FINAL TRANSCRIPT

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CVX - Q1 2009 Chevron Earnings Conference Call

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PRESENTATION

Operator

Good morning. I will be your conference facilitator today. Welcome to Chevron's first quarter 2009 earnings conference call. After the speakers' remarks there will be a question and answer session. (Operator Instructions). I will now turn the conference call over to the Vice President and Chief Financial Officer of Chevron Corporation, Ms. Pat Yarrington. Please go ahead.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Thanks, Sean. Welcome to Chevron's first quarter earnings conference call and webcast. Jim Aleveras, General Manager of Investor Relations is on the call with me. Our focus today is on Chevron's financial and operating results for the first quarter of 2009. We will refer to the slides that are available on Chevron's website.

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

Slide three provides an overview of our financial performance. The Company's first quarter earnings were $1.8 billion or $0.92 per diluted share. Our first quarter 2009 earnings were down 64% from the first quarter 2008. First quarter 2009 earnings fell 62% compared to the fourth quarter of 2008, which Jim will discuss shortly. Return on capital employed for the trailing 12 months was 22%, the debt ratio was about 12% at the end of the quarter.

Jim will now take us through the quarterly comparisons. Jim?

Jim Aleveras - *Chevron Corporation - GM IR*

Thanks, Pat. My remarks compare results of the first quarter 2009 with the fourth quarter 2008. As a reminder, our earnings release compared first quarter 2009 with the same quarter a year ago.

Turning to slide four, first quarter earnings were down $3.1 billion from the fourth quarter. Starting with the left side of the chart, lower crude oil and natural gas realizations reduced the Company's worldwide upstream earnings. Additionally, upstream results were adversely affected by a foreign currency variance of about $600 million and the absence of a $600 million asset-exchange gain recorded in the fourth quarter of last year. Partly offsetting, was the benefit of higher upstream volumes in the first quarter. First quarter downstream results were also sharply lower than the fourth quarter, largely due to the absence of favorable, fourth quarter timing effects. The first quarter included a $400 million benefit from asset sales. The other bar primarily reflects lower corporate charges.

Slide five summarizes the results of our U.S. upstream operations, which declined to breakeven in the first quarter. Lower crude oil and natural gas realizations reduced earnings by $480 million. Chevron's average U.S. crude oil realizations were down about $14.60 per barrel between consecutive quarters, somewhat less than the nearly $16 per barrel drop in the average price of West Texas Intermediate. Of the $480 million total variance shown on the chart, $100 million was due to lower natural gas realizations, which fell about $1.10 per thousand cubic feet, between quarters. The absence of a $600 million gain on a fourth quarter asset-exchange transaction was responsible for more than half of the earnings decline between quarters. Lower operating expenses benefited first quarter earnings by $130 million. The "Other" bar reflects lower gas marketing earnings, along with write-offs associated with exploration activities and higher DD&A rates.

Turning to slide six, international upstream earnings for the first quarter were about $750 million lower than the fourth quarter's results. Lower oil and gas prices reduced earnings by $465 million. Our unit realizations for liquids fell by about $7.40 per barrel, somewhat less than the $11 per barrel decrease in Brent spot prices. Higher first quarter liftings, particularly in Kazakhstan, Nigeria, and Republic of the Congo, improved earnings by $105 million. Operating and exploration expenses were down $210 million from the fourth quarter. The opex reductions were spread among all major geographic areas and multiple cost categories. The "FX and Other" bar is essentially all related to foreign currency effects, which were a $644 million gain in the fourth quarter compared to a $33 million gain in the first quarter.

Slide seven summarizes the change in worldwide oil equivalent production, including volumes produced from oil sands in Canada. Production rose 123,000 barrels per day, or nearly 5%, between quarters. Volumes were up 52,000 barrels per day in the United States, and 71,000 barrels per day, internationally. Lower prices led to a 46,000 barrel per day increase in our production. More than half of this amount reflected higher cost recovery entitlements under our Indonesian production sharing agreements. Restoration of production in the Gulf of Mexico after last year's hurricanes increased OEG volumes by 41,000 barrels per day.

At the end of the first quarter, about 35,000 barrels per day remained off line and are expected to be restored as third party pipelines and facilities are repaired. External constraints reduced production between sequential quarters. Reduced production in OPEC member countries was partly offset by higher natural gas sales in parts of Asia. Our worldwide base business decline of 13,000 barrels per day represents an annualized 2% decline versus our guidance for 2009 of a 7% base business decline. The 7% estimate for the full year is still our expectation. There's just a lag between reduced investment and reduced production. Ramp up of production at our major capital projects added 65,000 barrels per day to first quarter volumes. Blind Faith, which started up last November, and Agbami, which is continuing to build to its 250,000 barrel per day target, were the two largest components of the increase. Higher volumes from the Tengiz expansion were also a contributor.

Last quarter, I provided a general rule of thumb that we expected that each dollar change in crude prices would inversely affect production by 1,200 barrels per day. You may have noticed that the volumetric impact of price, shown on this chart, was a larger amount in the first quarter. The difference reflects the non-linear nature of price effects and reinforces the need for caution using rules of thumb, as I've mentioned before. We will provide an update on the price/volume relationship next quarter.

Turning to slide eight, U.S. downstream earnings declined $900 million in the first quarter. The overall impact of lower marketing and refining indicator margins was $160 million. On the West Coast, refining margins strengthened somewhat between quarters, but the impact was more than offset by weaker marketing margins. Lower sales volumes reduced first quarter earnings by $80 million. This reflected some planned maintenance at our El Segundo, California refinery, along with lower lubricant base oil sales. The variance in timing effects between quarters was $760 million. On an absolute basis, timing effects were a loss of about $60 million in the first quarter, consistent with the direction projected in our April interim update. The comparable fourth quarter timing effects were a $700 million gain. The first quarter absolute timing effects were much smaller due to the phasing-out of provisional pricing for our major supply contracts, reduced use of derivatives to lock in margins, as well as the lower volatility of crude oil and refined product prices in the first quarter.

