EXXON MOBIL CEO REX TILLERSON SURVEYS WORLD ENERGY, SEES WINDOW OF OPPORTUNITY, MUCH NEED FOR ACTION

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Excerpts from Mr. Tillerson's Remarks

State of energy production: The United States is now the number-one producer of total energy coming from oil and natural gas. And when combined with our neighbors to the north and the south, the impact of our innovations is even more striking and more promising. Mexico, Canada, and the United States are well-positioned for unprecedented energy production. And with Mexico's historic energy reforms now in motion and the hope that U.S. policy can respond to the opportunity before us, North American energy leadership can continue to grow through peaceful trade and cooperation.

Effect on carbon dioxide emissions: Meanwhile, because natural gas emits up to 60 percent less carbon dioxide than other major sources when used for power generation, our abundant and reliable supplies have been instrumental in reducing our Nation's carbon dioxide emissions to levels not seen since the 1990s. We are emitting lower carbon dioxide emissions today than we were in the early 1990s. What's even more remarkable about this is these gains have come despite the fact that our economy is 60 percent larger and there are 50 million more consumers of energy in the Nation today than there were in the 1990s.

Roles of industry and government in this new era: First and foremost, we in industry have a responsibility to build and maintain public trust by upholding the highest standards of safety and environmental protection, from the way we plan and executive our investments throughout the construction and the completion of our projects.

Second, and just as important, government has a responsibility to promote the rule of law, maintain a level playing field for all competitors, and enable the investment that makes long-term planning and innovation possible. In short, North America's energy leadership is more than simply a function of the continent's resource endowment. As so many other parts of the world have shown, innovation in the energy sector depends on the stability and rationality of the tax, legal, and regulatory frameworks that are put in place by the government. Government is also needed to open up markets, strengthen international ties, and promote free trade, particularly when this means eliminating unwise barriers it had previously erected.

Lock in energy gains and leadership: I see three areas that would help lock in our energy gains and further strengthen our North American energy leadership. We need to promote free trade in natural gas and crude oil, approve critical infrastructure projects such as the Keystone XL Pipeline, and return clarity and transparency to our regulatory process.

What are your views on climate change? Well, there's no question the climate is changing, and that's never been up for debate. I think the real question that's driving a lot of policy is, to what extent are human activities and industrial activities and our consumption of energy contributing to that change?...

There is an enormous amount of work, and good work, critical scientific work, going on all over the planet to understand this phenomena of climate change, and we are very supportive of that. Even the best scientists who are studying this, though, have to readily admit that it is a hypothesis and it is a model that gives them an outcome on which they believe policy should be made. Now, that's fine; it's just a question of, when it's a model, there are a lot of assumptions in that model. And so we view it as a risk-management problem, and we're in the risk-management business. So our view is you need to keep investing in the science, we need to understand this, and because there is a risk that we're contributing to this, you start by doing all the things that make perfect sense. Promote energy efficiency; that makes great economic sense. Promote new technologies on how we consume energy in a cleaner way. Promote technologies that allow us to control these emissions. All that makes sense. The question is, how far do you want to go and mandate a policy when the truth of the matter is that model could be wrong as well as all of your efforts to influence this climate change; a hundred years from now -- you may wake up one day and find out you couldn't do a thing about it.

How did the sanctions affect your ability to do things in Russia? Well, the sanctions apply to three specific areas that impacted some exploration ventures we have, that prohibit activities in the Arctic, in the deep water and in the unconventionals, the shales and the tight oils. We have a large and very successful development in the Far East of Russia offshore of Sakhalin Island, where we've invested – our share – in excess of $10 billion with our Russian partners Rosneft and our partners from Japan and India. It's a technological marvel what is going on out there offshore of Sakhalin. Most people cannot comprehend the environment we're in or what is being done out there from an engineering and science standpoint.

So it has been extraordinarily successful. The sanctions have had no impact on our activities there. And in fact we just started up the third phase of a multibillion-dollar development and we just funded the next phase of another development out there.

What about the Middle East? Well, we have a number of holdings in the Middle East. We're the largest investor in Qatar. Qatar is now the largest exporter of liquefied natural gas in the world. If you go back to the year 2000, they essentially exported zero. Today they're the largest. So we worked with that government to develop their LNG presence in the world today.

I think we may still be the largest investor in Saudi Arabia. We're their largest taxpayer, I know that. [Laughter.] And that's primarily refining of petrochemicals. We are a large investor in Abu Dhabi, in the upstream development. And in Iraq, we are operator of the West Qurna-1 Field down in Basra, which is a redevelopment of an old field that had, you know, been neglected under the previous regime. And we hold six exploration concessions in Kurdistan.

So we're pretty active throughout the Middle East.

DAVID M. RUBENSTEIN: Good evening and welcome, members and guests of The Economic Club of Washington. Welcome to this dinner event of the Club, the 10th event of our 28th season. and thank you for coming this evening, here in the Grand Ballroom of the JW Marriott Hotel in Washington, DC. I'm David Rubenstein, president of the Club. Our special guest this evening is Rex Tillerson, chairman and CEO of ExxonMobil. [Applause.]

ExxonMobil, as you probably all know, is the world's largest energy company. It's a company with a market capitalization of roughly $350 billion, which would make it the fourth-biggest market capitalization company in the entire world. It's a company with roughly $400

billion of revenue, which would make it the fifth-biggest company in terms of revenue in the entire world. It's a company with about 75,000 employees and earns roughly about $33 billion a year.

Rex became the chairman and CEO in 2006, replacing Lee Raymond, who had served in that capacity before. And prior to that, Rex was the president and a member of the board of ExxonMobil, a position he assumed in 2004. He graduated from the University of Texas in 1975 and immediately joined Exxon – then it was Exxon, not ExxonMobil – and worked his way up through a series of international and domestic positions to the position of becoming president, and then ultimately chairman and CEO.

While running ExxonMobil is obviously a full-time job, Rex does have a lot of outside interests, and just a few of them that I'm familiar with I'd like to mention. I serve with him on the Ford's Theatre board, and Rex chaired the capital campaign which raised the money to modernize Ford's Theatre and build an education center. He also was the past president of the Boy Scouts of America and was an Eagle Scout when he was a young man. I was not. [Laughter.] I was a Cub Scout. [Laughter, applause.]

