

Burlington Resources, Inc. (BR-NYSE)

Current Recommendation	Buy
Prior Recommendation	Hold
Date of Last Change	08/22/2004
Current Price (03/29/05)	\$48.51
Six- Month Target Price	\$55.00

OUTLOOK

Burlington shares should continue to trade at multiples at or above present levels over our six-month timeframe, providing substantial price upside for the stock. Discretionary cash flow should match or surpass the record \$3.4 billion-figure of 2004, far surpassing capital needs of \$2.0 billion, and further inflating BR's cash horde, already at \$2.2 billion. A \$1 billion stock buyback-authorization further underpins share values. Fundamental drivers are the company's leverage to the attractive supply-demand picture in North American natural gas markets, BR's capital discipline, operating cost-control, very effective use of new technologies, and continued modest production growth (3% in 2005).

SUMMARY DATA

52-Week High	\$53.10
52-Week Low	\$29.38
One-Year Return (%)	58.66
Beta	0.54
Average Daily Volume (sh)	2,991,270

Shares Outstanding (mil)	387
Market Capitalization (\$mil)	\$18,769
Short Interest Ratio (days)	1.51
Institutional Ownership (%)	83
Insider Ownership (%)	1

Annual Cash Dividend	\$0.34
Dividend Yield (%)	0.70

5-Yr. Historical Growth Rates	
Sales (%)	16.0
Earnings Per Share (%)	35.6
Dividend (%)	3.6

P/E using TTM EPS	12.0
P/E using 2005 Estimate	12.4
P/E using 2006 Estimate	13.8

Zacks Rank	3
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Risk Level	Low
Type of Stock	Large-Blend
Industry	Oil-Us Exp & Prod
Zacks Rank in Industry	25 of 54

ZACKS ESTIMATES

Revenue

(In millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2003	1,128 A	1,059 A	1,059 A	1,065 A	4,311 A
2004	1,308 A	1,333 A	1,419 A	1,558 A	5,618 A
2005	1,491 E	1,405 E	1,385 E	1,455 E	5,736 E
2006	1,425 E	1,315 E	1,244 E	1,442 E	5,426 E

Earnings per Share

(EPS is operating earnings before non-recurring items)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2003	\$0.81 A	\$0.69 A	\$0.67 A	\$0.58 A	\$2.75 A
2004	\$0.90 A	\$0.96 A	\$0.98 A	\$1.19 A	\$4.03 A
2005	\$1.01 E	\$0.98 E	\$0.96 E	\$0.97 E	\$3.92 E
2006	\$0.95 E	\$0.82 E	\$0.81 E	\$0.94 E	\$3.52 E

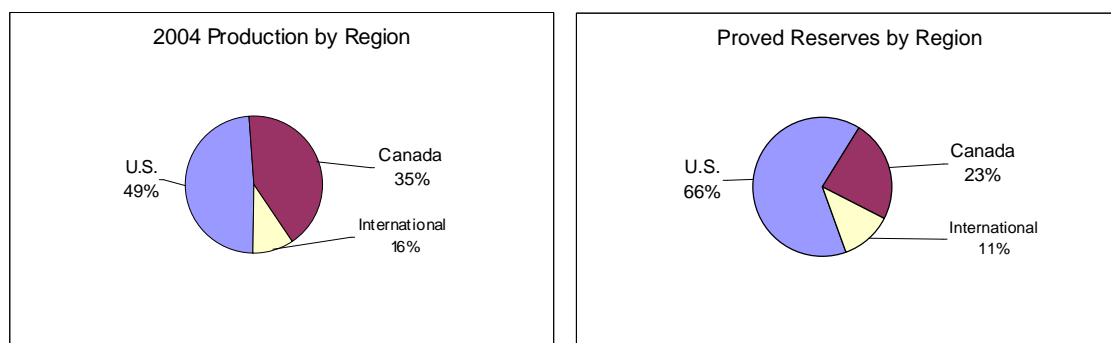
Zacks Projected EPS Growth Rate - Next 5 Years %	7
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KEY POINTS

- Burlington's extensive inventory of development-drilling prospects in its core North American operations helps the company grow production volumes without taking excessive dry-hole risks.
- The company's recently reported reserve replacement cost for 2004 of \$1.27 per Mcfe should outperform the bulk of its competitors amongst independent companies.
- Despite its operational strengths, BR will be challenged to push its longer-term production growth above the 3% rate expected for 2005.
- With 69% of its reserve base composed of natural gas, Burlington is already very well positioned for sales, into what we anticipate to be a robust U.S. market.
- BR's capital discipline and effective cost controls have paid-off in terms of return on capital employed, which has risen from a 2000 - 2002 average of 10.7% to 17.7% in 2003, and 19.8% in 2004, outperforming industry figures for independent exploration and production companies.
- Cash on the balance sheet exceeds \$2 billion, and should approach \$3 billion by year-end 2005.
- BR's share repurchase program should exceed \$500 million during 2005, and assuming the cash buildup continues this year as expected, buybacks should be hiked substantially in 2006.

