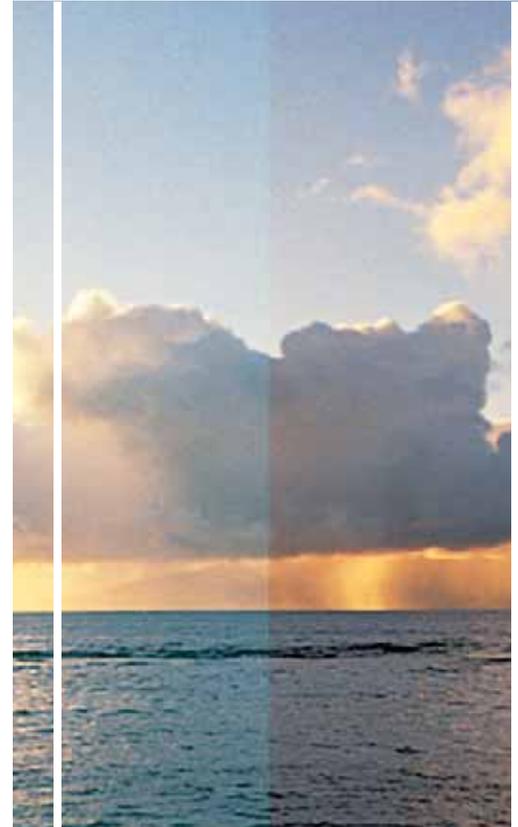




Identifying Issues | Taking Action | Improving Performance

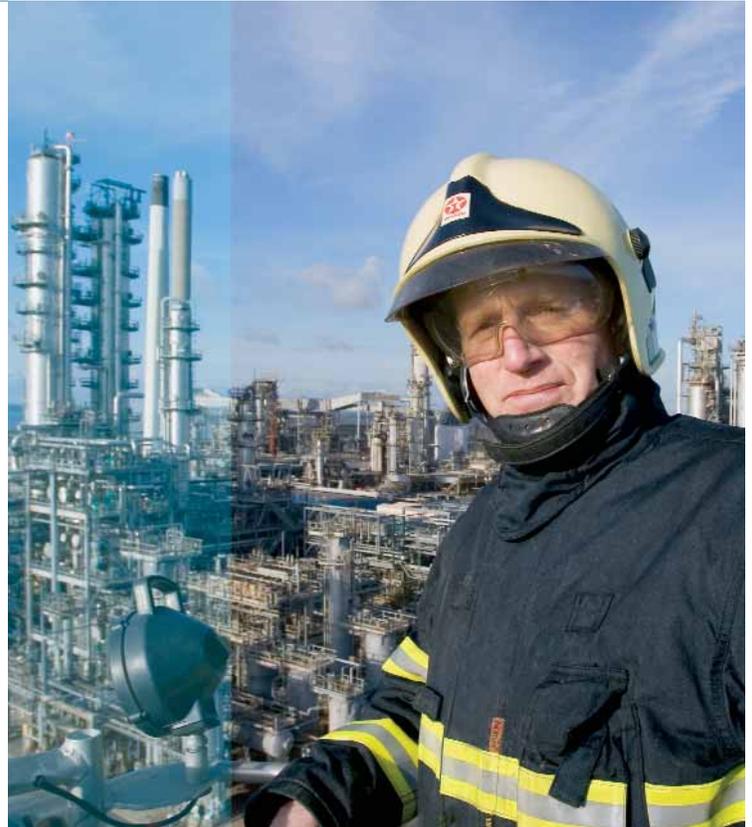


Chevron Corporation 2004 Corporate Responsibility Report



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**Far left** Trainee Mauricio Denga and Health, Safety and Environment specialist Zinga Martine on the North Nemba Platform offshore Angola. **Below** Fire protection specialist Ray Scott has a clear overview of the Pembroke Refinery in Wales as he stands on the fully extended hydraulic platform during weekly maintenance.



# WELCOME

This is Chevron's third Corporate Responsibility Report. It covers 2004 data and activities and provides a detailed discussion of our progress on a range of issues we have identified as important to our company and stakeholders.

Our vision is to be *the* global energy company most admired for its people, partnership and performance. Corporate responsibility is key to achieving this vision.

Our company's foundation is built on our values expressed in The Chevron Way. They distinguish us and guide our actions. We conduct our business in a socially responsible and ethical manner. We respect the law, support universal human rights, protect the environment and benefit the communities in which we work.

Our report is also available on our Web site at [www.chevron.com/cr\\_report/](http://www.chevron.com/cr_report/). We welcome your comments and feedback, which may be directed to [CRReport@chevron.com](mailto:CRReport@chevron.com).



David J. O'Reilly, Chairman of the Board and CEO of Chevron Corporation.

## Corporate responsibility, as embodied in The Chevron Way, has long been part of how we operate. In today's competitive business environment, it has also taken on an increasingly strategic role.

To succeed today, our company must demonstrate world-class performance across every aspect of our business, from our technical and financial performance to our contributions to and impact on society and the environment. We are committed to implementing the right strategies in these areas and looking for new solutions that help us responsibly supply energy and improve the lives of people in the communities in which we operate.

Developing our Corporate Responsibility Report each year provides us with an opportunity to review the efforts we have under way to address these issues, assess our performance, and identify issues on the horizon or opportunities to improve. It also helps us demonstrate our commitment to transparency. This year, we have taken steps to continue to enhance our reporting. You will find some expanded data on issues such as corporatewide air emissions and political contributions. You will also read about how some external organizations view our company in areas they believe we are performing well and in those they think we have opportunities to improve.

As you will see, we made progress during the year in a number of areas. We had our safest year ever. We continued to improve our efficient use of energy. We significantly

reduced oil spills. We met our greenhouse gas emissions goal. And we issued flaring and venting standards for our international upstream operations. We also took steps to enhance our approach to environmental stewardship and more clearly identify our overall corporate responsibility priorities and near-term plans.

Although we accomplished much in 2004, the year reminded us of the challenges we face. Seventeen people died while working on behalf of Chevron. We will not be satisfied until we reach our goal of zero incidents. In many of the communities in which we operate, poverty is widespread and people lack the basic necessities of life. We are seeking ways to make a greater and more sustainable contribution to help people attain the quality of life to which they aspire.

Chevron operates in some of the most complex environments in the world. The issues we face are varied and evolving. They range from the ways in which oil and gas operations can positively or adversely affect countries' social and economic development to concerns about global climate change. For our company, helping find solutions to these challenges is both about living our values and achieving our business objectives.

Going forward in 2005, we will continue our efforts to make meaningful, measurable progress in those areas most important to our company and our stakeholders. We will continue to fund community engagement programs that build capacity and contribute to economic growth. We will begin deployment of our corporatewide HIV/AIDS policy. We will complete internal consultation on our Human Rights Statement and explore the best ways to deploy it globally. And we will begin work to develop a long-term greenhouse gas emissions forecast for our company.

At Chevron, our vision is to be *the* global energy company most admired for its people, partnership and performance. To achieve this vision, we must be excellent businesspeople, valued and trusted partners, and welcomed members of the community. In short, we must deliver the right results - the right way. We are committed to doing both.

Sincerely,

A handwritten signature in blue ink that reads "Dave O'Reilly". The signature is fluid and cursive.

Dave O'Reilly

Chevron is one of the largest integrated energy companies in the world, based on market capitalization. Headquartered in San Ramon, California, we conduct business in approximately 180 countries. We are engaged in every aspect of the industry, including exploration and production; refining, marketing and transportation; chemicals manufacturing and sales; and power generation.

In 2004, Chevron produced an average of 2.5 million barrels per day of oil-equivalent, with approximately two-thirds of the volume occurring outside the United States in more than 20 different countries.

**Upstream** Major producing areas include Angola, Indonesia, Kazakhstan, Nigeria, the Partitioned Neutral Zone (between Saudi Arabia and Kuwait), the United Kingdom and the United States. Major exploration areas include Angola, Nigeria, the U.S. Gulf of Mexico, Venezuela, and the offshore area between Angola and Republic of the Congo.

Chevron holds vast natural gas resources in some of the world's most prolific basins, including Australia, where we are the largest holder of undeveloped natural gas resources. Plans are under way to commercialize these resources through liquefied natural gas and gas-to-liquids technologies.

**Downstream** With 21 wholly owned and affiliated refineries, Chevron processed approximately 2 million barrels of crude oil per day in 2004 and averaged approximately 4 million barrels per day of refined products sales worldwide. Strategic focus areas are Asia, the U.S. West and Gulf coasts, Latin America and sub-Saharan Africa. Worldwide, we market products under the Chevron, Texaco and Caltex motor fuel brands. Products are sold through a network of approximately 25,700 retail stations, including those of affiliated companies.

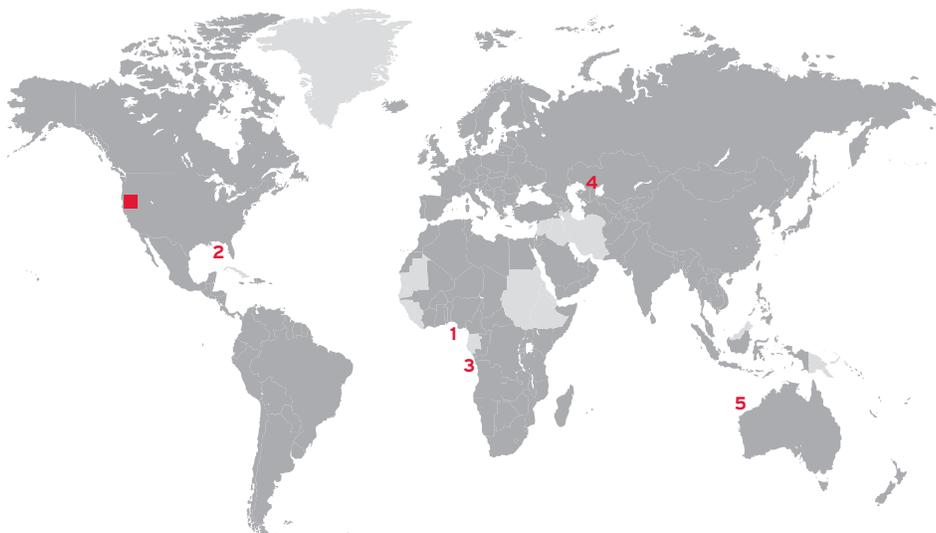
**Other Businesses** Chevron, through our 50-50 joint venture Chevron Phillips Chemical Company LLC, is one of the leading manufacturers of commodity petrochemicals. Chevron Oronite markets more than 500 performance-enhancing products and supplies one-fourth of the world's fuel and lubricant additives. Chevron Energy Solutions

develops and constructs energy-saving projects for external and internal customers. Global Power Generation develops and markets commercial power projects worldwide.

We also develop and commercialize several advanced energy technologies, including hydrogen infrastructure, advanced battery systems, nanomaterials and renewable energy applications.

Chevron is a publicly traded company listed on the New York Stock Exchange. More information on our structure and operations can be found on our Web site at [www.chevron.com/about/](http://www.chevron.com/about/).

## Chevron Global Operations



■ Countries in which Chevron conducts business  
 ■ Chevron Corporation headquarters, San Ramon, California, United States

## Our "Big 5"

These upstream projects are new oil and natural gas developments expected to boost production over the next five years. Three of the projects are deepwater developments:

- 1 The Agbami Field offshore Nigeria
- 2 The Tahiti Field in the U.S. Gulf of Mexico
- 3 The Benguela Belize-Lobito Tomboco development offshore Angola

Also among the "Big 5" are:

- 4 An expansion project at our Tengizchevroil joint venture in Kazakhstan
- 5 The Greater Gorgon Area liquefied natural gas project offshore Australia

# PERFORMANCE OVERVIEW

## Corporate Responsibility Performance

The following summarizes our key achievements during the year and highlights some of the challenges we face as we look to the future.

**Environmental Management** We undertook an extensive effort to enhance environmental stewardship, with a focus on continued development of our operating standards, measuring and communicating performance, and demonstrating continuous performance improvement. We are also conducting an assessment of our Operational Excellence Management System (OEMS) in order to determine its alignment with ISO 14001, the international standard relating to environmental management.

## Management System Implementation

We trained our top 1,800 executives and managers on leadership roles and behaviors

to support our OEMS. We also trained 46 coaches to cascade this program throughout the company.

**Employee Survey** We conducted our first Global Employee Survey since the merger of Chevron and Texaco. We found that 89 percent of employees think the company acts responsibly in relation to the environment, 86 percent think we act responsibly in society and the communities in which we operate, and 82 percent say they are treated with dignity and respect.

**Health and Safety** Based on Total Recordable Incidents, 2004 was our safest year on record, reflected in six straight years of improvement in our workforce Total Recordable Incident Rate. However, in 2004, 17 people died while working on behalf of Chevron. Motor vehicle crashes are the most common cause of fatalities. We are developing several

approaches to improve the motor vehicle safety performance of our workforce and in local communities.

**HIV/AIDS** We developed a comprehensive plan for implementing our global HIV/AIDS policy, which was finalized at the end of 2004. The rollout of the plan will be coordinated by two full-time staff over the next two years. We know that implementing the policy at all Chevron locations will be challenging. Our operations span a wide range of locations and cultures with varied awareness of and infrastructure to address the disease. Despite these challenges, we remain committed to its implementation.

**Community Engagement** We continued efforts to increase the focus and effectiveness of our community investment activities by targeting them toward helping create economic growth and helping build human

## Key Corporate Responsibility Performance Indicators

[Goals are shown in brackets]

	2003	2004	Percent change	Year-on-year performance
<b>Socioeconomic</b>				
Fatalities (employees and contractors)	12 [0]	17 [0]	42	↘
Days Away From Work Rate (workforce)	0.2 [0.2]	0.18 [0.17]	-10	↗
Total Recordable Incident Rate (workforce)	0.59 [0.59]	0.51 [0.51]	-14	↗
Motor Vehicle Incidents (employees per million miles driven)	3.31	3.01	-9	→
Percent of female and non-Caucasian males at the senior executive-level worldwide	19.5	20.8	7	↗
Percent of females at mid-level positions and above worldwide	9.7	9.9	2	→
Percent of employees at senior-level positions and above working within their country of origin	43	48	12	↗
Total corporatewide spending in community investment (US\$ million)	60.9	63.8	5	→
<b>Environmental</b>				
Total GHG emissions (millions of metric tons of CO <sub>2</sub> equivalent)	63.9	62.5 [63]	-2	→
Number of petroleum spills	1,145	986	-14	↗
Volume of petroleum spills (barrels)	26,540	15,514	-42	↗
Total energy use (trillions of Btus)	880	873	-1	→
Energy efficiency (Chevron Energy Index)	78	76 [78]	-3	↗
Global SO <sub>x</sub> emissions (thousands of metric tons)	152.0	133.4	-12	↗
Global NO <sub>x</sub> emissions (thousands of metric tons)	125.6	114.3	-9	↗
Global VOC emissions (thousands of metric tons)	n/c*	426.8	n/a	n/a

\*Not collected   ↗ Improvement   → Unchanged or no significant improvement or decline   ↘ Decline



Chemist Gustavo Lopez prepares a sample of refinery effluent to test for metals at Chevron's Richmond Environmental Lab, California, United States.

and institutional capacity. We invested nearly \$63.8 million in community projects around the world, including launching or expanding key initiatives in the United States, Angola and countries in Asia. Finding ways to meaningfully and consistently measure and evaluate the impact and sustainability of our community programs remains a key challenge going forward.

**Revenue Transparency** Working together with our business partners, host governments and others, we continued our support for increased transparency of energy-related revenues. During the year, we negotiated a Production Sharing Contract with the Nigeria-São Tomé e Príncipe Joint Development Authority (JDA) that includes a clause committing the JDA to publicly disclose payments companies make to them.

### Energy Efficiency and Climate Change

We beat our energy efficiency target, reflected in our Chevron Energy Index, by two full points, saving approximately 20.85 trillion Btus of energy and \$72 million in costs. We cut our greenhouse gas emissions by more than 1 million metric tons of CO<sub>2</sub> equivalent over 2003, meeting our 2004 corporatewide emissions goal. Maturing oil fields, more technically challenging reserves and evolving fuel specifications will present energy efficiency challenges in the years to come.

**Flaring** In Nigeria, we reached a key milestone with a final commitment to begin construction on the West African Gas Pipeline, which will reduce flaring by as much as 80 million metric tons of CO<sub>2</sub> equivalent over 20 years while delivering gas to customers in Benin, Ghana and Togo. We also reached an

important milestone on our Escravos gas-to-liquids project. In 2005, Chevron Nigeria Limited awarded the engineering, procurement and construction contract for the project, which is another key component of our plans to reduce flaring from our operations in Nigeria. Reducing flaring of natural gas, which accounted for 24 percent of our global greenhouse gas emissions in 2004, is key to cutting future emissions.

**Spills** Between 1999 and 2004, we reduced the number of our oil spills by nearly 55 percent and the volume of spills by more than 90 percent, achieving our spill volume reduction goal one year early. The performance of our shipping company continues to lead the industry. In 2004, our operated tanker fleet did not experience a single spill, the second straight year we have achieved a spill-free record.

## Financial and Operating Highlights

### Financial Highlights

Millions of dollars, except per-share amounts	2003	2004
Net income	\$7,230	\$13,328
Sales and operating revenue <sup>1</sup>	\$119,575	\$150,865
Capital exploratory expenditures	\$7,363	\$8,315
Total assets at year-end	\$81,470	\$93,208
Total debt at year-end	\$12,597	\$11,272
Stockholder equity at year-end	\$36,295	\$45,230
Per-share data <sup>2</sup>		
▪ Net income - diluted	\$3.48	\$6.28
▪ Cash dividends	\$1.43	\$1.53
▪ Stockholders' equity	\$16.97	\$21.47
▪ Common stock price at year-end	\$43.19	\$52.51
Return on capital employed	15.7%	25.8%
Total debt to total debt-plus-equity ratio	25.8%	19.9%
Tax expense		
▪ U.S. income taxes	\$1,387	\$2,301
▪ International income taxes	\$3,907	\$5,216
▪ Income taxes on discontinued operations	\$50	\$100
▪ Taxes other than on income	\$17,906	\$19,821
Research and development	\$228	\$242
Share repurchases <sup>3</sup>	-	\$2,100

### Operating Highlights

	2003	2004
Net production of crude oil and natural gas liquids (thousands of barrels per day)	1,808	1,710
Net production of natural gas (millions of cubic feet per day)	4,292	3,958
Net oil-equivalent production (thousands of oil-equivalent barrels per day)	2,637	2,509
Refinery input (thousands of barrels per day)	1,991	1,958
Sales of refined products (thousands of barrels per day)	3,738	3,908
Net proved reserves of crude oil, condensate and natural gas liquids (millions of barrels)		
▪ consolidated companies	6,280	5,511
▪ affiliated companies	2,319	2,462
Net proved reserves of natural gas (billions of cubic feet)		
▪ consolidated companies	17,553	16,128
▪ affiliated companies	2,638	3,547
Net proved oil-equivalent reserves (millions of barrels)		
▪ consolidated companies	9,206	8,199
▪ affiliated companies	2,758	3,053
Number of employees at year-end	50,582	47,265
Total payroll (millions of dollars)	\$2,816	\$2,858
Employee benefit costs (millions of dollars)	\$1,957	\$1,386

<sup>1</sup> Excludes discontinued operation amounts

<sup>2</sup> Data reflect a two-for-one stock split effected as a 100 percent stock dividend in September 2004

<sup>3</sup> Represents cost of shares purchased under the company's \$5 billion share repurchase program announced on March 31, 2004





PRIORITY AREAS	See pages	What we said... 2002 and 2003
<b>INTEGRATION</b>	<b>10-11</b>	<ul style="list-style-type: none"> <li>▪ We will develop Corporate Responsibility Expectations to provide employees with operational guidance.</li> <li>▪ We will conduct initial training on the expectations and materials in a diverse sample of business units to get feedback.</li> </ul>
<b>ENVIRONMENTAL MANAGEMENT</b>	<b>10-12</b>	<ul style="list-style-type: none"> <li>▪ Our goal is to be recognized and admired for environmental excellence.</li> <li>▪ We are committed to further integrating environmental considerations into our business decisions and enhancing how we manage and measure our environmental performance.</li> </ul>
<b>STAKEHOLDER CONSULTATION AND REPORTING</b>	<b>13</b>	<ul style="list-style-type: none"> <li>▪ At the corporate level, we will engage more proactively with stakeholders in important global issues that affect our operations.</li> <li>▪ We will publish an annual Corporate Responsibility Report and use the Global Reporting Initiative (GRI) and other reporting frameworks.</li> </ul>
<b>HEALTH AND SAFETY</b>	<b>22-25</b>	<ul style="list-style-type: none"> <li>▪ Our ultimate goal is zero incidents.</li> <li>▪ Safety and reliability are the initial priorities in the deployment of our Operational Excellence Management System (OEMS).</li> <li>▪ Our near-term target is to reduce the workforce Total Recordable Incident Rate by more than 25 percent annually.</li> </ul>
<b>HUMAN RIGHTS</b>	<b>26</b>	<ul style="list-style-type: none"> <li>▪ We will develop a draft Human Rights Statement and consult with major business units for input.</li> <li>▪ We will develop materials to support corporatwide deployment of the statement, with deployment beginning in 2004.</li> </ul>
<b>HIV/AIDS</b>	<b>27</b>	<ul style="list-style-type: none"> <li>▪ We will adopt a corporatwide HIV/AIDS policy and develop other tools and resources to support its implementation by our business units.</li> </ul>
<b>COMMUNITY ENGAGEMENT</b>	<b>32-36</b>	<ul style="list-style-type: none"> <li>▪ Our goal is to become more systematic in how we identify, assess and address community issues and become more focused in the ways we support the communities in which we operate.</li> <li>▪ We are working to find ways to better measure and assess our impacts on economic and social development of the communities in which we operate.</li> </ul>
<b>CLIMATE CHANGE AND ENERGY EFFICIENCY</b>	<b>44-50</b>	<ul style="list-style-type: none"> <li>▪ At the heart of our approach to environmental responsibility are conservation and energy efficiency. Our goal is to continue to improve our corporatwide energy efficiency.</li> <li>▪ We are implementing a robust fourfold strategy to address climate change.</li> <li>▪ Our goal is to reduce greenhouse gas (GHG) emissions per unit of output from our operations. We will conduct a third-party verification of our GHG emissions system and begin establishing an annual GHG emissions goal.</li> </ul>

The corporate responsibility elements we have identified provide a useful and enduring framework for understanding what corporate responsibility means in practice. We examined our approach to addressing each of these elements, which has allowed us to set specific priorities, outlined in the table below. We are focused on making meaningful, incremental progress on these issues in the near term.

**What we did... 2003 and 2004**

- Developed draft Corporate Responsibility Expectations and materials to support implementation.
  - Identified business units for initial training.
- 
- Continued deployment of our Operational Excellence Management System, with increased focus on the environmental components.
  - Clarified and enhanced environmental expectations to improve performance.
- 
- Increased corporate-level engagement on key global issues, including climate change, HIV/AIDS, revenue transparency, human rights and international development.
  - Published our first report (2002) and update report (2003), informed by the GRI. Included a GRI index in our 2004 report.
  - Played a leadership role in the joint effort of the American Petroleum Institute and the International Petroleum Industry Environmental Conservation Association to develop sustainability reporting guidance for the oil and gas industry.
- 
- Achieved our safest two years on record, as measured by workforce Recordable Incident Rate. Very regrettably, we experienced 29 fatalities over the two-year period, primarily from motor vehicle crashes.
  - Developed and deployed new tools for motor vehicle safety, contractor safety management and repetitive stress injury prevention. Created "community of practice" networks to share successful practices in these areas.
- 
- Initiated internal consultation on the Human Rights Statement.
  - Developed draft supporting materials.
- 
- Finalized our corporate policy and developed an extensive implementation plan and supporting materials.
  - Appointed two full-time staff to oversee implementation of the policy.
- 
- Completed a global review of our community programs.
  - Developed and began implementation of a new community engagement theme, focused on capacity building and economic development.
  - Created a \$5 million fund to assist major business units in aligning their community efforts with the new theme.
  - Launched or expanded major community initiatives in Angola, the United States and countries in Asia.
- 
- Achieved our highest efficiency levels ever, representing a 24 percent decrease in energy consumption per unit of output since 1992.
  - Continued implementation of our climate change strategy. Completed third-party verification of our GHG emissions system and established first emissions goal for 2004.
  - Met our 2004 GHG emissions goal and established our 2005 goal.
  - Incorporated the analysis of the cost of carbon into our major capital projects.