Rex Tillerson is a real leader in the business world, and everywhere he goes people in the energy world and people in the business world and government leaders want to hear what he has to say about the energy world, about energy prices, about energy conversation, and about generally where the economies are going. And his global experience is really second to none, because Exxon is such a global business.

So we're very pleased to have Rex as our special guest this evening. He'll make some remarks, and then later we'll have a conversation. So it's my pleasure to introduce Rex Tillerson. [Applause.]

REX TILLERSON: Well, thank you, David. And it really is a pleasure to be back with the Washington Economic Club. I spoke to this group some time ago.[1] There's been a few speeches since then. But I particularly welcome the opportunity to address the Club at what I view to be a rather historic moment for our energy industry, and at a time when our Nation has an extraordinary window of opportunity before us.

Over the past few years, the achievements of the energy industry have become better known to most Americans than perhaps at any other period in our history. Our industry has deployed technologies and techniques that are unlocking vast new supplies of oil and natural gas. The result of this sustained investment, the innovation, and entrepreneurship has been a new era of abundance in North American energy.

Over the past few months, the impact of these innovations has become especially clear to the world energy markets. And, as a result, we have in turn seen markets adjusting to fundamental changes in the global supply and demand for oil.

[1] Mr. Tillerson addressed the Club on October 1, 2009.

Yet, despite the enormous economic potential of these new supplies, the future does remain uncertain, and that's why I appreciate speaking to this gathering. Of course, we're meeting in a city whose public policy decisions will have a powerful influence on the energy sector and on the potential for greater innovation in the future. It is no exaggeration to say that these policy decisions will help determine the destiny of billions of people around the world who are seeking better lives – lives that require access to reliable, affordable energy.

In the months and years ahead, the public discussion of energy policies will only grow in importance. These policies will not only be shaped by the relationship between Congress and the President; they will be influenced by and will even help frame, in all likelihood, the race for the White House. In short, now is the time to discuss the promise of North American energy and to deepen our knowledge of the policies the world will need to unleash growth and opportunity for the decades that lie ahead.

So tonight I want to briefly discuss the innovations that led to this historic moment, because I think it's important to understand that; how these innovations have contributed to our Nation's economic growth; and why our industry and the global economy will need sound economic reasoning and more sensible policies to fully leverage this moment to meet the energy and the environmental challenges of the future.

Now, contrary to some claims and many sensational headlines, this new era of abundance is not the result of a single technology, nor is it the result of one source of energy or even a lucky break. This moment is the result of decades of sustained investment, innovation, and collaboration across this industry, really across the entire globe. It is the fruit of innovative work on many frontiers, and it is a tribute to scientists, engineers, and entrepreneurs who labored on time horizons few outside of our industry can comprehend.

In Canada, industry innovations have made it possible to safely and responsibly develop the Nation's vast oil sands. Technology has enabled access to proven oil reserves of approximately 170 billion barrels. And despite what some claim, the greenhouse gas emissions from oil sands development are similar to many other heavy crudes which we produce right here in places like California or that we are already importing today from sources like Venezuela.

In the deep waters of the Gulf of Mexico, advanced technologies have opened up unprecedented opportunities in offshore exploration and production. In less than a generation, we have progressed from engineering concepts that used to be hand-drawn on drafting tables to sophisticated rigs that are controlled by sophisticated computers and GPS systems that can operate in ultra-deep-water depths of more than 10,000 feet with wells that extend five miles below the ocean floor. With these capabilities, expanded through new investments, we project that over the next 25 years deep water oil and gas production worldwide is going to double.

In the United States, we have seen another remarkably unexpected and far-reaching breakthrough firsthand: the advanced integration of hydraulic fracturing and horizontal drilling. These technologies and techniques have enabled the development of our Nation's shale gas and tight oil resources. In just a few years, they have rewritten the North American energy story, and with it the future of global energy markets.

The United States is now the number-one producer of total energy coming from oil and natural gas. And when combined with our neighbors to the north and the south, the impact of our innovations is even more striking and more promising. Mexico, Canada, and the United States are well-positioned for unprecedented energy production. And with Mexico's historic energy reforms now in motion and the hope that U.S. policy can respond to the opportunity before us, North American energy leadership can continue to grow through peaceful trade and cooperation.

For our Nation, our industry's investments and innovations are fueling economic growth, they're increasing manufacturing competitiveness, and they are providing environmental benefits. During a period of recess, slow growth, and falling labor participation rates, the energy industry has been an economic engine for the entire Nation. According to one study by The Perryman Group, the total economic benefits of oil and gas exploration and development activity, including the multiplier effects, are estimated to include almost $1.2 trillion in gross product per year, as well as more than 9.3 million permanent jobs in the United States. The study also found that the economic benefits of oil and natural gas production have more than doubled over the past 10 years, even after accounting for inflation.

Although the industry, including spinoff activity, is about 6.7 percent of the U.S. economy, it has accounted for more than 30 percent of the growth since the trough of the recession. Domestic energy production is bringing extraordinary economic benefits in energy producing states like Texas, Pennsylvania, North Dakota, and Oklahoma. But, as IHS Consulting has found, the positive economic effects are being felt in every one of the lower 48 states, including those that do not produce any oil or natural gas.

Meanwhile, because natural gas emits up to 60 percent less carbon dioxide than other major sources when used for power generation, our abundant and reliable supplies have been instrumental in reducing our Nation's carbon dioxide emissions to levels not seen since the 1990s. We are emitting lower carbon dioxide emissions today than we were in the early 1990s. What's even more remarkable about this is these gains have come despite the fact that our economy is 60 percent larger and there are 50 million more consumers of energy in the Nation today than there were in the 1990s.

These vast new supplies of oil and natural gas being produced from America's shale regions are also creating energy diversity, greater reliability, and increased flexibility for the global energy portfolio. North American energy has come on line and helped offset the production losses due to geopolitical upheaval and economic mismanagement in some of the world's key oil-producing countries. In fact, North American supplies have gone beyond providing price stability; we have actually seen a significant decline in prices since last summer.

For consumers and economies of the world, a new era of energy abundance will continue to bring benefits. But for nearly every participant in our industry, the current downward swing in prices has created new pressures. In the short and medium term, our industry will have to work more effectively and efficiently than we ever have before. Companies will need to have a relentless focus on things we can control, like our cost, and an ongoing emphasis on

fundamentals throughout the commodity price cycle. We will need even greater investment discipline. We will need to create our own margins. And we will need to find ways to work together to apply new technologies and innovative thinking.

