

EXXON MOBIL CORP
Form 10-Q
November 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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
(State or other jurisdiction of

13-5409005
(I.R.S. Employer

incorporation or organization)

Identification Number)

5959 LAS COLINAS BOULEVARD, IRVING, TEXAS 75039-2298

(Address of principal executive offices) (Zip Code)

(972) 940-6000

(Registrant's telephone number, including area code)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding as of September 30, 2018 |
|--|---|
| Common stock, without par value | 4,233,807,170 |

EXXON MOBIL CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EXXON MOBIL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(millions of dollars)

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Revenues and other income | | | | |
| Sales and other operating revenue | 74,187 | 59,350 | 211,079 | 171,850 |
| Income from equity affiliates | 1,960 | 1,472 | 5,599 | 4,707 |
| Other income | 458 | 278 | 1,639 | 1,291 |
| Total revenues and other income | 76,605 | 61,100 | 218,317 | 177,848 |
| Costs and other deductions | | | | |
| Crude oil and product purchases | 41,776 | 31,432 | 119,391 | 91,985 |
| Production and manufacturing expenses | 9,097 | 7,952 | 26,506 | 23,578 |
| Selling, general and administrative expenses | 2,892 | 2,632 | 8,632 | 7,693 |
| Depreciation and depletion | 4,658 | 4,880 | 13,717 | 14,051 |
| Exploration expenses, including dry holes | 292 | 284 | 911 | 1,087 |
| Non-service pension and postretirement benefit expense | 307 | 475 | 952 | 1,267 |
| Interest expense | 200 | 111 | 551 | 415 |
| Other taxes and duties | 8,303 | 7,751 | 24,825 | 22,115 |
| Total costs and other deductions | 67,525 | 55,517 | 195,485 | 162,191 |
| Income before income taxes | 9,080 | 5,583 | 22,832 | 15,657 |
| Income taxes | 2,634 | 1,498 | 7,617 | 4,218 |
| Net income including noncontrolling interests | 6,446 | 4,085 | 15,215 | 11,439 |
| Net income attributable to noncontrolling interests | 206 | 115 | 375 | 109 |
| Net income attributable to ExxonMobil | 6,240 | 3,970 | 14,840 | 11,330 |
| | | | | |
| Earnings per common share <i>(dollars)</i> | 1.46 | 0.93 | 3.47 | 2.66 |
| | | | | |
| Earnings per common share - assuming dilution <i>(dollars)</i> | 1.46 | 0.93 | 3.47 | 2.66 |

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

EXXON MOBIL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(millions of dollars)

| | Three Months Ended | | Nine Months Ended | |
|---|-------------------------------|-------------|-------------------------------|-------------|
| | September 30, 2018 | 2017 | September 30, 2018 | 2017 |
| Net income including noncontrolling interests | 6,446 | 4,085 | 15,215 | 11,439 |
| Other comprehensive income (net of income taxes) | | | | |
| Foreign exchange translation adjustment | 124 | 2,342 | (2,720) | 5,424 |
| Adjustment for foreign exchange translation (gain)/loss included in net income | - | - | 186 | 234 |
| Postretirement benefits reserves adjustment (excluding amortization) | (3) | (145) | (394) | (329) |
| Amortization and settlement of postretirement benefits reserves | | | | |
| adjustment included in net periodic benefit costs | 223 | 311 | 689 | 850 |
| Total other comprehensive income | 344 | 2,508 | (2,239) | 6,179 |
| Comprehensive income including noncontrolling interests | 6,790 | 6,593 | 12,976 | 17,618 |
| Comprehensive income attributable to noncontrolling interests | 311 | 372 | 205 | 700 |
| Comprehensive income attributable to ExxonMobil | 6,479 | 6,221 | 12,771 | 16,918 |

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

EXXON MOBIL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(millions of dollars)

| | Sept. 30, 2018 | Dec. 31, 2017 |
|--|---------------------------|--------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 5,669 | 3,177 |
| Notes and accounts receivable – net | 27,880 | 25,597 |
| Inventories | | |
| Crude oil, products and merchandise | 14,617 | 12,871 |
| Materials and supplies | 4,144 | 4,121 |
| Other current assets | 1,665 | 1,368 |
| Total current assets | 53,975 | 47,134 |
| Investments, advances and long-term receivables | 40,427 | 39,160 |
| Property, plant and equipment – net | 249,153 | 252,630 |
| Other assets, including intangibles – net | 11,073 | 9,767 |
| Total assets | 354,628 | 348,691 |
| Liabilities | | |
| Current liabilities | | |
| Notes and loans payable | 19,413 | 17,930 |
| Accounts payable and accrued liabilities | 41,714 | 36,796 |
| Income taxes payable | 4,161 | 3,045 |
| Total current liabilities | 65,288 | 57,771 |
| Long-term debt | 20,624 | 24,406 |
| Postretirement benefits reserves | 21,448 | 21,132 |
| Deferred income tax liabilities | 27,084 | 26,893 |
| Long-term obligations to equity companies | 4,625 | 4,774 |
| Other long-term obligations | 18,728 | 19,215 |
| Total liabilities | 157,797 | 154,191 |
| Commitments and contingencies (Note 3) | | |
| Equity | | |
| Common stock without par value | | |
| (9,000 million shares authorized, 8,019 million shares issued) | 15,254 | 14,656 |
| Earnings reinvested | 419,155 | 414,540 |
| Accumulated other comprehensive income | (18,370) | (16,262) |
| Common stock held in treasury | | |
| (3,785 million shares at September 30, 2018 and 3,780 million shares at December 31, 2017) | (225,674) | (225,246) |
| ExxonMobil share of equity | 190,365 | 187,688 |
| Noncontrolling interests | 6,466 | 6,812 |
| Total equity | 196,831 | 194,500 |
| Total liabilities and equity | 354,628 | 348,691 |

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

EXXON MOBIL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(millions of dollars)

| | Nine Months Ended | |
|---|--------------------------|-------------|
| | September 30, | |
| | 2018 | 2017 |
| Cash flows from operating activities | | |
| Net income including noncontrolling interests | 15,215 | 11,439 |
| Depreciation and depletion | 13,717 | 14,051 |
| Changes in operational working capital, excluding cash and debt | (25) | (547) |
| All other items – net | (1,500) | (2,288) |
| Net cash provided by operating activities | 27,407 | 22,655 |
| Cash flows from investing activities | | |
| Additions to property, plant and equipment | (13,480) | (10,901) |
| Proceeds associated with sales of subsidiaries, property, plant and equipment, and sales and returns of investments | 3,239 | 1,695 |
| Additional investments and advances | (1,113) | (1,950) |
| Other investing activities including collection of advances | 492 | 1,962 |
| Net cash used in investing activities | (10,862) | (9,194) |
| Cash flows from financing activities | | |
| Additions to long-term debt | - | 60 |
| Additions to short-term debt | - | 1,735 |
| Reductions in short-term debt | (4,279) | (4,971) |
| Additions/(reductions) in commercial paper, and debt with three months or less maturity (1) | 1,626 | 339 |
| Cash dividends to ExxonMobil shareholders | (10,296) | (9,712) |
| Cash dividends to noncontrolling interests | (192) | (139) |
| Changes in noncontrolling interests | (374) | (90) |
| Common stock acquired | (430) | (515) |
| Net cash used in financing activities | (13,945) | (13,293) |
| Effects of exchange rate changes on cash | (108) | 441 |
| Increase/(decrease) in cash and cash equivalents | 2,492 | 609 |
| Cash and cash equivalents at beginning of period | 3,177 | 3,657 |
| Cash and cash equivalents at end of period | 5,669 | 4,266 |
| Supplemental Disclosures | | |
| Income taxes paid | 6,740 | 4,611 |
| Cash interest paid | 839 | 965 |

2017 Noncash Transactions

In the first nine months of 2017, the Corporation completed the acquisitions of InterOil Corporation and of companies that own certain oil and gas properties in the Permian Basin and other assets. These transactions included a significant noncash component associated with the issuance of a combined 96 million shares of Exxon Mobil Corporation

common stock in acquisition consideration.

