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Stock Rating
Overweight

Industry View
Attractive

ConocoPhillips

Resuming Coverage: Overweight, Px Tgt $80

What's Changed	
Rating	**NA to Overweight**
Price Target	**NA to $80.00**

ConocoPhillips Has Major Momentum: Normalized profits projected to rise by 8-10% annually during 2006-2008, with normalized returns on capital near 15%. Raising normalized EPS from $6.10/sh. to $6.20/sh.

Burlington Resources Transaction Positive: The transaction appears modestly dilutive/accretive to our earnings/cash flow projections. Strategically, ConocoPhillips becomes a likely winner in Russia's giant Shtokman project, the largest undeveloped natural gas field in world. Announcement next week.

Financial Flexibility Enhanced: Debt/capitalization is 20%, headed to 14%, with surplus cash flow likely to retire 40-50% of BR acquisition capital by year-end 2007.

ConocoPhillips Price Target Is $80/share: Using our mid-cycle EPS forecast of $6.20/share and an 75% relative earnings multiple, we attain our $80/share price target.

Historic Valuation Opportunity Present in COP? COP has rarely been this in-expensive, in relation to its industry, or the S&P 500, on a variety of measures, during the past decade. Integrated Oils MRO (O, PT $87) and XOM (O, PT $78) represent our other top picks in the industry.

Maintain Attractive View on Integrated Oils/R&M: Integrated Oils appear 15% undervalued based on normalized returns on capital. Independent R&M represents the best value per unit of return in Energy.

Key Ratios and Statistics

Reuters: COP.N Bloomberg: COP US

Integrated Oil / United States of America

Price target	**$80.00**
Shr price, close (Mar 31, 2006)	$63.15
Mkt cap, curr (mm)	$89,434
52-Week Range	$71.48-47.55

Fiscal Year (Dec)	2004	2005	2006e	2007e
ModelWare EPS ($)*	**6.12**	**10.47**	**9.15**	**8.75**
Prior ModelWare EPS ($)	**-**	**-**	**-**	**-**
P/E	**7.1**	**5.6**	**6.9**	**7.2**
Consensus EPS ($)	5.79	9.35	9.69	8.91
Div yld (%)	2.1	2.0	2.3	2.5

* = Please see explanation of Morgan Stanley ModelWare later in the note.
e = Morgan Stanley Research estimates

Investment Case

Summary & Conclusions

ConocoPhillips is well positioned for the positive industry environment we envision in coming years. Financial flexibility is high as well, and likely to improve further as surplus cash flow reaches record levels in coming years.

In E&P, global production is likely to rise by 7-8% annually during 2006-2008, with gains in natural gas poised to lead the way for the company. Significant gains in output are likely from the US, and Canada, which relate to the Burlington Resources transaction; but also from China, Indonesia, Timor/Australia, Vietnam, and the United Kingdom. Returns are likely to approximate 15% under normalized conditions by 2007.

In R&M, ConocoPhillips is positioned to be a leading beneficiary of Morgan Stanley's "Golden Age of Refining" investment thesis. The company has significant exposure to markets in the Atlantic Basin, which we believe will be the best in the world during 2006-2008.

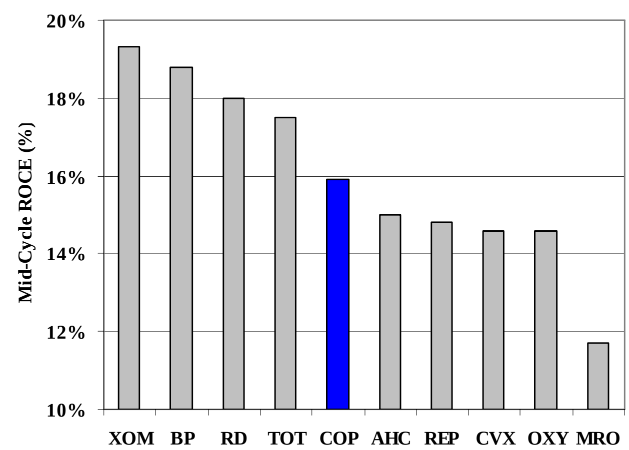
Financial flexibility is high as well, and with surplus cash flow set to be significant; strategic investments, higher dividends, and reduction of debt and equity is likely, in our opinion. If so, higher valuation is likely to be forthcoming in the equity market, which is our contention for ConocoPhillips, with COP having "Major Momentum," in our opinion.

Regarding the business model, the E&P segment is the largest area of investment for the company, representing 75% of normalized capital employed. Post the Burlington Resources transaction, we project the company's investments to be divided as follows: US E&P 44%, International E&P 32%, International R&M 5%, US R&M 14%, Chemicals 2%, and Midstream/Other 3%.

We project earnings on a normalized or mid-cycle basis to be divided as follows: US E&P 35%, International E&P 40%, R&M 20%, Chemicals 1%, and Midstream/Other 4%. These relationships are likely to remain highly weighted toward the E&P segment over the longer term, an area of competitive strength for the company.

Exhibit 1

Mid-Cycle Returns Are Among 'Best in Class'



Source: Company Data, Morgan Stanley Research

ConocoPhillips primary strategic objectives seek to balance growth and returns through: 1) improved performance in the base E&P business and development of high return legacy projects, 2) enhanced results in R&M through productivity programs and strategic investment, 3) portfolio management across the organization, and 4) high financial flexibility. Higher returns, increased integration within the business mix, and a stronger balance sheet are likely to be the results of the plan, with management holding itself accountable with a returns objective of 15% and a debt ratio near 20%. We project debt to total capitalization at 20% for full year 2006, with declines towards 14% by 2008 as the debt reduction program gains momentum.

Company Description

ConocoPhillips is the third largest integrated U.S. energy company with operations in 49 countries. Headquartered in Houston, the company has assets of $75Bn, net proved reserves of 8.7 BBOE and daily production of 1.7 MM BOE.

Industry View: Attractive

Attractive

GICS Sector: Energy

Strategist's Recommended Weight: 9.8%
S&P 500 Weight: 9.8%

Exploration & Production: The Engine of Growth

The Exploration & Production segment is ConocoPhillips' largest and fastest-growing business, representing 63% and 75% of normalized capital employed and profits. In this segment, the company has scope and scale, and is the sixth-largest publicly traded producer of petroleum in the world, behind ExxonMobil, BP, Royal Dutch/Shell, Total, and Chevron.

Geographically, ConocoPhillips has less diversity than some of its peers, with exploration and production activities from 22 countries, which compares to 43 countries for Total, 37 for ExxonMobil, 34 for RD, 26 for Chevron, and 23 for BP. While the company is smaller than the "Super-Majors," greater geographic concentration is often suggestive of disciplined capital management.

A positive and underlying feature of the capital investment program in ConocoPhillips' global E&P business involves its highly disciplined approach to investment. All projects are subject to stringent capital controls, with only the highest-quality projects meeting the company's criteria. Each E&P project is expected to generate economic value at relatively low prices of crude oil and natural gas, which in ConocoPhillips' budgeting approximates $28–30/bbl (WTI) and $6.25/Mcf, respectively. We applaud the focus on returns, even at the expense of growth, in that the former is usually associated with higher valuation in the equity market while the latter is not.

