FINAL TRANSCRIPT

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PRESENTATION

Jeanette Ourada - *Chevron Corporation - General Manager - IR*

Good morning, and welcome to Chevron's 2010 Security Analyst Meeting. I'm Jeanette Ourada, General Manager of Investor Relations. We're very pleased to be with you today, those of you here in the audience as well as those of you joining us via webcast. Before we get started, I have a few important reminders.

First, safety is a top priority for Chevron, so please take a moment to locate the nearest exit. In the event of an emergency, the St. Regis staff will provide further information. Second, please turn off all cell phones and BlackBerrys. This will help minimize interference with the sound system and avoid disruptions. Finally, please take your name badge with you if you leave the room because you'll need your badge to re-enter.

Our program today includes a comprehensive update on Chevron. We'll begin with a corporate overview followed by more extensive discussions about our major business segments. Our agenda features presentations by our Chairman and Chief Executive Officer, John Watson; our Vice President and Chief Financial Officer, Pat Yarrington; our Vice President and Chief Technology Officer, John McDonald; Executive Vice President of our Downstream business, Mike Wirth; and the Vice Chairman and Executive Vice President of our Upstream and Gas business, George Kirkland.

We'll take a few questions at the conclusion of Mike's segment and a brief break will follow. We've set aside more time for questions before we adjourn for our reception. Also here with us today is Rhonda Zygocki, our Vice President of Policy, Government and Public Affairs.

For those of you joining us via webcast, I'd like to invite you to participate in the Q&A segment. Please submit your questions to us by 11 AM eastern time through the Investor section of the Company website at chevron.com.

Today's presentation contains estimates, projections and other forward-looking statements. We encourage you to take a few moments to review the Safe Harbor statement that appears on this slide. A copy is in the appendix to your booklets and is also available on our website. Thanks for your attention. It is now my pleasure to introduce you to our Chairman and Chief Executive Officer, John Watson.

John Watson - *Chevron Corporation - Chairman, CEO*

Well, thanks, Jeanette, and welcome. I certainly appreciate the great turnout we have today. I look forward to discussing Chevron's strategies and performance with you. Since Chevron was founded 131 years ago today, the Company has built a legacy of industry leadership and value for investors. I'm committed, and you're going to find my management team is very committed, to building on that great legacy.

You'll hear three important themes throughout the remarks this morning -- performance momentum, portfolio advantages and future growth. We've improved performance steadily this past decade, and 2009 was another outstanding year for Chevron. We delivered on key commitments while maintaining our financial strength and progressing our queue of projects.

Our portfolio is well-positioned. We have strong upstream assets, an enviable project queue and continue to add to our resource base. We also have less exposure to downstream than our competitors. Looking ahead, Chevron is poised for another decade of upstream growth. We're investing in quality, long-term oil and natural gas projects. We expect substantial production growth mid-decade as our portfolio shifts toward natural gas in Asia. The early years of this new decade will lay the foundation for meaningful future growth.

Now, I'll briefly review a few specific accomplishments from 2009, and I'll start with safety. 2009 was another year of record safety performance for Chevron. In particular, our upstream safety performance was industry-leading.

Production growth in 2009 led our competitor group. We grew production 7% as a result of start-up and ramp-up of major capital projects and outstanding performance from our base business. We continue to operate with excellence with very strong project execution results, high production efficiency and record refinery reliability.

We focused on costs and lowered our operating expenses by 15% compared with 2008, and we continued to lay the foundation for future growth. We made significant progress commercializing our natural gas resource base, advancing our queue of major capital projects and retaining our industry-leading success in exploration. To bring these accomplishments to life for you, we've prepared a special video that we'll show you just now. I hope you'll enjoy it.

(VIDEO PLAYING)

John Watson - *Chevron Corporation - Chairman, CEO*

Well, the facilities and people that made them happen are quite remarkable. I hope that -- I hope that brought our business to life a little bit for you, as I say. Now, I would like to talk about the top line financials. We earned $10.5 billion or a 10.6% return on capital employed in 2009. We increased the dividend again by 4.6% in the third quarter.

We maintained our spending program while keeping our balance sheet sound and flexible with low levels of debt. And looking at the ultimate measure - total stockholder return - Chevron has led our peer group in both the last three- and five-year periods. In each of these periods we outpaced the S&P 500 return by over 10%. Our strong performance can be summed up in one word I think, consistency. We've been consistent in our strategy, we've been consistent in execution, and we've been consistent in delivering financial results.

As we look ahead, growth on the world economy will be underpinned by continued demand for oil and gas. You've seen this chart before in different forms, and we show it to make a key point. The world needs all forms of energy to meet the needs of a growing economy. We need oil, natural gas, coal, nuclear and renewables. We need them now, and we'll need them 20 years from now.

Growth will be centered in non-OECD countries where demand is expected to increase 50% by 2030. Natural gas and, in particular, Asian natural gas is at the heart of this growth. Biofuels and other renewables will grow but are starting from a small base. We believe oil and natural gas will continue to compete well on affordability and convenience - important characteristics for most of the world's consumers.

The demand increase that we expect to see for oil is depicted by the top line on this chart. Even if efficiency gains and advancements from other fuel sources limit the growth in oil consumption, a big gap between demand and supply develops in the future, a function of natural field decline.

For years, we've had a proprietary view that filling the supply gap meant opportunity for our upstream business. Now, the downstream business is more challenging. It doesn't have a decline curve and, in fact, there are country-specific drivers for capacity additions in refining. This makes the sector more susceptible to over-supply and weak market conditions like we see today.

While the commonly held long-term view now favors aggressive upstream investment, we held that view earlier than others. This chart shows our capital employed back in 1999 and today. Through targeted mergers and organic investment we've grown and reshaped the company. Capital employed has nearly quadrupled, and the amount invested in the upstream has grown from 50% to 65% and will rise further in the years ahead.

We targeted both oil and natural gas, knowing the world would need both. We accelerated our organic growth and built exploration capabilities, and we consistently funded our exploration program and have led our peer group in adding resources through the drill bit. We also put a keen focus on extending concession agreements and, I might add, with considerable success.

Given our view of booming natural gas demand in Asia, we strategically invested and now have the largest resource base of any IOC in the region. You've heard a lot about Australia and you'll hear more today, but we also are building strong natural gas businesses in Thailand, China, Bangladesh, Vietnam and Indonesia.

Our long-term view also guided us to devote less capital to our refining and marketing business. Over the last decade we divested downstream assets, averaging nearly $1 billion a year, while investing in assets where we had a position of strength and a favorable view of demand growth. This is why we're now concentrated in the Pacific Rim.

As a result of this strategy, we have a smaller downstream footprint than our competitors. This chart shows refining capacity for us and our major competitors. We have more work underway to further reshape the downstream portfolio and improve performance, and Mike will talk about that a little later.

So over the last decade, our proved reserves have increased 80%, an increase of 5 billion barrels. Our production is up 65%, more than 1 million barrels a day, and our market cap has risen over 170%. Now, these achievements were not accidental. Our long-term view of energy demand growth, our actions to reposition the portfolio and our building of key upstream capabilities drove these results.

While the Company has changed dramatically during the past decade, our strategies have not. We've had consistent strategies that have driven our superior performance and will guide us going forward. We'll grow upstream profitably in core areas and build new legacy positions. We'll commercialize our equity gas resource base while growing a high-impact business. We'll improve downstream returns with a focus on value from integration, and we'll invest in renewable energy technologies and capture profitable positions.

We took deliberate actions based on these strategies that shaped the portfolio and built the Company we have today, and Chevron has many advantages. George, Mike and Pat will discuss the advantages on the left side of the chart later in the presentation. I'll briefly focus on the two competitive advantages on the right.

First, we integrate technology and know-how across the company and our technology model is unique in the industry. We leverage a combination of proprietary capabilities and strong partnerships to broaden our access to emerging technology. John McDonald will give you some concrete examples of our capabilities and how we apply technology for competitive advantage.

Second, we have a decentralized business model. Senior leaders are based in-country with authority to make decisions quickly. This enhances our ability to execute and build strong host government relationships.

We've also spent the last decade building centralized functional expertise in areas such as exploration, reservoir management, drilling, procurement and project management. Our business units draw on that expertise to ensure best practices and standards are used consistently, and we have this balance right.

Driven by our strategies and strengths, our spending priorities fall out pretty naturally. First, to advance long-term growth we'll continue to develop our resource base and deep project queue moving resources to reserves to production.

Second, we'll reduce downstream investment with a focus on increasing efficiency and improving returns on existing assets. Finally, we'll continue to balance growth and return. But, I'll tell you today that we won't grow at any cost. All of our investments will focus on creating value.

In summary, we're positioned to compete. But strategy and strengths only matter if we deliver, execute and execute well, as we've done over the last several years. Our day-to-day focus will be on maintaining execution momentum - that is running our businesses safely and reliably, investing in the right opportunities and bringing them on line on time and on budget, and staying competitive in our cost structure.

You'll hear a great deal about our focus on execution in the remarks that follow. We have the performance, momentum, portfolio and capabilities to continue delivering disciplined growth and stockholder value. Now, I'll turn it over to Pat to cover our financial performance and priorities. Pat?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Thank you, John. Good morning, everybody. It's good to be back with you. I'll start by reviewing a few 2009 financial highlights, and then I'll briefly review our financial priorities, our future investment plans and our strong financial position.

John noted earlier that we earned $10.5 billion in 2009. Upstream accounted for the majority of our net income. We experienced significant price volatility, especially early in 2009, but ended the year with a very strong performance.

Downstream was just the opposite. Here, the fundamentals of weak demand, high inventories and surplus capacity worsened as the year progressed. These led to disappointing earnings and a low ROCE. Average capital employed was $100 billion with upstream representing about two-thirds and downstream about a quarter of the total.

For the year, we earned a return on capital employed of 10.6%. Over the long period of time, our returns have been very competitive averaging about 17% over this past decade. This longer-terms returns profile is more impressive because we have simultaneously delivered growth.

Now, I'd like to turn to costs. In 2009, we had a goal to reduce our costs by 10% compared to 2008. We exceeded that goal and lowered our operating and SG&A expenses by $3.9 billion, or 15%. Importantly, we delivered these savings in a year where we also grew oil and gas production by 7%.

Some of the cost reductions reflected market conditions and some reflected the absence of some significant hurricane-related charges that we had in 2008. The remainder was the result of deliberate actions taken throughout the Company, which lowered expenses across most cost categories.

We took selected portfolio actions that increased efficiency and reliability. We cut back on or stopped discretionary spending, and we renegotiated contract terms with suppliers. We fully expect the cost reduction momentum from 2009 to carry forward into 2010. Now, you can find more details about last year's performance in our 10-K, which was filed about two weeks ago.

Now, let me turn to our financial priorities. These remain unchanged. First, we plan to sustain and grow our dividend. We have a very good track record in doing this. Second, we intend to fund our capital program. We have a great line-up of attractive capital projects, projects that earn good returns and will drive our future growth.

Our third priority is to maintain our financial strength and flexibility. We see it as a clear advantage, and we intend to keep a solid AA rating. And finally, when appropriate, we are committed to returning surplus cash to our stockholders.

I mentioned our first priority is to sustain and grow our dividend. A predictable dividend represents a consistent return of value to our shareholders. We have a superior record on dividend growth. We've had 22 consecutive annual dividend increases with our dividends growing at an average annual rate of 7% over that period of time. We also have a competitive yield, about 3.8% at month-end.

Now, our second objective is to fund attractive capital projects, projects consistent with our long-term growth strategies. Our announced capital program for 2010 is $21.6 billion, a 3% decrease compared to 2009 expenditures. Excluding one-time concession payments in 2009, our planned spending is up 9%.

This slide offers additional insights into our investment priorities. On the left, you see a geographic breakdown of our spending, about a third in North America, about a third in Asia-Pacific and about a third spread amongst the other regions. A little more than half of our investments are in OECD countries.

