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Mobil Annual Report 1986

PLAINTIFF'S EXHIBIT

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What a year!... Despite a plunge in crude oil and natural gas prices, **Mobil's 1986 earnings actually increased** to $1.557 billion from $1.548 billion before special provisions, and to $1.407 billion from $1.040 billion after these provisions. **Profitability improved** from 7.5% to a 9.6% return on average shareholders' equity, and from 7% to an 8% return on average capital employed. Marketing and refining earnings nearly quadrupled, all but offsetting the '86 drop in exploration and producing earnings (see table on page 3). Mobil Chemical's earnings jumped 164% to a record $140 million, and Montgomery Ward's big year matched its previous best. Major gains in **productivity** helped, too.

Financial flexibility... We've **cut costs** and **boosted efficiency** "by delegating more authority, reducing layers of management and relying more on electronic data-management systems," says Mobil Chairman and CEO Allen E. Murray. Result: Though many parts of Mobil now do more business, **headcount dropped** by 38,800 last year, including 18,500 from the sale of Container Corporation of America. And **selling assets** that don't fit long-range plans helped to **reduce debt** further...and to improve financial flexibility so we're ready, says Mr. Murray, "to seize opportunities that may become available."

Ahead of the times... and that's where we intend to stay. Despite a difficult year for the Upstream segment of the industry, Mobil's E&P division replaced 120% of our production. Mobil's forward-looking research helps us identify additional reserves in existing fields, while advanced drilling technology makes us more efficient. Innovative products also keep us ahead—like the synthetic lubricant used in the Voyager round-the-world flight, or the industry-leading detergent additive that gets rid of harmful deposits in fuel injectors...and sent our sales zooming. And in 1986, for the fourth year in a row, **Mobil was granted more U.S. patents** than any other oil company.

What's next?... "Mobil today is a very different and much stronger company than the one you knew only a few years ago—or even one year ago," says Mr. Murray. "And improvements are still being made." Now, thanks to Mobil's enhanced financial flexibility, we're in a position to "use this strength in whatever way **best builds shareholder value**."

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On the cover: MobilFax, a biweekly column that keeps the investment community up-to-date on the state of our business, here provides a succinct report on Mobil's 1986 performance.

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Financial highlights: 1986

A summary of Mobil's recent performance

	1986	1985	1984
Revenues (millions)	**$49,865**	$60,609	$60,474
Net income (millions)	**1,407**	1,040	1,268
Per share (based on average shares outstanding)	**3.45**	2.55	3 11
Return on average shareholders equity[1]	**9.6%**	7.5%	9.2%
Return on average capital employed[1]	**8.3%**	7.0%	7.9%
Income per dollar of revenue[1]	**2.8¢**	1.7¢	2.1¢
Petroleum earnings per gallon sold	**4.7¢**	4 9¢	4.4¢
Total assets, year-end (millions)	**$39,412**	$41,752	$41,851
Capital expenditures, exploration, and other outlays (millions)	**3,046**	3,513	3,600
Shareholders' equity, year-end (millions)	**15,239**	14,089	13,624
Per share (based on shares outstanding at year-end)	**37.28**	34.50	33.42
Number of shares outstanding, year-end (thousands)	**408,732**	408,351	407,704

(1) The presentation for 1985 has been revised to conform with guidance issued by the Securities and Exchange Commission in 1986 to include the $508 million provision for restructuring of Montgomery Ward. Income for 1986 includes the $150 million loss on sale of Container Corporation of America.

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The Annual Meeting of shareholders will be held on Thursday, May 7 at 10 a.m. in the Four Seasons Olympic Hotel Seattle Washington 98101
Mobil's symbol on the New York Stock Exchange is "MOB"
INVESTOR CONTACT: For further information shareholders may contact Secretary Mobil Corporation 150 East 42nd Street New York N Y 10017-5666 or telephone (212) 883-4242

1986 was a good year for Mobil —a great year considering the problems our industry had to confront

Nineteen eighty-six was an unusual year. Both crude oil and natural gas prices plummeted. And yet Mobil's earnings actually increased slightly.

Our profits improved in all major segments of the company except "upstream" (exploration and producing)—where earnings naturally followed the overall decline of crude and gas prices. "Downstream" (petroleum refining, marketing, supply and transportation) had a terrific year. Mobil Chemical posted its best earnings ever, and Montgomery Ward matched its previous best.

Frankly, some of these gains were due simply to better conditions for our whole industry. For instance, when crude prices plunged early in 1986, product prices declined more slowly—thus temporarily inflating industry refinery margins. Tighter refining and petrochemical capacity strengthened everyone's profit margins. And the steadily weakening dollar also helped profits.

But, more important to Mobil shareholders, is that a lot of our strength came directly from all our company has done to restructure itself. Mobil today is a very different and much stronger company than the one you knew only a few years ago—or even one year ago. And improvements are still being made.

For example, we're continuing to sell assets that don't fit our long-range plans. Last year Mobil realized $1.1 billion from the sale of Container Corporation of America. The addition of $800 million of other assets sold in 1986 brought the total to about $3 billion of assets sold in just two years.

We've also kept on cutting our debt—paying back $3.8 billion in the past two years, or the equivalent of 66% of the debt incurred in 1984 when we bought Superior Oil. That lower debt and our strong cash and marketable securities position improve Mobil's financial flexibility. So the company now is in position to seize opportunities that may become available, and to use this strength in whatever way best builds shareholder value.

Mobil is also stronger thanks to cost-cutting and to efficiency greatly improved by delegating more authority, reducing layers of management and relying more on electronic data-management systems. In 1986 alone, headcount fell by 18,500 from the sale of Container and by another 20,300 employees elsewhere. Since the beginning of 1980, Mobil has gone from 214,300 employees to 127,400, even though many parts of our company now handle more business.

You'll find this increased efficiency paying off throughout the company: Although total upstream earnings declined, our earnings per barrel produced held up better than for most of our major competitors. Sales volumes of petroleum products and chemicals continued to climb faster for Mobil than for others. And our refineries and chemical plants generally operated at very high, and profitable, utilization rates.

As a matter of fact, every one of our divisions is more efficient and more competitive than a year or so ago. Our performance demonstrates what we've said is our intent: to make Mobil the best, or competitive with the best, in each business and location. We're not all the way there yet—but we have come a long way in recent years.

What about the future? For oil companies, there really are two quite different futures—one over the next couple of years and one over the longer term.

The short term holds continued uncertainty, even potential turbulence. Crude prices did strengthen at the end of 1986—promising direct help for our upstream profits—but wide price fluctuations are still entirely possible. And though downstream looks good in 1987—thanks to Mobil's own improvements and the industry's tighter capacity—it may not be quite as good as last year since 1986's wide spread between crude and product prices probably won't be repeated.

But the longer-term future is more promising. Besides Mobil's tougher competitiveness and the industry's tighter capacity, including marine tonnage, you can probably look forward to the U.S. natural gas surplus disappearing within a few years. Over the longer term, crude oil should move back into a tighter supply position. The timing will depend on whether prices rise enough to encourage exploration and keep the lid on oil consumption.

All in all, this remains a good industry to be in. It's an industry essential to the world's economies. Its resource base needs to be constantly replenished. It's a high-technology industry, and one not likely to be threatened by someone elses technology. Or cheap labor. And it's an industry that won t become obsolete. While utilities can switch from fuel oil to nuclear power or coal, it will be a very long time before there are practical economic alternatives to the premium products that Mobil concentrates on—like gasoline, jet fuel, diesel, lubricants and plastics. These growing markets make for excellent continuing investment opportunities.

The challenge is how to best balance our short-term concerns against our long-term optimism and to be in a flexible position to act if special opportunities arise.

■ In exploration and producing, Mobil has promising acreage to explore, as well as major oil and gas reserves to develop in the U.S., Canada, Europe, Africa and Indonesia. Additional natural gas producing capacity in North America is just waiting for customers, which is why we restructured our U.S. gas marketing organization last year—to increase sales and profits from Mobil's extensive reserves. For now, with the price uncertainties, we will selectively continue with investments necessary to protect our long-term strategic position and with investments clearly profitable even at very low crude prices. We will be alert to special opportunities that may become available. We will also do all the preliminary technical and staff work to bring our inventory of projects right up to the point of being ready to invest —when the outlook warrants it.

Earnings—millions of dollars

	1986	1985	Change
Petroleum			
Upstream*	**$ 827**	$1,798	$(971)
Downstream**	**1,299**	333	966
Chemical	**140**	53	87
Retail Merchandising	**106**	42	64
All Other	**(815)**	(678)	(137)
Subtotal	**1,557**	1,548	9
Special Provisions	**(150)[1]**	(508)[2]	358
Net Income	**$1,407**	$1,040	$ 367

*Exploration and Producing
**Marketing, Refining, Supply and Transportation

1 Loss on sale of Container Corporation of America.
2 Restructuring of Montgomery Ward.

■ In refining, a great deal of attention has been focused in recent years on closing uncompetitive facilities. Today's job is to concentrate on making our remaining refineries even more efficient and profitable. The Torrance, California, refinery has begun a major upgrading that's expected to yield a high return. And other similar opportunities have been identified.

■ Marketing is only part way through a retail upgrading program that's already given such a big boost to volume and profit. The plan is to continue improving our worldwide service station chain.

■ Mobil Chemical more than ever is a company with great promise. Most of its fabricated plastic and specialty chemical products have very good growth prospects, and much tighter petrochemical industry supply/demand should help earnings. There'll be continued development of advanced new plastic and petrochemical products.

■ In Montgomery Ward, the best-performing businesses have been strengthened and the unprofitable ones eliminated, setting the stage for improved sales and profits through the introduction of the new specialty-store strategy. Meanwhile, as Montgomery Ward's financial position improves, we'll be able to consider our long-term options for this asset.

■ Overall, Mobil's total 1987 capital and exploration spending will fall slightly below the level for 1986, though we'll be ready to increase spending whenever the outlook becomes more promising or when special opportunities arise. To balance the short-term uncertainties against our long-term optimism, the key today is flexibility. Your Board of Directors will keep the situation under constant review so Mobil is neither overextended nor deprived of opportunities.

Mobil's Board itself is changing as well. During 1986, Rawleigh Warner, Jr., chairman and chief executive officer for almost 17 years, ended his long and productive career with Mobil. Two other employee directors who retired last year were Alex Massad, president of the Exploration & Producing Division, and George Birrell, vice president and general counsel. And Howard Clark, who served with distinction for many years as a non-employee director, also left our Board. I thank them all—and all of the other Mobil people who retired in the past year. I'm pleased to welcome to the Board Eugene A. Renna, president of the Marketing and Refining Division, who was elected last year, and Robert G. Schwartz, chairman of Metropolitan Life Insurance Co., who became a Mobil director in January 1987.

Throughout the Mobil organization, at all levels, I am proud of our people. They are as competent, aggressive and productive as those of any other company, and they've performed wonderfully well during recent tough times. They deserve your thanks and mine.

Despite the difficulties, our industry holds a bright future for any company that has sharpened itself into a low-cost, efficient, forward-looking operation with an aggressive work force. Such companies will have plenty of profitable opportunities. Mobil will have such opportunities. And we promise you, Mobil will be ready to take full advantage of this bright future.

Allen E. Murray

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Our upstream business had its successes despite a difficult year

This was a difficult year for earnings in the "upstream" part of our business—exploration and producing (E&P). As crude oil prices fell to half of their 1985 levels, upstream earnings dropped by about $1 billion.

Yet we had a good number of successes in our operations last year. On the exploration side, for instance, we had a very good year with substantial discoveries in the U.S., Canada, the United Kingdom, Norway, the Netherlands, Germany and Nigeria. Among the most important:

- Ewing Bank 826, one of the largest oil discoveries announced in the Gulf of Mexico in the last five years.
- Thebaud C-74 offshore Eastern Canada, a gas discovery that brought our reserves in the Sable Island area off Nova Scotia closer to being commercial.
- Two oil discoveries in the area of our U.K. Beryl field; these can be produced at very low cost through subsea completions to the existing Beryl platforms.
- The Southern North Sea Gas Basin, one of Mobil's most successful areas with five gas discoveries.
- Two oil discoveries in the Oseberg area of Norway that will be appraised for development. Also, a promising oil discovery in the Haltenbanken area that complements two previous gas condensate discoveries there.
- The Iyak field offshore Nigeria, where further drilling confirms a field extension that could more than double its reserves.

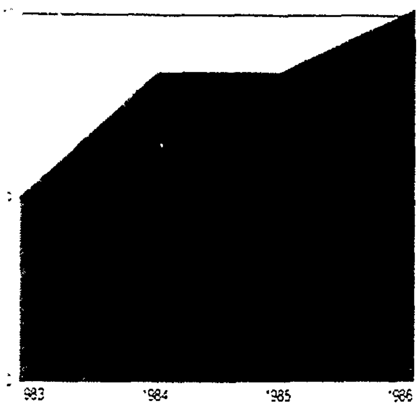
Adding to our capacity

On the producing side, we continue to bring on stream significant new capacity around the world, and last year replaced 120% of our production. In Indonesia, the sixth production train began operation in October with the capacity to manufacture 1.7 million tons a year of liquefied natural gas from the giant Arun gas field. Work now underway at Arun will add 1.6 million tons a year of liquefied petroleum gas for delivery to Japan beginning in 1988.

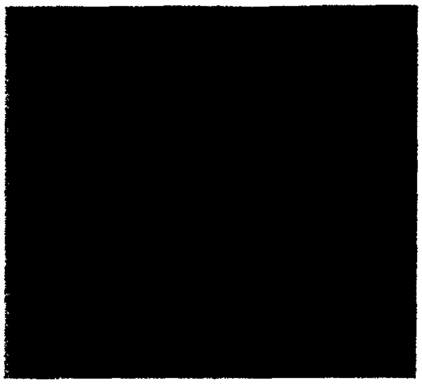
Further development drilling in the Statfjord and Beryl fields in the North Sea strengthened Mobil's liquid production, while a new gas field came on stream in the Dutch North Sea area. In the U.K., the Thames field started gas production. Platform and well completion work continue in the Edop oil field offshore Nigeria for start-up in mid-1987.

In the U.S., production is underway at the East Breaks field in the Gulf of Mexico and will soon begin at the Green Canyon 18 oil field, also in the Gulf of Mexico, and the Point Pedernales oil field offshore California. Construction of a new gas processing plant will allow us to begin production from the Mary Ann field offshore Alabama in 1987.

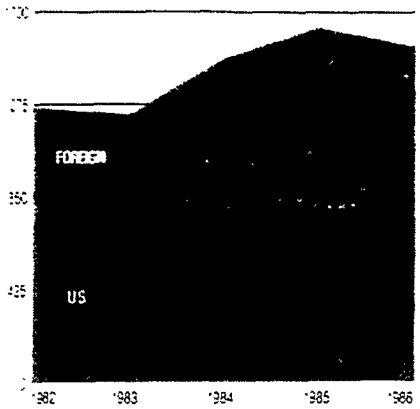
Despite this new capacity, overall equity oil and gas production last year declined by about 4%—mostly because a greater proportion of our Nigerian crude liftings were purchases in 1986 rather than equity production. Sale of our Angola properties further reduced our equity production. Another major cause was poor market conditions for natural gas in the U.S. as a result of surplus supply and competition with lower-cost fuel oil.



P.T. ARUN LNG PLANT CAPACITY
Millions of tons per year



NORTH SEA DISCOVERIES 1986



GROSS WORLDWIDE EQUITY PRODUCTION

Changing for the better

While the biggest changes were external—like lower crude prices—we made some internal changes that will pay off long after today's hard times are gone. We downsized our E&P organization in the U.S., reducing staff by 13% and cutting regional operating units from seven to four.

At the same time that we cut back in some areas, we restructured and expanded our U.S. gas marketing organization. The idea is to sell our gas on better terms in this rapidly changing market.

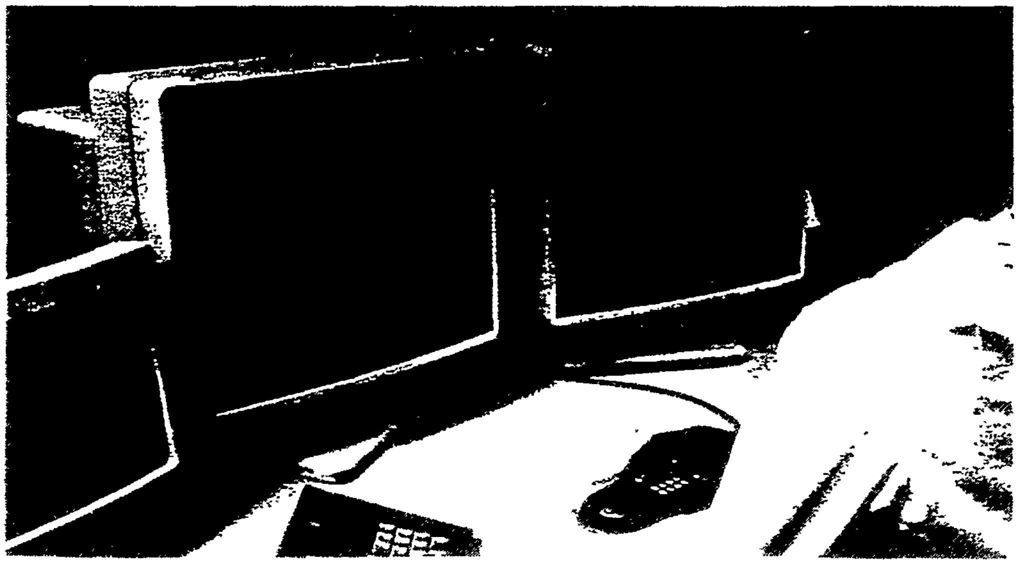
We've reduced our drilling costs by centralizing our operations and reducing idle time for rigs by 40%. Mobil also benefited from lower service industry costs and from more favorable terms at federal lease sales. These lower costs helped us get more out of each dollar of investment than in prior years—which was important since we reduced capital and exploration expenditures from $2.3 billion in 1985 to $1.9 billion in 1986 as crude prices fell dramatically.