**What we plan to do next...**

- Conduct training with business units on the Corporate Responsibility Expectations, beginning in 2005.
- 
- Implement our enhanced environmental expectations over the next five years, focusing on continued development of operating standards, measuring and communicating performance, and demonstrating continuous performance improvement.
- 
- Continue to consult regularly with stakeholders on key issues at all levels, as well as develop a more systematic approach to stakeholder consultation at the corporate level.
  - Develop tools that will encourage a more consistent approach to stakeholder consultation, where appropriate, across our businesses.
  - Continue annual Corporate Responsibility Reporting, with the goal of continual improvement.
- 
- Continue to focus on safety, aiming to meet short-term performance targets and the long-term goal of zero incidents.
  - Expand our motor vehicle safety effort to look at opportunities to help address road safety more broadly in the communities in which we operate.
- 
- Complete consultation on our Human Rights Statement and training materials with major business units.
  - Begin corporatwide deployment of the statement by early 2006.
- 
- Target completion of global implementation by the end of 2006. High-risk countries with high or rising HIV/AIDS prevalence rates will be the initial implementation priorities.
- 
- Continue deployment of our community engagement strategy. Our goal is to have an increased portion of our community investment targeted toward capacity building and economic development programs.
  - Initiate a plan to develop the additional internal capacity and competencies to manage these programs.
  - Continue to explore mechanisms to monitor and measure the execution and impact of these programs.
- 
- Continue implementation of climate change strategy, focusing on reducing emissions of GHGs and increasing energy efficiency.
  - Develop a long-term GHG emissions forecast based on our portfolio and business strategy. We intend to use that forecast to develop a longer-term emissions management plan that aligns with our fourfold climate change strategy.
  - Comply with the European Union Emissions Trading Scheme; explore development of projects under the Clean Development Mechanism.

The Chevron Way, available on our Web site at [www.chevron.com/about/](http://www.chevron.com/about/), guides the management of our company, articulating our core values and vision. It also describes how we drive performance toward our vision.

## Corporate Governance

Sound corporate governance is fundamental to how we operate our company and a critical part of corporate responsibility. Our Corporate Governance Guidelines and structures, described in detail on our Web site at [www.chevron.com/corporate\\_governance](http://www.chevron.com/corporate_governance), provide a strong foundation for responsiveness and accountability. For example, all of our directors are independent, as defined by the New York Stock Exchange, except for the chairman, who also serves as CEO, and the vice chairman, who is an employee director. Governance of corporate responsibility performance is integrated into structures and processes at the highest levels of Chevron (see chart opposite).

In 2004, the board appointed an independent, lead director, Carla A. Hills, to chair the executive sessions of nonemployee and independent directors, and consult with the chairman on agendas for board meetings and other matters pertinent to the corporation and the board. We continued to implement globally the requirements of the Sarbanes-Oxley Act and began a review and update of our Chevron Business Conduct and Ethics Code (see Business Ethics section, page 28).

## Management Systems Approach

Chevron uses a management systems approach to establish strategic direction, assess progress toward our goals, ensure operational excellence, and measure and evaluate employee performance. Key among these are the Strategic and Business Planning Process, which aligns actions at all levels of the company to common objectives, and the Operational Excellence Management System (OEMS), used to manage essential aspects of our operations.

## Strategic and Business Planning Process

Our Strategic and Business Planning Process is designed to ensure that:

- The strategic direction for the company is discussed and agreed to before tactical business plans are developed.

- Business plans are aligned with the corporate strategic direction.
- The same basic process is used for all reporting units.
- The accountability to meet agreed-upon objectives is clearly understood.

Each year, the Board of Directors revisits our corporate aspirations and affirms or adjusts the company's strategic direction based on the Strategy and Planning Committee's thorough review of the external environment and our internal capabilities. Our reporting units, their strategic business units and major operating companies review and update their strategies to ensure alignment with the corporate direction. Each business unit then prepares a three-year business plan aligned with their strategies. All business plans include a section on Operational Excellence Management System implementation plans and milestones.

The Strategic and Business Planning Process includes a framework to support assessing management performance accountability. From the full set of metrics routinely tracked, a critical few "accountable metrics" covering key corporate strategic priorities are defined and targets mutually set by the reporting unit and the corporation. Along with key financial metrics, all business units are measured against targeted health, environment and safety metrics.

## Operational Excellence Management System (OEMS)

Chevron developed our OEMS system to ensure a consistent approach to managing safety, health, the environment, reliability and efficiency to achieve world-class performance. OEMS is comprised of three major parts:

- Leadership Accountability
- Management Systems Process
- Operational Excellence Expectations

OEMS clearly defines requirements in each of these areas. Operating unit management is responsible for putting processes and practices in place to meet these expectations (see page 12). To evaluate OEMS design and effectiveness across the company, cross-functional teams conduct thorough OE reviews of each operating unit on a regular, three- to five-year schedule. The teams evaluate how effectively the unit has designed and implemented processes to meet the relevant expectations. Review findings are submitted to the unit reporting officer, after which the unit has 60 days to submit action plans, as appropriate, to improve performance. Action plans are reviewed annually with the reporting officer until they are completed. During 2004, we conducted 21 OE reviews and five focused reviews. This represents about 25 percent of our operating units.

In 2004, we took several significant steps to strengthen OEMS.

## Leadership Accountability

The success of OEMS depends on effective, engaged, committed and knowledgeable leaders. In 2004, we launched a training program focused on leaders' roles and responsibilities in OEMS implementation. All members of the Chevron Management Committee and their direct management reports participated in Operational Excellence Leadership Roles and Behavior Training sessions. To continue leadership training throughout the organization, we certified selected Chevron employees as coaches. These coaches are conducting sessions for line managers, supervisors and other key operations personnel throughout the company. Overall, more than 1,800 key managers were trained in the 170 sessions held in 2004. The importance of leadership in safety performance was confirmed recently by an analysis of our Global Employee Survey results (see page 12).



Chevron Chairman Dave O'Reilly (center) and the Board of Directors visit operations at the Sanha deepwater platform in Angola.

### Chevron Corporate Governance



<sup>1</sup> Current Board of Directors as of June 2005. Other than the chairman and vice chairman, all directors are independent as defined by the New York Stock Exchange. One woman and two non-Caucasians serve on our board.  
<sup>2</sup> Primary responsibility for oversight of corporate responsibility strategy and performance.

#### Training and Certification

To further develop OEMS fluency across the company, all leaders - including top executives and line management with key operational responsibilities - will be expected to successfully complete four computer-based training modules to attain OE certification. A higher level of certification - called Supreme certification - is being developed for key leaders and people involved in implementing OEMS throughout Chevron.

#### Standardizing Processes

During 2004, Chevron operating companies focused efforts on increasing standardization of OEMS implementation throughout their operations. For example, our International Upstream unit developed and deployed a standardized incident investigation and reporting process and initiated work on an environmental, social and health impact assessment process. Our Health, Environment

and Safety organization's Knowledge Management network helps operating units share successful practices and address specific issues around effective OE implementation.

#### OEMS External Assessment

In 2004, we initiated an assessment to determine that our OEMS is aligned with and meets the intent of internationally recognized management system criteria (ISO 14001 for the environment and OHSAS 18001 for health and safety).

#### Management of Corporate Responsibility

The Chevron Way provides a strong foundation for corporate responsibility. Our overarching objective is to develop a more systematic approach to integrate the corporate responsibility issues we have identified into our existing systems, processes and decision making.

Based on a review of our policies and practices, we determined that developing Corporate Responsibility (CR) Expectations was a key tactic in helping us meet that objective. The draft CR Expectations, previously termed Guiding Principles in our 2002 report, are based on and support the OE Expectations. They are intended to articulate the company's vision of corporate responsibility and provide operational guidance.

In addition to the CR Expectations, we have developed a variety of materials to support their implementation. We know that getting input from a range of employees who address corporate responsibility issues every day will be essential for the long-term success and impact of our efforts. As a result, we elected to conduct initial training in 2005 in a sample of our business units to get employee feedback on the CR Expectations.

At the Tengiz Field in Kazakhstan, a plant worker travels by bicycle to inspect facilities. From March 2004 to June 2005 (latest statistic available at printing), Tengizchevroil employees had logged more than 8 million work hours without a safety incident.



## Operational Excellence Operating Elements

Our Operational Excellence Management System defines requirements in the following 13 operating elements:

- 1 Security of personnel and assets**  
Provide a secure environment in which business operations may be successfully conducted.
- 2 Facilities design and construction**  
Design and construct facilities to prevent injury, illness and incidents and to operate reliably, efficiently and in an environmentally sound manner.
- 3 Safe operations**  
Operate and maintain facilities to prevent injuries, illness and incidents.
- 4 Management of change**  
Manage both permanent and temporary changes to prevent incidents.
- 5 Reliability and efficiency**  
Reliability: Operate and maintain facilities to sustain mechanical integrity and prevent incidents.  
Efficiency: Maximize efficiency of operations and conserve natural resources.
- 6 Third-party services**  
Systematically address and manage contractor conformance to operational excellence.
- 7 Environmental stewardship**  
Strive to continually improve environmental performance and reduce impacts from our operations.
- 8 Product stewardship**  
Manage potential risks of our products throughout the products' life cycles.
- 9 Incident investigation**  
Investigate and identify root causes of incidents to reduce or eliminate systemic causes to prevent future incidents.
- 10 Community awareness and outreach**  
Reach out to the community and engage in open dialogue to build trust.
- 11 Emergency management**  
Prevention is the first priority, but be prepared for an emergency and mitigate any incident quickly and effectively.
- 12 Compliance assurance**  
Verify conformance with company policy and government regulations. Ensure that employees and contractors understand their safety, health and environmental responsibilities.
- 13 Legislative and regulatory advocacy**  
Work ethically and constructively to influence proposed laws and regulations, and debate on emerging issues.

## Strong Leaders Create Safe Workplaces

Good safety performance relies on committed and involved leadership. In 2004, we undertook a study to identify the workplace factors that led to excellence in safety performance.

We analyzed the correlation of actual safety performance to leadership behavior through a series of questions posed in our Global Employee Survey. The questions focused on demonstrated leadership and supervisory skills; commitment to safety, health and the environment; and commitment to the work environment.

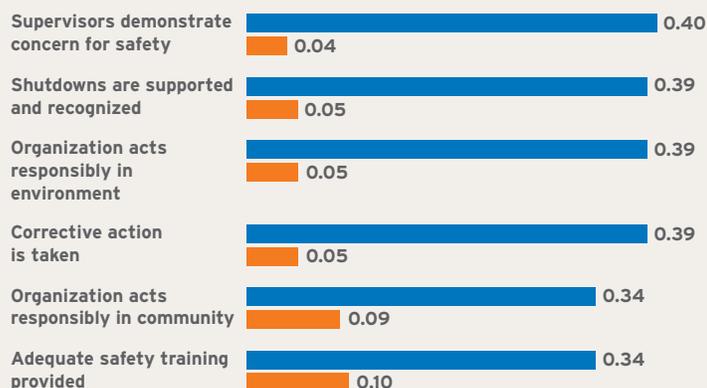
We found that units in which employees rated their leaders most favorably had significantly better safety performance than the units with low ratings. A series of questions in the "protecting people and the environment" category showed the strongest correlation; the workforce Days Away From Work Rate was up to 10 times higher for operating units with low favorability than for those with high favorability. Within this category, having supervisors who demonstrated care and concern for the safety of their employees was the greatest differentiator in safety performance (see chart at left). Additionally, we found that environments in which leaders had strong supervisory skills and a proactive concern for a respectful work environment showed a reduced number of safety incidents.

These findings reinforce the value of our initiatives in 2004 to engage Chevron leaders more fully in implementing our Operational Excellence Management System and building fluency through Operational Excellence certification.

Additionally, the findings have been integrated into our leadership and safety training curricula and broadly shared internally. Results from individual operating units have been shared with their respective management for integration into individual performance assessments, as appropriate.

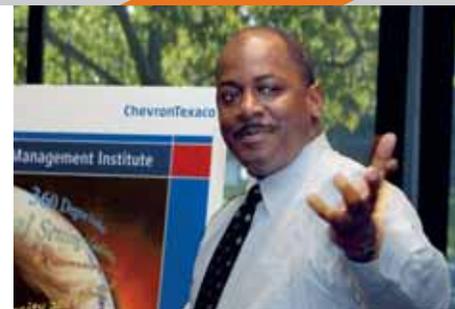
## Correlation of Days Away From Work in 2004 to Employee Views of Leadership Safety Behaviors

Workforce Days Away From Work Rate (per 200,000 work hours)



Responses to six factors from Chevron's 2004 Global Employee Survey - in which employees rated their leadership with low favorability or high favorability - correlated to their unit's Days Away From Work Rate.

Since 1996, we have supported the Chevron Management Institute, a unique management training program designed to build capabilities among leaders of nonprofit organizations. The program is organized in partnership with the Leader to Leader Institute. In 2004, the institute included for the first time participants outside the United States. Participants were nominated by Chevron business units in Venezuela, Colombia, Nigeria and Angola. An international group of 24 attended the leadership workshop held at Chevron's headquarters in California. At right, instructor Nadir Muwwakkil, president of Vision Group International, at the 2004 Chevron Management Institute.



We define our stakeholders as those who affect, are affected by or have a legitimate interest in our company's performance. Our stakeholders include the groups described below. We view stakeholder consultation as essential to our business. We engage with stakeholders through a wide variety of approaches at both the corporate and local levels.

Stakeholder	Profile
<b>Stockholders</b>	Approximately 2 billion shares outstanding (as of December 31, 2004) <ul style="list-style-type: none"> <li>▪ 62 percent owned by institutional investors and mutual funds</li> <li>▪ 38 percent owned by other investors</li> </ul>
<b>Employees</b>	47,265 employees (as of December 31, 2004)
<b>Business partners</b>	<ul style="list-style-type: none"> <li>▪ Approximately \$20 billion spent globally on supplier goods and services in 2004</li> <li>▪ Other national and multinational energy companies</li> </ul>
<b>Host governments</b>	Governments in approximately 180 countries where we operate
<b>Customers</b>	Commodity markets, wholesale and retail customers
<b>Local communities</b>	Thousands of communities in which our facilities are located globally
<b>Civil-society organizations</b>	Business forums, multilateral institutions, philanthropic foundations, academic institutions, think tanks, faith-based groups, and nongovernmental and development organizations

We use both formal and informal approaches to stakeholder engagement. Some are systematic and ongoing, while others are ad hoc on specific issues. Existing business processes also integrate stakeholder consultation, for example:

- We have embedded stakeholder engagement in our Chevron Project Development and Execution Process, a disciplined project management method we use to ensure we make sound capital investments and execute them well. As part of the process, teams are required to engage with and get input from the stakeholders who will be most affected by the project or activity. We also apply the principles of this process to other types of efforts, which range from designing community development programs to reviewing our environmental strategy.
- Our International Upstream unit is developing a standard process for conducting environmental, social and health impact assessments within its operations. The unit is including a procedure that provides project teams with guidance on how to effectively and proactively identify, engage with and respond to stakeholders affected by their projects.

We consult with a variety of civil-society organizations to share information and exchange views, to better understand their perspectives, and to gain insight into emerging issues. In recent years, we also have taken steps at the corporate level to increase our engagement with the socially responsible investment community and other Chevron stockholders who have an interest in the company's corporate responsibility activities.

In 2004, stockholders filed proposals with the company on climate change, human rights, biodiversity, animal testing, ongoing litigation in Ecuador and HIV/AIDS. Following constructive dialogue, the filers agreed to withdraw the proposals on climate change, human rights and HIV/AIDS. We believe this outcome reflects recognition of our progress in these areas as well as the mutual value of engagement and information sharing.

We also participate in energy industry associations and other organizations, such as the World Business Council on Sustainable Development and Business for Social Responsibility, that bring together companies and other groups to address issues of common interest.

Moving forward, we are continuing to develop a more systematic approach to stakeholder consultation at the corporate level. In addition, we plan to develop tools that will encourage a more consistent approach, where appropriate, across our business. Business units also will continue their engagement using the most effective and appropriate mechanisms for their locations.

Our engagement with stakeholders described in more detail elsewhere in this report includes:

- Global Employee Surveys (page 20)
- Voluntary Principles on Security and Human Rights (page 26)
- Supplier Development Forums (page 30)
- Angola Partnership Initiative (page 33)
- Extractive Industries Transparency Initiative (page 37)
- World Bank's Global Gas Flaring Reduction Public-Private Partnership (page 56)
- Energy and Biodiversity Initiative (page 58)



# SOCIOECONOMIC

**Left** LL-652 Field, Lake Maracaibo, Venezuela.  
**Below** Our support for education in Nigeria includes funding for the Pacelli School for the Blind in Lagos.

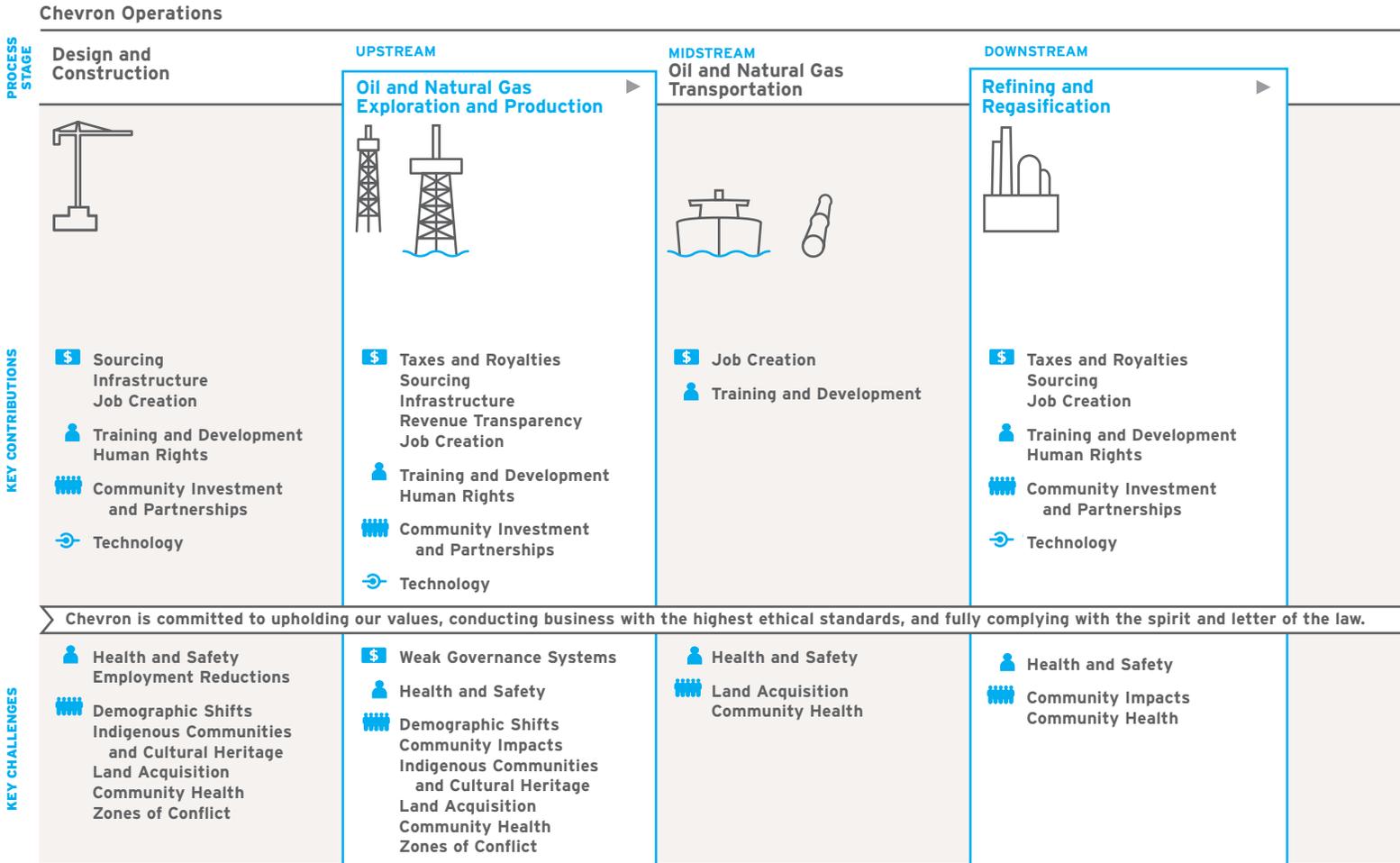


Chevron's operations affect and are affected by a broad range of social and economic issues, such as employee relations, human rights, global supplier development and how we participate in the political process.

The company has a wide range of policies, processes and systems to help us address the diversity of socioeconomic issues we face. This section provides an overview of how we are approaching the social and economic issues we have determined are most relevant to our business.

# SOCIOECONOMIC ISSUES OVERVIEW

This diagram provides an overview of Chevron's core business activities and the key socioeconomic contributions the company can make at each stage. Additionally, it highlights the challenges the company faces - those associated with our operations, as well as broader societal issues that characterize our operating environment.



## KEY CONTRIBUTIONS

### 💡 ENERGY AND PRODUCTS

**Providing Energy** For a wide variety of uses and products, such as home heating, power generation, transportation, plastics and lubricants.

### 💰 ECONOMIC DEVELOPMENT

**Taxes and Royalties** Payments to governments.

**Sourcing** Payments to local, national and international contractors and suppliers. Dedicated efforts to source from and help develop small and locally owned businesses.

**Infrastructure** Contributions to local and national physical infrastructure.

**Revenue Transparency** Promoting transparency and good governance in the management of oil and gas revenues.

**Job Creation** Providing employment, wages, benefits. Focus on hiring and training employees from the communities and countries in which we operate.

### 👤 EMPLOYEES AND CONTRACTORS

**Training and Development** Providing employees and contractors with training and other opportunities to develop skills.

**Human Rights** Supporting universal human rights, consistent with the role of business.

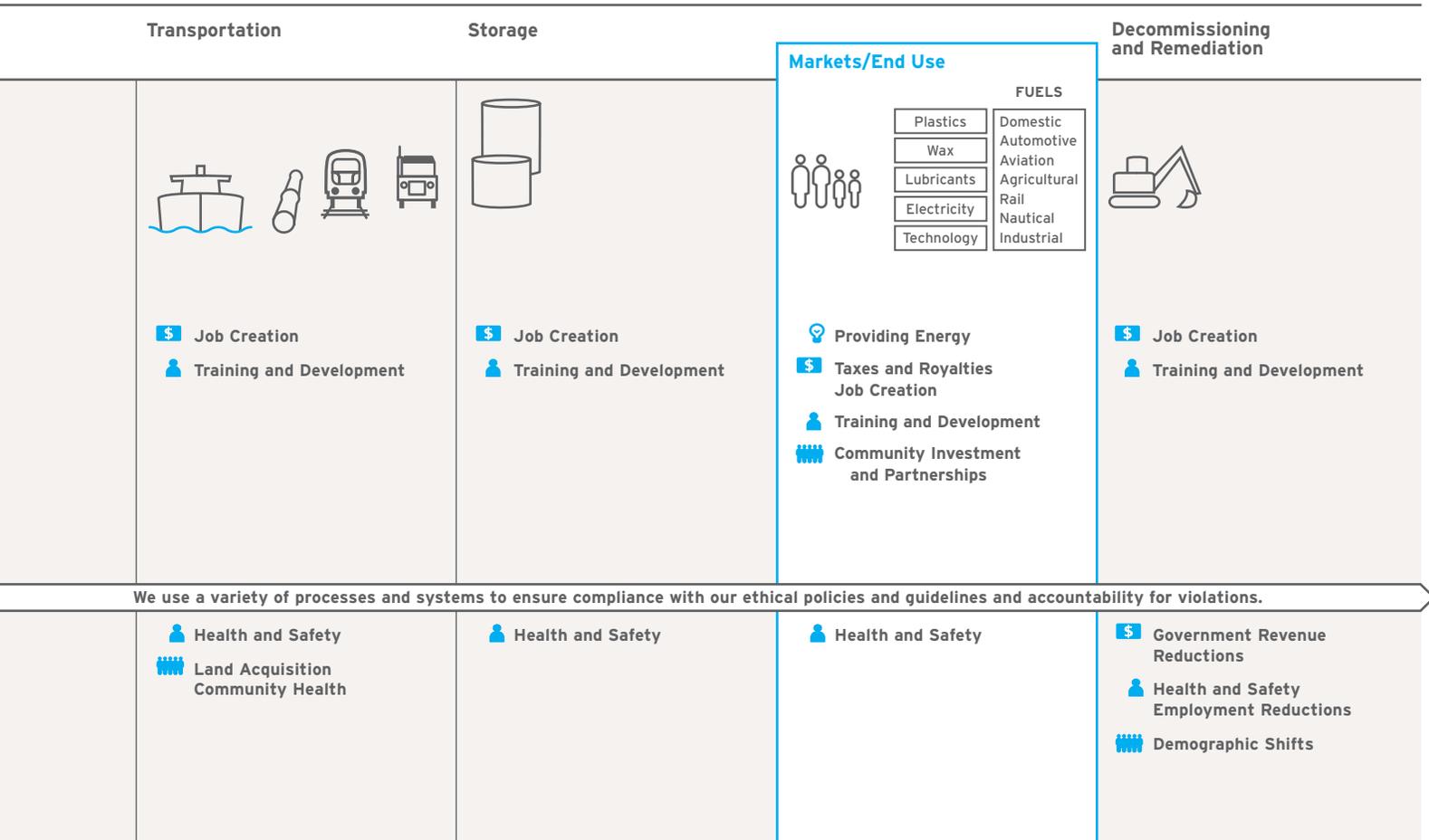
### 🏘️ COMMUNITY

**Community Investment and Partnerships** Monetary and in-kind contributions, partnerships and programs to support social and economic development where we operate.

### 🔄 TECHNOLOGY TRANSFER

**Technology** Sharing technology and know-how with our business partners.

The issues listed in the diagram and at each stage are not exhaustive. Rather, we have sought to identify the contributions and challenges most significant at each stage throughout the life cycle of our operations.



**KEY CHALLENGES**

 **ECONOMIC DEVELOPMENT**

**Weak Governance Systems** Operating in environments that lack sound governance systems and where the rule of law is weak.

