The Money Cycle

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"Over the past few years, we have done exactly as we should," she explained. "We used the cash flows generated during recent times to reduce debt and strengthen our balance sheet, which is a key advantage. We

are in a very strong position in the current environment."

At the end of 2008, Chevron's balance sheet – a snapshot in time of the company's assets and liabilities – actually showed more cash than debt.

Our core business operations of producing, refining and marketing energy products keeps the money flowing. Completed capital projects must earn sufficient returns to cover the company's day-to-day operating expenses (such as labor costs and raw materials), meet our dividend commitments to stockholders, service debt, and still leave money available for reinvestment in new growth opportunities.

"It's all about the cycle of money," says Yarrington. "If we make wise capital investment decisions and operate our current portfolio of assets reliably, safely and

efficiently, then the cash flows generated from these activities provide the funding for future good investments. We stay in business and have sustainable success."

Even during an economic downturn, the ability to invest for the long term is crucial. "Because we're in a commodity business, there will be cycles of high and low oil and gas prices," explains Yarrington.

"Our objective is to maintain the financial strength and flexibility that lets us weather the bad times, continue to invest in long-term strategic projects and keep our options open for other business opportunities."

A significant aspect of Chevron's financial strength is its relatively low debt level, which gives the company the flexibility to take on more debt when needed to ensure the enterprise's commitments can be fully funded. That's something the company did in February by issuing $5 billion in corporate bonds.

"We haven't issued a long-term bond since 2003," says Yarrington. "But now, with our strong balance sheet, solid AA credit rating and low interest rates, it is an opportune time to ensure we continue to maintain good liquidity during a volatile economic period.

"We don't know how deeply the recession will affect the world's economies and how long it will last," Yarrington added. “Our revenues have been cut dramatically in a short period of time, requiring our cost structure to come down. Throughout the company we are actively changing our behaviors to reduce costs and conserve cash.”

The company has taken a number of actions to maintain its financial health and protect its cash flow, including:

- reducing spending in the upstream base business while moving key legacy projects forward
- pulling back on unsecured credit for customers
- diversifying the number of banks in which we hold cash balances
- placing a high proportion of our cash in money market funds that invest in relatively risk-free securities, which are backed by governments
- renegotiating with suppliers for lower costs and reducing our own demand for services and products
- closely managing our inventories and accounts receivable
- undertaking cost management reviews of all parts of the company, with a focus on cutting discretionary spending

Every employee can contribute to supporting Chevron’s fiscal health, says Yarrington. “Look for more efficient, less costly ways to get things done, but be sure to keep reliability and safety intact.

“We don’t want to harm the long-term strategic value of the enterprise, but we can curtail lower-value work. No idea to reduce spending and conserve cash is too small.”

By managing costs and doing our jobs efficiently, reliably, and safely, we can keep the lifeblood of energy and cash flowing through the company.

Glossary

Asset: Something of value that is owned by a company. Assets are listed on the balance sheet and include tangible items such as inventories, equipment and cash as well as intangible items, such as patents and goodwill.

Balance Sheet: A statement of a company’s financial position at a particular moment in time that shows what it owns (assets), what it owes (liabilities) and the owners’ equity. In general, a company’s total assets minus its total liabilities equal owners’ equity.

Capital Structure: The way a corporation finances its assets through a combination of equity and debt. A firm’s capital structure is then the composition or “structure” of its debt and stockholders’ equity. As of the end of 2008, Chevron was 91 percent equity-financed (through selling stock to stockholders) and 9 percent debt-financed (through issuing corporate bonds and other debt instruments on which we pay interest).

Commodity: Bulk goods and raw materials, such as grains, metals and crude oil, which are generally sold to customers or traded in the worldwide financial markets in very large quantities for immediate or future delivery. Commodity prices are driven by supply and demand.

Corporate Bonds: Interest-bearing debt obligations issued by corporations. A bond is like a loan: the issuer is the borrower; the bond holder is the lender.

