FINAL TRANSCRIPT

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CVX - Q1 2010 Chevron Earnings Conference Call

Event Date/Time: Apr. 30. 2010 / 3:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good morning. My name is Sean and I will be your conference facilitator today. Welcome to Chevron's first quarter 2010 earnings conference call. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session and instructions will be given at that time. (Operator Instructions). As a reminder, this conference call is being recorded.

I will now turn the conference call over to the Vice President and Chief Financial Officer of Chevron Corporation, Ms. Pat Yarrington. Please go ahead.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Good morning. Thanks, Sean, very much. Welcome to Chevron's first quarter earnings conference call and webcast. Jeanette Ourada, General Manager, Investor Relations, is on the call with me.

Our focus today is on Chevron's financial and operating results for the first quarter of 2010. We will refer to the slides that are available on Chevron's website.

Before we get started, please be reminded that this presentation contains estimates, projections and other forward-looking statements. We ask that you review the cautionary statement on slide two.

Slide three provides an overview of our financial performance. The Company's first quarter earnings were $4.6 billion, or $2.27 per diluted share. Our first quarter 2010 earnings increased about 150% compared with the first quarter of 2009. Our Upstream business benefited from higher crude oil prices and higher production.

Net oil equivalent production was up about 5% from a year ago, due mainly to the ramp-up of major capital projects. Downstream earnings were lower, reflecting the absence of 2009 gains on asset sales, as well as 2010 charges related to previously announced employee reductions.

First quarter 2010 earnings rose 48% compared to the fourth quarter of 2009, which Jeanette will discuss shortly in more detail.

Return on capital employed for the trailing 12 months was about 13%. The debt ratio dropped below 10% at the end of the quarter.

And finally, we announced on Wednesday that Chevron's Board of Directors approved a $0.04 per share, or 5.9% increase, in the common stock quarterly dividend. This follows only nine months after the previous quarterly increase, which was in the third quarter of 2009.

Turning to slide four, I'll now compare results of first quarter 2010 with the fourth quarter of 2009. As a reminder, our earnings release compares first quarter 2010 with the same quarter a year ago.

First quarter earnings were about $1.5 billion higher than the fourth quarter. Higher crude oil and natural gas realizations, as well as lower operating expenses, benefited the Company's worldwide Upstream results.

Downstream earnings were also higher, mostly the result of improved refining margins across all regions and the absence of unfavorable fourth quarter inventory effects. The variance in the Other bar reflects lower corporate charges.

Earnings in the first quarter included charges of $175 million associated with employee reductions in the Downstream businesses and corporate staff.

As I alluded to in our fourth quarter earnings call, we have some done some resegmentation of reported earnings, and I would like to go through those changes with you now.

Starting this year, both our Chemicals businesses, meaning Oronite Additives and our Chevron Philips Chemicals joint-venture, report to Mike Wirth. Their performance results are now included in the Downstream business segment.

In addition, certain Upstream enabling operations, primarily the Escravos gas-to-liquids project and major international export pipelines, have been reclassified from the Downstream segment to the Upstream segment. These Upstream-enabling assets are fundamental to the success and economics of their related Upstream operations. In our judgment, the revised segmentation more appropriately aligns current and future capital allocation decisions with segment performance results and management oversight responsibilities within the Company.

Prior period information has been conformed accordingly, and for transparency, we have footnoted the slides for each impacted segment to provide earnings for the comparable periods using the previous reporting methodology.

Jeanette will now take us through the quarterly comparisons for each of the business segments. Jeanette?

Jeanette Ourada - *Chevron Corporation - GM, IR*

Thanks, Pat. On slide five, our U.S. Upstream earnings for the first quarter were $90 million higher than the fourth quarter's results. Higher crude oil and natural gas realizations benefited earnings by $175 million. Chevron's average U.S. crude oil realization was up about $3.00 per barrel between consecutive quarters, slightly more than the increase in the average spot price of West Texas Intermediate.

Natural gas realizations increased 25% between quarters, in line with Henry Hub spot prices, and represented about half of the positive variance. Lower production volumes decreased earnings by $80 million between periods. This was primarily due to the absence of a favorable royalty settlement recognized in the prior quarter.

The Other bar is comprised of a number of offsetting items.

Turning to slide six, International Upstream earnings were up about $470 million compared with the fourth quarter. Higher oil and natural gas realizations increased earnings by $145 million. Average realizations for liquids rose 2%, in line with the increase in Brent spot prices.

Natural gas realizations were also higher in the first quarter, contributing about $100 million to earnings. This was in part due to retroactive price settlements on long-term natural gas contracts.

Operating expenses were down $215 million from the fourth quarter. The reduction in Opex reflects small reductions across multiple categories and operations. The Other bar represents an increase of $113 million, and includes various unrelated components, the largest being a favorable variance in tax items.

Slide seven summarizes the quarterly change in Chevron's worldwide net oil equivalent production. Production remained strong in the first quarter and increased 5000 barrels per day. Higher prices reduced volumes under production sharing and variable royalty contracts by an estimated 5,000 barrels per day. WTI prices averaged $79 per barrel in the first quarter versus $76 per barrel in the fourth quarter.

For the first quarter, each dollar increase in WTI resulted in an 1,800 barrel per day volume reduction. This is in line with the 2009 average rate of roughly 1,500 barrels per day per dollar change in WTI.

Base business production decreased 1%, or roughly 27,000 barrels per day between quarters. Our sustained focus on reliability and system optimization has yielded favorable gains and minimized declines to date.

