CHEVRON CORP
Form 10-Q
August 06, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Form 10-Q**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended June 30, 2009**
**or**
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 1-368-2**
**Chevron Corporation**
*(Exact name of registrant as specified in its charter)*

| **Delaware** | **94-0890210** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification Number)* |
| **6001 Bollinger Canyon Road, San Ramon, California** | **94583-2324** |
| *(Address of principal executive offices)* | *(Zip Code)* |

**Registrant s telephone number, including area code: (925) 842-1000**

**NONE**
**(Former name or former address, if changed since last report.)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

| Class | Outstanding as of June 30, 2009 |
|---|---|
| Common stock, $.75 par value | 2,005,512,604 |

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**CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE PURPOSE OF SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This quarterly report on Form 10-Q of Chevron Corporation contains forward-looking statements relating to Chevron s operations that are based on management s current expectations, estimates and projections about the petroleum, chemicals, and other energy-related industries. Words such as anticipates, expects, intends, plans, targets, proje believes, seeks, schedules, estimates, budgets and similar expressions are intended to identify such forward-look statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond the company s control and are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The reader should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, Chevron undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the important factors that could cause actual results to differ materially from those in the forward-looking statements are crude-oil and natural-gas prices; refining, marketing and chemicals margins; actions of competitors or regulators; timing of exploration expenses; timing of crude-oil liftings, the competitiveness of alternate-energy sources or product substitutes; technological developments; the results of operations and financial condition of equity affiliates; the inability or failure of the company s joint-venture partners to fund their share of operations and development activities; the potential failure to achieve expected net production from existing and future crude-oil and natural-gas development projects; potential delays in the development, construction or start-up of planned projects; the potential disruption or interruption of the company s net production or manufacturing facilities or delivery/transportation networks due to war, accidents, political events, civil unrest, severe weather or crude-oil production quotas that might be imposed by the Organization of Petroleum Exporting Countries (OPEC); the potential liability for remedial actions or assessments under existing or future environmental regulations and litigation; significant investment or product changes under existing or future environmental statutes, regulations and litigation; the potential liability resulting from pending or future litigation; the company s acquisition or disposition of assets; gains and losses from asset dispositions or impairments; government-mandated sales, divestitures, recapitalizations, industry-specific taxes, changes in fiscal terms or restrictions on scope of company operations; foreign-currency movements compared with the U.S. dollar; the effects of changed accounting rules under generally accepted accounting principles promulgated by rule-setting bodies; and the factors set forth under the heading Risk Factors on pages 30 and 31 of the company s 2008 Annual Report on Form 10-K. In addition, such statements could be affected by general domestic and international economic and political conditions. Unpredictable or unknown factors not discussed in this report could also have material adverse effects on forward-looking statements.

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**PART I.**

**FINANCIAL INFORMATION**

**Item 1.** ***Consolidated Financial Statements***

**CHEVRON CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF INCOME**
**(Unaudited)**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **(Millions of dollars, except per-share amounts)** | | | |
| **Revenues and Other Income** | | | | |
| Sales and other operating revenues* | **$ 39,647** | $ 80,962 | **$ 74,634** | $145,621 |
| Income from equity affiliates | **735** | 1,563 | **1,346** | 2,807 |
| Other (loss) income | **(177)** | 464 | **355** | 507 |
| **Total Revenues and Other Income** | **40,205** | 82,989 | **76,335** | 148,935 |
| **Costs and Other Deductions** | | | | |
| Purchased crude oil and products | **23,678** | 56,056 | **44,078** | 98,584 |
| Operating expenses | **4,209** | 5,248 | **8,555** | 9,703 |
| Selling, general and administrative expenses | **1,043** | 1,639 | **2,020** | 2,986 |
| Exploration expenses | **438** | 307 | **819** | 560 |
| Depreciation, depletion and amortization | **3,099** | 2,275 | **5,966** | 4,490 |
| Taxes other than on income* | **4,386** | 5,699 | **8,364** | 11,142 |
| Interest and debt expense | **6** | | **14** | |
| **Total Costs and Other Deductions** | **36,859** | 71,224 | **69,816** | 127,465 |
| **Income Before Income Tax Expense** | **3,346** | 11,765 | **6,519** | 21,470 |
| **Income Tax Expense** | **1,585** | 5,756 | **2,904** | 10,265 |
| **Net Income** | **1,761** | 6,009 | **3,615** | 11,205 |
| Less: Net income attributable to noncontrolling interests | **16** | 34 | **33** | 62 |
| **Net Income Attributable to Chevron Corporation** | **$ 1,745** | $ 5,975 | **$ 3,582** | $ 11,143 |
| **Per Share of Common Stock:** | | | | |
| **Net Income Attributable to Chevron Corporation** | | | | |
| **Basic** | **$ 0.88** | $ 2.91 | **$ 1.80** | $ 5.41 |

| | | | | |
|---|---|---|---|---|
| **Diluted** | **$ 0.87** | $ 2.90 | **$ 1.79** | $ 5.38 |
| **Dividends** | **$ 0.65** | $ 0.65 | **$ 1.30** | $ 1.23 |
| **Weighted Average Number of Shares Outstanding (000s)** | | | | |
| **Basic** | **1,991,605** | 2,050,773 | **1,991,368** | 2,058,596 |
| **Diluted** | **1,999,667** | 2,064,888 | **1,999,588** | 2,072,549 |
| * Includes excise, value-added and similar taxes: | **$ 2,034** | $ 2,652 | **$ 3,944** | $ 5,189 |

See accompanying notes to consolidated financial statements.

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**CHEVRON CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**(Unaudited)**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **(Millions of dollars)** | | | |
| **Net Income** | **$ 1,761** | $ 6,009 | **$ 3,615** | $ 11,205 |
| Currency translation adjustment | **43** | (14) | **13** | (17) |
| Unrealized holding (loss) gain on securities: | | | | |
| Net (loss) gain arising during period | **(2)** | 7 | **(5)** | 8 |
| Derivatives: | | | | |
| Net derivatives loss on hedge transactions | **(23)** | | **(72)** | |
| Reclassification to net income of net realized gain | **(17)** | (45) | **(16)** | (41) |
| Income taxes on derivatives transactions | **14** | 14 | **30** | 12 |
| Total | **(26)** | (31) | **(58)** | (29) |
| Defined benefit plans: | | | | |
| Actuarial loss: | | | | |
| Amortization to net income of net actuarial loss | **157** | 61 | **315** | 125 |
| Prior service cost: | | | | |
| Amortization to net income of net prior service credits | **(18)** | (15) | **(34)** | (31) |
| Defined benefit plans sponsored by equity affiliates | **7** | 7 | **5** | 15 |
| Income taxes on defined benefit plans | **(54)** | (19) | **(107)** | (48) |
| Total | **92** | 34 | **179** | 61 |
| **Other Comprehensive Gain (Loss), Net of Tax** | **107** | (4) | **129** | 23 |
| **Comprehensive Income** | **1,868** | 6,005 | **3,744** | 11,228 |
| Comprehensive income attributable to noncontrolling interests | **(16)** | (34) | **(33)** | (62) |
| **Comprehensive Income Attributable to Chevron Corporation** | **$ 1,852** | $ 5,971 | **$ 3,711** | $ 11,166 |

See accompanying notes to consolidated financial statements.

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**CHEVRON CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET**
**(Unaudited)**

| | At June 30 2009 | At December 31 2008 |
|---|---|---|
| | (Millions of dollars, except per-share amounts) | |
| **ASSETS** | | |
| Cash and cash equivalents | **$ 7,236** | $ 9,347 |
| Marketable securities | **108** | 213 |
| Accounts and notes receivable, net | **16,617** | 15,856 |
| Inventories: | | |
| Crude oil and petroleum products | **4,828** | 5,175 |
| Chemicals | **307** | 459 |
| Materials, supplies and other | **1,349** | 1,220 |
| Total inventories | **6,484** | 6,854 |
| Prepaid expenses and other current assets | **4,271** | 4,200 |
| **Total Current Assets** | **34,716** | 36,470 |
| Long-term receivables, net | **2,389** | 2,413 |
| Investments and advances | **21,548** | 20,920 |
| Properties, plant and equipment, at cost | **180,074** | 173,299 |
| Less: Accumulated depreciation, depletion and amortization | **86,401** | 81,519 |
| Properties, plant and equipment, net | **93,673** | 91,780 |
| Deferred charges and other assets | **4,156** | 4,711 |
| Goodwill | **4,619** | 4,619 |
| Assets held for sale | **100** | 252 |
| **Total Assets** | **$161,201** | $161,165 |
| **LIABILITIES AND EQUITY** | | |
| Short-term debt | **$ 868** | $ 2,818 |
| Accounts payable | **15,584** | 16,580 |
| Accrued liabilities | **5,428** | 8,077 |
| Federal and other taxes on income | **2,106** | 3,079 |
| Other taxes payable | **1,378** | 1,469 |
| **Total Current Liabilities** | **25,364** | 32,023 |
| Long-term debt | **10,850** | 5,742 |
| Capital lease obligations | **342** | 341 |
| Deferred credits and other noncurrent obligations | **17,889** | 17,678 |
| Noncurrent deferred income taxes | **11,391** | 11,539 |

| | | |
|---|---|---|
| Reserves for employee benefit plans | **6,885** | 6,725 |
| **Total Liabilities** | **72,721** | 74,048 |
| Preferred stock (authorized 100,000,000 shares, $1.00 par value, none issued) | | |
| Common stock (authorized 6,000,000,000 shares, $.75 par value, 2,442,676,580 shares issued at June 30, 2009, and December 31, 2008) | **1,832** | 1,832 |
| Capital in excess of par value | **14,539** | 14,448 |
| Retained earnings | **102,097** | 101,102 |
| Accumulated other comprehensive loss | **(3,795)** | (3,924) |
| Deferred compensation and benefit plan trust | **(414)** | (434) |
| Treasury stock, at cost (437,163,976 and 438,444,795 shares at June 30, 2009, and December 31, 2008, respectively) | **(26,301)** | (26,376) |
| **Total Chevron Corporation Stockholders Equity** | **87,958** | 86,648 |
| Noncontrolling interests | **522** | 469 |
| **Total Equity** | **88,480** | 87,117 |
| **Total Liabilities and Equity** | **$161,201** | $161,165 |

See accompanying notes to consolidated financial statements.

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**CHEVRON CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**
**(Unaudited)**

| | Six Months Ended June 30 | |
|---|---|---|
| | **2009** | **2008** |
| | **(Millions of dollars)** | |
| **Operating Activities** | | |
| Net Income Attributable to Chevron Corporation | **$ 3,582** | $ 11,143 |
| Adjustments | | |
| Depreciation, depletion and amortization | **5,966** | 4,490 |
| Dry hole expense | **421** | 199 |
| Distributions (less than) more than income from equity affiliates | **(766)** | 105 |
| Net before-tax gains on asset retirements and sales | **(624)** | (123) |
| Net foreign currency effects | **443** | 30 |
| Deferred income tax provision | **(77)** | (381) |
| Net increase in operating working capital | **(3,250)** | (502) |
| Net income attributable to noncontrolling interests | **33** | 62 |
| Increase in long-term receivables | **(260)** | (167) |
| Decrease (increase) in other deferred charges | **68** | (7) |
| Cash contributions to employee pension plans | **(148)** | (127) |
| Other | **300** | 589 |
| **Net Cash Provided by Operating Activities** | **5,688** | 15,311 |
| **Investing Activities** | | |
| Capital expenditures | **(10,414)** | (8,971) |
| Proceeds and deposits related to asset sales | **1,527** | 418 |
| Net sales of marketable securities | **97** | 297 |
| Repayment of loans by equity affiliates | **168** | 162 |
| Proceeds from sale of other short-term investments | **221** | 261 |
| **Net Cash Used for Investing Activities** | **(8,401)** | (7,833) |
| **Financing Activities** | | |
| Net (payments) borrowings of short-term obligations | **(1,421)** | 308 |
| Proceeds from issuance of long-term debt | **4,990** | |
| Repayments of long-term debt and other financing obligations | **(439)** | (877) |
| Cash dividends | **(2,590)** | (2,538) |
| Dividends paid to noncontrolling interests | **(27)** | (41) |
| Net sales (purchases) of treasury shares | **47** | (3,561) |
| **Net Cash Provided by (Used for) Financing Activities** | **560** | (6,709) |
| **Effect of Exchange Rate Changes on Cash and Cash Equivalents** | **42** | 49 |

| | | |
|---|---|---|
| **Net Change in Cash and Cash Equivalents** | **(2,111)** | 818 |
| **Cash and Cash Equivalents at January 1** | **9,347** | 7,362 |
| **Cash and Cash Equivalents at June 30** | **$ 7,236** | $ 8,180 |

See accompanying notes to consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Interim Financial Statements

The accompanying consolidated financial statements of Chevron Corporation and its subsidiaries (the company) have not been audited by an independent registered public accounting firm. In the opinion of the company s management, the interim data include all adjustments necessary for a fair statement of the results for the interim periods. These adjustments were of a normal recurring nature. The results for the three- and six-month periods ended June 30, 2009, are not necessarily indicative of future financial results. The term earnings is defined as net income attributable to Chevron Corporation.

Certain notes and other information have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the company s 2008 Annual Report on Form 10-K.

Events subsequent to June 30, 2009, were evaluated until the time of the Form 10-Q filing with the Securities and Exchange Commission on August 6, 2009. Refer to Note 15 on page 22 for discussion of FASB Statement No. 165, *Subsequent Events.*

Earnings for the second quarter and first six months of 2009 included $140 million and $540 million, respectively, of after-tax gains on the sale of international downstream assets.

### Note 2. New Accounting Standard Noncontrolling Interests

The company adopted FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (FAS 160), effective January 1, 2009, and retroactive to the earliest period presented. Prospectively, certain changes in a parent s ownership interest are to be accounted for as equity transactions and when a subsidiary is deconsolidated, any noncontrolling equity investment in the former subsidiary is to be initially measured at fair value.