The chart on the right reflects spending by category. You see a strong emphasis on oil and gas development at about 75% of the program total. We'll spend another 8% for exploration. I would note that nearly half of the gas investment shown is for projects related to indexed -- the projects that are indexed to oil pricing.

And finally, refining and marketing investment in 2010 is down 20% compared with 2009. R&M spending represents 11% of the program and covers several projects that are currently under construction.

Moving now to our balance sheet, we've been prudent with our capital structure. We've used recent periods of strong cash flows to pay down debt. At year end, our debt ratio was just over 10%. This is very low and a very manageable level.

Also at year-end, our net debt was under $2 billion. We've had remarkable stability in this factor over the past several years despite wide variations in economic conditions. Importantly, we have been able to grow this company without growing debt.

We've deliberately kept some flexibility in our financial structure, and this has allowed us to weather volatile commodity prices and margins while consistently funding our long lead-time legacy projects. Our financial strength and flexibility continue to be a clear advantage as we enter this decade ahead.

So, let me sum up. We have both the financial capacity and the discipline to grow value for our shareholders. We are disciplined around cost. We know the value of sustaining a competitive cost structure.

We are disciplined around our capital allocation and our efforts to optimize and shape our portfolio to competitive advantage. We have an impressive line-up of investment opportunities, and we're very selective in choosing which projects go forward and when.

We're disciplined with our financial structure, keeping financial capacity intact so that we can ride out economic cycles and still take advantage of value-creating opportunities.

And finally, we're disciplined in growing our dividend. So, this combination of financial capacity and discipline has allowed us to compete and to prosper, and it lays the foundation for tomorrow's growth in shareholder value. Now, I'd like to turn the podium over to John McDonald to discuss how we apply technology for value creation. John?

John McDonald - *Chevron Corporation - VP, Chief Technology Officer*

Thanks, Pat, and good morning. It's great to be here today. I'm going to share with you just a few of the ways that Chevron is applying technology to deliver real business results.

Chevron develops, accesses and applies technology in a way we believe is unique to our industry. Simply stated, our strategy is to leverage technology to deliver superior performance and growth.

We do this first by focusing on key proprietary technologies that are critical to our business success, for example, seismic imaging and hydroprocessing. Second, we form strategic partnerships with select universities, government labs, external suppliers and even a forest products company. These help us create a prospective pipeline of new ideas and technologies.

Third, we have a venture capital business that invests in start-ups, which develop innovative technologies we can quickly test and transfer into our company. From research through deployment, our focus is on combining technology and know-how to deliver real solutions to meet business needs.

I'm now going to share a few examples of how we apply technology in Chevron; seismic imaging, drilling, sour gas, project start-up, heavy oil recovery, molecular conversion and clean technology. These examples illustrate how the application of technology, combined with know-how, and let me emphasize combined with know-how, differentiates our performance.

Starting with seismic imaging, this is the first of three sequential seismic images over the exploratory discovery at Buckskin in the deepwater Gulf of Mexico. The image shows the purchased Narrow Azimuth seismic data we used to lease the acreage. I don't know about you but, for me, it's very difficult to see very much of anything, apart from the thick salt and complex geology.

Here in this next slide, we use the same data but we image the prospect using Chevron's proprietary earth model. Our accurate velocity models, together with capabilities and regional geology and salt interpretation, created this improved image. As you can see, the prospect is clearer in the area under the salt and the Buckskin #1 well was drilled as an exploratory success.

After drilling Buckskin #1, we applied our proprietary imaging algorithms and earth model to new Wide Azimuth seismic data. With this image, you can clearly see the structure drilled and also a second structure we will test with appraisal drilling.

For many years, Chevron has maintained core capabilities and proprietary code in seismic imaging. This has provided a competitive advantage in imaging complex structures and subsalt with accuracy. We continue to improve and patent the technology and enhance our interpretation capabilities.

While clear images are important, as you can see from this example, our algorithms, high-performance computing and integrated work cams also provide the advantage of speed. We can process a large Wide Azimuth survey in a few days and produce a new image in a single day. This speed is a competitive advantage.

The deepwater Wilcox trend in the Gulf of Mexico is a very challenging environment of complex salt, deep reservoirs, high pressure and low permeability. We use proprietary processes for well planning, risk and uncertainty management and well performance optimization. Our market intelligence suggests that we are the most efficient driller of complex wells in the deepwater Gulf of Mexico.

As you can on the chart, our footage drilled per day in this area improved by 50% from 2004 to 2009. Given the high daily costs of deepwater drilling, this increased efficiency translates into substantial savings. But, our superior drilling performance is not limited to deepwater. On land in the Piceance Basin, where we drilled over 60 wells last year, we drill and case more footage in less time than our competitors with the average Chevron well taking less than four days. And in Southeast Asia shallow waters, we drilled more than 250 wells last year and, again, our well costs are the lowest of our competitors.

Now, let me turn to a really tough environment. Chevron has used technology to increase production and recovery in the most challenging fields. Around the globe, many reservoirs contain hydrogen sulfide, or sour gas, which can limit development when concentrations are high.

At the giant Tengiz field in Kazakhstan, H2S, or hydrogen sulfide, is between 16% and 23% concentration. Here, we built the largest, high pressure, high volume and high concentration sour gas injection operation in the world.

We developed and expanded the field by building on our previous sour gas experience, and by applying research into sour gas behavior and material science. Conventional equipment was unsuitable for intensely corrosive, high pressure sour gas injection, so to address these constraints we developed advanced compression equipment and compression seals for these unique facilities.

Advanced reservoir modeling and simulation were key to forecasting, designing and monitoring the enhanced oil recovery program. We were able to manage reservoir pressure, increase recovery, lower sulfur output, reduce operational costs and almost double production. It's because of these unique capabilities that we were invited to participate in a Chuandongbei sour gas project in China.

The industry has been talking for some time about intelligent fields. Chevron has been deploying real solutions at several major capital projects. This example is from Tahiti in the Gulf of Mexico. Using real-time reservoir management, we automated engineering workflows, applied data visualization. This improved the efficiency of reservoir surveillance and the quality of reservoir management decisions.

We reduced the time to evaluate well performance, well and reservoir performance, from weeks to hours. Our commissioning and start-up skills, combined with real-time reservoir management technology, provided us with results that exceeded our expectations and enabled us to achieve peak production in less than three months.

Now, let me turn to heavy oil. Chevron is recognized as a leader in both upstream and downstream heavy oil technologies. We have steamflooded heavy oil reservoirs for over 50 years. We use proprietary modeling and thermal simulation, together with advanced surveillance and active heat management, to optimize steam injection.

These technologies have led to world-class recovery factors. At Kern River, primary recovery was 8% to 10%. Through steam flooding, we've achieved over 57% recovery to date, and ultimate recovery is anticipated to be 70% to 80%.

We also transfer technology and expertise across our heavy oil operations. This allowed us to begin thermal EOR sooner in our Duri, Indonesia heavy oil field, and we transferred back the horizontal technology implemented at Duri and drilled over 140 horizontal wells in Kern River.

This has enabled us to continuously improve overall recovery for both of these fields. Our newest application of advanced thermal recovery is in the Partitioned Zone between Saudi Arabia and Kuwait. This is a large, steamflood pilot of a heavy oil carbonate reservoir.

If successful, this could be expanded into the first commercial, full field steamflood in a carbonate reservoir. With 12 billion barrels in place, every 1% increase in recovery equates to more than 100 million barrels of additional reserves.

Now, I'd like to talk about a few of our refining technologies. Chevron has made significant, long-term investments to improve the quality of petroleum products. Our proprietary hydroprocessing and catalysts provide us with feedstock flexibility and continuous improvements in yield and quality.

We are the leading developer and supplier of advanced hydrocracking technology. We develop and deploy new catalysts to our own operations first prior to licensing to others. For example, with a strong capability from proprietary research we deployed the next generation of catalysts in Richmond's Lube Oil Plant just last year. This increased yield by 20%, improved product quality, and we did so without incurring capital costs.

Moving to renewables. We have a strategy to invest in renewable energy technologies and capture profitable positions closely aligned with our core business. Chevron is the world's largest producer of geothermal energy, and I want to point out that the technologies and competencies needed to manage geothermal operations are similar to those in our core oil and gas business, including modeling, imaging and drilling.

We are also unique in having an operating unit dedicated to improving energy efficiency to meet the needs of both Chevron and institutional customers. We've improved our own energy efficiency by 30% since 1992.

And at the Gorgon project facilities, now under development offshore Australia, we will build the world's largest commercial-scale greenhouse gas project -- storage project with annual reinjection of 3 million tons of carbon dioxide. Our capability in gas reinjection helped enable this significant project.

We're also pursuing technology pathways to non-food-based biofuels, building upon our expertise in molecular conversion and advanced manufacturing. A good example of this is our partnership with Weyerhaeuser, which provides access to technology from forest to product and the potential for delivery of biofuels at scale.

These examples show how we are increasing recovery and capture, delivering at lower cost with faster cycle time and improved yields. At Chevron we're applying technology to deliver superior performance in growth, all for competitive advantage. Now, I'll turn it over to Mike to talk about Chevron's downstream business. Mike?

Mike Wirth - *Chevron Corporation - EVP - Global Downstream*

Thanks, John. Good morning. It's a pleasure to be here again to discuss Chevron's downstream business. Today, I'll break my comments into two sections. First, I'll address 2009 performance. Then, I'll use the bulk of my time to address our competitiveness and our commitment to improve results.

I'll start with reliability. I've been talking to you about our commitment to improve in this area for several years. In the Solomon survey published in 2009, which covered 2008 performance, Chevron continued to lead the industry in utilization, and our 2009 results were even better.

The right-hand chart shows what we call "clock resets". This is an internal metric that tracks unplanned unit outages at our refineries. We've seen a dramatic improvement here too, reducing these events by nearly two-thirds since 2006.

Underlying these improvements is leadership commitment, disciplined execution of standardized processes, and a relentless focus on identifying and mitigating risk. Sustaining this reliability progress in a cost-efficient manner remains a top priority.

Now, turning to operating expense. Last year, excluding fuel, we drove costs down 19%, or $2.2 billion, versus 2008. This came through improvements across the board in all of our operations with the biggest drivers being transportation, labor and services and portfolio. I'm determined to maintain our momentum on cost reduction, and I'll talk more specifically about this in just a few minutes.

For several years, you've seen us rationalizing our portfolio. Last year, I told you we planned to exit nine markets. We ended up divesting 14 markets and generating the benefits noted here, eliminating $400 million in run-rate operating expenses, reducing work force by 1,500, removing $1 billion in capital employed and generating over $1.5 billion in sales proceeds at very attractive earnings multiples, and we've got more work underway here to, which I'll address in a moment.

Turning to financial performance...for the five-year period prior to 2009, we delivered strong financial results, averaging $3.4 billion in earnings and a 17% return on capital employed. As you well know, soft supply and demand fundamentals resulted in lower margins and volumes for everyone in 2009. This weak external environment drove a sharp reduction in earnings. While we're in the competitive pack, we're not satisfied with this level of performance.

Good execution on the controllables is especially important in times like this. Operationally, we executed well in 2009 and we're determined to build on that performance to improve returns.

Now, I'll spend the rest of my time on competitiveness. But before I discuss our specific actions to improve returns I'd like to briefly touch on the market environments and the fundamental strengths of our portfolio and assets.

This chart shows the shift in the supply and demand balance that's underway. From the tightness we saw just a couple of years ago, the gap between supply and demand has increased by more than 40% as refining capacity has surged and demand has sagged.

While some rationalization has begun, history tells us this is likely to be a slow process. Sluggish demand and surplus capacity will be with us for some time to come. As a result, refining margins have come off dramatically and are likely to remain depressed for several years. These conditions don't give us reason to expect much help from the market, so we have to improve performance on the things we control.

