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Open Book and Notes

Final Exam

December 6, 2010
 Monday

Show all your work in the answer sheets. You will not get credit for a right answer unless you show all the steps in these sheets. As a courtesy to fellow test takers, please turnoff all pagers, telephones and PDA's.

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This course and its associated coursework are being administered under the policies of the University of Illinois at Chicago (UIC) College of Business Administration Honor Code. All students are expected to respect and uphold this code.

<i>Case</i>	<i>Pages</i>	<i>Points Estimated Time</i>
Glim	1	35
CapEx ExxonMobil	10	35
Kmart	5	35
ExxonMobil	10	80
<hr/>		
Total	26	150

Choose Two of these three

Signature

First name

Last name

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Glim inc., a US company purchased three marketable securities in amounts as described in the table on the right on Jan 1, 2007.

Firm	Investment
ONGC	\$ 175,000
HPCL	\$ 204,800
IDBI	\$ 231,655

The company did not purchase or sell any other marketable securities in 2007. On 31-Dec, 2007 Glim reported investments in marketable securities as follows:

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Table A 31-Dec-07

Firm	Amortized cost*	Unrealized Gains	Unrealized Losses	Fair Value	Carrying Value
ONGC	\$ 175,000	14,000		189,000	189,000
HPCL	204,800		19,200	185,600	185,600
IDBI	252,504			252,403	252,504

Ignore taxes for this question. The balance sheet as of 31-Dec, 2007 also had the following item:

Accumulated other comprehensive income	(19,200)
--	----------

The only source of other comprehensive income for Glim in that year was unrealized holding gains and losses on marketable securities classified as available-for-sale.

* Amortized cost of security is the predicted value of a security at the time of purchase for accounting purposes. For equity securities, it is the cost. For debt securities it is original cost plus interest revenue earned but not received in cash.

Questions

- 1** Identify which of the three categories: trading, available-for-sale or held-to-maturity each security belongs to.

ONGC	
HPCL	
IDBI	

- 2** None of the three investments paid dividends in 2007.

What income was reported from the 3 securities in the income statement for the year ending 31-Dec 2007 ?

	Interest and dividend income	Realized Gain	Unrealized Gain
ONGC			
HPCL			
IDBI			

- 3** The market value of the 3 holdings on two dates are on the right:
 On 3-Jul 2008, Glim sold half of each of the holding
 Note that on 31-Dec 2008
 Glim still only has half of the original purchases.
 None of the three investments paid dividends in 2008.

Firm	2-Jul-08	31-Dec-08
ONGC	\$ 198,000	102,000
HPCL	\$ 192,000	98,600
IDBI	\$ 254,500	139,000

What income will be reported from the 3 securities in the income statement for the year ending 31-Dec 2008 ?

	Interest and dividend income	Realized Gain	Unrealized Gain
ONGC			
HPCL			
IDBI			

- 4** What will be carrying value of Glim's three security holdings on 31-Dec 2008 ?

Prepare a table similar to Table A.

31-Dec-08

Firm	Amortized cost*	Unrealized Gains	Unrealized Losses	Fair Value	Carrying Value
ONGC					
HPCL					
IDBI					

An article and extracts from the recent financial statement of ExxonMobil are attached. The extracts include the balance sheet, income statement, cash flow statement, a page on dividend and shareholder return information and a page on capital and exploration expenditures. Answer the following questions on the back of these pages.

1 The article says: "Exxon spent 5.3% of revenue on exploration and capital outlays, down from 6.5% in 2003. the actual dollar amounts did increase, to \$20.9 billion from \$15.3 billion." Show how the article calculated those percentages.

2 Typically you could get capital expenditures figures from the "Additions to property, plant and equipment" in "Cash Flows from Investing Activities" section of the statement of cash flows. How does that figure compare with the figure that you used in question 1? There are two main reasons for the difference. Do you agree with ExxonMobil's inclusion of those amounts?

3 The figures from "Capital and Exploration Expenditures" page includes non-consolidated companies' capital and exploration expenditures. If those amounts are used in the numerator of the percentage calculation in the article and question 1, how should the denominator be adjusted?

4 A better way of keeping track of use of cash is to see what happened to the "Net cash provided by operating activities"? In 2007 and how much of net cash provided by operating activities used for various activities? (Use only broad material categories)

5 The tenor of the article is that the ExxonMobil is giving too much money back to its shareholders. The article has missed another shareholder dealing. Check the net cash used in financing activities. If you include that how does the argument of the article change?

6 From 2003 through 2007, what was the ratio of Exxon Mobil's spending on capital projects compared to its spending on stock repurchases?

7 In deciding how much to spend on exploration, what should Exxon Mobil consider in addition to current crude oil prices?

8 Why has Exxon Mobil increased its stock repurchases rather than increasing dividends?

9 The article states that "By some calculations, if Exxon sticks to its current buyback rate, its last share of publicly traded stock will disappear in 15 years". How did it come with that number? If the calculation was done in 2003, how many years will be the answer?

10 Is it possible for a firm to buy back all of its stock? Why or why not?

| Wall Street Journal |**Exxon's Stingy Capital Spending May Haunt It**

April 16, 2008; Page B2

Exxon Mobil Corp. doesn't make many mistakes. In the often-chaotic petroleum business, its careful budgeting and efficient operations are widely admired.

But Exxon's stingy approach to capital spending -- amid skyrocketing oil prices -- could be a target of second-guessing for years to come. With crude oil hitting a record above \$113 a barrel Tuesday, the payoff for extracting more petroleum is enormous. Until very recently, Exxon hasn't been sprinting to win that race.

**Rex Tillerson**

Consider these numbers. In 2007, Exxon spent 5.3% of revenue on exploration and capital outlays, down from 6.5% in 2003. The actual dollar amounts did increase, to \$20.9 billion from \$15.3 billion. But they didn't keep pace with Exxon's overall revenue growth, let alone soaring oil prices. Crude climbed to about \$92 from \$34 a

barrel during that period.

