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CHEVRON CORP
Form 10-Q/A
August 09, 2001

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

Form 10-Q//A

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

For the quarterly period ended June 30, 2001

OR

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

Commission File Number 1-368-2

Chevron Corporation
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

94-0890210

(I.R.S. Employer
Identification Number)

575 Market Street, San Francisco, California

(Address of principal executive offices)

94105

(Zip Code)

Registrant's telephone number, including area code (415) 894-7700

NONE

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

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

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

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| Class | Outstanding as of June 30, 2001 |
|-------------------------------|---------------------------------|
| Common stock, \$.75 par value | 642,457,432 |

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

This quarterly report on Form 10-Q contains forward-looking statements relating to Chevron's operations that are based on management's current expectations, estimates and projections about the petroleum and chemicals industries. Words such as "anticipates," "expects," "intends," "plans," "projects," "believes," "seeks," "estimates" and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of

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this report. Unless legally required, Chevron undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the factors that could cause actual results to differ materially are crude oil and natural gas prices; refining and marketing margins; chemicals prices and competitive conditions affecting supply and demand for aromatics, olefins and additives products; actions of competitors; the competitiveness of alternate energy sources or product substitutes; technological developments; inability of the company's joint-venture partners to fund their share of operations and development activities; potential failure to achieve expected production from existing and future oil and gas development projects; potential delays in the development, construction or start-up of planned projects; the ability to successfully consummate the proposed merger with Texaco and successfully integrate the operations of both companies; potential disruption or interruption of the company's production or manufacturing facilities due to accidents or political events; potential liability for remedial actions under existing or future environmental regulations and litigation; significant investment or product changes under existing or future environmental regulations (including, particularly, regulations and litigation dealing with gasoline composition and characteristics); and potential liability resulting from pending or future litigation. In addition, such statements could be affected by general domestic and international economic and political conditions. Unpredictable or unknown factors not discussed herein also could have material adverse effects on forward-looking statements.

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PART I. FINANCIAL INFORMATION

CHEVRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

| Millions of Dollars, Except Per-Share Amounts | Three Months Ended June 30 | | Si |
|---|-------------------------------|----------|----------|
| | 2001 | 2000 | 2001 |
| Revenues and Other Income | | | |
| Sales and other operating revenues* | \$12,717 | \$12,982 | \$24,682 |
| Income from equity affiliates | 243 | 175 | 463 |
| Other income | 46 | 67 | 159 |
| Total Revenues and Other Income | 13,006 | 13,224 | 25,304 |
| Costs and Other Deductions | | | |
| Purchased crude oil and products | 6,628 | 7,258 | 12,589 |
| Operating expenses | 1,263 | 1,304 | 2,446 |
| Selling, general and administrative expenses | 462 | 386 | 903 |
| Exploration expenses | 178 | 123 | 285 |
| Depreciation, depletion and amortization | 690 | 699 | 1,372 |
| Taxes other than on income* | 1,271 | 1,194 | 2,460 |
| Interest and debt expense | 75 | 126 | 162 |
| Total Costs and Other Deductions | 10,567 | 11,090 | 20,217 |

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| | | | | |
|--|-----------|----------|----------|----------|
| Income Before Income Tax Expense | | 2,439 | 2,134 | 5,087 |
| Income Tax Expense | | 1,115 | 1,018 | 2,163 |
| Net Income | | \$ 1,324 | \$ 1,116 | \$ 2,924 |
| Per Share of Common Stock: | | | | |
| Net Income | - Basic | \$ 2.06 | \$ 1.71 | \$ 4.55 |
| | - Diluted | \$ 2.05 | \$ 1.71 | \$ 4.54 |
| Dividends | | \$.65 | \$.65 | \$ 1.30 |
| Weighted Average Number of | | | | |
| Shares Outstanding (000s) | - Basic | 642,884 | 653,317 | 642,457 |
| | - Diluted | 644,677 | 654,700 | 643,914 |
| * Includes consumer excise taxes; 2000 conformed to 2001 presentation. | | \$ 1,066 | \$ 1,020 | \$ 2,067 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

| Millions of Dollars | Three Months Ended June 30 | | Si |
|---|-------------------------------|----------|----------|
| | 2001 | 2000 | |
| Net Income | \$ 1,324 | \$ 1,116 | \$ 2,924 |
| Currency translation adjustment | (15) | (3) | (14) |
| Unrealized holding (loss) gain on securities | (2) | (6) | 8 |
| Net derivatives gain on hedge transactions | 16 | - | 16 |
| Minimum pension liability adjustment | - | - | - |
| Other Comprehensive (Loss) Income, net of tax | (1) | (9) | 10 |
| Comprehensive Income | \$ 1,323 | \$ 1,107 | \$ 2,934 |

See accompanying notes to consolidated financial statements.