(1) Includes a net addition of commercial paper with a maturity of over three months of \$0.3 billion in 2018 and a net reduction of \$0.5 billion in 2017. The gross amount of commercial paper with a maturity of over three months issued was \$3.1 billion in 2018 and \$2.7 billion in 2017, while the gross amount repaid was \$2.8 billion in 2018 and \$3.2 billion in 2017.

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

EXXON MOBIL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(millions of dollars)

| | ExxonMobil Share of Equity | | | | | | |
|--|-----------------------------------|--------------------------------|---|--|---|---|-------------------------|
| | Accumulated | | | | | | |
| | Common Stock | Earnings Reinvested | Other Compre- hensive Income | Common Stock Held in Treasury | ExxonMobil Share of Equity | Non- controlling Interests | Total Equity |
| Balance as of December 31, 2016 | 12,157 | 407,831 | (22,239) | (230,424) | 167,325 | 6,505 | 173,830 |
| Amortization of stock-based awards | 635 | - | - | - | 635 | - | 635 |
| Other | (87) | - | - | - | (87) | (54) | (141) |
| Net income for the period | - | 11,330 | - | - | 11,330 | 109 | 11,439 |
| Dividends - common shares | - | (9,712) | - | - | (9,712) | (139) | (9,851) |
| Other comprehensive income | - | - | 5,588 | - | 5,588 | 591 | 6,179 |
| Acquisitions, at cost | - | - | - | (596) | (596) | (90) | (686) |
| Issued for acquisitions | 2,078 | - | - | 5,711 | 7,789 | - | 7,789 |
| Dispositions | - | - | - | 4 | 4 | - | 4 |
| Balance as of September 30, 2017 | 14,783 | 409,449 | (16,651) | (225,305) | 182,276 | 6,922 | 189,198 |
| Balance as of December 31, 2017 | 14,656 | 414,540 | (16,262) | (225,246) | 187,688 | 6,812 | 194,500 |
| Amortization of stock-based awards | 605 | - | - | - | 605 | - | 605 |
| Other | (7) | - | - | - | (7) | (8) | (15) |
| Net income for the period | - | 14,840 | - | - | 14,840 | 375 | 15,215 |
| Dividends - common shares | - | (10,296) | - | - | (10,296) | (192) | (10,488) |
| Cumulative effect of accounting change | - | 71 | (39) | - | 32 | 15 | 47 |
| Other comprehensive income | - | - | (2,069) | - | (2,069) | (170) | (2,239) |
| Acquisitions, at cost | - | - | - | (430) | (430) | (366) | (796) |
| Dispositions | - | - | - | 2 | 2 | - | 2 |
| Balance as of September 30, 2018 | 15,254 | 419,155 | (18,370) | (225,674) | 190,365 | 6,466 | 196,831 |

| <u>Common Stock Share Activity</u> | Nine Months Ended September 30, 2018 | | | Nine Months Ended September 30, 2017 | | |
|---|---|-----------------|--------------------|---|-----------------|--------------------|
| | Held in | | | Held in | | |
| | Issued | Treasury | Outstanding | Issued | Treasury | Outstanding |
| | <i>(millions of shares)</i> | | | <i>(millions of shares)</i> | | |

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| | | | | | | |
|----------------------------|-------|---------|-------|-------|---------|-------|
| Balance as of December 31 | 8,019 | (3,780) | 4,239 | 8,019 | (3,871) | 4,148 |
| Acquisitions | - | (5) | (5) | - | (7) | (7) |
| Issued for acquisitions | - | - | - | - | 96 | 96 |
| Dispositions | - | - | - | - | - | - |
| Balance as of September 30 | 8,019 | (3,785) | 4,234 | 8,019 | (3,782) | 4,237 |

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

EXXON MOBIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Financial Statement Preparation

These unaudited condensed consolidated financial statements should be read in the context of the consolidated financial statements and notes thereto filed with the Securities and Exchange Commission in the Corporation's 2017 Annual Report on Form 10-K. In the opinion of the Corporation, the information furnished herein reflects all known accruals and adjustments necessary for a fair statement of the results for the periods reported herein. All such adjustments are of a normal recurring nature. Prior data has been reclassified in certain cases to conform to the current presentation basis.

The Corporation's exploration and production activities are accounted for under the "successful efforts" method.

2. Accounting Changes

Effective January 1, 2018, ExxonMobil adopted the Financial Accounting Standards Board's standard, *Revenue from Contracts with Customers (Topic 606)*, as amended. The standard establishes a single revenue recognition model for all contracts with customers, eliminates industry and transaction specific requirements, and expands disclosure requirements. The standard was adopted using the Modified Retrospective method, under which prior year results are not restated, but supplemental information is provided for any material impacts of the standard on 2018 results. The adoption of the standard did not have a material impact on any of the lines reported in the Corporation's financial statements. The cumulative effect of adoption of the standard was de minimis. The Corporation did not elect any practical expedients that require disclosure. See Note 9.

Effective January 1, 2018, ExxonMobil adopted the Financial Accounting Standards Board's Update, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The standard requires investments in equity securities other than consolidated subsidiaries and equity method investments to be measured at fair value with changes in the fair value recognized through net income. The Corporation elected a modified approach for equity securities that do not have a readily determinable fair value. This modified approach measures investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The cumulative effect adjustment related to the adoption of this standard increased equity \$47 million. The portion of

unrealized gains and losses recognized during the reporting period on equity securities still held at September 30, 2018 and the carrying value of equity securities without readily determinable fair values at September 30, 2018 were not significant to the Corporation. The standard also expanded disclosures related to financial instruments. See Note 7.

Effective January 1, 2018, ExxonMobil adopted the Financial Accounting Standards Board's Update, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The update requires separate presentation of the service cost component from other components of net benefit costs. The other components are reported in a new line on the Corporation's Statement of Income, "Non-service pension and postretirement benefit expense." The Corporation elected to use the practical expedient which uses the amounts disclosed in the pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements, as it is impracticable to determine the amounts capitalized in those periods. Beginning in 2018, the other components of net benefit costs are included in the Corporate and financing segment. The estimated after-tax impact from the change in segmentation is an increase in Corporate and financing expenses of about \$100 million for the third quarter and \$300 million for the first nine months of 2018. The increase in the Corporate and financing expenses is offset by lower expenses across the operating segments. Additionally, only the service cost component of net benefit costs is eligible for capitalization in situations where it is otherwise appropriate to capitalize employee costs in connection with the construction or production of an asset.

The impact of the retrospective presentation change on ExxonMobil's Consolidated Statement of Income for the three months and nine months ended September 30, 2017, is shown below.

| | Three Months Ended September 30, 2017 | | | Nine Months Ended September 30, 2017 | | |
|--|--|--------|-------------|---|---------|-------------|
| | As Reported | Change | As Adjusted | As Reported | Change | As Adjusted |
| | <i>(millions of dollars)</i> | | | | | |
| Production and manufacturing expenses | 8,334 | (382) | 7,952 | 24,586 | (1,008) | 23,578 |
| Selling, general and administrative expenses | 2,725 | (93) | 2,632 | 7,952 | (259) | 7,693 |
| Non-service pension and postretirement benefit expense | - | 475 | 475 | - | 1,267 | 1,267 |

Effective January 1, 2019, ExxonMobil will adopt the Financial Accounting Standards Board's standard, *Leases (Topic 842)*, as amended. The standard requires all leases with an initial term greater than one year to be recorded on the balance sheet as a right of use asset and a lease liability. We expect to use a transition method that applies the new lease standard at January 1, 2019, and recognizes any cumulative-effect adjustments to the opening balance of 2019 retained earnings.

