

FELLOW SHAREHOLDERS:

About 20 years ago, our journey began with the idea of starting an energy company where we could own quality properties, work with good people and create real value together. If done right, this enterprise would perform well. The numbers would tell the tale. As we reflect on XTO Energy today, we are proud that our Company has flourished beyond our greatest expectations. Production and proved reserves have grown at a compound annual rate of 24% and 30%, respectively. The stock price has matched those gains at over 33% growth per year, or more than 42 times since going public. From a start-up with no assets, XTO is now an investment grade institution with an enterprise value exceeding \$20 billion. We have built this S&P 500 business through a dogmatic discipline to our strategy – acquire the best producing properties and make them better. These great properties, in legacy oil and natural gas basins across America, continue to deliver leading performance for XTO on all operational and financial metrics. Once again, our shareholders enjoyed record achievements for another year. As we report all of 2006, the Company's highlights include:

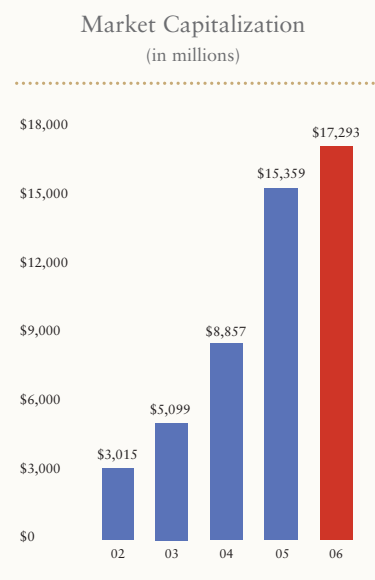
- Operating cash flow totaled \$3.08 billion, up 35%.
- Net income increased 61% to \$1.86 billion.
- Return on equity was 37%.
- Daily equivalent production averaged 1.53 Bcfe, growing 15% for the year.
- Record proved reserves grew by 12% to 8.55 Tcfe.
- Our team replaced 265% of 2006 production at a cost of \$1.57 per Mcfe with the drill bit.
- Low-risk development upsides improved to 7.3 Tcfe of captured potential, up 74%.
- Finally, the market value of XTO Energy common stock increased to \$17.3 billion at year end.

With 2007 now underway, we look forward to more prosperity and further record performance. Our operational team has targeted a production growth rate of 10% by drilling more than 1,100 new operated wells. We have hedged about 65% of our natural gas volumes and more than 80% of our oil production at respective prices greater than \$9 per Mcf and \$74 per barrel. Considering our \$2.6 billion capital budget and dividends, more than \$500 million should be available to acquire additional properties and, potentially, buy back stock. With a portfolio of thousands of wells to drill, our plans are to proceed steadily ahead – creating value, delivering returns and pacing our growth.

Proven Growth Strategy

For any public company, achieving consistent growth at attractive economic returns drives its value in the marketplace. This task is always difficult in the global energy business. Each day its assets are depleting and production is falling. Growth remains elusive.

Since our inception, the strategy at XTO has been to overwhelm this endemic problem of the industry by owning quality long-lived properties embedded with upsides. Through disciplined acquisitions, we have built a property base defined by a shallow production profile. In aggregate, the Company's base of almost 11,000 producing wells will decline at a rate of only 5 to 10% per year. Including the effect of new wells drilled, XTO achieves an overall first-year decline of about 15%, half of the industry average. With this decline-curve management, we gain an advantage on the sector in delivering dependable growth. Equally important, our premier assets generate substantial economic margins. As a percentage of revenue, operating cash flow averaged 65% and net income averaged 30% over the



past five years. With only 30% of cash flow required to maintain production and reserve levels, the remaining 70% is invested in expanding the Company. This “organic growth” from internal cash flow generation has distinguished XTO in the industry. We allocate this free cash flow towards double-digit growth and expect high-margin returns. Since 2002, XTO has grown production per share at an average of 17% per year. Over the same period, the Company has delivered an average return on equity of 28% and return on capital employed of 17%. Focusing on 2006, the cash flow return on an average stock price of \$45 reached 18.5%. By financial comparison, XTO’s consistent performance should rank the Company as a unique growth franchise across all industries for years to come.



