

ChevronTexaco



2003 ChevronTexaco Corporate Responsibility Update

A Message From Our CEO

Last year, ChevronTexaco Corporation issued its first Corporate Responsibility Report. At that time, we presented a comprehensive look at the actions our company is taking globally to address a range of complex and challenging issues – issues such as human rights, work-force diversity, small business development and environmental protection. This is an update to that report. Events of the past year continue to remind us that these challenges are as great as ever and that we live in an interconnected world where events in one part of the globe can impact all of us.

Our company's primary obligations are to responsibly supply the energy the world needs while delivering the strong financial results that our stockholders expect of us. We are fully committed to doing both.

Additionally, we recognize that companies like ours have a global reach and, with that, the opportunity to be a positive force. Recently, there has been an increasing focus on the role of the private sector in supporting international development efforts. This is an issue of profound importance to ChevronTexaco. We operate in some of the poorest parts of the world and, thus, see daily the devastating effects of poverty. At the same time, the product we provide – energy – can fuel economic and social progress. This gives us a unique opportunity, through the energy we produce, to benefit not only our company and its stockholders, but also local communities and host governments.

Linked to economic development is the issue of governance. Over the past few years, there has been a growing recognition of the need to help build the capacity of governments in developing countries so they can raise the quality of life for their citizens. The management of revenues in the oil and gas industry has been a central focus of this discussion because of the important contribution such revenues can make to resource-rich, developing countries. Our company has supported efforts to bring greater transparency in this area.

Finally, our company also is focused on another key global challenge – finding ways to meet growing energy demand while reducing the environmental impacts of energy development and use.

Supporting Economic Development

Our company's objectives are tied to economic growth around the globe. However, we will achieve those objectives only if the benefits of growth are a positive force for society at large. What must be created is a reinforcing cycle that improves lives, expands markets, and builds safer societies and more stable governments.

Toward this end, we are building new types of partnerships aimed at encouraging both energy development and broad, sustainable economic growth. These partnerships bring together the expertise of nongovernmental and multilateral organizations, financial institutions, development agencies, other companies and, most important, the local communities where we work.

One of our best examples is the Angola Partnership Initiative, a more-than-US\$50 million effort to build human capacity and a higher standard of living for communities across the country. In 2003, more than 660,000 Angolans benefited from the agricultural program. Now we are taking steps to open Angola's first micro-credit bank, launch an enterprise development center at a local university and create several distance-learning centers.

Promoting Revenue Transparency

We believe transparency and good governance are the underpinning of social and economic development and critical to ensuring that the benefits of that development are widely shared. That is why we are actively working to encourage greater transparency in the accounting of revenues from oil and natural gas operations. In 2003, we saw remarkable progress in this area in Angola and Nigeria, where our company has a major presence.

In a groundbreaking action, the government of Angola agreed to disclose the signing and social bonus payments associated with a contract extension with our company's Angolan subsidiary. In Nigeria, we are supporting the government in its efforts to publish a number of key government financial indicators, including revenues from the oil and natural gas sector.

Finding Environmental Solutions

One of the greatest challenges our industry faces is the widespread view that energy development is at odds with a healthy environment. Of particular concern is the issue of climate change. We recognize these concerns and are continuing to take steps to address them. At the same time, we are seeking new solutions to another key challenge for our industry: finding ways to safely and reliably supply the energy the developing world needs to fuel economic development.

To meet those challenges, we are working to minimize the environmental impacts of our operations today and also are working to advance the promising cleaner technologies of tomorrow. For example, in 2003, ChevronTexaco was selected by the U.S. Department of Energy to be part of a team to showcase the practical applications of hydrogen energy technology.

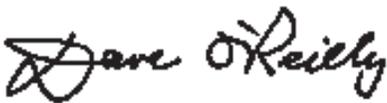
We welcome and encourage your feedback at www.chevrontexaco.com/CR_Report/2003/, where this report, as well as our 2002 Corporate Responsibility Report, can be found.

We also are working to improve our efficiency and reduce emissions of greenhouse gases. In 2003, our company initiated its first third-party verification of greenhouse gas emissions, which has enabled us to set an emissions goal for 2004 with the assurance that the goal is based on sound and robust baseline data. We also continued to promote consistency in greenhouse gas measurement and reporting in our industry.

A Year of Progress – But More to Do

We have made progress in some key areas over the past year, and I am proud to tell you that we received outside recognition for our corporate responsibility efforts. Employees in our Nigerian affiliate were given the U.S. Department of State's 2003 Award for Corporate Excellence for their sustained efforts to contribute to a higher quality of life in that country.

We also recognize that many of the issues of importance to our company and our customers, employees, neighbors, partners and investors are long-term, and there is still much to be done. I can assure you that ChevronTexaco people everywhere are committed to continuing our work in these areas and looking for new solutions that will improve the lives of people everywhere we operate.



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



About This Report

This report is a brief update to ChevronTexaco's comprehensive 2002 Corporate Responsibility Report. It provides our stakeholders with essential information on our performance against key corporate responsibility metrics. It builds on, and is designed to be read in conjunction with, our inaugural 2002 report and demonstrates our ongoing commitment to regular and open reporting on our social, economic and environmental performance. We report here on 2003 data and activities. In a small number of instances, we mention events that took place in 2004 when this helps provide a clearer picture of our performance. The report focuses on our owned and operated businesses and does not address the performance of our suppliers, contractors or partners, unless otherwise noted.

ChevronTexaco's next comprehensive Corporate Responsibility Report will be published in 2005. It will cover 2004 performance and will provide a detailed discussion of our progress on the full spectrum of corporate responsibility issues since the publication of our inaugural 2002 report.

We continue to be informed by the Global Reporting Initiative Sustainability Reporting Guidelines and other external reporting frameworks. As we continue our learning and our efforts to improve the quality and scope of our corporate responsibility reporting, we look forward to feedback on the content of this and future reports.

Cover photo: "Moving Energy"; time-lapse image of street lights, taken from a moving car.

2003 at a Glance

In 2003, we made steady progress in several key areas of corporate responsibility performance while continuing to expand our understanding and management of our social, economic and environmental impacts. We maintained our focus on exploring new ways to integrate corporate responsibility considerations into existing management systems and enhancing our policies and practices related to human rights and community engagement. During the year, we also expanded our corporate responsibility reporting to include global data on diversity, national origin and air emissions.



On behalf of ChevronTexaco, CEO Dave O'Reilly receives an Award for Corporate Excellence from U.S. Secretary of State Colin Powell in recognition of the company's community support activities in Nigeria.

Award for Corporate Excellence. In 2003, our Nigerian affiliate received the U.S. State Department's Award for Corporate Excellence for its corporate citizenship activities in Nigeria. Specific initiatives cited included the airlift of more than 2,000 villagers to safety during interethnic and political conflicts in the western Niger Delta, a Riverboat Clinic to bring healthcare to thousands of people in the Niger Delta and ongoing HIV/AIDS prevention efforts in the country.

Safety. 2003 was ChevronTexaco's safest year ever in terms of overall recordable incidents. Despite this record, very regrettably we had 12 fatalities. Motor vehicle crashes remain the most frequent cause of death. Our approach to safety is founded on the belief that zero is attainable – as evidenced by the 26 ChevronTexaco units that received our "Zero Is Attainable" award in 2003 – and we will continue to strive to reach our ultimate goal of zero accidents and fatalities.

HIV/AIDS Initiatives. We continued our efforts to help combat HIV/AIDS. At the end of 2003, we finalized a corporatwide HIV/AIDS policy. We also announced a new partnership with the Global Fund to Fight AIDS, Tuberculosis and Malaria in Africa. In Angola, we expanded our program to include the provision of anti-retroviral drugs to ChevronTexaco employees and their families.