The Corporation acquired lease accounting software to facilitate implementation, and is currently configuring and testing the software. Based on leases outstanding at the end of 2017, the Corporation estimates the operating lease right of use asset and lease liability would have been in the range of \$4 billion to \$5 billion at that time. The effect on the Corporation's balance sheet as a result of implementing the standard on January 1, 2019, could differ considerably depending on operating leases commenced in 2018 as well as interest rates and other factors such as the expiry or renewal of leases during the year.

3. Litigation and Other Contingencies

Litigation

A variety of claims have been made against ExxonMobil and certain of its consolidated subsidiaries in a number of pending lawsuits. Management has regular litigation reviews, including updates from corporate and outside counsel, to assess the need for accounting recognition or disclosure of these contingencies. The Corporation accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. The Corporation does not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated or when the liability is believed to be only reasonably possible or remote. 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. For purposes of our contingency disclosures, “significant” includes material matters, as well as other matters which management believes should be disclosed. ExxonMobil will continue to defend itself vigorously in these matters. 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 material adverse effect upon the Corporation's operations, financial condition, or financial statements taken as a whole.

Other Contingencies

The Corporation and certain of its consolidated subsidiaries were contingently liable at September 30, 2018, for guarantees relating to notes, loans and performance under contracts. Where guarantees for environmental remediation and other similar matters do not include a stated cap, the amounts reflect management’s estimate of the maximum potential exposure. These 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.

| | As of September 30, 2018 | | |
|--------------|---|--|--------------|
| | Equity Company Obligations (1) | Other Third Party Obligations | Total |
| | <i>(millions of dollars)</i> | | |
| Guarantees | | | |
| Debt-related | 461 | 63 | 524 |
| Other | 1,008 | 4,046 | 5,054 |
| Total | 1,469 | 4,109 | 5,578 |

(1) ExxonMobil share

Additionally, the Corporation and its affiliates have numerous long-term sales and purchase commitments in their various business activities, all of which are expected to be fulfilled with no adverse consequences material to the Corporation's operations or financial condition.

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 developments and laws and regulations, such as forced divestiture of assets; restrictions on production, imports and exports; price controls; tax increases and retroactive tax claims; expropriation of property; cancellation of contract rights and environmental regulations. Both the likelihood of such occurrences and their overall effect upon the Corporation vary greatly from country to country and are not predictable.

In accordance with a Venezuelan nationalization decree issued in February 2007, a subsidiary of the Venezuelan National Oil Company (PdVSA) assumed the operatorship of the Cerro Negro Heavy Oil Project. The decree also required conversion of the Cerro Negro Project into a "mixed enterprise" and an increase in PdVSA's or one of its affiliate's ownership interest in the Project. ExxonMobil refused to accede to the terms proffered by the government, and on June 27, 2007, the government expropriated ExxonMobil's 41.67 percent interest in the Cerro Negro Project.

ExxonMobil collected awards of \$908 million in an arbitration against PdVSA under the rules of the International Chamber of Commerce in respect of an indemnity related to the Cerro Negro Project and \$260 million in an arbitration for compensation due for the La Ceiba Project and for export curtailments at the Cerro Negro Project under rules of International Centre for Settlement of Investment Disputes (ICSID). An ICSID arbitration award relating to the Cerro Negro Project's expropriation (\$1.4 billion) was annulled based on a determination that a prior Tribunal failed to adequately explain why the cap on damages in the indemnity owed by PdVSA did not affect or limit the amount owed for the expropriation of the Cerro Negro Project. ExxonMobil filed a new claim seeking to restore the original award of damages for the Cerro Negro Project with ICSID on September 26, 2018.

The net impact of this matter on the Corporation's consolidated financial results cannot be reasonably estimated. Regardless, the Corporation does not expect the resolution to have a material effect upon the Corporation's operations or financial condition.

An affiliate of ExxonMobil is one of the Contractors under a Production Sharing Contract (PSC) with the Nigerian National Petroleum Corporation (NNPC) covering the Erha block located in the offshore waters of Nigeria. ExxonMobil's affiliate is the operator of the block and owns a 56.25 percent interest under the PSC. The Contractors are in dispute with NNPC regarding NNPC's lifting of crude oil in excess of its entitlement under the terms of the PSC. In accordance with the terms of the PSC, the Contractors initiated arbitration in Abuja, Nigeria, under the Nigerian Arbitration and Conciliation Act. On October 24, 2011, a three-member arbitral Tribunal issued an award upholding the Contractors' position in all material respects and awarding damages to the Contractors jointly in an amount of approximately \$1.8 billion plus \$234 million in accrued interest. The Contractors petitioned a Nigerian federal court for enforcement of the award, and NNPC petitioned the same court to have the award set aside. On May 22, 2012, the court set aside the award. The Contractors appealed that judgment to the Court of Appeal, Abuja Judicial Division. On July 22, 2016, the Court of Appeal upheld the decision of the lower court setting aside the

award. On October 21, 2016, the Contractors appealed the decision to the Supreme Court of Nigeria. In June 2013, the Contractors filed a lawsuit against NNPC in the Nigerian federal high court in order to preserve their ability to seek enforcement of the PSC in the courts if necessary. Following dismissal by this court, the Contractors appealed to the Nigerian Court of Appeal in June 2016. In October 2014, the Contractors filed suit in the United States District Court for the Southern District of New York to enforce, if necessary, the arbitration award against NNPC assets residing within that jurisdiction. NNPC has moved to dismiss the lawsuit. At this time, the net impact of this matter on the Corporation's consolidated financial results cannot be reasonably estimated. However, regardless of the outcome of enforcement proceedings, the Corporation does not expect the proceedings to have a material effect upon the Corporation's operations or financial condition.

4. Other Comprehensive Income Information

| <u>ExxonMobil Share of Accumulated Other Comprehensive Income</u> | Cumulative Foreign Exchange Translation Adjustment | Post-retirement Benefits Reserves Adjustment | Total |
|--|---|---|--------------|
| | | <i>(millions of dollars)</i> | |
| Balance as of December 31, 2016 | (14,501) | (7,738) | (22,239) |
| Current period change excluding amounts reclassified from accumulated other comprehensive income | 4,925 | (300) | 4,625 |
| Amounts reclassified from accumulated other comprehensive income | 140 | 823 | 963 |
| Total change in accumulated other comprehensive income | 5,065 | 523 | 5,588 |
| Balance as of September 30, 2017 | (9,436) | (7,215) | (16,651) |
| Balance as of December 31, 2017 | (9,482) | (6,780) | (16,262) |
| Current period change excluding amounts reclassified from accumulated other comprehensive income | (2,551) | (406) | (2,957) |
| Amounts reclassified from accumulated other comprehensive income | 186 | 663 | 849 |
| Total change in accumulated other comprehensive income | (2,365) | 257 | (2,108) |
| Balance as of September 30, 2018 | (11,847) | (6,523) | (18,370) |

| <u>Amounts Reclassified Out of Accumulated Other Comprehensive Income - Before-tax Income/(Expense)</u> | Three Months Ended | | Nine Months Ended | |
|--|------------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | <i>(millions of dollars)</i> | | | |
| Foreign exchange translation gain/(loss) included in net income (Statement of Income line: Other income) | - | - | (186) | (234) |
| Amortization and settlement of postretirement benefits reserves adjustment included in net periodic benefit costs (Statement of Income Line: Non-service pension and postretirement benefit expense) | (287) | (450) | (897) | (1,215) |

| Income Tax (Expense)/Credit For Components of Other Comprehensive Income | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| | <i>(millions of dollars)</i> | | | |
| Foreign exchange translation adjustment | 8 | 17 | 13 | (9) |
| Postretirement benefits reserves adjustment (excluding amortization) | - | 74 | 66 | 154 |
| Amortization and settlement of postretirement benefits reserves | | | | |
| adjustment included in net periodic benefit costs | (64) | (139) | (208) | (365) |
| Total | (56) | (48) | (129) | (220) |

5. Earnings Per Share

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Earnings per common share | | | | |
| Net income attributable to ExxonMobil (<i>millions of dollars</i>) | 6,240 | 3,970 | 14,840 | 11,330 |
| Weighted average number of common shares outstanding (<i>millions of shares</i>) | 4,271 | 4,271 | 4,271 | 4,252 |
| Earnings per common share (<i>dollars</i>) (1) | 1.46 | 0.93 | 3.47 | 2.66 |
| Dividends paid per common share (<i>dollars</i>) | 0.82 | 0.77 | 2.41 | 2.29 |

(1) The calculation of earnings per common share and earnings per common share – assuming dilution are the same in each period shown.

