FINAL TRANSCRIPT

Thomson StreetEvents℠

CVX - Q2 2009 Chevron Earnings Conference Call

Event Date/Time: Jul. 31. 2009 / 3:00PM GMT

CORPORATE PARTICIPANTS

Pat Yarrington
Chevron Corporation - VP, CFO

Jim Aleveras
Chevron Corporation - GM, IR

George Kirkland
Chevron Corporation - EVP, Global Upstream and Gas

CONFERENCE CALL PARTICIPANTS

Paul Sankey
Deutsche Bank - Analyst

Paul Cheng
Barclays - Analyst

Evan Calio
Morgan Stanley - Analyst

Arjun Murti
Goldman Sachs - Analyst

Neil McMahon
Sanford Bernstein - Analyst

Doug Leggate
Howard Weil - Analyst

Michael Lamotte
JPMorgan - Analyst

Robert Kessler
Simmons & Company - Analyst

PRESENTATION

Operator

Good morning. My name is Sean, and I will be your conference facilitator today. Welcome to Chevron's second-quarter 2009 earnings conference call. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session, and instructions will be given at that time. (Operator Instructions).

As a reminder, this conference call is being recorded. I will now turn the conference call over to the Vice President and Chief Financial Officer of Chevron Corporation, Ms. Pat Yarrington. Please go ahead.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Thanks, Sean. Welcome to Chevron's second-quarter earnings call and webcast. On the call with me today are George Kirkland, Executive Vice President, Global Upstream and Gas, and Jim Aleveras, General Manager, Investor Relations.

Our focus today is on Chevron's financial and operating results for the second quarter of 2009, and 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 the slide 2.

Slide 3 provides an overview of our financial performance. The Company's second-quarter earnings were $1.7 billion, or $0.87 per diluted share. Our second-quarter 2009 earnings were down 71% from the second quarter 2008. Second-quarter 2009 earnings fell 5% compared to the first quarter of 2009, which Jim will discuss shortly. Return on capital employed for the trailing 12 months was 17%. The debt ratio was 12% at the end of the quarter.

While debt balances were relatively flat during the second quarter, cash balances ended the period approximately $2 billion lower than the prior quarter. The cash change reflects working capital effects unique to the second quarter. For example, nearly half of the cash consumption in the second quarter pertains to a full-year 2008 foreign tax obligation that was accrued last year, but was paid in May 2009. The amount is particularly distortive because it is based on the much higher earnings level of last year.

And finally, as we announced on Wednesday, Chevron's Board of Directors approved a $0.03 per share, or 4.6% increase, in the common stock dividend payable on September 10, 2009.

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

Jim Aleveras - *Chevron Corporation - GM, IR*

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

Turning to slide 4, second-quarter earnings were down $92 million from the first quarter. Starting with the left side of the chart, higher crude oil realizations increased the Company's worldwide upstream earnings. However, upstream results were adversely affected by a foreign-currency variance of about $500 million between quarters.

Second-quarter downstream results were sharply lower than the first quarter. This decline reflects lower margins in the second quarter, along with lower gains on asset sales. The second quarter included a $140 million benefit from asset sales compared to the $400 million gain recorded in the first quarter.

The other bar largely reflects improved chemical earnings and a favorable swing in corporate tax items.

On slide 5, our US upstream results for the second quarter were about $250 million higher than the first quarter's results. Combined crude oil and natural gas realizations benefited earnings by $310 million. Chevron's average US crude oil realizations increased about $16.35 per barrel between consecutive quarters, almost the same change as average spot prices of West Texas Intermediate.

Natural gas realizations, however, fell between consecutive quarters, offsetting about $75 million of the benefit of higher crude oil prices.

Production volumes increased more than 4% between quarters. The startup of Tahiti, the ramp-up of Blind Faith and continued hurricane restoration efforts in the Gulf of Mexico more than overcame natural fuel declines.

The other bar includes the benefit of lower operating expenses, but these were more than offset by impairments of several small fields, which flow through DD&A, and some other items.

Slide 6 summarizes the results for our international upstream operations, which were essentially unchanged between quarters. On a combined basis, liquids and natural gas realizations improved earnings by $625 million. Our unit realizations for liquids improved by 35% compared with a 33% increase in Brent spot prices. Natural gas realizations, however, were lower in the second quarter, offsetting about $100 million of the benefit of higher liquids realizations.

Exploration expense increased $90 million between quarters, reflecting well write-offs spread among a number of countries. The FX and Other bar shown largely reflects a swing of more than $500 million in foreign-currency effects between quarters.

Slide 7 summarizes the change in worldwide oil-equivalent production, including volumes produced from oil sands in Canada. Production increased slightly between quarters. Higher prices reduced volumes under production-sharing contracts and variable royalty provisions by 24,000 barrels per day. Based on the $16.50 change in average West Texas Intermediate prices between the first and second quarters, this translates into a roughly 1500-barrel-per-day impact, compared to the rule of thumb we provided six months ago of 1200 barrels per day for each dollar WTI price change.

In the interim we have looked at all of our production-sharing agreements and variable royalties, and this study reemphasizes our earlier caveats, that the effects are nonlinear and any rule of thumb is very rough. Given the volatility in crude prices, no single rule of thumb is appropriate as forward guidance. Therefore, we will continue to quantify our price and volume effects for you each quarter.