Meanwhile, the Irving, Texas, oil giant poured cash into stock buybacks. In 2007, Exxon repurchased \$31.8 billion of its shares, up five-fold from the amount acquired in 2003. That activity helped earnings per share. It didn't increase oil output.

Wall Street analysts generally have cheered this financial conservatism, on the notion that big oil companies tend to waste money when they start drilling with too much gusto. But some now wonder if Exxon played it too safe. Benchmark Co. analyst Mark Gilman mutters about the company's "moribund" exploration program.

"Exxon has consistently been the most cost-disciplined of the big oil companies," says Morgan Stanley analyst Doug Terreson. "They most likely believe that the historic rise in oil prices isn't sustainable. Otherwise they would be spending a lot more than they have."

Exxon keeps a tight lid on its internal oil-price forecasts, but analysts say it has acted as if it wants to make sure its spending decisions still make sense in a world of \$65 or even \$40 per barrel oil. In moderation, such "stress testing" is an essential part of good budgeting. Taken to extremes, it can stifle almost any initiative.

Last month, Exxon finally announced a big boost in drilling efforts. Rex Tillerson, the company's chief executive, said exploration and capital spending for 2008-2012 were being raised at least 20% beyond previous forecasts. That amounts to outlays of more than \$125 billion over that five-year period.

Part of the increase simply reflects higher costs for oil projects, Mr. Tillerson told analysts, as boom times send both labor and equipment rates soaring. But he also hinted at greater optimism within Exxon about what projects are worth pursuing. "Some things are moving ahead that we were not as prepared to put in the outlook last year," Mr. Tillerson said.

Exxon officials say they like their competitive position. Current or planned projects range from Greenland to New Zealand. They include a wide mix of conventional oil and gas, heavy oil, liquefied natural gas and deepwater initiatives. Spokesman Gantt Walton calls the company's resource base of 72 billion oil-equivalent barrels "the largest and highest quality in the industry."

Cautious Spender

Exxon Mobil's annual capital and exploration expenditures, and stock buybacks, expressed as percentage of revenue



Source: Exxon Mobil's 2007 Financial & Operating Review

Even with the cautious capital spending of recent years, Exxon has added reserves slightly faster than it has drawn them down. But making new projects pay off will take years.

What's more, countries such as Venezuela and Russia have become more assertive about the terms on which foreign oil companies can operate within their boundaries. That's made it harder for companies such as Exxon to roam the globe as profitably as they used to.

"So many places are off limits," says J. Bennett Johnston, a former Chevron Corp. director and senator from Louisiana who runs Johnston & Associates, a political-consulting firm in Washington. He contends that Exxon and other major oil companies are "going about as fast as they can."

Exxon isn't under any obligation to push every dollar of its sturdy profits -- \$40 billion last year -- into dubious exploration efforts. But its recent strategy of focusing heavily on share repurchases can't go on forever, either. By some calculations, if Exxon sticks to its current buyback rate, its last share of publicly traded stock will disappear in 15 years.

Exxon's other big alternative could be to use some of those repurchased shares to finance a major acquisition. But at current oil prices, almost any logical target is far more expensive than it was a few years ago.

The company could just wait until oil prices stumble and acquisitions become cheaper. But the way energy markets are behaving, and the way global demand for energy keeps climbing, that could be a long, lonely vigil.

Write to George Anders at george.anders@wsj.com

URL for this article: <http://online.wsj.com/article/SB120830813698318123.html>

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Shareholder Information

ExxonMobil's core objective is to deliver long-term growth in shareholder value. Over the past five years, we have distributed nearly \$118 billion to our shareholders through quarterly dividend payments and share purchases to reduce shares outstanding. In 2007 our total shareholder distributions were \$36 billion, including \$28 billion of share purchases.

In 2007 ExxonMobil raised annual dividends to our shareholders to \$1.37 per share, an increase of 7 percent versus the previous year. We have paid a dividend each year for more than a century and have increased annual dividends per share in each of the last 25 years.

ExxonMobil reduced the number of shares outstanding by 20 percent over the last five years through our flexible share purchase program. Reducing shares outstanding increases the percent ownership of the company that each remaining share represents and contributes to increased earnings and cash flow per share.

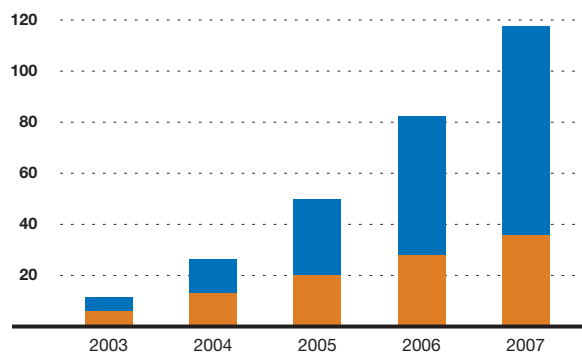
DIVIDEND AND SHAREHOLDER RETURN INFORMATION

	2007	2006	2005	2004	2003
Net income per common share (dollars)	7.36	6.68	5.76	3.91	3.24
Net income per common share – assuming dilution (dollars)	7.28	6.62	5.71	3.89	3.23
Dividends per common share (dollars)					
First quarter	0.32	0.32	0.27	0.25	0.23
Second quarter	0.35	0.32	0.29	0.27	0.25
Third quarter	0.35	0.32	0.29	0.27	0.25
Fourth quarter	0.35	0.32	0.29	0.27	0.25
Total	1.37	1.28	1.14	1.06	0.98
Dividends per share growth (annual percent)	7.0	12.3	7.5	8.2	6.5
Number of common shares outstanding (millions)					
Average	5,517	5,913	6,266	6,482	6,634
Average – assuming dilution	5,577	5,970	6,322	6,519	6,662
Year end	5,382	5,729	6,133	6,401	6,568
Cash dividends paid on common stock (millions of dollars)	7,621	7,628	7,185	6,896	6,515
Cash dividends paid to net income (percent)	19	19	20	27	30
Cash dividends paid to cash flow⁽¹⁾ (percent)	15	15	15	17	23
Total return to shareholders (annual percent)	24.3	39.2	11.7	27.9	20.5
Market quotations for common stock (dollars)					
High	95.27	79.00	65.96	52.05	41.13
Low	69.02	56.42	49.25	39.91	31.58
Average daily close	83.23	65.35	58.24	45.29	36.14
Year-end close	93.69	76.63	56.17	51.26	41.00

(1) Net cash provided by operating activities.