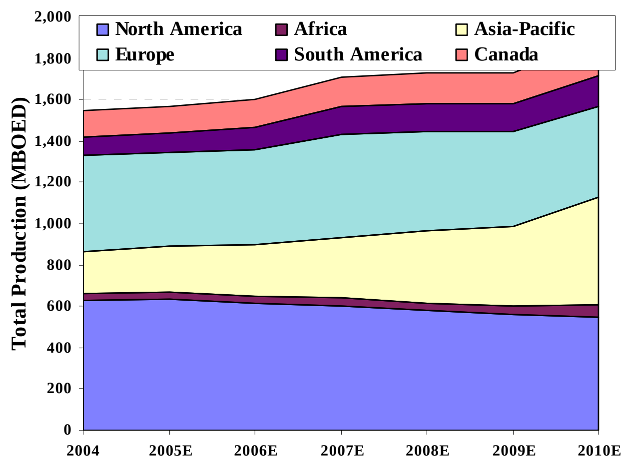
In E&P, the company's position in crude oil is greater than in natural gas, with the former representing 59% of the reserve and production base and the latter 41%. However, important legacy positions, which favor the natural gas profile, are present, with meaningful longer-term investment opportunities in place in Alaska, Russia, and Qatar.

The Burlington Resources transaction creates the leading position in North American natural gas, enhancing the position with high-quality, long-lived, natural gas reserves. The company also increases its exposure to lower risk OECD areas, with production from the OECD rising from 62% to 69% per the transaction.

The portfolio is balanced, containing a strong collection of legacy assets and a strong platform for growth as well, in our opinion. ConocoPhillips' current legacy positions include Alaska, Canada, the Lower-48, Norway, and the United Kingdom, all of which currently produce in excess of 150 MBOED.

Exhibit 2

Growth Profile Healthy During 2006-2007



Source: Company Data, Morgan Stanley Research estimates

Countries with future legacy potential include Australia/Timor Sea, Indonesia, Kazakhstan, and Venezuela, all of which stand to produce over 100 MBOED by 2009. Competitive positions in China, Nigeria, Qatar, and Russia are strong as well, further enhancing the profile. Areas of under-positioning include West Africa, the deepwater Gulf of Mexico, and the Middle East. ConocoPhillips is also underpositioned in Liquefied Natural Gas (LNG), although growth is likely to be strong in coming years in Asia, and the Middle-East, with ConocoPhillips likely to be involved in Russia's' Shtockman project as well, in our opinion (Page 4).

E&P Growth & Returns Profile Strong

ConocoPhillips' growth and returns profile is attractive in its current form, in our opinion, with growth in output of crude oil and natural gas projected at 3% and 6% per year, respectively, during 2006–2010. Total production is projected to rise by 4%/year during the period, a figure that is consistent with ConocoPhillips' public expectations of 3% annual gains.

These growth rates represent an improvement in relation to 2002–2005. However, when considering that divestitures and production-sharing contracts led to reduced output growth during the period, the trend-line rate of output growth becomes similar between periods. Additional divestitures of non-strategic performing properties may cause a modest reduction in production growth in coming years while raising returns (the latter of which is vastly more significant, in our opinion).

The majority of the gains on the crude oil side are likely to emanate from Canada, China, Norway, the United Kingdom, and Venezuela. The gains in natural gas are likely to materialize from Australia/Timor Sea, Indonesia, and Nigeria, which are likely to offset declines in the US, Norway, and the UK.

Since E&P represents 75% of corporate profits, it represents the driver behind our projections that normalized profit growth will rise by 8-10% per year during 2006–2008. Such a performance would compare favorably to that of peer companies and that of the S&P 500, in our opinion.

Burlington Resources = Shtokman?
Finally, the purchase of Burlington Resources enhances ConocoPhillips position as it relates to the giant Shtokman project in Russia, in our opinion. The project is set to be awarded on April 12, 2006.

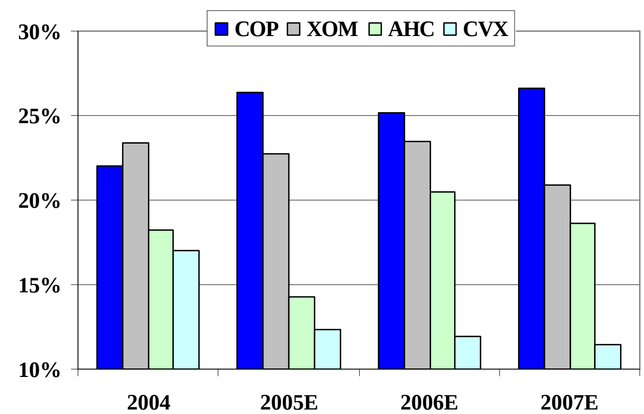
Russian gas company Gazprom desires access to the North American market, and with ConocoPhillips becoming the largest producer and marketer in the market, post the transaction with Burlington Resources; the company has become a preferred partner, in our opinion.

The field is located on Russia's Artic Shelf in the Barents Sea, and was discovered in 1988. It is estimated to contain 100 Tcf of recoverable natural gas reserves, making it the largest undeveloped natural gas field in the world. Given its location, an LNG complex is likely, with liquefaction sites in the Pechenga or Teriberka areas.

Development costs for the Shtokman project are estimated to exceed $10 billion, due to its remote location, and hostile environment. Production from the first phase of the Shtokman project is expected by 2010, although with the field only 300 miles offshore, such an outcome is possible, in our opinion.

Assuming ConocoPhillips receives a 12% interest, net reserves would rise by 12 Tcf, which represents the equivalent gain from the Burlington Resources transaction. For perspective, global reserves of natural gas for ConocoPhillips were 24 Tcf at year-end 2005. Target markets for the LNG cargoes from Shtokman are North America and Europe. Having a strong presence in either of these regions, especially in terms of natural gas marketing, is viewed as a positive in terms of winning a bid to participate in the project.

Exhibit 3
R&M Returns Leading the Industry



Source: Company Data, Morgan Stanley Research estimates

R&M: Positioned for "The Golden Age of Refining"
ConocoPhillips' Refining & Marketing (R&M) segment represents 29% of normalized capital employed. The company has the fifth largest publicly traded R&M operation in the world, with 12 refineries in seven countries. Marketing activities are conducted via 16,400 service stations in more than 17 countries. Financial objectives are specific and involve sustained improvements in: 1) returns on capital, 2) cash flow, 3) profitability, and 4) reliability.

Regionally, ConocoPhillips' investments in R&M are segmented between the US (75%) and Europe (15%), with Asia Pacific (10%) constituting the remainder. Accordingly, ConocoPhillips' global R&M system has greater exposure to the Atlantic Basin region than most of its peers, and less exposure to the Pacific Basin.

