March 3, 2008

Sector	Rating
Integrated Oil	MW
Independent Refiners	MU

MO=Market Overweight; MW=Market Weight; MU=Market Underweight; NR=Not Rated

Companies Covered

Company	Price	Rating
BP Plc (ADR)	$65.55	O
Chevron Corp.	$85.42	O
ConocoPhillips	$80.61	P
Exxon Mobil Corp.	$87.17	O
Frontier Oil Corporation	$37.05	U
Hess Corp.	$93.66	P
Marathon Oil Corp.	$51.55	P
Murphy Oil Corporation	$77.12	P
Occidental Petroleum	$73.57	P
Royal Dutch Shell Petroleum (ADR)	$72.47	P
Sunoco, Inc.	$63.59	P
Tesoro Corp.	$39.51	U
Total S.A.	€49.9	O
Total S.A. ADR	$74.75	O
Valero Energy Corp.	$59.93	P
Western Refining Inc	$23.37	U

O=Outperform; P=Peer Perform; U=Underperform

Securities in this report priced as of:
March 03, 2008 market close

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Catalysts: A Glance at Events That Could Make a Difference in the Coming Month

- **EXXONMOBIL'S STRATEGY PRESENTATION WILL BE HELD MARCH 5TH IN NEW YORK.** We expect meeting highlights to include detail on major projects supporting oil and gas production growth in the near term and in the intermediate term, updated capital expenditures guidance, and outlook for distribution of cash to shareholders. No change in strategy anticipated; value-creation remains ExxonMobil's strong suit. CEO Rex Tillerson will be joined by Mark Albers, speaking on the upstream and Steve Simon on downstream operations.
- **MARCH IS A BUSY MONTH FOR STRATEGY PRESENTATIONS BY THE MAJOR OILS.** Chevron on March 11, ConocoPhillips on March 12, and Royal Dutch Shell on March 17. We will provide previews on each as their respective presentation dates approach.
- **OPEC MEETING ON MARCH 5TH IN VIENNA, AUSTRIA.** Some members, primarily Iran and Venezuela, have been privately pushing for cuts as the seasonal soft period approaches along with the potential for an economic slowdown which could negatively impact demand. However, with prices hovering around $100/bbl, it seems unlikely that OPEC would officially reduce output.
- **PLEASE JOIN US FOR THE BEAR STEARNS GLOBAL OIL & GAS CONFERENCE MARCH 19TH & 20TH AT BEAR STEARNS' WORLD HEADQUARTERS IN NEW YORK.** The conference will feature 42 US and international energy companies. Panel topics include: Post-Election Russia Energy Policy, Gas Economics: LNG vs. Pipeline Distribution on Global Gas, West Africa's Strategic Value, and the Role of Small Companies in Developing New Oilfield Technologies. Keynote speakers include: Tony Hayward, CEO of BP, Jeroen van der Veer, CEO of Royal Dutch Shell, T. Boone Pickens, Chairman, BP Capital Management; Alan Schwartz, President and CEO, The Bear Stearns Companies, Inc.; and J. Robinson West, Chairman and Founder, PFC Energy. Please sign up through your Bear Stearns representative.

† All numbers are after stock-based compensation expense, normalized consistent with BSC option expense policy.

ExxonMobil Strategy Presentation. March 5th in New York.

(XOM: Outperform, $105 price target); Projected Reception by Investors: Neutral-Modestly Positive

We expect meeting highlights to include detail on major projects supporting oil and gas production growth in the near term and in the intermediate term, updated capital expenditures guidance, and outlook for distribution of cash to shareholders. No change in strategy anticipated; value-creation remains ExxonMobil's strong suit.

The scheduled speakers for the meeting include: Rex Tillerson, Chairman and CEO; Mark Albers, Senior Vice President – Upstream; and Steve Simon, Senior Vice President – Downstream. The entire event will be webcast at www.exxonmobil.com beginning at 9:00 a.m. ET and concluding at 12:00 p.m.

