	(1)%	0%	(4)%	4%	(2)%	(6)%	0%	6%	8%	3%
2003-12E CAGR (%)	1%									
Organic reserve replacement ratio (%)	117%	103%	132%	98%	127%	138%	119%			
Year end 2009 proven reserves ***		%								
Oil - million barrels	11,651	51%								
Gas - billion cubic feet	68,007	49%								
Oil equivalent - million boe	22,986	100%								
*** Including affiliates, conversion 6 mcf = 1 boe.										
Net refining capacity	kbopd	%								
USA, Canada	2,470	40%								
Europe	1,740	28%								
Asia Pacific	1,670	27%								
Other	330	5%								
	6,210	100%								
Retail gasoline outlets	Number	%								
USA	12,060	44%								
Europe	6,827	25%								
Rest of world	8,833	32%								
	27,720	100%								

Source: J.P. Morgan.

Valuation Methodology and Risks

Exxon Mobil Corp (*Neutral; Price Target \$68.00*)

Valuation Methodology

Exxon Mobil is now languishing at the most extreme discount that we have ever recorded – 32% versus an historical average discount of 10%. We do not expect Exxon Mobil to revisit its trend discount of 10% near term, especially given the perceived higher risk profile of the space following the Macondo well incident and the deteriorating global economic outlook. We define a July 2011 price target of \$68 per share, a 20% discount to our SOTP value. This equates to a 2010E (2011E) PER of 12.5x (11.1x).

Risks to Our View

Macro factors – As an integrated oil & gas company which does not hedge prices or margins, Exxon Mobil's earnings and cash flow are naturally sensitive to oil and natural gas prices.

Industrial accidents – Unexpected industrial accidents involving Exxon Mobil assets could expose the company to loss of earnings and potential litigation risk.