OVERVIEW

Houston-based Burlington Resources is a leading U.S. independent oil and gas company, known for its extensive North American operations (89% of proved reserves), but also with interests in Europe, North Africa, China, and South America. At year-end 2004, proved reserves were estimated at 8.2 trillion cubic feet (Tcf) of natural gas, 298 million barrels of crude oil, and 333 million barrels of natural gas liquids (12.0 Tcfe, on a natural-gas equivalent basis). Natural gas accounts for 69% of reserves. Production (sales volumes) in 2004 averaged 1,914 million cubic feet per day (MMcfd) of natural gas, 85,200 barrels per day of crude oil, and 65,300 barrels per day of natural gas liquids (natural gas share: 68%). Total production on a natural-gas equivalent basis was 2,817 Mmcfd, a 9.7% increase vs. the prior year, and a record for the company.



The company has been a very strong cash flow generator over the last five years, a trend that has accelerated during the 2003 - 2005 period of peak oil and gas prices. Discretionary cash flow in 2004 was \$3.4 billion, up nearly 30% vs. the prior year, and we expect that figure to top \$3.6 billion in 2005. These amounts are far in excess of investment needs. Capital expenditures in 2004 were \$1.66 billion (\$1.75 billion including acquisitions), up 6.4% over the prior year, and the company has budgeted \$2.0 billion of capital expenditures in 2005, a 20% increase.

U.S. Operations

BR operates in several major producing basins. These include the *San Juan Basin* of northwestern New Mexico, the Fort Worth Basin of north-central Texas (the *Barnett Shale* play), the East Texas *Bossier* formation (new producing area), the Williston Basin of Montana and North Dakota (*Cedar Creek Anticline* and *Bakken Shale* plays -- Bakken production is also new), the Wind River Basin in Wyoming (the *Madden Field*), the Anadarko Basin (primarily Oklahoma), the Permian Basin (West Texas), and the Gulf Coast (including interests in Louisiana and offshore). [*Italicized plays discussed below.*]

San Juan Basin: BR's legacy asset is its leading position in the San Juan Basin, a mature natural gas province that still accounts for nearly 40% of the company's proved reserves, a quarter of production, and by management's estimate, over 40% of future drilling inventory. The San Juan is expected to continue producing at current levels (700 – 750 Mmcfed) through 2008, at competitive operating costs and with relatively modest capital requirements (\$158 million in 2004, approx. \$160 million in 2005), making it a major cash flow generator for the company. At current price levels, and using management's operating cost guidance of \$1.25 per Mcfe (a companywide average figure), San Juan net cash flow in 2005 (i.e., net of capex) should be at least \$800 million, and could exceed \$1 billion. Drilling, completion, and recovery techniques developed in the San Juan for so-called "tight gas" (source rock)-formations are being applied to unlock unconventional resources in other North American regions.

Barnett Shale: The Barnett Shale is an unconventional play (source, as opposed to reservoir rock) that has of late attracted notoriety industry wide. BR's position (approx. 28,000 acres) is part of the "core" portion of the play (Fort Worth and its northern environs), which underwent extensive exploitation dating from the late 1990s. In management's most recent statements, a lowering of expectations is evident. Current production, about 60 Mmcfed, is now expected to peak at 80 Mmcfed in 2007, whereas one year ago, roughly 90 Mmcfed was projected for 2005, and 110 Mmcfed in 2008. Accordingly, BR is beginning to ramp-down its core Barnett drilling, with 60 wells planned for 2005, as opposed to 90 wells in 2004 (a capital commitment of \$83 million). The company has identified formations sharing the Barnett characteristics in counties farther west in Texas, but the ultimate potential of the so-called Barnett look-alikes have yet to be assessed.

Bossier Tight Sands: In the Bossier tight gas formation underlying Freestone, Limestone, and Robertson Counties in East Texas, BR posted a string of seven drilling successes during 2004, opening-up a new unconventional resource play for the company. These projects, including four "deep shelf"-finds (15,000 ft.) with initial production of five, to as much as 35 Mmcfed (each indicative of a resource in the 7.5 - 40 Bcf range), have provided the basis for hiking the company's land position to 84,000 acres from 25,000. BR has now slated \$120 million for 20 wells in 2005. The company sees the potential for the Bossier to eventually become a 500 Bcf resource, although this depends on extension of the play across the better part of the newly purchased acreage. We also expect BR will further extend its Bossier acreage position.

Cedar Creek Anticline: An oil-bearing formation that has responded very well to BR's waterflood program since 2003, Cedar Creek production of 17,500 barrels per day in 2004 (105 Mmcfed) was up 67% vs. the prior year, and is expected to reach 35,000 barrels per day (210 Mmcfed) by 2007. Capital expenditures in 2004 were \$113 million, and we expect them to remain at this level in 2005 and 2006.