Senior-Level Diversity. At the end of 2003, the global representation of women and non-Caucasian males in senior positions in ChevronTexaco globally was 19.5 percent, up from 16.7 percent in 2002. We continue to make progress toward achieving our senior management diversity goals.

Human Rights. As one of the original signatories to the Global Sullivan Principles, we have long advocated, supported and demonstrated the protection of human rights, consistent with the role of business. We remain committed to a management approach that enhances the sustainability of our long-standing results and fully integrates human rights considerations into our day-to-day operations.

Spill Performance. 2003 showed a significant performance improvement from the previous year. The volume of petroleum spilled fell by more than 50 percent from the previous year, exceeding our year-over-year target of a 20 percent reduction through 2006 and representing less than 20 barrels spilled per million barrels processed.



Left, Chuchupa A Platform, Guajira, offshore Colombia. ChevronTexaco's activities in Colombia are focused on the exploration, production and commercialization of natural gas.

Climate Change. Finding ways to meet growing energy demand while reducing long-term growth in greenhouse gas (GHG) emissions is among the most critical challenges facing the energy industry. It is a challenge we take seriously as we continue to implement our comprehensive climate change strategy. Our enterprisewide GHG emissions were approximately 64 million metric tons of CO₂ and CO₂ equivalents in 2003. In 2003, we also initiated a third-party verification of our GHG emissions and established a preliminary goal of 63 million metric tons for 2004. We also announced the transfer of ownership of our SANGEA™ Energy and Emissions Estimating System software to the American Petroleum Institute, at no charge, to promote standardization of GHG emissions accounting.

Energy Efficiency. We continued to make steady improvements in energy efficiency. In 2003, we achieved our highest efficiency level ever, representing a 22 percent decrease in energy consumption per unit of output since 1991.

Advancing Hydrogen Technology. We are part of a team selected by the U.S. Department of Energy in 2004 to lead a five-year demonstration and validation project designed to showcase practical application of hydrogen energy technology. Under the project, we intend to provide the design and construction of up to six hydrogen fueling stations to be operated primarily in California.

Harvard Corporate Social Responsibility Initiative. We announced we were contributing US\$500,000 as a founding sponsor of a major initiative led by Harvard University's Kennedy School of Government to enhance corporate responsibility effectiveness. The initiative, which was officially launched in March 2004, will marshal resources of business, government, academia, civil society and the media to address some of the world's most pressing social, economic and environmental issues.

Organization of American States Award. We were honored by the Organization of American States in early 2004 for the programs we have under way, particularly in Venezuela, to help alleviate poverty in Latin America.

While we made considerable progress toward our objectives, we also have an increased appreciation of the challenge of implementing an integrated, systematic approach to corporate responsibility across the approximately 180 countries in which we operate. We remain committed to achieving the goals we have set out for ourselves and to continually improving our performance in this important area.



Above, ChevronTexaco is the fifth-largest energy company in the world, based on market capitalization, and conducts business in approximately 180 countries around the world, producing and transporting crude oil and natural gas, and marketing and distributing fuels and other energy products.

Social Performance

Operating in more than 180 countries worldwide, we recognize that we have the potential to affect people's lives in many ways. Throughout our operations, we strive to maximize our positive impacts while minimizing any adverse effects. At ChevronTexaco, we believe that supplying energy responsibly and reliably is the greatest and most positive contribution that we can make to economic development and social progress.

Angola Partnership Initiative Update



In partnership with USAID, ChevronTexaco is supporting agricultural development in Angola.

2003 saw significant progress for Chevron-Texaco's Angola Partnership Initiative, whose goal is to build on Angola's human capacity to realize greater economic stability and improved standard of living for communities across the country. The original US\$50 million target, announced in November 2002, already has been exceeded with a commitment of US\$25 million and partner matching of nearly US\$43 million in direct and in-kind contributions.

"An excellent example of how USAID and a private partner can work together is the work we are carrying out with ChevronTexaco in Angola," says Andrew Natsios, administrator of the United States Agency for International Development (USAID). "At the end of 2004, this initiative will have helped nearly 900,000 Angolans."

Close to 40 percent of currently allocated funding is going to support agricultural development in the Planalto region of Angola, where USAID is ChevronTexaco's major partner. The Planalto was the region most affected by the country's 27 years of civil war, which ended in 2002. Prior to the war, the Planalto was Angola's breadbasket and a net food exporter. Agricultural projects under the initiative assisted over 660,000 people – either in direct food aid or training in agricultural practices – in the course of 2003.

"Investing in agriculture in Angola will have the largest impact on poverty reduction and provide the most dramatic potential for increasing family income," says Fernando Paiva, Public

and Government Affairs manager for Chevron-Texaco's Angolan operating unit, Cabinda Gulf Oil Company.

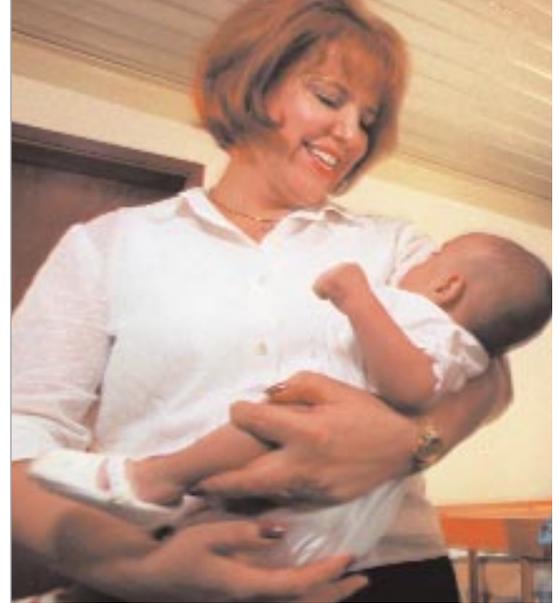
Additional efforts in 2003 focused on small- and medium-size business development. Funding was committed to support the opening of Angola's first micro-credit bank, NovoBanco, which will provide banking services and loans to entrepreneurs and small- and medium-size businesses throughout Angola. Plans call for 10 nationwide branches within five years. ChevronTexaco's partners are European development institutes and the International Finance Corporation, an arm of the World Bank.

A Center for Enterprise Development at the Catholic University in Luanda also was approved and a new Enterprise Development Program, in partnership with the United Nations Development Program, was sanctioned by the Angolan government. Additionally, under Chevron-Texaco's partnership with the Global Discovery Channel's Education Fund, work was started to support several distance-learning centers.

During the year, we conducted a stakeholder analysis, which included interviews with more than 70 people from development agencies, nongovernmental organizations, government agencies and ChevronTexaco employees to get feedback on our project selection criteria and decision-making processes. Our current efforts are centered on growing the initiative while seeking additional innovative and sustainable projects.



Left, with the help of ChevronTexaco, more than 1,000 children from low-income families have attended programs at the Atyrau Small Academy of Arts in Kazakhstan.



Above, Gloria Pacheco holds a baby from the Hogamin Orphanage, to which ChevronTexaco provides support, in Maracaibo, Venezuela.

Community Engagement

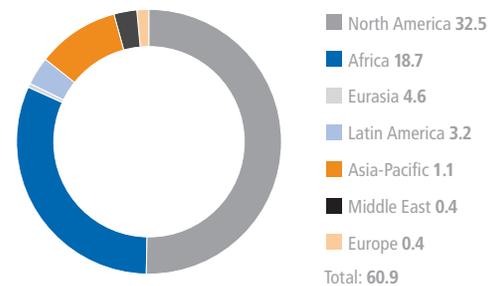
During 2003, we completed a worldwide review of our community engagement activities. The findings of this review have helped us begin to develop a more focused strategy that targets our work around key community sectors, improves our internal capability to manage and support community programs, and more clearly aligns our community initiatives with our corporate responsibility objectives. We also are increasingly seeking to partner with local, national and international organizations in the common goal of enabling economic development and building human and institutional capacity in the areas where we operate that are most in need of support.

