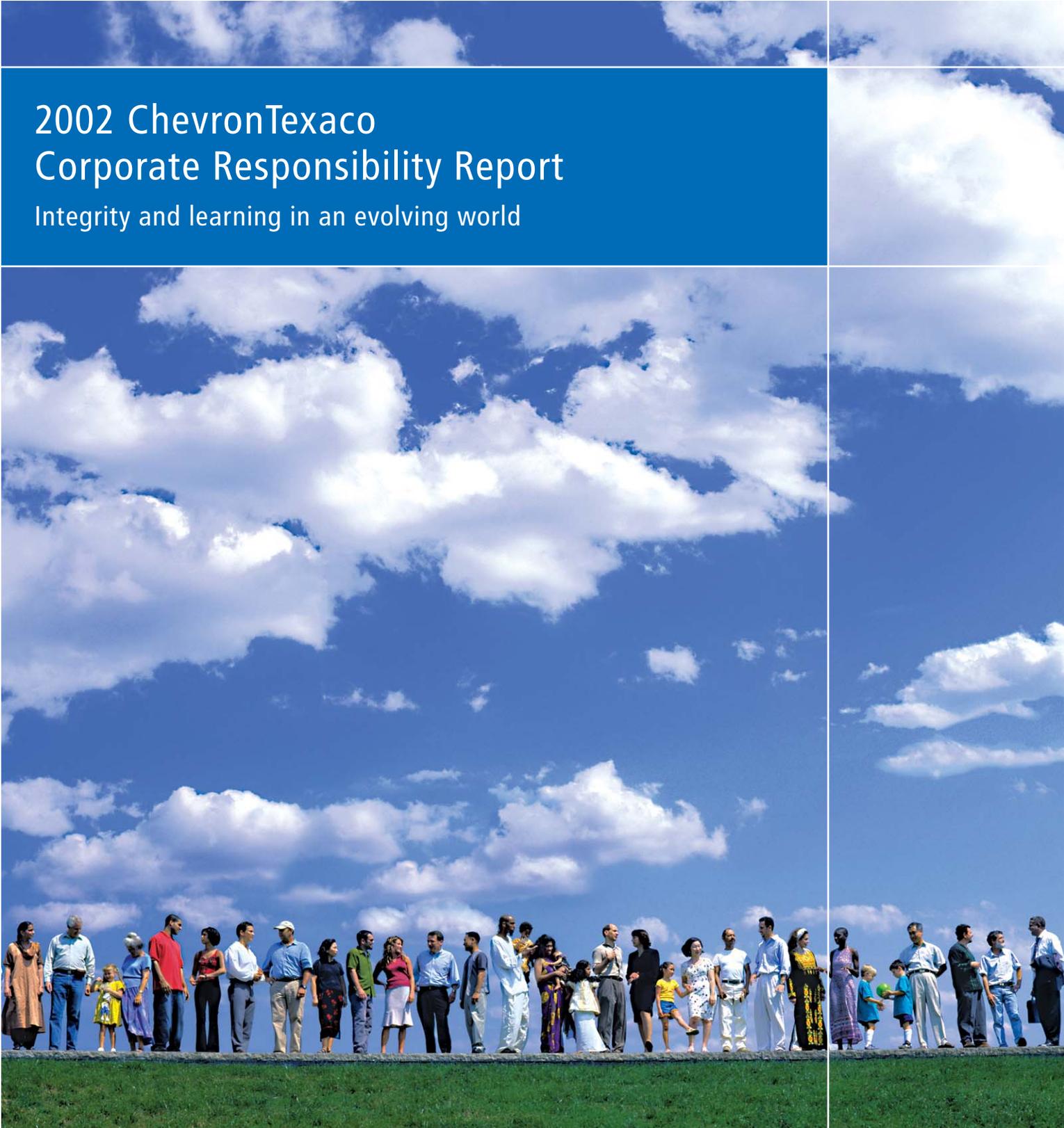


2002 ChevronTexaco Corporate Responsibility Report

Integrity and learning in an evolving world



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CEO Message



Dave O'Reilly
 Chairman of the Board and
 Chief Executive Officer

As an energy company that operates in more than 180 countries, ChevronTexaco is accountable to a wide range of stakeholders: investors and employees; business partners and host governments; customers and local communities. We know our success as a company depends not only on our financial performance but also on our ability to address the social and environmental expectations of these stakeholders. Indeed, we see corporate responsibility and business success as mutually reinforcing: Financial health is a prerequisite to our

being able to continue to make a positive contribution to society, and operating in a responsible way contributes to our financial success.

This report describes the work that ChevronTexaco is doing – and has yet to do – to demonstrate responsible performance around the world. We have focused on our performance in areas that are important to our company and, we believe, to our stakeholders. We also have painted a picture of our overall approach to corporate responsibility because we believe that the way we achieve results is every bit as important as the results themselves.

Although this is our first report on corporate responsibility, the concept is not new to the more than 53,000 men and women of ChevronTexaco. You will find it reflected in *The ChevronTexaco Way*, which describes our company's values and guides our actions. For nearly 125 years, we have recognized the importance of treating people with respect, addressing the needs of the communities where we do business, being responsible stewards of the environment and leaving a positive legacy for future generations.

Our company's primary obligation is to produce reliable, affordable energy. In doing so, we are committed to protecting people and the environment by operating safely and efficiently, conserving natural resources and responsibly stewarding our products. We take pride in knowing that the energy we produce is a building block of economic development that helps improve standards of living around the world. Energy, quite literally, is the fuel that drives progress in countless other sectors, from

transportation and commerce to health care, education and agriculture. In producing this energy, ChevronTexaco provides employment, spurs economic growth, transfers technology, and contributes to the development of the communities in which we operate.

We also operate in some of the most challenging places in the world – regions that suffer from poverty, disease, civil unrest and legacies of corruption. In some of these places, the benefits of economic development have not been distributed evenly. Because we operate there, companies like ours have an opportunity to be catalysts for positive change.

Issues related to poverty and health are of special concern to the people of ChevronTexaco. In our view, addressing these fundamental issues is a critical stepping-stone to being able to help find solutions to the range of other complex social, economic and environmental issues where we operate, from increasing revenue transparency in our industry to addressing concerns about global climate change.

We are working, consistent with our role as a company, to help ensure that our stakeholders benefit from the energy we and our partners develop. We accept that we have a role to play, but also recognize that there are some needs that only governments can meet – and many needs that can only be met when all sectors work together. We know, as well, that complex problems require coordinated responses. As this report makes clear, partnership is a central element of our efforts. Just as we work with our partners to discover and develop energy, we must also work with governments, nongovernmental organizations, multilateral agencies, community groups and others in the private sector to find shared solutions to common challenges.

We recognize that corporate responsibility is not a static concept. As the world changes, our company's approach must evolve. Today, that means working to be more integrated and systematic in how we address these issues, developing new policies and programs and finding better ways to measure our progress.

In that spirit, we will explore for new solutions every bit as determinedly as we search for new energy resources, and we commit to continually improving our performance in this important area.

Dave O'Reilly
 Chairman of the Board and
 Chief Executive Officer

Our Values & Vision

At ChevronTexaco, we define corporate responsibility as applying our core values consistently and balancing the needs of our key stakeholders. It means integrating social and environmental considerations into our core business practices and decision-making to maximize the positive impact of our operations on current and future generations. We aim to be admired not only for the goals we achieve but how we achieve them.

The ChevronTexaco Way defines our vision and values. It describes our commitment to respect the law, conduct our business in a socially responsible and ethical manner, support universal human rights, protect people and the environment, and benefit the communities where we work. These values shape our culture and guide our decisions and actions. They are the starting points for the development of a more integrated corporate responsibility strategy that builds on our on-the-ground experience in areas ranging from environmental conservation to community development. Our goal is to create value for our stakeholders by operating with integrity, effectively responding to society's expectations and continually improving our social, economic and environmental performance.

From *The ChevronTexaco Way*:

Our company's foundation is built on our Values, which 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 communities where we work. Our Values include:

- ▶ Integrity
- ▶ Trust
- ▶ Diversity
- ▶ Partnership
- ▶ High Performance
- ▶ Responsibility
- ▶ Growth
- ▶ Protecting People and the Environment

Company Description

ChevronTexaco Corp. is a global energy company engaged in all aspects of the oil and gas industry, including exploration and production; refining, marketing and transportation; chemicals manufacturing and sales; and power generation. We are also working to develop and commercialize the next generation of promising energy technologies. Our company is headquartered in San Ramon, California and, at the end of 2002, employed approximately 53,000 people. Active in more than 180 countries, the company's Caltex-, Texaco-, and Chevron-branded products hold top-tier rankings worldwide. ChevronTexaco was formed in 2001 by the merger of Chevron Corporation and Texaco Inc.

As of December 31, 2002, ChevronTexaco's worldwide operations include:

Exploration and Production (Upstream):

- ▶ ChevronTexaco has net proven reserves of about 12 billion barrels of oil and gas equivalent. It produces about 2.6 million barrels equivalent per day of crude oil and natural gas.
- ▶ Outside North America, ChevronTexaco has major oil and gas production operations in Angola, Argentina, Australia, China, Indonesia, Kazakhstan, Nigeria, Philippines, Republic of Congo, Thailand, Venezuela, the North Sea and the Middle East.
- ▶ Major oil and gas producing areas in North America include California, Gulf of Mexico, Texas and Canada.

Refining, Marketing and Transportation (Downstream):

- ▶ ChevronTexaco's worldwide network of 23 wholly owned and joint venture refineries have total refining capacity of more than 2.3 million barrels of crude oil a day.
- ▶ The company operates more than 24,000 retail outlets (including affiliates) and markets under the Chevron, Texaco and Caltex brands.
- ▶ Downstream global businesses include lubricants and aviation fuels marketing, fuels trading and shipping.
- ▶ ChevronTexaco's pipeline business transports crude oil and other petroleum products throughout the United States. The company also holds a 15 percent interest in the 935-mile crude oil export pipeline between the Tengiz oil field in Kazakhstan and the Black Sea port of Novorossiysk.

Company Description (Continued)

Petrochemicals:

- ▶ ChevronTexaco is one of the world's largest producers of commodity petrochemicals through Chevron Phillips Chemical Company, a 50/50 joint venture with ConocoPhillips.
- ▶ Chevron Oronite Company, a fuel and lubricating oil additives operating company, supplies one-fourth of the world's fuel and lubricants additives.

Power Generation:

- ▶ The company has interests in 30 power projects operating or being developed on five continents. Projects in operation generate more than 4,500 megawatts of electric power.

Energy Technologies:

- ▶ ChevronTexaco has invested in a range of energy technologies, including wind and solar power generation, fuel cells, hydrogen-fueled transportation systems and advanced batteries for hybrid electric vehicles.

About this Report

ChevronTexaco's first corporate responsibility report

Corporate responsibility is not new to ChevronTexaco, but reporting on our social, economic and environmental performance in a comprehensive, global way is. This first report simultaneously conveys that ChevronTexaco has long been addressing many corporate responsibility issues and that we are working to manage them in a more integrated and systematic way. It describes where we think we are doing well and where we are not satisfied with our performance.

Addressing the key issues facing our company

This first ChevronTexaco corporate responsibility report includes information on social, economic and environmental issues and performance. The issues covered reflect our views on the key corporate responsibility issues facing our company, as well as our understanding of external stakeholders' opinions on the most significant and material impacts of our operations. In developing this report, we were informed by the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. We intend to continue to assess GRI and other external reporting frameworks as they evolve and apply them as appropriate for our company in future reports.

2002 information presented in context

This report focuses on the performance of our owned and operated businesses and generally does not address the performance of our suppliers, contractors or partners. We have tried to focus primarily on 2002 information in the report. But where we feel it provides a more complete picture of our performance or impacts, we have included some historical information that predates the merger of Chevron and Texaco in 2001 and, in some instances, also included information from 2003. We plan to publish a corporate responsibility report annually.

Developing performance indicators

Where possible, we have included corporatwide performance data and information. In many instances, however, we provide information or examples on a country, operating company or business unit level. Operating in more than 180 countries and in multiple business sectors requires that we be responsive to local laws and issues and flexible in how we address them in unique operating environments. At the same time, we must develop appropriate corporatwide performance indicators for measuring and reporting on corporate responsibility issues.

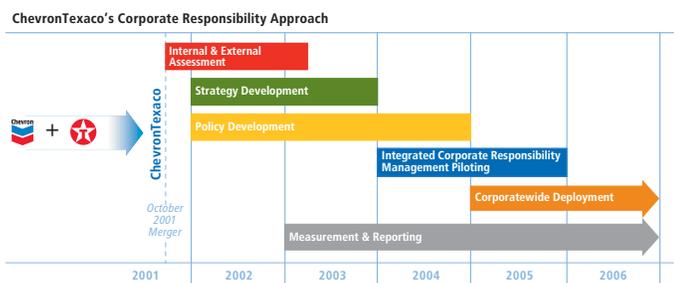
A baseline for continual improvement

We recognize that we can expand the scope and completeness of our corporate responsibility reporting in the future, and we view this report as the baseline for continual improvement. We are working to identify additional indicators and metrics that are valuable to us and that will help us and others assess our corporate responsibility performance. We look forward to feedback on what is contained in this report.

Corporate Responsibility Strategy

An Integrated Corporate Responsibility Strategy: A New Imperative

Immediately following the 2001 merger of Chevron and Texaco, we conducted an internal assessment of our corporate responsibility practices. Our company has a number of policies, programs and activities that relate to corporate responsibility, and around the world, we have gained on-the-ground experience addressing issues ranging from HIV/AIDS to operating in ecologically sensitive regions. But we saw an opportunity to take a more integrated approach to corporate responsibility and, in some instances, enhance or formalize our efforts. This was driven by our desire for our activities and operations to create benefits for society, the environment and the communities in which we work, while simultaneously creating value for our stockholders.



Better Understanding Our Operating Environment and Changing Expectations

We recognize that, like all companies, we must be cognizant of how we manage the social, economic and environmental impacts of our operations. To help us learn about emerging issues, we undertook a series of discussions with corporate responsibility experts and other stakeholders to increase our understanding of these changing expectations and their perceptions of our performance. We also researched what other companies are doing to address corporate responsibility. As we've sought to broaden and deepen our understanding of the issues that affect our business and the impacts of our operations, we've focused on the issues that we believe are of particular relevance to the energy industry given the nature, location and impacts of our operations. These include:

- ▶ ethics, transparency and financial reporting;
- ▶ community engagement and development;
- ▶ human and labor rights;
- ▶ health and safety;
- ▶ environment, conservation and climate change;
- ▶ workplace practices and employee relations;
- ▶ integration of corporate responsibility considerations into our supplier relationships.

Reviewing Our Policies and Processes

An important early step in our process of developing an integrated corporate responsibility strategy was to inventory and evaluate our policies and processes related to the issues we believe are most relevant to us and our stakeholders. We are a founding supporter of the Global Sullivan Principles, an external standard covering a range of social and environmental issues. We also have numerous internal policies, programs and activities related to various aspects of corporate responsibility. We saw, however, an opportunity to approach corporate responsibility in a more systematic way. As a result, we have begun developing some new policies and processes that span our worldwide operations which we believe will enable us to manage these issues more effectively.

Our Near-Term Corporate Responsibility Priorities

Building on our existing corporate responsibility policies and activities, we are focusing efforts in the following areas:

- ▶ **Corporate Responsibility Guiding Principles** – We are developing principles that will provide additional operational guidance to employees about how to put *The ChevronTexaco Way* commitment to “conduct our business in a socially responsible and ethical manner, respect the law, support universal human rights, protect the environment and benefit the communities where we work” into practice in our day-to-day actions and decisions.
- ▶ **Pilot Projects** – We are planning pilot projects in a sampling of operational locations to gain practical experience in taking a more systematic approach to corporate responsibility management. We want to identify where we can better integrate social and environmental considerations into our existing management systems as well as areas where we may need to develop new processes to more consistently incorporate these concerns into day-to-day decision-making. The goal is to learn techniques and develop tools that can then be applied across our company. We believe the pilots also will help us learn additional ways to measure and assess our corporate responsibility performance.
- ▶ **Human Rights and Community Engagement** – Our review identified these two issues as being of particular and increasing importance to ChevronTexaco. Building on our existing policy framework, we are developing a corporate Human Rights Statement to provide additional guidance on conducting our operations in a manner consistent with universal human rights principles. We are planning to test implementation of the statement in the coming year. We also initiated an assessment of our global community engagement activities to learn ways to increase the impact of our efforts.

Engagement & Dialogue

We think of our stakeholders as all those who affect, are affected by or have a legitimate interest in our company's performance. Our stakeholders include our stockholders, employees, business partners, host governments, customers and the local communities where we operate. We view engaging these stakeholders as an essential part of corporate responsibility. ChevronTexaco also consults and works with nongovernmental organizations, multilateral agencies and others committed to constructive dialogue. ChevronTexaco engages stakeholders in a variety of ways, including formal consultations, informal or ad hoc feedback, surveys, as well as through other interactions that arise in the course of business.

As a decentralized company whose operations span the globe, we have found it effective to do a great deal of listening, learning and dialoguing directly at the local level. As we work to develop a more integrated approach to corporate responsibility, we also are looking at ways to be more systematic in engaging our stakeholders and others. We aim to build better processes to transfer learning from the local level throughout the company so that we can better understand and respond to emerging issues. At the corporate level, we are focusing on being more proactive in engaging on important, global issues that cut across our operations.

Management Systems

Integrating Corporate Responsibility into Our Business

As part of our effort to develop and implement a more integrated corporate responsibility strategy, we are reviewing our existing management systems and processes to identify where corporate responsibility considerations can be more fully or consistently integrated into them. Current processes are already in place to systematically address health, environment and safety considerations; ethics and compliance performance; and human resources issues.

Strategic and Business Planning Process

The backbone of our company's management systems is our Strategic and Business Planning Process. This process is designed to set and build internal alignment around the strategic direction for the company. It also incorporates an assessment of the future risks and uncertainties ChevronTexaco faces. Our Strategic and Business Planning Process sets performance objectives for each business unit, including those related to health, environment, safety and reliability. Managers at all levels are expected to systematically monitor performance against their objectives.

Operational Excellence Management System

A significant component of our overall approach to managing our business is our Operational Excellence Management System (OEMS), which spells out specific requirements for management of health, environment and safety (HES) issues, in accordance with our HES Policy. Reliability and efficiency also are addressed by the OEMS.

First published in 2001, the OEMS includes many expectations previously in place in ChevronTexaco legacy companies, some dating to the early 1990s. The OEMS establishes a common set of expectations for ChevronTexaco businesses. These expectations cover areas ranging from facility design and construction through operation and decommissioning. The system is flexible enough to allow our businesses to address priority issues for their operations while meeting corporate-level expectations. Since the merger in October 2001, deployment of the OEMS has continued across our businesses, supported by a network of appointed "OE Champions."

ChevronTexaco's OEMS is consistent with other generally accepted environmental or HES management systems. The system establishes clear expectations for performance, processes for establishing priorities, and requirements for developing and implementing plans for continual improvement. The OEMS also provides for regular evaluation of the

Management Systems (Continued)

system's effectiveness. The OEMS is designed to conform to the standard for environmental management systems outlined in ISO 14001. As of midyear 2003, some 29 facilities or operations within ChevronTexaco had received ISO 14001 certification.

Companywide implementation of the OEMS is monitored through an Operational Excellence Review Process. Each reporting unit is subject to an OE review, conducted by an internal team, every three to five years. In an effort to maintain high-quality, unbiased reviews, review team members are recruited from ChevronTexaco organizations outside the one being reviewed. They are selected based upon relevant skills and experience and are given specific training on the review process. ChevronTexaco conducted 31 of these OE reviews in 2002.

OEMS Elements and Purpose Statements

- | | |
|------------|---|
| Element 1 | <p>Security of Personnel and Assets
 <i>Provide a secure environment in which business operations may be successfully conducted.</i></p> |
| Element 2 | <p>Facilities Design and Construction
 <i>Design and construct facilities to prevent injury, illness and incidents and to comply with regulatory requirements.</i></p> |
| Element 3 | <p>Safe Operations
 <i>Operate and maintain facilities to prevent injuries, illness and incidents.</i></p> |
| Element 4 | <p>Management of Change
 <i>Manage both permanent and temporary changes to prevent incidents.</i></p> |
| Element 5 | <p>Reliability and Efficiency
 <i>Operate and maintain facilities to sustain mechanical integrity and prevent incidents.</i></p> |
| Element 6 | <p>Third Party Services
 <i>Systematically address and manage contractor conformance to Operational Excellence.</i></p> |
| Element 7 | <p>Environmental Stewardship
 <i>Manage environmental risks associated with facility operations to minimize impacts from emissions, releases, and wastes.</i></p> |
| Element 8 | <p>Product Stewardship
 <i>Manage potential risks of our products throughout the products' life cycles.</i></p> |
| Element 9 | <p>Incident Investigation
 <i>Investigate and identify root causes of incidents to reduce or eliminate systemic causes to prevent future incidents.</i></p> |
| Element 10 | <p>Community Awareness and Outreach
 <i>Reach out to the community and engage in open dialogue to build trust.</i></p> |
| Element 11 | <p>Emergency Management
 <i>Prevention is the first priority, but be prepared for an emergency and mitigate any incident quickly and effectively.</i></p> |
| Element 12 | <p>Compliance Assurance
 <i>Ensure that all employees and contractors understand their safety, health, environment and security responsibilities and comply with company policies and applicable laws and regulations.</i></p> |
| Element 13 | <p>Legislative and Regulatory Advocacy
 <i>Work ethically and constructively to influence proposed laws and regulations, and debate on emerging issues.</i></p> |

Corporate Governance

Our Corporate Governance Framework

Sound governance of our company is an integral part of corporate responsibility. ChevronTexaco's Corporate Governance Guidelines, in conjunction with our Restated Certificate of Incorporation, By-Laws and Board committee charters, form our governance framework. The guidelines, available on our Web site, cover a range of topics including the overall role of the Board, key elements of Board membership and director independence, specifics on Board committees, ethical expectations for Board members, Board and CEO performance review processes, and processes for reporting concerns regarding accounting, internal accounting controls and auditing.