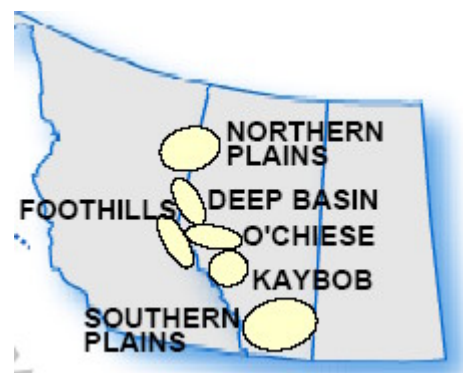
Bakken Shale: In the Bakken, still another unconventional shale play, the company has plans to spend \$50 million in 2005, to drill 18 wells. At present, the program has an estimated 90 remaining development-drilling locations over its 67,000 acres of Bakken leaseholds. The Bakken's potential may be on the order of 30 - 35 million barrels (nearly 200 Bcfe), based on the company's recent finding cost of \$1.27 per Mcfe. The company's guidelines of 300 - 500 thousand barrels per well also accord with this estimate.

Madden Field: Production of 120 Mmcfed was interrupted in the second half of 2003, due to gas processing plant and pipeline malfunctions, resulting in a blip in 2004 total company-growth, as the field

came back online. BR has raised production threefold since the late 1990s, *via* deep drilling into the Madison formation (25,000 ft.). Capital expenditures in 2004 were \$24 million, and we would expect similar investments in 2005, as the company targets the Frontier formation (20,000 ft.). We expect production to top-off in 2006, at 140 -150 MMcfd.

Canadian Operations

In the Western Canadian Sedimentary Basin, the company has extensive acreage in production and for development in Alberta and British Columbia. Major interests are in the western Alberta Deep Basin and neighboring Alberta - British Columbia Foothills play, the O'Chiese and Kaybob plays in central-western Alberta, the northern Alberta and northeastern British Columbia "Northern Plains" region, the shallow Viking - Kinsella region in central-southern Alberta, and the "Southern Plains" region (southern Alberta). Undeveloped Canadian acreage amounting to over 3.4 million acres is being evaluated and added to a drilling inventory of over 3,100 projects.



An extensive drilling program (over 700 gross wells in both 2003 and 2004, and overall capital expenditures of over \$1.5 billion) has, by applying techniques from BR's U.S. programs, succeeded in streamlining the operations of the three Canadian operations acquired by BR over the 1999 - 2002 period, but not enough so as to arrest an overall trend of declining production (994 MMcfd in 2004, vs. 1,062 MMcfd in 2003). In 2005, stepped-up plans call for approximately 900 new wells, at a cost of \$975 million -- nearly half the company's total capital spending plans.

BR's producing properties in the Deep Basin are the Elmworth, Wapiti, Noel, and Brassey Fields (305 MMcfd in 2004). Capital spending was \$262 million in 2004 (106 wells), and we expect substantially increased activity in 2005. Resource assessment studies have identified future drilling opportunities across 4 horizons in the Deep Basin: Cadomin, Falher-A, Falher-B, and Cadotte. Down-spacing studies across the Cadomin, Chinook, and Belly River horizons resulted in regulatory approval to go from 640-acres to 320-acres, over 55 sections of the Deep Basin. In the Foothills area, just west of the Deep Basin, 2004 capital spending was \$31 million, and production was 53 MMCF of natural gas per day. Five wells were drilled in 2004. We expect a major increase in Foothills drilling in 2005.

In the O'Chiese area in central Alberta (2004 production: 210 MMcfd) a \$144 million exploration and development program targeted primarily the Lower Cretaceous and Jurassic sands, the principal historical objectives of drilling in the area. In 2004, 111 wells were drilled, and we anticipate a similarly-sized program in 2005. In the Kaybob play (2004 production: 128 MMcfd), the company invested \$170 million, with 82 wells drilled during 2004, and we would expect similar activity in 2005.

In the Northern Plains (2004 production: 95 MMcfd), the capital program was \$83 million, targeting the Bluesky, Gething, and Montney formations (58 wells in 2004). We expect an acceleration of activity in this area, where the company has identified sizable natural gas objectives (up to 80 Bcf from some projects) in deep Cretaceous and Permian horizons.

In the Southern Plains area (total production, including the Viking Kinsella property: 182 MMcfd), BR invested \$81 million in 214 wells in 2004, and we would expect similar activity in 2005.

BR has pulled-out of a long-term exploratory position in the Northwest Territories' Mackenzie Delta. At its recent analysts' conference, management offered no explanation of this 10-K disclosure, which contrasts recent moves to step-up purchases of exploratory acreage. It appears that the company now views unconventional resources (Bossier, Bakken) as being relatively more attractive than going far afield in search of outsized conventional finds.