ChevronTexaco contributes to the communities in which it operates in a variety of ways, including through the employment it provides, the goods and services it procures from local businesses, and the taxes it pays. The company also makes community investments in areas ranging from supporting education and training programs to helping build local infrastructure. In 2003, ChevronTexaco made community investments around the world estimated at nearly US\$61 million. In many instances, we conduct these community programs in close partnership with host governments, community groups and nongovernmental organizations. ChevronTexaco employees also invest considerable volunteer time in these and other community activities. [See chart](#)

One example of an initiative we have supported is the September 11th Anti-Bias Project, a joint initiative of the ChevronTexaco Foundation and the National Conference for Community Justice (NCCJ). The ChevronTexaco Foundation's US\$1.5 million pledge of support for the project was one component of ChevronTexaco's overall pledge of US\$10.5 million for September 11 disaster relief. In 2003, NCCJ awarded US\$1.5 million in grants to 19 nonprofit organizations throughout the United States to advance anti-bias efforts. The September 11th Anti-Bias Project is designed to identify and support innovative and replicable approaches to address the bias, bigotry and racism faced by those groups and communities that have experienced heightened discrimination in the wake of the September 11, 2001 attacks in the United States.

a Global Community Investments (2003)

US\$million



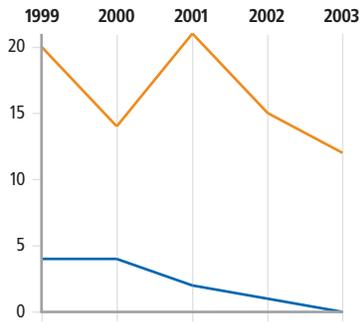
Note: Includes ChevronTexaco's share in Chevron Phillips Chemical Company, Tengizchevroil joint venture, and Karachaganak Petroleum Operating consortium.

This update report provides key social performance data and information on some of the significant developments since publication of our previous report. In addition to our progress in these key areas, we continue our work on a wide range of social issues important to ChevronTexaco and our stakeholders, including supporting human rights, engaging with local communities, and participating constructively in the political and policymaking process. We will provide coverage of our progress on these and other social issues in our 2004 Corporate Responsibility Report.

Right, deepsea drilling operations in the U.S. Gulf of Mexico, where ChevronTexaco taps into rich oil deposits as far as 100 miles offshore and reaching depths of more than 5,400 feet.



b Work-Related Fatalities

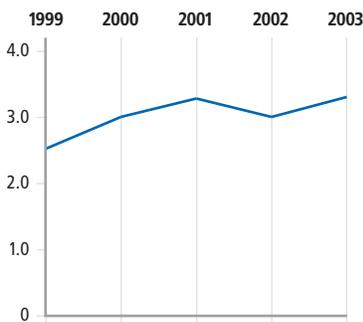


— Employees	4	4	2	1	0
— Contractors	20	14	21	15	12
Total	24	18	23	16	12

1999–2001 data are combined Chevron and Texaco. 2002 and 2003 data are ChevronTexaco.

c Motor Vehicle Safety

Motor vehicle crashes per million miles driven (company vehicles)



— Employees	2.52	2.99	3.29	2.94	3.31
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1999–2000 data are Chevron, 2001 data are combined Chevron and Texaco, and 2002 and 2003 data are ChevronTexaco.

Health and Safety

Overall, 2003 was our safest year on record, a reflection of the hard work and commitment of thousands of individuals. At the same time, we recognize that we must continue to strive to reach our ultimate goal of zero accidents.

During the year, we continued our focus on safety and reliability through the deployment of our Operational Excellence Management System (OEMS). Part of our approach is to integrate the management of safety and health issues into all aspects of our business, including increasing accountability for safety in our performance management processes.

We profoundly regret that 12 people lost their lives in ChevronTexaco work-related accidents in 2003. Despite achieving a reduction in total fatalities in each of the past two years, each fatality represents a human tragedy and a profound loss both to family and to the company. Lives were lost in Argentina, Honduras, Indonesia, Nigeria, Paraguay, Singapore and the United States. We are committed to continuing to work within the company and with our contractors to drive this figure down to our goal of zero.

See chart [b](#)

Motor vehicle crashes continued to be the No. 1 cause of work-related fatalities, accounting for four of the 12 deaths. There was an increase from 2.94 motor vehicle incidents per million miles driven by employees in 2002 to 3.31 in 2003. We believe that part of this increase is due to greater understanding of the need to report all such incidents. See chart [c](#)

In 2003, we launched an expanded effort on motor vehicle safety, which included the establishment of a new network for health, environment and safety professionals around the world to share ideas and best practices. The efforts also included formal, targeted reviews, which were conducted in areas of high risk or poor performance. These two- to three-day reviews are conducted by subject matter experts with a track record of good performance in a particular area. This expert team reviews systems, processes, procedures, roles and responsibilities relating to a particular topic. “Journey planning” (which proactively identifies and mitigates potential driving risks), defensive driving and other gaps identified in these reviews are being addressed and shared throughout the world to help improve global performance.

In 2003, we made improvements in our Total Recordable Injury Rate (TRIR) for both employees and contractors, though we fell short of reaching our aggressive target to reduce the rate by 25 percent from the previous year. Employee TRIR was down from 0.68 recordable incidents per 200,000 work hours in 2002 to 0.60 in 2003. Contractor TRIR fell from 0.74 recordable incidents in 2002 to 0.59 in 2003. Over the past two years, we have seen a 30 percent improvement in contractor safety performance. See chart [d](#)

Employee lost time injury frequency (LTIF) remained unchanged from 2002, at 1.26 injuries per million work hours. Contractor LTIF improved considerably, from 1.30 injuries per million work hours in 2002 to 0.95 in 2003, which reflects our increased focus on contractor safety. See chart [e](#)

Right, the CABGOC Clinic in Cabinda, Angola, is supported by ChevronTexaco funding and provides healthcare facilities for ChevronTexaco staff as well as for the local community.



In 2003, we continued our focus on preventing repetitive stress injury (RSI). In 1999, RSI accounted for 40 percent of workplace injuries worldwide. In 2003, RSI accounted for 25 percent of injuries. Overall, RSI TRIR improved 10 percent from 2002 to 2003, thanks to the continued implementation of a prevention program based on early detection and education.

HIV/AIDS Initiatives

The global threat posed by HIV/AIDS is one that ChevronTexaco continued to tackle in 2003. During the year, we completed an internal review of our worldwide HIV/AIDS initiatives, which resulted in the creation of a corporate-wide policy. Work is under way to develop the necessary guidance and materials to support implementation, which will begin in 2004.

