Senator DeWine
Questions
Consolidation in the Oil and Gas Industry: Raising Prices?
March 14, 2006

1. Tillerson, Mulva, O'Reilly, Klesse, Hofmeister, Pillari, Borenstein - At our last hearing, we heard testimony that some of the gasoline price spikes can be attributed to regulations that create multiple grades of gasoline to comply with different environmental standards – so called "boutique fuels." What can we do to reduce the number of boutique fuels? What would be the effect of just requiring everyone in the industry to comply with the highest standard, and have just one fuel available?

Answer: Today in the U.S. there are about 20 different gasoline formulations in use due to various mandates from the EPA, the states, and local jurisdictions. The most stringent standards are those mandated by the California Air Resources Board (CARB).

- The number of gasoline boutique fuel designations should be reduced to five formulations - conventional gasoline plus four fuels for National Ambient Air Quality Standard (NAAQS) non-attainment areas. The four additional options would be California Reformulated Gasoline (RFG) for California only; federal RFG for areas eligible under the Clean Air Act to opt-in to the RFG program; a 7.8 Reid Vapor Pressure (RVP) volatility control gasoline for modest non-attainment areas; and a more stringent 7.0 RVP volatility control gasoline for areas with a more significant non-attainment problem.
- Diesel fuel formulations should be limited to two grades: CARB diesel for California only and EPA diesel for the rest of the country.

CARB requires stringently refined gasoline and diesel to address California's unique air quality problems, which are the most severe in the country. Requiring these types of motor fuel nationwide could lead to a number of problems related to cost and supply.

- The stringent CARB specifications themselves will result in a reduction in gasoline and diesel production in the short term at a minimum.
- CARB gasoline and diesel is much more costly to produce. It would not be cost-effective to require these special products in areas that do not have the severe air quality problems found in California.
- Many refineries outside California are not capable of producing CARB gasoline and diesel. For some refineries, upgrading to produce CARB specification motor fuels would be uneconomic.

Even the GAO agrees that the number of gasoline blends contributes to higher prices. See, the June 2005 GAO Report to Congressional Requesters on Gasoline Markets - *Special Gasoline Blends Reduce Emissions and Improve Air Quality, but Complicate Supply and Contribute to Higher Prices*.

2. Tillerson, Mulva, O'Reilly, Klesse, Hofmeister, Pillari - In the last couple of months most of the oil industry has announced record-breaking profits for the last fiscal year. How much is your company investing annually in exploration, production and refining, and when will we see those investments pay off? And perhaps most important, what are you investing in alternative energy sources so we can help reduce domestic dependence on foreign oil?

Answer: Over the past fifteen years, ExxonMobil's cumulative capital and exploration expenditures have exceeded our cumulative earnings. Our total average annual capital expenditures have been approximately $14 billion, while our average annual net income has been approximately $13.4 billion. Last year, our capital investments totaled $17.7 billion. In the years 2007 - 2010, we anticipate increased annual capital investments to about $20 billion, on average, with the objective of boosting production capacity by over 20 percent by the end of the decade. ExxonMobil has made these investments with a long term view, not in response to market cycles.

On the topic of the world's interdependent economies, with energy an essential element of economic growth, it is only natural that trade in energy reflects that interdependence. However, if reducing dependence on foreign energy supplies is a policy objective, then the United States should be utilizing its domestic resources fully. Part of meeting the challenge of our future energy needs should be new policies authorizing exploration and production of abundant domestic oil and gas resources that are now closed to development. This is particularly true with respect to oil and gas deposits in the Outer Continental Shelf, the Rocky Mountain region, and in Alaska.

Our recent report, ***Tomorrow's Energy: A Perspective on Energy Trends, Greenhouse Gas Emissions and Future Energy Options (February 2006)***, addresses in Section 3 *Technology Options for the Longer Term.* In that section, we review the potential of emerging alternative energy technologies, including the challenges that need to be overcome, and, where relevant, ExxonMobil's involvement. The report is enclosed as Appendix A.