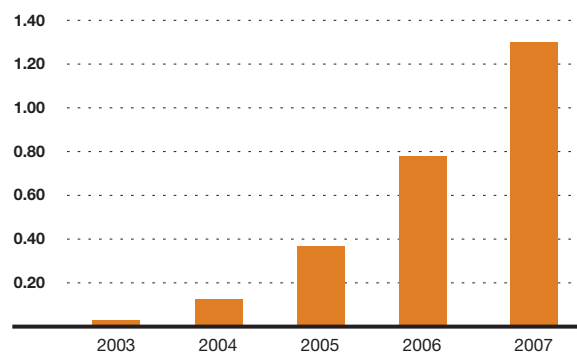
Cumulative Distributions to Shareholders

■ Dividends ■ Share Purchases to Reduce Shares Outstanding
(billions of dollars)



Impact of Cumulative Share Reductions Since 2003 on Earnings per Share

(dollars)



TOTAL CAPITAL AND EXPLORATION EXPENDITURES BY GEOGRAPHY

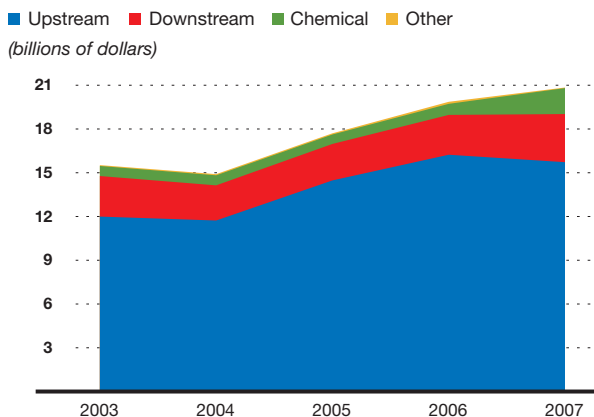
(millions of dollars)	2007	2006	2005	2004	2003
United States	3,744	3,720	3,218	3,025	3,766
Canada/Latin America	1,522	1,862	1,940	1,867	1,826
Europe	4,042	3,721	2,829	2,845	3,046
Africa	3,639	4,019	3,815	3,330	3,657
Asia Pacific/Middle East	6,156	4,601	3,241	2,168	2,046
Russia/Caspian	1,750	1,932	2,656	1,650	1,184
Total worldwide	20,853	19,855	17,699	14,885	15,525

DISTRIBUTION OF CAPITAL AND EXPLORATION EXPENDITURES

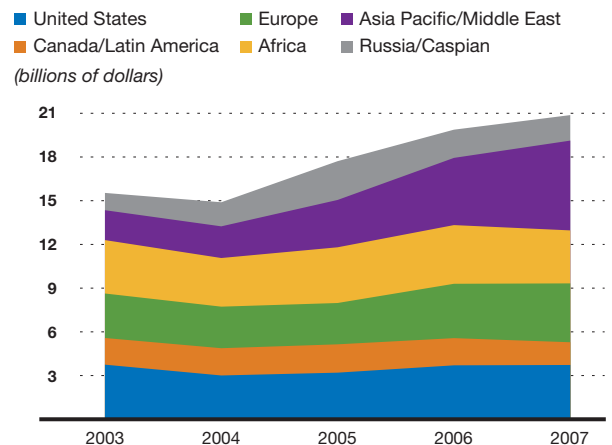
(millions of dollars)	2007	2006	2005	2004	2003
Consolidated Companies' Expenditures					
Capital expenditures	15,242	15,361	13,792	11,901	12,857
Exploration costs charged to expense					
United States	280	243	157	192	256
Non-U.S.	1,177	925	795	891	735
Depreciation on support equipment ⁽¹⁾	12	13	12	15	19
Total exploration expenses	1,469	1,181	964	1,098	1,010
Total consolidated companies' capital and exploration expenditures (excluding Depreciation on support equipment)					
	16,699	16,529	14,744	12,984	13,848
ExxonMobil's Share of Non-Consolidated Companies' Expenditures					
Capital expenditures	4,122	3,315	2,938	1,865	1,651
Exploration costs charged to expense	32	11	17	36	26
Total non-consolidated companies' capital and exploration expenditures	4,154	3,326	2,955	1,901	1,677
Total capital and exploration expenditures	20,853	19,855	17,699	14,885	15,525

(1) Not included as part of Total capital and exploration expenditures, but included as part of Exploration expenses, including dry holes, in the Summary Statement of Income, page 16.