In addition, as shown in the green bar, incremental production from major capital projects benefited first quarter production by 37,000 barrels per day. Primary drivers were ongoing de-bottlenecking efforts at Tengiz in Kazakhstan and the continued ramp-up of major capital projects, most notably add at Frade in Brazil and Tombua-Landana and Mafumeira Norte in Angola, where new production wells came online.

At this time, it is too early to update our full year production outlook of 2.73 million barrels per day. We have several major turnarounds scheduled for the second and third quarters, and storm effects may come into play later in the year.

We are very pleased with the first quarter production levels and intend to provide another update at the second quarter earnings call.

Turning to slide eight, U.S. Downstream results increased more than $400 million in the first quarter as market conditions improved and our refineries ran well. Indicator margins were up, resulting in a $115 million positive variance.

Refining margins strengthened from depressed fourth quarter levels in both the Gulf Coast and West Coast, with Gulf Coast margins increasing almost 50% between periods. Heavy refinery maintenance contributed to the improvement in the quarter.

Operating expenses were $145 million lower between periods, in part due to the absence of expenses associated with the fourth quarter planned shutdown at the El Segundo refinery and a non-recurring charge recorded in the fourth quarter related to the exit of certain U.S. East Coast markets.

We recorded a $50 million in severance charge in the first quarter related to previously announced employee reductions.

Chemicals' results were $60 million higher, mainly due to improved margins for olefins and aromatics. Multiple components made up the Other bar, including favorable tax and trading variances and a small asset sale gain.

On slide nine, International Downstream operations also improved significantly, increasing by about $450 million from the fourth quarter's results. Higher realized margins improved earnings by $345 million between quarters. This was particularly evident in the Asia-Pacific region, where Singapore cracking margins rose by almost 160%. As in the U.S., we recorded a severance charge of $100 million related to previously announced workforce reductions for our international operations.

Timing effects resulted in $170 million positive variance between quarters, primarily due to the absence of negative inventory effects recognized in the fourth quarter. The Other bar was a small net benefit for the quarter, reflecting lower operating expense and higher shipping and Chemical results. Partially offsetting were unfavorable foreign exchange effects.

Slide 10 covers All Other. First quarter net charges were $368 million compared to a net $418 million charge in the fourth quarter. The $50 million decrease between quarters is mostly due to favorable variances in tax items and other corporate charges. A $25 million average charge related to workforce reductions was recognized in the first quarter.

Our quarterly guidance range of $250 million to $350 million for net charges in the All Other segment is still appropriate going forward.

Pat will now summarize our operational and strategic progress. Pat?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Ok, turning now to slide 11, let's start with our operational performance so far in 2010, where we've had excellent performance in safety, reliability and production efficiency.

Following up on a record year of safety, we are off to an even better start here in 2010. Our refinery network continued to operate reliably, and upstream production efficiency continued to climb, as evidenced by our strong production volumes.

Also, our diligence in cost management is continuing to yield positive results. Excluding one-time employee severance charges recognized in the first quarter, operating and SG&A expenses were flat between comparable year-to-date periods, sustaining the gains that we realized in 2009. This is against a backdrop of a 5% production increase and a doubling of crude prices across the comparable first quarter period. We are pleased with the results from our ongoing cost management efforts.

In the Upstream, Perdido reached first oil at the end of March. This is the first commercial production from the Lower Tertiary Trend in the Deepwater Gulf of Mexico. Full facility capacity is 130,000 barrels of oil equivalent per day.

In March, we announced that the Discoverer Inspiration, an ultra-deepwater drill ship, commenced operations in the Gulf of Mexico. This is the second state-of-the-art vessel commissioned by Chevron in the last year. Both vessels are designed to Chevron's specifications and will work on a strong queue of deepwater opportunities.

Also in the Gulf of Mexico, we were the apparent successful bidder in a recent lease sale, capturing 19 blocks in the deepwater and 27 blocks in the shelf. Selectively growing our leading position in this very important basin will help advance our robust portfolio of projects.

In the Downstream, we continued to progress our restructuring plans. Our new organizational structure has been finalized, and we are in the process of filling key positions. We're on track to achieve our 2010 targeted year-end workforce reduction of 2,000 employees. We are also on schedule to complete the previously announced U.S. East Coast market exit. Other announced market reviews are underway, and we will provide further updates as appropriate.

And finally, we generated very strong cash flow in the quarter, totaling $2.5 billion, after paying the dividend and funding our capital program. Cash generation from the major capital projects started up in the last two years is proving to be very robust.

In addition, based on preliminary results, our Upstream portfolio's earnings per barrel continued to outpace our competitors, giving us the leading position among our peer group for the last three quarters, and the gap has widened here in 2010.

At the end of the quarter, net debt is once again negative, as our cash balances exceed our debt levels. Net debt is back to year-end 2008 levels. And since 2008, we have grown Upstream volumes by an impressive 10%. This growth was self-funded, and we simultaneously weathered the low point in the commodity cycle, while also growing our dividend.

We are executing our strategies well and they are paying off, and it's our intention to, and we are confident that we can, maintain this strong performance momentum.

So that concludes our prepared remarks, and I would now like to open it up for your questions. Sean, please open up the lines. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Doug Terreson, ISI.

