

Exxon Mobil Corporation: the Politics of Profit*

“A string of record profits at Exxon Mobil Corp. has drawn howls from some politicians, but earnings at the world’s largest oil company are, by at least one measure, understated.” WSJ, 8/8/06, p. C1

In mid-2006, gasoline prices exceeded \$3 a gallon in many regions of the U.S. – an all-time high in absolute dollars and a near-record in inflation-adjusted constant dollars. Not surprisingly, Exxon Mobil was in the public eye because of these relatively high prices at the pump and because the company had just reported the highest profits in U.S. corporate history – over \$36 billion for 2005, including over \$10 billion in the fourth quarter. Politicians, public interest groups and political cartoonists focused their criticism on Exxon Mobil – likely because of the Company's visibility and alleged lack of investment in renewable fuel sources, such as wind or solar power. (See Exhibit 1 for examples.)

Oil Prices, Politics and Profit

The Company’s record profits were closely scrutinized in the media and appeared to exacerbate the negative political environment. For example, press releases by U.S. Senators referring to Exxon Mobil or oil industry profits followed essentially every Exxon Mobil earnings announcement:

“It’s long past time for the Congress to address the increasingly high energy prices consumers have faced over the last two years. While oil companies have reaped record profits middle-class families have been left wondering whether anyone in charge of the government had noticed.”
Senator Reid (D - Nevada and Senate Minority Leader), October 27, 2005

“Today we have learned that Exxon Mobil has posted a quarterly profit of \$9.9 billion, the largest in U.S. corporate history, even as we in Michigan and across the nation are reeling from the Delphi bankruptcy, the largest in U.S. history. Corporations have a right to earn a legitimate profit, but public also has a right to know that these profits are legitimate and not the result of any market manipulation or price collusion, particularly when these profits affect every family, every business, every job.” Senator Stabenow (D - Michigan), October 27, 2005

"It is a travesty that oil companies should be making such staggering profits on the backs of Americans trying to fill their gas tanks. Americans expect their government to do something to help, and it's time for the Republican Congress to act. Democrats have offered real solutions to provide immediate relief, and I hope Bush Republicans will join us to ease the burden on the American people." Senator Reid (D - Nevada and Senate Minority Leader), April 27, 2006 following Exxon’s 1st quarter 2006 earnings announcement.

* This case was prepared from public sources by Robert M. Bowen, PricewaterhouseCoopers Professor of Accounting, and Jane Jollineau Kennedy, Deloitte & Touche Professor of Accounting – both at the University of Washington. The comments of Frank Hodge and Greg Miller are appreciated. Revised, July 2008.

“Americans are paying near-record gas prices, oil companies are reaping billions in profits, but the response from the Oil Men in the White House and the Republicans in Congress has been billions for Big Oil and a backhand to the American people. It would be shocking in normal times, but it is standard procedure for Republicans in Washington.” Senator Reid (D - Nevada and Senate Minority Leader), July 27, 2006 following Exxon’s 2nd quarter 2006 earnings announcement.

Defenders of the Company pointed out that Exxon Mobil does not control oil prices, the Company had earned a similar return on sales in the past, and the industry earned less per dollar of sales than many other industries. (For example, see Exhibit 2 for a national full-page advertisement paid for by the oil and gas industry’s major trade group, API.)

Exxon Mobil management responded on multiple fronts including issuing press releases and placing advertisements in selected newspapers. An Exxon Mobil ad (Exhibit 3) pointed out that Company profits were relatively low while tax payments to governments were high. Exxon Mobil’s press releases attributed their profits to higher oil and gas prices combined with higher production. (See Exhibit 4 for a chart of crude oil prices for 1947 through 2006 expressed in 2006 dollars.) Exxon Mobil also pointed to their active investment program and Company management predicted that capital expenditures for 2006 would total \$20 billion.

Did LIFO inventory accounting artificially reduce Exxon Mobil profits?

An August 8, 2006 article in the *Wall Street Journal* intensified the focus on Exxon Mobil’s profits. The article argued that, because Exxon Mobil used the last-in, first-out (LIFO) method to value its inventory, Company profits were in fact *lower* than they would have been had the company used a common alternative method, first-in, first-out (FIFO). The article went on to point out that Exxon Mobil profits were not directly comparable to other companies that did not use LIFO, including competitors BP (formerly British Petroleum) and Royal Dutch Shell.

The last-in, first-out (LIFO) inventory method assumes that the goods most recently acquired or manufactured are sold first. As a result, LIFO generally ‘matches’ current selling prices to current costs and results in a gross profit that reflects relatively current margins.¹ In periods of rising prices, the LIFO method results in lower reported profits, other factors held constant.

LIFO for tax reporting and the ‘conformity rule’

The LIFO method for inventory accounting was first allowed for tax purposes in the 1930s to stimulate the economy and protect companies from inflation. The ‘penalty’ for adopting LIFO for tax purposes was the requirement that the firm also adopt it for financial reporting. This requirement became known as the “LIFO conformity rule.” Thus, unlike almost all other accounting choices, the LIFO conformity rule caused a tax reporting decision (the use of LIFO to minimize taxes) to mandate a financial reporting choice (the firm must use LIFO for its financial statements to shareholders).

