FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning. My name is Sean, and I will be your conference facilitator today. Welcome to Chevron's third-quarter 2009 earnings conference call. (Operator Instructions). As a reminder, this conference call is being recorded. I will now turn the conference call over to the Chairman and Chief Executive Officer of Chevron Corporation, Mr. Dave O'Reilly. Please go ahead.

Dave O'Reilly - *Chevron - Chairman & CEO*

Well, thank you, Sean. Welcome to Chevron's third-quarter earnings conference call and webcast. On the call with me today are Pat Yarrington, our CFO, and Jeanette Ourada, General Manager Investor Relations.

Our focus today is on Chevron's financial and operating results for the third quarter of 2009, and we will refer to the slides that are available on Chevron's website.

But before we get started, please be reminded that this presentation contains estimates, projections and other forward-looking statements. So please review the cautionary statement on slide two.

Turning to slide three, which provides an overview of our financial performance, let me cover a few points. The Company's third-quarter earnings were $3.8 billion or $1.92 per diluted share. Our third-quarter 2009 earnings were down 51% for the third-quarter 2008. Third-quarter earnings were 120% higher than second-quarter 2009, and Pat will be discussing this shortly.

Return on capital employed for the trailing 12 months was 12.6%, and the debt ratio was 10.4% at the end of the quarter. Our net cash flow position this quarter was positive by nearly $2 billion after funding our capital program, dividend commitments and $700 million in pension contributions. This positive cash generation was underpinned by higher crude oil prices and strong cash margins from our major capital projects.

I would like to give a brief recap of our strategic progress in recent months, so please turn to slide four. Our industry-leading exploration program has continued its success with recent discoveries in Angola and Australia. In Angola we announced a Block 0 discovery in the greater Vanza Longui area. The discovery well encountered over 225 feet of net pay. This discovery extends a trend of undeveloped natural gas, condensate and crude oil discoveries that are currently undergoing appraisal.

We also announced three natural gas discoveries this quarter in the Carnarvon Basin offshore Western Australia. The three discovery wells -- Clio-2, Kentish Knock-1, and Achilles-1 are all located in Australia's premier hydrocarbon basin where Chevron is the leading leaseholder. All three blocks are Chevron-operated and add to our significant gas resources in Australia.

Our upstream major capital projects continue their strong performance. Offshore Nigeria, our Agbami project, reached nameplate capacity of 250,000 barrels a day in August 2009. This was over four months ahead of schedule. Production efficiency to date has been excellent, and volumes are steady at these target rates.

Offshore Angola, Tombua-Landana, is Chevron's most recent major project for Block 14. It achieved first production in the third quarter, and drilling of additional wells continues and peak production of 100,000 barrels a day is expected to be reached in 2011.

In the United States, we recently entered FEED for our deep water Big Foot project. Big Foot is located in the Walker Ridge area of the Gulf of Mexico, 35 miles south of Chevron's Tahiti field. The development facility design is a tension leg platform, and it would be the deepest built to date. Chevron is the operator with a 60% interest.

In Australia we announced a final investment decision for Gorgon. This occurred in September and is a significant milestone for the Company. We expect Gorgon to add to our reserves and provide stable and steady production for decades to come. The project has around 40 trillion cubic feet of resources, which is the equivalent of about 6.7 billion barrels of oil. Gorgon is a three-train, 15-million-metric-ton-per-year project and is well positioned to meet growing Asian demand for natural gas and will be a true legacy asset for the Company.

Following the final investment decision milestone, we have signed long-term Sales and Purchase Agreements representing greater than 40% of our Gorgon offtake. We also have a Heads of Agreement in place for roughly another 40% production and expect to finalize these agreements in the coming months.

Also, in Australia we recently signed agreements with two companies to join our Wheatstone LNG project. Together, the two companies will be 25% partners in the project's first two LNG trains. Chevron will maintain our current interest in Wheatstone and Iago fields as our partners' natural gas supply will be coming from their own fields. This establishes Wheatstone as an LNG hub, and we anticipate that additional Chevron and third-party gas will be available for future expansion now that the foundation project is in place. For example, our recent Clio discoveries could provide additional volumes, and this will support Chevron's strategy to commercialize gas in Australia and also enhances project economics. We entered front-end engineering for Wheatstone in July 2009 and expect to make a final investment decision in 2011.

I will now turn it over to Pat who will take us through the quarterly comparisons. Pat?

Pat Yarrington - *Chevron - VP & CFO*

Thanks, Dave. My remarks compare the results of third-quarter 2009 with the second-quarter 2009. And, as a reminder, our earnings release compares third-quarter 2009 with the same quarter a year ago.

So turning to slide five, third-quarter earnings were up $2.1 billion from the second quarter. Stronger upstream earnings accounted for all of this improvement, driven by higher crude oil realizations and a continued production ramp-up of our major capital projects.

Upstream earnings also benefited from roughly $400 million of Gorgon-related asset sales and tax items, as well as a favorable foreign currency variance of about $400 million. As a reminder, these foreign currency earnings impacts are predominantly related to balance sheet translations and do not have a cash impact.

