

CHEVRON CORP
Form 10-Q
November 05, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

**þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2009

or

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-368-2

Chevron Corporation

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

6001 Bollinger Canyon Road,

San Ramon, California

(Address of principal executive offices)

94-0890210

*(I.R.S. Employer
Identification Number)*

94583-2324

(Zip Code)

Registrant's telephone number, including area code: (925) 842-1000

NONE

(Former name or former address, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o

Non-accelerated filer o
(Do not check if a smaller reporting
company)

Smaller reporting
company o

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding as of September 30, 2009
Common stock, \$.75 par value	2,006,267,842

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**CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION
FOR THE PURPOSE OF SAFE HARBOR PROVISIONS OF THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This quarterly report on Form 10-Q of Chevron Corporation contains forward-looking statements relating to Chevron's operations that are based on management's current expectations, estimates and projections about the petroleum, chemicals, and other energy-related industries. Words such as anticipates, expects, intends, plans, targets, projects, believes, seeks, schedules, estimates, budgets and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond the company's control and are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The reader should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, Chevron undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the important factors that could cause actual results to differ materially from those in the forward-looking statements are crude-oil and natural-gas prices; refining, marketing and chemicals margins; actions of competitors or regulators; timing of exploration expenses; timing of crude-oil liftings, the competitiveness of alternate-energy sources or product substitutes; technological developments; the results of operations and financial condition of equity affiliates; the inability or failure of the company's joint-venture partners to fund their share of operations and development activities; the potential failure to achieve expected net production from existing and future crude-oil and natural-gas development projects; potential delays in the development, construction or start-up of planned projects; the potential disruption or interruption of the company's net production or manufacturing facilities or delivery/transportation networks due to war, accidents, political events, civil unrest, severe weather or crude-oil production quotas that might be imposed by the Organization of Petroleum Exporting Countries (OPEC); the potential liability for remedial actions or assessments under existing or future environmental regulations and litigation; significant investment or product changes under existing or future environmental statutes, regulations and litigation; the potential liability resulting from pending or future litigation; the company's acquisition or disposition of assets; gains and losses from asset dispositions or impairments; government-mandated sales, divestitures, recapitalizations, industry-specific taxes, changes in fiscal terms or restrictions on scope of company operations; foreign-currency movements compared with the U.S. dollar; the effects of changed accounting rules under generally accepted accounting principles promulgated by rule-setting bodies; and the factors set forth under the heading Risk Factors on pages 30 and 31 of the company's 2008 Annual Report on Form 10-K. In addition, such statements could be affected by general domestic and international economic and political conditions. Unpredictable or unknown factors not discussed in this report could also have material adverse effects on forward-looking statements.

Table of Contents**PART I.****FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****CHEVRON CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF INCOME**
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
	(Millions of dollars, except per-share amounts)			
Revenues and Other Income				
Sales and other operating revenues*	\$ 45,180	\$ 76,192	\$ 119,814	\$ 221,813
Income from equity affiliates	1,072	1,673	2,418	4,480
Other income	373	1,002	728	1,509
Total Revenues and Other Income	46,625	78,867	122,960	227,802
Costs and Other Deductions				
Purchased crude oil and products	26,969	49,238	71,047	147,822
Operating expenses	4,403	5,676	12,958	15,379
Selling, general and administrative expenses	1,177	1,278	3,197	4,264
Exploration expenses	242	271	1,061	831
Depreciation, depletion and amortization	2,988	2,449	8,954	6,939
Taxes other than on income*	4,644	5,614	13,008	16,756
Interest and debt expense	14		28	
Total Costs and Other Deductions	40,437	64,526	110,253	191,991
Income Before Income Tax Expense	6,188	14,341	12,707	35,811
Income Tax Expense	2,342	6,416	5,246	16,681
Net Income	3,846	7,925	7,461	19,130
Less: Net income attributable to noncontrolling interests	15	32	48	94
Net Income Attributable to Chevron Corporation	\$ 3,831	\$ 7,893	\$ 7,413	\$ 19,036

Per Share of Common Stock:

Net Income Attributable to Chevron Corporation

Basic	\$ 1.92	\$ 3.88	\$ 3.72	\$ 9.29
Diluted	\$ 1.92	\$ 3.85	\$ 3.71	\$ 9.23
Dividends	\$ 0.68	\$ 0.65	\$ 1.98	\$ 1.88
Weighted Average Number of Shares Outstanding (000s)				
Basic	1,992,452	2,032,433	1,991,733	2,049,812
Diluted	2,000,586	2,044,616	1,999,925	2,063,149

* Includes excise, value-added and similar taxes: **\$ 2,079** **\$ 2,577** **\$ 6,023** **\$ 7,766**

See accompanying notes to consolidated financial statements.