ChevronTexaco's Chief Executive Officer David J. O'Reilly serves as the Chairman of the Board of Directors. With the exception of the Chairman and Vice Chairman, at the end of 2002 all Board members were independent directors as defined by the New York Stock Exchange.

Role of Board Committees

Committees of the Board of Directors include: Audit, Board Nominating and Governance, Management Compensation and Public Policy. Each committee is entirely comprised of independent directors. The Audit Committee assists the Board in ensuring that the corporation's financial statements are properly audited, that the corporation maintains an effective internal audit function and that the corporation complies with legal and regulatory requirements, among other duties. The Board Nominating and Governance Committee assists the Board in defining and assessing qualifications for membership on the Board of Directors, and in identifying qualified candidates, makes recommendations for organization of the Board's affairs and addresses stockholder concerns regarding corporate governance, among other duties. The Management Compensation Committee assists the Board in determining salary and other compensation matters for executive officers and in establishing and administering incentive compensation and equity-based compensation plans for company management, among other duties.

While corporate responsibility issues are embedded in the charter of each of the Board committees, the Public Policy Committee has primary responsibility for oversight of the company's overall corporate responsibility strategy and performance. The Public Policy Committee's charter is to identify, evaluate and monitor social, political and environmental issues and concerns worldwide. It also reviews the company's strategy and performance related to corporate responsibility. Members of ChevronTexaco's management regularly brief the Public Policy

Committee regarding corporate responsibility issues facing the company and seek the committee's input on strategies or approaches.

Corporate Responsibility Leadership at Executive Level

At the senior-management level, a variety of structures exist to provide leadership and accountability for the company's corporate responsibility strategy and performance. The primary forum in this regard is the Global Issues Committee, an executive-level, cross-functional team chaired by ChevronTexaco's Vice Chairman that oversees policy and strategy development on issues of worldwide strategic importance for the company. This group has formal responsibility for leading ChevronTexaco's corporate responsibility strategy development. Additionally, corporate responsibility issues raised by the Public Policy Committee or the full Board of Directors typically are brought to the Global Issues Committee for response. But other executive-level committees – including the Executive Committee, Human Resources Committee and Strategy, and Planning Committee – share responsibility for aspects of ChevronTexaco's corporate responsibility policies and approaches.

Introduction to Social Issues Section



In Maracaibo, Venezuela, employee Joe Wright plays with children of the orphanage Casa Hogar Simon Rodriguez, which ChevronTexaco built and supports with employee volunteers.

Our Direct Social Responsibilities

ChevronTexaco's operations can affect people's lives and society in numerous ways. The social issues we believe we are most directly responsible for are:

- ▶ conducting our business in an honest and ethical manner;
- ▶ valuing and respecting employees, including supporting diversity, hiring local employees, and providing employees with training and development opportunities;
- ▶ protecting the health and safety of people who work on our behalf or live in the communities where we operate;
- ▶ engaging with and contributing to the communities where we work;
- ▶ supporting and promoting universal human rights consistent with the legitimate role of business;
- ▶ participating constructively in shaping public policy on issues that directly affect our company.

Helping Address Broader Social Issues

Companies such as ChevronTexaco operate in regions of the world facing societal challenges that are beyond the boundaries of an individual company's activities or sphere of influence, such as poverty, public health, education, human rights, and national and regional stability.

Although we cannot and should not assume the role of government, we accept the challenge – in cooperation with all sectors – to help address these issues. Our core business of supplying affordable, reliable energy is an important part of economic development and improving

people's quality of life. In addition to supplying this energy, we provide employment and help employees develop skills and experience, spur economic growth, transfer technology, and contribute to the communities where we operate.

In many countries, national governments have taken direct control over their energy resources, and global energy companies operate in partnership with these governments. We recognize, however, that the benefits of energy resources have not always reached the local communities where we operate. Some countries and regions have been described as suffering from the so-called "resource curse," a term economists use to describe locations with abundant natural resources that are prone to perform worse on economic and social development indicators than more resource-poor countries. ChevronTexaco is concerned about this issue. In our view, addressing fundamental issues related to poverty and health is a critical stepping stone to being able to help find solutions to the range of other complex social, economic and environmental issues where we operate.

About This Section: Working to Measure Social Impacts

Measuring and reporting on the social impacts of commercial operations are still in an early state of development, compared with financial and, to a lesser extent, environmental reporting. Many of the topics addressed in the social section of this report do not lend themselves easily to quantifiable measurement. Where possible, we have provided specific performance data, but the majority of the data are qualitative. ChevronTexaco is among the many companies working to better understand, measure and report our social impacts and performance.

Engagement and Dialogue

Case Study ▶

Addressing Complex Challenges in Nigeria

The Niger Delta illustrates some of the most difficult conditions ChevronTexaco faces anywhere. Poverty, ethnic and tribal tensions, and unstable law and order are among the challenges faced by Chevron Nigeria Ltd. (CNL).



Chevron's Riverboat Clinic brings medical services to communities near Escravos, Nigeria.

The Escravos oil terminal, located in the Niger Delta and operated by CNL in partnership with the Nigerian National Petroleum Corp. (NNPC), processes up to 480,000 barrels of oil a day. CNL employs 2,000 people, approximately 90 percent of whom are Nigerians. Three out of four CNL managers are Nigerian.

"The Niger Delta presents extraordinary challenges for CNL and other companies that operate there," says Robert Wasserstrom, a former Columbia University anthropologist who is helping CNL redesign its community development strategy. "In my view, this area is one of the most difficult social environments in the world, especially after 37 years of military government. Traditional economies and social organizations have been severely damaged, leaving the area with no way to make consensus decisions or resolve conflict. Meanwhile, anger is growing among local villagers, who feel they have received few benefits from either oil companies or the government."

ChevronTexaco's affiliates have operated in Nigeria for more than 40 years and, in that time, have worked to find means of helping to address these complex challenges. As part of its commitment to contribute to the local community, CNL has partnered with aid organizations, nongovernmental and community-based organizations. CNL has spent more than US\$90 million on community development since the early 1990s for water and power projects, roads, canals, jetties, schools and hospitals. Through these efforts, CNL has learned much about engaging with local communities, trying to make meaningful and sustainable contributions to social and economic development and working to support universal human rights.

CNL is proud of the many positive impacts it has had on people's lives – on the more than 5,000 students per year who receive company-sponsored scholarships or the thousands of villagers each year who receive medical care at CNL's riverboat clinic. But CNL also recognizes that despite the company's and its partners' determination to help solve community problems, many of the region's residents lack jobs, adequate clean water, education, training or health care.



In the Niger Delta, thousands of miles of rivers form the highways and communication routes for hundreds of villages that sit above some of the most oil-prolific geology in the world.

In the Niger Delta, frustrations over these chronic problems at times swell into protests, which sometimes have become violent. Over the last several years, CNL facilities and employees have encountered several such situations, a powerful illustration of the challenges of operating in the region. Faced with such difficult situations, the company's first priority is always to protect people's safety, then to seek inclusive dialogue to resolve differences.

In 1998, an incident involving a CNL facility ended in tragedy. In that case, 200 militant youths seized the offshore Parabe oil production platform, holding close to 200 national and expatriate employees hostage, protesting inadequate job opportunities and demanding a substantial increase in community development investments. In hopes of a peaceful resolution, CNL management negotiated with the group's representatives, but without success. When, after three days, the negotiations were not advancing, and the threats against CNL employees held captive continued, Nigerian authorities were called in to restore order. When the military arrived, conflict ensued between the Nigerian authorities and the protesters. Shots were fired, and two protesters were killed. CNL deeply regrets these deaths.

In the summer of 2002, CNL's commitment to peaceful resolution of conflict was tested again, this time with a more positive outcome. Local women occupied CNL's Escravos oil terminal, insisting that CNL provide municipal services and facilities to their communities and create new jobs for the men in their villages. CNL managers halted oil operations, a critical step to protect people's safety, and began discussions with the protesters. Ten days later, the occupation ended peacefully.

Shortly after, CNL formed a partnership with several third-party development organizations, including the United Nations Development Program (UNDP). CNL and UNDP will develop a coordinated master plan for separate Delta projects, such as building schools, roads and hospitals.

Illustrating that the challenges will continue, in early 2003, militant youths in the Delta region embarked on a violent protest against the local government prior to general elections in the country. This action led to community members' deaths, as well as significant loss of life among military personnel and oil workers, and resulted in widespread destruction of homes and property. Acting quickly to protect lives, CNL shut down operations, mobilized its

Case Study ▶
(Continued)**Addressing Complex Challenges
in Nigeria**

In early 2003, unrest in the Niger Delta led ChevronTexaco to airlift workers and 2,000 displaced community members to safety in nearby Warri.

medical personnel, hired planes from Nigeria and neighboring countries, and airlifted more than 3,000 people – including 2,000 displaced community members – to safety in the neighboring city of Warri. While these protests were not directly tied to CNL, the company used its resources to evacuate both employees and community members. The company also made repeated public calls urging all parties to exercise restraint and to seek inclusive dialogue and peaceful resolution.

The difficult situation in the Niger Delta affords us the opportunity to contribute to the improvement of conditions and learn important lessons about the limitations of what can be achieved through our corporate responsibility efforts. As an individual company, CNL can help provide much-needed infrastructure, educational, health and other developmental needs to the people. However, it cannot solve historic, fundamental governance, security and economic problems. CNL is continuing to collaborate with others to help improve the living conditions of the people close to our operations, while leaving minimal footprints of our activities.

Ethics**Policy: Our Business Conduct and Ethics Code**

Integrity is one of ChevronTexaco's core values, and we are committed to meeting the highest ethical standards in all our business dealings.

ChevronTexaco's policy is to adhere to the letter and the spirit of the law. The ChevronTexaco Business Conduct and Ethics (BC&E) Code describes the company's policies for proper business conduct in a range of areas, such as conflicts of interest, public policy activities, gifts to officials, agreements with competitors, privacy of personal information, nondiscrimination, and U.S. export controls and trade sanctions. ChevronTexaco's Manual of Compliance Procedures and Guidelines provides greater detail on specific laws and policies related to many of the issues addressed in the BC&E Code.

Also included in our BC&E Code is ChevronTexaco's policy to comply fully with the letter and spirit of the U.S. Government's Foreign Corrupt Practices Act (FCPA). Payments to international officials or parties for the purpose of obtaining or retaining business is strictly against ChevronTexaco policy, even if the refusal to make them 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 – ChevronTexaco requires all such requests to be forwarded to our Corporate Comptroller for review and approval.

Approach: Rigorous Processes for Operating Ethically

We use a variety of processes and control systems, up to and including termination, to ensure compliance with our ethical policies and guidelines and accountability for violations.

ChevronTexaco Directors, employees and contractors are required to comply with the BC&E Code and the Manual of Compliance Procedures. All employees are required to read and be trained on the code. The Audit Committee of the Board of Directors helps the Board monitor the company's adherence to the BC&E Code. ChevronTexaco operating companies and corporate departments have their own Compliance/Audit Committees. These committees are responsible for overseeing compliance and ensuring that their respective organizations develop, implement and effectively operate processes to provide reasonable assurance of compliance with all applicable laws and regulations and company policies. Corporate Compliance Audits are conducted by an Internal Audit function to help ensure compliance processes are functioning properly.

Ethics (Continued)

Operating company and corporate department heads must send an annual “Representation Letter” to the corporation confirming that they have effective processes in place to ensure compliance with all applicable policies, laws and regulations. This letter covers areas ranging from conflicts of interest and the FCPA to health, environment and safety and human resources issues such as anti-harassment. If, during the year, Internal Audit has issued a “less than satisfactory” audit in any area, the representation letter must explain what corrective action is being taken. A representation also has to be made that processes are in place to identify and bring to management’s attention any areas where company employees or directors are exposed to U.S. penalties or criminal liability in connection with nonoperated joint-venture operations.

If any employee or director has information that indicates another employee or agent, consultant or contractor is violating ChevronTexaco policies or any applicable laws, the BC&E Code requires him or her to report their concerns to management, legal counsel, the Corporate Auditing Department, Corporate Security or ChevronTexaco’s global hotline. All calls to the hotline are confidential and can be made anonymously. ChevronTexaco also provides for direct communication of Hotline calls to the Audit Committee of the Board of Directors. It is ChevronTexaco’s policy that no employee will be retaliated against for making a report of a suspected violation of the company’s policies or law. Any subsequent corrective or disciplinary actions taken against individuals who violate the code are taken at the local level and not tracked on a corporatewide basis.

ChevronTexaco gives employees clear guidelines on appropriate ethical behavior and reinforces those guidelines. Yet policies, principles and guidelines – no matter how comprehensive – cannot always provide definitive answers to employees’ questions about conduct. Ultimately, the company relies on its values and employees’ good judgment, including a sense of when it’s appropriate to seek guidance on the appropriate course of conduct.

Political Activities

Background: Participating in the Political Process

The laws and regulations governing corporate political activities vary across different countries. In some countries, including the United States, the right to participate in the political process and public policy debate extends to corporations as well as individuals. In recent years, there has been heightened public interest in corporate participation in the public policy process. In addition to responding ethically and honestly to issues that affect our business, employees, stockholders, customers and suppliers, we also recognize the need to demonstrate how our political activities and public policy positions align with our stated commitments to social and environmental responsibility.

Approach: Engaging Ethically and Constructively

Consistent with the values expressed in *The ChevronTexaco Way*, we seek to work ethically and constructively to influence proposed laws and regulations and debate on emerging issues that affect our business. We believe it is the company’s fundamental right and responsibility to participate in the political process. In our political activities, ChevronTexaco is committed to adhering to the highest standards of ethics and transparency, and to complying with the letter and spirit of all laws and regulations governing political contributions, gifts and lobbying. When we advocate for proposed laws and regulations or debate on emerging issues, our intent is to take a constructive approach to address legitimate business and societal needs.

ChevronTexaco engages in public policy debates and advocates our position at the local, state and federal levels; participates in trade associations and other advocacy organizations; and lobbies public bodies and officials. In the United States and Canada, where permitted by law, ChevronTexaco makes political contributions under corporate policy. ChevronTexaco operates under self-imposed procedures that require strict review of every political contribution to ensure compliance with all requirements for contributions, lobbying activities and gifts at every level of government.

The ChevronTexaco Employees Political Action Committee (CTEPAC) is a forum for eligible employees, stockholders and stockholder retirees 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. CTEPAC provides a collective mechanism for ChevronTexaco employees to exercise their right to participate in the public policy process. A list of contributions made during 2001–2002 can be viewed on the Federal Election Commission Web site.

It is ChevronTexaco’s policy to furnish a list of all political contributions to any stockholder upon request.

Revenue Transparency

Background: Addressing a Complex Issue

Governments in some countries where energy development takes place – particularly those in the developing world – have been accused of lacking sound governance systems, condoning corruption and failing to distribute the benefits of their energy resources to their citizens. This is an enormously complex issue that straddles subjects such as sovereignty of foreign governments, the “ownership” of the resources themselves, sanctity of contracts and the appropriate role of companies in seeking to influence governments to better account for and manage these significant sums.

Over the past few years, a variety of efforts have emerged advocating for greater transparency about the amounts and sources of revenues generated by the extractive industries. Many believe that such transparency would increase the accountability of governments to demonstrate how those funds are used for the benefit of their citizens.

Approach: Participating in Voluntary Initiatives

Transparency is one of the fundamental values that guide ChevronTexaco’s business conduct, and we have participated in the dialogue associated with many recent revenue transparency initiatives. A consistent message from ChevronTexaco has been that for any of these initiatives to be meaningful and achievable, they must honor the sanctity of contracts; be inclusive of governments, nongovernmental organizations and companies, without a unilateral focus on any one; and remain voluntary.

ChevronTexaco views the Extractive Industry Transparency Initiative (EITI), sponsored by U.K. Prime Minister Tony Blair, as a meaningful attempt to tackle this difficult issue. ChevronTexaco is proud to have participated in the constructive dialogue process that EITI launched, one that brought together governments, industry, international financial institutions (IFIs) and nongovernmental organizations to address a difficult global issue.

ChevronTexaco has pledged its support to the Blair EITI, while at the same time issuing a challenge to all participants:

- ▶ that the G8 Governments who now drive the EITI initiative be prepared to share leadership with host governments;
- ▶ that the IFIs, especially the International Monetary Fund, be prepared to dedicate the resources and commit the necessary political will and persuasive powers to carry it forward;
- ▶ that civil society organize and engage constructively, while continuing to monitor the process and remind its participants of the opportunity we all have to work together to affect real change;
- ▶ that private-sector companies continue to demonstrate their commitment to implement the agreed-upon aims of the EITI initiative. For our part, we have pledged our own commitment to do so.

Community Engagement

Background: Local Communities are Key Stakeholders

The ChevronTexaco Way states simply, “We will benefit the communities where we work.” Across our operations, we develop, support and participate in a range of community programs and activities with the goal of positively contributing to the quality of life where we operate. In addition to being a visible expression of our values, developing trusting relationships with our host communities and helping address their needs is an important component of our license to operate and, ultimately, our business success.



In the Philippines, the company's Street-to-School program provides vocational training and scholarships.

But in many of the communities where we operate, poverty persists and multinational corporations such as ChevronTexaco increasingly are being called upon to fill roles that have traditionally been the domain of government, such as providing health care, education and basic infrastructure. We believe that as a private-sector company we cannot – and should not – take on the role of government. But we believe we can make many meaningful contributions to improving the quality of life in the communities where we operate and are focusing our resources toward helping to address these issues.

Approach: Working to Increase Our Positive Impact

Our goal is to be recognized as a leader in our industry in community engagement and development. We are proud of the many positive contributions we have made in the communities where we operate but also believe we can improve our effectiveness and increase the positive impacts we have in those places. As a result, we are taking an in-depth look at our approach in these areas, focusing on being more systematic in how we identify, assess and address community issues and more focused in the ways we support the communities where we operate. We are looking at issues such as:

- **Sustainability of projects:** We are working to better understand what makes community projects and activities have truly lasting impacts, not just in terms of financial sustainability but also in building the human and institutional capacity necessary to sustain long-term social and economic development. We recognize that we can more effectively work with local governments to help secure future funding and

transfer a sense of responsibility. We also see further opportunities to develop and conduct activities in genuine collaboration with host communities to create shared ownership of the outcomes. We also are looking to develop more long-term relationships with nongovernmental and multilateral organizations, recognizing that the skills, expertise and resources brought to a collective effort can increase the impact any one sector can have alone.

- **Assessing and responding to community needs:** ChevronTexaco business units, working with local residents and, often, with nongovernmental or multilateral organizations, develop programs on a local level so that they can be tailored to meet individual community needs. Some business units have formal processes for engaging with local communities to assess their needs in advance of designing community projects. Others are exploring ways to better engage with host communities, working to help them define their own needs and to allow the company to gain a deeper understanding of how we can help address them.
- **Measurement and evaluation:** ChevronTexaco is looking at new ways to measure and monitor the long-term impacts and effectiveness of our community engagement and development programs. We believe there is a great deal we can learn in this area, and we are reaching out to experts from nongovernmental and development organizations to help us design and implement more effective measurement and evaluation processes.

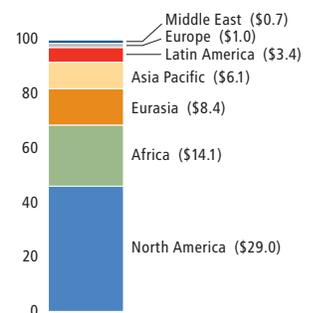
Performance: Examples of Our Activities

Across its operations, ChevronTexaco develops, supports and participates in a broad range of community engagement and development activities.

In 2002, ChevronTexaco made community investments estimated at US\$62.8 million worldwide in areas including education and skills training, human capacity building, health, small-business development, arts, and the environment. Over the past five years, ChevronTexaco's community investments (or the combined investments of the two legacy companies) have been essentially consistent year over year, ranging from approximately US\$55 million to US\$63 million annually.

2002 Estimated Global Community Investments

Percent of total 62.8 Million



Note: Includes ChevronTexaco share in affiliates. Amounts are in millions of \$U.S.

Community Engagement (Continued)



Politeknik Caltex Riau, sponsored by Caltex Pacific Indonesia, is the first university of its type in central Sumatra.

