

EXXON MOBIL CORP
Form 10-K
February 28, 2007
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2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-2256

EXXON MOBIL CORPORATION

(Exact name of registrant as specified in its charter)

NEW JERSEY

13-5409005

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

5959 LAS COLINAS BOULEVARD, IRVING, TEXAS 75039-2298

(Address of principal executive offices) (Zip Code)

(972) 444-1000

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(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, without par value (5,693,398,774 shares outstanding at January 31, 2007)	New York Stock Exchange
Registered securities guaranteed by Registrant: SeaRiver Maritime Financial Holdings, Inc. Twenty-Five Year Debt Securities due October 1, 2011	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price on that date of \$61.35 on the New York Stock Exchange composite tape, was in excess of \$364 billion.

Documents Incorporated by Reference:

Proxy Statement for the 2007 Annual Meeting of Shareholders (Part III)

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FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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PART I

Item 1. Business.

Exxon Mobil Corporation, formerly named Exxon Corporation, was incorporated in the State of New Jersey in 1882. On November 30, 1999, Mobil Corporation became a wholly-owned subsidiary of Exxon Corporation, and Exxon changed its name to Exxon Mobil Corporation.

Divisions and affiliated companies of ExxonMobil operate or market products in the United States and most other countries of the world. Their principal business is energy, involving 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. ExxonMobil is a major manufacturer and marketer of commodity petrochemicals, including olefins, aromatics, polyethylene and polypropylene plastics and a wide variety of specialty products. ExxonMobil also has interests in electric power generation facilities. Affiliates of ExxonMobil conduct extensive research programs in support of these businesses.

Exxon Mobil Corporation has several divisions and hundreds of affiliates, many with names that include *ExxonMobil*, *Exxon*, *Esso* or *Mobil*. For convenience and simplicity, in this report the terms *ExxonMobil*, *Exxon*, *Esso* and *Mobil*, as well as terms like *Corporation*, *Company*, *our*, *we* and *its*, are sometimes used as abbreviated references to specific affiliates or groups of affiliates. The precise meaning depends on the context in question.

Throughout ExxonMobil's businesses, new and ongoing measures are taken to prevent and minimize the impact of our operations on air, water and ground. These include a significant investment in refining infrastructure and technology to manufacture clean fuels as well as projects to reduce nitrogen oxide and sulfur oxide emissions and expenditures for asset retirement obligations. ExxonMobil's 2006 worldwide environmental expenditures for all such preventative and remediation steps, including ExxonMobil's share of equity company expenditures, were about \$3.2 billion, of which \$1.1 billion were capital expenditures and \$2.1 billion were included in expenses. The total cost for such activities is expected to remain in this range in 2007 and 2008 (with capital expenditures approximately 40 percent of the total).

Operating data and industry segment information for the Corporation are contained in the Financial Section of this report under the following:

Quarterly Information, Note 17: Disclosures about Segments and Related Information and Operating Summary. Information on oil and gas reserves is contained in the Oil and Gas Reserves part of the Supplemental Information on Oil and Gas Exploration and Production Activities portion of the Financial Section of this report. Information on Company-sponsored research and development activities is contained in Note 3: Miscellaneous Financial Information of the Financial Section of this report.

The number of regular employees was 82.1 thousand, 83.7 thousand and 85.9 thousand at years ended 2006, 2005 and 2004, respectively. Regular employees are defined as active executive, management, professional, technical and wage employees who work full time or part time for the Corporation and are covered by the Corporation's benefit plans and programs. Regular employees do not include employees of the company-operated retail sites (CORS). The number of CORS employees was 24.3 thousand, 22.4 thousand and 19.3 thousand at years ended 2006, 2005 and 2004, respectively.

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ExxonMobil maintains a website at www.exxonmobil.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 are made available through our website as soon as reasonably practical after we electronically file or furnish the reports to the Securities and Exchange Commission. Also available on the Corporation's website are the Company's

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Corporate Governance Guidelines and Code of Ethics and Business Conduct, as well as the charters of the audit, compensation and nominating committees of the Board of Directors. All of these documents are available in print without charge to shareholders who request them. Information on our website is not incorporated into this report.

Item 1A. Risk Factors.

ExxonMobil's financial and operating results are subject to a number of factors, many of which are not within the Company's control. These factors include the following:

Industry and Economic Factors: The oil and gas business is fundamentally a commodity business. This means the operations and earnings of the Corporation and its affiliates throughout the world may be significantly affected by changes in oil, gas and petrochemical prices and by changes in margins on gasoline and other refined products. Oil, gas, petrochemical and product prices and margins in turn depend on local, regional and global events or conditions that affect supply and demand for the relevant commodity. These events or conditions are generally not predictable and include, among other things:

general economic growth rates and the occurrence of economic recessions;

the development of new supply sources;

adherence by countries to OPEC quotas;

supply disruptions;

weather, including seasonal patterns that affect regional energy demand (such as the demand for heating oil or gas in winter) as well as severe weather events (such as hurricanes) that can disrupt supplies or interrupt the operation of ExxonMobil facilities;

technological advances, including advances in exploration, production, refining and petrochemical manufacturing technology and advances in technology relating to energy usage;

changes in demographics, including population growth rates and consumer preferences; and

the competitiveness of alternative hydrocarbon or other energy sources.

Under certain market conditions, factors that have a positive impact on one segment of our business may have a negative impact on another segment and vice versa.

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Competitive Factors: The energy and petrochemical industries are highly competitive. There is competition within the industries and also with other industries in supplying the energy, fuel and chemical needs of both industrial and individual consumers. The Corporation competes with other firms in the sale or purchase of needed goods and services in many national and international markets and employs all methods of competition which are lawful and appropriate for such purposes.

A key component of the Corporation's competitive position, particularly given the commodity-based nature of many of its businesses, is ExxonMobil's ability to manage expenses successfully. This requires continuous management focus on reducing unit costs and improving efficiency including through technology improvements, cost control, productivity enhancements and regular reappraisal of our asset portfolio as described elsewhere in this report.

Political and Legal Factors: The operations and earnings of the Corporation and its affiliates throughout the world have been, and may in the future be, affected from time to time in varying degree by political and legal factors including:

political instability or lack of well-established and reliable legal systems in areas where the Corporation operates;

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other political developments and laws and regulations, such as expropriation or forced divestiture of assets, unilateral cancellation or modification of contract terms, and de-regulation of certain energy markets;

laws and regulations related to environmental or energy security matters, including those addressing alternative energy sources and the risks of global climate change;

restrictions on exploration, production, imports and exports;

restrictions on the Corporation's ability to do business with certain countries, or to engage in certain areas of business within a country;

price controls;

tax or royalty increases, including retroactive claims;

war or other international conflicts; and

civil unrest.

Both the likelihood of these occurrences and their overall effect upon the Corporation vary greatly from country to country and are not predictable. A key component of the Corporation's strategy for managing political risk is geographic diversification of the Corporation's assets and operations.

Project Factors: In addition to some of the factors cited above, ExxonMobil's results depend upon the Corporation's ability to develop and operate major projects and facilities as planned. The Corporation's results will therefore be affected by events or conditions that impact the advancement, operation, cost or results of such projects or facilities, including:

the outcome of negotiations with co-venturers, governments, suppliers, customers or others (including, for example, our ability to negotiate favorable long-term contracts with customers, or the development of reliable spot markets, that may be necessary to support the development of particular production projects);

reservoir performance and natural field decline;

changes in operating conditions and costs, including costs of third party equipment or services such as drilling rigs and shipping;

security concerns or acts of terrorism that threaten or disrupt the safe operation of company facilities; and

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the occurrence of unforeseen technical difficulties (including technical problems that may delay start-up or interrupt production from an Upstream project or that may lead to unexpected downtime of refineries or petrochemical plants).

See section 1 of Item 2 of this report for a discussion of additional factors affecting future capacity growth and the timing and ultimate recovery of reserves.

Market Risk Factors: See the Market Risks, Inflation and Other Uncertainties portion of the Financial Section of this report for discussion of the impact of market risks, inflation and other uncertainties.

Projections, estimates and descriptions of ExxonMobil's plans and objectives included or incorporated in Items 1, 2, 7 and 7A of this report are forward-looking statements. Actual future results, including project completion dates, production rates, capital expenditures, costs and business plans could differ materially due to, among other things, the factors discussed above and elsewhere in this report.

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None.

Item 2. *Properties.*

Part of the information in response to this item and to the Securities Exchange Act Industry Guide 2 is contained in Note 8: Property, Plant and Equipment and Asset Retirement Obligations and in the Supplemental Information on Oil and Gas Exploration and Production Activities, both included in the Financial Section of this report.

Information with regard to oil and gas producing activities follows:**1. Net Reserves of Crude Oil and Natural Gas Liquids and Natural Gas at Year-End 2006**

Estimated proved reserves are shown in the Oil and Gas Reserves part of the Supplemental Information on Oil and Gas Exploration and Production Activities portion of the Financial Section of this report. No major discovery or other favorable or adverse event has occurred since December 31, 2006, that would cause a significant change in the estimated proved reserves as of that date. For information on the standardized measure of discounted future net cash flows relating to proved oil and gas reserves, see the Standardized Measure of Discounted Future Cash Flows part of the Supplemental Information on Oil and Gas Exploration and Production Activities portion of the Financial Section of this report.

The table below summarizes the oil-equivalent proved reserves in each geographic area for consolidated subsidiaries as detailed in the Oil and Gas Reserves part of the Supplemental Information on Oil and Gas Exploration and Production Activities portion of the Financial Section of this report for the year ended December 31, 2006. The Corporation has reported 2005 and 2006 proved reserves on the basis of December 31 prices and costs. Gas is converted to an oil-equivalent basis at six million cubic feet per one thousand barrels.

					Asia				
					Pacific/				
					Middle	Russia/	South	Total	
	United	Canada	Europe	Africa	East	Caspian	America	Consolidated	
	States								
	(millions of barrels)								
Liquids	1,884	962	748	2,089	1,287	791	433	8,194	
	(billions of cubic feet)								
Natural gas	12,049	1,517	7,089	986	9,583	789	467	32,480	

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(millions of oil-equivalent barrels)

Oil-equivalent basis	3,892	1,215	1,930	2,253	2,884	922	511	13,607
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Additional detail on developed and undeveloped oil-equivalent proved reserves is shown in the table below.

	Year-End 2006		Year-End 2005	
	Developed	Undeveloped	Developed	Undeveloped
	(millions of oil-equivalent barrels)			
Consolidated Subsidiaries				
United States	3,013	879	3,411	984
Canada	921	294	862	254
Europe	1,448	482	1,711	572
Africa	1,416	837	1,281	1,171
Asia Pacific/Middle East	2,070	814	1,475	253
Russia/Caspian	183	739	93	751
South America	252	259	279	275
Total	9,303	4,304	9,112	4,260
Equity Companies				
United States	329	84	345	91
Europe	1,675	429	1,713	468
Asia Pacific/Middle East	1,948	2,995	1,938	2,629
Russia/Caspian	679	364	713	373
Total	4,631	3,872	4,709	3,561

In the preceding reserves information, and in the reserves tables in the Oil and Gas Reserves part of the Supplemental Information on Oil and Gas Exploration and Production Activities portion of the Financial Section of this report, consolidated subsidiary and equity company reserves are reported separately. However, the Corporation operates its business with the same view of equity company reserves as it has for reserves from consolidated subsidiaries.

The Corporation's overall volume capacity outlook, based on projects coming on stream as anticipated, is for production capacity to grow over the period 2007-2011. However, actual volumes will vary from year to year due to the timing of individual project start-ups, operational outages, reservoir performance, regulatory changes, asset sales, weather events, price effects on production sharing contracts and other factors as described in Item 1A Risk Factors of this report.

The estimation of proved reserves, which is based on the requirement of reasonable certainty, is an ongoing process based on rigorous technical evaluations, commercial and market assessments and detailed analysis of well information such as flow rates and reservoir pressure declines. Furthermore, the Corporation only records proved reserves for projects which have received significant funding commitments by management made toward the development of the reserves. Although the Corporation is reasonably certain that proved reserves will be produced, the timing and amount recovered can be affected by a number of factors including completion of development projects, reservoir performance, regulatory approvals and significant changes in projections of long-term oil and gas price levels.

2. Estimates of Total Net Proved Oil and Gas Reserves Filed with Other Federal Agencies

During 2006, ExxonMobil filed proved reserves estimates with the U.S. Department of Energy on Forms EIA-23 and EIA-28. The information on Form EIA-28 is presented on the same basis as the registrant's Annual Report on Form 10-K for 2005, which shows ExxonMobil's net interests in all liquids and gas reserve volumes and changes thereto from both ExxonMobil-operated properties and properties operated by others. The data on Form EIA-23, although consistent with the data on Form EIA-28, is presented on a different basis, and includes 100 percent of the oil and gas volumes from ExxonMobil-operated properties only, regardless of the company's net interest. In addition,

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Form EIA-23 information does not include gas plant liquids. The difference between the oil reserves and gas reserves reported on EIA-23 and those reported in the registrant's Annual Report on Form 10-K for 2005 exceeds five percent.

3. Average Sales Prices and Production Costs per Unit of Production

Reference is made to the Results of Operations part of the Supplemental Information on Oil and Gas Exploration and Production Activities portion of the Financial Section of this report. Average sales prices have been calculated by using sales quantities from the Corporation's own production as the divisor. Average production costs have been computed by using net production quantities for the divisor. The volumes of crude oil and natural gas liquids (NGL) production used for this computation are shown in the reserves table in the Oil and Gas Reserves part of the Supplemental Information on Oil and Gas Exploration and Production Activities portion of the Financial Section of this report. The volumes of natural gas used in the calculation are the production volumes of natural gas available for sale and thus are different from those shown in the reserves table in the Oil and Gas Reserves part of the Supplemental Information on Oil and Gas Exploration and Production Activities portion of the Financial Section of this report due to volumes consumed or flared. The volumes of natural gas were converted to oil-equivalent barrels based on a conversion factor of six thousand cubic feet per barrel.

4. Gross and Net Productive Wells

	Year-End 2006				Year-End 2005			
	Oil		Gas		Oil		Gas	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
United States	28,139	10,644	9,059	5,468	28,288	10,865	9,187	5,441
Canada	5,662	4,975	5,857	3,058	5,967	5,214	6,115	2,991
Europe	1,780	528	1,300	509	1,872	590	1,294	512
Africa	823	348	12	5	674	277	14	6
Asia Pacific/Middle East	2,191	587	267	184	1,991	532	259	180
Russia/Caspian	82	17			77	16	2	1
South America	154	64	85	30	154	64	89	30
Total	38,831	17,163	16,580	9,254	39,023	17,558	16,960	9,161

The numbers of wells operated at year-end 2006 were 16,914 gross wells and 13,988 net wells. At year-end 2005, the numbers of operated wells were 17,351 gross wells and 14,028 net wells.

5. Gross and Net Developed Acreage

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	Year-End 2006		Year-End 2005	
	Gross	Net	Gross	Net
	(thousands of acres)			
United States	9,045	5,178	9,194	5,260
Canada	4,812	2,099	4,869	2,238
Europe	10,678	4,418	11,303	4,687
Africa	1,842	717	1,497	545
Asia Pacific/Middle East	8,210	1,655	7,876	1,570
Russia/Caspian	531	116	531	116
South America	690	232	690	232
Total	35,808	14,415	35,960	14,648

Note: Separate acreage data for oil and gas are not maintained because, in many instances, both are produced from the same acreage.

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	Year-End 2006		Year-End 2005	
	Gross	Net	Gross	Net
	(thousands of acres)			
United States	9,917	6,062	10,388	6,413
Canada	10,659	4,785	10,816	4,822
Europe	8,089	2,727	8,782	2,778
Africa	39,306	24,075	49,328	29,048
Asia Pacific/Middle East	13,466	7,462	7,114	3,797
Russia/Caspian	2,181	449	2,561	569
South America	20,803	17,229	26,552	19,513
Total	104,421	62,789	115,541	66,940

ExxonMobil's investment in developed and undeveloped acreage is comprised of numerous concessions, blocks and leases. The terms and conditions under which the Corporation maintains exploration and/or production rights to the acreage are property-specific, contractually defined and vary significantly from property to property. Work programs are designed to ensure that the exploration potential of any property is fully evaluated before expiration. In some instances, the Corporation may elect to relinquish acreage in advance of the contractual expiration date if the evaluation process is complete and there is not a business basis for extension. In cases where additional time may be required to fully evaluate acreage, the Corporation has generally been successful in obtaining extensions.

7. Summary of Acreage Terms in Key Areas*UNITED STATES*

Oil and gas leases have an exploration period ranging from one to ten years, and a production period that normally remains in effect until production ceases. In some instances, a fee interest is acquired where both the surface and the underlying mineral interests are owned outright.

CANADA

Exploration permits are granted for varying periods of time with renewals possible. Production leases are held as long as there is production on the lease. The majority of Cold Lake leases were taken for an initial 21-year term in 1968-1969 and renewed for a second 21-year term in 1989-1990. The exploration acreage in eastern Canada is currently held by work commitments of various amounts.

EUROPE

Germany

Exploration concessions are granted for an initial maximum period of five years with possible extensions of up to three years for an indefinite period. Extensions are subject to specific, minimum work commitments. Production licenses are normally granted for 20 to 25 years with multiple possible extensions as long as there is production on the license.

Netherlands

Under the Mining Law, effective January 1, 2003, exploration and production licenses for both onshore and offshore areas are issued for a period as explicitly defined in the license. The term is based on the period of time necessary to perform the activities for which the license is issued. License conditions are stipulated in the Mining Law.

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Production rights granted prior to January 1, 2003, remain subject to their existing terms, and differ slightly for onshore and offshore areas. Onshore production licenses issued prior to 1988 were indefinite; from 1988 they were issued for a period as explicitly defined in the license, ranging from 35 to 45 years. Offshore production licenses issued before 1976 were issued for a fixed period of 40 years; from 1976 they were again issued for a period as explicitly defined in the license, ranging from 15 to 40 years.

Norway

Licenses issued prior to 1972 were for an initial period of six years and an extension period of 40 years, with relinquishment of at least one-fourth of the original area required at the end of the sixth year and another one-fourth at the end of the ninth year. Licenses issued between 1972 and 1997 were for an initial period of up to six years (with extension of the initial period of one year at a time up to ten years after 1985), and an extension period of up to 30 years, with relinquishment of at least one-half of the original area required at the end of the initial period. Licenses issued after July 1, 1997, have an initial period of up to ten years and a normal extension period of up to 30 years or in special cases of up to 50 years, and with relinquishment of at least one-half of the original area required at the end of the initial period.

United Kingdom

Acreage terms are fixed by the government and are periodically changed. For example, many of the early licenses issued under the first four licensing rounds provided for an initial term of six years with relinquishment of at least one-half of the original area at the end of the initial term, subject to extension for a further 40 years. ExxonMobil's licenses issued in 2005 as part of the 23rd licensing round have an initial term of four years with a second term extension of four years and a final term of 18 years. There is a mandatory relinquishment of 50-percent of the acreage after the initial term and of all acreage that is not covered by a development plan at the end of the second term.

AFRICA

Angola

Exploration and production activities are governed by production sharing agreements with an initial exploration term of four years and an optional second phase of two to three years. The production period is for 25 years, and agreements generally provide for a negotiated extension.

Cameroon

Exploration and production activities are governed by various agreements negotiated with the national oil company and the government of Cameroon. Exploration permits are granted for terms from four to 16 years and are generally renewable for multiple periods up to four years each. Upon commercial discovery, mining concessions are issued for a period of 25 years with one 25-year extension.

Chad

Exploration permits are issued for a period of five years, and are renewable for one or two further five-year periods. The terms and conditions of the permits, including relinquishment obligations, are specified in a negotiated convention. The production term is for 30 years and may be extended at the discretion of the government.

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Equatorial Guinea

Exploration and production activities are governed by production sharing contracts negotiated with the State Ministry of Mines, Industry and Energy. The exploration periods are for ten to 15 years with limited relinquishments in the absence of commercial discoveries. The production period for crude oil is 30 years while the production period for gas is 50 years. A new Hydrocarbons Law was enacted in November 2006. Under the new law, the exploration terms for new production sharing contracts are expected to be four to five years with a maximum of two one-year extensions, unless the Ministry agrees otherwise.

Nigeria

Exploration and production activities in the deepwater offshore areas are typically governed by production sharing contracts (PSCs) with the national oil company, the Nigerian National Petroleum Corporation (NNPC). NNPC holds the underlying Oil Prospecting License (OPL) and any resulting Oil Mining Lease (OML). The terms of the PSCs are generally 30 years, including a ten-year exploration period (an initial exploration phase plus one or two optional periods) covered by an OPL. Upon commercial discovery, an OPL may be converted to an OML. Partial relinquishment is required under the PSC at the end of the ten-year exploration period, and OMLs have a 20-year production period that may be extended.

Some exploration activities are carried out in deepwater by joint ventures with local companies holding interests in an OPL. OPLs in deepwater offshore areas are valid for ten years and are non-renewable, while in all other areas the licenses are for five years and also are non-renewable. Demonstrating a commercial discovery is the basis for conversion of an OPL to an OML.

OMLs granted prior to the 1969 Petroleum Act (i.e., under the Mineral Oils Act 1914, repealed by the 1969 Petroleum Act) were for 30 years onshore and 40 years in offshore areas and are renewable upon 12 months' written notice, for further periods of 30 and 40 years, respectively. Operations under these pre-1969 OMLs are conducted under a joint venture agreement with NNPC rather than a PSC.

OMLs granted under the 1969 Petroleum Act, which include all deepwater OMLs, have a maximum term of 20 years without distinction for onshore or offshore location and are renewable, upon 12 months' written notice, for another period of 20 years. OMLs not held by NNPC are also subject to a mandatory 50-percent relinquishment after the first ten years of their duration.

The Memorandum of Understanding (MOU) defining commercial terms applicable to existing joint venture oil production was renegotiated and executed in 2000. The MOU is effective for a minimum of three years with possible extensions on mutual agreement and is terminable on one calendar year's notice.

ASIA PACIFIC / MIDDLE EAST

Australia

Exploration and production activities are conducted offshore and are governed by Federal legislation. Exploration permits are granted for an initial term of six years with two possible five-year renewal periods. A 50-percent relinquishment of remaining area is mandatory at the end of each renewal period. Retention leases may be granted for resources that are not commercially viable at the time of application, but are expected to become commercially viable within 15 years. These are granted for periods of five years and renewals may be requested. Prior to July 1998, production licenses were granted initially for 21 years, with a further renewal of 21 years and thereafter indefinitely, i.e., for

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the life of the field (if no operations for the recovery of petroleum have been carried on for five years, the license may be terminated). Effective from July 1998, new production licenses are granted indefinitely .

Indonesia

Exploration and production activities in Indonesia are generally governed by cooperation contracts, usually in the form of a production sharing contract, negotiated with BPMIGAS, a government agency established in 2002 to manage upstream oil and gas activities. Formerly this activity was carried out by Pertamina, the government owned oil company, which is now a competing limited liability company.

Japan

The Mining Law provides for the granting of concessions that convey exploration and production rights. Exploration rights are granted for an initial two-year period, and may be extended for two two-year periods for gas and three two-year periods for oil. Production rights have no fixed term and continue until abandonment so long as the rights holder is fulfilling its obligations.

Malaysia

Exploration and production activities are governed by production sharing contracts negotiated with the national oil company. The more recent contracts have an overall term of 24 to 38 years, depending on water depth, with possible extensions to the exploration and/or development periods. The exploration period is five to seven years with the possibility of extensions, after which time areas with no commercial discoveries will be deemed relinquished. The development period is from four to six years from commercial discovery, with the possibility of extensions under special circumstances. Areas from which commercial production has not started by the end of the development period will be deemed relinquished if no extension is granted. All extensions are subject to the national oil company's prior written approval. The total production period is 15 to 25 years from first commercial lifting, not to exceed the overall term of the contract.

Papua New Guinea

Exploration and production activities are governed by the Oil and Gas Act. Petroleum Prospecting licenses are granted for an initial term of six years with a five-year extension possible (an additional extension of three years is possible in certain circumstances). Generally, a 50-percent relinquishment of the license area is required at the end of the initial six-year term, if extended. Petroleum Development licenses are granted for an initial 25-year period. An extension of up to 20 years may be granted at the Minister's discretion. Petroleum Retention licenses may be granted for gas resources that are not commercially viable at the time of application, but may become commercially viable within the maximum possible retention time of 15 years. Petroleum Retention licenses are granted for five-year terms, and may be extended, at the Minister's discretion, twice for the maximum retention time of 15 years.

Qatar

The State of Qatar grants gas production development project rights to develop and supply gas from the offshore North Field to permit the economic development and production of gas reserves sufficient to satisfy the gas and LNG sales obligations of these projects.

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Republic of Yemen

Production sharing agreements (PSAs) negotiated with the government entitle the company to participate in exploration operations within a designated area during the exploration period. In the event of a commercial oil discovery, the company is entitled to proceed with development and production operations during the development period. The length of these periods and other specific terms are negotiated prior to executing the PSA. Existing production operations have a development period extending 20 years from first commercial declaration made in November 1985 for the Marib PSA and June 1995 for the Jannah PSA. The Government of Yemen awarded a five-year extension of the Marib PSA, but later repudiated the extension and expelled the concession holders. The parties are now in arbitration over the validity of the extension.

Thailand

The Petroleum Act of 1971 allows production under ExxonMobil's concession for 30 years with a possible ten-year extension at terms generally prevalent at the time.

United Arab Emirates

Exploration and production activities for the major onshore oilfields in the Emirate of Abu Dhabi are governed by a 75-year oil concession agreement executed in 1939 and subsequently amended through various agreements with the government of Abu Dhabi. An interest in the Upper Zakum field, a major offshore field, was acquired effective as of January 1, 2006, for a term expiring March 9, 2026, on fiscal terms consistent with the Company's existing interests in Abu Dhabi.

RUSSIA/CASPIAN

Azerbaijan

The production sharing agreement (PSA) for the development of the Azeri-Chirag-Gunashli field is established for an initial period of 30 years starting from the PSA execution date in 1994.

Other exploration and production activities are governed by PSAs negotiated with the national oil company of Azerbaijan. The exploration period consists of three or four years with the possibility of a one to three-year extension. The production period, which includes development, is for 25 years or 35 years with the possibility of one or two five-year extensions.

Kazakhstan

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Onshore: Exploration and production activities are governed by the production license, exploration license and joint venture agreements negotiated with the Republic of Kazakhstan. Existing production operations have a 40-year production period that commenced in 1993.

Offshore: Exploration and production activities are governed by a production sharing agreement negotiated with the Republic of Kazakhstan. The exploration period was six years followed by separate appraisal periods for each discovery. The production period for each discovery, which includes development, is for 20 years from the date of declaration of commerciality with the possibility of two ten-year extensions.

Russia

Terms for ExxonMobil's acreage are fixed by the production sharing agreement (PSA) that became effective in 1996 between the Russian government and the Sakhalin-1 consortium, of which ExxonMobil is the operator. The term of the PSA is 20 years from the Declaration of Commerciality, which would be 2021. The term may be extended thereafter in 10-year increments as specified in the PSA.

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SOUTH AMERICA

Argentina

The onshore concession terms in Argentina are up to four years for the initial exploration period, up to three years for the second exploration period and up to two years for the third exploration period. A 50-percent relinquishment is required after each exploration period. An extension after the third exploration period is possible for up to five years. The total production term is 25 years with a ten-year extension possible, once a field has been developed.

Venezuela

Exploration and production activities are governed by Association Agreements containing risk/profit provisions negotiated with the national oil company or its affiliates. Association Agreements are awarded for a term not to exceed 39 years. These agreements have an exploration and a production phase. The term of production begins after the exploration phase and runs for 20 years with the possibility of an extension, so long as the total contract term does not exceed 39 years.

Strategic association agreements (such as the Cerro Negro project) are typically limited to those projects that require vertical integration for extra heavy crude oil. Contracts are awarded for 35 years. Significant amendments to the contract terms require Venezuelan congressional approval. The Venezuelan Government has indicated a desire to increase ownership by the National Oil Company (PdVSA) to greater than 50 percent in the projects covered by these agreements and to make other changes to applicable fiscal terms.