Third-quarter downstream results were essentially flat with the second quarter. Favorable timing effects and improved West Coast margins were offset in part by unfavorable foreign currency effects. Also recall that the second quarter included $140 million benefit from asset sales.

The variance in the "Other" bar reflects higher chemical earnings, more than offset by an unfavorable variance in corporate items.

On slide six, our U.S. upstream earnings for the third quarter were about $600 million higher than the second quarter's results. Combined crude oil and natural gas realizations benefited earnings by $300 million. Chevron's average U.S. crude oil realizations increased about $10 per barrel between the consecutive quarters, more than the nearly $8.50 increase in the average spot price of WTI.

Natural gas realizations were flat between quarters. Production volumes increased more than 6% between the quarters as the ramp-up to Tahiti in the Gulf of Mexico more than offset natural field declines. The settlement of certain insurance claims related to Hurricane Rita contributed $110 million to the current quarter results.

And the "Other" bar reflects primarily lower impairment charges and lower DD&A rates.

Turning to slide seven, our international upstream earnings increased about $1.5 billion compared with second-quarter results. Higher oil and natural gas realizations improved earnings by $520 million. Our unit realizations for liquids improved 16%, in line with the increase in Brent spot prices. Natural gas realizations were also higher in the third quarter, contributing about $25 million to earnings. And, as Dave mentioned, our Gorgon LNG project in Australia reached final investment decision in September. This formal project approval triggered recognition of roughly $400 million in gains on sales of partial interest in the project and related tax effects. This equity realignment between Chevron and our partners occurred and cash was received in 2005, but the earnings impact was appropriately deferred until project sanction.

The "FX" bar includes continued losses associated with the weakening of the U.S. dollar against several major currencies, although the impact this quarter was nearly $400 million less than in the prior quarter.

The "Other" bar is a benefit of $201 million, about half of which is due to the absence of second-quarter well write-offs. Lower DD&A rates and higher liftings account for the majority of the remaining variance.

Slide eight summarizes the change in worldwide oil equivalent production, including volumes produced from oil sands in Canada. Production increased 32,000 barrels a day between quarters. Higher prices reduced volumes under production sharing contracts and variable royalty provisions by 21,000 barrels per day.

The base business and external constraints bar shows the decline of 46,000 barrels per day. Reductions due to base business declines and local disruptions in Nigeria were partially offset by lower OPEC member constraints. By early September Nigerian oil operations were back to normal.

And, as George Kirkland mentioned in our second-quarter call, we expect our full-year base business decline rate to average about 6%, which is consistent with year-to-date results.

As shown in the green bar, increased production from major capital projects benefited third-quarter production by almost 100,000 barrels a day, primarily driven by the ramp-up of Tahiti and higher volumes at TCO and Agbami.

Turning to slide nine, U.S. downstream earnings increased about $130 million in the third quarter. The overall impact of refining and marketing indicator margins accounted for the entire $130 million increase. Marketing margins improved, especially on the West Coast, where refinery outages and maintenance combined with driving season demand drove retail prices higher.

Timing effects represented a $75 million positive variance, in large part due to the absence of unfavorable effects in the second quarter. WTI prices were essentially flat from the beginning of the third quarter compared to $20 -- they were flat from the beginning to the end of the third quarter compared to a $20 per barrel increase during the second quarter.

In addition, lagged aviation pricing created a positive variance in comparison to the second quarter.

The components making up the "Other" bar include reduced volumes due to Richmond's planned third-quarter 2009 maintenance downtime and lower lubricants margins.

Turning to slide 10, international downstream earnings decreased about $100 million from the second quarter's results. Timing effects represented $250 million positive variance between the quarters. Consistent with the U.S., this mostly reflects the absence of unfavorable timing effects in the second quarter. Impacts in the third quarter were much less, reflecting lower pricing volatility.

The next bar shows the absence of $140 million of gains on asset sales recorded in the second quarter. Foreign exchange effects were a negative $75 million compared to the prior quarter, and the other bar is a negative variance of $131 million, about half of which is attributable to an unfavorable tax variance. The remainder is comprised of several smaller items, including higher operating expenses related in part to increased transportation costs.

Slide 11 shows that earnings from our chemical operations increased $56 million in the third quarter. Results for olefins, aromatics and Oronite additives all reflected higher realized margins.

Slide 12 covers All Other. Third-quarter net charges were $167 million compared to a net $43 million charge in the second quarter. The increase of over $120 million between quarters mostly reflects variances in tax items and foreign exchange effects. The All Other charges for the second and third quarters were below our typical guidance range of $250 million to $350 million per quarter.

Now on slide 13, I would like to wrap up by providing a brief summary of our operational performance through the first three quarters of 2009. On the second-quarter earnings call, we raised our production outlook. We indicated a year-over-year 5% volume increase. Our major capital projects continue performing on plan or better, and on a year-to-date basis, we have achieved a 6% increase. Assuming constant prices, we now expect to exceed the 2009 full-year production outlook as we communicated on the second-quarter call.

Our year-to-date refinery crude utilization remains strong at 92% of capacity. Solomon has recently released its 2008 results. Solomon, as you know, is an external benchmarking organization that gathers data on the refining industry and reports out every two years. So for two consecutive biennial reporting periods, Chevron has held the number one ranking and refinery utilization compared to the eight other international majors tracked by Solomon.

