

4 March 2008

Reserves Reporting

Response to the SEC's request File Number S7-29-07

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Revisions to oil and gas reserves disclosure requirements

Following the Commission's request for comments on potential revisions to oil and gas reserves disclosure requirements, Deutsche Bank US Oil and Gas team submits the following comments in a representative role as a "sellside" oil and gas analysis team. We believe our role as investment advisors with an objective view of the oil industry qualifies us to comment. We recognise that it is in the interests of all concerned that we address a lack of sellside commentary on the subject.

What analysts and investors need from SEC Oil and Gas Reserves Reporting

The most important issue in oil and gas reserves reporting for equity analysts and our clients is comparability between companies, and over time. The current definitions capture this to an extent, but could be improved with relatively minor changes to provide more comparability and better capture of today's oil industry.

What changes we would like to see

We recognize the primacy of a principles based system that prioritises "reasonable certainty" with conservatism as the watchword, such as the current system. However we support four simple changes:

- ⇒ First, where under the current system, principles are bounded by rules, those rules have become outdated by technological, geologic, geographic and pricing shifts. We recommend the adoption of the Society of Petroleum Engineers (SPE) Petroleum Resources Management System (PRMS) as the basis for the rules that encompass the principle. We would suggest an initial change to using the SPE definitions, overlapped with a year of current standard reporting, with further changes made by the SPE as necessary. The framework would provide comparability both domestically, and to a large extent, globally.
- ⇒ Second, increase capture of "unconventional resource", particularly oil sands mining reserves. Adoption of the SPE framework would account for this.
- ⇒ Third, we would allow companies the OPTION of reporting "Proven and Probable" ("2P") and "Resource" ("proven, probable and possible" or "3P") numbers, but would require those reports to comply to SPE definitions (currently different companies use different, more-or-less loose, definitions of "resource").
- ⇒ Finally we would shift away from accounting of reserves using year-end single date oil and gas pricing to a rolling average of a longer period, perhaps two years, ending October. This would provide a less volatile measure and allow easier internal company processing in time for year end filing.
- ⇒ We have conferred with our clients, and the over-whelming majority believe the issue of year-end pricing and oil sands reporting are the priority problems to be addressed. We believe that a move to SPE definitions serves to address this.

With respect, Paul Sankey; Managing Director; Deutsche Bank, 60 Wall Street, NY

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Catalyst Event

Top picks

Occidental Petroleum (OXY.N),USD78.24	Buy
Marathon Oil (MRO.N),USD53.81	Buy
Hess Corporation (HES.N),USD93.74	Buy
Suncor Energy (SU.TO),CAD103.87	Buy

Companies featured

Company	2007A	2008E	2009E
ExxonMobil (XOM.N),USD87.75			Hold
EPS (USD)	7.20	8.00	8.34
P/E (x)	11.6	11.0	10.5
EV/EBITDA (x)	6.2	6.9	6.9
Petro-Canada (PCA.TO),CAD47.11			Buy
EPS (CAD)	5.51	5.78	6.19
P/E (x)	9.3	8.1	7.6
EV/EBITDA (x)	3.9	3.5	3.3
Occidental Petroleum (OXY.N),USD78.24			Buy
EPS (USD)	5.30	6.86	6.21
P/E (x)	10.8	11.4	12.6
EV/EBITDA (x)	4.6	4.9	5.0
Murphy Oil (MUR.N),USD82.82			Hold
EPS (USD)	3.97	7.49	8.71
P/E (x)	15.5	11.1	9.5
EV/EBITDA (x)	6.7	5.0	4.2
Marathon Oil (MRO.N),USD53.81			Buy
EPS (USD)	5.45	6.35	6.03
P/E (x)	10.0	8.5	8.9
EV/EBITDA (x)	5.5	5.5	5.1
Hess Corporation (HES.N),USD93.74			Buy
EPS (USD)	6.04	6.40	6.41
P/E (x)	10.2	14.6	14.6
EV/EBITDA (x)	3.7	4.8	4.7
Chevron (CVX.N),USD67.20			Hold
EPS (USD)	8.00	9.40	9.87
P/E (x)	10.3	9.3	8.8
EV/EBITDA (x)	4.8	4.9	4.5
ConocoPhillips (COP.N),USD63.44			Hold
EPS (USD)	9.13	9.88	8.92
P/E (x)	8.4	8.4	9.4
EV/EBITDA (x)	5.2	4.9	4.0

Appendix 1

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Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

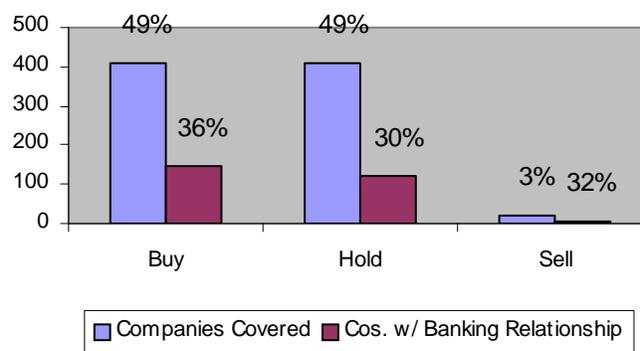
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North American Universe

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