**Government Revenue Reductions** Following closure of operations.

 **EMPLOYEES AND CONTRACTORS**

**Health and Safety** Protecting the health and safety of those working on our behalf or affected by our operations.

**Employment Reductions** Following completion of construction phase or closure of operations.

 **COMMUNITY**

**Demographic Shifts** Population migrations and attendant community and economic impacts.

**Community Impacts** Effects of oil and gas development on the social, political and economic fabric of local communities.

**Indigenous Communities and Cultural Heritage** Respecting the rights, traditions, livelihoods and cultural attributes of indigenous and other local communities.

**Land Acquisition** Process and effects of acquiring land for operations, including potential resettlement.

**Community Health** Effects of new or existing health issues, particularly HIV/AIDS, on workforce and local communities.

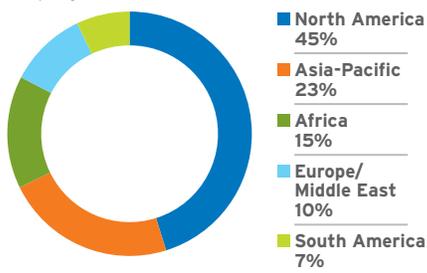
**Zones of Conflict** Operating in regions affected by conflict.

Saudi Arabian Texaco Human Resources staff at Mina Saud camp in the Partitioned Neutral Zone between Saudi Arabia and Kuwait review a monthly benefits verification report. From left are Hussein Al-Shammari, Madhi Al-Ghobari and Joe La Presta.



Chevron is a company of more than 47,000 people worldwide. Our success is intrinsically linked to the capabilities, performance, diversity and engagement of our employees.

### Geographic Breakdown of Chevron Employees (2004)



At the end of 2004, Chevron had 47,265 employees worldwide, which represents a 6.5 percent decrease in staffing from the previous year. The staff reductions were due to reorganizations in some of our operating units and various asset sales. Approximately 18.9 percent of our U.S. workforce is represented by unions.

Our Global People Strategy is designed to help ensure we create a workforce with the collective organizational capability to achieve and sustain industry-leading performance.

In 2004, we reviewed the People Strategy to ensure that it appropriately addresses the evolving workforce needs of our business and continues to be aligned with the strategic business plan. As a result, we will begin to adjust our global recruiting processes in 2005 and conduct an assessment to help us project our staffing requirements for the next decade and beyond.

### Training and Development

Providing our employees with meaningful and relevant training and development opportunities helps ensure that Chevron will continue to have the organizational capabilities necessary to meet our future business needs. We have numerous programs that help us attract and retain the best people, ensure that employees are positioned

to achieve their goals and grow their careers, and close specific competency gaps within the organization.

Most of our programs are developed and conducted at the operating company or business unit level. They are tailored to meet our overall objectives as well as the specific needs of local workforces. These include efforts to:

- Supplement on-the-job training for new hires.
- Enhance employees' skills and technical and functional expertise.
- Expand employees' knowledge of the company's global and multifaceted operations.
- Increase employees' appreciation of being part of a global, diverse workforce.
- Cultivate high-potential candidates for future opportunities.

Recognizing the importance of strong, effective leaders, Chevron has several designated programs to develop managers. For example:

- The Chevron Leadership Forum - geared for our high-potential managers working throughout our global operations, this program seeks to increase the participants' knowledge of the company's global strategies and objectives. In 2004, 205 managers participated in the forum.
- The Chevron Advanced Management Program - a three-week course that includes an on-site development assignment within the company's global operations. In 2004, 38 managers completed the program.
- New supervisor program - a course for first-time supervisors. In 2004, 652 people completed the course.

### Training New Dealers

Chevron's Marketing group provides training for retailers joining the Chevron-branded network through its New Dealer Business Orientation. The program is an intensive two-week immersion in retail-outlet management held at the company's headquarters in San Ramon, California. The training is required for all new retailers in the United States who manage company-owned stations or contract directly with Chevron for their fuel supply.

In the past 10 years, more than 1,200 new retailers have received their initial orientation to the Chevron brand from this program and have been taught how to effectively manage fueling facilities and convenience stores. Training is face to face as well as technology-based. A unique aspect of the on-site classroom in San Ramon is a mock-up station, with a convenience store, pump island and quick-serve restaurant.

Retailer training in a variety of forms exists throughout Chevron for Caltex- and Texaco-branded stations as well. The courses encompass a mixture of location and classroom training on such subjects as customer service, health and safety practices, and accounting and payroll management. Virtual-classroom software links people in different locations to facilitate best-practice sharing.

Trainer Maxot Kymapob prepares to demonstrate argon welding to Aselbek Mukhametzhanoov at Tengizchevroil's Craft Training Center in Atyrau, Kazakhstan. Construction at the Sour Gas Injection/ Second Generation Project at the Tengiz Field is creating thousands of new jobs for Kazakh nationals.



Chevron provides training opportunities throughout employees' careers. Asset planning supervisor Elizabeth Schwarze holds courses for subsurface professionals. She and colleagues, geologists David Larue (left) and Greg Smith, view a 3-D temperature model of California's Kern River Field.



### Chevron Horizons Program

Horizons is a five-year, developmental technical-training program that supplements new hires' on-the-job experiences. Through courses and field training, participants attain cross-functional competencies in facilities engineering, petroleum engineering, earth science, drilling and information technology. Employees in Horizons are expected to take up to three different assignments, which may include relocation, over the program's five-year duration. In 2004, 400 employees participated in the program in the United States.

Based on its effectiveness, Horizons was expanded in 2004 and 2005 to several Chevron locations outside the United States, such as Venezuela, Thailand, Australia, Indonesia and the United Kingdom.

### Cultivating High-Potential Recruits

To sustain and advance the company's position as a market leader, Chevron's Global Marketing group boosted its efforts to recruit and develop high-potential employees through several new internship programs in 2004.

The L.T. Jordan Internship and the Living-Abroad Programs, created through a partnership with Texas A&M University, introduce interns to customs, societies and work environments outside the United States. In 2004, seven interns took part.

The Gateways Global Internship Program is open to students around the world who are placed in work assignments within and outside their home countries. The program hosted 26 interns in 2004, including students from Nigeria, Spain, Guatemala, South Africa, the Philippines and the United States.

To help successful interns make the transition into permanent positions, Global Marketing added the Futures Development Program, which provides new hires with a two-year development track to enhance their skills and experience. The first program participant was hired in 2004.

Another priority of the Global Marketing group is to help fill the talent pipeline by enhancing the capabilities of future leaders. Employees selected for the newly created International Marketing Fellows Program spend two weeks on a development assignment outside their home country, then three days with global leaders in a facilitated dialogue forum.

Corporate Human Resources' Intercultural Development group helps prepare employees for international assignments. Before leaving for Seoul, employee Billy Leal, his wife, Nancy, and their daughter, Leah, attend a cultural orientation session in which fellow employees share their experiences of having lived and worked in Korea.



## Workplace Environment

Chevron is committed to creating a workplace environment in which our employees are recognized and valued for their contributions and treated with dignity and respect. To foster this kind of environment, we have several communication channels open to employees to provide feedback, raise issues or concerns, and resolve conflicts. These include:

- Chevron Ombudsperson - provides employees with neutral, confidential support and problem-solving assistance.
- Steps to Employee Problem Solution - a program that offers a safe, fast and alternative way to resolve disputes.
- Chevron Hotline - a 24-hour resource to confidentially or anonymously report issues or share concerns. It includes translation services for individuals not fluent in English. In 2004, the hotline was accessed 185 times (more information on the hotline is available on page 28).
- Pulse Surveys - a measure used periodically to gain feedback from a sample or subset of employees on particular topics.
- Global Employee Surveys - a periodic effort to get comprehensive feedback from our employees.

Chevron recognizes and respects employees' right to join associations or choose union representation. Where employees choose union representation or where it is required by law, the company will attempt to establish a positive, cooperative business relationship with the authorized representative of choice.

## 2004 Global Employee Survey

In our first global survey since the merger of Chevron and Texaco, we asked our employees to share their opinions on a range of topics identified as the drivers most likely to affect employee engagement, meaning they are emotionally and intellectually committed to the company's success.

An independent, third party analyzed the results of the global survey conducted in May 2004. It found that Chevron was on par or above average in five of the nine categories compared with high-performing companies in all industries. We outscored our industry peers in all categories. The survey was completed by 67 percent of our employees globally. We intend to conduct the Global Employee Survey approximately every two years.

## Fostering an Inclusive Workplace

As stated in The Chevron Way, diversity is one of our core values. We reflect those values in our commitment to foster an inclusive workplace in which individual differences, varied perspectives and unique talents are respected and embraced.

Chevron's employment policy states that in any aspect of employment, no individual will be discriminated against based on race, religion, color, national origin, age, sex, gender identity, disability, status as a disabled veteran, political preference, sexual orientation, membership or nonmembership in any lawful organization, or other basis prohibited by local laws or regulations. The company uniformly enforces all nondiscrimination and anti-harassment laws applicable to the workplace, and we apply our own policies in jurisdictions where such protections do not exist. Chevron requires all U.S. employees to take anti-harassment training and does not tolerate retaliation against employees who exercise their rights under existing anti-discrimination laws.

We are committed to increasing the representation of women and non-Caucasian males in senior-level positions corporatewide. At the end of 2004, women represented approximately 21 percent of our total global workforce. At mid-level and above, women represented 9.9 percent of employees. At the senior executive level, women and non-Caucasian males held approximately 20.8 percent of the positions at the end of 2004, up from 19.5 percent in 2003.

## Developing a Global Workforce

To succeed in diverse operating environments, we need a skilled global workforce that represents the communities in which we operate and the markets we serve. Our commitment to hire locally and develop our workforce also contributes to local economic growth and helps build the long-term capacity of our host countries. At the end of 2004, approximately 97 percent of Chevron's employees were working within their home countries. Outside the United States, approximately 48 percent of senior-level positions were held by employees working within their home countries.

While we consistently emphasize an inclusive and diverse workplace, the nature and definition of diversity varies, reflecting the unique cultures and people in the many locations in which we operate. Therefore, many business units have their own diversity councils and other programs focused on their particular priorities and challenges. Following are a few examples.

**Australia** Chevron's Upstream business unit in Australia is focusing on increasing the representation of women at all levels of its operations. In 2004, women accounted for 29 percent of all employees but only 7 percent of executive leadership positions. As a result, the unit reviewed its hiring practices and took steps to ensure it had a more inclusive and transparent selection process. This included having more women serve on hiring selection teams. Additionally, the unit improved its parental-leave policy by expanding its maternity-leave benefits, developing the Keep in Touch Program for women on leave, and offering more flexibility for women returning to work from maternity leave.

**Nigeria** While more than 90 percent of Chevron Nigeria Limited (CNL) employees were Nigerian citizens in 2004, they represented a diversity of cultures, ethnicities and tribes as well as expatriates from other countries. CNL's Diversity Council has sought to break down some of the language and cultural barriers among its employees. The program Learn a Nigerian Language, open to all employees, was launched at CNL's facility in Lekki in 2004 and drew approximately 100 employees interested in the Yoruba, Igbo and Hausa ethnic languages. CNL also hosted Diversity Day celebrations at several company locations.

CNL continues to focus on hiring and developing the skills of Nigerian citizens while cultivating a more inclusive work environment. CNL's strategies include incorporating diversity metrics in its candidate slates and selection teams, requiring employees to develop personal diversity action plans, ensuring diversity is represented in future succession plans, and providing development assignments to employees. Broad diversity metrics include gender, tribe and state of origin.

In Puerto La Cruz, Venezuela, company civil engineer Luisana Ramos and geologist Milton Mendez work on the Plataforma Deltana Blocks 2 and 3 project.



When asked to rate their level of agreement on a range of statements about the company, employees indicated the highest percentage of agreement on the following statements:

- I think Chevron acts responsibly in relation to the environment **(89 percent)**
- I believe strongly in the goals and objectives of Chevron **(87 percent)**
- I am proud to be a part of Chevron **(87 percent)**
- I think Chevron acts responsibly in the society/community in which we operate **(86 percent)**
- The people I work with are willing to help each other, even if it means doing something outside their usual activities **(86 percent)**
- I am treated with dignity and respect **(82 percent)**
- Chevron is a company that cares about the health and well-being of employees **(80 percent)**

**Thailand** Chevron's Asia South business unit also faces the challenge of fostering appreciation for the cultural diversity of its employees. In Thailand, the Diversity Council conducted a "cultural audit" to better understand its particular issues and prioritize the goals of its diversity initiatives. Based on the findings, the unit launched a new diversity awareness program in 2004 that included a two-day intensive cross-cultural workshop. More than 90 percent of the employees in the unit attended the workshop or another similar program.

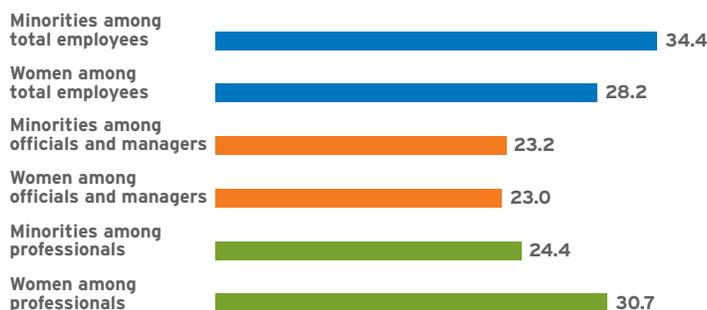
**United States** In the United States, we have several strategies to meet our goal of developing a diverse workforce. In the United States as required by law, Chevron collects and submits data annually on our U.S.-based workforce to the Equal Employment Opportunity Commission (see chart below).

Overall recruitment for full-time positions was down in 2004. However, of those we hired in the United States in 2004, 35 percent were minorities and 37 percent were women. We increased recruitment of interns in 2004, of whom 40 percent were minorities and 39 percent were women.

In 2004, to further our goal of increasing representation of minorities and women, we specifically focused on engaging with outside organizations that helped us broaden our slate of minority candidates. This included partnering with the INROADS scholarship and internship program, and recruiting at several historically minority colleges and universities. Additionally, we require employees to develop one or more agreements in personal diversity action plans focused on enhancing their awareness of and demonstrating their commitment to diversity.

#### Equal Employment Opportunity (2004)

Percent of Chevron U.S. workforce



#### Employee Networks

One of the ways Chevron supports diversity and inclusion in the workplace is through employee networks. These are groups of employees focused on specific dimensions of diversity. We now have networks for Asian, African-American, Filipino-American, lesbian and gay, Hispanic, women, Native American, the disabled, and young employees.

Chevron Women's Network, for example, was established five years ago in the United States. Today, it has more than 1,000 members in 17 countries. Two new groups have recently joined this network.

In the Africa-Pakistan region, a Women's Network was launched in September 2004 and already boasts a membership of nearly 200 - 14 of them men. The group has adopted the moniker "OYA," for the African goddess of trade, business and prosperity. "The word is difficult to translate but, in essence, refers to the strength of women and how we interact and balance all elements of our lives," comments Delight Chandler, the chairwoman for the Caltex South and Central Africa network.

Chandler's goals for OYA are specific to her region. She hopes to encourage women by providing a platform for them to get the support they need to succeed in the workplace. Working in tandem with Human Resources, Chandler hopes to introduce an employee mentoring program specifically tailored to women.

The Asia-Pacific Women's Network also is under development, with launch targeted for late 2005. The goal is to embrace the spirit of the other Chevron women's networks while reflecting the range of cultures and issues across the diverse Asia-Pacific region.

The health and safety of people who work on our behalf or are affected by our operations is our highest priority. We want all employees and contractors to arrive home safe at the end of their work day. Regrettably, in 2004, 15 contractors and two employees died while working on behalf of Chevron. We are committed to striving to reduce fatalities - and all incidents - to zero.

### Driving Improved Performance

We manage health and safety performance through our Operational Excellence Management System (OEMS). OEMS spells out a range of detailed expectations for our business units' health and safety processes. We believe that improving fluency in our OEMS (described on page 10) and building a safety culture will lead to continuous improvement in our safety performance.

Due to the nature of our industry, we often rely on contractors to provide specialized

expertise or perform work of limited duration such as construction. We have the same health and safety expectations for contractors as for our own employees, and we track our performance for both.

As part of OEMS, all safety incidents are investigated to determine the root causes and steps needed to prevent recurrence. Learning is broadly shared to encourage prevention. Chevron's chairman, with the head of the relevant operating company, personally reviews all employee and

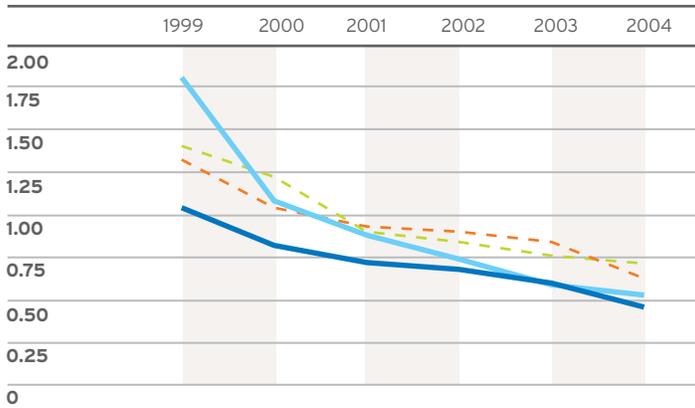
contractor fatalities, including the circumstances surrounding the fatality and the follow-up actions taken.

### Performance

As measured by our Total Recordable Incident Rate (TRIR), 2004 was our safest year on record, reflected in six straight years of improvement. Over the five-year period, our TRIR improved 65 percent (see charts below).

### Total Recordable Incident Rate

Recordable incidents per 200,000 work hours

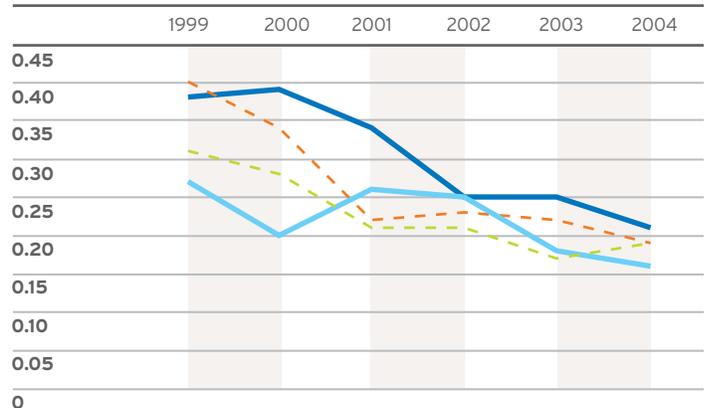


	1999	2000	2001	2002	2003	2004
Chevron Employees	1.04	0.82	0.72	0.68	0.60	0.46
Chevron Contractors	1.80	1.08	0.88	0.74	0.59	0.53
Employee Benchmark	1.32	1.04	0.93	0.90	0.84	0.66
Contractor Benchmark	1.40	1.22	0.90	0.84	0.76	0.73

American Petroleum Institute data are used as the industry benchmarks.

### Days Away From Work Rate

Days away per 200,000 work hours



	1999	2000	2001	2002	2003	2004
Chevron Employees	0.38	0.39	0.34	0.25	0.25	0.21
Chevron Contractors	0.27	0.20	0.26	0.25	0.18	0.16
Employee Benchmark	0.40	0.34	0.22	0.23	0.22	0.19
Contractor Benchmark	0.31	0.28	0.21	0.21	0.17	0.19

American Petroleum Institute data are used as the industry benchmarks.

A critical contribution to improved performance has been the involvement of our workforce. Hazard and operability studies, pre-start-up safety reviews, behavior-based programs, daily safety meetings, and ongoing safety committees are just some of the ways our employees and contractors have helped improve performance. In addition, more than 2,000 employees and contractors are involved in corporatwide health and safety networks. Current networks include motor vehicle safety, repetitive stress injury prevention and contractor safety management.

These improvements have also been driven in part by our aggressive targets for key safety indicators. In 2004, we met our target to reduce our overall workforce TRIR,

though we fell just short of reaching our workforce Days Away From Work Rate target. In 2004, 36 Chevron units received our Zero Is Attainable Award. To earn the award, major reporting units with at least 100 employees had to achieve zero fatalities and zero employee recordable incidents during the year.

We continue to see dramatic reductions in the number of repetitive stress injuries in our employee workforce since instituting our risk assessment and intervention program in 2000. Our year-end repetitive stress injury rate in 2004 was half that of 2003 and less than a third of the rate in 2000.

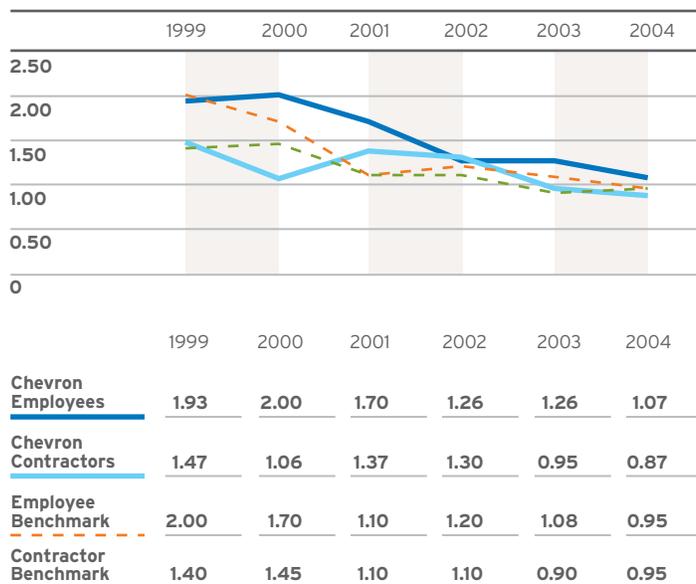
The leading cause of fatalities at Chevron remains motor vehicle crashes, accounting

for six fatalities in 2004. Since 2000, nearly half of all employee and contractor fatalities have been due to motor vehicle crashes.

We are intensifying our focus on motor vehicle safety in our operations through programs such as Project Preserve, profiled on page 25. To help address the issue of general road safety in the communities in which we do business, we are developing the Arrive Alive Program. We will implement the program in selected countries where we have operations and face road safety challenges. We will also seek locations where government and nongovernmental organizations are receptive to partnering with us. We expect to have our first cooperative road safety initiative under way in early 2006.

### Lost-Time Incident Frequency

Incidents per million work hours



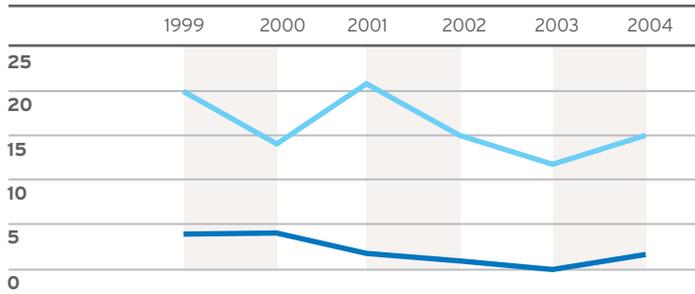
American Petroleum Institute data are used as the industry benchmarks.

Chevron Canada Resources geophysicist Janis Rose stands in front of a low-ground-impact seismic vibrator, which helps ensure our operations leave a minimal environmental footprint in the Canadian Arctic. The Taktuk 3-D seismic program in the 2003-2004 winter season was the first petroleum industry seismic program in the Mackenzie Delta to achieve zero incidents. That safety record was repeated in the 2004-2005 season.