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CHEVRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

Millions of Dollars At June 30
2001

ASSETS

(Unaudited)

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| | |
|---|----------|
| Cash and cash equivalents | \$ 2,895 |
| Marketable securities | 1,521 |
| Accounts and notes receivable | 3,553 |
| Inventories: | |
| Crude oil and petroleum products | 582 |
| Chemicals | 205 |
| Materials, supplies and other | 255 |
| Total inventories | 1,042 |
| Prepaid expenses and other current assets | 646 |
| Total Current Assets | 9,657 |
| Long-term receivables | 733 |
| Investments and advances | 9,368 |
| Properties, plant and equipment, at cost | 53,154 |
| Less: accumulated depreciation, depletion and amortization | 30,134 |
| Properties, plant and equipment, net | 23,020 |
| Deferred charges and other assets | 1,277 |
| Total Assets | \$44,055 |
| ----- | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Short-term debt | \$ 2,074 |
| Accounts payable | 3,124 |
| Accrued liabilities | 1,322 |
| Federal and other taxes on income | 1,850 |
| Other taxes payable | 464 |
| Total Current Liabilities | 8,834 |
| Long-term debt | 4,371 |
| Capital lease obligations | 264 |
| Deferred credits and other noncurrent obligations | 1,660 |
| Deferred income taxes | 4,866 |
| Reserves for employee benefit plans | 1,836 |
| Total Liabilities | 21,831 |
| Preferred stock (authorized 100,000,000 shares, \$1.00 par value, none issued) | - |
| Common stock (authorized 2,000,000,000 shares, 712,487,068 issued, \$.75 par value) | 534 |
| Capital in excess of par value | 2,784 |
| Deferred compensation | (511) |
| Accumulated other comprehensive income | (170) |
| Retained earnings | 23,004 |
| Treasury stock, at cost (70,041,498 and 71,427,097 shares at June 30, 2001 and December 31, 2000, respectively) | (3,417) |
| Total Stockholders' Equity | 22,224 |
| Total Liabilities and Stockholders' Equity | \$44,055 |
| ----- | |

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CHEVRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

| Millions of Dollars | 2001 |
|--|----------|
| <hr/> | |
| Operating Activities | |
| Net income | \$ 2,924 |
| Adjustments | |
| Depreciation, depletion and amortization | 1,372 |
| Dry hole expenses* | 178 |
| Distributions less than income from equity affiliates | (116) |
| Net before-tax gains on asset retirements and sales | (4) |
| Net foreign currency gains | (18) |
| Deferred income tax provision | 74 |
| Net decrease in operating working capital | 453 |
| Other | (8) |
| | <hr/> |
| Net Cash Provided by Operating Activities | 4,855 |
| | <hr/> |
| Investing Activities | |
| Capital expenditures* | (2,334) |
| Proceeds from asset sales | 67 |
| Net (purchases) sales of marketable securities | (113) |
| Net purchases of other short-term investments | (666) |
| Other investing cash flows, net | 9 |
| | <hr/> |
| Net Cash Used for Investing Activities | (3,037) |
| | <hr/> |
| Financing Activities | |
| Net borrowings (repayments) of short-term obligations | 925 |
| Proceeds from issuance of long-term debt | 29 |
| Loans to equity affiliate | (418) |
| Repayments of long-term debt and other financing obligations | (593) |
| Cash dividends | (834) |
| Net sales (purchases) of treasury shares | 73 |
| | <hr/> |
| Net Cash Used For Financing Activities | (818) |
| | <hr/> |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (1) |
| | <hr/> |
| Net Change in Cash and Cash Equivalents | 999 |
| Cash and Cash Equivalents at January 1 | 1,896 |
| | <hr/> |
| Cash and Cash Equivalents at June 30 | \$ 2,895 |
| | <hr/> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Interim Financial Statements

The accompanying consolidated financial statements of Chevron Corporation and its subsidiaries (the company) have not been audited by independent accountants, except for the balance sheet at December 31, 2000. In the opinion of the company's management, the interim data include all adjustments necessary for a fair statement of the results for the interim periods. These adjustments were of a normal recurring nature, except for the special items described in Note 2.