Table of Contents**Index to Financial Statements****8. Number of Net Productive and Dry Wells Drilled**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
A. Net Productive Exploratory Wells Drilled			
United States	10	13	11
Canada	3	1	2
Europe	2	4	3
Africa	4	5	2
Asia Pacific/Middle East	2	1	2
Russia/Caspian			1
South America			
Total	<u>21</u>	<u>24</u>	<u>21</u>
B. Net Dry Exploratory Wells Drilled			
United States	5	5	6
Canada			4
Europe	2	1	1
Africa	4	5	4
Asia Pacific/Middle East		1	
Russia/Caspian		1	
South America	1		
Total	<u>12</u>	<u>13</u>	<u>15</u>
C. Net Productive Development Wells Drilled			
United States	552	537	568
Canada	371	263	466
Europe	22	19	24
Africa	64	61	64
Asia Pacific/Middle East	25	50	35
Russia/Caspian	5	7	4
South America	2	9	3
Total	<u>1,041</u>	<u>946</u>	<u>1,164</u>
D. Net Dry Development Wells Drilled			
United States	5	8	13
Canada	1	2	2
Europe	4	2	2
Africa	1		
Asia Pacific/Middle East		2	1
Russia/Caspian			
South America			
Total	<u>11</u>	<u>14</u>	<u>18</u>
Total number of net wells drilled	<u>1,085</u>	<u>997</u>	<u>1,218</u>

9. Present Activities

A. Wells Drilling

	Year-End 2006		Year-End 2005	
	Gross	Net	Gross	Net
United States	214	109	148	84
Canada	223	182	148	94
Europe	55	11	46	12
Africa	50	19	53	21
Asia Pacific/Middle East	49	14	70	24
Russia/Caspian	33	6	38	8
South America	3	1	3	1
Total	627	342	506	244

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B. Review of Principal Ongoing Activities in Key Areas

During 2006, ExxonMobil's activities were conducted, either directly or through affiliated companies, by ExxonMobil Exploration Company (for exploration), by ExxonMobil Development Company (for large development activities), by ExxonMobil Production Company (for producing and smaller development activities) and by ExxonMobil Gas & Power Marketing Company (for gas marketing). During this same period, some of ExxonMobil's exploration, development, production and gas marketing activities were also conducted in Canada by the Resources Division of Imperial Oil Limited, which is 69.6 percent owned by ExxonMobil.

Some of the more significant ongoing activities are set forth below:

UNITED STATES

Exploration and delineation of additional hydrocarbon resources continued in 2006. At year-end 2006, ExxonMobil's acreage totaled 11.2 million net acres, of which 2.6 million net acres were offshore. ExxonMobil was active in areas onshore and offshore in the lower 48 states and in Alaska.

During 2006, 543.9 net exploration and development wells were completed in the inland lower 48 states and 3.0 net development wells were completed offshore in the Pacific. Tight gas development continues in the Piceance Basin of Colorado. Participation in Alaska production and development continued and a total of 14.6 net development wells were drilled. On Alaska's North Slope, activity continued on the Western Region Development Project (primarily the Orion field) with development drilling and engineering design for facility expansions.

ExxonMobil's net acreage in the Gulf of Mexico at year-end 2006 was 2.4 million acres. A total of 10.9 net exploration and development wells were completed during the year. Installation and commissioning of the semi-submersible production and drilling vessel continued for the Thunder Horse development in 2006. Startup, delayed due to a listing incident and subsea manifolds that failed during testing, is anticipated to occur in 2008.

CANADA

ExxonMobil's year-end 2006 acreage holdings totaled 6.9 million net acres, of which 3.1 million net acres were offshore. A total of 375.0 net exploration and development wells were completed during the year. In eastern Canada, work continued on the Sable Compression project. Hook-up and commissioning of the compression platform was completed at Sable in the fourth quarter of 2006.

EUROPE

France

ExxonMobil divested its oil and gas exploration and production assets in 2006.

Germany

A total of 2.3 million net onshore acres and 0.1 million net offshore acres were held by ExxonMobil at year-end 2006, with 4.6 net development and exploration wells drilled during the year.

Netherlands

ExxonMobil's net interest in licenses totaled approximately 1.8 million acres at year-end 2006, 1.5 million acres onshore and 0.3 million acres offshore. A total of 3.6 net exploration and development wells were completed during the year. The offshore K17-FA field started up. The multi-year onshore

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project to renovate production clusters, install new compression to maintain capacity and extend field life continued.

Norway

ExxonMobil's net interest in licenses at year-end 2006 totaled approximately 0.8 million acres, all offshore. ExxonMobil participated in 9.3 net exploration and development well completions in 2006. Production was initiated at Ringhorne East in March and Fram East in October. The Ormen Lange, Statfjord Late Life, Skarv, Volve, Tyrihans and Njord Gas Export projects are in progress.

United Kingdom

ExxonMobil's net interest in licenses at year-end 2006 totaled approximately 1.9 million acres, all offshore. A total of 12.1 net exploration and development wells were completed during the year. The Cutter and Merganser projects commenced production during 2006. Other projects progressed in 2006 include Caravel and Starling.

AFRICA

Angola

ExxonMobil's year-end 2006 acreage holdings totaled 0.7 million net offshore acres and 9.2 net exploration and development wells were completed during the year. On Block 15, development drilling continued on Kizomba A and Kizomba B. Development construction continued on the Marimba North project, which will tie-back to the Kizomba A FPSO. Planning for the Kizomba C development concluded and construction is fully underway. A block-wide 4D seismic acquisition program concluded at mid-year. On Block 17, the Dalia project started-up in December. Construction and development activities continued on the Rosa project.

Cameroon

ExxonMobil's acreage totaled 0.3 million net offshore acres at year-end 2006.

Chad

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ExxonMobil's net year-end 2006 acreage holdings consisted of 3.3 million onshore acres, with 32.8 net exploration and development wells completed during the year. Production began from the Moundouli field.

Equatorial Guinea

ExxonMobil's acreage totaled 0.3 million net offshore acres at year-end 2006, with 8.3 net development wells completed during the year.

Nigeria

ExxonMobil's net acreage totaled 1.3 million offshore acres at year-end 2006, with 21.5 net exploration and development wells completed during the year. Several major project start-ups were executed in the year. The Yoho field (OML 104) full-field production platform started production in January 2006. The Erha Floating Production, Storage and Offloading (FPSO) vessel commenced production from the deepwater Erha field (OML 133) in March 2006. Production was initiated from the Erha North field (tie-back to the Erha FPSO) in September 2006. The ExxonMobil-operated East

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Area Additional Oil Recovery project started up in January 2006 and pipeline tie-ins continued throughout the year. This project positions Nigerian operations for a significant reduction in flaring in 2007. Detailed design and construction continued on the ExxonMobil-operated East Area Natural Gas Liquids II project. The Amenam-Kpono Phase 2 Gas project started up in late 2006.

ASIA PACIFIC / MIDDLE EAST

Australia

ExxonMobil's net year-end 2006 acreage holdings totaled 1.4 million acres, all offshore. During 2006, a total of 5.8 net exploration and development wells were drilled.

Indonesia

At year-end 2006, ExxonMobil had 3.9 million net acres, 3.0 million acres offshore and 0.9 million acres onshore. Project activities commenced in mid-2006 on the Banyu Urip development in the Cepu Contract Area after the execution of commercial agreements and approval of the Plan of Development by the government of Indonesia.

Japan

ExxonMobil's net offshore acreage was 36 thousand acres at year-end 2006.

Malaysia

ExxonMobil has interests in production sharing contracts covering 0.5 million net acres offshore Malaysia at year-end 2006. During the year, a total of 4.0 net exploration and development wells were completed. The Guntong E platform, part of the Guntong Hub development, started up in July 2006. Infill drilling wells were successfully completed at the Jerneh-A platform. Drilling activities are currently ongoing at Tabu-B and Angsi-C.

Papua New Guinea

A total of 0.5 million net onshore acres were held by ExxonMobil at year-end 2006, with 1.0 net development well completed during the year.

Qatar

Production and development activities continued on natural gas projects in Qatar. Liquefied natural gas (LNG) operating companies include:

Qatar Liquefied Gas Company Limited (QG I)

Qatar Liquefied Gas Company Limited (II) (QG II)

Ras Laffan Liquefied Natural Gas Company Limited (RL I)

Ras Laffan Liquefied Natural Gas Company Limited (II) (RL II)

Ras Laffan Liquefied Natural Gas Company Limited (3) (RL 3)

In addition, ExxonMobil's Al Khaleej Gas (AKG) Phase 1 project supplied pipeline gas to domestic industrial customers. The AKG facilities add sales gas capacity of up to 750 mcf (millions of cubic feet per day) and produced associated condensate and LPG (Liquid Petroleum Gas). The AKG Phase 2 project is planned to add sales gas capacity of up to 1,250 mcf, while recovering associated condensate and LPG.

At the end of 2006, 60 (gross) wells supplied natural gas to currently-producing LNG and pipeline gas sales facilities and drilling is underway to complete wells that will supply the new QG II, RL 3 and AKG 2 projects. At year-end 2006, ExxonMobil had 1.1 million net acres, 1.0 million acres onshore and 0.1 million acres offshore. During 2006, 9.9 net development wells were completed.

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Qatar LNG capacity volumes at year-end included 9.7 MTA (millions of metric tons per annum) in QG trains 1-3 and a combined 20.7 MTA in RL I trains 1-2 and RL II trains 3-5. In November 2006 production commenced at RL II train 5, although offshore facilities were not completed at year-end 2006. Construction of QG II trains 4-5 will add planned capacity of 15.6 MTA when complete. In addition, construction of RL 3 trains 6-7 will add planned capacity of 15.6 MTA when complete.

The conversion factor to translate Qatar LNG volumes (millions of metric tons MT) into gas volumes (billions of cubic feet BCF) is dependent on the gas quality and the quality of the LNG produced. The conversion factors are approximately 46 BCF/MT for QG I trains 1-3, RL I trains 1-2, RL II train 3, and approximately 49 BCF/MT for QG II trains 4-5, RL II trains 4-5, and RL 3 trains 6-7.

Republic of Yemen

ExxonMobil's net acreage in the Republic of Yemen production sharing areas totaled 10 thousand acres onshore at year-end 2006.

Thailand

ExxonMobil's net onshore acreage in Thailand concessions totaled 21 thousand acres at year-end 2006.

United Arab Emirates

In 2006, ExxonMobil acquired a 28 percent equity in the offshore Upper Zakum oil concession. The concession ends on March 9, 2026.

ExxonMobil's net acreage in the Abu Dhabi oil concessions was 0.6 million acres at year-end 2006, 0.4 million acres onshore and 0.2 million acres offshore. During the year, a total of 6.4 net development and exploration wells were completed. The Northeast Bab Phase 1 new field development project was completed successfully.

RUSSIA / CASPIAN

Azerbaijan

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At year-end 2006, ExxonMobil's net acreage, located in the Caspian Sea offshore of Azerbaijan, totaled 60 thousand acres. At the Azeri-Chirag-Gunashli (ACG) field, 1.0 net development well was completed and production ramp-up continued. The second phase of full field development was initiated with the start-up of West Azeri in January 2006 followed by East Azeri in November 2006 with full-field oil production increased to 660 thousand barrels of oil per day (gross) by year-end. Seventy percent of the construction on the Phase 3 Deep Water Gunashli Project was complete at year-end, with production start up anticipated in 2008.

Kazakhstan

ExxonMobil's net acreage totaled 0.2 million acres onshore and 0.2 million acres offshore at year-end 2006, with 1.4 net exploration and development wells completed during 2006. At Tengiz, construction of the 285 thousand barrels of oil per day (gross) expansion project continued through 2006. Engineering and construction of the initial phase of the Kashagan field continued during 2006.

Russia

ExxonMobil's net acreage holdings at year-end 2006 were 0.1 million acres, all offshore. A total of 3.0 net development wells were completed in the Chayvo field during the year. Production from the

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field began in October 2005 through an early production system for domestic Russian oil and gas sales and continued through the third quarter 2006. Full-field production with crude oil export and domestic gas sales began in the fourth quarter 2006 and drilling activities are continuing. Phase 1 facilities include an offshore platform, onshore drill site for extended-reach drilling to offshore oil zones, an onshore processing plant, an oil pipeline from Sakhalin Island to the Russian mainland, a mainland terminal and an offshore loading buoy for shipment of oil by tanker.

SOUTH AMERICA

Argentina

ExxonMobil's net acreage totaled 0.2 million onshore acres at year-end 2006, and there were 1.9 net development wells completed during the year.

Venezuela

ExxonMobil's net year-end 2006 acreage holdings totaled 0.1 million onshore acres.

WORLDWIDE EXPLORATION

At year-end 2006, exploration activities were underway in several areas in which ExxonMobil has no established production operations and thus are not included above. A total of 37.4 million net acres were held at year-end 2006, and 2.0 net exploration wells were completed during the year in these countries.

Information with regard to mining activities follows:

Syncrude Operations

Syncrude is a joint-venture established to recover shallow deposits of oil sands using open-pit mining methods, to extract the crude bitumen, and to produce a high-quality, light (32 degree API), sweet, synthetic crude oil. The Syncrude operation, located near Fort McMurray, Alberta, Canada, exploits a portion of the Athabasca Oil Sands Deposit. The location is readily accessible by public road. The produced synthetic crude oil is shipped from the Syncrude site to Edmonton, Alberta by Alberta Oil Sands Pipeline Ltd. Since start-up in 1978, Syncrude has produced about 1.7 billion barrels of synthetic crude oil. Imperial Oil Limited is the owner of a 25 percent interest in the joint-venture. Exxon Mobil Corporation has a 69.6 percent interest in Imperial Oil Limited.

Operating License and Leases

Syncrude has an operating license issued by the Province of Alberta which is effective until 2035. This license permits Syncrude to mine oil sands and produce synthetic crude oil from approved development areas on oil sands leases. Syncrude holds eight oil sands leases covering approximately 248,300 acres in the Athabasca Oil Sands Deposit which were issued by the Province of Alberta. The leases are automatically renewable as long as oil sands operations are ongoing or the leases are part of an approved development plan. Syncrude leases 10, 12, 17, 22 and 34 (containing proven reserves) and leases 29, 30 and 31 (containing no proven reserves) are included within a development plan approved by the Province of Alberta. There were no known previous commercial operations on these leases prior to the start-up of operations in 1978.

Operations, Plant and Equipment

Operations at Syncrude involve three main processes: open pit mining, extraction of crude bitumen and upgrading of crude bitumen into synthetic crude oil. The Base mine (lease 17) has now

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been mined out and only remnants are now being removed using trucks and shovels. In the North mine (leases 17 and 22) and in the Aurora mine (leases 10, 12 and 34), truck, shovel and hydrotransport systems are used. Production from the Aurora mine commenced in 2000. The extraction facilities, which separate crude bitumen from sand, are capable of processing approximately 740,000 tons of oil sands a day, producing 150 million barrels of crude bitumen a year. This represents recovery capability of about 93 percent of the crude bitumen contained in the mined oil sands.

Crude bitumen extracted from oil sands is refined to a marketable hydrocarbon product through a combination of carbon removal in three large, high-temperature, fluid-coking vessels and by hydrogen addition in high-temperature, high-pressure, hydrocracking vessels. These processes remove carbon and sulfur and reformulate the crude into a low viscosity, low sulfur, high-quality synthetic crude oil product. In 2006, this upgrading process yielded 0.849 barrels of synthetic crude oil per barrel of crude bitumen. In 2006 about 44 percent of the synthetic crude oil was processed by Edmonton area refineries and the remaining 56 percent was pipelined to refineries in eastern Canada and exported, primarily to the United States. Electricity is provided to Syncrude by a 270 megawatt electricity generating plant and a 160 megawatt electricity generating plant, both located at Syncrude. The generating plants are owned by the Syncrude participants. Recycled water is the primary water source, and incremental raw water is drawn, under license, from the Athabasca River. Imperial Oil Limited's 25 percent share of net investment in plant, property and equipment, including surface mining facilities, transportation equipment and upgrading facilities was about \$2.9 billion at year-end 2006.

Synthetic Crude Oil Reserves

The crude bitumen is contained within the unconsolidated sands of the McMurray Formation. Ore bodies are buried beneath 50 to 150 feet of overburden, have bitumen grades ranging from 4 to 14 weight percent and ore thickness of 115 to 160 feet. Estimates of synthetic crude oil reserves are based on detailed geological and engineering assessments of in-place crude bitumen volume, the mining plan, extraction recovery and upgrading yield factors, installed plant operating capacity and operating approval limits. The in-place volume, depth and grade are established through extensive and closely spaced core drilling. In active mining areas, the approximate well spacing is 400 feet (150 wells per section) and in future mining areas, the well spacing is approximately 1,150 feet (20 wells per section). Proven reserves include the operating Base and North mines and the Aurora mine. In accordance with the approved mining plan, there are an estimated 1,845 million tons of extractable oil sands in the Base and North mines, with an average bitumen grade of 10.6 weight percent. In addition, at the Aurora mine, there are an estimated 4,580 million tons of extractable oil sands at an average bitumen grade of 11.2 weight percent. After deducting royalties payable to the Province of Alberta, Imperial Oil Limited estimates that its 25 percent net share of proven reserves at year-end 2006 was equivalent to 718 million barrels of synthetic crude oil. Imperial's reserve assessment uses a 6 percent and 7 percent bitumen grade cut-off for the North mine and Aurora mine respectively, a 90 percent overall extraction recovery, a 97 percent mining dilution factor and an 88 percent upgrading yield.

In 2001, the Syncrude owners endorsed a further development of the Syncrude resource in the area and expansion of the upgrading facilities. The Syncrude Aurora 2 and Upgrader Expansion 1 project adds a remote mining train and expands the central processing and upgrading plant. This increased upgrading capacity came on stream in 2006 and increased production capacity to 355 thousand barrels of synthetic crude oil per day (gross). Additional mining trains in the North mine and Aurora mine were also completed in 2005. There are no approved plans for major future expansion projects.

Table of Contents**Index to Financial Statements****ExxonMobil Share of Net Proven Syncrude Reserves(1)**

	Synthetic Crude Oil		
	Base Mine and North Mine	Aurora Mine	Total
	(millions of barrels)		
January 1, 2006	208	530	738
Revision of previous estimate		1	1
Production	(9)	(12)	(21)
December 31, 2006	199	519	718

(1) Net reserves are the company's share of reserves after deducting royalties payable to the Province of Alberta.

Syncrude Operating Statistics (total operation)

	2006	2005	2004	2003	2002
Operating Statistics					
Total mined overburden (millions of cubic yards)(1)	128.2	97.1	100.3	109.2	102.0
Mined overburden to oil sands ratio(1)	1.18	1.02	0.94	1.15	1.05
Oil sands mined (millions of tons)	195.5	168.0	188.0	168.0	172.1
Average bitumen grade (weight percent)	11.4	11.1	11.1	11.0	11.2
Crude bitumen in mined oil sands (millions of tons)	22.2	18.6	20.9	18.5	19.2
Average extraction recovery (percent)	90.3	89.1	87.3	88.6	89.9
Crude bitumen production (millions of barrels)(2)	111.6	94.2	103.3	92.3	97.8
Average upgrading yield (percent)	84.9	85.3	85.5	86.0	86.3
Gross synthetic crude oil produced (millions of barrels)	95.5	79.3	88.4	78.4	84.8
ExxonMobil net share (millions of barrels)(3)	21	19	22	19	21

(1) Includes pre-stripping of mine areas and reclamation volumes.

(2) Crude bitumen production is equal to crude bitumen in mined oil sands multiplied by the average extraction recovery and the appropriate conversion factor.

(3) Reflects ExxonMobil's 25 percent interest in production less applicable royalties payable to the Province of Alberta.

Item 3. Legal Proceedings.

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As previously reported, the Puerto Rican Environmental Quality Board (EQB) issued an order on May 21, 2001, alleging that Esso Standard Oil Company (Puerto Rico) (Esso) failed to investigate and remediate alleged hydrocarbon contamination associated with underground storage tanks at a service station in Barranquitas, Puerto Rico. The EQB sought a penalty of \$75.9 million. Esso filed a federal law suit challenging the constitutionality of the procedures used in the EQB administrative process related to the penalty assessment. In March 2005, the federal District Court in the suit concluded that the EQB proceeding was impermissibly biased against Esso and issued a preliminary injunction prohibiting the EQB from continuing its penalty hearing or imposing the \$75.9 million penalty on Esso. On November 7, 2006, after granting Esso s motion for summary judgment, the District Court issued a permanent injunction that similarly prohibits EQB actions with respect to the penalty proceeding. The EQB may appeal this decision.

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As previously disclosed, the New York State Department of Environmental Conservation (NYSDEC) issued a Notice of Hearing and complaint on March 24, 2004, alleging that ExxonMobil Oil Corporation in whole or in part is responsible for a discharge of 17 million gallons of petroleum prior to 1978 in connection with past operations at its Brooklyn terminal. The NYSDEC also alleged that the Brooklyn terminal had numerous spills after 1978, in violation of New York Navigation Law. The NYSDEC sought natural resource damages. On June 19, 2006, the NYSDEC referred the matter to the New York State Attorney General (AG). On November 30, 2006, the NYSDEC advised the Administrative Law Judge that it was withdrawing the pending administrative enforcement case, without prejudice. On February 8, 2007, the AG issued two notices of intent to sue ExxonMobil in connection with its remedial activities at the Brooklyn terminal site. The first notice relates to alleged violations under the Clean Water Act. The State indicates it will seek civil penalties and injunctive relief for allegedly ongoing, unpermitted discharges of pollutants by the company into Newtown Creek. The second notice relates to alleged violations of the Resource Conservation and Recovery Act (RCRA) as a result of solid or hazardous waste contamination of soils, groundwater, and the surface waters and sediments of Newtown Creek. This notice names ExxonMobil and four unrelated entities as potential parties and indicates the State is seeking injunctive relief.

In another previously reported matter, Mobil Pipe Line Company (Mobil) agreed in January 2007 to sign a Consent Assessment of Civil Penalty issued by the Pennsylvania Department of Environmental Protection (PDEP) on May 11, 2006, pursuant to the Pennsylvania Clean Streams Law. This Consent Assessment resolves PDEP 's allegations that Mobil discharged gasoline into the soil and groundwater in South Whitehall Township, Pennsylvania. The release allegedly occurred from a pipeline and also caused a fire beginning on February 1, 2005, and continuing until February 4, 2005. Mobil will pay a combined civil penalty and cost reimbursement amount of \$122,000. This is full and final resolution of any existing or potential liability of Mobil to the PDEP for the incident at issue.

Regarding a previously disclosed matter, on January 26, 2007, ExxonMobil Oil Corporation and California 's Department of Toxic Substances Control (DTSC) signed a Consent Order settling allegations made by the DTSC in a Summary of Violations issued to the Torrance Refinery in December 2003. The DTSC had alleged that the refinery had discharged wastewater containing soluble selenium above one part per million to the sewer that leads to the county treatment facility in violation of California hazardous waste rules. The Consent Order calls for the refinery to comply with the hazardous waste regulations as they relate to its discharge into the sewer of wastewater containing selenium and calls for the following payments totaling \$650,000: administrative penalty - \$350,000; supplemental environmental project - \$150,000; reimbursement of DTSC costs - \$100,000; and payment to the Western States Project Training Fund - \$50,000.

Refer to the relevant portions of Note 15: Litigation and Other Contingencies of the Financial Section of this report for additional information on legal proceedings.

Item 4. *Submission of Matters to a Vote of Security Holders.*

None.

Table of Contents**Index to Financial Statements****Executive Officers of the Registrant** [pursuant to Instruction 3 to Regulation S-K, Item 401(b)].

<u>Name</u>	<u>Age as of March 1, 2007</u>	<u>Title (Held Office Since)</u>
R. W. Tillerson	54	Chairman of the Board (2006)
D. D. Humphreys	59	Senior Vice President (2006) and Treasurer (2004)
S. R. McGill	64	Senior Vice President (2004)
J. S. Simon	63	Senior Vice President (2004)
M. W. Albers	50	President, ExxonMobil Development Company (2004)
A. T. Cejka	55	Vice President (2004)
H. R. Cramer	56	Vice President (1999)
M. J. Dolan	53	Vice President (2004)
M. E. Foster	63	Vice President (2004)
H. H. Hubble	54	Vice President Investor Relations and Secretary (2004)
G. L. Kohlenberger	54	Vice President (2002)
C. W. Matthews	62	Vice President and General Counsel (1995)
P. T. Mulva	55	Vice President and Controller (2004)
S. D. Pryor	57	Vice President (2004)
P. E. Sullivan	63	Vice President and General Tax Counsel (1995)
A. P. Swiger	50	Vice President (2006)

For at least the past five years, Messrs. Cramer, Humphreys, Kohlenberger, Matthews, McGill, Simon, Sullivan and Tillerson have been employed as executives of the registrant. Mr. Tillerson was a Senior Vice President and then President, a title he continues to hold, before becoming Chairman of the Board. Mr. Humphreys was Vice President and Controller and then Vice President and Treasurer before becoming Senior Vice President and Treasurer. Mr. McGill was President of ExxonMobil Production Company before becoming Senior Vice President. Mr. Simon was President of ExxonMobil Refining & Supply Company before becoming Senior Vice President. Mr. Mulva was Vice President Investor Relations and Secretary before becoming Vice President and Controller.

The following executive officers of the registrant have also served as executives of the subsidiaries, affiliates or divisions of the registrant shown opposite their names during the five years preceding December 31, 2006.

Esso Exploration and Production Chad Inc.	Albers and Swiger
Exxon Azerbaijan Caspian Sea Limited	Swiger
Exxon Azerbaijan Limited	Swiger
ExxonMobil Chemical Company	Dolan and Pryor
ExxonMobil Development Company	Albers and Foster
ExxonMobil Exploration Company	Cejka
ExxonMobil Fuels Marketing Company	Cramer
ExxonMobil Gas & Power Marketing Company	Swiger
ExxonMobil Lubricants & Petroleum Specialties Company	Kohlenberger
ExxonMobil Production Company	Foster and Swiger
ExxonMobil Refining & Supply Company	Dolan, Hubble and Pryor
ExxonMobil Saudi Arabia	Dolan
Imperial Oil Limited	Mulva

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Officers are generally elected by the Board of Directors at its meeting on the day of each annual election of directors, with each such officer serving until a successor has been elected and qualified.

Table of ContentsIndex to Financial Statements**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Reference is made to the Quarterly Information portion of the Financial Section of this report.

Issuer Purchases of Equity Securities for Quarter Ended December 31, 2006

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October, 2006	40,782,542	68.67	40,782,542	
November, 2006	37,276,243	73.33	37,276,243	
December, 2006	36,773,679	76.59	36,773,679	
Total	114,832,464	72.72	114,832,464	(See note 1)

Note 1 On August 1, 2000, the Corporation announced its intention to resume purchases of shares of its common stock for the treasury both to offset shares issued in conjunction with company benefit plans and programs and to gradually reduce the number of shares outstanding. The announcement did not specify an amount or expiration date. The Corporation has continued to purchase shares since this announcement and to report purchased volumes in its quarterly earnings releases. Purchases may be made in both the open market and through negotiated transactions, and purchases may be increased, decreased or discontinued at any time without prior notice.