Record Results

XTO Energy reported another outstanding year of results both operationally and financially. Total daily production increased by 15% to 1.53 Bcfe, with natural gas growing 15% to 1.19 Bcf, oil production climbing 15% to 45,041 barrels and natural gas liquids increasing 13% to 11,854 barrels. Even with commodity price volatility, revenues totaled a record \$4.6 billion, \$12.37 per share, up from \$3.5 billion in 2005. Earnings reached \$1.86 billion, representing 41% of revenue, or \$5.03 per share, as compared to \$3.15 per share a year earlier. Operating cash flow improved by 35% to \$3.08 billion up from \$2.28 billion in 2005.

OUR PROVEN STRATEGY:

1

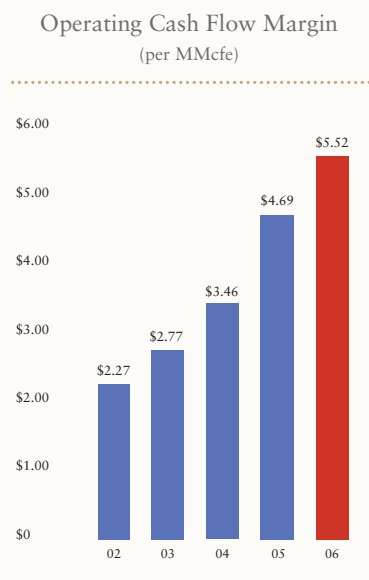
Acquire the best
long-lived producing properties.

2

Make them better through increasing recovery
and finding new reserves.

3

Repeat.



The Company's powerful capital investment program posted another year of sector-leading performance. In 2006, XTO added 1.68 Tcfe of reserves at a total finding cost of \$3 billion, or \$1.74 per Mcfe. Through drilling alone, the Company replaced 265% of production, or 1.48 Tcfe, at a cost of \$1.57 per Mcfe. Excluding the pricing revisions from year to year, our team generated 1.65 Tcfe of reserves for \$1.40 per Mcfe. With a record operating cash flow margin of \$5.52 per Mcfe, XTO added, through drilling, about 4 Mcfe for each Mcfe produced during the year. This reserve reinvestment metric places XTO as a leader in growth efficiency, again reflecting the value of our low-risk inventory.

Overall, proved reserves increased by 12% to a record 8.55 Tcfe. As defined by SEC guidelines, these reserve quantities reflect a present value before income tax, discounted at 10%, of \$16.2 billion which considers a realized year-end natural gas price of \$5.46 per Mcf. The reserve report is 100% outside engineered by Miller and Lents, Ltd., as has been the Company's practice since its founding in 1986.

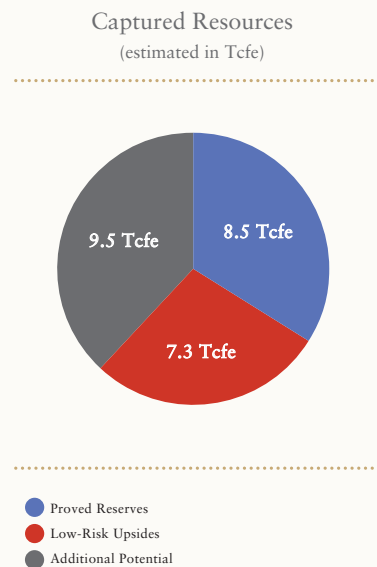
Building Through Acquisitions

Our pursuit of property acquisitions is driven by a simple conviction: believing the best oil and natural gas is found where the best reserves have already been found. In practical terms, this means that the great producing basins hold even more hydrocarbons. With decades of experience and volumes of data, our geoscientists target the "right rock." These are established reservoirs in legacy basins with tremendous upside opportunities. We employ cutting-edge technology, discover new producing formations and optimize operating practices to, ultimately, increase the recovery factor

of the captured resource in place. Our results bear out the success. Since our first acquisition in 1986 through the most recent in 2006, XTO has discovered and produced, in aggregate, more than twice the reserves purchased at the time of initial acquisition. This performance fuels our operational growth engine and, we believe, is unique within the industry.