Our success in increasing refinery reliability contributed to these results, and we believe it will be critical in this challenged downstream environment going forward.

Our upstream major capital projects are meeting or exceeding expectations with many starting and ramping up ahead of schedule. Over the past five quarters, we have delivered six significant operated projects -- Agbami in Nigeria, the Tengiz expansion in Kazakhstan, Blind Faith and Tahiti in the Gulf of Mexico, Frade in Brazil and Tombua-Landana in Angola. Combined they represent a gross investment of over $25 billion with projected total peak production in excess of 900,000 barrels per day of oil equivalent.

On costs our continued focus on cost management is delivering results. Through the first three quarters of 2009, operating and SG&A expenses were down $3.5 billion compared with the same period of 2009.

On a recurring basis, as mentioned in our press release, they are running about 13% below last year. So we are ahead of our $2.5 billion or 10% reduction goal that I communicated on the second-quarter call.

I note that this figure excludes fuel. Our focus on aggressively managing costs will continue, and we expect to see further positive results from our efforts.

And finally, we are maintaining our strategic focus on the factors that will ensure our growth and our superior returns to our stockholders in the years ahead.

Now, as you all know, our Chairman and CEO, Dave O'Reilly, has announced his retirement at the end of this year. I would be remiss if I did not acknowledge and thank Dave for his more than 40 years of service to the Company. And, in particular, I would like to knowledge his superior leadership of Chevron over the past 10 years as CEO during which time our market capitalization has grown about $100 billion. So, thank you, Dave.

I will now hand it back to you Dave for your closing comments.

Dave O'Reilly - *Chevron - Chairman & CEO*

Well, thanks, Pat. I would like to spend a few minutes talking about management transition. As Pat pointed out, I have announced my retirement at the end of the year, and John Watson will become Chairman and CEO in January. This is part of a well-planned succession process. John is a proven leader who has played a pivotal role in many significant accomplishments in recent years, including leading the merger integration with Texaco. He brings a mix of corporate and operational experience, having served as president of our international exploration and production operations, also as our CFO and corporate vice president of strategic planning. John has also been actively engaged in formulating our current strategies as a member of the Company's Strategy and Planning Committee for over 10 years. John will be supported by a very strong team, including George Kirkland, who will join the board, and continue to lead our upstream oil and gas businesses.

Our strategies are working well, and the Company is performing well, but I think even more importantly the Company is in very capable hands, and I expect a seamless transition. I'm very proud of our accomplishments and deeply indebted to all of the people of Chevron for their dedication to the Company during the time of my leadership.

I would also want to express my thanks to the many of you who are investors in the Company. I have enjoyed our association over the years, and I wish all of you the best for the future.

That concludes our prepared remarks. We now welcome your questions, so Sean, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Doug Terreson, ISI Group.

Doug Terreson - *ISI Group - Analyst*

First, I want to congratulate you, Dave, on a great career, and I agree with Jeanette that you provided exemplary leadership during the past decade, which has obviously been an important period of change for the super majors. So good luck to you.

On cost the release mentioned a 13% decline in your recurring expenses, which is obviously a pretty significant number. And on this point I wanted to see if you would provide some color on the rate of change, that is how its movement and the capture rate on recurring costs in relation to the previous couple of quarters?

Dave O'Reilly - *Chevron - Chairman & CEO*

Okay. Pat, do you want to handle that question? Because I think it is a good question. We are very proud of what we have accomplished, and I think we are on a good run here.

Pat Yarrington - *Chevron - VP & CFO*

Doug, I think we have continued to gain momentum on our cost reduction efforts as the quarters have progressed here. A lot of the activity that we did in the earlier part of the year obviously was sitting down and meeting one-on-one with the suppliers and the vendors. And to a large extent, many of those contract renegotiations began to trigger in the second quarter and will continue on in the third quarter. So I think we have a tremendous amount of momentum behind us as well as going forward. So I would look forward to further positive results on this dimension going forward.

Doug Terreson - *ISI Group - Analyst*

Great. Answers the questions. Thanks again and good luck, Dave.

Operator

Robert Kessler, Simmons & Co.

Robert Kessler - *Simmons & Co. - Analyst*

I will join Doug in congratulating you, Dave, on a great career at Chevron. A couple of things from me. Firstly, the tax rate. I'm wondering, Pat, if you might be able to offer us a clean tax rate figure recognizing that some of that $400 million from the Gorgon item is buried in there and lowering the tax rate and then any guidance going forward on that?

And then secondly, just wondering if you might be willing to comment as to the status of your Northwood prospect in the Gulf?

Pat Yarrington - *Chevron - VP & CFO*

I will take the tax question here. Yes, third quarter to second quarter we did see a reduction in our tax rate of nearly 10%. The Gorgon components, Gorgon-related items were a significant piece of that, as were foreign exchange losses. Those were about equally large contributors to that. So obviously going forward you are not going to have the Gorgon-related component. But, frankly, foreign exchange is very hard for us to in any way predict. So it is hard for us to give you an advanced version of what the quarter clean number might look like. A lot of variables moving in a lot of directions with a lot of jurisdictions and a lot of components. So I don't have guidance for you.