Table of Contents**Index to Financial Statements****Item 6. Selected Financial Data.**

	Years Ended December 31,				
	2006	2005	2004	2003	2002
	(millions of dollars, except per share amounts)				
Sales and other operating revenue(1)(2)	\$ 365,467	\$ 358,955	\$ 291,252	\$ 237,054	\$ 200,949
(1) Sales-based taxes included.	\$ 30,381	\$ 30,742	\$ 27,263	\$ 23,855	\$ 22,040
(2) Includes amounts for purchases/sales contracts with the same counterparty for 2002-2005.					
Net income					
Income from continuing operations	\$ 39,500	\$ 36,130	\$ 25,330	\$ 20,960	\$ 11,011
Discontinued operations, net of income tax					449
Cumulative effect of accounting change, net of income tax				550	
Net income	\$ 39,500	\$ 36,130	\$ 25,330	\$ 21,510	\$ 11,460
Net income per common share					
Income from continuing operations	\$ 6.68	\$ 5.76	\$ 3.91	\$ 3.16	\$ 1.62
Discontinued operations, net of income tax					0.07
Cumulative effect of accounting change, net of income tax				0.08	
Net income	\$ 6.68	\$ 5.76	\$ 3.91	\$ 3.24	\$ 1.69
Net income per common share - assuming dilution					
Income from continuing operations	\$ 6.62	\$ 5.71	\$ 3.89	\$ 3.15	\$ 1.61
Discontinued operations, net of income tax					0.07
Cumulative effect of accounting change, net of income tax				0.08	
Net income	\$ 6.62	\$ 5.71	\$ 3.89	\$ 3.23	\$ 1.68
Cash dividends per common share	\$ 1.28	\$ 1.14	\$ 1.06	\$ 0.98	\$ 0.92
Total assets	\$ 219,015	\$ 208,335	\$ 195,256	\$ 174,278	\$ 152,644
Long-term debt	\$ 6,645	\$ 6,220	\$ 5,013	\$ 4,756	\$ 6,655

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Reference is made to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Financial Section of this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Reference is made to the section entitled "Market Risks, Inflation and Other Uncertainties", excluding the part entitled "Inflation and Other Uncertainties", in the Financial Section of this report. All statements other than historical information incorporated in this Item 7A are forward-looking statements. The actual impact of future market changes could differ materially due to, among other things, factors discussed in

this report.

Item 8. *Financial Statements and Supplementary Data.*

Reference is made to the following in the Financial Section of this report:

Consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 28, 2007, beginning with the section entitled Report of Independent Registered Public Accounting Firm and continuing through Note 18: Income, Sales-Based and Other Taxes;
Quarterly Information (unaudited);

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Supplemental Information on Oil and Gas Exploration and Production Activities (unaudited); and
Frequently Used Terms (unaudited).

Financial Statement Schedules have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.*

None.

Item 9A. *Controls and Procedures.*

Management's Evaluation of Disclosure Controls and Procedures

As indicated in the certifications in Exhibit 31 of this report, the Corporation's chief executive officer, principal financial officer and principal accounting officer have evaluated the Corporation's disclosure controls and procedures as of December 31, 2006. Based on that evaluation, these officers have concluded that the Corporation's disclosure controls and procedures are effective in ensuring that material information required to be in this annual report is accumulated and communicated to them on a timely basis.

Management's Report on Internal Control over Financial Reporting

Management, including the Corporation's chief executive officer, principal financial officer and principal accounting officer, is responsible for establishing and maintaining adequate internal control over the Corporation's financial reporting. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Exxon Mobil Corporation's internal control over financial reporting was effective as of December 31, 2006.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, was audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included in the Financial Section of this report.

Changes in Internal Control over Financial Reporting

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There were no changes during the Corporation's last fiscal quarter that materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Item 9B. *Other Information.*

None.

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PART III

Item 10. *Directors, Executive Officers and Corporate Governance.*

Incorporated by reference to the following from the registrant's definitive proxy statement for the 2007 annual meeting of shareholders (the 2007 Proxy Statement):

- The section entitled Election of Directors ;
- The portion entitled Section 16(a) Beneficial Ownership Reporting Compliance of the section entitled Executive Compensation Tables ;
- The portion entitled Code of Ethics and Business Conduct of the section entitled Corporate Governance ; and
- The Audit Committee portion and the membership table of the portion entitled Board Meetings and Committees; Annual Meeting Attendance of the section entitled Corporate Governance .

Item 11. *Executive Compensation.*

Incorporated by reference to the sections entitled Director Compensation, Compensation Committee Report, Compensation Discussion and Analysis and Executive Compensation Tables of the registrant's 2007 Proxy Statement.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*

The information required under Item 403 of Regulation S-K is incorporated by reference to the section entitled Director and Executive Officer Stock Ownership of the registrant's 2007 Proxy Statement.

Equity Compensation Plan Information

<u>Plan Category</u>	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights ⁽¹⁾	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans [Excluding Securities Reflected in Column (a)]
----------------------	---	--	--

Equity compensation plans approved by security holders	104,121,419 ⁽²⁾⁽³⁾	\$40.18 ⁽³⁾	180,608,026 ⁽³⁾⁽⁴⁾⁽⁵⁾
Equity compensation plans not approved by security holders	0	0	0
Total	104,121,419	\$40.18	180,608,026

- (1) The exercise price of each option reflected in this table is equal to the fair market value of the Company's common stock on the date the option was granted. The weighted-average price reflects six prior option grants that are still outstanding.
- (2) Includes 97,034,844 options granted under the 1993 Incentive Program and 7,086,575 restricted stock units to be settled in shares.
- (3) Does not include options that ExxonMobil assumed in the 1999 merger with Mobil. At year-end 2006, the number of securities to be issued upon exercise of outstanding options under Mobil plans was 13,452,414, and the weighted-average exercise price of such options was \$29.36. No additional awards may be made under those plans.
- (4) Available shares can be granted in the form of restricted stock, options, or other stock-based awards. Includes 179,704,826 shares available for award under the 2003 Incentive Program and 903,200 shares available for award under the 2004 Non-Employee Director Restricted Stock Plan.

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- (5) Under the 2004 Non-Employee Director Restricted Stock Plan approved by shareholders in May 2004, and the related standing resolution adopted by the Board, each non-employee director automatically receives 8,000 shares of restricted stock when first elected to the Board and, if the director remains in office, an additional 4,000 restricted shares each following year. While on the Board, each non-employee director receives the same cash dividends on restricted shares as a holder of regular common stock, but the director is not allowed to sell the shares. The restricted shares can be forfeited if the director leaves the Board early.

Item 13. *Certain Relationships and Related Transactions, and Director Independence.*

The registrant has concluded that it has no disclosable matters under Item 404(a) of Regulation S-K. Additional information required under this Item 13 is incorporated by reference to the portions entitled *Related Person Transactions and Procedures* and *Director Independence* of the section entitled *Corporate Governance* in the registrant's 2007 Proxy Statement.

Item 14. *Principal Accounting Fees and Services.*

Incorporated by reference to the section entitled *Ratification of Independent Auditors* and the portion entitled *Audit Committee* of the section entitled *Corporate Governance* of the registrant's 2007 Proxy Statement.

PART IV

Item 15. *Exhibits, Financial Statement Schedules.*

(a) (1) and (2) Financial Statements:
See Table of Contents of the Financial Section of this report.

(a) (3) Exhibits:
See Index to Exhibits of this report.

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Table of Contents**Index to Financial Statements****BUSINESS PROFILE**

Financial	Earnings After Income Taxes		Average Capital Employed		Return on Average Capital Employed		Capital and Exploration Expenditures	
	2006	2005	2006	2005	2006	2005	2006	2005
	<i>(millions of dollars)</i>				<i>(percent)</i>		<i>(millions of dollars)</i>	
Upstream								
United States	\$ 5,168	\$ 6,200	\$ 13,940	\$ 13,491	37.1	46.0	\$ 2,486	\$ 2,142
Non-U.S.	21,062	18,149	43,931	39,770	47.9	45.6	13,745	12,328
Total	\$ 26,230	\$ 24,349	\$ 57,871	\$ 53,261	45.3	45.7	\$ 16,231	\$ 14,470
Downstream								
United States	\$ 4,250	\$ 3,911	\$ 6,456	\$ 6,650	65.8	58.8	\$ 824	\$ 753
Non-U.S.	4,204	4,081	17,172	18,030	24.5	22.6	1,905	1,742
Total	\$ 8,454	\$ 7,992	\$ 23,628	\$ 24,680	35.8	32.4	\$ 2,729	\$ 2,495
Chemical								
United States	\$ 1,360	\$ 1,186	\$ 4,911	\$ 5,145	27.7	23.1	\$ 280	\$ 243
Non-U.S.	3,022	2,757	8,272	8,919	36.5	30.9	476	411
Total	\$ 4,382	\$ 3,943	\$ 13,183	\$ 14,064	33.2	28.0	\$ 756	\$ 654
Corporate and financing	434	(154)	27,891	24,956			139	80
Total	\$ 39,500	\$ 36,130	\$ 122,573	\$ 116,961	32.2	31.3	\$ 19,855	\$ 17,699

See Frequently Used Terms for a definition and calculation of capital employed and return on average capital employed.

Operating	2006	2005
	<i>(thousands of barrels daily)</i>	
Net liquids production		
United States	414	477
Non-U.S.	2,267	2,046
Total	2,681	2,523
	<i>(millions of cubic feet daily)</i>	
Natural gas production available for sale		
United States	1,625	1,739
Non-U.S.	7,709	7,512

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Total	9,334	9,251
	<i>(thousands of oil-equivalent barrels daily)</i>	
Oil-equivalent production (1)	4,237	4,065
	<i>(thousands of barrels daily)</i>	
Petroleum product sales (2)		
United States	2,729	2,822
Non-U.S.	4,518	4,697
Total	7,247	7,519
	<i>(thousands of barrels daily)</i>	
Refinery throughput		
United States	1,760	1,794
Non-U.S.	3,843	3,929
Total	5,603	5,723
	<i>(thousands of metric tons)</i>	
Chemical prime product sales		
United States	10,703	10,369
Non-U.S.	16,647	16,408
Total	27,350	26,777

(1) Gas converted to oil-equivalent at 6 million cubic feet = 1 thousand barrels.

(2) Petroleum product sales data is reported net of purchases/sales contracts with the same counterparty.

Table of Contents**Index to Financial Statements****FINANCIAL SUMMARY**

	2006	2005	2004	2003	2002
	<i>(millions of dollars, except per share amounts)</i>				
Sales and other operating revenue (1) (2)	\$ 365,467	\$ 358,955	\$ 291,252	\$ 237,054	\$ 200,949
Earnings					
Upstream	\$ 26,230	\$ 24,349	\$ 16,675	\$ 14,502	\$ 9,598
Downstream	8,454	7,992	5,706	3,516	1,300
Chemical	4,382	3,943	3,428	1,432	830
Corporate and financing	434	(154)	(479)	1,510	(442)
Merger-related expenses					(275)
Income from continuing operations	\$ 39,500	\$ 36,130	\$ 25,330	\$ 20,960	\$ 11,011
Discontinued operations					449
Accounting change				550	
Net income	\$ 39,500	\$ 36,130	\$ 25,330	\$ 21,510	\$ 11,460
Net income per common share					
Income from continuing operations	\$ 6.68	\$ 5.76	\$ 3.91	\$ 3.16	\$ 1.62
Net income per common share assuming dilution					
Income from continuing operations	\$ 6.62	\$ 5.71	\$ 3.89	\$ 3.15	\$ 1.61
Discontinued operations, net of income tax					0.07
Cumulative effect of accounting change, net of income tax				0.08	
Net income	\$ 6.62	\$ 5.71	\$ 3.89	\$ 3.23	\$ 1.68
Cash dividends per common share	\$ 1.28	\$ 1.14	\$ 1.06	\$ 0.98	\$ 0.92
Net income to average shareholders' equity (percent)	35.1	33.9	26.4	26.2	15.5
Working capital	\$ 26,960	\$ 27,035	\$ 17,396	\$ 7,574	\$ 5,116
Ratio of current assets to current liabilities	1.55	1.58	1.40	1.20	1.15
Additions to property, plant and equipment	\$ 15,462	\$ 13,839	\$ 11,986	\$ 12,859	\$ 11,437
Property, plant and equipment, less allowances	\$ 113,687	\$ 107,010	\$ 108,639	\$ 104,965	\$ 94,940
Total assets	\$ 219,015	\$ 208,335	\$ 195,256	\$ 174,278	\$ 152,644
Exploration expenses, including dry holes	\$ 1,181	\$ 964	\$ 1,098	\$ 1,010	\$ 920
Research and development costs	\$ 733	\$ 712	\$ 649	\$ 618	\$ 631
Long-term debt	\$ 6,645	\$ 6,220	\$ 5,013	\$ 4,756	\$ 6,655
Total debt	\$ 8,347	\$ 7,991	\$ 8,293	\$ 9,545	\$ 10,748
Fixed-charge coverage ratio (times)	46.3	50.2	36.1	30.8	13.8
Debt to capital (percent)	6.6	6.5	7.3	9.3	12.2
Net debt to capital (percent) (3)	(20.4)	(22.0)	(10.7)	(1.2)	4.4
Shareholders' equity at year end	\$ 113,844	\$ 111,186	\$ 101,756	\$ 89,915	\$ 74,597
Shareholders' equity per common share	\$ 19.87	\$ 18.13	\$ 15.90	\$ 13.69	\$ 11.13
Weighted average number of common shares outstanding (millions)	5,913	6,266	6,482	6,634	6,753

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Number of regular employees at year end (thousands) (4)	82.1	83.7	85.9	88.3	92.5
CORS employees not included above (thousands) (5)	24.3	22.4	19.3	17.4	16.8

- (1) Sales and other operating revenue includes sales-based taxes of \$30,381 million for 2006, \$30,742 million for 2005, \$27,263 million for 2004, \$23,855 million for 2003 and \$22,040 million for 2002.
- (2) Sales and other operating revenue includes \$30,810 million for 2005, \$25,289 million for 2004, \$20,936 million for 2003 and \$18,150 million for 2002 for purchases/sales contracts with the same counterparty. Associated costs were included in Crude oil and product purchases. Effective January 1, 2006, these purchases/sales were recorded on a net basis with no resulting impact on net income. See note 1, Summary of Accounting Policies.
- (3) Debt net of cash, excluding restricted cash. The ratio of net debt to capital including restricted cash is (26.3) percent for 2006.
- (4) Regular employees are defined as active executive, management, professional, technical and wage employees who work full time or part time for the Corporation and are covered by the Corporation's benefit plans and programs.
- (5) CORS employees are employees of company-operated retail sites.

Table of Contents**Index to Financial Statements****FREQUENTLY USED TERMS**

Listed below are definitions of several of ExxonMobil's key business and financial performance measures. These definitions are provided to facilitate understanding of the terms and their calculation.

CASH FLOW FROM OPERATIONS AND ASSET SALES

Cash flow from operations and asset sales is the sum of the net cash provided by operating activities and proceeds from sales of subsidiaries, investments and property, plant and equipment from the Consolidated Statement of Cash Flows. This cash flow is the total sources of cash from both operating the Corporation's assets and from the divesting of assets. The Corporation employs a long-standing and regular disciplined review process to ensure that all assets are contributing to the Corporation's strategic and financial objectives. Assets are divested when they are no longer meeting these objectives or are worth considerably more to others. Because of the regular nature of this activity, we believe it is useful for investors to consider sales proceeds together with cash provided by operating activities when evaluating cash available for investment in the business and financing activities, including shareholder distributions.

Cash flow from operations and asset sales	2006	2005	2004
	<i>(millions of dollars)</i>		
Net cash provided by operating activities	\$ 49,286	\$ 48,138	\$ 40,551
Sales of subsidiaries, investments and property, plant and equipment	3,080	6,036	2,754
Cash flow from operations and asset sales	\$ 52,366	\$ 54,174	\$ 43,305

CAPITAL EMPLOYED

Capital employed is a measure of net investment. When viewed from the perspective of how the capital is used by the businesses, it includes ExxonMobil's net share of property, plant and equipment and other assets less liabilities, excluding both short-term and long-term debt. When viewed from the perspective of the sources of capital employed in total for the Corporation, it includes ExxonMobil's share of total debt and shareholders' equity. Both of these views include ExxonMobil's share of amounts applicable to equity companies, which the Corporation believes should be included to provide a more comprehensive measure of capital employed.

Capital employed	2006	2005	2004
	<i>(millions of dollars)</i>		
Business uses: asset and liability perspective			
Total assets	\$ 219,015	\$ 208,335	\$ 195,256
Less liabilities and minority share of assets and liabilities			
Total current liabilities excluding notes and loans payable	(47,115)	(44,536)	(39,701)
Total long-term liabilities excluding long-term debt and equity of minority and preferred shareholders in affiliated companies	(45,905)	(41,095)	(41,554)
Minority share of assets and liabilities	(4,948)	(4,863)	(5,285)
Add ExxonMobil share of debt-financed equity company net assets	2,808	3,450	3,914
Total capital employed	\$ 123,855	\$ 121,291	\$ 112,630
Total corporate sources: debt and equity perspective			
Notes and loans payable	\$ 1,702	\$ 1,771	\$ 3,280

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Long-term debt	6,645	6,220	5,013
Shareholders' equity	113,844	111,186	101,756
Less minority share of total debt	(1,144)	(1,336)	(1,333)
Add ExxonMobil share of equity company debt	2,808	3,450	3,914
	<u> </u>	<u> </u>	<u> </u>
Total capital employed	\$ 123,855	\$ 121,291	\$ 112,630
	<u> </u>	<u> </u>	<u> </u>

Table of Contents**Index to Financial Statements****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 ExxonMobil'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 to make investment decisions.

Return on average capital employed	2006	2005	2004
	<i>(millions of dollars)</i>		
Net income	\$ 39,500	\$ 36,130	\$ 25,330
Financing costs (after tax)			
Third-party debt	44	(1)	(137)
ExxonMobil share of equity companies	(156)	(144)	(185)
All other financing costs - net	191	(295)	54
Total financing costs	79	(440)	(268)
Earnings excluding financing costs	\$ 39,421	\$ 36,570	\$ 25,598
Average capital employed	\$ 122,573	\$ 116,961	\$ 107,339
Return on average capital employed - corporate total	32.2%	31.3%	23.8%

Table of Contents**Index to Financial Statements****QUARTERLY INFORMATION**

	2006					2005				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Volumes										
	<i>(thousands of barrels daily)</i>									
Production of crude oil and natural gas liquids	2,698	2,702	2,647	2,678	2,681	2,544	2,468	2,451	2,629	2,523
Refinery throughput	5,548	5,407	5,756	5,698	5,603	5,749	5,727	5,764	5,652	5,723
Petroleum product sales (1)	7,177	7,060	7,302	7,447	7,247	7,494	7,510	7,477	7,592	7,519
	<i>(millions of cubic feet daily)</i>									
Natural gas production available for sale	11,175	8,754	8,139	9,301	9,334	10,785	8,709	7,716	9,822	9,251
	<i>(thousands of oil-equivalent barrels daily)</i>									
Oil-equivalent production (2)	4,560	4,161	4,004	4,228	4,237	4,341	3,919	3,737	4,266	4,065
	<i>(thousands of metric tons)</i>									
Chemical prime product sales	6,916	6,855	6,752	6,827	27,350	6,938	6,592	6,955	6,292	26,777
Summarized financial data										
	<i>(millions of dollars)</i>									
Sales and other operating revenue (3) (4)	\$ 86,317	96,024	96,268	86,858	365,467	\$ 79,475	86,622	96,731	96,127	358,955
Gross profit (5)	\$ 33,428	37,668	37,117	33,764	141,977	\$ 31,525	32,962	35,336	36,841	136,664
Net income	\$ 8,400	10,360	10,490	10,250	39,500	\$ 7,860	7,640	9,920	10,710	36,130
Per share data										
	<i>(dollars per share)</i>									
Net income per common share	\$ 1.38	1.74	1.79	1.77	6.68	\$ 1.23	1.21	1.60	1.72	5.76
Net income per common share assuming dilution	\$ 1.37	1.72	1.77	1.76	6.62	\$ 1.22	1.20	1.58	1.71	5.71
Dividends per common share	\$ 0.32	0.32	0.32	0.32	1.28	\$ 0.27	0.29	0.29	0.29	1.14
Common stock prices										
High	\$ 63.96	65.00	71.22	79.00	79.00	\$ 64.37	61.74	65.96	63.89	65.96
Low	\$ 56.42	56.64	61.63	64.84	56.42	\$ 49.25	52.78	57.60	54.50	49.25

(1) Petroleum product sales data is reported net of purchases/sales contracts with the same counterparty.

(2) Gas converted to oil-equivalent at 6 million cubic feet = 1 thousand barrels.

(3) 2005 Sales and other operating revenue includes amounts for purchases/sales with the same counterparty. Associated costs were included in Crude oil and product purchases. Effective January 1, 2006, these purchases/sales were recorded on a net basis with no resulting impact on net income. See note 1, Summary of Accounting Policies.

(4) Includes amounts for sales-based taxes.

(5) Gross profit equals sales and other operating revenue less estimated costs associated with products sold.

The price range of ExxonMobil common stock is as reported on the composite tape of the several U.S. exchanges where ExxonMobil common stock is traded. The principal market where ExxonMobil common stock (XOM) is traded is the New York Stock Exchange, although the stock is traded on other exchanges in and outside the United States.

There were 591,226 registered shareholders of ExxonMobil common stock at December 31, 2006. At January 31, 2007, the registered shareholders of ExxonMobil common stock numbered 589,553.

On January 31, 2007, the Corporation declared a \$0.32 dividend per common share, payable March 9, 2007.

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FUNCTIONAL EARNINGS	2006	2005	2004
	<i>(millions of dollars, except per share amounts)</i>		
Net income (U.S. GAAP)			
Upstream			
United States	\$ 5,168	\$ 6,200	\$ 4,948
Non-U.S.	21,062	18,149	11,727
Downstream			
United States	4,250	3,911	2,186
Non-U.S.	4,204	4,081	3,520
Chemical			
United States	1,360	1,186	1,020
Non-U.S.	3,022	2,757	2,408
Corporate and financing	434	(154)	(479)
Net income	\$ 39,500	\$ 36,130	\$ 25,330
Net income per common share	\$ 6.68	\$ 5.76	\$ 3.91
Net income per common share assuming dilution	\$ 6.62	\$ 5.71	\$ 3.89
Special items included in net income			
Non-U.S. Upstream			
Gain on Dutch gas restructuring	\$	\$ 1,620	\$
U.S. Downstream			
Allapattah lawsuit provision	\$	\$ (200)	\$ (550)
Non-U.S. Downstream			
Sale of Sinopec shares	\$	\$ 310	\$
Non-U.S. Chemical			
Sale of Sinopec shares	\$	\$ 150	\$
Joint venture litigation	\$	\$ 390	\$
Corporate and financing			
Tax-related benefit	\$ 410	\$	\$

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Statements in this discussion regarding expectations, plans and future events or conditions are forward-looking statements. Actual future results, including demand growth and energy source mix; capacity increases; production growth and mix; financing sources; the resolution of contingencies; the effect of changes in prices; interest rates and other market conditions; and environmental and capital expenditures could differ materially depending on a number of factors, such as the outcome of commercial negotiations; changes in the supply of and demand for crude oil, natural gas, and petroleum and petrochemical products; and other factors discussed herein and in Item 1A of ExxonMobil's 2006 Form 10-K.

OVERVIEW

The following discussion and analysis of ExxonMobil's financial results, as well as the accompanying financial statements and related notes to consolidated financial statements to which they refer, are the responsibility of the management of Exxon Mobil Corporation. The Corporation's accounting and financial reporting fairly reflect its straightforward business model involving the extracting, manufacturing and marketing of hydrocarbons and hydrocarbon-based products. The Corporation's business model involves the production (or purchase), manufacture and sale of physical products, and all commercial activities are directly in support of the underlying physical movement of goods. Our consistent, conservative approach to financing the capital-intensive needs of the Corporation has helped ExxonMobil to sustain the triple-A status of its long-term debt securities for 88 years.

ExxonMobil, with its resource base, financial strength, disciplined investment approach and technology portfolio, is well-positioned to participate in substantial investments to develop new energy supplies. While commodity prices are volatile on a short-term basis and depend on supply and demand, ExxonMobil's investment decisions are based on our long-term outlook, using a disciplined approach in selecting and pursuing the most attractive investment opportunities. The corporate plan is a fundamental annual management process that is the basis for setting risk-assessed near-term operating and capital objectives in addition to providing the longer-term economic assumptions used for investment evaluation purposes. Volumes are based on individual field production profiles, which are also updated annually. Prices for crude oil, natural gas and refined products are based on corporate plan assumptions developed annually by major region and used for investment evaluation purposes. Potential investment opportunities are tested over a wide range of economic scenarios to establish the resiliency of each opportunity. Once investments are made, a reappraisal process is completed to ensure relevant lessons are learned and improvements are incorporated into future projects. ExxonMobil views return on capital employed as the best measure of capital productivity.

BUSINESS ENVIRONMENT AND RISK ASSESSMENT

Long-Term Business Outlook

By 2030, the world's population is expected to grow to 8 billion, approximately 25 percent higher than today's level. Coincident with this population increase, the Corporation expects worldwide economic growth to average just under 3 percent per year. This combination of population and economic growth should lead to a primary energy demand increase of approximately 60 percent by 2030 versus 2000. The vast majority (~80 percent) of the increase is expected to occur in developing countries.

As demand rises, energy efficiency will become increasingly important, with the pace of improvement likely to accelerate. This accelerated pace will probably result from expected improvements in personal transportation and power generation driven by the introduction of new technologies, as well as many other improvements that span the residential, commercial and industrial sectors. Oil, gas and coal are expected to remain the predominant energy sources with approximately 80 percent share of total energy. Oil and gas are expected to maintain close to a 60 percent share. These well-established fuel sources are the only ones with the versatility and scale to meet the majority of the world's growing energy needs. Nuclear power will likely be a growing option to meet electricity needs. Alternative fuels, such as solar and wind power, will grow rapidly, underpinned by government subsidies and mandates. But even with assumptions of robust 10 percent average annual growth, solar and wind are expected to represent just 1 percent of the total energy portfolio by 2030.

Demand for liquid fuels is expected to grow at 1.4 percent per year, primarily due to increasing transportation requirements, especially related to light- and heavy-duty vehicles. The global fleet of light-duty vehicles will increase significantly, with related demand partly offset by improvements in fuel economy. Natural gas and coal are expected to grow at 1.7 and 1.6 percent per year, respectively, driven by increased need for electric power generation. The Corporation expects the liquefied natural gas (LNG) market to increase nearly fourfold by 2030, with LNG imports helping to meet growing demand in Europe, North America and Asia. With equity positions in many of the largest remote gas

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accumulations in the world, the Corporation is positioned to benefit from its technological advances in gas liquefaction, transportation and regasification that enable distant gas supplies to reach markets economically.

The Corporation expects the world's oil and gas resource base to grow not only from new discoveries, but also from increases to known reserves. Technology will underpin these increases. The cost to develop these resources will be significant. According to the International Energy Agency, the investment required to meet total oil and gas energy needs worldwide through 2030 will be about \$300 billion per year, or \$8 trillion (measured in 2005 dollars) in total for 2005-2030.

Upstream

ExxonMobil continues to maintain a large portfolio of development and exploration opportunities, which enables the Corporation to be selective, optimizing total profitability and mitigating overall political and technical risks. As future development projects bring new production online, the Corporation expects a shift in the geographic mix of its production volumes between now and 2011. Oil and natural gas output from West Africa, the Caspian, the Middle East and Russia is expected to increase over the next five years based on current capital project execution plans. Currently, these growth areas account for 35 percent of the Corporation's production. By 2011, they are expected to generate about 50 percent of total volumes. The remainder of the Corporation's production is expected to be sourced from established areas, including Europe and North America.

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In addition to a changing geographic mix, there will also be a change in the type of opportunities from which volumes are produced. Nonconventional production utilizing specialized technology such as arctic technology, deepwater drilling and production systems, heavy oil recovery processes and LNG is expected to grow from about 30 to 40 percent of the Corporation's output between now and 2011. The Corporation's overall volume capacity outlook, based on projects coming onstream as anticipated, is for production capacity to grow over the period 2007-2011. However, actual volumes will vary from year to year due to timing of individual project start-ups, operational outages, reservoir performance, regulatory changes, asset sales, weather events, price effects under production sharing contracts and other factors described in Item 1A of ExxonMobil's 2006 Form 10-K.