With the adoption of FAS 160, ownership interests in the company s subsidiaries held by parties other than the parent are presented separately from the parent s equity on the Consolidated Balance Sheet. The amount of consolidated net income attributable to the parent and the noncontrolling interests are both presented on the face of the Consolidated Statement of Income.

Shown in the table below is activity for the equity attributable to noncontrolling interests during the first six months of 2009 and 2008:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Chevron Corporation Stockholders Equity | Noncontrolling Interest | Total Equity | Chevron Corporation Stockholders Equity | Noncontrolling Interest | Total Equity |
| | (Millions of dollars) | | | | | |
| Balance at January 1 | $86,648 | $469 | $87,117 | $76,884 | $204 | $77,088 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net income | 3,582 | 33 | 3,615 | 11,081 | 62 | 11,143 |
| Dividends | (2,590) | (27) | (2,617) | (2,497) | (41) | (2,538) |
| Treasury shares, net | 47 | | 47 | (3,561) | | (3,561) |
| Other changes, net* | 271 | 47 | 318 | 135 | 1 | 136 |
| Balance at June 30 | **$87,958** | **$522** | **$88,480** | **$82,042** | **$226** | **$82,268** |

* Includes components of comprehensive income, which are disclosed separately in the Consolidated Statement of Comprehensive Income.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 3. Information Relating to the Consolidated Statement of Cash Flows**

The Net increase in operating working capital was composed of the following operating changes:

| | Six Months Ended June 30 | |
|---|---|---|
| | **2009** | **2008** |
| | **(Millions of dollars)** | |
| Increase in accounts and notes receivable | **$ (285)** | $ (8,160) |
| Decrease (increase) in inventories | **224** | (1,062) |
| Increase in prepaid expenses and other current assets | **(176)** | (216) |
| (Decrease) increase in accounts payable and accrued liabilities | **(1,918)** | 7,438 |
| (Decrease) increase in income and other taxes payable | **(1,095)** | 1,498 |
| Net increase in operating working capital | **$ (3,250)** | $ (502) |

In accordance with the cash-flow classification requirements of FAS 123R, *Share-Based Payment,* the Net increase in operating working capital includes reductions of $6 million and $98 million for excess income tax benefits associated with stock options exercised during the six months ended June 30, 2009, and 2008, respectively. These amounts are offset by an equal amount in Net sales (purchases) of treasury shares.

Net Cash Provided by Operating Activities included the following cash payments for interest on debt and for income taxes:

| | Six Months Ended June 30 | |
|---|---|---|
| | **2009** | **2008** |
| | **(Millions of dollars)** | |
| Interest on debt (net of capitalized interest) | **$** | $ 2 |
| Income taxes | **3,337** | 8,679 |

The Net sales of marketable securities consisted of the following gross amounts:

| | Six Months Ended June 30 | |
|---|---|---|
| | **2009** | **2008** |
| | **(Millions of dollars)** | |
| Marketable securities purchased | **$** | $ (3,103) |

| | | |
|---|---|---|
| Marketable securities sold | **97** | 3,400 |
| Net sales of marketable securities | **$ 97** | $ 297 |

The Net sales (purchases) of treasury shares represents the cost of common shares less the cost of shares issued for share-based compensation plans. Net sales totaled $47 million in the first half of 2009 and net purchases totaled $3.6 billion in the 2008 period. Purchases in the 2008 period were under the company s stock repurchase program initiated in September 2007. No purchases were made under the program in the 2009 period.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The major components of Capital expenditures and the reconciliation of this amount to the capital and exploratory expenditures, including equity affiliates are presented in the following table:

| | Six Months Ended June 30 | |
|---|---|---|
| | **2009** | **2008** |
| | **(Millions of dollars)** | |
| Additions to properties, plant and equipment | **$ 9,773** | $ 8,433 |
| Additions to investments | **403** | 487 |
| Current-year dry-hole expenditures | **339** | 154 |
| Payments for other liabilities and assets, net | **(101)** | (103) |
| Capital expenditures | **10,414** | 8,971 |
| Expensed exploration expenditures | **398** | 361 |
| Assets acquired through capital-lease obligations | **26** | 11 |
| Capital and exploratory expenditures, excluding equity affiliates | **10,838** | 9,343 |
| Company s share of expenditures by equity affiliates | **577** | 941 |
| Capital and exploratory expenditures, including equity affiliates | **$ 11,415** | $ 10,284 |

Additions to properties, plant and equipment in the 2009 period include $2 billion for a cash payment related to the extension of an upstream concession agreement.

**Note 4. Operating Segments and Geographic Data**

Although each subsidiary of Chevron is responsible for its own affairs, Chevron Corporation manages its investments in these subsidiaries and their affiliates. For this purpose, the investments are grouped as follows: upstream exploration and production; downstream refining, marketing and transportation; chemicals; and all other. The first three of these groupings represent the company s reportable segments and operating segments as defined in Financial Accounting Standards Board (FASB) Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information* (FAS 131).

The segments are separately managed for investment purposes under a structure that includes segment managers who report to the company s chief operating decision maker (CODM) (terms as defined in FAS 131). The CODM is the company s Executive Committee, a committee of senior officers that includes the Chief Executive Officer, and that in turn reports to the Board of Directors of Chevron Corporation.

The operating segments represent components of the company as described in FAS 131 terms that engage in activities (a) from which revenues are earned and expenses are incurred; (b) whose operating results are regularly reviewed by the CODM, which makes decisions about resources to be allocated to the segments and to assess their performance; and (c) for which discrete financial information is available.

Segment managers for the reportable segments are directly accountable to and maintain regular contact with the company s CODM to discuss the segment s operating activities and financial performance. The CODM approves annual capital and exploratory budgets at the reportable segment level, as well as reviews capital and exploratory funding for major projects and approves major changes to the annual capital and exploratory budgets. However, business-unit managers within the operating segments are directly responsible for decisions relating to project implementation and all other matters connected with daily operations. Company officers who are members of the Executive Committee also have individual management responsibilities and participate in other committees for purposes other than acting as the CODM.

All Other activities include mining operations, power generation businesses, worldwide cash management and debt financing activities, corporate administrative functions, insurance operations, real estate activities, alternative fuels and technology companies.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The company s primary country of operation is the United States of America, its country of domicile. Other components of the company s operations are reported as International (outside the United States).

*Segment Earnings* The company evaluates the performance of its operating segments on an after-tax basis, without considering the effects of debt financing interest expense or investment interest income, both of which are managed by the company on a worldwide basis. Corporate administrative costs and assets are not allocated to the operating segments. However, operating segments are billed for the direct use of corporate services. Nonbillable costs remain at the corporate level in All Other. Earnings by major operating area for the three- and six-month periods ended June 30, 2009 and 2008, are presented in the following table:

**Segment Earnings**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **(Millions of dollars)** | | | |
| **Upstream** | | | | |
| United States | **$ 273** | $ 2,191 | **$ 294** | $ 3,790 |
| International | **1,246** | 5,057 | **2,494** | 8,586 |
| **Total Upstream** | **1,519** | 7,248 | **2,788** | 12,376 |
| **Downstream** | | | | |
| United States | **(95)** | (682) | **38** | (678) |
| International | **256** | (52) | **946** | 196 |
| **Total Downstream** | **161** | (734) | **984** | (482) |
| **Chemicals** | | | | |
| United States | **51** | 1 | **60** | 2 |
| International | **57** | 40 | **87** | 82 |
| **Total Chemicals** | **108** | 41 | **147** | 84 |
| **Total Segment Earnings** | **1,788** | 6,555 | **3,919** | 11,978 |
| **All Other** | | | | |
| Interest Expense | **(5)** | | **(11)** | |
| Interest Income | **13** | 48 | **26** | 105 |
| Other | **(51)** | (628) | **(352)** | (940) |
| **Net Income Attributable to Chevron Corporation** | **$ 1,745** | $ 5,975 | **$ 3,582** | $ 11,143 |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Segment Assets* Segment assets do not include intercompany investments or intercompany receivables. All Other assets in 2009 consist primarily of worldwide cash, cash equivalents and marketable securities, real estate, information systems, mining operations, power generation businesses, technology companies and assets of the corporate administrative functions. Segment assets at June 30, 2009, and December 31, 2008, are as follows:

**Segment Assets**

| | At June 30 2009 | At December 31 2008 |
|---|---|---|
| | (Millions of dollars) | |
| **Upstream** | | |
| United States | **$ 25,048** | $ 26,071 |
| International | **73,836** | 72,530 |
| Goodwill | **4,619** | 4,619 |
| **Total Upstream** | **103,503** | 103,220 |
| **Downstream** | | |
| United States | **17,160** | 15,869 |
| International | **24,965** | 23,572 |
| **Total Downstream** | **42,125** | 39,441 |
| **Chemicals** | | |
| United States | **2,618** | 2,535 |
| International | **989** | 1,086 |
| **Total Chemicals** | **3,607** | 3,621 |
| **Total Segment Assets** | **149,235** | 146,282 |
| **All Other** | | |
| United States | **6,004** | 8,984 |
| International | **5,962** | 5,899 |
| **Total All Other** | **11,966** | 14,883 |
| **Total Assets United States** | **50,830** | 53,459 |
| **Total Assets International** | **105,752** | 103,087 |
| **Goodwill** | **4,619** | 4,619 |
| **Total Assets** | **$161,201** | $161,165 |

*Segment Sales and Other Operating Revenues* Operating-segment sales and other operating revenues, including internal transfers, for the three- and six-month periods ended June 30, 2009, and 2008, are presented in the table on the next page. Products are transferred between operating segments at internal product values that approximate market prices. Revenues for the upstream segment are derived primarily from the production and sale of crude oil and natural gas, as well as the sale of third-party production of natural gas. Revenues for the downstream segment are derived from the refining and marketing of petroleum products such as gasoline, jet fuel, gas oils, lubricants, residual fuel oils and other products derived from crude oil. This segment also generates revenues from the transportation and trading of crude oil and refined products. Revenues for the chemicals segment are derived primarily from the manufacture and sale of additives for lubricants and fuels. All Other activities include revenues from mining operations, power generation businesses, insurance operations, real estate activities and technology companies.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Sales and Other Operating Revenues**

| | | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|---|
| | | **2009** | **2008** | **2009** | **2008** |
| | | **(Millions of dollars)** | | | |
| **Upstream** | | | | | |
| United States | | **$ 4,250** | $ 12,111 | **$ 8,632** | $ 21,944 |
| International | | **7,544** | 13,780 | **13,935** | 24,219 |
| Sub-total | | **11,794** | 25,891 | **22,567** | 46,163 |
| Intersegment Elimination | United States | **(2,311)** | (4,782) | **(3,902)** | (8,633) |
| Intersegment Elimination | International | **(4,678)** | (8,399) | **(7,831)** | (14,169) |
| **Total Upstream** | | **4,805** | 12,710 | **10,834** | 23,361 |
| **Downstream** | | | | | |
| United States | | **15,196** | 27,957 | **26,603** | 50,111 |
| International | | **19,152** | 39,793 | **36,267** | 71,162 |
| Sub-total | | **34,348** | 67,750 | **62,870** | 121,273 |
| Intersegment Elimination | United States | **(45)** | (135) | **(90)** | (251) |
| Intersegment Elimination | International | **(23)** | (44) | **(39)** | (63) |
| **Total Downstream** | | **34,280** | 67,571 | **62,741** | 120,959 |
| **Chemicals** | | | | | |
| United States | | **119** | 146 | **230** | 278 |
| International | | **352** | 429 | **662** | 822 |
| Sub-total | | **471** | 575 | **892** | 1,100 |
| Intersegment Elimination | United States | **(49)** | (71) | **(95)** | (129) |
| Intersegment Elimination | International | **(36)** | (40) | **(64)** | (79) |
| **Total Chemicals** | | **386** | 464 | **733** | 892 |
| **All Other** | | | | | |
| United States | | **421** | 439 | **707** | 764 |
| International | | **16** | 19 | **29** | 37 |
| Sub-total | | **437** | 458 | **736** | 801 |
| Intersegment Elimination | United States | **(253)** | (235) | **(398)** | (381) |
| Intersegment Elimination | International | **(8)** | (6) | **(12)** | (11) |

| | | | | | |
|---|---|---|---|---|---|
| **Total All Other** | | **176** | 217 | **326** | 409 |
| **Sales and Other Operating Revenues** | | | | | |
| United States | | **19,986** | 40,653 | **36,172** | 73,097 |
| International | | **27,064** | 54,021 | **50,893** | 96,240 |
| Sub-total | | **47,050** | 94,674 | **87,065** | 169,337 |
| Intersegment Elimination | United States | **(2,658)** | (5,223) | **(4,485)** | (9,394) |
| Intersegment Elimination | International | **(4,745)** | (8,489) | **(7,946)** | (14,322) |
| **Total Sales and Other Operating Revenues** | | **$ 39,647** | $ 80,962 | **$ 74,634** | $ 145,621 |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 5. Summarized Financial Data Chevron U.S.A. Inc.**

Chevron U.S.A. Inc. (CUSA) is a major subsidiary of Chevron Corporation. CUSA and its subsidiaries manage and operate most of Chevron s U.S. businesses. Assets include those related to the exploration and production of crude oil, natural gas and natural gas liquids and those associated with refining, marketing, supply and distribution of products derived from petroleum, excluding most of the regulated pipeline operations of Chevron. CUSA also holds the company s investment in the Chevron Phillips Chemical Company LLC joint venture, which is accounted for using the equity method.

During 2008, Chevron implemented legal reorganizations in which certain Chevron subsidiaries transferred assets to or under CUSA. The summarized financial information for CUSA and its consolidated subsidiaries presented in the table below gives retroactive effect to the reorganizations as if they had occurred on January 1, 2008. However, the financial information below may not reflect the financial position and operating results in the future or the historical results in the period presented if the reorganization actually had occurred on that date.