ExxonMobil posted record net income of $40.6 billion in 2007, a 4% year-over-year improvement, compared to an average 0.4% improvement for the group of integrated oils. Outperformance is impressive, especially given ExxonMobil's earnings are among the least levered to changes in oil prices, which rose $5.96/bbl year over year. Organic reserve replacement came in at a respectable 107%. The company enjoys a competitive advantage through its scale, cost management, and its superior operational skills. It has the largest resource base in the industry, and the project pipeline has the potential to sustain production for at least two decades, by our estimates. Still, ExxonMobil is challenged to continue to grow in an increasingly competitive environment, where much of the world's resource has moved off limits. The growth challenge is likely to be a focal point of ExxonMobil's strategy presentation, though investors should not expect a radical departure from the strategy that the company has consistently used in the past. A key element of its strategy is disciplined investment, which brings projects online at a measured pace, but the pace failed to offset the impact of assets sales and pricing effects on PSC contracts in 2007. Other than 2005, ExxonMobil's 2007 oil and gas production of 4.181 million boe/d was the company's lowest since the merger between Exxon and Mobil. While this is a troubling statistic, we expect ExxonMobil to make a case that value creation has been unmatched, evidenced through returns, finding and development costs, and cash flow. While we believe there can be little argument on this front, the value is difficult to recognize in a rising commodity price environment. ExxonMobil's approach may be better appreciated once (if) commodity prices cool down.

We reiterate our Outperform rating on ExxonMobil, on our view that commodity prices will not continue to rise at the pace seen in the past several years. Our earnings models reflect $75/bbl for WTI in 2008 and 2009. We believe ExxonMobil is best positioned to generate continued strong earnings and cash flow in a lower commodity price environment. Our price target is $105, at which the shares would trade at 14.6x earnings, 11.2x cash flow, and 5.8x EV/EBITDA, based on our 2008 estimates.

Updates are expected on the project pipeline and multi-year growth projections. While XOM's size mitigates the impact of catalysts on the stock price, operational excellence and a steady project pipeline have quietly provided earnings growth. However, a 1.3% decline in worldwide oil and gas production in 2007 has been a source of some concern for investors. Production has been negatively impacted by the company's exit from Venezuela (0.5% of total production), lower natural gas production due to poor demand, and PSC effects. Absence of Venezuela production will continue to negatively impact production growth in 2008, by an estimated 0.5%, and PSC entitlement effects will also be a negative influence. However, start-up of several new projects should fill the gap, as evidenced in the fourth quarter, when year over year production grew by 0.6%, to 4.2 million boe/d. We project production to rise by 1.7% in 2008, to 4.25 million boe/d. Reserve replacement in 2007 was 107%, excluding purchases and sales, and the impact of the exit from Venezuela. We expect more details on the reserve breakout. Pricing impacts reduced reserve replacement by 25 percentage points. ExxonMobil's project pipeline remains healthy, as the company is expected to bring 32 projects online over the next two years, versus 21 in the past two years. Management has previously indicated production to rise from 4.2 million boe/d in 2006, to just under 5 million boe/d in 2011. We expect the company to provide an update on its outlook on this guidance. ExxonMobil's strength has historically been superior exploration, project execution and operational skills, and it is advantaged by having the largest resource base in the industry of 72 billion boe. Management has also emphasized the significance of its long-lived LNG assets and is expected to elaborate on the LNG outlook and projects for 2008, including ExxonMobil-operated RasGas Train 6 and Qatargas II Train 4 in Qatar. We expect ExxonMobil to balance its drilling and development activities with acquisitions that meet the company's criteria for long-term value creation. However, near-term opportunities seem limited at $100/bbl oil.

Exxon Mobil has previously stated that it plans to invest $21-$22 billion per year through 2011. This is approximately flat with the $20.8 billion spent in 2007. The majority of spending, approximately $17 billion, will occur in the upstream. This could be revised upwards given the increase in project costs across all divisions in the sector approaching double digit levels in some cases with consistent increases in materials and labor. However, we expect Exxon Mobil to maintain its disciplined investment approach, which has helped it to achieve the lowest F&D costs in the industry over the past ten years. Management does not disclose an oil price forecast, preferring to gear investments to accommodate the cycle. Above average returns can be generated consistently by managing project costs Efficiency gains help mitigate inflationary pressures. Among ExxonMobil's other businesses, the company views chemicals as an attractive growth business. We expect further details on project investment in the growing Asia/Pacific region. Spending in refining and marketing is expected to be to maintain current operations and for opportunistic brownfield expansion and debottlenecking, similar to its strategy in recent years.

Strong cash flow generation supports dividend increases and share buybacks. Assuming $75/bbl for WTI in 2008, we estimate ExxonMobil will generate free cash flow of $22.0 billion. This, combined with a current cash balance of $34 billion, would support a strong buyback program, which in 2007, reached $28 billion, up from $25 billion in 2006. Competitors have emphasized dividend increases over share buybacks. We suspect ExxonMobil, whose dividend yield is the lowest among the large cap major oils at 1.6%, may signal dividend growth as well. The last dividend increase was late April, 2007 — a 9% increase, to $1.40 per share annually. Dividend increases have grown a generous 10% annually over the past two years.