Over the past five years, our efforts have delivered the highest impact acquisitions in the Company's history. More than 450 transactions were completed for about \$5 billion. These deals established new positions for the Company in shale production, coal bed methane and the Rockies. By far, the majority of these deals added offset producing fields and additional working and royalty interests related to XTO's operated properties. We call these events franchise acquisitions or "bolt-ons." Although individually small, they offer exceptional productivity results and powerful economics. In 2006, XTO successfully completed about 60 "bolt-ons" for \$615 million. These properties extended opportunities in several of the Company's growth basins. The largest of these acquisitions, a \$300 million producing package from Total E&P USA, Inc., enhanced our footprint in East Texas, while establishing a position in Mississippi. With the purchase of Peak Energy Resources, Inc., we increased the Company's production and leasehold in the rapidly expanding Barnett Shale.

Moving into 2007, we believe the acquisition market may offer XTO more attractive opportunities. Our team is already engaged in discussions involving more than \$200 million in "bolt-on" deals. Given XTO's financial flexibility, we anticipate enhancing our targeted growth for the year with choice property additions.



XTO has increased the
proved reserves
on producing property
acquisitions by

116%.

Captured Resources for the Future

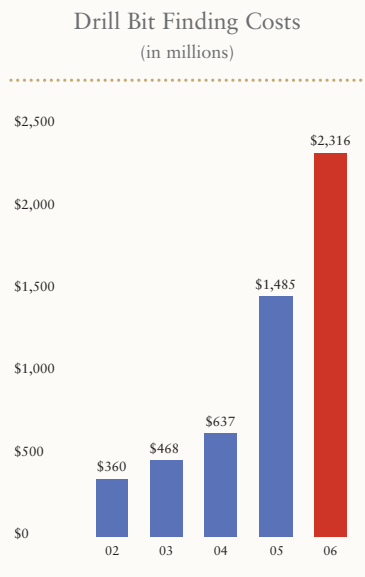
The common trait of our property base is the abundance of hydrocarbon resource captured within the basins. These diverse basins are characterized by thousands of vertical feet of untapped potential, or target pay sectors. Our operational advantage is comprehensively understanding the geoscience and then applying the best techniques to unlock the resource. We convert potential into tangible production and reserves – into economic reality. Since 1986, XTO has purchased about 5.7 Tcfe of reserves and our teams have found another 6.6 Tcfe of proved reserves through development efforts. These discoveries are the foundation of XTO's value creation framework. With the success of our exploitation programs, we have continued to build even more low-risk inventory. The Company has now defined a total of 7.3 Tcfe of upside opportunities, which are economically viable at natural gas prices below \$5 per Mcfe. This inventory includes over 7,000 drilling locations, scheduled over a 5 - 6 year period. In addition, another 9.5 Tcfe of higher risk potential has been identified throughout our active regions. All together, the Company owns captured resource that includes about 17 Tcfe of potential, plus 8.55 Tcfe of proved reserves for a total of more than 25 Tcfe.



From a geoscience perspective, these vast opportunities are focused mainly in unconventional basins. These reservoirs produce from rock which is tight, complex and challenging. The Company sells more than 1.2 Bcf per day from a collection of tight sands and limestones, shales and coal bed methane regions. Our work in 'tight oil' regions is driving higher reserve recovery in legacy fields. All told, XTO's development programs, in multiple resource plays, represent a growth platform for years to come.