As John noted earlier, Chevron has a relatively smaller downstream than our competitors and we'll continue to stay that way. We've concentrated our footprint in North America and Asia-Pacific and believe this is an advantage. We have relatively less exposure to Europe where things are the toughest. Our U.S. position is weighted toward the west coast where the market has a history of recovering earlier than other areas. And our Asia-Pacific positions remain attractive, given the dominant role these markets will play in future demand growth.

So, we like the overall position of our portfolio and we like our assets. This chart shows Chevron's refinery complexity compared to the other international majors Solomon tracks. You can see we enjoy an advantage with refineries better able to convert a wider variety of feedstocks into valuable, high-quality products.

The fundamental strength of our refineries has been an advantage historically and will continue to be important in the longer term. And our sustained reliability and continued first-quartile energy performance deliver operating efficiencies. We have fundamental refining strength in addition to advantaged geographic positioning.

We have good assets, good geographies and good execution, but I'm not satisfied with our 2009 results. I'll spend the rest of my time telling you what we are doing to improve. Our strategy remains unchanged with the focus squarely on improving returns. We'll continue to deliver operational excellence in our base business while reducing capital expenditures. We'll further high-grade our portfolio and continue to reduce costs.

I'd like to take a moment to tell you about our lubricants unit, which has gone through a dramatic turnaround, to show you how this approach can drive results. Our lubricants business moved from fifth place in earnings per barrel before the turnaround to first or second place since then.

We focused the footprint, left less attractive markets, simplified operations and reduced complexity, all while only modestly reducing volumes. We sharpened the accountability for financial results and have seen strong improvement with absolute earnings tripling over this period. The profit per barrel, overall profit and overall returns have improved significantly. We're now doing the same things across our fuels business.

I'll start with capital spending. You can see our 2010 budget is down nearly a quarter versus 2009. We have projects underway at El Segundo, Pascagoula and South Korea to improve crude flexibility, yield and reliability. As these are completed, capital spending will be reduced further.

We'll continue to ensure safe and reliable operations but tighten the scrutiny on discretionary investments. Of the major projects we have previously discussed, the Pascagoula Base Oil project does continue to still be in our plans.

You've seen what we've done on portfolio optimization over the last few years, and we'll be doing more. We've exited 50 markets since 2006. We anticipate leaving more than an additional 50 markets over the next couple of years, but we expect volumes to decrease by a much smaller amount, and equity production will become better balanced with total sales.

So we're close to the 80/20 rule here, creating a much simpler footprint yet retaining volume and scale. The result will be a portfolio of fewer than 40 countries with a clear focus on North America and Asia. This simplification will improve focus and efficiency and lead to structural operating expense reductions. While we'll be in many fewer markets, we'll retain scale and materiality, and when margins eventually recover the retained core has more uplift potential than the positions we expect to exit.

Let me be more specific about some of these changes. Late last year, we announced plans to exit 12 states in the eastern US. We've also announced plans to sell 13 US terminals. Today, we're announcing the intent to solicit bids for certain operations in Europe, including our Pembroke refinery, the Caribbean and select Central America markets. We recognize the challenging market conditions and won't sell anything unless it creates value for Chevron.

Reviews to improve profitability and value are also underway of select Africa operations outside of South Africa and in Hawaii. These are at an earlier stage than the others, so it's premature to speculate on the possible outcome. We will share more specific details in the future as these efforts progress.

In addition to focusing our footprint, we're working to improve profitability in those markets we'll keep. We're driving down supply costs through terminal rationalization efforts that will increase average scale, utilization and efficiency. We'll better leverage our industry-leading brands to generate higher realizations.

Brand strength can lead to small per-gallon advantages versus the competition, which become big numbers across large volumes of sales. And we're continuing to reduce service station ownership to decrease capital employed with greater than a 50% cut targeted. These actions will improve revenues, reduce costs and decrease capital employed, all geared toward improving returns in our retained markets.

We're improving our refining performance as well. Last year, we began a number of actions that delivered sustainable reductions in non-fuel operating expenses, while maintaining the priority on safety and reliability.

We expect to deliver a total of $400 million in annual non-fuel cost improvements from 2008 to 2012. The majority of the savings relate to efficiencies in routine activities and a commitment to achieving a lower overall cost structure, including a significant reduction in the number of contractors.

Beyond this, we've also identified opportunities to further improve energy efficiency and turnaround effectiveness, which will yield additional benefits. And we're reviewing potential modifications to refinery configuration, even in our large refineries. This could mean shutting down certain process units within a given refinery or reconfiguring operations to better match today's conditions.

And finally, I want to address organization and cost. As a result of our market exits, reductions in owned service stations and terminals and a commitment to simplify, we'll need less support. Over the course of last year and this, we'll reduce our work force by 3,900 employees, or more than 20%. Last year, we achieved nearly half of this, about 1,900 people. We expect a reduction of another 2,000 in 2010.

Future portfolio actions would add to this total. We won't sacrifice our commitment to and reliability, but we will create a simpler organization with fewer layers and less complexity. First quarter 2010 charges for severance are currently estimated in the range of $150 million to $200 million.

I've said several times our focus is on improving returns. I'd like to summarize how these changes will do that.

Changes in our marketing and refining operations are each expected to deliver roughly a 2% improvement in returns. Our portfolio and cost structure changes are expected to deliver another 3%. And while we don't expect a full recovery near-term

we do anticipate a slight expansion of margins by the end of 2012, which could provide additional improvement. So in a very difficult market, we expect to improve returns by some 7% through self-help and to be back into double digits by 2012.

So, I'd like to wrap up by reiterating two key points. First, our people delivered strong operational performance in 2009. Safe and reliable operations continue to be our top priority. Significant cost reductions and market exits were also achieved.

And second, we're committed to improving competitiveness. We have a solid foundation in our footprint and our assets. We're taking aggressive actions to further high-grade our portfolio. And we're sharply focused on reducing costs, increasing revenues and improving returns. We've proven we can improve our operating performance, and I'm confident we'll deliver stronger returns. Thank you. We'll be pleased to take questions now before the break.

QUESTIONS AND ANSWERS

John Watson - *Chevron Corporation - Chairman, CEO*

Okay. Thanks, Mike. We will welcome your questions now. Let me just point out a few running rules before we get started. We do have a number of microphones around the room, so you'll see some of our folks with those.

If you have a question, just raise your hand and we'll call on you. We would ask for you to wait 'til you get the microphone before you answer the question, and please state your name and affiliation when you do that.

I know it's hard to avoid asking upstream questions now, but George is going to do his presentation later and he'll be -- and we'll all come back, including George, to answer questions about the upstream at that time. So, okay, let's start here right here in -- right here in front. Yes?

Mark Gilman - *The Benchmark Company - Analyst*

Mark Gilman, the Benchmark Company, this one's for Mike. From an external perspective and all caveats associated with that, it appears that derivative activity continues to be, notwithstanding suggestions that have been made in the past, to be a significant drain on downstream profitability. I guess I'm wondering at this point why it is that this activity, particularly given the volatility and the difficulty of forecasting movements in the market, isn't something that you would just cease altogether.

John Watson - *Chevron Corporation - Chairman, CEO*

Well, let me -- I'll make a little comment on that in just a second. A couple of things on volatility, Mark, there have been several issues for our downstream business on volatility over time, and we've addressed a couple of those.

One has been the reliability of the refineries. Those have been -- those clearly are much more reliable than they have been in the past. Second is we have restructured some contracts, but there are a couple of things that can introduce volatility into our results, chiefly around markets, and I'll let Mike talk a little about that and derivative activity.

Mike Wirth - *Chevron Corporation - EVP - Global Downstream*

Yes. Mark, on derivatives, we have -- we've cut back on the amount of derivative activity over the course of last year. So, we ended last year with internal limits on derivative activity and levels lower than we'd had earlier in the year.

Our system is exposed to a fair amount of long-haul movements. Pembroke tends to export a lot of products, and so we have products on the water to distant markets. Given some of the conditions in the U.S., we have been exporting more products out of the US, and we have some long-haul crude movements where we've got price exposure and the derivatives are typically used to lock in a margin on a sale at an end destination and to take out the flat price risk.

Now, the derivatives and the physical sometimes, Mark, in -- and close out in different periods, and so that introduces an accounting effect that I think you're referencing. But, the underlying economics of these are solid, and so the derivatives are not used to speculate. They're really used to lock in margins on physical movements of hydrocarbons around the system, and we have brought the level of that activity and are continuing to manage it very carefully.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes?

Mark Gilman - *The Benchmark Company - Analyst*

If I could follow up...

John Watson - *Chevron Corporation - Chairman, CEO*

Yes? Mark, let's... we can come back if we have time, Mark. Thanks. Yes? Just trying to get everybody in...

Doug Terreson - *ISI Group - Analyst*

Doug Terreson, ISI. John, I have another question for Mike on refining, specifically the chart that you highlighted on page 19. So, the first question is what do you consider the base level of returns? You talked about returns on page six. Then, you also talked about 2009, and so that's the first question.

Second, when you think about the total return enhancement from the program, how does it segment between the productivity you talked about, portfolio management and capital investment as well? And then, over what period of time are you holding your team accountable to have this improvement of returns that you talked about?

John Watson - *Chevron Corporation - Chairman, CEO*

Go ahead, Mike.

Mike Wirth - *Chevron Corporation - EVP - Global Downstream*

So, the base period I think you can look at as last year, and I said we'd -- I'd commit, and my team has committed, to getting us back into double digits by 2012. So that's the accountable year, so we've got '10 and '11, be there in '12.

The -- you know, there are a number of moving parts on this. We've got clear targets on cost. Cost is a big piece of that. I announced today that the headcount reductions, the portfolio simplification allows us to take more cost out. We're taking cost out of the refining system. We're working the revenue side as well, and then you've got capital employed that comes out as we continue to thin down ownership of service stations and terminals and exit markets.

So, it really comes across all the levers of improving the returns, and I tried to show it by segment there. If I were to break it out by cost revenue and capital employed, the -- there's not a compelling component that will stand out. It's really working all three of those pieces very hard, Doug.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes. And some of the things you won't see until a little later in the cycle. You have to go through a turnaround cycle before you see the full benefits to those. We'll go right here. Yes?

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks, John. Doug Leggate from Merrill Lynch, I'm going to risk two if I may, but they are related. The first one on -- both to Mike. The first one, Mike, is it seems that you were talking about soliciting bids to sell refineries, but you also talked about over-capacity. It doesn't appear that you're prepared to take your share of reducing capacity through closures. Can you comment on that, please? And the -- if you could just confirm what you think your refining capacity is going to look like when you're done with this process.

The second question is if you look back over the last four or five years, you've had a lot of strength in refining, a lot of weakness in refining, but your reliability unfortunately was pretty poor during the good times. Had your IRR been positive when you consider all your investments and, if not, why would you consider putting $1 billion into Richmond at this point, and if you could comment on the current status of Richmond, please?

John Watson - *Chevron Corporation - Chairman, CEO*

Let me make a couple of comments, and I'll let Mike come back to the soliciting bids and some of the returns on our projects. But, the general comment I'd be make about closing of refineries is our refineries are competitive. So as we look at the Solomon measures, whether its reliability, net cash margin or those types of measures, the refineries are competitive.

The issue is industry conditions, and so the conditions are very weak and so we have to take actions to make our business more profitable than it is today, and that's why he talked about a great deal on self-help. In terms of the -- our views on bids, I'll let Mike talk about that and some of the returns on projects.

Mike Wirth - *Chevron Corporation - EVP - Global Downstream*

Well, I'll start out with the question on closures, Doug. You know, we announced last year that we were undertaking a review of the Hawaii refinery and considering converting it to a terminal and closing it as a refinery.

And as a part of doing a project like that, you also work hard to identify what is the best performance you could get out of the refinery, or the things you haven't been doing, and in fact in that case we've restructured some contracts. We've made some changes at that refinery, which have really improved the profitability.

And as you get into a terminal option, you get into practical things like the size of ships you can bring in, the amount of infrastructure you've got, the replenishment cycles, the sources of product that's going to meet the spec, et cetera. And as you get into that, the case between a terminal conversion and a refinery clearly argued that continued refining operations was a more value-creating scenario for us than closure of that refinery.