## Work-Related Fatalities

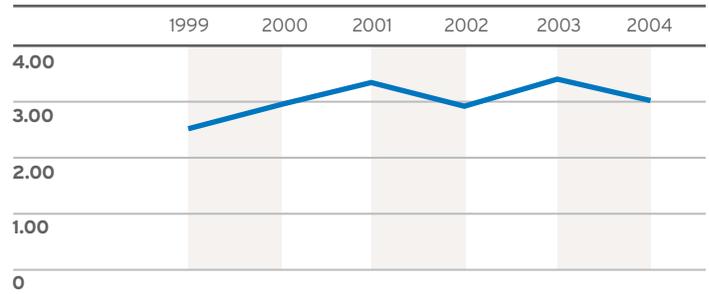
Number



	1999	2000	2001	2002	2003	2004
<b>Chevron Employees</b>	4	4	2	1	0	2
<b>Chevron Contractors</b>	20	14	21	15	12	15
<b>Total</b>	24	18	23	16	12	17

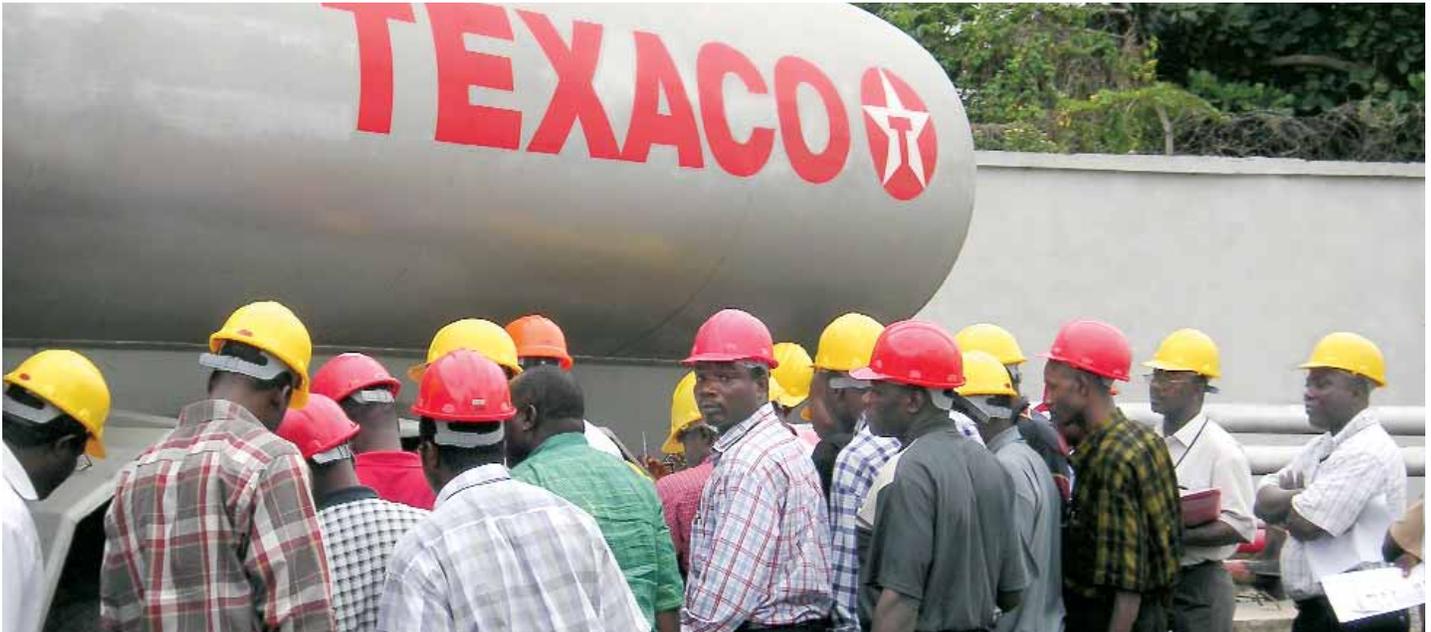
## Motor Vehicle Safety

Motor vehicle incidents per million miles driven (company vehicles)



	1999	2000	2001	2002	2003	2004
<b>Chevron Employees</b>	2.52	2.99	3.29	2.94	3.31	3.01

Chevron trains depot managers in Nigeria as part of our Project Preserve efforts to reduce the number of road accidents.



#### Working to Eliminate Truck Accidents in the Africa-Pakistan Region

Following a series of fatal accidents, Chevron launched a rigorous initiative to improve the safety of the company's product delivery fleet in the Africa-Pakistan region. The accidents included a head-on collision in Uganda that killed 40 people and an incident in Nigeria that resulted in two fatalities. Although the Chevron contract drivers involved in the accidents were not deemed to be at fault, the company nonetheless has taken action.

Chevron dispatched a five-person Project Preserve team to Nigeria to help local field operations improve truck and driver safety standards. The team worked under the direction of local management in Nigeria to

craft a program that could be implemented on the spot and enforced to 100 percent compliance. To achieve immediate results, the team first focused on the basic mechanical safety of the trucks. An important key to success was developing a phased plan to implement Global Marketing's truck standards. For greatest impact, the first objective was to implement the "critical few" standards 100 percent of the time. In Nigeria, these included items such as tire quality, working lights and seat belts. When those basics are met completely, additional safety standards will be implemented.

This project received the strong support of senior management, who actively communicated its importance to the entire organization.

Enforcing the new standard - and not loading any truck that did not comply - inevitably affected product deliveries, and management's willingness to accept nearly two weeks of business interruptions sent a clear message that the Nigeria field operations were serious about safety.

Since the program was launched in Nigeria in June 2004, no product delivery truck fatalities have been reported. The program is now being implemented throughout the 22-country Africa-Pakistan region. "Our objective is nothing less than to implement and enforce a 'zero is attainable' culture toward safety-related incidents in all areas of our business," says Bereket Haregot, vice president of Africa-Pakistan Marketing.

## Chevron's support for human rights is one of the core values articulated in The Chevron Way. We respect human rights in the conduct of our global operations, consistent with the role of business.

Chevron has long addressed many of the issues that fall under the umbrella of human rights, such as employment practices, nondiscrimination in employment, health and safety, and security of employees and company facilities. We also are committed to working with governments, business partners, the communities in which we operate and nongovernmental organizations to continue to help contribute to an environment in which human rights are respected.

We have always supported human rights around the world, consistent with the Universal Declaration on Human Rights, and we will continue to do so. Our support is clearly articulated in The Chevron Way. While the ultimate responsibility for protecting human rights rests with governments, we believe that we also have a role to play consistent with the role of business. Our existing policies and practices, support for leading initiatives, and dialogue with stakeholders are part of our commitment to this objective.

As with other aspects of corporate responsibility, helping our employees understand what support for human rights means in practice is an important priority. We have reviewed our policies, systems and

practices and have consulted with employees and experts. The first outcome of the review was the preparation of a draft Human Rights Statement. Grounded in The Chevron Way, we believe the statement will provide guidance to Chevron employees and act as a framework for constructive dialogue, both internally and externally. We are consulting with select business units to ensure that the statement will achieve the objectives we have laid out. Based on the results of the consultation, we intend to finalize the statement and determine whether any additional tools or training will be necessary to support our efforts. Our aim is to finalize the statement and materials and begin corporatewide deployment in early 2006.

In addressing this issue, we also have drawn upon leading initiatives that seek to support human rights. We support the Voluntary Principles on Security and Human Rights, which we helped develop, and we actively participate in a dialogue with other energy companies, nongovernmental organizations and governments that are involved in this effort. We communicate our security expectations to host governments where we operate, our business partners, and the private and public security forces with whom we sometimes work.

Our Global Security group continues to include the Voluntary Principles in its periodic formal Security Management Reviews. Individual Chevron business units are responsible for implementing the Voluntary Principles in accordance with local laws and conditions. We also encourage the U.S. government to engage with other countries in the importance of upholding human rights and the rule of law. In 2004, we adopted a new internal guideline that supports the Voluntary Principles. The guideline limits any support we provide host country security or law enforcement organizations to nonlethal defense and logistics.

In addition to the Voluntary Principles, Chevron was one of the original endorsers of the Global Sullivan Principles, which address a wide range of human rights issues, from equal opportunity to a safe and healthy workplace. These initiatives are examples of how Chevron draws on multistakeholder efforts to inform our policies and practices.

Dr. Tsola Kpiasi, medical director of Chevron Nigeria Limited, helps in the company's HIV/AIDS effort. In Cabinda, Angola, over a 10-year period ending in 2004, our AIDS programs, in cooperation with the local government, helped reduce HIV rates from 7 percent to 3 percent. In another Cabinda project, a company-sponsored blood bank in the local hospital reduced from 25 percent to 1 percent the number of HIV cases caused by transfusions of infected blood.



One of the greatest health threats the world faces today is the spread of HIV/AIDS, a disease that has claimed the lives of an estimated 3.1 million people in 2004. In that same year, an estimated 40 million people throughout the world were living with HIV, including the nearly 5 million people who had newly acquired the virus. The disease has devastating consequences for people, societies and economies across the globe.

HIV/AIDS poses a significant risk to Chevron employees and families, the communities in which we operate, and ultimately, our business. As a company with operations in approximately 180 countries, including many places with a high prevalence of the disease, we see the effects of HIV/AIDS daily.

In 2003-2004, Chevron was proud to be among the first companies of our size and scope to develop a global HIV/AIDS policy and a comprehensive plan supporting its rollout. Formal implementation of the policy began in early 2005, building on earlier HIV/AIDS efforts that were well under way within our South Africa, Nigeria and Angola operations.

The objectives of Chevron's global HIV/AIDS policy and programs are to reduce exposure to HIV/AIDS; secure support, care and treatment, where available locally; and engage partners in international and local communities in implementing effective programs to address the disease. In developing the policy, we examined the impact the disease has or may have on our employees and their families. We considered the expert guidance of the Global Business Coalition on HIV/AIDS, the International Labor Organization and other agencies.

Some provisions in our resulting policy include:

- Developing education and prevention programs in areas where we operate.
- Advancing the company's intent and long-term goal to secure treatment for employees and dependents in their country or region of employment.
- Administering the respective benefit plans so that employees who become ill with HIV/AIDS are treated like other employees with a life-threatening illness.
- Reconfirming that employees ill with HIV/AIDS are protected from discrimination under the company's existing nondiscrimination and nonharassment policies.
- Ensuring the confidentiality of an employee's HIV/AIDS status, unless otherwise required by law.
- Refraining from conducting pre-employment HIV testing, except as required by law.

#### Implementing the Global Policy

We remain firmly committed to having all Chevron locations implement the policy. We recognize that this will be a considerable undertaking. As a first step, each business unit, operating region or operating company will conduct a situation analysis to

understand the health threat posed by HIV/AIDS to employees and the company, as well as to assess the availability of local resources for testing, counseling and treatment. Local action plans will be developed for implementation of the policy in subsequent years.

At the corporate level, Chevron will provide initial funding and dedicate full-time professional staff to assist the business units in implementing the policy and ensure a coordinated approach. Initial funding priority will be given to regions with high or rapidly increasing prevalence rates, such as sub-Saharan Africa and parts of Asia and Latin America.

We believe this issue is best addressed through a collective approach with governments, the private sector, communities and multilateral organizations. Therefore, Chevron will continue to collaborate on this issue and explore new opportunities for innovative partnerships that will help us move forward on implementing our global HIV/AIDS policy.

## Business Ethics

Chevron is committed to upholding our values, conducting business with the highest ethical standards, and fully complying with the spirit and letter of the law in the countries where we do business. The Chevron Business Conduct and Ethics Code (BC&E Code) outlines our policies on how we conduct ourselves and operate around the world. Issues covered by the BC&E Code include conflicts of interest, public-policy activities, gifts to officials, antitrust and competitive practices, privacy of personal information, and nondiscrimination, among others. The BC&E Code can be viewed online at [www.chevron.com/biz\\_conduct](http://www.chevron.com/biz_conduct).

The BC&E Code also includes the company's policy to comply fully with the U.S. government's Foreign Corrupt Practices Act (FCPA). Payments to international officials or parties for the purposes of obtaining or retaining business is strictly against Chevron policy, even if refusal to do so may cause the company to lose business. In instances where officials expect payment to expedite the proper performance of "routine governmental action" - a practice allowed under the FCPA - Chevron requires all such requests be forwarded to our chief compliance officer for review and approval.

Chevron directors and employees are required to read or be trained in the BC&E Code. Recognizing that no document can provide definitive guidance in all situations, we ultimately must rely on our employees' adherence to the company's high standards.

## Updating Our Ethics Code

In 2004, we began updating our BC&E Code to ensure it clearly conveys our principles of conduct to our global workforce. The revised BC&E Code will be translated into as many as 12 languages. All Chevron directors and employees will be required to read, acknowledge and state that they will abide by the BC&E Code no later than December 31, 2005. The code will be communicated to all employees by July 2005 via the company's intranet and in booklet and compact disc format.

## Ensuring Compliance With Our Ethics Code

Chevron has an effective compliance program with a structure of shared responsibility. A corporate compliance policy committee governs the companywide compliance program. Additionally, in early 2005, Chevron appointed a chief compliance officer who reports to the company's vice chairman. Chevron operating companies and corporate departments have their own Compliance/Audit committees. Annually, all operating companies and corporate department heads submit a Representation Letter to the corporation confirming they have processes in place that are effective and provide a reasonable assurance of compliance with all applicable policies, laws and regulations. Corporate compliance audits are conducted by the Internal Audit department to help ensure that compliance processes are functioning properly. The Audit Committee of the Board of Directors reviews the company's internal auditing practices and is responsible for corporate compliance oversight. In addition, the Audit Committee is responsible for hiring the company's external auditors and for their oversight, including approving the overall audit plan.

## Internal Audits

As part of our robust audit process, we conduct numerous rated internal audits each year to ensure compliance with applicable policies, laws and regulations. Also in 2004, Chevron conducted a number of additional nonrated audits, which included contractor audits, investigations, internal controls consultation and, for 2004, Sarbanes-Oxley Readiness Reviews. (One requirement of the Sarbanes-Oxley Act, passed by the U.S. Congress in 2002, is for companies registered with the U.S. Securities and Exchange Commission to file a Management Report on Internal Control Over Financial Reporting.) The readiness reviews were designed to alert locations of any actions that needed to be taken in order to be in compliance with the Sarbanes-Oxley requirements and pass the company's external audit review. Based on its assessment, Chevron management concluded that the company had no "material weaknesses in its internal control over financial reporting,"

and the company's external auditors agreed with this conclusion. In the future, Sarbanes-Oxley requirements will be reviewed as part of our compliance audits.

## Reporting Violations

Chevron's BC&E Code requires that instances of questionable conduct in any area be reported. Any director, employee or contractor who believes another director, employee or contractor has violated the company's policies or local laws is obligated to report the violation to management, legal counsel, the appropriate operating company compliance committee or the Chevron Hotline. We uphold our policy of protecting whistle-blowers from retaliation.

Any matter submitted to the Chevron Hotline may be made anonymously if the caller so chooses. The hotline is operated offsite by Global Compliance Services (AlertLine®), an independent agent. After AlertLine® receives and logs an incoming matter, it is sent to and investigated by the business organization's appropriate hotline representative. All hotline matters are reviewed by the corporation's chief compliance officer and law department and, if warranted, are elevated to the Audit Committee of the Board of Directors. All subsequent corrective or disciplinary action, which may include termination, taken against individuals who violate the BC&E Code is handled at the local level.

In 2004, AlertLine® received 185 hotline calls. While the calls covered a wide variety of concerns, the largest percentage pertained to three classifications:

- Human resources (56 percent)
- Legal and regulatory (13 percent)
- Environment, health, safety and security (11 percent).



Rafael Castellano and Fernando Barboza view the water injection unit of platform LL-652 in Lake Maracaibo, Venezuela. One way our operations here and in other countries support communities is through purchases from local suppliers.

## Throughout our operations, Chevron relies on a large network of suppliers to meet the requirements of our global business. In 2004, Chevron spent approximately \$20 billion globally on goods and services from our suppliers.

Our community of suppliers ranges from large multinational firms to locally based small- and medium-size enterprises. Sourcing decisions are driven by many factors, such as supplier capabilities, consistency and quality of supply, cost, and demonstrated ability to comply with our safety, reliability and environmental standards.

We are committed to building a global supplier base that provides the best, most cost-effective products and services throughout their life cycle. Our sourcing strategies also focus on developing a supplier base that reflects the diversity of our customers, host communities and the markets we serve. This includes targeted efforts to utilize in-country supplier bases.

To meet these commitments, Chevron focuses on building the capacity of businesses by providing resources and opportunities to targeted sectors, including small- and medium-size enterprises, minority- and women-owned suppliers, and local businesses. This approach helps foster economic growth in the communities in which we operate.

### Supplier Diversity/Small Business Initiatives

In the United States, Chevron's supplier diversity program has a strong track record of extending business opportunities to small enterprises and companies that are owned by women, veterans and minorities. This is a result of our strategies that emphasize outreach to identify new potential suppliers and the inclusion of small and diverse firms in the competitive-bidding process.

We provide training and support to small and diverse suppliers, which creates opportunities for them to do business with Chevron and enhances their overall business acumen. For example, we partnered with Cisco Systems; the U.S. Small Business Administration; and the University of California, Los Angeles, Anderson School of Business to create the Management Development for Entrepreneurs Academy at San Jose. This innovative program is tailored for small and diverse suppliers of Chevron and Cisco. In 2004, 34 suppliers participated in the four-day intensive certificate program, which included development of individual business-improvement plans.

Our commitment to source from small and diverse firms is reflected in the aggressive goals we set. In 2004, we spent approximately \$1.4 billion on purchases from small businesses in the United States, exceeding our goal of making 27 percent of our total U.S. purchases from small businesses. We also spent a combined total of approximately \$450 million with women- and minority-owned businesses, although we fell slightly short of our 5 percent spending goal for each category.

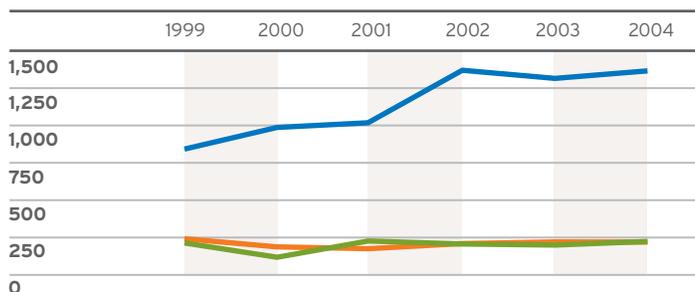
In addition to co-sponsoring the 2004 annual conference of the Women's Business Enterprise National Council and leading a panel on tools for business success, we were:

- Honored for the second year as a Top Corporation by the Women's Business Enterprise National Council for providing opportunities to women-owned businesses.
- Voted one of the Top 50 Corporations for Multicultural Business Opportunities by the *DiversityBusiness.com* online survey.
- Named Corporation of the Year by the Houston-based Women's Business Enterprise Alliance.

Chevron employees also were recognized for individual efforts in this area. In 2004, an employee earned the Buyer of the Year award from the Northern California Supplier Development Council. Another employee won recognition as Small Business Advocate of the Year at the Black Expo held in Oakland, California.

### U.S. Small Business/Supplier Diversity Expenditure

US\$ million



	1999	2000	2001	2002	2003	2004
<b>Small business</b>	840	984	1,015	1,364	1,310	1,360
<b>Women-owned business enterprise</b>	244	190	178	212	223	222
<b>Minority-owned business enterprise</b>	216	121	229	209	202	226

In Indonesia, where unemployment for young people is still high, our subsidiary P.T. Caltex Pacific Indonesia supports youth in their home communities by offering vocational training programs, such as the Putri Tujuh Weaving Project in Dumai. Here, Murhayati learns to weave traditional sarongs. Thus far, the project has produced and sold some 2,400 pieces.



## Sourcing From Local Suppliers

In the communities in which Chevron operates outside the United States, we seek to source from local businesses whenever possible. Chevron has developed programs in many locations that assist local businesses in developing the skills and capacity they need to work with our company and the industry in general to grow their businesses.

Our business units' local-content programs provide local businesses with a variety of tools, which include skills training and technical assistance, market access, business planning, and financing alternatives. The following pages highlight examples of some of our programs.

## Supplier Forums

In our international upstream operations, supplier forums are used to educate global and local suppliers on the requirements of doing business with Chevron and to support individual business units' local-content initiatives. In 2004, our business units conducted supplier forums for the first time in Venezuela and Angola and held a second forum in Kazakhstan. The company hosted similar events the previous year, including one in Nigeria.

We also encourage our global suppliers, when appropriate, to partner with local enterprises. The supplier forums help initiate relationships between local and

global businesses. They also educate our suppliers about operational excellence at Chevron, including the safety standards and reliability requirements that are critical elements of our sourcing process.

The supplier forums serve a broader purpose as well. The partnerships that have developed between local and global suppliers have created new opportunities for local businesses beyond supplying Chevron. This is key to their long-term success and helps them contribute to the local economies through job creation and income generation.

At the Fortuna company, sponsored by Chevron and joint-venture partner Tengizchevroil through the Atyrau Business Incubator Program in Kazakhstan, Dina Amaniayzova puts logos on uniforms for oil and gas workers.



#### Extending Loans to Local Businesses in Kazakhstan

The Kazakhstan government has strongly promoted small business growth as a key strategy for developing and stabilizing the country's economy. We are continuing to support these efforts through the Small Business Development (SBD) Program of Chevron's limited liability partnership Tengizchevroil (TCO). The program makes loans to local entrepreneurs and companies that supply TCO as well as to companies that can benefit the local economy. Since 1997, 157 small Kazakh enterprises have received interest-free loans through the program, totaling \$5.7 million, which has helped create nearly 2,000 jobs.

For example, Tilekshy, a Kazakh company that specializes in fishing in the Ural River and the coastal waters of the Caspian Sea, needed to make facility improvements and update its equipment but did not have available capital. Using \$100,000 in TCO financial assistance, in 2004 Tilekshy installed an automated fish-production line, vacuum-packaging line and mechanized smoking chambers. This investment helped Tilekshy improve the quality and diversity of its products. Since then, TCO has purchased Tilekshy's fish products to serve in employee cafeterias in Atyrau and Tengiz.

Welder Samson Fregene participated in the Chevron-sponsored Technical Skills Acquisition Program for local entrepreneurs in Warri, Nigeria.



#### Creating a Local Business Opportunity in Nigeria

Chevron Nigeria Limited (CNL) expects that by 2007, 90 percent of what it spends on goods and services will come from Nigeria-based companies. In 2004, CNL spent \$435 million, excluding state taxes, with local suppliers. Among those providing services to CNL is Nigeria's first Advanced Technology Center for Subsurface Studies. The center is equipped to conduct high-end technical studies, including geostatistical reservoir modeling and compositional fluid flow simulation, reservoir audits, improved reservoir characterization, and horizontal-well performance audits.

CNL teamed with a local company, Vision Reservoir Management Technologies International, to help establish the new center and acquire the necessary financing. CNL also donated geological equipment and \$150,000 to secure a three-year leasehold on the facility that Vision Reservoir will operate. The center was awarded a \$540,000 contract to provide services to CNL in 2004.

To protect forest land that might otherwise be tilled for farming, subsidiary ChevronTexaco Energy Indonesia Limited works with government and local communities to provide alternative means of generating income, such as the Garut sheep breeding and beefing project.



#### Local Business Development in Indonesia

P.T. Caltex Pacific Indonesia (CPI), a Chevron subsidiary, recognized that small, local businesses and cooperatives in Indonesia needed greater opportunities to develop supplier relationships with large multinational companies. CPI's Local Business Development (LBD) Program helps these businesses become reliable, professional and competitive suppliers to the company. It also streamlined its administrative process to minimize the barriers faced by small enterprises.

Small businesses new to the program receive training on CPI purchasing processes and project management, information on industrial health and safety issues, project management skills, and advice on financing and taxation issues, with emphasis on CPI's business ethics. As small enterprises become first-time suppliers to CPI, they tend to learn by doing and gradually gain the competencies and capacity needed to become long-term CPI business partners, as well as suppliers to other major companies.

Since the program was launched in 2001, CPI has registered 659 small local enterprises, including 134 in 2004. The collective value of business transactions for LBD participants has steadily risen, from \$1.5 million in 2001 to \$3.9 million in 2004. In 2005, it is estimated that this figure will rise to \$4.5 million.

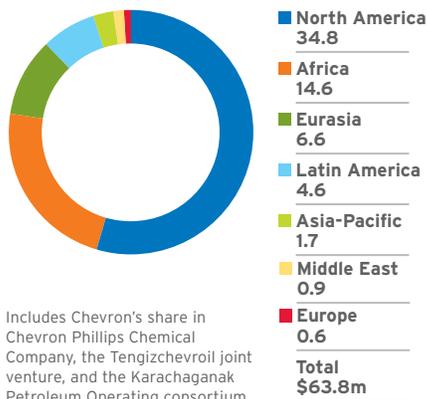
Chevron sponsored vocational training for 15 boys in an Almaty orphanage. The program was designed in partnership with Alina Limited, a Kazakhstan company that manufactures paints, plaster and other construction materials.



Discovering, developing and delivering energy takes us to nearly every corner of the globe, across a variety of cultures, environments and circumstances. One issue that remains constant is the importance of developing and maintaining positive relationships with local communities.

## Global Community Investments (2004)

Amount spent in US\$ million



Includes Chevron's share in Chevron Phillips Chemical Company, the Tengizchevroil joint venture, and the Karachaganak Petroleum Operating consortium.

## Approach

Our business success depends on our ability to gain access to resources and remain a welcome neighbor in the places in which we live and work. To earn that, we must both be good at our business and distinguish ourselves by positively contributing to the quality of life in the countries where we operate.

In 2004, Chevron invested an estimated \$63.8 million in community initiatives and projects around the world. A large portion of these funds were invested in programs that build capacity, such as health and education and small business development. A smaller portion of funds were used to support arts and culture and environmental projects.

## The Challenge

In many of the places in which Chevron operates, poverty presents a barrier to achieving a higher standard of living and quality of life. For Chevron, helping combat poverty is not solely a moral or ethical imperative, it is also a business imperative. Our success depends on stable operating environments, sound governance systems, trained and skilled employee pools, and the existence of markets for our products.

Poverty undercuts all of these, and our approach to community engagement is designed to help address this challenge.

## Capacity Building

Our experience with community engagement initiatives has led us to redefine our approach toward a more coordinated and sustainable model. We will increasingly focus our community investment efforts on helping create economic growth through human and institutional capacity building. This is driven by our belief that communities prosper when people are able to help themselves and are supported by an environment that enables them to pursue their ambitions. We will target our resources toward the three areas we consider critical to economic development:

- Basic human needs
- Education and career training
- Small- and medium-size business development and access to credit

We believe this approach will have greater impact by helping create sustainable, scalable projects aimed at removing critical barriers, building human and institutional capacity, and stimulating economic development. We also recognize that strong partnerships with host governments, local communities, nongovernmental organizations and multilateral institutions will be essential in ensuring the success of any project.