In the past five years, ExxonMobil has spent over $3 billion on energy research, focused largely on developing more efficient technologies for new and improved manufacturing processes in our Downstream and Chemical businesses, as well as for cost-effective solutions to access new oil and gas resources in challenging, frontier environments. In 2005 alone, we spent over $700 million on proprietary technologies that deliver competitive operating advantages and, in many cases, improve environmental performance.

ExxonMobil's primary focus with regard to renewable energy is on research to identify options that are commercially viable, as for example through Stanford University's Global Climate and Energy Project (GCEP), to which we plan to contribute $100 million. The GCEP is the largest privately-funded project of its type in the world, with a charge to accelerate the development of commercially viable energy technologies

that can lower greenhouse gas emissions on a worldwide scale (including hydrogen, solar and biomass energy and carbon sequestration). More details on GCEP can be found at http://gcep.stanford.edu. ExxonMobil also has an ambitious internal research program and we examine renewable fuels as part of this effort.

At present, ExxonMobil blends almost a million gallons of ethanol into our gasoline products every day in the U.S. This has required investment throughout our supply system. We expect to continue to increase our use of ethanol in the coming years to meet the expanded renewable fuel standard requirements imposed by the Energy Policy Act of 2005. Renewable fuels manufactured by today's technologies are generally more costly than petroleum-derived fuels and require government subsidies to be competitive.

Senator Feingold's Questions for the Record
Judiciary Committee Hearing from 3/14/06

1. All of Panel II:
The President mentioned in his state of the union address that America is "addicted to oil", and outlined several steps - including increasing investments in alternative fuels - to end the addiction. What percentage of your R&D is dedicated to alternatives? In your response, please indicate how your company defines alternatives. In addition to your R&D, what are your companies doing, as corporate citizens, to move away from fossil fuels?

Answer: Please see the previous answer provided in response to Senator DeWine's second question.

In addition, we view our role in helping provide for America's and other nations' energy needs as entirely consistent with our role as "corporate citizens." We are proud of the contribution our companies and others in America's energy industry have made to the American economy and modern living standards throughout the world. Billions of citizens in the developing world who do not yet have access to clean drinking water or electricity aspire to the living standards that abundant and affordable energy has made possible in our country. Most analysts are projecting nearly 50 percent growth in the world's use of fossil fuels in the next twenty five years as progress is made to make those aspirations become a reality -- and economic growth continues in the developed world.

Senator Kohl's Follow-up Questions for Oil Consolidation Hearing

For Rex Tillerson

1. An independent study by the consumers group Public Citizen found that from 1999 to 2004 U.S. oil refiners increased their profits they made on each gallon of gas refined by 79%. Don't these statistics show that it is not merely the rising worldwide cost of crude oil that accounts for high prices and other petroleum products? And does the success of your industry in passing along rising crude oil prices to consumers demonstrate that your companies have gained market power and that there is a failure of competition in this market?

Answer: Numerous studies have shown that there is a high correlation between changes in the price of crude oil and changes in the price of motor gasoline. The major factor in gasoline price is the price of crude oil, which has increased nearly threefold since 1999. In 2004-05, crude oil represented 49% of the price of a gallon of gasoline in the US, while taxes represented 22%, and refining and marketing costs, as well as margins, represented 29% of the price (DOE / Tax Foundation – through Nov. 2005).

Refining is a capital-intensive business with long-term investment horizons. As reported by the FTC's Bureau of Economics[1] financial returns in the U.S. refining industry have been below average over the long term. During the 1980s and 90s, the U.S. oil industry earned relatively poor rates of return on its investments, especially for the refining sector that needed to meet various environmental requirements, including for cleaner-burning fuels. According to the American Petroleum Institute, over the 10-year 1994 - 2003 period, the return on investment for the refining and marketing sector was 6.2%, or less than half as much as the 13.4% for the Standard and Poors Industrials.