Operationally, therefore, we view 1986 as a reasonably good year. Results were consistent with our fine performance over the past several years when we were among the industry leaders in replacing reserves, in maintaining or increasing production and in keeping our costs of finding and developing oil and gas among the lowest in the business.

Strategies for new times

In the short term, we expect to maintain a prudent, constrained investment program that still protects our strategic interests. At the same time, we've shifted some strategies in response to the new operating environment:

■ In selecting new exploration plays, we'll give more emphasis to those with the greatest long-term potential. Mobil has always favored the frontier plays that, although riskier, fit our strengths of technology and size. We will go even further in this direction. This probably also means a shift toward more emphasis in the foreign area, since selective overseas exploration offers greater potential overall.



Mobil's strength as a gas producer has been enhanced by the completion of a sixth processing "train" for liquefied natural gas from the Arun field in Indonesia (photo, extreme left). Advanced computer technology aids Mobil geoscientists in the interpretation of seismic data (photo, left).

■ Worldwide—but particularly in North America—we'll re-examine our organization to further improve the way we operate. We'll also consolidate and upgrade our producing properties to make them more efficient. In other words, we're in the market to buy assets that can contribute to our economic strength, and to sell assets that can't.

■ We'll place greater emphasis on reservoir management—applying today's technology to fields that may have been producing for decades. What usually results is a sizable increase in production and reserves for very little money.

■ In North America, Mobil has an exceptionally strong natural gas base, though a lot of it is now shut in. As the gas surplus disappears over the next two to three years, Mobil's gas capacity will become an increasingly important asset.

■ We intend to emphasize our technological strengths in the management of our operating investments. We've already improved our drilling technology so that our penetration rate—feet drilled per rig, per day—is up 50%. And we're working to become even more efficient.

■ Technology is the key to this industry. And so, while remaining lean, we'll continue to hire top-quality candidates with the critical scientific skills we need.

It may sometimes seem difficult, after last year's price collapse, to be bullish about E&P. But we are. Mobil has enormous strengths in reserves, technology and people. We have made significant discoveries that are just waiting to be developed. And we're taking steps to insure that we add attractive new prospects for the future. We also believe our strategies are correct, especially for these uncertain times. We hope—and expect—that this period will one day be recalled as a time when we built Mobil's upstream operations prudently but effectively for the future.

One of Mobil's most promising discoveries in 1986 was the northwest extension of the Iyak field off the coast of Nigeria. Here, the Trident IV jack-up rig drills an exploratory well at the Mobil-operated field.

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Our downstream business was a real success story—a year when we sold more while spending less

Downstream operations were exceptionally profitable for Mobil in 1986—proving once more that the company's strength is in its *balance*. Downstream operations—meaning marketing and refining (M&R), supply and transportation—contributed well over a billion dollars in after-tax earnings, an extremely satisfying improvement from even the fine results of 1985.

These improved profits came partly from market conditions: Crude prices fell faster than product prices, boosting industry profit margins. And the dollar weakened against foreign currencies. This made overseas operations more profitable, since earnings in local currencies translated into more dollars.

Much of *our* success, however, came from our decisions to make Mobil's downstream operations more lean and efficient. For example, from 1981 to 1985 our downstream staff had already shrunk by 16%, and 1986 brought a further 4% reduction. Over the past six years the M&R Division has been steadily reducing management levels, closing regional offices and centralizing operations. We now have more flexible supply, a leaner and more efficient marine fleet, fewer but more sophisticated refineries, more innovative marketing capabilities and more responsive information systems to run the business more efficiently. At the same time, sales increased by concentrating on our areas of strength. And through research, Mobil intends to stay at the forefront of lubricant and fuels development.

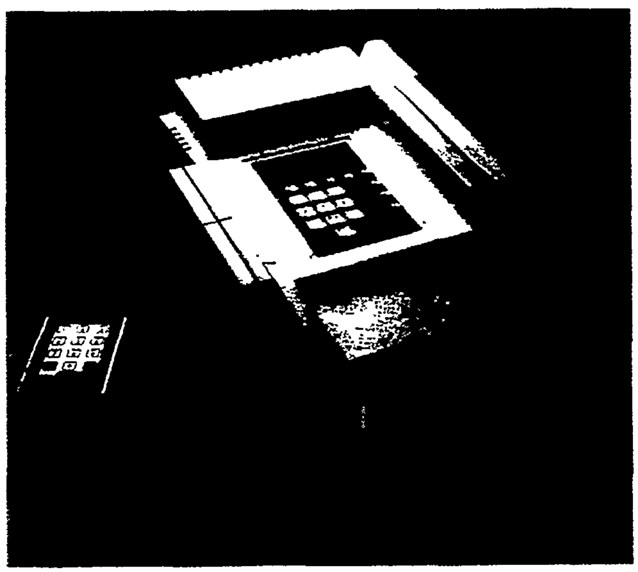
Stronger market shares

A clear sign of Mobil's efficiency is that while staffing levels decreased, sales volumes of the more profitable fuels—gasoline, diesel and jet fuel—increased steadily. As a result, our market position held up or improved in most parts of the world. This was particularly true of our long-held strength in the lubricants business. Mobil is the leader in the international marine lubricants market, strong in industrial and automotive lubricants and improving in premium lubricants sold in retail stores. And there's ongoing growth in our product line of synthetics—the high-tech, high-profit top of the lubricant line.

More competitive retailing

To excel despite today's tough competition, this company has worked hard to enhance our position in markets where Mobil is strong, while withdrawing from markets where Mobil wasn't competitive with the best.

The number of our service stations worldwide dropped by 6% in 1986 even as acquisitions integrated marketing operations that fit well with ours. In the U.S., Mobil completed or announced withdrawal from gasoline marketing in all or parts of 12 states, while acquiring a



Our new point-of-sale terminal electronically processes debit and credit card transactions—a fast and efficient way of doing business for us, and secure for the customer.

number of stations in Florida, Rhode Island and the Boston area where the company was already strong.

At the same time, more service stations throughout the world were remodeled with a new, attractive design. Customers now have access to well-located modern stations with convenient, high-speed pumps and the latest electronic payment card facilities. Mobil is the U.S. industry leader in the acceptance of bank debit cards, which let you get the lower cash price for your gasoline without actually having cash in your pocket. Electronic payment systems also are a success in Europe, Australia and the Far East, and similar systems are being introduced for diesel fleet fueling throughout Europe. Personal computer-based dealer systems are improving the operating efficiency of our outlets in Australia and New Zealand. And customers gain convenience from retail centers such as Mobil Marts and car washes in the U.S. and Food Marts in France and Australia.

The result is that Mobil has progressively increased average sales per outlet through the entire system. In the U.S., average annual gasoline volumes at outlets where Mobil has an investment jumped by 21% in 1986, and in Europe average fuel volumes rose about 9%.

Mobil has launched newly formulated premium gasolines with detergent additives in 10 countries, including the U.S., France and Australia, resulting in increased gasoline volumes in each of the countries. For example, in the U.S., sales of Super Unleaded were up 46% in 1986. Mobil gasolines with detergent additives were tested and developed in our laboratories and have the ability to clean clogged port fuel injectors while you drive.

Above: Pemref, our joint-venture refinery in Saudi Arabia, provides us with premium-grade products for world markets. Right: Our leadership in lubricants pays off for companies like Caterpillar. The bulldozer shown here is one of the Caterpillar vehicles using our lubricants under a major new supply contract.

Fewer, better refineries

The Frontignan, France, refinery closed at the end of the first quarter of 1986. Including this closure, Mobil's worldwide operating capacity is now 20% lower than in 1980. Mobil refineries in Europe now run significantly above industry utilization levels.

At the same time, upgrading the remaining facilities improved yields of high-profit gasoline, distillates and lubes. And the Pemref refinery in Yanbu, Saudi Arabia, a joint venture with the Saudi government, is one of the newest and most efficient fuels refineries in the world.

Technological advantage

Building on technology that gives Super Unleaded gasoline its superior detergency, Mobil's product researchers have developed a detergent for diesel fuel now being introduced in markets worldwide. This additive virtually eliminates the buildup of harmful deposits inside diesel injectors—improving fuel economy, power and acceleration, and reducing smoke emissions.

A new formulation for Delvac I®, Mobil's high-performance synthetic lubricant for heavy-duty gasoline and diesel engines, is a good example of how our product researchers continue to meet evolving needs. Mobil Jet Oil 254® is an industry leader for lubricating the latest jet engines. Our experimental synthetic aviation piston engine lubricant was used in the Voyager aircraft that flew nonstop around the world without refueling.

Supply and Shipping

The highly volatile oil market has changed some of the ways the company buys and sells crude oil and petroleum products. As a result, we've substantially tightened up on inventory levels and have the flexibility to run a greater variety of feedstocks. A stronger trading and sales organization and better information systems help us capitalize on timely, economic purchases and sales of crude and products.

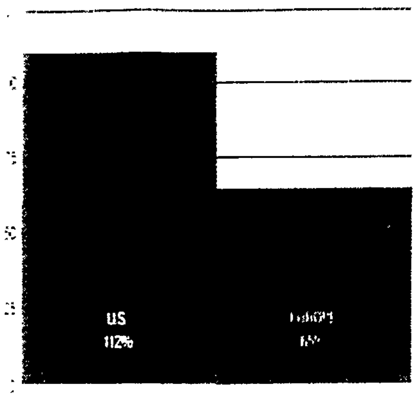
Marine Operations have reduced the size of Mobil's fleet—and by anticipating changing market conditions, avoided the heavy cost of holding idle ships in layup.

While upholding the strict safety and environmental standards under which we operate our fleet, Marine also cut crew costs and other operating expenses and revamped shoreside operations. Today, Mobil has very flexible and competitive coverage for ongoing shipping needs.

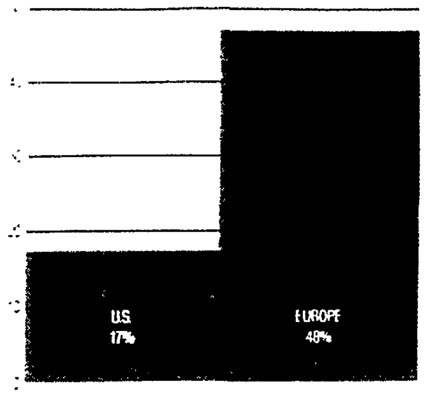
What about the future?

While market conditions in 1987 may or may not be as favorable as 1986 for the downstream business, we're optimistic about the longer term—and especially for Mobil's downstream profit potential. Here's why:

■ U.S. industry refining capacity has tightened up, which should improve margins, while demand is growing for gasoline and distillates—products that Mobil concentrates



INCREASE IN AVERAGE OG&L THROUGHPUT
1980-1986



REDUCTION IN REFINING CAPACITY
1980-1986

on. While Europe still has surplus distillation capacity, it is much tighter on the equipment to make gasoline and distillate. Mobil's position is also strong because we operate only highly efficient refineries at hign utilization rates.

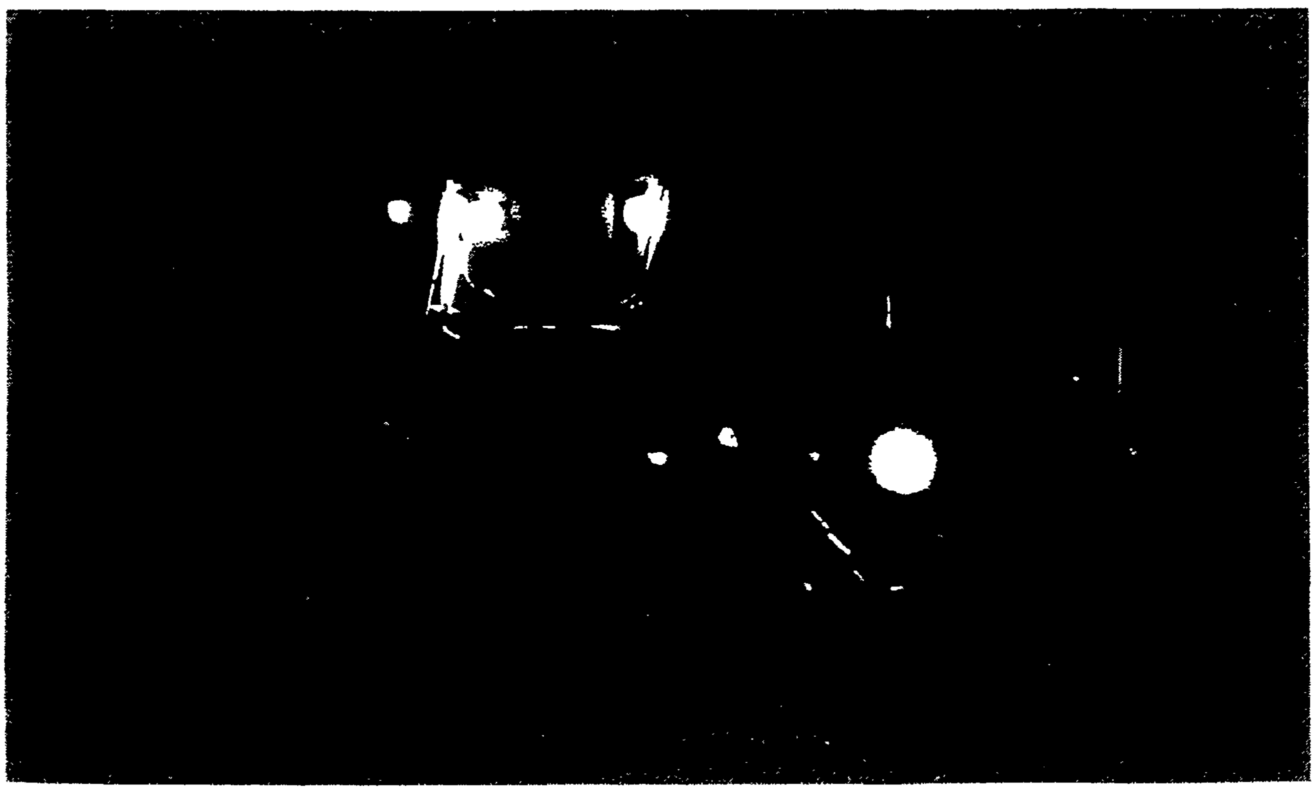
■ A major processing unit is under construction at the Torrance, California, refinery to increase production of high-value gasoline and distillates from heavier low-cost crudes while meeting more stringent air quality requirements. Further improving the efficiency of our refinery in Woerth, Germany, will increase throughput and production of gasoline and distillates.

■ Continued upgrading of our service stations will make them still more competitive.

■ Our researchers and engineers will continue developing better products and more efficient refinery operations.

■ Overall, we've improved productivity and reduced costs, and we are now among the *best* in most places where we operate.

You can be sure we'll be continually alert to strategic investment opportunities Mobil can capitalize on, thanks to the strong cash flow from downstream operations.



In chemicals, we're a leader, with stronger sales, new consumer products and new market strategies

Mobil Chemical had a record year in 1986: Earnings were our best ever, jumping 164% from 1985 to $140 million.

Some of our gains were partly the result of being in the right position to capitalize on industry trends. In the U.S. and overseas, the petrochemical supply/demand balance began to tighten in 1986, and margins improved. For polyethylene and polystyrene, two of our major petrochemical products, U.S. industry operating rates approached 90% in 1986—much better than in 1985; and because of our integrated position through plastic fabrication, we were already operating close to capacity.

At Mobil Chemical's new joint-venture petrochemical plant in Saudi Arabia, production exceeded design capacity, and we were fully sold out. Moreover, since we see very little new industry capacity being built near term, we expect steadily improving margins and higher petrochemical profitability in the years ahead.

But more important than industry trends are the special things Mobil Chemical is doing. Starting with petrochemicals, the feedstocks for countless consumer goods, we upgrade hydrocarbons that cost less than 10¢ a pound to fabricated products that sell for over $1 a pound. Our outlook remains particularly bright.

In our laboratories, we've developed *premium* polyethylene and polystyrene resins, and last year boosted sales of these premium products 70%.

We developed an improved resin for our plastic grocery sacks and a high-quality resin for blow-molding plastic bottles for household detergents, automotive lubricants and scores of other products.

In oriented polypropylene (OPP) films, we were already the world's leading producer, and in 1986 volume grew by another 15%. To keep up with increased demand, we're expanding our facilities in the U.S. and Europe. And to capitalize on the trend toward more sophisticated packaging, our researchers are continuing to work on new OPP film products. In 1987, half of our OPP sales will come from products developed by Mobil that didn't even exist five years ago.

Mobil Chemical is also the market leader in plastic grocery sacks. Supermarkets are busily changing from paper to plastic sacks—a trend we nurtured—and our own sales jumped 31% last year. We've also expanded our capacity to provide the broadest range of films for the fast-growing pallet-wrap market, where we're also the industry leader. Our new Placesetter™ foam product helped boost results in Mobil Chemical's line of premium disposable serviceware.

Sales of our Hefty® drawstring waste bag, Cinch Sak®, grew by 37% in 1986. The drawstring is our own innovation in plastic bags that has given us a competitive edge, and we've introduced it into Hefty® Steel Sak®, Lawn and Leaf®, and medium-size waste-bag products, as well as our Kordite® housewares brand.

The Hefty brand already holds the dominant position in the disposable foam-plate market, where our sales last year increased 12%. We're planning further expansions to keep up with demand.

First in synthetic lubes

Mobil Chemical's 40% market share makes us the leader in the manufacture of synthetic lubricants. Our synthetics provide superior engine protection, extended drain intervals and better fuel mileage. Our technology also has made us a leader in jet-turbine lubricants. And we make and sell a full line of synthetic fluids and greases formulated in Mobil's Research & Engineering laboratories.