¹ A key exception occurs when a company sells more than it acquires or produces, and thus dips into old layers of inventory that can have costs much lower than current costs. Companies are required to report liquidation of LIFO layer in the notes to the financial statements.

LIFO on Life Support?

In 2006, the LIFO accounting method was under pressure on three fronts. First, as discussed above, the *Wall Street Journal* article had highlighted LIFO as a potential tool for managing corporate earnings – a dangerous allegation in the post-Enron/WorldCom era. Second, accounting policy makers were working to make U.S. and international standards more uniform. Because LIFO is not used in most of the rest of the world, some believed LIFO would be eliminated as a financial reporting choice in the process of converging U.S. accounting principles (GAAP) with international financial reporting standards (IFRS).² Third, congress was considering eliminating LIFO as an option for tax purposes. In an article entitled “LIFO Inventory Method at Risk,” public accounting firm PricewaterhouseCoopers wrote:

“The "last-in, first-out" (LIFO) method of inventory accounting, which provides that the last goods acquired are the first goods sold, is receiving unprecedented attention. The Senate-passed tax reconciliation bill included a provision to require large, integrated oil and gas companies to increase the value of their 2005 ending inventory volumes by \$18.75 per barrel. This provision was dropped in Conference with the House earlier this year, but then a proposal to completely repeal LIFO was unveiled on April 26, 2006 by Senate Republican leadership as a source of funding for an energy bill. LIFO has been called a "tax loophole", and lawmakers have been led to believe that the LIFO method may soon be eliminated for financial reporting purposes. Although Majority Leader Frist quickly backed off the proposal, Chairman Grassley announced that LIFO would be discussed during a hearing on corporate tax issues later this summer.

In April 2006, the Senate Republican leadership suggested a plan to generate a \$100 gas-tax rebate for every American family that would be funded by repealing LIFO for every oil company. Although the Senate withdrew the plan quickly, a promise by senior-ranking Senators to hold hearings on the accounting method resulted in the June 13 Senate Finance Committee hearing. At the hearing, Sen. Chuck Grassley (R - Iowa), the committee's chairman, said he hoped to explore corporate tax reform in greater detail in the fall.

In the meantime, lobbying to save LIFO intensified from companies, assorted trade associations, and a new lobbying group, the LIFO Coalition.³ The LIFO Coalition was formed in mid-2006 and had over 100 member groups by late 2006, including the American Institute of Public Accountants.

Given the political environment, it was unclear whether LIFO would survive. It was also unclear what further actions Exxon Mobil management should take.

² The Financial Accounting Standards Board (FASB) promulgates U.S. accounting standards. These standards combined with other rules and accepted practices are referred to as generally-accepted accounting principles (GAAP). Similarly, the International Accounting Standards Board (IASB) issues international standards.

³ See Exhibit 4 an example of ‘talking points’ recommended by one trade association. For membership in The LIFO Coalition, see http://www.naw.org/pdf/LIFO_Coalition_Membership_List.pdf.

Appendix A Background and History of Exxon Mobil

On November 30, 1999, Mobil Corporation became a wholly-owned subsidiary of Exxon Corporation, and Exxon changed its name to Exxon Mobil Corporation. Exxon and Mobil trace their roots to the late 19th century, when both companies were part of the famous Standard Oil Company co-founded in 1870 by John D. Rockefeller.⁴ Standard Oil and its subsidiaries quickly managed to buy out competing refining companies in the Cleveland area and then extended their control into Pennsylvania and New York. According to <http://www.u-s-history.com>, Standard Oil used a number of controversial business practices during this period, including:

- Monopoly power, e.g., Standard Oil allegedly purchased all the components needed for the manufacture of oil barrels in order to prohibit competitors from getting their product to market.
- Rate Wars, e.g., Standard Oil was able to withstand short-term losses by cutting the price of oil in selected markets; smaller competitors could not keep pace and either went out of business or sold out to Rockefeller.
- Rebates, e.g., Standard Oil was able to demand a refund on public rates offered by the railroads; the carriers agreed to this practice because of Standard Oil's huge volume.
- Intimidation, e.g., on more than one occasion Standard Oil allegedly dispatched thugs to break up competitors' operations that they had not been able to otherwise control.

Following a stock market crash in 1873, Standard Oil took advantage of the economic downturn to purchase refineries in Pittsburgh, New York, and in Pennsylvania's Oil Region. By 1877, the 38-year-old Rockefeller -- still relatively unknown to the public -- controlled almost 90% of the oil refined in the United States (<http://www.pbs.org/wgbh/amex/rockefellers/timeline/index.html>).