U.S. refining is less concentrated than other industries such as automobiles, carbonated soft drinks and pharmaceuticals. There are about 50 different companies in the U.S. refining business, and consequently there is no failure of competition in this industry. Despite historically low rates of return and billions of dollars in nondiscretionary spending, competition among U.S. refiners has resulted in improvements in efficiency, further driving down costs to consumers.

Back in 1980, the cost to refine, market and distribute gasoline averaged about 95 cents per gallon (in inflation-adjusted terms), according to the API. By 1990, it averaged approximately 61 cents per gallon, and by 2000, it was 52 cents per gallon, which is about where it has remained over the last five years. Multiplying these reductions by the billion gallons of petroleum products consumed translates into billions of dollars of savings for American consumers.

[1] Federal Trade Commission, Bureau of Economics, The Petroleum Industry: Mergers, Structural Changes, and Antitrust Enforcement (August 2004).

2. In most competitive industries, when there are high prices, high profits to be made, and soaring consumer demand, we would expect to see an expansion of capacity to meet this demand. Yet in the oil industry this has not happened. Instead of opening new refineries, the industry has closed more than half of all that existed 25 years ago. In 1981, there were 324 refineries operating in the United States – today there are 149. According the Department of Energy, in the period from 1981 to 2004 overall national refining capacity has declined by more than 9% while demand for gasoline rose by 37%. Oil industry critics suggest that this decline in refining capacity is no accident – that oil companies actually prefer to keep supplies tight in order to be able to gain market power to raise price. Indeed, many economists believe this is a central reason why gas prices are so high.

So why hasn't your industry opened new refineries while closing so many existing ones? Does the failure of the oil industry to open new refineries suggest an effort to keep supplies tight or something anti-competitive going on?

Answer: Allegations that refinery capacity has been "artificially" restricted to keep supplies tight and prices high - particularly through U.S. refiners' "refusal" to build new refineries - are entirely contrary to fact. ExxonMobil has taken a long-term view of expanding its refining capacity through cost-effective enhancements to domestic refining capacity and new technologies to increase capacity utilization and efficiency.

During the period 1994 - 2004, ExxonMobil's investments have added the equivalent of three average-sized refineries (at 125,000 barrels per day) to domestic capacity. U.S. refiners as a whole have added the equivalent of 20 new, average-sized refineries during that period, increasing domestic crude distillation capacity by 12%, and light petroleum production by 16%. ExxonMobil alone increased the crude distillation capacity of the seven U.S. refineries it operates by 24%, more than twice the growth rate of 11% for U.S. refiners excluding ExxonMobil.

Since 1981, output, including gasoline production, from all U.S. refineries is up by over 25% even though the number of U.S. refineries fell by more than 50% over the same period. Higher cost and less efficient refineries were replaced by more efficient capacity expansions at the remaining facilities to better serve the consumer. While some cite the relative lack of new, grassroots refineries as evidence of the refiners' artificial restriction of U.S. capacity, those arguments wholly ignore the relative costs and benefits of incremental expansion. Building a new refinery is expensive and time consuming, given the significant costs associated with grassroots construction, approvals, and building new infrastructure (not to mention the risks of litigation and public opposition).

In contrast, adding capacity to existing facilities is faster and far more cost-effective. For example, recent public announcements indicate that while grassroots refinery capacity in the U.S. conservatively can cost as much as $18,000 per daily barrel of output, substantial capacity expansion projects typically cut that cost almost in half, and minor expansions can cost significantly less. While some criticize the incremental development of refinery capacity through expansion, this strategy reflects the most cost-effective approach to meeting the future supply needs of U.S. consumers.