The summarized financial information for CUSA and its consolidated subsidiaries is presented in the table below:

| | Six Months Ended June 30 | |
|---|---|---|
| | **2009** | **2008** |
| | **(Millions of dollars)** | |
| Sales and other operating revenues | **$ 53,210** | $ 109,290 |
| Costs and other deductions | **53,251** | 106,379 |
| Net (loss) income attributable to Chevron U.S.A. Inc. | **(109)** | 1,795 |

| | **At June 30 2009** | **At December 31 2008** |
|---|---|---|
| | **(Millions of dollars)** | |
| Current assets | **$31,250** | $32,759 |
| Other assets | **32,153** | 31,807 |
| Current liabilities | **12,836** | 14,322 |
| Other liabilities | **15,252** | 14,805 |
| Total Chevron U.S.A. Inc. net equity | **$35,315** | $35,439 |
| Memo: Total debt | **$ 6,785** | $ 6,813 |

**Note 6. Summarized Financial Data Chevron Transport Corporation**

Chevron Transport Corporation Limited (CTC), incorporated in Bermuda, is an indirect, wholly owned subsidiary of Chevron Corporation. CTC is the principal operator of Chevron s international tanker fleet and is engaged in the marine transportation of crude oil and refined petroleum products. Most of CTC s shipping revenue is derived by providing transportation services to other Chevron companies. Chevron Corporation has fully and unconditionally guaranteed this subsidiary s obligations in connection with certain debt securities issued by a third party. Summarized financial information for CTC and its consolidated subsidiaries is presented as follows:

| | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **(Millions of dollars)** | | **(Millions of dollars)** | |
| Sales and other operating revenues | **$ 157** | $ 260 | **$ 339** | $ 501 |
| Costs and other deductions | **187** | 234 | **379** | 453 |
| Net (loss) income attributable to Chevron Transport Corporation | **(29)** | 27 | **(39)** | 90 |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | At June 30 2009 | At December 31 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Current assets | **$458** | $482 |
| Other assets | **168** | 172 |
| Current liabilities | **102** | 98 |
| Other liabilities | **94** | 88 |
| Total Chevron Transport Corporation net equity | **$430** | $468 |

There were no restrictions on CTC s ability to pay dividends or make loans or advances at June 30, 2009.

**Note 7. Income Taxes**

Taxes on income for the second quarter and first half of 2009 were $1.6 billion and $2.9 billion, respectively, compared with $5.8 billion and $10.3 billion for the corresponding periods in 2008. The associated effective tax rates (calculated as the amount of Income Tax Expense divided by Income Before Income Tax Expense) for the second quarters of 2009 and 2008 were 47 percent and 49 percent, respectively. For the comparative six-month periods, the effective tax rates were 45 percent and 48 percent, respectively. The 2009 rates in the comparative periods were lower due to proportionally higher income being earned in international downstream businesses that were taxed at lower average rates than income earned in international upstream tax jurisdictions.

**Note 8. Employee Benefits**

The company has defined-benefit pension plans for many employees. The company typically prefunds defined-benefit plans as required by local regulations or in certain situations where pre-funding provides economic advantages. In the United States, this includes all qualified plans subject to the Employee Retirement Income Security Act of 1974 (ERISA) minimum funding standard. The company does not typically fund U.S. nonqualified pension plans that are not subject to funding requirements under applicable laws and regulations because contributions to these pension plans may be less economic and investment returns may be less attractive than the company s other investment alternatives.

The company also sponsors other postretirement plans that provide medical and dental benefits, as well as life insurance for some active and qualifying retired employees. The plans are unfunded, and the company and the retirees share the costs. Medical coverage for Medicare-eligible retirees in the company s main U.S. medical plan is secondary to Medicare (including Part D) and the increase to the company contribution for retiree medical coverage is limited to no more than 4 percent each year. Certain life insurance benefits are paid by the company.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of net periodic benefit costs for 2009 and 2008 were:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Millions of dollars) | | (Millions of dollars) | |
| **Pension Benefits** | | | | |
| **United States** | | | | |
| Service cost | **$ 66** | $ 62 | **$ 133** | $ 125 |
| Interest cost | **120** | 124 | **240** | 249 |
| Expected return on plan assets | **(98)** | (148) | **(197)** | (296) |
| Amortization of prior-service credits | **(2)** | (2) | **(4)** | (4) |
| Amortization of actuarial losses | **74** | 15 | **149** | 30 |
| Settlement losses | **51** | 20 | **101** | 39 |
| **Total United States** | **211** | 71 | **422** | 143 |
| **International** | | | | |
| Service cost | **29** | 35 | **59** | 68 |
| Interest cost | **70** | 70 | **139** | 143 |
| Expected return on plan assets | **(50)** | (63) | **(96)** | (133) |
| Amortization of prior-service costs | **5** | 7 | **11** | 13 |
| Amortization of actuarial losses | **25** | 17 | **51** | 37 |
| Termination costs | | 1 | | 1 |
| **Total International** | **79** | 67 | **164** | 129 |
| **Net Periodic Pension Benefit Costs** | **$ 290** | $ 138 | **$ 586** | $ 272 |
| **Other Benefits*** | | | | |
| Service cost | **$ 8** | $ 49 | **$ 16** | $ 56 |
| Interest cost | **45** | 45 | **89** | 89 |
| Amortization of prior-service credits | **(21)** | (20) | **(41)** | (40) |
| Amortization of actuarial losses | **7** | 9 | **14** | 19 |
| Curtailment gains | | | **(5)** | |
| **Net Periodic Other Benefit Costs** | **$ 39** | $ 83 | **$ 73** | $ 124 |

* Includes costs for U.S. and international other postretirement benefit plans. Obligations for plans outside the U.S. are not significant relative to the company s total other postretirement benefit obligation.

At the end of 2008, the company estimated it would contribute $800 million to employee pension plans during 2009 (composed of $550 million for the U.S. plans and $250 million for the international plans). Through June 30, 2009, a total of $148 million was contributed (including $65 million to the U.S. plans). Total contributions for the full year are currently estimated at $1 billion ($750 million for the U.S. plans and $250 million for the international plans). Actual contribution amounts are dependent upon investment returns, changes in pension obligations, regulatory environments and other economic factors. Additional funding may ultimately be required if investment returns are insufficient to offset increases in plan obligations.

During the first half of 2009, the company contributed $94 million to its other postretirement benefit plans. The company anticipates contributing $115 million during the remainder of 2009.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 9. Accounting for Suspended Exploratory Wells**

The company accounts for the cost of exploratory wells in accordance with FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies,* as amended by FASB Staff Position FAS 19-1, *Accounting for Suspended Well Costs*, which provides that an exploratory well continues to be capitalized after the completion of drilling if certain criteria are met. The company s capitalized cost of suspended wells at June 30, 2009, was $2.3 billion, an increase of $185 million from year-end 2008 mainly due to activities in the United States, Angola and Australia. For the category of exploratory well costs at year-end 2008 that were suspended more than one year, a total of $76 million was expensed in the first half of 2009.

**Note 10. Litigation**

*MTBE* Chevron and many other companies in the petroleum industry have used methyl tertiary butyl ether (MTBE) as a gasoline additive. Chevron is a party to 49 pending lawsuits and claims, the majority of which involve numerous other petroleum marketers and refiners. Resolution of these lawsuits and claims may ultimately require the company to correct or ameliorate the alleged effects on the environment of prior release of MTBE by the company or other parties. Additional lawsuits and claims related to the use of MTBE, including personal-injury claims, may be filed in the future. The company s ultimate exposure related to pending lawsuits and claims is not currently determinable, but could be material to net income in any one period. The company no longer uses MTBE in the manufacture of gasoline in the United States.

*Ecuador* Chevron is a defendant in a civil lawsuit before the Superior Court of Nueva Loja in Lago Agrio, Ecuador, brought in May 2003 by plaintiffs who claim to be representatives of certain residents of an area where an oil production consortium formerly had operations. The lawsuit alleges damage to the environment from the oil exploration and production operations, and seeks unspecified damages to fund environmental remediation and restoration of the alleged environmental harm, plus a health monitoring program. Until 1992, Texaco Petroleum Company (Texpet), a subsidiary of Texaco Inc., was a minority member of this consortium with Petroecuador, the Ecuadorian state-owned oil company, as the majority partner; since 1990, the operations have been conducted solely by Petroecuador. At the conclusion of the consortium and following an independent third-party environmental audit of the concession area, Texpet entered into a formal agreement with the Republic of Ecuador and Petroecuador for Texpet to remediate specific sites assigned by the government in proportion to Texpet s ownership share of the consortium. Pursuant to that agreement, Texpet conducted a three-year remediation program at a cost of $40 million. After certifying that the sites were properly remediated, the government granted Texpet and all related corporate entities a full release from any and all environmental liability arising from the consortium operations.

Based on the history described above, Chevron believes that this lawsuit lacks legal or factual merit. As to matters of law, the company believes first, that the court lacks jurisdiction over Chevron; second, that the law under which plaintiffs bring the action, enacted in 1999, cannot be applied retroactively to Chevron; third, that the claims are barred by the statute of limitations in Ecuador; and, fourth, that the lawsuit is also barred by the releases from liability previously given to Texpet by the Republic of Ecuador and Petroecuador. With regard to the facts, the company believes that the evidence confirms that Texpet s remediation was properly conducted and that the remaining environmental damage reflects Petroecuador s failure to timely fulfill its legal obligations and Petroecuador s further conduct since assuming full control over the operations.

In April 2008, a mining engineer appointed by the court to identify and determine the cause of environmental damage, and to specify steps needed to remediate it, issued a report recommending that the court assess $8 billion, which would, according to the engineer, provide financial compensation for purported damages, including wrongful death claims, and pay for, among other items, environmental remediation, health care systems, and additional infrastructure for Petroecuador. The engineer s report also asserted that an additional $8.3 billion could be assessed against Chevron for unjust enrichment. The engineer s report is not binding on the court. Chevron also believes that the engineer s work was performed and his report prepared in a manner contrary to law and in violation of the court s orders. Chevron submitted a rebuttal to the report in which it asked the court to strike the report in its

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

entirety. In November 2008, the engineer revised the report and, without additional evidence, recommended an increase in the financial compensation for purported damages to a total of $18.9 billion and an increase in the assessment for purported unjust enrichment to a total of $8.4 billion. Chevron submitted a rebuttal to the revised report, and Chevron will continue a vigorous defense of any attempted imposition of liability.

The court has completed most of the procedural aspects of the case and could render a judgment at any time. In the event of an adverse judgment, Chevron would expect to pursue its appeals and vigorously defend against enforcement of any such judgment; therefore, the ultimate outcome and any financial effect on Chevron remains uncertain. Management does not believe an estimate of a reasonably possible loss (or a range of loss) can be made in this case. Due to the defects associated with the engineer s report, management does not believe the report itself has any utility in calculating a reasonably possible loss (or a range of loss). Moreover, the highly uncertain legal environment surrounding the case provides no basis for management to estimate a reasonably possible loss (or a range of loss).

**Note 11. Other Contingencies and Commitments**

*Guarantees* The company and its subsidiaries have certain other contingent liabilities with respect to guarantees, direct or indirect, of debt of affiliated companies or third parties. Under the terms of the guarantee arrangements, generally the company would be required to perform should the affiliated company or third party fail to fulfill its obligations under the arrangements. In some cases, the guarantee arrangements may have recourse provisions that would enable the company to recover any payments made under the terms of the guarantees from assets provided as collateral.

*Off-Balance-Sheet Obligations* The company and its subsidiaries have certain other contractual obligations relating to long-term unconditional purchase obligations and commitments, including throughput and take-or-pay agreements, some of which relate to suppliers financing arrangements. The agreements typically provide goods and services, such as pipeline, storage and regasification capacity, drilling rigs, utilities and petroleum products, to be used or sold in the ordinary course of the company s business.

*Indemnifications* The company provided certain indemnities of contingent liabilities of Equilon and Motiva to Shell and Saudi Refining, Inc., in connection with the February 2002 sale of the company s interests in those investments. The company would be required to perform if the indemnified liabilities become actual losses. Were that to occur, the company could be required to make future payments up to $300 million. Through the end of June 2009, the company paid $48 million under these indemnities and continues to be obligated for possible additional indemnification payments in the future.

The company has also provided indemnities relating to contingent environmental liabilities related to assets originally contributed by Texaco to the Equilon and Motiva joint ventures and environmental conditions that existed prior to the formation of Equilon and Motiva or that occurred during the period of Texaco s ownership interest in the joint ventures. In general, the environmental conditions or events that are subject to these indemnities must have arisen prior to December 2001. Claims had to be asserted by February 2009 for Equilon indemnities and must be asserted no later than February 2012 for Motiva indemnities. Under the terms of these indemnities, there is no maximum limit on the amount of potential future payments. In February 2009, Shell delivered a letter to the company purporting to preserve unmatured claims for certain Equilon indemnities. The letter itself provides no estimate of the ultimate claim amount, and management does not believe the letter or any other information provides a basis to estimate the amount, if any, of a range of loss or potential range of loss with respect to the Equilon or the Motiva indemnities. The company posts no assets as collateral and has made no payments under the indemnities.

The amounts payable for the indemnities described above are to be net of amounts recovered from insurance carriers and others and net of liabilities recorded by Equilon or Motiva prior to September 30, 2001, for any applicable incident.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In the acquisition of Unocal, the company assumed certain indemnities relating to contingent environmental liabilities associated with assets that were sold in 1997. Under the indemnification agreement, the company s liability is unlimited until April 2022, when the liability expires. The acquirer of the assets sold in 1997 shares in certain environmental remediation costs up to a maximum obligation of $200 million, which had not been reached as of June 30, 2009.

*Environmental* The company is subject to loss contingencies pursuant to laws, regulations, private claims and legal proceedings related to environmental matters that are subject to legal settlements or that in the future may require the company to take action to correct or ameliorate the effects on the environment of prior release of chemicals or petroleum substances, including MTBE, by the company or other parties. Such contingencies may exist for various sites, including, but not limited to, federal Superfund sites and analogous sites under state laws, refineries, crude-oil fields, service stations, terminals, land development areas, and mining operations, whether operating, closed or divested. These future costs are not fully determinable due to such factors as the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions that may be required, the determination of the company s liability in proportion to other responsible parties, and the extent to which such costs are recoverable from third parties.