The following are illustrative of our community programs, reflecting the geographic diversity of our operations and variety of community activities:

- ▶ **Skills Development in Nigeria:** Chevron Nigeria Ltd, ChevronTexaco's affiliate in Nigeria, and the Nigerian National Petroleum Corp., in partnership with the International Foundation for Education and Self-Help and the Nigerian Opportunities Industrialization Centres, have developed the Technical Skills Acquisition Project. The project provides a yearlong job training program for youth in remote Niger Delta communities, where unemployment is acute. About 160 men and women have completed the program since it was started in 1996, and half have found paid employment in their field. ChevronTexaco has invested more than US\$1 million in the project and plans to expand the program to 120 trainees per year.
- ▶ **Technical Institute in Indonesia:** In Riau Province on the Indonesian island of Sumatra, PT Caltex Pacific Indonesia (CPI), a ChevronTexaco subsidiary, sponsored the Polytechnic Caltex Riau (PCR), the province's first elite polytechnic university. PCR offers study programs in computer science, telecommunications and electrical engineering. During its first year of operation in 2001, some 640 students – more than triple the capacity at the time – applied to the polytechnic. By 2010, the campus expects to enroll 5,000 students. The school is adding new study programs in 2003 and 2004 that match the province's business needs and contribute to its economy. CPI's support of the university includes capital outlays of US\$5.45 million and operating funds for the first three years, estimated to be approximately US\$1.3 million.
- ▶ **Helping Street Children in the Philippines:** Caltex (Philippines) Inc., a wholly owned ChevronTexaco affiliate, is working with the government to help Philippine street children move out of poverty. The Caltex Fund Street-to-School program, which was started in 1999 in partnership with two nongovernmental organizations in Manila, has provided shelter, scholarships and training for nearly 500 young people since the program began. Indirectly, the program affects thousands more who participate in various livelihood and skills training initiatives sponsored by Caltex. In 2002, Caltex brought in several newnon-

governmental partners to expand the program nationwide. A companion program launched in late 2001, the Caltex In-Plant Training Program, provides practical work experience for the older youth in the program at the company's Xpress Lube stations and with Caltex retailers. In 2002, the Street-to-School program won the Institute of Petroleum's community initiative award.

- ▶ **Supporting Education in Saudi Arabia:** In Saudi Arabia and the Partitioned Neutral Zone, Saudi Arabian Texaco (SAT) contributes to health, education and cultural initiatives, including sponsoring the Al-Jasser Library in Saudi Arabia, which helps preserve the heritage of the Arabian Peninsula. SAT also sponsors the Al-Birr Charitable Society, which addresses the social and economic needs of Saudi citizens, providing training in a range of skills, as well as a number of other education programs and institutions.
- ▶ **Small Business Development in Kazakhstan:** In 1999 in Atyrau, Kazakhstan, Chevron Muniagas Inc. (CMI), ChevronTexaco's wholly owned subsidiary, launched a Small and Medium Enterprise (SME) Program, in partnership with the United Nations Development Program, the European Bank for Reconstruction and Development and the U.S. Department of State. CMI and its partners created the three-year SME Program with the goal of making community investments that promoted sustainable, grassroots economic development. The SME Program transferred entrepreneurial skills to local businesses, funded low-interest and no-collateral loans to Atyrau entrepreneurs, and helped prepare nearly 280 business plans, of which more than 25 percent were approved for loans. The program concluded, as planned, in 2002.
- ▶ **Increasing Literacy in Latin America:** Throughout Latin America and the Caribbean, ChevronTexaco supports a variety of community projects, including building medical and dental facilities, providing homes for orphans, and drilling water wells. In particular, ChevronTexaco and its partners focus on supporting education projects in the region. In Venezuela, for example, 2,500 students have benefited from school restoration projects that the company has supported since 1996. In Brazil, 3,000 adults and children attained basic language competency skills through the company's national literacy program. In Colombia, a cultural and learning center built by the company serves 6,000 local children. In Argentina, ChevronTexaco's local affiliate and a partner built Ruca Quimpen, a school that provides lodging, food and medical services to 40 children and their families.

Community Engagement (Continued)

► **Science and Math Education in North America:** Since 1991, ChevronTexaco has sponsored Family Science, a program designed to build interest and skills in science and math. The program encourages children of diverse backgrounds, especially minorities and females, to consider science-based careers. Family Science includes workshops for teachers, parents and students in select locations in the United States, Mexico and the Philippines. By including parents in the training, Family Science increases the likelihood that learning and an interest in science will continue outside the classroom. Since 2001, more than 200 workshops have been held, and multiple scholarships have been given to instructors to expand the program in other communities.

Case Study ►

Angola Partnership Initiative

In 2002, as Angola emerged from 30 years of civil war, more than one-third of its population was displaced, and the social and economic fabric of the country was torn. ChevronTexaco, whose wholly owned subsidiary Cabinda Gulf Oil Company Limited has operated in Angola since the 1950s, has been one of the largest foreign investors in the country. With the ending of the



war, we resolved to expand our ongoing community programs to do something that would have a meaningful impact in helping the people of Angola recover from their decades of strife.

The Angola Partnership Initiative is helping more than 3,000 Angolan families through its support of small-scale farming.

After research and discussion with key stakeholders, ChevronTexaco initiated a major new program, the Angola Partnership Initiative. The mission of the Initiative is to build

human capacity with a focus on the development of small and medium-sized enterprises. The primary focus areas of the program are:

- strengthen the supply of vocational training,
- expand the supply of micro-credit,
- introduce business development services, and
- strengthen the enabling environment for social and economic development.

Under the initiative, we have developed formal partnerships with the United States Agency for International Development (USAID) and the United Nations Development Program (UNDP). Together, we have established a combined goal to raise US\$50 million to support this initiative. Additional partnerships and alliances are under discussion. ChevronTexaco has committed US\$25 million to support this effort.

Two projects already launched under the initiative are a program to support the revitalization of the agriculture sector and the formation of a new micro-credit bank. Both projects focus on job training and creation, and provide technical assistance and financial stimulus for locally owned small and medium enterprises.

The agricultural effort combines immediate hunger relief to the most vulnerable segment of society and longer-term agricultural development through seed multiplication and seed variety experiments. It also supports the creation of some 200 farmer associations. This effort is designed to support approximately 160,000 rural families – representing more than 600,000 individuals – with the goals of increasing food security, decreasing reliance

Case Study ▶
(Continued)

Angola Partnership Initiative

on importation of seed, creating better access to markets and information and, ultimately, increasing rural incomes.

The planned Angola Enterprise Development Bank will provide small loans and other banking services to low-income Angolans and small businesses. The bank intends to fill a need for small-scale credit that is not currently covered by the commercial banking sector. In addition to ChevronTexaco, the other stakeholders in the bank are major European development institutions which are working for the first time in Angola.

In addition to providing ChevronTexaco a vehicle to make a contribution to Angola's recovery, our involvement in the Angola Partnership Initiative has provided us with invaluable experience in developing long-term, mutually beneficial partnerships with nongovernmental and multilateral organizations. We have also found that it has helped us bring together interested parties to seek ways to be more efficient in our collective efforts.

Case Study ▶Community Development
in Papua New Guinea

Papua New Guinea children learn about disease prevention.

In 2001, Chevron Niugini Ltd. (CNLG), in partnership with the World Wildlife Fund (WWF), formed the Community Development Initiative Foundation (CDI), an independent, nonprofit organization working on community development issues in the region. Between 2001 and 2003, ChevronTexaco and its joint

venture partners provided US\$4.8 million (of which approximately \$875,000 was ChevronTexaco's share) in grants and operational support to CDI.

In addition to furthering WWF's efforts to protect natural resources, CDI brings social services to rural communities affected by the oil industry, providing programs in health, education, agriculture, skills development and cultural preservation, in support of government efforts.

CDI is a unique model for ChevronTexaco's community engagement because, in launching the foundation, the company created an independent operational entity with its own staff, facilities and mission solely focused on community development. CDI assumed responsibility for Chevron Niugini's existing community development programs, bringing to it the foundation's network of expertise on development issues, as well as the trust of community members. CDI blends both social and environmental considerations into one coordinated approach and is one of ChevronTexaco's best examples of a comprehensive community development program, designed to thrive long after a region's oil stops flowing.

In what will prove to be a test of CDI's sustainability, in 2003 ChevronTexaco sold our Papua New Guinea oil operations, a move the company currently believes will not affect CDI's continued operations. After receiving initial funding from ChevronTexaco and its joint-venture partners, CDI began soliciting funding from other sources to help guarantee its growth and survival after ChevronTexaco's – and ultimately the oil industry's – exit from the region.

ChevronTexaco believes that our experience with CDI has provided valuable learning about effective community engagement and innovative approaches to making a positive and lasting contribution to the communities in which we operate. To capture this learning and apply it elsewhere in our operations, ChevronTexaco has commissioned an independent review and analysis of CDI. After its planned completion in 2003, the findings of the review will inform ChevronTexaco's future community engagement activities around the world.

Human Rights

Background: The Private Sector's Role

The private sector can play an important role in the promotion of human rights. The Universal Declaration of Human Rights – which is widely considered the most important foundational document on human rights – states that “every organ of society” has the obligation to further human rights. But given the complex nature of human rights issues, determining the appropriate roles and responsibilities of private, public and civil sector actors is a delicate and evolving task.

ChevronTexaco, along with other companies in the energy industry, often operates in countries where there is civil and political unrest, and with this can come allegations of human rights violations. ChevronTexaco and others have a direct interest in operating in environments where the rule of law is applied fairly and consistently, and where individuals are treated with respect and dignity. As a result, over the past several years, companies have come to place greater attention on the promotion of human rights.

Approach: Respecting Human Rights in Our Operations

As expressed in *The ChevronTexaco Way*, we support universal human rights and, in conducting our operations, we seek to uphold and respect human rights principles, consistent with the role of business. We also are founding supporters of the Global Sullivan Principles, which address a range of human rights issues. We are committed to working with governments, our business partners, nongovernmental organizations and the communities where we operate to develop a fuller understanding of human rights issues, how they apply to our company and what we can do to make a contribution consistent with our appropriate role. We see this as an important step toward the furthering of human rights worldwide.

ChevronTexaco has long addressed many of the issues that fall under the umbrella of human rights, such as employment practices, nondiscrimination, health and safety, and security of employees and company facilities. In 2002, we reviewed our policies, systems and practices to determine how we might encourage better performance in this area, including more systematically integrating human rights considerations into our day-to-day operations. We also have engaged external stakeholders and human rights experts to assist us in this effort.

As a first step following the review, we have developed a draft Human Rights Statement, which builds on *The ChevronTexaco Way* and further defines our commitments and approach in this area. The statement, which was developed in consultation inside the company and with outside

experts, addresses and provides guidance on issues such as employment standards, security, conflict zones, indigenous peoples and human rights assessments. We believe the statement will serve the following practical functions:

- ▶ provide operational guidance for ChevronTexaco employees and partners;
- ▶ act as a framework for constructive dialogue with external organizations;
- ▶ be the starting point for company measurement of and reporting on performance.

Future Goals: Developing and Testing a Global Approach

We know developing a Human Rights Statement is only a first step. We are testing application of our statement in select locations, including some where we face significant human rights challenges. We intend to use this testing to gain a fuller understanding of how to apply the statement in an operational environment, determine where human rights considerations can be more systematically integrated into existing management processes, and how we can measure and monitor our performance more effectively. We also intend to develop additional guidance, tools or training to support the implementation of the statement. Based on the results, our aim is to revise and finalize the statement and begin corporatewide implementation in 2004.

Case Study ▶

Human Rights Dilemma in Angola

A recent event in Angola illustrates the challenging and complex issues related to human rights and the boundaries of responsibility between the public and private sectors. ChevronTexaco faces these issues in many of the locations where it operates.

In December 2002, a report issued by the Coalition for the Reconciliation, Transparency and Citizenship – a group composed of several non-governmental organizations, Angolan unions and the Ad Hoc Commission for Human Rights in Cabinda (which was formed by six citizens in the Angolan province of Cabinda) – alleged that the Cabinda Gulf Oil Company (CAB-GOC), a wholly owned subsidiary of ChevronTexaco operating in Angola, “should stop the complicity in allowing police investigations in the Malongo camp.”

Case Study ▶
(Continued)**Human Rights Dilemma in Angola**

Within the CABGOC operating compound – called Malongo – there is a Cabinda Province Law and Order police post. The post, which is operated by the local police force independent of CABGOC, has been in Malongo for decades. It is not unlike finding a police station within an airport or a large train station, providing basic civil law and order for, in this case, thousands of employees living and working in Malongo.

CABGOC management was troubled by this allegation and conducted an internal investigation to determine the basis, if any, for this statement. Three CABGOC employees involved in the incident from which the charge stemmed were interviewed. CABGOC managers also met with the principal members of the coalition that had authored the report to further understand their specific charge.

According to the information available, Cabinda police had brought a criminal suspect in for questioning to the police post in Malongo. The suspect was a journalist, whom the police had charged with fabricating a story about a presumed attack against the aircraft that flies company personnel within the country. The police also had summoned to this meeting two CABGOC supervisors, who were asked to comment on the allegations the suspect was making, because the journalist cited CABGOC sources as the basis for his story. Based on the results of the questioning, the journalist recanted and was released by the police.

In the end, no connection was made between the incident at the police post and any CABGOC actions, other than the police bringing the suspect into their post in Malongo. The police said it was easier to bring the suspect to the post in Malongo (where the two CABGOC supervisors were stationed) than it would have been to bring the two supervisors to police headquarters in Cabinda.

But the lingering issue remains: What is the proper balance between a local police force's sovereign right to conduct its operations in its jurisdictions and a company's responsibility to seek to ensure that actions related to its operations are conducted in a manner consistent with recognized human rights principles? These issues are especially important when a police post is in a company compound, or the investigations grow out of incidents involving the company's employees or property. ChevronTexaco – along with other companies, governments and nongovernmental organizations – has engaged in the U.S.-U.K. Voluntary Principles on Security and Human Rights and continues to work to apply these principles to help strike the proper balance between these important concerns.

Security**Background: Protecting People is a Core Value**

ChevronTexaco believes it has an obligation to protect the security of its employees, assets and the facilities it operates. Protection of people is a core value at ChevronTexaco.

Like other companies in the oil and gas industry, we operate in some environments where conflict and other security risks are present. In some of these locations, our people and assets are protected and secured with the support of public or private security forces.

Approach: Voluntary Principles on Security and Human Rights

ChevronTexaco participated in and supported the process of developing the U.S.-U.K. Voluntary Principles on Security and Human Rights, released in December 2000. The Voluntary Principles came out of a process that brought together extractive-sector companies, human rights organizations, trade unions, and the governments of the United States and United Kingdom to develop principles to guide companies in maintaining the safety and security of their operations within a framework that ensures respect for human rights and fundamental freedoms. ChevronTexaco's security practices take operational guidance from the Voluntary Principles, which are consistent with *The ChevronTexaco Way* and the company's efforts to develop a corporate-wide Human Rights Statement.

We regularly communicate our security expectations to the host governments of the countries where we operate, our business partners, and the private and public security forces we sometimes work with. In addition, we encourage the U.S. Government to promote an environment where other governments take responsibility for effectively addressing human rights concerns.

ChevronTexaco's Global Security group regularly engages with the company's worldwide business units, including conducting periodic formal Security Management Reviews (SMRs). Incorporated into both the ongoing engagement and the SMR process is an assessment of actions that business units have taken to implement the Voluntary Principles in their operations.

Individual ChevronTexaco business units are responsible for implementing the Voluntary Principles in accordance with local laws and conditions, an approach we feel is most appropriate given the complexities of operating in such a wide range of countries.

Health & Safety

Background: Our Goal is Zero

Protecting the safety and health of people who work on our behalf or are affected by our operations is a core value at ChevronTexaco. In our view, every injury is preventable and our safety goal is simple: zero incidents.



Cape Town trainees tour a Caltex refinery.

Approach: Addressing Key Safety Challenges

We expect our business units to manage health and safety issues – alongside environmental issues – as rigorously as they manage all other aspects of their business. In the deployment of our Operational Excellence Management System, safety and reliability

have been the initial priority areas for the development of new companywide guidelines and performance expectations. Our approach to the issue addresses our entire work force. We require contractors to meet the same health and safety expectations as employees.

We believe safe, reliable operations start with safe designs. ChevronTexaco facilities are designed and operated throughout their life cycle with the goal of preventing injuries and minimizing health and environmental impacts.

Following the 2001 merger of ChevronTexaco, we identified the following key safety challenges:

- ▶ Motor vehicle crashes are the No. 1 cause of work-related fatalities.
- ▶ Contractors account for roughly two-thirds of the hours worked on our behalf and more than 80 percent of work-related fatalities.
- ▶ Computer-related repetitive stress injuries account for more than 20 percent of employee work-related injuries.

To address these challenges, in 2002 ChevronTexaco established additional corporatewide performance expectations that build on our existing health and safety standards and programs. Specifically, we developed additional guidance for our business units in contractor safety management, motor vehicle safety, and repetitive stress injury prevention and reliability. We also instituted a number of new safeguards and guidelines, such as prohibiting cell phone use while driving on company business, creating new contractual safety standards and conducting mandatory computer workstation evaluations to assess those at risk of repetitive stress injuries.

In addition to our focus on operational safety, ChevronTexaco provides employees with a range of health and wellness programs and benefits, which vary across our different locations. In some places, where local medical services are inadequate, ChevronTexaco operates clinics that serve the health needs of employees and their families.

Performance: Making Progress and Committed to Improve

We profoundly regret that 16 people died in ChevronTexaco work-related incidents in 2002. While this number is down from the 2001 total of 23 fatalities, we view any work-related death as avoidable and are continually striving to reach our goal of zero incidents.

Although we are disappointed that we did not meet all of the aggressive targets we set for ourselves in 2002, we are proud of the overall progress we have made in improving our safety performance. Since 1999, we have reduced our total rate of work-related injuries and illnesses by over 30 percent for employees and nearly 60 percent for contractors. Also since 1999, our fatal accident rate is down by 70 percent for employees and more than 40 percent for contractors. Additionally, several operations around the world have demonstrated that incident-free operations are possible. In 2002, we recognized more than 20 of our businesses – representing more than 5,000 employees – for operating one year without a single employee injury.

ChevronTexaco Work-Related Fatalities

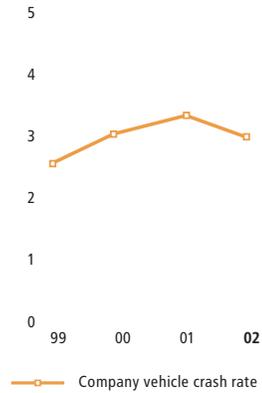
Fatalities*	1999	2000	2001	2002
Employees	4	4	2	1
Contractors	20	14	21	15

*1999–2001 data are combined Chevron and Texaco. 2002 data are ChevronTexaco.

Health & Safety (Continued)

Motor Vehicle Safety*

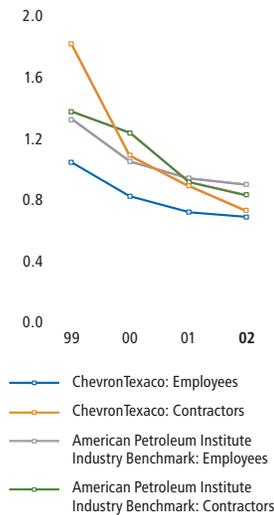
Motor vehicle crashes per million miles driven



*1999–2001 data is Chevron, 2001 data are combined Chevron and Texaco, and 2002 data are ChevronTexaco.

Total Recordable Incidents*

Recordable incidents per 200 thousand hours worked



*1999–2001 data are combined Chevron and Texaco. 2002 data are ChevronTexaco.

Future Goals: Setting a Target for Incident Reduction

Our ultimate goal is zero incidents. Our near-term target is to reduce the total work force recordable incident rate by more than 25 percent each year, which would mean a rate of 0.25 injuries per 200,000 hours worked by 2006.

Case Study ▶

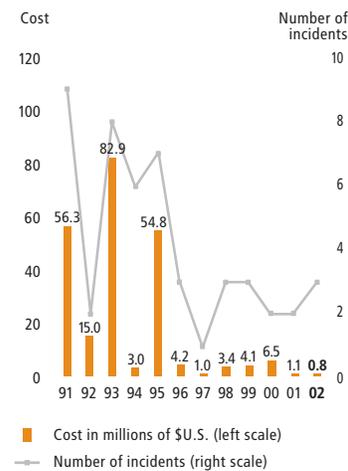
U.S. Refining’s Focus on Safety Continues

In the early 1990s, the U.S. government’s Occupational Health and Safety Administration issued new rules and guidelines covering “process safety management” for the petrochemical industry. The move was a response to a series of accidents the industry suffered from the mid 1970s to early 1990s.

At ChevronTexaco, we implemented new procedures to address with the requirements of the new rules, and we also launched a complementary safety and reliability initiative called Incident Free Operations (IFO) in the mid 1990s. IFO aimed to determine the most common causes of serious refinery accidents and to systematically adopt practices to reduce their risk of occurrence. A team studied years of refinery incident data and identified two clear areas of concern: failures of pumps and furnaces, both standard equipment in every refinery.

We then set about tackling the issues related to these pieces of equipment. In the process of analyzing incident data and root causes, we also applied the lessons we learned to a broader spectrum of issues. For instance, we developed a successful risk-based inspection program for pumps and furnaces. We then applied the same principles to improving the reliability of fixed equipment like vessels, columns, tanks and piping. Finding that our refineries followed different operating procedures for pumps and furnaces, we standardized those, as well as other basic procedures. To improve knowledge sharing, we created best-practice teams that communicate important operational lessons and help drive the standardization of our operating and maintenance practices across the various facilities. Our refineries began to consistently track their reliability and utilization rates, and used incident data to address emerging problems.

Furnace Incidents in ChevronTexaco U.S. Refining



Our results in reducing incidents due to furnace mishaps have been dramatic. Losses due to furnaces have decreased from 20 to 25 percent of total refining losses prior to 1996, to less than 2 percent in 2002.

While we have dramatically reduced serious refinery incidents due to pump and furnace failures, a 1999 fire caused by a separated valve at our refinery in Richmond, California, shows us that the risk of incidents is always present, and so is the

Case Study ▶
(Continued)U.S. Refining's Focus on
Safety Continues

need for continuing improvement. With the simple conviction that accidents are avoidable, employees at ChevronTexaco's refineries are determined to keep improving the safety and the reliability of their facilities.