3. In the last 15 years there has been a tremendous amount of consolidation in the oil industry – the GAO counts 2600 mergers and acquisitions in this industry since the 1990s alone. Indeed, almost all the companies represented here today are a product of these mergers. During this time, the FTC has approved most of the oil industry mergers it has reviewed, including the gigantic ones like Exxon/Mobil, Chevron/Texaco, and Conoco/Phillips. While each one of these mergers may not have seemed problematic when reviewed, taken as a whole these mergers have greatly increased concentration in the industry. And the GAO has concluded that these mergers have raised gasoline prices.

(a) What is your view of the effects of these mergers on competition in your industry and the price of petroleum products?

Answer: The petroleum industry is relatively unconcentrated.[2] The four firm concentration ratio – the aggregate market share of the top four firms in an industry – is modest, with concentration ratios for both refining and marketing below the level found in many other industries. Industry concentration has remained modest despite significant merger activity because the Federal Trade Commission (FTC) has required divestitures in many transactions, conditioning merger approval on the sale of overlapping refining, pipeline, terminal, marketing and retail assets.[3] In fact, the FTC has held oil mergers to a uniquely high standard, routinely scrutinizing and challenging transactions in this industry at much lower concentration levels than it would challenge in any other industry.[4]

GAO's assertions notwithstanding, recent consolidation has not contributed to higher gasoline prices. Even taken at face value, the GAO study found that mergers were nearly as likely to lower gasoline prices, or to have no price effects, as to increase them. Yet GAO's study "contains major methodological mistakes that make its quantitative analyses wholly unreliable."[5] The FTC subjected a number of GAO's analyses to further

[2] *See Consolidation in the Energy Industry: Raising Prices at the Pump? Hearing Before the S. Comm. on the Judiciary*, 109th Cong. (Feb. 1, 2006) (prepared statement of Commissioner William Kovacic at p. 8), *available at* http://www.ftc.gov/speeches/kovacic/testimonyrepetroleumindustryconsolidation.pdf; *see also* FTC BUREAU OF ECON., THE PETROLEUM INDUSTRY: MERGERS, STRUCTURAL CHANGES, AND ANTITRUST ENFORCEMENT 3 (Aug. 2004), *available at* http://www.ftc.gov/os/2004/08/040813mergersinpetrolberpt.pdf.

[3] *See* FTC Merger Enforcement in the Petroleum Industry Since 1981, *available at* http://www.ftc.gov/ftc/oilgas/charts/merger_enforce_actions.htm.

[4] *See* FTC Horizontal Merger Investigation Data, Fiscal Years 1996-2003 (Aug. 31, 2004), *available at* http://www.ftc.gov/os/2004/08/040831horizmergersdata96-03.pdf.

[5] *See Market Forces, Anticompetitive Activity and Gasoline Prices: FTC Initiatives to Protect Competitive Markets, Hearing Before the Subcomm. on Energy and Air Quality of the H. Comm. on Energy and Commerce,* 108th Cong. (July 15, 2004) (testimony of the FTC containing discussion of flaws in GAO study).

scrutiny; with GAO errors corrected, the "price increases" disappeared.[6] Other FTC studies confirm that oil mergers have not lead to gasoline price increases.[7]

(b) Are we likely to see even more consolidation in the years ahead? If so, what will this mean for competition in this industry?

Answer: We have no way of knowing of the future plans of other oil industry members. With regard to ExxonMobil, it is not our practice to speculate about possible future investments. However, we continually look for investment opportunities to complement our existing asset portfolio. Our objective is to maintain a consistent focus on being an industry leader in asset performance, operational efficiency, and community and environmental responsibilities while meeting customers' expectations for our products, and in maximizing shareholder value.

[6] *See* FTC STAFF TECHNICAL REPORT, ROBUSTNESS OF THE RESULTS OF GAO'S 2004 REPORT CONCERNING PRICE EFFECTS OF MERGERS AND CONCENTRATION CHANGES IN THE PETROLEUM INDUSTRY (Dec. 21, 2004), *available at* http://www.ftc.gov/ftc/workshops/oilmergers/ftcstafftechnicalreport122104.pdf.