Moving to operating expenses, they were a favorable variance of $225 million between quarters, reflecting lower fuel and marketing expenses. The "Other" bar on this chart is a variety of miscellaneous items, including trading losses and an adverse product mix compared to that assumed in the indicator margins.

Turning to slide nine, international downstream earnings fell about $360 million from the fourth quarter's results. On balance, refining and marketing margins reduce earnings by $80 million between quarters. Margins were down in all regions except Latin America. Timing effects represented a $990 million variance between quarters. On an absolute basis, they added about $850 million to fourth quarter results in the segment, while they reduced first quarter earnings by about $140 million. The timing effects in the first quarter were mainly associated with derivatives used to lock in margins on long-haul crude-oil and refined products. We closed the previously-announced sales of our fuels marketing operations in Nigeria and Brazil, which added about $400 million to first quarter earnings.

Operating expense was lower across most regions and cost categories for a favorable variance of $170 million. Various tax items and trading profits made up the majority of the $143 million shown in the "Other" bar. Foreign currency effects were partly offsetting.

Slide ten shows that earnings from chemical operations were $39 million in the first quarter compared with $28 million in the fourth quarter. Results for Olefins fell on lower margins. Aromatics earnings increased due to the absence of a fourth quarter impairment charge and some improvement in volumes and opex. Chevron's Oronite additives subsidiary had lower earnings due to weak demand. The "Other" bar is due to a favorable swing in foreign exchange effects.

Slide 11 covers All Other. First quarter results were net charges of $294 million compared with net charges of $365 million in the fourth quarter. Lower expenses within corporate departments and a favorable change in foreign currency effects were partly offset by an adverse swing in tax items. The result for All Other was within our guidance range.

Before turning the call back to Pat, I'd just like to briefly recap the first quarter. First, Upstream earnings fell significantly due to the absence of prior period gains and lower commodity prices, although production volumes increased all in line with the interim update. Second, Downstream results saw adverse timing effects in contrast to sizable gains in the prior quarter. These were partly offset by asset sales gains, also mentioned in the interim update.

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

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Thanks, Jim.

Turning to slide 12, I'd like to update you on our operational performance so far in 2009. We projected upstream production growth, and you saw the 65,000 barrel per day contribution from our major capital project ramp-ups in the earlier production chart. We set an objective for reliable refinery operations. For our major operated and affiliate refineries, first quarter crude unit throughput was about 94% of capacity, higher than any quarter in the last two years. As we described in our March analyst meeting, we're driving for lower cost across the enterprise. We have had well over a 1,000 individual meetings with key suppliers at the local, regional, national and global levels in pursuit of lower costs.

In addition to focusing on costs sourced from third parties, we're aggressively managing down our internal costs. We're driving our own activities to be more cost effective and efficient. Some savings are already being seen. As shown on the prior charts, opex was down in the first quarter in each segment, and first quarter 2009 before-tax operating and SG&A expenses were nearly $0.5 billion dollars lower compared with first quarter 2008. We're also managing our capital and exploratory expenditures. I mentioned our industryleading global procurement processes at our March meeting. We're using these processes to ensure our capital projects benefit from a declining input cost environment. And we're adjusting the pace of our capital investments to ensure the best returns in the current market.

Now, a brief recap of our strategic progress in recent months. Please turn to slide 13. Our major upstream capital projects are on track to meet our growth targets. Offshore Nigeria, our Agbami project continued to ramp up on schedule, achieving 175,000 barrels per day by the end of the first quarter, and currently, at almost 200,000 barrels per day. We're on plan for Agbami to deliver 250,000 barrels per day peak production by the end of this year.

In the Gulf of Mexico, Blind Faith started production in November of last year. Production ramped up to its full target of 70,000 OEG barrels per day in March. Also in the Gulf, Tahiti remains on schedule for first oil shortly. Final hook-up and commissioning are essentially complete. All six producing wells have been completed and are expected to ramp up to peak production of 135,000 OEG barrels per day, by the end of the year. Offshore Brazil, Frade is on schedule for first oil by the latter half of this year. The FPSO is moored on site with subsea installation and facility hook-up underway. Production is expected to reach 90,000 barrels per day in 2011. Offshore Angola, Tombua-Landana remains on schedule for first oil in the second half of this year. All topsides are in place and hook-up and commissioning are continuing. Peak production of 100,000 barrels per day is expected to be reached in 2011. In the Gulf of Mexico, our Jack/St. Malo development project is progressing and is projected to enter front-end engineering and design soon.

Our industry leading exploration program has continued its success with the Buckskin discovery in the Gulf of Mexico Lower Tertiary Trend. We also announced the successful completion of a seven well exploration and appraisal program for the Wheatstone/Iago fields, offshore Australia. And yesterday, the Environmental Protection Agency of Western Australia said that our Gorgon project could meet the EPA's objectives, conditioned on certain criteria. We welcome the decision as we work toward the final investment decision later this year.

In the Downstream, our portfolio rationalization continues to move forward, and as Jim mentioned, we recorded a gain of $400 million on the sale of our fuels marketing businesses in Nigeria and Brazil. We're also continuing to focus on refinery reliability. In summary, we're executing our plans to position Chevron for both current earnings and long-term growth.