In 1882, the Standard Oil Trust was formed – first of the great corporate trusts. However, 10 years later an Ohio Supreme Court decision forced dissolution, resulting in the creation of 20 smaller businesses. However in 1889, the state of New Jersey enacted new corporation legislation authorizing the use of the ‘holding company’ to circumvent the discredited trust. The largest of the old Standard Oil companies were reorganized in 1899 as a holding company under the name of the Standard Oil Company of New Jersey.

The remainder of the nineteenth century was a time of expansion beyond America's shores. Large “kerosene clippers” enabled overseas shipments of products in bulk quantities. Affiliates

⁴ John Davison Rockefeller was born in 1839, the second of six children, to a working class family in Richford, New York. In 1853, his family moved to a farm outside Cleveland, Ohio. He pursued a public education, but did not finish high school. In 1855, Rockefeller took his first job as an assistant bookkeeper for less than four dollars a week. From the beginning, he showed a talent for detail and a strong work ethic. In 1859, Rockefeller's diligence was rewarded by being made partner. In that same year, oil was discovered in not-too-distant Titusville, Pennsylvania, touching off the growth of a new industry driven largely by the demand for kerosene for lighting. Cleveland emerged early as a refining center because of its access to the Great Lakes, rail service and supply of immigrant labor. Rockefeller was immediately attracted to the oil business, and in 1863 he started a refining business with other partners. In 1870, Rockefeller teamed with his brother William, Henry M. Flagler and Samuel Andrews (the inventor of an inexpensive means of refining crude oil) to establish the Standard Oil Company. Source: <http://www.u-s-history.com/>.

and sales offices spread across Europe and Asia. Standard Oil sold or gave away approximately 8 million Mei Foo, or “good luck” kerosene lamps in China in the late 1880s opening up a vast new market.⁵

In 1911, the U.S. Supreme Court ordered the dissolution of Standard Oil, resulting in the spin-off of 34 companies, including Standard Oil Co. of New Jersey commonly known as “Jersey Standard” (which later became Exxon) and Standard Oil Co. of New York commonly known as “Socony” (which later became Mobil). In the same year, the nation's kerosene output was eclipsed for the first time by a formerly discarded byproduct – gasoline. Rockefeller retired at this point as arguably the wealthiest person in American history. In stark contrast to his alleged cutthroat business practices, Rockefeller was a renowned philanthropist. He gave away about \$550 million in his lifetime including \$80 million to the University of Chicago, which helped turn that small Baptist College into a world-class university by 1900 (<http://en.wikipedia.org>).

Exxon Mobil in 2006

Although not as dominate as Standard Oil at the end of the nineteenth century, Exxon Mobil entered the twenty-first century as the largest company in the industry and one of the largest in the world. Exxon Mobil ranked first among the Fortune 500 with almost \$360 billion in sales in 2005, and the largest profit in U.S history. Of \$208 billion in reported assets at yearend 2005, over half were property, plant and equipment (net of depreciation) – primarily related to Exxon Mobil’s energy businesses, including exploration for, and production of, crude oil and natural gas, manufacture of petroleum products and transportation and sale of crude oil, natural gas and petroleum products. Exxon Mobil also had interests in electric power generation, and Company affiliates conducted extensive research programs to support all of these businesses. The company operated in the United States and about 200 other countries and territories.

⁵ To read more about Standard Oil selling lamps and oil in China, see http://www.kevinbaker.info/c_tltloc.html.

Case Questions:

1. As an analyst, do you agree that Return on Sales (i.e., profit margin), the ratio the oil industry used to put its profits in context with other industries, is a good comparative measure? If not, what would you recommend?
2. Did *physical* inventory levels of 'Crude oil, products and merchandise' increase or decrease during 2005 for Exxon Mobil? How do you know?
3. What ending balance would Exxon Mobil have reported for inventories of 'Crude oil, products and merchandise' for fiscal 2005 had used they FIFO (instead of LIFO) to value all inventories? (Hint: the 'aggregate replacement cost of inventories' referred to in Exhibit 8, note 3, is approximately the amount Exxon Mobil would have reported in inventories on a FIFO basis. Exhibit 8, note 3, refers to the *difference* between FIFO and LIFO, i.e., the amount by which replacement cost *exceeds* the amount reported on a LIFO basis. This is because FIFO assumes the last-in is still here on the balance sheet.)
4. What amount would the Company have reported as 'cost of goods sold' in fiscal 2005 if it had always used the FIFO method for measuring the cost of 'Crude oil, products and merchandise' inventories? (Hint: assume that cost of goods sold is the sum of 'Crude oil and product purchases' and 'Production and manufacturing expenses.')
5. What amount would the Company have reported as 'Income before income taxes' if it had always used the FIFO method for measuring the cost of 'Crude oil, products and merchandise' inventories?
6. Assuming a tax rate of 39%, estimate the approximate *total* amount of income taxes the Company had saved or deferred from the initial adoption of LIFO through the end of 2005 (as compared to FIFO). What is your assessment of the overall magnitude of inventory valuation decisions on the financial statements of Exxon Mobil?
7. In your opinion, does the inventory cost-flow assumption used for financial reporting (i.e., LIFO) fit the underlying real-world inventory flows of Exxon Mobil? Why or why not? If, in your opinion, LIFO does not fit the underlying 'real world' flows, speculate as to why the Company chose to use it for financial reporting.
8. Crude oil prices *dropped* from over \$23 per barrel at the beginning of 1997 to less than \$9 per barrel by the end of 1998.⁶ Estimate the *directional* effect on Exxon Mobil's profits for 1998 (*not* 1997) if the company had used FIFO (instead of LIFO) to value its inventories? (Hint: we are just asking for a direction here; there is no need to look up additional data or do any calculations.)
9. Assume you are the Chief Financial Officer of Exxon Mobil, how would you lobby on the LIFO issue, e.g., what specific points would you emphasize and why?
10. Assume you are the Chief Financial Officer of Exxon Mobil and the LIFO conformity rule had been repealed by Congress. What inventory valuation method would you recommend for a) financial reporting and b) tax reporting? Why?