So, that's an example of the kinds of things that we do look at, and I will tell you we're reviewing all of our facilities very carefully to understand how they can create the most value for us and where they fit in the competitive marketplace. And I think our competitors are doing the same kinds of things, and you see some of that underway.

When you get into the question on returns over the cycle, we get decent but not spectacular returns out of the refining business, and you've got to look through the cycle and not get over-influenced by the brief period of time we saw in the middle of this last decade when margins were at their peak but really look at it through the cycle. And we get what I would call solid but unspectacular returns out of the refining sector.

Future investments are something that you need to look at very carefully in terms of the competitiveness of the facilities. As I mentioned, we've been investing in our large facilities, so I talked about projects underway at El Segundo, at Yeosu, at Pascagoula, and those are where we've really focused our big investments are in the facilities that have the scale, the complexity and the market position to be competitive for the long-term.

Specifically at Richmond, for those of you that may not fully appreciate the reference to a large-scale investment there, several years ago, more than four years ago, we began permitting a project, or a suite of projects, actually a series of different projects, to improve the competitiveness of that refinery. We went through the process. We got our permits and began construction.

A lawsuit was filed, and we sent thousands of trades workers home and it's still tied up in the courts right now. There's an appeal pending before the State Appellate Court. Oral arguments were held last month, and we're awaiting the outcome of that process.

It's really premature for me to speculate on where we will go next until we know the outcome of that decision. And so, when we know that we'll make decisions and we'll communicate them appropriately as we go forward.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes, right here? Paul?

Paul Cheng - *Barclays Capital - Analyst*

Yes. Thank you, John. Paul Cheng, Barclays Capital.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes.

Paul Cheng - *Barclays Capital - Analyst*

Paul Cheng, Barclays Capital, it's a two-part question for Mike. Mike, Australia, is there any -- you haven't mentioned that is under review or viewon it. Are you going to sell your interest in Caltex Australia? Is there any particular reason why you want to keep your ownership in Australia, given the market is not a particularly strong growth area?

And the second part is that you mentioned in your presentation you're soliciting bids in Europe, including Pembroke refinery. To the degree that you can sell all the retail operation but you cannot get a satisfaction bid on the refinery if that facility could work well as a merchant facility under -- in your portfolio? Thank you.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes. A couple of questions, Paul, I'll let Mike talk about Pembroke, and let me just make a brief comment about Caltex Australia. It's a publicly traded company, and it really isn't appropriate for me to say very much about it except to say that we've had a good relationship with Caltex Australia over time and that we have -- that it has been a profitable business over time, and I expect we'll keep that relationship going forward. But with it being a publicly traded company, it's really inappropriate for me to comment much further at this point. Mike?

Mike Wirth - *Chevron Corporation - EVP - Global Downstream*

And I'll follow up, Paul, on your question about Europe. Our assets in Europe are attractive assets. Our position is not a large position in our portfolio, and it's not a large position in the European market.

But, Pembroke is a -- it's a high-quality refinery, a 210,000-barrel-a-day refinery with good complexity. It's above 11 on Nelson Complexity, good conversion units. It's served by a natural deepwater port, which facilitates long-haul crude deliveries in and product exports out.

So it's a good refinery, and we're talking about selling here an integrated business, which is our refining position, the marketing position, our aviation business and our lubricants business, so it's a package that is an attractive package. In fact, before we made this announcement we've actually received unsolicited expressions of interest in those assets, and so there is -- there is a degree of market interest out there.

Our intent would be to move this as a package, and so the hypothetical in terms of would you sell the marketing and keep the refinery as a merchant refinery, we really don't envision that at this point. We envision getting a good strong offer for the package.

But, I think most people that study the business understand that Pembroke has been a refinery, which has served export markets historically and so it's certainly got that quality to it, although it does have domestic markets as well. But, the intent is to move that as an integrated business.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes? We've got time for a couple more questions. We'll come back later and answer more downstream questions with the upstream questions, a couple more. Yes?

Neil McMahon - *Sanford C. Bernstein & Co., Inc. - Analyst*

Thanks, John, Neil McMahon with Sanford Bernstein.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes.

Neil McMahon - *Sanford C. Bernstein & Co., Inc. - Analyst*

John, I think in the industry the term loss leader has been used rather a lot and never seemed to have worked, and recently it's being very much applied to Iraq. And you're one of the -- well, you are pretty much the only large integrated that has not

ventured there in terms of signing at the recent terms. Can you just go through why that's the case? And also, do you actually need an Iraq in your portfolio, given the length and breadth of the portfolio going out to 2020?

John Watson - *Chevron Corporation - Chairman, CEO*

Sure, Neil. We -- as you may know, we spent a great deal of time working with the Iraqis, providing technical assistance, training for the better part of this last decade, and we certainly had partnering arrangements that we were considering and had done a great deal of technical work and hoped to participate in the two bid rounds that took place in Iraq.

When it came right down to it, what we found is that we just couldn't make it work from a fiscal point of view. We just felt that, given the other things that we did have in our portfolio, it couldn't compete. Clearly, these are large resources. Clearly, it would be desirable to have a presence there.

But, as I said in my remarks, we're not going to invest in barrels that are empty from a P&L point of view for us. We think it's -- we have many better opportunities. You'll hear a lot from George later on the growth that we have through this decade, and we just couldn't make it work so we chose not to submit bids rather than to submit bids that we knew would not be competitive.

Just one -- one more, yes?

Tina Vital - *Standard & Poor's Equity Group - Analyst*

It's Tina Vital --.

John Watson - *Chevron Corporation - Chairman, CEO*

Thank you.

Tina Vital - *Standard & Poor's Equity Group - Analyst*

Tina Vital, Standard & Poor's Equity, I had a couple of quick questions, one on the upstream. You're very innovative. I mean, your technology is evidenced by your deepwater projects and heavy oil, but I haven't seen -- it doesn't seem like you've ventured much into the unconventional gas in the shale and coalbed methane much, and I was wondering why that was.

And then quickly on the downstream, with -- it seems that... you're saying that you don't expect refining margins or the supply and demand in refining to come back until about 2015 or so. Coming out of this depression in refining, do you expect the U.S. refining system to be in the best position because it's quite sophisticated? Or, do you see these new refineries in Asia as being better positioned? And that said, do you -- it looks like Europe is the worst and you plan on pretty much getting out of that altogether.

John Watson - *Chevron Corporation - Chairman, CEO*

I'll let Mike talk a little bit about our positioning on the refining side. I will tell you on the unconventional business, you'll from George in a fair amount of detail a little bit later on our positioning in unconventional, which we think is solid but certainly smaller than some of our competitors, and he'll give the reasons why we like the position that we have in a little more detail later.

If we don't -- if we don't answer your questions, Tina, a little bit later we'll come back and be happy to do that. Mike, do you want to talk a little bit about why the US is...?

Mike Wirth - *Chevron Corporation - EVP - Global Downstream*

Yes. So, the -- if I understood the question correctly, it was really Europe versus U.S. versus Asia in terms of the future of refining. You know, Europe and the U.S. are very mature markets exhibiting little demand growth and, in fact, some demand contraction in some products.

So, that puts real pressure on the installed refining base in those areas and margins will reflect that and I think we'll see rationalization, particularly in older, smaller, less-efficient facilities.

We're seeing new, world-scale, modern, complex facilities being built, primarily in Asia and in the Middle East, and I think those are the facilities that will be the competitive facilities to supply their near markets and, in fact, to project their export strength around the world and really become the competitive benchmark that the industry will have to deal with over time.

It doesn't mean refineries in Europe are going to disappear or refineries in the United States will disappear. Good refineries, competitive refineries, in those markets will continue to exist. But, the refineries at the margin and the weaker ones are the ones that are under the most pressure and the most vulnerable, and our intent is to invest to keep our system as competitive as we possibly can and I think the less competitive facilities, over time, are likely to drop out of the market.

Tina Vital - *Standard & Poor's Equity Group - Analyst*

Great. Do you see a greater threat to the new supply coming on in Asia to the European refiners -- European market or to the North American?

Mike Wirth - *Chevron Corporation - EVP - Global Downstream*

Well, it depends on where the refinery is located and what the refinery makes and the characteristics of the market, so the diesel refineries in the Middle East can bring a lot of products to bear on Europe. A gasoline refinery in Asia could bring product to the West Coast. It depends on the transportation logistics, the markets and the refineries themselves. But in general, these large export-oriented refineries can project their products into the global marketplace, and the impact is felt around the world

John Watson - *Chevron Corporation - Chairman, CEO*

I'm getting the high sign. I know you want to hear from George, and we'll come back for questions. Paul, you'll be first when I -- when we come back after George's presentation with the first question at that point. So, thank you for your questions on this section. We'll take a 10-minute break. Remember, take your badge with you or you won't be able to get back in. So 10 minutes, thank you.

(BREAK)

PRESENTATION

George Kirkland - *Chevron Corporation - Vice Chairman, EVP - Global Upstream and Gas*

Good morning. It's good to be back with you to discuss Chevron's upstream and gas businesses.

We had a very successful 2009, with strong performance in exploration, base business and major capital project execution. Today, I'll provide detailed insights on our 2009 performance and outline our plans for 2010 and beyond.

I'll start by providing an overview of Chevron's upstream portfolio. Chevron has upstream operations in nearly all of the world's key hydrocarbon basins. We operate in 26 countries, in four regional operating companies and 14 business units. As John Watson outlined, our organizational structure provides a competitive advantage with strong local presence supported by centralized, functional expertise. Chevron's portfolio has breadth and diversity. Production capacity at the end of 2009 was 2.8 million barrels a day, distributed almost evenly across the four regions, and proved reserves were 11.3 billion barrels, again fairly evenly distributed.

Today's presentation will highlight three areas; our performance, strategy and our growth plans. The performance section will cover the 2009 accomplishments. Within the strategy portion, I'll review our actions that build on our proven and established foundations and I'll close with our growth story, covering near-term exploration plans and an update on the projects that will sustain long-term production growth including key legacy positions in natural gas and particularly, Australia LNG.

Let's review 2009 competitive performance. On an earnings per barrel basis, 2009 margins were $10.26 and ranked number two in our peer group. For the third and the fourth quarters, when oil prices were rising, we ranked number one. Our competitive position reflects the quality of our producing assets and project portfolio. 2009 results were also favorably influenced by our success in reducing production costs. Competitor ROCE results for last year are not yet available, however, our return on capital employed at 16% should retain a number two position.

Let's now review our cost structure. This chart shows our historical cost structure relative to our competitors. We have been consistently in the number one or number two position. These costs include production costs, exploration expense, DD&A and other expenses. Essentially, all the costs that, when subtracted from revenues, tie directly to pre-tax income margins. Note that all the data shown on this chart is based on publicly available disclosures. Our cost structure in 2009 was $22.73. 2009 competitor data is not yet available; however, our costs should remain very competitive in the peer group.

Now let's look at 2009 production as compared to 2008. 2009 net production grew to 2.7 million barrels a day - a 7% increase over 2008. Four factors influenced 2009 production. Lower oil prices increased net entitlements by 55,000 barrels a day. 2009 WTI averaged $62 compared to $100 in 2008.

External constraints - OPEC curtailments, security disruptions in Nigeria and lower market demand in Thailand reduced production by 56,000 barrels a day. Base business production declined 5.1% or 130,000 barrels a day, better than our 6% to 7% guidance. Operational reliability and system optimization efforts more than offset the impact of lower base business investments. And major capital project start-ups and ramp-ups delivered an incremental 305,000 barrels a day.

So how did our growth compare to the peer group? In 2009 our 7% production growth significantly outpaced our competitors, and demonstrated the quality of our portfolio and our ability to execute projects. I like this slide a lot and I think I'll get a little drink of water.