Table of Contents**CHEVRON CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
	(Millions of dollars)			
Net Income	\$ 3,846	\$ 7,925	\$ 7,461	\$ 19,130
Currency translation adjustment	31	(67)	44	(84)
Unrealized holding gain (loss) on securities:				
Net gain (loss) arising during period	8	(13)	3	(5)
Derivatives:				
Net derivatives gain (loss) on hedge transactions	7	126	(65)	74
Reclassification to net income of net realized (gain) loss	(9)	4	(25)	15
Income taxes on derivatives transactions	1	(44)	31	(32)
Total	(1)	86	(59)	57
Defined benefit plans:				
Actuarial loss:				
Amortization to net income of net actuarial loss	136	62	451	187
Prior service cost:				
Amortization to net income of net prior service credits	(15)	(16)	(49)	(47)
Defined benefit plans sponsored by equity affiliates	5	7	10	22
Income taxes on defined benefit plans	(45)	(17)	(152)	(65)
Total	81	36	260	97
Other Comprehensive Gain, Net of Tax	119	42	248	65
Comprehensive Income	3,965	7,967	7,709	19,195
Comprehensive income attributable to noncontrolling interests	(15)	(32)	(48)	(94)
Comprehensive Income Attributable to Chevron Corporation	\$ 3,950	\$ 7,935	\$ 7,661	\$ 19,101

See accompanying notes to consolidated financial statements.

Table of Contents**CHEVRON CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET****(Unaudited)**

	At September 30 2009	At December 31 2008
	(Millions of dollars, except per-share amounts)	
ASSETS		
Cash and cash equivalents	\$ 7,568	\$ 9,347
Marketable securities	121	213
Accounts and notes receivable, net	17,070	15,856
Inventories:		
Crude oil and petroleum products	4,652	5,175
Chemicals	333	459
Materials, supplies and other	1,338	1,220
Total inventories	6,323	6,854
Prepaid expenses and other current assets	4,459	4,200
Total Current Assets	35,541	36,470
Long-term receivables, net	2,394	2,413
Investments and advances	21,564	20,920
Properties, plant and equipment, at cost	183,547	173,299
Less: Accumulated depreciation, depletion and amortization	89,290	81,519
Properties, plant and equipment, net	94,257	91,780
Deferred charges and other assets	3,870	4,711
Goodwill	4,619	4,619
Assets held for sale	316	252
Total Assets	\$162,561	\$161,165
LIABILITIES AND EQUITY		
Short-term debt	\$240	\$2,818
Accounts payable	15,715	16,580
Accrued liabilities	5,501	8,077
Federal and other taxes on income	2,562	3,079
Other taxes payable	1,375	1,469
Total Current Liabilities	25,393	32,023
Long-term debt	9,973	5,742
Capital lease obligations	329	341
Deferred credits and other noncurrent obligations	17,497	17,678
Noncurrent deferred income taxes	11,738	11,539

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Reserves for employee benefit plans	6,409	6,725
Total Liabilities	71,339	74,048
Preferred stock (authorized 100,000,000 shares, \$1.00 par value, none issued)		
Common stock (authorized 6,000,000,000 shares, \$.75 par value, 2,442,676,580 shares issued at September 30, 2009, and December 31, 2008)	1,832	1,832
Capital in excess of par value	14,584	14,448
Retained earnings	104,575	101,102
Accumulated other comprehensive loss	(3,676)	(3,924)
Deferred compensation and benefit plan trust	(414)	(434)
Treasury stock, at cost (436,408,738 and 438,444,795 shares at September 30, 2009, and December 31, 2008, respectively)	(26,255)	(26,376)
Total Chevron Corporation Stockholders' Equity	90,646	86,648
Noncontrolling interests	576	469
Total Equity	91,222	87,117
Total Liabilities and Equity	\$162,561	\$161,165

See accompanying notes to consolidated financial statements.