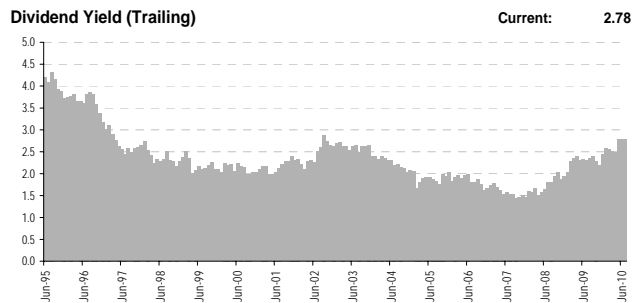
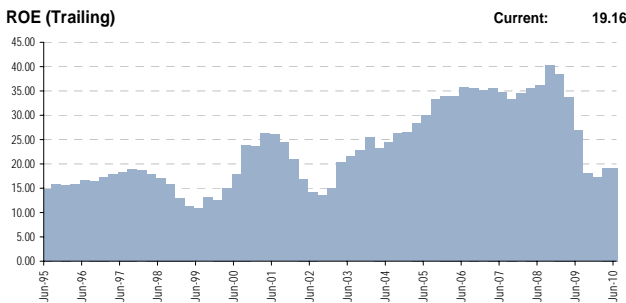
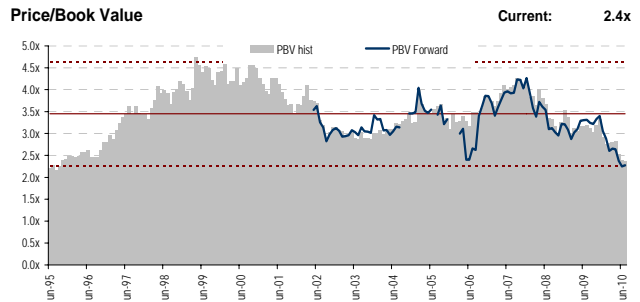
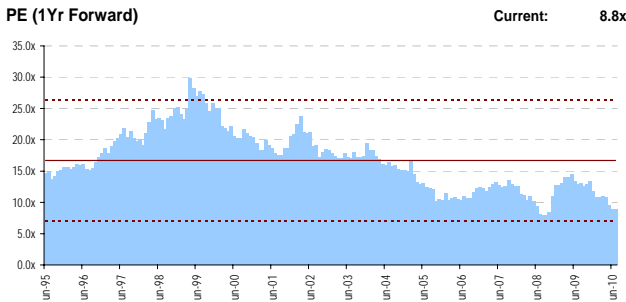
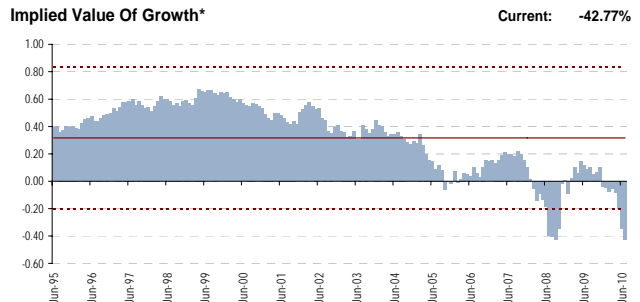
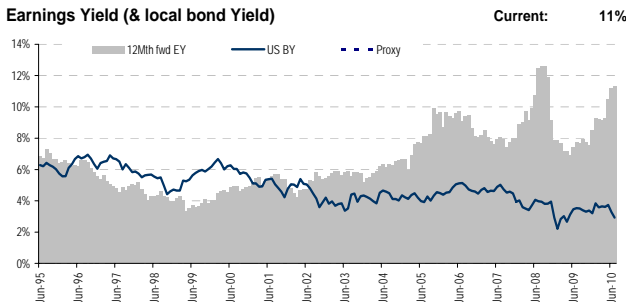
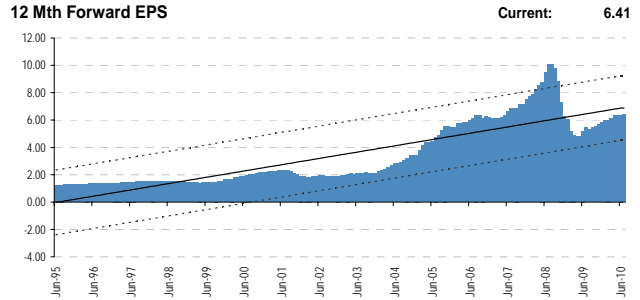
Fiscal regimes – Unexpected or adverse changes to the upstream fiscal regimes that apply to any of Exxon Mobil's key operating areas could reduce its value.

Potential dilution from large acquisitions - Very large acquisitions, funded by Exxon Mobil equity, could dilute Exxon Mobil's returns which could damage its stock market premium rating.

LNG pricing risk – As one of the largest IOC producers of LNG, a prolonged period of LNG market over-capacity could dilute the returns from its LNG projects. Any signs of gas production restraint by the Qataris could also compromise Exxon Mobil's production growth outlook.

JPM Q-Profile
Exxon Mobil Corp. (UNITED STATES / Energy)
 As Of: 02-Jul-2010

Global Equity Quantitative Analysis
 Quant_Strategy@jpmorgan.com



Summary

Exxon Mobil Corp.		SEDOL		2326618		As Of:		2-Jul-10			
UNITED STATES						Local Price:		56.61			
Energy						EPS:		6.41			
	Latest	Min	Max	Median	Average	2 S.D. +	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	8.83x	7.94	29.88	16.54	16.68	26.33	7.02	-10%	238%	87%	89%
P/BV (Trailing)	2.36x	2.15	4.75	3.44	3.45	4.63	2.27	-9%	101%	46%	46%
Dividend Yield (Trailing)	2.78	1.45	4.32	2.28	2.36	3.57	1.15	-48%	55%	-18%	-15%
ROE (Trailing)	19.16	10.82	40.23	20.85	23.22	39.62	6.81	-44%	110%	9%	21%
Implied Value of Growth	-42.8%	-0.43	0.67	0.38	0.32	0.83	-0.20	0%	257%	189%	174%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