Case Study ▶Repetitive Stress Injury
Prevention Initiative

For a company with thousands of employees working around-the-clock in oil fields, ships, refineries and other industrial environments, the statistic was surprising. Nearly two of every five workplace injuries reported in Chevron in 1999 were sustained by people who were doing the same thing over and over: working on computers.

Such Repetitive Stress Injuries (RSIs) can result if an employee's work station is not set up properly, or simply by the work habits of the person. ChevronTexaco's response to the RSI hazard was to create the ongoing Repetitive Stress Injury Prevention program (RSIP), a risk based program that focuses on early identification and prevention. The highly structured program includes awareness and training, assessments of work stations and work habits (often using a web-based tool), behavior-based observation processes, early reporting of discomfort and rapid intervention when a potential problem is discovered. We believe that our program is among the best in industry.

So far our results are encouraging. The number of RSIs has dropped 32 percent from 2000 to 2002. And the injuries we are having are less severe. Based on the data from our units with the highest risk for RSIs, in cases where the employee is not able to work due to an RSI, the average number of days lost per injury has dropped by almost 50 percent over the last four years.

Case Study ▶

Peer Observation Improves Safety

If an employee working on a ChevronTexaco offshore platform in the Gulf of Mexico happens to rush up a ladder one-handed, rest a hand near moving equipment, or merely lift a box without bending at the knees, he or she is very likely to inspire a gentle correction from a concerned coworker.

A successful program called Generating Awareness Through Observation and Review, or GATOR, trains people to recognize all manner of workplace hazards and avoid behaviors that put them at risk of injury. Employees on these offshore platforms routinely fill out "observation cards" that give feedback to coworkers – issuing compliments when a job is done right and suggestions when it could be done more safely. The feedback reinforces safe behaviors and suggests alternatives when something is unsafe. After six years of GATOR, nearly all the employees take part, and the program has been particularly successful in the Western Shelf Profit Center where approximately 460 employees churn out about 5,000 observations each month.

Not surprisingly, injuries have declined dramatically as the number of observations has grown. Lost-time incidents in the Western Shelf's organization fell from 12 per year in 1998 and 1999 to zero in 2002. A companion program, launched recently to increase contractor participation, is yielding similar results. Workers believe that GATOR has led to their best safety performance on record for their unit, which covers about 45 offshore platforms. As of mid-year 2003, the unit has worked more than two years without an employee lost-time injury, and more than 200 days with a contractor lost-time injury.

HIV/AIDS & Other Infectious Diseases

Background: The Human and Business Impacts of Disease

HIV/AIDS, malaria, tuberculosis and other infectious diseases are pressing global issues with significant human impact and related social, economic and political implications. Nowhere is the impact of HIV/AIDS and these other diseases currently more apparent than in sub-Saharan Africa, where ChevronTexaco is the largest U.S.-based investor. For example, with 10 percent of the world's population, Africa accounts for 70 percent of the world's HIV/AIDS cases. Because the disease primarily strikes people in their 20s to 40s – the most productive segment of the labor force – it threatens to reverse economic and development strides African nations have made over the past decade.



ChevronTexaco helped build a blood bank in Cabinda, Angola, which reduced HIV cases caused by contaminated blood from 25 percent to 1 percent.

For individual businesses, HIV/AIDS can challenge their ability to operate. In some African nations, the epidemic may affect as much as 30 percent of the labor pool over the next 20 years, according to the International Labour Organization. But HIV/AIDS is not limited to Africa. According to UNAIDS and the World Health Organization, Eastern Europe and Central Asia have the fastest-growing HIV/AIDS epidemics worldwide.

Approach: Addressing HIV/AIDS on All Fronts

ChevronTexaco believes that multinational companies are important participants in the global effort to find solutions to HIV/AIDS and other infectious diseases. ChevronTexaco's HIV/AIDS awareness and prevention programs in North America date from the 1980s, and since that time, the company has developed and supported a variety of other HIV/AIDS programs throughout its worldwide operations.

ChevronTexaco's approach to addressing HIV/AIDS starts with the premise that it is a preventable disease. Our awareness, prevention, voluntary testing, counseling and related programs focus on employees, their families and host communities. We also work with governments, nongovernmental organizations, multilateral agencies and international initiatives – such as the Global Business Coalition on HIV/AIDS, the World Economic Forum's Global Health Initiative, the United Nations, the U.S. State Department and the Corporate Council on Africa's Task Force on HIV/AIDS – to expand our knowledge of how

to effectively combat HIV/AIDS across our operations and share our experiences with others.

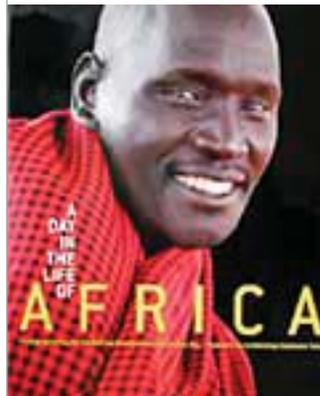
We are reviewing and assessing our worldwide HIV/AIDS programs and practices. In addition to gathering information about own operations, we are consulting with internal and external experts and reviewing leading companies' approaches to HIV/AIDS prevention and treatment.

Future Goals: Developing a Global Policy

ChevronTexaco intends to adopt a corporatewide HIV/AIDS policy designed to provide a global standard on such issues as nondiscrimination, testing, employee benefits, confidentiality and occupational health and safety. We also are developing other tools and resources to help our business units develop and implement HIV/AIDS programs tailored to their countries or regions.

Case Study ►

HIV/AIDS Programs in Africa



ChevronTexaco was an underwriting partner in A Day in the Life of Africa, an international photojournalism project with profits going to AIDS education.

According to UNAIDS and the World Health Organization, at the end of 2002 there were 29.4 million adults and children living with HIV/AIDS in sub-Saharan Africa. Approximately 3.5 million new infections occurred there in 2002, and an estimated 2.4 million Africans died from the epidemic in that year.

ChevronTexaco is the largest U.S.-based investor in sub-Saharan Africa, and HIV/AIDS – as well as other infectious diseases such as malaria and tuberculosis – have had a profound impact on our employees and their families, our contractors and our host communities throughout

Africa. In addition to the human toll of HIV/AIDS, we also recognize that the success of our company is linked inextricably to the health and productivity of employees and the communities we operate in. ChevronTexaco is responding by developing a range of programs aimed at combating HIV/AIDS and other public health issues in Africa.

Case Study ▶
(Continued)**HIV/AIDS Programs in Africa**

Throughout our operations in Angola, Nigeria and South Africa, ChevronTexaco promotes voluntary, confidential testing, provides condoms to employees, and gives anti-retroviral drugs to pregnant women to stop mother-to-child transmission of AIDS. ChevronTexaco employees and their families receive high-quality, comprehensive health care. In Nigeria and Angola, the company employs about 250 medical personnel and runs its own clinics and hospitals. In South Africa, the full scope of HIV/AIDS treatment services, including anti-retroviral drugs, are delivered to employees and their families by medical aid service providers. The company also developed an HIV/AIDS awareness and communication program, training more than 50 staff members to ensure ongoing awareness on HIV/AIDS among staff.

Over the last several years, ChevronTexaco's African business units have been working to more closely coordinate their HIV/AIDS initiatives and better share information and learning across their different operations. For example, ChevronTexaco's subsidiaries in Angola and Nigeria have developed an overarching HIV policy based on a successful Caltex (South Africa) model. Representatives of the different medical departments are in regular communication, helping one another address practical issues.

In 2001, Chevron Nigeria Ltd. (CNL), a wholly owned ChevronTexaco subsidiary, received the Award for Excellence by the Global Business Coalition on HIV/AIDS for its awareness and prevention programs, dating back to 1993. CNL's program also was cited as a best practice by U.N. Secretary General Kofi Annan. In early 2003, in recognition of the company's efforts, CNL Managing Director Jay Pryor was named by Nigerian President Olusegun Obasanjo as co-chairman of the Nigerian Business Coalition Against HIV/AIDS.

As part of CNL's HIV/AIDS program, union leaders act as peer educators in company workshops, teaching the causes and means of prevention of HIV/AIDS and encouraging employees to discuss cultural barriers to prevention. The company spreads its prevention message to the community, where an interactive youth program uses peer educators and role playing to target employees' children. Education workshops in the broader community promote safe sex, especially to prostitutes.

In Angola, ChevronTexaco's subsidiary, CABGOC, runs a number of HIV/AIDS programs for employees, their families and the local community. In 1992, the company also helped the government set up a blood bank in Cabinda, Angola's northernmost province, which reduced the number of HIV cases caused by contaminated blood from 25 percent to 1 percent. CABGOC also manages a related program to help the local government fight tuberculosis (TB). Identified cases of TB have more than tripled in the province since 1993, due in part to better diagnostics and awareness, but also due

to Cabinda's rising rates of HIV. In addition to striking similar age groups, the diseases fuel one another: TB accelerates HIV's progression, and HIV increases the risk of developing TB.

In the Democratic Republic of Congo, ChevronTexaco's subsidiary, Muanda Oil Co., conducts annual HIV/AIDS awareness campaigns for hundreds of employees, contractors and their families, one of the few such efforts in that nation.

Additionally, in 2000, ChevronTexaco provided funding for "cyber training" about HIV/AIDS through the Women's Media Center to equip African journalists with knowledge about the disease, and how it is spread and to provide special training on reporting and writing about HIV/AIDS in Africa. In 2002, ChevronTexaco was also a proud sponsor of the photo-documentary book *A Day in the Life of Africa*, with all profits from sales going to HIV/AIDS education in Africa.

According to Dr. Steve Simpson, ChevronTexaco's regional medical director in West Africa, the greatest remaining challenge the company faces related to its HIV/AIDS efforts in Africa is to find a sustainable model for the delivery of anti-retroviral therapy. In 2002, CABGOC set up a multidisciplinary task force to explore this and other issues. The task force is in the final stages of the project and will share its findings with other business units. Summing up the company's efforts, Simpson says, "No business anywhere in the world, especially in sub-Saharan Africa, can afford to ignore AIDS. As far as ChevronTexaco is concerned, this is a fight we will not, cannot and must not walk away from."

Employees

Employees are Key Stakeholders

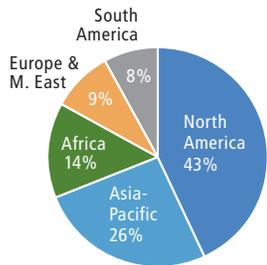
ChevronTexaco’s approximately 53,000 employees are critical to the company’s success. ChevronTexaco seeks to provide employees with meaningful work, fair compensation, opportunities to develop skills and knowledge, and honest and regular feedback on their performance. ChevronTexaco also strives to provide a work environment in which all employees are treated with respect and dignity.



ChevronTexaco employees in California’s San Joaquin Valley.

Approximately 43 percent of ChevronTexaco employees are in North America, 26 percent in Asia-Pacific, 14 percent in Africa, 9 percent in Europe and the Middle East, and 8 percent in South America. In the United States, approximately 11 percent of ChevronTexaco’s U.S. work force is unionized.

Geographic Breakdown of ChevronTexaco Employees



Managing Work Force Issues

In 2002 we launched the ChevronTexaco global People Strategy, which focuses on creating a global work force, valuing and managing diversity, developing leaders and managing talent. The strategy is designed to help us attract and retain the employees we need to achieve our business goals. ChevronTexaco’s executive-level Human Resources Committee oversees our worldwide employee relations policies, programs and performance. Individual operating companies and corporate departments have Personnel Development Committees to manage work-force issues for their respective organizations.

Historically, Chevron and Texaco conducted periodic surveys to gauge employees’ satisfaction, commitment to the company and opinions on a range of other issues. Both worldwide surveys and localized or “pulse” surveys were used. In 2004, we plan to conduct our first worldwide employee survey since the merger. The results of this survey will be an important indicator of our performance in employee relations and will serve as the baseline for tracking our performance over time. In the future, we intend to conduct regular employee surveys and report their major findings.

Diversity



Employees Ken Davis and Linda Horton amidst colleagues in Houston.

Background: Respecting Diversity is a Core Value

Respect for diversity is one of ChevronTexaco's core values. To us, this means appreciating the uniqueness of individuals and their varied perspectives and fostering an inclusive environment where every person can fully participate. Throughout our global operations, we encounter diversity in a variety of forms, and we recognize that in differ-

ent parts of the world, diversity is defined differently. ChevronTexaco defines diversity in the broadest sense to include attributes such as race and gender to experience and personal style. We believe promoting such diversity and developing a work force that reflects the customers we serve, the countries where we operate and the partners we work with are essential for our long-term competitiveness.

In the United States, Texaco settled a significant class-action employment discrimination lawsuit in 1997. The suit, *Roberts, et al. v. Texaco Inc.*, was brought by 1,400 individuals who were current or former employees of the company and alleged that Texaco discriminated against African Americans in pay, promotions and workplace behavior. The settlement agreement included a payment of US\$115 million to the plaintiffs, along with a one-time salary increase of about 11 percent for current employees in the plaintiff class.

As part of the settlement agreement, an independent five-year Texaco Task Force on Equality and Fairness was created. The role of the task force was to oversee Texaco's and, after the 2001 merger, ChevronTexaco's, implementation of a comprehensive human-resources program designed to help ensure fairness and equal opportunity for employees. When the task force released its final report before disbanding as planned in 2002, it noted, "ChevronTexaco has been a responsive partner and has enthusiastically assumed responsibility for the human resources initiatives previously undertaken by Texaco to promote fairness and equal opportunity for company employees."

ChevronTexaco's approach to diversity reflects the knowledge that Texaco gained as part of the settlement agreement and task force review. Our vision is to be recognized globally as a leader in diversity, and we are committed to continual improvement.

Policy on Nondiscrimination

ChevronTexaco's Employment Policy states that in any aspect of employment, no individual will be discriminated against based on race, color, religion, gender, national origin, citizenship, age, sexual orientation, disability, veteran status or other status protected by law.

Approach: Creating an Inclusive Workplace and Diverse Work Force

We use a variety of tools, strategies and approaches to help attract, retain, develop and support a diverse, world-class work force. ChevronTexaco also takes steps to provide a working environment free of discrimination or harassment. For example, since the early 1990s, the company has required all U.S. employees to take anti-harassment training. The company does not tolerate retaliation against employees who exercise their rights under existing anti-discrimination laws.

ChevronTexaco's executive-level Human Resources Committee oversees corporatewide diversity programs and activities. The company's Global Diversity Manager, who is responsible for the company's strategic direction, objectives and metrics related to diversity, reports directly to ChevronTexaco's CEO. Many ChevronTexaco operating companies also have their own Diversity Councils that develop programs to foster diversity as is applicable in their respective locations. As part of the annual review process, most employees develop and are then assessed against a Diversity Action Plan that describes how they will support diversity. For members of ChevronTexaco's executive and management committees, performance against their Diversity Action Plans is a component in determining individual compensation.

In the United States, through our Minority Outreach Program, we work with and contribute to a variety of outside organizations that support or help attract minorities into the disciplines we hire from. For example, ChevronTexaco partners with the INROADS scholarship and internship program, which helps prepare minority students for management careers. As part of our campus recruiting process, we recruit at several historically minority colleges and universities as well as through minority organizations at other universities.

ChevronTexaco also supports a number of employee networks and affinity groups that bring together employees with common goals, interests and backgrounds. The groups focus on mentoring, development, recruitment, community volunteerism, cultural awareness and support for the company's diversity objectives. Membership in the networks has grown to almost 4,000 employees worldwide.

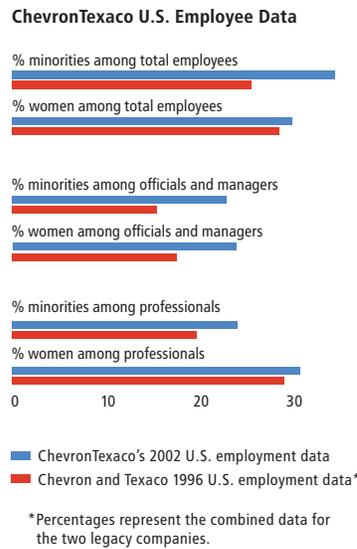
Diversity (Continued)

Performance: U.S. Employment and Senior Management Data

In the United States, companies are required to submit annual reports on the composition of their U.S.-based work force to the Equal Employment Opportunity Commission (EEOC). See the table below for a summary of data submitted to the EEOC.

Over the past several years, we have made continued progress in increasing representation of minorities and women in our work force, despite an environment of minimal hiring and downsizing. ChevronTexaco also continues to be successful in hiring women and minorities in fields where they have been traditionally underrepresented, such as petroleum engineering. In the United States, of the 151 college recruits who accepted ChevronTexaco employment offers in 2002, 46 percent were minorities and 34 percent were women.

Globally, we are committed to increasing the representation of women and non-Caucasian males in senior-level positions in ChevronTexaco. At the end of 2002, of 317 executive-level positions, 16.7 percent were held by women or non-Caucasian males. In 2002, ChevronTexaco established a diversity objective for senior-management positions, including incorporating the objective into the incentive bonus plan, and we plan to monitor and measure our progress against it over time.



Case Study ▶

Diversity Mentoring Program

ChevronTexaco Global Lubricants (CTGL) markets more than 3,500 lubricants and coolants around the globe and is ranked among the top three global lubricants companies. CTGL believes that its success depends not just on product quality, but also on developing a work force that mirrors the global diversity of its customers. "Having a diversity of backgrounds and views gives us a unique advantage," says Shariq Yosufzai, president of Global Marketing for downstream. "The varied perspectives of our colleagues help us better anticipate market challenges and forge better solutions. We must look and think like our customers."

An innovative mentoring process helps CTGL cultivate a diverse management team. Each of the 15 members of the Global Lubricants Leadership Team mentors up to three visibly or globally diverse employees. The goal is to increase the number of diverse candidates for leadership positions around the world, while also providing those leaders continued support to ensure that they, as well as the business, succeed.

Global Work Force Development



A computer class at Mina Saud, where Saudi Arabian Texaco operates a storage and marine export facility.

Background: Hiring and Training Local Employees

In recent years, as part of our effort to develop a global work force, we have sought to fill an increasing number of positions with employees who are citizens of countries where we operate, rather than with expatriate employees. These efforts stem from recognition of the business value of having a work force

that reflects the markets we serve and the communities where we operate. Hiring and training local employees are also important ways that ChevronTexaco contributes to the long-term social and economic development of the communities where we operate. Additionally, some governments where we operate have specific requirements regarding work-force composition.

Approach: Developing a Representative Work Force

We seek to hire and train employees from the countries where we operate. In particular, we are working to continually increase the number of local employees in management and technical positions. Many of our business units have formal programs to recruit and train local employees, in some cases partnering with universities or other institutions in the community to provide training programs. Many also have mentoring or coaching programs to help support and develop employees.

ChevronTexaco also seeks to provide employees with international work experience to help them develop the skills and knowledge necessary for the company to compete globally. For example, through our corporate International Development Program, we provide high-potential employees with opportunities to obtain undergraduate and advanced degrees and work experience outside their home countries. The program manages approximately 300 employee development assignments each year. There are a variety of other such programs at the business-unit level.

Performance: Demonstrating Success Worldwide

ChevronTexaco does not collect corporatewide data on employees' country of origin, although many of our business units have set, and measure performance against, specific work-force composition objectives. For example:

- ▶ **Angola:** ChevronTexaco's Angolan subsidiary, Cabinda Gulf Oil Co. Ltd. (CABGOC), launched an effort to increase the percentage of Angolan nationals within the company's work force, particularly at the management level. New processes being employed include annually identifying the development needs for employees, creating mentoring and training programs to support and develop Angolan employees, and offering targeted development assignments to high-potential nationals. The effort already has brought results. In 2002, 85 percent of CABGOC's total work force was Angolan. At the professional and supervisor level, 64 percent of the positions were held by Angolans, up from 53 percent in 2001. By the end of 2006, CABGOC's goal is to nationalize 80 percent of its professional and supervisory staff.
- ▶ **Latin America:** ChevronTexaco's Latin America Business Unit (LABU) also has developed a program to increase the number of nationals within its work force. In 2002, almost 90 percent of the work force was made up of nationals, up from 85 percent in 2001. While the LABU has made progress nationalizing its overall work force, it plans to focus specific attention on nationalization at senior levels. By the end of 2004, its goal is to increase the number of nationals in management positions by 10 percent. The LABU also has a goal to increase the number of nationals on assignments outside their home countries by 10 percent.
- ▶ **Kazakhstan:** Tengizchevroil (TCO), ChevronTexaco's joint venture in Kazakhstan, employs about 3,500 people. In 1993, about 55 percent of the jobs were held by Kazakh citizens. Since that time, TCO has engaged in a variety of efforts to increase the number of nationals in its work force. For example, TCO developed partnerships with local universities to set up technical training programs to help build the skills of the local work force. As a result, by 2002 the percentage of jobs held by Kazakh citizens had increased to more than 77 percent.
- ▶ **Saudi Arabia:** More than 90 percent of Saudi Arabian Texaco's (SAT) nearly 700 employees are Saudi nationals. SAT has implemented a variety of strategies aimed at increasing the number of jobs held by Saudi nationals, including providing resources, education, training and development opportunities to national employees at all levels. SAT's employee development programs focus on job performance competencies and leadership skills. In recognition of these nationalization programs, in 2003 SAT received the First Class Award of the Prince Nayef National Awards.

Training & Development

Building Capabilities

Developing and nurturing employee talent is important for our long-term success. ChevronTexaco seeks to take an integrated and disciplined approach to providing employees with training and other opportunities to help them develop the skills, knowledge and experience necessary to continue to expand their capabilities and contribute to the success of the company.



In Lafayette, Louisiana, ChevronTexaco employees attend a technical training course.