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CHEVRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	September 30	
	2009	2008
	(Millions of dollars)	
Operating Activities		
Net Income Attributable to Chevron Corporation	\$ 7,413	\$ 19,036
Adjustments		
Depreciation, depletion and amortization	8,954	6,939
Dry hole expense	481	287
Distributions less than income from equity affiliates	(510)	(278)
Net before-tax gains on asset retirements and sales	(1,083)	(757)
Net foreign currency effects	481	(74)
Deferred income tax provision	335	37
Net increase in operating working capital	(2,993)	(713)
Net income attributable to noncontrolling interests	48	94
Increase in long-term receivables	(288)	(221)
Decrease (increase) in other deferred charges	131	(70)
Cash contributions to employee pension plans	(860)	(169)
Other	244	313
Net Cash Provided by Operating Activities	12,353	24,424
Investing Activities		
Capital expenditures	(14,488)	(13,632)
Proceeds and deposits related to asset sales	2,132	1,384
Net sales of marketable securities	113	351
Repayment of loans by equity affiliates	167	169
Net sales of other short-term investments	153	359
Net Cash Used for Investing Activities	(11,923)	(11,369)
Financing Activities		
Net (payments) borrowings of short-term obligations	(3,258)	661
Proceeds from issuance of long-term debt	5,339	
Repayments of long-term debt and other financing obligations	(461)	(926)
Cash dividends	(3,945)	(3,861)
Distributions to noncontrolling interests	(37)	(88)
Net sales (purchases) of treasury shares	86	(5,530)
Net Cash Used for Financing Activities	(2,276)	(9,744)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	67	(37)

Net Change in Cash and Cash Equivalents	(1,779)	3,274
Cash and Cash Equivalents at January 1	9,347	7,362
Cash and Cash Equivalents at September 30	\$ 7,568	\$ 10,636

See accompanying notes to consolidated financial statements.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 1. Interim Financial Statements**

The accompanying consolidated financial statements of Chevron Corporation and its subsidiaries (the company) have not been audited by an independent registered public accounting firm. In the opinion of the company's management, the interim data include all adjustments necessary for a fair statement of the results for the interim periods. These adjustments were of a normal recurring nature. The results for the three- and nine-month periods ended September 30, 2009, are not necessarily indicative of future financial results. The term "earnings" is defined as net income attributable to Chevron Corporation.

Certain notes and other information have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the company's 2008 Annual Report on Form 10-K.

Effective with the quarter ending September 30, 2009, the company implemented the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) system. The ASC supersedes literature of the FASB, Emerging Issues Task Force and other sources. The ASC did not change U.S. generally accepted accounting principles. Refer also to Note 15 beginning on page 21 for discussion of ASC.

Events subsequent to September 30, 2009, were evaluated until the time of the Form 10-Q filing with the Securities and Exchange Commission on November 5, 2009.

Earnings for the third quarter 2009 included \$400 million of after-tax gains from asset sales and tax items related to an upstream project in Australia. Earnings for the first nine months of 2009 also included \$540 million of after-tax gains reported in the first half of the year on sales of marketing businesses outside the United States.

Earnings for the third quarter and nine months of 2008 included approximately \$400 million of expenses associated with damage to upstream facilities in the U.S. Gulf of Mexico caused by hurricanes. Largely offsetting the impact of these expenses were gains of about \$350 million on U.S. upstream asset sales.

Note 2. Noncontrolling Interests

The company adopted the accounting standard for noncontrolling interests in consolidated financial statements effective January 1, 2009, and retroactive to the earliest period presented. Ownership interests in the company's subsidiaries held by parties other than the parent are presented separately from the parent's equity on the Consolidated Balance Sheet. The amount of consolidated net income attributable to the parent and the noncontrolling interests are both presented on the face of the Consolidated Statement of Income.

Activity for the equity attributable to noncontrolling interests for the first nine months of 2009 and 2008 is as follows:

2009			2008		
Chevron Corporation	Noncontrolling Interest	Total Equity	Chevron Corporation	Noncontrolling Interest	Total Equity

	Stockholders Equity		Stockholders Equity (Millions of dollars)			
Balance at January 1	\$86,648	\$469	\$87,117	\$77,088	\$204	\$77,292
Net income	7,413	48	7,461	19,036	94	19,130
Dividends	(3,945)		(3,945)	(3,861)		(3,861)
Distributions to noncontrolling interests		(37)	(37)		(88)	(88)
Treasury shares, net	121		121	(5,523)		(5,523)
Other changes, net*	409	96	505	214	1	215
Balance at September 30	\$90,646	\$576	\$91,222	\$86,954	\$211	\$87,165

* Includes components of comprehensive income, which are disclosed separately in the Consolidated Statement of Comprehensive Income.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 3. Information Relating to the Consolidated Statement of Cash Flows**

The Net increase in operating working capital was composed of the following operating changes:

	Nine Months Ended September 30	
	2009	2008
	(Millions of dollars)	
Increase in accounts and notes receivable	\$ (877)	\$ (2,559)
Decrease (increase) in inventories	356	(979)
Increase in prepaid expenses and other current assets	(216)	(461)
(Decrease) increase in accounts payable and accrued liabilities	(1,597)	1,507
(Decrease) increase in income and other taxes payable	(659)	1,779
Net increase in operating working capital	\$ (2,993)	\$ (713)

The Net increase in operating working capital includes reductions of \$11 million and \$102 million for excess income tax benefits associated with stock options exercised during the nine months ended September 30, 2009, and 2008, respectively. These amounts are offset by an equal amount in Net sales (purchases) of treasury shares.