We have also been innovators in the development and use of zeolite catalysts. We've just expanded our manufacturing facilities at Beaumont, Texas, to meet booming world demand for these versatile catalysts, which are used for upgrading fuel products and for various chemical processes.

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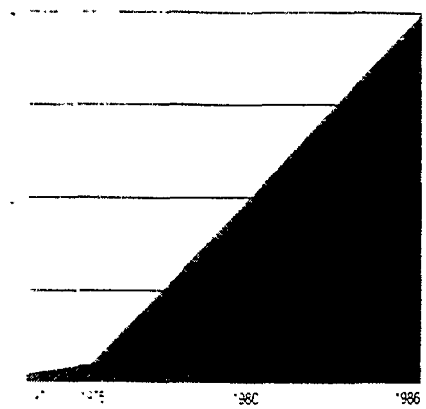
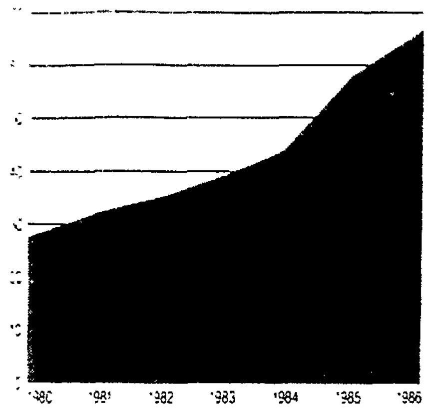
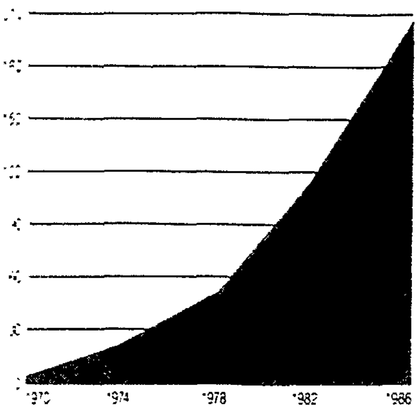


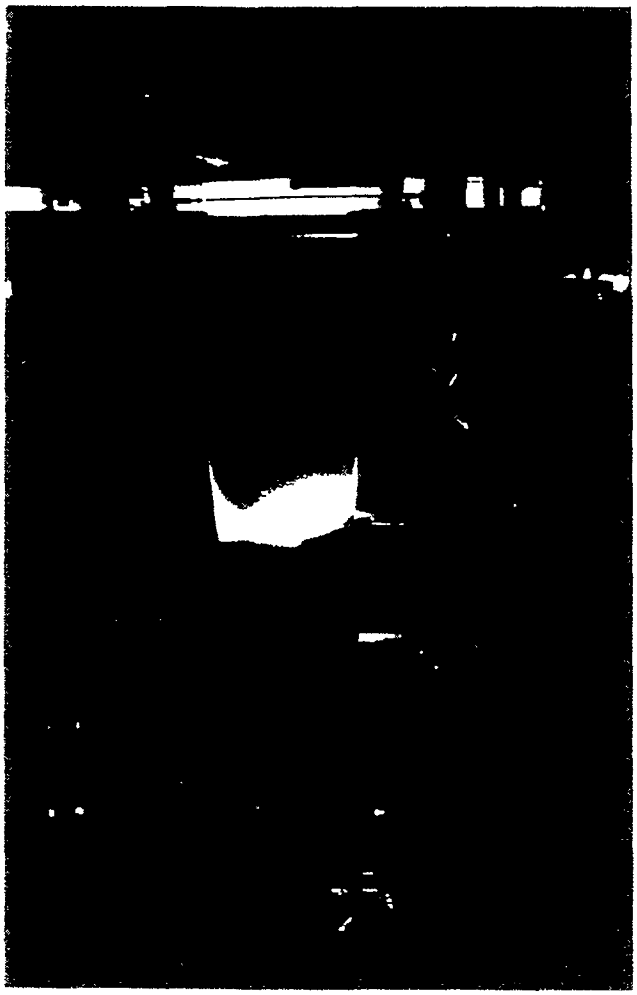
WORLDWIDE USE OF MOBIL ZSM-5 CATALYST
Number of processing units using ZSM-5



COMMERCIAL FOAM SERVICEWARE
(Millions of pounds)



ORIENTED POLYPROPYLENE FILM (OPP) SALES
Millions of pounds



Why we're optimistic

We expect Mobil Chemical to do well again in 1987—and beyond.

In petrochemicals, industry operating rates should continue to increase—reaching 95% in the U.S. within the next few years. This will mean better margins and higher earnings. Mobil Chemical will be well positioned for this growing demand, thanks to our competitive plants, an improving product mix, and continued innovations in research and development.

In fabricated plastic products, we'll continue with aggressive cost reductions and productivity improvements, automation and lower-cost raw materials. These efficiencies will further strengthen our competitive position.

We'll look for new opportunities and keep growing where we're already strong: everywhere from drawstring waste bags and foam plates to synthetic lubricants and zeolite catalysts.

Far left: the blown-film line for low-density polyethylene at Mobil Chemical's state-of-the-art research facilities. Left: Production of the Marketote® carry-out bag—the biggest seller in the grocery industry.

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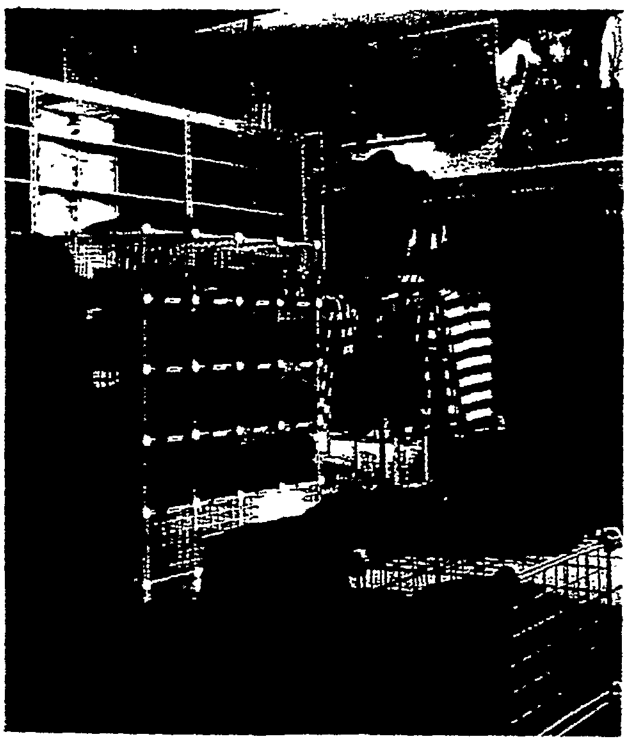
We've reduced our debt and enhanced financial flexibility... put our retailing business on the right track...scored good results in other operations

Improving our financial flexibility
In just two years, we've reduced our debt by $3.8 billion—with $1.8 billion of it paid off in 1986. This represents the equivalent of 66% of the debt we incurred in 1984 when we acquired Superior Oil. We've made excellent progress in restoring the financial flexibility we had before we bought Superior.

Earnings from our downstream operations made a big contribution to our debt reduction in 1986. Our sales of assets—primarily Container Corporation—made another major contribution. And by keeping a lid on our capital spending, we also had more funds available to repay our debt.



We've reduced both fixed-rate and short-term debt to maintain a good mix in the current financial environment. Our interest charges dropped from $1.4 billion in 1985 to $1.2 billion in 1986.

We're preparing ourselves for 1989, when we'll have the opportunity to refinance some $2 billion of high-coupon debt incurred in 1984 in the acquisition of Superior. This debt, by its terms, can be called at par after five years without penalty.

Mobil Land continues to develop
Mobil's earnings from our land-development operations rose 20% last year to $24 million, excluding $57 million in nonrecurring profits in 1985 and $7 million in 1986 from bulk sales of land we've held for investment.

Mobil Land Development Corporation (MLDC) has been successful in acquiring and developing large parcels of land into residential, commercial and recreational communities, mostly in the southern and western U.S. Our land holdings have a current value considerably higher than the investment made in these properties when we bought them five to 10 years ago. MLDC's business ranges from acquiring, planning, zoning and preparing raw land for development to constructing office buildings.

MLDC is active at more than 20 projects in various high-growth areas, including the suburbs of Washington, D.C., Atlanta, Phoenix, Los Angeles and San Francisco.

In 1986, MLDC completed the first of three office buildings in Arlington, Virginia, that will contain a total of 760,000 square feet. This building is already 60% leased, and the second building is under construction for occupancy early in 1988.

MLDC's successful development in Reston, Virginia, is moving into a new phase. In 1986, MLDC announced a partnership to begin developing the Town Center of Reston, Virginia, renowned as America's first "new town."

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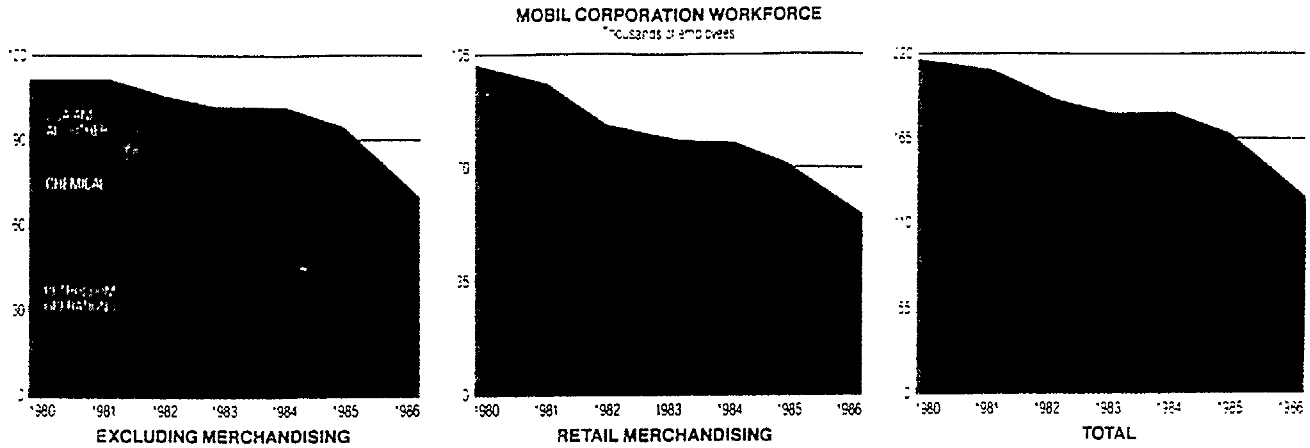


A new look for Montgomery Ward

The retailing arm of Mobil, Montgomery Ward, turned in earnings matching its best previous year ever—1978. Earnings climbed 152% from 1985. And Montgomery Ward made great progress in moving toward a position of financial independence.

It did so much better by generally becoming a better merchant—leaner, more efficient and more specialized. Through better business management, Montgomery Ward was able to:

- reduce its total work force by 21%;
- cut administrative overhead by 24%;
- reduce inventory levels by 21%;
- greatly improve productivity.

At the same time in 1986, Montgomery Ward completed the wind-down of its catalog operations and Jefferson Ward stores, closed 25 retail stores, and discontinued unprofitable merchandise lines.

Having streamlined its operations and reorganized management, Montgomery Ward is moving forward with the specialty-store strategy introduced last year. The goal: to be competitive with the best specialists in retailing.

Prototype stores are already showing promising results, so 35 stores were converted to reflect the new specialty-store concept and 71 other stores were remerchandised. Today's merchandise concentrates on value and broad appeal within each specialty category.

Dropping unprofitable lines freed store space in many locations for leasing to retailers whose merchandise complemented Montgomery Ward lines. For example, a gallery of 17 specialty shops at our Mt. Prospect, Illinois, store led to such galleries, called "Side Trips," at many of our renovated stores.

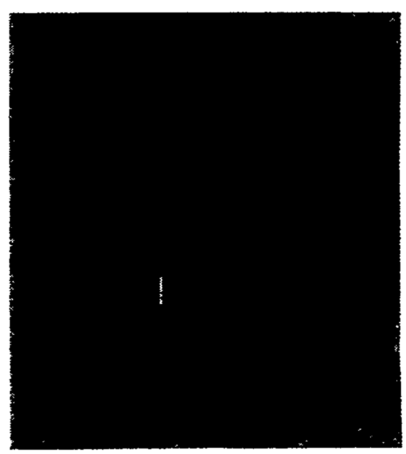
Similarly, Toys 'R' Us, a prominent chain of children's merchandise stores, opened one outlet in Montgomery Ward's remodeled store in Gaithersburg, Maryland; several more are in the works.

New customer services include National Car Rental booths being tested in the San Diego area, the addition of American Express and Discover credit cards to those already accepted nationally, and NAPA auto parts in many of our auto service centers.

Forward-looking technology

In this report, we've already talked about concrete ways in which our technology strengthens our upstream, downstream and chemical operations. But there's more to the story of Research & Engineering—and R&E's short-term and long-term benefits to Mobil's bottom line.

Our researchers and engineers create opportunities for Mobil to increase reserves at the lowest possible cost. For example, production of our heavy oil holdings at San



Above: An x-ray CAT-scanner analyzes a core sample from the Arun gas field in Indonesia—helping to confirm an additional 2.3 trillion cubic feet of recoverable gas. Left: Merchandise on display at Montgomery Ward's newly renovated store in Parkersburg, West Virginia. The store is the first to test a new name—"Focus Montgomery Ward"—which plays up value and specialty merchandising.

Right: Sports hero Hershel Walker demonstrates his sprinting form for inner-city youths as part of Mobil's Big Apple Games—one of the company's ongoing community programs. Far right: A kangaroo reserve exists side-by-side with Mobil's joint-interest refinery in Adelaide, Australia—just one example of how our manufacturing facilities fit comfortably into their environment.

Ardo, California, increased dramatically after our reservoir management team accurately defined the geological structure of the reservoir so that our researchers could design an innovative steam flooding strategy to take advantage of this particular structure.

Our land-seismic data-gathering system is one of the most advanced in the industry. By studying the subsurface in and around existing fields, we're able to identify additional reserves that can be brought on stream quickly and economically.

We've also developed a more sophisticated computer technique for reservoir simulation that will pay off in the long term. Simulation gave the first hint that additional reserves were present at the Arun gas field in Indonesia. With an x-ray CAT-scanner, we analyzed core samples from the field and our findings were instrumental in determining that the field contained an additional 2.3 trillion cubic feet of recoverable gas. These new reserves add potential for sizable profits from the Arun field.

Our engineers recently designed one of industry's most advanced control systems for crude oil distillation. This system helps our refineries change the mix of products distilled from different crude oils to adjust to changing market requirements.

Our leadership in zeolite catalysis research pays off in extra gallons of gasoline and distillates we're able to make from each barrel of crude oil. Our zeolite catalysts also help us reduce the cost of making lube oils and a variety of chemicals. This technology, which we pioneered, is in such demand that we license it to refiners and chemical producers around the world—making a contribution to Mobil's bottom line.

In their most dramatic application to date, one of these catalysts is turning natural gas into gasoline at a Mobil-designed plant in New Zealand.

And in 1986, for the fourth year in a row, we were granted more U.S. patents than any other oil company—further evidence of our forward-looking research.

Mobil safety earns Stars

Mobil has worked hard to achieve a safe workplace and to protect the environment.

We're justifiably proud of the Star certification awarded to 23 Mobil Chemical facilities by the Occupational Safety and Health Administration. This means that for all the Star awards made to industrial plants throughout the U.S., more than half have gone to one company—Mobil. The awards, considered the toughest government has devised for safety in the workplace, recognize job-safety standards that far exceed what's required.

Our first programs for air and water conservation and toxicology testing were established 30 years ago, long before the advent of the environmental movement. And we've spent over $2 billion in just the past five years on our environmental programs and facilities. For example, our toxicology laboratory that opened three years ago in Princeton is still one of the most advanced in the industry.

Mobil minerals: adapting to hard times

Coal sales from our Caballo Rojo mine in Gillette, Wyoming, remained profitable despite soft demand and tougher competition.

In Indonesia, where Mobil operates a joint coal-exploration program with the Japanese firm of Nissho Iwai, drilling results indicate potential for 150 million tons of surface minable coal.

We've streamlined our phosphate rock operations in response to the weak agricultural market. But we remain well positioned to meet future demand for this raw material, which is crucial to world food production.

We continued to sell mining and mineral assets unrelated to our main businesses; most of these came to us when we bought Superior Oil, and included surplus lands, a gold mine, and an interest in a platinum mining company in South Africa. We also took a $39 million writedown on some alternative energy properties after reassessing their prospects.

Recruiting the best—even in bad times

Again in 1986, we significantly reduced the number of people we employ worldwide. This continues a trend begun five years ago.

Given these cutbacks, we clearly don't need to recruit as many new employees as in the past. But we still search out those people—both technical and non-technical—who'll be the strength of the company in years ahead.

At the same time, we've revamped our management education programs at three levels—senior executive, middle manager and first-level supervisors—to better utilize our management cadre and make our overall organization more effective.

We already have a strong competitive position for women and minorities in higher level jobs, and we're expanding our programs to increase upward mobility. We have strategies in place to enhance our recruitment and career development of minorities and women. And we're strengthening our contacts with organizations concerned with their interests.

Our compensation and benefit programs for all employees have remained competitive. Last year, however, we took steps to reduce the administrative expense and funding needed to operate Mobil benefit programs worldwide while still providing the comprehensive benefit package employees rightfully expect today.

Making our voices heard

In Public Affairs, we adapted to the tough business climate by cutting back on some programs and restructuring others to more directly support our business.

MobilFax (on the cover) is a good example of how we're working to improve our communications with shareholders—and reaching out through this advertising campaign to the broader investment community.