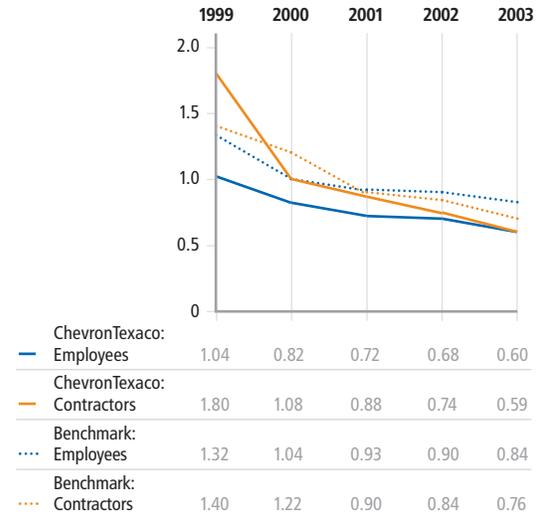
Key achievements in 2003 include the following:

- We expanded our program in Angola to include the provision of anti-retroviral drugs to ChevronTexaco employees and their families. We designed the program in Angola in partnership with a local hospital so that it would then be available to the broader community, not just our employees.
- ChevronTexaco was one of nine global companies to announce that, in partnership with the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Global Business Coalition on HIV/AIDS, we would use our human capacity, facilities and infrastructure to extend workplace HIV/AIDS prevention and treatment programs into the communities where we operate. The public-private partnership is designed so that the companies co-invest with public programs, an approach we, and others, believe offers significant additional scope and impact beyond what any one entity could do alone.
- In recognition of his and the company's commitment to combating HIV/AIDS, Jay Pryor, the managing director of Chevron Nigeria Limited, was named by Nigerian President Olusegan Obasanjo as co-chairman of the Nigerian Business Coalition Against HIV/AIDS.
- ChevronTexaco is a founding corporate sponsor of Trans-Atlantic Partners Against AIDS (TPAA), an initiative working to bring together the Russian and U.S. governments and private sector to address the fast-growing HIV/AIDS pandemic in Russia and Ukraine. ChevronTexaco participated in, and was the sole corporate sponsor of, TPAA's first Business and Labor Summit. The summit, held in September 2003, brought together government, business and labor groups. ChevronTexaco has committed its support to TPAA's development of an action plan to address this growing emergency in all parts of Russia, including the energy-producing areas.

Helping to combat HIV/AIDS is one of the clearest examples of how our long-term business interests and immediate corporate responsibilities are intrinsically linked. While the scale of the task is daunting, ChevronTexaco, in partnership with all sectors, is committed to continuing these efforts, locally and globally, in 2004 and beyond.

d Total Recordable Injury Rate

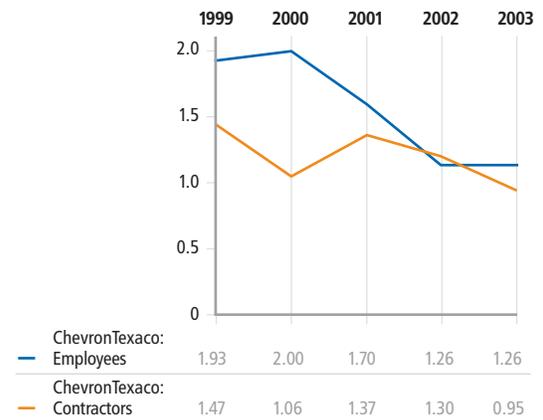
Recordable incidents per 200,000 work hours



1999–2001 data are combined Chevron and Texaco. 2002 and 2003 data are ChevronTexaco. Data use American Petroleum Institute as industry benchmark.

e Lost Time Injury Frequency

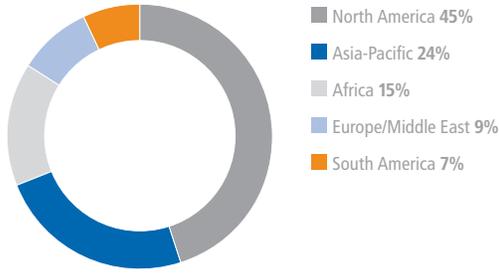
Injuries per million work hours



1999–2001 data are combined Chevron and Texaco. 2002 and 2003 data are ChevronTexaco.



f Geographic Breakdown of ChevronTexaco Employees (2003)



g Equal Employment Opportunity (2003)

ChevronTexaco U.S. employees (%)



Employees

ChevronTexaco had 50,582 employees worldwide at the end of 2003. Our employees are vital stakeholders who are critical to helping our company meet its obligations to investors, partners, customers and governments. To maintain a competitive advantage, we must successfully attract, retain, and develop both current and future talent. [See chart f](#)

With this in mind, two focus areas were established for 2003 as we continued implementation of our global People Strategy: increase diversity in candidates for senior posts and retain top performers while optimizing global talent during organizational changes.

In 2003, a comprehensive global employee survey was developed, which was conducted in mid-2004. Major findings from the survey and the company's plans for responding will be outlined in our 2004 Corporate Responsibility Report.

Diversity

In 2003, we continued our long-term focus on creating and supporting diversity within our work force, with a particular emphasis on increasing diversity within senior positions. Our aim is for our employees and leaders to reflect the diversity of the available work forces in the countries in which we operate without limitation by race, color, religion, gender, national origin, citizenship, age, sexual orientation, disability, veteran status or other status protected by law.

We continue to seek ways to provide meaningful worldwide employee data that respect the global nature of our employee base. As required by law, we collect Equal Employment Opportunity data for employees based in the United States. ChevronTexaco U.S. employment data for women and minorities remained similar to 2002. [See chart g](#)

At the end of 2003, the representation of women and non-Caucasian males in senior positions in ChevronTexaco globally was 19.5 percent, up from 16.7 percent in 2002. We are making steady progress in increasing diversity at the senior management levels.

In 2003, for the first time, we aggregated data on women in mid- and senior-level positions on a global basis. Globally, women represented 9.7 percent of employees at mid-level positions and above at the end of 2003.

Another area in which we made progress was the percentage of women hired in the United States. While overall recruitment levels were down in 2003, the number of women joining the company increased from 33 percent of new recruits in 2002 to 43 percent in 2003.

Global Work-Force Development

During the year, we continued our efforts to hire employees from the communities in which we operate. At the same time, we worked to provide opportunities for employees to gain work experience outside their home countries. This is part of our ongoing strategy to benefit from the diversity and expertise of a truly global work force, as well as contribute to the economies in which we work.

Left, Marty Gilles (center), Hawaii Refinery Manager, discusses a review of plant operation during a field walk.



In 2003, for the first time, we collected national origin data on a global basis. At the end of the year, approximately 96 percent of ChevronTexaco's employees were working within their country of origin. Outside the United States, around 43 percent of senior-level positions are held by employees working within their country of origin.

While we have begun tracking this data on a global level, we believe that hiring and developing local employees is, inherently, an issue best managed at the local level. Many of our business units set and measure performance against specific work-force composition objectives. For example:

Angola: In ChevronTexaco's Angolan subsidiary, the percentage of Angolan national employees rose from 85 percent in 2002 to 86 percent in 2003. At the professional and supervisory level, the figure rose from 64 percent to 67 percent in the same period. The company continues to work toward its target to have Angola nationals represent 80 percent of its supervisory and professional staff in Angola by the end of 2006.

Indonesia: In ChevronTexaco's Indonesian upstream subsidiary, at the end of 2003, 99 percent of employees were Indonesian nationals. At the senior level, 74 percent of employees were Indonesian.

Kazakhstan: In Kazakhstan, approximately 80 percent of employees of Tengizchevroil (TCO), ChevronTexaco's limited partnership, were Kazakh citizens in 2003, up from 77 percent in 2002. By the end of 2005, TCO's goal is to have Kazakh nationals represent 82 percent of its work force.

Latin America: In 2003, around 90 percent of employees in ChevronTexaco's upstream Latin American Business Unit were Latin American nationals, roughly the same as in 2002. The business unit continues to aim toward its goal of increasing the number of nationals in senior-level positions by 10 percent by the end of 2004. The business unit also continues toward its goal of increasing the number of Latin American nationals working on assignments outside their home countries by 10 percent by the end of 2004.

Saudi Arabia: Nearly 90 percent of Saudi Arabian Texaco's (SAT) approximately 650 employees are Saudi nationals. In 2003, SAT received the First Class Award of the Prince Nayef National Awards in recognition of its efforts to hire and train Saudi employees.



Above, the diversity and talent of ChevronTexaco's global work force is integral to success. During 2003, we continued our focus on hiring employees from the communities in which we operate.

Economic Performance



Top, Argenis Solarte, ChevronTexaco employee on Platform LL-652, located in Lake Maracaibo, Venezuela. Bottom, workers at the Tengiz oil field, Kazakhstan.