OPEC meeting on March 5th in Vienna, Austria. Expected outcome: no official change in production quotas.

Recent sharp inventory builds and the approaching period of seasonally softer demand has some members, primarily Iran, Libya and Venezuela, privately pushing for cuts, though this would not be perceived well from a public relations standpoint, with oil prices hovering around $100/bbl. On the other hand, we also perceive it unlikely that higher production quotas will be announced, as our supply/demand model shows the oil markets to be significantly oversupplied in the second quarter, by approximately 1.5 million b/d. While quotas will remain unchanged, we expect Saudi Arabia, whose production has risen to 9.2 million b/d, to reign in production in the coming months to prevent inventories from reaching the bloated levels seen in the recent past. We estimate worldwide inventories to be approximately 1% above the ten-year average, but 48 million barrels, or 5% below a year ago.

ADDENDUM
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Nicole Decker

Companies Analyzed

BP Plc (ADR) (BP) - $65.55 (as of March 03, 2008 market close) - Outperform
Price Target ('08): $85.00
Risk(s) to Price Target - Risks associated with an investment in BP include, but are not limited to: project execution, drilling and production results, legislative and regulatory developments, and geopolitical risks.
Valuation Methodology - EV/EBITDA, P/E, P/CF

Chevron Corp. (CVX) - $85.42 (as of March 03, 2008 market close) - Outperform
Price Target ('08): $105.00
Risk(s) to Price Target - Risks associated with an investment in CVX include, but are not limited to: project execution, drilling and production results, legislative and regulatory developments, and geopolitical risks.
Valuation Methodology - EV/EBITDA, P/E, P/CF

ConocoPhillips (COP) - $80.61 (as of March 03, 2008 market close) - Peer Perform

Exxon Mobil Corp. (XOM) - $87.17 (as of March 03, 2008 market close) - Outperform
Price Target ('08): $105.00
Risk(s) to Price Target - Risks associated with an investment in XOM include, but are not limited to: project execution, drilling and production results, legislative and regulatory developments, and geopolitical risks.
Valuation Methodology - EV/EBITDA, P/E, P/CF

Frontier Oil Corporation (FTO) - $37.05 (as of March 03, 2008 market close) - Underperform

Hess Corp. (HES) - $93.66 (as of March 03, 2008 market close) - Peer Perform

Marathon Oil Corp. (MRO) - $51.55 (as of March 03, 2008 market close) - Peer Perform

Murphy Oil Corporation (MUR) - $77.12 (as of March 03, 2008 market close) - Peer Perform

Occidental Petroleum (OXY) - $73.57 (as of March 03, 2008 market close) - Peer Perform

Royal Dutch Shell Petroleum (ADR) (RDSA) - $72.47 (as of March 03, 2008 market close) - Peer Perform

Sunoco, Inc. (SUN) - $63.59 (as of March 03, 2008 market close) - Peer Perform

Tesoro Corp. (TSO) - $39.51 (as of March 03, 2008 market close) - Underperform

Total S.A. (TOTF.PA) - €49.9 (as of March 03, 2008 market close) - Outperform
Price Target ('08): €63
Risk(s) to Price Target - Risks associated with an investment in TOT include, but are not limited to: project execution, drilling and production results, legislative and regulatory developments, and geopolitical risks.
Valuation Methodology - P/E, P/CF, EV/EBITDA

Total S.A. ADR (TOT) - $74.75 (as of March 03, 2008 market close) - Outperform
Price Target ('08): $92.00
Risk(s) to Price Target - Risks associated with an investment in TOT include, but are not limited to: project execution, drilling and production results, legislative and regulatory developments, and geopolitical risks.
Valuation Methodology - P/E, P/CF, EV/EBITDA

Valero Energy Corp. (VLO) - $59.93 (as of March 03, 2008 market close) - Peer Perform

Western Refining Inc (WNR) - $23.37 (as of March 03, 2008 market close) - Underperform

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Outperform (Buy):	45.0 / 14.3
Peer Perform (Neutral):	46.5 / 9.4
Underperform (Sell):	8.5 / 6.3

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Nicole Decker (Independent Refiners): Frontier Oil Corporation, Sunoco, Inc., Tesoro Corp., Valero Energy Corp., Western Refining Inc

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