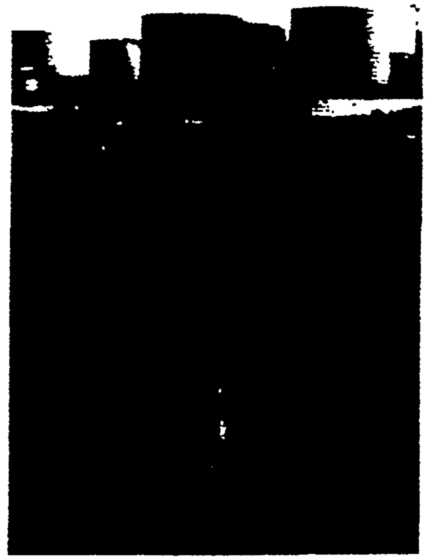
At the same time, we continued to speak out on issues of concern to Mobil and its shareholders. This year, our Government Relations staff in Washington put across our views to Congress on tax reform, protectionism, Superfund, decontrol of natural gas and other issues. And, through our advocacy advertising program, we presented our strongly held views on the op-ed pages of major newspapers.

We also continued our sponsorship of public television, art exhibitions and direct support to major museums. Mobil's *Masterpiece Theatre*, which completed its 15th season on public television, has won 22 Emmy awards and is mentioned as a reason why some shareholders buy our stock and customers choose our products.

Our sponsorship of an international track and field Grand Prix is one of our programs that directly support our marketing efforts.

Mobil also contributes to the communities where we do business. For example, we provide grants to hire disadvantaged teenagers to improve the appearance of subways, parks and neighborhoods. At the same time, we offer them remedial instruction.

We intend to maintain the franchise we have earned as a company known for its public involvement and its views.



Financial Section Contents

Financial Review

This section of the report includes the five-year financial summary, a financial commentary that compares 1986 with 1985, and one that compares 1985 with 1984. It also includes the consolidated financial statements, the reports of management and the certified public accountants, and supplementary information on oil and gas producing activities and our other resources.

The Financial Section of the Annual Report measures our progress toward improving shareholder values. The material shows that:

- The stock price increased from $30¼ at year-end 1985 to $40⅛ at year-end 1986.
- Dividends were maintained at $2.20 per share, representing 24% of cash flow and 64% of earnings.
- Earnings increased in 1986 from $1,040 million to $1,407 million, despite the substantial reduction in crude and gas prices.
- Return on average shareholder's equity increased from 7.5% to 9.6%; return on average capital employed increased from 7.0% to 8.3%.
- Debt was reduced from $11.1 billion to $9.3 billion, in addition to a reduction of $2.0 billion in 1985; the debt to capitalization ratio improved from 44% to 38%; these results show continuing progress in our objective to improve financial flexibility.
- Proceeds from sales of assets were $1.9 billion, including $1.1 billion from the sale of Container Corporation of America; the sales are consistent with our program to focus on those activities where we are fully competitive.
- The number of employees decreased from 166 thousand to 127 thousand, reflecting our continuing efforts to increase productivity.
- Investment spending was reduced from $3.5 billion to $3.0 billion, reflecting our emphasis on investing in projects offering the highest returns.
- U.S. automotive gasoline sales volumes were up 8%; worldwide automotive gasoline sales volumes were up 7%; total petroleum product sales volumes were up 5%.
- Income per dollar of revenue increased from 1.7¢ to 2.8¢; petroleum earnings per gallon sold were 4.7¢.
- Chemical operations and Montgomery Ward's retail operations had record earnings.

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Five-year financial summary ($ in millions except for per-share amounts)

Year Ended December 31	1986	1985	1984	1983	1982
Revenues	**$49,865**	$60,609	$60,474	$58,998	$64,108
Operating costs and other expenses	**45,668**	54,889	55,195	53,970	60,139
Interest and debt discount expense	**1,204**	1,411	1,111	814	663
Income taxes	**1,586**	3,269	2,900	2,711	2,093
Total costs and expenses	**48,458**	59,569	59,206	57,495	62,895
Net Income	**$ 1,407**	$ 1,040	$ 1,268	$ 1,503	$ 1,213
Per share (based on average shares outstanding)	**$3.45**	$2.55	$3.11	$3.70	$2.91
Cash dividends—Total	**$ 898**	$ 898	$ 896	$ 813	$ 836
—Per share	**$2.20**	$2.20	$2.20	$2.00	$2.00
—As percent of net income[1]	**64%**	86%	71%	54%	69%
—As percent of cash flow[2]	**24%**	22%	24%	22%	26%
Return on average shareholders equity[1]	**9.6%**	7.5%	9.2%	10.8%	8.5%
Return on average capital employed[1][3]	**8.3%**	7.0%	7.9%	9.3%	7.7%
Income per dollar of revenue[1]	**2.8¢**	1.7¢	2.1¢	2.5¢	1.9¢
Petroleum earnings per gallon sold	**4.7¢**	4.9¢	4.4¢	5.0¢	4.1¢
Petroleum revenues—Refined petroleum products	**$26,475**	$31,590	$30,870	$33,065	$36,317
—Crude oil	**6,162**	9,370	9,330	7,423	9,752
—Natural gas	**2,831**	3,768	3,386	2,570	2,795
—Other	**5,526**	4,830	4,586	4,770	4,456
Capital expenditures, exploration, and other outlays[4]	**$ 3,046**	$ 3,513	$ 3,600	$ 3,771	$ 4,753
At December 31					
Current assets	**$10,869**	$12,530	$12,383	$11,890	$12,960
Current liabilities	**10,432**	12,383	11,961	10,813	12,426
Working capital	**$ 437**	$ 147	$ 422	$ 1,077	$ 534
Investments and long-term receivables	**$ 3,713**	$ 3,193	$ 3,381	$ 2,854	$ 2,563
Net properties, plants, and equipment	**24,304**	25,408	25,530	19,878	19,315
Total assets	**39,412**	41,752	41,851	35,072	35,216
Long-term debt	**7,885**	9,328	11,057	5,162	4,404
Capital lease obligations	**362**	417	435	328	313
Shareholders' equity	**$15,239**	$14,089	$13,624	$13,952	$13,807
Per share (based on shares outstanding at end of year)	**$37.28**	$34.50	$33.42	$34.30	$34.00
Number of shares outstanding (in thousands)	**408,732**	408,351	407,704	406,818	406,146
Number of shareholders	**260,800**	268,600	270,400	271,500	286,600
Number of employees (prior years restated)	**127,400**	166,200	180,700	179,900	189,700

(1) The presentation for 1985 has been revised to conform with guidance issued by the Securities and Exchange Commission in 1986.
(2) Funds available from operations.
(3) Net income plus income applicable to minority interests plus interest expense net of tax, divided by the sum of average shareholders' equity, minority interests, debt, and capital lease obligations.
(4) Includes capital expenditures of majority-owned unconsolidated companies; excludes acquisitions.

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Financial commentary 1986 compared with 1985

Consolidated Earnings and Per-Share Results

Mobil's 1986 earnings totaled $1,407 million, or $3.45 per share, after recognizing a $150 million loss on the sale of the Paperboard Packaging operations of Container Corporation of America. This was $367 million higher than the 1985 earnings of $1,040 million, or $2.55 per share, which included a $508 million provision for the restructuring of Montgomery Ward. Excluding the special provisions for Container Corporation of America in 1986 and Montgomery Ward in 1985, earnings improved $9 million, from $3.79 per share to $3.82 per share.

Revenues dropped from $60.6 billion in 1985 to $49.9 billion in 1986. Decreased revenues in U.S. and Foreign Petroleum operations, primarily attributable to lower worldwide petroleum prices, in the Retail Merchandising segment, mainly due to the discontinuance of discount business and catalog operations, and from the sale of the Paperboard Packaging operations were partly offset by increased Chemical revenues. Costs and expenses were lower for all segments except Chemical.

Segment Earnings

Earnings from Petroleum operations totaled $2,126 million in 1986, essentially unchanged from 1985 earnings of $2,131 million from this segment. Earnings of all segments are indicated below. Results for 1986 and prior periods for the Paperboard Packaging segment are now included in Corporate and Other.

(In millions)	1986	1985	Change
Petroleum			
U.S.	**$ 341**	$ 873	$(532)
Foreign	**1,785**	1,258	527
Total Petroleum	**2,126**	2,131	(5)
Chemical	**140**	53	87
Retail Merchandising	**106**	42	64
Net Financing Expense	**(587)**	(652)	65
Corporate and Other	**(228)**	(26)	(202)
Income Before Special Provisions	**1,557**	1,548	9
Provision for Montgomery Ward Restructuring	**—**	(508)	508
Loss on sale of Container Corporation of America	**(150)**	—	(150)
Net Income	**$1,407**	$1,040	$ 367

Petroleum Operations—U.S.

Earnings from U.S. Petroleum operations totaled $341 million in 1986, a decrease of $532 million, or 61%, from 1985.

(In millions)	1986	1985	Change
U.S. Petroleum			
Exploration and Producing	**$ (24)**	$716	$(740)
Refining and Marketing	**365**	157	208
Total U.S.	**$341**	$873	$(532)

Exploration and Producing earnings decreased, reflecting much lower crude oil price levels, as well as lower prices and demand for natural gas. This decline was partly offset, however, by lower exploration expense. Earnings in 1986 were also unfavorably impacted by a $100 million provision for accelerated amortization of exploration and producing assets. Refining and Marketing earnings improved due to stronger product margins, an 8% increase in autogasoline sales and favorable adjustments of $83 million to the Alaskan crude purchase provisions in the second quarter of 1986.

Petroleum Operations—Foreign

Earnings from Foreign Petroleum operations totaled $1.785 million in 1986, an increase of $527 million, or 42%, from 1985.

(In millions)	1986	1985	Change
Foreign Petroleum			
Exploration and Producing	**$ 851**	$1,082	$(231)
Refining and Marketing	**934**	176	758
Total Foreign	**$1,785**	$1,258	$ 527

Exploration and Producing earnings in 1986, which included a $187 million gain on the sale of Angolan assets, decreased due to lower crude oil and natural gas prices, partly offset by lower exploration expense and higher natural gas production.

Foreign Refining and Marketing earnings increased significantly because of the relative strength of product prices compared with crude oil costs, and stronger foreign currencies. Results for 1985 included a $50 million provision for the closure of a French refinery and a $53 million provision for certain uneconomic marine transportation charters and vessels.

Earnings from Foreign Petroleum operations reflect lower overall effective tax rates as Exploration and Producing earnings, normally taxed at rates of 70% or more, were substantially lower, and Refining and Marketing earnings, to which a lower effective tax rate normally applies, were substantially higher.

Chemical

Earnings from worldwide Chemical operations were $140 million in 1986, an increase of $87 million, or 164%, from 1985, due to substantial improvements in petrochemical and plastics margins and volumes in the U.S. and overseas.

Retail Merchandising

Montgomery Ward's 1986 earnings were $106 million, compared with $42 million earned in 1985, excluding the provision for restructuring discussed below. Significantly higher retail earnings in 1986, attributable to stronger margins and improved operating efficiencies, and the discontinuance of the unprofitable Jefferson Ward and catalog operations in 1985 were the primary bases for the improvement.

Net Financing Expense

Net Financing Expense includes all net interest expense except for Montgomery Ward, which is reported on a stand-alone basis and retains its own financing. The decrease of $65 million reflected principally the reduction of debt balances and lower interest rates, partly offset by lower capitalized interest due to reduced spending for major projects.

Corporate and Other

Corporate and Other includes Paperboard Packaging, which was sold in 1986, Real Estate operations, Mining and Minerals, Corporate Administration, and other corporate items.

Corporate and Other expense increased $202 million because of unusual items: 1986 results included a restructuring provision of $35 million and a $39 million writedown of certain alternative energy properties, while 1985 results benefited from gains on the sale of W.F. Hall Printing Company and certain Colorado real estate.

Special Provisions

The sale of Container Corporation of America (CCA), completed September 30, 1986, resulted in a loss of $150 million. In 1985, a special charge of $508 million after tax was made for the sale of the Jefferson Ward group, the discontinuance of catalog operations, and the restructuring of retail operations.

Further details on segment and geographic earnings appear on pages 25 through 27.

Discussion of Financial Condition

Funds available from operations after dividends were $2,873 million in 1986. These funds were sufficient to fund capital expenditures of $2,396 million. The remaining funds available, and those generated by asset sales, were used to pay down debt and improve financial flexibility.

At year-end 1986 debt and capital lease obligations of Mobil and its subsidiaries totaled $9,289 million, a decrease of $1,854 million from the year-end 1985 level. The sale of Container Corporation of America generated $1.1 billion of the reduction.

(In millions)	1986	1985	Change
Current:			
Notes and loans payable	$ 800	$ 750	$ 50
Long-term debt and capital lease obligations maturing within one year	242	648	(406)
Long-term:			
Long-term debt	7,885	9,328	(1,443)
Capital lease obligations	362	417	(55)
Total debt and capital lease obligations	$9,289	$11,143	$(1,854)

The percentage of debt plus capital lease obligations to capitalization was 38% at year-end 1986, down from 44% at year-end 1985.

At year-end 1986 Mobil's unspent balance of total appropriations for capital expenditures was $2.7 billion, compared with $3.1 billion at year-end 1985. Mobil is not contractually committed to spend all of these amounts but generally expects to do so principally from internally generated funds.

Whenever external financing is needed, Mobil and its subsidiary companies have access to multiple capital markets, including significant unused lines of bank credit. Mobil generally has each of its major subsidiaries finance its own operations.

Mobil previously entered into long-term revolving credit agreements with various banks. The total of these at December 31, 1986, was $3.1 billion, none of which was outstanding; a total of $3.0 billion of borrowings due within one year has been classified as long-term debt.

Mobil has agreed to make equity contributions to Montgomery Ward through Marcor related to certain operating losses, if any, of Montgomery Ward through 1987. No such contributions have been required since 1982.

There was an increase in 1986 of $509 million in earnings retained in the business and a $636 million favorable effect, due to the weakening of the U.S. dollar in 1986, on the cumulative foreign exchange translation adjustment account. The net change in Shareholders' Equity was an increase of $1,150 million in 1986.

At year-end 1986 Mobil had an existing effective "shelf" registration on file with the Securities and Exchange Commission that would permit the sale of $205 million of debt securities to be offered pursuant to Rule 415 of the Securities Act of 1933.

Credit Ratings	Moody's	Standard & Poors
Mobil Corp.	A1	AA–
Mobil Oil	Aa3	AA–
Montgomery Ward	Baa3	BBB–

Due to anticipated effects of declining crude oil prices, Moody's lowered the long-term debt credit ratings of Mobil and Mobil Oil in March 1986; Standard & Poor's lowered Mobil Oil's long-term debt credit rating in May 1986.

Both Mobil Oil and Montgomery Ward sell certain accounts receivable to domestic financing subsidiaries. See Note 4, "Investments and Long-Term Receivables," for further details on the financing subsidiaries.

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Capital Expenditures, Exploration, and Other Outlays

Mobil's worldwide capital expenditures, exploration, and other outlays totaled $3,046 million in 1986, a decrease of 13% from 1985. Outlays in the United States were $1,895 million—or 62% of the worldwide total.

In Exploration and Producing (E&P), 1986 outlays were $1,897 million (capital expenditures $1,317 million and exploration expenses $580 million), or 62% of Mobil's total worldwide outlays for the year. (In 1985 E&P outlays were $2,308 million.) Outlays for E&P operations in the United States in 1986 were $1,123 million, compared with $1,458 million in 1985.

Other than in E&P, capital expenditures for Petroleum Operations were $187 million higher than in 1985.

In 1986, Chemical and Retail Merchandising capital expenditures were lower. The decrease in expenditures for Corporate and Other was primarily attributable to the sale of CCA.

(In millions)	1986 U.S.	1986 Foreign	1986 Total	1985 Total
Capital expenditures				
Petroleum Operations				
Exploration and Producing				
—lease bonuses	**$ 40**	**$ 6**	**$ 46**	$ 105
—other	**822**	**449**	**1,271**	1,501
Refining	**124**	**88**	**212**	172
Marketing	**259**	**230**	**489**	341
Marine	**1**	**4**	**5**	3
Pipelines	**14**	**—**	**14**	23
Other	**3**	**29**	**32**	26
Chemical	**100**	**15**	**115**	118
Retail Merchandising	**108**	**—**	**108**	183
Corporate and Other	**93**	**11**	**104**	253
Total capital expenditures	**1,564**	**832**	**2,396**	2,725
Exploration expenses	**261**	**319**	**580**	702
Other outlays				
Capital expenditures of majority-owned unconsolidated companies	**70**	**—**	**70**	86
Total capital expenditures, exploration, and other outlays	**$1,895**	**$1,151**	**$3,046**	$3,513

Dividends

In 1986 and 1985, Mobil's per share dividend was $.55 in each quarter for a total of $2.20 for each year.

Common Stock

In 1986 and 1985, the high and low sales prices of Mobil's common stock, by quarter, were as follows:

Quarter	1986 High	1986 Low	1985 High	1985 Low
First	**32½**	**26¼**	30⅝	25½
Second	**31⅞**	**27⅝**	34⅜	29
Third	**39⅞**	**29**	31⅜	27
Fourth	**40⅞**	**35⅝**	32¾	28⅛

Year-end prices per share:

December 31, 1985 .... $30¼

December 31, 1986 .... $40⅛

The principal market for the trading of Mobil's common stock is the New York Stock Exchange. The stock symbol is "MOB."

Financial commentary 1985 compared with 1984

Consolidated Earnings and Per-Share Results

Mobil's 1985 earnings totaled $1,040 million, or $2.55 per share, including the special charge of $508 million, net of applicable income taxes, for the restructuring of Montgomery Ward. Exclusive of this charge, which wa[illegible] the third quarter, net income for the year was $1,548 million, or $3.79 per share, an increase of $280 million, compared with 1984 earnings of $1,268 million, or $3.11 per share.

Revenues were essentially flat in 1985 versus 1984. Increased revenues in U.S. and Foreign Petroleum operations, primarily attributable to higher sales volumes, were offset by a revenue decrease in Retail Merchandising, attributable primarily to the discontinuance of certain retail operations. Costs and expenses were lower for all segments except U.S. Petroleum.