Net Cash Provided by Operating Activities included the following cash payments for interest on debt and for income taxes:

	Nine Months Ended September 30	
	2009	2008
	(Millions of dollars)	
Interest on debt (net of capitalized interest)	\$ 11	\$
Income taxes	4,825	14,298

The Net sales of marketable securities consisted of the following gross amounts:

	Nine Months Ended September 30	
	2009	2008
	(Millions of dollars)	
Marketable securities purchased	\$ (24)	\$ (3,232)
Marketable securities sold	137	3,583

Net sales of marketable securities	\$ 113	\$ 351
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The Net sales (purchases) of treasury shares represents the cost of common shares acquired less the cost of shares issued for share-based compensation plans. Net sales totaled \$86 million in the first nine months of 2009 and net purchases totaled \$5.5 billion in the 2008 period. Purchases in the 2008 period were under the company's stock repurchase program initiated in September 2007. No purchases were made under the program in the 2009 period.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The major components of Capital expenditures and the reconciliation of this amount to the capital and exploratory expenditures, including equity affiliates, are as follows:

	Nine Months Ended September 30 2009 2008 (Millions of dollars)	
Additions to properties, plant and equipment	\$ 13,542	\$ 12,812
Additions to investments	793	715
Current-year dry-hole expenditures	399	239
Payments for other liabilities and assets, net	(246)	(134)
Capital expenditures	14,488	13,632
Expensed exploration expenditures	580	544
Assets acquired through capital-lease obligations	20	14
Capital and exploratory expenditures, excluding equity affiliates	15,088	14,190
Company's share of expenditures by equity affiliates	923	1,587
Capital and exploratory expenditures, including equity affiliates	\$ 16,011	\$ 15,777

Additions to properties, plant and equipment in the 2009 period include \$2 billion for a cash payment related to the extension of an upstream concession agreement.

Note 4. Operating Segments and Geographic Data

Although each subsidiary of Chevron is responsible for its own affairs, Chevron Corporation manages its investments in these subsidiaries and their affiliates. For this purpose, the investments are grouped as follows: upstream exploration and production; downstream refining, marketing and transportation; chemicals; and all other. The first three of these groupings represent the company's reportable segments and operating segments as defined in the accounting standards.

The segments are separately managed for investment purposes under a structure that includes segment managers who report to the company's chief operating decision maker (CODM) (terms as defined in the accounting standards). The CODM is the company's Executive Committee, a committee of senior officers that includes the Chief Executive Officer, and that in turn reports to the Board of Directors of Chevron Corporation.

The operating segments represent components of the company as described in the accounting standards that engage in activities (a) from which revenues are earned and expenses are incurred; (b) whose operating results are regularly reviewed by the CODM, which makes decisions about resources to be allocated to the segments and to assess their performance; and (c) for which discrete financial information is available.

Segment managers for the reportable segments are directly accountable to and maintain regular contact with the company's CODM to discuss the segment's operating activities and financial performance. The CODM approves annual capital and exploratory budgets at the reportable segment level, as well as reviews capital and exploratory funding for major projects and approves major changes to the annual capital and exploratory budgets. However, business-unit managers within the operating segments are directly responsible for decisions relating to project implementation and all other matters connected with daily operations. Company officers who are members of the Executive Committee also have individual management responsibilities and participate in other committees for purposes other than acting as the CODM.

All Other activities include mining operations, power generation businesses, worldwide cash management and debt financing activities, corporate administrative functions, insurance operations, real estate activities, alternative fuels and technology companies.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The company's primary country of operation is the United States of America, its country of domicile. Other components of the company's operations are reported as International (outside the United States).