Tight Gas

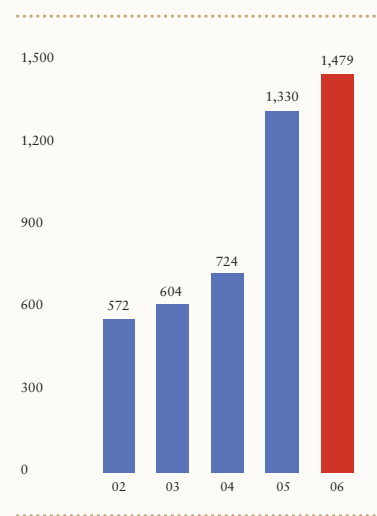
The evolution of drilling, completion and operational techniques have enhanced production in tight formations across the country. XTO Energy has been a leader in this arena over the past decade. Today, about 65% of our total natural gas production, or 800 MMcf per day, is derived from these difficult reservoirs. The majority is produced in our Eastern Region, where the Freestone Trend of East Texas has been in growth mode since 1998. This trend spans over 3,000 square miles and the Company holds a 406,000 gross acre position. Our operational team has drilled almost 1,000 wells, pushing daily volumes above 575 MMcf. Over the next few years daily production is targeted to exceed 750 MMcf. Overall, proved reserves in the trend have grown from 45 Bcfe in 1998 to over 3 Tcfe today. With advanced water fracturing techniques, commingled production and operational efficiency, we have effectively increased recovery from multiple pay sections – including the Cotton Valley Limestone, Bossier sands and Cotton Valley sands. The total section extends over 4,000 feet in the typical well and contains more than 150 Bcfe of natural gas in place per square mile. Results continue to justify tighter spacing, with 20 acre and 40 acre wells in the plans. Also, performance from the horizontal wells in the Cotton Valley Limestone are inspiring another tranche of opportunity. We have identified 200 of these locations with potential of 5 to 15 Bcfe per well. Our low-risk inventory of 1,800 to 2,100 new wells represents 3.9 Tcfe of estimated potential reserves. Moving eastward to the Texas border, our teams continue to implement our tight gas development programs across numerous fields. We have identified another 450 to 550 drilling locations representing 500 Bcfe of potential reserves. Both vertical and horizontal drilling programs will develop the Cotton Valley, Travis Peak and Gray sandstones and the Petit carbonates in these producing properties which stretch into northern Louisiana.



In the Piceance Basin of Colorado, XTO is participating in a burgeoning tight-gas basin. In the deep sediments, the formations have characteristics remarkably similar to our Freestone Trend, but hold a larger target of 400 Bcfe of gas in place per 640 acre section. With a potential 35,000 net acres, the Company's position reflects 2 to 4 Tcfe of resource. Early results from two wells reveal a productive section significantly greater than anticipated. Our assessment of the data, combined with offsetting well performance, indicates reserves in the range of 3 to 6 Bcfe per well. With processing facilities and a pipeline installed, our teams will test 4 to 6 wells in 2007 to better define well deliverability and cost expectations. If results meet our expectations, the Piceance Basin will represent another long-term development campaign for XTO.

Further, the Company's exploitation activities in the Arkoma and San Juan basins continue to generate fresh opportunities in the complex geology. In the Overthrust Region of Arkansas, our teams are increasing resource recovery throughout the Gragg, Booneville and Chismville fields. Originally developed on 640-acre spacing, these faulted, multi-pay fields are now being drilled down to 40 acres. XTO is expanding leasehold acreage in this basin, specifically along the Ranger Anticline of the Overthrust Region. In the established San Juan Basin, the Company is progressing in its ongoing development of the Paradox, Dakota and Mesaverde formations, all tight gas targets. Well performance is driving a "manufacturing process" which delivers steady growth, healthy economic returns and replenished inventory for the future.


Drill Bit Development Additions
(in Bcfe)



XTO's stock value has
appreciated about

413





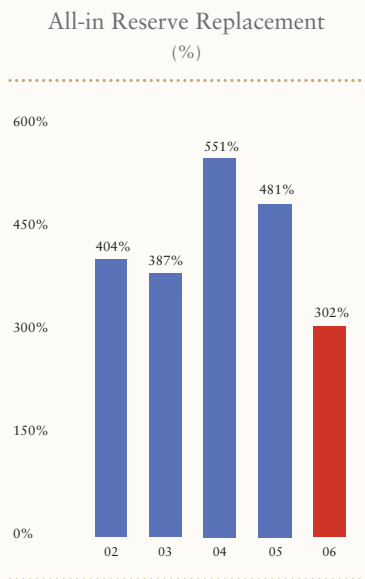
50%

since its IPO

in 1993.