Credit Rating: A published ranking, based on detailed financial analysis by credit bureaus, such as Standard and Poor’s (S&P) or Moody’s. Credit ratings are calculated from financial history, current assets and liabilities, perceptions about the company’s future earnings and cash flow prospects, and its competitive standing. Typically, a credit rating tells a lender or investor the probability of the subject being able to pay back a loan.

Dividend: The amount an investor receives each quarter for every share of company stock he or she owns. The most recent quarterly dividend declared by Chevron’s Board of Directors in April 2009 was $0.65 per share.

Large Cap: A description of publically traded companies with a significant market value of outstanding shares.

Often, companies with market capitalization (shares outstanding times the stock price) exceeding $5 billion are considered large cap. Chevron’s market capitalization as of June 15, 2009, was $142.49 billion.

Liabilities: An obligation to pay an amount in money, goods or services to another party. The balance sheet lists the liabilities.

Liquidity: Ability of a company to convert assets into cash or cash equivalents without significant loss.

The Caspian Export Conundrum

Burgeoning production is creating an urgent need to find new ways of delivering Caspian oil to markets.

Kazakhstan's oil production is forecast to nearly double by 2025. Megaprojects to tap the Caspian region's immense oil and gas reserves move steadily forward while the export options essential to growth are being left behind.

The challenge is huge. Pipelines, new ships, terminals and rail routes – a complex network of facilities across several countries involving numerous partners – are needed to bring the anticipated extra 1 million barrels per day to world markets.

To help you untangle the spaghetti of current and future routes, *Line Rider* has developed an interactive map (this page) and answers some frequently asked questions.

Have Chevron's operations in this region been successful?
Definitely. Last year, we completed a major project at the company-led Tengiz field that almost doubled oil-equivalent production. With its world-leading sour gas injection facilities complete, Tengiz now has the capacity to deliver more than half a million barrels of crude oil per day.

Chevron is the largest investor and leader of the Caspian Pipeline Consortium (CPC), which built the highly successful pipeline securing new export capacity for years of healthy production growth at Tengiz and the neighboring Karachaganak condensate and gas field (in which Chevron holds a 20 percent interest). Good progress is being made toward doubling the throughput capacity of the pipeline to 1.4 million barrels per day.

So with all that progress, what's the challenge?
We are still facing a significant long-term capacity shortfall in CPC. With the further expansion of the Tengiz field and a 2013 startup of the giant Kashagan oil field in the northern Caspian, Kazakhstan's oil output is on track to grow from the present 1.5 million to around 3 million barrels per day. Some say this is a conservative estimate of Kazakhstan's enormous future resource potential.

What is the solution?
We favor a new "Southern Route." Future Kazakhstan production could be moved south via a new pipeline and then across the Caspian Sea by taking advantage of expected future surplus capacity in the Baku-Tblisi-Ceyhan (BTC) pipeline (Chevron's share: 9 percent).

Recently, and in the years prior to CPC startup, some Tengiz production has moved south via rail to an existing terminal at Aktau, on the Caspian's eastern shore, for shipment by small vessels to Azerbaijan and Georgia, then on to Black Sea terminals. More recently, a percentage of this oil is being exported via the BTC.

The proposed new pipeline, currently in early design and financing discussions, would run from Eskene and Tengiz down to Kuryk on Kazakhstan's Caspian shore, where new export terminal facilities would be constructed. New tankers - with capacities up to half a million barrels - would be needed. The route also would require a large receiving terminal on the other side of the Caspian in Baku. Crude oil could be moved from there via rail through Azerbaijan and Georgia to the Black Sea or, conceivably, through a new pipeline to replace the rail transport.

What are the advantages of this route?
Oil production from Azerbaijan's Azeri-Chirag-Gyuneshli fields is expected to begin declining around 2013, which would open surplus capacity in the BTC. Perhaps 600,000 barrels per day could be available by 2020. This sets up an excellent opportunity for Kazakhstan and its partners to secure a substantial, established export option to the Mediterranean and for Azerbaijan, Georgia and Turkey to enjoy higher utilization rates on the BTC for the long term.