Moving on to the next bar on slide 7, the decline of 44,000 barrels per day shown under the caption Base Business and External Constraints includes a number of items. First, the total base business decline was 58,000 barrels per day. But over 40,000 barrels per day of this amount was due to plan turnaround activity in Kazakhstan, Canada and other countries.

The same bar also reflects a 20,000-barrel-per-day benefit of hurricane restoration, partly offset by a 14,000-per-barrel-per day change in Nigerian production due to local disruptions. External constraints, such as OPEC, member host government limitations and Asian gas market factors were slightly less limiting than in the first quarter. This change was minimal, about 8000 barrels per day.

As shown in the next bar, increased production from our new major capital projects benefited second-quarter production by 75,000 barrels per day, primarily reflecting Agbami, Tahiti and Blind Faith. George Kirkland will provide a more detailed discussion of our major projects in production in a few minutes.

Turning to slide 8, US downstream earnings declined about $230 million in the second quarter. The overall impact of refining and marketing indicator margins was an adverse $75 million. The average change in our total margins between quarters was $130 million, in addition to the $75 million amount reflected by the indicator margins. The major factor was refining mix effects due to a decrease in distillate refining margins, a decrease in light heavy crude spreads, and other factors, such as higher refinery feedstock costs.

As these impacts were not fully captured by the indicator margins, our realized refining margins were more unfavorable than suggested by the indicators. Additionally, lubricant base oil margins were lower due to weakness in the industrial and commercial transportation markets.

Higher sales volumes increased second-quarter earnings by $75 million. This improvement is about the same amount as the adverse volume variance we showed in the prior quarter. We completed the planned turnaround maintenance at our El Segundo, California refinery that I mentioned last quarter, and this accounts for the difference.

The other bar reflects timing effects and a number of minor variances, including higher fuel costs due to higher prices. Timing effects represent about half of this variance between periods. WTI prices rose about $20 per barrel from the beginning to the end of the second quarter compared to a $5 per barrel increase during the first quarter.

The changes we've discussed before, including phasing out provisional pricing for our major supply contracts, have reduced the volatility of our US downstream earnings to changes in commodity prices. However, we will continue to experience timing effects related to market factors, such as lagged pricing terms for aviation fuel, along with inventory and supply effects.

Turning to slide 9, our international downstream earnings fell about $435 million from the first quarter's results. On balance, refining and marketing margins reduced earnings by $55 million between quarters. Both refining and marketing margins were lower in Asia, our largest international region. Timing effects represent a $90 million adverse variance between quarters. On an absolute basis, timing effects reduced first-quarter earnings by about $140 million, while the second-quarter effect was about $230 million. The largest single component of the $90 million quarterly change was a $60 million impact of lagged aviation pricing terms.

During the second quarter, we closed the previously announced sales of our fuels and marketing operations in Cameroon and Kenya. However, the gain of $140 million was $260 million less than the amount recognized in the first quarter for the sale of marketing businesses in Nigeria and Brazil.

Various items, including lower trading profits, partly offset by lower foreign currency losses, made up the majority of the $29 million variance shown in the Other bar. Operating expense, which dropped substantially in the first quarter, inched up slightly in the second quarter, partly on higher fuel costs.

Slide 10 shows that earnings from chemical operations were $108 million in the second quarter compared with $39 million in the first quarter. Results for olefins, aromatics and Oronite additives all reflected higher margins. Olefins and Oronite additives also benefited from higher volumes.

Slide 11 covers All Other. Second-quarter net charges were $43 million compared to $294 million in the first quarter. All other charges were below our typical guidance range of $250 million to $350 million. This reflects favorable corporate tax items, a swing from foreign currency losses to gains and lower corporate and service company net charges.

Before turning the call over to George Kirkland, I would just like to briefly recap the second quarter. First, upstream earnings benefited from higher crude oil prices, but these were largely offset by substantial adverse foreign currency effects, in line with the interim update. Downstream results reflected weak margins, adverse timing effects due to the increase in commodity prices and lower asset sales gains, also mentioned in the interim update. As we projected, All Other net charges were below the guidance range.

Finally, and most importantly, our operational results were strong, from upstream production to refinery utilization. George Kirkland is now going to provide an update on our production outlook for 2009 and further discuss our upstream projects. George?

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

Thank you, Jim. It's good to be back to discuss upstream performance and our outlook for the remainder of the year. I am very pleased with our progress through the first half of 2009, particularly in the areas of project execution, production and cost management. And I'm going to address each of these areas.

Let's now move to slide 13. Production performance from our major capital projects in the first half of this year has been strong. 2009 production growth from these projects will likely exceed the 300,000-barrel-a-day forecast we provided at the fourth-quarter earnings call, and shows both the strength of a major capital project queue and our ability to execute.

The bulk of the production increases come from four major capital projects. Tahiti achieved first oil on May 5 and reached peak production within three months. That was six months ahead of schedule. Current production is at full capacity of 135,000 barrels of oil-equivalent per day.

The ramp-up of Agbami has reached 220,000 barrels of oil a day and is ahead of our schedule to reach peak production of 250,000 barrels of oil per day.

SGI/SGP in Kazakhstan is performing above the nameplate capacity of 240,000 barrels a day. De-bottlenecking activities are currently underway that should allow for higher oil production by year-end.

And finally, Blind Faith reached peak production of 70,000 barrels of oil-equivalent a day in late March.