Segment Earnings

Earnings from Petroleum operations totaled $2,131 million in 1985, 20% above 1984 earnings of $1,781 million from this segment. Earnings of all segments are indicated below.

(In millions)	1985	1984	Change
Petroleum			
U.S.	**$ 873**	$ 791	$ 82
Foreign	**1,258**	990	268
Total Petroleum	**2,131**	1,781	350
Chemical	**53**	34	19
Retail Merchandising	**42**	53	(11)
Net Financing Expense	**(652)**	(462)	(190)
Corporate and Other	**(26)**	(138)	112
Income Before Montgomery Ward Restructuring	**1,548**	1,268	280
Provision for Montgomery Ward Restructuring	**(508)**	—	(508)
Net Income	**$1,040**	$1,268	$(228)

Petroleum Operations—U.S.

Earnings from U.S. Petroleum operations totaled $873 million in 1985, an increase of $82 million, or 10%, from 1984.

(In millions)	1985	1984	Change
U.S. Petroleum			
Exploration and Producing	**$716**	$795	$ (79)
Refining and Marketing	**157**	(4)	161
Total U.S.	**$873**	$791	$ 82

Exploration and Producing earnings were lower due to weaker natural gas demand and lower crude oil prices, which more than offset earnings on the production increment from the Superior properties and lower exploration expenses.

U.S. Refining and Marketing earnings improved dramatically, due to lower crude oil and operating costs, improved manufacturing efficiencies, and higher sales volumes, particularly of gasoline.

Petroleum Operations—Foreign

Earnings from Foreign Petroleum operations totaled $1,258 million in 1985, an increase of $268 million, or 27%, from 1984.

(In millions)	1985	1984	Change
Foreign Petroleum Exploration and Producing	**$1,082**	$952	$130
Refining and Marketing......	**176**	38	138
Total Foreign	**$1,258**	$990	$268

Exploration and Producing earnings were up, reflecting higher crude oil and gas production from a full year of Superior's operations in Canada, higher crude production in the North Sea, higher gas production and prices in Indonesia, and foreign currency gains, which more than offset the effect of higher exploration expenses.

Foreign Refining and Marketing earnings increased significantly, reflecting favorable currency trends, lower crude oil costs, and operating efficiencies, offset in part by a $50 million provision for the closure of a French refinery and a $53 million provision for certain uneconomic marine transportation charters and vessels. Results for 1984 included a provision of $110 million for a refinery closure.

Chemical

Earnings from worldwide Chemical operations were $53 million in 1985, an increase of $19 million, or 56%, from 1984. Improved margins in plastic packaging and consumer products, improved OPP (oriented polypropylene) volumes, and improved results from the Saudi Petrochemical program, which started regular operations in the second half of 1985, were partially offset by depressed petrochemical margins, mainly due to lower polyethylene prices.

Retail Merchandising

Montgomery Ward's 1985 earnings, excluding the provision for restructuring discussed below, were $42 million, compared with 1984 earnings of $53 million. The decline reflected lower sales volumes and margins.

Net Financing Expense

Net Financing Expense includes all net interest expense except for Montgomery Ward, which is reported on a stand-alone basis and retains its own financing. The increase of $190 million reflected primarily the interest expense related to the acquisition of Superior, the financing for which commenced about mid-year of 1984.

Corporate and Other

Corporate and Other includes Paperboard Packaging, which was sold in 1986, Real Estate operations, Mining and Minerals, Corporate Administration, and other corporate items. W. F. Hall Printing Company (W. F. Hall) was sold in the fourth quarter of 1985. Its earnings, as well as the gain on the sale ($44 million), are also included in this segment.

Corporate and Other results also include a gain of $57 million from the sale of a major portion of the Banning-Lewis Ranch in Colorado, partly offset by a $26 million writedown of mineral properties.

Provision for Montgomery Ward Restructuring

A special charge of $508 million after tax was made for the sale of the Jefferson Ward group, the discontinuance of catalog operations, and the restructuring of retail operations.

Discussion of Financial Condition

Funds available from operations after dividends were $3,197 million in 1985. These funds were sufficient to fund capital expenditures of $2,725 million. The remaining funds available, and those generated by asset sales, were used to pay down debt.

At year-end 1985 debt and capital lease obligations of Mobil and its subsidiaries totaled $11,143 million, a decrease of $1,938 million from the year-end 1984 level.

(In millions)	1985	1984	Change
Current:			
Notes and loans payable .$	**750**	$ 1,268	$ (518)
Long-term debt and capital lease obligations maturing within one year	**648**	321	327
Long-term:			
Long-term debt...	**9,328**	11,057	(1,729)
Capital lease obligations	**417**	435	(18)
Total debt and capital lease obligations .....$	**11,143**	$13,081	$(1,938)

The percentage of debt plus capital lease obligations to capitalization was 44% at year-end 1985, down from 49% at year-end 1984.

At year-end 1985 Mobil's unspent balance of total appropriations for capital expenditures was $3.1 billion, compared with $3.3 billion at year-end 1984.

Mobil previously entered into long-term revolving credit agreements with various banks. The total of these at December 31, 1985, was $4.0 billion, none of which was outstanding; a total of $3.4 billion of borrowings due within one year was classified as long-term debt.

There was an increase in 1985 of $142 million in earnings retained in the business and a $311 million favorable effect, due to the weakening of the U.S. dollar in 1985, on the cumulative foreign exchange translation adjustment account. The net change in Shareholders' Equity was an increase of $465 million in 1985.

Consolidated Financial Statements

Consolidated Statement of Income (In millions except for per-share amounts)

Year Ended December 31	1986	1985	1984
Revenues			
Sales and services (including excise and state gasoline taxes: 1986—$3,840; 1985—$3,498; 1984—$3,445)	**$48,706**	$59,458	$59,492
Interest, dividends, and other revenue	**1,159**	1,151	982
Total Revenues	**49,865**	60,609	60,474
Costs and Expenses			
Crude oil, products, merchandise, and operating supplies and expenses	**28,549**	38,106	38,705
Exploration expenses	**580**	702	619
Selling and general expenses	**4,766**	5,015	5,329
Depreciation, depletion, and amortization	**2,471**	2,388	2,337
Provision for Montgomery Ward restructuring	**—**	775	—
Interest and debt discount expense	**1,204**	1,411	1,111
Taxes other than income taxes	**9,302**	7,903	8,205
Income taxes	**1,586**	3,269	2,900
Total Costs and Expenses	**48,458**	59,569	59,206
Net Income	**$ 1,407**	$ 1,040	$ 1,268
Net Income Per Share	**$3.45**	$2.55	$3.11

Consolidated Statement of Changes in Shareholders' Equity (In millions)

Year Ended December 31	1986	1985	1984
Common Stock— Beginning of Year	**$ 858**	$ 857	$ 855
End of Year, after issuance of shares	**$ 860**	$ 858	$ 857
Capital Surplus— Beginning of Year	**$ 900**	$ 889	$ 875
End of Year, after issuance of shares	**$ 923**	$ 900	$ 889
Earnings Retained in the Business—Beginning of Year	**$14,539**	$14,397	$14,025
Net income	**1,407**	1,040	1,268
Cash dividends paid	**(898)**	(898)	(896)
End of Year	**$15,048**	$14,539	$14,397
Cumulative Foreign Exchange Translation Adjustment—Beginning of Year	**$ (1,726)**	$ (2,037)	$ (1,321)
End of Year, after adjustments for the year	**$ (1,090)**	$ (1,726)	$ (2,037)
Common Stock Held in Treasury, at Cost—Beginning of Year	**$ (482)**	$ (482)	$ (482)
End of Year, after purchases during the year	**$ (502)**	$ (482)	$ (482)
Total Shareholders' Equity	**$15,239**	$14,089	$13,624

See Notes to Consolidated Financial Statements on pages 28-36.

Consolidated Balance Sheet (in millions)

December 31	1986	1985
Assets		
Current Assets		
Cash	$ 341	$ 593
Marketable securities, at cost (approximating market)	1,241	953
Accounts and notes receivable	3,949	4,930
Inventories	4,555	4,902
Prepaid taxes and other current assets	783	1,152
Total Current Assets	10,869	12,530
Investments and Long-Term Receivables	3,713	3,193
Net Properties, Plants, and Equipment	24,304	25,408
Deferred Charges and Other Assets	526	621
Total	$39,412	$41,752
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes and loans payable	$ 800	$ 750
Accounts payable and accrued liabilities	6,868	8,339
Income, excise, state gasoline, and other taxes payable	2,522	2,646
Long-term debt and capital lease obligations maturing within one year	242	648
Total Current Liabilities	10,432	12,383
Long-Term Debt	7,885	9,328
Capital Lease Obligations	362	417
Reserves for Employee Benefits	401	386
Deferred Credits and Other Noncurrent Obligations	1,622	1,314
Accrued Restoration and Removal Costs	491	472
Deferred Income Taxes	2,941	3,259
Minority Interest in Subsidiary Companies	39	104
Shareholders' Equity		
Preferred stock	—	—
Common stock: shares issued 429,984,265 and 428,916,082, respectively	860	858
Capital surplus	923	900
Earnings retained in the business	15,048	14,539
Cumulative foreign exchange translation adjustment	(1,090)	(1,726)
Common stock held in treasury, at cost: 21,252,400 shares in 1986 and 20,564,900 shares in 1985	(502)	(482)
Total Shareholders' Equity	15,239	14,089
Total	$39,412	$41,752

Mobil follows the "successful efforts" method of accounting for its oil and gas exploration and producing operations.

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See Notes to Consolidated Financial Statements on pages 28-36.

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Consolidated Statement of Changes in Financial Position (In millions)

Year Ended December 31	1986	1985	1984
Sources of Funds			
Operations			
Net income	$1,407	$1,040	$1,268
Depreciation, depletion, and amortization	2,471	2,388	2,337
Deferred income tax charges	(73)	26	134
Dividends less than equity in income of unconsolidated companies	(184)	(134)	(12)
Loss on sale of Container Corporation of America	150	—	—
Provision for Montgomery Ward restructuring	—	775	—
Funds available from operations	3,771	4,095	3,727
Book value of properties, plants, and equipment sold	1,332	522	230
Other, net	(45)	105	(25)
Funds Available Before Financing	5,058	4,722	3,932
Application of Funds			
Cash dividends to shareholders	898	898	896
Capital expenditures	2,396	2,725	2,913
Acquisition of Superior	—	—	5,720
Other applications			
Increase (decrease) in—			
Accounts and notes receivable	(981)	8	(280)
Inventories	(347)	(18)	(258)
Prepaid taxes and other current assets	(369)	380	(90)
Investments and long-term receivables	336	(319)	149
Decrease (increase) in—			
Accounts payable and accrued liabilities	1,471	(415)	(343)
Income, excise, state gasoline, and other taxes payable	124	68	(354)
Foreign exchange translation effects on working capital, debt, and other items, net	(355)	(67)	242
Application of Funds Before Financing	3,173	3,260	8,595
Increase (Decrease) in Funds Before Financing	1,885	1,462	(4,663)
Total Financing			
Increases in long-term debt	2,215	2,563	5,861
Decreases in long-term debt	(3,658)	(4,297)	(1,088)
(Decrease) increase in capital lease obligations	(55)	(21)	94
Increase (decrease) in notes and loans payable	50	(518)	40
(Decrease) increase in long-term debt and capital lease obligations maturing within one year	(406)	310	(51)
Purchase of common stock for treasury	(20)	—	—
Issuance or sale of common stock	25	12	16
Total Financing (Decrease) Increase	(1,849)	(1,951)	4,872
Increase (Decrease) in Cash and Marketable Securities	$ 36	$ (489)	$ 209

See Notes to Consolidated Financial Statements on pages 28-36.

Distribution of Earnings and Assets (In millions)

Segments	Petroleum Operations U.S.	Petroleum Operations Foreign	Chemical	Retail Merchandising	Adjustments and Eliminations	Total
Year Ended December 31, 1986						
Revenues						
Nonaffiliated	$11,794	$29,200	$2,391	$5,065	$1,415	$49,865
Intersegment	291	888	162	—	(1,341)	—
Total Revenues	$12,085	$30,088	$2,553	$5,065	$ 74	$49,865
Pretax operating profit	$ 786	$ 3,363	$ 205	$ 198	$ —	$ 4,552
Income taxes	(445)	(1,578)	(65)	(92)	—	(2,180)
Segment Earnings	$ 341	$ 1,785	$ 140	$ 106	$ —	$ 2,372
Net financing expense (net of income taxes)						(587)
Corporate and other (net of income taxes)						(228)
Loss on sale of Container Corporation of America (net of income taxes)						(150)
Net Income						$ 1,407
Capital expenditures[1]	$ 1,263	$ 806	$ 115	$ 108	$ —	$ 2,396
Depreciation, depletion, and amortization[2]	$ 1,145	$ 831	$ 117	$ 90	$ —	$ 2,471
At December 31, 1986						
Total Segment Assets	$14,443	$16,887	$2,103	$3,828	$ (214)	$37,047
Corporate and all other assets						2,365
Total Assets						$39,412
Year Ended December 31, 1985						
Revenues						
Nonaffiliated	$15,666	$33,892	$2,266	$6,073	$2,712	$60,609
Intersegment	386	1,694	191	—	(2,271)	—
Total Revenues	$16,052	$35,586	$2,457	$6,073	$ 441	$60,609
Pretax operating profit	$ 1,684	$ 4,441	$ 81	$ 78	$ —	$ 6,284
Income taxes	(811)	(3,183)	(28)	(36)	—	(4,058)
Segment Earnings	$ 873	$ 1,258	$ 53	$ 42	$ —	$ 2,226
Net financing expense (net of income taxes)						(652)
Corporate and other (net of income taxes)						(26)
Montgomery Ward restructuring provision (net of income taxes)						(508)
Net Income						$ 1,040
Capital expenditures[1]	$ 1,418	$ 753	$ 118	$ 183	$ —	$ 2,725
Depreciation, depletion, and amortization[2]	$ 1,218	$ 742	$ 114	$ 111	$ —	$ 2,388
At December 31, 1985						
Total Segment Assets	$15,353	$17,565	$2,045	$3,587	$ (99)	$38,451
Corporate and all other assets						3,301
Total Assets						$41,752

See notes and commentary on page 26.

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Segments	Petroleum Operations U.S.	Petroleum Operations Foreign	Chemical	Retail Merchandising	Adjustments and Eliminations	Total
Year Ended December 31, 1984						
Revenues						
Nonaffiliated	$14.819	$33.353	$2.351	$7.138	$ 2.813	$60.474
Intersegment.	404	1.688	156	—	(2.248)	—
Total Revenues	$15.223	$35.041	$2.507	$7.138	$ 565	$60.474
Pretax operating profit	$ 1.460	$ 3.533	$ 57	$ 78	$ —	$ 5.128
Income taxes	(669)	(2.543)	(23)	(25)	—	(3.260)
Segment Earnings	$ 791	$ 990	$ 34	$ 53	$ —	$ 1.868
Net financing expense (net of income taxes)						(462)
Corporate and other (net of income taxes)						(138)
Net Income						$ 1.268
Capital expenditures[1]	$ 1.493	$ 949	$ 119	$ 184	$ —	$ 2.913
Depreciation, depletion, and amortization[2]	$ 1.199	$ 767	$ 105	$ 114	$ —	$ 2.337
At December 31, 1984						
Total Segment Assets	$15.210	$15.907	$2.021	$4.427	$ (279)	$37.286
Corporate and all other assets						4.565
Total Assets						$41.851

(1) Total includes capital expenditures for corporate and all other assets; excludes acquisitions.
(2) Total includes depreciation on corporate and all other assets.

Significant investments in companies owned 50% or less are accounted for on the equity method. The corporation's share of the net income of such companies is included in "Revenues."

Intersegment and intergeographic revenues are at estimated market prices.

Income taxes are allocated to segments and geographic areas on the basis of operating results.

"Net financing expense" includes all net interest expense except for Retail Merchandising, which retains its own financing.

"Corporate and other" includes Paperboard Packaging (sold in 1986), Real Estate operations, W. F. Hall (sold in 1985), Mining and Minerals, Corporate Administration, and other corporate items.

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Geographic

	U.S.	Foreign Canada	Foreign Other	Foreign Total	Adjustments and Eliminations	Total
Year Ended December 31, 1986						
Revenues						
Nonaffiliated	$18,528	$ 904	$29,018	$29,922	$ 1,415	$49,865
Intergeographic	189	338	474	812	(1,001)	—
Total Revenues	$18,717	$1,242	$29,492	$30,734	$ 414	$49,865
Geographic Earnings	$ 514	$ 34	$ 1,824	$ 1,858	$ —	$ 2,372
Net financing expense (net of income taxes)						(587)
Corporate and other (net of income taxes)						(228)
Loss on sale of Container Corporation of America (net of income taxes)						(150)
Net Income						$ 1,407
At December 31, 1986						
Total Geographic Assets	$19,652	$2,919	$14,662	$17,581	$ (186)	$37,047
Corporate and all other assets						2,365
Total Assets						$ 39,412
Year Ended December 31, 1985						
Revenues						
Nonaffiliated	$23,408	$1,325	$33,164	$34,489	$ 2,712	$60,609
Intergeographic	186	647	913	1,560	(1,746)	—
Total Revenues	$23,594	$1,972	$34,077	$36,049	$ 966	$60,609
Geographic Earnings	$ 942	$ 143	$ 1,141	$ 1,284	$ —	$ 2,226
Net financing expense (net of income taxes)						(652)
Corporate and other (net of income taxes)						(26)
Montgomery Ward restructuring provision (net of income taxes)						(508)
Net Income						$ 1,040
At December 31, 1985						
Total Geographic Assets	$20,374	$3,883	$14,542	$18,425	$ (348)	$38,451
Corporate and all other assets						3,301
Total Assets						$41,752
Year Ended December 31, 1984						
Revenues						
Nonaffiliated	$23,854	$1,196	$32,611	$33,807	$ 2,813	$60,474
Intergeographic	248	292	1,251	1,543	(1,791)	—
Total Revenues	$24,102	$1,488	$33,862	$35,350	$ 1,022	$60,474
Geographic Earnings	$ 880	$ 138	$ 850	$ 988	$ —	$ 1,868
Net financing expense (net of income taxes)						(462)
Corporate and other (net of income taxes)						(138)
Net Income						$ 1,268
At December 31, 1984						
Total Geographic Assets	$21,157	$3,634	$13,173	$16,807	$ (678)	$37,286
Corporate and all other assets						4,565
Total Assets						$41,851

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See commentary on page 26.