What are the obstacles to building this route?
One concern is over growth of tanker traffic from the Black Sea through the Turkish Straits. Currently, all of the oil exported through the CPC to its Black Sea terminal north of the port of Novorossiysk is shipped through the Straits to reach world markets, as is the oil that Tengizchevroil carries by rail to the port of Odessa in Ukraine and Batumi in Georgia.

A proposed, new Trans Balkan bypass pipeline from the Black Sea port of Burgas in Bulgaria to the Greek port of Alexandropoulos on the Adriatic Sea is designed to relieve the amount of traffic in the Straits. Key to that solution would be a commitment to regularly supply that new line with equal volumes of Russian and Kazakh oil – sharing the cost of easing the congestion in the Straits.

The Southern Route would require Kazakhstan, Azerbaijan, Georgia, Turkey and the international oil companies including Chevron to work in partnership to finance, build, supply and operate.

Why not just continue to use the Caspian Pipeline?
The pipeline is currently running at full capacity of about 700,000 barrels per day. While the 11 CPC partners recently agreed to key commercial terms for expansion, negotiating the all-important details and finalizing the engineering design is expected to consume all of 2009. With completion of CPC expansion not expected within four years, Chevron last year bolstered its rail-based export systems to handle the increased flow of Tengiz crude.

The Tengiz partners currently employ some 20,000 rail cars to move more than 300,000 barrels of crude oil per day plus quantities of sulfur, liquid petroleum gas products and other materials. Two-thirds of the crude oil is going north through Russia to Ukraine, with the rest moving south and across the Caspian to Baku. It's an impressive system but rail is a more difficult, costly and inefficient mode of transportation than pipelines. Additionally, these rail options are approaching their capacity limits.

Negotiations continue on the planned 700,000 barrels per day expansion of CPC but, despite this new capacity, forecasts suggest that startup of Kashagan could begin to overwhelm regional export capacity even if CPC expansion is completed incrementally as planned between 2012 and 2014.

So, what is Chevron seeking?
Ian MacDonald, Business Development and Transportation general manager for Europe, Eurasia and Middle East Exploration and Production, sums it up: "We must work with our partners toward a shared vision of realizing Kazakhstan's enormous hydrocarbon growth potential. Increased export capacity will stimulate growth as producers seek to take full advantage of world market opportunities.

"Tengizchevroil and the other regional partnerships have demonstrated that we are willing to invest in new production. Further investment is needed between now and 2015 to put required transportation solutions in place. Growth in the crude-export infrastructure is imperative if Kazakhstan is to continue on its path to join the ranks of the world's top oil-producing countries."

Leading at the Edge

A video interview with Melody Meyer.

As President of Chevron Energy Technology Company, Meyer leads an organization that provides technology services and research to Chevron businesses across the energy spectrum. In the current economic climate, what new challenges does ETC face and how is she steering it through them?

Q&A with Melody Meyer Video Transcript

Question: In these challenging times, how is ETC adapting its hiring, staffing and R&D investment strategies?

Response: We are maintaining a similar level of college hires as we did last year, and we are certainly maintaining our intern program because those will be our future college hires. We hire heavily from our intern program. In our research and development investments, we are staying relatively flat with last year, and we are adjusting our portfolio to meet the needs of upstream and downstream customers as they shape their investment strategies in the current environment.

Question: What opportunities do you see for Chevron and ETC in the next few years?

Response: With respect to ETC, we're really focused on improving our business processes and becoming a lot more efficient in the way that we deliver technology solutions and research and development products to our customers around the world. So we're aligning our portfolio very closely with upstream and downstream. We see opportunities to enhance the rate of deployment of technologies across the company. So we are going to be looking hard for our partners to rapidly deploy some of the new ideas and the innovations that we are coming up with. So, I see some real opportunity to just enhance that deployment of technology more broadly across our customer base.

Question: We're a leader in the deepwater upstream environment and the leading lease holder in the ultra-deep water of the GOM. What technologies are critical to make these fields producible?