Due to the performance of these major capital projects, combined with lower OPEC and market constraints, and lower base business declines, which averaged about 6%, we now expect the full-year outlook for 2009 to be about 2.66 million barrels a day, an increase of 30,000 barrels a day from our previous guidance. This translates to a 5% increase over 2008 levels of 2.53 million barrels a day, and includes both the impact of security-related disruptions in Nigeria that have caused -- excuse me -- includes both the security-related disruptions in Nigeria that have caused significant shut-ins.

This revised outlook is based on an average oil price of $50 per barrel. And of course, changes in price will impact this outlook.

Other progress to be noted in the first half of 2009 is as follows. Frade achieved first oil on June 20. This is Chevron's first operated asset in Brazil. We expect Frade to reach peak production of 90,000 barrels a day in [2011] (corrected by Company) as additional development wells are drilled. And Mafumeira Norte in Angola Block 0 achieved first oil in July, once again ahead of schedule. Production is currently ramping up and forecasted to reach a peak production of 35,000 barrels of oil-equivalent a day in 2011 as additional development wells come on-line.

Turning now to slide 14, I would like to discuss some of the other significant achievements that occurred during the first half of 2009. Yesterday, we announced that the Wheatstone LNG project in Australia entered FEED as a two-train development. This significant milestone demonstrates our progress towards sanction. It follows the announcement in February of a successful seven-well exploration and appraisal program that underpins the two-train development.

Also in Australia, we received a conditional recommendation from the Western Australian Environmental Protection Authority on the expanded Gorgon Project. This is excellent news, and we are on schedule to sanction the project later this year.

In Nigeria, we remain on schedule to sanction Stage 2 of the Agbami field. Stage 2 development wells will extend the peak production plateau of 250,000 barrels of oil a day. In the Partition-Neutral Zone between Saudi Arabia and Kuwait, steam injection at the LargeScale Steamflood pilot began in late June. With pilot success, a full-field development of the Wafra Eocene reservoir will follow. This field contains over 12 billion barrels of oil in place, and would be the first commercial application of a conventional steamflood in a carbonate reservoir.

In Angola, we now forecast Tombua-Landana start-up during the third quarter of 2009. Hook-up and commissioning is about 90% complete. It is expected that three wells will be available at first oil. Tombua-Landana is projected to reach 100,000 barrels a day by 2011 with development drilling.

And finally, in Indonesia, the start-up of the non-operated South Natuna Sea North Belut field remains on schedule for the third quarter of 2009.

Let's now take a look at slide 15. I would like to talk about our upstream cost structure, which includes production expense, DD&A and other expenses. This chart shows the competitiveness of our cost structure and has been updated since our Security

Analyst Meeting in March. For 2008, we had industry-leading upstream costs of $20.05 per barrel. During the first half of 2009, this has improved to $19.87 a barrel. Lower production expenses and higher DD&A charges almost offset each other.

On a unit of production basis, DD&A charges increased by $2.22 per barrel during the first half of 2009 compared to full-year 2008. This was principally driven by the investments associated with new project start-ups at Agbami, Blind Faith, Tahiti and Moho-Bilondo. Although the DD&A associated with these new project start-ups is high, this is to be expected and is a function of how proved developed reserves are booked over time.

Let me offer an example. Take a deepwater project like Blind Faith. DD&A rates at start-up are calculated based on the project investment, but only a small portion of the resources are booked as proved reserves under SEC guidelines. However, as additional proved reserves are booked and the capital depreciated, the associated DD&A rate will significantly drop over subsequent years. Early in the project's life, earnings may be impacted due to the higher DD&A, but cash margins are generally at their highest levels. And remember, we base our investment decisions on cash flow.

Now let's turn to production expense, because DD&A is only part of the story. In the upstream through the first half of 2009, production expenses were $2.52 per barrel less than full-year 2008. This is a function of lower operating expenses and taxes other than on income. This reduction has more than offset the increase in DD&A.

I am pleased with our progress on managing our production costs, and this will remain a key focus for us. Pat will provide further insights on Chevron's cost management activities. And with that, I would like to turn it over to Pat.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Thanks, George. Slide 16 provides a progress report on our aggressive company-wide efforts to reduce cash cost of running the business. We've targeted a $2.5 billion reduction in operating, selling, general and administrative expenses in 2009 compared to 2008. The target excludes the benefit associated with lower cost of purchased fuel.

All areas of the Company are working to reduce costs- upstream, downstream, corporate departments and our internal service and technology organizations. And at mid-year, we were ahead of pace to meet the full-year objectives.

Some key areas of focus in our push for cost reduction are listed on the slide -- materials and supplies, transportation expenses and contract labor and third-party services. Our recent downstream assets sales, notably in Brazil and several West African countries, removed costs relative to the prior periods, and this was anticipated in our target.

On the upstream side, particularly in North America, we have reduced activity related to well workovers and are contracting fewer rigs at lower rates. This makes good business sense given the economics of these activities, in particular in relation to natural gas prices.

As a note of caution, please keep in mind that the operating expenses will not be perfectly ratable throughout the year due to seasonal and other effects, such as turnaround activities. Nevertheless, we are very pleased with our progress.

I would like to wrap up our prepared remarks with a recap of Chevron's operational performance through the first half of the year. This is slide 17. As George discussed, our upstream production remains on track for a good year-over-year increase, with our major capital projects performing on-plan or better. Our year-to-date refinery crude utilization remains a strong 93% of capacity. We've had no significant unplanned shutdowns, and the Solomon utilization rate for our operated refineries is right at planned level.