Doug Terreson - *ISI - Analyst*

Good morning, Pat and Jeanette. So today, there's commentary regarding a ban on drilling new areas in the United States, although it is not really clear to me exactly what that means. And on this point, with Chevron being one of the more proficient explorers in the Gulf in recent years, and I'm pretty sure pretty close to the BP situation, I wanted to see if you could provide any insight into this information, that is if you have any, and how it changes your exploration plan, if at all.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Right, Doug, as you know, this is breaking news. And let me just say that, first of all, our operations in the Gulf to date have not been impacted by this incident. We do see the press releases and the media reports this morning that say that existing lease sales that are currently planned will go ahead. We have no information to the contrary. We haven't heard anything kind of yes or no on that.

We are certain that there will be a full investigation, and that a root cause analysis will be done and that it will be widely shared. And beyond that, we are not really in a position to go much further with that.

Doug Terreson - *ISI - Analyst*

Okay. I wasn't sure either way. One more question. You guys have obviously done a really good job on cost productivity during the past couple of years, and I think your operating expenses were lower by 15% last year alone.

And on this point, on slide eight, you guys talk about how -- well, it appears as if you may have already captured around one-third of the $400 million in non-fuel savings and refining that you talked about at the analyst meeting. So my question is whether or not this is the correct way to think about it, or whether, after normalizing for El Segundo and the one other item that I think Jeanette mentioned, that progress on the cost objective is different. So can you provide color on this item? Is this the correct way to think about the objective?

Jeanette Ourada - *Chevron Corporation - GM, IR*

Doug, I think a big piece of the improvement you see is we are coming off of a high fourth quarter expense range. So I wouldn't -- that is more, I think, activity driven. I wouldn't contribute it to the refining goals that we set for ourselves in March.

Doug Terreson - *ISI - Analyst*

And that refers to both of those items that you highlighted on the call?

Pat Yarrington - *Chevron Corporation - VP, CFO*

In terms of operating expenses here?

Doug Terreson - *ISI - Analyst*

Yes.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Right. We talked about the absence of the planned El Segundo refinery shutdown that occurred in the fourth quarter. So relative to first quarter, you've got a variance there, a positive variance there.

Doug Terreson - *ISI - Analyst*

Okay.

Pat Yarrington - *Chevron Corporation - VP, CFO*

And we also talked about -- we took expenses associated with the exit of certain U.S. East Coast markets in the fourth quarter. Don't have those again.

Doug Terreson - *ISI - Analyst*

Okay. No, I follow that. I just wanted to make sure that was the bulk of the number. Okay. That clarifies it. Thanks a lot.

Operator

Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Good morning, everybody. You guys had another great quarter here. I have a question on the balance sheet and your comments, your positive $3 billion free cash flow in the quarter driving an increase in your cash balance. Can you generally discuss at what cash levels Chevron considers re-initiating a buyback or, conversely, looks to increase Capex spend on the year? And I have a second question.

Pat Yarrington - *Chevron Corporation - VP, CFO*

No. Yes, it's a great question. I think discussing our cash priorities is always very important. Really, we look at this -- in terms of our uses of cash, the priorities are to increase the dividend, sustain and increase the dividend. We did that. We did it only nine months, not a year after the previous increase.

We then fund C&E. We've got a good opportunity set currently underway and a good opportunity set ahead of us, so a big queue of attractive projects. We also look to keep our balance sheet healthy so that we can weather commodity price downturns, margin downturns and also keep our flexibility for future opportunities.

We look at funding our pension plans, as appropriate. And it's only after we've done all of those factors and sort of met those sort of hurdles that we look at share repurchases.

So on a go-forward basis, in order to re-inaugurate or reinstitute the share repurchase program, we're going to have to see some cash in excess of our ongoing operating requirements, ongoing working capital requirements, some cash balances that will again allow us to weather any sort of downturn in margins and prices.

We're going to have to see what I would call sustained positive surplus cash generation going forward, so our outlook would have to suggest that.

And I think we are going to have to have confidence in our ability to be able to sustain a meaningful share repurchase program. We don't want to be in a position of sort of turning this on and off.

And while I'm very pleased with our current balance sheet position and the cash generation from our projects, I'm not in a position to say that I see all of those criteria exactly being met. I think we have a great track record, frankly, doing this balance on uses of cash quite well. I think our shareholders have been well-rewarded with the choices that we've made here. And our intent is to keep making these wise choices going forward.

Evan Calio - *Morgan Stanley - Analyst*

That's great. Thanks for the color there. My second question is a little bit on an Ecuador update. I know you've had a lot of progress in the recent quarter. You've won the Southern District on the challenge to proceed in the Hague, and you were awarded the $700 million subject to a tax determination against Ecuador in an unrelated matter.

And I guess I had a few specific questions of what is the path forward, in terms of collecting on the award against Ecuador? And any idea on maybe timing on your recent motion to strike the expert report in the environmental matter in Lago Agrio? And maybe any interplay between the state level actions and the environmental case would be helpful.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Okay, well, let me just take them here, hopefully one at a time, and see if I can knock those off. In terms of the international arbitration ruling -- and for those of you who maybe aren't quite familiar with that, this is where the International Court ruled in favor of Chevron for approximately $700 million in damages and interest related to a long-standing set of commercial claims. And they found that the Ecuador court had violated international law, basically through delays in rulings on certain disputes between Texaco and the Ecuadorian government.

The case is separate from the Lago Agrio case. In terms of next steps about collecting on that, I wouldn't put that in any of your models anytime soon here. There is quite a degree of additional dialogue that needs to go on about not only the amount of the money, the interest, the taxation associated, the proper tax rate to apply to that. So I think you need to think of that as being still covered with a great deal of uncertainty.