Dave O'Reilly - *Chevron - Chairman & CEO*

I did not quite catch the prospect you were...

Robert Kessler - *Simmons & Co. - Analyst*

Northwood, the Northwood Paleogene prospect in the Gulf of Mexico.

Dave O'Reilly - *Chevron - Chairman & CEO*

I don't think I'm free to say anything about that at the moment. I apologize, but I can't comment on it.

Operator

Paul Sankey, Deutsche Bank.

Paul Sankey - *Deutsche Bank - Analyst*

David, indeed, it has been a pleasure to know you, and congratulations on behalf of Deutsche Bank. Gorgon, the Capex number could you give us an idea of what that is going to be? We are working with the idea that it is about a $35 billion spend before 2015 gross for all the partners.

Dave O'Reilly - *Chevron - Chairman & CEO*

I think we described that I think pretty clearly in our press release when we announced the project. The number was AUD43 billion, if I recall. I don't have the press release in front of me, but I think that was the number. And I might just add that that project is -- I've just come from Australia to check on the initial execution of that project, and work is already underway on Barrow Island. Between $6 billion and $10 billion worth of contracts have already been let. So this thing is very well planned and is already in the early execution phase, and I was very, very pleased with what I saw there.

Paul Sankey - *Deutsche Bank - Analyst*

And David, the contracts that are signed, are they going to be the classic oil price links?

Dave O'Reilly - *Chevron - Chairman & CEO*

Yes, the sales contracts themselves...

Paul Sankey - *Deutsche Bank - Analyst*

Sorry, I should have said the sales contracts.

Dave O'Reilly - *Chevron - Chairman & CEO*

I thought we moved to the other side of the project. Yes, these are essentially very close to oil parity, oil-linked contracts. And, as I mentioned, 40% of the volumes have already been executed, and the others are very close in the next few months. We are very pleased with the progress there, and thank you for the question.

Paul Sankey - *Deutsche Bank - Analyst*

And then if I could ask my second question on the Forex issue again, my understanding was that it tended to work against you when the dollar weakened. But it seems to have worked for you, and I understand it is not a cash issue and everything else. But it does seem to have worked in your favor this quarter, and that has confused me a bit. Could you just help me understand why it has gone the other way from...?

Dave O'Reilly - *Chevron - Chairman & CEO*

I think it was negative in both quarters but just a little bit less negative.

Pat Yarrington - *Chevron - VP & CFO*

Less negative, right.

Dave O'Reilly - *Chevron - Chairman & CEO*

Quarter to quarter it worked positively, but it's still a negative in absolute terms. It was dramatically negative in the second quarter, not quite as negative in the third.

Pat Yarrington - *Chevron - VP & CFO*

And that is because the rate of the currency changes -- second quarter versus third quarter were different, a much greater weakening in the second quarter than in the third quarter of the U.S. dollar.

Paul Sankey - *Deutsche Bank - Analyst*

Okay. So the general trend remains the same, that if we get a strengthening of the U.S. dollar, it is going to work in the opposite way? Okay, I understand that.

Pat Yarrington - *Chevron - VP & CFO*

That is correct.

Operator

Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Congratulations on the strong quarter and congratulations to both John and David in your new roles as well as previous contributions.

I had one question for you guys on a less favorite topic. But there have been some supportive facts for Chevron in the Ecuadorian proceeding. I know you have filed a motion for annulment, as well as the collateral action in the international arbitration in The Hague against the government. The presiding judge is on, he is off, he is on the case, he is off the case. Can you provide us with just any general update on timing or facts around what is pending in the judicial process with those claims, and what is the hurdle before you may expect some kind of ultimate opinion to be at least rendered in Lago Agrio?

Dave O'Reilly - *Chevron - Chairman & CEO*

Thank you for the question and the comments. The answer on timing is we really don't know. I mean we are going through a period of dealing with a new judge. He has, as you point out, the original one of the judges -- the judge that was previously on the case, let me put it that way, recused himself, then he was reinstated, and then he was recused again. So we are definitely now with a new judge. We did file an appeal for annulment or motion for annulment, which this judge has in recent -- in the last week or so denied. But to be able to predict the timing in a court system that is totally unpredictable and unreliable, I think is just difficult to do.

In a normal court process, this judge would be going very carefully through all the rulings that were made by the prior judge and spending considerable amount of time on evaluating the circumstances. So it is very hard for us to put a timetable on that. We have two -- you mentioned the international arbitration. There are really two issues there. There is one long-standing commercial claim issue relative to the government's refusal to rule itself in its own courts in Ecuador on money that we believe is due us over the course of the original contract. And then we have a second one much more recently filed, which is really a breach of contract on the basic fundamental contractual issues itself. So we believe and we believe justifiably that the Ecuadorians are responsible for the damage that exists there. But Ecuador has chosen not to appoint an arbitrator yet on that one, even though the deadline for appointing an arbitrator has passed.

So these are all very hard to predict from a timing perspective, and I wish I could give you a clearer picture. But that is the best that we have at the moment.