George described our upstream project execution, which is on track. And Jim mentioned that our downstream portfolio upgrading continued last quarter, and we expect further progress on this initiative in the quarters ahead. As I just outlined, our cost management efforts are progressing quite well.

And finally, we are maintaining our strategic focus on the factors that will ensure growth and superior returns to our stockholders in the years ahead. In addition to funding the long-term growth components of our capital program, we are continuing our strategic staffing initiatives to ensure that we have the future technical expertise in Chevron to remain a top performer.

That concludes our prepared remarks. We would now like to welcome your questions. Please try to limit your follow-up questions so that everybody has an opportunity to participate. So Sean, please open the lines now for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Paul Sankey, Deutsche Bank.

Paul Sankey - *Deutsche Bank - Analyst*

Good morning, everyone. You mentioned that there is a $500 million variance in Forex, which seems -- and correct me if I'm wrong -- but it does seem to be somewhat bigger than your rivals. I think the effect for Forex if I'm correct was less than -- well less than $600 million, obviously, off a bigger base. Could you just help us understand how much of that is, if you like, an accounting effect and how much is an operational effect? Thanks.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Paul, these are balance sheet translations, and it reflects where we do our business and the relationship of the currencies from period to period. So a lot of this occurred in Australian dollars, Canadian dollar, the pound, et cetera, and we had currency appreciations there, local currency appreciations versus the dollar between 8% and 16% in the quarter.

Paul Sankey - *Deutsche Bank - Analyst*

Okay, so essentially, the entirety of it is a balance sheet item?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes, it is a book item.

Paul Sankey - *Deutsche Bank - Analyst*

And conceptually, if the dollar -- I don't want to be too negative here -- but if the dollar continued weakening forever, would you just continue to -- is there a limit to how much this can be, or can it just keep going on forever?

Jim Aleveras - *Chevron Corporation - GM, IR*

Paul, it would fluctuate based on our relationship between liabilities and assets.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Right.

Jim Aleveras - *Chevron Corporation - GM, IR*

Depending on whether they are a net liability position or a net asset position, we can see a larger or smaller or no effect from strengthening or weakening of the dollar.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes. Of your monetary assets.

Jim Aleveras - *Chevron Corporation - GM, IR*

Monetary --.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Monetary assets.

Paul Sankey - *Deutsche Bank - Analyst*

Okay, I've got the general idea. So maybe we will follow up.

If I could have an upstream one as well, please. What -- you had several different moving parts with it, included your base business decline. Could you, just to make it simple, just strip out what you think your base business decline was for the quarter?

And then I have just a follow-up on upstream and I'll leave it. Thanks.

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

Paul, let me try to do it in this context. We try to give a view of where we think base business is going to be for the year. Through the first half of the year, it has been significantly below our 7% guidance. It has been more in the 5% range, 4% to 5% range, as best we can track it. Once again, you have to take a lot of ins and outs with turnarounds and everything else, and security and everything else going on.

Our present forecast for the full year is we are going to average about 6%. Now, if you go back to our analyst meeting in the first quarter or the January call, we said at that point that we were basing our outlook for the year based on a 7% base business decline. And at this point, we see that decline is going to be less than we had earlier forecast it -- by 1% at least.

Paul Sankey - *Deutsche Bank - Analyst*

I understand. And any idea for next year, George? Would that go faster again, or --?

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

Paul, I'd really hate to talk about next year until we get our capital program put in place.

Paul Sankey - *Deutsche Bank - Analyst*

If it was the same capital program as this year.

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

It would probably be more in line with this 7%, because we reduced our base business capital significantly. And that is driven heavily in the United States around our investments in the gas side of the business.

Just to give you a little more color to that, I expect by the end of the year, we will not have a single gas land rig running. We are redeploying our efforts to -- where we can, within our ability -- to move equipment around and contracts around to really focus on oil in the United States. Gas prices, doesn't make sense for us right now to be drilling those gas wells.

Paul Sankey - *Deutsche Bank - Analyst*

And so the entirety of the incremental decline would be basically U.S. gas?

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

I think that is -- it is going to be heavily US gas. We will be able to tell you a lot more after we get through our business plans. So first-quarter call -- or I guess January call next year and analysts meeting, we will be able to give you a lot more color on that.

Paul Sankey - *Deutsche Bank - Analyst*

Great. That's very helpful. Thank you.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays - Analyst*

First, Jim, want to say thank you for all the help over the past couple of years and wish you a happy retirement.

Jim Aleveras - *Chevron Corporation - GM, IR*

Thank you very much, Paul.

Paul Cheng - *Barclays - Analyst*

We will miss you. I think I have two questions. One, Pat, you talked about that the cost-saving is now ahead of pace at mid-year. How much of the benefit so far are you are seeing is related to FX, and how much is really just coming from the vendor or raw material costs just coming down?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Good question, Paul. Really, from an FX standpoint, it is a factor, but it is not a significant factor. And I guess the second component you were asking about is sort of the energy-related drivers?

Paul Cheng - *Barclays - Analyst*

And also the raw material costs and everything.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Well, clearly it is a factor in there. We haven't segregated it out on a raw materials component factor uniquely, or discreetly. We have cost reductions, I think as I mentioned on the call last time, that depending upon the commodity or the product category, you can get price reductions here or cost reductions here that have ranged from 60%, the more commoditized the service or equipment is, to 10% or 20%, the less commoditized it is.