⁶ Source: http://www.ioga.com/Special/crudeoil_Hist.htm

Exhibit 1

Political turmoil surrounds Exxon's profit announcements

Example of a Political Cartoon following Exxon Mobil's profit report in late January 2006

Source: <http://cagle.msnbc.com/news/Exxon/main.asp>



Example of Political Activists' responses to Exxon Mobil's 2nd quarter profits in late July 2006

"As many are struggling with record energy prices, Exxon is posting record profits," said Shawnee Hoover, campaign director for the national "Exxpose Exxon" campaign. "We're finding that just one month of Exxon's profits, invested in alternative fuels, would double the annual investment of the federal government in renewables, fuel efficiency and alternative energy," Hoover added.

Sources: CNSNews.com, July 27, 2006; <http://www.exxposeexxon.com/>

"The repeated record profits of Exxon and all of the other major oil companies should refuel the outrage of motorists who are still paying \$60 to fill up the minivan," said Judy Dugan, research director of the Foundation for Taxpayer and Consumer Rights. "These oil giants are profiting once from the sale of crude oil at record prices and again from refining profits of 43 cents per gallon of gasoline, an amount for which there is no possible justification," Dugan stated. "Refining profits at this level are pure greed and the real explanation for outrageous prices at the pump," she noted.

"It's not Mideast unrest, shortfalls in Nigerian output or any of the industry's other so-called reasons for gasoline prices that remain 72 cents higher than they were in January." Sources:

CNSNews.com, July 27, 2006; <http://www.consumerwatchdog.org/>

Exhibit 2, Part A

American Petroleum Industry view of Oil Company Profits

Source: Bottom half of full page advertisement in *The New York Times*, Monday, January 30, 2006

[Straight talk on earnings]

“Oil company earnings are too high.”

That's the word on Main Street, for sure. But on Wall Street, there's a somewhat different perspective on oil industry earnings.

What many may find surprising is that, on average over the past five years, the profitability of America's oil and natural gas industry is far less than many other major industries, like banks, pharmaceuticals and real estate.

Part of the explanation is that it costs a lot just to operate an oil, refining and natural gas company. Ours is a competitive, high-technology and engineering business of massive scale that

produces and sells commodities.

It costs billions of dollars to explore for, produce, refine and distribute the products consumers need.

It requires billions more dollars to maintain the delivery system necessary to ensure a reliable supply of energy and to make sure it efficiently gets where it needs to go: to you, our customers.

We're committed to making the necessary reinvestments to ensure our nation has a stable and reliable supply of energy today and tomorrow.