For the companies that find these efficiencies and these competitive advantages, there will be tremendous opportunities ahead. The reason is simple and undeniable: the world's demand for energy is not diminishing; in fact, it is expected to grow significantly in the coming decades.

But all of these energy gains and our economic dynamism are at risk if we fail to seize this historic moment. We need sound energy policies, policies that are equal to the innovation that has redefined the modern energy landscape. We have no reason to keep policies in place that reflect an age of scarcity and fear. It is time to put in place policies that reflect our newfound abundance and to view the future with optimism, that recognize the power of free markets to drive innovation, and that proceed with conviction that free trade brings prosperity and progress.

In this new era, government and industry each have a very specific role to play. First and foremost, we in industry have a responsibility to build and maintain public trust by upholding the highest standards of safety and environmental protection, from the way we plan and executive our investments throughout the construction and the completion of our projects. I believe our work in some of the most challenging regions in the world and in some of the most delicate ecosystems have shown that we do share the American commitment to responsible environmental stewardship.

Second, and just as important, government has a responsibility to promote the rule of law, maintain a level playing field for all competitors, and enable the investment that makes long-term planning and innovation possible. In short, North America's energy leadership is more than simply a function of the continent's resource endowment. As so many other parts of the world have shown, innovation in the energy sector depends on the stability and rationality of the tax, legal, and regulatory frameworks that are put in place by the government. Government is also needed to open up markets, strengthen international ties, and promote free trade, particularly when this means eliminating unwise barriers it had previously erected.

I see three areas that would help lock in our energy gains and further strengthen our North American energy leadership. We need to promote free trade in natural gas and crude oil, approve critical infrastructure projects such as the Keystone XL Pipeline, and return clarity and transparency to our regulatory process. I want to say a few brief words on each of those.

Our vast new supplies of energy from the Nation's shale regions demand we apply the best of economic reasoning to this at this opportunity, and that reasoning tells us that it is time to end the bias against energy and allow for free trade in oil and natural gas. Whether we're talking about the export of liquefied natural gas or ending the ban on crude oil exports, economists and leaders from across the political spectrum agree that free trade in energy will lead to increased investment, increased job creation and, importantly, increased energy production. Clearly, more supplies in the marketplace will also help ensure reliable, affordable energy for all consumers.

Allowing more liquefied natural gas exports will also put the United States in the position of contributing to further reductions in greenhouse gases by making it possible for more nations to turn to cleaner-burning natural gas.

Applying sound economic logic to energy would also mean allowing free markets to determine the viability of our infrastructure projects. Unfortunately, the industry has had to grapple with tremendous uncertainty, delays, and ongoing lack of transparency in the effort to advance infrastructure projects. This is not consistent with our highest democratic ideals, or with openness and integrity that make free markets work.

Nowhere has this been more apparent than in the way the Keystone XL Pipeline has been handled. The United States and Canada both need this vital pipeline for delivering oil from Alberta to refineries in the U.S. Gulf Coast. Keystone XL would improve U.S. competitiveness, it would increase North American energy security, and it would strengthen the relationship with one of our most important allies and most valued trading partners. But approval of the pipeline has been taken out of the hands of experienced career officials and it has become a tool of political manipulation.

It's important to remember the rigorous requirements that have already been met by the Keystone XL. More than six years ago – six years – the process for approval began. More than six years ago, since 2008, government and industry have held more than 100 open houses and public meetings, and gathered thousands of pages of information and documentation in response to questions submitted by local, state, and federal agencies and stakeholders. Throughout the process, the State Department studied 14 different routes and issued a draft environmental impact statement, a supplemental draft environmental impact statement, a final environmental impact statement, and a final supplemental environmental impact statement. After all this work and public comment, the State Department's own findings indicated that the pipeline would pose no undue risk to people or the environment. In 2012, the Inspector General of the Department of State followed up, determining that the three-year process for evaluating the pipeline's route was conducted appropriately.

Since then, the project has been in limbo, even as industry has responded to each new demand, including finding a new route to avoid sensitive areas in Nebraska. Despite these agreements, the State Department recently hit the reset button once again by asking for further reviews from federal agencies. Even as the recent February 2nd deadline for further review came and went, the State Department refused to disclose agency comments. The EPA, however, did share its opinion: a recommendation for further review. As *The Toronto Sun* declared in a headline, such a move was, quote, "Political, Not Scientific." At the end of last month, the President vetoed the congressional legislation to authorize Keystone XL, extending the limbo status of the pipeline indefinitely.

Unfortunately, the regulatory delays and legal wrangling over the Keystone XL Pipeline are not an outlier; it's just the poster child for a lot of other regulatory processes that are broken. They are a symptom of a much deeper problem affecting our Nation's infrastructure, trade, and our ability to compete. Increasingly, the U.S. regulatory process stifles development and innovation. Its complexity, from costly delays and reworks to duplication of oversight and

approval, often means it takes years and millions of dollars to acquire necessary permits. Even then, the recipient of the permit or the agency issuing the permit may be challenged in the courts, further jeopardizing projects in our national and economic interest.

Infrastructure projects and even clarifications on rulings have too often become mired in political gamesmanship or bureaucratic uncertainty. Such developments defy our Nation's shared commitment to transparency, accountability, and the lawful and respectful resolution of policy differences.

The inconsistent and capricious handling of regulatory approvals is all the more concerning given the growth in the regulatory burden. For instance, in 2013 alone the federal government finalized 3,659 new rules and had proposed another 2,594. It is a fundamental responsibility of democratic governance to provide a clear and certain pathway to regulatory compliance. And as regulations multiply, it is imperative that we encourage bipartisan discussion of the cost and benefits of regulation.

But as many of you know, in Washington's current climate of partisanship, the idea of meaningful cost-benefit analysis for regulation has even become controversial. It should not be. In fact, comprehensive and science-based cost-benefit analysis should be the foundation for respectful, constructive, and meaningful bipartisan problem solving. As a study from the Business Roundtable recently found, as the number of federal regulations continue to rise, cost-benefit analysis plays a vital role in helping policymakers strike the right balance between the need to regulate and the need to foster innovation and economic growth.