Evan Calio - *Morgan Stanley - Analyst*

Is Judge Zambrano, is he overseeing any other elements of the case? I know it has been a longer history.

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Dave O'Reilly - *Chevron - Chairman & CEO*

I don't think -- I just don't know that answer. But I don't think so. I think he is new to the case but has been in the same court. There is a panel of judges. So he is part of the same court system, but not -- I cannot answer the question if he has ever been involved in the case before. I don't think he has directly as a judge, but I'm not sure.

Evan Calio - *Morgan Stanley - Analyst*

And then one last question if I may on the way out. Just if you provide us any other projects moving into FID still on track, Agbami Phase 2, Caesar Tonga, Chuandongbei? If there is any --

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Dave O'Reilly - *Chevron - Chairman & CEO*

Well, I think I will -- yes, basically there has been no real change. Chuandongbei is -- I was also in China recently, and that is moving along. The government, all the government approvals have now been attained. So we are actually in addition to the preliminary work which was done, we are now -- we will now be ramping up. And the preliminary work is kind of securing wells and some infrastructure work that could be done early. But now we will be moving into the full execution phase there. So Phase 1 of that project is moving along very well.

We have Agbami Phase 2, that is still on schedule. We have got Perdido, which we are partnered up in the deep water, which is scheduled to come on in the first quarter of next year. So we have got -- basically everything else we have talked about Evan is pretty much on plan in general terms.

Operator

Arjun Murti, Goldman Sachs.

Arjun Murti - *Goldman Sachs - Analyst*

Let me offer my congratulations and best wishes as well, and I do thank you for all of your help over the years.

My question was really on U.S. shale gas, if you could provide any comments on what interest you have in building up a more meaningful position there? You obviously have the big Australia LNG positions and a lot of gas elsewhere. U.S. shale gas seems to be maybe one area of possible opportunity. And then do you have an update just on the status of the Jack/St. Malo project and where that is and moving along to FID?

Dave O'Reilly - *Chevron - Chairman & CEO*

First of all, in shale gas we have -- shale gas and tight gas overall. We have a presence in the Haynesville. It is land that we control, so we can control the pace of that. We have been doing some development drilling to test the most economic way to develop that. And then the other area of tight gas, of course, is in the Piceance where we have basically slowed down our progress there. We have -- we are building the capacity to produce I think 60 million cubic feet a day or so there. We have enough well capacity to supply that for some time. But, as George mentioned in earlier calls, we have curtailed our gas activities somewhat because we have the discretion to do it and made that decision late last year because we could see that the gas market was going to be very weak. And so we focused this year primarily on the oil side. Other than the big projects, the long-term projects, of course, which are indexed to oil in the case of LNG. So that was a deliberate decision on our part.

I can't really -- I don't want to speculate about what we might do further in shale, other than it's something we are interested in and will continue to pursue. But we are using this time to get our -- to develop the expertise to do that as efficiently as we possibly can, using our drilling expertise, which we have in great depth in the Company.

Arjun Murti - *Goldman Sachs - Analyst*

I think, Dave, not to interrupt, I think that really is sort of the question. I'm not asking if you're going to do an acquisition or anything, but can a large super major like yourself really be effective in shale gas? You all are very good at the big projects around the world. It is sort of the U.S. E&P opportunity whether that is really something for you all.

Dave O'Reilly - *Chevron - Chairman & CEO*

I think we can because if you look at what we are doing in Thailand it's very instructive. We drill rapid fire wells in Thailand, in the Gulf of Thailand and have been doing so. Unocal was the forerunner of that, and we have -- when we combine Chevron and Unocal, we have been able to ramp that up and strengthen it even further. So I think our drilling organization and our Company is quite capable of multiple well programs, and we have demonstrated that capability.

What we are demonstrating right now and working on right now is making sure we understand what it is we have to replicate time and time again because what we would be doing in the shale is somewhat different than the drilling we are doing in the Gulf of Thailand.

So I feel pretty confident it can be done, but we have to be able to do it at scale to move the needle. And that is what we would propose to do.

Your second question, I think, was on Jack and St. Malo. That is coming along well. It is in front-end engineering. It is expected that we will get to an investment decision in 2011. Actually now that I think about it, I think it is late next year.

Pat Yarrington - *Chevron - VP & CFO*

Right, 2010.

Dave O'Reilly - *Chevron - Chairman & CEO*

Late 2010. And everything there is pretty much on plan with what we discussed at the prior calls and in our meeting back in New York in March.

Operator

Jason Gammel, Macquarie.

Jason Gammel - *Macquarie - Analyst*

Dave, as an old Chevron hand, I would like to add my thanks and congratulations on your distinguished career. I was hoping to ask you a broader question on the refining and marketing segment of the business.

On a worldwide basis, margins are obviously quite poor right now. There seems to be a lot of overcapacity. What are your thoughts on how that segment of the business gets back to a better margin environment and how long that is going to take?

And then maybe if you could just add your strategic positioning and how you think you are advantaged or disadvantaged relative to the rest of the industry?