Profits in US refining approximate $1.4 Bn at normalized conditions, with marketing projected at $300 MM. Returns in US R&M are projected at 15% with marketing at 9%. Profits in International refining approximate $440 MM at normalized conditions, with marketing projected at $110 MM. Returns in International R&M are projected at 11% with marketing at 16%.

The purchase of TOSCO broadened the company's exposure within the US, while creating critical mass. The merger with Conoco increased the company's presence in International R&M, particularly in Europe and Asia.

The company seeks to be the most successful downstream company in the peer group, and with returns among the highest in the group; the management team has been very successful. ConocoPhillips' worldwide downstream business is organized into three major geographic regions: the US, Europe, and Asia Pacific.

Primary strategies in R&M involve: 1) productivity programs such that operational excellence is attained, 2) leveraging refining strengths and technologies, 3) integrating refined products production with low-cost marketing and transportation assets, and 4) investment to meet new environmental specifications and growth opportunities, and divestiture of non-strategic properties.

On a global basis, ConocoPhillips refines 2.6 MBPD, with marketing and trading volumes at 2.7 MMBPD. This position leads to refining cover of 95%, which is higher than that of the "Super-Majors" inclusive of BP (84%), Chevron (59%), Royal Dutch Shell (64%), and ExxonMobil (78%). The COP figures are high relative to peer companies, and have increased from 85% in recent years, as marketing properties were divested in the US.

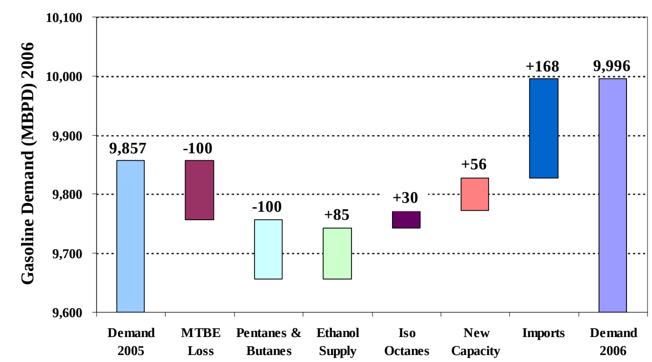
Our projections indicate that ConocoPhillips' ROCE in R&M at mid-cycle conditions approximated 9% in 2003, following closure of the merger. The cost-savings program ($750 million), and divestitures of underperforming assets in the US ($2.0 billion), were each responsible for a 2.0 percentage point rise in normalized returns. Higher industry trends at mid-cycle conditions enhanced returns further, such that financial performance, at normalized conditions, is significantly higher today, in our opinion. Accordingly, the R&M division has been a positive surprise of the merger.

Today, we estimate mid-cycle ROCE for ConocoPhillips' global R&M business is 14%. Our projections utilize benchmark margins in the US, Europe, and Asia of $6.20/bbl, $4.15/bbl, and $4.45/bbl respectively. ConocoPhillips also has healthy exposure to the "light-heavy" differential, which we project will approximate $10.50/bbl at mid-cycle conditions.

ConocoPhillips' capital investment in R&M represents 22% of total capital investment, which compares to 25% for the Super-Majors peer group. However, with investment rising in E&P, capital employed in R&M should approximate 16% in 2007.

Exhibit 4

Removal of MTBE Creates Need for More Imports



Source: Morgan Stanley Research

Near-term, we remain very positive on the outlook in US R&M, which represents the largest area of investments and profits in ConocoPhillips global R&M business. While the "Straw Hats in Winter" (12-7-2005) seasonal component of our call appeared wrong during the inventory building phase between December of 2005 and March of 2006; margins have recovered more recently, as refinery maintenance has been unusually high.

Inventories are likely to decline further through the end of April 2006, before settling out near the lowest levels ever in the United States. Our specific projections suggest that inventories will approximate 23.0 days at the end of April 2006, and with major environmental transitions regarding gasoline during Q2-Q3 of 2006 and diesel during Q3-Q4 of 2006, likely to restrict supply further; our outlook remains positive. See our note from February 16, 2006 for our specific projections. Our longstanding position on the global refining sector remains, that being that 2006 will be the best year thus far of Morgan Stanley's "Golden Age of Refining" period.

Chemicals: Ready for the Upswing

ConocoPhillips Chemicals segment represents 2% of the company's normalized earnings and 2% of capital employed. The Chevron Phillips Chemicals Company LLC (CPCC), a 50-50 joint venture that was created in June 2001, is the sole component of the company's global Chemicals business. CPCC is the eighth-largest publicly traded chemicals entity in the world, with 32 manufacturing plants in eight countries.

Regionally, Chevron Phillips' Chemicals investments are primarily concentrated in the United States (88%) with the remaining invested in its international locations. Prior to 2004, returns were relatively low, as the industry suffered from a prolonged downturn. During that time, the company instituted portfolio management programs and enforced strict capital discipline, which created higher mid-cycle returns, in our view.

Products from the CPCC joint venture include commodity petrochemicals, namely olefins, aromatics, and polyolefins, and therefore financial performance is quite cyclical and competitive conditions are intense. We believe the strategy in the CPCC joint venture is appropriate in the capital-intensive commodity petrochemicals business and it involves operational and strategic programs.

Operationally, 1) productivity programs, 2) reliability plans, 3) preferred supplier arrangements, and 4) licensing programs lead the list of plans. Strategic actions have been important as well, with portfolio management significant in recent years.

Today, the product mix is concentrated in commodity petrochemicals. Olefins and polyolefins represent key components of the portfolio, at 64% of net capacity. The company's rigorous approach to project evaluation, development, and execution, combined with a rigorous reappraisal process, helps to ensure effective project selection and implementation. We expect capital expenditures to approximate $100 million per year during 2006–2008, which should be greater than depreciation.

We anticipate peak-cycle profits to rise in the current cycle as ConocoPhillips share of capacity is 25% higher than it was during the previous peak of the chemical cycle in 1995. In relation to the previous cycle, we forecast mid- and peak-cycle profits to rise by at least 30% in relation to the previous period. At mid-cycle pricing conditions, profits and returns on capital are projected to approximate $100 million and 8%, respectively, in ConocoPhillips global Chemicals business.

Midstream: Steady and Stable

ConocoPhillips' Midstream segment represents 2% of normalized capital employed and 2% of normalized profits. DEFS is the largest midstream company in North America with 59,000 miles of pipeline, 66 natural gas liquids (NGL) extraction plants and natural gas throughput capacity of 6.4 Bcfd and over 360 MBPD of natural gas liquid (NGL) production.

The Midstream business originally had two parts: 1) the ConocoPhillips 30.3% equity interest in Duke Energy Field Services (DEFS), and 2) heritage Conoco assets. Duke Energy Field Services was established in March 2000 when Phillips (30.3%) and Duke Energy (69.7%) combined their respective assets to create the midstream joint venture.

While ConocoPhillips' Midstream business is the smallest component of the business mix, it provides a steady stream of earnings and cash flow to the company. Returns on capital are typically pedestrian in the midstream industry though, and ConocoPhillips, while an industry leader, is no different. Normalized profits are projected to approximate of $100 million per year, with a returns on capital at mid-cycle conditions projected near 14%.