6. Pension and Other Postretirement Benefits

| | Three Months Ended | | Nine Months Ended | |
|---|-------------------------------|----------------------|--------------------------|----------------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2018 | 2017 | 2018 | 2017 |
| <i>(millions of dollars)</i> | | | | |
| Components of net benefit cost | | | | |
| Pension Benefits - U.S. | | | | |
| Service cost | 203 | 200 | 616 | 583 |
| Interest cost | 179 | 199 | 540 | 598 |
| Expected return on plan assets | (182) | (194) | (545) | (582) |
| Amortization of actuarial loss/(gain) and prior service cost | 93 | 110 | 276 | 332 |
| Net pension enhancement and curtailment/settlement cost | 63 | 187 | 189 | 450 |
| Net benefit cost | 356 | 502 | 1,076 | 1,381 |
| Pension Benefits - Non-U.S. | | | | |
| Service cost | 149 | 155 | 461 | 445 |
| Interest cost | 185 | 198 | 571 | 574 |
| Expected return on plan assets | (233) | (260) | (722) | (743) |
| Amortization of actuarial loss/(gain) and prior | | | | |

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| | | | | |
|---|-----|-----|------|------|
| service cost | 113 | 135 | 344 | 388 |
| Net pension enhancement and curtailment/settlement cost | - | - | 33 | (5) |
| Net benefit cost | 214 | 228 | 687 | 659 |
| Other Postretirement Benefits | | | | |
| Service cost | 40 | 36 | 111 | 92 |
| Interest cost | 75 | 88 | 226 | 227 |
| Expected return on plan assets | (5) | (6) | (17) | (17) |
| Amortization of actuarial loss/(gain) and prior service cost | 19 | 18 | 57 | 45 |
| Net benefit cost | 129 | 136 | 377 | 347 |

7. Financial Instruments and Derivatives

Financial Instruments. Effective January 1, 2018, ExxonMobil adopted the Financial Accounting Standards Board's Update, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The estimated fair value of financial instruments at September 30, 2018, and the related hierarchy level for the fair value measurement is as follows:

| | Carrying Value | At September 30, 2018 (millions of dollars) | | | Total |
|--|-------------------|--|-----------------------|---------|--------|
| | | Level 1 | Fair Value Level 2 | Level 3 | |
| Assets | | | | | |
| Derivative assets (included in the Balance Sheet line: Other | | | | | |
| current assets) | 104 | 104 | - | - | 104 |
| Advances to/receivables from equity companies (included in | | | | | |
| the Balance Sheet line: Investments, advances and | | | | | |
| long-term receivables) | 8,969 | - | 1,763 | 7,072 | 8,835 |
| Other long-term financial assets (included in the Balance | | | | | |
| Sheet lines: Investments, advances and long-term receivables | | | | | |
| and Other assets, including intangibles – net) | 1,748 | 764 | - | 1,041 | 1,805 |
| Liabilities | | | | | |
| Derivative liabilities (included in the Balance Sheet line: | | | | | |
| Accounts payable and accrued liabilities) | 248 | 248 | - | - | 248 |
| Long-term debt (excluding capitalized lease obligations) | 19,275 | 19,020 | 110 | 4 | 19,134 |
| Long-term obligations to equity companies | 4,625 | - | - | 4,728 | 4,728 |
| Other long-term financial liabilities (included in the | | | | | |
| Balance Sheet line: Other long-term obligations) | 1,114 | - | - | 1,121 | 1,121 |

Derivative Instruments. 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. In addition, the Corporation uses commodity-based contracts, including derivatives, to manage commodity price risk and for trading purposes. Credit risk associated with the Corporation's derivative position is mitigated by several factors, including the use of derivative clearing exchanges and the quality of and financial limits placed on derivative counterparties. The Corporation believes that there are no material market or credit risks to the Corporation's financial position, results of operations or liquidity as a result of the derivatives. The Corporation maintains a system of controls that includes the authorization, reporting and monitoring of derivative activity. Derivative instruments are currently not subject to a master netting agreement, and the Corporation has not offset collateral against the carrying value. The carrying value of derivative instruments, none of which are designated as hedging instruments, is as follows:

| | Sept. 30, 2018 | Dec. 31, 2017 |
|--|------------------------------|--------------------------|
| | <i>(millions of dollars)</i> | |
| Exchange Traded Futures and Swaps | | |
| Assets | 104 | 25 |
| Liabilities | (248) | (63) |
| Collateral receivable/(payable) | 272 | 94 |
| Total | 128 | 56 |

At September 30, 2018, the net notional long/(short) position of derivative instruments was (16) million barrels for crude oil and was (11) million barrels for products.

Realized and unrealized gains/(losses) on derivative instruments that were recognized in the Consolidated Statement of Income are included in the following lines on a before-tax basis:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------|-------------------------------------|------|------------------------------------|------|
| | 2018 | 2017 | 2018 | 2017 |
| | <i>(millions of dollars)</i> | | | |
| Sales and other operating revenue | (68) | (11) | (72) | 16 |
| Crude oil and product purchases | (107) | (80) | (380) | (37) |
| Total | (175) | (91) | (452) | (21) |

8. Disclosures about Segments and Related Information

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | <i>(millions of dollars)</i> | | | |
| Earnings After Income Tax | | | | |
| Upstream | | | | |
| United States | 606 | (238) | 1,474 | (439) |
| Non-U.S. | 3,623 | 1,805 | 9,292 | 5,442 |
| Downstream | | | | |
| United States | 961 | 391 | 1,975 | 1,030 |
| Non-U.S. | 681 | 1,141 | 1,331 | 3,003 |
| Chemical | | | | |
| United States | 404 | 403 | 1,360 | 1,413 |
| Non-U.S. | 309 | 689 | 1,254 | 1,835 |
| Corporate and financing (1) | (344) | (221) | (1,846) | (954) |
| Corporate total | 6,240 | 3,970 | 14,840 | 11,330 |
| Sales and Other Operating Revenue | | | | |
| Upstream | | | | |
| United States | 2,728 | 2,282 | 7,637 | 6,955 |
| Non-U.S. | 4,129 | 3,633 | 11,344 | 10,586 |
| Downstream | | | | |
| United States | 19,963 | 15,423 | 56,616 | 44,533 |
| Non-U.S. | 39,077 | 30,955 | 110,855 | 88,866 |
| Chemical | | | | |
| United States | 3,152 | 2,589 | 9,160 | 8,118 |
| Non-U.S. | 5,125 | 4,455 | 15,429 | 12,751 |
| Corporate and financing | 13 | 13 | 38 | 41 |
| Corporate total | 74,187 | 59,350 | 211,079 | 171,850 |
| Intersegment Revenue | | | | |

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| | | | | | |
|-------------------------|---------------|-------|-------|--------|--------|
| Upstream | | | | | |
| | United States | 2,203 | 1,365 | 6,336 | 3,937 |
| | Non-U.S. | 8,536 | 5,734 | 22,788 | 16,356 |
| Downstream | | | | | |
| | United States | 5,834 | 3,134 | 16,527 | 10,621 |
| | Non-U.S. | 8,275 | 5,866 | 22,975 | 16,048 |
| Chemical | | | | | |
| | United States | 2,408 | 1,675 | 6,952 | 5,290 |
| | Non-U.S. | 1,841 | 1,482 | 5,657 | 3,776 |
| Corporate and financing | | 54 | 51 | 153 | 154 |

(1) See Note 2 for additional details regarding the change in segmentation of Non-service pension and postretirement benefit expense.