Although the company has provided for known environmental obligations that are probable and reasonably estimable, the amount of additional future costs may be material to results of operations in the period in which they are recognized. The company does not expect these costs will have a material effect on its consolidated financial position or liquidity. Also, the company does not believe its obligations to make such expenditures have had, or will have, any significant impact on the company s competitive position relative to other U.S. or international petroleum or chemical companies.

*Financial Instruments* The company believes it has no material market or credit risks to its operations, financial position or liquidity as a result of its commodities and other derivative activities.

*Equity Redetermination* For oil and gas producing operations, ownership agreements may provide for periodic reassessments of equity interests in estimated crude-oil and natural-gas reserves. These activities, individually or together, may result in gains or losses that could be material to earnings in any given period. One such equity redetermination process has been under way since 1996 for Chevron s interests in four producing zones at the Naval Petroleum Reserve at Elk Hills, California, for the time when the remaining interests in these zones were owned by the U.S. Department of Energy. A wide range remains for a possible net settlement amount for the four zones. For this range of settlement, Chevron estimates its maximum possible net before-tax liability at approximately $200 million, and the possible maximum net amount that could be owed to Chevron is estimated at about $150 million. The timing of the settlement and the exact amount within this range of estimates are uncertain.

*Other Contingencies* Chevron receives claims from and submits claims to customers; trading partners; U.S. federal, state and local regulatory bodies; governments; contractors; insurers; and suppliers. The amounts of these claims, individually and in the aggregate, may be significant and take lengthy periods to resolve.

The company and its affiliates also continue to review and analyze their operations and may close, abandon, sell, exchange, acquire or restructure assets to achieve operational or strategic benefits and to improve competitiveness and profitability. These activities, individually or together, may result in gains or losses in future periods.

**Note 12. Fair Value Measurements**

FASB Statement No. 157, *Fair Value Measurements* (FAS 157), and its various amendments, establishes a framework for measuring fair value and stipulates disclosures about fair-value measurements. FAS 157 generally applies to recurring and nonrecurring financial and nonfinancial assets and liabilities under other accounting pronouncements that require or permit fair-value measurements. FAS 157 became effective for Chevron on January 1, 2008, for all financial assets and liabilities and recurring nonfinancial assets and liabilities. On January 1, 2009, FAS 157 became effective for nonrecurring nonfinancial assets and liabilities. Among the required

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

disclosures is the fair-value hierarchy of inputs the company uses to value an asset or a liability. The three levels of the fair-value hierarchy are described as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. For the company, Level 1 inputs include exchange-traded futures contracts for which the parties are willing to transact at the exchange-quoted price and marketable securities that are actively traded.

Level 2: Inputs other than Level 1 that are observable, either directly or indirectly. For the company, Level 2 inputs include quoted prices for similar assets or liabilities, prices obtained through third-party broker quotes and prices that can be corroborated with other observable inputs for substantially the complete term of a contract.

Level 3: Unobservable inputs. The company does not use Level 3 inputs for any of its recurring fair-value measurements. Level 3 inputs may be required for the determination of fair value associated with certain nonrecurring measurements of nonfinancial assets and liabilities. In the second quarter the company used Level 3 inputs to determine the fair value of nonrecurring nonfinancial assets.

The fair value hierarchy for recurring assets and liabilities measured at fair value at June 30, 2009, is as follows:

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

| | At June 30 2009 | Prices in Active Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | | (Millions of dollars) | | |
| Marketable Securities | $108 | $108 | $ | $ |
| Derivatives | 178 | 22 | 156 | |
| **Total Recurring Assets at Fair Value** | **$286** | **$130** | **$156** | **$** |
| Derivatives | $381 | $244 | $137 | $ |
| **Total Recurring Liabilities at Fair Value** | **$381** | **$244** | **$137** | **$** |

*Marketable securities* The company calculates fair value for its marketable securities based on quoted market prices for identical assets and liabilities. The fair values reflect the cash that would have been received if the instruments were sold at June 30, 2009. Marketable securities had average maturities of less than one year.

*Derivatives* The company records its derivative instruments other than any commodity derivative contracts that are designated as normal purchase and normal sale on the Consolidated Balance Sheet at fair value, with virtually all the offsetting amounts to the Consolidated Statement of Income. For derivatives with identical or similar provisions as contracts that are publicly traded on a regular basis, the company uses the market values of the publicly traded instruments as an input for fair-value calculations.

The company s derivative instruments principally include crude oil, natural gas and refined-product futures, swaps, options and forward contracts, as well as foreign-currency forward contracts. Derivatives classified as Level 1 include futures, swaps and options contracts traded in active markets such as the NYMEX (New York Mercantile Exchange).

Derivatives classified as Level 2 include swaps, options, and forward (including foreign currency) contracts principally with financial institutions and other oil and gas companies, the fair values for which are obtained from third-party broker quotes, industry pricing services and exchanges. The company obtains multiple sources of pricing information for the Level 2 instruments. Since this pricing information is generated from observable market data, it has historically been very consistent. The company does not materially adjust this information. The company incorporates internal review, evaluation and assessment procedures, including a comparison of Level 2

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

fair values derived from the company s internally developed forward curves (on a sample basis) with the pricing information to document reasonable, logical and supportable fair-value determinations and proper level of classification.

The fair-value hierarchy for nonrecurring assets and liabilities measured at fair value at June 30, 2009, is as follows:

**Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis**

| | At June 30 2009 | Prices in Active Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Loss (Before Tax) Three Months Ended June 30, 2009 | Loss (Before Tax) Six Months Ended June 30, 2009 |
|---|---|---|---|---|---|---|
| | | | (Millions of dollars) | | | |
| Properties, plant and equipment, net (held and used) | $193 | $ | $ | $193 | $155 | $265 |
| Properties, plant and equipment, net (held for sale) | 56 | | 56 | | 48 | 92 |
| **Total Nonrecurring Assets at Fair Value** | **$249** | **$** | **$56** | **$193** | **$203** | **$357** |

*Impairments of Properties, plant and equipment* In accordance with the provisions of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144), long-lived assets held and used with a carrying amount of $348 million were written down to a fair value of $193 million, resulting in a before-tax loss of $155 million. The fair values were determined from internal cash-flow models, using discount rates consistent with those used by the company to evaluate cash flows of other assets of a similar nature. Long-lived assets held for sale with a carrying amount of $104 million were written down to a fair value of $56 million, resulting in a before-tax loss of $48 million. The fair values were determined based on bids received from prospective buyers.

*Assets and Liabilities Not Required to be Measured at Fair Value* FASB Staff Position No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1), requires certain fair-value disclosure of financial instruments that are within the scope of FAS 107, *Disclosures about Fair Value of Financial Instruments (FAS 107),* to be presented in both interim and annual reports. FSP 107-1 became effective for Chevron for the quarterly period ending June 30, 2009. The company holds cash equivalents in U.S. and non-U.S. portfolios. The instruments held are primarily time deposits, money market funds and fixed rate bonds. Cash equivalents had carrying/fair values of $5.3 billion and $7.1 billion at June 30, 2009 and December 31, 2008, respectively, and average maturities under 90 days. The balance at June 30, 2009, includes $146 million of investments for restricted funds related to an international upstream development project. The amount is included in Deferred charges and other

assets on the Consolidated Balance Sheet. Long-term debt of $5.8 billion and $1.2 billion had estimated fair values of $6.3 billion and $1.4 billion at June 30, 2009 and December 31, 2008, respectively.

Fair values of other financial instruments at June 30, 2009, were not material.

**Note 13. Derivative Instruments and Hedging Activities**

The company implemented FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (FAS 161), as of January 1, 2009.

Implementation of FAS 161 did not have any effect on the company s results of operations or consolidated financial position, nor any effect on the company s use of derivative instruments or hedging activities. However, FAS 161 amended and expanded the disclosures required by FAS 133 in order to provide an enhanced understanding of how and why the company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations, and how derivative instruments affect the company s financial position, financial performance and cash flows.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The company s derivative instruments principally include crude-oil, natural-gas and refined-product futures, swaps, options and forward contracts, as well as foreign-currency forward contracts. None of the company s derivative instruments is designated as a hedging instrument, although certain of the company s affiliates make such designation. The company s derivatives are not material to the company s financial position, financial performance or cash flows.

The company believes it has no material market or credit risks to its operations, financial position or liquidity as a result of its commodities and other derivatives activities, including forward-exchange contracts.

Derivative instruments measured at fair value at June 30, 2009, and their classification on the Consolidated Balance Sheet and Consolidated Statement of Income are as follows:

**Consolidated Balance Sheet:**
**Fair Value of Derivatives not Designated as Hedging Instruments**

| | | Asset Derivatives Fair Value | | | Liability Derivatives Fair Value | |
|---|---|---|---|---|---|---|
| | | | | (Millions of Dollars) | | |
| Type of Derivative Contract | Balance Sheet Classification | At June 30 2009 | At December 31 2008 | Balance Sheet Classification | At June 30 2009 | At December 31 2008 |
| Foreign Exchange | Accounts and notes receivable, net | **$ 18** | $ 5 | Accrued liabilities | **$** | $ 89 |
| Commodity | Accounts and notes receivable, net | **148** | 764 | Accounts payable | **345** | 344 |
| Commodity | Long-term receivables, net | **12** | 30 | Deferred credits and other noncurrent obligations | **36** | 83 |
| | | **$178** | $799 | | **$381** | $516 |

**Consolidated Statement of Income:**
**The Effect of Derivatives not Designated as Hedging Instruments**

| | | Gain/(Loss) Three Months Ended June 30 | | Gain/(Loss) Six Months Ended June 30 | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| Type of Derivative Contract | Statement of Income Classification | (Millions of dollars) | | (Millions of dollars) | |

| | | | | | |
|---|---|---|---|---|---|
| Foreign Exchange | Other income | **$ 26** | $ (2) | **$ 85** | $ (2) |
| Commodity | Sales and other operating revenues | **(168)** | (325) | **(95)** | (438) |
| Commodity | Purchased crude oil and products | **(340)** | (634) | **(277)** | (738) |
| Commodity | Other income | **(7)** | (4) | **(7)** | (5) |
| | | **$ (489)** | $ (965) | **$ (294)** | $ (1,183) |

**Note 14. Assets Held For Sale**

At June 30, 2009, the company classified $100 million of net properties, plant and equipment as Assets held for sale on the Consolidated Balance Sheet. These assets are expected to be sold before the end of 2009.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 15. Other New Accounting Standards**

*FASB Statement No. 165, Subsequent Events (FAS 165)*

In May 2009, the FASB issued FAS 165, which became effective for the company for the quarter ended June 30, 2009. This Statement establishes the accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or made available. It requires disclosure of the date through which a company has evaluated subsequent events and the basis for that date, which for public companies is the date the financial statements are issued. This Statement is not expected to result in any significant changes in the subsequent events reported by the company. Refer to Note 1 on page 7 for the FAS 165-related disclosure for the quarter ended June 30, 2009.

*FASB Statement No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (FAS 166)*

In June 2009, the FASB issued FAS 166, which will become effective for the company on January 1, 2010. The standard amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* FAS 166 changes how companies account for transfers of financial assets and eliminates the concept of qualifying special purpose entities. Adoption of FAS 166 is not expected to have an impact on the company s results of operations, financial position or liquidity.

*FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R) (FAS 167)*

In June 2009, the FASB issued FAS 167, which will become effective for the company January 1, 2010. The standard amends the consolidation guidance for variable interest entities (VIEs) in FASB Interpretation No. 46(R) by requiring the enterprise to qualitatively assess if it is the primary beneficiary of the VIE and, if so, the VIE must be consolidated. Adoption of the Standard is not expected to have a material impact on the company s results of operations, financial position or liquidity.

*FASB Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (FAS 168)*

The FASB issued FAS 168 in June 2009, which becomes effective for the company in the quarter ending September 30, 2009. This standard establishes the FASB Accounting Standards Codification system as the single authoritative source of U.S. generally accepted accounting principles (GAAP), which supersedes existing literature of the FASB, Emerging Issues Task Force, American Institute of CPAs and other sources. At the effective date, all literature outside the Codification will no longer be authoritative. The Codification does not change GAAP but takes existing GAAP literature and organizes it in about 90 accounting Topics. Adoption of this Statement will not affect the company s accounting.

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**Item 2.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

**Second Quarter 2009 Compared With Second Quarter 2008**
**And Six Months 2009 Compared with Six Months 2008**

***Key Financial Results***

**Earnings by Business Segment**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **(Millions of dollars)** | | | |
| **Upstream Exploration and Production** | | | | |
| United States | **$ 273** | $ 2,191 | **$ 294** | $ 3,790 |
| International | **1,246** | 5,057 | **2,494** | 8,586 |
| **Total Upstream** | **1,519** | 7,248 | **2,788** | 12,376 |
| **Downstream Refining, Marketing and Transportation** | | | | |
| United States | **(95)** | (682) | **38** | (678) |
| International | **256** | (52) | **946** | 196 |
| **Total Downstream** | **161** | (734) | **984** | (482) |
| **Chemicals** | **108** | 41 | **147** | 84 |
| **Total Segment Earnings** | **1,788** | 6,555 | **3,919** | 11,978 |
| **All Other** | **(43)** | (580) | **(337)** | (835) |
| **Net Income Attributable to Chevron Corporation(1)(2)** | **$ 1,745** | $ 5,975 | **$ 3,582** | $ 11,143 |
| (1) Includes foreign currency effects | **$ (453)** | $ 126 | **$ (507)** | $ 81 |

(2) Also referred to as earnings in the discussions that follow.

*Net income attributable to Chevron Corporation* for the second quarter 2009 was $1.75 billion ($0.87 per share diluted), compared with $5.98 billion ($2.90 per share diluted) in the corresponding 2008 period. Net income attributable to Chevron Corporation for the first six months of 2009 was $3.58 billion ($1.79 per share diluted), versus $11.14 billion ($5.38 per share diluted) in the 2008 first half.