As a commercial enterprise, we have a responsibility to deliver strong financial performance, thus creating value for our stockholders. At the same time, we recognize that we can, and should, create broader economic value for our stakeholders and that we do so in a variety of ways.

In this section, we focus on the issue of procurement and, in particular, our supplier diversity, small business development and local content programs. In 2003, we spent approximately US\$18 billion globally on goods and services from external contractors and suppliers. On a local level, contracting with small, locally owned businesses and, in the United States, minority- and women-owned businesses, is one of the important ways we can contribute to the economic development of the communities in which we operate.

U.S. Small Business Development and Supplier Diversity

In the United States, ChevronTexaco's Small Business/Supplier Diversity Program continued its efforts to provide opportunities, contracts and outreach assistance to small, and minority- and women-owned businesses across the country. [See chart](#)

In 2003, we spent more than US\$1.3 billion with small business suppliers in the United States. This represents 27 percent of total goods and services spending and exceeds our 25 percent small business spending goal.

During the year, we also spent approximately US\$223 million with women-owned suppliers, which represents nearly 5 percent of total spend, and approximately US\$202 million with minority-owned suppliers, which represents slightly more than 4 percent. In 2004, we have aggressive plans to reach our 5 percent contracting goal for each.

Additional highlights from 2003 include:

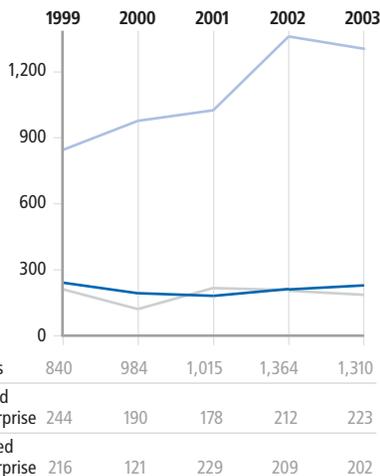
- introduction into the Women's Business Enterprise National Council's Elite 11, an honor we also have achieved in previous years;
- receiving an Outstanding Rating for small business contracting and development from the U.S. Department of Defense, the highest rating awarded by this agency for contracting;
- receiving the Corporation of the Year award for minority business contracting and development from the Louisiana Minority Business Development Council.

Local Content

Outside the United States, we continued our "local content" efforts to source from and assist small, locally owned businesses. Many business units have programs that not only administer the contracts with local suppliers, but also provide training and other services to help build and develop those businesses.

U.S. Small Business/Supplier Diversity Expenditure

US\$million



1999–2001 data are combined Chevron and Texaco. 2002 and 2003 data are ChevronTexaco.



From supporting bakeries to auto repair shops, ChevronTexaco's small business development programs are an integral element of its Kazakhstan operations.

In 2003, Chevron Nigeria Limited, working with the U.S. Small Business Administration and the U.S.–Nigeria Development Institute, helped set up a Business Information Center in Nigeria to provide training and support to local businesses.

Also during the year, ChevronTexaco sponsored two international supplier forums, one in Nigeria and one in Kazakhstan. The forums were designed to educate ChevronTexaco's international suppliers about our local content goals and to forge connections, where possible, between our local and international suppliers to help grow the local businesses.

Highlights from several major business units, which together represent a considerable portion of ChevronTexaco's global procurement spending, in 2003 include:

Angola: ChevronTexaco's subsidiary spent US\$177 million with Angolan suppliers in 2003. The unit has established a target to increase expenditures with local businesses by 15 percent year over year.

Indonesia: ChevronTexaco's Indonesian business unit spent US\$650 million with Indonesian suppliers at the local level and another US\$6 million with Indonesian companies at the national level. At the local level, 99 percent of total spending on goods and services was with Indonesian companies.

Kazakhstan: ChevronTexaco's limited partnership Tengizchevroil (TCO) exceeded its 39 percent local content goal, reaching 42 percent in 2003. This represents US\$564 million spent with Kazakh suppliers, up from US\$415 million in 2002.

Thailand: ChevronTexaco's business unit spent US\$120 million in 2003 with local suppliers in Thailand, representing 30 percent of total spend on goods and services, up from 25 percent in 2000.

Venezuela: Two of ChevronTexaco's operations in Venezuela (the Boscan Field and LL-652, a ChevronTexaco-operated oil field in Lake Maracaibo) together spent US\$120 million with local suppliers. This represents an 80 percent local content rate for goods and a 98 percent rate for services in 2003.

Revenue Transparency

We view transparency and good governance as critical underpinnings of social and economic development. In 2003, we continued our efforts to promote and support increased revenue transparency in the oil and gas industry, including reaffirming our support for the Extractive Industries Transparency Initiative. We continue to support efforts that are voluntary, inclusive of host governments and honor the sanctity of contracts.

Highlights of our activities include the following:

- We supported Nigerian President Olusegun Obasanjo's announcement in November 2003 that Nigeria intended to publish a number of key government financial indicators, including revenues received from the oil and gas sector. Chevron Nigeria Limited participates in a Nigerian government working group that is studying how to launch this effort.
- We worked constructively with the Angolan government in advance of the 2004 announcement that the Angola Block 0 concession held by ChevronTexaco's wholly owned Angolan subsidiary had been extended to ChevronTexaco by the government of Angola and national oil company, Sonangol. The result was a groundbreaking public announcement by the Angolan government and Sonangol of the US\$210 million signing bonus and an additional US\$80 million social bonus, part of which will be targeted specifically at Cabinda Province, paid by the association partners under terms of the extension agreement.

2003 was one of ChevronTexaco's best years ever in terms of financial performance. Detailed information on the company's performance can be found in our corporate *Annual Report*, available on our Web site at www.chevrontexaco.com.

Environmental Performance

At ChevronTexaco, we regard the responsible and reliable supply of energy as our core objective. We view protection of the environment as an integral part of that objective. In practical terms, this means working to minimize the environmental impacts of our existing operations and products, as well as devising new ways to meet future energy demand while protecting and preserving the environment for future generations.

Environmental Management

Our Operational Excellence Management System (OEMS) is the foundation for integrating environmental issues into our business operations. Deployment of OEMS, initiated following the merger of Chevron and Texaco in 2001, continued during 2003. In the first part of the year, we revised our OEMS internal review protocol. While still designed to assess our actual performance, the revised protocol now has increased focus on assessing the functionality of the underlying management system. During the remainder of 2003, we conducted 19 formal internal reviews using the new protocol.

Energy Efficiency

Improved energy efficiency within our operations clearly demonstrates the link between business and environmental success. Energy efficiency, which applies to all areas of our business, remained a key focus in 2003, with two milestones achieved.

First, we met our 2003 energy efficiency target, with the ChevronTexaco Energy Index (CTEI) ending the year at 78. This represents total energy consumption for the assets we operate of approximately 880 trillion Btus in 2003. ChevronTexaco established the CTEI in 1991 to track its energy usage on a consistent basis. The CTEI initially included only our North American operations, but has since been expanded globally.

Our 2003 performance represents our highest efficiency level to date and a 22 percent decrease in energy consumption per unit of output since we established the CTEI. It also produced a saving of around US\$28 million over the course of the year. For 2004, our CTEI target remains constant at 78.

Second, we met our objective to complete the full integration of assets into the CTEI in 2003 by incorporating the remaining international upstream and legacy Caltex and Texaco assets into the index.

Climate Change

Climate change is a critical issue that ChevronTexaco is taking seriously. ChevronTexaco's four-pronged climate change strategy comprises:

- reducing emissions of greenhouse gases (GHGs) and increasing energy efficiency;
- investing in research, development and improved technology;
- pursuing business opportunities in promising, innovative energy technologies;

- supporting flexible and economically sound policies and mechanisms that protect the environment.

In addition, we continue to integrate analysis of GHG emissions into the planning of all major capital projects.