Geographic

| Sales and Other Operating Revenue | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| | <i>(millions of dollars)</i> | | | |
| United States | 25,843 | 20,294 | 73,413 | 59,606 |
| Non-U.S. | 48,344 | 39,056 | 137,666 | 112,244 |
| Total | 74,187 | 59,350 | 211,079 | 171,850 |
| Significant Non-U.S. revenue sources include: | | | | |
| <i>(1)</i> | | | | |
| Canada | 6,214 | 5,260 | 17,752 | 14,492 |
| United Kingdom | 4,797 | 4,057 | 14,240 | 12,309 |
| Belgium | 3,996 | 3,247 | 12,063 | 9,833 |
| France | 3,588 | 2,984 | 10,405 | 8,290 |
| Singapore | 3,502 | 2,888 | 10,387 | 8,264 |
| Italy | 3,316 | 2,913 | 9,684 | 8,317 |
| Germany | 2,518 | 2,210 | 7,184 | 6,283 |

(1) Revenue is determined by primary country of operations. Excludes certain sales and other operating revenues in Non U.S. operations where attribution to a specific country is not practicable.

9. Additional Information on Revenue Recognition**Accounting Policy for Revenue Recognition**

The Corporation generally sells crude oil, natural gas and petroleum and chemical products under short-term agreements at prevailing market prices. In some cases (e.g., natural gas), products may be sold under long-term agreements, with periodic price adjustments to reflect market conditions. Revenue is recognized at the amount the Corporation expects to receive when the customer has taken control, which is typically when title transfers and the customer has assumed the risks and rewards of ownership. The prices of certain sales are based on price indexes that are sometimes not available until the next period. In such cases, estimated realizations are accrued when the sale is recognized, and are finalized when the price is available. Such adjustments to revenue from performance obligations satisfied in previous periods are not significant. Payment for revenue transactions is typically due within 30 days. Future volume delivery obligations that are unsatisfied at the end of the period are expected to be fulfilled through ordinary production or purchases. These performance obligations are based on market prices at the time of the transaction and are fully constrained due to market price volatility.

“Sales and other operating revenue” and “Notes and accounts receivable” primarily arise from contracts with customers. Long-term receivables are primarily from non-customers. Contract assets are mainly from marketing assistance programs and are not significant. Contract liabilities are mainly customer prepayments and accruals of expected volume discounts and are not significant.

EXXON MOBIL CORPORATION

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

FUNCTIONAL EARNINGS SUMMARY

| <u>Earnings (U.S. GAAP)</u> | Third Quarter | | First Nine Months | |
|--|------------------------------|-------|-------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| | <i>(millions of dollars)</i> | | | |
| Upstream | | | | |
| United States | 606 | (238) | 1,474 | (439) |
| Non-U.S. | 3,623 | 1,805 | 9,292 | 5,442 |
| Downstream | | | | |
| United States | 961 | 391 | 1,975 | 1,030 |
| Non-U.S. | 681 | 1,141 | 1,331 | 3,003 |
| Chemical | | | | |
| United States | 404 | 403 | 1,360 | 1,413 |
| Non-U.S. | 309 | 689 | 1,254 | 1,835 |
| Corporate and financing (1) | (344) | (221) | (1,846) | (954) |
| Net income attributable to ExxonMobil (U.S. GAAP) | 6,240 | 3,970 | 14,840 | 11,330 |
| Earnings per common share (<i>dollars</i>) | 1.46 | 0.93 | 3.47 | 2.66 |
| Earnings per common share - assuming dilution (<i>dollars</i>) | 1.46 | 0.93 | 3.47 | 2.66 |

(1) See Note 2 to the financial statements for additional details regarding the change in segmentation of Non-service pension and postretirement benefit expense.

References in this discussion to Corporate earnings mean net income attributable to ExxonMobil (U.S. GAAP) from the consolidated income statement. Unless otherwise indicated, references to earnings, Upstream, Downstream, Chemical and Corporate and financing segment earnings, and earnings per share are ExxonMobil's share after excluding amounts attributable to noncontrolling interests.

REVIEW OF THIRD QUARTER 2018 RESULTS

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ExxonMobil's third quarter 2018 earnings were \$6.2 billion, or \$1.46 per diluted share, compared with \$4 billion a year earlier, as liquids realizations increased.

Earnings of \$14.8 billion for the first nine months of 2018 increased 31 percent from \$11.3 billion in 2017.

Earnings per share assuming dilution were \$3.47.

Capital and exploration expenditures were \$18.1 billion, up 28 percent from 2017.

Oil equivalent production was 3.8 million barrels per day, down 5 percent from the prior year. Excluding entitlement effects and divestments, oil equivalent production was down 2 percent from the prior year.

The Corporation distributed \$10.3 billion in dividends to shareholders.

| | Third Quarter | | First Nine Months | |
|------------------------------|---------------|-------|-------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| <i>(millions of dollars)</i> | | | | |
| Upstream earnings | | | | |
| United States | 606 | (238) | 1,474 | (439) |
| Non-U.S. | 3,623 | 1,805 | 9,292 | 5,442 |
| Total | 4,229 | 1,567 | 10,766 | 5,003 |

Upstream earnings were \$4,229 million in the third quarter of 2018, up \$2,662 million from the third quarter of 2017.

- Realizations increased earnings by \$2,580 million due to higher liquids and gas realizations.
- Higher volume and mix effects increased earnings by \$50 million.
- All other items increased earnings by \$30 million including favorable one-time tax impacts, partly offset by higher production expenses.
- U.S. Upstream earnings were \$606 million, up \$844 million from the prior year quarter.
- Non U.S. Upstream earnings were \$3,623 million, up \$1,818 million from the prior year quarter.
- On an oil equivalent basis, production decreased 2 percent from the third quarter of 2017.
- Liquids production totaled 2.3 million barrels per day, up 6,000 barrels per day as growth more than offset lower volumes from entitlements, divestments, decline, and downtime.
- Natural gas production was 9 billion cubic feet per day, down 584 million cubic feet per day driven by decline largely in the U.S. aligned with value focus, lower volumes from divestments and lower demand.

Upstream earnings were \$10,766 million in the first nine months of 2018, up \$5,763 million from the first nine months of 2017.

- Realizations increased earnings by \$6,400 million mainly due to higher liquids realizations.
- Lower volume and mix effects decreased earnings by \$430 million.
- All other items decreased earnings by \$210 million, mainly due to higher production expenses and unfavorable tax impacts, partly offset by favorable one-time tax items and higher divestment gains.
- U.S. Upstream earnings were \$1,474 million, up \$1,913 million from the first nine months of prior year.
- Non-U.S. Upstream earnings were \$9,292 million, up \$3,850 million from the first nine months of prior year.
- On an oil-equivalent basis, production decreased 5 percent from the first nine months of 2017.

- Liquids production totaled 2.2 million barrels per day, down 56,000 barrels per day as growth in North America was more than offset by lower volumes from decline, entitlements, and divestments.
- Natural gas production was 9.2 billion cubic feet per day, down 920 million cubic feet per day driven by decline in the U.S. aligned with value focus, higher downtime and lower volumes from entitlements and divestments.

| | Third Quarter | First Nine Months |
|--|-------------------------------------|--------------------------|
| | <i>(thousands of barrels daily)</i> | |
| <u>Upstream additional information</u> | | |
| Volumes reconciliation (Oil-equivalent production)(1) | | |
| 2017 | 3,878 | 3,983 |
| Entitlements - Net Interest | (3) | (3) |
| Entitlements - Price / Spend / Other | (84) | (68) |
| Quotas | - | - |
| Divestments | (69) | (64) |
| Growth / Other | 64 | (74) |
| 2018 | 3,786 | 3,774 |

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

Listed below are descriptions of ExxonMobil's volumes reconciliation factors which are provided to facilitate understanding of the terms.