The Ecuadorian government has said that they are going to seek annulment of the award, but we don't -- they haven't identified any basis upon which they can do that.

In terms of the local court proceedings, there really hasn't been a significant change in timing or activity associated here. We did have the -- conflict of interest was reported or identified, basically, with Mr. Cabrera. He is the individual who was appointed by the local court to make the remediation assessment, and it has been found out that he has an ownership position in a remediation company that stands to benefit financially from any judgment against Chevron. So he's got an obvious conflict of interest, and he didn't make that known to the court. We've asked the court to reject his work. The court denied that request.

And then we also have had one of the technical experts for the plaintiff has testified that his reports were -- or that reports were submitted to the local court under his signature, but they were not his report. And he has said that he never concluded that the sites posed a risk to human health or the environment.

So we've had a number of positive developments, but all that being said, I don't think it changes some of the fundamentals about there is still a great deal of uncertainty out there. While the court has proceeded -- or finished with a lot of its procedural components, I think we still have to wait and see what the next steps are going to be.

Evan Calio - *Morgan Stanley - Analyst*

Okay, great. I appreciate that.

Operator

Doug Leggate, Bank of America Merrill Lynch.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks and Good morning, Pat and Jeanette. I don't know if you are going to answer this one terribly easy, but we monitor -- I guess you'd call it your Upstream capture rates, which is looking at your kind of worldwide oil and gas prices weighted by your volumes and your net income. And for quite a while, it was a fairly stable relationship. The last couple quarters, last year, it fell out of bed a little bit.

And this quarter and last quarter, this quarter in particular, it has been pretty stellar. It's a terrific result, and particularly in the International Upstream.

So my question is, is there something changing there -- this is on an earnings basis, obviously, so I'm thinking is there something changing in the DD&A level? Was there a tax benefit that was particular to this quarter? Obviously, your tax rate was a little lower. If you could just give some color as to whether or not this is something that might actually be sustainable. Because, as I say, it was a pretty terrific capture rate this quarter.

Jeanette Ourada - *Chevron Corporation - GM, IR*

I don't have your numbers in front of me, Doug, but for DD&A, we were -- compared to fourth quarter, DD&A was essentially flat. There really wasn't anything too unusual going on in DD&A.

Compared to first quarter 2009, DD&A was up 7%, but our production over the time period was up 5%. So that was really what was driving that. So nothing terribly unusual.

Doug Leggate - *BofA Merrill Lynch - Analyst*

What about on the tax line?

Pat Yarrington - *Chevron Corporation - VP, CFO*

I was just going to follow up on the tax component. I don't know if that is what you were going to ask here. But just on taxes, we did see a lower effective tax rate in the first quarter compared to the fourth quarter, and also compared to last year's first quarter. And that really -- and both periods reflect just jurisdictional changes, not only within the Upstream country-by-country analysis, but also between Upstream and Downstream.

And then also, for example, in the International sector, we did -- there was a change, a reduction in Canadian corporate tax rate that applied in the first quarter, for example, which was baked in there.

Doug Leggate - *BofA Merrill Lynch - Analyst*

So would it be -- guidance is not something you normally give on tax, but should we expect that the tax rate is going to be kind of lower than your legacy run rate, given that change?

Pat Yarrington - *Chevron Corporation - VP, CFO*

I think it is too early to kind of give that sort of a forward indication. Taxes are really very lumpy, and it really is dependent upon earnings profiles across the jurisdictions.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Okay. A second one, if I can squeeze it in. On the major projects that you brought onstream -- obviously, a lot of these were liquids-rich, or gas to liquids heavy. Where are we in terms of the growth in those projects now? Are they now at plateau? I guess Perdido is probably not, but in terms of the other major projects you brought on last year, are they all now at sort of full rate? And if you could give some color, that would be great.

Pat Yarrington - *Chevron Corporation - VP, CFO*

I think largely the answer to that broadly would be yes. I mean, Perdido just came on at the very tail end of this quarter here. So that obviously has a ramp-up profile that is much more extensive; it will take quite some time.

Tengiz reliability has been very strong, and Tengiz is currently producing around 600,000 barrels a day, which is just a tremendous accomplishment for the quarter.

We mentioned Mafumeira Norte. It's hit peak production here at 42,000 barrels a day. And Frade, Frade continues to ramp up, and we are very pleased with the progress that we've seen here, particularly most recently. Current production is about 60,000 barrels a day from five wells.

So I think there will be continued -- some continued ramp, but in the broad answer, I think we have seen the vast majority of the ramp-up.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Got it. Thanks a lot.

Operator

Jason Gammel, Macquarie.

Jason Gammel - *Macquarie - Analyst*

Thank you and good morning. Nice inflection point in terms of the earnings power of the Downstream that became apparent during the quarter. My question is our indicator margins for the West Coast and Singapore, two areas that you have a significant exposure to, would indicate that strength was actually building in April relative to what we saw late in the first quarter and certainly for the quarter as an average. Would you be able to confirm that the margin environment you are facing in those two markets is improving and that you are able to capture those margins?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes, I think our best view really right now in both those locations would be that you may have some softening going into the second quarter. Because what was driving these really related to refinery maintenance and turnaround schedules. And depending upon how those -- sorry -- depending on how those units come back on line, the extent to which they come back online, again, relative to demand, you may still have some sloppiness in the market.