Shale Gas

In 2005, XTO initiated a position in the Barnett Shale play of North Texas with a modest acquisition. The Company has now built a substantial growth platform comprising of 265,000 gross acres with daily production above 300 MMcfe. Our commitment to the region is based on the technical merits of the producing formation. Unique characteristics of this shale geology enable recovery improvements over time. Our “core” position of 110,000 acres is located in the premier producing area, where wells are delivering from 2 to 9 Bcfe in reserves. At present, we anticipate recovering over 30% of the 150 Bcfe of natural gas in place, drilling wells down to 40 acres. A range of 1,800 to 2,000 new locations have been nominated to drill at a current pace of about 300 per year. In two years, our proved reserves in this basin have grown to 1.4 Tcfe. The Company’s low-risk inventory holds another 3.2 Tcfe of potential. From a deliverability standpoint, current pipeline capacity can handle 465 MMcf per day and, by early 2008, expansions will accommodate 720 MMcf per day. Substantiated by well performance, we expect to increase the Company’s upsides as “non-core” acreage is validated and “core” drilling success drives spacing down to 20 acres. With 24 rigs drilling today in multiple counties, the Barnett Shale will provide volume growth for years to come.



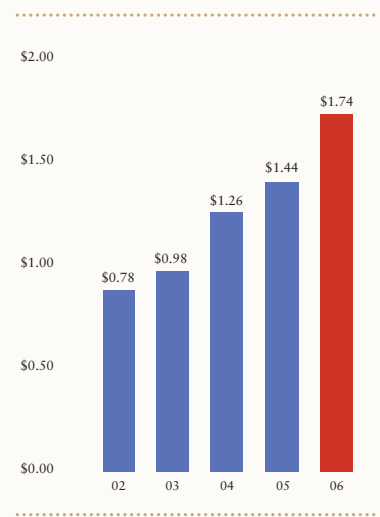
Over the past few years, the Company has also staked positions in two shale regions offering encouraging well results, the Fayetteville and Woodford/Caney. As the largest natural gas producer in Arkansas, XTO

holds over 200,000 acres containing Fayetteville potential. We have participated, as a non-operator, in dozens of Fayetteville wells confirming progression of fracturing techniques which yield better productivity and reduce costs. Our engineers expect average reserves of 1.4 Bcf per well, with initial rates of 1 to 2 MMcf per day. XTO will initiate drilling its first operated wells in 2007. In southeastern Oklahoma, the Company has a 30,000 acre position to develop the Woodford and Caney shales. Again, participation with offset operators has given our team the data to move ahead. At a depth of 10,000 feet, the reserves for Woodford/Caney wells should average 3 Bcf, which reflect economic returns similar to other XTO regions. Considering both of these shale plays, our team has identified about 600 Bcf of low-risk upsides and estimate a potential of 1 to 2 Tcf of captured resource.

Coal Bed Methane

With 170 MMcf per day, XTO is a leading coal bed methane producer in America. Given our drilling program and infrastructure expansions, daily production is targeted to increase to 300 MMcf over the next few years. Also, the production profile of CBM assists in lowering the Company's overall decline rate. Production generally increases for a year and holds steady for two years, offsetting the declines of tight gas and shale. The Company's operated basins include the San Juan (Fruitland), Raton (Vermejo/Raton), Uinta (Ferron) and Powder River (Big George). From an operational view, each region was chosen based on its potential deliverability, competitive economics and access to the sales market.

All-In Reserve Replacement Cost
(per Mcfe)



From a financial perspective, the low finding costs on these wells, ranging from \$0.35 to \$0.65 per Mcfe, yield investment returns typically greater than 50%. Our teams have compiled an inventory of 850 wells to capture about 700 Bcf of methane gas. Looking ahead, tighter well spacing and further field delineation should increase these upsides.