Functional Capex Distribution



Geographic Capex Distribution



SUMMARY BALANCE SHEET AT YEAR END

<i>(millions of dollars)</i>	2007	2006	2005	2004	2003
Assets					
Current assets					
Cash and cash equivalents	33,981	28,244	28,671	18,531	10,626
Cash and cash equivalents – restricted	–	4,604	4,604	4,604	–
Marketable securities	519	–	–	–	–
Notes and accounts receivable, less estimated doubtful amounts	36,450	28,942	27,484	25,359	24,309
Inventories					
Crude oil, products and merchandise	8,863	8,979	7,852	8,136	7,665
Materials and supplies	2,226	1,735	1,469	1,351	1,292
Prepaid taxes and expenses	3,924	3,273	3,262	2,396	2,068
Total current assets	85,963	75,777	73,342	60,377	45,960
Investments, advances, and long-term receivables	28,194	23,237	20,592	18,404	15,535
Property, plant and equipment, at cost, less accumulated depreciation and depletion	120,869	113,687	107,010	108,639	104,965
Other assets, including intangibles – net	7,056	6,314	7,391	7,836	7,818
Total assets	242,082	219,015	208,335	195,256	174,278
Liabilities					
Current liabilities					
Notes and loans payable	2,383	1,702	1,771	3,280	4,789
Accounts payable and accrued liabilities	45,275	39,082	36,120	31,763	28,445
Income taxes payable	10,654	8,033	8,416	7,938	5,152
Total current liabilities	58,312	48,817	46,307	42,981	38,386
Long-term debt	7,183	6,645	6,220	5,013	4,756
Postretirement benefits reserves	13,278	13,931	10,220	10,850	9,609
Deferred income tax liabilities	22,899	20,851	20,878	21,092	20,118
Other long-term obligations	14,366	11,123	9,997	9,612	8,112
Equity of minority and preferred shareholders in affiliated companies	4,282	3,804	3,527	3,952	3,382
Total liabilities	120,320	105,171	97,149	93,500	84,363
Shareholders' Equity					
Common stock without par value	4,933	4,786	4,477	4,053	3,834
Earnings reinvested	228,518	195,207	163,335	134,390	115,956
Accumulated other comprehensive income					
Cumulative foreign exchange translation adjustment	7,972	3,733	979	3,598	1,421
Postretirement benefits reserves adjustment	(5,983)	(6,495)	–	–	–
Minimum pension liability adjustment	–	–	(2,258)	(2,499)	(2,446)
Unrealized gains/(losses) on stock investments	–	–	–	428	511
Common stock held in treasury	(113,678)	(83,387)	(55,347)	(38,214)	(29,361)
Total shareholders' equity	121,762	113,844	111,186	101,756	89,915
Total liabilities and shareholders' equity	242,082	219,015	208,335	195,256	174,278

The information in the Summary Statement of Income (for 2005 to 2007), the Summary Balance Sheet (for 2006 and 2007), and the Summary Statement of Cash Flows (for 2005 to 2007), shown on pages 15 through 17, corresponds to the information in the Consolidated Statement of Income, Consolidated Balance Sheet, and the Consolidated Statement of Cash Flows in the financial statements of ExxonMobil's 2008 Proxy Statement. For complete consolidated financial statements, including notes, please refer to Appendix A of ExxonMobil's 2008 Proxy Statement. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information in Appendix A of the 2008 Proxy Statement.

SUMMARY STATEMENT OF INCOME

<i>(millions of dollars)</i>	2007	2006	2005	2004	2003
Revenues and Other Income					
Sales and other operating revenue ⁽¹⁾⁽²⁾	390,328	365,467	358,955	291,252	237,054
Income from equity affiliates	8,901	6,985	7,583	4,961	4,373
Other income	5,323	5,183	4,142	1,822	5,311
Total revenues and other income	404,552	377,635	370,680	298,035	246,738
Costs and Other Deductions					
Crude oil and product purchases	199,498	182,546	185,219	139,224	107,658
Production and manufacturing expenses	31,885	29,528	26,819	23,225	21,260
Selling, general and administrative expenses	14,890	14,273	14,402	13,849	13,396
Depreciation and depletion	12,250	11,416	10,253	9,767	9,047
Exploration expenses, including dry holes	1,469	1,181	964	1,098	1,010
Interest expense	400	654	496	638	207
Sales-based taxes ⁽¹⁾	31,728	30,381	30,742	27,263	23,855
Other taxes and duties	40,953	39,203	41,554	40,954	37,645
Income applicable to minority and preferred interests	1,005	1,051	799	776	694
Total costs and other deductions	334,078	310,233	311,248	256,794	214,772
Income before income taxes	70,474	67,402	59,432	41,241	31,966
Income taxes	29,864	27,902	23,302	15,911	11,006
Income from continuing operations	40,610	39,500	36,130	25,330	20,960
Cumulative effect of accounting change, net of income tax	-	-	-	-	550
Net income	40,610	39,500	36,130	25,330	21,510
Net Income per Common Share <i>(dollars)</i>					
Income from continuing operations	7.36	6.68	5.76	3.91	3.16
Cumulative effect of accounting change, net of income tax	-	-	-	-	0.08
Net income	7.36	6.68	5.76	3.91	3.24
Net Income per Common Share – Assuming Dilution <i>(dollars)</i>					
Income from continuing operations	7.28	6.62	5.71	3.89	3.15
Cumulative effect of accounting change, net of income tax	-	-	-	-	0.08
Net income	7.28	6.62	5.71	3.89	3.23

(1) Sales and other operating revenue includes sales-based taxes of \$31,728 million for 2007, \$30,381 million for 2006, \$30,742 million for 2005, \$27,263 million for 2004, and \$23,855 million for 2003.

(2) Sales and other operating revenue includes \$30,810 million for 2005, \$25,289 million for 2004, and \$20,936 million for 2003 for purchases/sales contracts with the same counterparty. Associated costs 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.

The information in the Summary Statement of Income (for 2005 to 2007), the Summary Balance Sheet (for 2006 and 2007), and the Summary Statement of Cash Flows (for 2005 to 2007), shown on pages 15 through 17, corresponds to the information in the Consolidated Statement of Income, Consolidated Balance Sheet, and the Consolidated Statement of Cash Flows in the financial statements of ExxonMobil's 2008 Proxy Statement. For complete consolidated financial statements, including notes, please refer to Appendix A of ExxonMobil's 2008 Proxy Statement. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information in Appendix A of the 2008 Proxy Statement.