Entitlements - Net Interest are changes to ExxonMobil's share of production volumes caused by non-operational changes to volume-determining factors. These factors consist of net interest changes specified in Production Sharing Contracts (PSCs) which typically occur when cumulative investment returns or production volumes achieve defined thresholds, changes in equity upon achieving pay-out in partner investment carry situations, equity redeterminations as specified in venture agreements, or as a result of the termination or expiry of a concession. Once a net interest change has occurred, it typically will not be reversed by subsequent events, such as lower crude oil prices.

Entitlements - Price, Spend and Other are changes to ExxonMobil's share of production volumes resulting from temporary changes to non-operational volume-determining factors. These factors include changes in oil and gas prices or spending levels from one period to another. According to the terms of contractual arrangements or government royalty regimes, price or spending variability can increase or decrease royalty burdens and/or volumes attributable to ExxonMobil. For example, at higher prices, fewer barrels are required for ExxonMobil to recover its costs. These effects generally vary from period to period with field spending patterns or market prices for oil and natural gas. Such factors can also include other temporary changes in net interest as dictated by specific provisions in production agreements.

Quotas are changes in ExxonMobil's allowable production arising from production constraints imposed by countries which are members of the Organization of the Petroleum Exporting Countries (OPEC). Volumes reported in this category would have been readily producible in the absence of the quota.

Divestments are reductions in ExxonMobil's production arising from commercial arrangements to fully or partially reduce equity in a field or asset in exchange for financial or other economic consideration.

Growth and Other factors comprise all other operational and non-operational factors not covered by the above definitions that may affect volumes attributable to ExxonMobil. Such factors include, but are not limited to, production enhancements from project and work program activities, acquisitions including additions from asset exchanges, downtime, market demand, natural field decline, and any fiscal or commercial terms that do not affect entitlements.

| | Third Quarter | | First Nine Months | |
|--|---------------|------|-------------------|------|
| | 2018 | 2017 | 2018 | 2017 |

(millions of dollars)

Downstream earnings

| | | | | |
|---------------|-------|-------|-------|-------|
| United States | 961 | 391 | 1,975 | 1,030 |
| Non-U.S. | 681 | 1,141 | 1,331 | 3,003 |
| Total | 1,642 | 1,532 | 3,306 | 4,033 |

Downstream earnings were \$1,642 million in the third quarter of 2018, up \$110 million from the third quarter of 2017.

- Margins decreased earnings by \$110 million, as lower Non-U.S. margins were partially offset by higher U.S. margins.
- Higher volume and mix effects increased earnings by \$210 million, primarily due to improved refinery operations.
- All other items increased earnings by \$10 million, mainly due to favorable tax impacts and divestment gains, partly offset by higher maintenance expenses.
- U.S. Downstream earnings were \$961 million, up \$570 million from the prior year quarter.
- Non U.S. Downstream earnings were \$681 million, down \$460 million from the prior year quarter.
- Petroleum product sales of 5.6 million barrels per day were 74,000 barrels per day higher than the prior year quarter.

Downstream earnings were \$3,306 million in the first nine months of 2018, down \$727 million from the first nine months of 2017.

- Margins increased earnings by \$110 million, as higher U.S. margins were partially offset by lower Non-U.S. margins.
- Lower volume and mix effects decreased earnings by \$40 million, primarily due to downtime and maintenance partly offset by improved refinery mix/ yield and higher sales.
- All other items decreased earnings by \$800 million, mainly due to unfavorable foreign exchange impacts of \$250 million, lower divestment gains of \$180 million, and other unfavorable impacts of \$370 million including higher expenses from downtime / maintenance.
- U.S. Downstream earnings were \$1,975 million, up \$945 million from the first nine months of prior year.
- Non-U.S. Downstream earnings were \$1,331 million, down \$1,672 million from the first nine months of prior year.

- Petroleum product sales of 5.5 million barrels per day were 18,000 barrels per day higher than the first nine months of prior year.

| | Third Quarter | | First Nine Months | |
|---------------------------------|------------------------------|-------|-------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| | <i>(millions of dollars)</i> | | | |
| <u>Chemical earnings</u> | | | | |
| United States | 404 | 403 | 1,360 | 1,413 |
| Non-U.S. | 309 | 689 | 1,254 | 1,835 |
| Total | 713 | 1,092 | 2,614 | 3,248 |

Chemical earnings of \$713 million in the third quarter of 2018, were \$379 million lower than the third quarter of 2017.

- Weaker margins decreased earnings by \$140 million.
- Volume and mix effects increased earnings by \$20 million.
- All other items decreased earnings by \$260 million, mainly due to higher expenses.
- U.S. Chemical earnings were \$404 million, up \$1 million from the prior year quarter.
- Non U.S. Chemical earnings were \$309 million, down \$380 million from the prior year quarter.
- Third quarter prime product sales of 6.7 million metric tons were 231,000 metric tons higher than the prior year quarter due to project growth and acquisitions.

Chemical earnings were \$2,614 million in the first nine months of 2018, down \$634 million from the first nine months of 2017.

- Weaker margins decreased earnings by \$640 million.
- Volume and mix effects increased earnings by \$250 million.
- All other items decreased earnings by \$240 million, as higher expenses were partially offset by favorable foreign exchange and tax impacts.
- U.S. Chemical earnings were \$1,360 million, down \$53 million from the first nine months of prior year.
- Non-U.S. Chemical earnings were \$1,254 million, down \$581 million from the first nine months of prior year.
- Prime product sales of 20.2 million metric tons in the first nine months were 1.6 million metric tons higher than the first nine months of prior year due to project growth and acquisitions.

| | Third Quarter | | First Nine Months | |
|--|----------------------|-------------|--------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |

(millions of dollars)

| | | | | |
|--|-------|-------|---------|-------|
| <u>Corporate and financing earnings</u> | (344) | (221) | (1,846) | (954) |
|--|-------|-------|---------|-------|

Corporate and financing expenses were \$344 million for the third quarter of 2018, up \$123 million from the third quarter of 2017, mainly due to the impact of a lower U.S. tax rate.

Corporate and financing expenses were \$1,846 million in the first nine months of 2018, up \$892 million from the first nine months of 2017, mainly due to lower net favorable tax items, the impact of a lower U.S. tax rate, and higher pension and financing related costs.

LIQUIDITY AND CAPITAL RESOURCES

| | Third Quarter | | First Nine Months | |
|--|------------------------------|-------------|--------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| | <i>(millions of dollars)</i> | | | |
| Net cash provided by/(used in) | | | | |
| Operating activities | | | 27,407 | 22,655 |
| Investing activities | | | (10,862) | (9,194) |
| Financing activities | | | (13,945) | (13,293) |
| Effect of exchange rate changes | | | (108) | 441 |
| Increase/(decrease) in cash and cash equivalents | | | 2,492 | 609 |
| Cash and cash equivalents (at end of period) | | | 5,669 | 4,266 |
| Cash flow from operations and asset sales | | | | |
| Net cash provided by operating activities (U.S. GAAP) | 11,108 | 7,535 | 27,407 | 22,655 |
| Proceeds associated with sales of subsidiaries, property, plant & equipment, and sales and returns of investments | 1,491 | 854 | 3,239 | 1,695 |
| Cash flow from operations and asset sales | 12,599 | 8,389 | 30,646 | 24,350 |

Because of the ongoing nature of our asset management and divestment program, we believe it is useful for investors to consider proceeds associated with asset sales 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 in the third quarter of 2018 was \$12.6 billion, including asset sales of \$1.5 billion, an increase of \$4.2 billion from the comparable 2017 period primarily reflecting higher earnings and favorable working capital effects.

