Exxon grew as oil industry contracted

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While much of the oil industry contracted last year, Exxon Mobil expanded its oil and gas operations in the United States and around the world.

Exxon, the top Western oil company, took advantage of the weak climate to bolster its operations, buy smaller rivals and acquire promising assets as it sought to lay the foundations of growth once the economy rebounds.

In December, it announced the $31 billion purchase of XTO Energy, a leader in shale gas production in the United States. It gained a major foothold in Iraq, the holder of the third-biggest proven oil reserves after Saudi Arabia and Iran. In Africa, it bid $4 billion for a major field off Ghana. It approved a multi-billion dollar project in Papua New Guinea to export gas to China and Japan.

The strategy closely follows Exxon's plan to invest during market declines. Because of its substantial cash reserves, the company spent a record $27.1 billion on its exploration and development programs last year, a 4 percent increase from 2008.

While most of its big rivals have been restructuring and cutting expenses, Exxon has repeatedly said that it would stick with plans to spend $25 billion to $30 billion a year over the next few years to develop new supplies.

Still, like most major oil companies, Exxon's earnings were hurt by lower oil prices, and a drop in demand for oil and refined fuels as consumers cut spending and businesses shed jobs.

In the fourth quarter, the company's net income dropped 23 percent to $6.05 billion, or $1.27 a share. That compared with $7.82 billion, or $1.54 a share, in the period a year ago.

The earnings, however, beat analyst expectations, helping drive up shares, which rose more than 3 percent on Monday to $66.28 a share.

"The industry trends in 2009 reflect a challenging environment overall," the company's vice president for investor relations, David Rosenthal, said during a conference call. "Certainly a tough year. Tough for everyone. But we feel our competitive strengths have helped us a bit."

In 2008, Exxon became the world's most profitable corporation with earnings over $45 billion as oil averaged $100 a barrel. Last year, its profit dropped 56 percent to $19.4 billion. The company was also displaced by PetroChina as the world's largest publicly traded company by market value, according to yearly rankings by PFC Energy, a consulting firm. (PetroChina is largely owned by the Chinese government.)

Oil prices, which collapsed when the financial crisis erupted, has since regained some ground and closed above $74 a barrel on Monday in New York.

Exxon's oil production averaged 2.39 million barrels a day in 2009, essentially flat over the previous year as lower output from mature fields was offset by increases from new projects in Qatar. Gas production grew 2 percent and averaged 9.3 billion cubic feet a day.

The purchase of XTO reflected Exxon's enthusiasm for unconventional gas resources, where reserves have swelled thanks to innovations in drilling technology. The estimated reserves in the United States are now expected to last well over 100 years at current consumption rates. Exxon has been quietly building a global portfolio of shale reserves in the United States,

Germany, Hungary and Canada in recent years. It hopes that thanks to XTO's drilling expertise, it will manage to grow its gas production fast.

Exxon was also the first American company to gain access to Iraq's oil fields after winning the bidding for the West Qurna Phase 1 field with Royal Dutch Shell. The companies pledged to increase the field's output to 2.325 million barrels a day, up from 279,000 barrels a day.

Few countries offer as much potential for growth to oil companies as Iraq does. That explains why foreign companies, who initially complained about the Iraqi government's onerous terms, have all agreed to slash their profits in exchange for access to the country's reserves.

Exxon beat a group led by Russian giant OAO Lukoil that included ConocoPhillips, and another led by the China National Petroleum Corporation. It will receive $1.90 for each barrel of extra production from the field, less than half of the $4 a barrel that Exxon had originally bid. The field holds 8.7 billion barrels in proven oil reserves.

It has been a tough year for oil companies, who are finding it tougher to expand reserves and grow production, and increasingly need higher prices to develop high-cost resources.

On Friday, Chevron also disappointed analysts with a forecast that its oil and gas production would grow just 1 percent this year, much less than anticipated. The lackluster forecast illustrates the difficulty some of the world's biggest oil companies are having as they try to expand output.

Chevron's fourth-quarter profit dropped 37 percent, to $3.07 billion. The chief executive, John S. Watson, said he was unhappy with the performance of Chevron's downstream business but ruled out selling refineries this year.

Thanks to recent changes in S.E.C. regulations allowing companies to book oil sands as proved reserves, Chevron said that its reserves grew 12 percent last year, or about 1.1 billion barrels of oil and gas, including gas from the Gorgon Project in Australia and heavy oil from the Athabasca oil sands project in Canada.

Separately, Shell said on Monday that it had signed an agreement with Cosan to form an ethanol joint-venture in Brazil valued at $12 billion. Both companies will contribute some of their existing Brazilian assets to the venture, and Shell would, in addition, contribute a $1.625 billion in cash over two years. Shell reports its earnings later this week.

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