“Chevron and USAID have developed a partnership in the truest sense. It is a relationship based on sharing the “three R’s”: respect, risk and rewards. As a government development agency and a private enterprise collaborating on economic opportunity and growth for the world’s poorest, we have worked hard to build trust and an understanding of the assets each brings to these development challenges. This strong foundation is the base for innovative public-private alliances we have forged together across the globe.

Chevron’s focus on economic opportunity reaches beyond traditional philanthropy. Investing in people – helping them to attain the skills, jobs and financing they need to support themselves – offers the best prospect for sustained impact on families and communities. USAID welcomes this focus, and the opportunity to join forces with Chevron in making a difference for those most in need.”

Holly Wise, Founder,  
Global Development Alliance, United States Agency for International Development

## Going Forward

Finding ways to adequately measure and evaluate our community programs is an area we seek to strengthen. On some projects, Chevron has begun setting goals and establishing metrics to measure short-term successes and long-term benefits. While dollars spent is one metric, we believe that the best measures are based on outcomes. Projects focused on capacity building often take years before the benefits to a community are fully realized.

We are working to define and develop the necessary internal capacity to administer, manage, fund and measure these various initiatives. We have come to appreciate that our approach to community engagement demands significant time and resources as well as the right skills and competencies of our employees.

Finally, as we focus more of our funding on capacity building and economic development initiatives, it may mean a shift away from some earlier programs not aligned with this new emphasis. We are considering ways to thoughtfully and effectively manage the effects such shifts may have on those communities and organizations.

Subsidiary P.T. Caltex Pacific Indonesia has sent medical teams to refugee camps in Nangroe Aceh Darussalam province to provide health services for victims of the December 26, 2004, earthquake and tsunami catastrophe.



#### Responding to the Tsunami

As news of the December 2004 tsunami disaster spread, Chevron quickly learned that all employees in South Asia were safe, although many of their family members were affected. We immediately took action to support relief efforts, making early contributions totaling \$2 million that were used for urgently needed humanitarian relief in nations hardest hit, especially Indonesia.

In the weeks following the tsunami, it became evident that while the immediate crisis was being addressed, a massive and unprecedented recovery and rebuilding effort would be needed. Chevron responded by pledging an additional \$10 million over the next three years to fund programs aimed at restoring and strengthening the devastated communities. We intend to apply our experiences in other countries to the task, actively developing, managing and participating in collaborative projects to ensure lasting, positive benefits.

Before launching any significant projects, we are conducting a comprehensive needs assessment, consulting with our local business units, engaging key stakeholders, and seeking partnership opportunities in order to best serve the interests of those most affected by the tsunami. The major focus will be in Indonesia, where Chevron has an 80-year history and is a major producer. Some projects will help communities in neighboring countries.

NovoBanco, supported with funding from Chevron, is a microlending and full-service bank providing much-needed financing for small businesses in Angola.



#### Angola Partnership Initiative Update

Chevron's wholly owned subsidiary Cabinda Gulf Oil Company Limited has successfully maintained its operations in Angola since the 1950s, even through a nationally debilitating 30-year civil war. When peace took hold in 2002, Chevron committed to help efforts to rebuild the country.

At the end of 2002, Chevron announced the five-year, \$50 million Angola Partnership Initiative (API), pledging \$25 million to the effort. Key API partners include the Angolan government, the United States Agency for International Development (USAID), the United Nations Development Programme and several nongovernmental organizations.

The initiative's overarching goal is to build human and institutional capacity. A variety of projects are well under way, covering job training and creation, microlending, and business development services to incubate local enterprises, including efforts to restart Angola's agricultural sector.

#### Providing Access to Credit

In August 2004, the first NovoBanco branch opened in the Angolan capital, Luanda, and immediately began providing much-needed financing to small enterprises - the first full-service bank in the country to focus on this need. Supported with funding from Chevron, USAID and several European development institutions, NovoBanco makes loans of up to \$15,000 to Angolan citizens operating their own businesses. Up to 10 new branches are planned over the next five years to serve all of Angola's major towns in this way.

In Angola, we help fund the Discovery Channel Global Education Partnership, which trains teachers to use technology as a teaching tool and which uses interactive teaching methods to involve and interest students in learning. Chevron support has helped the program establish six learning centers in Cabinda province, and the program is expanding to Bengo and Huambo provinces.



#### Bringing Technology to the Classroom

Through an alliance between Chevron and the Discovery Channel Global Education Partnership, local school children in the Cabinda, Bengo and Huambo provinces in Angola are experiencing a world beyond their own. During 2004, 19 learning centers were furnished with TV and video equipment. Over the next three years, up to 80,000 students will benefit from the technology, and more than 300 teachers will be trained to operate it. This project supports the goals of Angola's Ministry of Education and Culture to advance professional development for teachers and increase learning opportunities for school children. The words of one Huambo teacher speak volumes about the project's impact: "You came to renew in us the trust and confidence that in this world, shattered by hate and discord, we are not alone."

Chevron is providing \$1.2 million in new funding to the Discovery Channel Global Education Partnership to expand the program in Angola as well as extend it to communities in South Africa and Venezuela.

#### Going Forward

Chevron is committed to API's long-term goal of capacity building and will continue to support efforts that advance this goal. In 2005 and 2006, we will continue to promote commercial seed production in Angola to build the country's agriculture sector. We will also provide support for those reintegrating and resettling after the years of civil war. Finally, we will develop a long-term initiative to help develop Angolan nongovernmental organizations (NGOs) and governmental development agencies.

“Over the years, CNL’s goal has been to contribute to the economy and quality of life of people in the region,” says Jay Pryor, managing director of Chevron’s Nigerian business unit.

The Technical Skills Acquisition Program in Warri provided training to business center office manager Evelyn Wilkey.

Company-sponsored engineering trainees Monisola Odunuga (foreground) and Oyenike Oyedele on the Roy Butler Platform offshore Niger Delta.



## Q&A With Jay Pryor, the Managing Director of Our Nigerian Business Unit

**Q: Can you comment on the company’s role in the Niger Delta?**

A: Chevron Nigeria Limited (CNL) works hard to play a positive role in the Niger Delta, a region rich in people and resources. Over the years, CNL’s goal has been to contribute to the economy and quality of life of people in the region. In addition to the tax and royalty payments we make to the government, we have spent – and continue to spend – millions of dollars in community investments to build schools, furnish scholarships, support skills development and promote health care programs, including the sponsorship of HIV/AIDS awareness programs for our employees and the communities in which we operate. We also promote economic capacity building by creating jobs – our workforce is more than 90 percent Nigerian – and by contracting goods and services through local businesses. Finally, CNL operations promote the highest ethical and environmental standards. However, the Niger Delta presents complex issues. While we believe that the major issues are primarily the responsibility of the Nigerian government, CNL recognizes that we have a role to play by supporting government efforts and pursuing our own corporate responsibility initiatives.

**Q: Despite these efforts, community dissatisfaction in the Niger Delta persists. What are you doing to respond?**

A: It is important to recognize that no one alone can solve the issues of the region. All stakeholders – including governments, communities and civil society, and companies – need to work together to address the needs of the region and create a peaceful place to live and work. CNL is committed to doing its part through dialogue and by targeting programs to build capacity and contribute to economic growth. Since the oil industry is more capital-intensive than people-intensive, we are increasingly focusing our economic empowerment efforts on such areas as agriculture and small-scale business development, including providing microcredit opportunities. To leverage expertise and resources, we are also increasingly encouraging more participatory partnership opportunities with nongovernmental organizations (NGOs), donor agencies, government development agencies – including the Niger Delta Development Commission (NDDC) – state governments, and other oil companies.

**Q: Are you using any new approaches to manage the complexities in the region?**

A: We are constantly looking at new ideas. One new approach is to work with regional development councils. This broadens our reach beyond our immediate host communities. The shift will allow for development to occur

regionally, with greater dialogue and transparency as community members participate alongside representatives of state governments, NGOs, donor agencies and CNL to plan, implement and monitor development initiatives.

**Q: Does CNL work with the government on the development of the Niger Delta region?**

A: Yes, we do. For example, in 2004, CNL contributed about \$30 million from our annual budget to the NDDC, the lead government agency responsible for development of the region. That is in addition to the community investments CNL makes through our own programs. We welcome opportunities to work with state governments to address specific needs in the region. Our hope is that through constant engagement with the state governments in the area, the 13 percent of oil revenues allocated to them by the federal government will be used judiciously for development.

**Q: Does CNL incorporate the Voluntary Principles on Security and Human Rights?**

A: Yes. The management of our security operations is consistent with the Voluntary Principles. For example, despite the fact that government security forces deployed to our locations do not take direct instruction or orders from us, we make it clear that undue use of force on community members will not be tolerated and that the rights of all citizens must be respected at all times.

In 2004, Chevron donated \$1 million to the New Orleans, Louisiana, Public School's Signature Schools Program, which provides students with job-shadowing opportunities, internships and field experiences related to their potential career choices.



#### Building Capacity in U.S. Communities

In 2004, Chevron expanded our community engagement efforts with a nearly \$9 million initiative aimed at building long-term capacity through education and training in nine U.S. locations.

At the end of 2004, major new projects in New Orleans, Louisiana; Washington, D.C.; Houston, Texas; and four locations in Mississippi were funded, and plans were under way to initiate projects in several California communities in early 2005. All the projects have an educational component, ranging from early literacy to job-skills training.

For example, Chevron contributed \$1 million to advance the New Orleans Public Schools' Signature Schools Program for high school students.

The program provides specialized training in areas such as automotive technology, aviation, aerospace science and technology, environmental and medical science, and culinary arts, while allowing students to complete their regular courses. After successfully completing the program, students should be ready to enter college or an advanced training program, or to obtain a job. At the end of 2004, approximately 600 students were enrolled.

#### Creating Opportunity in Latin America

Chevron has long invested in education, vocational training, health care and other community programs throughout the Latin American and Caribbean countries in which we operate. Our investments help individuals increase their skills and capabilities, enabling them to contribute to sustained economic growth in their communities.

One example is the Majayura Social and Business Development Center in Riohacha, Colombia. Chevron is collaborating in this project with the Pan American Development Foundation, the La Guajira state government and several other national and international organizations. The center's original objective was to help 230 vulnerable families displaced by violence, but it now has a far wider impact, providing an estimated 2,500 people with health services and informal job training.

During 2004, the center trained nearly 700 people for a variety of occupations in fields such as construction, apparel manufacturing, commercial baking and computers. Since 2003, workers trained at the center have filled 122 jobs at the company's production units and another 520 jobs created indirectly by the company's operations.

Chevron has provided 40 percent of the funding over the project's three-year duration - approximately \$300,000, of which half was contributed in 2004. To successfully sustain the project, additional resources will be required for working parents, business development services and permanent housing. We have already begun efforts to establish a day-care center so parents have a safe place to leave their children during working hours.

**Below** Project director Ben Wallace (left) and a local resident inspect seedlings as part of Good Roots, a project supported by Chevron subsidiary Caltex (Philippines) Inc. that has helped some 180 household communities with farming and tree planting in La Union, Philippines. Each Good Roots project spans five years, allowing enough time to train farmers and ensure long-term sustainability. **Right** Team member Antonio Garvida.



### Contributing to the Environment and Economic Growth in the Philippines

Supported by Caltex (Philippines) Inc., a wholly owned Chevron subsidiary, Good Roots takes a hands-on approach to environmental preservation, focusing on regenerating forests while helping rural farmers improve their livelihoods.

It is estimated that at the beginning of the 20th century, there were 617 million acres (250 million hectares) of forest in Southeast Asia. By the end of the century, only

148 million acres (60 million hectares) remained. Good Roots addresses this issue by engaging rural farming families and encouraging them to plant a variety of hardwood and fruit-bearing trees most suited to the land. Participating farmers are then provided seedlings, technology and technical training. As the trees mature, they become a renewable source of income for the farmers.

Each Good Roots project spans five years, enough time for project technicians to work with farmers and ensure the project's

long-term sustainability. Recent project locations have included Lobo, Batangas, and Pugo, La Union.

Since 1992, Caltex has invested more than \$850,000 in Good Roots and has committed an additional \$280,000 for a new project to be launched in Baguio in 2005. The U.S.-based Southern Methodist University and the Philippines' Department of Environmental and Natural Resources have also contributed to what are now visible results - thousands of trees thriving in Pagudpud and Lobo.

The relationship between a country's natural resource wealth and its social and economic development has been the subject of attention in recent years among government, industry and nongovernmental sectors. Of particular concern are situations in some countries and regions in which stagnant or declining economic growth persists despite the existence of valuable natural resources.

Many agree that one strategy for combating this phenomenon is through improved transparency about the financial arrangements between energy-producing countries and the extractive industries. Greater transparency of energy-related revenues can lead to better governance and more accountability and can help create an informed citizenry. Moreover, leaders of resource-rich nations, along with energy companies and others, have come to appreciate how revenue transparency can contribute to greater social stability and help create a climate that encourages investment and fosters economic growth.

Chevron continues to advocate for greater transparency and supports the Extractive Industries Transparency Initiative. Our position on this issue is that:

- Decisions on transparency and disclosure must be voluntarily made by each energy-producing country, as the resources belong to them.
- Transparency requirements must be inclusive - not unilateral - by applying the same disclosure standards to governments and companies.
- Transparency processes must honor the sanctity of contracts.

During 2004, in partnership with our host governments, we continued our efforts to advance transparency. In Nigeria, this includes ongoing participation in the National Stakeholders Working Group, which is assisting the government in its efforts to enhance revenue transparency.

We also worked constructively with the Angolan government in advance of its extension of a contract to our company's Angolan subsidiary. The result was a groundbreaking public announcement in 2004 by the Angolan government and Sonangol, the national oil company, of the \$210 million signing bonus and an additional \$80 million social bonus, part of which was targeted

specifically for the Cabinda province, paid by the association partners under terms of the extension agreement.

Chevron also negotiated a Production Sharing Contract (PSC) with the Nigeria-São Tomé e Príncipe Joint Development Authority (JDA) on Block 1 in the Joint Development Zone. Chevron's \$123 million bid for the block was accepted by the JDA, and the contract was signed in early 2005. The contract contains a transparency clause that commits the JDA to publicly disclose payments made

to them under the contract quarterly. The disclosure of future payments is in keeping with the transparent manner in which the bid round was conducted.

Chevron credits the two governments for initiating the transparency requirements in the contract, which indicates their resolve and commitment to a new standard of accountability. We have long believed that any effort to address the management of oil revenues should be led by affected governments, not imposed on them by others.

“ [In the results of the Measuring Revenue Transparency Index, Chevron's weighted overall score was 28.7 percent, which placed it fourth out of 25 companies overall.]

Of the seven companies with operations in Angola that were surveyed, only Chevron disclosed details of a payment... While companies argue they cannot act unilaterally for fear of damaging their relations with the Angolan government, the approach taken by Chevron shows that it is possible to work with the government to achieve greater transparency.

Chevron... made an important announcement on 1 February, 2005. Chevron JDZ Limited signed a production sharing contract (PSC) with the Nigeria-São Tomé e Príncipe Joint Development Authority. Chevron will operate the project, and the co-venturers include ExxonMobil and Dangote Energy. The PSC contains a transparency clause which requires that all payments (including production bonuses, signature bonuses, and profit oil and lifting costs) be disclosed to the Joint Development Authority, which will then, in accordance with the terms of the clause, publish this information on its website. This is an important step forward in the drive towards greater revenue payments transparency, and inclusion of this transparency clause in a PSC is an encouraging development. It also demonstrates the power of the collective voluntary approach in supporting transparency.

While companies must be credited for their collaborative, negotiated initiatives with host governments, this means that progress is slow and proceeds on an ad hoc, piecemeal basis; the good performance demonstrated in one country... is not replicated in other countries of operation. [The recommended approach] is systematic disclosure of payments for every country of operation.”

Excerpts from "Beyond the Rhetoric," a report by Save the Children UK, published in 2005

Through a constructive, practical approach, Chevron exercises our fundamental right and responsibility to influence public-policy decisions in ways that are in the best interests of our company and our stakeholders, which include stockholders, employees, customers and communities.

Where permitted by law, we engage in public-policy debates; directly and indirectly lobby public officials and institutions; and at times support political candidates, parties and campaigns. All of our activities are governed by our commitment to the highest ethical standards, transparency, and compliance with all applicable laws and regulations governing lobbying, political contributions and gifts.

#### Participating in Public-Policy Debates

We believe real value is added to the public-policy debate and decision-making process by contributing the opinions of Chevron and our employees, who are encouraged to make their views known in the appropriate public forums and to elected officials. At times we also engage in policy debates in countries outside the United States, but only if permitted by the laws and customs of the particular country. This would include taking positions on issues that affect our company or our employees.

#### Lobbying

Lobbying is an essential and constructive part of the political process. As a stakeholder, Chevron seeks to work ethically, constructively and in a bipartisan manner to influence public-policy decisions by sharing information and advocating our view on issues or proposed legislation. We do this through direct communication with public officials and indirectly by encouraging our employees, stockholders and others to communicate with those officials. Chevron also participates in trade associations or other organizations that engage in lobbying. Chevron complies with all government-imposed registration and reporting regulations related to our lobbying activities.

#### Political Contributions

Where permitted by law, political contributions are allowed under corporate policy and are subject to strict internal approval processes and procedures, regardless of the amount or the country of origin. All requests for these contributions are planned, budgeted, legally reviewed and approved by management in advance. Chevron makes contributions to political candidates and political organizations that support economic development, free enterprise and good governance. In determining our support of candidates, we consider their prior voting records on issues of importance to Chevron, their leadership or committee assignments, whether they generally have a pro-business philosophy, and whether the company or our employees have a constituent relationship.

In the United States, corporations are prohibited by law from making contributions to candidates running for U.S. federal office and certain state and local offices. Where permitted, Chevron makes contributions to state and local candidates and to political parties and committees. Contributions also are made to support our views on local and state ballot measures.

Outside the United States, it is our practice to make political contributions only in limited instances and in accordance with all laws and regulations governing those contributions. These contributions support candidates and parties whose public-policy positions are aimed at encouraging both energy development and broad, sustainable economic growth to benefit society.

In 2004, Chevron made more than \$2.3 million in corporate political contributions in the United States, of which 43 percent went to politically affiliated candidates and organizations and the remaining 57 percent went to ballot initiatives or organizations not affiliated with a political party.

During the year, we also launched a new internal Web site aimed at providing greater transparency and fostering participation in the U.S. political process among employees. The site contains a listing of the company's political contributions, information about candidates, an online voter registration mechanism and the ability to request absentee ballots. It is Chevron's policy to furnish a list of all political contributions to any stockholder upon written request.

#### Chevron Employees Political Action Committee

The Chevron Employees Political Action Committee (CEPAC) is a forum for eligible employees to voluntarily contribute limited amounts to a fund that supports the election of candidates for federal and certain state offices in the United States, as authorized by and in accordance with applicable laws. CEPAC provides a collective mechanism for Chevron employees to exercise their right to participate in the democratic electoral process. CEPAC is voluntary and employees' participation is not shared with the company's management. Unless participants designate their contributions for a specific candidate, the CEPAC board determines which candidates to support. By policy, CEPAC does not make contributions to presidential candidates or political parties.

During the 2003-2004 election cycle, CEPAC contributed \$457,430 to U.S. federal, state and local candidates. A list of contributions made during 2003-2004 can be viewed on the Federal Election Commission Web site.

As part of a larger project with the U.S. Postal Service (USPS) to make energy-efficiency improvements at several facilities, Chevron Energy Solutions installed a 403-kilowatt solar photovoltaic canopy at a USPS facility in Sacramento, California. With upgrades at this facility and several others in Northern California, the USPS expects to save more than \$2 million per year in energy costs (see case study on page 50). Photo courtesy of PowerLight Corporation.



### Lobbying for Energy Efficiency

Energy efficiency is a focus in both our own operations and our public-policy efforts. This position is aligned with our commitment to environmental responsibility and with our business objectives. We view energy efficiency as one of the easiest, most reliable sources of “new” energy that minimizes both costs and environmental impacts. Additionally, through our subsidiary Chevron Energy Solutions, we are seeking to expand on energy efficiency as a business opportunity (see page 50).

Recently, Chevron lobbied for a measure that would allow the U.S. federal government – the largest energy consumer in the United States – to continue upgrading federal facilities and military bases with energy-efficient equipment under the Energy Savings Performance Contract

(ESPC) Program. This innovative program was launched in 1995, three years after Congress passed ESPC legislation as part of the Energy Policy Act of 1992.

From 1995 to 2003, private-sector contractors invested an estimated \$1.7 billion in energy-efficiency projects, which included installing and maintaining new equipment in hundreds of federal facilities. The contractors are repaid with the dollars the government saves on its energy and maintenance bills. This program enables the government to upgrade equipment with no upfront costs, conserve energy and, after the investment is repaid, save taxpayers millions of dollars.

When the ESPC program authorization expired in late 2003, it stalled approximately \$400 million in investments in projects already under way and put 4,000 jobs in

the United States on hold. In 2004, Chevron, with a coalition that included groups such as the Sierra Club, the International Brotherhood of Teamsters, the Edison Electric Institute and several other organizations, strongly advocated for the reauthorization of the ESPC program. As a result, Section 1091 of the Defense Authorization Bill included the provision to do so, which led to the program’s extension until 2006.

Chevron Energy Solutions is one of the contractors currently performing significant work under the ESPC program.



# ENVIRONMENTAL

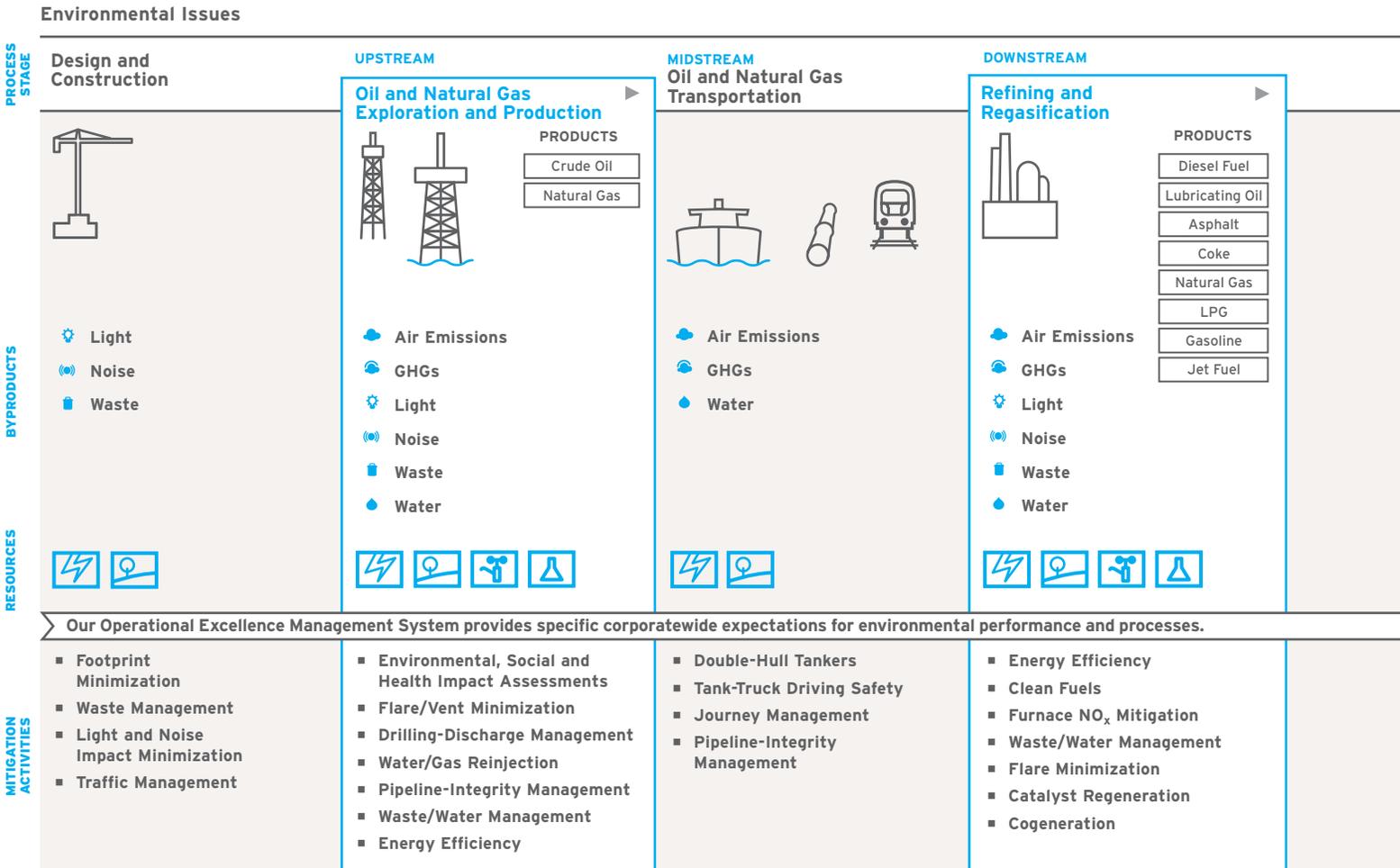
**Left** Chevron's West African Gas Pipeline group uses Ikonos satellite imagery to plan pipeline routes that avoid developed and environmentally sensitive areas. The infrared band here maps biomass as red, making vegetation much easier to see. **Below** Near the Darajat geothermal field on the island of Java, Indonesia, subsidiary ChevronTexaco Energy Indonesia Limited's "regreening" program began in 1990 to protect and restore forest land around our operations. By joining with government departments and NGOs, the program has grown and, thus far, has successfully restored 570 acres (231 hectares) of forest.