That concludes our prepared remarks, and we will now take your questions. I'd ask that you please try to limit your follow-up questions so that everyone has an opportunity to ask what's on their minds. Sean, please open the lines for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from Mark Gilman with Benchmark Company.

Mark Gilman - *Benchmark Company - Analyst*

Pat and Jim, good morning to you. I wanted to talk a little bit about the timing on the ramp-up on Frade and Tombua-Landana. Any particular reason that the plateau won't be achieved until 2011, with a second half 2009 start up? Is this a development drilling and rig constraint, or something else?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

No, I think it's really just the scheduling around when the producing wells are planned for startup, Mark. It's a scheduled plan.

Mark Gilman - *Benchmark Company - Analyst*

There's been no changes in that, Pat?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

There's been no changes in that. We have been very consistent on those schedules for several months.

Mark Gilman - *Benchmark Company - Analyst*

Okay. If I can just have one other follow-up? The $100 million dollars after tax charges, the write-offs in U.S. upstream, could you talk just a little bit about what that is more specifically, and I'm assuming, please correct me if I'm wrong, that it's not included in the reported exploratory expense in the quarter?

Jim Aleveras - *Chevron Corporation - GM IR*

Mark, it's a combination of things that are primarily exploratory in nature, but some of them run through DD&A. They have to do with write-offs and write-downs of exploratory wells, as well as things that are related to that that we run through DD&A.

Mark Gilman - *Benchmark Company - Analyst*

Jim, that's not hugely clear.

Jim Aleveras - *Chevron Corporation - GM IR*

Well, I can't be a whole lot more clear than that, Mark. What we have is fairly straightforward here. This is the sort of thing that we see regularly. We had increased dry hole cost quarter-over-quarter. We had things like an unproved property write-down that runs through the DD&A rate, and it's just a number of small items.

Mark Gilman - *Benchmark Company - Analyst*

Okay. We'll take it off line. Thanks, folks.

Operator

Our next question comes from Jason Gammel with Macquarie.

Jason Gammel - *Macquarie Research - Analyst*

Thank you. Good morning, everyone. I had a couple questions on Western Australian Gas. The first is, with the Gorgon environmental approval process essentially complete, is there anything that stands in the way of final investment decision other than final partner approval, and would you expect to be able to reach the final investment decision this year?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

That's a good question, Jason, thanks. What will happen now is that there will be a relatively short period of opportunity for public commentary. We then will need to respond to those issues that are raised in that. We actually believe that by having the Western Australia EPA announcement now and the ability to move through the public comment period and the response period, that we will be able to stay completely on track with final investment decision before the end of the year.

Jason Gammel - *Macquarie Research - Analyst*

Terrific, that's what we were hoping to hear. Then, if I could turn to Wheatstone/Iago, you mentioned that the exploration appraisal program is complete. Can you talk about next steps? Will you be moving the project into FEED this year, marketing LNG volumes, et cetera?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Because of the successful appraisal program, we do expect to be able to move into FEED in the second half of 2009.

Jason Gammel - *Macquarie Research - Analyst*

Great, thank you very much.

Operator

Our next question comes from Paul Cheng with Barclays.

Paul Cheng - *Barclays - Analyst*

Hello.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Morning.

Paul Cheng - *Barclays - Analyst*

Good morning. Pat and Jim, when you're talking about cost savings, can you give us a number? How much is year-over-year, first quarter 2008 to first quarter 2009, your total cost savings, and what is that as a percentage to the total controllable costs? I'm more interested in the cost saving, excluding the effect from the FX and the energy cost saving.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Yes, Paul, I appreciate the question completely and I can understand why you want to have as much segregation as you can, but let me just talk broadly about our emphasis on driving costs lower, both from an opex standpoint and a capital outlay standpoint. We have met, as I said, with thousands of suppliers in these one-on-one meetings all around the globe. The meetings are having successes, but as you can imagine, with the contract renegotiations, not everything starts on March 1st or April 1st or May 1st, so there is a bleed-in time to when these new contractual and lower negotiated rates will take effect. So, there's not an easy way to get to an absolute number for you.

Secondly, not everything is moving in a uniform manner. It really depends on the cost category we're talking about and how that cost category is linked to economic growth, commodity price levels, supplier concentrations, the amount of backlog that they have in their fabricating yards, et cetera. So, on land rigs, it's very fluid...we have seen reductions from 35% to 50% versus a year ago. Major service providers, we have seen contract renewals that are 15% to 20% lower. Obviously, any piece of major equipment that's requiring steel will have significantly lower cost. You know, as well as I do, that steel prices are down 60% from their peak, and the same is true for other commodities as well.

The fabrication or engineered units are really dependent upon the degree of commoditization of the unit. If it's a unique piece of equipment with strong demand, and there aren't very many manufacturers, then we're not seeing tremendous amount of price break at the moment, but if it's a more standard, more commodity type engineering requirement and there's flat capacity, then we're seeing a high degree of cost pressure is evident, and we're able to take advantage of that.

I think we mentioned at the analyst meeting that offshore, the deepwater rig rates are much stickier, and that's due to sustained offshore demand, and to some extent, capacity constraints near term. I mentioned in our analyst meeting that we have indexed a number of our contracts and we also have global master agreements that allow us to really secure procurement leverage. So, depending upon the cost category, we have seen contract term reductions anywhere from 50% to 60% down to 5% to 10%.