SUMMARY STATEMENT OF CASH FLOWS

<i>(millions of dollars)</i>	2007	2006	2005	2004	2003
Cash Flows from Operating Activities					
Net income					
Accruing to ExxonMobil shareholders	40,610	39,500	36,130	25,330	21,510
Accruing to minority and preferred interests	1,005	1,051	799	776	694
Cumulative effect of accounting change, net of income tax	-	-	-	-	(550)
Adjustments for noncash transactions					
Depreciation and depletion	12,250	11,416	10,253	9,767	9,047
Deferred income tax charges/(credits)	124	1,717	(429)	(1,134)	1,827
Postretirement benefits expense in excess of/ (less than) payments	(1,314)	(1,787)	254	886	(1,489)
Other long-term obligation provisions in excess of/(less than) payments	1,065	(666)	398	806	264
Dividends received greater than/(less than) equity in current earnings of equity companies	(714)	(579)	(734)	(1,643)	(402)
Changes in operational working capital, excluding cash and debt					
Reduction/(increase) – Notes and accounts receivable	(5,441)	(181)	(3,700)	(472)	(1,286)
– Inventories	72	(1,057)	(434)	(223)	(100)
– Prepaid taxes and expenses	280	(385)	(7)	11	42
Increase/(reduction) – Accounts and other payables	6,228	1,160	7,806	6,333	1,130
Net (gain) on asset sales	(2,217)	(1,531)	(1,980)	(268)	(2,461)
All other items – net	54	628	(218)	382	272
Net cash provided by operating activities	52,002	49,286	48,138	40,551	28,498
Cash Flows from Investing Activities					
Additions to property, plant and equipment	(15,387)	(15,462)	(13,839)	(11,986)	(12,859)
Sales of subsidiaries, investments, and property, plant and equipment	4,204	3,080	6,036	2,754	2,290
Decrease/(increase) in restricted cash and cash equivalents	4,604	-	-	(4,604)	-
Additional investments and advances	(3,038)	(2,604)	(2,810)	(2,287)	(809)
Collection of advances	391	756	343	1,213	536
Additions to marketable securities	(646)	-	-	-	-
Sales of marketable securities	144	-	-	-	-
Net cash used in investing activities	(9,728)	(14,230)	(10,270)	(14,910)	(10,842)
Cash Flows from Financing Activities					
Additions to long-term debt	592	318	195	470	127
Reductions in long-term debt	(209)	(33)	(81)	(562)	(914)
Additions to short-term debt	1,211	334	377	450	715
Reductions in short-term debt	(809)	(451)	(687)	(2,243)	(1,730)
Additions/(reductions) in debt with less than 90-day maturity	(187)	(95)	(1,306)	(66)	(322)
Cash dividends to ExxonMobil shareholders	(7,621)	(7,628)	(7,185)	(6,896)	(6,515)
Cash dividends to minority interests	(289)	(239)	(293)	(215)	(430)
Changes in minority interests and sales/(purchases) of affiliate stock	(659)	(493)	(681)	(215)	(247)
Tax benefits related to stock-based awards	369	462	-	-	-
Common stock acquired	(31,822)	(29,558)	(18,221)	(9,951)	(5,881)
Common stock sold	1,079	1,173	941	960	434
Net cash used in financing activities	(38,345)	(36,210)	(26,941)	(18,268)	(14,763)
Effects of exchange rate changes on cash	1,808	727	(787)	532	504
Increase/(decrease) in cash and cash equivalents	5,737	(427)	10,140	7,905	3,397
Cash and cash equivalents at beginning of year	28,244	28,671	18,531	10,626	7,229
Cash and cash equivalents at end of year	33,981	28,244	28,671	18,531	10,626

The information in the Summary Statement of Income (for 2005 to 2007), the Summary Balance Sheet (for 2006 and 2007), and the Summary Statement of Cash Flows (for 2005 to 2007), shown on pages 15 through 17, corresponds to the information in the Consolidated Statement of Income, Consolidated Balance Sheet, and the Consolidated Statement of Cash Flows in the financial statements of ExxonMobil's 2008 Proxy Statement. For complete consolidated financial statements, including notes, please refer to Appendix A of ExxonMobil's 2008 Proxy Statement. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information in Appendix A of the 2008 Proxy Statement.

Kmart Corporation ("Kmart," "We" or "Our") is the nation's second largest discount retailer and the third largest general merchandise retailer. We were incorporated under the laws of the State of Michigan on March 9, 1916, as the successor to the business developed by our founder, S. S. Kresge, who opened his first store in 1899. After operating Kresge department stores for over 45 years, our store program commenced with the opening of the first Kmart store in March 1962. Our principal executive offices are located at 3100 West Big Beaver Road, Troy, Michigan 48084.



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Enclosed are extracted statements of Kmart till year ending January 31, 2001. These data were obtained from the S&P Compustat data service.

Income Statement	01/31/01	01/31/00	01/31/99	01/31/98
Sales	37,028	35,925	33,674	32,183
Cost of Goods Sold	28,516	27,332	25,648	24,492
Selling, General, and Administrative Expense	7,052	6,523	6,245	6,136
Operating Income Before Depreciation	1,460	2,070	1,781	1,555
Depreciation and Amortization	777	770	671	660
Interest Expense	333	330	343	412
Nonoperating Income (Expense)	(728)	0	(19)	(114)
Pretax Income	(378)	970	748	369
Income Taxes - Total	(134)	337	230	120
Income Before Extraordinary Items	(244)	633	518	249
Extraordinary Items and Discontinued Operations	0	(230)	0	0
Net Income (Loss)	(244)	403	518	249
Earnings Per Share (Primary) - Excluding Extraordinary Items	-0.48	1.29	1.05	0.51
Earnings Per Share (Primary) - Including Extraordinary Items	-0.48	0.82	1.05	0.51
Common Shares Used to Calculate Primary EPS	482.8	491.7	492.1	487.1
Earnings Per Share (Fully Diluted) - Excluding Extraordinary Items	-0.48	1.22	1.01	0.51
Fiscal year closing stock price	8.65	8.31	17.56	11.00

