

6. INVENTORIES

Inventories at December 31 are as follows:

<i>Millions of dollars</i>	2003	2002
Crude oil and other charge stocks	\$ 138	\$ 99
Refined and other finished products	567	497
Less: LIFO adjustment	(293)	(261)
	412	335
Materials and supplies	167	157
Total	\$ 579	\$ 492

7. REFINING JOINT VENTURE

The Corporation has an investment in HOVENSA L.L.C., a 50% joint venture with Petroleos de Venezuela, S.A. (PDVSA). HOVENSA owns and operates a refinery in the Virgin Islands, previously wholly-owned by the Corporation.

The Corporation accounts for its investment in HOVENSA using the equity method. Summarized financial information for HOVENSA as of December 31, 2003, 2002 and 2001 and for the years then ended follows:

<i>Millions of dollars</i>	2003	2002	2001
Summarized Balance Sheet			
At December 31			
Cash and cash equivalents	\$ 341	\$ 11	\$ 25
Other current assets	541	509	466
Net fixed assets	1,818	1,895	1,846
Other assets	37	40	35
Current liabilities	(441)	(335)	(294)
Long-term debt	(392)	(467)	(365)
Deferred liabilities and credits	(56)	(45)	(23)
Partners' equity	\$1,848	\$ 1,608	\$ 1,690
Summarized Income Statement			
For the years ended December 31			
Total revenues	\$5,451	\$ 3,783	\$ 4,209
Costs and expenses	(5,212)	(3,872)	(4,089)
Net income (loss)*	\$ 239	\$ (89)	\$ 120

* The Corporation's share of HOVENSA's income was \$117 million in 2003 and \$58 million in 2001. The Corporation's share of the 2002 loss was \$47 million. The Corporation's share of HOVENSA's undistributed income aggregated \$240 million at December 31, 2003.

The Corporation has agreed to purchase 50% of HOVENSA's production of refined products at market

prices, after sales by HOVENSA to unaffiliated parties. Such purchases amounted to approximately \$2,040 million during 2003, \$1,280 million during 2002 and \$1,500 million during 2001. The Corporation sold crude oil to HOVENSA for approximately \$410 million during 2003, \$80 million during 2002 and \$110 million during 2001. In addition, the Corporation billed HOVENSA freight charter costs of \$59 million during 2003, \$20 million during 2002 and \$55 million during 2001.

The Corporation guarantees the payment of up to 50% of the value of HOVENSA's crude oil purchases from suppliers other than PDVSA. At December 31, 2003, this amount was \$134 million. This amount fluctuates based on the volume of crude oil purchased and the related crude oil prices. In addition, the Corporation has agreed to provide funding to the extent HOVENSA does not have funds to meet its senior debt obligations up to a maximum of \$40 million.

At formation of the joint venture, PDVSA V.I., a wholly-owned subsidiary of PDVSA, purchased a 50% interest in the fixed assets of the Corporation's Virgin Islands refinery for \$62.5 million in cash and a 10-year note from PDVSA V.I. for \$562.5 million bearing interest at 8.46% per annum and requiring principal payments over its term. At December 31, 2003 and December 31, 2002, the principal balance of the note was \$334 million and \$395 million, respectively.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31 consists of the following:

<i>Millions of dollars</i>	2003	2002
Exploration and production		
Unproved properties	\$ 950	\$ 1,020
Proved properties	2,634	2,843
Wells, equipment and related facilities	11,030	10,836
Refining and marketing	1,486	1,450
Total — at cost	16,100	16,149
Less reserves for depreciation, depletion, amortization and lease impairment	8,122	9,117
Property, plant and equipment, net	\$ 7,978	\$ 7,032

During 2003, the Corporation recorded non-cash additions to fixed assets of \$1,340 million. Of this total, \$485 million related to assets that were previously accounted for as an equity investment in a company that holds natural gas