Paul Cheng - *Barclays - Analyst*

Pat, can I have a follow-up question? In your 2009 CapEx of $22.9 billion, the actual number is more like $20.6 billion because you have $2.3 billion on the sign-on bonus up front. Can you give us rough idea what's the percentage of that spending that you target is already locked in in fixed price contract, or in other words, what is the percentage that may be subject to the benefit as the day rate, or the raw material spot rate continue to come down?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Yes, I think a majority of that spending, certainly, is under contract terms with the contracts having been let several months ago. So, I think you need to think of a majority of that as not being spot determined. But having said that, we are having these discussions with these key suppliers as we speak, and so, we're working very hard to secure lower costs.

Paul Cheng - *Barclays - Analyst*

Very good. Thank you.

Operator

Our next question comes from Paul Sankey with Deutsche Bank.

Paul Sankey - *Deutsche Bank - Analyst*

Hello, everyone. Good morning. Just looking at your cash balances, we back into a number of around $4.7 billion of cash from operations, if I add back the DD&A to the net income, and allowing for the $400 million of asset sales, I end up about $1.7 billion below your CapEx number. It doesn't quite jive with the way your debt moved, which seemed to go up more than that over the course of the quarter. Is that a working capital movement or am I missing something completely? Thanks.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Yes, that's a good question, Paul. We did have an increase in our net debt of about $3.5 billion here. This obviously did reflect the poor operating cash flows related to commodity prices, but also, importantly, there is the capital program amount which did include a significant bonus payment, which is not a ratable sort of thing. But in addition to that, we did have a working capital increase, and there was a significant piece in there that was a non-ratable item related to a crude purchase and sale agreement that was started a long time ago, years and years ago, where we had very favorable credit terms on the purchase as opposed to the sale, and then that contract terminated in the first quarter. So, that is something that you won't see again repeated in subsequent quarters.

Paul Sankey - *Deutsche Bank - Analyst*

Okay, I think I understand. Can you remind me what you have been saying about pension contributions for the year in terms of cash?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Yes. We have said in our...well, it's not out yet, but the number we have used is $800 million, and that's the number that you will see in our 10-Q, when it's reported, as the expected contribution for 2009. We're not in a position of having to make a U.S. contribution at this particular point in time, but we are estimating $800 million for both U.S. and non-U.S. contributions.

Paul Sankey - *Deutsche Bank - Analyst*

Just jumping back to working capital, the two elements you described to me, the bonus payment and the non-ratable crude contract, would those account for the difference? Did you just give me a working capital number? Sorry.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Working capital is up $1 billion.

Paul Sankey - *Deutsche Bank - Analyst*

I've got you.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

In the quarter, and a significant piece of that related to this crude buy sell that I mentioned.

Paul Sankey - *Deutsche Bank - Analyst*

What do you think you'll move back towards? Say your crude stays at $50, and we stay at $3.50 nat gas, would you expect your finances to get back in cash balance towards the end of the year, allowing for your expected cost savings, or do you think this would still be a debt increase year for the remainder?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

I think it's more likely than not that there would be a modest increase in the debt over the course of the year, but I will have to caution that is highly dependent on the cost structure changes that we see coming forward in the last three quarters of the year. You've seen the beginning of that, but we expect that to accelerate in the remaining three quarters.

Paul Sankey - *Deutsche Bank - Analyst*

You mentioned I believe, that the implied decline rate you had was 2% for Q1, but you expected to hit 7%, I guess as a full year number, which means you're going to go to, by the end of the year, beyond 7% decline if I'm thinking straight. How much variation is there around that element?

Jim Aleveras - *Chevron Corporation - GM IR*

Paul, that would obviously hurt cash flows a little bit, but offsetting that is the ramp-up of major capital projects. So, if you look at our full year production profile, you wouldn't really see the base decline being as big a factor, in total, as you would if you just looked at it in isolation.

Paul Sankey - *Deutsche Bank - Analyst*

Yes, I get that, because you've given us full year of volume which includes that, right?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Yes, that's correct, 2.63 million barrels of oil equivalent is what we're expecting for the full year.

Paul Sankey - *Deutsche Bank - Analyst*

So effectively, the major uncertainty is regarding the cash balance, not the volumes as far as you're concerned, regardless of what you said about decline rates accelerating?

Jim Aleveras - *Chevron Corporation - GM IR*

The decline rates wouldn't be a big impact on cash simply because it's offset by growth in major capital projects.

Paul Sankey - *Deutsche Bank - Analyst*

What I meant is the uncertainty surrounding the cost that you're going to have to pay is a greater uncertainty than the volume uncertainty.

Jim Aleveras - *Chevron Corporation - GM IR*

At this point, yes.

Paul Sankey - *Deutsche Bank - Analyst*

Yes, I've got you. If I could, and I don't think you're going to be happy with me for asking this question, but it's a question I'm being asked a lot. Can you just go through the timing on the Ecuador decision? What the potential risk is there to the Company and to shareholders? Thanks.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

No, sure. It's a very topical question, so I can understand why you want to ask the question. First of all, let me get the facts out as we see them here. We don't think the lawsuit has any legal or factual merit. Texaco did complete a $40 million remediation program, and the Ecuadorian government signed off on that, that the sites were properly remediated and they granted Texaco a full release from this liability. The evidence that we have suggests that the remediation was properly conducted, and the remaining environmental claims and damage really are the responsibility of Petroecuador. It is possible that we could see a judgment come down any day now. I wish I could be more specific about the timing, but I don't think it's necessarily immune from political influence as to when that timing will occur, but it could be any day. It could also be several months from now. We will appeal that judgment, whatever it turns out to be, and we have courses of appeal to sort of a panel of judges in the superior court of Lago Agrio, and if necessary then, all the way up to the Supreme Court of Ecuador.