Balance Sheet Strong, and Getting Stronger

ConocoPhillips' balance sheet has improved materially over the past three years, with additional gains likely during 2006–2007. Debt to total capitalization is currently 20% with an A- rating by Standard and Poor's. However, the balance sheet contains over $3.0 billion in cash and so *net* debt to total capitalization approximates 17%.

Equity is projected to rise by another $20 billion during 2006–2007 based on our current projections for earnings and dividend growth. Cash flow from operations is projected to total $40-45 billion during the 2006–2007 period, with capital expenditures and dividends projected at $30 billion and $4 billion, respectively. Accordingly, our projections indicate that $6-7 billion in *free* cash flow will be available during 2006-2007 to 1) fund strategic investments, including LUKOIL, 2) increase dividends, 3) reduce debt and 4) repurchase shares, in order of management preference.

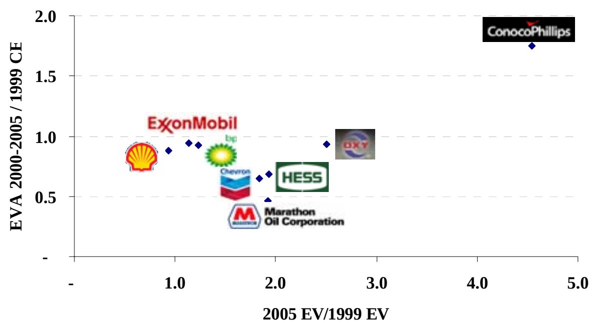
Dividend Growth Rate Set to Rise

The growth rate in dividends, which has approximated 4.4% per year during the past 5 years, is likely to rise to 10% per year during 2006–2007. Dividends are projected at $1.44/share in 2006, and $1.58/share in 2007 — a 10% annual rate of growth.

With profits projected to rise as well, the outlook for total returns in ConocoPhillips' equity is positive, in our opinion.

Exhibit 5

ConocoPhillips Management Has Created Value



Source: Company Data, Morgan Stanley Research

ConocoPhillips' current repurchase program involves $1 billion of the company's common stock, with the time frame being mid-2007. The plan is incremental to the $1 billion program executed during 2005, and will be utilized to offset dilution to existing shareholders from the company's current stock-based compensation program. For perspective, Super-Majors BP, ExxonMobil and Shell have reduced shares outstanding by 2% on per year since 2000. Management has suggested recently that the program is likely to accelerate during 2006-2007.

Management's Record Is Superb

ConocoPhillips management team, led by Chairman & CEO Jim Mulva, has created significant economic value for shareholders over the years. CEO Mulva appreciated the significant strategic implications that the "Super-Major" merger phase would have on "Mini-Major" companies such as Phillips, and repositioned the company for success.

Astute strategic actions of Mr. Mulva and his team include 1) the purchase of ARCO's Alaskan E&P assets, 2) the corporate acquisition of TOSCO, 3) the merger with Conoco, 4) the purchase of the equity position in LUKOIL, and 5) the acquisition of Burlington Resources. In each case, the strategic positioning of the company was enhanced considerably, in our opinion.

The financial implications of these strategic actions are important as well, in that significant economic value was created for ConocoPhillips shareholders. Accordingly, the performance of Chairman and CEO Jim Mulva and his team is superb, with almost $20 billion in economic value created since 2000.

For perspective, enterprise value of predecessor company Phillips was only $30 billion as the period began in 2000, which compares to $110 billion today. The market has rewarded ConocoPhillips' shareholders for the company's industry-leading management of shareholder capital. Exhibit 6 relates economic value creation during the past 5 years as a percentage of capital employed at the beginning of the period to the change in market value for integrated oil companies during the period. The chart indicates that management's successful strategies continue to be rewarded by the equity market.

Importantly, senior management is accountable through its compensation plan, a significant component of which is variable. Key metrics include corporate and business results, with the former utilizing shareholder return, ROCE, etc., with the latter regarding the operating plan.

Significant stock ownership is required for the CEO, the senior management team, and the board of directors — a condition that aligns their interests with those of institutional investors, in our opinion.

Attractive View on Integrated Oils and R&M

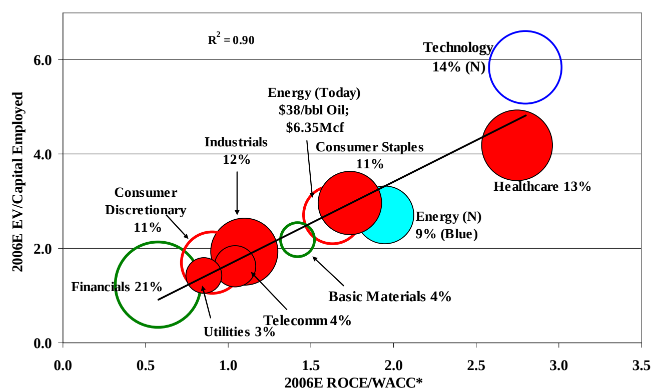
Regarding valuation, our methodology assesses returns on capital at mid-cycle levels, which we then compare to valuation in the form of enterprise value/capital employed multiples. A proxy for our approach utilizes normalized or mid-cycle profits and relative P/E multiples to the overall market.

This basic returns and valuation relationship is imbedded in our methodology and identifies valuation discrepancies for the S&P sectors and equities in the market. The approach is based on the view that the valuation premium or discount of an entity's capital should equate to its returns on capital in relation to its capital costs — the return an investor could receive from a similarly risky investment.

When entities trade at premiums (discounts) to the values suggested by our projections of their mid-cycle returns in relation to the returns available from a similarly risky investment, such an index or security is overvalued (undervalued), in our opinion. Our investment recommendations on the relevant index or security follow. The basic returns and valuation formula is contained in Exhibit 9.

Exhibit 6

Energy Undervalued at Mid-Cycle Conditions



Source: Morgan Stanley Research

Fundamental Valuation Methodology

Accordingly, our "top-down" investment position toward the Energy sector and the Integrated Oil and Independent R&M segments emanates from our assessment of projections for risk-adjusted returns (ROCE/WACC) and valuation (EV/CE) for *every* company in the S&P, with results then segmented by sector in the way that portfolio managers group their portfolios.

We believe this approach is comprehensive and enables a comparison of returns and valuation relationships between the primary sectors of the S&P 500 and identification of investment opportunities between industries.

The result of our most recent analysis, which was based on closing prices as of this week, is contained in Exhibit 8. Our assessment indicates that the Energy sector is undervalued by nearly 15% based on mid-cycle conditions, which utilizes prices of crude oil and natural gas of $45/bbl (WTI) and $6.50/Mcf, respectively, and the average margin in R&M ($5.70/bbl) and Chemicals over the past cycle.