A Message From

America's Oil & Natural Gas Industry

To learn more, visit www.api.org

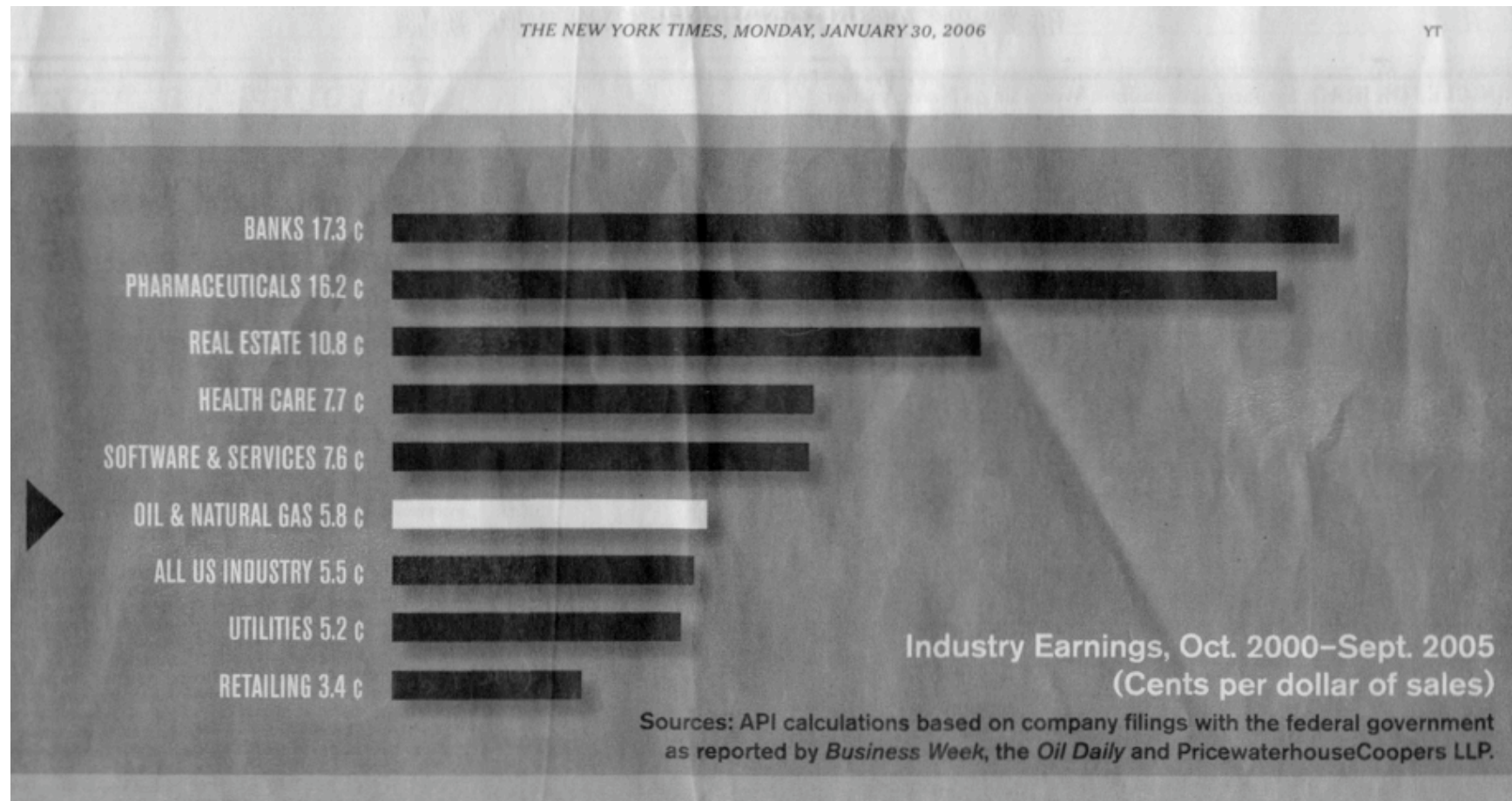
© 2006 American Petroleum I

(See related chart on next page)

Exhibit 2, Part B

American Petroleum Industry Chart showing Oil Company Profitability was below Profits in other Industries

Source: Chart at top of full page advertisement in *The New York Times*, Monday, January 30, 2006



API, formerly the American Petroleum Institute, is a national trade association that represents America's oil and natural gas industry.

Exhibit 3
ExxonMobil advertisement

No small change

Taxes mean governments win when energy prices go up.

Consumers bear much of the cost of higher oil prices. But who realizes the benefits? The answer may surprise you. Governments gain the most.

For every dollar of ExxonMobil's revenue, on average 25 cents is paid to governments, while ExxonMobil earns about a dime.

Why? Simply put, taxes. Last year, ExxonMobil earned about \$36 billion, but incurred \$99 billion in taxes worldwide. About 70 percent of our earnings are made outside this country.

That tax bill is greater than the Gross Domestic Product of over 140 nations, and it makes us one of the world's biggest taxpayers.

Looking at just the United States, the story is much the same. Over the past five years, ExxonMobil's total U.S. tax bill was \$57 billion, exceeding our total U.S. earnings during that time by \$22 billion.

That we pay a lot of taxes comes as no surprise. Less well-known is the fact that the profit margin of the oil and gas industry

is on par with most other industries.

While paying our taxes, we also need to meet our consumers' growing energy needs. This requires investing in future energy development, whether prevailing energy prices are high or low. In fact, over the past 15 years ExxonMobil's total investments have exceeded our earnings.

Tax policy plays a significant role in attracting investment, and history shows that raising taxes on energy companies during periods of high prices can be especially counterproductive in this regard.

When energy companies were singled out for higher taxes on their profits in the 1980's, domestic oil production fell 6 percent and oil imports grew 16 percent, according to the Congressional Research Service.

Affordable energy requires adequate and reliable supplies, and sensible tax policy is vital to that end. With consumers already feeling the price at the pump, no change should be made to tax policy that might impact them even further.