Segment Earnings The company evaluates the performance of its operating segments on an after-tax basis, without considering the effects of debt financing interest expense or investment interest income, both of which are managed by the company on a worldwide basis. Corporate administrative costs and assets are not allocated to the operating segments. However, operating segments are billed for the direct use of corporate services. Nonbillable costs remain at the corporate level in All Other. Earnings by major operating area for the three- and nine-month periods ended September 30, 2009 and 2008 are presented in the following table:

Segment Earnings

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
	(Millions of dollars)			
Upstream				
United States	\$ 878	\$ 2,187	\$ 1,172	\$ 5,977
International	2,762	3,995	5,256	12,581
Total Upstream	3,640	6,182	6,428	18,558
Downstream				
United States	34	1,014	72	336
International	160	817	1,106	1,013
Total Downstream	194	1,831	1,178	1,349
Chemicals				
United States	105	30	165	32
International	59	40	146	122
Total Chemicals	164	70	311	154
Total Segment Earnings	3,998	8,083	7,917	20,061
All Other				
Interest Expense	(11)		(22)	
Interest Income	10	52	36	157
Other	(166)	(242)	(518)	(1,182)
Net Income Attributable to Chevron Corporation	\$ 3,831	\$ 7,893	\$ 7,413	\$ 19,036

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Segment Assets Segment assets do not include intercompany investments or intercompany receivables. All Other assets in 2009 consist primarily of worldwide cash, cash equivalents and marketable securities, real estate, information systems, mining operations, power generation businesses, technology companies and assets of the corporate administrative functions. Segment assets at September 30, 2009, and December 31, 2008, are as follows:

Segment Assets

	At September 30 2009	At December 31 2008
	(Millions of dollars)	
Upstream		
United States	\$ 24,711	\$ 26,071
International	74,125	72,530
Goodwill	4,619	4,619
Total Upstream	103,455	103,220
Downstream		
United States	17,697	15,869
International	25,080	23,572
Total Downstream	42,777	39,441
Chemicals		
United States	2,736	2,535
International	1,051	1,086
Total Chemicals	3,787	3,621
Total Segment Assets	150,019	146,282
All Other		
United States	6,804	8,984
International	5,738	5,899
Total All Other	12,542	14,883
Total Assets United States	51,948	53,459
Total Assets International	105,994	103,087
Goodwill	4,619	4,619
Total Assets	\$162,561	\$161,165

Segment Sales and Other Operating Revenues Operating-segment sales and other operating revenues, including internal transfers, for the three- and nine-month periods ended September 30, 2009 and 2008, are presented in the table on the following page. Products are transferred between operating segments at internal product values that approximate market prices. Revenues for the upstream segment are derived primarily from the production and sale of crude oil and natural gas, as well as the sale of third-party production of natural gas. Revenues for the downstream segment are derived from the refining and marketing of petroleum products such as gasoline, jet fuel, gas oils, lubricants, residual fuel oils and other products derived from crude oil. This segment also generates revenues from the transportation and trading of crude oil and refined products. Revenues for the chemicals segment are derived primarily from the manufacture and sale of additives for lubricants and fuels. All Other activities include revenues from mining operations, power generation businesses, insurance operations, real estate activities and technology companies.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Sales and Other Operating Revenues**

		Three Months Ended September 30		Nine Months Ended September 30	
		2009	2008	2009	2008
(Millions of dollars)					
Upstream					
United States		\$ 4,964	\$ 11,036	\$ 13,596	\$ 32,980
International		8,321	12,295	22,256	36,514
Sub-total		13,285	23,331	35,852	69,494
Intersegment Elimination	United States	(3,008)	(4,461)	(6,910)	(13,094)
Intersegment Elimination	International	(4,864)	(6,840)	(12,695)	(21,009)
Total Upstream		5,413	12,030	16,247	35,391
Downstream					
United States		17,992	27,692	44,595	77,803
International		21,224	35,924	57,491	107,086
Sub-total		39,216	63,616	102,086	184,889
Intersegment Elimination	United States	(46)	(126)	(136)	(377)
Intersegment Elimination	International	(34)	(44)	(73)	(107)
Total Downstream		39,136	63,446	101,877	184,405
Chemicals					
United States		131	146	361	424
International		389	443	1,051	1,265
Sub-total		520	589	1,412	1,689
Intersegment Elimination	United States	(56)	(60)	(151)	(189)
Intersegment Elimination	International	(35)	(43)	(99)	(122)
Total Chemicals		429	486	1,162	1,378
All Other					
United States		474	448	1,181	1,212
International		18	19	47	56
Sub-total		492	467	1,228	1,268
Intersegment Elimination	United States	(281)	(230)	(679)	(611)
Intersegment Elimination	International	(9)	(7)	(21)	(18)