[7] *See* John Simpson & Chris Taylor, *Michigan Gasoline Pricing and the Marathon-Ashland and Ultramar Diamond Shamrock Transaction* (July 2005) (Bureau of Econ. Working Paper Series # 278); Chris Taylor & Dan Hosken, *The Economic Effect of the Marathon-Ashland Joint Venture: The Importance of Industry Supply Shocks and Vertical Market Structure* (March 2004) (Bureau of Econ. Working Paper Series # 270).

Follow-up Questions of Senator Charles E. Schumer
Senate Judiciary Committee Hearing
"Consolidation in the Oil and Gas Industry: Raising Prices?"
March 14, 2006

For All Panel II Witnesses:

1) Would you please clarify which income figures your company reported to the internal revenue service last year for tax purposes, as well as the basis for those figures? Are these the same income figures reported to your shareholders? If different figures were used, what were they, what was their basis, and what is the rationale for this decision?

Answer: The income reported to the Internal Revenue Service was our federal taxable income amount. This is consistent with book income as reported for financial statement purposes, but reflects requirements under the Internal Revenue Code and Treasury Regulations. The amount reported to shareholders was the financial book income amount as reported for financial statement purposes, calculated under Generally Accepted Accounting Principles.

2) Based on your written testimony, it appears that your company has put at most 5% of annual investment toward developing alternative energy technologies like hydrogen fuel cells, wind, solar, and others. What is the rationale for this investment strategy? Have you decided that investment in these energy sources is not in the interest of your shareholders?

Answer: Please see our prior response to Senator DeWine's second question.

3) How much royalty relief have you received from the Department of Interior for exploration on public lands? Which public lands specifically? At what price threshold have you predicted internally that you would not need royalty relief to make exploration viable?

Answer: ExxonMobil adheres to all applicable regulations in making royalty payments to the federal government. The Department of Interior provides royalty relief when certain criteria are met and only after production begins on a federal lease. Because ExxonMobil does not currently meet the criteria, we do not claim royalty relief on any of our producing federal leases. We are paying full royalty consistent with federal regulations and the terms of our leases.

Regarding the question on price thresholds to make exploration viable without royalty relief, our exploration investment decisions are based on existing regulations and lease terms. Therefore, we do not internally calculate or determine price thresholds or provisions that are inconsistent with the existing regulations.

In 2004, the MMS awarded ExxonMobil its prestigious Mineral Revenues Stewardship Award for excellence in the administration and payment of federal royalties, as well as its Safe Operations and Accurate Reporting Award.

Questions posed by Senator Specter

Rex Tillerson:

1.) Please provide an analysis of the draft bill, the "Petroleum Industry Antitrust Act of 2006," which was submitted to the Congressional Record earlier this month.

Answer: The requested analysis is attached as Appendix B.

2.) What steps can be taken to decrease consumption of oil and natural gas?

Answer: Energy is vital to economic progress and higher standards of living for people around the world. Government naturally plays a key role in helping enable not only the reliable supply of energy, but also the wise and efficient use of available resources. In this regard, government can rely on several fundamental principles and practices to help promote prudent use of available energy, and the most efficient, effective and viable energy market for consumers, suppliers and investors:

- Rely on open, competitive, free markets -- Government should strive to ensure a level playing field for all energy options, where the most economical and efficient energy solutions can be identified and deployed. These solutions should be based on free market pricing and the knowledge and judgments of individuals in the marketplace. As it relates to options to improve the wise use of energy, government is best to focus not on picking winners and losers, but rather on creating an open, competitive environment. This will enable the continual and efficient development, identification and deployment of advanced solutions.

- Avoid arbitrary manipulation of energy markets -- Discriminatory interventions, whether via subsidies, mandates, price floors/caps, tax policies and/or use restrictions, damage the foundation and function of a free market system, masking critical supply and demand signals, and inevitably harming those relying on such signals. Wise government policy will avoid arbitrary and undue incentives or penalties targeting a particular fuel, technology, or industry participant.