International Operations

BR's international presence, though still small in scale, is growing much more rapidly than the company's North American core business. Production brought online late in 2003, and ramping upward in 2004 in Algeria, China, the East Irish Sea, and the Andean Basin in Ecuador, brought 2004 international production to 442 MMcfd, an 84% increase vs. 2003. Key growth drivers were Algeria (11,000 barrels per day / 66 MMcfd), and new production offshore China (19,000 barrels per day / 114 MMcfd). In the UK, East Irish Sea production from two more of the five sour gas fields of the Rivers complex came online in October, 2004; however, processing plant problems have delayed the arrival of full production potential of up to 100 MMcfd, until later in 2005. The company's 2005 capital spending-plans for international projects are \$240 million, or 12% of its capital budget (compared to \$130 million, and only 8% of capital spending in 2004). Investment in 2005 will continue in the East Irish Sea, Algeria, and China, and additional drilling is expected along the company's "Andean Mountain Front" (Ecuador, Peru and Colombia) and offshore Egypt, where the focus is the Tao Prospect in the North Sinai Permit.

Operational Assessment: Management's midpoint guidance for 2005 production growth is only 3%, putting expectations for next year at the low-end of the company's recently reaffirmed 3% - 8% long-term production growth range. It is notable, that of the 9.7% production growth reported for 2004, more than one-third stemmed from the April, 2004 restoration of production in the Madden Field. In fact, most of BR's international production gains also came in the first half of the year. On a sequential basis, growth slowed quarter-by-quarter during 2004, dropping to 4.3% in the third quarter, and 1.1% in the fourth quarter. Though the company has several strong growth plays, whether those prospects can return it to the 5.5% midpoint of its long-term growth guidance must now be carefully considered.

We view BR's 20% hike in capital spending plans as a hint at the size of the task the company faces in achieving its long-term growth goal. In 2004, capital expenditures were \$1.66 billion (excluding \$85 million in acquisitions). The 2005 capital budget has been set at \$2.0 billion, with any acquisitions to come on top of that number.

Management emphasizes that the company's extensive inventory of developmental (as opposed to exploratory) projects will drive volume growth in a low-risk, sustainable way, and BR's track record may warrant a degree of confidence in its ability to make the necessary reserve additions. During 2004, BR replaced 125 percent of production with new reserves, at an average cost of \$1.27 per Mcfe. Although this exceeds the company's \$1.22/Mcfe three-year average replacement cost, the company's performance has been consistent, if adjusted for the impact of industry-wide service cost-increases, and recent adverse currency exchange rate-shifts, and it compares favorably to peer companies.

Financial Assessment: Burlington is in a position of comparative financial strength. Discretionary cash flow was nearly \$3.4 billion in 2004, and we estimate that it should exceed \$3.6 billion in 2005. The company's cash horde stood at \$2.2 billion at the end of 2004, and should approach \$3 billion by year-end 2005. (We assume a stable dividend and no substantial change in the company's stock repurchase program, which bought back over \$500 million in 2004, and was recently reauthorized.) Balance sheet leverage continues to diminish, the ratio of debt-to-total-capital dropping five percentage points during 2004, to 36% (and, thanks to the cash horde, only 20% on a net-debt-to-capital basis).

Operating cost increases have made themselves felt the last two years (unit production costs plus G&A up 12% in 2003, 10% in 2004), but management's 2005 guidance, calling for a 15% unit cost decrease, is a strong indication of confidence in the company's cost controls, to which we are inclined to give credit. Improved well-recovery techniques have enabled BR to post lower field-decline rates, and to avoid reworking developed fields.

The one cost that is rising steadily and substantially for BR, as for its industry competitors, is DD&A, which has grown on a unit basis at nearly 9% annually the past four years, and as per management's guidance, should rise another 17% in 2005. When questioned about this, management indicated that

drilling cost acceleration was not unanticipated, and we view this as a further indication that management is comfortable with a slightly more aggressive capital-spending program.

Clearly, management has the flexibility to go the acquisitions route in order to meet its growth projections, but management's conservative approach to evaluating acquisition candidates, coupled with a hot market for oil and gas properties, has had the effect of moving the company steadily away from acquisition activity over the last three years. Management has recently indicated that it has lately moved to increase its "mean pricing range" for natural gas by 50 cents per Mcf, to \$4.50 - \$6.50 per Mcf, and if this can be assumed to apply when the company runs the acquisition numbers, then 2005 may be the year when BR puts its cash to work on the acquisition front. Despite this change, we view a major acquisition as a low probability for BR, which brings us to the question of what, if anything, will be done with the cash stockpile. In answer to this, management gave some indication that 2006 would be the year in which the company makes a move to take-down its cash balance, assuming that the cash buildup continues as projected in 2005. The most likely move, in our view, is a substantial ramping-up of the stock repurchase program. This, in turn, would provide substantial additional support to trading levels in BR shares.