So I think that you could expect that this litigation aspect of this suit can go on for quite some time. I don't think that there's merit in the case. We have a very strong legal, as well as scientific data, behind that. So from a shareholder perspective, I think it's interesting to pay attention to certainly, and be on top of it, but I don't see that there is significant financial impact coming as a result of this.

Paul Sankey - *Deutsche Bank - Analyst*

But the judgment could be...the number seems to be $27 billion?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Well, that is what the court appointed, so-called expert has laid out there, but there really is not much factual data behind the $27 billion, nor is the individual an expert in any sense, relative to the task he's been asked to do.

Paul Sankey - *Deutsche Bank - Analyst*

Yes, okay. I think I understand what you're saying is we're not sure, there could be a decision any day, it is likely to be a very big number, and you will automatically appeal it, which will then extend the process, essentially, for probably years.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

That's exactly right. We think the large number that's being bantered around is really very politically driven.

Paul Sankey - *Deutsche Bank - Analyst*

Okay, thank you. I'll leave it there.

Operator

Our next question comes from Robert Kessler with Simmons & Company.

Robert Kessler - *Simmons & Company - Analyst*

Good morning. Just a couple of questions for me. One on the downstream timing effects. I know you have taken steps to reduce the volatility of downstream earnings, eliminating the provisionally-priced foreign crude deliveries to the U.S., and whatnot. We still saw some timing effects in the quarter, though. I'm curious if you have any rough expectation, going forward, as opposed to significant negative correlation between timing effects and movements in crude prices, should we just model zero benefit or detriment going forward, regardless of what crude prices do, or do you have any rough indication on the order of magnitude and direction going forward there? Then, just a quick question on any benefits in the downstream associated with the contango shape to the crude strip over the course of the first quarter? Thanks.

Jim Aleveras - *Chevron Corporation - GM IR*

Robert, let me just address those two, real quickly, for you here. In the U.S. downstream, we pretty much wrung out a lot of the impacts, as we have talked about in prior quarters, so the provisionally priced foreign crude will be very, very minor, only on some minor contracts that aren't necessarily ratable like our major ones. And there will be, from time to time, some derivative activity, only if we get outside of a typical band. So I'd say that for purposes of looking forward, the timing effects should be in the U.S. downstream, fairly minor, and not something that I would internally project to be significant.

Now, in the international downstream, we still use, as I've described in past quarters, derivatives to lock in margins on long haul crude sales from the Partitioned Neutral Zone, as well as long-haul product sales from our Pembroke refinery in the UK, which is an export refinery. This is where we sell the product on a delivered basis. It's priced on a delivered basis, but the buyer takes title, so effectively, we're selling it FOB. We do use derivatives to lock in margins on those sales. So in the international downstream, you will see a modest timing effect that will be related, inversely, to product and crude prices on a going forward basis, but again, it should be more modest than what we have seen in the past, but not as significantly reduced as in the U.S..

Robert Kessler - *Simmons & Company - Analyst*

Okay, thanks.

Jim Aleveras - *Chevron Corporation - GM IR*

Does that help you?

Robert Kessler - *Simmons & Company - Analyst*

It does, thanks.

Jim Aleveras - *Chevron Corporation - GM IR*

You had a second question.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

On contango.

Jim Aleveras - *Chevron Corporation - GM IR*

That really isn't a very big factor for us. Our trading activities, compared to some competitors, is much smaller in overall size.

Robert Kessler - *Simmons & Company - Analyst*

Okay. Thank you.

Operator

Our next question comes from Eric Mielke with Merrill Lynch.

Eric Mielke - *Merrill Lynch - Analyst*

Good morning. I have a question on your production guidance for 2009. Would it be fair to say that that's looking increasingly conservative, given the pace of development and the ramp up at the various, major capital projects that you have coming on in 2009?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

I think it is the number that we want to stand by at this particular point in time. The one thing that you will recall, I think we feel very confident about our ability to execute on these major capital projects and to have the profile that we outlined back in March. The one area that's slightly different this first quarter than what we had expected was we had expected, in putting that forecast together earlier on, that there would be demand curtailment. OPEC on the one hand, but also market forces on the other, for pipeline gas, particularly in the Asia-Pacific region. We haven't seen that through the first quarter from a Chevron standpoint, and so, we have an uptick there. I think that really depends, going forward, on our ability to supply those markets versus some of the competition's ability to supply some of those Asian gas markets.

Eric Mielke - *Merrill Lynch - Analyst*

Okay. That's useful. Can I ask specifically on Tengiz? There was a story in one of the industry journals, a couple weeks back, that TCO is looking at a potential boost of production from existing facilities this summer. Is there any credibility to that story? The numbers were not in the material.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Right, I actually saw that as well. All I can tell you is we do expect to hit full capacity in the second half of the year. Ramp-up is continuing there.

Eric Mielke - *Merrill Lynch - Analyst*

Okay, thanks. I'll leave it there.

Operator

Our next question comes from Mark Flannery with Credit Suisse.

Mark Flannery - *Credit Suisse - Analyst*

I've got two questions. One on costs. On slide 12, when you say you're targeting both operating expenses and capital expenses, can you give us an idea of what your target is? In other words, are you going for 5% reduction over the full year, 10% reduction, all other things being equal. Just give us a sense of where you think you can get to.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Mark, I don't have a target that I want to give you. I think I tried to explain before about how we're going after it. How it's different by cost category. How the ramp up period depends on it's going to be very sequential over the remaining months of the year. So, I don't have a particular target.

I will say that we were down 8%, first quarter over first quarter, on the SG&A and opex line, and we do expect that to accelerate. So, I would expect that pattern to continue to improve as the year progresses, but I don't have a specific percentage target to lay out for you. We do have line-by-line items in our business units and in our staff group about cost reduction opportunities and commitments that are being made all around the globe. So there is huge effort in the Company and huge specificity in the Company about what those opportunities for cash conservation are, and we will track them and expect them to be realized.