Managers identify the skills required to achieve company goals, assess employee talent, identify skill gaps and create development plans for talented individuals. At company sites around the world and online, we offer training courses ranging from compliance and technical training to cross-cultural and

career-planning courses. Individual operating companies sponsor additional training, often in partnership with schools and other institutions.

Developing Leaders

Recognizing the importance of effective leaders, ChevronTexaco also has designed programs specifically aimed at developing managers. For example:

- ▶ The ChevronTexaco Leadership Forum (CTLF), one of our most successful leadership development programs, is aimed at high-potential managers. CTLF seeks to increase participants' knowledge of ChevronTexaco's overall strategies and objectives and provide a forum for information sharing and networking.
- ▶ The ChevronTexaco Advanced Management Program is a three-week course that includes an on-site development assignment within ChevronTexaco's operations. In 2002, some 48 managers completed the program.
- ▶ A new supervisor program is provided for first-time managers, and 669 employees completed the course in 2002.

Wages & Benefits

Attracting, Retaining and Motivating Employees

ChevronTexaco seeks to offer a competitively based total remuneration package designed to attract, retain and motivate a highly competent, global work force. We provide compensation and benefit programs that are locally competitive and tied to the performance of the individual, his or her business unit and the company. The company's goal is to maintain equitable salaries based on job responsibilities and performance. In 2002, ChevronTexaco's total global payroll was approximately US\$2.9 billion.

Linking Pay and Performance

Our Performance Management Process is the foundation of our compensation practices. The process requires the annual evaluation of employees not covered by union contracts and may result in merit pay increases for those employees. Many business units have rewards and recognition programs that provide cash and noncash awards for exceptional performance on specific projects.

One element of the overall pay and benefits program is variable pay, which can provide cash payouts that are in addition to base pay and are based on a variety of metrics, including the company's performance and, for many employees, environment, health or safety measures. The availability of such Success Sharing programs and how they are structured varies across locations and depends on a variety of factors, such as local customs, regulations and the specific competitive compensation environment. The ChevronTexaco Management Incentive Plan annually pays a cash award for performance to senior-level managers. The ChevronTexaco Long-Term Incentive Plan, which rewards leaders for achieving company goals and creating stockholder value, is designed to align management interests with stockholders' interests over a multi-year time horizon.

Employee Dispute Resolution

Maintaining a Productive Workplace

ChevronTexaco strives to maintain a productive work environment where employees are treated with dignity and respect, which provides individuals with recognition and opportunities for growth and which fosters collaboration and open communication among co-workers and between employees and their managers.

If disputes or interpersonal conflicts arise, employees can use the company's dispute resolution programs, which are designed to offer a safe, fast and fair way to resolve disputes. Through our ombudsperson program, employees can contact a ChevronTexaco ombudsperson, who is responsible for providing neutral, confidential help and problem-solving techniques. ChevronTexaco's ombudspersons adhere to the Standards of Practice and Code of Ethics of The Ombudsman Association. Employees also can access the company's Steps to Employee Problem Solution program. The program, developed by a team of employees, is designed to offer a safe, fast and fair way to resolve disputes early and in a neutral setting.

The company also provides a 24-hour ChevronTexaco hotline that can serve as a problem-solving resource or mechanism for employees to report issues or concerns. The hotline is accessible to all employees; individuals not fluent in English can use the hotline's translation service. All calls are confidential, and employees can choose to make their calls anonymously. Issues raised on the hotline are forwarded to the appropriate individuals within the company for resolution.

Introduction to Economic Issues Section



The Richmond Refinery in California moves some 340,000 barrels of raw material and finished product daily across its dock.

society, and operating in a socially and environmentally responsible way contributes to our financial success.

In our corporate Annual Report to the Securities and Exchange Commission and our stockholders, we share information about the financial performance of our company. But we understand that ChevronTexaco – like all companies – also has economic impacts that are not captured in traditional financial reporting and that go beyond the boundaries of an organization. These impacts include how our operations contribute to or affect the larger economies we operate in, at local, national and global levels. For example, in 2002 ChevronTexaco's total tax liability in the countries where we operate was US\$19.7 billion. These impacts also include how we affect the economic conditions, capacity and sufficiency of the range of stakeholders affected by our business, including employees, suppliers, business partners, host governments and those living in the communities we operate in.

About This Section

Although there are standard procedures for companies to measure and report on financial performance, there are not yet generally accepted measures for reporting on their broader economic impacts. Companies are experimenting with a variety of indicators in this area – including wages and benefits paid to employees, investment in work-force training and development, taxes paid to governments and money spent with supplier companies – to help them assess their economic impacts.

In this section, we provide several key indicators of our financial performance, as well as select information about our broader economic impacts. We have chosen to focus on the issue of procurement and, in particular, our efforts to contribute to economic development through our supplier diversity, small business and local content programs.

We also are working to better understand our broader economic impacts and identify additional measurements that provide information of value to us and our stakeholders.

Linking Financial Performance and Corporate Responsibility

As a commercial enterprise, we are responsible for effectively managing our operations so we can provide appropriate returns to our stockholders over time. We view financial performance and corporate responsibility as mutually reinforcing: Financial health is a prerequisite to our being able to make a positive contribution to

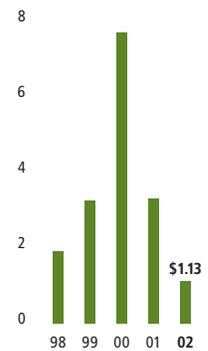
Financial Performance Data

The following highlights selected indicators of our financial performance. Please refer to our 2002 Annual Report for more detailed information.

Net Income

Weak global economies, restrained demand for petroleum products and lower production all took a toll on 2002 earnings. For the year, ChevronTexaco reported net income of \$1.1 billion, compared with \$3.3 billion in 2001. The company's financial results were hurt by \$3.3 billion of charges from special items. About \$2.3 billion of these charges were related to our 26 percent ownership of Dynegy Inc., an energy trading company that saw a dramatic decline in its market value due to the near collapse of the energy merchant sector.

Net Income
Billions of \$U.S.

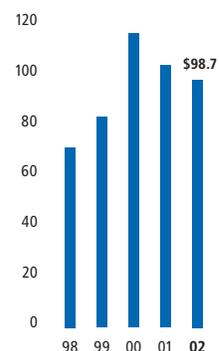


Net income for 2002 and 2001 included more than 3 billion \$U.S. of special-item charges in each year. The decline in 2002 mainly reflected exceptionally weak refined-product margins, lower U.S. natural gas prices and lower oil-equivalent production worldwide.

Sales & Other Operating Revenues

Sales and other operating revenues were \$99 billion in 2002, down from \$104 billion in 2001 and \$117 billion in 2000. Revenues from worldwide upstream operations decreased about 30 percent on lower prices for natural gas, particularly in the United States. Sales volumes of natural gas were also down in the United States. Partially offsetting these declines, sales revenues from refined products increased in 2002, primarily on higher prices late in the year. Of the \$98.7 billion of sales revenues in 2002, sales in the United States accounted for \$43.6 billion. The only other country where the company generates significant revenues is the United Kingdom, where it generated \$10.8 billion in 2002.

Sales & Other Operating Revenues
Billions of \$U.S.



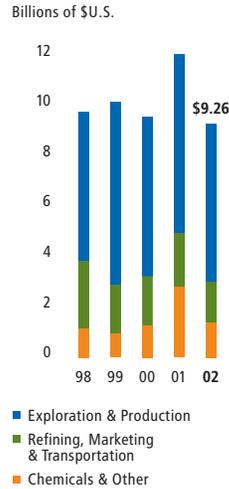
Sales and other operating revenues declined 5 percent on lower U.S. natural gas prices and worldwide oil-equivalent production.

Financial Performance Data (Continued)

Capital & Exploratory Expenditures

Capital and exploratory expenditures for 2002 totaled \$9.3 billion, including the company's \$1.4 billion share of affiliates' expenditures, which did not require cash outlays by the company. International exploration and production spending of \$4.4 billion was 70 percent of worldwide exploration and production expenditures in 2002, compared with 66 percent in 2001 and 62 percent in 2000, reflecting the company's continuing focus on international exploration and production activities.

Capital & Exploratory Expenditures*



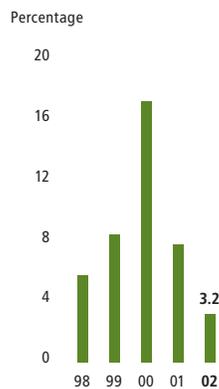
Capital and exploratory expenditures in 2002 declined from a level in 2001 that included significant additional investments in the Dynegey and Tengjzchevroil affiliates.

*Includes equity in affiliates

Return on Average Capital Employed

Return on average capital employed declined to 3.2 percent primarily as a result of lower earnings. The company's financial results were hurt by weak global economies and special charges to effect the merger and charges related to the write-down of an equity affiliate that saw a dramatic decline in its market value due to the near collapse of the energy merchant sector.

Return On Average Capital Employed

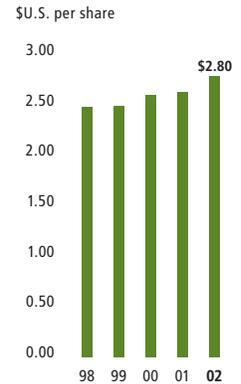


Return on average capital employed declined to 3.2 percent as a result of lower earnings.

Cash Dividends Paid

The company paid its stockholders nearly three billion dollars in 2002, increasing its annual dividend payout for the 15th consecutive year.

Cash Dividends Paid



Sales and other operating revenues declined 5 percent on lower U.S. natural gas prices and worldwide oil-equivalent production.

Supplier Diversity & Small Business Development

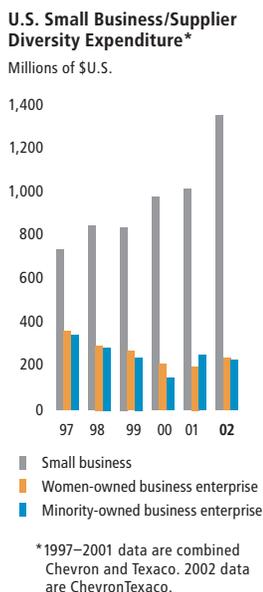
Contributing to Local Economic Development

To conduct our operations, we purchase a wide variety of goods and services from external contractors and suppliers. In 2002, ChevronTexaco spent approximately US\$18 to \$20 billion globally on such goods and services.

We strive to ensure our supplier base is reflective of our customers, host communities and the markets we serve. We also believe sourcing from diverse, small and locally owned companies makes significant contributions to local economic and human capacity development, and these efforts are part of our commitment to be a valuable member of the communities we operate in. Therefore, as much as possible and practical, ChevronTexaco seeks to contract with small, locally owned businesses and, in the United States, also from minority- and women-owned businesses.

Supporting Supplier Diversity in the United States

In the United States, ChevronTexaco's Small Business/Supplier Diversity Program works to provide opportunities, contracts and outreach assistance to small and minority- and women-owned businesses. The program has



won numerous awards, including induction into the Women's Business Enterprise National Council's "Elite 8" in 2003. We are committed to monitoring and reporting our progress toward achieving our small business/supplier diversity goals, and we work to continually improve our performance in this area.

Reflecting our commitment to U.S. supplier diversity, over the last six years, we have spent approximately US\$8.6 billion with small women- and minority-owned business enterprises. In 2002, we met our goal of spending

25 percent of total goods and services spend with small businesses, spending more than US\$1.3 billion with small business suppliers in the United States. We spent approximately US\$212 million with women-owned suppliers and nearly US\$209 million with minority-owned suppliers, although we fell short of our 5 percent contracting goal for each of those groups, reaching just under 4 percent for each.

Helping Build Local Economies Worldwide

In addition to our efforts in the United States, we have "local content" programs to source from small, locally owned businesses in the communities we operate in around the world. These programs are managed at the business unit level.

In addition to buying goods and services from local suppliers, many ChevronTexaco business units offer business planning, skills training and technology transfer programs, and they provide financing – including micro-loans – to help supplier companies develop and expand.



Gibson Ola, manager of local business development for ChevronTexaco's Nigeria operation, says the company's role in support of local content is aligned with the goals of the country.

We believe our local content

efforts are among the most significant and sustainable ways we can contribute to the economic and social development of our host communities.

Highlights of recent local content efforts include:

- ▶ **Nigeria:** Since 1999, Chevron Nigeria Ltd. (CNL) and the Nigerian National Petroleum Corporation have had a formal local content development policy promoting the use of qualified indigenous contractors and suppliers. CNL has a dedicated Local Content Development Unit to identify and support local supplier companies, including organizing Local Content fairs to increase awareness and create opportunities for Nigerian companies. In 1997, some 25 percent of company contracts for goods and materials were with Nigerian firms. By 2002, that figure had grown substantially, to 90 percent of contracts, representing 35 percent of CNL's total spending for materials and services going to Nigerian indigenous and joint-venture companies.
- ▶ **Angola:** ChevronTexaco's subsidiary, Cabinda Gulf Oil Co. Ltd., has had dramatic success developing local Angolan businesses. The company has created a team dedicated to local business development, which includes supporting start-up businesses in everything from clothing manufacture to fish meal processing. In 2002, the company spent more than US\$230 million with local suppliers, exceeding its local content goal by more than 275 percent. In total, 268 Angolan-owned businesses supplied materials and services to ChevronTexaco's Angola affiliate in 2002.

Supplier Diversity & Small Business Development (Continued)

- ▶ **Venezuela:** In the company's Hamaca joint venture in Venezuela, ChevronTexaco spent 62 percent of its procurement funds with local suppliers by the end of 2002, exceeding the government's local content goal of 60 percent.
- ▶ **Kazakhstan:** ChevronTexaco's joint venture Tengizchevroil (TCO) met its 37 percent local content goal in 2002.
- ▶ **South Africa:** Caltex Oil (S.A.) established a task force to support the South African government's Black Economic Empowerment (BEE) program. As part of the company's BEE efforts, Caltex gives preferential treatment to Historically Disadvantaged South Africans; provides support and training to small, medium and micro enterprises; and supports companies that actively promote development and skills transfer for their employees. The company increased the total amount it spent on suppliers through the BEE program from 5 percent in 2001 to 23 percent at the end of 2002. For 2003, Caltex Oil (S.A.) has a goal to increase BEE purchasing spend to more than 25 percent of total spend on goods and services.

Case Study ▶

Developing Small Business in Kazakhstan

At ChevronTexaco's joint venture in Kazakhstan, Tengizchevroil (TCO), the Small Business Development (SBD) group is working to help develop and support small, locally owned companies in the country.

The SBD group was formed in 1997 and initially focused on funding community organizations or enterprises with social missions. In 2001, the group refocused its efforts to specifically target small businesses that could provide goods and services to TCO, although it still provides some community-benefit loans. Loans provided by the SBD group range in size from US\$5,000 to US\$750,000. Since it was formed, the SBD group has made 143 interest-free loans totaling nearly US\$5.5 million and has helped create more than 1,000 jobs.

Beyond simply providing the loans, the SBD group's four-person staff takes a hands-on role in working with loan recipients by providing technical or business assistance as appropriate, ensuring timely payments, and helping identify and address any problems the companies encounter. The SBD group's goal is to see that the businesses it helps develop are successful and become self-sustaining.

Although the SBD loans play a relatively small part in helping TCO achieve its aggressive targets for buying from Kazakh providers, they are an important part of TCO's community economic development commitment. In 2002, TCO met its 37 percent local-content goal, spending more than US\$415 million on Kazakh goods and services. TCO is on target to meet its 2004 goal of 39 percent local content.

Here are some success stories behind the SBD loans:

- ▶ **Kazcomservice:** The SBD group's initial loan of US\$350,000 in 1999, followed by US\$400,000 the following year, turned this four-person telecommunications cabling company into one of TCO's leading general-purpose contractors. Kazcomservice now employs more than 900 people in four locations around the country.
- ▶ **AutoStroyService:** To compete for TCO road repair work, AutoStroyService needed funding to upgrade its machinery. SBD's loan of US\$150,000 provided the necessary equipment upgrades. The resulting increase in AutoStroyService's business allowed the company to repay the 36-month loan in less than 12 months.
- ▶ **Olzha Co.:** Olzha, a TCO primary contractor providing rail cars, maintenance and other transportation services, wanted to help develop a market for naturalgas-powered vehicles in Atyrau, Kazakhstan. The company received an initial US\$300,000 loan from the SBD group. Olzha's plan, which includes a liquefied petroleum gas filling station and offloading rack, could provide healthy competition for the local monopoly. If Olzha meets specific mutually agreed-upon goals, it could receive another US\$300,000 loan from the SBD group to further develop the business.

Introduction to Environmental Issues Section

Striving for Environmental Excellence



Fishermen from nearby villages cast their nets just offshore Chevron Nigeria Ltd.'s oil and gas processing facility.

Protecting people and the environment is a fundamental part of *The ChevronTexaco Way*. Responsible environmental stewardship of all aspects of our operations and our products is not only an expression of our values but also a business imperative.

We understand and share the concerns many people have

about the potential environmental effects associated with the development and consumption of energy. These concerns range from effects on air or water quality to community health in a particular location to the ways our industry and the use of our products can contribute to global climate change.

Our goal is to be recognized and admired for environmental excellence. We are proud of the ways we are progressing toward that goal, such as making sustained improvements in our energy efficiency. We also are committed to further integrating environmental considerations into our business decisions and enhancing how we manage and measure our environmental performance. We are committed to continually improving our processes for minimizing pollution and waste, conserving natural resources, responsibly stewarding our products, and enhancing our broader understanding and management of the environmental aspects of our businesses.

ChevronTexaco's Health, Environment and Safety Policy provides the framework for our approach to environmental issues. Our Operational Excellence Management System (OEMS) provides specific corporatewide expectations for environmental performance and processes.

Focusing on Conservation and Efficiency

At the heart of our approach to environmental responsibility are conservation and efficiency, two concepts that we believe offer tremendous promise for minimizing the environmental footprint of our company and industry. The principles of conservation and efficiency are integrated across our operations, from exploration and production to distribution and disposal. We seek to maximize the recovery of oil from a given reservoir, strive to continually improve our efficiency by getting more output from each unit of energy we use, look for ways to limit our use of and impacts on natural resources, and encourage consumers to use our products more efficiently. In doing so, we contribute to meeting the world's demand for energy while minimizing our total environmental footprint.

About this Section: Working to Measure Performance

The environmental section of this report provides an overview of how we are addressing a range of environmental issues across our operations. The issues addressed reflect our views on the most significant environmental issues facing our company today. We have included corporatewide performance data where available, although in many cases we provide information on a country, operating company, business unit or facility level. Where we mention a performance or process requirement for our business units, we typically are referring to a specific expectation contained in our Operational Excellence Management System.

Case Study ►

Environmental Protection on Barrow Island



On Australia's Barrow Island, 227 native plants, 54 reptiles and 110 types of birds thrive alongside ChevronTexaco oil field operations.

ChevronTexaco's management of the Barrow Island oil field off Western Australia is widely recognized as an industry benchmark for the coexistence of petroleum development and biodiversity protection. The island, a Class A Nature Reserve, supports 14 terrestrial mammal species, 54 terrestrial reptile species and more than 110 bird species – some of which are extinct on Australia's mainland but thrive on Barrow.

Since the beginning of operations in 1964, Barrow Island has seen more than 621 miles (1,000 km) of seismic surveys, nearly 900 wells drilled and production of almost 300 million barrels of oil. Yet the island's full suite of native species has been kept intact, and through a strict quarantine program, ChevronTexaco has helped prevent the introduction and spread of invasive plants and animals that has proved disastrous for the indigenous species of so many other islands.

Now, as part of the Gorgon Venture, ChevronTexaco and its partners have proposed developing natural gas from the offshore Gorgon Field, one of the largest single gas fields ever discovered in Australia. Operated by ChevronTexaco, the project would transport the gas 43 miles southeast to Barrow, where it would be processed into liquid products and domestic gas. Liquids would be shipped to customers in the Asia-Pacific region, while gas would be piped 50 miles (81 km) to the mainland. Total land disturbance

Case Study ▶
(Continued)**Environmental Protection
on Barrow Island**

for the gas processing facilities and associated infrastructure would be no more than 740 acres (300 hectares). The combined area used on the island for oil operations and gas processing would remain at less than 5 percent of the island.

At the request of the Western Australian government, Gorgon Venture partners completed a comprehensive Environmental, Social and Economic (ESE)



ChevronTexaco works to ensure that native animals, such as this perentie lizard, coexist with oil field operations.

Review of the project. The government specified that the ESE Review must demonstrate that the proposed Gorgon gas development could generate social and economic benefits, maintain the conservation values of the island as well as demonstrate net conservation benefits. This is the first resource development proposal subjected to such a comprehensive sustainability review process in Western Australia.

The project's potential ecological impacts have been assessed by independent, specialized ecologists. Their work shows that the proposed development would not result in significant adverse impacts to important wildlife habitats, restricted vegetation types or marine areas with unique conservation significance. A key element of environmental management is building on the existing robust quarantine procedures.

Although the development of Gorgon gas would bring substantial benefits, the gas field does present some unique challenges. Gorgon gas contains a relatively high content of carbon dioxide (CO₂), which results in substantial treatment cost and potentially relatively large greenhouse gas emissions. Barrow Island provides a unique opportunity to reinject CO₂ into saline reservoirs deep beneath the island. Reinjection, combined with current best practice in plant design, would make the development one of the most greenhouse gas-efficient projects of its type in the world.

In addition to using environmental best practices, the project also would provide significant economic benefits. We expect the development to provide some 6,000 jobs, directly and indirectly, throughout Australia, of which 1,700 jobs would be in Western Australia. Over the life of the project, we estimate there would be approximately US\$6.5 billion in new investment and \$10 billion in state and commonwealth

taxes and royalties. Annually, gross domestic product (GDP) would be increased by \$2 billion and projected exports by \$1.2 billion.