Jason Gammel - *Macquarie - Analyst*

Okay, great. And a second one, if I could. The LNG market is obviously starting to swing towards the favor of the buyer versus the seller right now. Can you tell me if there has been any progress made on incremental marketing of the Wheatstone volumes that are not committed right now?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Right now, we have about 60% of the Wheatstone volumes that are under HOAs or tentatively committed here. We continue to have tremendous interest on the part of prospective buyers. We'll update you as those HOAs come to fruition, but we haven't seen really any softening in interest for our particular product supplies.

Jason Gammel - *Macquarie - Analyst*

Okay, thanks very much, Pat.

Operator

Paul Sankey, Deutsche Bank.

Paul Sankey - *Deutsche Bank - Analyst*

Hi, good morning. Just going back to the Deepwater Horizon disaster, I was wondering if you could just help me list the risks to Chevron from this incident. I am sure you will confirm that there is obviously no direct liability for Chevron. But some of the things that come to mind are that a potential for a suspension of leasing, I think, is coming out of the White House this morning. There is obviously the potential for a suspension of activity in the deepwater GOM. I'm thinking higher safety costs. I was wondering whether you thought that would be an impact. Perhaps even higher taxes. There is, I guess, the potential for oil movements to be disrupted. I don't know what your thoughts are on that, and whether you are thinking about, for example, supply to Pascagoula or whether or not that might be a total red herring.

And then of course, there's the overall industry risk. But if you could just kind of throw out there what you perceive to be the risks. And again, as I said, I assume you confirm there is no direct liability. That would help us begin to get our arms around this issue.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Paul, you've outlined a number of the risks that I'm sure are in everybody's minds. I really can't speak to any of those at this point in time. It is really just too premature.

I would imagine -- there's tremendous interest, as we all can appreciate, tremendous interest in trying to first stop the flow of oil, make sure that we've got containment and clean-up, and then understand what has happened. I don't -- I think that we wouldn't want to prejudge or leap too quickly. I'm sure the Administration and members of Congress won't want to be doing that either. So I really just don't know how this is going to play out. It is just too early to say.

Paul Sankey - *Deutsche Bank - Analyst*

Have you guys ever had any kind of a similar instance yourselves?

Pat Yarrington - *Chevron Corporation - VP, CFO*

We have had an absolutely outstanding safety record, and I can't think of one here recently that comes to my mind. We've been operating globally, well, for decades, and do not have any that comes to my mind at this point in time.

Paul Sankey - *Deutsche Bank - Analyst*

Yes.

Pat Yarrington - *Chevron Corporation - VP, CFO*

We have an outstanding safety record.

Paul Sankey - *Deutsche Bank - Analyst*

Yes, I understand.

Pat Yarrington - *Chevron Corporation - VP, CFO*

And this is not our incident, and we are not in any way touched by this....

Paul Sankey - *Deutsche Bank - Analyst*

Directly, yes.

Pat Yarrington - *Chevron Corporation - VP, CFO*

...from an operating standpoint. We have offered assistance to BP and to the MMS and to government entities, and we've been taken up on those -- that offer. So we stand ready, just as everybody in the industry stands ready, to put collective intelligence and capabilities to work to get this handled.

Paul Sankey - *Deutsche Bank - Analyst*

Yes, that's great, obviously. What would be the exact nature of the assistance you would give?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Look, I mean, whether it's equipment, people, processes, anything that we can -- that they feel we can offer, we're happy to do it.

Paul Sankey - *Deutsche Bank - Analyst*

But as such, it is an offer, but with no direct -- you haven't eventually done anything as such yet.

Pat Yarrington - *Chevron Corporation - VP, CFO*

No, there have been discussions between ourselves, government agencies, BP, etc. There is -- it is a consortium of effort that is underway here. That is really all I want to -- that's really all I know and that's really all I can say about it.

Paul Sankey - *Deutsche Bank - Analyst*

Yes, I understand, absolutely. It is just that obviously we are all trying to get our arms around this disaster and let's just hope it all works itself out.

Just a very brief follow-up. Your volume, can you just talk again about your volume target for the year? Obviously, you're chasing ahead of that. Any thoughts about -- I guess there is an implied slowdown later in the year. But if you could just update us on the very latest after a strong Q1, and I'll leave it there. Thank you.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Sure. That's a good question. That's a fair question here. We had production for the quarter of 2.78 million barrels a day. It's 90,000 barrels a day ahead of our external guidance on a price-adjusted basis.

We talked about it being principally related to our base business performance, where we've had good reliability and good optimization of facilities, basically, here. So our production efficiency has been running about 3% higher than our plan.

Now, on the go-forward here, we do have a number of turnarounds that are planned in the second quarter and third quarter of the year. These would be TCO, for example, or in the North Sea, et cetera. We also can get into weather-related issues in the third quarter in particular -- second and third quarter in particular.

So while it is a very good quarter for us, and it bodes well going in, we are not in a position where we want to give an update at this point in time. We'll come back on in the second quarter call and be happy to do that for you.

Paul Sankey - *Deutsche Bank - Analyst*

That's great. Is it fair to say that your Q1 volumes were ahead of what you had planned in terms of when you gave the original [outlook]?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Absolutely, and that is because of the reliability factors that we've gone through with you. We are just very pleased with how well all our facilities are running.

Paul Sankey - *Deutsche Bank - Analyst*

I understand. Thank you very much.

Operator

Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Thanks and good morning. Obviously, very interesting week. Just in terms of the Capex outlook, you've obviously got Gorgon and Wheatstone coming in, but you've got projects like Agbami, Tengiz, which are very expensive, coming out.