*Upstream* earnings in the second quarter 2009 were $1.52 billion, compared with $7.25 billion in the 2008 quarter. Earnings for the first half of 2009 were $2.79 billion, versus $12.38 billion a year earlier. The decrease between both comparative periods was due mainly to lower prices for crude oil and natural gas.

*Downstream* earnings were $161 million in the second quarter 2009, compared with a loss of $734 million in the year-earlier period. Earnings for the first six months of 2009 were $984 million, versus a loss of $482 million in the

corresponding 2008 period. Earnings for the second quarter and first half of 2009 included $140 million and $540 million, respectively, of gains on sales of marketing businesses outside the United States.

*Chemicals* earned $108 million and $147 million for the second quarter and the first half of 2009, respectively. Comparative amounts in 2008 were $41 million and $84 million.

Refer to pages 27 through 30 for additional discussion of results by business segment and All Other activities for the second quarter and first six months of 2009 versus the same periods in 2008.

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***Business Environment and Outlook***

Chevron is a global energy company with significant business activities in the following countries: Angola, Argentina, Australia, Azerbaijan, Bangladesh, Brazil, Cambodia, Canada, Chad, China, Colombia, Democratic Republic of the Congo, Denmark, Indonesia, Kazakhstan, Myanmar, the Netherlands, Nigeria, Norway, the Partitioned Neutral Zone between Saudi Arabia and Kuwait, the Philippines, Republic of the Congo, Singapore, South Africa, South Korea, Thailand, Trinidad and Tobago, the United Kingdom, the United States, Venezuela, and Vietnam.

Earnings of the company depend largely on the profitability of its upstream (exploration and production) and downstream (refining, marketing and transportation) business segments. The single biggest factor that affects the results of operations for both segments is movement in the price of crude oil. In the downstream business, crude oil is the largest cost component of refined products. The overall trend in earnings is typically less affected by results from the company s chemicals business and other activities and investments. Earnings for the company in any period may also be influenced by events or transactions that are infrequent and/or unusual in nature.

In recent years and through most of 2008, Chevron and the oil and gas industry at large experienced an increase in certain costs that exceeded the general trend of inflation in many areas of the world. This increase in costs affected the company s operating expenses and capital programs for all business segments, but particularly for upstream. These cost pressures began to soften somewhat in late 2008 and through the first half of 2009. As the price of crude oil dropped precipitously from a record high in mid-2008, the demand for some goods and services in the industry began to slacken. This downward cost trend is expected to continue during 2009 if crude-oil prices do not significantly rebound. The company is actively managing its schedule of work and contracting and procurement activities to capture the value associated with this decline in costs. (Refer to the Upstream section on page 25 for a discussion of the trend in crude-oil prices.)

The company s operations, especially upstream, can also be affected by changing economic, regulatory and political environments in the various countries in which it operates, including the United States. Civil unrest, acts of violence or strained relations between a government and the company or other governments may impact the company s operations or investments. Those developments have at times significantly affected the company s operations and results and are carefully considered by management when evaluating the level of current and future activity in such countries.

To sustain its long-term competitive position in the upstream business, the company must develop and replenish an inventory of projects that offer adequate financial returns for the investment required. Identifying promising areas for exploration, acquiring the necessary rights to explore for and to produce crude oil and natural gas, drilling successfully, and handling the many technical and operational details in a safe and cost-effective manner are all important factors in this effort. Projects often require long lead times and large capital commitments. From time to time, certain governments have sought to renegotiate contracts or impose additional costs on the company. Governments may attempt to do so in the future. The company will continue to monitor these developments, take them into account in evaluating future investment opportunities, and otherwise seek to mitigate any risks to the company s current operations or future prospects.

The company also continually evaluates opportunities to dispose of assets that are not expected to provide sufficient long-term value or to acquire assets or operations complementary to its asset base to help augment the company s growth. Refer to the Results of Operations section beginning on page 27 for discussions of net gains on asset sales during the first half of 2009. Asset dispositions and restructurings may also occur in future periods and could result in significant gains or losses.

The company continues to closely monitor developments in the financial and credit markets, the level of worldwide economic activity and the implications to the company from weakness in prices for crude oil and natural gas. Management is taking these developments into account in the conduct of daily operations and for business planning. The company remains confident of its underlying financial strength to deal with potential problems presented in this environment. (Refer also to discussion of the company s liquidity and capital resources on page 34.)

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Comments related to earnings trends for the company s major business areas are as follows:

*Upstream* Earnings for the upstream segment are closely aligned with industry price levels for crude oil and natural gas. Crude-oil and natural-gas prices are subject to external factors over which the company has no control, including product demand connected with global economic conditions, industry inventory levels, production quotas imposed by the Organization of Petroleum Exporting Countries (OPEC), weather-related damage and disruptions, competing fuel prices, and regional supply interruptions or fears thereof that may be caused by military conflicts, civil unrest or political uncertainty. Moreover, any of these factors could also inhibit the company s production capacity in an affected region. The company monitors developments closely in the countries in which it operates and holds investments, and attempts to manage risks in operating its facilities and business. Besides the impact of the fluctuation in prices for crude oil and natural gas, the longer-term trend in earnings for the upstream segment is also a function of other factors, including the company s ability to find or acquire and efficiently produce crude oil and natural gas, changes in fiscal terms of contracts and changes in tax rates on income.

Price levels for capital and exploratory costs and operating expenses associated with the efficient production of crude oil and natural gas can also be subject to external factors beyond the company s control. External factors include not only the general level of inflation but also prices charged by the industry s material- and service-providers, which can be affected by the volatility of the industry s own supply-and-demand conditions for such materials and services. Capital and exploratory expenditures and operating expenses also can be affected by damage to production facilities caused by severe weather or civil unrest. The chart below shows the trend in benchmark prices for West Texas Intermediate (WTI) crude oil and U.S. Henry Hub natural gas. During 2008, industry price levels for WTI averaged $100 per barrel. The WTI price peaked at $147 in July 2008 and fell sharply to $45 at the end of the year. The WTI price in the first half of 2009 averaged $52 and ended July at about $69. The decline in prices from mid-2008 is largely associated with a weakening in global economic conditions and a reduction in the demand for crude oil. In a July 2009 report, the International Energy Agency (IEA) predicted global demand for crude oil in 2009 would decline 2.9 percent from the 2008 level of consumption. Such a contraction in demand would be the most severe since the early 1980s. In the same report, IEA projected 2010 demand will increase 1.7 percent from expected consumption for the full-year 2009.

A differential in crude-oil prices exists between high-quality (high-gravity, low sulfur) crudes and those of lower quality (low-gravity, high sulfur). The amount of the differential in any period is associated with the supply of heavy crude available versus the demand that is a function of the limited number of refineries that are able to process this lower-quality feedstock into light products (motor gasoline, jet fuel, aviation gasoline and diesel fuel). The differential has narrowed significantly over the past year as production curtailments by OPEC have been mainly of lower-quality crudes. Chevron produces or shares in the production of heavy crude oil in California, Chad, Indonesia, the Partitioned Neutral Zone between Saudi Arabia and Kuwait, Venezuela and in certain fields in Angola, China and the United Kingdom North Sea. (Refer to page 33 for the company s average U.S. and international crude-oil realizations.)

In contrast to price movements in the global market for crude oil, price changes for natural gas in many regional markets are more closely aligned with supply and demand conditions in those markets. Prices at Henry Hub averaged

$4 per thousand cubic feet (MCF) in the first half of 2009, compared with about $10 for the first half of 2008 and almost $9 for the full-year 2008. At the end of July 2009, the Henry Hub spot price was about $3.30 per MCF. Fluctuations in the price for natural gas in the United States are closely associated with the volumes produced in North America and the level of inventory in underground storage relative to customer demand. The lower U.S. price levels in 2009 are also associated with a softening in demand as a result of the economic slowdown. In a July 2009 report, the U.S. Energy Information Administration (EIA) forecasted 2009 natural-gas demand in the United States would be about two percent lower than in 2008.

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Certain other regions of the world in which the company operates have different supply, demand and regulatory circumstances, which until recently have resulted in significantly lower average sales prices than in the United States for the company s production of natural gas. As a result of the U.S. natural gas supply-and-demand conditions in the first half of 2009, the company s U.S. and international realizations were about the same. (Refer to page 33 for the company s average natural gas realizations for the U.S. and international regions.)

In the first half of 2009, the company s worldwide net oil-equivalent production averaged 2.67 million barrels per day. During the period, the company s net oil production was curtailed by an average of about 40,000 barrels per day due to quotas imposed by OPEC. About one-fifth of the company s net oil-equivalent production in the first six months occurred in the OPEC-member countries of Angola, Nigeria and Venezuela and in the Partitioned Neutral Zone between Saudi Arabia and Kuwait.

The company estimates that oil-equivalent production for the full-year 2009 will average 2.66 million barrels per day. This estimate is subject to many factors and uncertainties, including additional quotas that may be imposed by OPEC, price effects on production volumes calculated under cost-recovery and variable-royalty provisions of certain contracts, changes in fiscal terms or restrictions on the scope of company operations, delays in project startups, fluctuations in demand for natural gas in various markets, weather conditions that may shut in production, civil unrest, changing geopolitics, or other disruptions to operations. The outlook for future production levels also is affected by the size and number of economic investment opportunities and, for new large-scale projects, the time lag between initial exploration and the beginning of production. A significant majority of Chevron s upstream investment is currently being made outside the United States. Investments in upstream projects generally begin well in advance of the start of the associated crude-oil and natural-gas production.

Refer to the Results of Operations on pages 27 through 29 for additional discussion of the company s upstream business.

*Downstream* Earnings for the downstream segment are closely tied to margins on the refining and marketing of products that include gasoline, diesel, jet fuel, lubricants, fuel oil and feedstocks for chemical manufacturing. Industry margins are sometimes volatile and can be affected by the global and regional supply-and-demand balance for refined products and by changes in the price of crude oil used for refinery feedstock. Industry margins can also be influenced by refined-product inventory levels, geopolitical events, refinery maintenance programs and disruptions at refineries resulting from unplanned outages that may be due to severe weather, fires or other operational events.

Other factors affecting profitability for downstream operations include the reliability and efficiency of the company s refining and marketing network, the effectiveness of the crude-oil and product-supply functions and the economic returns on invested capital. Profitability can also be affected by the volatility of tanker-charter rates for the company s shipping operations, which are driven by the industry s demand for crude-oil and product tankers. Other factors beyond the company s control include the general level of inflation and energy costs to operate the company s refinery and distribution network.

The company s most significant marketing areas are the West Coast of North America, the U.S. Gulf Coast, Latin America, Asia, southern Africa and the United Kingdom. Chevron operates or has ownership interests in refineries in each of these areas, except Latin America. As part of its downstream strategy to focus on areas of market strength, the company completed sales of marketing businesses during the first half of 2009 in Brazil and certain countries of Africa.

The company s refining and marketing margins in the first half of 2009 were generally weak, as demand for refined products in most areas was dampened by the economic slowdown, and refined-product supplies in most areas were plentiful.

Refer to the Results of Operations on pages 29 through 30 for additional discussion of the company s downstream operations.

*Chemicals* Earnings in the petrochemicals business are closely tied to global chemical demand, industry inventory levels and plant capacity utilization. Feedstock and fuel costs, which tend to follow crude-oil and natural-gas price movements, also influence earnings in this segment.

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Refer to the Results of Operations on page 30 for additional discussion of chemical earnings.

***Operating Developments***

Recent milestones for other upstream projects were achieved in:

*United States* Start-up in the Gulf of Mexico of deepwater production at the 58 percent-owned and operated Tahiti Field, reaching maximum total oil-equivalent production of 135,000 barrels per day during July.

*Brazil* Start-up of deepwater production at the 52 percent-owned and operated Frade Field, which is projected to attain maximum production of 90,000 barrels per day of crude oil and natural gas liquids in 2011.

*Angola* Start-up of the 39 percent-owned and operated Mafumeira Norte offshore project, which is expected to reach maximum total daily production of 30,000 barrels of crude oil and 30 million cubic feet of natural gas in 2011.

*Republic of the Congo* Discovery of crude oil offshore at 31 percent-owned Moho Nord Marine-4 in the area of the Moho-Bilondo project, which commenced production in 2008.

*Australia* Award of the front-end engineering and design (FEED) contract for an LNG plant with two trains, each with a processing capacity of 4.3 million metric tons per year, and a co-located domestic gas plant that would support development of the company s 100 percent-owned Wheatstone Field and other natural gas resources off the northwest coast.

*Australia* Recommendation by the Western Australian Environmental Protection Authority (EPA) that the proposed revision and expansion of the 50 percent-owned and operated Gorgon Project to add a third 5 million metric-ton-per-year LNG train could meet the EPA s environmental objectives, representing a necessary step in Chevron s process to make a final investment decision later this year.

***Results of Operations***

*Business Segments* The following section presents the results of operations for the company s business segments upstream, downstream and chemicals as well as for all other the departments and companies managed at the corporate level. (Refer to Note 4 beginning on page 9 for a discussion of the company s reportable segments, as defined in FAS 131, *Disclosures about Segments of an Enterprise and Related Information*.)

***Upstream***

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **(Millions of dollars)** | | | |
| **U.S. Upstream Earnings** | **$ 273** | $ 2,191 | **$ 294** | $ 3,790 |

U.S. upstream earnings of $273 million in the second quarter of 2009 decreased about $1.9 billion from the same period last year. Lower prices for crude oil and natural gas reduced earnings by about $2.0 billion between periods. The 2009 quarter included charges of approximately $100 million for the impairment of assets. Operating expenses

were about $100 million lower between quarters.

Earnings for the first six months of 2009 were $294 million, compared with $3.8 billion a year earlier. The $3.5 billion decline between periods equaled the approximate effect of lower prices for crude oil and natural gas. Other factors of lesser significance were essentially offsetting.

The average realization per barrel for crude oil and natural gas liquids in the second quarter of 2009 was approximately $50, compared with $109 a year earlier. Average prices were $43 and $98 for the six months of 2009 and 2008, respectively. The average natural-gas realization was $3.27 per thousand cubic feet in the 2009 quarter, compared with $9.84 in the year-ago period. First-half realizations were $3.70 in 2009 and $8.67 in 2008.