As a summative measure for BR, we focus on the company's overall rate of return on capital employed. Burlington's ROCE has risen from a 2000 - 2002 average of 10.7% to 17.7% in 2003, and 19.8% in 2004, a performance that parallels, and in fact exceeds that of the E&P industry. For the industry, increasing returns are a reflection of ever-strengthening oil and gas markets in recent years. For BR, excess returns are a reflection of the company's demonstrated ability to leverage the attractive fundamentals of the North American natural gas market, constantly renewing its prospect inventory, combined with a uniquely disciplined capital allocation regime, that keeps costlier projects off limits and channels a substantial portion of cash flow to shareholders. We see these qualities as adequate to the challenges of the coming year, and together they give us a strong set of reasons for owning the shares. We therefore maintain our positive outlook on the stock.

INDUSTRY OUTLOOK - NEUTRAL

We believe natural gas markets will remain tight, with supply lagging slightly behind demand, and with only moderate switching to alternative fuels. Developments during the early months of 2005, especially a trend in contract hedging programs to build-in upside potential of 50 percent or more, have caused us to extend our expectations for peak natural gas prices. For investors, it is instructive that natural gas producers, in structuring their recent hedging contracts with financial institutions, are more and more frequently seeking to preserve a very substantial upside potential.

Over the past few years, natural gas markets have tightened amid a scarcity of new supplies, making 2004 a second successive year of strong profit growth for U.S. and Canadian exploration and production companies. In 2005, we look for continued profit growth, although slower in pace. Longer-term, we see flat-to-lower earnings in 2006, due to the long-expected settling of product pricing toward baseline levels. This should be followed by renewed growth in 2007, when our forecasts indicate that earnings expansion should approach 10 percent. By 2008, the importation of liquefied natural gas (LNG) will potentially have reached a magnitude large enough to offset the domestic supply shortfall, a circumstance that could begin to put downward pressure on natural gas prices.

Our favorable picture stems from an endemic U.S. natural gas supply shortfall, one that the U.S. cannot hope to offset by piping new supplies down from Canada (averaging 15% of U.S. supplies in recent years). In 2003, there was a 2.5% drop in North American production. Responding to the production decline, the industry put over 400 more drilling rigs into action in the last two years, bringing the U.S. natural gas rig count to a record 1,139 by March 2005. Even so, preliminary estimates call for another 2.5% production decline in 2004. In fairness, some of the 2004 decline is due to hurricane damage to Gulf of Mexico platforms and pipelines, which had the effect of delaying production. As a result, 2005 should see an increase in production, but only on the order of one percent.

In the event of a colder-than-normal 2005 - 2006 winter, the possibility of a U.S. gas crunch would set in motion a sequence of events that could radically impact natural gas prices. Diminished production capacity implies that a heavier-than-normal storage draw now has the potential to outstrip producers' delivery capabilities. This would cause storage volumes to dwindle below levels deemed adequate to ride-out the heating season. Perceiving this, energy traders would demand more and more for natural gas.

At first, energy markets will be self-correcting. As natural gas becomes prohibitively expensive, vs. residual / heating oil, buyers will switch fuels. Most industrial users (40% of U.S. gas consumption) have dual-fuel capability, as do the larger commercial enterprises (15% of U.S. consumption). Even the utilities themselves, or their independent suppliers of electric generation (another 10% of consumption), could shift to oil for their peak-capacity requirements.

The market's self-correcting capacity does have its limits. Natural gas, trading between \$5.00 and \$8.00 per thousand cubic foot in 2004, briefly reached \$12.00 in the cold winter months of early 2003. The supply-demand disparity that triggered those price-highs has only worsened since, so the upward potential keeps growing.

As for oil, today's historic-high crude oil prices, though in part stemming from political pressures, are also the result of fundamental supply and demand conditions. Burgeoning oil consumption, especially in China and India, shows no sign of abating, and is running up against the short-term constraints on OPEC's ability to boost supply. Oil prices are still expected to settle-down, possibly retreating below \$40 per barrel this year, but U.S. natural gas spot market (Henry Hub)-prices as a percentage of oil (West Texas Intermediate), long trending upward, fell-off with oil's big rally in 2003 – 2005. Given a normalized oil price of \$35.00 per barrel, natural gas could stay at \$6.00 per Mcf, and still trade below its range, relative to oil of 2000 – 2002. In sum: there may be scarce savings to be had from fuel switching.