Dave O'Reilly - *Chevron - Chairman & CEO*

That's a big question. We are -- well, first of all, on a macro level, I think we can -- we are headed for a weak period here. The golden age of refining did not last that long. But we are into a weak period until we see the obvious combination of demand growth and some form of rationalization occur among the weaker players and in the more oversupplied areas of the globe. And that is why as a company that we have chosen to invest primarily in what we consider to be the growth areas, and that has been the West Coast of the U.S. and the Pacific where the growth characteristics are clearly more robust. And I think that that is playing out.

Having just been in Asia, you can see that the markets there, the economies there are growing. And that is going to lead to growth in demand that will be ahead of what we will experience in the United States and ahead of -- certainly ahead of what will be experienced in Europe.

So I think our strategy, which is to focus on the growth areas and then strengthen those growth areas by calling out the parts of our portfolio that don't match up to what we are trying to accomplish strategically, is the right strategy. And it is the one we have been pursuing for some time. And we will continue, I think, to pursue along that path.

I think the only other point I would make that advantages relative to our size, I think our refining portfolio is somewhat smaller but clearly more focused in these growth areas. And I think it will take a few years for this to work its way through. And I would expect 2010 and 2011 to be pretty sloppy before we see this begin to come back into better balance.

Jason Gammel - *Macquarie - Analyst*

Thanks, Dave. I appreciate your thoughts and best wishes for the future.

Operator

Paul Cheng, Barclays Capital.

Paul Cheng - *Barclays Capital - Analyst*

Dave, I just want to say congratulations and best wishes with your retirement. Thank you for all the help.

If I could have two questions. One, Dave, you talked about the Wheatstone. When are you guys going to start in terms of the sales effort? And if we look at between 2014 with the Gorgon coming on stream into 2017 with you guys, Wheatstone and maybe the PNG and also Pluto, a number of very large projects are still going to come on stream. Have you guys sensed whether the market will still be able to absorb additional cargo and be able to maintain your pricing power there? Any kind of evidence that would be helpful.

The second question is related to the $3.5 billion of the cost savings Pat mentioned. Pat, can you elaborate a bit more in terms of breaking down whether by different components -- the labor, the vendor or anything like that -- or by segment, that would be really helpful. Thank you.

Dave O'Reilly - *Chevron - Chairman & CEO*

Okay. I will take the first one as you asked, and then Pat will take the second one. Thank you for your kind remarks.

Wheatstone, we are very, very pleased with the progress at Wheatstone. Not only on the supply side where we have made this arrangement now with Apache and KUFPEC to augment the supply and have them participate obviously in the first two trains at Wheatstone.

But the good news is we are finding tremendous interest in the gas itself from the market, and I'm absolutely convinced that we will have a successful outcome here. Just, as we have done on other projects, we will execute Heads of Agreement with the appropriate parties that will be contingent on final investment decisions, just as we have done with Gorgon. And you will continue to see progress in this area as we move the project along during the coming months and next year.

Paul Cheng - *Barclays Capital - Analyst*

Dave, I'm sorry, can I interpret it is as the marketing of the Wheatstone gas is already starting? You are not waiting until you finalize the sales of Gorgon?

Dave O'Reilly - *Chevron - Chairman & CEO*

No, absolutely. The sales on Gorgon are almost at a conclusion right now. The final SPAs on the outstanding sales that we have talked about are almost complete. I think I mentioned that in my remarks earlier.

So what we really are, our big effort right now is marketing -- is on the marketing of Wheatstone, and we are finding a very receptive market, and I think one that clearly is going to be needed given the growth that we are experiencing in Asian demand. So on the operating cost question, I'm going to turn that back to Pat. Pat?

Pat Yarrington - *Chevron - VP & CFO*

Right. Paul, you asked for a little bit more information on the cost side. Let me just start and say out of the $3.5 billion year-over-year reduction, our estimates are that about 2/3 of that is sustainable and about 1/3 is associated with self-help. The cost reduction that we are seeing is generally across the board. I mean uniformly across all of our business segments. And transportation is clearly a component, a large component of that, as is contract labor, materials and supplies, services. It is really a very broad-based cost reduction success story that we are having.

Paul Cheng - *Barclays Capital - Analyst*

Pat, I'm sorry you say 2/3 is sustainable and 1/3 is self-help. What exactly does that mean? I mean between...

Pat Yarrington - *Chevron - VP & CFO*

If you are looking -- on a go forward basis, we were down $3.5 billion year over year. Some of that is non-recurring. For example, last year in the third quarter, we had significant hurricane impacts. So...

Paul Cheng - *Barclays Capital - Analyst*

Okay, okay.

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Pat Yarrington - *Chevron - VP & CFO*

So on a go forward basis we are saying 2/3 of the reduction that you are seeing here we believe is a sustainable component.

Paul Cheng - *Barclays Capital - Analyst*

Yes, that means that 2/3 of the sustainable, you say 1/3 is self-help, or that of $3.5 billion, 1/3 is self-help.

Pat Yarrington - *Chevron - VP & CFO*

Of the $3.5 billion, 1/3 is self-help. The other relates to kind of general market indicators, lower activity -- you know, kind of global demand market-related components.

Paul Cheng - *Barclays Capital - Analyst*

Right. And your $3.5 billion is not including energy field costs, you said?