Total All Other	202	230	528	639
Sales and Other Operating Revenues				
United States	23,561	39,322	59,733	112,419
International	29,952	48,681	80,845	144,921
Sub-total	53,513	88,003	140,578	257,340
Intersegment Elimination United States	(3,391)	(4,877)	(7,876)	(14,271)
Intersegment Elimination International	(4,942)	(6,934)	(12,888)	(21,256)
Total Sales and Other Operating Revenues	\$ 45,180	\$ 76,192	\$ 119,814	\$ 221,813

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 5. Summarized Financial Data Chevron U.S.A. Inc.**

Chevron U.S.A. Inc. (CUSA) is a major subsidiary of Chevron Corporation. CUSA and its subsidiaries manage and operate most of Chevron's U.S. businesses. Assets include those related to the exploration and production of crude oil, natural gas and natural gas liquids and those associated with refining, marketing, and supply and distribution of products derived from petroleum, excluding most of the regulated pipeline operations of Chevron. CUSA also holds the company's investment in the Chevron Phillips Chemical Company LLC joint venture, which is accounted for using the equity method.

During 2008, Chevron implemented legal reorganizations in which certain Chevron subsidiaries transferred assets to or under CUSA. The summarized financial information for CUSA and its consolidated subsidiaries presented in the table below gives retroactive effect to the reorganizations as if they had occurred on January 1, 2008. However, the financial information below may not reflect the financial position and operating results in the future or the historical results in the period presented if the reorganization actually had occurred on that date. The summarized financial information for CUSA and its consolidated subsidiaries is as follows:

	Nine Months Ended September 30	
	2009	2008
	(Millions of dollars)	
Sales and other operating revenues	\$ 86,522	\$ 166,627
Costs and other deductions	85,461	159,855
Net income attributable to Chevron U.S.A. Inc.	852	4,636

	At September 30 2009	At December 31 2008
	(Millions of dollars)	
Current assets	\$32,975	\$32,760
Other assets	32,358	31,806
Current liabilities	13,806	14,322
Other liabilities	14,482	14,049
Total Chevron U.S.A. Inc. net equity	\$37,045	\$36,195
Memo: Total debt	\$ 6,985	\$ 6,813

The amount for the nine months ended September 30, 2008, for Net income attributable to Chevron U.S.A. Inc. and the balances at December 31, 2008, for Other liabilities and Total Chevron U.S.A. Inc. net equity have been adjusted by immaterial amounts associated with the allocation of income-tax liabilities among Chevron Corporation subsidiaries.

Note 6. Summarized Financial Data Chevron Transport Corporation

Chevron Transport Corporation Limited (CTC), incorporated in Bermuda, is an indirect, wholly owned subsidiary of Chevron Corporation. CTC is the principal operator of Chevron's international tanker fleet and is engaged in the marine transportation of crude oil and refined petroleum products. Most of CTC's shipping revenue is derived by providing transportation services to other Chevron companies. Chevron Corporation has fully and unconditionally guaranteed this subsidiary's obligations in connection with certain debt securities issued by a third party. Summarized financial information for CTC and its consolidated subsidiaries is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
	(Millions of dollars)		(Millions of dollars)	
Sales and other operating revenues	\$ 153	\$ 294	\$ 492	\$ 795
Costs and other deductions	186	269	565	722
Net (loss) income attributable to Chevron Transport Corporation	(34)	25	(73)	115

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	At September 30 2009	At December 31 2008
	(Millions of dollars)	
Current assets	\$420	\$482
Other assets	169	172
Current liabilities	104	98
Other liabilities	89	88
Total Chevron Transport Corporation net equity	\$396	\$468

There were no restrictions on CTC's ability to pay dividends or make loans or advances at September 30, 2009.

Note 7. Income Taxes

Taxes on income for the third quarter and first nine months of 2009 were \$2.3 billion and \$5.2 billion, respectively, compared with \$6.4 billion and \$16.7 billion for the corresponding periods in 2008. The associated effective tax rates (calculated as the amount of Income Tax Expense divided by Income Before Income Tax Expense) for the third quarters of 2009 and 2008 were 38 percent and 45 percent, respectively. For the comparative nine-month periods, the effective tax rates were 41 percent and 47 percent, respectively.

The decline in the effective tax rates between the quarterly and nine-month periods was generally associated with the same factors. These factors included the effect in 2009 of relatively low tax rates on asset sales and deferred-tax benefits, both related to an international upstream project. In addition, a greater proportion of before-tax income was earned in 2009 by equity affiliates than in 2008. (Equity-affiliate income is reported as a single amount on an after-tax basis on the Consolidated Statement of Income.)