Having completed our first post-merger GHG emissions inventory in 2002, we engaged KPMG and URS to perform an independent review of the GHG data quality for both 2002 and 2003. This process will enable us to set GHG emissions goals with the assurance that the goals are based on sound and robust baseline data. The KPMG/URS report is available on our Web site at www.chevrontexaco.com/greenhousegas/.

During 2003, we also revised our emissions inventory protocol to align with the emerging guidelines described in the International Petroleum Industry Environmental Conservation Association, American Petroleum Institute, and International Association of Oil and Gas Producers report entitled "Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions."

As a result of revisions to our emissions inventory protocol and data adjustments arising from the review of our data, we are restating our 2002 emissions numbers. We also are reporting our 2003 numbers for the first time. For 2003, ChevronTexaco's total net emissions were approximately 64 million metric tons of CO₂ equivalents. This is based on ChevronTexaco's equity share in those businesses and operations in which it has financial interests and over which it either has operational control or which report GHG emissions using a compatible protocol. In 2003, 89 per-cent of CO₂ equivalent emissions were from CO₂ and approximately 11 percent from methane, with trace amounts of nitrous oxide.

In 2003, ChevronTexaco's oil and gas production, as well as refinery input, declined over the previous year, in part due to asset dispositions. We made improvements in energy efficiency, though total energy consumption increased due to a variety of factors, including increases in steamflooding. An increase in net imported electricity, as well as slight increases in flaring and venting, also contributed to the rise of emissions in 2003. Altogether, these factors contributed with an increase of about 500,000 metric tons of CO₂ equivalents in 2003 as compared with our restated 2002 net emissions of approximately 63 million metric tons. [See chart 1](#)

ChevronTexaco's preliminary corporatewide emissions goal for 2004 is 63 million metric tons of CO₂ equivalents. This projected slight decrease from



The KPMG/URS independent assurance report on ChevronTexaco's 2002 and 2003 GHG data, and the company's plans for improving the reliability and verifiability of the data, are available on our Web site at www.chevrontexaco.com/greenhousegas/.

2003 will be achieved primarily through divestitures of some production facilities – while maintaining or growing production in other parts of the base business – as well as through increased efficiency.

In June 2004, ChevronTexaco announced the transfer of ownership of its SANGEA™ Energy and Emissions Estimating System software, at no charge, to the American Petroleum Institute (API) to promote the standardization of GHG emissions accounting. API will be able to make the SANGEA™ software available without charge to the worldwide energy industry.

ChevronTexaco continues to advocate for consistency in GHG emissions measurement and reporting across the oil and gas industry. For example, we played a leading role in helping shape the "Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions" and we have led the API Greenhouse Gas Emissions Estimating Work Group for the past two years.

ChevronTexaco personnel also have been selected as lead author and review editor in two scientific review processes by the Intergovernmental Panel on Climate Change (IPCC), including one on the revisions of national emissions inventory methodologies. The review results will have a significant impact on the accurate accounting and reporting process for greenhouse gas emissions by national governments.

CO2 Sequestration

ChevronTexaco views CO2 capture and storage, or sequestration in geologic formations, as a vital technology to ensure a safe, reliable supply of energy to meet the world's needs. Being a leader in CO2 sequestration is an essential element of ChevronTexaco's medium- to long-term GHG emissions management strategy. This focus on CO2 sequestration reflects our pragmatic, action-oriented approach to advancing energy technologies. It emphasizes finding new ways to produce cleaner, lower-carbon energy from fossil fuels today, while at the same time developing renewable energy and infrastructure technology necessary for an emerging hydrogen economy in the long term.

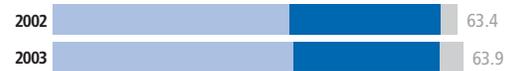
We participated in several major ongoing CO2 sequestration initiatives during 2003 with the aim of building our own knowledge and advancing the technology associated with this practice. In these initiatives, ChevronTexaco contributes significant funds, people and other resources to advance the state of the art of this promising technology, which we believe will be a key component of a smooth transition to a low-carbon future.

In 2003, ChevronTexaco continued to demonstrate the effectiveness of CO2 injection technologies at our ongoing enhanced oil recovery project in Rangely, Colorado. We have been injecting CO2 at this site since 1986, with an estimate of more than 19 million metric tons of CO2 equivalents safely stored underground.

The ChevronTexaco-operated Gorgon Project also continued to move forward during the year. In this gas development project offshore Western Australia, ChevronTexaco and the project's partners are committed to a comprehensive greenhouse gas management strategy that could include the reinjection of 2 million to 3 million metric tons of CO2 per year, subject to technical feasibility studies that are now ongoing.

Greenhouse Gas Emissions*

Millions of metric tons CO2 equivalents



By sector:	2002	2003
Upstream	36.5	37.0
Downstream	24.3	23.7
Other	2.6	3.2
Total	63.4	63.9

By type:	2002	2003†
Direct	62.8	62.6
Indirect	1.5	2.1
Grid Credits	(0.9)	(0.9)
Total	63.4	63.9

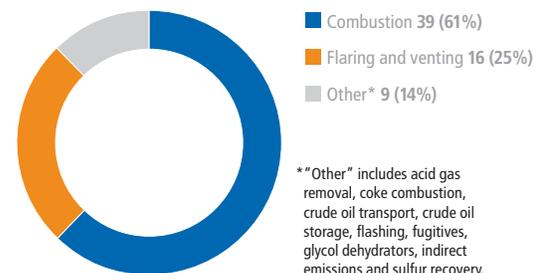
*Emissions totals exclude our interests in Chevron Phillips Chemical Company, Dynegy Inc. and Caltex Australia, entities over which we do not have full operational control and which do not follow our corporate GHG inventory protocol or a compatible protocol.

In 2002, ChevronTexaco had equity share emissions (as estimated and provided by the operator) of about 3 million metric tons of CO2 equivalents from Chevron Phillips Chemical Company and about 1 million metric tons of CO2 equivalents from the Caltex Australia refineries. The totals include direct emissions, indirect emissions and grid credits. Indirect emissions account for emissions associated with electricity and steam imported by ChevronTexaco, less credits for emissions associated with electricity and steam exported by ChevronTexaco. Grid credits account for the fact the electricity exported by certain ChevronTexaco facilities is produced more efficiently than the regional or national electricity grid. "Other" includes emissions from the shipping, coal and power businesses as well as from administrative and corporate services.

†Due to rounding, individual figures do not sum to the total.

Sources of Greenhouse Gas Emissions

Millions of metric tons CO2 equivalents



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



Previous page (left), employees of Brazil's Society for Wildlife Research and Environmental Education monitor the planting of seedlings in a field as part of a reforestation project. Previous page (right), inspecting tree plantings in the Lower Mississippi River Valley.

Left, Manuel Aprieta Vargas, platform supervisor on Platform Chuchupa A offshore Colombia.

Flaring

We continue to pursue activities to reduce the flaring or venting of the gas that is unavoidably produced in association with oil. Such reductions will make a significant contribution to cutting our GHG emissions, as flaring and venting accounted for approximately 25 percent of our 2003 total GHG emissions. **See chart**

In 2003, work was initiated or continued on several major capital projects that incorporate flaring reduction or elimination elements. For example, the US\$1.9 billion Sanha Condensate Project in Angola and the planned Angola Liquefied Natural Gas Project are both part of our commitment to eliminate routine flaring from our Angolan operations. The West Africa Gas Pipeline will move natural gas, which previously would have been flared, from Nigeria into Togo, Benin and Ghana. In addition, expansion of the existing Escravos Gas Plant and a gas-to-liquids project at Escravos are being evaluated as a means of further reducing flaring.

We also continued to support the World Bank Global Gas Flaring Reduction Partnership (GGFRP), through our role on the steering committee and providing a seconded employee to the partnership team.

Looking ahead, we anticipate finalizing a new gas-flaring standard for our international upstream operations. The standard, which will be aligned with the voluntary one recently proposed by the World Bank GGFRP, aims to eliminate continual venting and flaring.