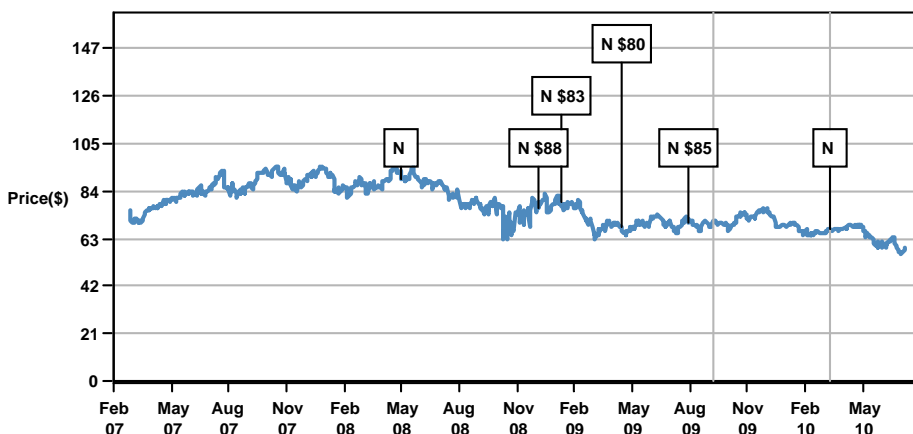
Analyst Certification:

The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst’s compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures

- **Market Maker/ Liquidity Provider:** JPMSL and/or an affiliate is a market maker and/or liquidity provider in Exxon Mobil Corp.
- **Client of the Firm:** Exxon Mobil Corp is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company investment banking services and non-investment banking securities-related services.
- **Investment Banking (past 12 months):** JPMSI or its affiliates received in the past 12 months compensation for investment banking services from Exxon Mobil Corp.
- **Investment Banking (next 3 months):** JPMSI or its affiliates expect to receive, or intend to seek, compensation for investment banking services in the next three months from Exxon Mobil Corp.
- **Non-Investment Banking Compensation:** JPMSI has received compensation in the past 12 months for products or services other than investment banking from Exxon Mobil Corp. An affiliate of JPMSI has received compensation in the past 12 months for products or services other than investment banking from Exxon Mobil Corp.

Exxon Mobil Corp (XOM) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
01-May-08	N	89.70	--
04-Dec-08	N	76.27	88.00
09-Jan-09	N	79.09	83.00
15-Apr-09	N	68.14	80.00
31-Jul-09	N	70.39	85.00
11-Mar-10	N	67.22	--

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage Sep 08, 2009 - Mar 11, 2010. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Explanation of Equity Research Ratings and Analyst(s) Coverage Universe:

J.P. Morgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] J.P. Morgan Cazenove’s UK Small/Mid-Cap dedicated research analysts use the same rating categories; however, each stock’s expected total return is compared to the expected total return of the FTSE All Share Index, not to those analysts’ coverage universe. A list of these analysts is available on request. The analyst or analyst’s team’s coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

Coverage Universe: **Fred Lucas:** BG Group (BG.L), BP (BP.L), Chevron Corp (CVX), Exxon Mobil Corp (XOM), Royal Dutch Shell A (RDSa.L), Royal Dutch Shell B (RDSb.L)

J.P. Morgan Equity Research Ratings Distribution, as of June 30, 2010

	Overweight (buy)	Neutral (hold)	Underweight (sell)
JPM Global Equity Research Coverage	46%	42%	12%
IB clients*	49%	46%	31%
JPMSI Equity Research Coverage	44%	48%	9%
IB clients*	68%	61%	53%

*Percentage of investment banking clients in each rating category.

For purposes only of NASD/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category.