For this reason, we must support efforts to enhance transparency and public access to data, strengthen oversight, and improve accountability in the development of regulations. This will help create smarter regulations, regulations based on evidence-based science that adequately consider cost and benefits to society, and that are a product of robust and replicable methodologies. In addition, regulatory programs, especially major ones, should undergo periodic review, with review efforts focused on identifying areas of duplicative, obsolete, or overlapping regulations.

Economists Nicole V. Crain and W. Mark Crain recently found that the price tag for all these regulatory burdens reached more than $2 trillion a year in 2012. And when the National Association of Manufacturers surveyed U.S. manufacturing, they found that nearly 90 percent of the manufacturers identified federal regulations as a barrier to their business. The Business Roundtable has warned that the cumulative cost of federal regulation has reached a tipping point, and the consequences are taking a heavy toll on businesses, consumers, and the broader economy. There's a reason that new business formations are at a 35-year low.

Now's the time to rebalance the equation to encourage entrepreneurs and job creation. Reform must require federal agencies to justify any regulatory action by demonstrating a compelling public need caused by a significant failure of the private markets.

With free trade in energy and common-sense regulatory reforms, the U.S. energy industry can strengthen U.S. energy security, and this has enormous foreign policy implications as well.

We can continue to pioneer the innovations and make possible the safe and responsible development of energy. No one can say for sure how the industry will evolve over the next few years or where it's going to go, but one of the enduring lessons of our industry is that sound policies reward wise and disciplined investments, that these policies spur economic growth and they improve environmental performance, and they lead to greater peace and prosperity.

In the months and years ahead, we must all work to enrich and inform our public discussion about energy. By increasing understanding and encouraging respectful, science-based dialogue, I am confident we can achieve our shared aspiration to build a Nation of growth and opportunity for all, while serving the needs of the rest of the world and lifting them out of poverty. I thank you for your kind attention. [Applause.]

CONVERSATION WITH MR. RUBENSTEIN

MR. RUBENSTEIN: So thank you very much for your comments.

A couple questions at the outset. I take it you're in town today to visit government officials. I take it you're not in town to interview for a government job, right? You're not – [laughter] – you wouldn't be a candidate to work in government?

MR. TILLERSON: Probably not qualified. [Laughter.]

MR. RUBENSTEIN: All right, OK. So when you talk to government officials and you make these points – obviously you can do it with a great deal of eloquence – do you get any feedback from them about what your point of view is? What do they say to you when you say let's do some of these things with cost-benefit analysis type of reasoning?

MR. TILLERSON: It ranges broadly in terms of the reaction I get, but it's stunning to me how often people look at me and they say, well, you know, you just don't understand this place. And I've been coming to this place for 30 years, working with our government, trying to formulate good policies. So I do understand this place. So it is something that confuses me. It's something I don't understand about how we got to where we are and why we're here, because it's in no one's interest.

MR. RUBENSTEIN: So talk about the Keystone Pipeline for a moment. The President vetoed the legislation. Do you have any realistic hope that that pipeline will be built?

MR. TILLERSON: I've stopped giving odds on that a long time ago. [Laughter.]

MR. RUBENSTEIN: Well, let's assume that it's not built. What would happen to the oil from Canada? Would it just go by train, or would it get pipelines built in Canada to other markets?

MR. TILLERSON: The oil is moving from Canada today. There is no oil sands production, there is no heavy oil production from Canada that is being kept in the ground. It's just moving on less efficient means, higher-cost means, and means that carry a higher risk. So a lot of it is

moving by train. Some of it is moving on alternative pipeline space that may not be quite as efficient. And ultimately, some of it will likely move by water.

MR. RUBENSTEIN: So one of the arguments against the pipeline is that it will increase global warming. You do not subscribe to that, I take it.

MR. TILLERSON: No, I do not.

MR. RUBENSTEIN: OK. [Laughter.] Not surprised, OK. So let me ask you, today oil prices are about 50 percent below the peak of a year or so ago. Did you or anybody in the energy industry really anticipate that that would happen? And were you really shocked by it?

MR. TILLERSON: Well, we're never any good at calling prices. As I tell people that make these predictions of $40 or $150, the answer is you're going to be right at some point – [laughter] – because that's the nature of a commodity.

What we did see, though, and we began to anticipate some type of a price response, late in the second quarter of last year it became evident to us that the demand was beginning to weaken a bit, U.S. economy performing at kind of where we are today, European economy continuing to be down year on year so demand declining there, and China's rate of growth we begin to see a measurable change in the rate of growth. Now, China's a difficult part of the equation to figure out because we also know they're building strategic petroleum reserves, but they're not – not real opaque with the information, so you have to figure it out a few months after the fact by doing difference of the sums to figure out, well, some of this had to go into storage.

So we saw the demand weakening at a time when the North American production just keep coming like a freight train. And I think those two events became evident to the market at some point, and that's when the price began to correct.

MR. RUBENSTEIN: Some people say that the Saudis decided not to lose market share and they weren't going to lose market share by reducing production. So do you think that was the precipitating factor, or was it many other factors?

MR. TILLERSON: I think the Saudis responded after the market had recognized it and there was a market response, it was then the Saudis' very public decision they made that they would not accommodate the additional supply, the oversupply in the market, rather they were going to retain their market share, that then sent the deeper correction that we're experiencing now.

MR. RUBENSTEIN: So how long – recognizing it's hard to predict oil prices going up or down, but how long would you kind of estimate it might be possible for oil prices to be this low? Do you think we'll go back to the peak that they were at two – a year or so ago anytime soon?

MR. TILLERSON: Well, my view is this – it is two sides of the equation. There is a demand piece, but what really has driven this is this extraordinary production growth out of North America. And I think what is going to surprise some people, in my view – and we are very active in these tight oil plays as well here in North America – I think people are going to be

surprised at how resilient this phenomenon in North America is, and that a lot of the actions that are being taken today that you're reading about – capital budget cuts, rigs being laid down – you know, the U.S. is a unique place for how this can happen. There are hundreds of small companies that are involved in this activity. And so these adjustments are not being made – they're being read by some people as, well, those wells are no longer economic in this price environment, and that's not the case.