Offshore Drilling Discharge Standard

In 2003, we finalized our International Offshore Drilling Discharge standard, which prohibits the discharge of oil-based mud and cuttings. Where nonoil-based muds are used, the standard requires drilling projects to complete a risk-based assessment that incorporates a number of site-specific factors, including water depth, currents and proximity to sensitive habitat, to minimize the impacts of our operations on the environment. It also requires that all offshore drilling rigs using nonwater-based drilling fluids be equipped with advanced cuttings-cleaning systems.

We also continued to actively participate in the following CO₂ sequestration initiatives:

- the Global CO₂ Capture Project, a joint industry–government initiative supported by the U.S. Department of Energy, the European Commission, the Norwegian government and eight member companies. Together, supporters of the project have contributed US\$24 million in financial support and an additional US\$26 million of in-kind support. The project has identified technologies that can reduce the cost of capturing CO₂ for sequestration by over 50 percent compared with existing technologies. The project also works to identify methods for ensuring storage integrity and addressing regulatory and public policy issues related to sequestration technology.
- the Carbon Sequestration Leadership Forum, a multigovernmental forum consisting of 17 national governments or intergovernmental bodies such as the European Commission with an agreed vision of developing and deploying CO₂ capture and storage technology. ChevronTexaco staff provide expert input into the policy development aspects crucial to facilitating the necessary monitoring, verification and public acceptance of the deployment of CO₂ capture and geologic storage technology.
- the Intergovernmental Panel on Climate Change Special Report on CO₂ Capture and Storage. ChevronTexaco staff appointed a review editor in this scientific review process to determine the latest status of numerous aspects of this technology development, further formulating a policy-relevant basis for decision-makers to review, approve and deploy widely this type of technology.
- the Cooperative Research Centre for Greenhouse Gas Technologies in Australia. This joint industry–government effort researches the logistic, technical, financial and environmental issues associated with the development of CO₂ capture technology and with storing industrial carbon dioxide emissions in deep geologic formations.
- the GEOSEQ project, a joint venture between three U.S. national laboratories and the Weyburn CO₂ Project, an International Energy Agency, U.S. and Canadian government–industry initiative.

Air Emissions

ChevronTexaco continues to work to reduce the emissions produced by our operations. For several years, we have collected data on the emissions of nitrogen oxides (NO_x), sulfur oxides (SO_x) and volatile organic compounds (VOCs) from our refining operations in the United States. In 2003, for the first time, we estimated the global emissions of NO_x and SO_x for all our operations worldwide. These emissions were estimated using methods developed by the U.S. Environmental Protection Agency, the American Petroleum Institute and other sources.

Globally, our 2003 emissions of NO_x and SO_x were estimated to be approximately 126,000 metric tons of NO_x and 141,000 metric tons of SO_x.



Artist's rendering of an innovative hydrogen energy station planned for Oakland, California, in a cooperative agreement between ChevronTexaco Technology Ventures and the Alameda-Contra Costa Transit District.

Advancing Energy Technologies

Advancing energy technologies in ways that are market-driven and economically sound is an integral part of responsibly supplying energy. As part of our comprehensive energy development strategy, we are actively pursuing investments in alternative and renewable technologies, energy efficiency, cleaner fuels, gas-to-liquids, and a variety of other promising, practical energy solutions.

Our approach to managing technology is focused on deploying technologies to enhance the performance of our core hydrocarbon businesses while developing technologies to expand business opportunities. Because hydrocarbons will continue to play the central role in energy supply for the next several decades, we view finding ways to produce cleaner, more efficient energy from oil and natural gas as one of our most important responsibilities.

Our approach is founded on the belief that new technologies and energy sources must be able to compete in the marketplace, and that such technological investments must be considered in the context of our broad energy development strategy. ChevronTexaco's objective is to maintain a balanced, economically sound energy portfolio while continually working to minimize the environmental impacts of energy development and use.

Highlights of our recent activities include:

Managing Technology. In 2003, we merged our formerly separate technology groups into

an enterprisewide Energy Technology Company (ETC), creating an organization unique in our industry and one that delivers integrated technology solutions to our core business sectors. ETC is making key advances in areas including reservoir management, deepwater exploration and production, seismic imaging, clean fuel production, and next-generation gas-to-liquids conversion technology.

Hydrogen. ChevronTexaco Technology Ventures, a wholly owned unit within ChevronTexaco, continued to explore new, advanced energy technologies, with a particular focus on hydrogen. In 2003, Technology Ventures was awarded a cost-shared grant of approximately US\$5.9 million by the U.S. Department of Energy to explore new hydrogen fuel-processing applications as part of a larger research and development initiative.

In early 2004, ChevronTexaco and its project partners, Hyundai Motor Company and UTC Fuel Cells, were selected by the U.S. Department of Energy to lead a five-year "Controlled Hydrogen Fleet and Infrastructure Demonstration and Validation Project," designed to showcase practical application of hydrogen energy technology. Under the project, ChevronTexaco intends to provide the design and construction of up to six hydrogen fueling stations to be operated primarily in California.

ChevronTexaco also announced an innovative cooperative agreement with the Alameda-Contra Costa Transit District (AC Transit, Oakland, California) to build a state-of-the-art hydrogen energy station in Oakland that will produce hydrogen fuel for fuel cell fleets. The station will have the additional capability of utilizing excess hydrogen production to generate high-quality electrical power from a stationary fuel cell.

Emerging Energy. ChevronTexaco Technology Ventures formed a new Emerging Energies group tasked with identifying and assessing strategic and commercial opportunities to advance or apply a wide variety of energy technologies, such as solar, wind, biomass and geothermal. Additionally, ChevronTexaco's Venture Capital group invests in early-stage technology companies whose innovations could benefit ChevronTexaco's existing businesses or lead to new growth opportunities.

Distributed Generation and Integrated Energy Solutions. Chevron Energy Solutions (CES), a wholly owned unit within ChevronTexaco, acquired Energy Masters International and Viron Energy Services. CES provides, among other services, energy conservation, efficiency and power generation improvements to educational institutions, government agencies, and commercial and industrial businesses around the world. CES also installs distributed or backup generation, including proven alternative technologies such as fuel cells and solar power. In addition to helping schools and government institutions improve energy efficiency and reduce energy costs, CES projects for its clients reduced CO₂ emissions by 235,000 metric tons in 2003.

In early 2004, CES was awarded contracts from the U.S. Department of Defense and the U.S. Department of Energy to engineer and install facility improvements at three military bases. The improvements are expected to save U.S. taxpayers approximately US\$150 million and reduce GHG emissions by nearly 1.4 million metric tons over the course of the 18-year contract.



Left, Caspian Pipeline Consortium's (CPC) terminal, Novorossiysk, Russia. The US\$2.6 billion CPC project consists of a 935-mile pipeline.

Right, a supply vessel makes a delivery to Genesis Platform in the U.S. Gulf of Mexico. Far right, Allen Hein, maintenance team leader, communicates with a co-worker.

k Global NOx and SOx Emissions (2003)

Metric tons

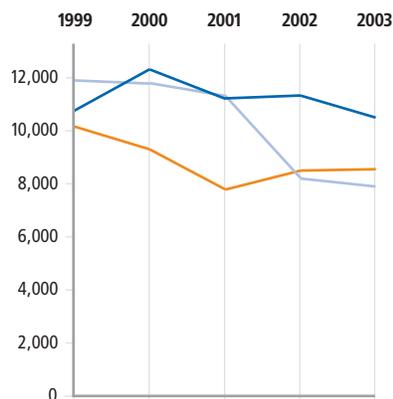


	NOx	SOx
Upstream	100,046	111,050
Downstream	13,109	29,010
Other	12,475	1,386
Total	125,630	141,446

2003 is the first year that total SOx and NOx data were collected at the corporate level.