Valuation and Risks: Please see the most recent company-specific research report for an analysis of valuation methodology and risks on any securities recommended herein. Research is available at <http://www.morganmarkets.com>, or you can contact the analyst named on the front of this note or your J.P. Morgan representative.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

Registration of non-US Analysts: Unless otherwise noted, the non-US analysts listed on the front of this report are employees of non-US affiliates of JPMSI, are not registered/qualified as research analysts under NASD/NYSE rules, may not be associated persons of JPMSI, and may not be subject to NASD Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Other Disclosures

J.P. Morgan is the global brand name for J.P. Morgan Securities Inc. (JPMSI) and its non-US affiliates worldwide. J.P. Morgan Cazenove is a brand name for equity research produced by J.P. Morgan Securities Ltd.; J.P. Morgan Equities Limited; JPMorgan Chase Bank, N.A., Dubai Branch; and J.P. Morgan Bank International LLC.

Options related research: If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your J.P. Morgan Representative or visit the OCC's website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>.

Legal Entities Disclosures

U.S.: JPMSI is a member of NYSE, FINRA and SIPC. J.P. Morgan Futures Inc. is a member of the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. **U.K.:** J.P. Morgan Securities Ltd. (JPMSL) is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority. Registered in England & Wales No. 2711006. Registered Office 125 London Wall, London EC2Y 5AJ. **South Africa:** J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul Branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234/AFS Licence No: 238066) is a Market Participant with the ASX and regulated by ASIC. **Taiwan:** J.P.Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Bureau. **India:** J.P. Morgan India Private Limited is a member of the National Stock Exchange of India Limited and Bombay Stock Exchange Limited and is regulated by the Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Indonesia Stock Exchange and is regulated by the BAPEPAM LK. **Philippines:** J.P. Morgan Securities Philippines Inc. is a member of the Philippine Stock Exchange and is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Mexico:** J.P. Morgan Casa de Bolsa, S.A. de C.V., J.P. Morgan Grupo Financiero is a member of the Mexican Stock Exchange and authorized to act as a broker dealer by the National Banking and Securities Exchange Commission. **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMS) [MICA (P) 020/01/2010 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-X) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan. **Saudi Arabia:** J.P. Morgan Saudi Arabia Ltd. is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia (CMA) to carry out dealing as an agent, arranging, advising and custody, with respect to securities business under licence number

35-07079 and its registered address is at 8th Floor, Al-Faisaliyah Tower, King Fahad Road, P.O. Box 51907, Riyadh 11553, Kingdom of Saudi Arabia. **Dubai:** JPMorgan Chase Bank, N.A., Dubai Branch is regulated by the Dubai Financial Services Authority (DFSA) and its registered address is Dubai International Financial Centre - Building 3, Level 7, PO Box 506551, Dubai, UAE.

Country and Region Specific Disclosures

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by JPMSL. Investment research issued by JPMSL has been prepared in accordance with JPMSL's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require that a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. JPMSAL does not issue or distribute this material to "retail clients." The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Germany:** This material is distributed in Germany by J.P. Morgan Securities Ltd., Frankfurt Branch and J.P. Morgan Chase Bank, N.A., Frankfurt Branch which are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months' prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider for derivative warrants issued by J.P. Morgan Structured Products B.V. and listed on the Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk/prod/dw/Lp.htm>. **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, JPMorgan Securities Japan Co., Ltd., will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between JPMorgan Securities Japan Co., Ltd., and the customer in advance. Financial Instruments Firms: JPMorgan Securities Japan Co., Ltd., Kanto Local Finance Bureau (kinsho) No. 82 Participating Association / Japan Securities Dealers Association, The Financial Futures Association of Japan. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul Branch. **Singapore:** JPMS and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules.

General: Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively J.P. Morgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMSI and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMSI distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a J.P. Morgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

"Other Disclosures" last revised March 1, 2010.

Copyright 2010 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of J.P. Morgan.

Fred Lucas
(44-20) 7155 6131
fred.lucas@jpmorgan.com

Global Equity Research
09 July 2010

J.P.Morgan CAZENOVE