Tight Oil

Even though natural gas is our focus, XTO Energy has emerged as a big domestic oil producer, with daily volumes reaching 45,000 barrels. In the Permian Basin, the Company ranks as the fifth largest producer. Dating back to our origins, quality oil reservoirs in West Texas provided the foundation of our 'acquire and exploit' model. Mostly owned by the majors and held for decades, these properties offered huge hydrocarbon targets but had been starved of capital and progressive engineering. Our geoscientists have achieved considerable success by attacking these complex "tight oil" fields. We have utilized horizontal drilling, advanced stimulation techniques, optimized operations and extensive reservoir modeling to unlock trapped resources. We are developing multiple pay zones throughout the Basin – the San Andres, Glorieta, Clearfork, Wolfcamp and Devonian. Through XTO's techniques, acquired reserves have increased by 200% to 500%. Of course, daily production volumes have followed in these legacy fields. For instance, University Block 9 volumes have topped 7,000 barrels per day, up from 1,500 barrels when we assumed operations in 1997. With a long-lived production profile, these oil properties offset the early declines experienced in tight gas drilling, again, allowing for better decline curve management.

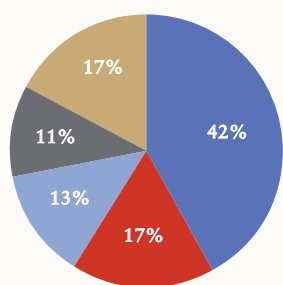


Production and
proved reserves
have grown

at compounded annual rates of 24% and

30%.

Proved Reserves: 8.55 Tcfe
(% by region)



- Eastern Region
- Permian and South Texas Regions
- San Juan Region
- Mid-Continent and Rocky Mountain Regions
- North Texas Region

Acquisitions in 2004 and 2005, totaling greater than \$1.5 billion, reinvigorated the Company's oil opportunities. Development activity on these assets is paying off as aggregate daily production has climbed more than 15%. Today, the Company's booked oil reserves total 214 million barrels. Our team recognizes low risk upsides of another 125 million barrels, or about 60% of this reserve base. With 1,100 new wells planned, XTO's oil assets are positioned to drive opportunities for years ahead.

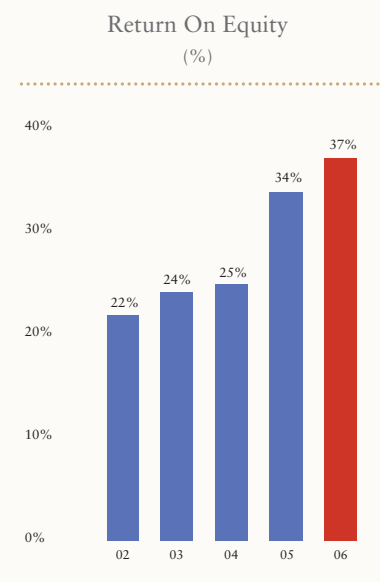
The Energy Markets

The energy industry has always operated in an environment of risk and volatility, and 2006 was no exception. During the year, NYMEX oil prices ranged from a peak of \$78 down to almost \$50 per barrel. Natural gas prices hit \$10.63 per Mcf and then fell back as low as \$4.20. For the investor, these commodity swings accentuated the uncertainty and overshadowed the prevailing bullish fundamentals of our business. Simply put, energy supply is struggling to keep pace with strong demand.

Around the world, the race towards industrialization and modernization is forcing greater consumption. During 2006, the global economy surged ahead another 5%. Emerging nations in Asia and eastern Europe led the way in the pursuit of a higher standard of living. At home, our diverse economic framework absorbed the higher cost of energy without stalling GDP expansion. Again in 2007, the global economy is predicted to grow an additional 4%. Of course, this robust growth is predicated on sufficient energy supply. Yet, the challenges to find more hydrocarbons to meet demand is daunting.

From the worldwide oil perspective, daily supply has now reached more than 85 million barrels. Unlike the past 3 decades, OPEC nations are essentially producing at full capacity. Saudi Arabia is the only nation controlling excess volumes of about 1 million barrels per day of heavy or sour crude. Production available from Russia, Norway and Latin America is slipping. Domestically, daily production has dropped to almost 5 million barrels, less than 35% of our needs. More to the point, the annual decline of global oil production may approach 5%. This means about 4 million barrels per day is lost each year. In just 2 years, oil production equivalent to the full capacity of Saudi Arabia must be found just to stay flat, without accommodating demand-growth projections. New resource is available in the deep oceans, the Arctic regions and the Middle East, but billions of dollars will be required to develop it at considerable technical and political risk. Even with exploration success, it will take years to bring new production to the markets.