With government and environmental approvals, construction on the Gorgon project could begin in 2005.

Case Study ▶**Conservation Awards Program**

For nearly two decades, ChevronTexaco has underwritten the 49-year-old Conservation Awards Program, the oldest such privately sponsored program in North America. The program honors individuals and organizations for their outstanding contributions to the conservation of natural resources. Over the history of the program, the awards' 1,000-plus recipients have helped protect wildlife, create natural preserves, establish parks and launch educational programs to heighten environmental awareness.

In 2002, ChevronTexaco Conservation Awards were given for, among other things, establishing an environmental radio show, setting up a civic beautification organization and producing educational habitat films for schoolchildren.

Energy Efficiency

Background: Focusing on Efficiency and Conservation

In addition to being an energy provider, ChevronTexaco is also an energy consumer. Like all companies, we use energy to run our operations and transport our products. Energy efficiency and conservation – on the part of ChevronTexaco, other companies and society as a whole – is essential for ensuring future access to energy at reasonable costs. Improving the energy efficiency of our operations is also one of our key strategies for managing our greenhouse gas emissions. Our focus on energy efficiency applies to all aspects of our business, from extracting oil to managing our office buildings.

Approach: Tracking the Efficiency of All Operations

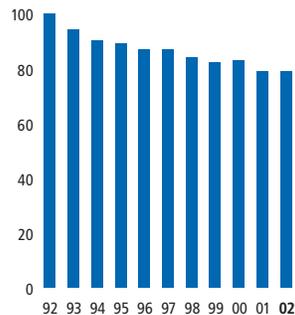
To track our performance, in 1991 we established an energy usage index, now called the ChevronTexaco Energy Index (CTEI). The index measures and represents in a single figure the energy required to produce our products today compared with the energy that would have been required to produce the same products in the base year. Our operations are included in the index by multiplying an output measure closely related to energy consumption – such as cargo ton-miles for our shipping company or square foot of building space managed for our real estate company – by a unit energy consumption factor from the base period.

Each percentage point reduction in the CTEI represents approximately 10 million gigajoules (GJ) less energy consumed, and it also equals approximately US\$35 million in savings for the company based on worldwide energy usage and costs in 2003 (Note: These numbers cannot be used to analyze past years' performance due to changes in businesses and activities that make up the index). In the past, CTEI covered only ChevronTexaco's North American operations. But in 2002 the index was expanded to cover our international operating companies, and by the end of 2003, it will cover all assets we operate worldwide.

We employ a full-time Corporate Energy Coordinator responsible for overseeing the company's energy measurement efforts, as well as leading Best Practice Energy Teams to expand our knowledge and practices for continually improving our energy efficiency.

We also work with others to help them improve their energy efficiency. Through Chevron Energy Solutions, a subsidiary of ChevronTexaco, we design, arrange for third-party financing and construct energy efficiency measures and cogeneration facilities for commercial, industrial and public sector customers.

**ChevronTexaco Energy Index
1992–2002**



Performance: Striving for the Highest Efficiency

ChevronTexaco's total energy consumption for the assets we operate was 825 trillion BTUs or 782 million GJ in 2002. Rather than total use data, however, the primary performance indicator we use internally is the ChevronTexaco Energy Index. The index allows us to measure

the energy efficiency of our operating companies on a common basis and assess trends in efficiency improvements, rather than energy use alone.

In 2001 and 2002, our operations reached their most efficient level since the inception of our Energy Index. We steadily have improved our energy efficiency over the last decade, and in some businesses we have made dramatic progress. For example, since 1991, Chevron's North American Products business units have reduced their energy consumption index by 21 percent. This represents a nearly 2 point-per-year average improvement, compared with a 1 point-per-year average for the U.S. refining industry as a whole over that time period.

Future Goals: Aiming for Continual Improvement

Our goal is to continue to improve our corporatwide energy efficiency in the future. In 2004, we will work to better manage the factors that influence energy efficiency in the business units we have recently added to our index. ChevronTexaco's North American refining operations also have joined with other American Petroleum Institute member refining companies in committing to an industrywide 10 percent improvement in energy efficiency between 2002 and 2012.

Climate Change

Background: Addressing a Shared Concern

One of the environmental concerns we all share is global climate change. We recognize that the use of fossil fuels has contributed to an increase in greenhouse gases – mainly carbon dioxide and methane – in the earth's atmosphere.

One of the most critical environmental challenges facing the world today is finding ways to provide and use reliable, affordable energy while reducing long-term growth in greenhouse gas emissions. Technology offers a variety of potential solutions, including efficiency improvements, CO₂ capture and storage, use of biological sinks and the development of commercially viable nonfossil fuel energy systems, including the potential evolution of a hydrogen fuel-based economy.

Approach: Implementing a Four-Pronged Strategy

ChevronTexaco recognizes and shares the concerns that governments and the public have about climate change. We have developed a comprehensive program to manage greenhouse gas emissions, and it is being integrated into our business decisions. For example, since 2001 we have required our businesses to integrate greenhouse gas emissions analysis into the planning for all major capital projects.

ChevronTexaco believes that although fossil fuels are a finite resource, they will continue to meet the vast majority of global energy demand for at least the next 30 years. Energy from renewable resources, such as wind and solar, is expected to contribute a small but growing fraction to total energy sources. We invest in a variety of renewable and alternative energy technologies and believe that those energy sources will be important in the overall mix of energy for the global economy in the future. But widespread application will depend on many factors, including the rate of technological development, market acceptance and demonstration of economic viability.

In addressing climate change, ChevronTexaco works closely with governments, academic institutions, nongovernmental organizations and others to create environmentally, technically and economically sound solutions. As a company with global operations, we are respectful of the decisions made by the countries where we operate regarding the Kyoto Protocol. Our businesses work closely with each country's government to manage greenhouse gas emissions from our operations and to help our business partners and customers achieve their emissions goals.

ChevronTexaco's climate change strategy

consists of the following four-pronged approach:

1 Reducing emissions of greenhouse gases and increasing energy efficiency: Our goal is to reduce emissions per unit output from operations. We inventory our emissions and use innovative technologies to continually improve the energy efficiency of our existing operations, new projects and products. We are incorporating greenhouse gas emission assessments into our capital project evaluations.

The following are examples of where we have improved existing processes or deployed new technologies that have resulted in reduced greenhouse gas and other emissions:

- ▶ In Indonesia, we switched from crude oil to natural gas for firing the steam generators in the Duri Field in 1999–2000, reducing emissions of carbon dioxide by more than 1 million metric tons per year.
- ▶ In Kuwait's Wafra oil field and California's Kern River oil field, we switched to natural gas to generate electricity and steam. These moves also reduced carbon dioxide emissions by more than 1 million metric tons per year.
- ▶ We have a number of projects under way that will significantly reduce routine flaring of gas in our international upstream operations.
- ▶ In the United States, ChevronTexaco participates in cogeneration projects that, together, produce enough electricity to power more than 1 million homes. For example, two cogeneration facilities in Kern County, California, with their high generating efficiencies as compared with conventional gas-fired simple-cycle power plants, provide 600 megawatts of electricity while emitting substantially less carbon dioxide.
- ▶ ChevronTexaco participates in the United States Environmental Protection Agency's (EPA) Natural Gas Star Program to reduce methane emissions. In 2003, the EPA awarded ChevronTexaco a Certificate of Achievement for its continuing accomplishments, citing the company for "aggressively reducing methane emissions and helping lead the way to reducing climate change impacts." Our U.S. upstream operating company removed a volume of emissions equivalent to planting more than 1.9 million acres of trees or taking more than 1.4 million cars off U.S. highways for one year. As separate companies, Chevron and Texaco were members of the upstream Star program since its inception in 1995. Both companies previously were recognized as "partners of the year."

Climate Change (Continued)

2 Investing in research, development and improved technology: We invest in research to improve understanding of global climate change issues, identify mitigation strategies and improve the cost-effectiveness of mitigation technology. We develop and apply cost-effective technologies that reduce the carbon emissions of producing, delivering and consuming our products. For example:

- ▶ ChevronTexaco, along with several other companies and U.S. government agencies, co-funds the work of the Massachusetts Institute of Technology Joint Program on the Science and Policy for Global Climate Change.
- ▶ ChevronTexaco is a member of or supports a variety of CO₂ capture and geologic storage initiatives designed to develop these promising technologies. Examples include:
 - Global CO₂ Capture Project;
 - GEOSEQ geologic sequestration project, a joint venture between three U.S. National Laboratories;
 - GEODISC, which is run by the Australian Petroleum Cooperative Research Centre to study long-term CO₂ storage;
 - the Weyburn Project, a Canadian government-industry initiative also focusing on geologic sequestration.

We also have gained operational experience with CO₂ capture and storage. For example, we have been reinjecting CO₂ at the Rangely, Colorado, field since 1986 for the purpose of enhanced oil recovery. Since that time, we estimate more than 19 million metric tons of CO₂ have been stored.

3 Pursuing business opportunities in promising, innovative energy technologies: Our research and business units are evaluating and investing in advanced energy technologies that have the potential of being commercially viable and beneficial to the environment.

4 Supporting flexible and economically sound policies and mechanisms that protect the environment: We respect the varied views of partner nations on this complex issue. We assist in government policy development and decision-making on energy issues and participate constructively in dialogue with a broad range of stakeholders on climate change issues. We support the development and use of international mechanisms such as emissions trading, Clean Development Mechanism and Joint Implementation, which provide flexible, market-based, economically sound means to reduce emissions.

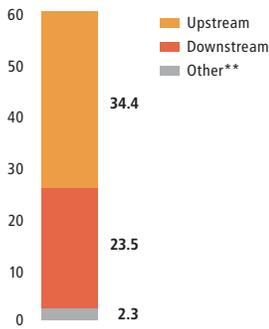
ChevronTexaco has established an internal Climate Change Steering Council consisting of senior managers from our business units, as well as technology experts. The Steering Council oversees the deployment of ChevronTexaco's climate change strategy, coordinating information and best-practice sharing, and reviewing and revising the strategy. The Steering Council also has formed several project teams to develop recommendations on specific issues related to climate change, such as emissions trading and management of greenhouse gases in capital projects.

Climate Change (Continued)

Performance: Conducting the First Emissions Inventory as a New Company

In 2002, we implemented our SANGEA™ Energy and Emissions Estimating System to compile our first corporatewide greenhouse gas emissions inventory. For 2002, our total net emissions were approximately 60 million metric tons of CO₂ equivalents for all businesses and operations we have financial interests in, based on its equity share in those businesses and operations. These emissions are roughly equal to the total greenhouse gas emissions from the countries of Austria or Singapore. Eighty-seven percent of our emissions are CO₂ and 13 percent are methane, with trace amounts of nitrous oxide.

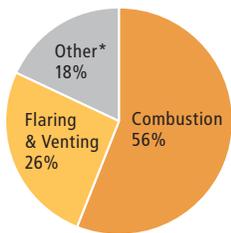
2002 Greenhouse Gas Emissions*
Millions of metric tons CO₂ equivalent



*These numbers do not include Dynegey Inc. or Chevron Phillips Chemical Company LP emissions. ChevronTexaco's net equity share of Chevron Phillips' emissions for 2002 is estimated to be 3.4 million metric tons of CO₂ equivalents.

**Other includes the greenhouse gas emissions of ChevronTexaco's shipping, power and gasification, and coal businesses as well as administrative and corporate services.

2002 Sources of Greenhouse Gas Emissions
Millions of metric tons CO₂ equivalent



*Other includes acid gas removal, coke combustion, crude oil transport, crude oil storage, flashing, fugitives, glycol dehydrators, indirect emissions and sulfur recovery.

Future Goals: Setting Emissions Targets

Beginning in 2003, ChevronTexaco will develop a consistent internal metric for tracking greenhouse gas emissions on a per-unit-of-output basis and will make preliminary emission forecasts. We will establish emissions goals across our company in 2004. These goals will apply to our upstream, downstream and power and gasification operating companies and, where possible, joint ventures and partially owned subsidiaries. Also beginning in 2003, we will initiate an independent third-party review of our emissions management system, leading to an audited greenhouse gas emissions inventory that will ensure a strong foundation for our emissions management program.

We recognize that in addition to the greenhouse gas emissions generated by our operations, the use of our products as fuel contributes to worldwide greenhouse gas emissions. According to the Coalition for Environmentally Responsible Economies (CERES), a U.S.-based environmental organization, our oil and gas production in 2002 was the source of 415.2 million tons of end-use CO₂ emissions by our customers, equal to approximately 1.7 percent of global emissions from fossil fuels.

Case Study ► SANGEA™ Emissions Monitoring Software

In 2002, ChevronTexaco implemented a new software program it developed to help it more easily and accurately estimate and manage energy use and greenhouse gas emissions at its facilities worldwide. This program was developed over several years to help our businesses estimate their emissions based on standard methods compiled by the American Petroleum Institute. Our goal was to provide an easy-to-use tool for estimating emissions based on the latest methodologies available. In an effort to take a leadership role in promoting industry standardization of comparable, consistent greenhouse gas emissions data, we have released the software without charge to the worldwide energy industry.

The software, called SANGEA™ Energy and Emissions Estimating System, is an automated, electronic data management information system for gathering greenhouse gas emissions and energy usage data from energy company operations. ChevronTexaco used the software in 2002 to compile the first comprehensive greenhouse gas inventory for the newly merged company.

By combining greenhouse gas emissions and energy utilization estimates, the SANGEA™ software is highly efficient, eliminating duplicate work and providing for consistent energy use reporting at a facility. The SANGEA™ software is implemented as an enterprisewide, complete process for data generation, calculation, analysis, reporting and management of data from exploration and production, refining and marketing, petrochemicals, transportation, electricity generation, manufacturing, real estate, and coal activities.

In the six months since we announced that our software is available without charge, more than 150 companies have contacted us to learn more about it. ChevronTexaco has delivered more than 80 copies of the software. For more information about SANGEA™, please contact:

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Energy Technologies



ChevronTexaco Technology Ventures employees Alice Boutan and Greg Romney, with an advanced battery for hybrid cars, at the company's fuel-processing facility in Bellaire, Texas.

Background: Meeting Energy Demand through Innovation

Meeting the world's demand for energy in ways that are environmentally, socially and economically sound requires creativity and technological innovation. ChevronTexaco believes fossil fuels will provide the vast majority of near-term energy supplies, and that improvements in fossil fuel technologies and products

hold the promise of substantially improved efficiency and reduced environmental impacts.

Still, concerns about society's dependence on these fuels have stimulated increased research and investment in alternative and renewable energy technologies. Hydrogen-based fuels and fuel cells, in particular, are considered by some to be promising, although major technological and economic hurdles must yet be overcome before hydrogen will be a practical alternative as a mass-market energy source.

Approach: Investing Wisely in Promising Technologies

ChevronTexaco invests in new and emerging technologies that may create economic value for the company, while offering the potential for reduced environmental impacts. We identify promising new technologies; invest in start-up companies and venture capital funds; and form alliances and joint ventures for research and development projects. Between 1999 and 2003, we estimate that ChevronTexaco will have spent an average of approximately US\$110 million per year on investments in renewable energy, alternative energy and energy efficiency.

Two wholly owned ChevronTexaco subsidiaries focus on the development and commercialization of new and emerging energy sources:

- ChevronTexaco Technology Ventures develops advanced energy sources, through ChevronTexaco-sponsored research and development and in collaboration with others, to demonstrate new technologies and infrastructure solutions.
- Chevron Energy Solutions markets and implements promising new commercial energy technologies, as well as more traditional technologies to help customers save energy costs.

Energy Technologies (Continued)

In addition to continuing major investments in natural gas, oil and cleaner-burning fuels, ChevronTexaco investments in cleaner technologies are focused in the following areas:

- **Fuel cells and processing:** Fuel cells, which combine hydrogen and oxygen to create electricity, can be a more efficient and environmentally preferable source of energy. In fuel cells, use of hydrogen produces no unburned hydrocarbons, nitrogen oxides, carbon monoxide or greenhouse gases, such as those produced by burning fossil fuels. But depending on the source, some emissions may result from making the hydrogen.

ChevronTexaco believes that converting readily available fossil fuels, such as natural gas, into hydrogen to power fuel cells is the most realistic near-term method for enabling fuel cell technology to mature and markets to develop. While the use of renewable energy sources – such as solar or wind – to power fuel cells offers the potential to minimize the environmental impacts even further, existing infrastructure, cost considerations and other practical issues mean that widespread use of renewable energy sources is not yet economically feasible.

ChevronTexaco Technology Ventures has developed the HALIAS™ fuel processor, a stand-alone unit that turns natural gas or propane into hydrogen fuel. Several production-ready HALIAS™ prototypes are now in long-term testing.

Additionally, ChevronTexaco Energy Technology Company and its downstream companies are working with auto companies and others to develop fuel processors to convert familiar fuels such as gasoline into hydrogen. To date, this work primarily has involved fuel processors on vehicles, but the results also support other applications.

To gain firsthand experience with fuel cell technology, we have installed fuel cell systems to supply power to run information technology systems at our headquarters in San Ramon, California, and research laboratories at our facility in Bellaire, Texas.

- **Hydrogen storage:** Efficient and safe hydrogen storage technology is a key component in enabling the hydrogen and fuel cell markets to develop. Through Texaco Ovonic Hydrogen Systems, a 50/50 joint venture between ChevronTexaco and Energy Conversion Devices (ECD), we are working to advance the commercialization of hydrogen storage solutions. The advanced technology developed by the joint venture enables hydrogen to be stored in a solid state at low pressure and ambient temperature, two important improvements over other existing hydrogen storage technologies. The systems being developed are for hydrogen storage in small portable applications such as backup power systems to replace batteries;

bulk storage for stationary uses, such as distributed power facilities and hydrogen service stations; and on-board storage for vehicles.

- **Advanced batteries:** Through Texaco Ovonic Battery Systems, another 50/50 joint venture between ChevronTexaco and ECD, we are working to commercialize nickel-metal hydride (NiMH) batteries, which can be used to power transportation vehicles and stationary devices, such as telecommunications equipment. In addition to providing more than twice the energy and lasting longer than conventional lead-acid batteries, NiMH batteries are an environmentally preferable alternative because the materials used in the batteries do not contain cadmium or lead, both of which are environmentally hazardous substances.
- **Renewable Energy:** ChevronTexaco also has invested in renewable energy development, which helps us learn about renewables and their role in our future global energy mix. For example, through a joint venture, we have invested in a wind farm that is now producing electricity at a refinery in the Netherlands. It has nine turbines capable of producing 22.5 megawatts of power. Two geothermal plants at Darajat, West Java, together produce 145 megawatts of electricity. ChevronTexaco's Upstream Indonesia Business Unit supplies the steam for both plants, and constructed and operates one of them.

In another renewable-energy project, we have installed a solar photovoltaic facility to help power our oil field operations in California's San Joaquin Valley. The demonstration project provides 500 kilowatts of power and is one of the largest photovoltaic installations in the United States and the largest array of flexible, amorphous-silicon solar technology in the world.

- **Gasification Technology:** With more than 50 years of experience in the field, ChevronTexaco is among the world leaders in gasification technology. The company licenses or has equity interests in more than 60 commercial gasification plants that are either in operation or in advanced development around the world.

The Texaco Gasification Processes (TGP) are efficient and versatile technologies that can convert a variety of different hydrocarbons – including waste oil, coal, coke, fuel oils and gas streams – into cleaner synthesis gas, or syngas. The syngas is used for generating electricity and for producing industrial chemicals and gases, as well as cleaner liquid fuels. TGP offers advantages over conventional combustion processes, including having a higher fuel efficiency, which can mean that fewer greenhouse gases are generated for a comparable energy output. The technology also can be used to remove CO₂, allowing for integration with CO₂ sequestration processes.

Flaring

Background: Addressing an Operational Challenge

Natural gas often occupies underground reservoirs with oil and is produced along with the oil. Such “associated gas” is separated from the oil after it is brought to the surface. Where possible, ChevronTexaco and other energy companies reinject the gas back into the underground formation. Gas that is not reinjected often is used as an energy source for the production facility. But in many cases, excess gas remains. When this gas cannot be used or sold – due to lack of markets or infrastructure such as pipelines – it often is burned off at the production site, a practice called “routine flaring.” ChevronTexaco and other energy companies have faced criticism for the use of flaring because it wastes a natural resource, releases greenhouse gases and can negatively affect nearby communities.

Approach: Developing New Markets and Infrastructure

ChevronTexaco is working to better manage routine flaring in its worldwide exploration and production operations. We are developing markets for our associated gas and investing in the needed gas processing and pipeline systems. The company also has undertaken projects to convert natural gas to liquid fuels and to liquefied natural gas, which can then be transported to markets. We are participants in the World Bank Global Gas Flaring Reduction Partnership, a public-private initiative working to reduce flaring and venting of associated gas worldwide.

Performance: Working to Reduce Flaring

In the United States, ChevronTexaco has virtually eliminated routine flaring, due to a combination of available gas markets, regulatory requirements and voluntary participation in initiatives like the U.S. EPA’s Star program. In the United States, flaring accounts for less than 1 percent of ChevronTexaco’s total upstream greenhouse gas emissions of approximately 12 million metric tons.