ExxonMobil

Taking on the world's toughest energy challenges.™

Exhibit 4

Crude Oil Prices (in 2006 dollars): 1947-2006

Source: <http://www.wtrg.com>

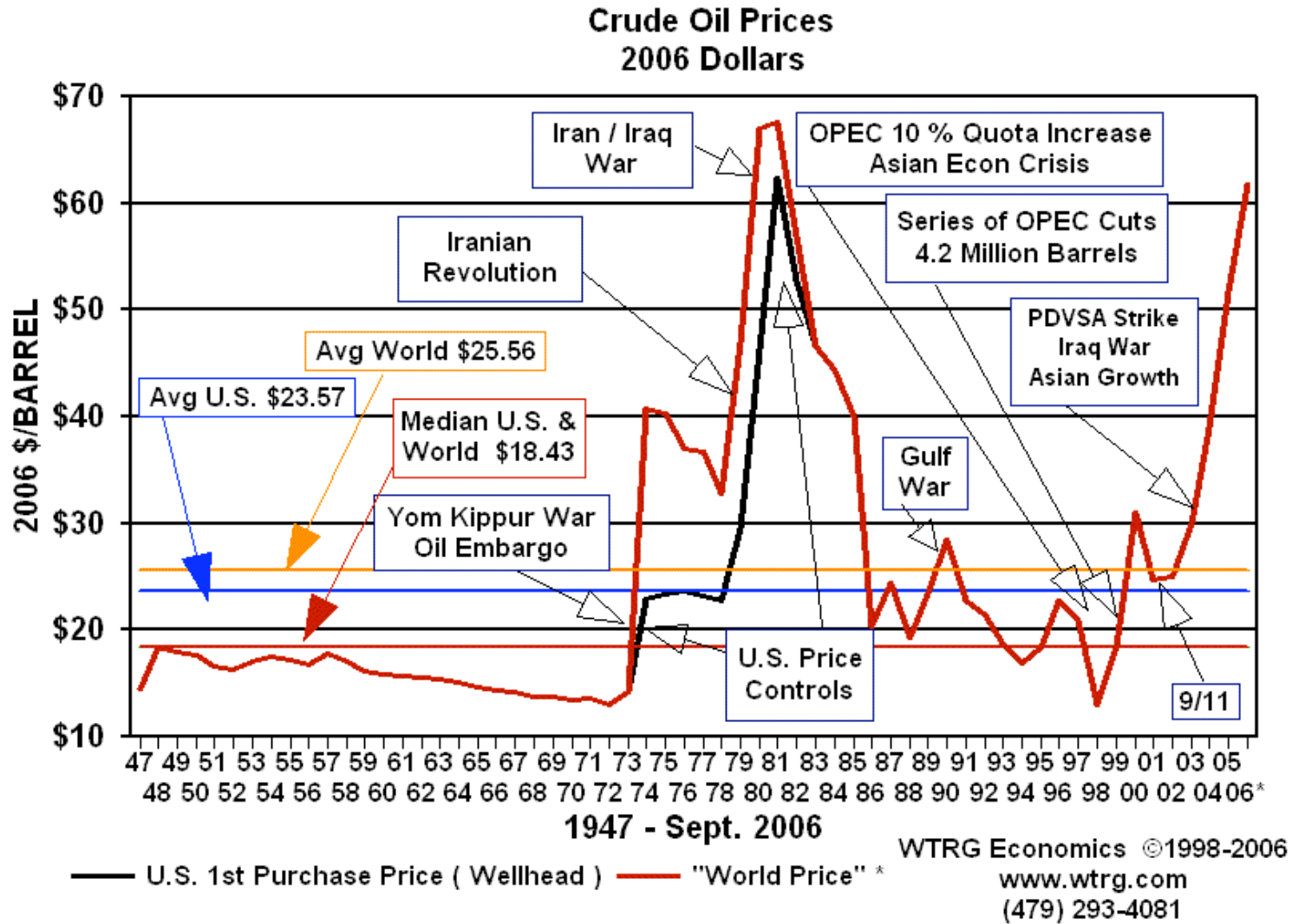


Exhibit 5 Example of Lobbying against LIFO Repeal



4201 Euclid Avenue
Rolling Meadows, Illinois 60008-2025
847-485-3000 Voice 847-485-3001 Fax
www.msci.org

In the past couple of weeks, legislation to repeal the LIFO inventory valuation provisions of the IRS code was introduced and then withdrawn from the Senate floor. However, this legislative initiative is not dead, merely stalled. You may want to contact your Senator to help ensure that it does not become law.

Sources close to the issue in Washington tell us to expect hearings on the repeal of LIFO in June and an attempt to pass repeal legislation before Election Day. The impact of this on MSCI's member companies could be enormous. In effect, it could require companies to liquidate inventory to pay for new tax liabilities. Even if the repeal has a 20-year implementation schedule, the impact will be substantial.

If you want to retain LIFO, speak about it with your U.S. senators as soon as possible. LIFO repeal legislation will most likely begin in the Senate. This is particularly important if one of your senators is a member of the Senate Finance Committee. This committee will draft the legislation. A preemptive call from you and your employees could help derail this legislation before it is even introduced.

If you wish to contact your Senator, this is the history and talking points you should use.

LIFO Repeal History

- In late April 2006, Senate leaders proposed repealing the LIFO inventory accounting method to pay for a \$100-per-family gasoline tax rebate.
- LIFO repeal was apparently proposed in part due to a mistaken belief that LIFO is a tax loophole or that it was set to disappear anyway based on so-far-unannounced FASB or International Accounting Standards.