Downstream

The downstream industry environment remains very competitive. While refining margins in 2006 were strong, our long-term real inflation-adjusted refining margins have declined at a rate of about 1 percent per year over the past 20 years. The intense competition in the retail fuels market has similarly driven down real margins by about 4 percent per year. Global refining capacity is expected to grow at about 1 to 2 percent per year through 2010 with Asia Pacific expected to grow at more than 3 percent per year. ExxonMobil assets are well-positioned to supply the growing demand for petroleum products and our continuous focus on making our refineries more efficient and productive has resulted in significant capacity increases to help meet growing demand at a fraction of the cost of building a new refinery. Our capacity growth rate over the past 10 years at existing facilities has been the equivalent of building a new average-size refinery every three years.

Refining margins are a function of the difference between what a refinery pays for its raw materials (primarily crude oil) and the market prices for the range of products produced (primarily gasoline, heating oil, jet fuel and fuel oil). Crude oil and many products are widely traded with published prices, including those quoted on multiple exchanges around the world (e.g., New York Mercantile Exchange and International Petroleum Exchange). Prices for these commodities (crude and various products) are determined by the global marketplace and are impacted by many factors, including global and regional supply/demand balances, inventory levels, refinery operations, import/export balances, seasonality and weather and political climate.

The objectives of ExxonMobil's Downstream strategies are to position the Corporation to be the industry leader under a variety of market conditions. These strategies include maintaining best-in-class operations in all aspects of the business, maximizing value from leading-edge technology, capitalizing on integration with other ExxonMobil businesses, and providing high-quality, valued products and services to the Corporation's customers. ExxonMobil has an ownership interest in 40 refineries, located in 20 countries, with distillation capacity of 6.4 million barrels per day and lubricant basestock manufacturing capacity of about 150 thousand barrels per day. ExxonMobil's fuels and lubes marketing business portfolios include operations around the world, serving a globally diverse customer base. World-class scale and integration, industry-leading efficiency, leading-edge technology and respected brands enable ExxonMobil to take advantage of attractive emerging-growth opportunities around the globe.

Chemical

The strength of the global economy supported strong demand growth for petrochemicals in 2006. Strong economic and industrial production growth fueled increased demand in Asia Pacific, particularly China. North America recovered from the supply disruptions created by hurricanes Katrina and Rita, while European growth was moderate, similar to that of GDP. Overall global supply/demand balances tightened, supporting higher prices and margins despite higher feedstock costs.

ExxonMobil benefited from continued operational excellence, as well as a portfolio of products that includes many of the largest-volume and highest-growth petrochemicals in the global economy. In addition to being a worldwide supplier of primary petrochemical products, ExxonMobil Chemical also has a diverse portfolio of less-cyclical business lines. Chemical's competitive advantages are achieved through its business mix, broad geographic coverage, investment discipline, integration of chemical capacity with large refining complexes or Upstream gas processing, advantaged feedstock capabilities, leading proprietary technology and product application expertise.

REVIEW OF 2006 AND 2005 RESULTS

2006	2005	2004
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	<i>(millions of dollars)</i>		
Net income (U.S. GAAP)	\$ 39,500	\$ 36,130	\$ 25,330
2006			

Net income in 2006 of \$39,500 million was the highest ever for the Corporation, up \$3,370 million from 2005. Net income for 2006 included a \$410 million gain from the recognition of tax benefits related to historical investments in non-U.S. assets.

Total assets at December 31, 2006, of \$219 billion increased by approximately \$11 billion from 2005, reflecting strong earnings and the Corporation's active investment program, particularly in the Upstream.

2005

Net income in 2005 of \$36,130 million was 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. Net income in 2004 included a special charge of \$550 million relating to Allapattah.

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.

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	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>(millions of dollars)</i>		
Upstream			
United States	\$ 5,168	\$ 6,200	\$ 4,948
Non-U.S.	21,062	18,149	11,727
Total	\$ 26,230	\$ 24,349	\$ 16,675

2006

Upstream earnings for 2006 totaled \$26,230 million, an increase of \$1,881 million from 2005, including a \$1,620 million gain related to the Dutch gas restructuring in 2005. Higher liquids and natural gas realizations were partly offset by higher operating expenses. Oil-equivalent production increased 4 percent versus 2005, including the impact of divestment and entitlement effects. Excluding these impacts, total oil-equivalent production increased by 7 percent. Liquids production of 2,681 kbd (thousands of barrels per day) increased by 158 kbd from 2005. Production increases from new projects in West Africa and increased Abu Dhabi volumes were partly offset by mature field decline, entitlement effects and divestment impacts. Natural gas production of 9,334 mcf (millions of cubic feet per day) increased 83 mcf from 2005. Higher volumes from projects in Qatar were partly offset by mature field decline. Earnings from U.S. Upstream operations for 2006 were \$5,168 million, a decrease of \$1,032 million. Earnings outside the U.S. for 2006 were \$21,062 million, an increase of \$2,913 million, including a \$1,620 million gain related to the Dutch gas restructuring in 2005.

2005

Upstream earnings totaled \$24,349 million, including \$1,620 million from a gain related to the Dutch gas restructuring. Absent this, Upstream earnings increased \$6,054 million from 2004 due to higher liquids and natural gas realizations, partly offset by lower production volumes. Oil-equivalent production was down 4 percent versus 2004 including the impact of hurricanes Katrina and Rita, as well as divestment and entitlement effects. Excluding these impacts, total oil-equivalent production decreased by 1 percent. Liquids production of 2,523 kbd decreased by 48 kbd from 2004. Production increases from new projects in West Africa, the North Sea and North America were offset by natural field decline in mature areas, the impact of hurricanes Katrina and Rita, as well as divestment and entitlement effects. Natural gas production of 9,251 mcf decreased 613 mcf from 2004. Higher volumes from projects in Qatar, the North Sea and North America were offset by mature field decline, the impact of hurricanes Katrina and Rita, maintenance activity, lower European demand, as well as entitlement and divestment impacts. Improved earnings from both U.S. and non-U.S. Upstream operations were driven by higher liquids and natural gas realizations, partly offset by lower production volumes. Earnings from U.S. Upstream operations for 2005 were \$6,200 million, an increase of \$1,252 million. Earnings outside the U.S. for 2005, including the \$1,620 million gain related to the Dutch gas restructuring, were \$18,149 million, an increase of \$6,422 million.

Downstream

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>(millions of dollars)</i>		
Downstream			
United States	\$ 4,250	\$ 3,911	\$ 2,186
Non-U.S.	4,204	4,081	3,520

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Total	\$ 8,454	\$ 7,992	\$ 5,706
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2006

Downstream earnings totaled \$8,454 million, an increase of \$462 million from 2005 including a \$310 million gain for the 2005 Sinopec share sale and a special charge of \$200 million related to the 2005 Allapattah lawsuit provision. Stronger worldwide refining and marketing margins were partly offset by lower refining throughput. Petroleum product sales of 7,247 kbd decreased from 7,519 kbd in 2005, primarily due to lower refining throughput and divestment impacts. Refinery throughput was 5,603 kbd compared with 5,723 kbd in 2005. U.S. Downstream earnings of \$4,250 million increased by \$339 million, including a 2005 special charge related to the Allapattah lawsuit provision. Non-U.S. Downstream earnings of \$4,204 million were \$123 million higher than 2005 earnings which included a gain for the Sinopec share sale.

2005

Downstream earnings totaled \$7,992 million, including a gain of \$310 million for the Sinopec share sale and a special charge of \$200 million relating to the Allapattah lawsuit provision. Downstream earnings for 2004 also included a charge of \$550 million for Allapattah. Absent these, Downstream earnings increased \$1,626 million from 2004, reflecting stronger worldwide refining margins partly offset by weaker marketing margins. Petroleum product sales (net) of 7,519 kbd increased from 7,511 kbd in 2004. Refinery throughput was 5,723 kbd compared with 5,713 kbd in 2004. U.S. Downstream earnings of \$3,911 million increased by \$1,725 million, including the charges in both years related to Allapattah. Non-U.S. Downstream earnings of \$4,081 million, including a gain for the Sinopec share sale, were \$561 million higher than 2004.

Chemical

	2006	2005	2004
	<i>(millions of dollars)</i>		
Chemical			
United States	\$ 1,360	\$ 1,186	\$ 1,020
Non-U.S.	3,022	2,757	2,408
Total	\$ 4,382	\$ 3,943	\$ 3,428

2006

Chemical earnings totaled \$4,382 million, an increase of \$439 million from 2005, including a \$390 million gain from the favorable resolution of joint venture litigation in 2005 and a \$150 million gain for the 2005 Sinopec share sale. Increased 2006 earnings were driven by higher margins and increased sales volumes. Prime product sales were 27,350 kt (thousands of metric tons), an increase of 573 kt. Prime product sales are total chemical product sales including ExxonMobil's share of equity-company volumes and finished-product transfers to the Downstream business. Carbon black oil and sulfur volumes are excluded. U.S. Chemical earnings of \$1,360 million increased by \$174 million. Non-U.S. Chemical earnings of \$3,022 million were \$265 million

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higher than 2005 earnings, which included gains from the favorable resolution of joint venture litigation and the Sinopec share sale.

2005

Chemical earnings totaled \$3,943 million, including a \$390 million gain from the favorable resolution of joint venture litigation and \$150 million from a gain on the Sinopec share sale. Absent these, Chemical earnings decreased \$25 million from 2004 due to lower volumes, partly offset by higher worldwide margins. Prime product sales were 26,777 kt, a decrease of 1,011 kt from 2004, largely reflecting the impact of hurricanes Katrina and Rita. U.S. Chemical earnings of \$1,186 million increased by \$166 million. Non-U.S. Chemical earnings increased by \$349 million to \$2,757 million, including the impact of the gain from the resolution of the joint venture litigation of \$390 million and a gain of \$150 million on the Sinopec share sale.

Corporate and Financing

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>(millions of dollars)</i>		
Corporate and financing	\$ 434	\$ (154)	\$ (479)

2006

The corporate and financing segment contributed \$434 million to earnings in 2006, up \$588 million from 2005, primarily due to a \$410 million gain from tax benefits related to historical investments in non-U.S. assets and higher interest income.

2005

Corporate and financing expenses were \$154 million compared with \$479 million in 2004. The decrease of \$325 million is mainly due to higher interest income.

LIQUIDITY AND CAPITAL RESOURCES**Sources and Uses of Cash**

	<u>2006</u>	<u>2005</u>
	<i>(millions of dollars)</i>	
Net cash provided by/(used in)		
Operating activities	\$ 49,286	\$ 48,138
Investing activities	(14,230)	(10,270)
Financing activities	(36,210)	(26,941)
Effect of exchange rate changes	727	(787)
Increase/(decrease) in cash and cash equivalents	\$ (427)	\$ 10,140
	<i>(Dec. 31)</i>	
Cash and cash equivalents	\$ 28,244	\$ 28,671
Cash and cash equivalents restricted	4,604	4,604
Total cash and cash equivalents	\$ 32,848	\$ 33,275

Cash and cash equivalents were \$28,244 million at the end of 2006, comparable to the prior year, as a net reduction from operating, investing and financing activities was partly offset by \$727 million of positive foreign exchange effects from the general weakening of the U.S. dollar in 2006. Including restricted cash and cash equivalents of \$4,604 million (see note 3 and note 15), total cash and cash equivalents were \$32,848 million at the end of 2006. Cash and cash equivalents were \$28,671 million at the end of 2005, an increase of \$10,140 million from 2004, including \$787 million of negative foreign exchange rate effects from the general strengthening of the U.S. dollar in 2005. Including restricted cash and cash equivalents of \$4,604 million, total cash and cash equivalents were \$33,275 million at the end of 2005. Cash flows from operating, investing and financing activities are discussed below. For additional details, see the Consolidated Statement of Cash Flows.

Although the Corporation issues long-term debt from time to time and maintains a revolving commercial paper program, internally generated funds cover the majority of its financial requirements. The management of cash that may be temporarily available as surplus to the Corporation's immediate needs is carefully controlled, both to optimize returns on cash balances, and to ensure that it is secure and readily available to meet the Corporation's cash requirements as they arise.

The Corporation will need to continually find and develop new fields, and continue to develop and apply new technologies and recovery processes to existing fields, in order to maintain or increase production and resulting cash flows in future periods. After a period of production at plateau rates, it is the nature of oil and gas fields eventually to produce at declining rates for the remainder of their economic life. Averaged over all our existing oil and gas fields and without new projects, ExxonMobil's entitlement production is expected to decline at approximately six percent per year through the end of the decade, consistent with recent historical performance. Decline rates can vary widely by individual field due to a number of factors, including, but not limited to, the type of reservoir, fluid properties, recovery mechanisms, and age of the field. Furthermore, the Corporation's production entitlements for individual fields can vary with price and contractual terms.

The Corporation has long been successful at offsetting the effects of natural field decline through disciplined investments and anticipates similar results in the future. Projects are in progress or planned to increase production capacity. However, these volume increases are subject to a variety of risks including project start-up timing, operational outages, reservoir performance, crude oil and natural gas prices, weather events, and regulatory changes. The Corporation's cash flows are also highly dependent on crude oil and natural gas prices.

The Corporation's financial strength, as evidenced by its AAA/Aaa debt rating, enables it to make large, long-term capital expenditures. Capital and exploration expenditures in 2006 were \$19.9 billion, reflecting the Corporation's continued active investment program. The Corporation expects spending to continue in this range for the next several years, although actual spending could vary depending on progress of individual projects. The Corporation has a large and diverse portfolio of development projects and exploration opportunities, which helps mitigate the overall political and technical risks of the Corporation's Upstream segment and associated cash flow. Further, due to its financial strength, debt capacity and diverse portfolio of opportunities, the risk associated with failure or delay of any single project would not have a significant impact on the Corporation's liquidity or ability to generate sufficient cash flows for operations and its fixed commitments. The purchase and sale of oil and gas properties have not had a significant impact on the amount or timing of cash flows from operating activities.

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Cash provided by operating activities totaled \$49.3 billion in 2006, a \$1.1 billion increase from 2005. The major source of funds was net income of \$39.5 billion, adjusted for the noncash provision of \$11.4 billion for depreciation and depletion, both of which increased. The net timing effects of receipts of notes and accounts receivable, payments of accounts and other payables and contributions to pension funds in 2006 provided a partial offset.

2005

Cash provided by operating activities totaled \$48.1 billion in 2005, a \$7.6 billion increase from 2004. The major source of funds was net income of \$36.1 billion, which increased \$10.8 billion. The adjustment for the noncash provision for depreciation and depletion was \$10.3 billion. Contributing to the increased level of cash provided by operating activities in 2005 was the net timing effects of receipts of notes and accounts receivable and payments of accounts and other payables in a rising price environment.

Cash Flow from Investing Activities**2006**

Cash used in investing activities totaled \$14.2 billion in 2006, \$4.0 billion higher than 2005. Spending for property, plant and equipment increased \$1.6 billion. Proceeds from the sales of subsidiaries, investments and property, plant and equipment of \$3.1 billion in 2006 decreased \$3.0 billion, reflecting a lower level of asset sales and the absence of almost \$1.4 billion from the sale of the Corporation's interest in Sinopec in 2005.

2005

Cash used in investing activities totaled \$10.3 billion in 2005, \$4.6 billion lower than 2004. In 2004, the Corporation pledged \$4.6 billion as bond collateral for a litigation appeal. Spending for property, plant and equipment increased \$1.9 billion. Proceeds from the sales of subsidiaries, investments and property, plant and equipment of \$6.0 billion in 2005 increased \$3.3 billion, including almost \$1.4 billion from the sale of the Corporation's interest in Sinopec.

Cash Flow from Financing Activities**2006**

Cash used in financing activities was \$36.2 billion, an increase of \$9.3 billion from 2005, reflecting a higher level of purchases of ExxonMobil shares. Dividend payments on common shares increased to \$1.28 per share from \$1.14 per share and totaled \$7.6 billion, a payout of 19 percent. Total consolidated short-term and long-term debt increased \$0.3 billion to \$8.3 billion at year-end 2006.

Shareholders' equity increased \$2.7 billion in 2006, to \$113.8 billion, reflecting \$39.5 billion of net income reduced by distributions to ExxonMobil shareholders of \$7.6 billion of dividends and \$25.0 billion of purchases of shares of ExxonMobil stock to reduce shares outstanding. Shareholders' equity, and net assets and liabilities, increased \$2.8 billion, representing the foreign exchange translation effects of stronger foreign currencies at the end of 2006 on ExxonMobil's operations outside the United States. Recognition of the Postretirement benefits reserves adjustment under Financial Accounting Standard No. 158 (see note 2) reduced shareholders' equity by \$6.5 billion.

During 2006, Exxon Mobil Corporation purchased 451 million shares of its common stock for the treasury at a gross cost of \$29.6 billion. These purchases were to reduce the number of shares outstanding and to offset shares issued in conjunction with company benefit plans and programs. Shares outstanding were reduced by 6.6 percent from 6,133 million at the end of 2005 to 5,729 million at the end of 2006. Purchases were made in both the open market and through negotiated transactions. Purchases may be increased, decreased or discontinued at any time without prior notice.

2005

Cash used in financing activities was \$26.9 billion, an increase of \$8.7 billion from 2004, reflecting a higher level of purchases of ExxonMobil shares. Dividend payments on common shares increased to \$1.14 per share from \$1.06 per share and totaled \$7.2 billion, a payout of 20 percent. Total consolidated short-term and long-term debt declined \$0.3 billion to \$8.0 billion at year-end 2005.

Shareholders' equity increased \$9.5 billion in 2005, to \$111.2 billion, reflecting \$36.1 billion of net income partly offset by distributions to ExxonMobil shareholders of \$7.2 billion of dividends and \$16.0 billion of purchases of shares of ExxonMobil stock to reduce shares outstanding. Shareholders' equity, and net assets and liabilities, decreased \$2.6 billion, representing the foreign exchange translation effects of weaker foreign currencies at the end of 2005 on ExxonMobil's operations outside the United States.

During 2005, Exxon Mobil Corporation purchased 311 million shares of its common stock for the treasury at a gross cost of \$18.2 billion. These purchases were to reduce the number of shares outstanding and to offset shares issued in conjunction with company benefit plans and programs. Shares outstanding were reduced by 4.2 percent from 6,401 million at the end of 2004 to 6,133 million at the end of 2005. Purchases were made in both the open market and through negotiated transactions.

Table of Contents**Index to Financial Statements****Commitments**

Set forth below is information about the outstanding commitments of the Corporation's consolidated subsidiaries at December 31, 2006. It combines data from the Consolidated Balance Sheet and from individual notes to the Consolidated Financial Statements.

Commitments	Note Reference Number	Payments Due by Period			Total
		2007	2008- 2011	2012 and Beyond	
		<i>(millions of dollars)</i>			
Long-term debt (1)	13	\$	\$ 684	\$ 5,961	\$ 6,645
Due in one year (2)			459		459
Asset retirement obligations (3)	8		266	1,167	4,703
Pension and other postretirement obligations (4)	16		1,318	3,144	14,464
Operating leases (5)	10		2,252	4,361	8,703
Unconditional purchase obligations (6)	15		587	1,797	3,983
Take-or-pay obligations (7)			780	2,474	5,290
Firm capital commitments (8)			5,024	2,823	9,033

This table excludes commodity purchase obligations (volumetric commitments but no fixed or minimum price) which are resold shortly after purchase, either in an active, highly liquid market or under long-term, unconditional sales contracts with similar pricing terms. Examples include long-term, noncancelable LNG and natural gas purchase commitments and commitments to purchase refinery products at market prices. Inclusion of such commitments would not be meaningful in assessing liquidity and cash flow, because these purchases will be offset in the same periods by cash received from the related sales transactions.

Notes:

- (1) Includes capitalized lease obligations of \$220 million.
- (2) The amount due in one year is included in notes and loans payable of \$1,702 million (note 5).
- (3) The discounted present value of upstream asset retirement obligations, primarily asset removal costs at the completion of field life.
- (4) The amount by which the benefit obligations exceeded the fair value of fund assets for certain U.S. and non-U.S. pension and other postretirement plans at year end. The payments by period include expected contributions to funded pension plans in 2007 and estimated benefit payments for unfunded plans in all years.
- (5) Minimum commitments for operating leases, shown on an undiscounted basis, cover drilling equipment, tankers, service stations and other properties.
- (6) Unconditional purchase obligations (UPOs) are those long-term commitments that are noncancelable and that third parties have used to secure financing for the facilities that will provide the contracted goods or services. The undiscounted obligations of \$3,983 million mainly pertain to pipeline throughput agreements and include \$2,039 million of obligations to equity companies. The present value of the total commitments, excluding imputed interest of \$1,127 million, was \$2,856 million.
- (7) Take-or-pay obligations are noncancelable, long-term commitments for goods and services other than UPOs. The undiscounted obligations of \$5,290 million mainly pertain to pipeline and terminaling agreements and include \$1,847 million of obligations to equity companies. The present value of the total commitments, excluding imputed interest of \$1,118 million, totaled \$4,172 million.
- (8) Firm commitments related to capital projects, shown on an undiscounted basis, totaled approximately \$9.0 billion. These commitments were predominantly associated with Upstream projects outside the U.S., of which \$3.2 billion was associated with LNG projects in Qatar and natural gas projects in Malaysia. The Corporation expects to fund the majority of these projects through internal cash flow.

Guarantees

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The Corporation and certain of its consolidated subsidiaries were contingently liable at December 31, 2006, for \$4,252 million, primarily relating to guarantees for notes, loans and performance under contracts (note 15). Included in this amount were guarantees by consolidated affiliates of \$3,507 million, representing ExxonMobil's share of obligations of certain equity companies. The below-mentioned guarantees are not reasonably likely to have a material effect on the Corporation's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

	Dec. 31, 2006		
	Equity Company Obligations	Other Third-Party Obligations	Total
	<i>(millions of dollars)</i>		
Total guarantees	\$ 3,507	\$ 745	\$ 4,252

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On December 31, 2006, unused credit lines for short-term financing totaled approximately \$5.8 billion (note 5).

The table below shows the Corporation's fixed-charge coverage and consolidated debt-to-capital ratios. The data demonstrate the Corporation's creditworthiness. Throughout this period, the Corporation's long-term debt securities maintained the top credit rating from both Standard and Poor's (AAA) and Moody's (Aaa), a rating it has sustained for 88 years.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Fixed-charge coverage ratio (times)	46.3	50.2	36.1
Debt to capital (percent)	6.6	6.5	7.3
Net debt to capital (percent) (1)	(20.4)	(22.0)	(10.7)
Credit rating	AAA/Aaa	AAA/Aaa	AAA/Aaa

(1) Debt net of cash, excluding restricted cash. The ratio of net debt to capital including restricted cash is (26.3) percent for 2006.

Management views the Corporation's financial strength, as evidenced by the above financial ratios and other similar measures, to be a competitive advantage of strategic importance. The Corporation's sound financial position gives it the opportunity to access the world's capital markets in the full range of market conditions, and enables the Corporation to take on large, long-term capital commitments in the pursuit of maximizing shareholder value.

The Corporation makes limited use of derivative instruments, which are discussed in note 12.

Litigation and Other Contingencies

As discussed in note 15, a number of lawsuits, including class actions, were brought in various courts against Exxon Mobil Corporation and certain of its subsidiaries relating to the accidental release of crude oil from the tanker Exxon Valdez in 1989. All of the compensatory claims have been resolved and paid. All of the punitive damage claims were consolidated in the civil trial that began in 1994. The first judgment from the United States District Court for the District of Alaska in the amount of \$5 billion was vacated by the United States Court of Appeals for the Ninth Circuit as being excessive under the Constitution. The second judgment in the amount of \$4 billion was vacated by the Ninth Circuit panel without argument and sent back for the District Court to reconsider in light of the recent U.S. Supreme Court decision in *Campbell v. State Farm*. The most recent District Court judgment for punitive damages was for \$4.5 billion plus interest and was entered in January 2004. The Corporation posted a \$5.4 billion letter of credit. ExxonMobil and the plaintiffs appealed this decision to the Ninth Circuit, which ruled on December 22, 2006, that the award be reduced to \$2.5 billion. On January 12, 2007, ExxonMobil petitioned the Ninth Circuit Court of Appeals for a rehearing en banc of its appeal. While it is reasonably possible that a liability for punitive damages may have been incurred from the Exxon Valdez grounding, it is not possible to predict the ultimate outcome or to reasonably estimate any such potential liability.

In December 2000, a jury in the 15th Judicial Circuit Court of Montgomery County, Alabama, returned a verdict against the Corporation in a dispute over royalties in the amount of \$88 million in compensatory damages and \$3.4 billion in punitive damages in the case of *Exxon Corporation v. State of Alabama, et al.* The verdict was upheld by the trial court in May 2001. In December 2002, the Alabama Supreme Court vacated the \$3.5 billion jury verdict. The case was retried and in November 2003, a state district court jury in Montgomery, Alabama, returned a verdict against Exxon Mobil Corporation. The verdict included \$63.5 million in compensatory damages and \$11.8 billion in punitive damages. In March 2004, the district court judge reduced the amount of punitive damages to \$3.5 billion. ExxonMobil believes the judgment is not justified by the evidence, that any punitive damage award is not justified by either the facts or the law, and that the amount of the award is grossly excessive and unconstitutional. ExxonMobil has appealed the decision to the Alabama Supreme Court. The Alabama Supreme Court heard oral arguments on February 6, 2007. Management believes that the likelihood of the judgment being upheld is remote. While it is reasonably possible that a liability may have been incurred by ExxonMobil from this dispute over royalties, it is not possible to predict the ultimate outcome or to reasonably estimate any such potential liability. In May 2004, the Corporation posted a \$4.5 billion supersedeas bond as

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required by Alabama law to stay execution of the judgment pending appeal. The Corporation has pledged to the issuer of the bond collateral consisting of cash and short-term, high-quality securities with an aggregate value of approximately \$4.6 billion. This collateral is reported as restricted cash and cash equivalents on the Consolidated Balance Sheet. Under the terms of the pledge agreement, the Corporation is entitled to receive the income generated from the cash and securities and to make investment decisions, but is restricted from using the pledged cash and securities for any other purpose until such time the bond is canceled.

In 2001, a Louisiana state court jury awarded compensatory damages of \$56 million and punitive damages of \$1 billion to a landowner for damage caused by a third party that leased the property from the landowner. The third party provided pipe cleaning and storage services for the Corporation and other entities. The Louisiana Fourth Circuit Court of Appeals reduced the punitive damage award to \$112 million in 2005. The Corporation appealed this decision to the Louisiana Supreme Court which, in March 2006, refused to hear the appeal. ExxonMobil has fully accrued and paid the compensatory and punitive damage awards. The Corporation appealed the punitive damage award to the U.S. Supreme Court, which on February 26, 2007, vacated the judgment and remanded the case to the Louisiana Fourth Circuit Court of Appeals for reconsideration in light of the recent U.S. Supreme Court decision in *Williams v. Phillip Morris USA*.

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In *Allapattah v. Exxon*, a jury in the United States District Court for the Southern District of Florida determined in 2001 that a class of Exxon dealers between March 1983 and August 1994 had been overcharged for gasoline. In June 2003, the Eleventh Circuit Court of Appeals affirmed the judgment and in March 2004, denied a petition for a rehearing en banc. In October 2004, the U.S. Supreme Court granted review as to whether the class in the District Court judgment should include members that individually do not satisfy the \$50,000 minimum amount-in-controversy requirement in federal court. In light of the Supreme Court's decision to grant review of only part of ExxonMobil's appeal, the Corporation took an after-tax charge of \$550 million in the third quarter of 2004 reflecting the estimated liability, after considering potential set-offs and defenses for the claims under review by the Supreme Court. In June 2005, the Supreme Court granted the District Court the right to hear the claims of all class members and the Corporation took an after-tax charge of \$200 million. The District Court has given final approval of a settlement of \$1,075 million, pre-tax. This obligation has been fully accrued and was paid in the second quarter 2006.

Tax issues for 1989 to 1993 remain pending before the U.S. Tax Court. The ultimate resolution of these issues is not expected to have a materially adverse effect upon the Corporation's operations or financial condition.

Based on a consideration of all relevant facts and circumstances, the Corporation does not believe the ultimate outcome of any currently pending lawsuit against ExxonMobil will have a materially adverse effect upon the Corporation's operations or financial condition. There are no events or uncertainties known to management beyond those already included in reported financial information that would indicate a material change in future operating results or financial condition.