Paul Cheng - *Barclays - Analyst*

Maybe I have missed it. Pat, have you said an exact number to how much you think that your cost-saving is at this point --?

Pat Yarrington - *Chevron Corporation - VP, CFO*

You mean on a year-to-date basis?

Paul Cheng - *Barclays - Analyst*

Yes.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes. We are down more than the 10%. We said we are ahead of pace. The 10% is our target for the year. We said we are more than 10%.

We noted in the press release on a quarter-to-quarter, second quarter this year to second quarter last year, that on a recurring basis, we were down 15%. We did have some non-recurring items in the second quarter of last year that we didn't have in the second quarter of this year. They were not repeated.

So timing effects like this can occur, but they typically even out over the year. So I'd just encourage you to look at the 10% target and to know that so far we are ahead of pace.

Paul Cheng - *Barclays - Analyst*

So so far you have $1.8 million dollars, $1.9 million -- $1.8 billion, $1.9 billion? Did you say 15%?

Pat Yarrington - *Chevron Corporation - VP, CFO*

You will see it when we put out the 10-Q. And just know that there are some nonrecurring elements in there.

Paul Cheng - *Barclays - Analyst*

Okay. If I could have one quick upstream. George, in Iraq, when you are looking at the opportunity set and the risks associated and the kind of terms that they offered you in the first round, if that maintain -- is that really a place that you guys will be very keen on to invest?

Also that if you look at the security situation on the ground, is it improved sufficiently for you to feel comfortable to put your people on the ground at this moment?

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

Paul, I think you can tell that -- or maybe not -- we didn't really submit a bid on the first round in Iraq. We could not see a conforming bid at that point work for us on an economic basis. We like Iraq, when you think about the resource side, phenomenal resource. We look at it, we would like to be there. But we need to have confidence both in the economic viability of the investments and the security side. So you've got to look at both elements of that, and we weren't able to see that in this first round. And the way the first round has ended up, really not -- really the bid did not prove to be that successful.

Paul Cheng - *Barclays - Analyst*

In the first one, you didn't put a bid -- is it more of an economic concern or is it a security concern -- from your guys' standpoint?

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

I would say at this point it was more an economic concern.

Paul Cheng - *Barclays - Analyst*

Okay, thank you.

Operator

Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Good afternoon, guys. Thank you for taking my call. And also congratulations, Jim, on your retirement.

Jim Aleveras - *Chevron Corporation - GM, IR*

Thanks, Evan.

Evan Calio - *Morgan Stanley - Analyst*

I have just a quick question on Gorgon. I listened to your comments on the conditional improvement. Can you walk me through -- walk us through exact details on the path to FID for Gorgon?

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

I'll give you some of the color. There is a whole lot of things that must happen. First, most critical item is of course getting our EPA approval. We need to get our environmental permit to build Gorgon on Barrow Island. That is critical step one.

Of course, then, we've got to have all our partners between now and that period have their own internal approvals. We need from the government all the leases, ratified, I guess -- I think would be the best word. So we've got to put in our development plans for production. They have to be approved.

But I think the most critical items is one, the environmental permit. Nothing can happen until we get the environmental permit, And then second is of course all the partners in Gorgon to give their financial approval to move forward. Those are the two critical steps. There are a lot of other little steps that go with it.

We think we are very, very close on the environmental permit, and we've done all our due diligence and all the project due diligence, I think, to be ready on the decision-making around the economics.

Evan Calio - *Morgan Stanley - Analyst*

Excellent. Another question on the upstream. Are there any hurricane volumes that remain shut-in or any color on timing of bringing those volumes onstream?

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

I think we are at about 87% of our volumes that were impacted. We will bring another 5% to 8% on. We've always been telling everyone that we didn't see maybe as much as 5% that would ever be restored. And I think most of this remainder will be on by the end of the year.

Evan Calio - *Morgan Stanley - Analyst*

Okay, great. Just one other follow-up on the decline issue. If I understand -- and I know it's CapEx related, your 7% decline versus the lower 4% at prior CapEx level was really a U.S. gas driven event. Is that fair?

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

Predominantly -- it is a predominantly -- we've cut down all base business. We've got some issues around the world, too, where we have base business that could be impacted by OPEC constraints, that we would look at very similarly to what we are looking at U.S. gas.

Evan Calio - *Morgan Stanley - Analyst*

Okay.

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

It doesn't make sense to spend the money and build capacity where we are not going to be able to produce it.

Evan Calio - *Morgan Stanley - Analyst*

Sure. But also higher decline base, meaning that 7% could taper lower over time, if you -- I know there's a lot of variables in that math. But is that the kind of correct thinking?

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

Well, the big thing that is going to happen over time as more and more of these large projects come on, they do not see the decline in the early periods. Many of them have multi-year, five-year, some of them, and some of them longer flat lives. You look at like TCO, Tengiz, and the investment we've made in SGI/SGP, that second-generation plant there, that is almost a flat line. It is not a function at all of the reservoir. It is only a function of the plant capacity, and the plant capacity doesn't go down. It stays up.

So you have to look at each one of them. But more and more, as we get more and more of these large, new assets on, that base of production has very, very low to no decline rate. So it will change over time.