Pat Yarrington - *Chevron - VP & CFO*

The $3.5 billion does include a small, very small, energy fuel component.

Paul Cheng - *Barclays Capital - Analyst*

Okay.

Dave O'Reilly - *Chevron - Chairman & CEO*

It is less than 10%.

Pat Yarrington - *Chevron - VP & CFO*

Right.

Paul Cheng - *Barclays Capital - Analyst*

Pat, is it possible you can break down the $3.5 billion by divisions?

Pat Yarrington - *Chevron - VP & CFO*

I don't want to do that, Paul. As I said, it is a pretty ratable -- in terms of the $3.5 billion reduction, it is very ratable according to the cost incidents, the original cost incidents by our business segments.

Dave O'Reilly - *Chevron - Chairman & CEO*

The bottom line of all of this, Paul, is that of the -- about 2/3 of this totally is sustainable. About 1/3 of it is price-sensitive such as fuel and transportation and those sort of things. So that 2/3 year over year we feel pretty good about, and some of it is related to that hurricane impact and a lot of it is self-help as well. So we are seeing it all, but we are not going to break it down any further for you than we would for anybody else.

Operator

Mark Flannery, Credit Suisse.

Mark Flannery - *Credit Suisse - Analyst*

Congratulations, Dave. Hope you have a good time in your retirement. Thanks for all the help.

I would like to talk about capital costs. We have been talking a lot about operating costs on this call. Other companies have pointed to some reductions on the capital side. Are you guys seeing that particularly in the upstream? If so, could you give us some idea of the magnitude, and then I have a follow-up after that.

Dave O'Reilly - *Chevron - Chairman & CEO*

Well, I'm going to have Pat address a few of these, but we are seeing some -- it depends on the category of costs, capital costs where we are seeing some reductions clearly, and I will have Pat address just a little bit more with more granular response to some of that.

Pat Yarrington - *Chevron - VP & CFO*

Yes, I mean I think I have said in the past calls that depending upon which cost category you are talking about, we have had cost reduction ranges anywhere from 60% on the high-end if it is a highly commoditized product versus 10% on the low end if it is something much more specialized. We have seen and we have also stated in the past that in terms of our 2009 capital program a large portion of that was already committed, pre-committed before coming into the 2009 calendar year.

So the cost reduction activity, lower capital costs activity, you will see is really going to be somewhat in 2009 but really in 2010 and going forward. And I'm sure you are paying attention to, just as we are, the upstream CERA capital cost indices, and you have seen that they came down -- they turned over, but they are not falling nearly at the same rate that they were earlier in the year. So with higher oil prices, we have seen a little bit of a dampening of that particular slope. But year over year we are going to see some benefit in '09 for lower capital costs, and we expect to see some continued benefit of that going forward in 2010.

Mark Flannery - *Credit Suisse - Analyst*

Okay. Great. My second question is on decline rates. And you referenced what George said earlier in the year that underlying decline rates would be about 6%, a little bit lower than the 7% that has been talked about before. With oil prices where they are, let's just call them $80 for ease, is there scope to get that number down further do you think in 2010?

Pat Yarrington - *Chevron - VP & CFO*

I think --

Dave O'Reilly - *Chevron - Chairman & CEO*

Well, I -- yes, go ahead Pat.

Pat Yarrington - *Chevron - VP & CFO*

I was just going to say I think on that one we really need -- we are putting our plans together now. We really need to finish that process and provide you a better indication of that when we see you in March at the analyst meeting.

Dave O'Reilly - *Chevron - Chairman & CEO*

Yes, I was going to add to that that the underlying decline rate this year will be about 6%, and as we pointed out, that relates to deliberate decisions made primarily in the natural gas area where the prices where weak. And it is too soon to predict where we will go next. Other than I think we have demonstrated an agility that I think we made the right decision on how to invest some of that discretionary capital at the beginning of the year, and it is paying off right now by having it leaning towards oil and less in the near-term gas. And I think by demonstrating that agility, you can count that it will be demonstrated in the other direction if it is appropriate, and we will make that read as we get closer to next year's plan.

Operator

Mark Gilman, Benchmark.

Mark Gilman - *Benchmark - Analyst*

Dave, best wishes for your retirement. I envy you. Just two questions if I could, please. One relating to the Block 0 discovery announcement and the trend, Dave, which I believe you referred to. I'm curious as to whether this is a new play relative to your long-standing activities in Block 0 or whether it is merely an extension of that which you have been doing previously in terms of the horizon that you will be exploiting. And then I have got a follow-up.

Dave O'Reilly - *Chevron - Chairman & CEO*

No, it's not really a new play. We have had a number of areas at Block 0, even though we have been in it for some time that we obviously deferred exploration until we got the extension of Block 0, which we concluded a few years ago. So this is now just -- I would not characterize this as a new play, but just a further validation I think that there is -- that we are in a very oil and gas rich area and that we are exploiting and investing as you would expect us to do now that we've had that contract extended for the next 25 years or so.