This is really a cash flow management problem for people. When the price drops this dramatically, suddenly their cash flow is not sufficient to sustain their activities. Some of these companies had borrowed money because the price was going up and you could sell a lot of volume forward. Now that's been taken away. So companies are simply having to pull back their activities till their cash flow rebalances. Once their cash flow rebalances, these wells are still going to be attractive in many cases.

MR. RUBENSTEIN: So we're producing now about 9 million or 9 ½ million barrels a day in the United States, roughly?

MR. TILLERSON: Nine-point-four.

MR. RUBENSTEIN: Nine-point-four. So you don't think it's going to go down because of this phenomenon now?

MR. TILLERSON: Well, it went up – from middle of February to the first week of March, it went up 40,000 barrels a day, so it's still going up. I think – you know, we had anticipated that North American production would be up this year before this severe price correction. We thought it would be up about 1.1 million barrels a day again. We've tempered that a bit to something under a million barrels a day, and we'll see – we'll see how quickly some of these actions begin to affect the rate of that production growth. But we expect the volumes year on year to be up again.

MR. RUBENSTEIN: Now, we used to produce 3 million or 4 million barrels a day. Now we're, let's say, 9.4 million barrels a day. Do you think the government deserves credit for this increase, or do you think it's the private sector? [Laughter.]

MR. TILLERSON: Well, this is another one of those fact-based – the facts are pretty simple. [Laughter.] All of this production increase has occurred on private lands. One of the unique features of America – and it really is unique because there's not another country in the world that I know of that has private mineral ownership – so in this country, individuals like you or I can own the minerals underneath of our property, and in fact in a lot of cases the surface owners' ownership has been severed from the mineral ownership. Because of that, you have a lot of individual transactions that are available to people, and there's a very low barrier to entry in this business. If someone – you know, mom and pop want to get together and they cobble up some money, they go out and they lease up a thousand acres with their savings, they hire a drilling rig, they drill a well and away they go. And that's really what created this phenomena, is there are hundreds and hundreds of little companies out there that are in this game. That's also why it has been so resilient and so robust.

So all of this growth has occurred on private property. If you look at the production from federal lands, production from federal lands has been declining consistently for the last three to four years.

MR. RUBENSTEIN: So a lot of the production on private lands has come about, some people would say, because of fracking techniques. Do you regard that as environmentally unsafe?

MR. TILLERSON: Not at all. We've been hydraulically fracturing wells in this country since the late 1940s. When I was a brand-new engineer with Exxon in 1975, I was sent to East Texas to develop the Carthage Tight Gas Field, and I was sent up there to develop hydraulic fracturing procedures to fracture that type of rock. There have been over a million wells hydraulically fractured in the United States. And Lisa Jackson, the former Director of the EPA, testified before Congress – while she was Director of the EPA, she was asked directly, are there – does the EPA have any documented cases of contamination of fresh water from hydraulic fracturing, and her answer was no. And we know of no documented cases, with a million wells, fracked out there. If there was a problem, after a million wells I think we would know it.

MR. RUBENSTEIN: OK. And do you expect this technique to be used around the world as well?

MR. TILLERSON: It is used around the world. It's interesting to me that in Germany, where they now have a moratorium on hydraulic fracturing, I guess they were shocked to discover that we've been fracking wells in Germany since 1970.

MR. RUBENSTEIN: So they didn't know, OK. [Laughter.] So let me ask you – let's talk about climate change or global warming. Your view is, is that a real phenomenon to worry about? Is there anything we can do about it? Or is it not a real phenomenon that we have to worry about?

MR. TILLERSON: Well, there's no question the climate is changing, and that's never been up for debate. I think the real question that's driving a lot of policy is, to what extent are human activities and industrial activities and our consumption of energy contributing to that change?

And I love it when people say the "scientific consensus" because that's really an oxymoron. You can have a consensus around scientific theory, but science is science, and once it's proven it's proven, and there isn't any consensus about it. It's like the Law of Gravity. I guess we could have a scientific consensus around the law of gravity, but – [laughter] – it's really there is no consensus needed because it's the science.

There is an enormous amount of work, and good work, critical scientific work, going on all over the planet to understand this phenomena of climate change, and we are very supportive of that. Even the best scientists who are studying this, though, have to readily admit that it is a hypothesis and it is a model that gives them an outcome on which they believe policy should be made. Now, that's fine; it's just a question of, when it's a model, there are a lot of assumptions in that model. And so we view it as a risk-management problem, and we're in the risk-management business. So our view is you need to keep investing in the science, we need to

understand this, and because there is a risk that we're contributing to this, you start by doing all the things that make perfect sense. Promote energy efficiency; that makes great economic sense. Promote new technologies on how we consume energy in a cleaner way. Promote technologies that allow us to control these emissions. All that makes sense. The question is, how far do you want to go and mandate a policy when the truth of the matter is that model could be wrong as well as all of your efforts to influence this climate change, a hundred years from now -- you may wake up one day and find out you couldn't do a thing about it.

And so we also believe that, in risk management, you talk about what can I do to mitigate and what can I do to live with the risk, and that's when adaptation comes into the conversation. And adaptation has only recently finally entered the conversation around policy, and I think it should be there. I'm an engineer by training, scientist. I have enormous confidence in the power of the human race to figure this out. And people have made fun of me for saying that, but I believe that as this problem becomes better understood we will find engineered solutions to either mitigate the impacts of what we're doing, but also provide adaptive solutions to the consequences. And we're going to be just fine. And I don't think wrecking economies with what I consider to be extreme policies on which the basis is somewhat questionable.

MR. RUBENSTEIN: So as the man that some people would say is the most important man in the energy world – you're running the most important energy company, the largest energy company – everybody follows what you do. So let's suppose on weekends you're driving your own car around your neighborhood and you want to stop and get some gasoline, but there's no Exxon – [laughter] – station nearby. Would you ever stop at another station? [Laughter.] And – because it would be –

MR. TILLERSON: No, never. [Laughter.]

MR. RUBENSTEIN: – inferior product, or?

MR. TILLERSON: I'll just – I'll just walk.

MR. RUBENSTEIN: Walk. [Laughter, applause.]

MR. TILLERSON: I'd call – I'd call my wife on my cell phone. [Laughs, laughter.]

MR. RUBENSTEIN: So when you – when you do stop at Exxon to fill up, I – you know, do you – do you fill it up yourself? And the people that run the station, they recognize you, or?