Net oil-equivalent production was 700,000 barrels per day in the second quarter 2009, down 2,000 barrels per day from the corresponding period in 2008. First-half 2009 production was 686,000 barrels per day, down 22,000 barrels

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per day from the first six months of 2008. A production benefit between the comparative periods associated with the late-2008 start-up of the Blind Faith Field and the second quarter 2009 start-up of the Tahiti Field, both located in the Gulf of Mexico, was more than offset by the impacts of normal field declines, production offline due to damages from last year s hurricanes and minor asset sales. The net liquids component of oil-equivalent production was 467,000 barrels per day and 454,000 barrels per day for the second quarter and first half of 2009, respectively. Volumes were about 7 percent and 4 percent higher than the corresponding 2008 periods. Net natural gas production was 1.4 billion cubic feet per day for both the second quarter and six months of 2009, down about 12 percent and 15 percent from the comparative 2008 periods, respectively.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Millions of dollars) | | | |
| **International Upstream Earnings*** | **$ 1,246** | $ 5,057 | **$ 2,494** | $ 8,586 |
| * Includes foreign currency effects | **$ (476)** | $ 80 | **$ (443)** | $ (87) |

International upstream earnings of $1.2 billion in the second quarter of 2009 decreased about $3.8 billion from the year ago period. Lower prices for crude oil and natural gas reduced earnings by about $2.8 billion between periods. The swing in foreign-currency effects decreased earnings by about $560 million. Depreciation expense was about $250 million higher between periods, and charges for exploratory well write-offs increased about $100 million.

Earnings for the first six months of 2009 were $2.5 billion, down about $6 billion from the 2008 period. Lower prices for crude oil and natural gas in 2009 decreased earnings by about $5.5 billion. Depreciation expenses were about $500 million higher due in part to increased production between periods. The change in foreign-currency effects decreased earnings by about $360 million. Exploration expenses increased about $150 million between periods. Partially offsetting all of these effects was the impact of higher sales volumes, which increased earnings approximately $700 million between quarters.

The average realization per barrel of crude oil and natural gas liquids in the second quarter 2009 was about $53, compared with $110 in the corresponding 2008 period. For the first half of 2009, the average realization was about $46 per barrel, down from $99 in the 2008 first half. The average natural-gas realization in the 2009 second quarter was $3.73 per thousand cubic feet, down from $5.44 in the second quarter last year. Between the six-month periods, the average natural gas realization decreased to $3.97 from $5.13.

Net oil-equivalent production, including volumes from oil sands in Canada, was 1.97 million barrels per day in the second quarter 2009, up 135,000 barrels per day from the year-ago period. Included in the increase was about 185,000 barrels per day of production associated with two projects Agbami in Nigeria, which commenced operations in the third quarter of last year, and the expansion at Tengiz in Kazakhstan. Also included in the increase was 85,000 barrels per day associated with the impact of lower prices on cost-recovery volumes and other contractual provisions affecting Chevron s share of production. Factors other than normal field declines that partially offset these increases included OPEC-related curtailments of 35,000 barrels per day, approximately 30,000 barrels per day offline due to civil unrest in the onshore area of Nigeria and about 25,000 barrels per day of lower oil-equivalent natural gas production in Thailand.

Net oil-equivalent production for the first half of 2009 was 1.98 million barrels per day, up 121,000 barrels per day from the 2008 first half. Production was higher in Nigeria, Kazakhstan, and Indonesia and lower in Thailand, Venezuela and Angola. Included in the increase was about 120,000 barrels per day from Agbami and approximately 50,000 barrels per day from Tengiz. Also included in the increase was about 70,000 barrels per day associated with the impact of lower prices on cost-recovery volumes and other contractual provisions affecting Chevron s share of production. Factors other than normal field declines that partially offset these increases included OPEC-related curtailments of 40,000 barrels per day, 20,000 barrels per day due to the civil unrest in Nigeria and 20,000 barrels per day of lower oil equivalent natural gas production in Thailand.

The net liquids component of oil-equivalent production was 1.37 million barrels per day in the second quarter 2009 and 1.38 million barrels per day in first half of 2009, an increase of 11 percent for both comparative periods. Net

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natural gas production of 3.59 billion cubic feet per day in the second quarter 2009 and 3.62 billion cubic feet per day in first half of 2009 decreased about 1 percent and 2 percent for the respective periods.

***Downstream***

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **(Millions of dollars)** | | | |
| **U.S. Downstream Earnings** | **$ (95)** | $ (682) | **$ 38** | $ (678) |

U.S. downstream incurred a loss of $95 million in the second quarter of 2009, compared with a loss of $682 million a year earlier. Margins on the sale of refined products were higher in the 2009 quarter, but were weak in both periods. Losses on derivative instruments were about $200 million lower in the 2009 quarter. Operating expenses declined about $150 million from last year s second quarter, which included higher expenses associated with planned shutdowns for refinery maintenance in 2008.

Earnings for the first six months of 2009 were $38 million, compared with a loss of $678 million in the 2008 first half. Refined-product margins were higher in the first six months of 2009, but were weak in both periods. Losses on derivative instruments were about $250 million lower in the 2009 first half. Operating expenses declined about $200 million between the six-month periods.

Crude-inputs to the company s refineries were 923,000 barrels per day in the second quarter 2009, up 13 percent, or 107,000 barrels per day, from a year earlier. Crude-oil inputs of 931,000 barrels per day increased about 9 percent between the six-month periods. The increase in both comparative periods was attributable mainly to less planned and unplanned downtime for refinery turnarounds.

Refined-product sales volumes increased 4 percent between the quarterly periods to 1.44 million barrels per day. Between the six- month periods, refined-product sales volumes were up 1 percent to 1.42 million barrels per day. The increase for both comparative periods was primarily due to higher sales volumes of gasoline. Branded gasoline sales volumes were up 7 percent between quarters to 639,000 barrels per day. For the six-month periods, branded gasoline sales volumes increased 5 percent to 626,000 barrels per day.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2008** | **2009** |
| | **(Millions of dollars)** | | | |
| **International Downstream Earnings*** | **$ 256** | $ (52) | **$ 946** | $ 196 |
| * Includes foreign currency effects | **$ (25)** | $ 46 | **$ (90)** | $ 157 |

International downstream earned $256 million in the second quarter 2009, compared with a loss of $52 million a year earlier. Margins on the sale of refined products improved in most areas, due mainly to a decrease in crude-oil feedstock costs. Operating expenses were about $200 million lower between the quarterly periods. Earnings in the second quarter 2009 included gains of approximately $140 million associated with asset sales. Foreign-currency effects reduced earnings by $25 million in the 2009 quarter, compared with a $46 million benefit a year earlier.

Earnings for the six months of 2009 were $946 million, up $750 million from the 2008 period. The 2009 period included gains of approximately $540 million on the sale of marketing businesses in Brazil and certain countries in Africa. Operating expenses declined about $400 million from the first six months of 2008. Foreign-currency effects reduced earnings by $90 million in 2009, compared with a $157 million benefit to earnings a year earlier.

The company s share of crude-oil inputs to refineries was 970,000 barrels per day in the 2009 second quarter, up 18,000 from the year-ago period. For the six months of 2009, crude-oil inputs were 977,000 barrels per day, up 17,000 from the 2008 first half. The increase for both comparative periods was attributable mainly to less planned and unplanned downtime for refinery turnarounds.

Refined-product sales volumes of 1.82 million barrels per day in the 2009 second quarter were 12 percent lower than a year earlier, due mainly to asset sales (referenced above). Excluding the impact of asset sales, sales volumes

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were down 5 percent between periods primarily due to lower demand for jet fuel and fuel oil. Between the six-month periods, refined-product sales volumes of 1.89 million barrels per day decreased by about 8 percent, also due mainly to asset sales.

***Chemicals***

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **(Millions of dollars)** | | | |
| **Earnings*** | **$ 108** | $ 41 | **$ 147** | $ 84 |
| * Includes foreign currency effects | **$ 6** | $ 1 | **$ 13** | $ |

Chemical operations earned $108 million in the second quarter of 2009, compared with $41 million in the year-ago quarter. Six-month earnings increased from $84 million in 2008 to $147 million in 2009. For both comparative periods, earnings increased at the 50-percent owned Chevron Phillips Chemical Company LLC (CPChem) due to lower utility and manufacturing costs, the effect of which was partially offset by lower margins on the sale of commodity chemicals. For Chevron s Oronite subsidiary, earnings in the second quarter of 2009 increased from a year earlier on higher margins for the sale of lubricant and fuel additives, the effect of which more than offset the impact of lower sales volumes. Earnings declined between the six-month periods mainly on lower sales volumes.

***All Other***

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **(Millions of dollars)** | | | |
| **Net Charges*** | **$ (43)** | $ (580) | **$ (337)** | $ (835) |
| * Includes foreign currency effects | **$ 42** | $ (1) | **$ 13** | $ 11 |

All Other consists of mining operations, power generation businesses, worldwide cash management and debt financing activities, corporate administrative functions, insurance operations, real estate activities, alternative fuels and technology companies.

Net charges in the second quarter 2009 were $43 million, compared with $580 million in the year-ago period. For the six months of 2009, net charges were $337 million, compared with $835 million a year earlier. Net charges were lower in the 2009 quarterly and six-month periods for environmental remediation at sites that previously had been closed or sold, corporate tax items and employee compensation and benefits.

***Consolidated Statement of Income***

Explanations of variations between periods for certain income statement categories are provided below:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **(Millions of dollars)** | | | |
| **Sales and other operating revenues** | **$ 39,647** | $ 80,962 | **$ 74,634** | $ 145,621 |

Sales and other operating revenues for the quarterly and six month periods decreased $41 billion and $71 billion, respectively, due mainly to lower prices for crude oil, natural gas and refined products.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **(Millions of dollars)** | | | |
| **Income from equity affiliates** | **$ 735** | $ 1,563 | **$ 1,346** | $ 2,807 |

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Income from equity affiliates decreased for the quarterly and six-month periods due mainly to lower upstream-related earnings from Tengizchevroil in Kazakhstan and Petropiar and Petroboscan in Venezuela, again principally related to lower prices for crude oil.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Millions of dollars) | | | |
| **Other income** | **$ (177)** | $ 464 | **$ 355** | $ 507 |

Other income for the quarterly period in 2009 and the six-month period decreased mainly due to foreign-exchange losses associated with weakening of the U.S. dollar and lower interest income. These effects were partially offset by gains from downstream asset sales outside of the United States.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Millions of dollars) | | | |
| **Purchased crude oil and products** | **$ 23,678** | $ 56,056 | **$ 44,078** | $ 98,584 |

Purchases decreased $32 billion and $55 billion in the quarterly and six-month periods due mainly to lower prices for crude oil, natural gas and refined products.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Millions of dollars) | | | |
| **Operating, selling, general and administrative expenses** | **$ 5,252** | $ 6,887 | **$ 10,575** | $ 12,689 |

Operating, selling, general and administrative expenses decreased approximately $1.6 billion between quarters and $2.1 billion between the six-month periods. Lower expenses related to environmental remediation, shipping charters and other transportation, contract labor and fuel accounted for approximately $1.1 billion and $1.5 billion of the decline between the quarterly and six-month periods, respectively. Other categories of expense were also generally lower but were of lesser significance individually.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Millions of dollars) | | | |

| | | | | |
|---|---|---|---|---|
| **Exploration expenses** | **$ 438** | $ 307 | **$ 819** | $ 560 |

Exploration expenses in the quarterly period in 2009 and the six-month period increased due to higher amounts for well write-offs and geological and geophysical costs.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **(Millions of dollars)** | | | |
| **Depreciation, depletion and amortization** | **$ 3,099** | $ 2,275 | **$ 5,966** | $ 4,490 |

The increase in both comparative periods was associated mainly with production start-ups for upstream projects in the United States and Africa and higher depreciation rates for certain other oil and gas producing fields. Asset impairments accounted for less than $200 million of the increase in the quarterly period and about $300 million of the increase in the six-month period.

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| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Millions of dollars) | | | |
| **Taxes other than on income** | **$ 4,386** | $ 5,699 | **$ 8,364** | $ 11,142 |

Taxes other than on income decreased primarily due to lower import duties in the company s U.K. downstream operations.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Millions of dollars) | | | |
| **Income tax expense** | **$ 1,585** | $ 5,756 | **$ 2,904** | $ 10,265 |

Effective income tax rates for the 2009 and 2008 second quarters were 47 percent and 49 percent, respectively. For the year-to-date periods, the effective tax rates were 45 and 48 percent, respectively. The 2009 rates in the comparative periods were lower due to proportionally higher income being earned in international downstream businesses that were taxed at lower average rates than income earned in international upstream tax jurisdictions.