- Eliminate policy barriers to more efficient energy use -- Government should seek to eliminate and/or streamline laws and regulations that prevent or slow the transition to more efficient and economical uses of energy. For example, governments wanting to promote cogeneration investments, that benefit both industry and the public alike, must eliminate regulatory barriers (e.g., multiple and overlapping permit programs), as well as develop effective markets and market rules. These rules should include several characteristics, namely:

    1. Dispatch priority, as electricity and steam cannot be made independently and steam is integral to site operations;
    2. Nondiscriminatory access to the transmission grid allowing cogeneration investors access to markets and customers;

3. Use-based transmission / ancillary / back-up power charges – charges based on actual use to support net internal load.

Even in the United States, not all markets possess these characteristics.

- Share knowledge -- Government should contribute to improved decisions by energy consumers and suppliers by sharing knowledge. Information of potential high value may include that related to energy markets in general, performance in specific areas related to best practices (e.g., cogeneration), and performance related to established standards (e.g., EPA mileage estimates on new vehicles; Energy Star appliance ratings; insulation ratings). Cost-effective sharing of general advice related to improving vehicle fuel economy and home energy use should also be made available to consumers.

- Support research and development (R&D) efforts
  - Government should ensure reliable and enforceable laws and regulations (e.g., intellectual property protections) are in place to encourage efficient investment in R&D by individuals and private enterprises.
  - Government-funded R&D should focus on basic science and technology breakthroughs at a pre-commercial stage; government can be most valuable in this regard when central coordination is likely to help advance substantial national economic benefits affecting a broad cross section of industries and market participants.
  - Government-funded demonstration projects should focus on key barriers to technology commercialization versus creation of potential markets.

3.) Please provide an analysis of the incentives offered to petroleum companies by the federal government that explains what the incentives are intended to do, which incentives are important to you, and why they should be maintained.

Answer: Three tax provisions in the Energy Policy Act of 2005 would benefit ExxonMobil somewhat, although none of the three would be material. In fact, the three items are modest enough that when added together, they are less beneficial than the cost of another provision in the bill.

The three positive tax items included in the 2005 Energy Policy Act are:

· Two year amortization of Geological and Geophysical ("G&G") expenditures, with a half-year convention.

· An election to expense 50% of refinery investments which increase the output capacity of an existing refinery by at least 5%, or which increase the throughput of qualified Section 29(c) fuels by at least 25%.

· A production tax credit, limited to four years, for coke and coke gas produced from facilities placed in service before 1/1/93 and between 6/30/98 and 1/1/10, up to an average BOE of 4,000 barrels per day, and effective for fuel produced and sold after 12/31/05. This provision was added during the conference and includes a credit phase-out tied to the price of crude (for example, in 2004, the phase-out would have begun with crude at $51.35, with full phase-out at a crude price of $64.46).

From ExxonMobil's standpoint, reinstatement of the Oil Spill Liability Trust Fund Tax, which is effective 4/1/06 and expires after 12/31/14, will cost us more per year than the three items above added together. In addition, the Leaking Underground Storage Tax ("LUST") was extended through 9/30/11, and expanded to include dyed fuel.

4.) In the two weeks prior to March 14, 2006, the price of oil decreased seven cents per gallon, while the price of gasoline increased by eleven cents per gallon. Why would gasoline become more expensive during this period, despite a decrease in the cost of crude oil?

Answer: Crude and gasoline markets are very competitive with thousands of market participants including producers and suppliers outside the United States. Prices for crude oil are set by worldwide markets comprised of thousands of willing buyers and sellers in a global auction reacting to near-term physical market factors and perceived future supply/demand imbalances. Gasoline prices are driven primarily by crude oil prices over the long-term but can be impacted in the short-term by many regional as well as local market factors.