While questions may arise as to whether mid-cycle or normalized valuation methodologies are most relevant, our experience is that the market rarely discounts commodity prices or margins that are much different than normal in Integrated Oil and R&M equities. For crude oil, the normal price that we utilize is $50/bbl (WTI), while refining margins have averaged $6.20/bbl (assuming Gulf Coast 3-2-1) over the past 20 quarters.

Our analysis can be extended to the individual sub-industries and companies within Energy as well. Exhibit 8 illustrates that the Energy sector as a whole is undervalued relative to the S&P 500 with refining representing the most attractive segment of the energy group, using our methodology.

The R&M industry currently trades at the lowest valuation per unit of mid-cycle returns of all of the major segments in the petroleum business (Exhibit 9), we estimate. For this reason, R&M stocks remain the largest segment bet in Morgan Stanley's global Model Energy Portfolio.

Integrated Oils Represent Attractive Value As Well

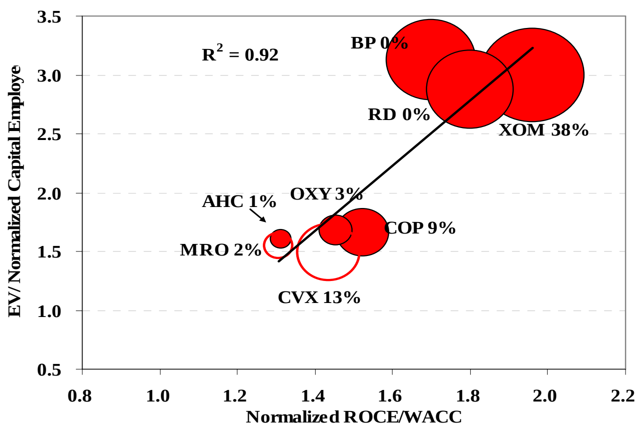
We believe that with the Integrated Oil stocks are discounting prices of crude oil near $40/bbl; a decline in prices from $63/bbl to $55/bbl will probably not create significant unfavorable relative performance in the stocks, especially over 6-9 months.

ConocoPhillips is Rated Overweight; $80 PT

ConocoPhillips is one of our favorite investment ideas in the Integrated Oil group. While the story has transitioned from one involving merger-related restructuring, to de-leveraging, to growth, we remain positive.

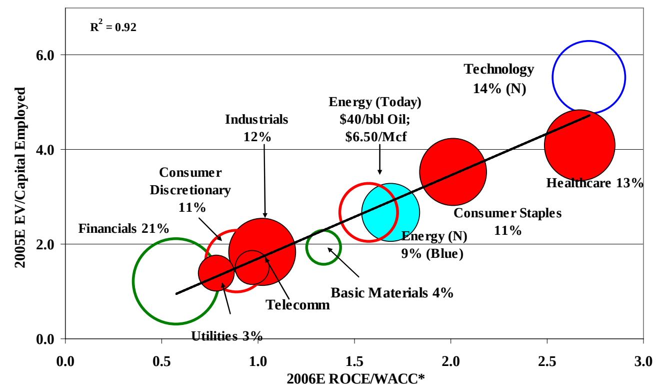
Returns on capital, at mid-cycle conditions approximate 15%, which is likely to lead to higher valuation in the equity market for COP, in our opinion. With our projection for mid-cycle returns (15%) higher than that being discounted by the market (13%), we remain positive on COP. Our $80 price target is obtained by utilizing a 1.8x enterprise value to capital employed multiple, which is consistent with a mid-cycle ROCE of 15%. We arrive at a similar objective by applying 75% of the market multiple to our normalized earnings estimate of $6.20/share.

Exhibit 7
XOM and MRO Represent Our Top Picks



Source: Morgan Stanley Research Estimates

Exhibit 8
Energy Appears Modestly Undervalued Now



Source: Morgan Stanley Research estimates

ExxonMobil and Marathon Are Rated Overweight Too

ExxonMobil remains one of the premier longer-term investment stories in the global petroleum sector, in our opinion. The Exploration and Production segment is set to deliver strong production growth during 2006-2008, and since ExxonMobil is one of the largest R&M and Chemicals companies, the outlook looks positive.

In our view, its financial position is outstanding as well, as its current cash position approximates $33 billion, with $50-60 billion in free cash flow expected in 2006-2008; share repurchases will likely exceed the recent pace of $5/billion per quarter.

Such an outcome is important in that ExxonMobil's valuation in the equity market has declined to its lowest level of the past decade, in relation to both the industry and the overall market. The message from the market appears to be that sustainable returns must be in decline and that the situation is permanent.

While such an outcome has unfolded for a variety of industries and companies in decades past, we doubt that such a scenario will exist over the longer term for ExxonMobil. With its financial flexibility is high, and with the capability to repurchase 15-20% of its shares, this should produce more normal capitalization levels, near 10-15%.

Using our normalized EPS of $4.20/share and a target multiple of 100% (based on historical range) of the S&P 500, and our 2006 dividend projection of $1.28/share, we attain our 9-12 month price objective of $78/share.

With our projection for mid-cycle returns (19%) higher than what is being discounted by the market (16%), we remain positive on XOM shares. Our $78 price target is obtained by utilizing a 3.9 enterprise value to capital employed multiple, which is consistent with a mid-cycle ROCE of 19%.

Regarding Marathon, with the company completing the MAP transaction in 2005, it has become the most levered Integrated Oil in terms of exposure to changes in refining margins. Every $1/bbl change in refining margins affects profits by 10% on a per share basis at normalized conditions.

Using our normalized EPS of $6.00/share and a target multiple of 80% of the S&P 500, we attain our 9-12 month price objective of $87/share. We attain a similar price target by utilizing a 1.9 times enterprise value to capital employed multiple, which is consistent with a mid-cycle ROCE near 13%.

Valuation Methodology & Risks

Regarding the equities, we attain our price objectives by applying a relative S&P market multiple to normalized EPS. We utilize the five-year average multiple for valuation with normalized EPS defined as the company's earnings using mid-cycle pricing conditions for its operational segments.

Exhibit 9

Fundamental Valuation Methodology

$$\frac{\textbf{Corporate Return}}{\textbf{Investor's Required Return}} = \frac{\textbf{Market Value}}{\textbf{Capital}}$$

$$\frac{\textbf{ROCE}}{\textbf{WACC}} = \frac{\textbf{Enterprise Value}}{\textbf{Capital Employed}}$$

Source: Stern Stewart, Morgan Stanley Research

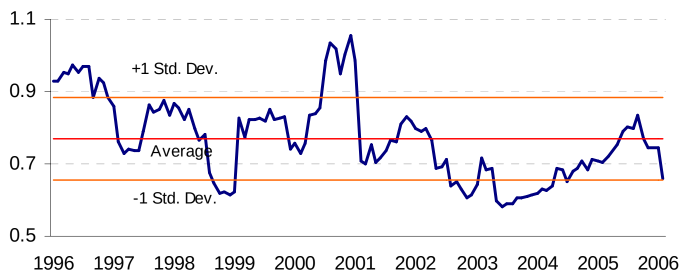
Definitions are listed below:

- Crude Oil: $50/bbl-WTI, $48/bbl-Brent
- US Natural Gas: $7.00/Mcf
- R&M: $6.20/bbl. Gulf Coast 3-2-1 margin
- Chemicals: 2000-2004 average earnings

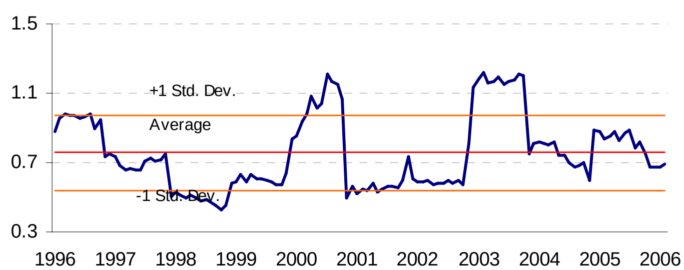
The primary risks for all integrated oil and independent R&M companies remain economic growth, which influences demand for petroleum and prices for crude oil, natural gas, and refined products. Our projections remain consistent with Morgan Stanley's global GDP forecast of 4.0% for 2005 and 3.7% for 2006.

Exhibit 10
ConocoPhillips - Valuation Relative to the Industry

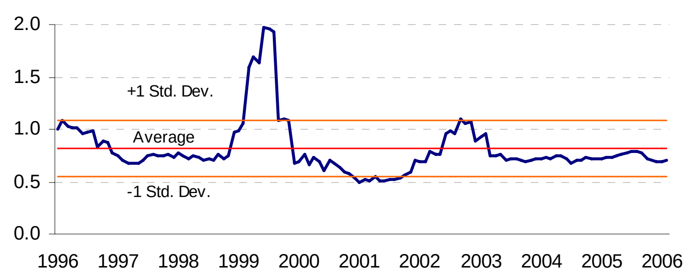
Price to Sales Relative to the Industry



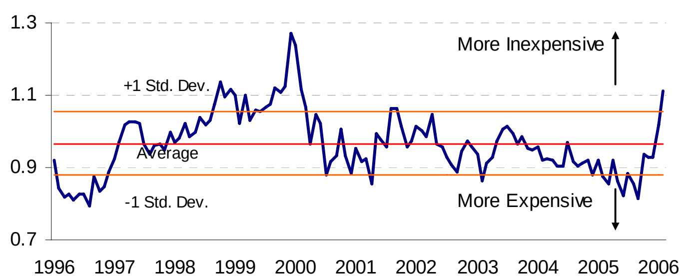
Price to Cash Flow Relative to the Industry



Trailing PE Relative to Industry



Dividend Yield Relative to the Industry

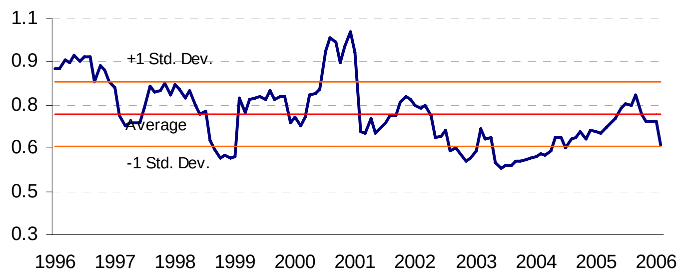


Source: Baseline, Morgan Stanley Research

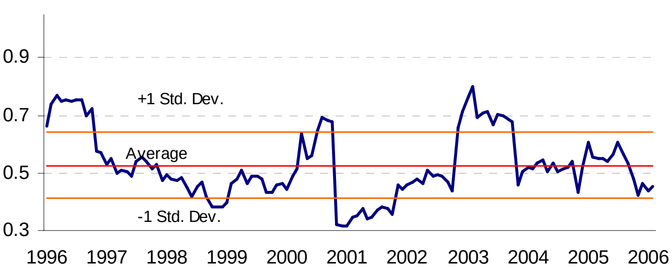
Exhibit 11

ConocoPhillips - Valuation Relative to the S&P 500

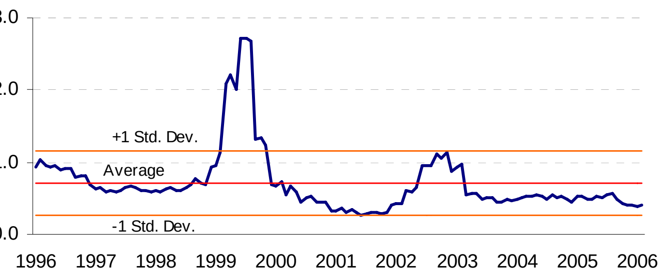
Price to Sales Relative to the SP500



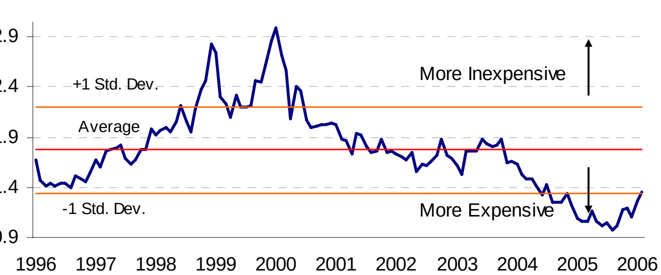
Price to Cash Flow Relative to the SP500



Trailing PE Relative to the SP500



Dividend Yield Relative to the SP500



Source: Baseline, Morgan Stanley Research

Exhibit 12

ConocoPhillips Annual Earnings Summary

	2004	2005	2006E	2007E	2008E	Normalized
US E&P	2,940	4,200	4,794	5,060	3,469	3,994
Foreign E&P	2,747	4,144	4,922	5,623	4,511	4,624
Total	5,687	8,344	9,716	10,684	7,980	8,618
Domestic R&M	2,160	3,376	3,811	2,753	2,500	1,700
International R&M	617	849	763	849	912	549
Total	2,777	4,225	4,574	3,601	3,412	2,249
Lukoil	74	714	995	918	918	350
Emerging Businesses	(102)	(20)	(46)	(62)	(69)	(45)
Midstream	235	363	270	270	270	100
Chemicals	249	323	300	282	288	150
Corporate	(794)	(751)	(1,198)	(1,091)	(1,036)	(1,036)
Net Income	8,126	13,198	14,612	14,602	11,763	10,386
Shares Outstanding Basic	1,379	1,393	1,576	1,646	1,658	1,576
Shares Outstanding Diluted	1,398	1,416	1,597	1,666	1,678	1,678