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Notes to Consolidated Financial Statements

1 Major Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of domestic and foreign subsidiaries more than 50% owned, except for those engaged in financial services and real estate operations. Intercompany transactions are eliminated.

Significant investments in companies owned 50% or less, and in the unconsolidated financial services and real estate subsidiaries, are accounted for on the equity method. Under this method the investment is carried at cost plus equity in undistributed earnings since the time of acquisition, after applicable adjustments.

The pretax income of unconsolidated financial services and real estate subsidiaries, including Mobil Oil Credit Corporation (Mobil Credit) and Montgomery Ward Credit Corporation (Montgomery Ward Credit), is included in "Interest, dividends, and other revenue," and related taxes are included in "Income taxes." Mobil's equity in the net income of other investments accounted for on the equity method is included in "Interest, dividends, and other revenue."

Investments in other companies in which Mobil owns less than a majority interest are stated at cost less applicable reserves, and the dividends from these companies are included in "Interest, dividends, and other revenue."

Inventories

Substantially all inventories are valued at cost under the last-in, first-out (LIFO) method. Certain inventories, primarily materials and supplies, are valued generally at average cost. At the balance sheet date, inventories are stated at the lower of cost or market.

Oil and Gas Accounting Method

Mobil follows the successful efforts method of accounting prescribed by FAS 19, Financial Accounting and Reporting by Oil and Gas Producing Companies.

Exploration and Mineral Rights (Leases)

Direct acquisition costs of unproved mineral rights (leases) are capitalized and then amortized in the manner stated below. Payments made in lieu of drilling on nonproducing leaseholds are charged to expense currently.

Geological, Geophysical, and Intangible Drilling Costs

Geological and geophysical costs are charged to expense as incurred. Intangible drilling costs of all development wells and of exploratory wells that result in additions to proved reserves are capitalized.

Depreciation, Depletion, and Amortization

Annual charges to income for depreciation and the estimated cost for restoration and removal of major producing facilities are computed on a straight-line basis over the useful lives of the various classes of properties or, where appropriate for producing properties, on a unit-of-production basis by individual fields.

Costs of producing properties are generally accumulated by field. Depletion of these costs and amortization of capitalized intangible drilling costs are calculated on a unit-of-production basis.

Capitalized acquisition costs of significant unproved mineral rights (leases) are assessed periodically on a property-by-property basis to determine whether their values have been impaired; where impairment is indicated, a loss is recognized. Capitalized acquisition costs of unproved mineral rights (leases) whose costs are not individually significant are amortized over the expected holding period. When a mineral right is surrendered, any unamortized cost is charged to expense. When a property is determined to contain proved reserves, the mineral right then becomes subject to depletion on a unit-of-production basis.

When assets that are part of a composite group are retired, sold, abandoned, or otherwise disposed of, the cost is charged against accumulated depreciation, depletion, and amortization, but in those cases where reserves are accumulated for specific properties, gains or losses on disposal are included in income currently.

Maintenance and Repairs
Maintenance and routine repairs are charged against income as incurred. Major repairs are capitalized, and any replaced assets are retired.

U.S. Investment Tax Credits
U.S. investment tax credits are accounted for under the "flow through" method.

Foreign Currency Translation
Mobil follows the provisions of FAS 52, Foreign Currency Translation. The local currency of the country of operation is used as the functional currency for purposes of translating the local currency asset and liability accounts of most foreign operations at current exchange rates, with the resulting translation adjustments accumulated as a separate component of Shareholders' Equity. For other foreign operations, principally exploration and producing operations in Indonesia and Nigeria, and for operations in highly inflationary economies, the U.S. dollar is the functional currency. Gains and losses resulting from translating asset and liability accounts that are denominated in currencies other than the functional currency are included in income.

Segment and Geographic Data
Details on segment and geographic earnings and assets appear on pages 25 through 27.

2 Accounts and Notes Receivable

Accounts and notes receivable include amounts receivable from companies accounted for on the equity method of $454 million and $192 million at December 31, 1986 and 1985, respectively.

3 Inventories

Inventories valued at cost under the LIFO method represented about 82% and 81% of Mobil's worldwide inventories at December 31, 1986 and 1985, respectively. For those inventories valued under the LIFO method, the value of the inventory based upon current cost approximated the stated value of the inventory on the LIFO basis at December 31, 1986 and was $1,938 million more than the stated value at December 31, 1985.

During 1986, 1985, and 1984 inventories valued under the LIFO method were partially liquidated. This resulted in a decrease in net income of $33 million in 1986, and increases in net income of $34 million in 1985, and $109 million in 1984.

Inventories at December 31: (In millions)	1986	1985
Crude oil and petroleum products	**$2,990**	$2,954
Chemical products	**315**	302
Retail merchandising	**716**	903
Other, including materials and supplies	**534**	743
Total	**$4,555**	$4,902

4 Investments and Long-Term Receivables

At December 31, 1986 and 1985, Investments and Long-Term Receivables included $1,359 million and $1,343 million, respectively, of investments in unconsolidated subsidiaries.

Unconsolidated Finance Subsidiaries

Mobil Credit operates Mobil Oil's credit card business, purchases accounts receivable from Mobil Oil, and issues short-term debt that neither Mobil nor its affiliated companies guarantee. Mobil's investment in Mobil Credit was $228 million at December 31, 1986 and $252 million at December 31, 1985. Montgomery Ward Credit purchases customer accounts receivable from Montgomery Ward and issues short- and long-term debt, none of which Mobil or its affiliated companies guarantee. Mobil's investment in Montgomery Ward Credit was $700 million at December 31, 1986 and $707 million at December 31, 1985.

(In millions)	Mobil Credit			Montgomery Ward Credit		
	1986	1985	1984	**1986**	1985	1984
Assets, principally accounts receivable	**$875**	$1,129	$1,160	**$2,519**	$2,597	$3,942
Short-term notes payable and commercial paper	**578**	846	801	**472**	602	1,769
Current portion of long-term debt	—	—	—	**121**	115	82
Long-term debt	—	—	—	**843**	973	1,140
Other liabilities	**69**	31	109	**383**	200	241
Net assets	**228**	252	250	**700**	707	710
Gross income	**$184**	$ 211	$ 223	**$ 238**	$ 407	$ 440
Interest expense	**48**	66	86	**156**	268	290
Income before taxes	**33**	45	55	**80**	137	148
Net income	**17**	25	30	**43**	74	80

Affiliated Companies and Unconsolidated Subsidiaries

Summary financial information for affiliated companies (owned 50% or less), excluding Aramco, and for unconsolidated subsidiaries, excluding the finance subsidiaries above, accounted for on the equity method is shown below.

Undistributed earnings of the affiliated companies accounted for on the equity method included in "Earnings retained in the business" were $538 million at December 31, 1986. Dividends received from these companies were $107 million in 1986, $80 million in 1985, and $121 million in 1984.

(In millions)	1986 Total	1986 Mobil Share	1985 Total	1985 Mobil Share	1984 Total	1984 Mobil Share
Affiliated Companies						
Current assets	**$ 5,935**	**$1,817**	$ 5,421	$1,688	$ 4,591	$1,497
Noncurrent assets	**9,267**	**3,281**	8,217	3,059	7,590	2,946
Current liabilities	**4,154**	**1,277**	4,238	1,326	3,734	1,238
Long-term debt	**4,392**	**1,647**	4,693	1,765	4,624	1,736
Other liabilities	**1,457**	**466**	1,220	386	853	253
Net assets	**5,199**	**1,708**	3,487	1,270	2,970	1,216
Gross revenues	**$14,071**	**$4,332**	$16,543	$5,538	$14,938	$4,540
Income before taxes	**1,674**	**511**	829	205	644	128
Net income	**845**	**241**	363	84	202	23
Unconsolidated Subsidiaries						
Current assets	**$ 326**	**$ 323**	$ 260	$ 260	$ 342	$ 342
Noncurrent assets	**892**	**891**	936	931	755	755
Current liabilities	**308**	**307**	382	380	237	237
Long-term debt	**183**	**180**	236	235	260	260
Other liabilities	**296**	**296**	192	192	257	257
Net assets	**431**	**431**	386	384	343	343
Gross revenues	**$ 507**	**$ 507**	$ 550	$ 550	$ 395	$ 395
Income before taxes	**82**	**82**	190	190	92	92
Net income	**38**	**38**	119	119	56	56

5 Properties, Plants, and Equipment

Properties, plants, and equipment, at cost, at December 31: (In millions)	1986	1985
Petroleum	$36,379	$34,203
Chemical	1,805	1,693
Retail Merchandising	1,384	1,251
Corporate and other	1,060	2,937
Total	40,628	40,084
Less accumulated depreciation, depletion, and amortization	(16,324)	(14,676)
Net properties, plants, and equipment	$24,304	$25,408

Interest capitalized was $61 million in 1986, $120 million in 1985, and $238 million in 1984.

Maintenance and repairs charged to income were $1,216 million in 1986, $1,269 million in 1985, and $1,213 million in 1984.

6 Leases

Mobil leases real estate, service stations, tankers, and other equipment through noncancelable capital and operating leases.

Net rent expense charged to earnings was $755 million in 1986, $700 million in 1985, and $600 million in 1984, after deducting rentals from subleases of $75 million in 1986, $59 million in 1985, and $61 million in 1984. Contingent lease rentals for operating and capital leases were included in net rent expense as incurred and were $57 million in 1986 and in 1985, and $64 million in 1984. These contingent lease rentals are determined generally by volumetric measurement or sales revenue. Some rental agreements contain escalation provisions that may require higher future rent payments. Mobil does not expect that such rent increases, if any, will have a material effect on future earnings.

Capital leases included in Net Properties, Plants, and Equipment were $350 million at December 31, 1986, and $399 million at December 31, 1985.

Future minimum lease payments under noncancelable leases at December 31, 1986: (In millions)	Operating Leases	Capital Lease Obligations
1987	$ 258	$ 90
1988	210	86
1989	169	75
1990	134	94
1991	99	59
Later years	604	370
Future minimum lease payments	$1,474	774
Less —executory costs		(49)
—interest		(304)
Capital lease obligations		$421

Future minimum lease payments have not been reduced by future minimum sublease rentals of $203 million under operating leases and $23 million under capital leases.

7 Notes and Loans Payable

Notes and loans payable at December 31: (In millions)	1986	1985
Banks	$689	$576
Commercial paper	1	14
Others	110	160
Total	$800	$750

At December 31, 1986, Mobil Oil and Mobil Credit had $745 million of unused lines of credit for short-term financing. Of these, $465 million supported commercial paper borrowing arrangements of Mobil Credit, $457 million of which may also be used by Mobil Oil.

8 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at December 31: (In millions)	1986	1985
Accounts payable: Trade and other	$3,582	$4,205
Equity companies	469	653
Accrued liabilities	2,817	3,481
Total	$6,868	$8,339

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9 Taxes

Total taxes, year ended December 31: (In millions)	1986 U.S.	1986 Foreign	1986 Total	1985 U.S.	1985 Foreign	1985 Total	1984 U.S.	1984 Foreign	1984 Total
Excise and state gasoline	**$1,306**	**$2,534**	**$ 3,840**	$1,194	$2,304	$ 3,498	$1,047	$2,398	$ 3,445
Import duties[1]	**—**	**4,676**	**4,676**	—	3,167	3,167	—	3,384	3,384
Property, production, payroll, and other	**554**	**232**	**786**	961	277	1,238	1,109	267	1,376
	1,860	**7,442**	**9,302**	2,155	5,748	7,903	2,156	6,049	8,205
Income taxes	**(73)**	**1,659**	**1,586**	(32)	3,301	3,269	190	2,710	2,900
Total taxes	**$1,787**	**$9,101**	**$10,888**	$2,123	$9,049	$11,172	$2,346	$8,759	$11,105

(1) Excludes U.S. duties of $45 million in 1986, $47 million in 1985, and $53 million in 1984 reported in cost of merchandise.

Income before income taxes and effective income tax rates for the year ended December 31: (In millions)	1986 U.S.	1986 Foreign	1986 Total	1985 U.S.	1985 Foreign	1985 Total	1984 U.S.	1984 Foreign	1984 Total
Income before income taxes	**$(202)**	**$3,195**	**$2,993**	$ 49[1]	$4,260	$4,309	$865	$3,303	$4,168
U.S. state and local income taxes	**66**	**—**	**66**	36	—	36	27	—	27
Income before U.S. federal and foreign income taxes	**$(268)**	**$3,195**	**$2,927**	$ 13	$4,260	$4,273	$838	$3,303	$4,141
U.S. federal and foreign income taxes—current	**$ 171**	**$1,422**	**$1,593**	$ —	$3,207	$3,207	$ 86	$2,653	$2,739
—deferred	**(310)**	**237**	**(73)**	(68)	94	26	77	57	134
	$(139)	**$1,659**	**$1,520**	$(68)	$3,301	$3,233	$163	$2,710	$2,873
Effective income tax rate[2]	**N.A.**	**52%**	**52%**	N.A.	77%	76%	19%	82%	69%

(1) Includes the $775 million provision for Montgomery Ward restructuring.
(2) Total U.S. federal and foreign income taxes divided by income before U.S. federal and foreign income taxes.

The table below reconciles the difference between the worldwide income tax provision and the application of the U.S. statutory income tax rate.

Income taxes, year ended December 31: (In millions)	1986 Amount	1986 %	1985 Amount	1985 %	1984 Amount	1984 %
U.S. statutory tax rate	**$1,377**	**46.0**	$1,982	46.0	$1,917	46.0
Foreign taxes in excess of statutory tax rate	**180**	**6.0**	1,058	24.6	1,047	25.1
Investment tax credit	**(57)**	**(1.9)**	(116)	(2.7)	(106)	(2.5)
State and local income taxes	**36**	**1.2**	19	.4	14	.3
Purchase accounting amortization related to the acquisition of Superior	**144**	**4.8**	121	2.8	48	1.2
Other items, net	**(94)**	**(3.1)**	205	4.8	(20)	(.5)
Total	**$1,586**	**53.0**	$3,269	75.9	$2,900	69.6

Deferred tax expense applicable to major timing differences, year ended December 31: (In millions)	1986	1985	1984
Excess of tax depreciation over book depreciation	**$127**	$212	$266
Timing differences applicable to receivables and inventories	**(87)**	(155)	(112)
Intangible drilling costs	**36**	56	113
Nonproducing properties	**(78)**	159	46
Investment tax credit	**(64)**	(116)	—
Provision for restructuring	**73**	(227)	—
Other items, net	**(80)**	97	(179)
Total	**$ (73)**	$ 26	$134

Deferred income taxes

Taxable income as defined in the tax laws of various countries is frequently different from pretax income as defined by generally accepted accounting principles. Some of the differences are permanent, whereas others reflect differences in timing and give rise to accruals of deferred tax. Mobil does not provide deferred taxes for taxes that could result from the remittance of undistributed earnings since the corporation intends generally to continue reinvesting these earnings indefinitely. If such amounts were remitted, foreign tax credits available under present law would reduce the amount of U.S. taxes payable.

Mobil's share of the undistributed earnings of consolidated subsidiaries and companies accounted for on the equity method, which could be subject to additional income taxes if remitted, was approximately $2,800 million at December 31, 1986.

10 Long-Term Debt

Long-term debt at December 31: (In millions)	Callable Within Five Years	1986		1985	
Mobil Corporation					
7¼% notes due 1991		$ 100		$ —	
7⅝% notes due 1991		100		—	
7⅝% notes due 1993		95		—	
8½% debentures due 2001	1987	604		603	
8¾% notes due 1988		100		100	
9⅝% notes		—		125	
9⅝% debentures due 1999	1987	38		38	
10¼% notes due 1990		200		200	
10⅞% notes due 1992	1987*	200		200	
11% notes due 1992	1989*	100		100	
13.765% debentures due 2004	1989*	1,100		1,278	
14% notes		—		125	
14⅜% notes due 1991	1988*	94		94	
14.40% debentures due 2004	1989*	900		900	
Debt due within one year classified as long-term (7.4%)		375		2,306	
Other (8⅞%) due 1990-1992		97		91	
Foreign currencies (11⅛%) due 1990		59		59	
Original issue discount		(15)	$4,147	(16)	$6,203
Mobil Oil and consolidated subsidiaries					
4¼% debentures due 1993	1987	61		61	
7¼% notes due 1997	1987	200		200	
7⅜% debentures due 2001	1987	73		73	
8.45% debentures due 2005	1987	110		110	
10.85% notes		—		278	
Debt due within one year classified as long-term (6.7%)		2,578		1,074	
Industrial revenue bonds (6⅝%) due 1991-2014		291		291	
Other (8⅛%) due 1988-2022		91		243	
Foreign currencies (10¼%) due 1988-2014		47	3,451	82	2,412
Montgomery Ward and consolidated subsidiaries					
4⅞% debentures		—		66	
9⅜% debentures due 2000	1987	60		60	
Other (9⅜%) due 1988-2020		227	287	216	342
Other			—		371
Total			$7,885		$9,328

*At par

The percentages shown in parentheses in the table are weighted average interest rates at December 31, 1986.