STANDARD & POOR'S

ADJUSTED KEY INDUSTRIAL FINANCIAL RATIOS

U.S. Industrial long term debt

Three-year (1998 to 2000) medians	AAA	AA	A	BBB	BB	B	CCC
EBIT int. cov. (x)	21.4	10.1	6.1	3.7	2.1	0.8	0.1
EBITDA int. cov. (x)	26.5	12.9	9.1	5.8	3.4	1.8	1.3
Free oper. cash flow/total debt (%)	84.2	25.2	15.0	8.5	2.6	(3.2)	(12.9)
FFO/total debt (%)	128.8	55.4	43.2	30.8	18.8	7.8	1.6
Return on capital (%)	34.9	21.7	19.4	13.6	11.6	6.6	1.0
Operating income/sales (%)	27.0	22.1	18.6	15.4	15.9	11.9	11.9
Long-term debt/capital (%)	13.3	28.2	33.9	42.5	57.2	69.7	68.8
Total debt/capital (incl. STD) (%)	22.9	37.7	42.5	48.2	62.6	74.8	87.7
Companies	8	29	136	218	273	281	22

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Balance Sheet	01/31/01	01/31/00	01/31/99	01/31/98
Assets				
Cash And Short-Term Investments	501	344	710	498
Receivables	0	0	0	0
Inventories - Total	6,412	7,101	6,536	6,367
Prepaid Expense	0	0	0	0
Other Current Assets	811	715	584	611
Total Current Assets	7,724	8,160	7,830	7,476
Property, Plant, And Equipment - Total (Gross)	11,942	11,554	10,778	10,131
Depreciation, Depletion, And Amortization (Accumulated)	5,485	5,144	4,864	4,659
Property, Plant, And Equipment - Total (Net)	6,457	6,410	5,914	5,472
Investments And Advances - Equity Method				
Other Assets	449	534	422	610
Total Assets	14,630	15,104	14,166	13,558
Liabilities				
Debt - Due In One Year	68	66	77	165
Accounts Payable	2,288	2,204	2,047	1,923
Income Taxes Payable	73	249		
Accrued Expense	265	337		
Other Current Liabilities	1,105	1,220	1,567	1,186
Total Current Liabilities	3,799	4,076	3,691	3,274
Long-Term Debt - Total	3,914	3,759	3,613	3,885
Other Liabilities	834	965	883	965
Equity				
Common Stock	487	481	493	489
Capital Surplus	1,678	1,555	1,667	1,620
Retained Earnings	3,918	4,268	3,819	3,340
Less: Treasury Stock - Total Dollar Amount	0	0	0	15
Total Stockholders' Equity	6,083	6,304	5,979	5,434
Total Liabilities And Stockholders' Equity	14,630	15,104	14,166	13,558
Common Shares Outstanding	486.51	481.38	493.36	488.19
Annual Statement Of Cash Flows				
	01/31/01	01/31/00	01/31/99	01/31/98
Indirect Operating Activities				
Income Before Extraordinary Items	(244)	633	518	249
Depreciation And Amortization	777	770	671	660
Extraordinary Items And Disc. Operations	(115)	(83)	0	(38)
Deferred Taxes				
Equity In Net Loss (Earnings)	64			
Funds From Operations - Other	626	(80)	(75)	9
Accounts Receivable - Decrease (Increase)	(103)	(62)		
Inventory - Decrease (Increase)	324	(565)	(169)	(31)
Accounts Payable And Incurred Liab. - Increase (Decrease)	84	157	124	(86)
Income Taxes - Accrued - Increase (Decrease)	(204)			
Other Assets And Liabilities - Net Change	(170)	234	168	78
Operating Activities - Net Cash Flow	1,039	1,004	1,237	841

Investing Activities

Investments - Increase	55	0	0	0
Capital Expenditures	1,087	1,277	981	678
Investing Activities - Other	0	(86)	186	493
Investing Activities - Net Cash Flow	(1,142)	(1,363)	(795)	(185)

Financing Activities

Sale Of Common And Preferred Stock	53	63	46	37
Purchase Of Common And Preferred Stock	139	200	0	0
Cash Dividends	0	0	0	0
Long-Term Debt - Issuance	397	297	0	337
Long-Term Debt - Reduction	151	167	276	923
Financing Activities - Other	0	0	0	(15)
Financing Activities - Net Cash Flow	160	(7)	(230)	(564)

Cash And Cash Equivalents - Increase (Decrease)

	57	(366)	212	92
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From the 10-K statement of Kmart

AS OF JANUARY 31, 2001 AND JANUARY 26, 2000

	2000	1999
Current Assets		
Cash and cash equivalents	401	344
Merchandise inventories	6,412	7,101
Other current assets	811	715
Total current assets	7,624	8,160
Property and equipment, net	6,557	6,410
Other assets and deferred charges	449	534
Total Assets	14,630	15,104
Current Liabilities		
Long-term debt due within one year	68	66
Trade accounts payable	2,288	2,204
Accrued payroll and other liabilities	1,256	1,574
Taxes other than income taxes	187	232
Total current liabilities	3,799	4,076
Long-term debt and notes payable	2,084	1,759
Capital lease obligations	943	1,014
Other long-term liabilities	834	965
Company obligated mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely 7-3/4% convertible junior subordinated debentures of Kmart (redemption value of 898 and 1,000, respectively)	887	986
Common stock, 1 par value, 1,500,000,000 shares authorized; 486,509,736 and 481,383,569 shares issued, respectively	487	481
Capital in excess of par value	1,578	1,555
Retained earnings	4,018	4,268
Total Liabilities and Shareholders' Equity	14,630	15,104

- 1** Compute the Z-score for Kmart for the years ending January 31, 2001 and January 31, 1999. What can you say about the probability of Kmart going bankrupt on those dates ?

- 2** If the probability changed significantly, what factors caused the change ?

Form 10-K
EXXON MOBIL CORP - XOM

Filed: February 28, 2008 (period: December 31, 2007)

Item 1. Business.

Exxon Mobil Corporation was incorporated in the State of New Jersey in 1882. 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 2007 worldwide environmental expenditures for all such preventative and remediation steps, including ExxonMobil's share of equity company expenditures, were about \$3.8 billion, of which \$1.5 billion were capital expenditures and \$2.3 billion were included in expenses. The total cost for such activities is expected to remain in this range in 2008 and 2009 (with capital expenditures approximately 45 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 80.8 thousand, 82.1 thousand and 83.7 thousand at years ended 2007, 2006 and 2005, 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 26.3 thousand, 24.3 thousand and 22.4 thousand at years ended 2007, 2006 and 2005, respectively.