I'd now like to describe some of our major capital projects that contributed to this success. Last year there were nine major capital project start-ups. I will speak to seven start-ups and three ramp-ups. Beginning in May, Tahiti and the Gulf of Mexico achieved first oil and quickly ramped up to name plate capacity. Frade in Brazil achieved first oil in June. That same month steam injection began at the Large Scale Steamflood Pilot in the Partitioned Zone between Kuwait and Saudi Arabia.

In Angola, Mafumeira Norte came on-line in July and Tombua-Landana began operations a month later. In Colorado, Piceance Stage 2 was commissioned in September and North Belut in Indonesia came on-line in November. Significant growth barrels were also added from the ramp-up of three 2008 projects; Agbami, Tengiz SGI/SGP and Blind Faith. For 2010, these 10 projects are expected to add another 115,000 barrels a day.

I'll now cover each of these in more detail starting with the 2009 project ramp-ups. Located offshore Nigeria, Agbami reached peak production of 250,000 barrels of oil a day, four months ahead of schedule. To date, 12 producing wells are on-line and production efficiency has been excellent at 96%. The Tengiz SGI/SGP expansion in Kazakhstan ramped up to 250,000 barrels of

oil a day by year-end. De-bottlenecking and optimization activities will further increase our production capacity over the next 24 months. And, Blind Faith reached peak production of 70,000 barrels a day of oil-equivalent in late March and has operated with high reliability.

I'll now cover our 2009 deepwater start-ups. Tahiti in the deepwater Gulf of Mexico achieved first oil in May and reached peak production within three months, six months ahead of schedule. Current production is at full capacity of 135,000 barrels a day. Production reliability has been excellent.

In deepwater Angola, Tombua-Landana came on-line during the third quarter and is ramping up as development drilling continues. There are seven producing wells on-line and the full development plan includes a total of 39. The project remains on schedule to reach peak production of 100,000 barrels a day in 2011.

And in Brazil, Frade achieved first oil during the second quarter. Production is currently 22,000 barrels a day from three wells. Development drilling continues. Reservoir complexities have slowed overall project progress and peak production is expected to be 72,000 barrels of oil-equivalent a day in 2011.

Let's now review the full benefit of the six projects I've just covered. First, I'd like to point to the scale of these projects. Combined, they represent a gross investment of $25 billion with projected total peak production of almost 1 million barrels of oil-equivalent a day. Remember, all these projects are Chevron operated and demonstrate the strength of our major capital project queue and our ability to execute with excellence.

With a capital cost of $26,000 per daily barrel, these projects have a very attractive development cost. This execution success demonstrates our capabilities to deliver large scale complex projects and gives us confidence in our future developments, particularly Gorgon and Wheatstone.

Now I'll spend a few moments covering four smaller scale 2009 project start-ups which have significant follow-up developments and growth potential. In Angola, Mafumeira Norte achieved first oil in July. This is the first project start up in Block 0 since the concession extension and one of several similar projects currently under construction or evaluation. The project has exceeded original expectations and is currently producing at the peak design rate of 42,000 barrels of oil a day from eight wells.

In the Partitioned Zone, following the recent contract extension, we began steam injection at the Large Scale Steamflood Pilot. With pilot success, there is significant development potential for this carbonate reservoir which has 12 billion barrels of oil in place.

In Colorado, Stage 2 of the Piceance tight gas development came on-line with a capacity of 65 million cubic feet per day. Currently, 81 development wells are available to supply gas to the new facility. Expansion potential for this unconventional gas development is significant.

And in Indonesia, North Belut achieved first gas in November, the fourth phase of the South Natuna Sea Block B development. Currently, there are 12 wells on-line and development drilling continues. Peak production in excess of 50,000 barrels of oil-equivalent a day is expected later this year.

I'll next cover reserves. On an SEC basis, Chevron replaced 112% of our production or 1.1 billion barrels in 2009, bringing our total year end proved reserves to 11.3 billion barrels. Excluding price effects, the reserve replacement ratio was 145%. The revised SEC oil and gas reporting regulations became effective at year-end 2009, and changes included the addition of mined oil and the use of a 12 month average price. Our largest reserve addition was related to the Gorgon project where 730 million barrels were recognized. Note, for the one year, five year and ten year periods, Chevron's reserved replacement exceeds 100%.

I'll now cover some of the other 2009 strategic accomplishments. In Australia, the final investment decision on Gorgon was announced in September and Wheatstone entered feed in July. Underpinning these projects, gas sales and Heads of Agreements were over 11 million tons of LNG per annum were inked. I'll discuss these projects in more detail in the growth section.

In the deepwater Gulf of Mexico, we entered FEED for Jack/St. Malo and Big Foot. The Chinese government approved the Chuandongbei sour gas development. In Vietnam, a Heads of Agreement was signed that allows FEED activities to begin for the Block B gas development in the Gulf of Thailand. And our industry-leading exploration program continued its success with discoveries in Australia, Angola, Nigeria, the Republic of Congo, Thailand, the Gulf of Mexico and the Haynesville shale gas play in East Texas.

This concludes the performance section and I'll now cover the strategy portion. Our upstream and gas strategies have proven to be successful over time and in different business environments and as a result our strategies remain unchanged. Let's review them.

In order to grow profitably in core areas and build new legacy positions, we focus on six strategies; delivering operational excellence through improved safety, reliability and environmental performance; keeping a sharp focus on our base business; executing our major capital projects with excellence; growing our resource base through continued exploration success; commercializing our vast natural gas resources and capturing new core upstream positions.

I'll now turn to our 2010 capital program. This year's upstream capital and exploratory budget is $17.3 billion, an increase of 14% over 2009 after adjusting for one-time payments associated with the Partitioned Zone contract extension and the Chuandongbei project. In response to higher oil prices, we plan to increase base business investments by 22%. In 2010, about half of the upstream capital budget is allocated to major capital projects and approximately $3.5 billion will be invested in LNG projects.

Next, let's review the 2010 net production outlook relative to the growth objectives we established five years ago. Our 2010 production outlook of 2.73 million barrels a day is an increase of 356,000 barrels a day or 2.7% per year over 2005 levels. This is in line with the annual growth target of 3% we set in 2006, excluding the impact of higher oil prices, royalty triggers and fiscal term changes in Venezuela. Those were not included in the original target. The 2010 outlook assumes no OPEC curtailments, security impacts or significant market impacts and is based on a $62 per barrel oil price, the same price as 2009.

Now let's look at how North America gas market conditions have impacted our gas operations. During 2009 US gas prices were suppressed in response to gas oversupply. This chart shows Henry Hub natural gas prices as a percentage of WTI on an energy equivalent basis. Last year, gas was trading at approximately 35% to 40% of oil.

In this environment, we reduced the pace of North America gas investments, because these programs did not compete with our other investment opportunities. This decision increased our base business natural gas decline rate in the United States to 10%, almost double that of our global average. Our U.S. gas decline rate is expected to remain at a similar level in 2010. If Henry Hub gas prices increase, we have projects technically ready for development such as the Piceance and Haynesville that can quickly increase natural gas production. This concludes the strategy section.

Let's now turn to the future and discuss our growth plans, beginning with exploration. 2009 was another successful year; approximately 660 million barrels of oil-equivalent was added with a success rate of 57%, ahead of our eight year average of 47%. As the graph on the right shows, since 2002, we've added over 9 billion barrels of oil-equivalent resources. The circles on the map show the location of the key 2009 exploration discoveries.

We announced five natural gas discoveries in the prolific Carnarvon Basin offshore Western Australia. The discovery wells - Clio-2, Kentish-Knock-1, Achilles-1, Satyr-1 and Yellowglen-1, all add to our significant gas position in the basin. In deepwater Nigeria, oil was discovered at the Owowo South prospect approximately 13 miles east of the Usan field. There were discoveries at the Moho-Nord in the Republic of Congo and the Greater Vanza Longui in Angola Block 0. In the US we had significant oil

discoveries at Buckskin and Mad Dog in the deepwater Gulf of Mexico, and gas discoveries in the Haynesville and Elk Hills. And our success continued in Thailand.

So how does our exploration performance compare to the peer group? According to Wood MacKenzie, and using exclusively their data, Chevron remains the leader in underlying exploration resource replacement. As shown on the left chart, between 2002 and 2008, Chevron had a 85% resource replacement ratio, significantly higher than our nearest competitor. Not only are we first among our peers on a resource replacement basis, but also on capital efficiency. Per Wood McKenzie, Chevron's underlying finding costs for the period 2002 to 2008, were $1.88 per barrel, the lowest among our competitor groups. This combination of exploration capital efficiency and consistent resource addition provides us with a competitive advantage for organic growth. I also like this slide a lot.

Our overall resource growth and distribution is shown on the next slide. Since 2004, our unrisked resource base has grown by over 7 billion barrels or 13%. That's despite five years of production, asset sales and price effects which totaled 8.9 billion barrels. The bar graph on the right shows the geographic diversity of our 63 billion barrels of unrisked resources.

I'll now review our unconventional gas holdings. We have legacy positions in North America unconventional gas in the Piceance and Haynesville trends. We've added to this position in 2009 with new leases in Poland and Canada. Our Piceance position has significant production expansion opportunities. A full field development has the potential to deliver in excess of 400 million cubic feet of gas per day, requiring over 2,000 wells.

At Haynesville, three successful exploration wells were drilled in 2009 and two are currently on production. This asset remains under evaluation and has significant development potential. In Poland and Canada, we've acquired a million acres. These leases are early, low cost entries that could deliver long-term growth for Chevron.

Turning to our 2010 exploration program. This year, we plan to invest $1.7 billion in exploration. The majority of these capital dollars are directed to four focus areas and impact opportunities. An impact opportunity has a resource potential that exceeds 100 million barrels. The four focus areas are shown on the map. The remainder of our exploration spending is directed to new ventures and test basins.

Our key 2010 impact wells include three exploration and three appraisal wells in Australia, following up on our 2009 success. In the United States our plan is to drill three exploration wells in the deepwater Lower Tertiary trend along with the first Buckskin appraisal well. We also plan to drill wells at the Lagavulin prospect in the United Kingdom, the Lona prospect in Canada's Orphan Basin and the Owowo West prospect in Nigeria. And we'll continue exploration and appraisal drilling in the Gulf of Thailand. In total, approximately 60 exploration and appraisal wells will be drilled this year.

Now I'll review Chevron's major capital project inventory. This slide covers two, important elements regarding our project inventory...development phase and resource distribution. In total, we have 102 projects in our portfolio where the Chevron net investment exceeds $200 million. This is nine more projects than last year.

The chart on the left shows these projects by development phase. There's a good distribution of projects from early stages through start-up. The pie chart on the right shows project inventory by resource distribution. We have a diverse portfolio including conventional, deepwater, LNG and heavy oil. You should note that LNG comprises approximately 35%. One further point, almost half of the total project resource volume is located within OECD countries.

I'll now provide details on our near-term project start-ups. Over the next three years, ten projects are expected to start up with the Chevron net investment exceeding $1 billion. Three are expected to come on-line in 2010; the Perdido Regional Hub in the deepwater Gulf of Mexico, the first expansion of the Athabasca Oil Sands Project in Canada and the third phase of the Escravos gas project in Nigeria.

Looking longer term, there are seven planned multi-billion dollar start-ups in 2011 and 2012; Agbami 2, Tahiti 2, Usan, EGTL, Platong II, Angola LNG and Chuandongbei. As the chart on the right shows, production from project start-ups between 2007 and 2009 has grown to 460,000 barrels a day. These projects, along with new start-ups, are forecasted to deliver 800,000 barrels a day by 2012. This production growth - from projects - demonstrates the strength of our portfolio and our ability to execute.

Let's now turn to the next set of projects which will reach FID over the next three years. Between 2010 and 2012 a final investment decision is planned on 15 projects in which Chevron's investment is more than $1 billion. One of these projects has already been sanctioned this year - Papa-Terra in Brazil. For the other 14, we are making good progress toward FID.