CAPITAL AND EXPLORATION EXPENDITURES

	2006		2005	
	U.S.	Non-U.S.	U.S.	Non-U.S.
	<i>(millions of dollars)</i>			
Upstream (1)	\$ 2,486	\$ 13,745	\$ 2,142	\$ 12,328
Downstream	824	1,905	753	1,742
Chemical	280	476	243	411
Other	130	9	80	
Total	\$ 3,720	\$ 16,135	\$ 3,218	\$ 14,481

(1) Exploration expenses included.

Capital and exploration expenditures in 2006 were \$19.9 billion, reflecting the Corporation's continued active investment program. The Corporation expects spending to continue in this range for the next several years. Actual spending could vary depending on the progress of individual projects.

Upstream spending was up 12 percent to \$16.2 billion in 2006, from \$14.5 billion in 2005, as a result of higher spending in growth areas such as Qatar, Abu Dhabi and West Africa. In addition, spending in the United States and the North Sea was also higher. During the past three years, Upstream capital and exploration expenditures averaged \$14.1 billion. The majority of these expenditures are on development projects, which typically take two to four years from the time of recording proved undeveloped reserves to the start of production from those reserves. The percentage of proved developed reserves has remained relatively stable over the past five years at over 60 percent of total proved reserves, indicating that proved reserves are consistently moved from undeveloped to developed status. Capital and exploration expenditures are not tracked by the undeveloped and developed proved reserve categories. Capital investments in the Downstream totaled \$2.7 billion in 2006, up \$0.2 billion from 2005. Chemical capital expenditures were up \$0.1 billion from 2005.

TAXES

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>(millions of dollars)</i>		
Income taxes	\$ 27,902	\$ 23,302	\$ 15,911
Sales-based taxes	30,381	30,742	27,263
All other taxes and duties	42,393	44,571	43,605
	<u> </u>	<u> </u>	<u> </u>
Total	\$ 100,676	\$ 98,615	\$ 86,779
	<u> </u>	<u> </u>	<u> </u>
Effective income tax rate	43%	41%	40%

2006

Income, sales-based and all other taxes and duties totaled \$100.7 billion in 2006, an increase of \$2.1 billion or 2 percent from 2005. Income tax expense, both current and deferred, was \$27.9 billion, \$4.6 billion higher than 2005, reflecting higher pre-tax income in 2006. The effective tax rate was 43 percent in 2006, compared to 41 percent in 2005. During both periods, the Corporation continued to benefit from the favorable resolution of tax-related issues. Sales-based and all other taxes and duties of \$72.8 billion in 2006 decreased \$2.5 billion from 2005, reflecting the tax impact of net reporting of purchases and sales of inventory with the same counterparty, only partly offset by the effects of higher prices.

2005

Income, sales-based and all other taxes and duties totaled \$98.6 billion in 2005, an increase of \$11.8 billion or 14 percent from 2004. Income tax expense, both current and deferred, was \$23.3 billion, \$7.4 billion higher than 2004, reflecting higher pre-tax income in 2005. The effective tax rate was 41 percent in 2005, compared to 40 percent in 2004. During both periods, the Corporation continued to benefit from the favorable resolution of tax-related issues. Sales-based and all other taxes and duties of \$75.3 billion in 2005 increased \$4.4 billion from 2004, reflecting higher prices and foreign exchange effects.

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	<u>2006</u>	<u>2005</u>
	<i>(millions of dollars)</i>	
Capital expenditures	\$ 1,081	\$ 1,240
Other expenditures	2,127	2,089
Total	\$ 3,208	\$ 3,329

Throughout ExxonMobil's businesses, new and ongoing measures are taken to prevent and minimize the impact of our operations on air, water and ground. These include a significant investment in refining infrastructure and technology to manufacture clean fuels as well as projects to reduce nitrogen oxide and sulfur oxide emissions and expenditures for asset retirement obligations. ExxonMobil's 2006 worldwide environmental expenditures for all such preventative and remediation steps, including ExxonMobil's share of equity company expenditures, were about \$3.2 billion. The total cost for such activities is expected to remain in this range in 2007 and 2008 (with capital expenditures approximately 40 percent of the total).

Environmental Liabilities

The Corporation accrues liabilities for environmental liabilities when it is probable that obligations have been incurred and the amounts can be reasonably estimated. This policy applies to assets or businesses currently owned or previously disposed. ExxonMobil has accrued liabilities for probable environmental remediation obligations at various sites, including multiparty sites where the U.S. Environmental Protection Agency has identified ExxonMobil as one of the potentially responsible parties. The involvement of other financially responsible companies at these multiparty sites could mitigate ExxonMobil's actual joint and several liability exposure. At present, no individual site is expected to have losses material to ExxonMobil's operations or financial condition. Consolidated company provisions made in 2006 for environmental liabilities were \$350 million (\$487 million in 2005) and the balance sheet reflects accumulated liabilities of \$864 million as of December 31, 2006, and \$849 million as of December 31, 2005.

Asset Retirement Obligations

The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred, which is typically at the time assets are installed, with an offsetting amount booked as additions to property, plant and equipment (\$263 million for 2006). Over time, the liabilities are accreted for the increase in their present value, with this effect included in expenses (\$243 million in 2006). Consolidated company expenditures for asset retirement obligations in 2006 were \$238 million and the ending balance of the obligations recorded on the balance sheet at December 31, 2006, totaled \$4,703 million.

MARKET RISKS, INFLATION AND OTHER UNCERTAINTIES

Worldwide Average Realizations (1)	<u>2006</u>	<u>2005</u>	<u>2004</u>
Crude oil and NGL (\$/barrel)	\$ 58.34	\$ 48.23	\$ 34.76
Natural gas (\$/kcf)	6.08	5.96	4.48

(1) Consolidated subsidiaries.

Crude oil, natural gas, petroleum product and chemical prices have fluctuated in response to changing market forces. The impacts of these price fluctuations on earnings from Upstream, Downstream and Chemical operations have varied. In the Upstream, based on the 2006 worldwide production levels, a \$1 per barrel change in the weighted-average realized price of oil would have approximately a \$400 million annual after-tax effect on Upstream consolidated plus equity company earnings. Similarly, a \$0.10 per kcf change in the worldwide average gas realization would have approximately a \$200 million annual after-tax effect on Upstream consolidated plus equity company earnings. For any given period, the extent of actual benefit or detriment will be dependent on the price movements of individual types of crude oil, taxes and other government take impacts, price adjustment lags in long-term gas contracts, and crude and gas production volumes. Accordingly, changes in benchmark prices for crude oil and natural gas only provide a broad indicator of changes in the earnings experienced in any particular period.

In the very competitive downstream and chemical environments, earnings are primarily determined by margin capture rather than absolute price levels of products sold. Refining margins are a function of the difference between what a refiner pays for its raw materials (primarily crude oil) and the market prices for the range of products produced. These prices in turn depend on global and regional supply/demand balances, inventory levels, refinery operations, import/export balances and weather.

The global energy markets can give rise to extended periods in which market conditions are adverse to one or more of the Corporation's businesses. Such conditions, along with the capital-intensive nature of the industry and very long lead times associated with many of our projects, underscore the importance of maintaining a strong financial position. Management views the Corporation's financial strength, including the AAA and Aaa ratings of its long-term debt securities by Standard and Poor's and Moody's, as a competitive advantage.

In general, segment results are not dependent on the ability to sell and/or purchase products to/from other segments. Instead, where such sales take place, they are the result of efficiencies and competitive advantages of integrated refinery/chemical complexes. Additionally, intersegment sales are at market-based prices. The products bought and sold between segments can also be acquired in worldwide markets that have substantial liquidity, capacity and transportation capabilities. About 40 percent of the Corporation's intersegment sales are crude oil produced by the Upstream and sold to the Downstream. Other intersegment sales include those between refineries and chemical plants related to raw materials, feedstocks and finished products.

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Although price levels of crude oil and natural gas may rise or fall significantly over the short to medium term due to political events, OPEC actions and other factors, industry economics over the long term will continue to be driven by market supply and demand. Accordingly, the Corporation tests the viability of all of its assets over a broad range of future prices. The Corporation's assessment is that its operations will continue to be successful in a variety of market conditions. This is the outcome of disciplined investment and asset management programs. Investment opportunities are tested against a variety of market conditions, including low-price scenarios. As a result, investments that would succeed only in highly favorable price environments are screened out of the investment plan.

The Corporation has had an active asset management program in which underperforming assets are either improved to acceptable levels or considered for divestment. The asset management program involves a disciplined, regular review to ensure that all assets are contributing to the Corporation's strategic and financial objectives. The result has been the creation of a very efficient capital base and has meant that the Corporation has seldom been required to write down the carrying value of assets, even during periods of low commodity prices.

Risk Management

The Corporation's size, strong capital structure, geographic diversity and the complementary nature of the Upstream, Downstream and Chemical businesses reduce the Corporation's enterprise-wide risk from changes in interest rates, currency rates and commodity prices. As a result, the Corporation makes limited use of derivative instruments to mitigate the impact of such changes. The Corporation does not engage in speculative derivative activities or derivative trading activities nor does it use derivatives with leveraged features. The Corporation maintains a system of controls that includes the authorization, reporting and monitoring of derivative activity. The Corporation's limited derivative activities pose no material credit or market risks to ExxonMobil's operations, financial condition or liquidity. Note 12 summarizes the fair value of derivatives outstanding at year end and the gains or losses that have been recognized in net income.

The Corporation is exposed to changes in interest rates, primarily as a result of its short-term debt and long-term debt carrying floating interest rates. The impact of a 100-basis-point change in interest rates affecting the Corporation's debt would not be material to earnings, cash flow or fair value. The Corporation's cash balances exceeded total debt at year-end 2006 and 2005.

The Corporation conducts business in many foreign currencies and is subject to exchange rate risk on cash flows related to sales, expenses, financing and investment transactions. The impacts of fluctuations in exchange rates on ExxonMobil's geographically and functionally diverse operations are varied and often offsetting in amount. The Corporation makes limited use of currency exchange contracts, commodity forwards, swaps and futures contracts to mitigate the impact of changes in currency values and commodity prices. Exposures related to the Corporation's limited use of the above contracts are not material.

Inflation and Other Uncertainties

The general rate of inflation in most major countries of operation has been relatively low in recent years and the associated impact on costs has generally been countered by cost reductions from efficiency and productivity improvements. Increased global demand for certain services and materials has resulted in higher operating and capital costs in recent years. The Corporation continues to mitigate these effects through its economies of scale in global procurement and its efficient project management practices.

RECENTLY ISSUED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

Accounting for Uncertainty in Income Taxes

In June 2006 the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. FIN 48 is an interpretation of FASB Statement No. 109, Accounting for Income Taxes, and must be adopted by the Corporation no later than January 1, 2007. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements uncertain tax positions that the company has taken or expects to take in its returns. The Corporation expects to recognize a transition gain of approximately \$0.3 billion in shareholders' equity upon adoption of FIN 48 in the first quarter of 2007. This gain reflects the recognition of several refund claims, partly offset by increased liability reserves.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES

The Corporation's accounting and financial reporting fairly reflect its straightforward business model involving the extracting, refining and marketing of hydrocarbons and hydrocarbon-based products. The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The following summary provides further information about the critical accounting policies and the judgments that are made by the Corporation in the application of those policies.

Oil and Gas Reserves

Evaluations of oil and gas reserves are important to the effective management of Upstream assets. They are integral to making investment decisions about oil and gas properties such as whether development should proceed or enhanced recovery methods should be undertaken. Oil and gas reserve quantities are also used as the basis for calculating unit-of-production depreciation rates and for evaluating impairment. Oil and gas reserves are divided between proved and unproved reserves. Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions; i.e., prices and costs as of the date the estimate is made. Unproved reserves are those with less than reasonable certainty of recoverability and include probable reserves. Probable reserves are reserves that are more likely to be recovered than not.

The estimation of proved reserves, which is based on the requirement of reasonable certainty, is an ongoing process based on rigorous technical evaluations, commercial and market assessment, and detailed analysis of well information such as flow rates and reservoir pressure declines. The estimation of proved reserves is controlled by the Corporation through long-standing approval guidelines. Reserve changes are made within a well-established, disciplined process driven by senior level geoscience and engineering professionals (assisted by a central reserves group with significant technical experience), culminating in reviews with and approval by senior management. Notably, the Corporation does not use specific quantitative reserve targets to determine compensation.

Key features of the reserves estimation process include:

rigorous peer-reviewed technical evaluations and analysis of well and field performance information (such as flow rates and reservoir pressure declines) and

a requirement that management make significant funding commitments toward the development of the reserves prior to booking. Although the Corporation is reasonably certain that proved reserves will be produced, the timing and amount recovered can be affected by a number of factors including completion of development projects, reservoir performance, regulatory approvals and significant changes in long-term oil and gas price levels.

Proved reserves can be further subdivided into developed and undeveloped reserves. The percentage of proved developed reserves has remained relatively stable over the past five years at over 60 percent of total proved reserves (including both consolidated and equity company reserves), indicating that proved reserves are consistently moved from undeveloped to developed status. Over time, these undeveloped reserves will be reclassified to the developed category as new wells are drilled, existing wells are recompleted and/or facilities to collect and deliver the production from existing and future wells are installed. Major development projects typically take two to four years from the time of recording proved reserves to the start of production from these reserves.

Beginning in 2004, the year-end reserves volumes as well as the reserves change categories shown in the proved reserves tables are calculated using December 31 prices and costs. These reserves quantities are also used in calculating unit-of-production depreciation rates and in calculating the standardized measure of discounted net cash flow. Regulations preclude the Corporation from showing in this document the reserves that are calculated in a manner that is consistent with the basis that the Corporation uses to make its investment decisions. The use of year-end prices for reserves estimation introduces short-term price volatility into the process since annual adjustments are required based on

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prices occurring on a single day. The Corporation believes that this approach is inconsistent with the long-term nature of the upstream business where production from individual projects often spans multiple decades. The use of prices from a single date is not relevant to the investment decisions made by the Corporation and annual variations in reserves based on such year-end prices are not of consequence to how the business is actually managed.

Revisions can include upward or downward changes in previously estimated volumes of proved reserves for existing fields due to the evaluation or re-evaluation of (1) already available geologic, reservoir or production data, (2) new geologic, reservoir or production data or (3) changes in year-end prices and costs that are used in the determination of reserves. This category can also include changes associated with the performance of improved recovery projects and significant changes in either development strategy or production equipment/facility capacity.

The Corporation uses the successful efforts method to account for its exploration and production activities. Under this method, costs are accumulated on a field-by-field basis with certain exploratory expenditures and exploratory dry holes being expensed as incurred. Costs of productive wells and development dry holes are capitalized and amortized on the unit-of-production method. The Corporation uses this accounting policy instead of the full cost method because it provides a more timely accounting of the success or failure of the Corporation's exploration and production activities. If the full cost method were used, all costs would be capitalized and depreciated on a country-by-country basis. The capitalized costs would be subject to an impairment test by country. The full cost method would tend to delay the expense recognition of unsuccessful projects.

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Impact of Oil and Gas Reserves on Depreciation. The calculation of unit-of-production depreciation is a critical accounting estimate that measures the depreciation of upstream assets. It is the ratio of actual volumes produced to total proved developed reserves (those proved reserves recoverable through existing wells with existing equipment and operating methods), applied to the asset cost. The volumes produced and asset cost are known and, while proved developed reserves have a high probability of recoverability, they are based on estimates that are subject to some variability. While the revisions the Corporation has made in the past are an indicator of variability, they have had a very small impact on the unit-of-production rates because they have been small compared to the large reserves base.

Impact of Oil and Gas Reserves and Prices on Testing for Impairment. Proved oil and gas properties held and used by the Corporation are reviewed for impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

The Corporation estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts. In general, analyses are based on proved reserves. Where probable reserves exist, an appropriately risk-adjusted amount of these reserves may be included in the impairment evaluation. An asset would be impaired if the undiscounted cash flows were less than its carrying value. Impairments are measured by the amount by which the carrying value exceeds its fair value.

The Corporation performs asset valuation analyses on an ongoing basis as a part of its asset management program. These analyses monitor the performance of assets against corporate objectives. They also assist the Corporation in assessing whether the carrying amounts of any of its assets may not be recoverable. In addition to estimating oil and gas reserve volumes in conducting these analyses, it is also necessary to estimate future oil and gas prices. Trigger events for impairment evaluation include a significant decrease in current and projected prices or reserve volumes, an accumulation of project costs significantly in excess of the amount originally expected, and historical and current operating losses.

In general, the Corporation does not view temporarily low oil and gas prices as a trigger event for conducting the impairment tests. The markets for crude oil and natural gas have a history of significant price volatility. Although prices will occasionally drop significantly, industry prices over the long term will continue to be driven by market supply and demand. On the supply side, industry production from mature fields is declining, but this is being offset by production from new discoveries and field developments. OPEC production policies also have an impact on world oil supplies. The demand side is largely a function of global economic growth. The relative growth/decline in supply versus demand will determine industry prices over the long term and these cannot be accurately predicted. Accordingly, any impairment tests that the Corporation performs make use of the Corporation's price assumptions developed in the annual planning and budgeting process for the crude oil and natural gas markets, petroleum products and chemicals. These are the same price assumptions that are used for capital investment decisions. The corporate plan is a fundamental annual management process that is the basis for setting near-term risk-assessed operating and capital objectives in addition to providing the longer-term economic assumptions used for investment evaluation purposes. Volumes are based on individual field production profiles, which are also updated annually. Prices for natural gas and other products are based on corporate plan assumptions developed annually by major region and used for investment evaluation purposes. Cash flow estimates for impairment testing exclude the use of derivative instruments.

Supplemental information regarding oil and gas results of operations, capitalized costs and reserves is provided following the notes to the financial statements. The standardized measure of discounted future cash flows is based on the year-end 2006 price applied for all future years, as required under Statement of Financial Accounting Standards No. 69 (FAS 69), Disclosure about Oil and Gas Producing Activities. Future prices used for any impairment tests will vary from the one used in the FAS 69 disclosure and could be lower or higher for any given year.

Suspended Exploratory Well Costs

The Corporation carries as an asset exploratory well costs when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Corporation is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expense. Assessing whether a project has made sufficient progress is a subjective area and requires careful consideration of the relevant facts and circumstances. The facts and circumstances that support continued capitalization of suspended wells as of year-end 2006 are disclosed in note 9 to the financial statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Consolidations

The Consolidated Financial Statements include the accounts of those significant subsidiaries that the Corporation controls. They also include the Corporation's share of the undivided interest in certain upstream assets and liabilities. Amounts representing the Corporation's percentage interest in the underlying net assets of other significant affiliates that it does not control, but exercises significant influence, are included in Investments and advances; the Corporation's share of the net income of these companies is included in the Consolidated Statement of Income captioned Income from equity affiliates. The accounting for these non-consolidated companies is referred to as the equity method of accounting.

Majority ownership is normally the indicator of control that is the basis on which subsidiaries are consolidated. However, certain factors may indicate that a majority-owned investment is not controlled and therefore should be accounted for using the equity method of accounting. These factors occur where the minority shareholders are granted by law or by contract substantive participating rights. These include the right to approve operating policies, expense budgets, financing and investment plans and management compensation and succession plans.

The Corporation consolidates certain affiliates identified as variable-interest entities in which it has less than a majority ownership, because of guarantees or other arrangements that create majority economic interests in those affiliates that are greater than the Corporation's voting interests.

Additional disclosures of summary balance sheet and income information for those subsidiaries accounted for under the equity method of accounting can be found in note 6.

Investments in companies that are partially owned by the Corporation are integral to the Corporation's operations. In some cases they serve to balance worldwide risks and in others they provide the only available means of entry into a particular market or area of interest. The other parties who also have an equity interest in these companies are either independent third parties or host governments that share in the business results according to their percentage ownership. The Corporation does not invest in these companies in order to remove liabilities from its balance sheet. In fact, the Corporation has long been on record supporting an alternative accounting method that would require each investor to consolidate its percentage share of all assets and liabilities in these partially owned companies rather than only its percentage in the net equity. This method of accounting for investments in partially owned companies is not permitted by GAAP except where the investments are in the direct ownership of a share of upstream assets and liabilities. However, for purposes of calculating return on average capital employed, which is not covered by GAAP standards, the Corporation includes its share of debt of these partially owned companies in the determination of average capital employed.

Pension Benefits

The Corporation and its affiliates sponsor approximately 100 defined benefit (pension) plans in about 50 countries. The funding arrangement for each plan depends on the prevailing practices and regulations of the countries where the Corporation operates. The Pension and Other Postretirement Benefits note provides details on pension obligations, fund assets and pension expense.

Some of these plans (primarily non-U.S.) provide pension benefits that are paid directly by their sponsoring affiliates out of corporate cash flow rather than a separate pension fund. Book reserves are established for these plans because tax conventions and regulatory practices do not encourage advance funding. The portion of the pension cost attributable to employee service is expensed as services are rendered. The portion attributable to the increase in pension obligations due to the passage of time is expensed over the term of the obligations, which ends when all benefits are paid. The primary difference in pension expense for unfunded versus funded plans is that pension expense for funded plans also includes a credit for the expected long-term return on fund assets.

For funded plans, including many in the United States, pension obligations are financed in advance through segregated assets or insurance arrangements. These plans are managed in compliance with the requirements of governmental authorities and meet or exceed required funding levels as measured by relevant actuarial and government standards at the mandated measurement dates. In determining liabilities and required contributions, these standards often require approaches and assumptions that differ from those used for accounting purposes.

The Corporation will continue to make contributions to these funded plans as necessary. All defined-benefit pension obligations, regardless of the funding status of the underlying plans, are fully supported by the financial strength of the Corporation or the respective sponsoring affiliate.

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Pension accounting requires explicit assumptions regarding, among others, the long-term expected earnings rate on fund assets, the discount rate for the benefit obligations and the long-term rate for future salary increases. Pension assumptions are reviewed annually by outside actuaries and senior management. These assumptions are adjusted only as appropriate to reflect changes in market rates and outlook. For example, the long-term expected earnings rate on U.S. pension plan assets in 2006 was 9.0 percent. This compares to an actual rate of return over the past decade of 11 percent. The Corporation establishes the long-term expected rate of return by developing a forward-looking, long-term return assumption for each pension fund asset class, taking into account factors such as the expected real return for the specific asset class and inflation. A single, long-term rate of return is then calculated as the weighted average of the target asset allocation and the long-term return assumption for each asset class. A worldwide reduction of 0.5 percent in the pension fund earnings rate would increase annual pension expense by approximately \$120 million before tax.

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Differences between actual returns on fund assets versus the long-term expected return are not recognized in pension expense in the year that the difference occurs. Such differences are deferred, along with other actuarial gains and losses, and are amortized into pension expense over the expected remaining service life of employees. Further details on pension accounting and related disclosures can be found in notes 2 and 16.

Litigation and Other Contingencies

A variety of claims have been made against the Corporation and certain of its consolidated subsidiaries in a number of pending lawsuits and tax disputes. Management has regular litigation and tax reviews, including updates from corporate and outside counsel, to assess the need for accounting recognition or disclosure of these contingencies. The status of significant claims is summarized in note 15.

GAAP requires that liabilities for contingencies be recorded when it is probable that a liability has been incurred by the date of the balance sheet and that the amount can be reasonably estimated. These amounts are not reduced by amounts that may be recovered under insurance or claims against third parties, but undiscounted receivables from insurers or other third parties may be accrued separately. The Corporation revises such accruals in light of new information. For contingencies where an unfavorable outcome is reasonably possible and which are significant, the Corporation discloses the nature of the contingency and, where feasible, an estimate of the possible loss.

Significant management judgment is required related to contingent liabilities and the outcome of litigation because both are difficult to predict. However, the Corporation has been successful in defending litigation in the past. Payments have not had a materially adverse effect on operations or financial condition. In the Corporation's experience, large claims often do not result in large awards. Large awards are often reversed or substantially reduced as a result of appeal or settlement.

Foreign Currency Translation

The method of translating the foreign currency financial statements of the Corporation's international subsidiaries into U.S. dollars is prescribed by GAAP. Under these principles, it is necessary to select the functional currency of these subsidiaries. The functional currency is the currency of the primary economic environment in which the subsidiary operates. Management selects the functional currency after evaluating this economic environment. Downstream and Chemical operations use the local currency, except in highly inflationary countries (primarily in Latin America) and Singapore, which uses the U.S. dollar because it predominantly sells into the U.S. dollar export market. Upstream operations also use the local currency as the functional currency, except where crude and natural gas production is predominantly sold in the export market in U.S. dollars. Operations using the U.S. dollar as their functional currency include Malaysia, Indonesia, Angola, Nigeria, Equatorial Guinea, Russia and the Middle East.

Factors considered by management when determining the functional currency for a subsidiary include: the currency used for cash flows related to individual assets and liabilities; the responsiveness of sales prices to changes in exchange rates; whether sales are into local markets or exported; the currency used to acquire raw materials, labor, services and supplies; sources of financing; and significance of intercompany transactions.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management, including the Corporation's chief executive officer, principal financial officer, and principal accounting officer, is responsible for establishing and maintaining adequate internal control over the Corporation's financial reporting. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Exxon Mobil Corporation's internal control over financial reporting was effective as of December 31, 2006.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, was audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Rex W. Tillerson
Chief Executive Officer

Donald D. Humphreys
Sr. Vice President and Treasurer
(Principal Financial Officer)

Patrick T. Mulva
Vice President and Controller
(Principal Accounting Officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Exxon Mobil Corporation:

We have completed integrated audits of Exxon Mobil Corporation's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed under Item 8 of the Form 10-K present fairly, in all material respects, the financial position of Exxon Mobil Corporation and its subsidiaries at December 31, 2006, and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Corporation changed its method of accounting for defined benefit pension and other postretirement plans in 2006.

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Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Corporation maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Corporation's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Dallas, Texas

February 28, 2007

Table of Contents**Index to Financial Statements****CONSOLIDATED STATEMENT OF INCOME**

	Note Reference Number	2006	2005	2004
<i>(millions of dollars)</i>				
Revenues and other income				
Sales and other operating revenue (1) (2)		\$ 365,467	\$ 358,955	\$ 291,252
Income from equity affiliates	6	6,985	7,583	4,961
Other income		5,183	4,142	1,822
Total revenues and other income		\$ 377,635	\$ 370,680	\$ 298,035
Costs and other deductions				
Crude oil and product purchases		\$ 182,546	\$ 185,219	\$ 139,224
Production and manufacturing expenses		29,528	26,819	23,225
Selling, general and administrative expenses		14,273	14,402	13,849
Depreciation and depletion		11,416	10,253	9,767
Exploration expenses, including dry holes		1,181	964	1,098
Interest expense		654	496	638
Sales-based taxes (1)	18	30,381	30,742	27,263
Other taxes and duties	18	39,203	41,554	40,954
Income applicable to minority and preferred interests		1,051	799	776
Total costs and other deductions		\$ 310,233	\$ 311,248	\$ 256,794
Income before income taxes		\$ 67,402	\$ 59,432	\$ 41,241
Income taxes	18	27,902	23,302	15,911
Net income		\$ 39,500	\$ 36,130	\$ 25,330
Net income per common share (dollars)	11	\$ 6.68	\$ 5.76	\$ 3.91
Net income per common share assuming dilution (dollars)	11	\$ 6.62	\$ 5.71	\$ 3.89

(1) Sales and other operating revenue includes sales-based taxes of \$30,381 million for 2006, \$30,742 million for 2005 and \$27,263 million for 2004.

(2) Sales and other operating revenue includes \$30,810 million for 2005 and \$25,289 million for 2004 for purchases/sales contracts with the same counterparty. Associated costs were included in Crude oil and product purchases. Effective January 1, 2006, these purchases/sales were recorded on a net basis with no resulting impact on net income. See note 1, Summary of Accounting Policies.

The information in the Notes to Consolidated Financial Statements is an integral part of these statements.