What sort of -- can you comment at this stage in terms of the type of Capex run rate that you would expect, not just for this year but for outer years? And is that one of the reasons perhaps why you are holding back in terms of buybacks? Thanks.

Pat Yarrington - *Chevron Corporation - VP, CFO*

It's a good question. Our C&E, we typically only give C&E targets out one year, and we do that for a variety of reasons. It obviously depends on commodity prices and industry costs, and we have seen and continue to see some variability in industry cost levels. So I am not going to talk to you about 2011 and 2012 or 2013 capital spending programs.

And we do have large projects coming on, Gorgon and Wheatstone; they are in the horizon certainly. But you need to keep in mind that we also are coming off of and have placed into service a number of high capital requirement projects, TCO, Agbami, et cetera. So you have somewhat of a dovetailing here between the placing in service of some historical projects that are giving us good cash flows and earnings now versus some future projects down the line.

I don't think -- if you are thinking forward here a little bit, I don't think you should think about seeing any sort of dramatic increases in C&E. But at the same time, we've talked, and I think George has been -- was pretty articulate about this at our meeting in March -- to the extent that we see economic investment opportunities. And I will talk to incremental oil development opportunity, for example, in base business.

Or if we look forward a couple of years or whenever U.S. gas prices get to be sustained at a higher level, George talked about being able to bring on developments at the Piceance and Haynesville. So at the same time, you shouldn't be surprised to see necessarily an uptick, because that will mean that we have found very good economic opportunities for incremental C&E spending.

Ed Westlake - *Credit Suisse - Analyst*

And maybe a follow-on. Is there, I guess, feeling that you are too early in terms of comfort level about all of those five factors that you outlined in terms of doing the buybacks, is any of that related to some concern about the risk that Gorgon and Wheatstone Capex might end up being a little bit higher than you've currently budgeted?

Pat Yarrington - *Chevron Corporation - VP, CFO*

No, not at all really. We are very early days into the Gorgon and Wheatstone developments. On Gorgon, we've contracted for about $22 billion of the -- we've awarded contracts for about $22 billion. And because we're very reasonably early in the queue of spending compared to other LNG projects in that arena, we think we are in an advantaged place cost-wise, price-wise, contract-wise.

Ed Westlake - *Credit Suisse - Analyst*

Thank you.

Operator

Paul Cheng, Barclays Capital.

Paul Cheng - *Barclays Capital - Analyst*

Hi. Good morning Pat and Jeanette. Pat, you gave a number in your presentation that the base operation sequentially from fourth quarter down about 27,000 barrels per day or 1%. Do you have that number for the first quarter versus?

Jeanette Ourada - *Chevron Corporation - GM, IR*

I don't have it with me, Paul. You can give me a call; I will give it to you later.

Paul Cheng - *Barclays Capital - Analyst*

Okay. And that, I presume that is probably end up at much lower, as you indicated, about 3% better than your current trend. Do we have any kind of timing issue in terms of a workover that's just finished, as we saw that we have a big jump in the near-term production? So trying to understand that is it just a normal better efficiency and better reliability, or we have some timing issue related to the benefit in the first quarter?

Jeanette Ourada - *Chevron Corporation - GM, IR*

It's primarily better reliability that Pat talked about. There was -- our Malampaya operations were down for a turnaround during the first quarter, but that is really the only unusual activity.

Paul Cheng - *Barclays Capital - Analyst*

Okay. The second quick one is that the headcount reduction, is all the people related to the severance charge in this quarter, are they all left the Company already? And if they are not, then when do you think the savings will start to flow through into your bottom line? And what is the target run- rate from those headcount reduction savings will be?

Pat Yarrington - *Chevron Corporation - VP, CFO*

The total accrual, $175 million, relates to a total of 3800 employees, spread across Downstream and then the other corporate staff group areas. We expect on the Downstream side that 2,000, we'll hit that target for Downstream by the end of this year.

And I would say the vast majority of that 3,800 will occur by the end of 2010/early 2011. Certainly within the two-year window, you will have all of those reductions occur.

In terms of a run rate, not all of these savings from headcount reductions are baked in, certainly not to our first quarter plan, probably not likely to see much of an impact in second quarter. It would really only be as you moved into the third and fourth quarters that you begin to see that impact. And the full effect really will be towards the end of 2011.

Paul Cheng - *Barclays Capital - Analyst*

And I know you guys talking about the $400 million non-fuel savings. Of which -- how much of them is related to headcount reduction?

Pat Yarrington - *Chevron Corporation - VP, CFO*

I'm sorry; I'm not understanding the question.

Paul Cheng - *Barclays Capital - Analyst*

The savings, that 3,800 people, that when they all left, what is the actual saving to the P&L going to look like?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Right. I don't have a number for you on that, because it is, again, spread across Downstream and corporate staffs and whatnot. It clearly is partly baked into the 7% ROCE improvement that Mike Wirth talked about in our security analyst meeting. Part of the efficiency improvements that he talked about obviously relate to the streamlining that we are working to do, and headcount is a piece of that.

Paul Cheng - *Barclays Capital - Analyst*

Final one, I think for Gorgon, and Wheatstone, I think there is a lot of concern with a lot of new LNG projects coming onstream, even though you guys have been ahead of time, but towards the tail end by 2013, 2014, labor could be pretty tight.

Pat, can you share with us that in terms of how you guys manage it or how about contract is being set? Is it a turnkey and that is a fixed amount or that you are still subject to the spot rate for the labor market during that development phase?