In North America, the natural gas market is also gripped by a supply and demand “squeeze”. In 2001, domestic daily production peaked above 51 billion cubic feet. Since that time, the industry has nearly doubled the drilling activity yet lost ground in supply. The underlying first-year decline of production has increased dramatically to over 30%, meaning around 15 billion cubic feet per day of supply is now lost each year. The problem is intensifying as increased unconventional drilling in tight gas and shales worsens the decline. Over the past year, spiking prices rationed demand and an abnormal weather pattern allowed for robust inventory builds. Nevertheless, the industry cost to find gas reserves rose to \$3 per Mcfe in 2006, more than 100% above the cost just 3 years ago. In our assessment, a base price of about \$7 is needed to compel investment in the





The Company
has captured
SIGNIFICANT
upside potential to
GROW VALUE
for years to come.

sector. New investments will be required for high-risk exploration, for transporting Arctic gas to the markets, and for constructing an efficient global liquefied natural gas business.

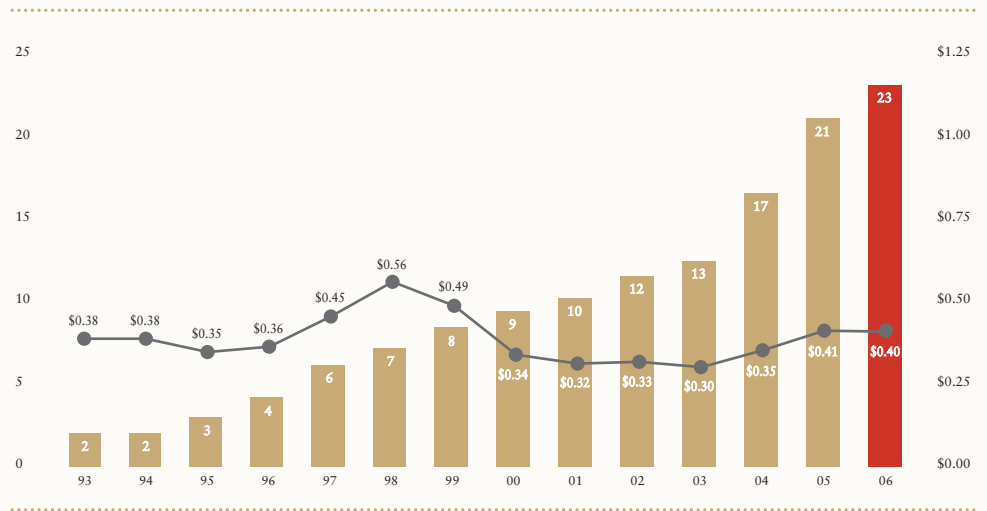
By most measures, the outlook for the global energy market is bullish. Opportunities to increase conventional supplies are hard earned and achieved only at higher prices. Alternative sources, such as wind, solar, hydro, biofuel and nuclear, offer real potential as technology drives better efficiency and economic performance. At the same time, the consumer is financially prepared for the challenge. More expendable income is available in the economic framework to buffer higher energy costs. Unless consumption weakens at home and abroad, sustained energy prices are positioned to remain “stronger for longer.”

Delivering Value Creation

Our position as a growth Company has never been better. As a driller and producer, we own an extensive inventory of low-risk opportunities that represent years of growth. The quantity and quality of these new wells provides both growth visibility and powerful economic returns. As a result, we plan to build upon our history of creating value for our shareholders. As illustrated in the graph, on the next page, proved reserves per share have steadily grown with production since XTO went public in 1993. Along the way, the value of each gas equivalent reserve unit has increased from \$1 to about \$3 in today’s market. With the low-risk upsides of about 20 Mcfe per share, the potential value captured per



Value Creation
 (Bar = Mcfe / Share • Line = Debt / Mcfe)



share is truly extraordinary. Given this compounded value enhancement, the stock of XTO has increased about 4,135% for the owners since 1993. With our industry and Company outlook, we believe more value accretion and share appreciation is in store. Our directive remains the same. We are determined to employ our discipline, diligence and determination to keep XTO as a leading performer in our sector.