Interestingly, Burlington management, in the course of the company's recent earnings conference call, observed a "lack of demand loss," with natural gas at prices of \$6.00 - \$7.00 per Mcf. Further, Burlington indicated that based on "resilience" on the part of the "base consumer" heating with natural gas, management has changed its thinking on the sustainability of recent high gas prices. As a result, their "mean pricing range" has moved up to \$4.50 - \$6.50 per Mcf, from \$4.00 - \$6.00 per Mcf. Coming from a company as conservative in pricing (especially for acquisitions) as Burlington, this is no minor news.

Zacks' has a neutral view on oil and gas exploration, and on production companies as a sector, due to the relatively rich trading multiples that the bulk of these companies reached in 2004's stock run-up.

INDUSTRY POSITION

Burlington is among the largest of independent exploration and production companies. As such, it is pitted against roughly ten other large-cap independents in an ongoing hunt for high-potential oil and gas resources. BR also goes up against the much larger oil and gas majors. Competition can be intense for oil and gas leases in the most desirable fields. The principal competitive factors include the availability and quality of the staff

Burlington Resources vs. Zacks' E&P Large-Cap Recommendations			
Ticker	Company	Market Cap (Billion \$)	Zacks Rec
ECA	Encana Corp.	\$30.2	Buy
DVN	Devon Energy	\$21.6	Hold
APA	Apache Corp.	\$19.2	Hold
BR	Burlington Resources	\$18.8	Buy
APC	Anadarko Petroleum	\$17.4	Buy
UCL	Unocal Corp	\$16.1	Hold
XTO	XTO Energy	\$14.5	Hold
CNQ	Canadian Nat. Res.	\$14.3	Buy
TLM	Talisman Energy	\$12.0	Hold
EOG	EOG Resources	\$10.7	Buy

and the data necessary to investigate and purchase acreage and lease blocks, as well as the financial strength necessary to develop the acquired acreage. BR compares favorably to its large-cap peer group in terms of return on capital employed and several other measures, including reserve replacement ratio, volume growth, control of unit costs, and balance sheet strength.

RECENT NEWS

On January 26, Burlington reported earnings (excluding non-recurring items) for fourth-quarter and full-year 2004, of \$458 million and \$1.5 billion, respectively, both record amounts. Quarterly earnings, adjusted for non-recurring items, were \$1.19 per share, nearly double the comparable figure for the fourth quarter of 2003. For the full year 2004, adjusted earnings were \$4.03 per share, a 46% increase over the prior year. Discretionary cash flow in 2004 was nearly \$3.4 billion, 28% higher than the prior year. On a per share basis, discretionary cash flow was \$8.58 per diluted share, a 32% increase over the prior year.

Gains in production volumes, and higher realized commodity prices, drove the year-over-year earnings and cash flow growth. Total production during the year of a 2,817 million cubic feet-equivalent per day, represented a 9.7% year-over-year increase. Natural gas price realizations for 2004 were \$5.49 per Mcf, compared to \$4.83 per Mcf in 2003, a 14% increase. Crude oil price realizations were \$36.24 per barrel, up 33%, and natural gas liquids averaged \$25.38 per barrel, up 24%. These results were partially offset by a 10% year-over-year increase in unit operating expenses.

VALUATION

Our \$55.00 six-month target price represents a 13% premium over current levels, and reflects our anticipation of a trading premium accruing to BR shares. Burlington now trades at an EV/EBITDA multiple of 5.1x, using our 2005 EBITDA estimate. This is relatively inexpensive, compared to an average 5.4x multiple for BR's large-cap E&P peer companies. We anticipate trading multiple-growth in coming months, and expect BR

shares to trade up to their 5.6x historical EV/EBITDA ratio. We believe this to be warranted, in light of BR's option to use expanded share buybacks to continue its recent history of leadership, in terms of return on capital. Thus, we are anticipating broader investor recognition of BR's superior financial flexibility. Although our estimates indicate slower earnings growth, we estimate 2005 discretionary cash flow at

\$9.41 per share, 10% higher than the 2004 result. Is it realistic to expect BR to trade at richer multiples? That independent E&P companies can trade closer to the market multiple is not impossible, as is evidenced (in the table, at right) by the share performance of EOG Resources.

Industry Comparables

	Pr Chg YTD	P/E CFY	EPS Gr 5Yr Est	Price/ Book	Price/ Sales	Price/ CF
Burlington Resources	14.3	12.4	7.5	2.8	3.3	5.7
Industry Mean	39.7	19.6	13.8	4.0	20.6	16.6
Industry Median	13.8	13.4	11.0	2.9	3.6	8.1
S&P 500	-3.1	16.7	6.0	6.1	2.7	14.1
Anadarko Petroleum	14.1	10.3	5.0	2.0	2.9	5.7
Unocal Corp	36.7	13.5	4.3	3.0	2.0	7.3
Apache Corp.	17.7	10.1	8.0	2.4	3.7	6.7
EOG Resources	25.4	16.4	7.0	3.7	4.7	9.7

RISKS

- Management has followed a policy of hedging less than half of production, so BR's results remain exposed to volatility in natural gas prices.
- Though BR has made some progress in expanding internationally, it is still largely a North American producer. In the absence of a more substantial international push, the company may not be able to sustain its growth profile.
- An increase in field decline rates, currently the lowest in the peer group, would impact the company's results.
- BR has historically used acquisitions to achieve growth. Management may make a dilutive transaction, or may not be able to optimally integrate the acquired assets.
- Dividend safety: We regard BR's dividend, like the company generally, as able to withstand a substantial downturn in the oil and gas industry. This is based on the company's substantial cash flow prospects and its strong internal financing capability.