Mark Flannery - *Credit Suisse - Analyst*

Maybe I could then shift over to the dividend. You kept the dividend flat this quarter. Do you intend to grow the dividend this year, or how should we think about progress of dividend payments in the lower part of the cycle?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Right. That's a good question, Mark. We do have a strong history of dividend growth. We've been increasing payments in each of the last 21 years. The dividends, though, are set by the Board and I don't want, in any way, want to step in front of that call, but we do know that dividends are a priority for our shareholders. We did hold it flat in the second quarter here. We got competitive yields and competitive payouts, but we think holding it flat was consistent with, and prudent in, uncertain economic environment we're in and the low commodity prices. All I can tell you is, the Board will look at this every quarter, and we're proud of the record that we have had. We understand the prioritization, and they will move it when they feel that it's a prudent course of action.

Mark Flannery - *Credit Suisse - Analyst*

Okay, thank you very much.

Operator

Our next question comes from Doug Leggate with Howard Weil.

Doug Leggate - *Howard Weil - Analyst*

Good morning, Pat and Jim.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Morning.

Jim Aleveras - *Chevron Corporation - GM IR*

Hello.

Doug Leggate - *Howard Weil - Analyst*

My question, I'm going to start off with DD&A. It's up about 30% year over year. I know obviously, there's been some new projects come on line, but can you just walk us through why such a significant move, and maybe split the international upstream and the U.S. upstream out of that number so we get an idea what's going on there? Any clarity on that would be helpful.

Jim Aleveras - *Chevron Corporation - GM IR*

Doug, I don't have the details in front of me. The increase in DD&A is partly related to accretion expense and to a number of other things that you see in the first quarter when we do a DD&A rate review. And, we also have a situation where there are a lot of impairments and charges that run through the DD&A line when they're taken, such that they're more or less discrete items and they tend to distort what people perceive as DD&A being a flat thing, which would be the case in an industry that didn't have unit of production DD&A. I don't see the trend being dramatically different. I look at the DD&A rates and the impact of rates, which have changed this year a little bit, but they're not that dramatic. Instead, what you're seeing in a year-over-year comparison, is more or less the impact of the discrete items.

Going back to what I was talking to Mark Gilman about in response to his question, the fact that we take, for example, some unproved property write-downs, those hit the DD&A line, so that can be a little misleading in periods when we're taking charges of unproved properties and other things that tend to run through DD&A. They're shown there, but that's not a reflection of the underlying depreciation and depletion that would be ongoing.

Doug Leggate - *Howard Weil - Analyst*

Jim, maybe you can spell it out for me then. Your DD&A this quarter was $2.87 billion, so we're up about $600 million and change over Q1 last year, and up about $300 million from Q4. What would you define then as the clean, underlying DD&A? In other words, what should our run rate be going forward, because that's a heck of a move?

Jim Aleveras - *Chevron Corporation - GM IR*

Very, very good question.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

It also relates to higher volumes in the quarter, as well though. The absolute number you just quoted relates to absolute volumes as well.

Doug Leggate - *Howard Weil - Analyst*

Okay, so production was up 2.5%, but DD&A was up 30%.

Jim Aleveras - *Chevron Corporation - GM IR*

Yes, I would need to break out the components of that, I don't have the pieces in front of me. We will be prepared to address that question in more detail, and I think you will have a better basis of comparison, next quarter, when we're comparing six months to six months.

Doug Leggate - *Howard Weil - Analyst*

Okay.

Jim Aleveras - *Chevron Corporation - GM IR*

I'll make sure I have those pieces in front of me on the next call.

Doug Leggate - *Howard Weil - Analyst*

All right, thank you. I don't want to labor the point, but what I'm reading from what you're saying then, is you would expect DD&A absolute number to come down quite a bit in the second quarter. Is that a fair interpretation?

Jim Aleveras - *Chevron Corporation - GM IR*

I would expect six months of 2009 to be not dramatically different from six months of 2008, adjusting for the factors that Pat mentioned, such as volumes and so forth.

Doug Leggate - *Howard Weil - Analyst*

That's pretty clear.

Jim Aleveras - *Chevron Corporation - GM IR*

We would have to then look at what the discrete items hitting DD&A were in each year, both credits and debits, and pull those out. I will be prepared to address that next quarter, on a six-month basis.

Doug Leggate - *Howard Weil - Analyst*

Great, thank you. My follow-up, if I may? Still got a decent amount of production shut in the Gulf of Mexico. Something you don't talk about any, or at least not recently, has been the ongoing, semi permanent, shut-ins in Nigeria. Can you give us an update on what you expect, as your best guess anyway, the likely timing of any recovery in the Gulf, or for that matter, in Nigeria, or any others I've missed in my question?

Jim Aleveras - *Chevron Corporation - GM IR*

Let me address the timing in the Gulf first. We're running a little slower than what we had been projecting in terms of restoration. We're basically, right now, where we had hoped to be at the beginning of the year and that's really a function of things that are not under our control, such as the recovery of third party gathering lines, pipelines and processing facilities. What we should be looking for in Nigeria is probably something more or less similar in the future with the increase in Agbami being the big swing, but we don't see anything significant production disruptions in Nigeria. Obviously, there are parts of Nigeria where we have production that we probably aren't going to be bringing back on-line in the near term, but on the other hand, this part of onshore Nigeria is not a big contributor to our earnings.

Doug Leggate - *Howard Weil - Analyst*

Got it. I understand. Forgive me, if I could jump back quickly to the DD&A question that might be related or might be squeezing in a third question here.