I'll now cover some of these key projects which reach start-up or FID in this three year period. This slide summarizes three near-term deepwater developments; Agbami 2, Tahiti 2 and Perdido. Agbami 2 includes 10 new development wells which are expected to extend the 250,000 barrel a day plateau for another six years. This project was sanctioned in December of last year. Tahiti 2 is expected to be sanctioned in 2010. This project includes drilling of six additional producing wells and implementing a waterflood to extend Tahiti's peak production and to increase recovery.

Also in the deepwater Gulf of Mexico, the Perdido Hub is nearing completion. This facility, located at the Great White field, will also serve as production from the Silvertip and Tobago fields. Start-up is expected in the first half of 2010. The facility is designed to handle 130,000 barrels a day.

Let's now review some other key Gulf of Mexico activities. Jack/St. Malo moved into FEED last May and we expect to sanction the project later this year. This development comprises two subsea centers tied back to a hub production facility with an initial capacity of 150,000 barrels a day. Big Foot entered FEED in October. This development utilizes a dry tree tension leg platform. We plan to reach FID later this year, and maximum production is expected to be 63,000 barrels a day.

As I mentioned earlier, we will soon spud the first appraisal well at Buckskin. This is a follow-up to last year's discovery, which encountered an 800-foot oil column with 300 feet of net pay. John McDonald showed earlier how enhanced seismic imaging has influenced the location of the appraisal well that will evaluate the upside potential of this discovery. Our technical competencies coupled with our Lower Tertiary lease position, provides us with a competitive advantage and we expect to drill three to four prospects per year for the next several years.

I'd now like to review our future growth in the Caspian region. Plans for the next Tengiz expansion are progressing well and we expect to enter FEED in 2011. The expansion will be similar in production scale and scope to SGI/SGP but without the sulfur and gas treatment facilities as all the sour gas will be reinjected. The project is designed to increase production by 250,000 to 300,000 barrels of oil per day, bringing total field production to approximately 900,000 barrels a day. A key enabler for Tengiz production growth is the expansion of the Caspian Pipeline which will double its throughput to 1.4 million barrels a day. Staged completion of this project is expected in the 2014 to 2016 timeframe.

I'll now turn to an area that is especially important to Chevron's future growth - natural gas. Worldwide, Chevron has over 150 trillion cubic feet of unrisked gas resources. Presently, there are over 30 natural gas projects in our queue, with 15 exceeding $1 billion Chevron shares. I'll highlight a few of these projects.

In Vietnam, we're beginning FEED activities at our Block B development. This project is an extension of the prolific Pattani trough in the Gulf of Thailand where we have years of experience. Peak production is expected to be almost half a billion cubic feet a day with the gas being used to fuel domestic power plants.

In West Africa, we have several concurrent projects under construction that will significantly reduce gas flaring in the region, extract liquids, deliver domestic gas supply and enable incremental oil production. In Nigeria, Phase 3A of the Escravos gas project is expected to come on-line this month. The plant has a processing capacity of almost 400 million cubic feet per day and 43,000 barrels a day of liquids. Also in Nigeria, the Escravos Gas-To-Liquids project is expected to start up in 2012. This plant will utilize 325 million cubic feet of gas a day and produce 33,000 barrels a day of product.

Now I'd like to focus on the Asia-Pacific region, where we hold over 70 trillion cubic feet of gas, the largest among our peers. Our holdings, particularly in Australia, are well-positioned to benefit from the expected growth in the Asian gas markets. According to the EIA, natural gas demand in Asia is expected to more than double from 2005 to 2030 as shown by the yellow line on the chart. This demand growth outpaces global demand by a factor of more than two to one. LNG will play an important role in meeting the growth in global demand and even more importantly, in the Asia-Pacific region.

So, let's turn to our LNG portfolio. We have eight LNG projects in our portfolio queue in various stages of maturity. The chart on the left shows our forecasted production growth associated with LNG operations. In the near-term, production is dominated by our Australian, Northwest Shelf, Trinidad and Indonesian operations. The growth from 2010 to 2017 comes from our four projects shown on the map; Angola LNG, Gorgon, Wheatstone and Gendalo-Gehem. By 2017 these projects are expected to deliver an incremental 450,000 barrels of oil-equivalent per day.

Let's now take a closer look at Angola LNG and the two Australian projects. Angola LNG is a single train, 5.2 million ton per annum LNG facility located at Soyo. Construction is progressing and start-up is expected in 2012. Peak production from this project is expected to be 175,000 barrels of oil-equivalent per day.

I'll now turn to Gorgon and Wheatstone. Gorgon was sanctioned last September as a three-train, 15 million ton per annum LNG development. Site preparation work has commenced on Barrow Island and almost $18 billion of contracts have been awarded. Gorgon will be a global leader in carbon sequestration. Approximately 3 million tons of CO2 will be injected each year. The total project cost is expected to be US$37 billion with start-up scheduled for 2014. Peak production is forecasted to be 450,000 barrels of oil-equivalent a day.

Wheatstone entered feed in July 2009 as a two-train, 8.6 million ton per annum LNG development. The project is progressing well as both the upstream and the downstream FEED contracts have been awarded. We expect to reach a final investment decision in 2011 with project start-up in the 2016 timeframe. Peak production is expected to be 260,000 barrels of oil-equivalent a day.

Now I'll cover the sales contracts associated with these two Australia projects. We've had great success in securing markets for our equity gas. We've negotiated sales agreements with some of the most experienced LNG customers in the world including Tokyo Electric, Tokyo Gas, Osaka Gas, Chubu Electric, Kyushu Electric, Nippon Oil and KOGAS. These long-term agreements secure the gas offtake from these projects into the existing and growing Asian market.

For Gorgon, 6.5 million tons per annum of LNG are under agreement. This is about 90% of our equity gas. These agreements have good pricing terms that approach oil parity. Turning to Wheatstone, Heads of Agreements are in place for 4.9 million tons per annum including 4.1 million tons with Tokyo Electric, and at FID they will acquire 15% of Chevron's share in the upstream project. Last October, Apache and KUFPEC joined us as participants in the Wheatstone project as natural gas suppliers and as a 25% equity partner in the project facilities. All in all, great progress on great projects with great partners.

With Gorgon construction underway and Wheatstone moving toward sanction, our attention is beginning to turn toward the expansion of these projects. As we've discovered more gas, expansions have become more likely. The yellow line on the chart shows our assessment of the growth in gas resources related to the Gorgon and Wheatstone projects.

In 1998, our gas resource was primarily Gorgon, about 18 trillion cubic feet. By 2009, our successful exploration program had added another 36 trillion cubic feet, bringing the total to over 50 trillion cubic feet. The intersection of the dash line and the yellow line represents the volume required to keep the foundation projects at capacity for 25 years and the gas resources above the dash line support potential future train expansions. Remember, there are additional opportunities for third party gas into the Wheatstone hub and this only further increases the expansion potential.

Let me now address our long-term production outlook. Through 2014, production is forecasted to grow by 1% per year. Between 2014 and 2017, this growth rate is expected to accelerate to between 4% and 5% per year as the three trains at Gorgon and the

two trains at Wheatstone ramp up to full capacity. With these major gas projects, we will move our production portfolio to a higher gas percentage from 31% in 2010 to 41% by 2017.

Production from OECD countries is expected to increase to approximately 40% by 2017, and this is somewhat counter to many of other competitors. Production from legacy projects, those with long-term, sustained production profiles, is expected to increase to over 50% by 2017. So, as you can see, we have the portfolio to deliver strong production growth during this decade.

In closing, we had an excellent 2009. We delivered on our commitments, achieved industry leading production growth, had solid financials and sustained excellence in project execution. We're continuing to invest in our queue of projects. Those that extend the production plateau of our existing operations and those which represent new legacy assets. We are maintaining our sharp focus on base business, cost management, exploration and project execution. These actions and our portfolio, will deliver long-term growth and strong competitive financials.

Thank you very much for your attention. I look forward to your questions and now I'll turn it over to John.

John Watson - *Chevron Corporation - Chairman, CEO*

Thanks, George. We'll let him catch his breath a little bit here before we start questions. I'll just make a couple of comments.

First, we've given you a comprehensive update on the company. On what we've accomplished in the recent past and what we're planning to accomplish in the years ahead and I'll close with a couple of points. One, we have a track record of performance and momentum. We had an outstanding year in 2009 and are off to a good start in 2010. Our portfolio is well-positioned. We have a strong upstream asset base, great technologies and have very capable and effective organization. We have less downstream exposure than competitors and I like our Asia-Pacific presence.

We continue to develop and grow our upstream project queue aided by leading exploration performance. We have a compelling upstream growth story driven by our Australian natural gas development, and our downstream is making further improvements to address industry conditions. Finally, I'm committed to delivering disciplined growth and stockholder value.

Now, what I'd like to do is turn to questions and ask my colleagues to join me back here on the stage and we'll be happy to take questions on either upstream or other subjects. Again, a couple of thoughts, I would ask for you to wait for the microphone, identify yourself and your affiliation and I'm trying to limit follow-ups so I can get as many questions as possible. So I said I'd said with Paul, right up front. Go ahead.

QUESTIONS AND ANSWERS

Paul Sankey - *Deutsche Bank - Analyst*

Thank you, Paul Sankey at Deutsche Bank. John and George, if we look at what you just said, it's clear that you've had a lot of exploration success; you've got tremendous long-term projects, if there was a weakness it's that you're only saying about a 1% growth rate for the next few years and you've highlighted that your favorite chart, at least one of your favorite charts is showing that Chevron outgrew the competition. Additionally that 1% includes, or I rather should say excludes OPEC effects and security effects that must be considered a real risk.

So firstly, to what extent is that a low ball number; is it a number that you're highly confident in that you think you might potentially exceed?

Secondly, if for example, you had to generate more cash from higher prices, what's your first appetite and second ability, one to spend more on the base and increase production that way? Secondly whether or not you have any shorter term growth projects that could be advanced and thirdly, whether or not you'd make acquisitions? Particularly I'm thinking of unconventional gas but any other potential for you to generate more short term growth from acquisition? Thanks.

John Watson - *Chevron Corporation - Chairman, CEO*

I guess you got your follow up in there, right off the bat.

Paul Sankey - *Deutsche Bank - Analyst*

I could go on.

John Watson - *Chevron Corporation - Chairman, CEO*

Let me make a couple of comments and then I'll let George comment specifically on the ups and downs. I guess I'd start by saying that growth doesn't always come exactly in even spurts. We've seen that we delivered on the commitment that we had in 2005 going forward to 2010 so I think our credibility is high that we'll deliver the growth. It will come in spurts. We are always looking to add resources to our inventory.

We've demonstrated that we'll acquire leases, certainly, discovered resources and then companies over a period of time. Obviously we've done the Unocal transaction, the Texaco transaction, going back a couple of decades, the Gulf transaction and other smaller ones in between. But we feel we have a good portfolio today and we're not in a position of having to make acquisitions. We've looked at a lot of different options for acquisitions and we just haven't seen opportunities that made sense for us given the circumstances that we've seen.

In terms of the upsides and downsides on our production profile let me let George make a few comments.

George Kirkland - *Chevron Corporation - Vice Chairman, EVP - Global Upstream and Gas*

The upside in this timeframe, because the end of 2013 is not very far, very frankly, when you start talking about big projects, has to get back to your base business, your existing assets. I would characterize the big opportunity...de-bottlenecking in Tengiz, success there would translate to some significant barrels and very quickly. Second place I would look to is base business. We have the ability to push some more money toward base business, if it appeared to be the right thing to do. First, I think we would go to oil. I would say then there is a big opportunity for us in both the Piceance and the Haynesville if gas prices would come back.

We had plans, long range plans that looked at Piceance at this point in time to be something probably 50,000 to 60,000 barrels a day of production instead of 60 million cubic feet of gas a day. So we had looked at really, a big development there and it's a very attractive, unconventional gas in comparison, I think, with many. We have fee land, so we don't have any royalty so it's got a lot of advantages, it's just with U.S. gas prices being so low, it just doesn't make a lot of sense to spend the money there.