On the pages that follow, we provide an overview of our environmental issues, descriptions of how we manage them, and a report on our performance. This section also discusses some of Chevron's innovations in clean fuels and other emerging technologies that have environmental benefits. We believe we made good progress in 2004, particularly in the areas of energy efficiency and spill reduction. We also met our greenhouse gas emissions goal.

During 2004, we undertook an effort to enhance our environmental strategy to improve performance. The enhanced strategy builds on our existing Operational Excellence Management System (described on page 10). Priorities will be on defining operating standards, measuring and communicating performance, and demonstrating continuous improvement. This effort is a continuation of our long-time commitment to protecting people and the environment and integral to meeting our goal to be recognized and admired for environmental excellence.

# ENVIRONMENTAL ISSUES OVERVIEW



Protecting people and the environment is a core value for Chevron. Our goal is to be recognized and admired worldwide for safety, health and environmental excellence by institutionalizing our Operational Excellence Management System. We strive to continually improve our environmental performance and reduce impacts from our operations.

Our primary products are fuels intended to be used for combustion by our customers. We are providing increasingly cleaner-burning fuels. Additionally, we produce these products with an emphasis on improving energy efficiency and conserving natural resources while reducing emissions per unit of output.

## BYPRODUCTS

**Air Emissions** NO<sub>x</sub>, SO<sub>x</sub>, CO<sub>2</sub> and particulates are byproducts of combustion in our operations. The primary sources are flares, furnaces used to refine our products and internal combustion engines for power generation. The primary source of VOCs are emissions from tank vents and rotating equipment.

**GHGs** Direct greenhouse gas emissions, such as CO<sub>2</sub> and CH<sub>4</sub>, are primarily combustion byproducts from flares, furnaces and internal combustion engines.

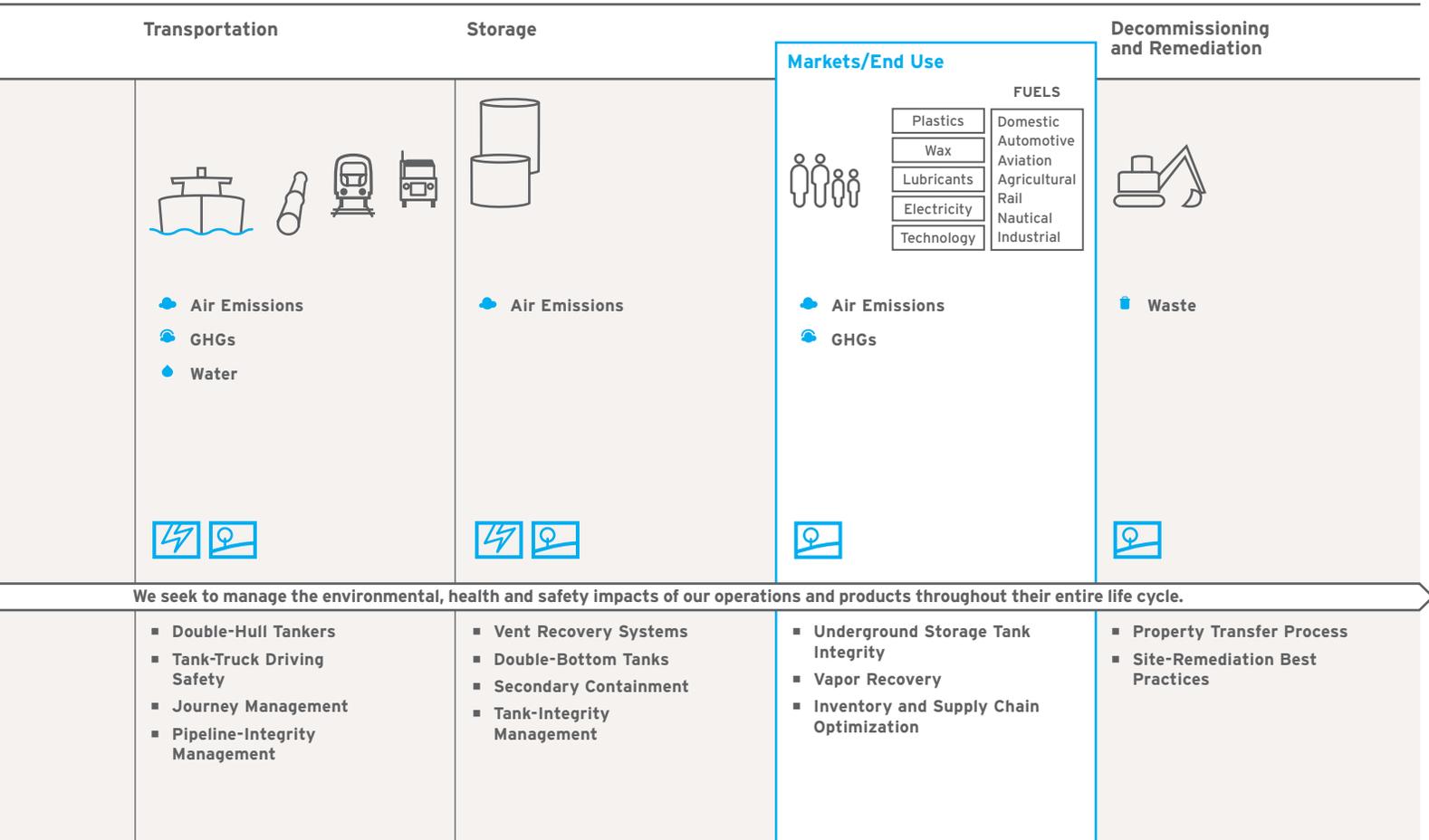
**Light** Lighting is installed throughout our operations for workplace illumination and personnel protection. Flaring also generates light.

**Noise** Combustion equipment, pumps, compressors, valves, seismic equipment and flares all have the potential to generate noise.

**Waste** Solid or liquid byproducts that have no further productive use within our operations.

**Water** Wastewater is generated by operations, including "produced water." Unplanned incidents such as spills can also affect water.

This diagram provides an overview of Chevron’s core business activities and the key environmental issues we face. The issues listed in the diagram and at each stage are not exhaustive. Rather, we have sought to identify the byproducts and resources used or affected that are most significant at each stage in the life cycle of our operations. Additionally, the diagram provides examples of some of the key steps we are taking to minimize impact and protect the environment at each stage.



**RESOURCES**

 **Energy** Energy is consumed within our operations. While primarily natural gas, it can be other fuels, electricity or geothermal energy, wind, solar or other forms of energy.

 **Land** Many of our facilities are land-based, and some are based offshore. Offshore facilities typically rest on the ocean floor. Use of land can affect biodiversity, including ecological habitats and species.

 **Water Use** Water is used as an efficient cooling medium in most of our facilities.

 **Chemicals** Chemicals are used in oil and gas production as well as in refining - to maximize efficiency, to treat products and byproducts, and as catalysts.

At Chevron, we share the concerns of governments and the public about climate change. We developed a formal, business-driven climate change strategy in 2001, comprising a fourfold action plan outlined in the table below. We have reviewed our approach in light of developments in science, technology and global policy and believe it continues to be robust and appropriate.

## Energy Efficiency at Chevron

Energy efficiency provides the easiest, cheapest and most reliable source of “new” energy available today. It also provides significant environmental benefits in terms of reduced greenhouse gases (GHGs) and other emissions. Chevron believes energy efficiency must be integral to how all companies operate and must be central to any comprehensive energy policy.

At Chevron, conservation starts at home. Getting our products – whether natural gas, propane, gasoline, jet fuel, diesel or home heating oil, to name a few – from the ground to the market takes significant amounts of energy. We have long been committed to improving energy efficiency across our operations for the environmental as well as economic benefits it brings.

Energy efficiency is an expectation of our Operational Excellence Management System (OEMS), discussed on page 10. For the past 13 years, we have focused attention on energy efficiency, have measured the progress and have seen excellent results. Since 1992, Chevron has reduced companywide energy use per unit of output by 24 percent.

## 2004 Energy Efficiency Performance

We beat our 2004 energy efficiency target by two full points on our Chevron Energy Index (CEI). This is a two-point improvement compared with 2003 and represents savings of approximately 20.85 trillion Btus of energy and \$72 million. Our progress in energy efficiency provides real, on-the-ground environmental benefits, both globally through decreased GHG emissions and locally through reduced air pollutants such as nitrogen oxides (NO<sub>x</sub>) and sulfur oxides (SO<sub>x</sub>).

Our total energy consumption in 2004 was 873 trillion Btus, which is approximately equivalent to the amount of energy the U.S. state of Utah uses in a year and less than 10 percent of the energy Chevron provides in a year.

## Energy Efficiency in the Future

Going forward, three aspects of the operating environment create challenges for continued progress in cutting our energy use:

- Maturing oil fields require more energy input for each barrel of oil produced.
- Depletion of oil supplies that are relatively easy to extract leads to the need for more technically challenging and energy-intensive reserves.
- Increasing demand for clean fuels requires us to use more energy during the refining stage.

Strategy Element	Key Actions	More information
<b>1. Reducing emissions of GHGs and increasing energy efficiency</b>	<ul style="list-style-type: none"> <li>■ Set GHG emissions goal.</li> <li>■ Complete an independent review and assessment of our GHG inventory system.</li> <li>■ Implement energy efficiency programs.</li> <li>■ Pursue projects to reduce venting and flaring of natural gas.</li> <li>■ Analyze cost-of-carbon scenarios in capital project budgeting.</li> <li>■ Initiate work to develop a long-term GHG profile for the company.</li> </ul>	page 47 page 46 page 44 page 56 (Flaring section) page 46 page 47
<b>2. Investing in research, development and improved technology</b>	<ul style="list-style-type: none"> <li>■ Carbon dioxide capture and storage in geologic formations.</li> <li>■ Provide expertise to governments on carbon dioxide capture and storage.</li> <li>■ Develop proprietary gas-to-liquids technology.</li> </ul>	page 46 page 47 page 53 (case study)
<b>3. Pursuing business opportunities in promising, innovative energy technologies</b>	<ul style="list-style-type: none"> <li>■ Make selective investments in alternative and renewable technologies.</li> <li>■ Expand geothermal power in Indonesia.</li> <li>■ Offer services to help organizations implement energy efficiency and renewable and alternative energy projects.</li> <li>■ Pursue commercial-scale gas-to-liquids projects on three continents.</li> </ul>	page 48 (case study) page 49 (case study) page 50 (case study) page 53 (case study)
<b>4. Supporting flexible and economically sound policies and mechanisms that protect the environment</b>	<ul style="list-style-type: none"> <li>■ Comply with European Union Emissions Trading Scheme; develop projects under the Clean Development Mechanism.</li> <li>■ Develop strategy and governance to engage in carbon markets.</li> <li>■ Participate in the public-policy debate on climate change and energy efficiency.</li> </ul>	page 45 page 45 page 39 (Political Process section)

Our commitment to energy efficiency is a core part of our response to these realities. We expect to sustain the gains made in 2004 and have set a CEI target of 76 for 2005.

**Understanding the Effects of Changing Policies**

The Kyoto Protocol, an international treaty to reduce GHG emissions, entered into force on February 16, 2005. More than 140 nations have ratified the treaty, including developed countries that account for more than 60 percent of global GHG emissions. Europe has begun implementation of the Kyoto Protocol by limiting emissions from its industries and by allowing industries and businesses to trade emissions allowances under a European Union-wide emissions trading program.

Chevron's sources of emissions in the advanced industrialized countries that have ratified the Kyoto Protocol (therefore, European nations, Japan and Canada) represent no more than 10 percent of our total 2004 CO<sub>2</sub>-equivalent emissions. We respect the decisions that countries made with regard to the treaty, and we continue to develop ways to reduce our own emissions and help our customers and business partners reduce theirs.

The Kyoto Protocol encourages emissions reductions in developing countries through the Clean Development Mechanism (CDM). This mechanism allows emissions reduction credits from projects that contribute to developing countries' economic, environmental and social development to be traded to developed countries for use in meeting their emissions limits. Chevron's projects in several countries have the potential to help reduce emissions and generate CDM credits.

For example, ChevronTexaco Energy Indonesia Limited is seeking approvals by appropriate Indonesian and international authorities for tradable credits related to the planned expansion of a geothermal power project. These credits can contribute significantly to the viability of projects that reduce or offset GHG emissions (see case study on page 49).

As part of our strategy for engaging in the European Union Emissions Trading Scheme and other emerging carbon markets, we have established a carbon markets team. This team will assist our units in achieving regulatory compliance while using the lowest-cost emissions credits and maximizing the earnings of emissions credits sold to non-Chevron entities.

**Chevron Energy Index**

The Chevron Energy Index (CEI) is a key measurement tool for our company. We established the index to track energy use consistently and drive improved performance of our operations.

Total energy consumption for the company is affected by disparate factors, including acquisitions and divestiture, the nature of the resources being extracted and the methods used to extract them, the type and complexity of crude oil processed in our refining units, the complexity of the refineries themselves, and the mix of products needed to meet local market requirements. We, therefore, developed an index that factors out these many variables and focuses simply on the efficiency of each type of activity, from production and shipping to refining and even corporate activities.

For each activity, we measure and compare a CEI number - which helps managers benchmark their performance against similar operations - then track overall progress by aggregating the results into a single, corporatewide index for which we set a yearly target. The CEI initially included only our North American operations but has since been expanded to include all of our global operations.

“ Chevron has made significant progress in acknowledging the threat posed by climate change and gauging the risks to its businesses. By setting an emissions goal and assuming a cost for carbon in the capital allocation process, Chevron has taken key first steps toward mitigating these risks. However, as governments, investors and the scientific community are focusing increased attention on climate change, Chevron will need to do more if it hopes to remain competitive in the coming carbon-constrained world.

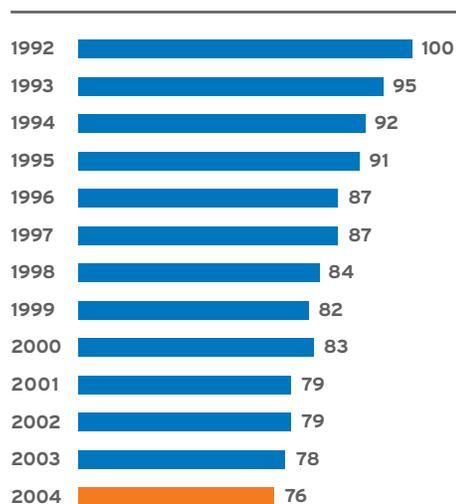
In our opinion, the fundamental challenge facing Chevron and other fossil-energy producers is that global carbon emissions must start to fall in the next two decades to prevent the most severe potential effects of climate change. Given the projected massive increase in global energy demand over the coming decades, this is no small task. We believe Chevron will need to rethink its plans to invest \$10 billion a year in oil and gas development, with greater emphasis on natural gas and substantial new investments in renewable energy - areas where it currently lags some of its peers - as part of a strategy to significantly reduce its long-term emissions profile.

We are confident that Chevron will be part of the solution to this problem. The company has taken some credible first steps in dealing with climate change which indicate it recognizes the importance of this issue. However, management needs to continue to assess and, as needed, update its strategy to ensure it is a holistic one that addresses both the risks and opportunities presented by climate change, and it must let investors know how its core businesses will be affected.”

Andrew Logan, Program Manager, Coalition for Environmentally Responsible Economies (CERES)

**Chevron Energy Index**

1992-2004



1992-2001 energy usage data are Chevron only, not Chevron and Texaco combined.

## Accounting for GHGs in Capital Projects

Increasingly, governments are employing or evaluating policies to encourage GHG emissions reduction, including carbon taxes, cap and trade programs, voluntary reduction targets, tax incentives and credits for emissions reduction. These policies have the potential to affect our investments and their expected returns.

The company has developed a set of processes and tools and an accompanying annual workshop to ensure that capital project teams analyze, at the earliest planning stage, the level of GHG emissions that will be generated, the potential need for mitigation, and the potential costs and credits associated with emissions. One such tool, the Chevron Projector, is based on SANGEA™ software for tracking Chevron emissions and allows planners to calculate emissions from a future planned facility.

The company requires that all projects costing more than \$5 million conduct an initial analysis to estimate emissions and net present value based on values for GHG emissions ranging from zero to \$20 per metric ton of CO<sub>2</sub> equivalent or actual values,

where they exist. Projects more than \$25 million must submit results from the full assessment before they are funded. This helps ensure that our capital planning accounts for the potential financial risks and opportunities posed by the development of GHG emissions reduction policies and the markets for carbon credits.

## Managing and Verifying Our Data

During 2004, we completed an independent review by KPMG/URS of the quality of our 2002 and 2003 GHG data.

The review included:

- Assessment of SANGEA™ software, which we developed for estimating emissions and have since shared free of charge with others in the energy industry.
- Assessment of our GHG emissions inventory protocol.
- Site visits to selected locations and review of data management and aggregation processes.

The exercise, completed in August 2004, validated the strengths of our inventory system and identified areas for continuing

improvement. It has given us confidence that any GHG emissions goals can be based on sound and robust baseline data.

We are using findings from the review to improve our overall data collection and management systems. Actions include additional training for our business units and incorporation of a GHG review into our Operational Excellence Management System. Our intention is to conduct additional verification processes periodically to ensure the integrity of our data and continual improvement of our data management systems. Further information, including the KPMG/URS report and our inventory protocol, is available on our Web site at [www.chevron.com/greenhousegas/](http://www.chevron.com/greenhousegas/).

## Researching CO<sub>2</sub> Sequestration

Capturing and sequestering CO<sub>2</sub> in geologic formations is an important part of our response to the climate change challenge. This approach, called CO<sub>2</sub> sequestration, has the potential to mitigate CO<sub>2</sub> emissions associated with combustion of fossil fuel resources.

## Total GHG Emissions by Source

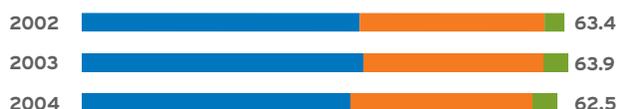
Millions of metric tons of CO<sub>2</sub> equivalent



	2002	2003	2004
Combustion	38.8	38.9	38.1
Flaring and venting	15.8	16.2	14.9
Other	8.8	8.8	9.5

## Total GHG Emissions by Sector

Millions of metric tons of CO<sub>2</sub> equivalent



	2002	2003	2004
Upstream	36.5	37.0	35.3
Downstream	24.3	23.7	24.0
Other	2.6	3.2	3.2

Emissions totals exclude our interests in Chevron Phillips Chemical Company, Dynegey Inc. and Caltex Australia Limited, entities over which we do not have full operational control and which do not follow our corporate GHG inventory protocol or a compatible protocol. Due to rounding, individual figures may not sum to the totals.

As part of our fourfold action plan to address concerns about climate change, Chevron has been partnering with the U.S. Nature Conservancy and Brazil's Society for Wildlife Research to help reverse the deforestation trend near Antonina in Paraná, Brazil.



We continue to participate actively in several CO<sub>2</sub> sequestration initiatives including:

- The CO<sub>2</sub> Capture Project, a global collaboration of eight major energy companies, the U.S. Department of Energy, the European Union, and Klimatek, a program of the Norwegian government formed to research and develop technology to reduce GHG emissions (more information is available at [www.co2captureproject.org](http://www.co2captureproject.org)).
- The Carbon Sequestration Leadership Forum, consisting of 17 national governments and intergovernmental bodies formed to develop and deploy CO<sub>2</sub> sequestration technology ([www.cslforum.org](http://www.cslforum.org)).
- The Intergovernmental Panel on Climate Change Special Report on CO<sub>2</sub> Capture and Storage.
- The Cooperative Research Centre for Greenhouse Gas Technologies in Australia, a joint industry-government research effort on CO<sub>2</sub> sequestration.
- The GEOSEQ Project, a joint venture between three U.S. national laboratories.
- The Weyburn CO<sub>2</sub> Project, an initiative of the International Energy Agency and of U.S. and Canadian governments and industry.

#### Performance

For 2004, Chevron's total net emissions were approximately 62.5 million metric tons of CO<sub>2</sub> equivalent. This is based on Chevron's equity share in businesses and operations in which we have financial interests and either over which we have operational control or which report GHG emissions using a compatible protocol. In 2004, 89 percent of CO<sub>2</sub>-equivalent emissions were from CO<sub>2</sub>, and approximately 11 percent were from methane with trace amounts of nitrous oxides.

Chevron's emissions decreased by more than 1 million metric tons of CO<sub>2</sub> equivalent in 2004 compared with the year before. We achieved our 2004 corporatewide emissions goal of 63 million metric tons or less of CO<sub>2</sub>-equivalent emissions. Although there was a slight increase in emissions due to increased refinery throughput, this was more than offset by companywide energy efficiency improvements and a decrease in production emissions, primarily due to divestitures.

In 2004, flaring and venting accounted for 24 percent of CO<sub>2</sub>-equivalent emissions, combustion accounted for 61 percent, and other sources accounted for 15 percent. In absolute numbers, the flaring and venting emissions of 14.9 million metric tons of CO<sub>2</sub>

equivalent in 2004 represents a 1.3 million-metric-ton decline from the flaring and venting emissions of 16.2 million metric tons in 2003.

For 2004, we estimate that the use of our products resulted in GHG emissions of approximately 377 million metric tons of CO<sub>2</sub> equivalent, which is approximately 1.6 percent of global emissions, based on Key World Energy Statistics, published by the International Energy Agency.

As oil fields age, more energy is typically needed to produce the same amount of oil, resulting in more CO<sub>2</sub> emissions. We expect to partially offset these increases by continuing to improve energy efficiency throughout the company; therefore, we are holding our preliminary corporatewide emissions goal for 2005 flat at 63 million metric tons or less of CO<sub>2</sub> equivalent. This goal represents an overall efficiency improvement and a decrease in GHG emissions per barrel.

We are also initiating work to develop a long-term GHG emissions forecast, based on our portfolio and business strategy. We intend to use that forecast to develop an emissions management plan that aligns with our fourfold climate change strategy.

#### Total GHG Emissions by Type

Millions of metric tons of CO<sub>2</sub> equivalent

	2002	2003	2004
<b>Direct</b>	<b>62.8</b>	<b>62.6</b>	<b>61.8</b>
<b>Indirect</b>	<b>1.5</b>	<b>2.1</b>	<b>1.6</b>
<b>Grid</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-0.9</b>
<b>Total</b>	<b>63.4</b>	<b>63.9</b>	<b>62.5</b>

Direct emissions are emitted by emissions sources within a facility. Indirect emissions account for emissions associated with electricity and steam imported by Chevron, less credits for emissions associated with electricity and steam exported by Chevron. Grid credits account for the electricity exported by certain Chevron facilities that is produced more efficiently than that from the regional or national electricity grid.

At Chevron, we believe that meeting the world's fast-growing energy needs requires tapping all potential sources of energy. Our approach is guided by the view that new technologies and energy sources must be able to compete in the marketplace, and that such investments must be considered in the context of our broad energy development strategy.

## Renewable Energy

As part of our balanced portfolio, we are making targeted investments in renewable energy projects. For several years, we have been experimenting with the use of renewable energy technologies in our own operations and making venture capital investments in innovative technologies. Central to our strategy is our integrated approach to developing and applying renewable and energy efficiency technologies. Integrating efficiency measures with renewable energy projects is a critical step toward making them economically competitive in today's marketplace.

To further identify and develop opportunities to create value for the company, in 2004 Chevron launched an expanded strategy to integrate renewable energy applications into the Chevron portfolio. Our strategy is particularly focused on investing in and advancing wind and geothermal energy projects. In our view, based on current technological and market conditions, wind and geothermal are the renewable energy sources with the highest potential to generate relatively significant energy resources and create economic value. We also are evaluating opportunities in solar energy.

As part of the strategy, we are exploring potential opportunities to invest in renewable energy projects that could generate carbon credits for the company. While we are principally focusing on projects that are tied to and provide energy for our core operations, we are looking more broadly at some potential opportunities that link to assets in development or future assets.

We coordinate our renewable energy activities across two groups: the Emerging Energy group (within Chevron Technology Ventures) and Chevron Energy Solutions (see case study on page 50).

Since 1999, Chevron has invested approximately \$60 million in renewable energy projects, including wind, solar and geothermal energies. We will continue to take a case-by-case approach to funding particular projects but, as part of our expanded renewable energy strategy, we expect to invest approximately \$50 million a year on renewable energy projects in the near term. This estimate is based on the projects we are currently incubating through Chevron Technology Ventures. Additionally, through Chevron Energy Solutions, we continue to develop renewable energy projects for external clients.

Chevron also has invested nearly \$550 million since 1999 in advanced clean-energy technologies, which include applications for hydrogen fuel processing and storage, fuel cells, and advanced batteries. We also have invested hundreds of millions of dollars in energy efficiency efforts internally, and we continue to explore opportunities to expand our external energy efficiency business through Chevron Energy Solutions.

The following are highlights of several new investments and projects we are incubating.

### Wind

In the U.S. Gulf of Mexico, we are exploring a project reusing former offshore oil platforms to create new offshore wind farms. The potential 20- to 50-megawatt project

could generate between 75 million and 150 million kilowatt hours annually. Wind power could provide cleaner and lower-cost power for offshore Chevron production operations, while excess power could be sold to the grid. At the same time, we would gain valuable experience in wind energy as a new business opportunity, as a potential use for former oil platforms and as a cost-effective option for offsetting carbon dioxide emissions.