Mark Gilman - *Benchmark - Analyst*

Okay. Second question relates to production sharing contract issues generally speaking. If you work off the production bar chart, in essence what you are talking about now, I believe, would be a sensitivity about 2000 barrels a day per $1.00 per barrel price change, which is higher than what has been discussed in the past, and you have indicated that this will move around. But I noticed in particular, frankly both with your results as well as those of others, that there seems to be some hypersensitivity with respect to Indonesian volumes lately vis-a-vis this issue. Can you folks offer some observations as to what might be going on in this regard?

Pat Yarrington - *Chevron - VP & CFO*

You know Mark, I don't know that we have any particular insights there. I think we have indicated the tremendous kind of volatility or variability around a range of oil prices here. I mean Indonesia is one of the primary contributors to that variance there. But I don't know that I can speak to anything unique or uniquely different about Indonesia in this time period.

Mark Gilman - *Benchmark - Analyst*

And Pat, nothing changed there in 2009 from a structural standpoint?

Pat Yarrington - *Chevron - VP & CFO*

Not that I'm aware of, no.

Dave O'Reilly - *Chevron - Chairman & CEO*

No.

Operator

Neil McMahon, Sanford Bernstein.

Neil McMahon - *Sanford Bernstein - Analyst*

Just to add to the long list of saying good luck in the future. I have got two questions.

Dave O'Reilly - *Chevron - Chairman & CEO*

Can you speak up just a little bit? We are having trouble hearing you.

Neil McMahon - *Sanford Bernstein - Analyst*

It is all the way from the other side of the pond. Just turning to three questions, one really on Gorgon. If you look at Gorgon and the development of all the LNG plants that you have got going there plus others, what is your sense that these projects will actually be developed on time given the fact that so many people are tripping a lot of constructor capacity into an area with extremely limited resources and infrastructure? That is really the first one.

Dave O'Reilly - *Chevron - Chairman & CEO*

Well, I think the good -- well, that is why I was there in Perth just here a week or two ago. I think the good news is that we have the contracts let. The projects that are moving forward -- this project is moving forward, and it is the first one out of the gate really in that area. There has not been much new activity there. And being first, I think, gives me some assurance that this one is going to move along well. And by all the experts we have looked at, they believe that this project is best prepared for execution of any major project that they have seen.

So I'm pretty confident that this one is out of the gate fast and already working. And not all -- a lot of the work is in Australia, but some of it is outside Australia as well, and it is using some modularization contracts that have already been let that we fabricated in Korea and other places. So this I think is an exemplary project, and I think the question for the longer term is one that we will have to weigh around some of the other projects as well, and that is ensuring that we phase them in. And that is one of the reasons that we put Wheatstone behind Gorgon because we think that the peak -- we want to be past the peak of Gorgon and on the down slope before we pick up Wheatstone. So I think we've got a very good plan, an integrated plan, to look at this in a kind of orderly manner.

So I think that is the answer to your first question. You had another one?

Neil McMahon - *Sanford Bernstein - Analyst*

Well, just as a follow-up to that, will you be utilizing the same construction contractors for Wheatstone and the same as Gorgon?

Dave O'Reilly - *Chevron - Chairman & CEO*

I think the answer to that question is no. We have -- the FEED contract with Wheatstone is a different contractor than with Gorgon, and that is as far as I will go on that one.

Neil McMahon - *Sanford Bernstein - Analyst*

Okay. And just a final quick one for me. Given your footprints in Asia, any comments in terms of overall Asian refining demand...refining products in that part of the world?

Dave O'Reilly - *Chevron - Chairman & CEO*

Well, I mentioned that I've just come back from there, and I see there is no question that there is a pickup in demand. The China stimulus package is pretty effective and definitely making an impact on demand. So I think that the Asian refining system will recover sooner than, say, North America or Europe, and I feel pretty positive about it. The momentum and the focus there is more than I would have expected. Having been there a year ago and seen everything come to a stop, it is quite amazing how they have been able to turn that around.

So I feel pretty confident that the outlook for Asia -- it is still going to be sloppy, I think, in Asia in 2010, but it should improve sooner than some of the other areas of the world.

We have probably got time for about another one question. We are reaching the top of the hour, so let's take another question here.

Operator

Pavel Molchanov, Raymond James.

Pavel Molchanov - *Raymond James - Analyst*

Two quick questions about Gorgon. First, just to clarify, the 40% figure you mentioned on the offtake, does that only pertain to Chevron's interest, or is that the entire project?

Dave O'Reilly - *Chevron - Chairman & CEO*

No, that is our interest only, and as I mentioned, we expect to double that in the next month or two.

Pavel Molchanov - *Raymond James - Analyst*

Got it. And then the second point, how should we think about reserve bookings from Gorgon now that you guys hit FID, and particularly do you expect any reserve bookings this year?

Dave O'Reilly - *Chevron - Chairman & CEO*

Yes, we do. We have hit FID. There will be reserve bookings, and I can't obviously say what those will be. But this will have a positive impact on our reserve replacement for the year.

I think we've got to wrap it up, folks. I appreciate your interest in the Company, and thank you for your questions. And again, I want to thank all of you for your good questions and your support during the years, particularly those of you that have been shareholders for my tenure with the Company.

So thank you very much, and if there are any further questions, please follow up with Jeanette and the staff. Sean, thank you for your help, and we are finished.

Operator

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