Table of Contents**Index to Financial Statements****CONSOLIDATED BALANCE SHEET**

	Note Reference Number	Dec. 31 2006	Dec. 31 2005
<i>(millions of dollars)</i>			
Assets			
Current assets			
Cash and cash equivalents		\$ 28,244	\$ 28,671
Cash and cash equivalents restricted	3, 15	4,604	4,604
Notes and accounts receivable, less estimated doubtful amounts	5	28,942	27,484
Inventories			
Crude oil, products and merchandise	3	8,979	7,852
Materials and supplies		1,735	1,469
Prepaid taxes and expenses		3,273	3,262
Total current assets		\$ 75,777	\$ 73,342
Investments and advances	7	23,237	20,592
Property, plant and equipment, at cost, less accumulated depreciation and depletion	8	113,687	107,010
Other assets, including intangibles, net		6,314	7,391
Total assets		\$ 219,015	\$ 208,335
Liabilities			
Current liabilities			
Notes and loans payable	5	\$ 1,702	\$ 1,771
Accounts payable and accrued liabilities	5	39,082	36,120
Income taxes payable		8,033	8,416
Total current liabilities		\$ 48,817	\$ 46,307
Long-term debt	13	6,645	6,220
Postretirement benefits reserves	16	13,931	10,220
Accrued liabilities		7,116	6,434
Deferred income tax liabilities	18	20,851	20,878
Deferred credits and other long-term obligations		4,007	3,563
Equity of minority and preferred shareholders in affiliated companies		3,804	3,527
Total liabilities		\$ 105,171	\$ 97,149
Commitments and contingencies	15		
Shareholders' equity			
Common stock without par value (9,000 million shares authorized, 8,019 million shares issued)		\$ 4,786	\$ 4,477
Earnings reinvested		195,207	163,335
Accumulated other nonowner changes in equity			
Cumulative foreign exchange translation adjustment		3,733	979
Postretirement benefits reserves adjustment		(6,495)	
Minimum pension liability adjustment			(2,258)
Common stock held in treasury (2,290 million shares in 2006 and 1,886 million shares in 2005)		(83,387)	(55,347)

Total shareholders' equity	\$ 113,844	\$ 111,186
Total liabilities and shareholders' equity	\$ 219,015	\$ 208,335

The information in the Notes to Consolidated Financial Statements is an integral part of these statements.

Table of Contents**Index to Financial Statements****CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

	2006		2005		2004		
	Note Reference Number	Shareholders Equity	Nonowner Changes in Equity(I)	Shareholders Equity	Nonowner Changes in Equity	Shareholders Equity	Nonowner Changes in Equity
<i>(millions of dollars)</i>							
Common stock							
at beginning of year		\$ 4,477		\$ 4,053		\$ 3,834	
Restricted stock							
amortization		480		356		173	
Tax benefits related to stock-based awards		169		224		183	
Other		(340)		(156)		(137)	
at end of year		\$ 4,786		\$ 4,477		\$ 4,053	
Earnings reinvested							
at beginning of year		163,335		134,390		115,956	
Net income for the year		39,500	\$ 39,500	36,130	\$ 36,130	25,330	\$ 25,330
Dividends on common shares		(7,628)		(7,185)		(6,896)	
at end of year		\$ 195,207		\$ 163,335		\$ 134,390	
Accumulated other nonowner changes in equity							
at beginning of year		(1,279)		1,527		(514)	
Foreign exchange translation adjustment		2,754	2,754	(2,619)	(2,619)	2,177	2,177
Postretirement benefits reserves adjustment	16	(6,495)					

Minimum extension liability adjustment	16	2,258	749	(2,300)	\$ 9,945
Earnings from operations	\$220	\$ 82	\$ —		\$302

Segment information for the six months ended June 30, 2014, follows (\$ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Premium and service revenues from external customers	\$6,195	\$898	\$—	\$7,093
Premium and service revenues from internal customers	26	1,315	(1,341)) —
Total premium and service revenues	\$6,221	\$2,213	\$(1,341)) \$7,093
Earnings from operations	\$108	\$55	\$—	\$163

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9. Contingencies

On July 5, 2013, the Company's subsidiary, Kentucky Spirit Health Plan, Inc. (Kentucky Spirit), terminated its contract with the Commonwealth of Kentucky (the Commonwealth). Kentucky Spirit believes it had a contractual right to terminate the contract and filed a lawsuit in Franklin Circuit Court seeking a declaration of this right. The Commonwealth has alleged that Kentucky Spirit's exit constitutes a material breach of contract. The Commonwealth seeks to recover substantial damages and to enforce its rights under Kentucky Spirit's \$25 million performance bond. The Commonwealth's attorneys have asserted that the Commonwealth's expenditures due to Kentucky Spirit's departure range from \$28 million to \$40 million plus interest, and that the associated CMS expenditures range from \$92 million to \$134 million. Kentucky Spirit disputes the Commonwealth's alleged damages, and is pursuing its own litigation claims for damages against the Commonwealth.

On February 6, 2015, the Kentucky Court of Appeals affirmed a Franklin Circuit Court ruling that Kentucky Spirit does not have a contractual right to terminate the contract early. The Court of Appeals also found that the contract's liquidated damages provision "is applicable in the event of a premature termination of the Contract term." Kentucky Spirit intends to seek Kentucky Supreme Court review of the finding that its departure constituted a breach of contract. The Commonwealth may seek review of the ruling that the liquidated damages provision is applicable in the event of a premature termination.

Kentucky Spirit also filed a lawsuit in April 2013, amended in October 2014, in Franklin Circuit Court seeking damages against the Commonwealth for losses sustained due to the Commonwealth's alleged breaches. On December 9, 2014, the Franklin Circuit Court denied the Commonwealth's motion for partial summary judgment on Kentucky Spirit's damages claims. On March 15, 2015, the Franklin Circuit Court denied the Commonwealth's motion to stay discovery and ordered that discovery proceed on those claims.

On March 9, 2015, the Secretary of the Kentucky Cabinet for Health and Family Services (CHFS) issued a determination letter finding that Kentucky Spirit owed the Commonwealth \$40 million in actual damages plus prejudgment interest at 8 percent. On March 18, 2015, in a letter to the Kentucky Finance and Administration Cabinet, Kentucky Spirit contested CHFS' jurisdiction to make such a determination. Depending on the response from the Finance and Administration Cabinet, Kentucky Spirit may bring the matter to the Franklin Circuit Court.

The resolution of the Kentucky litigation matters may result in a range of possible outcomes. If Kentucky Spirit prevails on its claims, it would be entitled to damages. If the Commonwealth prevails, a liability to the Commonwealth could be recorded. The Company is unable to estimate the ultimate outcome resulting from the Kentucky litigation. As a result, the Company has not recorded any receivable or any liability for potential damages under the contract as of June 30, 2015. While uncertain, the ultimate resolution of the pending litigation could have a material effect on the financial position, cash flow or results of operations of the Company in the period it is resolved or becomes known.

Excluding the Kentucky matters discussed above, the Company is also routinely subjected to legal proceedings in the normal course of business. While the ultimate resolution of such matters in the normal course of business is uncertain, the Company does not expect the results of any of these matters individually, or in the aggregate, to have a material effect on its financial position, results of operations or cash flows.

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10. Subsequent Events

On July 2, 2015, the Company announced that the Company and two direct, newly formed subsidiaries of the Company had entered into a definitive merger agreement with Health Net, Inc. (Health Net) under which Centene will acquire all of the issued and outstanding shares of Health Net. Under the terms of the agreement, at the closing of the transaction, Health Net stockholders (with limited exceptions) would receive 0.622 of a validly issued, fully paid, non-assessable share of Centene common stock and \$28.25 in cash for each share of Health Net common stock. The transaction is valued at approximately \$6.8 billion (based on the Centene closing stock price on July 1, 2015), including the assumption of debt. The transaction is expected to close in early 2016 and is subject to approval by Centene and Health Net stockholders, the expiration or termination of the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, approvals by relevant state insurance and healthcare regulators and other customary closing conditions. The Company expects to fund the cash portion of the acquisition through a combination of existing cash on hand and debt financing.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this filing. The discussion contains forward-looking statements that involve known and unknown risks and uncertainties, including those set forth under Part II, Item 1A. "Risk Factors" of this Form 10-Q.

OVERVIEW

In 2013, we classified the operations for Kentucky Spirit Health Plan (KSHP) as discontinued operations for all periods presented in our consolidated financial statements. The following discussion and analysis, with the exception of cash flow information, is presented in the context of continuing operations unless otherwise identified.

On February 2, 2015, the Board of Directors declared a two-for-one split of Centene's common stock in the form of a 100% stock dividend distributed February 19, 2015 to stockholders of record on February 12, 2015. All share and per share information presented in this Form 10-Q has been adjusted for the two-for-one stock split.

Key financial metrics for the second quarter of 2015 are summarized as follows:

- Quarter-end managed care membership of 4.6 million, an increase of 1.3 million members, or 38% year over year.
- Premium and service revenues of \$5.2 billion, representing 39% growth year over year.
- Health Benefits Ratio of 89.1%, compared to 88.9% in 2014.
- General and Administrative expense ratio of 8.5%, compared to 8.6% in 2014.
- Operating cash flows of \$350 million for the second quarter of 2015.
- Diluted net earnings per share of \$0.72, compared to \$0.39 in 2014.

The following items contributed to our revenue and membership growth over the last year:

California. In December 2014, the ABD membership of our California subsidiary, California Health and Wellness, increased as a result of the mandatory transition of the ABD population to managed care. The enrollment of this population to managed care was previously voluntary.

Florida. In May 2014, our Florida subsidiary, Sunshine Health, began operating under a new contract in 9 of 11 regions of the Managed Medical Assistance (MMA) program. The MMA program includes TANF recipients as well as ABD and dual-eligible members. In addition, we began operating as the sole provider under a new statewide contract for the Child Welfare Specialty Plan (Foster Care). Enrollment for both the MMA program and Foster Care began in May 2014 and was implemented by region through August 2014.

Health Insurance Marketplaces (HIM). In January 2015, we expanded our participation in Health Insurance Marketplaces to include members in certain regions of Illinois and Wisconsin.

Illinois. In March 2014, our Illinois subsidiary, IlliniCare Health, began operating under a new contract as part of the Illinois Medicare-Medicaid Alignment Initiative serving dual-eligible members in Cook, DuPage, Lake, Kane, Kankakee and Will counties (Greater Chicago region).

In July 2014, IlliniCare Health began operating under a new contract with the Cook County Health and Hospitals System to perform third party administrative services to members enrolled in the CountyCare program, as well as care coordination, behavioral health, vision care and pharmacy benefit management services.

In September 2014, IlliniCare Health began serving additional Medicaid members under the state's Medicaid and Medicaid expansion programs.

Indiana. In February 2015, our Indiana subsidiary, Managed Health Services, began operating under an expanded contract with the Indiana Family & Social Services Administration to provide Medicaid services under the state's Healthy Indiana Plan 2.0 program.

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In April 2015, Managed Health Services began operating under an expanded contract with the Indiana Family & Social Services Administration to provide services to its ABD Medicaid enrollees who qualify for the new Hoosier Care Connect Program.

- Louisiana. In July 2014, we completed the transaction whereby Community Health Solutions of America, Inc. (CHS) assigned its contract with the Louisiana Department of Health and Hospitals under the Bayou Health Shared Savings Program to our subsidiary, Louisiana Healthcare Connections (LHC).

In February 2015, LHC began operating under a new contract with the Louisiana Department of Health and Hospitals to serve Bayou Health (Medicaid) beneficiaries. Members previously served under the shared savings program were transitioned to the at-risk program on February 1, 2015.

Michigan. In May 2015, we completed the acquisition of Fidelis SecureCare of Michigan, Inc. (Fidelis). Fidelis began operating under a new contract with the Michigan Department of Community Health and the Centers for Medicare and Medicaid Services to provide integrated healthcare services to members who are dually eligible for Medicare and Medicaid in Macomb and Wayne counties in May 2015. Passive enrollment began in July 2015.

Mississippi. In July 2014, our Mississippi subsidiary, Magnolia Health, began operating as one of two contractors under a new statewide managed care contract serving members enrolled in the Mississippi Coordinated Access Network program. Program expansion began in December 2014 and continued through July 2015.

In January 2015, Magnolia Health began operating under a new temporary six-month contract with the State of Mississippi to provide services under the Children's Health Insurance Program (CHIP). In July 2015, Magnolia Health began operating under a two-year CHIP contract with the State of Mississippi.

New Hampshire. In September 2014, our New Hampshire subsidiary, New Hampshire Healthy Families, began serving members under the state's Medicaid expansion program.

Ohio. In May 2014, our Ohio subsidiary, Buckeye Health Plan (Buckeye), began operating under a new contract with the Ohio Department of Medicaid and the Centers for Medicare and Medicaid Services to serve Medicaid members in a dual-eligible demonstration program in three of seven regions: Northeast (Cleveland), Northwest (Toledo) and West Central (Dayton). This three-year program, which is part of the Integrated Care Delivery System expansion, serves those who have both Medicare and Medicaid eligibility. Passive enrollment for Medicaid began in May 2014 and implementation was completed in July 2014. Passive enrollment for Medicare began in January 2015.

South Carolina. In February 2015, our South Carolina subsidiary, Absolute Total Care, began operating under a new contract with the South Carolina Department of Health and Human Services and the Centers for Medicare and Medicaid Services to serve dual-eligible members as part of the state's dual demonstration program.

- Texas. In September 2014, we began operating under a new contract with the Texas Health and Human Services Commission (HHSC) to expand our operations and serve STAR+PLUS members in two Medicaid Rural Service Areas. We also began providing expanded coverage in September 2014 under our STAR+PLUS contracts to provide acute care services for intellectually and developmentally disabled members. In March 2015, we began operating under an expanded STAR+PLUS contract with the Texas HHSC to include nursing facility benefits.

In March 2015, we also began operating under a new contract with the Texas HHSC and the Centers for Medicare and Medicaid Services to serve dual-eligible members in three counties as part of the state's dual demonstration program.

- Vermont. In February 2015, Centurion began operating under a new contract with the State of Vermont Department of Corrections to provide comprehensive correctional healthcare services.

In addition, in July 2014, we completed an investment accounted for under the equity method for the purchase of a noncontrolling interest in Ribera Salud S.A. (Ribera Salud), a Spanish health management group. Centene is a joint shareholder with Ribera Salud's remaining investor, Banco Sabadell S.A.

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We expect the following items to contribute to our future growth potential:

We expect to realize the full year benefit in 2015 of business commenced during 2014 in Florida, Illinois, Louisiana, Mississippi, New Hampshire, Ohio and Texas as discussed above.

In July 2015, we announced that we and two of our direct, newly formed subsidiaries had entered into a definitive merger agreement with Health Net, Inc. (Health Net) under which we will acquire all of the issued and outstanding shares of Health Net. The transaction is valued at approximately \$6.8 billion (based on the Centene closing stock price on July 1, 2015), including the assumption of debt. The transaction is expected to close in early 2016.

In July 2015, Centurion began operating under a new contract with the Mississippi Department of Corrections to provide comprehensive correctional healthcare services.

In May 2015, Sunshine Health was tentatively recommended for a statewide contract award by the Florida Healthy Kids Corporation to manage healthcare services for children ages five through 18 in all 11 regions of Florida. The two-year contract award is expected to commence in the fourth quarter of 2015.

In January 2015, we signed a definitive agreement to acquire Agate Resources, Inc., a diversified holding company that offers primarily Medicaid and other healthcare products and services to Oregon residents. The transaction is expected to close in the third quarter of 2015, subject to customary closing conditions.

In December 2014, our subsidiary, Cenpatco Integrated Care, in partnership with University of Arizona Health Plan, was selected by the Arizona Department of Health Services/Division of Behavioral Health Services to be the Regional Behavioral Health Authority for the new southern geographic service area. The new contract is expected to commence in the fourth quarter of 2015.

In the fourth quarter of 2015, Louisiana Healthcare Connections expects to begin operating under an expanded contract to include behavioral health benefits, and Magnolia Health anticipates operating under an expanded contract to include the inpatient benefit for Medicaid and ABD members.

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MEMBERSHIP

From June 30, 2014 to June 30, 2015, we increased our managed care membership by 1.3 million, or 38%. The following table sets forth our membership by state for our managed care organizations:

	June 30, 2015	December 31, 2014	June 30, 2014
Arizona	210,900	204,000	189,200
Arkansas	45,400	38,400	31,100
California	178,700	163,900	131,100
Florida	470,300	425,700	313,800
Georgia	405,000	389,100	373,000
Illinois	209,100	87,800	29,500
Indiana	250,400	197,700	200,500
Kansas	143,000	143,300	146,100
Louisiana	358,900	152,900	148,600
Massachusetts	61,500	48,400	47,200
Michigan	2,700	—	—
Minnesota	10,900	9,500	9,400
Mississippi	250,600	108,700	97,400
Missouri	82,600	71,000	58,700
New Hampshire	70,800	62,700	39,500
Ohio	287,100	280,100	225,900
South Carolina	112,600	109,700	101,800
Tennessee	21,400	21,000	21,300
Texas	969,700	971,000	921,500
Vermont	2,800	—	—
Washington	214,100	194,400	193,800
Wisconsin	78,600	83,200	67,300
Total at-risk membership	4,437,100	3,762,500	3,346,700
Non-risk membership	176,600	298,400	—
Total	4,613,700	4,060,900	3,346,700

At June 30, 2015, we served 368,900 Medicaid members in Medicaid expansion programs in California, Illinois, Massachusetts, New Hampshire, Ohio and Washington and Indiana HIP 2.0, included in the table above.

The following table sets forth our membership by line of business:

	June 30, 2015	December 31, 2014	June 30, 2014
Medicaid	3,300,600	2,754,900	2,385,500
CHIP & Foster Care	230,500	222,700	261,800
ABD, Medicare & Duals	414,300	392,700	329,700
LTC	72,800	60,800	53,500
Health Insurance Marketplaces	167,400	74,500	75,700
Hybrid Programs ¹	—	18,900	17,000
Behavioral Health	203,900	197,000	182,200
Correctional Healthcare Services	47,600	41,000	41,300
Total at-risk membership	4,437,100	3,762,500	3,346,700
Non-risk membership	176,600	298,400	—
Total	4,613,700	4,060,900	3,346,700

¹ In February 2015, hybrid programs were converted to Medicaid expansion contracts.

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The following table identifies our dual-eligible membership by line of business. The membership tables above include these members.

	June 30, 2015	December 31, 2014	June 30, 2014
ABD	106,100	118,300	89,300
LTC	53,100	35,900	41,800
Medicare	8,500	7,200	6,800
Medicaid / Medicare Duals	19,700	3,200	1,400
Total	187,400	164,600	139,300

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RESULTS OF OPERATIONS

The following discussion and analysis is based on our consolidated statements of operations, which reflect our results of operations for the three and six months ended June 30, 2015 and 2014, prepared in accordance with generally accepted accounting principles in the United States.

Summarized comparative financial data for the three and six months ended June 30, 2015 and 2014 is as follows (\$ in millions, except per share data):

	Three Months Ended June 30,			Six Months Ended June 30,			
	2015	2014	% Change 2014-2015	2015	2014	% Change 2014-2015	
Premium	\$4,692	\$3,331	40.9	% \$8,991	\$6,402	40.4	%
Service	492	410	20.0	% 954	691	38.1	%
Premium and service revenues	5,184	3,741	38.6	% 9,945	7,093	40.2	%
Premium tax and health insurer fee	322	283	13.8	% 692	391	77.0	%
Total revenues	5,506	4,024	36.8	% 10,637	7,484	42.1	%
Medical costs	4,181	2,960	41.3	% 8,042	5,703	41.0	%
Cost of services	419	366	14.5	% 821	608	35.0	%
General and administrative expenses	442	321	37.7	% 845	616	37.2	%
Premium tax expense	239	253	(5.5)	)% 520	331	57.1	%
Health insurer fee expense	52	31	67.7	% 107	63	69.8	%
Earnings from operations	173	93	86.0	% 302	163	85.3	%
Other income (expense), net	(1	) (2	) 50.0	% (2	) (4	) 50.0	%
Earnings from continuing operations, before income tax expense	172	91	89.0	% 300	159	88.7	%
Income tax expense	84	45	86.7	% 147	79	86.1	%
Earnings from continuing operations, net of income tax	88	46	91.3	% 153	80	91.3	%
Discontinued operations, net of income tax expense of \$0, \$1, \$(1) and— \$1, respectively		2	(100.0)	)% (1	) 1	(200.0))%
Net earnings	88	48	83.3	% 152	81	87.7	%
(Earnings) loss attributable to noncontrolling interests	—	1	(100.0)	)% (1	) 1	(200.0))%
Net earnings attributable to Centene Corporation	\$88	\$49	79.6	% \$151	\$82	84.1	%
Amounts attributable to Centene Corporation common shareholders:							
Earnings from continuing operations, net of income tax expense	\$88	\$47	87.2	% \$152	\$81	87.7	%
Discontinued operations, net of income tax expense	—	2	(100.0)	)% (1	) 1	(200.0))%
Net earnings	\$88	\$49	79.6	% \$151	\$82	84.1	%
Diluted earnings (loss) per common share attributable to Centene Corporation:							
Continuing operations	\$0.72	\$0.39	84.6	% \$1.24	\$0.68	82.4	%
Discontinued operations	—	0.02	(100.0))% (0.01) 0.01	(200.0))%
	\$0.72	\$0.41	75.6	% \$1.23	\$0.69	78.3	%

Total diluted earnings per common
share

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Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014

Premium and Service Revenues

Premium and service revenues increased 39% in the three months ended June 30, 2015 over the corresponding period in 2014 primarily as a result of the impact from expansions or new programs in many of our states, particularly Florida, Illinois, Louisiana, Mississippi, Ohio and Texas.

Operating Expenses

Medical Costs

Results of operations depend on our ability to manage expenses associated with health benefits and to accurately estimate costs incurred. The Health Benefits Ratio, or HBR, represents medical costs as a percentage of premium revenues (excluding Premium Tax and Health Insurer Fee revenues) and reflects the direct relationship between the premium received and the medical services provided. The table below depicts the HBR for our membership by member category for the three months ended June 30,:

	2015	2014	
Medicaid, CHIP, Foster Care & HIM	85.6	% 84.7	%
ABD, LTC and Medicare	93.7	94.9	
Specialty Services	86.9	80.4	
Total	89.1	88.9	

The consolidated HBR for the three months ended June 30, 2015, was 89.1%, compared to 88.9% in the same period in 2014. The increase compared to last year is primarily attributable to a higher HBR associated with new programs in two of our states.

Revenue and HBR results for new business and existing business are listed below to assist in understanding our results of operations. Existing businesses are primarily state markets or significant geographic expansion in an existing state or product that we have managed for four complete quarters. New businesses are primarily new state markets or significant geographic expansion in an existing state or product that conversely, we have not managed for four complete quarters. The following table compares the results for new business and existing business for the three months ended June 30,:

	2015	2014	
Premium and Service Revenue			
New business	22	% 26	%
Existing business	78	% 74	%
HBR			
New business	91.3	% 91.8	%
Existing business	88.5	% 87.9	%

The new business HBR decreased compared to last year as a result of a higher portion of new business associated with Medicaid, which operates at a lower HBR. The existing business HBR increased compared to last year as a result of higher acuity business, including Florida LTC, being classified as existing business in the current year.

Cost of Services

Cost of services increased by \$53 million in the three months ended June 30, 2015, compared to the corresponding period in 2014. This was primarily due to the addition of the CountyCare contract in Illinois, which began July 1, 2014.

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General & Administrative Expenses

General and administrative expenses, or G&A, increased by \$121 million in the three months ended June 30, 2015, compared to the corresponding period in 2014. This was primarily due to expenses for additional staff and facilities to support our membership growth. During the three months ended June 30, 2015, we recorded approximately \$2 million of Health Net merger related expenses, which reduced our diluted earnings per share by \$0.01.

The consolidated G&A expense ratio for the three months ended June 30, 2015 and 2014 was 8.5% and 8.6%, respectively. The year over year decrease in the G&A ratio reflects the leveraging of expenses over higher revenues in 2015.

Health Insurer Fee

During the three months ended June 30, 2015, we recorded \$52 million of non-deductible expense for the Affordable Care Act (ACA) annual health insurer fee. As of June 30, 2015, we have received signed agreements from all applicable states which provide for the reimbursement of the ACA insurer fee including the related gross-up for the associated income tax effects. As a result, we recorded \$84 million in Premium Tax and Health Insurer Fee revenue associated with the accrual for the reimbursement of the fee. Therefore, the health insurer fee had no impact on diluted earnings per share during the second quarter of 2015.

During the three months ended June 30, 2014, we recorded \$31 million of non-deductible expense for the ACA annual health insurer fee. In addition, we received signed agreements from 14 of 17 applicable states as of June 30, 2014, which provide for the reimbursement of the ACA insurer fee including the related gross-up for the associated income tax effects. As a result, we recorded \$30 million of revenue in Premium Tax and Health Insurer Fee revenue associated with the accrual for the reimbursement of the fee. The net effect of the health insurer fee reduced our diluted earnings per share by \$0.08 during the second quarter of 2014.

Other Income (Expense)

The following table summarizes the components of other income (expense) for the three months ended June 30, (\$ in millions):

	2015	2014
Investment and other income	\$10	\$7
Interest expense	(11	) (9
Other income (expense), net	\$(1	) \$(2

The increase in investment income in 2015 reflects an increase in investment balances over 2014 and improved performance of certain equity investments. Interest expense increased in 2015 compared to 2014, primarily reflecting the issuance of an additional \$200 million in Senior Notes in January 2015.

Income Tax Expense

Our effective tax rate for the three months ended June 30, 2015 and 2014, was 48.8% and 49.5%, respectively. The effective tax rate is higher than the applicable statutory rate primarily as a result of the non-deductibility of the health insurer fee expense.

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Segment Results

The following table summarizes our consolidated operating results by segment for the three months ended June 30, (\$ in millions):

	2015	2014	% Change 2014-2015	
Premium and Service Revenues				
Managed Care	\$4,672	\$3,238	44.3	%
Specialty Services	1,713	1,192	43.7	%
Eliminations	(1,201)	(689)	(74.3))%
Consolidated Total	\$5,184	\$3,741	38.6	%
Earnings from Operations				
Managed Care	\$125	\$64	95.3	%
Specialty Services	48	29	65.5	%
Consolidated Total	\$173	\$93	86.0	%

Managed Care

Premium and service revenues increased 44% in the three months ended June 30, 2015, primarily as a result of expansions or new programs in many of our states, particularly Florida, Illinois, Louisiana, Mississippi, Ohio and Texas. Earnings from operations increased \$61 million between years primarily reflecting growth in the business.

Specialty Services

Premium and service revenues increased 44% in the three months ended June 30, 2015, resulting primarily from increased services associated with membership growth in the Managed Care segment. Earnings from operations increased \$19 million in the three months ended June 30, 2015, primarily reflecting growth in the specialty services provided to our increased Managed Care membership.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

Premium and Service Revenues

Premium and service revenues increased 40% in the six months ended June 30, 2015 over the corresponding period in 2014 primarily as a result of the impact from expansions or new programs in many of our states, particularly Florida, Illinois, Louisiana, Mississippi, Ohio and Texas. During the six months ended June 30, 2015, we received premium rate adjustments which yielded a net 0% composite change across all of our markets.

Operating Expenses

Medical Costs

Results of operations depend on our ability to manage expenses associated with health benefits and to accurately estimate costs incurred. The Health Benefits Ratio, or HBR, represents medical costs as a percentage of premium revenues (excluding Premium Tax and Health Insurer Fee revenues) and reflects the direct relationship between the premium received and the medical services provided. The table below depicts the HBR for our membership by member category for the six months ended June 30,:

	2015	2014	
Medicaid, CHIP, Foster Care & HIM	86.5	% 85.8	%

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ABD, LTC and Medicare	93.4	94.0
Specialty Services	86.0	84.0
Total	89.4	89.1

The consolidated HBR for the six months ended June 30, 2015, was 89.4%, compared to 89.1% in the same period in 2014. The increase compared to last year is primarily attributable to an increase in higher acuity membership and higher flu related costs over the prior year.