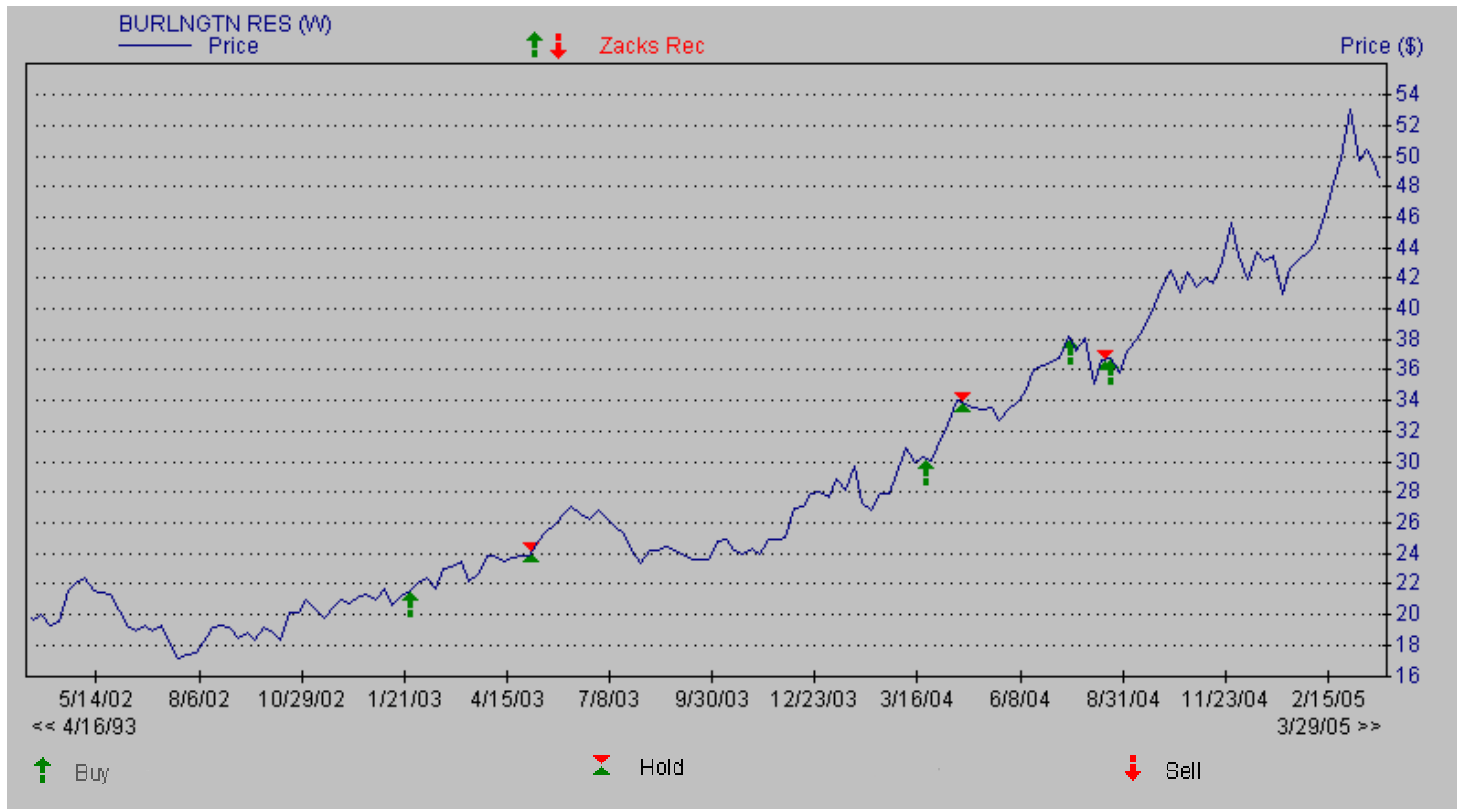
INSIDER TRADING AND OWNERSHIP

Institutional shareholders own roughly 83% of the company's outstanding shares. Major institutional shareholders include: Fidelity Management and Research Company (5.6% of outstanding shares), Harris Associates (5.5%), and State Street Corporation (3.9%). Institutional shareholders have been net buyers of the stock over the last quarter (2.6 million shares / 0.8%). Insiders own 1% of the company's outstanding shares, and have been net sellers over the last six months (405,000 shares / 14.9% of insider holdings). The short ratio is an insubstantial 1.5 days.