The approximate amounts of long-term debt that become due during the years 1987 through 1991 are: 1987—$183 million, 1988—$1,157 million, 1989—$2,000 million, 1990—$375 million, and 1991—$428 million. Future sinking fund requirements of $456 million may be satisfied by debentures currently held in the treasury.

At year-end 1986 Mobil had an existing effective "shelf" registration on file with the Securities and Exchange Commission that would permit the sale of $205 million of debt securities to be offered pursuant to Rule 415 of the Securities Act of 1933.

Mobil and Mobil Oil have entered into long-term revolving credit agreements with various banks totalling $3.1 billion, none of which was outstanding at December 31, 1986; a total of $3.0 billion of Mobil and Mobil Oil borrowings due within one year have been classified as long-term debt. The unused $3.1 billion of the revolving credit agreements are subject to annual commitment fees of ⅛ of 1% as to $1.6 billion and .09 of 1% as to $1.1 billion. Interest on borrowings under the agreements is based on the London Interbank Offered Rate, the Domestic Certificate of Deposit Rate, or a specified Prime Rate, as applicable, and as selected from time to time by Mobil.

Montgomery Ward and Montgomery Ward Credit Corporation have entered into multi-year revolving credit agreements with various banks totalling $854 million, none of which was outstanding at December 31, 1986. The unused revolving credit facilities are available either to Montgomery Ward or Montgomery Ward Credit and are subject to commitment fees of ½ of 1%.

11 Employee Benefits

Employee benefits that Mobil provides in the United States are contributory and noncontributory medical and dental plans, pension plans, group life insurance, savings plans, employee stock ownership plans, disability plans for sickness and accidents, and termination plans. Mobil's international affiliates also provide various pension and other employee benefit plans. The estimated costs of the domestic and international plans are either funded or accrued currently.

The majority of full-time U.S. employees are covered by contributory and noncontributory pension plans. These plans are primarily final average and career average plans. Mobil's funding for these plans is based on the projected unit credit actuarial cost method.

Mobil's overseas employees are covered by pension and similar plans. Coverage and benefits vary from country to country. Mobil's funding policy also varies, in line with local commercial, actuarial, and taxation practices.

The total charge to Mobil's income for pension plans was $105 million in 1986, $190 million in 1985, and $229 million in 1984.

In 1985 Mobil adopted the projected unit credit actuarial cost method for major domestic plans, which had the effect of increasing net income by approximately $12 million ($.03 per share).

In 1986 Mobil adopted the provisions of FAS 87, Employers' Accounting for Pensions, for its principal domestic plan, which had the effect of increasing 1986 net income by approximately $36 million ($.09 per share).

The components of 1986 net pension expense for Mobil's domestic plans were as follows (in millions):

Benefits earned during year	$ 95
Interest accrued on benefits earned in prior years	163
Actual earnings on assets	(316)
Net amortization and deferral	80
Net pension expense	$ 22

Pension expense for 1986 was based on an assumed discount rate of 9½%, an assumed rate of increase in future compensation levels of 6¼%, and an expected long-term rate of return on plan assets of 9½%.

Mobil's domestic plans' funded status and amounts recognized in the consolidated balance sheet at December 31, 1986, were as follows (in millions):

Actuarial present value of accumulated benefit obligation	
Vested	$2,009
Nonvested	222
Total	2,231
Additional amounts related to projected pay increases	436
Projected benefit obligation	2,667
Plan assets at fair value, primarily in equity and fixed income securities	2,869
Plan assets in excess of projected benefit obligation	$ 202
Consisting of:	
Unrecognized net asset at date of initial application of FAS 87	$ 621
Unrecognized prior service cost	(192)
Unrecognized net loss since initial application of FAS 87	(146)
Accrued pension cost	(81)

At December 31, 1986, the assumed discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8% and 5½%, respectively.

At December 31, 1985, Mobil's domestic pension plans had an accumulated benefit obligation of $2,133 million ($2,071 million vested and $62 million nonvested) and plan assets of $3,236 million. The weighted average assumed rate of return of the domestic plans used in determining the accumulated benefit obligation was approximately 9%.

The actuarial value of accumulated benefits is not calculated for Mobil's foreign pension plans. For foreign plans, the value of plan assets exceeded the actuarial computed value of vested benefits as of year-end 1986 and 1985.

Mobil and many of its subsidiaries provide certain post-retirement health care and life insurance benefits for most of their retirees, if they are working for the company when they become eligible for retirement. These post-retirement benefits and similar benefits for active employees are provided through programs where the costs are based on the benefits paid during the year. The total expense for health care and life insurance benefits was $170 million in 1986, $192 million in 1985, and $204 million in 1984. The cost of these benefits for 37,000, 43,000, and 41,000 retirees is not separable from the cost of benefits for the 95,000, 112,000, and 124,000 active employees in 1986, 1985, and 1984, respectively.

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12 Stock Option Plans
Under the 1986 Mobil Incentive Compensation and Stock Option Plan approved by shareholders, options may be granted to key employees to purchase a maximum of 10,000,000 shares of common stock. No additional options may be granted under the 1981, 1979, or 1974 Stock Option Plans. "Nonqualified" options and "Incentive Stock Options," having a maximum life of 10 years, are granted at 100% of the fair market value of Mobil stock at the time of the award and may be exercised for stock or, in some cases, relinquished for stock appreciation rights (SARs) in annual installments after the first year. The stock appreciation rights permit the holder to receive stock, cash, or a combination thereof equal to the amount by which the fair market value at the time of relinquishment exceeds the option price.

Under the 1986 Plan there were 8,034,900 shares available for option at December 31, 1986.

Stock option transactions:			1986 Plan	1981 Plan	1979 Plan	1974 Plan
January 1, 1986—shares under option			—	9,093,133	1,951,562	365,696
Options granted at $28.78			1,982,350	—	—	—
Options expired or canceled			(17,250)	(51,750)	(6,614)	—
Options relinquished for stock appreciation rights at prices ranging from $14.77 to $30.00			—	(59,542)	(7,000)	(31,214)
Options exercised at prices ranging from $14.77 to $36.38			(4,000)	(789,470)	(188,410)	(125,404)
December 31, 1986—shares under option:	Years of Grant	Average Option Price Per Share				
	1974-1977	$14.77				209,078
	1979-1981	31.79			1,749,538	
	1981-1985	28.56		8,192,371		
	1986	28.78	1,961,100			
Options exercisable at December 31, 1986			139,000	7,825,638	1,749,538	209,078
At an average price of			$28.78	$28.50	$31.79	$14.77
During 1985 options were exercised or relinquished at prices ranging from $14.77 to $30.00			—	363,018	189,068	241,346
During 1984 options were exercised or relinquished at prices ranging from $10.48 to $30.00			—	267,922	246,725	522,105

13 Commitments and Contingent Liabilities
Substantial commitments are made in the normal course of business for the purchase of crude oil and the acquisition or construction of properties, plants, and equipment (including tankers for time charter to Mobil).

Mobil has guaranteed approximately $267 million of the obligations of others, excluding certain cross-guarantees (about $199 million), primarily foreign customs duties, made with other responsible companies in the ordinary course of business. In addition, Mobil has guaranteed specified revenues from crude oil, product, and carbon dioxide shipments under agreements with pipeline companies in which it holds stock interests. If these companies are unable to meet certain obligations, Mobil may be required to advance funds against future transportation charges. No material loss is anticipated under these guarantees.

Mobil has provided in its accounts for items and issues not yet resolved based on management's best judgment.

Mobil and its subsidiaries are engaged in various litigation and have a number of unresolved claims pending. While the amounts claimed are substantial and the ultimate liability in respect of such litigation and claims cannot be determined at this time, Mobil is of the opinion that such liability, to the extent not provided for through insurance or otherwise, is not likely to be of material importance in relation to its accounts.

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14 Capital Stock

At December 31, 1986, 30,000,000 shares of $1.00 par value preferred stock were authorized, of which 6,000,000 shares of Series A Junior Participating Preferred Stock were authorized for issuance upon exercise of certain preferred stock purchase rights; none were issued or outstanding.

At December 31, 1986, 600,000,000 shares of $2.00 par value common stock were authorized and 429,984,265 shares were issued, including 21,252,400 held in the treasury. There were 408,731,865 shares outstanding at year-end.

Net increase (decrease) in shares of common stock outstanding, year ended December 31:	1986	1985	1984
Exercise of stock options and SARs	1,039,127	621,903	856,593
Purchase of common stock for treasury	(687,500)	—	—
Incentive compensation awards	21,054	24,921	27,725
Purchase of Marcor fractional shares	(109)	(115)	(46)
Conversion of Marcor debentures	8,111	379	1,689
Net increase	380,683	647,088	885,961

15 Foreign Currency Translation

Cumulative translation adjustments at December 31: (In millions)	1986	1985	1984
Properties, plants, and equipment, net	$(1,153)	$(1,534)	$(2,007)
Deferred income taxes	329	429	658
Working capital, debt, and other items, net	(266)	(621)	(688)
Total	$(1,090)	$(1,726)	$(2,037)

Foreign exchange transaction gains of $181 million in 1986 and $205 million in 1985 were credited to income, while losses of $24 million in 1984 were charged against income.

16 Quarterly Financial Data (unaudited)

Quarterly financial data: (In millions except per-share amounts)	Quarter First	Second	Third	Fourth	Year
Revenues					
1986	$13,877	$12,176	$11,314	$12,498	$49,865
1985	$15,118	$14,280	$14,664	$16,547	$60,609
Income taxes					
1986	$ 692	$ 408	$ 305	$ 181	$ 1,586
1985	$ 900	$ 810	$ 517	$ 1,042	$ 3,269
Net income					
1986[1][2]	$ 440	$ 582	$ 182	$ 203	$ 1,407
1985[3][4]	$ 320	$ 411	$ (116)	$ 425	$ 1,040
Net income per share					
1986[1][2]	$ 1.08	$ 1.42	$ .45	$ .50	$ 3.45
1985[3][4]	$ .78	$ 1.01	$ (.28)	$ 1.04	$ 2.55

(1) Net income includes a $57 million LIFO inventory drawdown charge in the first quarter of 1986, a $187 million gain on sale of Mobil's interests in Angola and $83 million of favorable adjustments to Alaskan crude purchase provisions in the second quarter of 1986, and a $150 million loss on sale of Container Corporation of America in the third quarter of 1986.

(2) Net income includes financial benefits of $24 million in the fourth quarter of 1986, resulting from reductions in LIFO inventories. The fourth quarter of 1986 also includes the unfavorable effects of a $100 million provision for accelerated amortization of exploration and producing assets, offset in part by a financial benefit of $36 million, resulting from adoption of FAS 87, Employers Accounting for Pensions.

(3) Net income includes a provision of $508 million for Montgomery Ward restructuring, recorded in the third quarter of 1985

(4) Net income includes financial benefits of $34 million in the fourth quarter of 1985, resulting from reductions in LIFO inventories The fourth quarter of 1985 also includes unfavorable effects of writedowns of uneconomic assets ($165 million), offset in part by gains on sales of assets ($101 million)

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Reports of Management and Certified Public Accountants

Report of Management

The financial statements of Mobil Corporation and its subsidiaries included in this Annual Report have been prepared by Mobil in conformity with generally accepted accounting principles. Such financial statements are necessarily based in part on best estimates and judgments.

Mobil maintains a system of internal accounting controls and a program of internal auditing designed to provide reasonable assurance, at appropriate cost, that Mobil's assets are protected and that transactions are executed in accordance with established authorizations and are recorded properly.

The Audit Committee of the Board of Directors, composed solely of directors who are not officers or employees, meets regularly with Mobil's financial management and counsel, with Mobil's internal auditors, and with the independent public accountants engaged by Mobil Corporation and its principal subsidiaries. These meetings include discussion of internal accounting controls and the quality of financial reporting. The independent public accountants and the internal auditors have free and independent access to the Audit Committee to discuss the results of their audits or any other matters relating to Mobil's financial affairs.

The accompanying consolidated financial statements have been examined by Arthur Young & Company, independent certified public accountants, and their report follows.

Report of Certified Public Accountants

We have examined the accompanying consolidated balance sheet of Mobil Corporation at December 31, 1986 and 1985, and the related consolidated statements of income, changes in shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of Marcor Inc. and Montgomery Ward & Co., Incorporated, consolidated subsidiaries, and Container Corporation of America, a consolidated subsidiary at December 31, 1985 and 1984, have been examined by other independent public accountants, and we were furnished with their reports thereon. The assets of these consolidated subsidiaries represent approximately 9% and 13% of the consolidated totals for 1986 and 1985 and revenues represent approximately 10%, 13%, and 15% of the consolidated totals for the years ended December 31, 1986, 1985, and 1984.

In our opinion, based upon our examinations and the reports of other independent public accountants, the statements mentioned above present fairly the consolidated financial position of Mobil Corporation at December 31, 1986 and 1985, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

New York, New York
March 2, 1987

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Supplementary Information

Supplementary oil and gas producing disclosures

The accompanying tables set forth information concerning Mobil's oil and gas producing activities at December 31, 1986, 1985, and 1984, and for the years then ended. The tables are prepared in accordance with FAS 69, Disclosures about Oil and Gas Producing Activities.

Tables 1 and 2 represent Mobil's estimated net equity in worldwide net proved reserves. Net proved reserves represent estimated recoverable volumes, excluding royalties and interests owned by others. The production and reserve numbers included in the tables exclude NGL volumes received under natural gas processing contracts and Mobil's royalty interest production and reserve volumes. All reserve estimates are subject to future revision. In the past, some of these revisions have been significant.

Table 3 presents gross capitalized costs related to oil and gas producing activities and related accumulated depreciation, depletion, and amortization at December 31, 1986 and 1985. Capitalized costs include (1) mineral interests in properties, (2) wells, plants, and related equipment and facilities, and (3) support equipment and facilities used in oil and gas producing activities. Table 3 includes revised amounts for 1985.

Table 4 sets forth certain costs incurred, both capitalized and expensed, in oil and gas producing activities. Costs reported include the 1986, 1985, and 1984 outlays for assets described in Table 3, capitalized costs, plus the 1986, 1985, and 1984 costs charged to expense for such items as geological and geophysical outlays, and expenses to carry and retain undeveloped properties. Exploration and development costs include depreciation of support equipment and facilities used in those activities rather than the expenditures to acquire support equipment and facilities.

Table 5 summarizes Mobil's results of operations for producing activities for the years ended December 31, 1986, 1985, and 1984. Revenues include sales to unaffiliated parties and sales or transfers (essentially at third-party sales prices) to Mobil's other operations. Only the revenues reported for the U.S. and Canada are net of royalty interests of others. Production (lifting) costs and exploration expenses are determined as defined by the FASB.

Tables 6 and 7 set forth a so-called standardized measure of discounted future net cash flows relating to proved oil and gas reserves, and quantify the causes of the changes in the standardized measure of the cash flows relating to those reserves. Since the estimates reflect proved reserves only, they exclude any revenues that could result from probable reserves, which could become proved reserves in 1987 or later years.

For these calculations, year-end oil and gas prices were applied to estimated future production of net proved oil and gas reserves at each year-end, less estimated future expenditures (based on current costs) to be incurred in developing and producing these proved reserves. The continuance of existing economic conditions and tax rates was assumed. In accordance with FASB requirements, the calculations do not reflect future changes in prices, costs, or tax rates, which may have a significant effect on future results.

It is important to note that the data in Tables 6 and 7 are not intended to replace the historical cost-based financial data included in the audited financial statements because, as the FASB recognizes, such data are not representative of either the fair market value or the present value of future cash flows.

Cautionary Note:
Many of the FASB-mandated data in this section (Supplementary Oil and Gas Producing Disclosures) represent estimates, assumptions, and computations that are subject to constant change as the future unfolds. Mobil cautions investors and analysts, therefore, that the data are of questionable utility for decision making.

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Table 1 Estimated Quantities of Net Proved Crude Oil and Natural Gas Liquids Reserves (unaudited)

(Millions of barrels)	United States		Foreign						
			Canada		Europe		Other		
	Crude	NGL	Crude	NGL	Crude	NGL	Crude	NGL	Total
Year Ended December 31, 1986									
Net proved reserves									
—beginning of year	853	183	231	81	439	33	370	176	2,366
—revisions of previous estimates	15	6	—	1	—	(2)	11	—	31
—improved recovery	46	3	12	3	9	(1)	—	205	277
—purchases (sales) of minerals in place	(1)	—	—	—	—	—	(11)	(1)	(13)
—extensions, discoveries, and other additions	21	2	4	—	6	—	3	—	36
—production	(97)	(17)	(23)	(3)	(51)	(2)	(26)	(18)	(237)
Net proved reserves —end of year	837	177	224	82	403	28	347	362	2,460
Net proved developed reserves									
—beginning of year	721	168	227	81	260	12	224	175	1,868
—end of year	692	172	219	82	260	16	205	361	2,007
Mobil's share of net proved reserves of investees accounted for on the equity method	—	—	—	—	6	—	551	1	558
Quantities under special arrangements in which the company acts as producer									
—quantities received during the year	—	—	—	—	—	—	32	—	32
—estimated future quantities	—	—	—	—	—	—	—	—	—
Year Ended December 31, 1985									
Net proved reserves									
—beginning of year	832	208	244	85	474	33	370	187	2,433
—revisions of previous estimates	24	(7)	(10)	(1)	—	—	23	(2)	27
—improved recovery	79	1	18	—	12	1	—	6	117
—purchases (sales) of minerals in place	—	—	—	—	—	—	—	—	—
—extensions, discoveries, and other additions	17	2	3	—	—	—	3	—	25
—production	(99)	(21)	(24)	(3)	(47)	(1)	(26)	(15)	(236)
Net proved reserves —end of year	853	183	231	81	439	33	370	176	2,366
Net proved developed reserves									
—beginning of year	727	189	239	84	208	11	225	185	1,868
—end of year	721	168	227	81	260	12	224	175	1,868
Mobil's share of net proved reserves of investees accounted for on the equity method	—	—	—	—	6	—	531	—	537
Quantities under special arrangements in which the company acts as producer									
—quantities received during the year	—	—	—	—	—	—	16	—	16
—estimated future quantities	—	—	—	—	—	—	—	—	—

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See Cautionary Note on page 38.