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***Selected Operating Data***

The following table presents a comparison of selected operating data:

**Selected Operating Data(1)(2)**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| **U.S. Upstream** | | | | |
| Net crude-oil and natural-gas-liquids production (MBPD) | **467** | 438 | **454** | 437 |
| Net natural-gas production (MMCFPD)(3) | **1,395** | 1,588 | **1,387** | 1,627 |
| Net oil-equivalent production (MBOEPD) | **700** | 702 | **686** | 708 |
| Sales of natural gas (MMCFPD) | **5,721** | 7,631 | **6,046** | 7,817 |
| Sales of natural gas liquids (MBPD) | **163** | 167 | **157** | 156 |
| Revenue from net production | | | | |
| Crude oil and natural gas liquids ($/Bbl.) | **$ 50.42** | $ 108.67 | **$ 43.46** | $ 97.66 |
| Natural gas ($/MCF) | **$ 3.27** | $ 9.84 | **$ 3.70** | $ 8.67 |
| **International Upstream** | | | | |
| Net crude-oil and natural-gas-liquids production (MBPD) | **1,346** | 1,207 | **1,353** | 1,218 |
| Net natural-gas production (MMCFPD)(3) | **3,593** | 3,621 | **3,618** | 3,695 |
| Net oil-equivalent production (MBOEPD)(4) | **1,970** | 1,835 | **1,981** | 1,860 |
| Sales of natural gas (MMCFPD) | **3,962** | 4,205 | **4,108** | 4,190 |
| Sales of natural gas liquids (MBPD) | **110** | 127 | **113** | 131 |
| Revenue from liftings | | | | |
| Crude oil and natural gas liquids ($/Bbl.) | **$ 53.17** | $ 110.44 | **$ 46.36** | $ 98.63 |
| Natural gas ($/MCF) | **$ 3.73** | $ 5.44 | **$ 3.97** | $ 5.13 |
| **U.S. and International Upstream** | | | | |
| Total net oil-equivalent production, including volumes from oil sands (MBOEPD) (3)(4) | **2,670** | 2,537 | **2,667** | 2,568 |
| **U.S. Downstream** | | | | |
| Gasoline sales (MBPD)(5) | **733** | 677 | **719** | 687 |
| Sales of other refined products (MBPD) | **708** | 706 | **703** | 721 |
| Total | **1,441** | 1,383 | **1,422** | 1,408 |
| Refinery input (MBPD) | **923** | 816 | **931** | 855 |
| **International Downstream** | | | | |
| Gasoline sales (MBPD)(5) | **447** | 512 | **469** | 507 |
| Sales of other refined products (MBPD) | **870** | 1,043 | **924** | 1,048 |
| Share of affiliate sales (MBPD) | **504** | 511 | **497** | 504 |
| Total | **1,821** | 2,066 | **1,890** | 2,059 |
| Refinery input (MBPD) | **970** | 952 | **977** | 960 |

(1) Includes company share of equity affiliates.

| | | | | |
|---|---|---|---|---|
| (2) MBPD thousands of barrels per day; MMCFPD millions of cubic feet per day; Bbl. Barrel; MCF thousands of cubic feet; oil-equivalent gas (OEG) conversion ratio is 6,000 cubic feet of natural gas = 1 barrel of crude oil; MBOEPD thousands of barrels of oil-equivalent per day. | | | | |
| (3) Includes natural gas consumed in operations (MMCFPD): | | | | |
| United States | **56** | 69 | **57** | 80 |
| International | **487** | 424 | **493** | 454 |
| (4) Includes production from oil sands net (MBPD): | **26** | 24 | **25** | 26 |
| (5) Includes branded and unbranded gasoline. | | | | |

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***Liquidity and Capital Resources***

*Cash, cash equivalents and marketable securities* totaled approximately $7.3 billion at June 30, 2009, down $2.2 billion from year-end 2008. Cash provided by operating activities in the first half of 2009 was $5.7 billion, compared with $15.3 billion in the year ago period. The net cash provided by operating activities in the 2009 period was less than the $8.4 billion of cash used for investing activities, which included $2 billion for the extension of an upstream concession. (Refer also to the discussion of the company s capital and exploratory expenditures on page 35.)

*Dividends* The company paid dividends of $2.6 billion to common stockholders during the first six months of 2009. In July 2009, the company declared a quarterly dividend of 68 cents per common share payable in September 2009.

*Debt and Capital Lease and Noncontrolling Interest Obligations* Chevron s total debt and capital lease obligations were $12.1 billion at June 30, 2009, up from $8.9 billion at December 31, 2008. The company also had noncontrolling interest obligations of $522 million at June 30, 2009.

The $3.2 billion increase in total debt and capital lease obligations during the first half of 2009 included the net effect of a $5 billion public bond issuance, a $1.6 billion decrease in commercial paper, and payment of principal for $400 million of Texaco Capital Inc. bonds that matured in January. The company s debt and capital lease obligations due within one year, consisting primarily of commercial paper and the current portion of long-term debt, totaled $6.0 billion at June 30, 2009, and $7.8 billion at December 31, 2008. Of these amounts, $5.1 billion and $5.0 billion were reclassified to long-term at the end of the respective periods. At June 30, 2009, settlement of these obligations was not expected to require the use of working capital within one year, as the company had the intent and the ability, as evidenced by committed credit facilities, to refinance them on a long-term basis.

At June 30, 2009, the company had $5.1 billion in committed credit facilities with various major banks, which permit the refinancing of short-term obligations on a long-term basis. These facilities support commercial paper borrowing and also can be used for general corporate purposes. The company s practice has been to continually replace expiring commitments with new commitments on substantially the same terms, maintaining levels management believes appropriate. Any borrowings under the facilities would be unsecured indebtedness at interest rates based on London Interbank Offered Rate or an average of base lending rates published by specified banks and on terms reflecting the company s strong credit rating. No borrowings were outstanding under these facilities at June 30, 2009. In addition, the company has an automatic shelf registration statement that expires in March 2010 for an unspecified amount of nonconvertible debt securities issued or guaranteed by the company.

The company has outstanding public bonds issued by Chevron Corporation, Chevron Corporation Profit Sharing/Savings Plan Trust Fund, Texaco Capital Inc. and Union Oil Company of California. All of these securities are the obligations of, or guaranteed by, Chevron Corporation and are rated AA by Standard and Poor s Corporation and Aa1 by Moody s Investors Service. The company s U.S. commercial paper is rated A-1+ by Standard and Poor s and P-1 by Moody s. All of these ratings denote high-quality, investment-grade securities.

The company s future debt level is dependent primarily on results of operations, the capital-spending program and cash that may be generated from asset dispositions. The company believes that it has substantial borrowing capacity to meet unanticipated cash requirements and that during periods of low prices for crude oil and natural gas and narrow margins for refined products and commodity chemicals, it has the flexibility to increase borrowings and/or modify capital-spending plans to continue paying the common stock dividend and maintain the company s high-quality debt ratings.

*Common Stock Repurchase Program* In September 2007, the company authorized the acquisition of up to $15 billion of its common shares from time to time at prevailing prices, as permitted by securities laws and other legal

requirements and subject to market conditions and other factors. The program is for a period of up to three years and may be discontinued at any time. The company did not acquire any shares during the first half of 2009 and does not plan to acquire any shares in the 2009 third quarter. From the inception of the program, the company has acquired 119 million shares at a cost of $10.1 billion.

*Current Ratio* current assets divided by current liabilities. The current ratio was 1.4 at June 30, 2009, and 1.1 at December 31, 2008. The current ratio is adversely affected by the valuation of Chevron s inventories on a LIFO

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basis. At June 30, 2009, the book value of inventory was significantly lower than replacement cost. The company does not consider its inventory valuation methodology to affect liquidity.

*Debt Ratio* total debt as a percentage of total debt plus Chevron Corporation stockholders equity. This ratio was 12.1 percent at June 30, 2009, and 9.3 percent at year-end 2008.

*Pension Obligations* At the end of 2008, the company estimated it would contribute $800 million to employee pension plans during 2009 (composed of $550 million for the U.S. plans and $250 million for the international plans). Through June 30, 2009, a total of $148 million was contributed (including $65 million to the U.S. plans). Total contributions for the full year are currently estimated at $1 billion ($750 million for the U.S. plans and $250 million for the international plans). Actual contribution amounts are dependent upon investment returns, changes in pension obligations, regulatory environments and other economic factors. Additional funding may ultimately be required if investment returns are insufficient to offset increases in plan obligations.

*Capital and Exploratory Expenditures* Total expenditures, including the company s share of spending by affiliates, were $11.4 billion in the first six months of 2009, compared with $10.3 billion in the corresponding 2008 period. The amounts included the company s share of equity-affiliate expenditures of about $600 million and $900 million in the 2009 and 2008 periods, respectively. Outlays in the 2009 period included $2 billion for the extension of an upstream concession. Expenditures for upstream projects in the first half of 2009 were about $9.2 billion, representing 80 percent of the companywide total.

**Capital and Exploratory Expenditures by Major Operating Area**

| | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| **United States** | | | | |
| Upstream | **$ 795** | $ 1,239 | **$ 1,812** | $ 2,690 |
| Downstream | **553** | 528 | **923** | 900 |
| Chemicals | **38** | 21 | **74** | 127 |
| All Other | **87** | 142 | **156** | 265 |
| **Total United States** | **1,473** | 1,930 | **2,965** | 3,982 |
| **International** | | | | |
| Upstream | **2,915** | 2,887 | **7,372** | 5,723 |
| Downstream | **538** | 325 | **1,043** | 554 |
| Chemicals | **23** | 13 | **34** | 22 |
| All Other | | 2 | **1** | 3 |
| **Total International** | **3,476** | 3,227 | **8,450** | 6,302 |
| **Worldwide** | **$ 4,949** | $ 5,157 | **$ 11,415** | $ 10,284 |

**Contingencies and Significant Litigation**

*MTBE* Chevron and many other companies in the petroleum industry have used methyl tertiary butyl ether (MTBE) as a gasoline additive. Chevron is a party to 49 pending lawsuits and claims, the majority of which involve numerous other petroleum marketers and refiners. Resolution of these lawsuits and claims may ultimately require the company to correct or ameliorate the alleged effects on the environment of prior release of MTBE by the company or other parties. Additional lawsuits and claims related to the use of MTBE, including personal-injury claims, may be filed in the future. The company s ultimate exposure related to pending lawsuits and claims is not currently determinable, but could be material to net income in any one period. The company no longer uses MTBE in the manufacture of gasoline in the United States.

*Ecuador* Chevron is a defendant in a civil lawsuit before the Superior Court of Nueva Loja in Lago Agrio, Ecuador, brought in May 2003 by plaintiffs who claim to be representatives of certain residents of an area where an oil production consortium formerly had operations. The lawsuit alleges damage to the environment from the oil exploration and production operations, and seeks unspecified damages to fund environmental remediation and restoration of the alleged environmental harm, plus a health monitoring program. Until 1992, Texaco Petroleum

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Company (Texpet), a subsidiary of Texaco Inc., was a minority member of this consortium with Petroecuador, the Ecuadorian state-owned oil company, as the majority partner; since 1990, the operations have been conducted solely by Petroecuador. At the conclusion of the consortium and following an independent third-party environmental audit of the concession area, Texpet entered into a formal agreement with the Republic of Ecuador and Petroecuador for Texpet to remediate specific sites assigned by the government in proportion to Texpet s ownership share of the consortium. Pursuant to that agreement, Texpet conducted a three-year remediation program at a cost of $40 million. After certifying that the sites were properly remediated, the government granted Texpet and all related corporate entities a full release from any and all environmental liability arising from the consortium operations.

Based on the history described above, Chevron believes that this lawsuit lacks legal or factual merit. As to matters of law, the company believes first, that the court lacks jurisdiction over Chevron; second, that the law under which plaintiffs bring the action, enacted in 1999, cannot be applied retroactively to Chevron; third, that the claims are barred by the statute of limitations in Ecuador; and, fourth, that the lawsuit is also barred by the releases from liability previously given to Texpet by the Republic of Ecuador and Petroecuador. With regard to the facts, the company believes that the evidence confirms that Texpet s remediation was properly conducted and that the remaining environmental damage reflects Petroecuador s failure to timely fulfill its legal obligations and Petroecuador s further conduct since assuming full control over the operations.

In April 2008, a mining engineer appointed by the court to identify and determine the cause of environmental damage, and to specify steps needed to remediate it, issued a report recommending that the court assess $8 billion, which would, according to the engineer, provide financial compensation for purported damages, including wrongful death claims, and pay for, among other items, environmental remediation, health care systems, and additional infrastructure for Petroecuador. The engineer s report also asserted that an additional $8.3 billion could be assessed against Chevron for unjust enrichment. The engineer s report is not binding on the court. Chevron also believes that the engineer s work was performed and his report prepared in a manner contrary to law and in violation of the court s orders. Chevron submitted a rebuttal to the report in which it asked the court to strike the report in its entirety. In November 2008, the engineer revised the report and, without additional evidence, recommended an increase in the financial compensation for purported damages to a total of $18.9 billion and an increase in the assessment for purported unjust enrichment to a total of $8.4 billion. Chevron submitted a rebuttal to the revised report, and Chevron will continue a vigorous defense of any attempted imposition of liability.

The court has completed most of the procedural aspects of the case and could render a judgment at any time. In the event of an adverse judgment, Chevron would expect to pursue its appeals and vigorously defend against enforcement of any such judgment; therefore, the ultimate outcome and any financial effect on Chevron remains uncertain. Management does not believe an estimate of a reasonably possible loss (or a range of loss) can be made in this case. Due to the defects associated with the engineer s report, management does not believe the report itself has any utility in calculating a reasonably possible loss (or a range of loss). Moreover, the highly uncertain legal environment surrounding the case provides no basis for management to estimate a reasonably possible loss (or a range of loss).

*Guarantees* The company and its subsidiaries have certain other contingent liabilities with respect to guarantees, direct or indirect, of debt of affiliated companies or third parties. Under the terms of the guarantee arrangements, generally the company would be required to perform should the affiliated company or third party fail to fulfill its obligations under the arrangements. In some cases, the guarantee arrangements may have recourse provisions that would enable the company to recover any payments made under the terms of the guarantees from assets provided as collateral.

*Off-Balance-Sheet Obligations* The company and its subsidiaries have certain other contractual obligations relating to long-term unconditional purchase obligations and commitments, including throughput and take-or-pay agreements, some of which relate to suppliers financing arrangements. The agreements typically provide goods and services, such

as pipeline, storage and regasification capacity, drilling rigs, utilities and petroleum products, to be used or sold in the ordinary course of the company s business.

*Indemnifications* The company provided certain indemnities of contingent liabilities of Equilon and Motiva to Shell and Saudi Refining, Inc., in connection with the February 2002 sale of the company s interests in those

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investments. The company would be required to perform if the indemnified liabilities become actual losses. Were that to occur, the company could be required to make future payments up to $300 million. Through the end of June 2009, the company paid $48 million under these indemnities and continues to be obligated for possible additional indemnification payments in the future.