ChevronTexaco’s international upstream companies are engaged in numerous projects to reduce and, in some places, eliminate routine flaring of gas. For example:

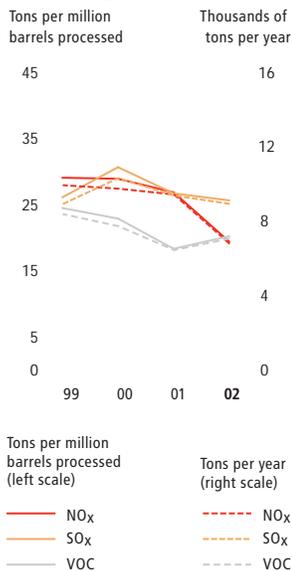
- ▶ In Kazakhstan, Tengizchevroil (TCO), a joint venture that ChevronTexaco operates, reduced flaring by approximately two-thirds between 2000 and 2002. TCO invested more than US\$140 million to repair and upgrade existing facilities and install new equipment. As a result of the improvements, more than 120 million cubic feet of gas per day no longer is flared.
- ▶ ChevronTexaco has committed to eliminate routine flaring from its operations in Angola. In addition to working with the Angolan government to develop and operate new oil production without routine flaring, we are pursuing other projects that will eliminate existing routine flares from our older facilities. We expect these projects, including the Sanha Condensate Project and the Takula Gas Processing Platform Project, to eliminate the flaring of more than 350 million cubic feet per day.
- ▶ In Nigeria, our business unit is developing several projects that will reduce flaring from our operations by several hundred million cubic feet per day. To give a sense of scale, 100 million cubic feet of gas per day corresponds to approximately 13 percent of Nigeria’s total natural gas consumption. These projects include the Escravos Gas-to-Liquids Plant, expansion of our Escravos Gas Plant and the West Africa Gas Pipeline, which will carry gas that otherwise would have been flared from Nigeria to users in Togo, Benin and Ghana.

Air Emissions

Managing Our Emissions

Like all energy companies, ChevronTexaco's operations produce emissions such as sulfur oxides, nitrogen oxides, volatile organic compounds and carbon monoxide, which can contribute to local and regional air pollution. Through our Operational Excellence Management System, we require our business units to track current air emissions, forecast future emissions, and minimize the environmental and health risks associated with those emissions. We do not collect corporatewide, nongreenhouse gas air emissions data.

U.S. Refining Emissions



Note: NO_x = nitrogen oxides
SO_x = sulfur oxides
VOC = volatile organic compounds

ChevronTexaco designs new facilities using guidelines and processes to minimize air emissions once the facilities are operating. We also add emission control equipment to existing facilities. In many cases, this control equipment is installed to comply with local and national governmental requirements, although in some instances we have gone beyond regulatory requirements. In most of our U.S. marketing terminals, for example, we have installed controls that typically reduce volatile organic compounds emissions beyond what is required by regulations.

In the United States, our refineries have made improvements in controlling emissions of volatile organic compounds and nitrogen oxides over the past several years. The net increase in sulfur oxide emissions over the period is primarily due to variability in refinery operations and the types of crude oils processed.

Reducing Emissions from Our Products

In addition to air emissions from our own operations, we also are working to minimize the air emissions produced when our fuel products are used. ChevronTexaco has undertaken a range of activities to develop such cleaner fuels:

- ▶ We have been an industry leader in gasoline detergent additive technology, which reduces vehicle emissions by reducing engine deposits. Since 1973, U.S. automakers have used Chevron gasoline with our deposit control technology to help certify their vehicles comply with U.S. Environmental Protection Agency emission standards.
- ▶ Company researchers have worked extensively with oil and auto industry research organizations to characterize engine emissions, the effects of vehicle design and fuels on these emissions, and the effects of these emissions on air quality.
- ▶ We have worked with the U.S. EPA in its efforts to reduce sulfur content of fuels to reduce emissions from combustion of these products. ChevronTexaco plans to produce low-sulfur fuels well ahead of EPA deadlines.
- ▶ Outside the United States, ChevronTexaco plans to deliver low-sulfur products in specific markets in Asia, the Middle East and Africa.
- ▶ We have been an advocate of producing unleaded gasoline ahead of government mandates and have worked on this issue with governments in Vietnam, South Africa and Kenya.
- ▶ We are members of the International Petroleum Industry Environmental Conservation Association and the American Petroleum Institute, both of which are working with the Partnership for Clean Fuels and Vehicles. This global partnership, established in 2002 at the World Summit for Sustainable Development, is supporting the phaseout of lead from fuels around the world and the reduction of sulfur in gasoline and diesel fuel as advanced vehicle emission controls are introduced.

Spills



A spill drill in Port Dickson, Malaysia, brought together government groups and 80 employees from the U.S., Asia, the Middle East and Africa.

Background: Addressing an Operational Risk

Over the past several decades, ChevronTexaco has taken significant steps to improve its performance in the area of oil and chemical spill prevention and response. We focus first on prevention by assessing our risks and taking necessary steps to mitigate them. Despite our best efforts, spills and leaks do occur, and we have developed a rigorous emergency preparedness and response system. As part of the system, ChevronTexaco helps fund numerous industry oil spill

cleanup organizations worldwide and sponsors two or three major oil spill drills each year to provide training to several hundred key responders throughout the company. In 2002, we conducted major spill exercises in Malaysia and Grenada. Individual facilities also conduct numerous emergency response drills each year, many in coordination with local and national authorities and other industry operators.

Approach: Focusing on Prevention

Our business units are taking a comprehensive and systematic approach to reducing the risk of spills. For example:

- ▶ The California-based San Joaquin Valley Business Unit formed an Oil Spill Prevention Team with a goal of eliminating spills. The unit established a spill-prevention budget to supplement facilities' operating budgets, identified and prioritized the highest spill risks, and applied new and existing technology to prevent spills. The unit decreased spills by 700 barrels, or approximately 60 percent, between 2001 and 2002 and is sharing its technology and learning across the company.
- ▶ In Nigeria, ChevronTexaco's upstream business unit implemented a new process to better assess the risk of leaks from pipelines. Through this analysis, it identified and is implementing more than 25 distinct projects designed to achieve a tenfold reduction in the risk of spills related to pipeline corrosion, erosion-induced failure, mechanical damage, operational upsets or equipment failures.
- ▶ ChevronTexaco's North American pipeline company is implementing a Pipeline Integrity Management Plan. Under the plan, more than

8,000 miles of pipelines that could affect a "high consequence area" will be assessed, half by the end of 2004 and the remainder by the end of 2010. High-consequence areas include populated areas, commercially navigable waterways, unusually sensitive ecological areas and drinking water sources. These assessments will include the use of internal inspection tools, called "smart pigs," to measure and analyze conditions along the walls of the pipes to pinpoint potential problems before they can become leaks.

- ▶ In 2002, ChevronTexaco Shipping (CTS) Company led the industry in spill prevention. With an intense focus on spill prevention, CTS transported more than 250 million barrels of crude oil in its controlled fleet of vessels, without a single spill to water.

Performance: Establishing a Commitment to Improve

We were not satisfied with our performance in this area in 2002 because we did not make progress in reducing spills from the previous year, and we did not meet our performance target. In 2002, ChevronTexaco had 1,502 oil spills, with a total spilled volume of nearly 55,000 barrels. This is in the context of 2002 net production of crude oil and natural gas liquids of approximately 638 million barrels and product sales totaling approximately 1.4 billion barrels. Many of these spills were contained within areas such as dikes around tanks. We track all spills because they have the potential to affect the environment. Less than 1 percent of the spilled oil went to water, and a little more than half of the total spilled volume was immediately recovered.

ChevronTexaco experienced two significant oil spills in 2002: a 14,000-barrel spill at a storage facility in Panama, which was contained within the tank dike area, and an 18,000-barrel spill in Nigeria associated with a tank fire ignited by a lightning strike. In the latter case, a small amount of oil was released from the tank containment area. This event is a primary factor contributing to our relatively low amount of spilled oil recovered when compared with 2001; oil consumed in the fire was not counted as "recovered."

We recognize that even minor spills can have an impact. For example, a relatively small spill (nine barrels) in our upstream operations in Cabinda, Angola, had a significant impact on the local community. Fishing in the vicinity was suspended immediately for a number of days as a health and safety precaution. While the environmental effects were minimal, and we believe we responded effectively and responsibly, our reputation nevertheless was damaged as a result of this incident. During the investigation into the cause, it was determined that the undersea pipeline involved could not be repaired easily and returned to service

Spills (Continued)

ChevronTexaco Petroleum Spills*

	1999	2000	2001	2002
Number of spills	2,169	1,553	1,428	1,502
Volume of spills (barrels)	164,686	34,460	54,834	54,696
Volume recovered (barrels)	—	—	48,348	27,805

*1999–2001 data are combined Chevron and Texaco. 2002 data are ChevronTexaco. Note: Prior to 2001, volume recovered was not tracked at the corporate level.

without some risk of an additional leak. Therefore, some oil production was shut into allow for replacement of portions of the line on a priority basis. During this period, ChevronTexaco reduced production by approximately 2.7 million barrels rather than run the risk of an additional spill from the pipeline.

ChevronTexaco also tracks spills of chemicals, including industrial chemicals, some catalysts used in refining operations and some types of materials used in drilling oil and gas wells. In 2002, we had 75 chemical releases totaling 135 metric tons (135,075 kg) in our worldwide operations. Of that amount, 62 metric tons (62,303 kg), or slightly under half of the volume, was recovered immediately. Because we began tracking spills of chemicals consistently across our operating companies in late 2001, trend history data are not yet available.

Future Goals: Setting an Aggressive Target

ChevronTexaco’s goal is to be a leader in its industry in spill prevention. Our near-term target is to reduce total volume of oil spilled by 20 percent each year over the next three years. We also are working within industry associations to help bring consistency to the collection and reporting of spill data industrywide. Such standardization will help us better measure progress against our world-class performance standard.

Case Study ▶

Shipping’s Spill-Free Record

In 2001 and 2002, ChevronTexaco Shipping (CTS) Company’s safety and environmental performance led the industry, based on benchmarking data from large competitors that operate tanker fleets.

CTS operates a trading fleet of 25 tankers, of which all but one are double-sided, and 23 of which are double-hulled. In 2002, CTS transported more than 250 million barrels of crude oil in its controlled fleet of vessels, without a single spill to water. In addition, when chartering third-party vessels CTS uses a comprehensive clearance and vetting system for screening and monitoring all vessels it charters to identify the safest and most reliable vessels available.

CTS works to continually supplement its knowledge and improve its performance through participation in organizations such as the Oil Companies International Marine Forum, whose mission is to be the foremost authority on the safe and environmentally responsible operation of oil tankers and terminals.



In 2002, Chevron Shipping transported more than 250 million barrels of crude oil in its controlled vessel fleet without a single spill to water.

Water

Approach: Conserving a Natural Resource

Availability of and access to fresh water is one of the world's most pressing challenges. ChevronTexaco and other energy companies use relatively large volumes of both fresh water and sea water in their operations such



Steven Carter and Mike Carter take water samples at Richmond Refinery wetlands in California.

as for oil and gas drilling and production as well as in processing and manufacturing operations, for cooling and steam generation. Our use of fresh water can affect local ecosystems and communities, particularly in places where it is scarce.

ChevronTexaco also discharges water from operating facilities and from oil and gas production. Water sometimes resides in underground reservoirs with oil and gas. When

the oil and gas are extracted, water also may be extracted. This "produced water" is either reinjected into the subsurface it came from or is treated and discharged. If the water discharged from our operations is not adequately treated, it can negatively affect the environment.

ChevronTexaco requires its business units to evaluate their use of and impacts on all natural resources and to identify and implement conservation opportunities. At many of our facilities, we track discharges to water and take steps to minimize the environmental and health risks associated with those discharges.

Some of our facilities have implemented process changes designed to minimize the use of fresh water, particularly where supplies are limited. For instance, our California refineries in Richmond, and El Segundo, use "reclaimed water," which is treated domestic sewage, instead of fresh water, for cooling in the manufacturing process. Other ChevronTexaco refineries around the world are investigating water reuse opportunities.

The company also continually looks for ways to minimize the effects of discharged water and, in some cases, put it to beneficial use. For example, in 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.

Future Goals: Developing a Comprehensive Strategy

ChevronTexaco's upstream operating companies are developing a comprehensive strategy to manage produced water. The strategy will address reinjection of produced water, minimizing the environmental and social impacts, as well as the potential beneficial uses of discharged water.

Waste



At the Minas Field in Indonesia, a tractor ploughs soil to increase air penetration causing microbes to digest impurities.

Approach: Waste Management Planning

ChevronTexaco requires its businesses to continually improve processes to minimize pollution and waste. Our business units develop waste management plans that track the wastes they produce, follow a waste minimization hierarchy (reduce/recycle/treat/dispose), comply with all regulations and, when local regu-

lations do not exist, apply appropriate waste management practices. ChevronTexaco's capital project management process also includes specific tools and activities that integrate pollution prevention and waste minimization concepts into the designs for its projects so that they generate fewer and less hazardous wastes. We do not track waste volumes or types corporatewide.

ChevronTexaco has gained expertise in upgrading and building new waste facilities, particularly in places where waste management is complicated by lack of infrastructure. We also participate in a number of industry forums, including the International Association of Oil and Gas Producers and the Petroleum Environmental Research Forum, to develop and share improved waste management practices within the industry. Examples of recent or planned investments in waste management facilities include:

- ▶ **Sumatra, Indonesia:** ChevronTexaco recently began operating several major facilities to improve management of oily wastes, including a slurry injection facility and a bioremediation unit to treat oily soils and wastes. Since 2000, the company has spent more than US\$50 million on the design, construction and operation of these facilities, and we plan to continue to upgrade waste facilities there in 2003 and 2004.
- ▶ **Kazakhstan:** the company's joint venture Tengizchevroil has initiated construction on a US\$16 million integrated waste management facility. The facility will include a recycling area, a landfill and a waste treatment area.
- ▶ **Venezuela:** in 2002, we commissioned a US\$1.8 million facility designed to handle a broad spectrum of wastes from the Boscan oil field.

Case Study ▶

Offshore Drilling Discharges

Drilling oil and gas wells requires the use of drilling fluids to remove rock “cuttings” from the wellbore and to control formation pressure. Drilling fluids are made of various chemical compositions depending on the geologic and reservoir formations being drilled. These fluids are pumped down the hole and transported back to the surface with the cuttings that are “cut loose” as we drill. The cuttings are then separated from the drilling fluid at the surface. In the offshore environment, depending on the chemical composition used and local conditions, cuttings with residual drilling fluids are often discharged to the sea. This discharge must be carefully managed to minimize its impact on the marine environment.

In reviewing our worldwide offshore drilling fluid management practices in 2002, we identified several opportunities for improvement. As a result, ChevronTexaco is developing a new performance standard that uses ecological risk criteria to define what can and cannot be discharged into water and establishes buffer zones to help protect biologically sensitive areas. It also requires new offshore drilling projects to evaluate the technical and economic feasibility of reinjecting cuttings back into subsurface formations, instead of discharging them into the sea.

Under the standard, all offshore drilling rigs using drilling fluids that are not water-based will be equipped with advanced cuttings cleaning systems. Such systems reduce the environmental impact of discharging drilled cuttings into the sea.

The standard also requires all drilling projects to undergo a risk-based screening to determine the adequacy of environmental practices. The screening considers site-specific factors such as ocean depth and prevailing currents, toxicity and biodegradation of drilling fluids, and the volume of cuttings generated. This information is used to determine whether discharging is acceptable in a given location and to identify the appropriate cleaning technology to help protect the local marine environment.

Decommissioning & Remediation



In Cincinnati, Ohio, a natural wetland flourishes where a refinery once stood, following a ChevronTexaco restoration program.

Approach: Working to Prevent Problems

ChevronTexaco’s aim is to responsibly steward its assets throughout their lifecycle, from design and construction, through operation and, in some cases, sale to another party or decommissioning. Our goal is to prevent environmental problems before they happen. When designing and building new projects, we include many design elements to prevent impacts to land and

groundwater. Some of our facilities have been in operation for many decades, over which time practices for facility design, waste management and spill prevention have evolved. Although they were consistent with standard industry practices at the time, our past operating practices at some of these locations resulted in releases of hydrocarbons and other chemicals to land and groundwater. ChevronTexaco expects its businesses to evaluate potential risks posed by these past releases and to take steps to mitigate them.

In the case of asset sales, it is our policy to assess and manage our environmental liabilities prior to any property transactions. Appropriate cleanup or restoration is conducted as needed to ensure that the property is suitable for continued current use or, if the use is changing, for the intended future use. But at times the new owner may not properly manage its environmental obligations, or the property may subsequently change hands. In some instances, external parties have sought to make us responsible for remediation of subsequent damage, despite our view that we had previously met our obligations.

Chevron Environmental Management Company (EMC), a wholly owned operating company, focuses primarily on the responsible decommissioning and cleanup of ChevronTexaco sites. EMC uses a rigorous process for managing environmental cleanups based on its experience in managing capital construction projects. Although EMC’s activities are focused primarily in the United States, it works collaboratively with ChevronTexaco business units worldwide on land and groundwater assessments, cleanups and decommissioning, as well as helping reduce future liabilities through technology transfer and best-practice sharing.

Decommissioning & Remediation (Continued)

Performance: Managing Our Liabilities Responsibly

Like many other large energy companies operating in the United States, ChevronTexaco is cleaning up a number of sites where it has current or past operations. We currently are cleaning up more than 3,000 such sites in the United States. These are primarily current or former service stations, refineries, oil and gas fields, and chemical facilities, as well as waste sites covered under the U.S. Environmental Protection Agency's Superfund program. We are addressing potential risks associated with releases to soil and groundwater resulting from historical operations that, in some cases, go back nearly 100 years. ChevronTexaco has spent more than US\$3 billion on such cleanups since 1980. Much of this work has been undertaken voluntarily in cooperation with regulatory agencies. Internationally, ChevronTexaco uses the same risk management philosophy in its approach to site cleanups.

Particularly in our upstream operations, we also are engaged in multiple efforts to decommission our facilities, including closing oil and gas wells that are no longer productive, dismantling surface equipment and pipelines, and removing offshore platforms at the end of their service life. Annually, we plug more than a thousand wells and remove several offshore platforms.

The following are examples of ChevronTexaco's successful decommissioning or cleaning up of company sites:

- ▶ In Fullerton, California, ChevronTexaco is turning a former oil production property into a 760-unit housing facility, including single- and multiple-family residences. The plan includes a neighborhood commercial center, open space with native habitat conservation areas, a public use site with parks and schools, private recreational amenities, bikeways, and eight miles of recreational trails.

ChevronTexaco's U.S. Decommissioning and Cleanup Activities and Expenditures

Year	U.S. Expenditures	U.S. Service Station Cleanups Completed	Platforms Removed (Gulf of Mexico)
1999	\$298 million	191	7
2000	\$280 million	293	13
2001	\$284 million	264	0
2002	\$327 million	222	4

- ▶ In 2002, the U.S. EPA recognized ChevronTexaco for its innovative handling of the environmental – as well as community – issues surrounding the cleanup of its former Cincinnati Refinery. The Cincinnati facility and its employees also received certification from the Wildlife Habitat Council for the development of a successful wildlife management program, including habitat restoration, wetlands creation, and a joint project with EPA and the University of Cincinnati, that uses plants to help accelerate the cleanup.
- ▶ In the U.S. Gulf of Mexico, ChevronTexaco's upstream company has removed approximately 230 platforms since 1986. Approximately 40 of these platforms were used as artificial reefs to provide enhanced marine habitats as part of government-sponsored Rigs to Reefs programs. The remainder of the platforms were either recycled at steel mills or reused as platforms elsewhere in the Gulf of Mexico.
- ▶ In 2003, the U.S. EPA gave national recognition to ChevronTexaco as one of only a handful of companies committed to key cleanup objectives at former refineries and chemical facilities under the Resource Conservation and Recovery Act by 2005. We are well on our way to meeting this commitment.
- ▶ In the Partitioned Neutral Zone between Saudi Arabia and Kuwait, Saudi Arabian Texaco, Inc., is undertaking an extensive cleanup of oily pits caused by historic operating practices. This multiyear project will address 65 separate pits comprising more than 3 million square meters of impacted land area.
- ▶ In Indonesia, prior to turning the lease for a major production block over to a new operator, ChevronTexaco undertook an extensive review and cleanup effort to help ensure the facilities were transferred in a safe and environmentally sound condition. All of these activities were documented to communicate the condition of the production facilities to the new operator and to the Indonesian government. The operating block also received ISO 14001 certification as further demonstration of the environmental processes and practices in place prior to ChevronTexaco's relinquishing control.

Case Study ▶**Legacy in Ecuador**

From 1964 to 1992, Texaco Petroleum Company (Texpet) was a minority partner in an oil exploration and production consortium in an environmentally sensitive rain forest region in Ecuador. For most of that period, Texpet was the operator of the field and associated pipeline, while PetroEcuador, the state oil company, was the majority partner.

Although 95 percent of the total earnings that the consortium produced went to PetroEcuador and contributed to Ecuador's economy, questions have been raised about the possible environmental and health consequences for the region and the indigenous people who live there.

Consistent with company practice, at the time of Texpet's departure from the consortium, it undertook environmental audits to determine whether there were any concerns that needed to be addressed. The company subsequently entered into an agreement with PetroEcuador, the Ecuadorian national government, and representatives of indigenous groups and local municipalities to manage and fund a US\$40 million remediation program. This included closure and remediation of well sites, soils remediation, and installation of produced water treatment and reinjection systems.

In addition, the company created a US\$1 million fund for socioeconomic projects by nongovernmental organizations and a second US\$1 million fund for the construction of four schools and adjacent medical clinics and vehicles for transportation.

The company received certification and approval from government inspectors on a site-by-site basis made through several phases of the project. In 1998, the government of Ecuador and the local municipalities provided a final certification for the program, releasing the company from further claims or obligations.