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Table 1 Estimated Quantities of Net Proved Crude Oil and Natural Gas Liquids Reserves (unaudited)

	United States		Foreign						
			Canada		Europe		Other		
(Millions of barrels)	Crude	NGL	Crude	NGL	Crude	NGL	Crude	NGL	Total
Year Ended December 31, 1984									
Net proved reserves									
—beginning of year	706	149	174	58	479	11	372	199	2,148
—revisions of previous estimates	14	13	2	1	—	(5)	11	—	36
—improved recovery	52	3	2	—	1	26	—	—	84
—purchases (sales) of minerals in place	131	55	77	29	—	—	5	3	300
—extensions, discoveries, and other additions	23	7	10	—	36	1	5	—	82
—production	(94)	(19)	(21)	(3)	(42)	—	(23)	(15)	(217)
Net proved reserves									
—end of year	832	208	244	85	474	33	370	187	2,433
Net proved developed reserves									
—beginning of year	638	146	174	58	188	1	231	199	1,635
—end of year	727	189	239	84	208	11	225	185	1,868
Mobil's share of net proved reserves of investees accounted for on the equity method	—	—	—	—	6	—	528	—	534
Quantities under special arrangements in which the company acts as producer									
—quantities received during the year	—	—	—	—	—	—	30	—	30
—estimated future quantities	—	—	—	—	—	—	6	—	6

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See Cautionary Note on page 38.

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Table 2 Estimated Quantities of Net Proved Natural Gas Reserves (unaudited)

ıillions of cubic feet)	United States	Foreign Canada	Foreign Europe	Foreign Other	Total
ɘar Ended December 31, 1986					
et proved reserves					
—beginning of year	7,600	2,845	2,649	7,593	20,687
—revisions of previous estimates	514	(117)	101	20	518
—improved recovery	30	3	(10)	82	105
—purchases (sales) of minerals in place	(1)	—	—	(12)	(13)
—extensions, discoveries, and other additions	270	3	183	—	456
—production	(558)	(137)	(186)	(393)	(1,274)
et proved reserves —end of year	7,855	2,597	2,737	7,290	20,479
›t proved developed reserves					
-beginning of year	6,814	2,657	2,149	7,581	19,201
-end of year	6,719	2,498	2,289	7,290	18,796
bil's share of net proved reserves of investees :ccounted for on the equity method	—	—	64	155	219
ɜr Ended December 31, 1985					
· proved reserves					
—beginning of year	8,084	3,242	2,619	7,836	21,781
—revisions of previous estimates	(69)	(298)	51	145	(171)
—improved recovery	40	20	17	—	77
—purchases (sales) of minerals in place	6	—	—	—	6
—extensions, discoveries, and other additions	162	24	126	—	312
—production	(623)	(143)	(164)	(388)	(1,318)
let proved reserves —end of year	7,600	2,845	2,649	7,593	20,687
let proved developed reserves					
—beginning of year	7,414	2,934	1,756	7,739	19,843
—end of year	6,814	2,657	2,149	7,581	19,201
/lobil's share of net proved reserves of investees accounted for on the equity method	—	—	56	91	147
'ear Ended December 31, 1984					
let proved reserves					
—beginning of year	6,275	1,896	2,157	7,999	18,327
—revisions of previous estimates	(2)	(1)	107	42	146
—improved recovery	15	—	55	—	70
—purchases (sales) of minerals in place	1,901	1,453	208	123	3,685
—extensions, discoveries, and other additions	502	8	207	—	717
—production	(607)	(114)	(115)	(328)	(1,164)
let proved reserves —end of year	8,084	3,242	2,619	7,836	21,781
let proved developed reserves					
—beginning of year	5,941	1,895	1,276	7,999	17,111
—end of year	7,414	2,934	1,756	7,739	19,843
/lobil's share of net proved reserves of investees accounted for on the equity method	—	—	57	86	143

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See Cautionary Note on page 38.

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Table 3 Capitalized Costs Related to Oil and Gas Producing Activities (unaudited)

(In millions) At December 31,	1986	1985
Capitalized costs		
Unproved properties	$ 1,731	$ 1,893
Proved properties, wells, plants, and other equipment	24,284	22,851
Total capitalized costs	$26,015	$24,744
Accumulated depreciation, depletion, and amortization	$ 9,690	$ 8,218
Mobil's share of net capitalized costs of investees accounted for on the equity method	$ 156	$ 138

Table 4 Costs Incurred in Oil and Gas Property Acquisition, Exploration, and Development Activities (unaudited)

(In millions)	United States	Foreign			Total
		Canada	Europe	Other	
Year Ended December 31, 1986					
Property acquisition costs	$ 62	$ 5	$ —	$ 1	$ 68
Exploration costs	282	90	237	82	691
Development costs	710	71	211	49	1,041
Total expenditures	$1,054	$ 166	$448	$132	$1,800
Mobil's share of investees' costs of property acquisition, exploration, and development	—	—	$ 14	$ 35	$ 49
Year Ended December 31, 1985					
Property acquisition costs	$ 93	$ 14	$ —	$ —	$ 107
Exploration costs	504	90	186	152	932
Development costs	816	99	216	91	1,222
Total expenditures	$1,413	$ 203	$402	$243	$2,261
Mobil's share of investees' costs of property acquisition, exploration, and development	—	—	$ 11	$ 37	$ 48
Year Ended December 31, 1984					
Property acquisition costs	$4,142	$2,006	$171	$ 38	$6,357
Exploration costs	523	79	151	140	893
Development costs	820	81	361	77	1,339
Total expenditures	$5,485	$2,166	$683	$255	$8,589
Mobil's share of investees costs of property acquisition, exploration, and development	—	—	$ 11	$ 30	$ 41

Table 5 Results of Operations for Oil and Gas Producing Activities (unaudited)

(In millions)	United States	Foreign Canada	Foreign Europe	Foreign Other	Total
Year Ended December 31, 1986					
Revenues—Trade sales	$1,151	$355	$ 986	$ 699	$3,191
—Intercompany sales	1,442	186	548	820	2,996
Production (lifting) costs	(1,096)	(244)	(629)	(387)	(2,356)
Exploration expenses	(248)	(64)	(167)	(86)	(565)
Depreciation, depletion, and amortization	(1,158)	(156)	(270)	(129)	(1,713)
Other operating revenues and (expenses)	31	61	105	316	513
Income tax expense	(148)	(95)	(305)	(732)	(1,280)
Results of operations for producing activities	$ (26)	$ 43	$ 268	$ 501	$ 786
Mobil's share of results of operations for producing activities of investees accounted for on the equity method	—	—	$ 1	$ 13	$ 14
Year Ended December 31, 1985					
Revenues—Trade sales	$1,834	$494	$1,353	$1,296	$4,977
—Intercompany sales	2,738	480	840	1,800	5,858
Production (lifting) costs	(1,731)	(337)	(747)	(622)	(3,437)
Exploration expenses	(365)	(83)	(138)	(144)	(730)
Depreciation, depletion, and amortization	(992)	(145)	(203)	(97)	(1,437)
Other operating revenues and (expenses)	4	86	66	73	229
Income tax expense	(742)	(356)	(839)	(1,734)	(3,671)
Results of operations for producing activities	$ 746	$139	$ 332	$ 572	$1,789
Mobil's share of results of operations for producing activities of investees accounted for on the equity method	—	—	$ 17	$ 29	$ 46
Year Ended December 31, 1984					
Revenues—Trade sales	$1,690	$321	$1,190	$1,074	$4,275
—Intercompany sales	2,888	499	788	1,379	5,554
Production (lifting) costs	(1,621)	(279)	(644)	(430)	(2,974)
Exploration expenses	(341)	(41)	(125)	(128)	(635)
Depreciation, depletion, and amortization	(1,003)	(77)	(144)	(95)	(1,319)
Other operating revenues and (expenses)	(61)	21	27	36	23
Income tax expense	(728)	(308)	(802)	(1,373)	(3,211)
Results of operations for producing activities	$ 824	$ 136	$ 290	$ 463	$1,713
Mobil's share of results of operations for producing activities of investees accounted for on the equity method	—	—	$ 17	$ 18	$ 35

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Table 6 Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves (unaudited)

(In millions)	United States	Foreign Canada	Foreign Europe	Foreign Other	Total
At December 31, 1986					
Future cash inflows	$ 24,920	$ 7,729	$ 14,074	$ 23,881	$ 70,604
Future production costs	(10,308)	(3,021)	(4,360)	(3,931)	(21,620)
Future development costs	(924)	(55)	(863)	(847)	(2,689)
Future income tax expenses	(3,397)	(2,126)	(5,321)	(12,370)	(23,214)
Future net cash flows	10,291	2,527	3,530	6,733	23,081
10% annual discount for estimated timing of cash flows	(4,488)	(1,242)	(1,215)	(3,100)	(10,045)
Standardized measure of discounted future net cash flows	$ 5,803	$ 1,285	$ 2,315	$ 3,633	$ 13,036
Mobil's share of standardized measure of discounted future net cash flows of investees accounted for on the equity method	—	—	$ 53	$ 195	$ 248
At December 31, 1985[1]					
Future cash inflows	$ 40,661	$12,710	$ 24,660	$ 40,223	$118,254
Future production costs	(14,656)	(2,871)	(6,371)	(3,746)	(27,644)
Future development costs	(1,818)	(74)	(926)	(984)	(3,802)
Future income tax expenses	(9,355)	(5,132)	(10,653)	(22,830)	(47,970)
Future net cash flows	14,832	4,633	6,710	12,663	38,838
10% annual discount for estimated timing of cash flows	(6,544)	(2,532)	(3,029)	(6,423)	(18,528)
Standardized measure of discounted future net cash flows	$ 8,288	$ 2,101	$ 3,681	$ 6,240	$ 20,310
Mobil's share of standardized measure of discounted future net cash flows of investees accounted for on the equity method	—	—	$ 83	$ 286	$ 369
At December 31, 1984[1]					
Future cash inflows	$ 44,013	$14,738	$ 23,734	$ 43,669	$126,154
Future production costs	(15,782)	(4,493)	(6,626)	(5,209)	(32,110)
Future development costs	(1,738)	(135)	(1,088)	(1,078)	(4,039)
Future income tax expenses	(10,326)	(5,874)	(10,846)	(23,416)	(50,462)
Future net cash flows	16,167	4,236	5,174	13,966	39,543
10% annual discount for estimated timing of cash flows	(6,714)	(2,322)	(2,191)	(7,347)	(18,574)
Standardized measure of discounted future net cash flows	$ 9,453	$ 1,914	$ 2,983	$ 6,619	$ 20,969
Mobil's share of standardized measure of discounted future net cash flows of investees accounted for on the equity method	—	—	$ 75	$ 192	$ 267

Table 7 Changes in Standardized Measure of Discounted Future Net Cash Flows (unaudited)

(In millions)

Year Ended December 31,	1986	1985[1]	1984[1]
Beginning of year	$ 20,679	$21,236	$18,377
Changes resulting from:			
Sales and transfers of production, net of production costs	(3,831)	(7,398)	(6,855)
Net changes in prices, and development and production costs	(23,146)	(1,479)	(3,556)
Net change in income taxes	12,047	613	1,161
Extensions, discoveries, additions, and purchases less related costs	424	590	5,003
Development costs incurred during the period	1,041	1,219	1,327
Revisions of previous quantity estimates	1,888	1,281	1,184
Accretion of discount	4,303	4,515	4,539
Other	(121)	102	56
End of year	$ 13,284	$20,679	$21,236

(1) Restated to conform with current year presentation

See Cautionary Note on page 38.

Other resources disclosures

(unaudited)

The table presents selected statistics for Mobil's mineral ore and carbon dioxide operations.

Reserves represent estimated recoverable volumes, excluding royalties and interests owned by others. All reserve estimates are subject to future revision.

Future production of these resources is subject to many factors, including government regulations and market conditions. Market prices for these resources may be subject to wide fluctuations during the production periods.

Mineral ore and carbon dioxide resources

	1986	1985	1984
Coal (thousands of tons)			
Proved and probable reserves at end of year	**2,968,000**	4,227,000	4,444,000
Production	**3,990**	4,655	4,813
Purchased (sold) in place	**—**	(212,000)	80,000
Average market price per ton at end of year	**$4.97**	$6.51	$7.85
Phosphate Rock (thousands of tons)			
Proved and probable reserves at end of year	**132,000**	133,000	137,000
Production	**2,100**	3,100	3,300
Purchased (sold) in place	**200**	100	—
Average market price per ton at end of year	**$21.15**	$25.41	$25.23
Carbon Dioxide (millions of cubic feet)			
Proved reserves at end of year	**4,380,000**	4,499,000	4,515,000
Production	**76,000**	49,000	17,000
Average market price per thousand cubic feet at end of year	**$.45**	$.71	$.64

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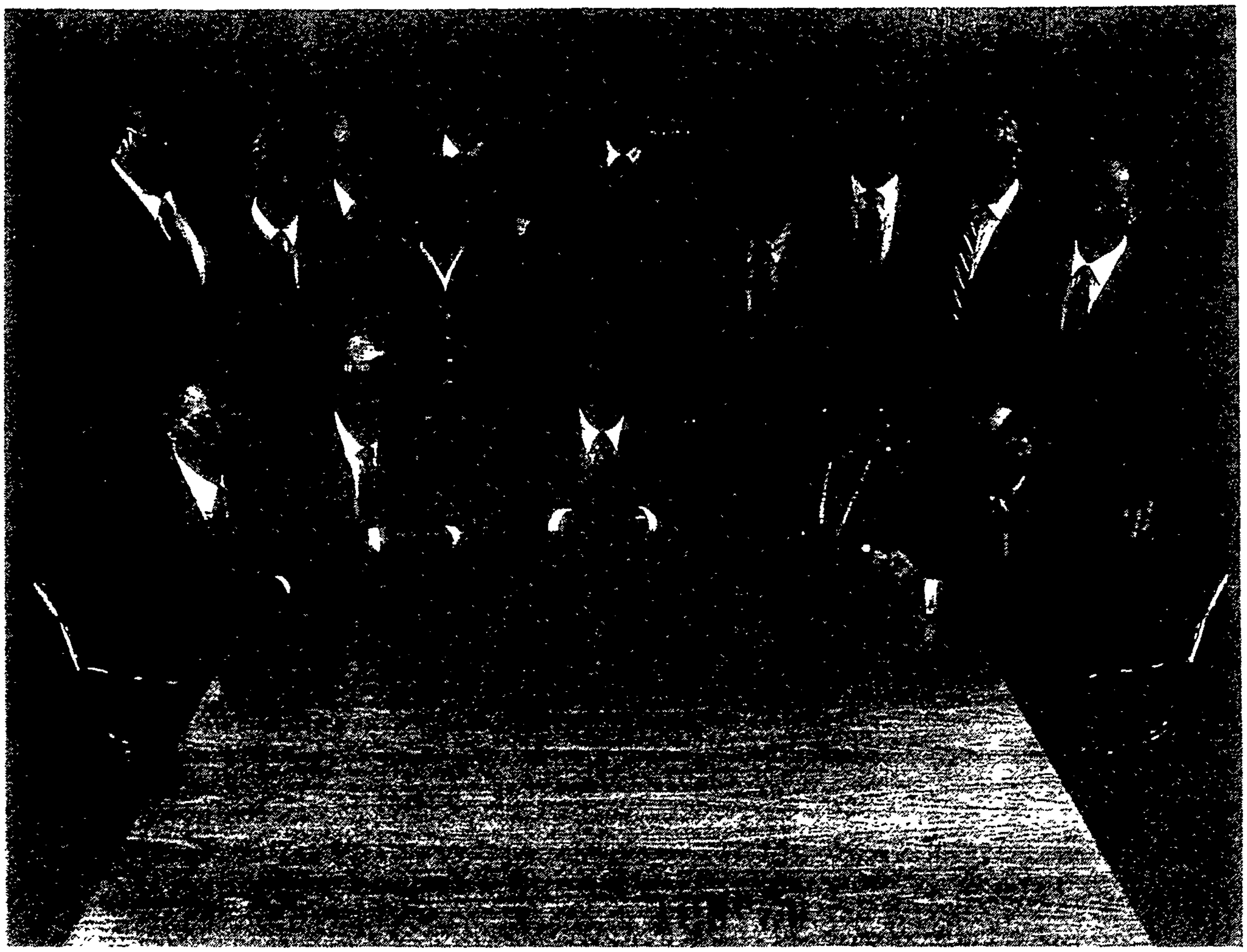
Directors, Officers and Committees

Directors of Mobil Corp., seated from left: James Q. Riordan, Richard F. Tucker, Allen E. Murray, Jewel S. Lafontant, Alan Greenspan. Standing, from left: William J. Kennedy III, Lee L. Morgan, William W. Scranton, Eleanor B. Sheldon, Walter A. Bork, Samuel C. Johnson, Lewis M. Branscomb, Paul J. Hoenmans, Eugene A. Renna, Walter E. MacDonald, Herbert Schmertz, William P. Tavoulareas. Not pictured: Anthony J.F. O'Reilly and Robert G. Schwartz.



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Additional information relating to Mobil is contained in a separate report, Financial and Operating Statistics 1986, and in its annual report on Form 10-K filed with the Securities and Exchange Commission. Information dealing with various Mobil benefit plans for employees is contained in plan descriptions, annual reports, and other materials regularly furnished to employees under the Employee Retirement Income Security Act of 1974. A statement of charitable contributions made by Mobil Foundation, Inc., is prepared annually. For copies of any of the foregoing, shareholders may write to the Secretary, Room 9W0006, Mobil Corporation, 150 East 42nd Street, New York, New York 10017-5666 or telephone (212) 883-4242.

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