Response: Well, in the front end in the exploration phase, it's our seismic processing and imaging technologies that help us discover the fields. But once they're discovered, fields like Jack and St. Malo and Tahiti and Agbami, their technologies on the producing side become more important. In those areas -- deepwater drilling, subsea wells, subsea completion, dual-gradient drilling, long-distance tiebacks, long-distance power -- all of those kinds of technologies are very critical to make those deepwater developments successful. And with our large portfolio, those technologies are absolutely essential for long-term success.

Question: Can we expect any significant new technology deployments this year?

Response: We have quite a few deployments in 2009, but three that I would like to mention specifically. One is our next gen Earth science framework application that will be deployed in a pilot across about 180 users within Energy Technology Co. before we deploy more broadly across the upstream. And the second is our Intersect Reservoir Management Simulation software. And this will be, and has been, deployed on two of our fields, but will be deployed more broadly across the company as well. The impact of both of these software deployments is very significant in that they will improve the speed and the efficiency of our professionals working across the entire upstream. A third I would like to mention is Inficomm. It's a wireless down-hole sensor that we believe will have significant impact in many of our fields across the world. We're piloting that in a couple of fields this year, and we are setting up a new company to deploy Inficomm more broadly across the corporation and even externally.

Question: You've headed ETC for a year now -- what is your assessment of Chevron's overall technology portfolio?

Response: I think we have a very robust technology portfolio. One thing that really impressed me coming into ETC is how aligned that portfolio is with our upstream and downstream customer needs. That's largely through the governance of the focus-area process where we have business leaders in upstream and downstream that are selecting and guiding the portfolios that we embark on. I think our portfolio is well positioned to deliver value on today's assets and today's opportunities, but also to position us well for the future.

Question: Does our track record of technology successes help open doors with national oil companies? Response: Our technology reputation, combined with our ability to partner very effectively and operate with excellence, has opened a number of doors for us. One example is the China Chuandongbei project, which is a sour gas field. We were able to capture that project because of our competencies and our technologies in Tengiz, Kazakhstan, in that sour gas field and also in Wyoming and other areas of the world where we operate sour gas with excellence. Another area where we are leveraging technology into new opportunities is in the deepwater arena. One good example of that is with Petrobras where we are partnering in the Frade project. But there are a number of other areas in deep water where we have attracted partners because of our technology competencies.

Question: What is Chevron doing to foster and promote innovation during these challenging times?

Response: Innovation is critical in the best of times and the worst of times. And certainty in these challenging times, I think innovation will play a key role. We are asking our technical teams to deliver technology solutions at a very prioritized and streamlined and efficient way. And we want to pinpoint those solutions that create value. I think often it is the worst of times or some of the challenging times where organizations rise to there highest levels of performance.

Question: What is ETC doing to create more value for your clients?

Response: ETC's business plan was recycled this year to deliver more efficiencies then we have delivered in the past to our customers -- upstream and downstream and the corporation. For example, we have embarked on a number of enterprisewide efficiency projects to lower our cost. Some examples are through a global training delivery model. We train 14,000 employees across the company in a thousand different courses. We are looking to enhance the delivery of that training to our customers at a lower cost over all. We also are streamlining our conference and our forum participation as a company, which we think will add value to our customers and to ETC. So, there are a number of projects like that we have embarked on to deliver lower-cost services to all of our customers.

Question: How are you transferring today's expertise to develop the company's future subject matter experts?

Response: There are a number of ways that ETC is developing our future subject matter experts. We provide much of the technical training to our own staff, but also to experts around the globe. ETC has very robust succession plans where we have targeted subject matters expertise, and we are using today's expert's to develop and train our future experts. We maintain the experts systems in the corporation, and these are systems such as the next gen Earth modeling software and Intersect software systems -- and that keeps all of our technology teams on the same level of competency and same technical platforms. We subscribe to the knowledge management practices and hand-over practices. And that involves mentoring one-on-one and group mentoring to train and develop and transfer knowledge. And then lastly, we maintain the corporation's communities of practice and networks where knowledge is shared around the globe. So, those are a number of ways that we are using to train our future subject matter experts.