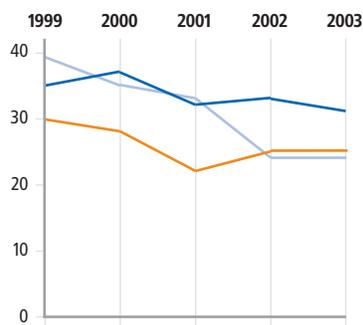
i U.S. Refining Emissions

Metric tons



	1999	2000	2001	2002	2003
NOx	11,955	11,733	11,358	8,213	7,990
SOx	10,745	12,411	11,295	11,356	10,501
VOC	10,105	9,326	7,793	8,535	8,555

Metric tons per million barrels processed



	1999	2000	2001	2002	2003
NOx	39	35	33	24	24
SOx	35	37	32	33	31
VOC	30	28	22	25	25

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

Preliminary data on global VOC emissions have been collected and are currently being validated internally. These data will appear in our 2004 Corporate Responsibility Report. See chart k

While nonGHG air emissions are best managed at the business unit, country or facility level, in developing our global benchmark we aim to address these emissions in a more systematic and measurable way across all our operations. Within our U.S. refining operations, our installation of control technology in many facilities in recent years has resulted in a continued reduction in both NOx and SOx emissions, while in the last year, VOC emissions remained roughly constant. On a normalized, per-barrels-of-refined-product-produced basis, emissions of NOx, SOx and VOC stayed roughly flat from 2002 to 2003. See chart i

Environmental Expenditures, Fines and Litigation

Environmental Expenditures

Using definitions and guidelines established by the American Petroleum Institute, and as we reported to the U.S. Securities and Exchange Commission, we estimate our worldwide environmental spending in 2003 at US\$1.1 billion for ChevronTexaco consolidated companies. Included in these expenditures are US\$305 million of environmental capital expenditures and US\$820 million of costs associated with the control and abatement of hazardous substances and pollutants from our ongoing operations.

Environmental Fines and Settlements

At times in 2003, our facilities did not meet all governmental environmental, health and safety requirements, resulting in fines and penalties. We are committed to improving and learning from our mistakes. In 2003, we paid nearly US\$4.7 million in environmental, and health and safety fines and settlements. See chart m

The number of such settlements rose from 278 in 2002 to 470 in 2003, mainly due to an increase in health and safety fines in the United States and Europe. Health and safety settlements accounted for 375 of the total, representing some US\$1 million, while the remaining 95 fines and settlements were for environmental issues accounting for US\$3.7 million.

The most significant expense in 2003 was US\$2.86 million, which related to the settlement of two lawsuits that alleged violations of the U.S. Clean Water Act in the Permian Basin. As part of the settlement, ChevronTexaco agreed to equipment upgrades, which accounted for the majority of the expense.

In 2003, as part of the U.S. Environmental Protection Agency's (EPA) Petroleum Refinery Initiative to reduce air emissions from the nation's refineries, Chevron U.S.A. Inc. entered into a voluntary agreement with the EPA and the states of Hawaii, Mississippi and Utah and the Bay Area Quality Management District in California. It is estimated the agreement will require the company to spend up to US\$275 million to install and implement innovative control technologies to reduce emissions at its refineries. The company also will pay a US\$3.5 million civil penalty and spend more than US\$4 million on further emissions controls and other environmental projects in communities around the company's refineries. While the company disagrees with the underlying allegations made



against it in the case, it believes that the voluntary settlement provided a resolution that emphasizes environmental benefit and is consistent with the company's ongoing work to control emissions.

Litigation in Ecuador

ChevronTexaco remains the subject of litigation in Ecuador stemming from the involvement of a subsidiary in an oil producing consortium from 1964 to 1992. The lawsuit, which alleges environmental damage, is now before a court in the Oriente region of Ecuador. The company is vigorously challenging the lawsuit on the grounds that Texaco Petroleum Company (TexPet) satisfied all its obligations and commitments and was released by the government of Ecuador from all claims and obligations after TexPet completed a US\$40 million remediation program in 1998. In addition, the company maintains that the state oil company should be the responsible party since it was the majority partner in the consortium and has owned and operated the oil fields exclusively for more than a decade. The trial commenced in October 2003, and no decision is expected before the end of 2004.

Spills

Our continued efforts to reduce oil and chemical spills in 2003 resulted in a significant performance improvement from the previous year. The volume of oil released in spills, equivalent to 26,540 barrels, fell by more than 50 percent, exceeding our year-over-year target of a 20 percent reduction. At the same time, the number of petroleum spills fell from 1,502 incidents to 1,145, a reduction of 24 percent in a year. Less than 1 percent of the spilled oil went to water and a little less than half of the total spilled volume was recovered immediately. A single pipeline spill in Texas accounted for 10,871 barrels, or 41 percent of the 2003 total spill volume. This spill resulted from a mechanical failure of a small fitting. [See chart](#)

In 2003, our chemical spill performance improved in terms of the number of spills, down to 28 from 75 the previous year, but the volume of chemicals involved in the spills rose to 708 kilograms from 135 kilograms in 2002.

Our North American upstream operations have been proactive in spill prevention, holding their second annual Oil Spill Prevention Forum in 2003. This forum, attended by more than 75 senior managers; operations staff; engineers; and health, environment and safety professionals, focused on the sharing and adoption of successful practices and technologies. Outside North America, the company also has undertaken a concerted effort to improve spill performance – and is seeing significant positive results. For example, in 2000, Saudi Arabian Texaco (SAT), together with its partners, formed a team tasked with reducing oil spills. Between 1997 and 2003, SAT reduced the volume of oil spilled at the Wafra Field in the Partitioned Neutral Zone by 95 percent and the number of spills by 67 percent. This dramatic improvement was accomplished through an aggressive inspection program using state-of-the-art techniques, including Magnetic Flux Leakage and Guided Wave Ultrasonic detection to assess flow-line conditions.

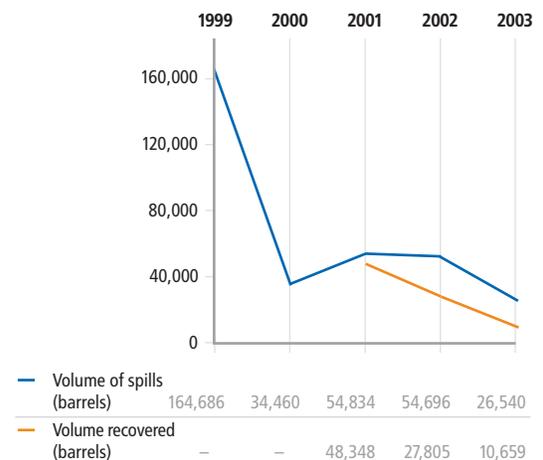
We remain committed to achieving world-class performance by 2006, which for us translates into a continued target of 20 percent year-over-year reduction in volume of petroleum spilled.

Environmental, and Health and Safety Fines and Settlements

	1999	2000	2001	2002	2003
Total paid (US\$million)	0.94	1.44	0.95	4.28	4.69
Total number of fines	792	519	388	278	470

1999–2000 data are Chevron. 2001–2003 data are ChevronTexaco.

Petroleum Spills



Number of spills	2,169	1,553	1,428	1,502	1,145
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1999–2001 data are combined Chevron and Texaco. 2002 and 2003 data are ChevronTexaco. Prior to 2001, volume recovered was not tracked at the corporate level.

“We recognize that many of the issues of importance to our company and our stakeholders are long-term, and there is still much to be done. I can assure you that ChevronTexaco people everywhere are committed to continuing our work in these areas and looking for new solutions that will improve the lives of people everywhere.”

Dave O’Reilly

Chairman of the Board and
Chief Executive Officer

ChevronTexaco

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