Source: Company Data, Morgan Stanley Research estimates

Exhibit 13

ConocoPhillips Annual Cash Flow Summary

Statement of Cash Flows

Operations	2004	2005	2006E	2007E	2008E
Net Income	8,129	13,198	14,612	14,602	11,763
DD&A	3,798	4,253	6,301	7,527	7,963
Dry Hole Expense	417	349	349	349	349
Deferred Taxes	1,025	1,101	1,029	967	919
Working Capital	(1,083)	246	708	(179)	(201)
Undistributed Eq Earnings/Other	(266)	(2,057)	0	0	0
Total	12,020	17,090	22,999	23,267	20,792
Investing					
Capital Expenditures	(9,496)	(11,620)	(15,898)	(15,179)	(16,640)
Asset Sales	1,591	768	0	0	0
Other	118	(164)	0	0	0
Total	(7,787)	(11,016)	(15,898)	(15,179)	(16,640)
Financing					
Net Debt	(2,775)	(2,550)	(2,601)	(3,653)	(2,000)
Preferred	0	0	0	0	0
Common	430	(1,522)	(500)	0	0
Dividends	(1,232)	(1,639)	(2,300)	(2,640)	(2,924)
Other	263	27	0	0	0
Total	(3,314)	(5,684)	(5,401)	(6,293)	(4,924)

Cash Flow Summary	**2004**	**2005**	**2006E**	**2007E**	**2008E**
Operations	12,020	17,090	22,999	23,267	20,792
Investing	(7,787)	(11,016)	(15,898)	(15,179)	(16,640)
Financing	(3,314)	(5,684)	(5,401)	(6,293)	(4,924)
Change to Cash	919	390	1,700	1,795	(773)

Source: Company Data Morgan Stanley Research estimates

Exhibit 14

ConocoPhillips Quarterly Earnings Summary

	2005				2006E				2007E				2008E			
Quarterly Income Statement	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
US E&P	802	966	1,107	1,325	1,093	1,295	1,199	1,208	1,012	1,518	1,265	1,265	867	833	798	971
Foreign E&P	895	963	1,181	1,105	1,153	1,329	1,083	1,357	1,125	1,687	1,237	1,575	1,173	1,128	1,083	1,128
Total	1,697	1,929	2,288	2,430	2,246	2,623	2,281	2,566	2,137	3,205	2,502	2,840	2,040	1,960	1,881	2,099
Domestic R&M	539	936	1,096	805	650	1,183	908	1,070	504	995	657	597	489	981	443	586
International R&M	130	174	294	251	126	84	267	286	148	188	322	190	164	203	339	207
Total	669	1,110	1,390	1,056	777	1,267	1,174	1,356	651	1,184	980	787	653	1,184	782	793
Lukoil	110	148	267	189	287	253	225	229	229	229	229	229	229	229	229	229
Emerging Businesses	(8)	(8)	0	(4)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(17)	(17)	(17)	(18)
Midstream	60	68	88	147	95	68	68	41	54	68	54	95	54	54	54	108
Chemicals	133	63	13	114	75	75	75	75	70	70	71	71	72	72	73	71
Corporate G&A	(184)	(179)	(238)	(150)	(229)	(323)	(323)	(323)	(273)	(273)	(273)	(273)	(259)	(259)	(259)	(259)
Net Income	2,477	3,131	3,808	3,782	3,240	3,953	3,488	3,930	2,855	4,468	3,548	3,732	2,772	3,224	2,743	3,024
Shares Outstanding Basic	1,397.9	1,396.7	1,393.9	1,385.0	1,385.0	1,639.1	1,640.0	1,640.9	1,641.9	1,644.9	1,647.9	1,650.9	1,653.9	1,656.9	1,659.9	1,662.9
Shares Outstanding Diluted	1,420.4	1,419.3	1,417.8	1,407.4	1,409.0	1,659.1	1,660.0	1,660.9	1,661.9	1,664.9	1,667.9	1,670.9	1,673.9	1,676.9	1,679.9	1,682.9

Source: Company Data, Morgan Stanley Research
E = Morgan Stanley Research Estimates

Exhibit 15

Integrated Oils Valuation

"Super-Majors"			Target	Price at	Dividend	Equity	Enterprise	Earnings Per Share					Price to Earnings Ratio					Relative Price / Earnings					EV/EBITDA			
	TKR	Rating	Price	03/31/06	Yield	Value	Value*	'04	'05	'06E	'07E	Normal	'04	'05	'06E	'07E	Normal	'04	'05	'06E	'07E	Normal	'04	'05	'06E	'07E
BP**	BP	U	$69	$69.77	3.1%	$236,715	$256,966	$4.51	$6.01	$6.14	$6.44	$5.76	15.5x	11.6x	11.4x	10.8x	12.1x	70%	60%	63%	60%	63%	7.6x	6.1x	6.0x	5.9x
Chevron	CVX	E	NA	$58.51	3.1%	$130,239	$132,061	$5.56	$6.85	$7.30	$6.90	$5.35	10.5x	8.5x	8.0x	8.5x	10.9x	47%	44%	44%	47%	57%	5.3x	4.1x	3.6x	3.8x
Exxon-Mobil	XOM	O	$78	$61.12	2.1%	$373,219	$348,734	$3.97	$5.35	$5.50	$5.15	$4.20	15.4x	11.4x	11.1x	11.9x	14.6x	69%	59%	61%	65%	76%	7.6x	5.7x	4.7x	6.4x
Royal Dutch**	RDSA	E	$73	$63.01	2.5%	$122,806	$124,942	$5.10	$6.47	$7.04	$7.18	$5.37	12.4x	9.7x	8.9x	8.8x	11.7x	56%	51%	49%	48%	61%	4.5x	3.3x	2.7x	2.4x
Averages					**2.7%**								**13.4x**	**10.3x**	**9.9x**	**10.0x**	**12.3x**	**60%**	**54%**	**54%**	**55%**	**64%**	**6.2x**	**4.8x**	**4.3x**	**4.6x**

		Price at	Cash Flow/Share				Price to Cash Flow Ratio				ROCE					EV / Capital Employed			
	TKR	03/31/06	'04	'05	'06E	'07E	'04	'05	'06E	'07E	'04	'05	'06E	'07E	Normal	'04	'05	'06E	'07E
BP**	BP	$69.77	$1.21	$1.50	$1.38	$1.58	57.8x	46.7x	50.4x	44.2x	17.9%	22.1%	21.3%	20.2%	16.2%	2.6x	2.7x	2.5x	2.2x
Chevron	CVX	$58.51	$8.63	$10.04	$10.23	$10.05	6.8x	5.8x	5.7x	5.8x	21.3%	19.0%	18.7%	16.2%	12.7%	2.3x	1.7x	1.5x	1.4x
Exxon-Mobil	XOM	$61.12	$4.51	$6.00	$6.43	$6.12	13.6x	10.2x	9.5x	10.0x	24.5%	27.8%	27.2%	22.3%	20.7%	3.2x	2.8x	2.8x	2.5x
Royal Dutch**	RDSA	$63.01	$9.07	$10.85	$10.94	$10.35	6.9x	5.8x	5.8x	6.1x	18.9%	20.6%	21.0%	17.5%	19.9%	1.2x	1.1x	1.1x	1.1x
Averages							**21.3x**	**17.1x**	**17.9x**	**16.5x**	**20.6%**	**22.4%**	**22.1%**	**19.1%**	**17.4%**	**2.3x**	**2.1x**	**2.0x**	**1.8x**