Jim Aleveras - *Chevron Corporation - GM IR*

We're no longer limiting questions except to a prudent few, but it's no longer one per.

Doug Leggate - *Howard Weil - Analyst*

I appreciate that. The $2 billion concession extension, where was that? Were there any reserve additions associated with it, and is that maybe part of the DD&A explanation? That's it for me. Thanks.

Jim Aleveras - *Chevron Corporation - GM IR*

I don't believe it would be part of the DD&A explanation. I would be unable to tell you where it occurred. We described in our C&E press release what the two one-time bonuses were. This is the larger of the two hitting, but because of contractual commitments we can't be more specific than that.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Doug, just as a final thought. I know you're focused on DD&A here, but I'd ask you to go back and pull up the slide that we showed in the March analyst meeting, where we talked about our advantaged upstream cost structure which takes into account the DD&A as well as production operating costs, et cetera. You can see we're very competitive on that. So, DD&A is one component of the cost structure, but certainly, there's other things that go into that, and from a competitive standpoint, we look very good.

Doug Leggate - *Howard Weil - Analyst*

Okay, thanks Pat.

Operator

Our next question comes from John Levin with Levin Capital.

John Levin - *Levin Capital - Analyst*

Could you outline the Jack/Malo field in the Gulf, sort of both the economics and the size? There have been various estimates on it. Could you help refine that, your best estimates at the moment, please?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Well, I think we have said that we're in the process of entering feed. The production capacity's expected to be between 120,000 and 150,000 barrels of oil equivalent per day. George talked, in our analyst meeting, about the need to have significantly sized opportunities here, and that you needed reasonably large size reservoirs that will have a long lived production profile to them.

John Levin - *Levin Capital - Analyst*

Right. What economics is sort of the baseline price you need to have a margin of safety?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

I think it's really hard for us to say at this particular point in time. We're just entering FEED. The cost structure is very much in flux. Obviously, we feel comfortable going forward at this stage into FEED with this project. We will have a much better idea once we get information from that part of our project management process, done with.

John Levin - *Levin Capital - Analyst*

When should that be?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

That's all I can say...

John Levin - *Levin Capital - Analyst*

When would that be, do you think, in timing?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

I think that's probably 12 to 18 months.

John Levin - *Levin Capital - Analyst*

Got you, thank you.

Operator

Our next question comes from Mark Gilman with Benchmark.

Mark Gilman - *Benchmark Company - Analyst*

I wonder if you could talk a little bit more about the foreign downstream numbers? If we add back, Jim, the $140 million in timing differences, it takes that number on an adjusted basis, if my math is correct, which might be a leap of faith, up to nearly $500 million, which I guess in my mind, in light of the environment, in light of the very weak shipping earnings component which I'm sure is in there, very weak Korean chemicals component which I know is in there, it just seems very very strong in the context of the environment. Are there other drivers associated with that?

Jim Aleveras - *Chevron Corporation - GM IR*

No, there aren't, Mark. I think you have to look at the impact in the international downstream. Obviously, we had asset sales this quarter.

Mark Gilman - *Benchmark Company - Analyst*

Yes, I'm checking that out.

Jim Aleveras - *Chevron Corporation - GM IR*

But if you pull that out and look at the operation, that's pretty much a baseline result. There wasn't a whole lot of unusual noise there. Obviously, we were running our refineries very well. We moved a lot of product, but there wasn't anything there that was in the first quarter that I can point to that was very unusual.

Mark Gilman - *Benchmark Company - Analyst*

No LIFOP or inventory effects?

Jim Aleveras - *Chevron Corporation - GM IR*

Not significant.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Yes, and continued emphasis on operating expense reductions.

Mark Gilman - *Benchmark Company - Analyst*

Okay, thank you.

Operator

Our next question comes from Neil McMahon with Sanford Bernstein.

Neil McMahon - *Sanford Bernstein - Analyst*

Hi, just a few that probably haven't been covered yet. First of all, just looking at oil sands, can you give us cash breakeven for your oil sand operations? Obviously, with your portfolio which has expanded pretty rapidly over the last few years there, what are your views specifically on the costs of developing that asset base up in Canada?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Yes, I think we should leave the cash breakeven question to the operator, but as we have seen across all development opportunities here, the cost structure is moving down. I would also say that the light heavy differential probably moved in terms of favor for a tar sands, oil sands type of opportunity here in the first quarter. It's not good for other parts of our business, but I think it was appropriately positive for the oil sands activity. Does that address your question? I really think we need to leave it to the operator to address the cash breakeven. Tremendous emphasis on cost containment, cost structure improvements that are going on there. We're not going to go forward. The joint venture has decided not to expand on the second phase of that, and so the efforts to date, are really on improving the cost structure and the reliability of the operation that we currently have.

Neil McMahon - *Sanford Bernstein - Analyst*

So, I'm presuming like Shell and Marathon, you also made a loss in that business in the first quarter?

Jim Aleveras - *Chevron Corporation - GM IR*

I think it's important to understand that we have a 20% non-operated interest in the Athabasca project. We aren't going to disclose the financial results. We're going to see those in the international upstream segment, but you can make a reasonable assumption about that, given the prices.

Neil McMahon - *Sanford Bernstein - Analyst*

You talked about dividends, maybe switching to buybacks, one of your larger peers made a reduction in their buyback guidance yesterday. Just looking at yours, going forward, what could you say for the rest of this year in terms of buybacks, and what would trigger you to go either plus or negative on the buybacks, going forward?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Yes, we suspended our share buyback program for the first quarter and we're not continuing it in the second quarter. And I think if you've got commodity price conditions as we have currently, I think it would be unlikely that we would reinstate that share repurchase program for 2009. We do have a strong capital program and so that's where our priority really is. We have already talked about the dividend, that's a priority as well, and so, we look at the share repurchase program as being the most discretionary element of our cash use.