LIFO Repeal Talking Points

- LIFO is an established, widely accepted inventory accounting method that has been used by large and small companies throughout the U.S. economy since the 1930s.
- The repeal or elimination of LIFO by FASB (the Financial Accounting Standards Board) and IASB (the International Accounting Standards Board) is not currently being discussed.
- Repealing LIFO would create a massive tax increase for hundreds of thousands of large and small American businesses, and could force many smaller businesses to close.
- State the likely impact on your company.
- Ask your senator to commit to reject any effort to repeal LIFO.

Senate Finance Committee members:

Republicans - CHARLES GRASSLEY, IA, chair; ORRIN G. HATCH, UT; TRENT LOTT, MS; OLYMPIA J. SNOWE, ME; JON KYL, AZ; CRAIG THOMAS, WY; RICK SANTORUM, PA; BILL FRIST, TN; GORDON SMITH, OR; JIM BUNNING, KY; and MIKE CRAPO, ID.

Democrats - MAX BAUCUS, MT, ranking member; JOHN D. ROCKEFELLER IV, WV; KENT CONRAD, ND; JAMES M. JEFFORDS, VT; JEFF BINGAMAN, NM; JOHN F. KERRY, MA; BLANCHE L. LINCOLN, AR; RON WYDEN, OR; and CHARLES E. SCHUMER, NY.

Exhibit 6
Exxon Mobil Income Statements, 2003-2005

CONSOLIDATED STATEMENT OF INCOME

	Note Reference Number	2005	2004	2003
<i>(millions of dollars)</i>				
Revenues and other income				
Sales and other operating revenue ^{(1) (2)}		\$358,955	\$291,252	\$237,054
Income from equity affiliates	6	7,583	4,961	4,373
Other income		4,142	1,822	5,311
Total revenues and other income		\$370,680	\$298,035	\$246,738
Costs and other deductions				
Crude oil and product purchases		\$185,219	\$139,224	\$107,658
Production and manufacturing expenses		26,819	23,225	21,260
Selling, general and administrative expenses		14,402	13,849	13,396
Depreciation and depletion		10,253	9,767	9,047
Exploration expenses, including dry holes		964	1,098	1,010
Interest expense		496	638	207
Excise taxes ⁽¹⁾	17	30,742	27,263	23,855
Other taxes and duties	17	41,554	40,954	37,645
Income applicable to minority and preferred interests		799	776	694
Total costs and other deductions		\$311,248	\$256,794	\$214,772
Income before income taxes		\$ 59,432	\$ 41,241	\$ 31,966
Income taxes	17	23,302	15,911	11,006
Income from continuing operations		\$ 36,130	\$ 25,330	\$ 20,960
Cumulative effect of accounting change, net of income tax		—	—	550
Net income		\$ 36,130	\$ 25,330	\$ 21,510
Net income per common share (dollars)				
	10			
Income from continuing operations		\$ 5.76	\$ 3.91	\$ 3.16
Cumulative effect of accounting change, net of income tax		—	—	0.08
Net income		\$ 5.76	\$ 3.91	\$ 3.24
Net income per common share – assuming dilution (dollars)				
	10			
Income from continuing operations		\$ 5.71	\$ 3.89	\$ 3.15
Cumulative effect of accounting change, net of income tax		—	—	0.08
Net income		\$ 5.71	\$ 3.89	\$ 3.23

⁽¹⁾ Sales and other operating revenue includes excise taxes of \$30,742 million for 2005, \$27,263 million for 2004 and \$23,855 million for 2003.

⁽²⁾ Sales and other operating revenue includes \$30,810 million for 2005, \$25,289 million for 2004 and \$20,936 million for 2003 for purchases/sales contracts with the same counterparty. Associated costs are included in crude oil and product purchases. See note 1 on page 52.

The information on pages 52 through 75 is an integral part of these statements.