"Majors"			Target	Price at	Dividend	Equity	Enterprise	Earnings Per Share					Price to Earnings Ratio					Relative Price / Earnings					EV/EBITDA			
	TKR	Rating	Price	03/31/06	Yield	Value	Value*	'04	'05	'06E	'07E	Normal	'04	'05	'06E	'07E	Normal	'04	'05	'06E	'07E	Normal	'04	'05	'06E	'07E
Amerada Hess	AHC	U	NA	$142.66	0.8%	$13,333	$16,803	$8.72	$11.65	$18.25	$18.50	$16.50	16.4x	12.2x	7.8x	7.7x	8.6x	74%	64%	43%	42%	45%	6.5x	5.3x	3.8x	3.6x
Marathon	MRO	O	$87	$77.01	1.7%	$28,235	$30,007	$3.76	$8.50	$9.30	$9.35	$6.00	20.5x	9.1x	8.3x	8.2x	12.8x	92%	47%	46%	45%	67%	8.6x	4.8x	4.1x	3.9x
Occidental	OXY	U	NA	$94.26	1.5%	$40,549	$41,125	$6.27	$9.65	$10.75	$9.80	$7.45	15.0x	9.8x	8.8x	9.6x	12.7x	68%	51%	48%	53%	66%	8.3x	5.0x	4.0x	4.4x
ConocoPhillips	COP	O	$80	$64.48	2.5%	$91,880	$102,215	$5.79	$9.39	$9.15	$8.75	$6.20	11.1x	6.9x	7.0x	7.4x	10.4x	50%	36%	37%	38%	54%	5.5x	3.6x	3.2x	3.1x
NA												$0.00			0.0x	0.0x	0.0x			0%	0%	0%			0.0x	0.0x
Averages					**1.6%**								**15.8x**	**9.5x**	**8.0x**	**8.2x**	**11.1x**	**71%**	**49%**	**43%**	**45%**	**58%**	**7.2x**	**4.7x**	**3.8x**	**3.8x**

		Price at	Cash Flow/Share				Price to Cash Flow Ratio				ROCE					EV / Capital Employed			
	TKR	03/31/06	'04	'05	'06E	'07E	'04	'05	'06E	'07E	'04	'05	'06E	'07E	Normal	'04	'05	'06E	'07E
Amerada Hess	AHC	$142.66	$17.80	$28.55	$37.42	$40.39	8.0x	5.0x	3.8x	3.5x	10.9%	12.8%	16.7%	14.7%	13.1%	1.8x	1.6x	1.4x	1.2x
Marathon	MRO	$77.01	$9.03	$13.43	$13.42	$13.98	8.5x	5.7x	5.7x	5.5x	11.3%	22.3%	20.2%	18.1%	13.1%	2.5x	2.0x	1.8x	1.6x
Occidental	OXY	$94.26	$10.62	$12.46	$14.74	$13.93	8.9x	7.6x	6.4x	6.8x	17.9%	20.9%	23.4%	18.2%	16.5%	2.6x	2.0x	1.8x	1.6x
ConocoPhillips	COP	$64.48	$9.69	$13.56	$14.14	$14.24	6.7x	4.8x	NA	NA	22.9%	33.7%	36.7%	38.4%	19.0%	2.8x	2.6x	3.2x	3.1x
Averages							**8.0x**	**5.8x**	**5.3x**	**5.3x**	**15.7%**	**22.4%**	**24.2%**	**22.3%**	**15.4%**	**2.4x**	**2.0x**	**2.0x**	**1.9x**

			Current Yield	'04	'05E	'06E	'07E	'04	'05E	'06E	'07E
S&P 500	SPX	$1,300.3	1.7%	$58.55	$67.68	$71.58	$74.50	22.2x	19.2x	18.2x	17.5x

E= Morgan Stanley Research Estimates

* Enterprise value is defined as Share Price * Shares Outstanding + Net Debt + Minority Interest + Preferreds

** Covered by our European Research Team; rating is relative to the European oil & gas industry. The Team currently has an In-Line view on the oil & gas industry

Source: Company Data, Morgan Stanley Research

E = Morgan Stanley Research Estimates

Morgan Stanley
ModelWare[SM]

ModelWare is Morgan Stanley's new system for helping investors and analysts to uncover value, free from the distortions and ambiguities created by accounting data. Morgan Stanley has dissected and fundamentally redefined the components of corporate valuation, giving clients more consistent definitions, more comparable data, and more flexible analytic tools. ModelWare makes investment insights easier by making value more visible.

Past inconsistencies in financial reporting made it difficult to compare performance among companies and across sectors and regions. Even within US GAAP, flexibility complicates comparisons. And accounting standards were developed to analyze historical data, not to facilitate projections. In response, Morgan Stanley analysts spent two years reviewing our entire coverage universe of company metrics. They defined more than 2,000 general and industry-specific metrics that eliminated inconsistencies stemming from regional differences, historical precedents and accounting conventions. The team applied these metrics across also all 1900+ companies we cover, and created flexible tools and services that let analysts redefine and use the data with maximum creativity. Because ModelWare provides complete transparency, users see every component of every calculation, to choose elements or recombine them as they wish.

ModelWare EPS illustrates the approach. It represents ModelWare EPS as ModelWare net income divided by average fully diluted shares outstanding. ModelWare net income sums net operating profit after tax (NOPAT), net financial income or expense (NFE) and other income or expense. ModelWare adjusts reported net income to improve comparability across companies, sectors and regions. Among these adjustments: We exclude goodwill amortization and items deemed by analysts to be "one-time" events; we capitalize operating leases where their use is significant (e.g., in transportation and retail); and we convert inventory to FIFO accounting when LIFO costing is used. For more information on these adjustments and others, as well as additional background, please see *Morgan Stanley ModelWare (ver. 1.0): A Road Map for Investors*, by Trevor Harris and team, August 2, 2004.

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The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Douglas Terreson.

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Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. For example, Morgan Stanley uses a relative rating system including terms such as Overweight, Equal-weight or Underweight (see definitions below). A rating system using terms such as buy, hold and sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the research report contains more complete information concerning the analyst's views, investors should carefully read the entire research report and not infer its contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of March 31, 2006)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Underweight to hold and sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	721	36%	259	40%	36%
Equal-weight/Hold	879	44%	300	47%	34%
Underweight/Sell	378	19%	84	13%	22%
Total	1,978		643		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V). We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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Industry Coverage:Integrated Oil

Company (Ticker)	Rating (as of)	Price (03/31/2006)
Douglas T. Terreson		
Amerada Hess Corp. (AHC.N)	U (03/18/2002)	$142.40
Chevron Corporation (CVX.N)	E (08/24/2005)	$57.97
ConocoPhillips (COP.N)	Overweight (04/03/2006)	$63.15
Exxon Mobil Corporation (XOM.N)	O (03/18/2002)	$60.86
Marathon Oil Corporation (MRO.N)	O (07/18/2005)	$76.17
Occidental Petroleum (OXY.N)	U (10/22/2002)	$92.65

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