Neil McMahon - *Sanford Bernstein - Analyst*

Given that decision which was made, when you're looking forward, having run the financials in your business, do you have a particular oil price, or blended oil and gas price, that it seems to make sense where you're generating enough cash to step that ,or to go back into the buybacks again?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

I don't think I want to go down that path with you there. I think you just need to, on your own set of models with your own set of commodity prices, and our production growth increases that we have outlined, capital program that we have outlined, I think come up with your own estimates on that. I just need to re-emphasize that the share repurchases come after the dividend and they come after the capital program, and our capital program, we have a long queue of projects here, a lot of opportunities for organic development that are important to us and that are legacy building assets, and that's really where our prioritization is.

Neil McMahon - *Sanford Bernstein - Analyst*

Maybe just to summarize, yourself not in control, looking forward, of the financial situation, the philosophy hasn't changed then in terms of what it had been over the last few years in terms of priority?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

No, in fact the philosophy has not changed. I mean we put a high priority on maintaining financial strength and flexibility, maintaining our AA rating, funding our projects, and paying sustained and growing dividend. That's really our priorities, and that hasn't changed. I think you saw, going back to the analysts meeting, I put up a chart that talked to what we have done, how we have managed our balance sheet through thick and thin times from a commodity price cycle standpoint. So, I think our posture has been very consistent.

Neil McMahon - *Sanford Bernstein - Analyst*

Maybe just a very quick last one. Any update on interest in Iraq?

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Obviously, we are interested in Iraq. It could turn out to be a real opportunity for us, but that depends really on the terms and conditions. The Iraqis did just put out new, kind of bid round terms. We're in the process of evaluating those. We do believe that they have made some improvements, but I don't want to comment any further than that. We know the bids are due and they will be opened up at the end of June, I believe it is, and so, we will wait and see what comes of that. But obviously, it's a perspective area, but it really will depend on the fiscal terms that are to be realized.

Neil McMahon - *Sanford Bernstein - Analyst*

Okay, thank you.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Okay. We have one more question?

Operator

Our final question comes from Paul Cheng with Barclays.

Paul Cheng - *Barclays - Analyst*

Hello, I'll be real quick. Jim, if I look at page nine in the international downstream, you have $143 million of the benefit, and you're saying that is trading profit and also foreign exchange, I suppose. If I look at that it seems to suggest your trading profit is roughly about $180 million for the quarter. Is that ballpark correct? Secondly, on the DD&A increase, sequentially from the fourth quarter, are they all in the upstream, or some of them in the downstream also?

Jim Aleveras - *Chevron Corporation - GM IR*

Okay, let's take those one at a time. We're talking international downstream "other", and what I said there was we had tax items and trading profits made up the majority, with foreign currency effects offsetting. So in order of size, favorable tax items relative to the fourth quarter were the largest in that swing. Trading profits were next, and of course, foreign currency is what you see in terms of an $84 million adverse change.

Paul Cheng - *Barclays - Analyst*

So the tax item is a bigger impact than the trading profit?

Jim Aleveras - *Chevron Corporation - GM IR*

Yes. I always give you the impact in order of size.

Paul Cheng - *Barclays - Analyst*

I see. Since some of your competitors, like Shell and BP, they made a huge killing in the first quarter from trading, any kind of rough number you may be able to share?

Jim Aleveras - *Chevron Corporation - GM IR*

Again, we did not make a huge killing simply because we don't have large trading activities for our own book. The trading and derivatives that I talk about in conjunction with the downstream are used to lock in margins. We don't use hedge accounting, so we talk about them as derivatives, but they really are meant to be risk management tools. So, trading for our own book, relative to some of our competitors, is very small. One of our larger competitors does virtually none. So, we're pretty small in terms of trading for our own book.

Paul Cheng - *Barclays - Analyst*

Okay.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Having said that, we did see the commercial opportunity and we did have some positives associated with the contango market, but it's much more modest than what you might have been reading on the part of others.

Paul Cheng - *Barclays - Analyst*

Okay, fair. How about DD&A?

Jim Aleveras - *Chevron Corporation - GM IR*

DD&A was not a big factor here, I mentioned...

Paul Cheng - *Barclays - Analyst*

No, no. I was saying DD&A increase is close to $300 million. Is it all related to the upstream or in downstream or chemical also?

Jim Aleveras - *Chevron Corporation - GM IR*

No, I mentioned it in the context of the U.S. upstream. The impact in the international downstream was not as significant in terms of quarter-over-quarter change.

Paul Cheng - *Barclays - Analyst*

Okay, thank you.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Okay.

Jim Aleveras - *Chevron Corporation - GM IR*

That's the end of the call.

Patricia Yarrington - *Chevron Corporation - VP, CFO*

Okay. So in closing, let me say that we appreciate everyone's participation in today's call. I certainly want to thank each of the analysts, on behalf of all the participants, for their questions during the morning session. We do appreciate your interest in our Company and we hope you share our enthusiasm. Our projects are ramping up well. We're executing well. We're on plan. We're operating very well. We are aggressively managing our spend, whether that's opex or CapEx, and we feel that we have the flexibility to manage well in this environment to achieve low unit costs, grow our business and put up very competitive returns. So thank you all. Sean, I'll turn it back to you.

Operator

Thank you. Ladies and gentlemen, this concludes Chevron's first quarter 2009 earnings conference call. You may now disconnect.