Evan Calio - *Morgan Stanley - Analyst*

Okay, good.

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

And we'll have to give you updates on that at least a couple of times a year, on what we are seeing happening.

Evan Calio - *Morgan Stanley - Analyst*

Excellent. Thank you for taking my question.

Operator

Arjun Murti, Goldman Sachs.

Arjun Murti - *Goldman Sachs - Analyst*

Thank you. Thanks for the color on the DD&A rate. Were there any charges or other things that ran through DD&A in the first half? If I take that $2.20 a barrel you mentioned, there still seems to be a little bit of a gap. I suppose just wondering if the 3.1 billion rate in 2Q is sort of a run rate going forward.

Jim Aleveras - *Chevron Corporation - GM, IR*

That is a good question. If you look at the information in our press release, you can see that our six-month 2008 DD&A was about $4.5 billion versus almost $6 billion for six months of 2009, that the major capitals projects account for about 55% of that. But then there is a lot of other things that I mentioned last quarter that do impact DD&A, things such as impairments that run through that, accretion expense.

So there is a lot of different items, as well as base business, that impact DD&A in addition to our major capital projects. But I do want to say the major capital projects were the largest single item and accounted for more than half of the increase. But if you look at overall DD&A, the increase is all in the upstream segment.

Arjun Murti - *Goldman Sachs - Analyst*

That's great. That's very helpful. And just a final one, any update on how you are thinking about a stock buyback at this point?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes, as we've expressed several times here, the stock buyback piece is really the most discretionary component of our uses of cash. And the priorities are for the dividends, which you saw the Board increased, funding the capital program and keeping a good balance sheet. And for the moment, that is where our priorities are, and I don't -- we are not reinstating the share repurchase program at this time.

Arjun Murti - *Goldman Sachs - Analyst*

You guys clearly have an exceptionally strong balance sheet. And I'm not a diehard stock buyback person, but maybe in this challenging economic environment, you just want to keep an even stronger balance sheet than even is normally considered strong?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Well, I think we just -- we have a lot of organic opportunities here, and maintaining flexibility, financial flexibility is important to us.

Arjun Murti - *Goldman Sachs - Analyst*

That's great. Thank you.

Operator

Neil McMahon, Sanford Bernstein.

Neil McMahon - *Sanford Bernstein - Analyst*

Hopefully you can hear me. The line's not great. Maybe a few for George. I didn't pick up when Tahiti was going to hit peak production, if it hadn't done so already.

And also, on that theme of the upstream, just wondering when you were going to start to think about drilling in the subsalt in the Campos Basin around Frade, if there was an opportunity to do that going into 2010. And then I've got a final follow-up.

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

Well, Tahiti, I tried to make that in the early comments --we have reached peak production. The facility is really designed for about 135,000 barrel equivalent per day. We've reached that already. We ramped up all the wells very, very quickly to that. So it is going very positive. Like all cases, we are always looking to see if we can get a little more efficiency out of our facilities. But we are reached the nameplate capacity, and like I say, very, very quickly.

Frade, I think it is too early for us to start thinking about the subsalt there. We don't have a lot of opportunities for us in the basin at this point. We have some, but we are limited with our lease holdings there. So we are going -- having to look to the future and future opportunities in Brazil.

Neil McMahon - *Sanford Bernstein - Analyst*

Okay. And then just a very general question, again for yourself. A number of your competitors this week have come out with statements that have suggested that one company has got the best set of assets in the industry and another one is the industry leader in terms of its option set and the upstream going forward.

Just wondering how you would classify your upstream position, given the fact that obviously, based on your competitors, you are at least third in the rankings for some reason.

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

There has been a lot of good work done by analysts and consultants out there, and I think almost consistently they've always said Chevron has, if not the best, one of the very best queues of project in the industry. I think you can look back at the number of projects that we've brought online in '08 and '09 and what we are bringing on in '10, and see the steps we also are taking going forward with Gorgon and Wheatstone and the quality of those assets.

The next-generation facility that we will bring to Tengiz; we've got a 400,000-barrel-a-day expansion that we can do there. And our position in the Deepwater Gulf of Mexico in the Lower Tertiary, the first one of those projects come on in Perdido early next year. We just moved Jack/St. Malo into FEED. We announced the discovery of Buckskin earlier this year. We've got a great queue of projects there. So these projects -- and all of the projects I've just mentioned at very, very attractive development costs. So I am not aware of any other company that has got a better queue of projects.

Neil McMahon - *Sanford Bernstein - Analyst*

Maybe we need to look into it a bit more, but thanks for those comments.

Operator

Doug Leggate, Howard Weil.

Doug Leggate - *Howard Weil - Analyst*

Good morning, folks. Jim, you're going to be missed. The changes you've made over the years have been really appreciated, and I'll miss working with you.

Jim Aleveras - *Chevron Corporation - GM, IR*

Thank you very much, Doug.

Doug Leggate - *Howard Weil - Analyst*

A couple questions. I'm going to take advantage of George being there, if that's okay. The color on the costs is much appreciated, particularly on depreciation, given the substantial changes we've seen.

However, George, is it possible to just give a general kind of overview as to the new projects that are driving the growth? How do the underlying F&D and by which the future DD&A compare to the base business, to try and strip away the timing effects? I'm just trying to understand when we can expect to see some incremental reduction again or reversal of this increase that we've seen in fairly substantial depreciation. That's my first one, and I have a quick follow-up.