Pat Yarrington - *Chevron Corporation - VP, CFO*

I think as far as I want to go on saying this, this project has been in FEED and kind of well scoped out probably amongst the best of any significant major capital projects in the globe. So we have had a lot of opportunity to work very hard on the contracting strategy and the contracting plan. And as I've said, we've executed $22 billion of awards against that.

So I think we are getting -- it is a very competitive project here, and there are lots of pieces to it, lots of contracting to it, and I don't really want to generalize or get specifically into contracting strategy here with you. We're confident that it is going to be a very competitive project, once up and running, and so far, we are on schedule and we are on plan.

Paul Cheng - *Barclays Capital - Analyst*

And can you tell us that on the labor side, does that still make you subject to the spot market of the labor or not really? I mean, you don't have to tell me exactly what is the term, but I want to see whether you are still exposed to the spot market of the labor market.

Pat Yarrington - *Chevron Corporation - VP, CFO*

As far as I want to go is just to say, look, it is in everybody's interest -- our interest, government's interest, labor's interest -- to get this project online under the commitments that were agreed to at the time that we sanctioned the project. We have strong government support. And everybody understands certainly locally there how important Gorgon is to the local economy. So we are confident that we will be able to get the labor that we need at competitive prices and have an economic project.

Paul Cheng - *Barclays Capital - Analyst*

Okay. Thank you.

Pat Yarrington - *Chevron Corporation - VP, CFO*

I think I need to turn it over to somebody else here, if you don't mind. Give somebody else a chance.

Paul Cheng - *Barclays Capital - Analyst*

That's fine. Thank you.

Operator

Mark Gilman, Benchmark.

Mark Gilman - *Benchmark - Analyst*

Hi guys and good morning. I had a couple specific things, if I could, please. I believe either Jeanette or Pat mentioned a 600,000 barrel a day capacity at TCO. Is that just liquids, and is it sustainable?

Jeanette Ourada - *Chevron Corporation - GM, IR*

That's just oil, Mark, you're correct.

Mark Gilman - *Benchmark - Analyst*

And sustainability, Jeanette?

Jeanette Ourada - *Chevron Corporation - GM, IR*

It's looking very good right now.

Mark Gilman - *Benchmark - Analyst*

Regarding the tax item that was mentioned in the International Upstream, the Canadian statutory implications, is there a positive deferred tax one-timer that was associated with that change in the statutory rate?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes.

Mark Gilman - *Benchmark - Analyst*

Quantify it, please.

Pat Yarrington - *Chevron Corporation - VP, CFO*

I don't think we want to do that. But I'd say here, Mark -- I know we were trying to get at taxes. That was one piece that was -- and it was a small piece, but directionally, it occurred in the quarter. I think it is very hard to give any more information about taxes on a predictive sort of basis for you.

Mark Gilman - *Benchmark - Analyst*

I'm not asking for a prediction. I'm just asking for the one-time effect of the deferred tax adjustment that went along with that statutory change.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Well, I don't have it handy here.

Jeanette Ourada - *Chevron Corporation - GM, IR*

It's immaterial in the aggregate, Mark.

Mark Gilman - *Benchmark - Analyst*

Okay. Production versus the fourth quarter was up, yet there was no mention of volumetric effects in the International Upstream, Jeanette, in your discussion. Should I assume that liftings were flat period-to-period, and that's why there was no volume mentioned?

Jeanette Ourada - *Chevron Corporation - GM, IR*

Well, we are underlifted in the first quarter, if that is what you are asking.

Mark Gilman - *Benchmark - Analyst*

In other words...

Jeanette Ourada - *Chevron Corporation - GM, IR*

1% -- it is not that big.

Mark Gilman - *Benchmark - Analyst*

What was the amount, I'm sorry?

Jeanette Ourada - *Chevron Corporation - GM, IR*

1%.

Mark Gilman - *Benchmark - Analyst*

And that is a shortfall of liftings versus first quarter production?

Jeanette Ourada - *Chevron Corporation - GM, IR*

Correct.

Mark Gilman - *Benchmark - Analyst*

Okay, one final one. Your deliveries and production in Bangladesh on the gas side have been constrained in the recent past by logistical, infrastructural and perhaps some contractual considerations. It looks like they jumped up pretty good in this period. Is this a signal that those issues have been resolved?

Jeanette Ourada - *Chevron Corporation - GM, IR*

There certainly has been increased demand in Bangladesh, and we are continuing to debottleneck our existing facilities. We still do have pipeline constraints of getting the gas out, so we still have more resource if we can work through those.

Mark Gilman - *Benchmark - Analyst*

Okay, folks. Thanks very much.

Operator

Pavel Molchanov, Raymond James.

Pavel Molchanov - *Raymond James - Analyst*

All right, thanks very much. Two questions, if I may. First, can you update us on anything you've heard in Kazakhstan in terms of the contract review or tax review announced by the government, and is there any effect on TCO?

Pat Yarrington - *Chevron Corporation - VP, CFO*

You are speaking to Karachaganak?

Pavel Molchanov - *Raymond James - Analyst*

Tengiz.

Pat Yarrington - *Chevron Corporation - VP, CFO*

I'm not sure what you're referencing here really, but we have a strong relationship in Kazakhstan. We've got tremendous, long-standing business there.

Pavel Molchanov - *Raymond James - Analyst*

So in other words no tax review regarding Tengiz?

Pat Yarrington - *Chevron Corporation - VP, CFO*

No tax review regarding Tengiz. That is why I was asking if you were talking about Karachaganak.