Note 8. Employee Benefits

Chevron has defined-benefit pension plans for many employees. The company typically prefunds defined-benefit plans as required by local regulations or in certain situations where pre-funding provides economic advantages. In the United States, this includes all qualified plans subject to the Employee Retirement Income Security Act of 1974 (ERISA) minimum funding standard. The company does not typically fund U.S. nonqualified pension plans that are not subject to funding requirements under applicable laws and regulations because contributions to these pension plans may be less economic and investment returns may be less attractive than the company's other investment alternatives.

The company also sponsors other postretirement plans that provide medical and dental benefits, as well as life insurance for some active and qualifying retired employees. The plans are unfunded, and the company and the retirees share the costs. Medical coverage for Medicare-eligible retirees in the company's main U.S. medical plan is secondary to Medicare (including Part D) and the increase to the company contribution for retiree medical coverage is limited to no more than 4 percent each year. Certain life insurance benefits are paid by the company.

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The components of net periodic benefit costs for 2009 and 2008 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
	(Millions of dollars)		(Millions of dollars)	
Pension Benefits				
United States				
Service cost	\$ 66	\$ 63	\$ 199	\$ 188
Interest cost	121	125	361	374
Expected return on plan assets	(99)	(149)	(296)	(445)
Amortization of prior-service credits	(1)	(1)	(5)	(5)
Amortization of actuarial losses	74	14	223	44
Settlement losses	25	19	126	58
Total United States	186	71	608	214
International				
Service cost	31	34	90	102
Interest cost	76	81	215	224
Expected return on plan assets	(52)	(76)	(148)	(209)
Amortization of prior-service costs	6	6	17	19
Amortization of actuarial losses	30	19	81	56
Termination costs				1
Total International	91	64	255	193
Net Periodic Pension Benefit Costs	\$ 277	\$ 135	\$ 863	\$ 407
Other Benefits*				
Service cost	\$ 9	\$ 7	\$ 25	\$ 63
Interest cost	45	45	134	134
Amortization of prior-service credits	(20)	(21)	(61)	(61)
Amortization of actuarial losses	6	10	20	29
Curtailment gains			(5)	
Net Periodic Other Benefit Costs	\$ 40	\$ 41	\$ 113	\$ 165

* Includes costs for U.S. and international other postretirement benefit plans. Obligations for plans outside the U.S. are not significant relative to the company's total other postretirement benefit obligation.

At the end of 2008, the company estimated it would contribute \$800 million to employee pension plans during 2009 (composed of \$550 million for the U.S. plans and \$250 million for the international plans). Through September 30, 2009, a total of \$860 million was contributed (including \$741 million to the U.S. plans). Total contributions for the full year are currently estimated at \$1 billion (\$750 million for the U.S. plans and \$250 million for the international plans). Actual contribution amounts are dependent upon investment returns, changes in pension obligations, regulatory environments and other economic factors. Additional funding may ultimately be required if investment returns are insufficient to offset increases in plan obligations.

During the first nine months of 2009, the company contributed \$140 million to its other postretirement benefit plans. The company anticipates contributing about \$70 million during the remainder of 2009.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9. Accounting for Suspended Exploratory Wells

Accounting standards for the cost of exploratory wells provide that an exploratory well continues to be capitalized after the completion of drilling when (a) the well has found a sufficient quantity of reserves to justify completion as a producing well and (b) the enterprise is making sufficient progress assessing the reserves and the economic and operating viability of the project. If either condition is not met or if the company obtains information that raises substantial doubt about the economic or operational viability of the project, the exploratory well would be assumed to be impaired, and its costs, net of any salvage value, would be charged to expense. The company's capitalized cost of suspended wells at September 30, 2009, was \$2.3 billion, an increase of \$173 million from year-end 2008. For the category of exploratory well costs at year-end 2008 that were suspended more than one year, a total of \$76 million was expensed in the first nine months of 2009.

Note 10. Litigation

MTBE Chevron and many other companies in the petroleum industry have used methyl tertiary butyl ether (MTBE) as a gasoline additive. Chevron is a party to 50 pending lawsuits and claims, the majority of which involve numerous other petroleum marketers and refiners. Resolution of these lawsuits and claims may ultimately require the company to correct or ameliorate the alleged effects on the environment of prior release of MTBE by the company or other parties. Additional lawsuits and claims related to the use of MTBE, including personal-injury claims, may be filed in the future. The company's ultimate exposure related to pending lawsuits and claims is not currently determinable, but could be material to net income in any one period. The company no longer uses MTBE in the manufacture of gasoline in the United States.