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

Yes, I think it does vary between projects and the type of projects. I would tell you the deepwater projects are the ones that typically see the highest DD&A rates at the beginning. I will tell you they ramp down pretty quickly. The first year, with the barrels that have been booked have extremely high DD&A rates. We tend to during the start-up period every six months look at reserves and look at reserve bookings. So we often actually make mid-year updates on the reserve picture on these new projects.

My expectation by -- in most cases, by the third year, we will have seen a significant drop in the DD&A rates. We see it move pretty quickly as we book these additional barrels. So normally, I would say within two booking cycles we'd probably have those down. And I would tell you at that point in time, they will be very attractive on a DD&A basis.

But the other side of it, and I think what is really important to recognize, is these projects tend to have the lowest OpEx operating expense of any barrels we have in the system. And that is typical for new projects. You don't make water. Chemical costs typically are low. You get a lot of barrels, and per person in effect.

So it is a really good time and you really need to -- what we really look at, of course, is the margin and the cash margin, which is very, very good on those projects. Does that help a little bit?

Doug Leggate - *Howard Weil - Analyst*

It does. George, if I could just push you just a little more on that particular issue. Would you characterize the profitability, let's say call it unit margin, on an all-in cost basis -- that is, when fill reserve bookings and so on are in place -- as being incrementally better than the base portfolio? In other words, is your capture rate going to start to improve as you've delivered this, obviously, very substantial growth visibility over the next year or two? In your opinion.

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

I would think on average, it will improve. I think those barrels are better barrels in total on a margin context. But it does -- for us to see it flow on the book side, on the earnings side, it is going to take us probably in some of the projects the second or third year to really see that.

And once again, it varies greatly between projects. You get a project that is like Tengiz, you don't see the big impact of it because you really have characterized the reservoir and the reserves are a lot more straightforward in the booking. For most of our deepwater projects, the actual performance, the well performance is needed to book additional barrels. And that is why the first couple of years are so important.

Doug Leggate - *Howard Weil - Analyst*

Great. My follow-up was actually related to Wheatstone. The two or three in development going to FEED, as you mentioned in your remarks. Can you just give us some color as to whether you are going to bring in partners to supply the FEED gas for those two developments, or is this 100% Chevron, or where are we in the process of securing the gas?

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

I think it starts with we have -- with our exploration and appraisal work, we know we have enough gas with Wheatstone and Iago to underwrite a two-train -- two 4.3 million ton per annum trains. So that is 8.6 tons per year of LNG that can be covered by the Wheatstone and Iago projects.

We would like -- like in all LNG projects, we would like to have a much bigger footprint, more trains. We've had other exploration opportunities in Australia. So we would like to be able to bank a bigger footprint, i.e., more trains. So we are very interested in moving forward with others to open up a bigger opportunity set for the Wheatstone Project or the Wheatstone LNG.

So it is both. But I think what is really important is we've got enough gas to get to the two trains ourselves. And so -- and we would like to get bigger. Because there is always -- the money to be made in LNG is all in getting more and more trains and more and more gas through it.

Doug Leggate - *Howard Weil - Analyst*

I guess where I'm going with this, George, is would you expect to fund both trains 100% Chevron, and then any incremental trains would involve partners? Is that a fair way of thinking about it, or is it not that straightforward?

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

I don't believe it is that straightforward, and it's in the early stages. Once again, we've got enough gas to underwrite it. What happens commercially between now and the next 24 months could shape what we end up with there. I hate to leave it open-ended, but it is a little bit open-ended on that piece.

Doug Leggate - *Howard Weil - Analyst*

No, that's great color. Thanks very much indeed.

Operator

Michael Lamotte, JPMorgan.

Michael Lamotte - *JPMorgan - Analyst*

George, if I could ask on Nigeria quickly, can you give us an update on your perspective on the state of play there with respect to the fiscal changes? And really where I'm going with the question is thinking longer-term, how you think about allocating capital in light of the risks of change in fiscal terms?

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

Well, capital allocation everywhere is a function of the economic returns that we will receive. If fiscal terms, either future or retroactively changes to contracts, which once again, like everyone, we really want to see contract sanctity. But if you look at the go-forward case, if the economic and fiscal terms change, the capital will flow somewhere else.

We are not sure of capital investment opportunities, and the challenge is always making sure we put our capital to those best opportunities. And we try to be very, very rigorous in doing that. And if the terms in one country in the world become inferior, you can bet that the capital will flow to another opportunity somewhere else in the world.

Michael Lamotte - *JPMorgan - Analyst*

Is that true in terms of the incremental CapEx on, say, a project that is in queue, but hasn't gone to FEED or FID, as well as any expenses you would have on the maintenance or operating side?

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

You are getting to a detail level where the economic -- the economics are really pretty difficult to tell. So you are starting to get into those ones where there is some gray in there, and it depends on the impact, the amount of investment and the amount of risk.

Michael Lamotte - *JPMorgan - Analyst*

And we just don't know enough yet on any of that yet.

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

That's correct.

Michael Lamotte - *JPMorgan - Analyst*

Okay. If I could shift gears quickly, just a couple of clean-ups on the numbers. $40,000 in maintenance in Q2, is all that back up? Any maintenance plans for the third quarter?

Jim Aleveras - *Chevron Corporation - GM, IR*

The 40,000 barrels a day of maintenance is partly back up, not fully back up, and I do not have our next quarter's plans yet.