Cash provided by operating activities totaled \$27.4 billion for the first nine months of 2018, \$4.8 billion higher than 2017. The major source of funds was net income including noncontrolling interests of \$15.2 billion, an increase of \$3.8 billion from the prior year period. The adjustment for the noncash provision of \$13.7 billion for depreciation and depletion was down \$0.3 billion from 2017. Changes in operational working capital were essentially flat, compared to a decrease of \$0.5 billion in the prior year period. All other items net decreased cash flows by \$1.5 billion in 2018 versus a reduction of \$2.3 billion in 2017. See the Condensed Consolidated Statement of Cash Flows for additional details.

Investing activities for the first nine months of 2018 used net cash of \$10.9 billion, an increase of \$1.7 billion compared to the prior year. Spending for additions to property, plant and equipment of \$13.5 billion was \$2.6 billion higher than 2017. Proceeds from asset sales of \$3.2 billion increased \$1.5 billion. Investments and advances decreased \$0.8 billion, principally reflecting the absence of the deposit into escrow of the maximum potential contingent consideration payable as a result of the acquisition of InterOil Corporation in 2017. This was partly offset by cash outflows in 2018 related to the acquisition of a Downstream business in Indonesia.

Cash flow from operations and asset sales in the first nine months of 2018 was \$30.6 billion, including asset sales of \$3.2 billion, an increase of \$6.3 billion from the comparable 2017 period primarily reflecting higher earnings and increased asset sale proceeds.

Net cash used by financing activities was \$13.9 billion in the first nine months of 2018, an increase of \$0.7 billion from 2017. The net reduction in short and long term debt was \$2.7 billion compared to \$2.8 billion in 2017.

During the first nine months of 2018, Exxon Mobil Corporation purchased 5 million shares of its common stock for the treasury at a gross cost of \$0.4 billion. These purchases were made to offset shares or units settled in shares issued in conjunction with the company's benefit plans and programs. Shares outstanding decreased from 4,239 million at year-end to 4,234 million at the end of the third quarter of 2018. Purchases may be made both in the open market and through negotiated transactions, and may be increased, decreased or discontinued at any time without prior notice.

The Corporation distributed a total of \$10.3 billion to shareholders in the first nine months of 2018 through dividends.

Total cash and cash equivalents of \$5.7 billion at the end of the third quarter of 2018 compared to \$3.2 billion at year-end 2017.

Total debt at the end of the third quarter of 2018 was \$40 billion compared to \$42.3 billion at year-end 2017. The Corporation's debt to total capital ratio was 16.9 percent at the end of the third quarter of 2018 compared to 17.9 percent at year-end 2017.

The Corporation has access to significant capacity of long-term and short-term liquidity. Internally generated funds are generally expected to cover financial requirements, supplemented by short-term and long-term debt as required.

The Corporation, as part of its ongoing asset management program, continues to evaluate its mix of assets for potential upgrade. Because of the ongoing nature of this program, dispositions will continue to be made from time to time which will result in either gains or losses. Additionally, the Corporation continues to evaluate opportunities to enhance its business portfolio through acquisitions of assets or companies, and enters into such transactions from time to time. Key criteria for evaluating acquisitions include potential for future growth and attractive current valuations. Acquisitions may be made with cash, shares of the Corporation's common stock, or both.

Litigation and other contingencies are discussed in Note 3 to the unaudited condensed consolidated financial statements.

TAXES

| | Third Quarter | | First Nine Months | |
|----------------------------------|------------------------------|------------|-------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| | <i>(millions of dollars)</i> | | | |
| Income taxes | 2,634 | 1,498 | 7,617 | 4,218 |
| <i>Effective income tax rate</i> | <i>34%</i> | <i>33%</i> | <i>39%</i> | <i>34%</i> |
| Total other taxes and duties (1) | 8,939 | 8,287 | 26,757 | 23,876 |
| Total | 11,573 | 9,785 | 34,374 | 28,094 |

(1) Includes "Other taxes and duties" plus taxes that are included in "Production and manufacturing expenses" and "Selling, general and administrative expenses."

Total taxes were \$11.6 billion for the third quarter of 2018, an increase of \$1.8 billion from 2017. Income tax expense increased by \$1.1 billion to \$2.6 billion reflecting higher pre-tax income. The effective income tax rate was 34 percent

compared to 33 percent in the prior year period. This increase mainly reflects a higher share of earnings in higher tax jurisdictions, partly offset by the impact of favorable one-time tax items. Total other taxes and duties increased by \$0.7 billion to \$8.9 billion.

Total taxes were \$34.4 billion for the first nine months of 2018, an increase of \$6.3 billion from 2017. Income tax expense increased by \$3.4 billion to \$7.6 billion reflecting higher pre-tax income. The effective income tax rate was 39 percent compared to 34 percent in the prior year period due to a higher share of earnings in higher tax jurisdictions. Total other taxes and duties increased by \$2.9 billion to \$26.8 billion.

Non-U.S. Upstream earnings included a \$270 million tax credit resulting from an updated estimate of the impact of U.S. tax reform and from clarifications provided in proposed transition tax regulations issued by the Treasury in the third quarter of 2018. The adjustment restores a portion of the U.S. tax reform deferred income tax expense reported in the non-U.S. Upstream segment in the fourth quarter of 2017. There were no other significant changes during the first nine months of 2018 to the Corporation's reasonable estimates of the income tax effects reflected in 2017 for the changes in tax law and tax rate from U.S. tax reform and following guidance outlined in the SEC Staff Accounting Bulletin No. 118. The impact of tax law changes on the Corporation's financial statements could differ from its estimates due to further analysis of the new law, regulatory guidance, technical corrections legislation, guidance under U.S. GAAP, or other considerations. If significant changes occur, the Corporation will provide updated information in connection with its Form 10-K for 2018.

In the United States, the Corporation has various ongoing U.S. federal income tax positions at issue with the Internal Revenue Service (IRS) for tax years beginning in 2006. The IRS has asserted penalties associated with several of those positions. The Corporation has not recognized the penalties as an expense because the Corporation does not expect the penalties to be sustained under applicable law. The Corporation has filed a refund suit for tax years 2006-2009 in a U.S. federal district court with respect to the positions at issue for those years. Unfavorable resolution of all positions at issue with the IRS would not have a materially adverse effect on the Corporation's net income or liquidity.

CAPITAL AND EXPLORATION EXPENDITURES

| | Third Quarter | | First Nine Months | |
|---|------------------------------|-------------|--------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| | <i>(millions of dollars)</i> | | | |
| Upstream (including exploration expenses) | 5,330 | 3,175 | 13,944 | 9,080 |
| Downstream | 719 | 611 | 2,563 | 1,742 |
| Chemical | 526 | 2,183 | 1,524 | 3,215 |
| Other | 11 | 18 | 49 | 44 |
| Total | 6,586 | 5,987 | 18,080 | 14,081 |

Capital and exploration expenditures in the third quarter of 2018 were \$6.6 billion, up 10 percent from the third quarter of 2017.

Capital and exploration expenditures in the first nine months of 2018 were \$18.1 billion, up 28 percent from the first nine months of 2017 due primarily to increased U.S. drilling activity and acreage acquisitions in Brazil. The Corporation anticipates an investment level of approximately \$25 billion in 2018. Actual spending could vary depending on the progress of individual projects and property acquisitions.

In 2013 and 2014, the Corporation and Rosneft established various entities to conduct exploration and research activities. In 2014, the European Union and United States imposed sanctions relating to the Russian energy sector. ExxonMobil continues to comply with all sanctions and regulatory licenses applicable to its affiliates' investments in the Russian Federation. See Part II. Other Information, Item 1. Legal Proceedings in this report for information concerning a civil penalty assessment related to this matter which the Corporation is contesting. The Corporation withdrew from the aforementioned joint ventures with Rosneft, effective April 30, 2018.