The company has also provided indemnities relating to contingent environmental liabilities related to assets originally contributed by Texaco to the Equilon and Motiva joint ventures and environmental conditions that existed prior to the formation of Equilon and Motiva or that occurred during the period of Texaco s ownership interest in the joint ventures. In general, the environmental conditions or events that are subject to these indemnities must have arisen prior to December 2001. Claims had to be asserted by February 2009 for Equilon indemnities and must be asserted no later than February 2012 for Motiva indemnities. Under the terms of these indemnities, there is no maximum limit on the amount of potential future payments. In February 2009, Shell delivered a letter to the company purporting to preserve unmatured claims for certain Equilon indemnities. The letter itself provides no estimate of the ultimate claim amount, and management does not believe the letter or any other information provides a basis to estimate the amount, if any, of a range of loss or potential range of loss with respect to the Equilon or the Motiva indemnities. The company posts no assets as collateral and has made no payments under the indemnities.

The amounts payable for the indemnities described above are to be net of amounts recovered from insurance carriers and others and net of liabilities recorded by Equilon or Motiva prior to September 30, 2001, for any applicable incident.

In the acquisition of Unocal, the company assumed certain indemnities relating to contingent environmental liabilities associated with assets that were sold in 1997. Under the indemnification agreement, the company s liability is unlimited until April 2022, when the liability expires. The acquirer of the assets sold in 1997 shares in certain environmental remediation costs up to a maximum obligation of $200 million, which had not been reached as of June 30, 2009.

*Noncontrolling Interests* The company has commitments of $522 million related to noncontrolling interests in subsidiary companies.

*Environmental* The company is subject to loss contingencies pursuant to laws, regulations, private claims and legal proceedings related to environmental matters that are subject to legal settlements or that in the future may require the company to take action to correct or ameliorate the effects on the environment of prior release of chemicals or petroleum substances, including MTBE, by the company or other parties. Such contingencies may exist for various sites, including, but not limited to, federal Superfund sites and analogous sites under state laws, refineries, crude-oil fields, service stations, terminals, land development areas, and mining operations, whether operating, closed or divested. These future costs are not fully determinable due to such factors as the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions that may be required, the determination of the company s liability in proportion to other responsible parties, and the extent to which such costs are recoverable from third parties.

Although the company has provided for known environmental obligations that are probable and reasonably estimable, the amount of additional future costs may be material to results of operations in the period in which they are recognized. The company does not expect these costs will have a material effect on its consolidated financial position or liquidity. Also, the company does not believe its obligations to make such expenditures have had, or will have, any significant impact on the company s competitive position relative to other U.S. or international petroleum or chemical companies.

*Financial Instruments* The company believes it has no material market or credit risks to its operations, financial position or liquidity as a result of its commodities and other derivative activities.

*Income Taxes* Tax positions for Chevron and its subsidiaries and affiliates are subject to income tax audits by many tax jurisdictions throughout the world. For the company s major tax jurisdictions, examinations of tax returns for certain prior tax years had not been completed as of June 30, 2009. For Chevron s major tax jurisdictions, the latest years for which income tax examinations had been finalized were as follows: United States 2005, Nigeria 1994, Angola 2001 and Saudi Arabia 2003.

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Settlement of open tax years, as well as tax issues in other countries where the company conducts its businesses, is not expected to have a material effect on the consolidated financial position or liquidity of the company and, in the opinion of management, adequate provision has been made for income and franchise taxes for all years under examination or subject to future examination.

*Equity Redetermination* For oil and gas producing operations, ownership agreements may provide for periodic reassessments of equity interests in estimated crude-oil and natural-gas reserves. These activities, individually or together, may result in gains or losses that could be material to earnings in any given period. One such equity redetermination process has been under way since 1996 for Chevron s interests in four producing zones at the Naval Petroleum Reserve at Elk Hills, California, for the time when the remaining interests in these zones were owned by the U.S. Department of Energy. A wide range remains for a possible net settlement amount for the four zones. For this range of settlement, Chevron estimates its maximum possible net before-tax liability at approximately $200 million, and the possible maximum net amount that could be owed to Chevron is estimated at about $150 million. The timing of the settlement and the exact amount within this range of estimates are uncertain.

*Other Contingencies* Chevron receives claims from and submits claims to customers; trading partners; U.S. federal, state and local regulatory bodies; governments; contractors; insurers; and suppliers. The amounts of these claims, individually and in the aggregate, may be significant and take lengthy periods to resolve.

The company and its affiliates also continue to review and analyze their operations and may close, abandon, sell, exchange, acquire or restructure assets to achieve operational or strategic benefits and to improve competitiveness and profitability. These activities, individually or together, may result in gains or losses in future periods.

**New Accounting Standards**

*FASB Statement No. 165*, *Subsequent Events (FAS 165)*

In May 2009, the FASB issued FAS 165, which became effective for the company for the quarter ended June 30, 2009. This Statement establishes the accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or made available. It requires disclosure of the date through which a company has evaluated subsequent events and the basis for that date, which for public companies is the date the financial statements are issued. This Statement is not expected to result in any significant changes in the subsequent events reported by the company. Refer to Note 1 on page 7 for the FAS 165-related disclosure for the quarter ended June 30, 2009.

*FASB Statement No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (FAS 166)*

In June 2009, the FASB issued FAS 166, which will become effective for the company on January 1, 2010. The standard amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* FAS 166 changes how companies account for transfers of financial assets and eliminates the concept of qualifying special purpose entities. Adoption of FAS 166 is not expected to have an impact on the company s results of operations, financial position or liquidity.

*FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R) (FAS 167)*

In June 2009, the FASB issued FAS 167, which will become effective for the company January 1, 2010. The standard amends the consolidation guidance for variable interest entities (VIEs) in FASB Interpretation No. 46(R) by requiring the enterprise to qualitatively assess if it is the primary beneficiary of the VIE and, if so, the VIE must be

consolidated. Adoption of the Standard is not expected to have a material impact on the company s results of operations, financial position or liquidity.

*FASB Statement No. 168*, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (FAS 168)*

The FASB issued FAS 168 in June 2009, which becomes effective for the company in the quarter ending September 30, 2009. This standard establishes the FASB Accounting Standards Codification system as the single authoritative source of U.S. generally accepted accounting principles (GAAP), which supersedes existing literature

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of the FASB, Emerging Issues Task Force, American Institute of CPAs and other sources. At the effective date, all literature outside the Codification will no longer be authoritative. The Codification does not change GAAP but takes existing GAAP literature and organizes it in about 90 accounting Topics. Adoption of this Statement will not affect the company s accounting.

**Item 3.** ***Quantitative and Qualitative Disclosures About Market Risk***

Information about market risks for the three months ended June 30, 2009, does not differ materially from that discussed under Item 7A of Chevron s 2008 Annual Report on Form 10-K.

**Item 4.** ***Controls and Procedures***

(a) Evaluation of disclosure controls and procedures

The company s management has evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the company s disclosure controls and procedures were effective as of June 30, 2009.

(b) Changes in internal control over financial reporting

During the quarter ended June 30, 2009, there were no changes in the company s internal control over financial reporting that have materially affected, or were reasonably likely to materially affect, the company s internal control over financial reporting.

## PART II

## OTHER INFORMATION

**Item 1.** ***Legal Proceedings***

None.

**Item 1A.** ***Risk Factors***

Chevron is a major fully integrated petroleum company with a diversified business portfolio, a strong balance sheet, and a history of generating sufficient cash to fund capital and exploratory expenditures and to pay dividends. Nevertheless, some inherent risks could materially impact the company s financial results of operations or financial condition.

Information about risk factors for the three months ended June 30, 2009, does not differ materially from that set forth in Part I, Item 1A, of Chevron s 2008 Annual Report on Form 10-K.

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**Item 2.** ***Unregistered Sales of Equity Securities and Use of Proceeds***

**CHEVRON CORPORATION**

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period | Total Number of Shares Purchased(1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares that May Yet Be Purchased Under the Program(2) |
|---|---|---|---|---|
| April 1-30, 2009 | **1,147** | **69.62** | | |
| May 1-31, 2009 | | | | |
| June 1-30, 2009 | **35,878** | **72.17** | | |
| **Total** | **37,025** | **72.09** | | |

(1) Includes 21,680 common shares repurchased during the three-month period ended June 30, 2009, from company employees for required personal income tax withholdings on the exercise of the stock options issued to management and employees under the company s long-term incentive plans. Also includes 15,345 shares delivered or attested to in satisfaction of the exercise price by holders of certain former Texaco Inc. employee stock options exercised during the three-month period ended June 30, 2009.

(2) In September 2007, the company authorized common stock repurchases of up to $15 billion that may be made from time to time at prevailing prices as permitted by securities laws and other requirements, and subject to market conditions and other factors. The program will occur over a period of up to three years and may be discontinued at any time. Through June 30, 2009, $10.1 billion had been expended to repurchase 118,996,749 shares since the common stock repurchase program began.

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**Item 4.** ***Submission of Matters to a Vote of Security Holders***

The following matters were submitted to a vote of stockholders at the Annual Meeting on May 27, 2009.

| | Number of Shares | | |
|---|---|---|---|
| | **Voted For** | **Voted Against** | **Abstain** |
| **1. Election of Directors** | | | |
| Samuel H. Armacost | 1,608,167,735 | 63,430,073 | 8,782,564 |
| Linnet F. Deily | 1,642,467,129 | 29,328,182 | 8,577,567 |
| Robert E. Denham | 1,634,530,636 | 36,426,186 | 9,423,551 |
| Robert J. Eaton | 1,621,776,548 | 49,828,662 | 8,776,363 |
| Enrique Hernandez, Jr. | 1,631,116,685 | 40,379,375 | 8,877,617 |
| Franklyn G. Jenifer | 1,634,246,460 | 36,958,058 | 9,176,654 |
| Sam Nunn | 1,618,810,074 | 52,769,541 | 8,800,758 |
| David J. O Reilly | 1,634,807,077 | 37,968,850 | 7,604,446 |
| Donald B. Rice | 1,623,273,011 | 48,380,174 | 8,719,292 |
| Kevin W. Sharer | 1,606,280,193 | 65,326,543 | 8,766,536 |
| Charles R. Shoemate | 1,637,803,686 | 33,446,087 | 9,135,800 |
| Ronald D. Sugar | 1,580,505,371 | 91,215,592 | 8,663,409 |
| Carl Ware | 1,626,741,373 | 44,671,421 | 8,968,778 |
| John S. Watson | 1,647,663,502 | 25,216,060 | 7,502,010 |

| | | Number of Shares | | | |
|---|---|---|---|---|---|
| | | **Voted For** | **Voted Against** | **Abstain** | **Represent Broker Non-Votes** |
| **2.** | **Ratification of Independent Registered Public Accounting Firm** | 1,655,240,786 | 19,758,693 | 5,392,688 | |
| **3.** | **Board Proposal to Approve the Material Terms of Performance Goals for Performance-Based Awards under the Chevron Incentive Plan (CIP)** | 1,540,577,419 | 124,592,199 | 15,163,595 | |
| **4.** | **Board Proposal to Approve the Material Terms of Performance Goals for Performance-Based Awards under the Long-Term Incentive Plan of Chevron Corporation (LTIP)** | 1,552,340,763 | 112,407,672 | 15,612,704 | |
| **5.** | **Stockholder Proposal Regarding Special Stockholder Meetings** | 632,722,279 | 716,122,291 | 11,484,225 | 320,013,372 |

| | | | | | |
|---|---|---|---|---|---|
| **6.** | **Stockholder Proposal Regarding Advisory Vote on Summary Compensation Table** | 568,531,885 | 751,801,668 | 40,004,924 | 320,053,690 |
| **7.** | **Stockholder Proposal Regarding Greenhouse Gas Emissions** | Withdrawn | Withdrawn | Withdrawn | Withdrawn |
| **8.** | **Stockholder Proposal Regarding Country Selection Guidelines** | 311,665,942 | 854,160,806 | 194,510,588 | 320,054,831 |
| **9.** | **Stockholder Proposal Regarding Human Rights Policy** | 339,238,113 | 826,411,470 | 194,719,135 | 320,023,449 |
| **10.** | **Stockholder Proposal Regarding Report on Host Country Laws** | 101,461,352 | 1,058,100,189 | 200,825,976 | 320,004,650 |

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**Item 6.** ***Exhibits***

| Exhibit Number | Description |
|---|---|
| (4) | Pursuant to the Instructions to Exhibits, certain instruments defining the rights of holders of long-term debt securities of the company and its consolidated subsidiaries are not filed because the total amount of securities authorized under any such instrument does not exceed 10 percent of the total assets of the corporation and its subsidiaries on a consolidated basis. A copy of such instrument will be furnished to the Commission upon request. |
| (12.1) | Computation of Ratio of Earnings to Fixed Charges |
| (31.1) | Rule 13a-14(a)/15d-14(a) Certification by the company s Chief Executive Officer |
| (31.2) | Rule 13a-14(a)/15d-14(a) Certification by the company s Chief Financial Officer |
| (32.1) | Section 1350 Certification by the company s Chief Executive Officer |
| (32.2) | Section 1350 Certification by the company s Chief Financial Officer |
| (101.INS) | XBRL Instance Document |
| (101.SCH) | XBRL Schema Document |
| (101.CAL) | XBRL Calculation Linkbase Document |
| (101.LAB) | XBRL Label Linkbase Document |
| (101.PRE) | XBRL Presentation Linkbase Document |
| (101.DEF) | XBRL Definition Linkbase Document |

Attached as Exhibit 101 to this report are documents formatted in XBRL (Extensible Business Reporting Language). Users of this data are advised pursuant to Rule 406T of Regulation S-T that the interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of section 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise not subject to liability under these sections. The financial information contained in the XBRL-related documents is unaudited or unreviewed.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Chevron Corporation
(Registrant)

/s/ M.A. Humphrey
M.A. Humphrey, Vice President and Comptroller
*(Principal Accounting Officer and Duly Authorized Officer)*

Date: August 6, 2009

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## EXHIBIT INDEX

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* Filed herewith.

Copies of above exhibits not contained herein are available to any security holder upon written request to the Corporate Governance Department, Chevron Corporation, 6001 Bollinger Canyon Road, San Ramon, California 94583-2324.