Ecuador Chevron is a defendant in a civil lawsuit before the Superior Court of Nueva Loja in Lago Agrio, Ecuador, brought in May 2003 by plaintiffs who claim to be representatives of certain residents of an area where an oil production consortium formerly had operations. The lawsuit alleges damage to the environment from the oil exploration and production operations, and seeks unspecified damages to fund environmental remediation and restoration of the alleged environmental harm, plus a health monitoring program. Until 1992, Texaco Petroleum Company (Texpet), a subsidiary of Texaco Inc., was a minority member of this consortium with Petroecuador, the Ecuadorian state-owned oil company, as the majority partner; since 1990, the operations have been conducted solely by Petroecuador. At the conclusion of the consortium and following an independent third-party environmental audit of the concession area, Texpet entered into a formal agreement with the Republic of Ecuador and Petroecuador for Texpet to remediate specific sites assigned by the government in proportion to Texpet's ownership share of the consortium. Pursuant to that agreement, Texpet conducted a three-year remediation program at a cost of \$40 million. After certifying that the sites were properly remediated, the government granted Texpet and all related corporate entities a full release from any and all environmental liability arising from the consortium operations.

Based on the history described above, Chevron believes that this lawsuit lacks legal or factual merit. As to matters of law, the company believes first, that the court lacks jurisdiction over Chevron; second, that the law under which plaintiffs bring the action, enacted in 1999, cannot be applied retroactively to Chevron; third, that the claims are barred by the statute of limitations in Ecuador; and, fourth, that the lawsuit is also barred by the releases from liability previously given to Texpet by the Republic of Ecuador and Petroecuador. With regard to the facts, the company believes that the evidence confirms that Texpet's remediation was properly conducted and that the remaining environmental damage reflects Petroecuador's failure to timely fulfill its legal obligations and Petroecuador's further conduct since assuming full control over the operations.

In April 2008, a mining engineer appointed by the court to identify and determine the cause of environmental damage, and to specify steps needed to remediate it, issued a report recommending that the court assess \$8 billion, which would, according to the engineer, provide financial compensation for purported damages, including wrongful death claims, and pay for, among other items, environmental remediation, health care systems, and additional infrastructure for Petroecuador. The engineer's report also asserted that an additional \$8.3 billion could be assessed against Chevron for unjust enrichment. The engineer's report is not binding on the court. Chevron also

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

believes that the engineer's work was performed and his report prepared in a manner contrary to law and in violation of the court's orders. Chevron submitted a rebuttal to the report in which it asked the court to strike the report in its entirety. In November 2008, the engineer revised the report and, without additional evidence, recommended an increase in the financial compensation for purported damages to a total of \$18.9 billion and an increase in the assessment for purported unjust enrichment to a total of \$8.4 billion. Chevron submitted a rebuttal to the revised report, which the court dismissed. In September 2009, following the disclosure by Chevron of evidence that the judge participated in meetings in which businesspeople and individuals holding themselves out as government officials discussed the case and its likely outcome, the judge presiding over the case petitioned to be recused. In late September 2009, the judge was recused, and in October 2009, the full chamber of the provincial court affirmed the recusal, resulting in the appointment of a new judge. Chevron filed motions to annul all of the rulings made by the prior judge, but the new judge denied these motions. The court has completed most of the procedural aspects of the case and could render a judgment at any time. Chevron will continue a vigorous defense of any attempted imposition of liability.

In the event of an adverse judgment, Chevron would expect to pursue its appeals and vigorously defend against enforcement of any such judgment; therefore, the ultimate outcome and any financial effect on Chevron remains uncertain. Management does not believe an estimate of a reasonably possible loss (or a range of loss) can be made in this case. Due to the defects associated with the engineer's report, management does not believe the report has any utility in calculating a reasonably possible loss (or a range of loss). Moreover, the highly uncertain legal environment surrounding the case provides no basis for management to estimate a reasonably possible loss (or a range of loss).

Note 11. Other Contingencies and Commitments

Guarantees The company and its subsidiaries have certain other contingent liabilities with respect to guarantees, direct or indirect, of debt of affiliated companies or third parties. Under the terms of the guarantee arrangements, generally the company would be required to perform should the affiliated company or third party fail to fulfill its obligations under the arrangements. In some cases, the guarantee arrangements may have recourse provisions that would enable the company to recover any payments made under the terms of the gu