ExxonMobil maintains a website at 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.

Consolidated Balance Sheet

millions of dollars	31-Dec-07	31-Dec-06
Assets		
Current assets		
Cash and cash equivalents	33,981	28,244
Cash and cash equivalents restricted		4,604
Marketable securities	519	
Notes and accounts receivable, less estimated doubtful amounts	36,450	28,942
Inventories		
Crude oil, products and merchandise	8,863	8,979
Materials and supplies	2,226	1,735
Prepaid taxes and expenses	3,924	3,273
Total current assets	85,963	75,777
Investments, advances and long-term receivables	28,194	23,237
Property, plant and equipment, at cost, less accumulated depreciation and depletion	120,869	113,687
Other assets, including intangibles, net	7,056	6,314
Total assets	242,082	219,015
Liabilities		
Current liabilities		
Notes and loans payable	2,383	1,702
Accounts payable and accrued liabilities	45,275	39,082
Income taxes payable	10,654	8,033
Total current liabilities	58,312	48,817
Long-term debt	7,183	6,645
Postretirement benefits reserves	13,278	13,931
Deferred income tax liabilities	22,899	20,851
Other long-term obligations	14,366	11,123
Equity of minority and preferred shareholders in affiliated companies	4,282	3,804
Total liabilities	120,320	105,171
Shareholders equity		
Common stock without par value (9,000 million shares authorized, 8,019 million shares issued)	4,933	4,786
Earnings reinvested	228,518	195,207
Accumulated other comprehensive income		
Cumulative foreign exchange translation adjustment	7,972	3,733
Postretirement benefits reserves adjustment	(5,983)	(6,495)
Common stock held in treasury (2,637 million shares in 2007 and 2,290 million shares in 2006)	(113,678)	(83,387)
Total shareholders equity	121,762	113,844
Total liabilities and shareholders equity	242,082	219,015

Income Statement

millions of dollars	Year ending	31-Dec-07	31-Dec-06	31-Dec-05
Revenues and other income				
Sales and other operating revenue		390,328	365,467	358,955
Income from equity affiliates		8,901	6,985	7,583
Other income		5,323	5,183	4,142
Total revenues and other income		404,552	377,635	370,680
Costs and other deductions				
Crude oil and product purchases		199,498	182,546	185,219
Production and manufacturing expenses		31,885	29,528	26,819
Selling, general and administrative expenses		14,890	14,273	14,402
Depreciation and depletion		12,250	11,416	10,253
Exploration expenses, including dry holes		1,469	1,181	964
Interest expense		400	654	496
Sales-based taxes (1)		31,728	30,381	30,742
Other taxes and duties		40,953	39,203	41,554
Income applicable to minority and preferred interests		1,005	1,051	799
Total costs and other deductions		334,078	310,233	311,248
Income before income taxes		70,474	67,402	59,432
Income taxes		29,864	27,902	23,302
Net income		40,610	39,500	36,130
Net income per common share (dollars)		\$7.36	\$6.68	\$5.76
Net income per common share assuming dilution (dollars)		\$7.28	\$6.62	\$5.71

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies

Principles of Consolidation.

The Consolidated Financial Statements include the accounts of those subsidiaries owned directly or indirectly with more than 50 percent of the voting rights held by the Corporation and for which other shareholders do not possess the right to participate in significant management decisions. 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 subsidiaries and less-than-majority-owned companies in which a significant ownership percentage interest is held are included in "Investments, advances and long-term receivables"; the Corporation's share of the net income of these companies is included in the Consolidated Statement of Income caption "Income from equity affiliates." the Corporation's share of the cumulative foreign exchange translation adjustment for equity method investments is reported in the Consolidated Statement of Shareholders' Equity. Evidence of loss in value that might indicate impairment of investments in companies accounted for on the equity method is assessed to determine if such evidence represents a loss in value of the Corporation's investment that is other than temporary. Examples of key indicators include a history of operating losses, a negative earnings and cash flow outlook, significant downward revisions to oil and gas reserves, and the financial condition and prospects for the investee's business segment or geographic region. If evidence of an other than temporary loss in fair value below carrying amount is determined, an impairment is recognized. In the absence of market prices for the investment, discounted cash flows are used to assess fair value.

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. In all cases, revenues are recognized when the products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectibility is reasonably assured.

Revenues from the production of natural gas properties in which the Corporation has an interest with other producers are recognized on the basis of the Corporation's net working interest. Differences between actual production and net working interest volumes are not significant.

Effective January 1, 2006, the Corporation adopted the Emerging Issues Task Force (EITF) consensus on Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty." The EITF concluded that purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another should be combined and recorded as exchanges measured at the book value of the item sold. In prior periods, the Corporation recorded certain crude oil, natural gas, petroleum product and chemical sales and purchases contemporaneously negotiated with the same counterparty as revenues and purchases. As a result of the EITF consensus, the Corporation's accounts "Sales and other operating revenue," "Crude oil and product purchases" and "Other taxes and duties" on the Consolidated Statement of Income were reduced prospectively from 2006 by associated amounts with no impact on net income. All operating segments were affected by this change, with the largest impact in the Downstream.

Inventories.

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

Property, Plant and Equipment.

Depreciation, depletion and amortization, based on cost less estimated salvage value of the asset, are primarily determined under either the unit-of-production method or the straight-line method, which is based on estimated asset service life taking obsolescence into consideration. Maintenance and repairs, including planned major maintenance, are expensed as incurred. Major renewals and improvements are capitalized and the assets replaced are retired.

Interest costs incurred to finance expenditures during the construction phase of multiyear projects are capitalized as part of the historical cost of acquiring the constructed assets. The project construction phase commences with the development of the detailed engineering design and ends when the constructed assets are ready for their intended use. Capitalized interest costs are included in property, plant and equipment and are depreciated over the service life of the related assets.