As always, we celebrate our 2,000 employees for their dedication, unwavering spirit and hard work. We also thank our Board members for their leadership. For XTO shareholders, our team looks forward to consistently delivering the numbers.

Bob R. Simpson

Chairman and
 Chief Executive Officer



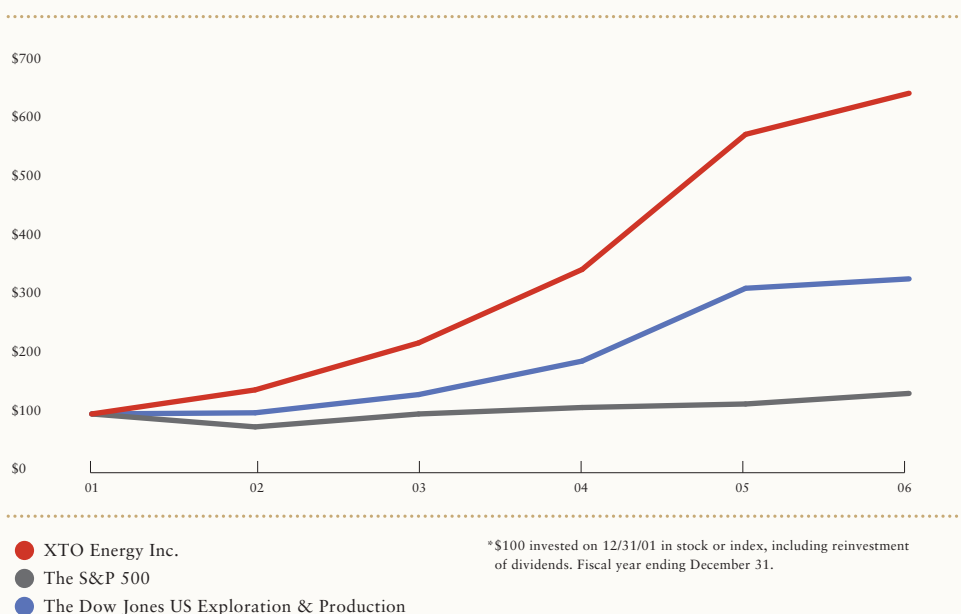
XTO Energy is the

4 **TH BEST**
performer
on the NYSE
SINCE 1993.*

* Source: Bloomberg

The following graph compares the cumulative 5-year total return to shareholders on XTO Energy Inc.'s common stock relative to the cumulative 5-year total returns of the S & P 500 Index and the Dow Jones US Exploration & Production Index from December 31, 2001 through December 31, 2006. The graph assumes that the value of the investment in the company's common stock and in each of the indexes was \$100 on 12/31/2001 and that all dividends were reinvested.

Comparison of 5 Year Cumulative Total Return*
(Among XTO Energy Inc., The S&P 500 Index and The Dow Jones US Exploration & Production Index)



The following table sets forth quarterly high and low sales prices for each quarter of 2006 and 2005, as adjusted for the effect of the May 2006 distribution of Hugoton Royalty Trust units and the four-for-three stock split effected in March 2005:

| XTO ENERGY - NYSE | HIGH | LOW |
|-------------------------------------|----------|----------|
| YEAR ENDED DECEMBER 31, 2006 | | |
| First quarter | \$ 47.54 | \$ 38.50 |
| Second quarter | 46.14 | 36.98 |
| Third quarter | 48.35 | 39.40 |
| Fourth quarter | 50.60 | 40.00 |
| YEAR ENDED DECEMBER 31, 2005 | | |
| First quarter | \$ 32.93 | \$ 23.02 |
| Second quarter | 33.97 | 26.25 |
| Third quarter | 44.10 | 33.72 |
| Fourth quarter | 45.16 | 37.23 |