In Texas and Colorado, we are developing proposed projects to install wind generation on or near existing Chevron oil and gas assets in order to offset a portion of the energy purchased from the local utilities. The projects would develop up to 50 megawatts of wind energy in the Midland, Texas, area and 25 to 50 megawatts of wind energy for the Rangely Creek, Colorado, operations. Here we see an opportunity to lower the production costs of our midcontinent operations in Midland and Rangely by supplying oilfield and gasfield power with less expensive and more consistently priced renewable energy. The two operations would require an estimated investment of up to \$80 million. Installation could begin as early as 2006.

These proposed wind projects are in addition to the investment we made in late 2002 in a 22.5-megawatt wind farm in the Netherlands. The \$23 million project - owned 69 percent by BP and 31 percent by Chevron - is currently producing energy for the companies' jointly owned Nerefco oil refinery near Rotterdam. Within Europe, it was the first large-scale wind project on a brownfield refinery site, and it displaces 20,000 tons of greenhouse gas emissions each year.

The fumaroles and hot springs at Darajat, on the island of Java, Indonesia, first brought geologists to the area more than 30 years ago to explore this natural source of energy. Here, company production engineers Fachrul Subarkah and Fernando Pasaribu use electrical monitoring equipment to monitor surface activity.



#### Solar

At other locations, we are deploying innovative solar technologies. For example, in 2003, Chevron Technology Ventures invested in the installation of the first solar power (photovoltaic) facility in California to help power oilfield operations.

At 500 kilowatts, this six-acre facility is one of the largest photovoltaic installations in the United States and the largest array of flexible amorphous-silicon solar technology in the world. Chevron Energy Solutions (CES) provided technical assistance and training for the project, which continues to provide us with valuable experience in the design and development of photovoltaic systems. CES also has developed and installed solar energy facilities for several of its external institutional clients.

To expand our learning and help advance solar energy technology, Chevron has invested in Konarka, a Massachusetts-based company dedicated to the development and commercialization of versatile, flexible and lower-cost solar photovoltaic products for portable and distributed power needs.

#### Geothermal

In December 2004, Chevron announced plans to expand our Darajat geothermal power plant in Garut, West Java, Indonesia. The project will provide clean electricity to meet growing national and regional demand. It also will help the Indonesian government achieve its energy diversification goal and will contribute to the country's sustainable development.

The \$128 million expansion consists of a new 110-megawatt electricity-generating unit, the third unit at Darajat. Chevron provides the steam for the first unit and owns and operates the second.

Geothermal power is clean, renewable and generates virtually no GHGs, as steam from subterranean volcanic activity is used to run turbines to generate electricity. The new geothermal plant at Darajat will displace electricity from Indonesia's electricity grid, which is sourced from fossil fuel power generation, coal in particular. The new unit is expected to reduce emissions by more than half a million metric tons of CO<sub>2</sub> each year - about as much CO<sub>2</sub> as 100,000 automobiles emit annually.

ChevronTexaco Energy Indonesia Limited is working to get the project approved by the Clean Development Mechanism in order to earn certified, tradable emissions reduction credits.

To demonstrate the safe, practical application of hydrogen technology in a real-world setting, Chevron and partners built a hydrogen energy station at the Hyundai-Kia America Technical Center in Chino, California. The station will fuel a small fleet of fuel cell demonstration vehicles.



#### Hydrogen

As energy demand continues to grow, Chevron is pursuing hydrogen as a promising next-generation fuel. In 2004, the U.S. Department of Energy selected Chevron to lead a consortium that will demonstrate hydrogen infrastructure and fuel cell vehicles. Over a five-year period, the consortium will build up to six hydrogen energy service stations, with fueling facilities for small fleets of fuel cell vehicles and capacity to generate high-quality electric power from stationary fuel cells.

In early 2005, we reached a key milestone with the unveiling of the first Chevron hydrogen energy station in Chino, California. We also are building a hydrogen energy station in Oakland, California, that will produce hydrogen fuel for fuel cell buses and future fleets of light-duty vehicles. This station is scheduled for completion in late 2005.

Chevron is involved in numerous other hydrogen infrastructure projects. With Hyundai-Kia America and UTC Fuel Cells, we are a member of the California Fuel Cell Partnership, which operates a hydrogen demonstration station in Sacramento, California. We also broke ground in early 2005 on Florida's first hydrogen energy station, which will provide fuel for shuttle buses at Orlando International Airport.

Keith Parker, Chevron Energy Solutions (CES) project engineer, monitors heating and hot-water distribution equipment at the U.S. Army depot in Corpus Christi, Texas. The depot is one of several U.S. military bases that have chosen CES to upgrade their facilities. As a result of its contract with CES, the depot in 2004 received the Secretary of the Army Energy and Water Management Award.

## Chevron Energy Solutions

In addition to focusing on improving energy efficiency in our own operations, Chevron is helping public institutions and other businesses become more efficient.

Chevron Energy Solutions (CES), a Chevron subsidiary, is a thriving, \$200 million company with nearly 300 employees in 2004. CES provides government, education, and other institutions and businesses with projects that conserve energy, improve facilities, reduce emissions and ensure reliable, high-quality power for critical operations.

CES engineers and installs comprehensive upgrades, which include renewable and other alternative energy technologies. These upgrades typically result in more than enough verifiable energy savings to pay for themselves, enabling public-sector clients to finance them with little or no up-front costs and more benefit to taxpayers.

For example, in 2004, CES was awarded contracts from the U.S. Department of Defense and the U.S. Department of Energy to engineer and install projects at three military installations. CES found facility improvements expected to save U.S. taxpayers more than \$150 million and reduce greenhouse gas emissions by about 1.4 million metric tons over the 18-year term of the contracts.

CES has been helping the U.S. Postal Service (USPS) optimize efficiency and conserve energy resources in Northern California. In 2004, CES completed improvements at the USPS's West Sacramento Processing and Distribution Center, which included the nation's largest nonmilitary federal solar power (photovoltaic) installation. The improvements are expected to reduce the facility's annual power consumption by more than 33 percent, or about 5.5 million kilowatt hours per year, and will lower natural gas use by about 43,000 therms per year.

Together, these reductions would translate to avoided emissions of about 3,900 tons of carbon dioxide (CO<sub>2</sub>) annually, the equivalent of planting 1,100 acres (445 hectares) of trees.

In 2004, the USPS announced that CES would complete major energy efficiency upgrades and install a hybrid renewable power plant - including a fuel cell and two solar electric technologies - at the USPS's largest processing and distribution facilities in San Francisco. The improvements are expected to lower total annual electricity purchases by \$1.2 million or 10 million kilowatt hours - a 46 percent reduction. In addition, the energy efficiency upgrades will reduce the facilities' heating needs. In total, these improvements translate into avoided emissions of about 6,600 tons of CO<sub>2</sub> annually, the equivalent of planting about 1,860 acres (753 hectares) of trees.

CES also has worked with the city of Richmond, California, to install energy upgrades, including adding solar electric panels to the city's public library. CES's various improvements are expected to save the city more than \$9.5 million over the next two decades.

In 2004, CES saved its customers more than 142 million kilowatt hours of electricity and 921 million cubic feet of natural gas. This equates to more than 168,000 metric tons of total CO<sub>2</sub>-equivalent emissions avoided. The success of CES's business led consulting firm Ernst & Young to name CES President Jim Davis as Northern California Entrepreneur of the Year for Social Responsibility in 2004.

As a strategic resource within the company, CES also helps other Chevron units meet their business goals by improving the efficiency and reliability of their operations.





Lichen, highly sensitive to air pollution, thrives on trees in an area of mature woodland close to the perimeter of Chevron's Pembroke Refinery in Wales.

Chevron recognizes that even as we work on global issues such as greenhouse gas reduction and biodiversity management, equally important are local and regional air emissions from our operations. Like all energy companies, Chevron's operations produce air emissions such as sulfur oxides (SO<sub>x</sub>), nitrogen oxides (NO<sub>x</sub>) and volatile organic compounds (VOCs). Part of being a good neighbor is to continue efforts to measure and minimize these emissions.

While we have long tracked these emissions locally, for 2004 we are able to report total corporate emissions of VOCs, along with total emissions of NO<sub>x</sub> and SO<sub>x</sub>. VOCs derive primarily from flaring and venting, fugitive leaks from equipment (such as valves, pumps and compressors), and flashing gas. NO<sub>x</sub> and SO<sub>x</sub> occur during combustion.

## 2004 Performance

We estimate all emissions using methods developed by the U.S. Environmental Protection Agency, the American Petroleum Institute and other sources. We estimate our global 2004 emissions of NO<sub>x</sub> to be approximately 114 thousand metric tons, nearly 10 percent less than in 2003. This decrease in estimated emissions can be primarily attributed to asset divesture. In 2004, SO<sub>x</sub> emissions were approximately 133 thousand metric tons, a more than 10 percent reduction over 2003. These emissions fell primarily due to continued flare reduction. In 2004, the first year in which we have corporatewide data, VOC emissions were estimated to be approximately 427 thousand metric tons.

Within the U.S. refining operations in 2004, there was a slight reduction in emissions of VOCs and NO<sub>x</sub>. On a normalized, per-barrel-

of-crude-refined basis, emissions of both stayed roughly flat from 2003 to 2004. Emissions levels, both total and normalized, of SO<sub>x</sub> increased compared with 2003 and reflect refinements in emission estimates and measurements.

In 2004, one of our key air emissions achievements was in our Tengizchevroil (TCO) joint venture in Kazakhstan, which achieved its lowest total air emissions levels in the past eight years, despite its production reaching the highest recorded levels. Furthermore, TCO achieved these reductions even though the number of pollutants required to be tracked and reported increased from 37 in 1997 to 52 today. These include NO<sub>x</sub>, SO<sub>x</sub> and VOCs. TCO has plans to invest more than \$300 million in upgraded technology that is expected to achieve an additional 35 percent reduction in emissions, resulting in total air emissions by 2007 of 2.75 kilograms per ton of oil produced.

## Global Air Emissions

Metric tons

### NO<sub>x</sub>

Category	Year	Emissions (Metric tons)
Upstream	2003	100,046
	2004	89,764
Downstream	2003	13,109
	2004	13,877
Other	2003	12,475
	2004	10,656

### SO<sub>x</sub>

Category	Year	Emissions (Metric tons)
Upstream	2003	111,050
	2004	96,809
Downstream	2003	29,010
	2004	26,091
Other <sup>1</sup>	2003	11,907
	2004	10,499

### VOCs<sup>2</sup>

Category	Year	Emissions (Metric tons)
Upstream	2004	402,362
Downstream	2004	24,330
Other	2004	80

<sup>1</sup>2003 number restated to include marine transport emissions.

<sup>2</sup>Prior to 2004, VOC emissions were not tracked at the corporate level.

In 2004, Chevron-branded fuel was the first in the United States and Canada to be certified by four of the world's top automakers as meeting "TOP TIER" criteria for gasoline detergency levels. All grades of Chevron met the standards years before these voluntary specifications - more stringent than U.S. Environmental Protection Agency standards - were set.



## Cleaner Fuels

Chevron looks for opportunities to reduce air emissions from the use of our products and to develop innovative technologies to produce cleaner fuels cost-effectively. More than 40 percent of refineries around the world use our proprietary hydroprocessing technology that upgrades hydrocarbons and provides deep removal of sulfur, nitrogen and metals. The result is cleaner-than-ever hydrocarbon fuels, more cost-efficient energy supplies and a shrinking environmental footprint.

One example is in Agra, India, near the Taj Mahal - a famous, world heritage monument suffering from decay. In recent years, sulfur-containing emissions from industries around the monument and nearby

vehicle emissions have been pitting and yellowing the face of this pearl-white monument. The government of India instituted a series of measures to mitigate these damages, including the production of a clean, lower-sulfur fuel for the regional market. Chevron was the government's partner of choice. We licensed our ISOCRACKING® hydroprocessing technology to Indian Oil Corporation for its Mathura refinery, near the Taj Mahal, and the refinery began producing ultraclean diesel in 2000.

In Australia, Chevron is investing \$295 million to reduce air pollution from vehicles. The company is a 50 percent joint-venture partner in two refineries, Kurnell and Lytton, which are being upgraded to reduce sulfur content in diesel fuel and benzene in gasoline.

The Kurnell and Lytton refineries produce transport fuel to meet the needs of about 60 percent of New South Wales and 55 percent of Queensland.

In addition, Chevron® gasoline has been used by leading U.S. automakers for the past 30 years to help them demonstrate compliance with the U.S. Environmental Protection Agency's (EPA) stringent 50,000-mile and new 100,000-mile emissions durability requirements. In 2004, Chevron with Techron® gasoline was the first in the United States to meet the new "TOP TIER" specifications - an even more stringent, voluntary standard jointly developed by General Motors, Honda, Toyota and BMW for reducing fuel-related deposits.

Artist's rendering of the future Escravos gas-to-liquids plant, a project of Chevron Nigeria Limited and the Nigerian National Petroleum Corporation. Chevron's joint venture Sasol Chevron is providing managerial, operating and technical services. When operational, the project will help reduce flaring from our operations and will further the viable use of Nigeria's vast natural gas resources.



### Gas-to-Liquids - a Cleaner-Burning Fuel

Gas-to-liquids (GTL) fuel is a clean, high-performance fuel derived from natural gas. We believe GTL fuel offers great potential both to improve engine performance and to reduce environmental impacts. This is why we are taking action to bring this important product to market.

In 2000, Chevron established Sasol Chevron, a 50-50 joint venture with Sasol Limited, a global energy company headquartered in Johannesburg, South Africa, to produce gas-to-liquids (GTL) products using the Sasol Slurry Phase Distillate process (Sasol SPD™). The GTL process creates clean, high-performance products - primarily GTL diesel and GTL naphtha - from natural gas. GTL diesel is a significantly higher-quality fuel than diesel derived from crude oil and is characterized by low sulfur and other cleaner-burning properties. The performance benefits include improved cold-start

properties, reduced noise, more-efficient and cleaner-burning fuel, and a substantial reduction in exhaust emissions.

Qatar Petroleum and Sasol Chevron announced plans in early March 2004 to evaluate the expansion of the ORYX GTL plant in Qatar (owned by Qatar Petroleum and Sasol) from 34,000 barrels per day to 100,000 barrels per day. Sasol Chevron also is providing management, operating and technical services in Nigeria for Escravos Gas-To-Liquids, a partnership between Chevron Nigeria Limited and the Nigerian National Petroleum Corporation. Finally, Sasol Chevron is actively evaluating the possibilities of GTL production in Australia.

Sasol Chevron's involvement with commercial-scale GTL projects on three continents gives it the most global approach of any GTL producer, giving it a premier position in this new industry.

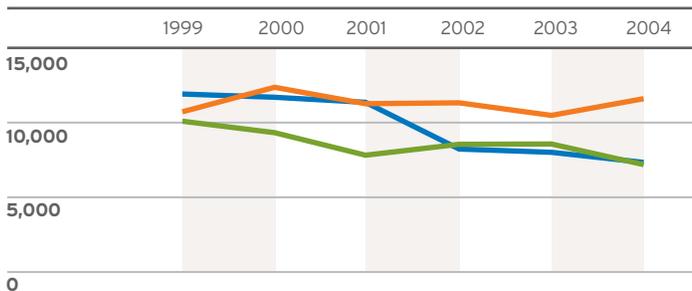
### Product Stewardship

Chevron seeks to manage the environmental, health and safety impacts of our products throughout their life cycle. This concept is known as "product stewardship" and is formally integrated into our Operational Excellence Management System (OEMS). As part of OEMS, business units are required to implement processes and systems to identify, minimize, manage and communicate potential risks throughout the product life cycle.

We also work to educate customers and the public on safe and responsible handling of our products. In 2004, Chevron completed deployment of a Web-based global system for managing material safety data sheets (MSDSs) and other health, environment and safety information. These documents provide information on safe handling procedures for each of Chevron's products. The system currently stores more than 150,000 MSDSs. We also have a 24-hour-a-day global hotline that provides public access to on-call technical specialists who can answer questions about our products.

### U.S. Refining Emissions

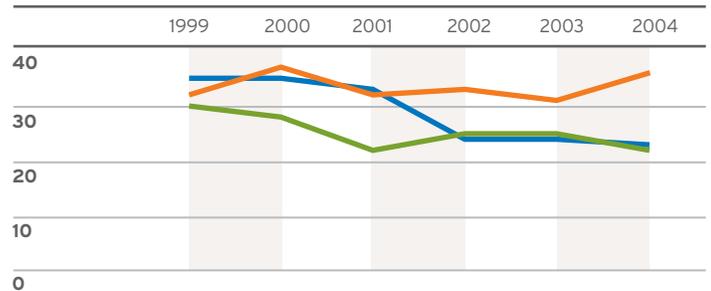
Metric tons



	1999	2000	2001	2002	2003	2004
NO <sub>x</sub>	11,955	11,733	11,358	8,213	7,990	7,303
SO <sub>x</sub>	10,745	12,411	11,295	11,356	10,501	11,637
VOCs	10,105	9,326	7,793	8,535	8,555	7,153

### U.S. Refining Emissions

Metric tons per million barrels processed



	1999	2000	2001	2002	2003	2004
NO <sub>x</sub>	35	35	33	24	24	23
SO <sub>x</sub>	32	37	32	33	31	36
VOCs	30	28	22	25	25	22

The 2003 data contain 2002 data for the Hawaii Refinery and 2002 VOC data for the Pascagoula Refinery.

Chevron has a strong track record in oil spill prevention and response, a reflection of our commitment to this key issue. During the period 1999 to 2004, we reduced the number of oil spills by nearly 55 percent and the volume of spills by more than 90 percent.

When it comes to oil and chemical spills, our first priority is prevention. Through a combination of strategic investments and building the knowledge base of our employees, contractors and partners, we have made significant progress. In 2002, we set an ambitious goal of achieving a 20 percent reduction in oil spill volume in each of the subsequent three years and, in 2004, achieved our goal one year early.

In 2004, we spilled 15,514 barrels of oil, which is 42 percent less than in 2003. This figure represents fewer than ten barrels spilled for every million barrels processed. During the year, we had a total of 986 spills, representing a 14 percent reduction in the number of spills compared with 2003. The largest incident was due to Hurricane Ivan, which hit the U.S. Gulf Coast and caused a spill of 3,148 barrels of crude oil and 124 barrels of gasoline and lube oil.

Chemical spills encompass accidental releases of all nonpetroleum materials, which include drilling fluids, contaminated water and other chemicals, such as those used as catalysts. Chevron had 43 chemical spills in 2004, with a total volume of 450,000 kilograms of spilled chemicals, less volume than in 2003. A total of 87,000 kilograms of chemicals were recovered, and the remaining chemicals in the soil were contained and disposed of properly. The largest of these was a spill of 273,000 kilograms of water that had an alkaline strength of 1.5 percent, which leaked through a corroded tank bottom to the soil below.

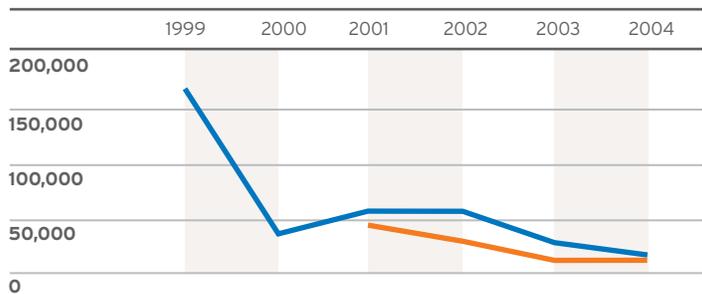
In shipping, Chevron's environmental performance continues to lead the industry, based on benchmarking data from large competitors that operate tanker fleets. In 2004, Chevron's operated fleet did not experience a single spill, the second year in a row the company has achieved a spill-free record.

We have achieved this track record by focusing first on ship design. We operate a fleet of 23 vessels, including one liquefied natural gas and two liquefied petroleum gas carriers. In 1993, in compliance with the U.S. Oil Pollution Act, we commenced a plan to replace all single-hull tankers with double-hulls. The regulatory deadline for retirement of single-hulls is 2010. As of the close of 2004, Chevron owned only one single-hull vessel in the fleet. That vessel will be retired in advance of the deadline. When chartering vessels in 2004, we used double-hulls 80 percent of the time, whereas the current world tanker fleet used double-hulls 60 percent of the time.

Knowledge and training are equally important. Our third annual Oil Spill Prevention Forum was attended by 75 operations managers, maintenance planners, field foremen, scientists, construction superintendents and engineers from around the world, and it focused on field practices, procedures and the improved implementation of oil spill prevention programs.

If accidents do occur, our first line of defense is secondary containment, which means berms are built around tanks or facilities so that spills can be contained locally. Oil spill response is also an important performance component. In 2004, we recovered 64 percent of all oil spilled - 9,905 barrels recovered out of 15,514 barrels spilled, a significant improvement compared with 2003.

**Petroleum Spills**



	1999	2000	2001	2002	2003	2004
<b>Volume of spills (barrels)</b>	<b>164,686</b>	<b>34,460</b>	<b>54,834</b>	<b>54,696</b>	<b>26,540</b>	<b>15,514</b>
<b>Volume recovered (barrels)</b>	-	-	<b>48,348</b>	<b>27,805</b>	<b>10,659</b>	<b>9,905</b>
<b>Number of spills</b>	<b>2,169</b>	<b>1,553</b>	<b>1,428</b>	<b>1,502</b>	<b>1,145</b>	<b>986</b>

Prior to 2001, volume recovered was not tracked at the corporate level. Data include spills to secondary containment.

The performance of our shipping company continues to lead the industry. In 2004, our operated tanker fleet did not experience a single spill, the second straight year we have achieved a spill-free record. **Below** The new Chevron-operated *Northwest Swan* liquefied natural gas tanker moves its first shipment out of port at Karratha, Australia.



#### Prevention First in New Mexico, United States

Our spill reduction teams working in southeastern New Mexico demonstrate the progress that is possible by combining strategic investments with employee training. In 1999, the teams began meeting every month to discuss spills and near misses in New Mexico and in other Chevron operating areas so that they might learn, develop and adopt spill prevention best practices. The teams next invested in

rebuilding more than 100 production facilities (from 1999 to 2004), reconditioning almost 600 wellheads and replacing other critical equipment such as flow lines - the pipelines that begin at well sites.

The results have been dramatic. In 1999, New Mexico operations spilled 123 barrels of oil per million barrels produced. By 2003, that number had dropped to just 9 barrels of oil spilled per million barrels produced, and in 2004, spills decreased again with only

6.6 barrels spilled per million barrels produced. The New Mexico spill prevention teams received the 2004 Environmental Merit Award from the New Mexico Energy, Minerals and Natural Resources Department's Oil Conservation Division.

We will continue to share what we have learned. Our New Mexico division created a set of spill prevention standard operating procedures that will soon be adopted by Chevron's Mid-Continent business unit.

During construction, a giant crane at a shipyard in Kure, Japan, lifted into place what are now the living quarters at the Sanha Condensate Complex, offshore Angola. The Sanha Condensate Project is key in Chevron's strategy for achieving our goal to eliminate routine flaring from our Angola operations.

When crude oil is brought to the earth's surface, gas associated with such oil extraction usually comes to the surface as well. If oil is produced in areas of the world that lack gas infrastructure or a nearby gas market, this associated gas is often released into the atmosphere ignited (flared) or unignited (vented). Reducing flaring and venting conserves a finite resource, reduces greenhouse gas (GHG) emissions, supports the growth of domestic gas markets in emerging economies, and reduces barriers to gas market access elsewhere. At the same time, technological, infrastructure and market challenges affect the pace at which flaring can be reduced or eliminated.

Chevron is pursuing a range of activities to eliminate or reduce venting and flaring and is committed to achieving our long-term vision of conducting operations without continuous gas flaring and venting. Increased demand offers business opportunities to commercialize natural gas. At the same time, reducing flaring and venting of associated gas provides a major opportunity to reduce GHG emissions.

### Reducing Flaring at Chevron

Flaring currently accounts for 24 percent of our total GHG emissions (see page 46). As part of our effort to reduce or eliminate flaring, we are focusing on technological innovations and creating stronger markets for natural gas products. In the United States, continuous flaring accounted for fewer than 1 percent of total upstream emissions in 2004, in part due to regulatory requirements and good access to gas markets. Further, we continue to partner in the U.S. Environmental Protection Agency's Natural Gas Star Program, in which we have been recognized in prior years for our greenhouse gas reduction efforts. The program also helps us find ways to cost-effectively reduce the occurrence of nonroutine flaring and venting.

In our non-U.S. operations, we select and invest in projects with the maximum potential for capturing natural gas and reducing flaring. Market access is critical to the solution for our operations where pipelines are less available to move natural gas into productive use. In Nigeria, we reached a key milestone in 2004 with a final commitment to begin construction on the West African



Gas Pipeline. A detailed final project design will be developed prior to pipeline construction, and startup is expected in December 2006. This \$590 million project will reduce flaring by as much as 80 million metric tons of CO<sub>2</sub> equivalent over a 20-year life of the project while it delivers the gas to customers in Benin, Ghana and Togo.