MR. TILLERSON: Sometimes. [Laughter, laughs.]

MR. RUBENSTEIN: OK. And let me ask this. I've always wanted to know this. When you get gasoline, is there really any difference between – [laughter] – you know, gasoline that Exxon has or Sunoco or Shell? Is there really any difference in the quality of it? [Laughter.] I mean – inquiring minds want to know this. [Laughter.]

MR. TILLERSON: And it's important to know. So if you're going to just buy regular old 86/87 octane gasoline – I know my fuels marketing guys that are sitting over there will hate me – but it doesn't matter. [Laughter.] But – but – if you're going to buy the Plus or the Premium – and most people in this crowd are driving vehicles, if you look at your owner's manual, that ask you to buy that – [laughter] – it makes a difference because that's where the additive packages are differentiated.

MR. RUBENSTEIN: And what you put in yours is better?

MR. TILLERSON: And I can tell you that your Mercedes is not going to like anything that's not Exxon or Mobil. [Laughter, applause.]

MR. RUBENSTEIN: OK, that's what I thought. So when you meet with government officials around the world, do you think that they understand the energy policy world better than our government officials do? Do they seem to know more about energy? Or how do you deal with government officials around the world differently than you deal with government officials here?

MR. TILLERSON: In a lot of the countries where we're doing business, we're dealing with emerging economies, emerging governments, and I would say that they are much more pragmatic about the policy choices and they are not – it is not politicized. They are more interested in the cost-benefit analysis, the economic analysis, how does this deliver value to their country, to their citizens. And they really want to work cooperatively to get to a solution that allows us to invest, because that's what they want. They want the investment dollars, they want the jobs that come with it, they want the economic value, the revenues that go to the government, the social programs that come with it. And they're more interested in solving the problem. They don't want to spend a lot of time, you know, debating it.

MR. RUBENSTEIN: So the Ambassador from Russia is here, and I know you have done some deals in Russia. You know Mr. Putin. How did the sanctions affect your ability to do things in Russia?

MR. TILLERSON: Well, the sanctions apply to three specific areas that impacted some exploration ventures we have, that prohibit activities in the Arctic, in the deep water and in the unconventionals, the shales and the tight oils. We have a large and very successful development in the Far East of Russia offshore of Sakhalin Island, where we've invested – our share – in excess of $10 billion with our Russian partners Rosneft and our partners from Japan and India. It's a technological marvel what is going on out there offshore of Sakhalin. Most people cannot comprehend the environment we're in or what is being done out there from an engineering and science standpoint.

So it has been extraordinarily successful. The sanctions have had no impact on our activities there. And in fact we just started up the third phase of a multibillion-dollar development and we just funded the next phase of another development out there.

MR. RUBENSTEIN: OK. So what about the Middle East? What do you do in the Middle East now with, let's say, Iran, Iraq? What is your company doing in the Middle East? Do you explore and develop there? Do you buy it from them?

MR. TILLERSON: Well, we have a number of holdings in the Middle East. We're the largest investor in Qatar. Qatar is now the largest exporter of liquefied natural gas in the world. If you go back to the year 2000, they essentially exported zero. Today they're the largest. So we worked with that government to develop their LNG presence in the world today.

I think we may still be the largest investor in Saudi Arabia. We're their largest taxpayer, I know that. [Laughter.] And that's primarily refining of petrochemicals. We are a large investor in Abu Dhabi, in the upstream development. And in Iraq, we are operator of the West Qurna-1 Field down in Basra, which is a redevelopment of an old field that had, you know, been neglected under the previous regime. And we hold six exploration concessions in Kurdistan.

So we're pretty active throughout the Middle East.

MR. RUBENSTEIN: So every year you have to find more oil because you're measured to some extent by the amount of reserves you have. So you have 90 billion barrels of reserves or something like that now. Every year you have to replace how many billions of barrels of oil?

MR. TILLERSON: Well, we're in the depletion business. That's what we do. And if you take our production over a year, we produce and sell about 1.6 billion barrels equivalent oil and gas and gas liquids. So we have to not just find, but we have to find it and develop it so that it is classified as proved reserves. So we have to find or develop more than 1.6 billion barrels a year. We actually find and add to our 90 billion barrel resource base between 3 – 2 ½ to as much as 5 billion barrels a year.

MR. RUBENSTEIN: OK. Now, the old days – let's say 50 years ago – when people were looking for oil, they might guess. It might be in area A or area B. They'd have some geologist tell them. But now, with scientific technology and seismic technology, when you drill for something, are you 90 percent certain you're going to find something there?

MR. TILLERSON: No, we still drill dry holes.

MR. RUBENSTEIN: Really?

MR. TILLERSON: Yep. Some really expensive ones. [Laughs, laughter.]

MR. RUBENSTEIN: What do you do with those geologists who get – [laughter] –

MR. TILLERSON: [Laughs.] We send them back for remedial training. [Laughs, laughter.]

MR. RUBENSTEIN: So, today you are an oil company traditionally – Exxon was – is an oil company, but you made a major acquisition, XTO, that got you into the gas business. Why did

you do that? And did you buy it at the time when gas prices were still higher than they are today, and therefore are you not happy with the price you paid?

MR. TILLERSON: Well, we've always been a very large gas producer as well. We were the largest producer of natural gas in Europe for many, many years. But as the shale gas phenomena began to emerge in North America and we were not participating in it, it became evident to me that this – that this was really – this was real. It was going to be material. I never predicted we were going to grow to where we are today, both on the tight oil and the gas. So we had to make a decision of whether we were going to enter this at ground floor and try to build up a material presence organically – in other words, you do it like the mom and pop guys – or whether we were going to look for a high-quality company that had a material position and acquire them.

And so in 2009 the natural gas price was coming down from its highs – some of you remember when it got up into the 8-, 9-, 10-dollar range. It was on its way down when we were approached by XTO, who was interested in talking about whether we might want to buy their company. And the timing is – we're never any good at timing. And so the reason we acquired it was really, first, we had to acquire a quality resource and a good organization, but it was very much a strategic acquisition to allow us to participate in a meaningful way. And what we felt – what we thought would happen, and certainly it has happened and it's happened in a much greater way than we ever expected. Absent that acquisition, we would not have likely participated to the extent we do today.