INCOME STATEMENT / BALANCE SHEET MODEL

<i>(Dollars in millions, except EPS data)</i>	2000A	2001A	2002A	2003A	2004A	2005E	2006E	CAGR*
PROVED RESERVES								
Crude Oil (MMBbls)	332	372	288	282	298	312	327	
Natural Gas Liquids (MMBbls)	266	275	300	331	333	340	350	
Natural Gas (Bcf)	6,802	7,925	7,890	8,074	8,226	8,466	8,706	
Total (Bcfe)	10,389	11,809	11,419	11,752	12,007	12,378	12,768	3.5%
PRODUCTION (Sales Volumes)								
Crude Oil (MBd)	74	63	49	47	85	90	93	
Natural Gas Liquids (MBd)	47	47	60	65	65	67	69	
Natural Gas (MMcfd)	1,724	1,724	1,916	1,899	1,914	1,983	2,042	
Total (MMcfd)	2,449	2,386	2,571	2,567	2,817	2,922	3,014	3.5%
PRICE REALIZATIONS (net of hedges, if any)								
Crude Oil (\$/Bbl)	25.44	23.45	24.11	27.22	36.25	35.00	33.00	
Natural Gas Liquids (\$/Bbl)	19.51	16.79	14.46	20.40	25.38	25.00	23.00	
Natural Gas (\$/Mcf)	3.42	4.03	3.20	4.83	5.49	5.50	5.00	
Total (\$/Mcf)	3.55	3.86	3.18	4.58	5.41	5.38	4.93	
Revenues	3,147	3,419	2,968	4,311	5,618	5,736	5,426	9.5%
Operating Expenses								
Production, Proc. & Transport.	850	1,008	944	1,070	1,300	1,146	1,183	5.7%
DD&A	704	735	833	927	1,137	1,386	1,485	13.2%
Exploration Expense	237	258	286	252	258	313	325	5.4%
G&A	165	149	161	164	215	187	187	2.1%
Impairment & Other	0	184	0	63	90	0	0	
Total Operating Exp.	1,956	2,334	2,224	2,476	3,000	3,032	3,180	8.4%
Operating Income	1,191	1,085	744	1,835	2,618	2,705	2,246	11.1%
Interest, Other Exp/Income	224	178	175	265	314	270	270	3.2%
Pretax Income	967	907	569	1,570	2,304	2,435	1,976	12.6%
Income Tax Expense	292	349	115	310	777	925	692	15.5%
Cum. Effect of Chg. in Acctg. Prin.				59				
Net Income	675	558	454	1,201	1,527	1,510	1,285	
Less: Non-Recurring Items	(18)	(109)	64	100	(66)			
Zacks Adjusted Income	693	667	390	1,101	1,593	1,510	1,285	10.8%
Reported EPS	1.56	1.34	1.12	3.00	3.87	3.92	3.52	
Zacks Adjusted EPS	1.60	1.61	0.97	2.75	4.03	3.92	3.52	14.0%
Cash & Marketable Securities	132	116	443	757	2,179	2,900	1,900	
Current Assets	1,011	715	1,061	1,517	3,455	4,300	3,300	
Current Liabilities	758	711	1,022	891	1,599	1,900	1,800	
Long Term Debt	2,301	4,337	3,853	3,873	3,887	3,850	3,825	
Shareholder's Equity	3,750	3,525	3,832	5,521	7,011	7,900	8,050	
EBITDA	1,895	1,820	1,577	2,762	3,755	4,091	3,731	12.0%
Operating Cash Flow	1,835	1,918	1,576	2,639	3,391	3,625	3,441	11.0%
Cash flow per share	4.24	4.62	3.91	6.59	8.58	9.41	9.43	14.3%
Capital Expenditures	1,012	3,454	1,837	1,788	1,747	2,009	2,200	13.8%
Acquisitions		2,252	603	228	85			
Drilling (Internal) Capex	1,012	1,202	1,234	1,560	1,662	2,009	2,200	
UNIT COSTS								
Production, Proc. & Transport.	0.95	1.16	1.01	1.14	1.26	1.08	1.08	2.2%
DD&A	0.79	0.84	0.89	0.99	1.11	1.30	1.35	9.3%
Exploration Expense	0.27	0.30	0.30	0.27	0.25	0.29	0.30	1.8%
G&A	0.18	0.17	0.17	0.18	0.21	0.18	0.17	
Impairment & Other	0.00	0.21	0.00	0.07	0.09	0.00	0.00	
Total Operating Exp.	2.19	2.68	2.37	2.64	2.92	2.84	2.89	4.7%
* Compound annual growth rates, 2000 - 2006.								

HISTORICAL ZACKS RECOMMENDATIONS



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