### Flaring and Venting Standard for Our Upstream Operations

Chevron participates as a steering committee member of the World Bank's Global Gas Flaring Reduction Public-Private Partnership, designed to help address barriers to reducing flares such as uncertainty about tax and regulatory issues and clarity on carbon credits for flare-reduction projects. In 2004, the partnership released a new Global Gas Venting and Flaring Reduction Voluntary Standard.

Chevron is conducting a comprehensive evaluation of all major flares and vent sources across our international upstream operations, a critical first step in developing an associated-gas recovery plan as recommended in the World Bank's voluntary standard. In 2005, the company finalized our own flaring and venting standard for international upstream operations.

### Sanha Condensate Project

The Sanha Condensate Project is key in Chevron's strategy for achieving our goal to eliminate routine flaring from our Angola operations. It also is one of the most technically challenging and complex capital projects Chevron has ever undertaken. The floating production, storage and offloading vessel is a first-of-its-kind structure to process, store and offload liquefied petroleum gas (LPG) coming out of the wells. The structure produces butane and propane that can be sent directly to markets. Total Chevron investment in the project is \$1.9 billion.

In addition to adding production, it will reduce flaring. After being stripped of high-value condensate and LPG, the dry gas - 500 million cubic feet per day - will be reinjected into the Sanha reservoir. This reinjection will reduce routine flaring in Block 0 by more than 50 percent, with an associated reduction in greenhouse gases of 2.2 million tons per year.

Operator James Farrell samples water from bioreactor ponds at the Richmond, California, refinery.



## Water

Availability of and access to fresh water is an environmental challenge for communities and industries. Chevron's challenge is to use water efficiently - especially where it is scarce - and protect its quality for other users. Fresh water or sea water are major inputs to almost every stage of our operations, in particular during upstream oil and gas exploration and production, as well as during the downstream refining process for cooling and steam generation. Additionally, our operations generate wastewater that must be treated and discharged, including "produced water" that is brought to the surface when oil and gas are extracted.

## Conservation and Mitigation

Our Operational Excellence Management System requires business units to evaluate their use of and impact on all natural resources and to identify and implement conservation opportunities. In arid environments, such as California's Kern River region, where fresh water is limited, the company's upstream operations provide appropriately treated discharged water to a local utility for agricultural irrigation. Also in California,

our Richmond and El Segundo refineries use "reclaimed water," which is treated domestic sewage, to supplement fresh water for cooling in the manufacturing process.

In our new deepwater production facilities in Angola and Nigeria, we are reusing produced water through reinjection to improve the volume of oil produced and minimize environmental impact. Additionally, to continue to minimize the impact of wastewater discharge, our offshore upstream operations are implementing new technologies or processes for wastewater reinjection, water-based drilling fluids, cleaning secondary drilled cuttings, and better separation of oil and water to reduce the oil content of discharged water.

To date, Chevron has not tracked water use or discharges to water corporately. In 2005, we will evaluate consistent internal water metrics, with the goal to begin collecting baseline data in 2006. Additionally, our international upstream operating company is continuing to develop processes and standards for produced-water management.

## Waste

Our business generates solid and hazardous wastes, such as drill cuttings, used catalysts and general office waste. Our Operational Excellence Management System requires business units to develop waste management plans and continually improve processes to minimize pollution and waste. Our basic approach encompasses a hierarchy of actions, which include source reduction, recycling, treatment and safe disposal.

For existing facilities, we use control technologies at all phases of production to minimize risks from wastes. As we design new facilities, we integrate pollution prevention and waste minimization measures so that they generate fewer and less hazardous wastes.

To date, Chevron has not tracked waste volumes or types corporately. In 2005, we will evaluate consistent internal waste metrics, with the goal to begin collecting baseline data in 2006. In addition, as part of our increased focus on performance standardization, our international upstream operating company is developing an onshore waste management standard.

In 2004, Chevron celebrated the 50th anniversary of our annual Conservation Awards Program, originally founded by the late Ed Zern, a notable sportsman, humorist, author and columnist for *Field and Stream* magazine. Chevron has proudly underwritten the program for nearly two decades, making it North America's oldest privately sponsored conservation award. At right is scientist Terri Roth – a 2004 award winner – with Emi, the first Sumatran rhinoceros in 112 years to produce a calf in captivity, thanks to Roth's groundbreaking work in establishing a successful captive-breeding protocol at the Cincinnati Zoo, Ohio, United States.



Chevron works to protect sensitive ecological habitats and species around our operations by focusing on biodiversity conservation. Biodiversity covers the diversity of life on earth, including species, genes, ecosystems or habitats, and the ecological processes that support them. Oil and gas operations may affect biodiversity through both direct impacts (such as physical footprints) and secondary impacts (such as enabling access to previously inaccessible areas). We view biodiversity protection as having important environmental value while providing significant social and economic benefits, particularly for local communities.

### Integrating Biodiversity Into Core Operations

Currently at the field level, biodiversity is primarily managed on a project-specific and operation-specific basis. We also are taking steps to encourage a more consistent approach across the company, including continuing to further incorporate biodiversity into our corporatewide Operational Excellence Management System. For example, our international upstream operating company is incorporating biodiversity considerations into its new environmental, social and health impact assessment process for capital projects.

We have devoted particular attention to expanding our understanding of the opportunities and challenges involved in operating in protected areas. The first phase of this effort is a project to identify and gather more comprehensive information about the company's exploration and production operations around the globe in legally designated protected areas, including those in World Conservation Union categories I-IV. With this information, we will be able to better assess the implications of operating in protected areas at the earliest stages of project planning and implement appropriate mitigation measures.

### Support for Local Biodiversity

Chevron's operations in Venezuela demonstrate how opportunities for biodiversity conservation can emerge in

the context of ongoing oilfield operations. We operate Campo Boscán, an approximately 115,000-barrel-per-day field in western Venezuela. Although local land use is primarily agricultural, we recognized the area as being important habitat for migratory birds. Although not required by regulations, the local business unit hired Fundación La Salle, a well-known Venezuelan research institute that has partnered with Chevron elsewhere, to conduct a biological survey of the field.

One of the first of its kind in the Lake Maracaibo Basin, the study found that portions of the 247-square-mile (640-sq-km) oil field support valuable habitat, including relict tropical dry forests, gallery forests, wetlands, and a large number of plant and animal species. Many of these species live only in the Lake Maracaibo region. The study results will be shared with the Venezuelan scientific community and used by our local business unit to develop a biodiversity action plan for the field.

Our refinery in Pembroke, Wales, is working with the Countryside Council for Wales to restore soil. This project, at Trehill Farm near Marloes, will restore intensively farmed agricultural land to its original state of mildly acidic heathland. The project's challenge was to find a way to lower the pH of the soil to allow plants such as heathers to survive. Acidifying the soil by conventional means was prohibitively expensive, but Chevron was able to provide sulfur from our refinery operations to lower the soil's pH. The project won the first Wales Biodiversity Award, presented in 2004.

In Angola, we undertake counts of olive ridley turtles nesting at our Malongo operations. The species is listed as endangered under international treaty and is subject to protection under international law. The olive ridley breeds every year and always returns to the same nesting beaches near our operations between November and January. We use a variety of measures to prevent disturbance to the turtles, and the Chevron

volunteer effort to perform annual counts makes an important contribution to international research databases for these turtles.

We also have partnered with other energy companies, the U.S. Minerals Management Service, U.S. Navy, National Science Foundation, and International Association of Geophysical Contractors to support multiyear studies on the behavior of sperm whales in the U.S. Gulf of Mexico in order to increase our knowledge of whether the whales are disturbed by noise from industrial activity. The research uses selective tagging of whales to track their distribution patterns and short-term behavior when they are close to potential disturbances.

### Partnerships

We participate in the Energy and Biodiversity Initiative (EBI), a collaborative project begun in 2001 with industry and conservation organizations. Drawing on shared best practices, the partners have created a set of practical guidelines and tools to minimize impacts to biodiversity and maximize contributions to local ecosystems in connection with oil and gas development. We are planning to test some of EBI's tools and guidelines in several major projects under development, such as our Angola liquefied natural gas project.

We are an active participant in energy industry efforts on biodiversity, including the Joint Biodiversity Working Group of the International Petroleum Industry Environmental Conservation Association and the International Association of Oil and Gas Producers. Key efforts in this regard are encouraging broader industry testing and use of EBI tools and guidelines, and holding workshops in a number of regions to build relationships with key stakeholders and share best practices on biodiversity conservation. For example, partners – which include Chevron – in the Angola liquefied natural gas project are planning to host one of these regional workshops for the central and western Africa regions in late 2005.

# ENVIRONMENTAL EXPENDITURES, FINES AND LITIGATION

## Environmental Expenditures

Using definitions and guidelines established by the American Petroleum Institute, Chevron estimated our worldwide environmental spending in 2004 at approximately \$1.1 billion for its consolidated companies. Included in these expenditures were \$285 million of environmental capital expenditures and approximately \$810 million of costs associated with the prevention, control, abatement or elimination of hazardous substances and pollutants from operating, closed or divested sites, and with the abandonment and restoration of sites.

## Fines and Settlements

At times in 2004, some of our facilities may not have met all government environmental, health and safety requirements, resulting in fines and penalties. We remain committed to improving and learning from these instances.

Environmental, health and safety fines and settlements rose from nearly \$5 million in 2003 to more than \$6.3 million in 2004. The most significant expense in 2004 was \$3.74 million, which related to multiple air exceedances in our joint venture in Kazakhstan due to acid and sour gas flaring fees. Two wastewater discharge fines, also in Kazakhstan, totaled \$1.78 million in 2004.

The number of such settlements remained nearly constant - 470 in 2003 versus 469 in 2004. Health and safety settlements accounted for 379 of the total, representing nearly \$80,000, while the remaining 90 fines and settlements were for environmental issues.

## Environmental Litigation

Chevron remains the subject of litigation in Ecuador stemming from the involvement of a subsidiary in an oil producing consortium

from 1964 to 1992. The lawsuit, which was filed in 2003, alleges environmental damage, and is now in a phase in which the Ecuadorian court is inspecting up to 122 oil sites. The company is vigorously challenging the lawsuit on both scientific and legal grounds. Because Texaco Petroleum Company conducted an effective remediation program approved by the government of Ecuador and was fully released from any further claims by the government, we have met all our obligations. Chevron makes considerable effort to communicate about the case, including maintaining a regularly updated Web site in English and Spanish at [www.texaco.com/ecuador](http://www.texaco.com/ecuador).

## Environmental, Health and Safety Fines and Settlements

	1999	2000	2001	2002	2003	2004
<b>Total paid (US\$ million)</b>	<b>0.94</b>	<b>1.44</b>	<b>0.95</b>	<b>4.28</b>	<b>4.69</b>	<b>6.33</b>
<b>Total number</b>	<b>792</b>	<b>519</b>	<b>388</b>	<b>278</b>	<b>470</b>	<b>469</b>

As part of our commitment to protect people and the environment, we manage potential risks related to our products and operations throughout their life cycles, from design and construction to operation and decommissioning. For new projects, we seek to continually improve our processes and operations to minimize pollution and waste and prevent environmental problems before they occur. We assess and manage potential environmental liabilities prior to any property transaction. Finally, where releases to land or groundwater occur, we expect our businesses to evaluate the potential risks and mitigate them through site cleanups.

To manage and strengthen our remediation and decommissioning activities, we created Chevron Environmental Management Company to improve the quality of remediation activities and speed up their completion while reducing the costs and environmental risks. The company focuses primarily on U.S.-based sites but also works with Chevron business units worldwide to share lessons learned and innovative approaches to cleanups, decommissioning and the prevention of future liabilities.

### Managing Cleanups

As of the end of 2004, Chevron was cleaning up more than 2,200 sites in the United States, including current or former service stations, refineries, oil and gas fields and chemical facilities. These cleanup activities included 210 sites at which Chevron has been identified as the potentially responsible party or otherwise by the U.S. Environmental

Protection Agency (EPA) or other regulatory agencies under the federal Superfund law or analogous state laws. Chevron has spent more than \$3.5 billion on such cleanups since 1980, often working in partnership with other companies or in voluntary cooperation with regulatory agencies. Chevron does not collect corporatewide data on numbers or costs of site cleanups worldwide.

In 2004, we completed 204 service station cleanups in the United States, for a total of 1,353 such cleanups since 1999. In our international marketing operations, we are in the process of evaluating and standardizing the management of underground storage tank systems for storage of gasoline at fuel stations. This evaluation effort covers 10,000 systems in 73 countries.

In our downstream business, for example, we have worked with the Napa County Flood Control and Water Conservation District in California to remove former terminal facilities and clean up sites along the Napa River to enhance flood control and restore the area to natural river marsh and flood plain. In 2004, the Wildlife Habitat Council again recognized Chevron for outstanding work associated with habitat restoration, wetland creation and community outreach.

Our upstream operations have conducted cleanups to address oil leaks and other issues. For example, in March 2004, Cannery Hamilton Properties, LLC (CHP), a company 50 percent-owned by Chevron and 50 percent by ConocoPhillips, was one

of the first responders to an oil release from an abandoned oil well in Huntington Beach, California. Despite the fact that CHP owned only surface rights, not underground oil rights, CHP cleaned up the well production area and removed aboveground storage tanks; steam cleaned all surrounding streets, sidewalks and houses; provided lawn remediation and pool and car cleaning; undertook environmental air quality monitoring; and paid for damage claims while local officials worked to locate the well's owner. CHP mobilized more than 90 people from Chevron, ConocoPhillips and their contractors, many of whom were from outside California. CHP, Chevron and ConocoPhillips received letters of appreciation and commendation from the mayor and from the fire chief of the city of Huntington Beach, as well as recognition from the various regulatory agencies involved.

In another upstream project, Chevron's operations in Russia and the Caspian Pipeline Consortium (in which Chevron has a 15 percent interest) developed a project with Russian scientists and regulators to test and evaluate methods for using plants to clean up contaminated soils. This "in-situ bio/phyto remediation" method can be more environmentally sound than removing soil for treatment or disposal. Chevron offered our expertise, established test facilities and trained more than 20 Russian regulators. The U.S. Department of Energy jointly funded and conducted the program under its Initiatives for Pollution Prevention, a program aimed at creating long-term nonmilitary employment for former weapons researchers.

“ The interests of big businesses, environmentalists and society as a whole coincide more often than you might guess. The case of Chevron Niugini illustrates how it is possible for an oil company to operate in a way that delivers environmental benefits to an area of operations and to the people there. I discovered to my astonishment that these [wildlife] species are much more numerous inside the Chevron area than anywhere else that I have visited on the island of New Guinea except for a few remote uninhabited areas. The Kutubu oil field functions as by far the largest and most rigorously controlled national park in Papua New Guinea. ”

From *Collapse: How Societies Choose to Fail or Succeed*, by Pulitzer Prize-winning author and ecologist Jared Diamond (New York: Viking Books, 2005). In 2003, Chevron Corporation sold its interests in Papua New Guinea.

In Cincinnati, Ohio, United States, a natural wetland flourishes where a refinery once stood, following a Chevron land restoration program commended by the U.S. Environmental Protection Agency. Deer and other wildlife quickly made the site their home.

### Decommissioning

In our upstream operations, we close oil and gas wells that are no longer productive, dismantle surface equipment and pipelines, and remove offshore platforms at the end of their service life. In the United States, we removed 18 platforms in 2004, all of which were in the U.S. Gulf of Mexico. Where environmental restoration is needed, it is part of our closure projects.

For example, in 2005, we will complete our restoration of the McKittrick Mine. During the early 1980s, Getty Oil Company (now owned by Chevron) used diatomaceous earth near the town of McKittrick, in Kern County, California, for test mining and extraction of crude oil. To restore the mine, Chevron worked to return the land to approximately the original topography, re-establish drainage patterns, and plant native grasses and shrubs over the affected areas. As a result, the mined land will be suitable for grazing livestock.

Our downstream operations occasionally close facilities. For example, in Panama in 2004, we prepared to close a refinery and reopen the facility as a marketing terminal. One of the closure requirements was to conduct an assessment of changes to the site's ecosystem during refinery operation, focusing on its ecologically important mangrove wetland habitat. However, no requirement to establish an ecological baseline existed when the refinery was built. Chevron Energy Technology Company and Chevron Environmental Management Company specialists developed and carried out an assessment using historical records and current sampling to evaluate changes at the landscape, habitat and species levels. The assessment showed that the mangrove ecosystem had not been damaged; in fact, mangrove coverage increased 49 percent during the period of refinery operation.



### Remediation and Redevelopment in the United States

When we cease operations at one of our facilities, it often means just the beginning of a long process to thoroughly remediate the site and, when possible, redevelop it for its next use.

In 1994, Chevron initiated a program for the remediation and redevelopment of a 228-acre refinery site in Toledo, Ohio. A decade later, after a successful public-private partnership that helped protect the environment and benefited the local community, we received final approval from the Ohio Environmental Protection Agency (OEPA) of the remediation work there in 2004. In 2005, we sold a parcel to its next owners and are actively marketing the rest for industrial reuse.

Remediation activities included stabilizing affected soils and sludges, consolidating affected soils within a 40-acre area of the

existing contamination, installing a slurry wall and groundwater treatment system to remediate affected groundwater, and placing an earthen cap on affected soils within the consolidation area.

Chevron worked closely with the OEPA in the development of the rules package and risk-based cleanup standards that were incorporated into the agency's Voluntary Action Program. The program was designed to facilitate the remediation and reuse of industrial sites. Along with working closely with regulators throughout the process, we also engaged the local community in order to keep them informed and bring new jobs to the area.

OEPA has used the success of the Toledo Refinery remediation as a model for its Voluntary Action Program. In addition, the governor selected the site to kick off a State of Ohio bond program for industrial-site redevelopment.

**Barrels of oil-equivalent (boe)** A unit of measure to quantify crude oil and natural gas amounts using the same basis. Natural gas volumes are converted to barrels on the basis of energy content. See Production.

**Biodiversity** Refers to the diversity of life on earth. It encompasses genes, species, habitats and ecosystems, and the processes that support them.

**Business unit** A Chevron management group accountable for achieving specific objectives and strategies.

**Byproduct** Secondary or incidental product deriving from a manufacturing process or chemical reaction, not the primary product or service being produced. A byproduct can be useful and marketable, or a waste or emission.

**Capacity building** A key area of focus for Chevron's community engagement efforts, which means targeting support toward programs that help individuals and institutions develop the skills, capabilities and expertise they need to succeed.

**The Chevron Way** Explains our values: who we are, what we do, what we believe and what we plan to accomplish.

**Condensates** Liquid hydrocarbons produced with natural gas, separated by cooling and other means.

**Corporate level** In this report, refers to activities or initiatives coordinated or conducted by corporate departments, rather than by operating companies or business units.

**Corporate responsibility** At Chevron, corporate responsibility is defined as consistently applying our core values, as set out in The Chevron Way; maximizing the positive impact of our operations on current and future generations; integrating social, environmental and economic considerations into our core practices; and engaging with and balancing the needs of our key stakeholders.

**Country of origin** An employee's home country, which can be used as a measure of the extent to which operations are staffed by local people.

**Downstream** The industry term used to refer to all petroleum activities, from the process of refining crude oil and natural gas into petroleum products to the distribution, marketing and sales of the products.

**Exploration** Searching for crude oil and natural gas through the use of geologic and topographical studies, geophysical and seismic surveys, visualization technology, and the drilling of wells.

**Flaring and venting** The burning or release of natural gas that is often produced in association with oil, a process that typically occurs when there is no market or on-site use for the gas.

**Gas-to-liquids (GTL)** A process that converts natural gas into high-quality transportation fuels.

**Global Reporting Initiative (GRI)** Self-defined as a multistakeholder process and independent institution whose mission is to develop and disseminate globally applicable sustainability reporting guidelines.

**Greenhouse gases (GHGs)** Gases that trap heat in the earth's atmosphere; such gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride.

**Integrated energy company** A company engaged in all aspects of the energy industry: exploring for and producing crude oil and natural gas (upstream); refining, marketing and transporting crude oil, natural gas and refined products (downstream); manufacturing and distributing petrochemicals (chemicals); and generating power.

**Liquefied natural gas (LNG)** Natural gas that is liquefied under extremely cold temperatures to facilitate storage or transportation in specially designed vessels.

**Liquefied petroleum gas (LPG)** Light gases, such as butane and propane, that can be maintained as liquids while under pressure.

**Local content** The portion of the company's suppliers - or the spending on goods and services with those businesses - that are considered local to the communities in which we operate.

**Microcredit or microlending** Small-scale credit or loans typically extended to small businesses or individual entrepreneurs as a means of fostering local economic development.

**Midstream** Industry term referring to the transportation of crude oil and natural gas from the exploration and production operations to the refining and marketing operations. See Downstream and Upstream.

**Nongovernmental organization (NGO)** An organization that is independent from the government, generally a nonprofit organization devoted to providing assistance to or advancing a particular cause or issue.

**Operating company** A major Chevron company organized for a specific business purpose.

**Operational Excellence Management System (OEMS)** Chevron's standard approach to systematic management of safety, health, the environment, reliability and efficiency in order to achieve world-class performance.

**Operator** Term used to describe a company appointed by venture stakeholders to take primary responsibility for day-to-day operations for a specific plant or activity.

**Partner** In this report, partner is used in its broad sense to mean a person or organization associated with another in a common activity or one that shares a mutual interest. It does not imply a member of a contractual partnership in which the partners jointly own and carry on a business and proportionally share in liabilities, profits or losses of the business.

**Production** Total production refers to all the crude oil and natural gas produced from a property. Gross production is the company's share of total production before deducting royalties. Net production is gross production minus royalties paid to landowners. Oil-equivalent production is the sum of the barrels of liquids and the oil-equivalent barrels of natural gas produced. See Barrels of oil-equivalent.

**Renewable energy** Energy resources that are not depleted when consumed or converted into other forms of energy (for example, solar, geothermal, ocean and tide, and wind).

**Reserves** Crude oil or natural gas contained in underground rock formations called reservoirs. Proved reserves are the estimated quantities that geologic and engineering data demonstrate can be produced with reasonable certainty from known reservoirs under existing economic and operating conditions. Estimates change as additional information becomes available.

**Revenue transparency** Refers to the practice of disclosing certain financial arrangements related to energy industry operations by industry and host governments.

**Socioeconomic** A category encompassing the broad range of social and economic issues that affect and are affected by our operations. In many cases, social and economic issues are closely linked.

**Stakeholder** At Chevron, defined as those who affect, are affected by, or have a legitimate interest in our company's performance.

**Transparency** Making relevant and accurate information available to those with a legitimate interest in the organization.

**Upstream** Industry term for oil and natural gas exploration and production activities.

# GRI AND API/IECA INDEX

This index refers to:

- Global Reporting Initiative (GRI) core indicators and those additional GRI indicators on which we have fully or partially reported.
- American Petroleum Institute/International Petroleum Industry Environmental Conservation Association (API/IECA) sustainability reporting indicators.

For a more detailed indicator index, go to [www.chevron.com/cr\\_report/](http://www.chevron.com/cr_report/).

	GRI <i>(Additional indicators in italics)</i>	API/IECA <i>(Additional indicators in italics)</i>	Where reported
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Key to Indicators

Fully Reported in 2004

Partially Reported in 2004

Not Covered in 2004

Not Applicable

# ABOUT THIS REPORT

## About This Report

This report covers 2004 data and activities. Occasionally, we mention events that took place in 2005 when they help provide a clearer picture of our performance. Our previous report was published in September 2004 and covered 2003 data and activities.

On May 9, 2005, we announced the change of our company name from ChevronTexaco Corporation to Chevron Corporation, which is the corporate name used in this report. Unless indicated otherwise in this report, 1999-2001 data are combined from the pre-merged companies Chevron Corporation and Texaco Inc., whereas 2002-2004 data are from the merged corporation.

This report covers our owned or operated businesses and does not address the performance of our suppliers, contractors or partners, unless otherwise noted. All financial information is reported in U.S. dollars.

Information contained in the report has not been subject to external assurance, with the exception of data included in the company's consolidated financial statements and our 2002 and 2003 greenhouse gas emissions data.

We refer to various resources in the preparation of this report. We continue to be informed by the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. Over the past year, we also participated in the development of the Oil and Gas Industry Guidance on Voluntary Sustainability Reporting, published in 2005 by the International Petroleum Industry Environmental Conservation Association (IPIECA) and the American Petroleum Institute (API), which also informed the development of this report. We have included an index to help readers find information corresponding to the GRI and API/IPIECA indicators (see page 63).

## Cautionary Statement Relevant to Forward-Looking Information

This Corporate Responsibility Report by Chevron Corporation contains forward-looking statements relating to the manner in which Chevron intends to conduct certain of our activities, based on management's current plans and expectations. These statements are not promises or guarantees of future conduct or policy and are subject to a variety of uncertainties and other factors, many of which are beyond our control.

Therefore, the actual conduct of our activities, including the development, implementation or continuation of any program, policy or initiative discussed or forecast in this report may differ materially in the future. The reader should not place any undue reliance upon such forward-looking statements, which speak only as of the date of this report. Chevron undertakes no obligation to publicly update any statements contained in this report.

## Legal Notice

As used in this report, the term "Chevron" and such terms as "the company," "the corporation," "their," "our," "its," "we" and "us" may refer to one or more of Chevron's consolidated subsidiaries or affiliates or to all of them taken as a whole. All of these terms are used for convenience only and are not intended as a precise description of any of the separate entities, each of which manages its own affairs.





**Above** Pembroke Refinery, Wales. **Front cover** Operator Darnelle Choi at the Hawaii Refinery.



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