Today we're the largest liquids producer in the United States and we're the largest natural gas producer in the United States, largely because of the XTO acquisition. So we're quite happy with it. We knew it would not be accreted to earnings when we bought it, and in the analyst call after we announced the merger, I told them this will not be accreted to earnings for at least two to three years because we knew – we expected prices to continue to go down, and they did. But we're very happy with the acquisition. XTO now manages two-and-a-half times the resource they were managing, much more diverse, including managing resources – from as far north as Canada, as far south as Argentina.

MR. RUBENSTEIN: You know, I'm curious, sometimes when people make acquisitions, they say we'll keep your name in it just to make the CEO feel good, but then usually after one or two years they get rid of the name. But how come you've kept the Mobil part after all these years?

MR. TILLERSON: Well, you know, the Exxon and Mobil merger I think – and people are already doing case studies of it – I think it was one of the most extraordinarily successful mergers of its kind ever undertaken. I'd give all that credit to the two – the leaders of our companies at the time, Lee Raymond and Lou Noto, who I think understood very clearly the importance of preserving the cultures of both of our organizations, which had very strong cultures, very aligned cultures. Today, if you look at the makeup of my management committee, half of the people on my management committee are heritage Mobil, half of them are heritage Exxon. We saw the strength of the people, the strength of the leadership, and we truly felt – even though the size of the two companies were disproportionate at the time, we knew this, that each of the people's legacies were important to them. And we were very proud of both of the

legacies of Mobil and Exxon, and we felt no reason not to honor both of those and continue to do so.

MR. RUBENSTEIN: So you've been now the CEO of ExxonMobil for about nine years or so. Is that right?

MR. TILLERSON: That sounds about right.

MR. RUBENSTEIN: About right, OK. [Laughter.] So what's the greatest pleasure of being the CEO of the biggest energy company in the world for nine years? And what's the biggest downside?

MR. TILLERSON: Well, the biggest pleasure, obviously, is the quality of the people that you get to work with and the extraordinary advances that I get to be a part of. And I – obviously, I see it all. Everything that we're going to do, I'm going to look at it, I'm going to get to be a part of it. But the sheer joy of watching the human capacity of the people that do what we do. And this is an extraordinary industry. It's not well understood by many people. The things we ask of our people are extraordinary. They go to places that you wouldn't send your worst friend to. [Laughter.] And they work under conditions that are extraordinarily difficult, oftentimes dangerous conditions. They're managing risk that you wouldn't be able to sleep with at night. And they do it gladly. They do it with a great deal of pride. They do it with a great deal of excellence. And they produce projects like the Sakhalin project. They produce brand-new industries like the liquefied natural gas industry in Qatar. That is enormously gratifying. And we also understand that what we do is essential to people's absolute standard of living, whether yours and how you're living today, but more importantly we know – because we saw 500 million people come out of poverty in China because we got their energy grid going.

And so we understand the important role this industry plays. We also understand the enormous responsibility we have to people to do it well. It is a risky business. It is hard to do. I get sheer joy out of watching our people do it.

MR. RUBENSTEIN: What do you like the least about your job, other than doing interviews like this with me? [Laughter.]

MR. TILLERSON: [Laughs.] You know, David, the truth of the matter is, I'll take my worst day over your best day any day. [Laughter.]

MR. RUBENSTEIN: OK, all right. No doubt you're right. [Laughter.] So let me ask you today, let's suppose I said I have been so persuaded by what you've said about the joy of the energy industry that somebody gave me a billion dollars and I wanted to invest it only in the energy industry. And where would you recommend I invest it? [Laughter.] In the United States? Overseas? Oil? Gas? Renewables? Where would you – where do you think the best chance –

MR. TILLERSON: What a lob. [Laughter.]

MR. RUBENSTEIN: Where should I put it, other than buying your stock?

MR. TILLERSON: ExxonMobil stock! [Laughs, laughter.]

MR. RUBENSTEIN: OK. All right, OK. All right, that's the best. And you pay a nice dividend, I guess?

MR. TILLERSON: It's over 3 percent now, but not for the reason I wish. [Laughs, laughter.]

MR. RUBENSTEIN: OK. Now, what about renewables? Now, some people would say that, when oil prices go down, the cost of doing renewables is more expensive, in effect, or in effect the subsidy has to be much higher. So do you think renewables are really going to be hurt by this?

MR. TILLERSON: Well, I think renewables suffer from more fundamental challenges than just the competing alternative price, because renewables by and large exist in our portfolio today because of government mandate. They don't exist because they're fundamentally commercial. So I don't know that the price has really created new hurdles for renewables just because the price of the alternative fossil fuel is lower. It's not going to change the wind mandate in the state of Texas. It's not going to change the solar subsidy in California. And that's why those products are out there today.

Renewables are important to the energy mix. If you read our outlook for energy, which we publish every year, we believe they're going to be an important part in the future. But the energy system is so enormous – the scale of it is beyond most people's grasp – that 25 years from now, even with renewables growing at 10 to 12 percent per year, which is an extraordinary growth rate for anything, oil and natural gas are still going to be supplying 60 percent of the world's energy because you just can't get it to scale.

So I think there are more fundamental challenges to renewables. The technology's got to be perfected. It's got to be made more cost-competitive. It's got to be made more scalable. And some of the technology in renewables is just old technology. It's old stuff that we've known how to do for years, but because of the mandates you use what you know how to do instead of innovating to the next breakthrough. I've long held the view that the mandates are inhibiting innovation around renewables because they're not challenging that business model to break out of the old technologies.

MR. RUBENSTEIN: So if you were running for President and you were going to the Iowa caucuses, what would you say about ethanol? [Laughter.]

MR. TILLERSON: I'd say if it competes on its own, that's great. But it's like I told the Boston CEO Club about 2007-2008, when the Bush Administration passed it and they asked me what do you think, I said, well, watch the price of your Corn Flakes; you're not going to like it. And it has had a detrimental impact on people's food supplies.

MR. RUBENSTEIN: So the Arctic is a place where maybe 15 or 20 percent of the oil, theoretically, on the face of the Earth is somewhere in the Arctic region. Do you think it's affordable to get that in the near term because oil prices are so low, or that's a way down the road project now?