The Groningen field is operated by Nederlandse Aardolie Maatschappij (NAM), a Netherlands company owned 50 percent by affiliates of the Corporation. NAM has a 60 percent interest in the Groningen field. On March 29, 2018, the Dutch Cabinet notified Parliament of its intention to further reduce previously legislated Groningen gas extraction in response to seismic events over the last several years. Affiliates of the Corporation and their partners have actively been in discussions with the government on the associated implementation measures which resulted in a signed Heads of Agreement (HoA – agreement on principles) on June 25, 2018 and the execution of additional implementation agreements in September. In anticipation of a lower production outlook, the Corporation has reduced its estimate of proved reserves by 0.8 billion oil-equivalent barrels. In addition, the seismic activity has yielded various claims. Where losses are probable and reasonably estimable, liabilities have been recorded. The Corporation does not expect these matters to have a material effect on the Corporation's operations or financial condition. While the future production profile and other considerations related to the Groningen field could vary depending on a wide variety of factors, reduced gas extraction in the future is expected to result in lower reported production, earnings and cash flows

than in recent years for the Corporation's share of NAM.

RECENTLY ISSUED ACCOUNTING STANDARDS

Effective January 1, 2019, ExxonMobil will adopt the Financial Accounting Standards Board's standard, *Leases (Topic 842)*, as amended. The standard requires all leases with an initial term greater than one year to be recorded on the balance sheet as a right of use asset and a lease liability. We expect to use a transition method that applies the new lease standard at January 1, 2019, and recognizes any cumulative-effect adjustments to the opening balance of 2019 retained earnings.

The Corporation acquired lease accounting software to facilitate implementation, and is currently configuring and testing the software. Based on leases outstanding at the end of 2017, the Corporation estimates the operating lease right of use asset and lease liability would have been in the range of \$4 billion to \$5 billion at that time. The effect on the Corporation's balance sheet as a result of implementing the standard on January 1, 2019, could differ considerably depending on operating leases commenced in 2018 as well as interest rates and other factors such as the expiry or renewal of leases during the year.

FORWARD-LOOKING STATEMENTS

Statements relating to future plans and objectives, projections, events or conditions are forward-looking statements. Future results, including new projects, growth strategies, costs, timing, and capacities; business growth; integration benefits; resource recoveries; and the impact of new technologies, could differ materially due to a number of factors. These include changes in supply and demand for oil, gas or petrochemicals or other market conditions affecting the oil, gas and petrochemical industries; reservoir performance; timely completion of new projects; the impact of fiscal and commercial terms and the outcome of commercial negotiations; changes in law, taxes, or government regulation and timely granting of governmental permits; war and other political or security disturbances; the actions of competitors; unforeseen technical or operating difficulties; unexpected technological developments; general economic conditions including the occurrence and duration of economic recessions; commodity cycles within the general economy; the results of research programs; and other factors discussed under the heading Factors Affecting Future Results on the Investors page of our website at www.exxonmobil.com and in Item 1A of ExxonMobil's 2017 Form 10-K. We assume no duty to update these statements as of any future date.

The term “project” as used in this report can refer to a variety of different activities and does not necessarily have the same meaning as in any government payment transparency reports.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about market risks for the nine months ended September 30, 2018, does not differ materially from that discussed under Item 7A of the registrant's Annual Report on Form 10-K for 2017.

Item 4. 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 September 30, 2018. Based on that evaluation, these officers have concluded that the Corporation's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Corporation in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to them in a manner that allows for timely decisions regarding required disclosures and are effective in ensuring that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As last reported in the Corporation's Form 10-K for 2017, in April 2017, the State of North Dakota Department of Health (NDDOH) and the North Dakota State Office of the Attorney General notified XTO Energy Inc. (XTO) of their interest in settling alleged violations of the North Dakota Century Code and implementing regulations regarding the alleged failure of vapor control systems to properly route tank vapors to control devices at well pads and tank farms outside the Fort Berthold Indian Reservation. On February 1, 2018, the South Central Judicial District Court in Bismarck, North Dakota, approved a Consent Decree between XTO and NDDOH concerning those alleged violations. Under the Consent Decree, XTO paid a civil penalty of \$575,000 on September 21, 2018.

As last reported in the Corporation's Form 10-Q for the third quarter of 2017, in a matter related to the discharge of crude oil from the Pegasus Pipeline in Mayflower, Faulkner County, Arkansas, the Pipeline and Hazardous Materials Safety Administration (PHMSA) on October 1, 2015, issued a Final Order arising from a November 2013 Notice of Probable Violation alleging that ExxonMobil Pipeline Company (EMPCo) violated multiple federal Pipeline Safety Regulations. The Final Order imposed a penalty of \$2,630,400, which EMPCo paid on April 21, 2016. On June 27, 2016, EMPCo filed an appeal with the U.S. Court of Appeals for the Fifth Circuit, contesting six of the nine regulatory violations found by PHMSA and seeking a refund of the penalty paid associated with the six contested violations (\$2,417,400 of the total penalty paid in April 2016). On August 14, 2017, the Fifth Circuit dismissed five of the six violations EMPCo challenged from PHMSA's final administrative order, and vacated \$1,634,100 in associated penalties. The Fifth Circuit also remanded the remaining violation back to PHMSA for re-calculation of the civil penalty previously imposed. On August 7, 2018, PHMSA issued the Order on Remand, assessing a reduced civil penalty of \$61,900 for the remanded sixth violation (down from \$783,300). As a result, in September 2018, EMPCo received a refund of \$2,355,500 for penalties that had been paid.

As last reported in the Corporation's Form 10-Q for the second quarter of 2018, on July 20, 2017, the United States Department of Treasury, Office of Foreign Assets Control (OFAC) assessed a civil penalty against Exxon Mobil Corporation, ExxonMobil Development Company and ExxonMobil Oil Corporation for violating the Ukraine-Related Sanctions Regulations, 31 C.F.R. part 589. The assessed civil penalty is in the amount of \$2,000,000. ExxonMobil and its affiliates have been and continue to be in compliance with all sanctions and disagree that any violation has occurred. ExxonMobil and its affiliates filed a complaint on July 20, 2017, in the United States Federal District Court, Northern District of Texas seeking judicial review of, and to enjoin, the civil penalty under the Administrative Procedures Act and the United States Constitution, including on the basis that it represents an arbitrary and capricious action by OFAC and a violation of the Company's due process rights.

Refer to the relevant portions of Note 3 of this Quarterly Report on Form 10-Q for further information on legal proceedings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchase of Equity Securities for Quarter Ended September 30, 2018**

| 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 |
|----------------|---|-------------------------------------|---|---|
| July 2018 | - | | - | |
| August 2018 | - | | - | |
| September 2018 | - | | - | |
| Total | - | | - | (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. In its earnings release dated February 2, 2016, the Corporation stated it will continue to acquire shares to offset dilution in conjunction with benefit plans and programs, but had suspended making purchases to reduce shares outstanding effective beginning the first quarter of 2016.

Item 6. Exhibits

See Index to Exhibits of this report.

INDEX TO EXHIBITS

| Exhibit | Description |
|----------------|--|
| <u>31.1</u> | Certification (pursuant to Securities Exchange Act Rule 13a-14(a)) by Chief Executive Officer. |
| <u>31.2</u> | Certification (pursuant to Securities Exchange Act Rule 13a-14(a)) by Principal Financial Officer. |
| <u>31.3</u> | Certification (pursuant to Securities Exchange Act Rule 13a-14(a)) by Principal Accounting Officer. |
| <u>32.1</u> | Section 1350 Certification (pursuant to Sarbanes-Oxley Section 906) by Chief Executive Officer. |
| <u>32.2</u> | Section 1350 Certification (pursuant to Sarbanes-Oxley Section 906) by Principal Financial Officer. |
| <u>32.3</u> | Section 1350 Certification (pursuant to Sarbanes-Oxley Section 906) by Principal Accounting Officer. |
| 101 | Interactive Data Files. |

EXXON MOBIL CORPORATION

SIGNATURE

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.

EXXON MOBIL CORPORATION

Date: November 7, 2018

By:

/s/ DAVID S. ROSENTHAL
David S. Rosenthal
Vice President, Controller and
Principal Accounting Officer