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

I can just give a little bit of color -- the second and third quarter for us are always the heaviest turnaround quarters. That is when you have typically the best weather. So we do have some turnarounds in the UK sector, I know. And I do believe we have one... some additional work that may fall in Tengiz later this year. So there is some more work to come, but I think we've got a lot of the big stuff done.

Michael Lamotte - *JPMorgan - Analyst*

Okay. And then lastly, on the SGI de-bottlenecking, where is that going to go from the 240 nameplate?

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

I think our opportunity is in the 10% to 15% increase, and maybe even 20%. So we are pretty confident of 10% to 15%, and we may get as high as a 20% bump on that. What we are doing there is the sulfur plant is really what controls the amount of crude that we can put through. We can't change or increase the sulfur plant capacity. So what we've really been able to do is we've got a little bit more capacity on the front end of the plant, on separation and the ability to inject higher H_2S gas into the reservoir. And that flexibility is how we are able to get this higher rate.

Michael Lamotte - *JPMorgan - Analyst*

Interesting. All right, thanks. That does it for me.

Operator

Robert Kessler, Simmons & Company.

Robert Kessler - *Simmons & Company - Analyst*

Good morning, George. Does your conservatism on U.S. natural gas production later this year have any assumption built in for shut-ins, whether due to economic reasons or in want of transportation capacity to get your gas to the market?

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

No, it is -- decline rates on U.S. gas are pretty high, and we are pulling the trigger, reducing the amount of investment in that arena. And it is going to start responding and declining.

Maybe even to give you a little additional color, we have -- the Piceance basin, we have a facility that will be coming on. We have a nice area of development up there, 30,000 plus acres. We have drilled a large number of wells and will be starting up a facility there. But we are shutting down all drilling in the Piceance. And we had plans at one time to be up to even six or eight rigs running there. So we are going to shut down the last rig. We have been running two there for a couple of years, and we are going to shut that down.

Robert Kessler - *Simmons & Company - Analyst*

Beyond shutting down to zero on the incremental drilling, is there a price below which you would actually turn off the taps?

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

That gets more into the supply and demand balance. Of course, there is a price at some point that you're not going to supply gas. We've done no -- I've done no work or seen any work that we've done in that arena.

Robert Kessler - *Simmons & Company - Analyst*

Okay. Separately on Tengiz, just trying to think about going forward. Now that you've got the capacity there, what sort of utilization rate should we think about for those facilities? Obviously, you had quite a bit of maintenance last year, I imagine more than normal, to tie in the new facilities.

But if we think of the normal run rate utilization, say, 2010, 2011, and onwards, how should we think about that?

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

Mid nineties.

Robert Kessler - *Simmons & Company - Analyst*

Okay. Thank you very much.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays - Analyst*

George, I just want to make sure I hear you correctly. You say you are not going to have any more active gas rigs at all in the lower 48 by year-end?

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

That's correct on land rigs, land gas rigs.

Paul Cheng - *Barclays - Analyst*

Right. Land gas rigs.

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

Land gas rigs by the end of the year, I expect --.

Paul Cheng - *Barclays - Analyst*

So no workover or anything?

THOMSON REUTERS

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

No development gas drilling. I'll go that far. I wouldn't hazard to say that far on we would have anything with regards to workovers.

Paul Cheng - *Barclays - Analyst*

Okay, no new development drilling. Okay.

On oil sands, I think several years ago at one point you guys were pretty interested, trying to expand your footprint. In the last two or three years, I think you have been pretty quiet or not totally crazy about that. Where are we? From a company standpoint, what is your strategy or what is the priority of the oil sands in your portfolio at this point?

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

Paul, you know we are investing in the expansion of the Albian oil sands with the Shell, the Athabasca oil sands project up there. That expansion should come online in 2010. That is -- on a gross barrel basis, that is about 100,000 barrels a day, and our working interest share is 20%. That will make the footprint we have in Canada -- that will give us over -- that, with the existing production will give us over 50,000 barrels a day of oil sands production.

We like oil sands in the sense of the resource, the location, so that is a positive. At this point, though, the cost of developing it and operating it, it is tough to make money in a $50 world. So the challenge for us -- and we've got opportunities of participating with our partners to expand up there, but we see it needs to happen when we can control the capital cost and bring the capital cost down, and when we have a view of higher oil prices. So that is what is important for us.

With inside our project queue, oil sands makes up a pretty small piece of it. And when you look at the economics of it, it is the weakest set of projects with inside our queue of projects. Weakest on an economic sense.

Paul Cheng - *Barclays - Analyst*

Very good. Thank you.

Operator

I am not showing any further questions, sir.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Okay, then I'll just go ahead and close up. Thank you, Sean.

Before ending completely here, I just want to reiterate a couple of key messages here. Operations ran very well, are running really very well. Project execution is very strong. You heard from George about the volume increases that we are seeing year-over-year, as planned. We have a strong focus on cost management -- a $2.5 billion target, 10% target reduction for year-over-year. We are running ahead of pace on that. And we are very intent on sustaining that momentum.

We appreciate everybody's participation on the call today. And I want to thank everybody on the call -- on behalf of everybody on the call for the analyst questions. Thank you very much.

Operator

Thank you, ladies and gentlemen. This concludes Chevron's second-quarter 2009 earnings conference call. You may now disconnect.