MR. TILLERSON: Well, you know, we've been developing in the Arctic since 1920. That was our first development: Norman Wells, Canada. All of the Arctic developments in the U.S. in the Beaufort were at a period of time when oil prices were lower than they are today. What it requires is not the right price. What it requires is a resource size that is large enough to support the investment that's required to develop it. And so if you have enough barrels under the right amount of dollars and you're going to test – and we test all of our investments at a broad range of pricing because, as I commented earlier, if you want to guess prices are $20 or $100, you're going to be right at some point – these investments last for 30, 40, 50 years. So what the price is today is really irrelevant to the decision we make. We look at the fundamental quality of the resource, our ability to develop it, what its producing life is likely to be. And then we test that against a broad range of pricing, and if it makes economic sense we go, even if the price today might not make sense.

MR. RUBENSTEIN: So to young people, they're looking for a job. It's hard to get jobs today. Would you recommend the energy industry to young people? Would you recommend it to your children?

MR. TILLERSON: If you want a life of excitement and challenge and being in the Foreign Legion – [laughter] – this is the place for you. It's a marvelous industry. I will be quick to add: it's not for everybody. It's not for everybody. And so we try to hire/attract the best and the brightest. We bring them in and then we spend two years making sure we're for them, because if we're not for them then I have a talk with them. I tell them, you're going to be wildly successful in your career; it's just not going to be with us. [Laughter.] And I have letters from people thanking me for having that conversation with them. [Laughter.] And they're wildly successful. [Laughter.]

MR. RUBENSTEIN: So when you're not working as the CEO and chairman of ExxonMobil, what do you do? Do you have any relaxation, other than Boy Scouts or Ford's Theatre? What else do you spend your time doing?

MR. TILLERSON: My wife and I live on a horse farm, so we breed/raise/train horses. And we have a cattle ranch. And that's where I like to relax.

MR. RUBENSTEIN: And breeding horses, you tell the horses what to do and you just – [laughter] –

MR. TILLERSON: It's amazing how they kind of figure it out. [Laughter.]

MR. RUBENSTEIN: They don't need any help, OK. I guess they get the idea pretty quickly.

MR. TILLERSON: Yeah. [Laughter.]

MR. RUBENSTEIN: OK. So what would you like your legacy to be? You've been the CEO for nine years. I think at ExxonMobil there's a retirement policy that doesn't have to be followed, but – at 65, and so you could stay a few more years or like Lee Raymond you could stay beyond that. What would you like to be your legacy? And what would you like to do after you leave ExxonMobil?

MR. TILLERSON: Well, like any CEO, I think you want to ensure that the company is in as strong or stronger position as it was when you took over. And in our business, because we are in the depletion business, that means what's the quality of the resources I've left behind, what's the quality of the people and the organization, and have I sustained the culture that has made the Exxon Mobil Corporation successful for 130 years? Because maintaining your identity and your culture with a new group of people coming in all the time with a whole different set of things that are important to them, is challenging, but it's the most important thing that will ensure our success in the future.

MR. RUBENSTEIN: OK. And when you do leave, whenever you do leave, would you consider the highest calling of mankind, private equity, as an alternative to something you're doing now? [Laughter.] Or you're not sure yet?

MR. TILLERSON: You mean as an alternative to the priesthood? [Laughs.]

MR. RUBENSTEIN: Right. [Laughter.] Well, they're about the same high. [Laughter.] Both get you directly to heaven, no doubt. [Laughter.]

So today you are more optimistic about the country's future than you were 10 years ago, or you're more pessimistic because of some of the things you mentioned?

MR. TILLERSON: I'm very concerned about the country. The country faces enormous challenges here at home, but also abroad. And the tenor of our conversation is very polarized. It's more polarized than I can remember. And at some point, we all have to remember we're all Americans, we all share the same aspirations, we all want the same thing for our children and our grandchildren. And we've just got to take the tenor of this thing to a productive place because it's in a very non-productive place right now. So I'm hopeful that we can get there, and I think it'd be real simple if we could all just do what our grandmothers taught us and have good manners.

MR. RUBENSTEIN: All right. Well, on that note I want to thank you very much for an interesting conversation. [Applause.] I'm going to give you a gift, on behalf of the members of the Club, a copy of the first map of the District of Columbia. [Applause.]

MR. TILLERSON: Oh, that's so cool!

MR. RUBENSTEIN: Thank you.

Rex W. Tillerson
Chairman and CEO
Exxon Mobil Corporation

A native of Wichita Falls, Texas, Rex Tillerson earned a bachelor of science degree in civil engineering at the University of Texas at Austin before joining Exxon Company, U.S.A. in 1975 as a production engineer.

In 1989, he became general manager of Exxon Company U.S.A.'s central production division, responsible for oil and gas production operations throughout a large portion of Texas, Oklahoma, Arkansas and Kansas. In 1992, Mr. Tillerson was named production advisor to Exxon Corporation. Three years later he was named president of Exxon Yemen Inc. and Esso Exploration and Production Khorat Inc., and in January 1998 became vice president of Exxon Ventures (CIS) Inc. and president of Exxon Neftegas Limited. In those roles, he was responsible for Exxon's holdings in Russia and the Caspian Sea as well as the Sakhalin I consortium operations offshore Sakhalin Island, Russia.

In December 1999, he became executive vice president of ExxonMobil Development Company. Mr. Tillerson was named senior vice president of Exxon Mobil Corporation in August 2001, and was elected president of the corporation and member of the board of directors on March 1, 2004. He assumed his current position on January 1, 2006.

Mr. Tillerson is a member of the executive committee and a former chairman of the American Petroleum Institute. He is also a member of the Society of Petroleum Engineers and a trustee of the Center for Strategic and International Studies. He is a member of the National Petroleum Council, a member of the Business Roundtable, a member of the Business Council, an honorary trustee of the Business Council for International Understanding, and a member of the Emergency Committee for American Trade. In 2013, Mr. Tillerson was elected to the National Academy of Engineering.

Mr. Tillerson is the vice-chairman of the Ford's Theatre Society, immediate past national president of the Boy Scouts of America, and a former director of the United Negro College Fund. He is also a member of the Chancellor's Council, Development Board and the Engineering Advisory Board for the University of Texas at Austin, where he was named a distinguished alumnus in 2007. In 2011, he received an honorary doctorate engineering degree from the Worcester Polytechnic Institute.