I would characterize Haynesville, Haynesville's another one. We drilled enough wells, it's easy gas to get into the system, it's in East Texas. Once again, it's just simply, are they really good barrels, does the gas translate to really good barrels that we can make good returns and not just empty or hollow barrels that beef up the numbers but don't really change the bottom line returns.

Robert Kessler - *Simmons & Company International - Analyst*

Hi, it's Robert Kessler from Simmons. Couple of clarifying questions really to the comments George just made. Firstly on the Piceance and Haynesville; what gas price would you need to really ramp up to the higher potential that you referenced there?

With respect to the longer term production guidance, thank you for the 1% to 2014. I recognize that you've got a lot of LNG projects that are somewhat backend loaded over that period. The project slide you referred to on page 27 appears to be adding less per year for the next three years than your guidance for net global decline rates. As a consequence would you expect somewhat of a downward slope by 2012 versus current production capacity with a rebound in the last couple of years? Thank you.

George Kirkland - *Chevron Corporation - Vice Chairman, EVP - Global Upstream and Gas*

Let me start on the last part of that. I also told you we increased our base business spending. We have a very strong set of assets that we can push money to and get very good returns and we've done that this year. Prices are higher, oil prices are up, so we've put about 22% more capital towards base business in 2010 than we had in 2009. So that's going, we think, to reduce our decline rates.

Now last year we told you we were going to be 6% to 7%, we're spending less money and we came in at 5%. I would think this year we would have every reason to expect 5% or less on our decline rates with the amount of money. Now, there's always a timing piece in there between spending the money and getting the barrels or getting the gas and you guys will see it every quarter, we disclose it every quarter, so you'll see how well we're doing on that.

But I do think we've got a very good shot at the 1%. I'd love to say I could see 2% at this point in time but I just don't feel comfortable to do that. We'd like to give you a forecast that we have high confidence in making.

John Watson - *Chevron Corporation - Chairman, CEO*

Let's go over here...make sure I cover everybody...

Edward Westlake - *Credit Suisse - Analyst*

Edward Westlake, Credit Suisse. You've talked a lot about the volume contribution but you're spending significant capital in, say four key projects, Angola LNG, Gorgon, Wheatstone and Escravos GTL. Can you talk to how competitive or perhaps address the criticism that the returns on these projects are not going to be as high as you can get elsewhere in the portfolio?

John Watson - *Chevron Corporation - Chairman, CEO*

Well, we're choosing to invest in those projects because we think they are very good projects. George has indicated an area where we're not spending money because we think the returns aren't adequate. I talked earlier about not entering Iraq because we didn't think returns competed with the opportunities that we have here. So we feel very good about the projects that are in the portfolio. Remember the two gas projects that George talked about are oil price linked and, of course, the EGTL project in Nigeria produces liquids that are priced at world product levels.

So we think these projects had good returns to them and we're continuing to execute them. We're just getting starting with Wheatstone and we wouldn't be getting started if we didn't think we had good returns. We think the returns are good throughout the portfolio projects.

George Kirkland - *Chevron Corporation - Vice Chairman, EVP - Global Upstream and Gas*

Let me follow up on that and maybe, that's why if you go in and look at the slide we showed in there; it showed the competitive upstream financial performance, it looked at the margins and as you see that we have brought these big projects on, our margins, our margins relative to our competition has only done one thing; we've closed any gap and once again, in the third and fourth quarter, we had the highest margins.

I also will take you to another slide that we put in every one of our presentations about our cost structure. That's cost structure, we don't pull out production costs, or we don't pull out DD&A. We don't pull out one of those, we don't omit exploration expense. We look at the whole lump of all of our expense. We put all of that in, all our barrels, all our costs and we try to do the same thing with all our competitors, to say, okay how is our portfolio performing? We've been consistently at the bottom of the band on that sum total of costs.

Why is that important? Because the sum total of the cost translates back to the margin we made, the earnings per barrel. At the end of the day, I don't care if a project, very frankly, has high DD&A as long as it's got very low operating expense. Likewise, one that's got the opposite; if it's got high operating expense but extremely low DD&A, hey, it's still got the high margins. The last one is our heavy oil in San Joaquin Valley; very, very low DD&A, high operating expense, but net to net, very, very good. So we'll try to look at our portfolio that way. It's the returns we get from those barrels.

John Watson - *Chevron Corporation - Chairman, CEO*

Jason...is that Jason?

Jason Gammel - *Macquarie Research Equities - Analyst*

Thanks, John. Jason Gammel with Macquarie. Two questions specific to Australia LNG. The first, George, what are you doing to manage the potential for inflation in Western Australia if you have two or more major capital projects potentially under construction at the same time and, second, can you talk about, you mentioned parity with oil pricing thus far in your existing contracts. Can you talk about how incremental contracts are progressing related to price? I'm not expecting an exact number, just directionally.

John Watson - *Chevron Corporation - Chairman, CEO*

Let me make a comment and let George follow up. I guess, the first thing I'd tell you, is we've already let about half the contracts for half the value at the Gorgon project.

George and I have reviews every month and our project teams, they're separate teams but I can assure you that they're capitalizing on the learnings from Gorgon as we move forward with Wheatstone and we're very cognizant of the competition that could be present with two large projects in there. But I would tell you that we do multiple large projects in the same country, many places around the world and are confident that we can manage them separately, getting the advantages of two similar projects with some similarities but not introducing that competition. George, do you want to comment?

George Kirkland - *Chevron Corporation - Vice Chairman, EVP - Global Upstream and Gas*

Just a couple of things. One, we consciously have Wheatstone and Gorgon separated by a little bit of period, it's almost 24 months lag between the start-up of first train at Gorgon and then the first train of Wheatstone. It's almost going to be a train every six months for two years when you get to the first Wheatstone train. So we've done that consciously. We're not trying to accelerate any further.

I would tell you also though I think our projects are very well-positioned on time. The next set of projects, I think we are ahead of them. Gorgon is well ahead of any projects competing at this time and probably Wheatstone is really the next project of significance that's going to be in Western Australia. At least, that's our view of the schedule.

The other projects in Australia; you've got one on the north coast that we're in also in the Browse, that's going to be later and then you've got the projects that are in Eastern Australia that are coalbed methane projects. So, I think, there's a little bit of separation on those and I think, like I said in both cases, I think we are, both our projects are a little bit ahead.

John Watson - *Chevron Corporation - Chairman, CEO*

Over here...Arjun?

Arjun Murti - *Goldman Sachs - Analyst*

Thanks, John. It's Arjun Murti with Goldman Sachs. Just a question on the Lower Tertiary. I know you're still moving towards FID on Jack/St. Malo and Big Foot but can you provide any comments on how you're seeing the economics on those projects, F&D or flow rates and if you were to compare it to say, Tahiti or some of the other successful Gulf of Mexico projects, should we think about the Lower Tertiary as being $10 higher oil price, $20 higher oil price? How should we think about those economics relative to especially the successful Miocene projects? Thank you.

John Watson - *Chevron Corporation - Chairman, CEO*

The projects were done at different times so you're going to see different costs to be sure. George, why don't you comment a little bit about the different characteristics?

George Kirkland - *Chevron Corporation - Vice Chairman, EVP - Global Upstream and Gas*

Well, there's no doubt that the production rates that we see between the lower tertiary and the Miocene projects, it's going to be lower. The case of Tahiti, we've seen production rates 25,000 to 30,000 barrels a day; phenomenal, phenomenal wells. Our target is more in the 15,000 barrel range. I'd say that's even maybe the high end of that. If we can get to 15,000 barrels a day, we can make very, very good projects.

There's a huge difference, I think, between the Miocene and these Lower Tertiary projects, is the life. The big opportunity for us in the Lower Tertiary is getting the recoveries up. These are huge accumulations of oil. At this point in time we're only thinking about 10% kind of recoveries. That's what we're justifying our projects on at this point, is 10% recovery of the oil in place. With the scale of the resource there, we're going to be there a long time and we're going to have technology advances that are going to move that recovery, I sure hope, up to 20% or north of 20%. And that's like doubling the size of those fields. It's going to come in how well we can drill, how cheap we can drill, how well we can fracture these wells. All of those things are going to make a difference. With success there, we have projects that have 30 and 40 year lives which becomes a challenge being in deepwater hurricane geography for that many years, but that will be one of our challenges.

We're going to have to have artificial lift. Initial energy in the reservoirs are tremendous. There's not a lot of gas present, but we're going to have to find ways to lift it; really looking forward to getting the first development, the Perdido development on. People forget that that is a lower tertiary development and it's got some of the issues, but not all the complexities and we're going to start out there.

That development actually has caissons that are at the seafloor which fluid, all the fluid from the wells is received and there separation takes place and you lift the liquids up from there to reduce that back pressure. So we're already starting to do that type of development which has lots of applications towards the Jack/St. Malo and other Lower Tertiary developments.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes...over there?

Kate Lucas - *Collins Stewart - Analyst*

Good morning, it's Kate Lucas with Collins Stewart. George, at the end of your presentation, you talked about plateau production being about 50% of your portfolio by 2017. Can you just tell us where the portfolio is now and then what, aside from LNG and heavy oil or oil sands, are you including? So, for example, is there anything in the portfolio that looks like conventional or traditional production where we may not be appreciating Chevron's ability to hold off decline?

George Kirkland - *Chevron Corporation - Vice Chairman, EVP - Global Upstream and Gas*

The number now is slightly below 40%. The things you may not be considering, hopefully you have something like an Agbami in there because it has a pretty long, flat plateau. Tengiz, I hope to have that one in there because it's totally surface facility constrained. That field can produce, I think, for a long period of time, in the 900,000 barrels a day. So those are two really big ones that I hope you have in that category.

The big shift, of course, is going to come with Gorgon and Wheatstone; oil sands - we've got more oil sands coming on in Canada; Hamaca in...Petropiar now in Venezuela. All those are just long, long life assets and our San Joaquin Valley asset is very much that type of asset with very, very low decline rates.

John Watson - *Chevron Corporation - Chairman, CEO*

Mark?

Mark Gilman - *The Benchmark Company - Analyst*

Thanks, John, Mark Gilman from Benchmark. I got a two part overseas, natural gas, price realization type question. Keying off an extended question that was raised a moment ago - to what extent, with respect to Gorgon, Wheatstone, or any other LNG type activities, are you stress testing the returns on these projects on something other than a crude oil price linked kind of scenario which may or may not materialize as we go forward? We would appreciate any further disclosure you can make, more specific disclosure in terms of the features of some of the contracts that have been agreed upon with respect to those two projects as well.

The other relates to the price of conventional gas in such areas as Chuandongbei, as well as how it is you go about making money on a project like Escravos, where domestic selling prices for natural gas are well under $1 per thousand [cubic feet]. Is that a liquids driven project? How do the economics work there?

John Watson - *Chevron Corporation - Chairman, CEO*

Let me take the first part of it and then I'll let George maybe talk about Escravos a little bit more. First, when it comes to all of our projects, Mark, we do probabilistic assessments on a whole range of different factors, price included of course. We calculate

cumulative probability distributions based on all the factors that we consider - technical assessments, costs, as well as prices. So the short answer is, we do stress test all our projects.

In terms of our view of the gas market, there has been a view, I think in some quarters in the industry, that we're going to see this conversion to a worldwide spot market. I think the question is, at what time does the market become more liquid, if you will, in a sense, and we get that conversion happening. What we've seen is that it's taken much longer for that to happen than many have expected. We do have a view that at some point we will see greater conversions in gas markets.

So, we have considered that and how we look at both Gorgon and Wheatstone, but we also consider the contractual requirements that we have, in the contractual agreements that we have where we mention that those projects are oil linked and they have, down the road, the long-term reopeners in them and we have to have a view of at what point conversions will take place in those markets.

But the short answer is we do consider that, we do have a view that at some point, markets do come together. In terms of specifically, maybe China Gas and EGTL, I'll let George talk about those.