Notwithstanding these efforts, in 1993 lawyers representing a group of indigenous Ecuadorian Indians brought suit against Texaco Inc. in the United States, charging that the company was responsible for alleged health problems and environmental damage caused by the oil-producing activities. On four separate occasions, U.S. courts dismissed the lawsuit because they determined that the United States was not the proper jurisdiction. Ultimately, the plaintiffs' lawyers accepted these rulings and in May 2003 filed a suit against ChevronTexaco Corporation in an Ecuadorian court. ChevronTexaco Corporation and Texaco Inc. maintain there has yet to be presented any scientific evidence to substantiate the allegations, and there is no basis for this lawsuit.

This case has received widespread publicity over the years. It illustrates the complex issues associated with oil-producing activities, including the

responsibilities of minority and majority partners, the accountability of state oil companies and governments, the differing expectations of various stakeholders, and the ability of court systems to adjudicate complex affairs where the issue of jurisdiction is not always clear.

Biodiversity

A Bee Orchid grows near our operations in Wales. The petals of the flower resemble bees trying to get the pollen, thus attracting real bees.

Background: Preserving a Critical Natural Resource

Biodiversity refers to the entire variety of life on earth. It encompasses genes, species and ecosystems, and the processes that support them. Biodiversity supports human life on the planet and, in addition to its intrinsic value, provides essential services and products we all depend on, including food, clothing, shelter, fuel and medicines. In recent years, there has been growing recognition that preservation of biodiversity is not only an environmental issue, but also one with important social and economic implications. The public has become increasingly concerned about the loss of biodiversity in key regions of the world and the role industry has played in that loss.

Energy companies such as ChevronTexaco can affect biodiversity in a variety of ways, ranging from direct or primary impacts such as land clearance, to indirect or secondary impacts, like road building, which can invite population migration into remote, environmentally sensitive areas, as well as introduce nonnative invasive species through movement of equipment and materials.

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Approach: Integrating Biodiversity Considerations into Operations

ChevronTexaco is participating in the Energy & Biodiversity Initiative (EBI), a collaboration started in 2001 among industry and international environmental conservation organizations working to integrate biodiversity conservation into oil and gas exploration and development. EBI participants include ChevronTexaco, BP, Shell and Statoil, together with Conservation International, Fauna and Flora Interna-

Biodiversity (Continued)

tional, The Smithsonian Institution, The Nature Conservancy and the World Conservation Union.

We also continue to expand our knowledge of how to address biodiversity issues in our operations through our participation in the joint Biodiversity Working Group of the International Petroleum Industry Environmental Conservation Association and the International Association of Oil and Gas Producers (OGP). We are also members of the joint effort between OGP and the International Association of Geophysical Contractors to address effects of oil and gas exploration and production noise on the marine environment, as well as OGP's project to develop guidelines for conducting environmental baseline surveys in deep water.

To help protect sensitive areas around our operations, several ChevronTexaco business units have created a set of Habitat Management Guidelines. These guidelines, which were developed in cooperation with technical experts and are supplemented with training for employees, provide business units with information and tools to prevent damage to local habitats and provide guidance on land restoration when impacts do occur.

Performance: Demonstrating Biodiversity Conservation Around the World

ChevronTexaco has a number of specific programs to address biodiversity conservation, particularly where we operate in areas of high biodiversity value or sensitivity. For example:

- ▶ In Papua New Guinea's biologically diverse Southern Highlands Province, ChevronTexaco's operations have been cited as a model for compatibly operating in diverse ecosystems.
- ▶ On Barrow Island, a Class A Nature Reserve off the west coast of Australia, and in parts of California's San Joaquin Valley, the company protects endangered species and their habitats as part of its exploration and production operations. The Barrow Island operation has received numerous awards in the past two years, including recognition from the Institute of Petroleum, the Australian Petroleum Production and Exploration Association and World Oil.
- ▶ Several ChevronTexaco refineries engage in voluntary biodiversity conservation projects, including conversion of wastewater treatment ponds into aquatic habitat in Richmond, California; habitat enhancement for endangered El Segundo Blue butterflies in Southern California; and incorporation of wildlife habitat into refinery remediation plans at Cincinnati, Ohio.

- ▶ ChevronTexaco also funds related research: In Angola and the Gulf of Mexico, the company supports research and monitoring of whales and dolphins; in coastal Panama, the company supports research in mangrove and coral reef ecosystems.

Future Goals: Establishing a More Systematic Approach

Over the past several years, our understanding of biodiversity conservation concerns has expanded. As a result, we have identified the opportunity to more systematically manage the issue by better integrating it into our Operational Excellence Management System. In 2003, ChevronTexaco's international exploration and production company is beginning to evaluate the work products from the Energy & Biodiversity Initiative. This includes identification of priorities and opportunities to test and adapt EBI products for use in our operations. We also are initiating efforts to promote more awareness of biodiversity conservation in our company, defining the extent of our operations in or near legally protected and biodiversity sensitive areas, understanding the implications of the Convention on Biological Diversity and promoting industry use of the EBI products.

Case Study ▶

Pembroke Refinery's Biodiversity Plan



ChevronTexaco's Pembroke Refinery has developed a Biodiversity Action Plan for its operations.

In late 2001, ChevronTexaco's Pembroke refinery in Pembrokeshire, Wales, developed and began implementing its Biodiversity Action Plan (BAP). The plan was produced by ecologists from Ulster University in conjunction with the Countryside Council for Wales, a nongovernmental organization dedicated to environmental protection of the region. The refinery's BAP aligns with and supports the local community's BAP, which is required by law.

Pembroke Refinery's BAP identifies the major habitats in the 1,250 acres it owns outside its main operating area, which include seminatural grasslands, extensive hedgerow networks, a native mature oak woods and a marshland. The plan provides guidance for the company to monitor, manage and enhance the diverse range of habitats in the area. Primary activities in 2002 were:

Case Study ▶
(Continued)Pembroke Refinery's
Biodiversity Plan

- ▶ **Skylark monitoring and protection:** A survey of the grassland in 2002 identified between 14 and 18 nesting pairs of skylarks, a European bird listed on the endangered species list. The density is unusually high for this type of bird in the area, and Pembroke plans to conduct on-going monitoring to determine the overall trend. The fields where the ground-nesting skylark breeds are managed so that the birds are not disturbed until after the fledglings have left the nest.
- ▶ **Habitat surveys:** Students from a local school have undertaken a habitat survey of a segment of the fields to identify major plant species, items of interest and the general condition of the hedgerows. A further segment of fields is being surveyed in the summer of 2003. Ecologists also have carried out a habitat survey of one of the marshes, identifying important fauna and flora (including otters, a protected species in the United Kingdom). Recommendations for future work have been incorporated into the BAP.
- ▶ **Woodland management:** Arboreal experts prepared a woodland management plan for the next five years. Activities will include erection of stock fencing, removal of non-native trees, clearance of glades and planting of native saplings.

To complement its biodiversity initiative, the Pembroke Refinery also initiated an effort to remodel an existing structure on company property for use as an environmental center. The company is working with The Prince's Trust to carry out the renovation work, construct ponds and build boardwalks to provide access to the adjacent marsh. When the facility is completed, it will be used by schoolchildren as a base for carrying out environmental studies in the area.

Case Study ▶Protecting Papua New Guinea's
Rain Forest

ChevronTexaco has brought to life its policy of protecting people and the environment in the Kutubu Petroleum Development Project in Papua New Guinea (PNG). The project area encompasses Lake Kutubu, a pristine lake in the Southern Highlands Province, and extends south to the Gulf of Papua. The biologically diverse environment includes more than 700 bird species; 15,000 flowering plant species; and more than 300 species of fish, amphibians and reptiles. About 20,000 of the country's 4 million people use the rain forest as a base for subsistence gardening and hunting, and the Kikori River for transportation and food.

Chevron Niugini worked with national and provincial governments, the World Wide Fund for Nature (WWF) and communities to conserve the environment, preserve cultural heritage and promote sustainable community development. For example, Chevron Niugini implemented extensive measures to help protect the environment and avoid environmental disturbance



Chevron Niugini won praise for its protection of Papua New Guinea rain forests, where the company sold its operations in 2003.

by burying pipelines, reinjecting produced water, minimizing road construction, eliminating spills and comprehensively managing wastes.

Chevron Niugini, WWF, the Kutubu Joint Venture partners and the PNG national and provincial governments also continued the Kikori Integrated Conservation and Development Project, a partnership established in 1994 to help protect the Kikori

River system by working with local people to establish a model of ecologically sustainable development. Noted scientist, environmentalist and Pulitzer Prize-winning author Dr. Jared Diamond has done numerous biological surveys in the area of project operations. He has publicly praised Chevron Niugini for the effectiveness of its environmental conservation practices and has referred to the company's license area as "New Guinea's premier conservation area."

In 2003, ChevronTexaco sold its assets in PNG and has resigned as operator. Joint venture participants have approved one of the companies, Oil Search Ltd. (OSL), to assume operatorship of the producing and exploration licenses. Final changeover of control will occur in October 2003. ChevronTexaco is committed to maintaining existing Chevron Niugini environmental conservation and community development policies, programs and practices through the transition to the new operatorship.

Environmental and Social Impact Assessments

Background: Using an Important Tool for Managing Impacts

Environmental Impact Assessment (EIA) processes are used by energy companies to identify the potential environmental impacts of proposed projects and to show how they intend to manage and mitigate them. ChevronTexaco and other energy companies have been conducting formal EIAs for a number of years, and many governments now require such EIAs. Often, the perception of a company's ability to effectively manage the environmental impacts of a project determines whether government agencies, local communities, business partners and other stakeholders will grant the company permission to undertake the project. In recent years, companies have begun experimenting with conducting formal Social Impact Assessments (SIAs) and more comprehensive Environmental and Social Impact Assessments (ESIAs).

Approach: Integrating Results into Decision Making

Historically, ChevronTexaco has conducted EIAs wherever legally required and for major new projects in environmentally sensitive locations. More recently, we have begun conducting SIAs and comprehensive ESIAs for some major projects. For example, ChevronTexaco conducted ESIA activities as part of several projects in 2002, including the Escravos gas-to-liquids facility in Nigeria and the West Africa Gas Pipeline. In the case of the pipeline, early input from the EIA allowed for up-front identification of significant impact areas and issues to be incorporated in project design, as well as development of contractor requirements to address such impacts. Integration of the EIA into the detailed pipeline siting work helped to avoid sensitive areas and to reduce the project's "footprint" in sensitive areas that could not be avoided.

For another major project, early assessment of possible sites for a liquefied natural gas facility in the Congo River Delta in northern Angola enabled us to incorporate environmental criteria – such as sensitive areas, fauna and flora, protected areas, and cultural and historical sites – into the site selection process.

ChevronTexaco also participates in several industry initiatives designed to increase awareness of the need for and value of ESIAs and enhance our own knowledge for designing and conducting them. For example, we participated in the International Association of Oil and Gas Producers (OGP) and International Petroleum Industry Environmental Conservation Association's efforts to develop a tool to help companies identify and manage social impacts in oil and gas projects. In 2003, we are participating in new OGP projects to further promote integration of ESIAs into capital projects.

Future Goals: Establishing Consistent Processes in Upstream Operations

We believe we can more systematically use ESIAs as a tool to improve our project planning, design and execution and to help manage the social and environmental issues in both new projects and ongoing operations. Consequently, in 2002 ChevronTexaco launched an effort to establish a consistent set of ESIA expectations and work processes to apply to its international upstream activities. This work is continuing in 2003.

Case Study ▶

Environmental Monitoring with Hyperspectral Imaging



Using environmental baselining technology, Chevron Nigeria launched a mangrove reforestation project.

In the Niger Delta, where lush, towering mangroves provide communities food and shelter, ChevronTexaco's affiliate, Chevron Nigeria Ltd. (CNL), uses a space technology, called hyperspectral imaging, to "see" what the eye cannot. The company is a leader in environmental remote sensing among oil and gas companies in Nigeria. By conducting "environmental baseline" surveys using this technology, CNL better monitors its operations' impacts on the environment over time.

The human eye sees a small portion of the electromagnetic spectrum referred to as visible light. Hyperspectral instruments record more than 200 bands, allowing our technical experts to see objects over a continuous portion of the electromagnetic spectrum that includes ultraviolet, visible, near infrared and a portion of solar reflected infrared radiation. CNL uses this and other remote sensing techniques onboard airplanes and satellites to snap "photos" of the 2,510 sq miles (6,500 sq km) where it conducts drilling, production and transportation operations. With this technology, comprehensive information about the environment is obtained on a regional and ecosystem scale that reveals patterns and relationships unavailable when using traditional data-gathering techniques.

**Case Study ▶
(Continued)****Environmental Monitoring with
Hyperspectral Imaging**

As the result of a baseline survey, the company developed a detailed map for its operations in the Niger Delta to accurately depict the different vegetation types of the region. The area comprises brackish and freshwater swamps, both of which are interspersed and connected by creeks, but they still maintain distinct characteristics in a delicate balance. Oil and gas activities can disrupt this balance. For example, pipeline construction or dredging activities that cross vegetation types can introduce salt water into freshwater zones causing damage to the freshwater habitats. By developing this detailed map, CNL is able to plan its construction activities to avoid sensitive areas and help preserve the delicate balance of the ecosystem. CNL also uses the technology for planning facilities, improving dredging practices, restoring impacted sites and developing Environmental Sensitivity Index maps to aid in oil spill response.

Product Stewardship**Approach: Identifying Issues Early and Minimizing Risk**

ChevronTexaco seeks to manage the environmental, health and safety impacts of its products throughout their entire life cycle. This concept is known as “product stewardship.”

Product stewardship is an integral part of ChevronTexaco’s health, environment and safety policy and approach. We require our businesses to:

- ▶ Identify potential health, environment and safety impacts early in the development of new or improved products, and minimize risks to people and the environment throughout each product’s life cycle.
- ▶ Communicate information on potential hazards to people who use our products or who might be affected by them, including workers, customers, third parties and distributors.

ChevronTexaco has a variety of processes and programs in place that help it meet these commitments. For example, several of our downstream operating companies have established formal risk management processes in which they conduct routine product stewardship reviews on all product lines on a three- to five-year cycle. They also conduct product stewardship reviews for major changes and projects that have potentially significant environmental, health and safety impacts. To oversee those efforts, several businesses employ staffs devoted exclusively to product stewardship.

Product stewardship reviews sometimes result in significant changes. For example, a review of the 2003 introduction of ethanol into gasoline marketed in California resulted in the development of an internal ethanol storage and handling standard that we believe is among the most comprehensive in the industry.

We also work to educate customers and the public on safe and responsible handling of our products. We are implementing a new, 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 ChevronTexaco’s products. Many countries require that this information be made available, and ChevronTexaco is working to provide MSDSs worldwide. The Web-based system currently stores more than 50,000 MSDSs, and we plan to complete implementation of the worldwide MSDS system in 2004. We also have a 24-hour-a-day global hot-line that provides public access to on-call technical specialists who can answer questions about our products.

Product Stewardship, (Continued)

Future Goals: Implementing Processes Globally

Although product stewardship processes are well developed in several operating companies, particularly in North America, ChevronTexaco faces a challenge in implementing equivalent systems across all its operations. Toward that goal, in 2003 we created a central technology group responsible for coordinating product stewardship issues for our global nonfuels businesses, including lubricants, chemical additives, and marine fuels and lubricants.

Case Study ▶

Driving Safety Program in Thailand

In an effort to raise public awareness around the issues of safe driving, fuel efficiency and environment protection, ChevronTexaco's subsidiary, Caltex Oil (Thailand) Ltd., has teamed up with Thailand's Land Transportation Department, part of the Thai Ministry of Transport and Communications, to sponsor a program called Save & Safe. The program also is supported by 10 automobile and motorcycle manufacturers.



The company's Save & Safe program promotes public awareness of safe driving and environmental conservation in Thailand.

The program, which began in 2000, focuses on promoting safe and fuel-efficient driving techniques. Driver training is coupled with free engine checkups and aimed at minimizing air and noise pollution. In many locations in Thailand, training is provided for professional drivers (such as school bus drivers) and ordinary drivers.

The free vehicle checkups, emissions testing and tune-ups help drivers

better understand how to keep their vehicles maintained to reduce emissions and save fuel. Nearly 300 school buses were checked recently at a Save and Safe event at the Department of Land Transport in Bangkok. A total of 8,539 vehicles were tested in four provinces in Thailand in 2002.

The program also has provided an opportunity for dozens of aspiring mechanics from Thai technical institutions to acquire valuable training and experience by conducting the engine inspections and tune-ups. An estimated 30,000 autos and motorcycles have been inspected in the nine provinces and major metropolitan areas in the roughly three years in which Save and Safe has been operational.

Case Study ▶

MTBE Phaseout & Cleanup

MTBE, or methyl tertiary butyl ether, has been used as a blending component in gasoline since 1979. ChevronTexaco first used MTBE in the late 1980s to increase octane. MTBE came into widespread use in the United States after 1990, when the Clean Air Act was amended to require much of the nation's gasoline to contain oxygen, which was thought to reduce air emissions. This oxygen requirement is met by including an "oxygenate," usually either MTBE or ethanol, an alcohol derived from corn or other agricultural crops.



Chevron Texaco is eliminating our use of MTBE in gasoline in California. We have replaced MTBE with ethanol in our gasoline in southern California, and will complete the conversion to ethanol in northern California in advance of the state's December 2003 deadline.

But in attempting to solve an air quality problem, the widespread use of MTBE has created a different problem. MTBE is significantly more soluble in water and persistent in the environment than other gasoline components. As a result, leaks and spills of gasoline that contains MTBE can be difficult to clean up, particularly when they reach groundwater. Some drinking-water supplies that have been contaminated by MTBE have been shut down pending remediation.

Consumers and government agencies in many parts of the United States now oppose the use of MTBE in gasoline. Many state governments have enacted or are considering mandatory phaseouts. These actions are based not on health concerns, but on the fact that, in even very small amounts, MTBE can make water taste and smell unpleasant. ChevronTexaco is responding to MTBE concerns in several ways:

- ▶ We are assessing and cleaning up as appropriate our current and former service stations sites that have been affected by leaks or spills of gasoline containing MTBE.
- ▶ We no longer produce MTBE in North America. We have closed the MTBE production facilities at our refineries in Richmond, California; El Segundo, California; and Pascagoula, Mississippi. Our joint venture with a company that once produced MTBE in Canada has switched its production to isooctane, a clean-burning gasoline blending component that does not have the same water quality concerns.

Case Study ▶
(Continued)

MTBE Phaseout & Cleanup

- ▶ We are eliminating our use of MTBE in California. Where the law requires us to use an oxygenate, we are converting from MTBE to ethanol. We have replaced MTBE with ethanol in our gasoline in Southern California and will complete the conversion to ethanol in Northern California in advance of the state’s December 2003 deadline.
- ▶ We have worked hard to improve groundwater cleanup processes and technology. ChevronTexaco Energy Technology Company has joined with a number of government and private organizations to manage research on how to better clean up groundwater affected by oxygenates. Our technical experts also have taught courses for the California State Water Resources Board and EPA on this subject.

Additionally, ChevronTexaco is pursuing government action to require the phaseout of MTBE in gasoline in the United States. We also continue to pursue alternatives to government oxygenate mandates since we have shown that it is possible to make gasolines that achieve the air quality benefits without adding any oxygenate.

The experience with MTBE illustrates the importance of looking at all aspects of a product’s potential impacts. It has provided our company, the petroleum industry and government agencies with useful lessons, which ChevronTexaco already has begun integrating into its approach to other product stewardship issues.

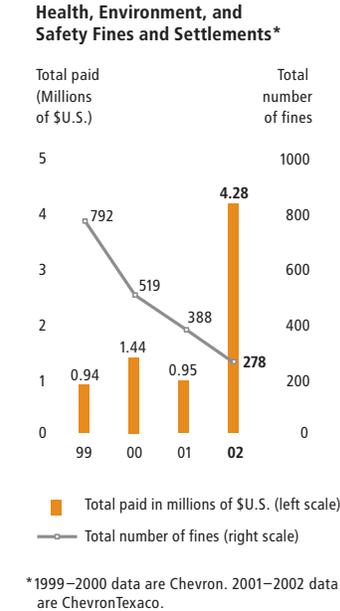
Environmental Expenditures and Fines

Environmental Expenditures

Using definitions and guidelines established by the American Petroleum Institute, ChevronTexaco estimates its worldwide environmental spending in 2002 at US\$1.3 billion for its consolidated companies. Included in these expenditures are \$399 million of environmental capital expenditures and \$925 million of costs associated with the control and abatement of hazardous substances and pollutants from our ongoing operations. This spending represents approximately 4.3 percent of capital and exploratory expenditures and 11.8 percent of operating expenses in 2002.

Environmental Fines

At times, ChevronTexaco facilities have not met all governmental environmental requirements, resulting in fines and penalties by various agencies in addition to ongoing environmental expenditures. We regret these lapses and are committed to learning from them to continually improve our compliance with all applicable requirements. In 2002, ChevronTexaco paid 82 environmental fines or settlements for a total of US\$4.3 million. Although the number of individual fines and settlements decreased from 2001, the total dollar amount paid out increased



significantly. This is attributable primarily to settlements in the United States. Significant fines and settlements in 2002 included: US\$1.55 million for groundwater contamination near the El Segundo Refinery in California; US\$750,000 for environmental violations at upstream operations in Rangely, Colorado; US\$869,992 for environmental violations in Aneth, Utah, upstream operations; and US\$250,000 in penalties associated with a fire at the Aneth gas plant.

In 2002, we also paid 196 fines or settlements for noncompliance with health and safety regulations at our facilities. The total dollar amount associated with these fines or settlements was relatively small.