Exhibit 7

Exxon Mobil Balance Sheets, for years ended 2004 and 2005

CONSOLIDATED BALANCE SHEET

	Note Reference Number	Dec. 31 2005	Dec. 31 2004
<i>(millions of dollars)</i>			
Assets			
Current assets			
Cash and cash equivalents		\$ 28,671	\$ 18,531
Cash and cash equivalents – restricted	3, 14	4,604	4,604
Notes and accounts receivable, less estimated doubtful amounts	5	27,484	25,359
Inventories			
Crude oil, products and merchandise	3	7,852	8,136
Materials and supplies		1,469	1,351
Prepaid taxes and expenses		3,262	2,396
Total current assets		\$ 73,342	\$ 60,377
Investments and advances	7	20,592	18,404
Property, plant and equipment, at cost, less accumulated depreciation and depletion	8	107,010	108,639
Other assets, including intangibles, net		7,391	7,836
Total assets		<u>\$208,335</u>	<u>\$195,256</u>
Liabilities			
Current liabilities			
Notes and loans payable	5	\$ 1,771	\$ 3,280
Accounts payable and accrued liabilities	5	36,120	31,763
Income taxes payable		8,416	7,938
Total current liabilities		\$ 46,307	\$ 42,981
Long-term debt	12	6,220	5,013
Annuity reserves	15	10,220	10,850
Accrued liabilities		6,434	6,279
Deferred income tax liabilities	17	20,878	21,092
Deferred credits and other long-term obligations		3,563	3,333
Equity of minority and preferred shareholders in affiliated companies		3,527	3,952
Total liabilities		<u>\$ 97,149</u>	<u>\$ 93,500</u>
Commitments and contingencies	14		
Shareholders' equity			
Benefit plan related balances		\$ (1,266)	\$ (1,014)
Common stock without par value (9,000 million shares authorized)		5,743	5,067
Earnings reinvested		163,335	134,390
Accumulated other nonowner changes in equity			
Cumulative foreign exchange translation adjustment		979	3,598
Minimum pension liability adjustment		(2,258)	(2,499)
Unrealized gains/(losses) on stock investments		—	428
Common stock held in treasury (1,886 million shares in 2005 and 1,618 million shares in 2004)		(55,347)	(38,214)
Total shareholders' equity		<u>\$111,186</u>	<u>\$101,756</u>
Total liabilities and shareholders' equity		<u>\$208,335</u>	<u>\$195,256</u>

The information on pages 52 through 75 is an integral part of these statements.

Exhibit 8

Selected Notes to Exxon Mobil's 2005 Financial Statements**1. Significant Accounting Policies (excerpts)**

Inventories. Crude oil, products and merchandise inventories are carried at the lower of current market value or cost (generally determined under the last-in, first-out method — LIFO). Inventory costs include expenditures and other charges (including depreciation) directly and indirectly incurred in bringing the inventory to its existing condition and location. Selling expenses and general and administrative expenses are reported as period costs and excluded from inventory cost. Inventories of materials and supplies are valued at cost or less.

3. Miscellaneous Financial Information (excerpts)

In 2005, 2004 and 2003, net income included gains of \$215 million, \$227 million and \$255 million, respectively, attributable to the combined effects of LIFO inventory accumulations and draw-downs. The aggregate replacement cost of inventories was estimated to exceed their LIFO carrying values by \$15.4 billion and \$9.8 billion at December 31, 2005, and 2004, respectively.

Crude oil, products and merchandise as of year-end 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
	<i>(billions of dollars)</i>	
Petroleum products	\$ 3.2	\$ 3.4
Crude oil	2.2	2.3
Chemical products	2.1	2.1
Gas/other	<u>0.3</u>	<u>0.3</u>
Total	\$ 7.8	\$ 8.1

Exhibit 9

Selected excerpts from Exxon Mobil's M D & A (2005)**RETURN ON AVERAGE CAPITAL EMPLOYED**

Return on average capital employed (ROCE) is a performance measure ratio. From the perspective of the business segments, ROCE is annual business segment earnings divided by average business segment capital employed (average of beginning and end-of-year amounts). These segment earnings include 's share of segment earnings of equity companies, consistent with our capital employed definition, and exclude the cost of financing. The Corporation's total ROCE is net income excluding the after-tax cost of financing, divided by total corporate average capital employed. The Corporation has consistently applied its ROCE definition for many years and views it as the best measure of historical capital productivity in our capital-intensive, long-term industry, both to evaluate management's performance and to demonstrate to shareholders that capital has been used wisely over the long term. Additional measures, which tend to be more cash flow based, are used for future investment decisions.

Return on average capital employed	<u>2005</u>	<u>2004</u>	<u>2003</u>
		<i>(millions of dollars)</i>	
Net income	\$ 36,130	\$ 25,330	\$ 21,510
Financing costs (after tax)			
Third-party debt	(1)	(137)	(69)
ExxonMobil share of equity companies	(144)	(185)	(172)
All other financing costs – net ⁽¹⁾	(295)	54	1,775
Total financing costs	(440)	(268)	1,534
Earnings excluding financing costs	<u>\$ 36,570</u>	<u>\$ 25,598</u>	<u>\$ 19,976</u>
Average capital employed	\$ 116,961	\$ 107,339	\$ 95,373
Return on average capital employed – corporate total	31.3 %	23.8 %	20.9 %

⁽¹⁾ "All other financing costs – net" in 2003 includes interest income (after tax) associated with the settlement of a U.S. tax dispute.

2005

Net income in 2005 of \$36,130 million was the highest ever for the Corporation, up \$10,800 million from 2004. Net income in 2005 included special items of \$2,270 million, consisting of a \$1,620 million gain related to the Dutch gas restructuring, a \$460 million gain from the sale of the Corporation's stake in Sinopec, a \$390 million gain from the resolution of joint venture litigation and a charge of \$200 million relating to the Allapattah lawsuit provision.

Total assets at December 31, 2005, of \$208 billion increased by approximately \$13 billion from 2004, reflecting strong earnings and the Corporation's active investment program, particularly in the Upstream.