George Kirkland - *Chevron Corporation - Vice Chairman, EVP - Global Upstream and Gas*

I'll make one little comment on the first one, the LNG. There're several sensitivities; one is the slope. There's still oil linked with the slope so we look at different variables on the slope. And of course, since it's oil price linked, remember, we also look at different oil prices so we're looking in effect at two sensitivities there. So we have a good understanding of the downside of that.

On conventional gas, we're very, very dependent in any domestic market around the world, on our view of gas pricing whether it's U.S. forecast or it's China forecast; those I think, tend to be our ability to understand what the local price is going to be and that's what we will look at in determining price forecast and, of course, out of that flows our economics.

The case of the projects in Nigeria, you are right, they are very dependent on liquids. Much of that gas is associated with oil production or it's associated, or it's non-associated gas on gas oils that have very, very high liquid content. That piece is there. The other piece of it, of course, is we are translating, in the case of EGTL, gas of low value to a product of very, very high value which is the diesel that will come out of the GTL plant. And it's high cetane value, no sulfur, so it will be a premium product over any other diesel depending on whether its use needs or it could be a great blend stock.

So you have that value differential between, in effect a low price of gas to a high price of diesel. So all of that comes together, plus the fiscal terms that we have, to enable gas projects in Nigeria. All those pieces work together on those economics.

John Watson - *Chevron Corporation - Chairman, CEO*

Let's turn to the back...I can't see who he is, I'm sorry.

Evan Calio - *Morgan Stanley - Analyst*

Hi, it's Evan Calio, Morgan Stanley. I know you guys have highlighted your U.S. unconventional exposure a little bit more than you had last year and given that Chevron is relatively underweight versus its peers while other peers are making different strategic expression for North American natural gas; whether you'd characterize your underweight position as an asset, such as refining, or as an opportunity, something in your portfolio that could potentially grow?

John Watson - *Chevron Corporation - Chairman, CEO*

I think it's a little bit of both. For the time being, when gas prices are very low, we, and it's projected to stay fairly low for a few years, it's hard to see that that will compete with other things that we have in our portfolio. Others may have a different view of that. In time, unconventionals are going to take up a bigger proportion of natural gas production here and elsewhere. We're cognizant of that and that's why we have added to our portfolio in Poland, that's why we've added to our portfolio in Canada and George talked about our U.S. opportunities.

Down the road, if we see opportunities to add to our unconventional position, we'll certainly be happy to do that. But right now, at the prices we've seen for some of the farm-ins that we've seen and some of the large acquisitions, we just haven't seen that fitting our economic criteria given the other things that we have. But I don't think I'd characterize it quite the same as refining for the long-term.

Any comments you want to add, George?

George Kirkland - *Chevron Corporation - Vice Chairman, EVP - Global Upstream and Gas*

Recognize, it's a piece of our portfolio. Our preference always is to find our resources through exploration and early entry instead of late, more expensive entry. But our preference, that's why you can understand a Poland, that's what we're trying to do in the case of Canada is a lower cost, early entry. What we have in North America, what we have in the U.S. is as low a cost entry as you can be. The acreage is as good as it gets. We just don't have much bigger scale. So our scale is coming, at this point, elsewhere, once again through our organic exploration view.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes, there's one at the back...sorry, I can't see who he is.

Fred Lucas - *JP Morgan - Analyst*

Thank you; it's Fred Lucas at JP Morgan. There's one thing that today's presentation is really underlining is the huge differences between your upstream business and your downstream business. That's with respect to growth returns and the shareholder value proposition. Has the Board of Chevron considered the spin-off of its downstream business?

John Watson - *Chevron Corporation - Chairman, CEO*

As you can imagine, our Board is active and engaged in all aspects of strategy and understanding the performance of the business and providing input to the plans that we have going forward and ultimately approving those plans. So we discuss all segments of the business with the Board on a regular basis. And the view that we have, you could make several comments about the downstream, and I'll ask Mike to make a few, give you a few examples.

But first, we think that the downstream can earn good returns over the course of the cycle. It's demonstrated that in the past and we think it can continue to do that in the future. We have to improve the current performance and Mike outlined what we were doing to make that happen. So, one, it can earn good returns over the course of the cycle. Two, it enables a lot of other activity in our company and maybe I'll ask Mike to comment on the things where it adds value that may not be directly reflected in the downstream profitability that's reported.

Mike Wirth - *Chevron Corporation - EVP - Global Downstream*

Certainly. I'll mention three particular areas where I think, you see that downstream added value that doesn't necessarily show on the downstream returns. The first is in the commercial arena of our equity production. As we bring on new crudes that have challenging characteristics; we've modified our refineries to run those crudes, to create a market for those crudes and ultimately we go out and we help other refiners learn how to run those crudes as well.

Most recently, we've invested in multiple refineries in the Pacific Region, to run crudes that are higher in mercury because we have a fair amount of production like that. So there are numerous examples where we've used the downstream to do that.

The second would be in the area of technology. As you get into upstream projects that increasingly have process intensive facilities at the resource, they begin to look more and more like refineries and less and less like your grandfather's oil field. There are numerous downstream technologies that are making their way into the upstream and I think our capabilities in that regard are important.

And then the third I would mention is people. It builds on the second example and as we start these facilities up, as we commission them, as we maintain them and turn them around over time, the kinds of things we've been doing for decades in refineries, we can take the people that have those skills, that experience, that expertise, and bring them into our upstream operations.

We've got dozens of people slated to move from our downstream refineries into the Escravos GTL project as it moves into commissioning and then operation. So there are a number of things that are not immediately obvious on the surface in the financials, but they really do yield value in other segments of the business.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes?

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks, John. Doug Leggate, Merrill Lynch. George, you focused on unit profitability in your presentation but you've used the words very carefully; oil linked as opposed to oil parity. Can you talk about how with this growth trajectory that you've laid out, how you expect your unit profitability to change?

If you could layer into that please, some, address your criticism of your capital intensity relative, let's say, to your largest peer, Exxon, in the context of how much you're spending to achieve that?

And finally, in your growth trajectory, can you tell us what you're assuming your growth in California with the project that you share with Oxy.

George Kirkland - *Chevron Corporation - Vice Chairman, EVP - Global Upstream and Gas*

Let me start on the Oxy one; it's for the Carneros opportunity, I think that Oxy is brought forward. I think almost all the acreage that they're talking about is predominantly Elk Hills, and in Elk Hills vicinity. We have a 20% to 25% interest in all that and we wish them all the success. I hope it is as big as they've talked. We're not sure yet. And that's not unusual, folks. It's a different situation when you're a non-operator than you are an operator and they're operating those.

On the long range, if you look at the gas projects in Australia and we'll go back to what John said is, these projects competed heads up with oil projects around the world. They weren't given any special dispensation to be economic because of scale or anything else. They have good returns, they have tremendous amounts of long-term barrels and hopefully we got the message

over today, that we're really trying to get to that train 4 and 5 on Gorgon. And in the case of Wheatstone, we're trying to get that third and fourth train moving there too.

Exploration success is underwriting some of that and what we've found. We got two huge anchors there that give us tremendous expansion for the future and I know what happens when I get to brownfields on LNG. They are the best expansion projects in the world.

Going back to your returns, I expect great returns out of these projects. The oil linkage is good. The pricing curves we have I think give us an awful lot of confidence that these, very frankly, will be some of, will be probably a few of our strongest assets that we have in our whole portfolio over the long-term.

John Watson - *Chevron Corporation - Chairman, CEO*

I'll just add that to the extent that we are investing more capital, we're confident in the projects that we have and the returns on the projects to the extent that we invest more than our competitors. You do, there is pre-productive capital, roughly a third of our capital is pre-productive at this point. Certainly in the near-term, when you look at book returns, you can be weighted down for a short period of time just as a competitor does a large acquisition might be weighted down in the early years from all that capital. You make your investments based on the returns that you expect over that period of time and we're confident in the returns that we have.

Let me see, up there...yes?

Tina Vital - *Standard & Poor's Equity Group - Analyst*

Tina Vital, Standard & Poor's Equity. I have a question on your oil price forecast assumptions. Did I understand correctly that you've assumed that there wouldn't be any OPEC curtailments? The reason why I'm asking that is, is that there's been increased tensions with Iran and since oil prices are so important to your forecasts, I was wondering, what risk does this have to your forecast for production and for prices, if, things were, perhaps a strike would occur, there seems to be some increased likelihood to that?

John Watson - *Chevron Corporation - Chairman, CEO*

A couple of comments. First we haven't provided that in our forecast, we have shown some of our numbers that we're at a given price and just for simplicity, we used, for example in George's production outlook a price in 2009 going forward for 2010. So we haven't published a specific forecast and, in fact, we use a range of prices understanding the volatility that's out there. Longer term, we do expect prices to rise. We think all the forces are at work for liquids prices to rise over time. We're going to see that decline curve take over. We don't think adequate investment is necessarily taking place around the world and we see the conditions over time, yielding higher prices.

In terms of OPEC constraints that we see out there, we are subject to OPEC limitations in Nigeria and Venezuela in particular and we haven't necessarily factored those in, but we also disclose when we have those constraints on our production. We think it's easier to assume we don't have constraints and then disclose when we do going forward. I won't predict what actions OPEC might take and what the adherence to those quotas might be in the countries we operate or elsewhere.

Next question. Yes, Paul?

Paul Cheng - *Barclays Capital - Analyst*

Thank you, John. Paul Cheng, Barclays Capital. Two short questions for George. I think you recently signed a contract, a preliminary contract with the Venezuela government for the next heavy oil upgrading projects. I'm wondering if you can give us some kind of time line, when does the actual FID will be pursuing that and what is the scope of your involvement in terms of the net capital investment and how we may be talking about and what condition you'd need in order for you to actually get to that FID?

When you're talking about the steamflooding pilot project in the Neutral Zone, how long will it take before we know what that will be considered successful and we would see an expansion on that? Thank you.

George Kirkland - *Chevron Corporation - Vice Chairman, EVP - Global Upstream and Gas*

You want me to get those, John?

John Watson - *Chevron Corporation - Chairman, CEO*

Yes, sure.

George Kirkland - *Chevron Corporation - Vice Chairman, EVP - Global Upstream and Gas*

We are in the very early stages, Paul, on Carabobo and I would not want to give a time line on this. We've got discussions and we've got terms that we've got to finalize, so we're not quite there yet. I think that one is going to be more appropriate as we get a little bit further along. We love the opportunity; we were very successful in the case of Hamaca. We believe we bring something very, very unique to heavy oil. We have a heavy oil capability, that's why we're attracted to that and, of course, the scale. But we've got terms and issues that we've got to close on before we have any details like that.

Your second question was, the steamflood and timing there. Let me give you a little idea on that. I go back to history on the case of Duri because we did a very similar, and that's the problem about being around for a long time, is you remember all the history, but in the case of Duri it took us about five years for us to have the pilot run and we had the data that we could make a decision between, and at that point really it was a decision between steam or a, more or less, a water flood, caustic kind of development. We consciously made a decision when we went to the Steam Pilot there in the Partitioned Zone, to go to a much smaller spacing where we could get an answer sooner.

So my expectation now is because we should be able to process the area, the pilot area a lot sooner; I expect we should have data within two years, that would tell us if we were getting success from the thermal operations. And then we would move into, assuming success there, then we would move into FEED and into a project pretty quickly after that.

The complexity for that project is not the facility-side; we have built those facilities in many, many places around the world. So it's really back to this initial work, does the thermal process work and will it give us an economic development. And we should be able to know that answer in...first data within two years it would give us a lot of confidence and I think we should be at an answer point within two or three years.

John Watson - *Chevron Corporation - Chairman, CEO*

Unfortunately I'm getting the high sign in the back that we've run out of time, so that is going to have to end the program that we have for today. I hope you will spend a few minutes with us in the lobby area just outside the room for a brief reception. We appreciate your interest in the company and thank you very much for joining us.