When price changes are measured over a short period, there could be disconnects, with crude oil and gasoline prices moving in different directions. Crude prices can be affected in the short term by factors that include production problems, civil or terrorist threats in producing nations or other factors. Similarly, gasoline prices can be affected in the short term by factors such as planned or unplanned refinery turnarounds, weather, pipeline outages, variations in the level of imports, or a real or perceived supply/demand imbalance associated with changes in specifications or seasonal grade changes. Despite these short term disconnects, over the long term, the correlation between crude price and wholesale gasoline price is strong. Crude price is the single most important factor influencing the wholesale price of gasoline.

Specific to your question, NYMEX crude oil prices closed on Friday, March 10th at $59.96/bbl (or $1.428/gal) which was seven cents lower than the quote two weeks earlier. Over a similar period, NYMEX gasoline price was eleven cents higher. We are assuming these are the data points you reference in your question. If you looked at different points over the last couple months you would get different results; e.g., if you went back to the two week period prior to February 14, the prices for crude and gasoline changed at

different rates, with gasoline price falling about 46 cents/gallon while crude price fell only about 20 cents/gal.

ExxonMobil cannot explain all the reasons buyers and sellers decide on their position in each of the markets, but we can offer our suppositions.

During the particular two week time period in question, crude oil inventories, as reported by EIA, had increased to levels above prior year averages as refineries began planned turnarounds. Observing this increase, buyers and sellers of crude oil futures may have bid prices lower. It is important to note that while crude oil futures prices declined point to point, the market was and has been volatile, primarily driven by news of terrorism in various oil producing areas and the potential impact of a successful attack. As news of the terrorist threat subsided, normal supply/demand pressures may have become the dominant factor, resulting in overall lower prices.

NYMEX gasoline futures, however, were apparently experiencing different short-term supply/demand interpretations by buyers and sellers. Coupled with the planned turnarounds mentioned above, operating refineries began production of lower RVP, summer grade gasoline while simultaneously working to remove MTBE from the refining process. Also, various public statements may have added uncertainty, such as the Energy Information Administration's February 22 report on the impacts of the MTBE phase-outs, indicating that there may be a U.S. shortage of ethanol. It is entirely conceivable that the combination of these events may have created a perception of a near term supply shortfall based on projected demands, in spite of the fact that finished product inventories are within historical averages. These and other factors either perceived or real, may have influenced the decisions of thousands of willing buyers and sellers that trade NYMEX gasoline futures and prices moved higher.

The enormous investments required to bring crude and gasoline to market demand a long term view. From time to time, divergent short term price changes between crude and gasoline can occur; however, over the long term the correlation between crude and wholesale gasoline prices is strong, as seen from table below:

Avg. price change	Crude(WTI)	Gasoline
2004/2003	+34%	+33%
2005/2004	+37%	+34%

5.) With respect to the large mergers that your companies have engaged in over the past decade, what efficiencies have they produced that have benefited consumers, particularly in downstream markets?

Answer: After the merger of Exxon and Mobil, the combined company achieved worldwide operating efficiencies in excess of $7 billion, with much of this in the

downstream. In a highly competitive industry such as the petroleum industry, the majority of efficiency savings are ultimately passed along to consumers.[8]

On the upstream side of our business, the world has changed quite a bit in the last decade. Major opportunities for new oil and gas development require significantly more advanced technologies and huge investments. Increased global activity by state-owned oil companies has increased competition for large scale resources. The scale and technology leadership gained through the merger enables ExxonMobil to take the risks required to bring new resources on line and to compete more effectively in today's enormous global marketplace for energy. This also ultimately benefits energy consumers by providing increased and diversified supplies.

[8] See "Performance Profiles of Major Energy Producers 2004" by the DOE-EIA, specifically Figure 5 which shows that US average refining gross margin has trended downward, generally consistent with the downward trend in operating cost per barrel of product sold over the last two decades.