Pavel Molchanov - *Raymond James - Analyst*

Okay, okay.

Pat Yarrington - *Chevron Corporation - VP, CFO*

TCO is kind of fundamentally our operation here. And good, long-standing relationship, good agreement on contracts, sanctity of contracts, well-entrenched, well --everything is working quite well there.

And in terms of the Karachaganak issues, really, we need to refer you to the operator there. We are certainly just hopeful that the issues that are under dispute can come to conclusion quickly.

Pavel Molchanov - *Raymond James - Analyst*

Right. In other words, no readthrough for Tengiz of any kind?

Pat Yarrington - *Chevron Corporation - VP, CFO*

No readthrough for Tengiz.

Pavel Molchanov - *Raymond James - Analyst*

Okay, great. Second question, your shale gas acreage in Poland, I think you have about one million acres. Any timetable on when you might commence activity?

Pat Yarrington - *Chevron Corporation - VP, CFO*

It's our plan here really to do seismic work in 2010 and probably look to begin drilling in 2011.

Pavel Molchanov - *Raymond James - Analyst*

Very good, thanks.

Operator

Faisel Khan, Citigroup.

Faisel Khan - *Citigroup - Analyst*

Good Morning. On the International Upstream side, the $215 million of Opex improvements sequentially quarter-over-quarter, is that number kind of sustainable through the entire year, or does that actually get better? Are we going to still see improvements going into second and third quarters?

Pat Yarrington - *Chevron Corporation - VP, CFO*

No, I mean, I think we would like to get another quarter under our belt here. In the quarter, the cost reductions or op expense reductions that we saw were really kind of all over the place, in terms of countries as well as cost categories. And I think that the way to look at this is fourth quarter typically is a higher op expense quarter for us. First quarter is oftentimes a lower op expense quarter for us. So I think you want to look at previous patterns in terms of your projections going forward.

Faisel Khan - *Citigroup - Analyst*

Okay. Got you. And then in terms of the production volumes that -- looked like they were still ramping up out of Kazakhstan and Eurasia, the numbers that you guys have seen over the last several of quarters, is that continuing to ramp-up or should we expect those numbers to be relatively flattish now?

Pat Yarrington - *Chevron Corporation - VP, CFO*

I think flattish is probably a better place to target.

Faisel Khan - *Citigroup - Analyst*

And then the production declines in the Philippines, what caused the natural gas declines over there?

Jeanette Ourada - *Chevron Corporation - GM, IR*

It was a turnaround in the quarter.

Faisel Khan - *Citigroup - Analyst*

Okay, so we should see that come back up?

Jeanette Ourada - *Chevron Corporation - GM, IR*

Yes, you should expect to see that come up next quarter.

Faisel Khan - *Citigroup - Analyst*

And last question, on Gorgon, as you guys have let all your contracts or a lot of your contracts out for this project, how are you guys dealing with kind of, I guess, higher nickel prices? Because obviously, I think in a modular design, we tend to have -- you tend to have higher material costs. So how are you guys dealing with that sort of situation?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Gosh, I don't have any unique information on the nickel cost impact on Gorgon. You're right, it is modular design, and we've got work in a number of fabricating yards all across the globe, really, here. I don't have anything specific to offer on that particular item.

Faisel Khan - *Citigroup - Analyst*

Okay, great. I appreciate the time.

Operator

Jacques Rousseau, RBC.

Jacques Rousseau - *RBC - Analyst*

Good morning. Just wanted to ask another tax question, coming at it from a little different way. Would you be able to provide the International Upstream tax rate in the first quarter and then compare it to some other quarters, and that may be able to help determine some of this difference?

Pat Yarrington - *Chevron Corporation - VP, CFO*

I don't think we want to necessarily go into that kind of detail. The effective rates, I mean, they really can move quite substantially in the International sector from one quarter to the next quarter to the next quarter. And it is dependent literally upon the taxable income by country in those locations, any sort of tax changes that may have occurred, any sort of application of investment tax credits that are applicable. We also have differences associated with gains and losses on asset sales that can influence the effective tax rate. So I think that it is just hard for us to give a go-forward point for you there.

Jacques Rousseau - *RBC - Analyst*

Not so much for a go-forward point, but just to be able to compare historically as to what the change represented year-over-year.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Well, year-over-year, for a full-year cycle/full-year cycle, I think 2008 and 2009 have been relatively stable, in the 43%-44% range. Fourth quarter was high, higher than that. First quarter was substantially lower than that for us. So it bounces around, but for the year, perhaps maybe thinking about it averaging out.

Jacques Rousseau - *RBC - Analyst*

Okay. One other one. In terms of the Chemical assets and earnings getting moved into the Downstream, is there a kind of rule of thumb as to what percentage of the assets will be in the U.S. Downstream and how much will go into the International Downstream?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes, I mean, the Chemical operations are wholly-owned Chevron Oronite and 50% joint venture with Chevron Philips Chemical Company. That 50% shows up in the U.S. segment and the Oronite has both U.S. and non-U.S. components to it.

Jacques Rousseau - *RBC - Analyst*

Helpful. Thank you.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Okay, thank you very much. I think that concludes our call for today. I want to thank all of you for your participation on the call. I especially want to thank the analysts who asked questions, good questions, on behalf of all the participants.

So, Sean, I'll turn it back over to you.

Operator

Thank you. Ladies and gentlemen, this concludes Chevron's first quarter 2010 earnings conference call. You may now disconnect.
