The reduction in estimated recoverable reserves was attributable to disappointing 2002 year-end drilling results on the western flank of the field. The reduction in probable reserves and higher estimated future development costs resulted in an asset impairment because projected discounted cash flows were less than the book value of the field, which includes allocated purchase price from the Triton acquisition.

The Corporation also recorded an after-tax impairment charge of $207 million ($318 million before income taxes) to reduce the carrying value of oil and gas properties located primarily in the Main Pass/Breton Sound area of the Gulf of Mexico. Most of these properties were obtained in the 2001 LLOG acquisition and consisted of producing oil and gas fields with proved and probable reserves and exploration acreage. This charge principally reflects reduced reserve estimates on these fields resulting from unfavorable production performance. The fair values of producing properties were determined by using discounted cash flows. Exploration properties were evaluated by using results of drilling and production data from nearby fields and seismic data for these and other properties in the area.

During 2002, the United Kingdom government enacted a 10% supplementary tax on profits from oil and gas production. A one-time charge of $43 million was recorded to increase the existing United Kingdom deferred tax liability on the balance sheet.

A net gain of $34 million ($41 million before income taxes) was recorded during 2002 from sales of oil and gas producing properties in the United States, United Kingdom and Azerbaijan, and the Corporation's energy marketing business in the United Kingdom.

2001: The Corporation recorded an after-tax charge of $19 million ($29 million before income taxes) for estimated losses due to the bankruptcy of certain subsidiaries of Enron Corporation. In addition, the Corporation recorded a net charge of $10 million ($15 million before income taxes) for severance expenses resulting from cost reduction initiatives.

The Corporation's future exploration and production earnings may be impacted by volatility in the selling prices of crude oil and natural gas, reserve and production changes, fluctuations in foreign exchange rates and changes in tax rates.

Refining and Marketing: Earnings from refining and marketing activities amounted to $327 million in 2003, $85 million in 2002 and $233 million in 2001. The Corporation's downstream operations include HOVENSA L.L.C. (HOVENSA), a 50% owned refining joint venture with a subsidiary of Petroleos de Venezuela S.A. (PDVSA), accounted for on the equity method. Additional refining and marketing activities include a fluid catalytic cracking facility in Port Reading, New Jersey, as well as retail gasoline stations, energy marketing and trading operations.

HOVENSA: The Corporation's share of HOVENSA's income was $117 million in 2003, compared with a loss of $47 million in 2002 and income of $58 million in 2001. The increase in 2003 was due to higher refining margins and sales volumes compared with 2002. Crude runs were reduced in 2002 as a result of low refining margins and the shutdown of the fluid catalytic cracking unit for approximately two months. Income taxes on the Corporation's share of HOVENSA's results were offset by available loss carryforwards.

HOVENSA's total crude runs amounted to 440,000 barrels per day in 2003, 361,000 barrels per day in 2002 and 403,000 barrels per day in 2001. In late 2002 and very early 2003, crude oil deliveries to HOVENSA were interrupted due to political disturbances in Venezuela. For the remainder of 2003, HOVENSA received contracted quantities of crude oil from PDVSA. The fluid catalytic cracking unit at HOVENSA operated at 142,000, 116,000 and 123,000 barrels per day in 2003, 2002 and 2001, respectively. The coking unit at HOVENSA commenced production in August 2002. The unit operated at the rate of 53,000 barrels per day in 2003.

Earnings from refining and marketing activities also include interest income on the note received from PDVSA at the formation of the joint venture. Interest on the PDVSA note amounted to $30 million in 2003, $35 million in 2002 and $39 million in 2001. Interest income is reflected in non-operating income in the income statement.