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

6. Equity Company Information

The summarized financial information below includes amounts related to certain less-than-majority-owned companies and majority-owned subsidiaries where minority shareholders possess the right to participate in significant management decisions (see note 1). These companies are primarily engaged in crude production, natural gas marketing and refining operations in North America; natural gas production, natural gas distribution and downstream operations in Europe; crude production in Kazakhstan; and liquefied natural gas (LNG) operations in Qatar. Also included are several power generation, refining, petrochemical/lubes manufacturing and chemical ventures. The Corporation's ownership in these ventures is in the form of shares in corporate joint ventures as well as interests in partnerships. The share of total equity company revenues from sales to ExxonMobil consolidated companies was 23 percent, 24 percent and 22 percent in the years 2007, 2006 and 2005, respectively.

<i>In Millions, Except Per Share Data</i>	31-Dec-07		31-Dec-06	
	Total	ExxonMobil Share	Total	ExxonMobil Share
Equity Company Financial Summary				
Total revenues	109,149	37,724	98,542	33,505
Income before income taxes	30,505	11,448	24,094	8,905
Income taxes	7,557	2,547	5,582	1,920
Net income	22,948	8,901	18,512	6,985
Current assets	29,268	10,228	24,684	8,484
Property, plant and equipment, less accumulated depreciation	70,591	22,638	59,691	19,602
Other long-term assets	6,667	3,092	7,209	4,206
Total assets	106,526	35,958	91,584	32,292
Short-term debt	3,127	1,117	2,669	888
Other current liabilities	20,861	7,124	16,543	5,852
Long-term debt	19,821	2,269	16,442	1,920
Other long-term liabilities	8,142	3,395	7,946	3,250
Advances from shareholders	18,422	8,353	15,791	6,803
Net assets	36,153	13,700	32,193	13,579

A list of significant equity companies as of December 31, 2007, together with the Corporation's percentage ownership interest, is detailed below:

	Percentage Ownership Interest		Percentage Ownership Interest
Upstream		Downstream	
Aera Energy LLC	48	Chalmette Refining, LLC	50
BEB Erdgas und Erdoel GmbH	50	Fujian Refining & Petrochemical Company Ltd.	25
Cameroon Oil Transportation Company S.	41	Saudi Aramco Mobil Refinery Company Ltd.	50
Castle Peak Power Company Limited	60		
Nederlandse Aardolie Maatschappij B.V.	50	Chemical	
Qatar Liquefied Gas Company Limited	10	Al-Jubail Petrochemical Company	50
Qatar Liquefied Gas Company Limited II	24	Infineum Holdings B.V.	50
Ras Laffan Liquefied Natural Gas Compan	25	Saudi Yanbu Petrochemical Co.	50
Ras Laffan Liquefied Natural Gas Compan	30		
Tengizchevroil, LLP	25		
Terminale GNL Adriatico S.r.l.	45		

7. Investments, Advances and Long-Term Receivables

<i>In Millions, Except Per Share Data</i>	<u>31-Dec-07</u>	<u>31-Dec-06</u>
Companies carried at equity in underlying assets		
Investments	13700	13579
Advances	8353	6803
	<u>22053</u>	<u>20382</u>
Companies carried at cost or less and stock investments carried at fair value	1647	1678
	<u>23700</u>	<u>22060</u>
Long-term receivables and miscellaneous investments at cost or less	4494	1177
Total	<u>28194</u>	<u>23237</u>

8. Property, Plant and Equipment and Asset Retirement Obligations

Property, Plant and Equipment	<u>31-Dec-07</u>		<u>31-Dec-06</u>	
	Cost	Net	Cost	Net
Upstream	178712	73524	163087	68410
Downstream	65841	30148	62392	28918
Chemical	24081	10071	22197	9319
Other	11706	7126	11608	7040
Total	<u>280340</u>	<u>120869</u>	<u>259284</u>	<u>113687</u>

In the Upstream segment, depreciation is on a unit-of-production basis, so depreciable life will vary by field. In the Downstream segment, investments in refinery and lubes basestock manufacturing facilities are generally depreciated on a straight-line basis over a 25-year life and service station buildings and fixed improvements over a 20-year life. In the Chemical segment, investments in process equipment are generally depreciated on a straight-line basis over

Accumulated depreciation and depletion totaled \$159,471 million at the end of 2007 and \$145,597 million at the end of 2006. Interest capitalized in 2007, 2006 and 2005 was \$557 million, \$530 million and \$434 million, respectively.

Required

In answering the following questions, combine the line items of ExxonMobil statements into groups that correspond to line items that are reported in note 6. Compute the answers only for year ending 31-Dec-07. Do not use averages for assets - use the end of the year values for ratios.

1 Compute the following ratios for ExxonMobil using figures in the reported statements.

a Current ratio as of December 31, 2007.

b Debt to equity as of December 31, 2007.

c Times Interest Earned for the year ending December 31, 2007.

d Return on assets (after taxes) for year ending December 31, 2007.

e Return on equity for year ending December 31, 2007.

- 2 Prepare a pro forma Dec 31, 2007, balance sheet and income statement for ExxonMobil with its unconsolidated equity companies fully consolidated.

3 Compute the following ratios ExxonMobil with all Equity Companies fully consolidated.

a Current ratio as of December 31, 2007.

b Debt to equity as of December 31, 2007.

c Times Interest Earned for year ending December 31, 2007.

d Return on assets (After tax) for year ending December 31, 2007.

e Return on equity for year ending December 31, 2007.

- 4** a. Which ratios worsened due to full consolidation ? Why?
- b** Why do you think ExxonMobil not consolidate all its affiliates on its financial statements ?
- 5** In the light of recent run-up in oil prices, will you advise XOM to keep those subsidiaries off the books ?
- 6** Go through sections of the Exxon financial statements given in this exam. What accounting policies and methods are listed? List at least five accounting policies of Exxon. Discuss whether Exxon's policy is conservative or liberal and mention the policy that Exxon did not choose (i.e. The another alternative).