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Cost of Services

Cost of services increased by \$213 million in the six months ended June 30, 2015, compared to the corresponding period in 2014. This was primarily due to the growth in the AcariaHealth business as well as the addition of the CountyCare contract in Illinois, which began July 1, 2014

General & Administrative Expenses

General and administrative expenses, or G&A, increased by \$229 million in the six months ended June 30, 2015, compared to the corresponding period in 2014. This was primarily due to expenses for additional staff and facilities to support our membership growth. During the first quarter of 2015, we recorded a gain of \$10 million on the settlement of contingent consideration related to the CHS transaction. We also recorded expense of \$10 million for a contribution to our charitable foundation during the first quarter of 2015.

The consolidated G&A expense ratio for the six months ended June 30, 2015 and 2014 was 8.5% and 8.7%, respectively. The year over year decrease in the G&A ratio reflects the leveraging of expenses over higher revenues in 2015 as well as the impact of transaction costs recognized in 2014.

Health Insurer Fee

During the six months ended June 30, 2015, we recorded \$107 million of non-deductible expense for the Affordable Care Act (ACA) annual health insurer fee. As of June 30, 2015, we have received signed agreements from all applicable states which provide for the reimbursement of the ACA insurer fee including the related gross-up for the associated income tax effects. As a result, we recorded \$172 million in Premium Tax and Health Insurer Fee revenue associated with the accrual for the reimbursement of the fee. Therefore, the health insurer fee had no impact on diluted earnings per share during the six months ended June 30, 2015.

During the six months ended June 30, 2014, we recorded \$63 million of non-deductible expense for the ACA annual health insurer fee. In addition, we recorded \$60 million of revenue in Premium Tax and Health Insurer Fee revenue associated with the accrual for the reimbursement of the fee. The net effect of the health insurer fee reduced our diluted earnings per share by \$0.16 during the six months ended June 30, 2014.

Other Income (Expense)

The following table summarizes the components of other income (expense) for the six months ended June 30, (\$ in millions):

	2015	2014
Investment and other income	\$19	\$12
Interest expense	(21	) (16
Other income (expense), net	\$(2	) \$(4

The increase in investment income in 2015 reflects an increase in investment balances over 2014 and improved performance of certain equity investments. Interest expense increased during the six months ended June 30, 2015 by \$5 million primarily reflecting the issuance of \$300 million of Senior Notes in April 2014 and the issuance of an additional \$200 million in Senior Notes in January 2015.

Income Tax Expense

Our effective tax rate for the six months ended June 30, 2015 and 2014, was 49.0% and 49.7%, respectively. The effective tax rate is higher than the applicable statutory rate primarily as a result of the non-deductibility of the health insurer fee expense.

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Segment Results

The following table summarizes our consolidated operating results by segment for the six months ended June 30, (\$ in millions):

	2015	2014	% Change 2014-2015	
Premium and Service Revenues				
Managed Care	\$8,939	\$6,221	43.7	%
Specialty Services	3,306	2,213	49.4	%
Eliminations	(2,300)	(1,341)	(71.5))%
Consolidated Total	\$9,945	\$7,093	40.2	%
Earnings from Operations				
Managed Care	\$220	\$108	103.7	%
Specialty Services	82	55	49.1	%
Consolidated Total	\$302	\$163	85.3	%

Managed Care

Premium and service revenues increased 44% in the six months ended June 30, 2015, primarily as a result of expansions or new programs in many of our states, particularly Florida, Illinois, Louisiana, Mississippi, Ohio and Texas. Earnings from operations increased \$112 million between years primarily reflecting growth in the business.

Specialty Services

Premium and service revenues increased 49% in the six months ended June 30, 2015, resulting primarily from increased services associated with membership growth in the Managed Care segment and growth in our AcariaHealth business. Earnings from operations increased \$27 million in the six months ended June 30, 2015, primarily reflecting growth in the specialty services provided to our increased Managed Care membership.

LIQUIDITY AND CAPITAL RESOURCES

Shown below is a condensed schedule of cash flows used in the discussion of liquidity and capital resources (\$ in millions).

	Six Months Ended June 30,	
	2015	2014
Net cash provided by operating activities	\$395	\$412
Net cash used in investing activities	(299)	(390)
Net cash provided by financing activities	261	199
Net increase in cash and cash equivalents	\$357	\$221

Cash Flows Provided by Operating Activities

Normal operations are funded primarily through operating cash flows and borrowings under our revolving credit facility. Operating activities provided cash of \$395 million in the six months ended June 30, 2015, compared to \$412 million in the comparable period in 2014. The cash provided by operations in 2015 and 2014 was primarily related to net earnings and an increase in medical claims liabilities resulting from the growth in the business, partially offset by increases in premium and related receivables.

Cash flows from operations in each year were impacted by the timing of payments we receive from our states. States may prepay the following month premium payment, which we record as unearned revenue, or they may delay our premium payment, which we record as a receivable. We typically receive capitation payments monthly, however the states in which we operate may decide to adjust their payment schedules which could positively or negatively impact our reported cash flows from operating activities in any given period.

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The reimbursement of the HIF from our state customers may be settled as a separate payment or monthly in combination with our other premium payments. The vast majority of our state customers are settling the reimbursement through a separate payment after verification of each state's portion of our HIF, resulting in an increase in Premium and Related Receivables at June 30, 2015.

Cash Flows Used in Investing Activities

Investing activities used cash of \$299 million for the six months ended June 30, 2015, and \$390 million in the comparable period in 2014. Cash flows used in investing activities in 2015 primarily consisted of additions to the investment portfolio of our regulated subsidiaries, including transfers from cash and cash equivalents to long term investments and capital expenditures.

In January 2015, we sold 25% of our ownership in Celtic Insurance Company. No gain or loss was recognized on the sale of the ownership interest. Celtic Insurance Company is included in the Managed Care segment. Under the terms of the agreement, we entered into a put agreement with the noncontrolling interest holder to purchase the noncontrolling interest at a later date.

Cash flows used in investing activities in 2014 primarily consisted of additions to the investment portfolio of our regulated subsidiaries, including transfers from cash and cash equivalents to long term investments, the acquisition of U.S. Medical Management and capital expenditures.

We spent \$58 million and \$42 million in the six months ended June 30, 2015 and 2014, respectively, on capital expenditures for system enhancements and market expansions.

As of June 30, 2015, our investment portfolio consisted primarily of fixed-income securities with an average duration of 2.9 years. We had unregulated cash and investments of \$82 million at June 30, 2015, compared to \$85 million at December 31, 2014.

Cash Flows Provided by Financing Activities

Our financing activities provided cash of \$261 million in the six months ended June 30, 2015, compared to \$199 million in the comparable period in 2014. During 2015 and 2014, our financing activities primarily related to the proceeds from the issuance of Senior Debt. In January 2015, we issued an additional \$200 million of 4.75% Senior Notes at par. In connection with the January 2015 issuance, we entered into interest rate swap agreements for a notional amount of \$200 million. In April 2014, we issued \$300 million 4.75% Senior Notes due May 14, 2022 at par. In connection with the April 2014 issuance, we entered into interest rate swap agreements of a notional amount of \$300 million.

Liquidity Metrics

The \$500 million revolving credit agreement contains non-financial and financial covenants, including requirements of minimum fixed charge coverage ratios, maximum debt-to-EBITDA ratios and minimum tangible net worth. We are required not to exceed a maximum debt-to-EBITDA ratio of 3.0 to 1.0. As of June 30, 2015, we had \$150 million in borrowings outstanding under our revolving credit facility and we were in compliance with all covenants. As of June 30, 2015, there were no limitations on the availability under the revolving credit agreement as a result of the debt-to-EBITDA ratio.

We had outstanding letters of credit of \$47 million as of June 30, 2015, which were not part of our revolving credit facility. We also had letters of credit for \$53 million (valued at the June 30, 2015 conversion rate), or €48 million,

representing our proportional share of the letters of credit issued to support Ribera Salud's outstanding debt which are a part of the revolving credit facility. Collectively, the letters of credit bore interest at 1.64% as of June 30, 2015. In addition, we had outstanding surety bonds of \$260 million as of June 30, 2015.

The indentures governing our Senior Notes contains non-financial and financial covenants, including requirements of a minimum fixed charge coverage ratio.

At June 30, 2015, we had working capital, defined as current assets less current liabilities, of \$380 million, compared to \$134 million at December 31, 2014. We manage our short term and long term investments with the goal of ensuring that a sufficient portion is held in investments that are highly liquid and can be sold to fund short term requirements as needed.

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At June 30, 2015, our debt to capital ratio, defined as total debt divided by the sum of total debt and total equity, was 37.1%, compared to 33.5% at December 31, 2014. Excluding the \$69 million non-recourse mortgage note, our debt to capital ratio was 35.7% as of June 30, 2015, compared to 31.7% at December 31, 2014. We utilize the debt to capital ratio as a measure, among others, of our leverage and financial flexibility.

2015 Expectations

As previously discussed, in January 2015, we announced a definitive agreement to acquire Agate Resources, Inc. The transaction is expected to close during the third quarter of 2015, subject to customary closing conditions.

On July 2, 2015, we announced that we and two of our direct, newly formed subsidiaries had entered into a definitive merger agreement with Health Net under which we will acquire all of the issued and outstanding shares of Health Net. Under the terms of the agreement, at the closing of the transaction, Health Net stockholders (with limited exception) would receive 0.622 of a validly issued, fully paid, non-assessable share of Centene common stock and \$28.25 in cash for each share of Health Net common stock. The transaction is valued at approximately \$6.8 billion (based on the Centene closing stock price on July 1, 2015), including the assumption of debt. The transaction is expected to close in early 2016 and is subject to approval by Centene and Health Net stockholders, the expiration or termination of the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, approvals by relevant state insurance and healthcare regulators and other customary closing conditions. We expect to fund the cash portion of the acquisition through a combination of existing cash on hand and debt financing.

During the remainder of 2015, we expect to make net capital contributions to our insurance subsidiaries of approximately \$305 million associated with our growth and spend approximately \$110 million in additional capital expenditures primarily associated with system enhancements and market expansions. These capital contributions are expected to be funded by unregulated cash flow generation in 2015 and borrowings on our revolving credit facility.

Based on our operating plan, we expect that our available cash, cash equivalents and investments, cash from our operations and cash available under our credit facility will be sufficient to finance our general operations and capital expenditures, excluding the proposed Health Net transaction, for at least 12 months from the date of this filing.

REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

Our operations are conducted through our subsidiaries. As managed care organizations, these subsidiaries are subject to state regulations that, among other things, require the maintenance of minimum levels of statutory capital, as defined by each state, and restrict the timing, payment and amount of dividends and other distributions that may be paid to us. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary without prior approval by state regulatory authorities is limited based on the entity's level of statutory net income and statutory capital and surplus.

Our subsidiaries are required to maintain minimum capital requirements prescribed by various regulatory authorities in each of the states in which we operate. As of June 30, 2015, our subsidiaries had aggregate statutory capital and surplus of \$1,827 million, compared with the required minimum aggregate statutory capital and surplus requirements of \$1,008 million. During the six months ended June 30, 2015, we contributed \$437 million of statutory capital to our subsidiaries. We estimate our Risk Based Capital, or RBC, percentage (including KSHP) to be in excess of 350% of the Authorized Control Level (excluding the interim impact of the health insurer fee).

The National Association of Insurance Commissioners has adopted rules which set minimum risk based capital requirements for insurance companies, managed care organizations and other entities bearing risk for healthcare coverage. As of June 30, 2015, each of our health plans was in compliance with the risk-based capital requirements

enacted in those states.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

INVESTMENTS AND DEBT

As of June 30, 2015, we had short term investments of \$140 million and long term investments of \$1,642 million, including restricted deposits of \$101 million. The short term investments generally consist of highly liquid securities with maturities between three and 12 months. The long term investments consist of municipal, corporate and U.S. Treasury securities, government sponsored obligations, life insurance contracts, asset backed securities and equity securities and have maturities greater than one year. Restricted deposits consist of investments required by various state statutes to be deposited or pledged to state agencies. Due to the nature of the states' requirements, these investments are classified as long term regardless of the contractual maturity date. Substantially all of our investments are subject to interest rate risk and will decrease in value if market rates increase. Assuming a hypothetical and immediate 1% increase in market interest rates at June 30, 2015, the fair value of our fixed income investments would decrease by approximately \$43 million. Declines in interest rates over time will reduce our investment income.

We have interest rate swap agreements for a notional amount of \$750 million with creditworthy financial institutions to manage the impact of market interest rates on interest expense. Our swap agreements convert a portion of our interest expense from fixed to variable rates to better match the impact of changes in market rates on our variable rate cash equivalent investments. As a result, the fair value of \$750 million of our long term debt varies with market interest rates. Assuming a hypothetical and immediate 1% increase in market interest rates at June 30, 2015, the fair value of our debt would decrease by approximately \$35 million. An increase in interest rates decreases the fair value of the debt and conversely, a decrease in interest rates increases the value.

For a discussion of the interest rate risk that our investments are subject to, see Part II, Item 1A "Risk Factors—Risks Related to Our Business—Our investment portfolio may suffer losses from reductions in market interest rates and changes in market conditions which could materially and adversely affect our results of operations or liquidity."

INFLATION

The inflation rate for medical care costs has been higher than the overall inflation rate for all items. We use various strategies to mitigate the negative effects of healthcare cost inflation. Specifically, our health plans try to control medical and hospital costs through our state savings initiatives and contracts with independent providers of healthcare services. Through these contracted care providers, our health plans emphasize preventive healthcare and appropriate use of specialty and hospital services. Additionally, our contracts with states require actuarially sound premiums that include healthcare cost trend.

While we currently believe our strategies to mitigate healthcare cost inflation will continue to be successful, competitive pressures, new healthcare and pharmaceutical product introductions, demands from healthcare providers and customers, applicable regulations, an increase in the expected rate of inflation for healthcare costs or other factors may affect our ability to control the impact of healthcare cost increases.

ITEM 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures - We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act) that are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms; and (ii) accumulated and communicated to our management, including our principal executive officer and

principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the filing of this Form 10-Q, management evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2015. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2015.

Changes in Internal Control Over Financial Reporting - No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II
OTHER INFORMATION

ITEM 1. Legal Proceedings.

On July 5, 2013, the Company's subsidiary, Kentucky Spirit Health Plan, Inc. (Kentucky Spirit), terminated its contract with the Commonwealth of Kentucky (the Commonwealth). Kentucky Spirit believes it had a contractual right to terminate the contract and filed a lawsuit in Franklin Circuit Court seeking a declaration of this right. The Commonwealth has alleged that Kentucky Spirit's exit constitutes a material breach of contract. The Commonwealth seeks to recover substantial damages and to enforce its rights under Kentucky Spirit's \$25 million performance bond. The Commonwealth's attorneys have asserted that the Commonwealth's expenditures due to Kentucky Spirit's departure range from \$28 million to \$40 million plus interest, and that the associated CMS expenditures range from \$92 million to \$134 million. Kentucky Spirit disputes the Commonwealth's alleged damages, and is pursuing its own litigation claims for damages against the Commonwealth.

On February 6, 2015, the Kentucky Court of Appeals affirmed a Franklin Circuit Court ruling that Kentucky Spirit does not have a contractual right to terminate the contract early. The Court of Appeals also found that the contract's liquidated damages provision "is applicable in the event of a premature termination of the Contract term." Kentucky Spirit intends to seek Kentucky Supreme Court review of the finding that its departure constituted a breach of contract. The Commonwealth may seek review of the ruling that the liquidated damages provision is applicable in the event of a premature termination.

Kentucky Spirit also filed a lawsuit in April 2013, amended in October 2014, in Franklin Circuit Court seeking damages against the Commonwealth for losses sustained due to the Commonwealth's alleged breaches. On December 9, 2014, the Franklin Circuit Court denied the Commonwealth's motion for partial summary judgment on Kentucky Spirit's damages claims. On March 15, 2015, the Franklin Circuit Court denied the Commonwealth's motion to stay discovery and ordered that discovery proceed on those claims.

On March 9, 2015, the Secretary of the Kentucky Cabinet for Health and Family Services (CHFS) issued a determination letter finding that Kentucky Spirit owed the Commonwealth \$40 million in actual damages plus prejudgment interest at 8 percent. On March 18, 2015, in a letter to the Kentucky Finance and Administration Cabinet, Kentucky Spirit contested CHFS' jurisdiction to make such a determination. Depending on the response from the Finance and Administration Cabinet, Kentucky Spirit may bring the matter to the Franklin Circuit Court.

The resolution of the Kentucky litigation matters may result in a range of possible outcomes. If Kentucky Spirit prevails on its claims, it would be entitled to damages. If the Commonwealth prevails, a liability to the Commonwealth could be recorded. The Company is unable to estimate the ultimate outcome resulting from the Kentucky litigation. As a result, the Company has not recorded any receivable or any liability for potential damages under the contract as of June 30, 2015. While uncertain, the ultimate resolution of the pending litigation could have a material effect on the financial position, cash flow or results of operations of the Company in the period it is resolved or becomes known.

Excluding the Kentucky matters discussed above, the Company is also routinely subjected to legal proceedings in the normal course of business. While the ultimate resolution of such matters in the normal course of business is uncertain, the Company does not expect the results of any of these matters individually, or in the aggregate, to have a material effect on its financial position, results of operations or cash flows.

ITEM 1A. Risk Factors.

**FACTORS THAT MAY AFFECT FUTURE RESULTS AND THE
TRADING PRICE OF OUR COMMON STOCK**

You should carefully consider the risks described below before making an investment decision. The trading price of our common stock could decline due to any of these risks, in which case you could lose all or part of your investment. You should also refer to the other information in this filing, including our consolidated financial statements and related notes. The risks and uncertainties described below are those that we currently believe may materially affect our Company. Additional risks and uncertainties that we are unaware of or that we currently deem immaterial also may become important factors that affect our Company.

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Reductions in funding or changes to eligibility requirements for government sponsored healthcare programs in which we participate could substantially affect our financial position, results of operations and cash flows.

The majority of our revenues come from government subsidized healthcare programs including Medicaid, Medicare, CHIP, LTC, ABD, Foster Care and Health Insurance Marketplace premiums. The base premium rate paid for each program differs, depending on a combination of factors such as defined upper payment limits, a member's health status, age, gender, county or region and benefit mix. Since Medicaid was created in 1965, the federal government and the states have shared the costs, with the federal share currently averaging around 57%.

Future levels of funding and premium rates may be affected by continuing government efforts to contain healthcare costs and may further be affected by state and federal budgetary constraints. Governments periodically consider reducing or reallocating the amount of money they spend for Medicaid, Medicare, CHIP, LTC, ABD and Foster Care. Adverse economic conditions may continue to put pressures on state budgets as tax and other state revenues decrease while the population that is eligible to participate in these programs increases, creating more need for funding. We anticipate this will require government agencies to find funding alternatives, which may result in reductions in funding for programs, contraction of covered benefits, and limited or no premium rate increases or premium rate decreases. A reduction (or less than expected increase), a protracted delay, or a change in allocation methodology in government funding for these programs, as well as termination of the contract for the convenience of the government, may materially and adversely affect our results of operations, financial position and cash flows.

Additionally, changes in these programs could reduce the number of persons enrolled in or eligible for these programs or increase our administrative or healthcare costs under these programs. Recent legislation generally requires that eligibility levels be maintained, but this could cause states to reduce reimbursement or reduce benefits in order for states to afford to maintain eligibility levels. If any state in which we operate were to decrease premiums paid to us or pay us less than the amount necessary to keep pace with our cost trends, it could have a material adverse effect on our results of operations, financial position and cash flows.

Lastly, if a federal government shutdown were to occur for a prolonged period of time, federal government payment obligations, including its obligations under Medicaid, Medicare, CHIP, LTC, ABD, Foster Care and the new Health Insurance Marketplaces, may be delayed. If the federal government fails to make payments under these programs on a timely basis, our business could suffer, and our financial position, results of operations or cash flows may be materially affected.

Failure to accurately estimate and price our medical expenses or effectively manage our medical costs or related administrative costs could negatively affect our financial position, results of operations or cash flows.

Our profitability, to a significant degree, depends on our ability to estimate and effectively manage expenses related to health benefits through our ability to contract favorably with hospitals, physicians and other healthcare providers. For example, our Medicaid revenue is often based on bids submitted before the start of the initial contract year. If our actual medical expense exceeds our estimates, our health benefits ratio, or our expenses related to medical services as a percentage of premium revenue, would increase and our profits would decline. Because of the narrow margins of our health plan business, relatively small changes in our health benefits ratio can create significant changes in our financial results. Changes in healthcare regulations and practices, the level of utilization of healthcare services, hospital and pharmaceutical costs, major epidemics or pandemics, new medical technologies, pharmaceutical compounds and other external factors, including general economic conditions such as inflation and unemployment levels, are beyond our control and could reduce our ability to accurately predict and effectively control the costs of providing health benefits.

Our medical expense includes claims reported but not paid, estimates for claims incurred but not reported, and estimates for the costs necessary to process unpaid claims at the end of each period. Our development of the medical claims liability estimate is a continuous process which we monitor and refine on a monthly basis as claims receipts and payment information as well as inpatient acuity information becomes available. As more complete information becomes available, we adjust the amount of the estimate, and include the changes in estimates in medical expense in the period in which the changes are identified. However, we still cannot be sure that our medical claims liability estimate is adequate or that adjustments to the estimate will not unfavorably impact our results of operations.

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Additionally, when we commence operations in a new state, region or product, we have limited information with which to estimate our medical claims liability. For a period of time after the inception of the new business, we base our estimates on state-provided historical actuarial data and limited actual incurred and received claims and inpatient acuity information. The addition of new categories of individuals who are eligible under new legislation may pose the same difficulty in estimating our medical claims liability. Similarly, we may face difficulty in estimating our medical claims liability in 2015 for the relatively new and evolving Health Insurance Marketplaces.

From time to time in the past, our actual results have varied from our estimates, particularly in times of significant changes in the number of our members. If it is determined that our estimates are significantly different than actual results, our results of operations and financial position could be adversely affected. In addition, if there is a significant delay in our receipt of premiums, our business operations, cash flows, or earnings could be negatively impacted.

The implementation of the Health Reform Legislation and other reforms could materially and adversely affect our results of operations, financial position and cash flows.

In March 2010, the Patient Protection and Affordable Care Act and the accompanying Health Care and Education Affordability Reconciliation Act, collectively referred to as the Affordable Care Act (ACA), were enacted. While the constitutionality of the ACA was generally upheld by the Supreme Court in 2012, the Court determined that states could not be required to expand Medicaid and risk losing all federal money for their existing Medicaid programs.

Under the ACA, Medicaid coverage was expanded to all individuals under age 65 with incomes up to 138% of the federal poverty level beginning January 1, 2014, subject to each states' election. The federal government will pay the entire costs for Medicaid coverage for newly eligible beneficiaries for three years (2014 through 2016). Beginning in 2017, the federal share begins to decline, ending at 90% for 2020 and subsequent years. As of March 6, 2015, 29 states and the District of Columbia have expanded Medicaid eligibility, and additional states continue to discuss expansion. The ACA also maintained CHIP eligibility standards through September 2019.

The ACA required the establishment of Health Insurance Marketplaces for individuals and small employers to purchase health insurance coverage commencing in January 2014. Open enrollment for coverage in 2015 began on November 15, 2014 and continued until February 15, 2015. The ACA required insurers participating on the Health Insurance Marketplaces to offer a minimum level of benefits and included guidelines on setting premium rates and coverage limitations.

Our ability to adequately price products offered in the Health Insurance Marketplaces may have a negative impact on our results of operations, financial position and cash flow. We may be adversely selected by individuals who will have a higher acuity level than the anticipated pool of participants. In addition, the risk corridor, reinsurance and risk adjustment ("three Rs") provisions of the ACA established to reduce risk for insurers may not be effective in appropriately mitigating the financial risks related to the Marketplace product. Further, the reinsurance and risk corridor components may not be adequately funded. Any variation from our expectations regarding acuity, enrollment levels, adverse selection, the three Rs, or other assumptions utilized in setting adequate premium rates could have a material adverse effect on our results of operations, financial position and cash flows.

The U.S. Department of Health and Human Services (HHS) has stated that it will consider a limited number of premium assistance demonstration proposals from States that want to privatize Medicaid expansion. States must provide a choice between at least two qualified health plans and offer very similar benefits as those available in the newly created Health Insurance Marketplaces. Arkansas became the first state to obtain federal approval to use Medicaid funding to purchase private insurance for low-income residents and we began operations under the program beginning January 1, 2014.

The ACA imposes an annual insurance industry assessment of \$8.0 billion starting in 2014, and \$11.3 billion in each of 2015 and 2016, with increasing annual amounts thereafter. Such assessments are not deductible for federal and most state income tax purposes. The fee will be allocated based on health insurers' premium revenues in the previous year. Each health insurer's fee is calculated by multiplying its market share by the annual fee. Market share is based on commercial, Medicare, and Medicaid premium revenue. Not-for-profit insurers may have a competitive advantage since they are exempt from paying the fee if they receive at least 80% of their premium revenue from Medicare, Medicaid, and CHIP, and other not-for-profit insurers are allowed to exclude 50% of their premium revenue from the fee calculation. If this federal premium assessment is imposed as enacted, and if we are not reimbursed by the states for the cost of the federal premium assessment (including the associated tax impact), or if we are unable to otherwise adjust our business model to address this new assessment, our results of operations, financial position and cash flows may be materially adversely affected.

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There are numerous steps required to implement the legislation, including the promulgation of a substantial number of new and potentially more onerous federal regulations. Further, various health insurance reform proposals are also emerging at the state level. Because of the unsettled nature of these reforms and numerous steps required to implement them, we cannot predict what additional health insurance requirements will be implemented at the federal or state level, or the effect that any future legislation or regulation will have on our business or our growth opportunities. Although we believe the legislation may provide us with significant opportunities to grow our business, the enacted reforms, as well as future regulations and legislative changes, may in fact have a material adverse effect on our results of operations, financial position or liquidity. If we fail to effectively implement our operational and strategic initiatives with respect to the implementation of healthcare reform, or do not do so as effectively as our competitors, our results of operations may be materially adversely affected.

Our business activities are highly regulated and new laws or regulations or changes in existing laws or regulations or their enforcement or application could force us to change how we operate and could harm our business.

Our business is extensively regulated by the states in which we operate and by the federal government. In addition, the managed care industry has received negative publicity that has led to increased legislation, regulation, review of industry practices and private litigation in the commercial sector. In each of the jurisdictions in which we operate, we are regulated by the relevant insurance, health and/or human services departments that oversee the activities of managed care organizations providing or arranging to provide services to Medicaid, Medicare and Health Insurance Marketplace enrollees. For example, our health plan subsidiaries, as well as our applicable specialty companies, must comply with minimum statutory capital and other financial solvency requirements, such as deposit and surplus requirements.

The frequent enactment of, changes to, or interpretations of laws and regulations could, among other things: force us to restructure our relationships with providers within our network; require us to implement additional or different programs and systems; restrict revenue and enrollment growth; increase our healthcare and administrative costs; impose additional capital and surplus requirements; and increase or change our liability to members in the event of malpractice by our contracted providers. In addition, changes in political party or administrations at the state, federal or country level may change the attitude towards healthcare programs.

Additionally, the taxes and fees paid to federal, state and local governments may increase due to several factors, including: enactment of, changes to, or interpretations of tax laws and regulations, audits by governmental authorities, geographic expansions into higher taxing jurisdictions and the effect of expansions into international markets.

Our contracts with states may require us to maintain a minimum health benefits ratio (HBR) or may require us to share profits in excess of certain levels. In certain circumstances, our plans may be required to return premium back to the state in the event profits exceed established levels or HBR does not meet the minimum requirement. Other states may require us to meet certain performance and quality metrics in order to maintain our contract or receive additional or full contractual revenue.

The governmental healthcare programs in which we participate are subject to the satisfaction of certain regulations and performance standards. For example, under Health Reform Legislation, Congress authorized CMS and the states to implement managed care demonstration programs to serve dually eligible beneficiaries to improve the coordination of their care. Participation in these demonstration programs is subject to CMS approval and the satisfaction of conditions to participation, including meeting certain performance requirements. Our inability to improve or maintain adequate quality scores and star ratings to meet government performance requirements or to match the performance of our competitors could result in limitations to our participation in or exclusion from these or other government programs. Specifically, several of our Medicaid contracts require us to maintain a Medicare health plan. Although we strive to comply with all existing regulations and to meet performance standards applicable to our business, failure to

meet these requirements could result in financial fines and penalties. Also, states may not allow us to continue to participate in their government programs, or we may fail to win procurements to participate in such programs which could materially and adversely affect our results of operations, financial position and cash flows.

In addition, as a result of the expansion of our businesses and operations conducted in foreign countries, we face political, economic, legal, compliance, regulatory, operational and other risks and exposures that are unique and vary by jurisdiction. These foreign regulatory requirements with respect to, among other items, environmental, tax, licensing, intellectual property, privacy, data protection, investment, capital, management control, labor relations, and fraud and corruption regulations are different than those faced by our domestic businesses. In addition, we are subject to U.S. laws that regulate the conduct and activities of U.S.-based businesses operating abroad, such as the Foreign Corrupt Practices Act. Our failure to comply with laws and regulations governing our conduct outside the United States or to successfully navigate international regulatory regimes that apply to us could adversely affect our ability to market our products and services, which may have a material adverse effect on our business, financial condition and results of operations.

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Our businesses providing pharmacy benefit management (PBM) and specialty pharmacy services face regulatory and other risks and uncertainties which could materially and adversely affect our results of operations, financial position and cash flows.

We provide PBM and specialty pharmacy services through our US Script and AcariaHealth businesses. Each business is subject to federal and state laws that govern the relationships of the business with pharmaceutical manufacturers, physicians, pharmacies, customers and consumers. They also conduct business as a mail order pharmacy and specialty pharmacy, which subjects them to extensive federal, state and local laws and regulations. In addition, federal and state legislatures regularly consider new regulations for the industry that could materially and adversely affect current industry practices, including the receipt or disclosure of rebates from pharmaceutical companies, the development and use of formularies, and the use of average wholesale prices.

Our PBM and specialty pharmacy businesses would be materially and adversely affected by an inability to contract on favorable terms with pharmaceutical manufacturers and other suppliers, and could face potential claims in connection with purported errors by our mail order or specialty pharmacies, including in connection with the risks inherent in the authorization, compounding, packaging and distribution of pharmaceuticals and other healthcare products. Disruptions at any of our mail order or specialty pharmacies due to an event that is beyond our control could affect our ability to process and dispense prescriptions in a timely manner and could materially and adversely affect our results of operations, financial position and cash flows.

If any of our government contracts are terminated or are not renewed or we receive an adverse review, audit or investigation, our business will suffer.

We provide managed care programs and selected services to individuals receiving benefits under governmental assistance programs. We provide those healthcare services under contracts with regulatory entities in the areas in which we operate. Our government contracts are generally intended to run for three years and may be extended for additional years if the contracting entity or its agent elects to do so. When our contracts expire, they may be opened for bidding by competing healthcare providers, and there is no guarantee that our contracts will be renewed or extended. Competitors may buy their way into the market by submitting bids with lower pricing. Further, our government contracts contain certain provisions regarding eligibility, enrollment and dis-enrollment processes for covered services, eligible providers, periodic financial and informational reporting, quality assurance, timeliness of claims payment and agreement to maintain a Medicare plan in the state and financial standards and are subject to cancellation if we fail to perform in accordance with the standards set by regulatory agencies.

We are also subject to various reviews, audits and investigations to verify our compliance with the terms of our contracts with various governmental agencies and applicable laws and regulations. Any adverse review, audit or investigation could result in: cancellation of our contracts; refunding of amounts we have been paid pursuant to our contracts; imposition of fines, penalties and other sanctions on us; loss of our right to participate in various programs; increased difficulty in selling our products and services; or loss of one or more of our licenses.

If any of our government contracts are terminated, not renewed, renewed on less favorable terms, or not renewed on a timely basis, or we have an adverse review, audit or investigation, our business will suffer, our goodwill could be impaired and our financial position, results of operations or cash flows may be materially affected.

Ineffectiveness of state-operated systems and subcontractors could adversely affect our business.

Our health plans rely on other state-operated systems or subcontractors to qualify, solicit, educate and assign eligible members into managed care plans. The effectiveness of these state operations and subcontractors can have a material

effect on a health plan's enrollment in a particular month or over an extended period. When a state implements new programs to determine eligibility, new processes to assign or enroll eligible members into health plans, or chooses new subcontractors, there is an increased potential for an unanticipated impact on the overall number of members assigned to managed care plans.

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Our investment portfolio may suffer losses which could materially and adversely affect our results of operations or liquidity.

We maintain a significant investment portfolio of cash equivalents and short term and long term investments in a variety of securities, which are subject to general credit, liquidity, market and interest rate risks and will decline in value if interest rates increase or one of the issuers' credit ratings is reduced. As a result, we may experience a reduction in value or loss of liquidity of our investments, which may have a negative adverse effect on our results of operations, liquidity and financial condition.

Execution of our growth strategy may increase costs or liabilities, or create disruptions in our business.

Our growth strategy includes the acquisition of health plans participating in government sponsored healthcare programs and specialty services businesses, contract rights and related assets of other health plans both in our existing service areas and in new markets and start-up operations in new markets or new products in existing markets. Although we review the records of companies or businesses we plan to acquire, it is possible that we could assume unanticipated liabilities or adverse operating conditions, or an acquisition may not perform as well as expected or may not achieve timely profitability. We also face the risk that we will not be able to effectively integrate acquisitions into our existing operations effectively without substantial expense, delay or other operational or financial problems and we may need to divert more management resources to integration than we planned.

In connection with start-up operations, we may incur significant expenses prior to commencement of operations and the receipt of revenue. For example, in order to obtain a certificate of authority in most jurisdictions, we must first establish a provider network, have systems in place and demonstrate our ability to administer a state contract and process claims. We may experience delays in operational start dates. As a result of these factors, start-up operations may decrease our profitability. In addition, we are planning to expand our business internationally and we will be subject to additional risks, including, but not limited to, political risk, an unfamiliar regulatory regime, currency exchange risk and exchange controls, cultural and language differences, foreign tax issues, and different labor laws and practices.

If we are unable to effectively execute our growth strategy, our future growth will suffer and our results of operations could be harmed.

If competing managed care programs are unwilling to purchase specialty services from us, we may not be able to successfully implement our strategy of diversifying our business lines.

We are seeking to diversify our business lines into areas that complement our government sponsored health plan business in order to grow our revenue stream and balance our dependence on risk reimbursement. In order to diversify our business, we must succeed in selling the services of our specialty subsidiaries not only to our managed care plans, but to programs operated by third-parties. Some of these third-party programs may compete with us in some markets, and they therefore may be unwilling to purchase specialty services from us. In any event, the offering of these services will require marketing activities that differ significantly from the manner in which we seek to increase revenues from our government sponsored programs. Our ineffectiveness in marketing specialty services to third-parties may impair our ability to execute our business strategy.

Adverse credit market conditions may have a material adverse effect on our liquidity or our ability to obtain credit on acceptable terms.

The securities and credit markets have been experiencing extreme volatility and disruption over the past several years. The availability of credit, from virtually all types of lenders, has at times been restricted. In the event we need access

to additional capital to pay our operating expenses, fund subsidiary surplus requirements, make payments on or refinance our indebtedness, pay capital expenditures, or fund acquisitions, our ability to obtain such capital may be limited and the cost of any such capital may be significant, particularly if we are unable to access our existing credit facility.

Our access to additional financing will depend on a variety of factors such as prevailing economic and credit market conditions, the general availability of credit, the overall availability of credit to our industry, our credit ratings and credit capacity, and perceptions of our financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. If a combination of these factors were to occur, our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain additional financing on favorable terms or at all.

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If state regulators do not approve payments of dividends and distributions by our subsidiaries to us, we may not have sufficient funds to implement our business strategy.

We principally operate through our health plan subsidiaries. As part of normal operations, we may make requests for dividends and distributions from our subsidiaries to fund our operations. These subsidiaries are subject to regulations that limit the amount of dividends and distributions that can be paid to us without prior approval of, or notification to, state regulators. If these regulators were to deny our subsidiaries' request to pay dividends, the funds available to us would be limited, which could harm our ability to implement our business strategy.

We derive a majority of our premium revenues from operations in a limited number of states, and our financial position, results of operations or cash flows would be materially affected by a decrease in premium revenues or profitability in any one of those states.

Operations in a limited number of states have accounted for most of our premium revenues to date. If we were unable to continue to operate in any of our current states or if our current operations in any portion of one of those states were significantly curtailed, our revenues could decrease materially. Our reliance on operations in a limited number of states could cause our revenue and profitability to change suddenly and unexpectedly depending on legislative or other governmental or regulatory actions and decisions, economic conditions and similar factors in those states. For example, states we currently serve may bid out their Medicaid program through a request for proposal process. Our inability to continue to operate in any of the states in which we operate could harm our business.

Competition may limit our ability to increase penetration of the markets that we serve.

We compete for members principally on the basis of size and quality of provider networks, benefits provided and quality of service. We compete with numerous types of competitors, including other health plans and traditional state Medicaid programs that reimburse providers as care is provided. In addition, the impact of healthcare reform legislation and potential growth in our segment may attract new competitors.

Some of the health plans with which we compete have greater financial and other resources and offer a broader scope of products than we do. In addition, significant merger and acquisition activity has occurred in the managed care industry, as well as complementary industries, such as the hospital, physician, pharmaceutical, medical device and health information systems businesses. To the extent that competition intensifies in any market that we serve, as a result of industry consolidation or otherwise, our ability to retain or increase members and providers, or maintain or increase our revenue growth, pricing flexibility and control over medical cost trends may be adversely affected.

If we are unable to maintain relationships with our provider networks, our profitability may be harmed.

Our profitability depends, in large part, upon our ability to contract at competitive prices with hospitals, physicians and other healthcare providers. Our provider arrangements with our primary care physicians, specialists and hospitals generally may be canceled by either party without cause upon 90 to 120 days prior written notice. We cannot provide any assurance that we will be able to continue to renew our existing contracts or enter into new contracts on a timely basis or under favorable terms enabling us to service our members profitably. Healthcare providers with whom we contract may not properly manage the costs of services, maintain financial solvency or avoid disputes with other providers. Any of these events could have a material adverse effect on the provision of services to our members and our operations.

In any particular market, physicians and other healthcare providers could refuse to contract, demand higher payments, or take other actions that could result in higher medical costs or difficulty in meeting regulatory or accreditation requirements. In some markets, certain healthcare providers, particularly hospitals, physician/hospital organizations or

multi-specialty physician groups, may have significant market positions or near monopolies that could result in diminished bargaining power on our part. In addition, accountable care organizations, practice management companies, which aggregate physician practices for administrative efficiency and marketing leverage, and other organizational structures that physicians, hospitals and other healthcare providers choose may change the way in which these providers interact with us and may change the competitive landscape. Such organizations or groups of healthcare providers may compete directly with us, which could adversely affect our operations, and our results of operations, financial position and cash flows by impacting our relationships with these providers or affecting the way that we price our products and estimate our costs, which might require us to incur costs to change our operations. Provider networks may consolidate, resulting in a reduction in the competitive environment. In addition, if these providers refuse to contract with us, use their market position to negotiate contracts unfavorable to us or place us at a competitive disadvantage, our ability to market products or to be profitable in those areas could be materially and adversely affected.

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From time to time healthcare providers assert or threaten to assert claims seeking to terminate non-cancelable agreements due to alleged actions or inactions by us. In addition, we are aware that other managed care organizations have been subject to class action lawsuits by healthcare providers with respect to claim payment procedures, and we may be subject to similar lawsuits. Regardless of whether any lawsuits brought against us are successful or have merit, they will still be time-consuming and costly and could distract our management's attention. As a result, we may incur significant expenses and may be unable to operate our business effectively. If we are unable to retain our current provider contract terms or enter into new provider contracts timely or on favorable terms, our profitability may be harmed.

We may be unable to attract, retain or effectively manage the succession of key personnel.

We are highly dependent on our ability to attract and retain qualified personnel to operate and expand our business. We would be adversely impacted if we are unable to adequately plan for the succession of our executives and senior management. While we have succession plans in place for members of our executive and senior management team, these plans do not guarantee that the services of our executive and senior management team will continue to be available to us. Our ability to replace any departed members of our executive and senior management or other key employees may be difficult and may take an extended period of time because of the limited number of individuals in the managed care and specialty services industry with the breadth of skills and experience required to operate and successfully expand a business such as ours. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these personnel. If we are unable to attract, retain and effectively manage the succession plans for key personnel, executives and senior management, our business and financial position, results of operations or cash flows could be harmed.

If we are unable to integrate and manage our information systems effectively, our operations could be disrupted.

Our operations depend significantly on effective information systems. The information gathered and processed by our information systems assists us in, among other things, monitoring utilization and other cost factors, processing provider claims, and providing data to our regulators. Our healthcare providers also depend upon our information systems for membership verifications, claims status and other information. Our information systems and applications require continual maintenance, upgrading and enhancement to meet our operational needs and regulatory requirements. We regularly upgrade and expand our information systems' capabilities. If we experience difficulties with the transition to or from information systems or are unable to properly maintain or expand our information systems, we could suffer, among other things, operational disruptions, loss of existing members and difficulty in attracting new members, regulatory problems and increases in administrative expenses. In addition, our ability to integrate and manage our information systems may be impaired as the result of events outside our control, including acts of nature, such as earthquakes or fires, or acts of terrorists.

From time to time, we may become involved in costly and time-consuming litigation and other regulatory proceedings, which require significant attention from our management.

We are a defendant from time to time in lawsuits and regulatory actions relating to our business, including, without limitation, medical malpractice claims. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have a material adverse impact on our business and financial position, results of operations or cash flows. In addition, regardless of the outcome of any litigation or regulatory proceedings, such proceedings are costly and time consuming and require significant attention from our management, and could therefore harm our business and financial position, results of operations or cash flows.

An impairment charge with respect to our recorded goodwill and intangible assets could have a material impact on our results of operations.

We periodically evaluate our goodwill and other intangible assets to determine whether all or a portion of their carrying values may be impaired, in which case a charge to earnings may be necessary. Changes in business strategy, government regulations or economic or market conditions have resulted and may result in impairments of our goodwill and other intangible assets at any time in the future. Our judgments regarding the existence of impairment indicators are based on, among other things, legal factors, market conditions, and operational performance. For example, the non-renewal of our health plan contracts with the state in which they operate may be an indicator of impairment. If an event or events occur that would cause us to revise our estimates and assumptions used in analyzing the value of our goodwill and other intangible assets, such revision could result in a non-cash impairment charge that could have a material impact on our results of operations in the period in which the impairment occurs.

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If we fail to comply with applicable privacy, security, and data laws, regulations and standards, including with respect to third-party service providers that utilize sensitive personal information on our behalf, our business, reputation, results of operations, financial position and cash flows could be materially and adversely affected.

As part of our normal operations, we collect, process and retain confidential member information. We are subject to various federal and state laws and rules regarding the use and disclosure of confidential member information, including the Health Insurance Portability and Accountability Act (HIPAA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act and the Gramm-Leach-Bliley Act, which require us to protect the privacy of medical records and safeguard personal health information we maintain and use. Certain of our businesses are also subject to the Payment Card Industry Data Security Standard, which is a multifaceted security standard that is designed to protect credit card account data as mandated by payment card industry entities. Despite our best attempts to maintain adherence to information privacy and security best practices as well as compliance with applicable laws and rules, our facilities and systems, and those of our third party service providers, may be vulnerable to privacy or security breaches, acts of vandalism or theft, malware, misplaced or lost data including paper or electronic media, programming and/or human errors or other similar events. In the past, we have had data breaches resulting in disclosure of confidential or protected health information that have not resulted in any material financial loss or penalty to date. However, future data breaches could require us to expend significant resources to remediate any damage, interrupt our operations and damage our reputation, subject us to state or federal agency review and could also result in enforcement actions, material fines and penalties, litigation or other actions which could have a material adverse effect on our business, reputation and results of operations, financial position and cash flows.

In addition, HIPAA broadened the scope of fraud and abuse laws applicable to healthcare companies. HIPAA created civil penalties for, among other things, billing for medically unnecessary goods or services. HIPAA established new enforcement mechanisms to combat fraud and abuse, including civil and, in some instances, criminal penalties for failure to comply with specific standards relating to the privacy, security and electronic transmission of protected health information. The HITECH Act expanded the scope of these provisions by mandating individual notification in instances of breaches of protected health information, providing enhanced penalties for HIPAA violations, and granting enforcement authority to states' Attorneys General in addition to the HHS Office for Civil Rights. It is possible that Congress may enact additional legislation in the future to increase penalties and to create a private right of action under HIPAA, which could entitle patients to seek monetary damages for violations of the privacy rules. In addition, HHS has announced that it will continue its audit program to assess HIPAA compliance efforts by covered entities with a focus on security risk assessments. Although we are not aware of HHS plans to audit any of our covered entities, an audit resulting in findings or allegations of noncompliance could have a material adverse effect on our results of operations, financial position and cash flows.

Under HIPAA, health plans are required to have the capacity to accept and send all covered transactions in a standardized electronic format. Penalties can be imposed for failure to comply with these requirements. The transaction standards have been modified to version 5010 to prepare for the implementation of the ICD-10 coding system. While we have prepared for the transition to ICD-10 in October 2015, if unforeseen circumstances arise, it is possible that we could be exposed to investigations and allegations of noncompliance. In addition, if some providers continue to use ICD-9 codes on claims after October 1, 2015, we may have to reject such claims, which may lead to claim resubmissions, increased call volume and provider and customer dissatisfaction. Further, providers may use ICD-10 codes differently than they used ICD-9 codes in the past, which could result in higher costs and reimbursement levels, or lost revenues under risk adjustment. During the transition to ICD-10, certain claims processing and payment information we have historically used to establish our reserves may not be reliable or available in a timely manner. As a result, implementation of ICD 10 may have a material adverse effect on our results of operations, financial position and cash flows.

A failure in or breach of our operational or security systems or infrastructure, or those of third parties with which we do business, including as a result of cyber attacks, could have an adverse effect on our business.

Information security risks have significantly increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct our operations, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state agents. Our operations rely on the secure processing, transmission and storage of confidential, proprietary and other information in our computer systems and networks.

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Security breaches may arise from external or internal threats. External breaches include hacking personal information for financial gain, attempting to cause harm to our operations, or intending to obtain competitive information. We experience attempted external hacking or malicious attacks on a regular basis. We maintain a rigorous system of preventive and detective controls through our security programs; however, our prevention and detection controls may not prevent or identify all such attacks. Internal breaches may result from inappropriate security access to confidential information by rogue employees, consultants or third party service providers. Any security breach involving the misappropriation, loss or other unauthorized disclosure or use of confidential member information, financial data, competitively sensitive information, or other proprietary data, whether by us or a third party, could have a material adverse effect on our business reputation, financial condition, cash flows, or results of operations.

Consummation of the merger with Health Net is subject to receipt of regulatory approvals and certain other conditions and we cannot predict when or if such conditions will be satisfied or waived or if, in connection with the receipt of necessary approvals, regulators will impose conditions on us that have an adverse effect on our business.

Consummation of the merger with Health Net is subject to receipt of regulatory approvals and certain other conditions, including, among others:

- the approval of the stockholders of both our Company and Health Net;
- the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended;
- certain filings or consents required for the consummation of the Merger and the other transactions under applicable state and foreign insurance and health care regulatory laws having been made or obtained;
- the effectiveness of a registration statement covering the shares of our common stock to be issued to the stockholders of Health Net; and
- certain other customary conditions.

We cannot provide any assurance that the merger will be completed, that there will not be a delay in the completion of the merger or that all or any of the anticipated benefits of the merger will be realized. Any delay could also, among other things, result in additional transaction costs, loss of revenue or other negative effects associated with uncertainty about completion of the merger. In the event the merger agreement is terminated or the transaction is materially delayed for any reason, the price of our common stock may be impacted. Regulatory authorities reviewing the merger may refuse to permit the merger or may impose restrictions or conditions on the merger that may adversely affect the Company if the merger is completed.

The anticipated benefits of the merger with Health Net may not be realized fully and may take longer to realize than expected.

The success of the merger will depend, in part, on our ability to successfully combine the businesses of the Company and Health Net, which currently operate as independent public companies, and realize the anticipated benefits, including synergies, cost savings, innovation and operational efficiencies, from the combination. If we are unable to achieve these objectives within the anticipated time frame, or at all, the anticipated benefits may not be realized fully or at all, or may take longer to realize than expected and the value of our common stock may be harmed.

The merger involves the integration of Health Net's businesses with our existing business, which is a complex, costly and time-consuming process. We have not previously completed a transaction comparable in size or scope to the proposed merger. The integration of the two companies may result in material challenges, including, without limitation:

- the diversion of management's attention from ongoing business concerns and performance shortfalls at one or both of the companies as a result of the devotion of management's attention to the merger;
- managing a larger combined company;
- maintaining employee morale and retaining key management and other employees;
- the possibility of faulty assumptions underlying expectations regarding the integration process;
- retaining existing business and operational relationships and attracting new business and operational relationships;

- consolidating corporate and administrative infrastructures and eliminating duplicative operations;
- coordinating geographically separate organizations;
- unanticipated issues in integrating information technology, communications and other systems;
- unanticipated changes in federal or state laws or regulations, including the Patient Protection and Affordable Care Act and the Health Care Education Affordability Reconciliation Act and any regulations enacted thereunder; and
- unforeseen expenses or delays associated with the merger.

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Many of these factors will be outside of our control and any one of them could result in delays, increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could materially affect our financial position, results of operations and cash flows.

We and Health Net are currently permitted to conduct only limited planning regarding the integration of the two companies following the merger and have not yet determined the exact nature of how the businesses and operations of the two companies will be combined after the merger. The actual integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized.

Our financial results after the merger will depend on our ability to maintain our and Health Net's business and operational relationships.

A substantial portion of each of our and Health Net's revenues are received under contracts with states. Our success following the merger will depend in part on our ability to maintain these state contracts and other business and operational relationships, including those of Health Net. Health Net's state contracts and other business and operational relationships may have termination or other rights that may be triggered by the merger, or the states or other business and operational relationships may decide not to renew their existing relationships with Health Net or, after the merger, with us. If Health Net (prior to the completion of the merger) and we (after the completion of the merger) are unable to maintain these contracts and other business and operational relationships, our financial position, results of operations or cash flows could be materially affected.

We will incur significant transaction and merger-related costs in connection with the merger.

We will incur significant costs in connection with the integration process. The substantial majority of these costs will be non-recurring expenses related to the merger (including financing of the merger), facilities and systems consolidation costs. We may incur additional costs to maintain employee morale and to retain key employees. We will also incur transaction fees and costs related to formulating integration plans. Additional unanticipated costs may be incurred in the integration of Health Net's businesses. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to more than offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all. Additionally, as a result of the merger, rating agencies may take negative actions with regard to our credit ratings. This may increase our costs in connection with the financing of the merger.

Failure to complete the merger could impact our stock price and our future business and financial position, results of operations and cash flows.

If the merger is not completed or our financing for the transaction becomes unavailable, our ongoing business and financial position, results of operations and cash flows may be materially affected and we will be subject to a number of risks, including the following:

- depending on the reasons leading to such termination we could be liable to Health Net for termination fees in connection with the termination of the merger agreement;
- we could be responsible for the transaction costs relating to the merger, whether or not the merger is completed;
- while the merger agreement is in force, we are subject to certain restrictions on the conduct of our business, which may adversely affect our ability to execute certain of our business strategies;
- the market price of our common stock could decline to the extent that the current market price reflects, and is positively affected by, a market assumption that the transactions contemplated by the merger will be completed; and
- matters relating to the merger (including integration planning) may require substantial commitments of time and resources by our management, whether or not the merger is completed, which could otherwise have been devoted to other opportunities that may have been beneficial to us.

In addition, if the merger is not completed, we may experience negative reactions from the financial markets and from our providers, members and employees. We may also be subject to litigation related to any failure to complete the merger or to enforcement proceedings commenced against us to perform our obligations under the merger agreement. If the merger is not completed, these risks may materialize and may materially affect our financial position, results of operations and cash flows, as well as the price of our common stock.

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The market price of our common stock may decline as a result of the merger with Health Net.

The market price of the common stock of our company may decline as a result of the merger if, among other things, we are unable to achieve the expected growth in earnings, or if the operational cost savings estimates in connection with the integration of Health Net's business with ours are not realized, or if the transaction costs related to the merger are greater than expected, or if the financing related to the transaction is on unfavorable terms. The market price also may decline if we do not achieve the perceived benefits of the merger as rapidly or to the extent anticipated by financial or industry analysts or if the effect of the merger on our financial position, results of operations or cash flows is not consistent with the expectations of financial or industry analysts.

The merger will substantially reduce the percentage ownership interests of our current stockholders; it may not be accretive and may cause dilution to our earnings per share, which may negatively affect the market price of our common stock.

Our stockholders have the right to vote in the election of our Board of Directors and on certain other matters affecting the Company. If the merger is completed we will pay approximately \$6.8 billion and Health Net's stockholders are expected to hold approximately 29% of the common stock of the Company after the merger. As a result, if the merger is completed, our pre-merger stockholders will own a smaller proportion of our outstanding common stock than the proportion of our outstanding common stock they owned before the merger and, as a result, they will have less influence on our management and policies following the merger than they now have on our management and policies. We currently anticipate that the merger will be accretive to our earnings per share. This expectation is based on preliminary estimates which may materially change. We could also encounter additional transaction and integration-related costs or other factors such as the failure to realize all of the benefits anticipated in the merger, or unforeseen liabilities or other issues existing or arising with the business of Health Net or otherwise resulting from the merger. All of these factors could cause dilution to our earnings per share or decrease or delay the expected accretive effect of the merger and cause a decrease in the price of our common stock.

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ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities
Second Quarter 2015

Period	Total Number of Shares Purchased ¹	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ²
April 1 – April 30, 2015	20,935	\$70.55	—	3,335,448
May 1 - May 31, 2015	18,232	67.69	—	3,335,448
June 1 - June 30, 2015	9,185	76.67	—	3,335,448
Total	48,352	\$70.64	—	3,335,448

⁽¹⁾ Shares acquired represent shares relinquished to the Company by certain employees for payment of taxes or option cost upon vesting of restricted stock units or option exercise.

⁽²⁾ Our Board of Directors adopted a stock repurchase program which allows for repurchases of up to a remaining amount of 3,335,448 shares. No duration has been placed on the repurchase program.

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ITEM 6. Exhibits.

EXHIBIT NUMBER	DESCRIPTION
2.1	Agreement and Plan of Merger, dated as of July 2, 2015, by and among Centene Corporation, Health Net, Inc. Chopin Merger Sub I, Inc., and Chopin Merger Sub II, Inc., incorporated by reference to Exhibit 2.1 to Centene Corporation's Current Report on Form 8-K dated July 7, 2015.
10.1*	Amended and Restated Non-Employee Directors Deferred Stock Compensation Plan.
10.2	Voting Agreement, dated as of July 2, 2015, by and between Centene Corporation and Jay M. Gellert, incorporated by reference to Exhibit 10.1 to Centene Corporation's Current Report on Form 8-K dated July 7, 2015.
12.1	Computation of ratio of earnings to fixed charges.
31.1	Certification of Chairman, President and Chief Executive Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Executive Vice President and Chief Financial Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chairman, President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	XBRL Taxonomy Instance Document.
101.2	XBRL Taxonomy Extension Schema Document.
101.3	XBRL Taxonomy Extension Calculation Linkbase Document.
101.4	XBRL Taxonomy Extension Definition Linkbase Document.
101.5	XBRL Taxonomy Extension Label Linkbase Document.
101.6	XBRL Taxonomy Extension Presentation Linkbase Document.

* Indicates a management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized as of July 28, 2015.

CENTENE CORPORATION

By: /s/ MICHAEL F. NEIDORFF
Chairman, President and Chief Executive Officer
(principal executive officer)

By: /s/ WILLIAM N. SCHEFFEL
Executive Vice President and Chief Financial Officer
(principal financial officer)

By: /s/ JEFFREY A. SCHWANEKE
Senior Vice President, Corporate Controller and Chief
Accounting Officer
(principal accounting officer)