Certain notes and other information have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the company's 2000 Annual Report on Form 10-K.

The results for the three- and six-month periods ended June 30, 2001, are not necessarily indicative of future financial results.

Note 2. Net Income

Net income for the second quarter and first six months of 2001 included special charges of \$60 million related to merger-related expenses and prior-year tax adjustments.

The 2000 second quarter included a special charge of \$25 million related to prior-year tax adjustments.

Net income for the first six months of 2000 included net special charges of \$87 million. Along with the prior-year tax adjustment, net special items included a charge for a patent litigation issue.

Foreign currency losses were \$27 million in second quarter 2001, compared with gains of \$29 million in the comparable 2000 quarter. The U.S. dollar weakened against a number of currencies in the second quarter 2001, primarily the Canadian and Australian dollars. For the six-month periods, foreign currency gains were \$44 million and \$75 million in 2001 and 2000, respectively.

Note 3. Information Relating to the Statement of Cash Flows

The "Net decrease in operating working capital" was composed of the following:

| Millions of Dollars | Six Months Ended June 30 | |
|---|-----------------------------|----------|
| | 2001 | 2000 |
| Decrease (increase) in accounts and notes receivable | \$ 277 | \$ (484) |
| Decrease (increase) in inventories | 30 | (110) |
| Increase in prepaid expenses and other current assets | (28) | (17) |
| (Decrease) increase in accounts payable and accrued liabilities | (255) | 111 |
| Increase in income and other taxes payable | 429 | 682 |
| Net decrease in operating working capital | \$ 453 | \$ 182 |

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

| Millions of Dollars | Six Months Ended June 30 | |
|--|-----------------------------|--------|
| | 2001 | 2000 |
| Interest on debt (net of capitalized interest) | \$ 200 | \$ 258 |
| Income taxes | \$ 1,720 | \$ 973 |

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The "Net (purchases) sales of marketable securities" consisted of the following gross amounts:

| Millions of Dollars | Six Months Ended June 30 | |
|--|-----------------------------|------------|
| | 2001 | 2000 |
| Marketable securities purchased | \$ (1,446) | \$ (1,337) |
| Marketable securities sold | 1,333 | 1,409 |
| Net (purchases) sales of marketable securities | \$ (113) | \$ 72 |

"Net purchases of other short-term investments," of \$666 million in 2001 were in a variety of short-term money market instruments with maturities similar to the company's commercial paper portfolio.

The major components of "Capital expenditures" and the reconciliation of this amount to the capital and exploratory expenditures, excluding equity affiliates, presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations" are presented in the following table.

| Millions of Dollars | Six Months Ended June 30 | |
|--|-----------------------------|----------|
| | 2001 | 2000 |
| Additions to properties, plant and equipment | \$ 1,472 (1) | \$ 1,316 |
| Additions to investments | 731 | 487 |
| Current year dry hole expenditures | 141 | 91 |
| Payments for other liabilities and assets, net | (10) | (16) |

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| | | |
|---|----------|----------|
| Capital expenditures | 2,334 | 1,878 |
| Other exploration expenditures | 107 | 109 |
| Payments of long-term debt and other financing obligations | 210 (2) | 7 |
| Capital and exploratory expenditures, excluding equity affiliates | \$ 2,651 | \$ 1,994 |

The Consolidated Statement of Cash Flows excludes the following additional non-cash transactions:

The company's Employee Stock Ownership Plan (ESOP) repaid \$100 million and \$10 million of matured debt guaranteed by Chevron Corporation in January of 2001 and 2000, respectively. These payments were recorded by the company as a reduction in its debt outstanding and in "Deferred compensation."

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Note 4. Operating Segments and Geographic Data

Chevron manages its exploration and production; refining, marketing and transportation; and chemicals businesses separately.

"All Other" activities include the company's share of earnings from and investment in Dynegy Inc., corporate administrative costs, worldwide cash management and debt financing activities, coal mining operations, insurance operations, real estate activities and certain e-businesses. The company's primary country of operation is the United States of America, its country of domicile. Activities in no other country meet the materiality requirements for separate disclosure.

The company evaluates the performance of its operating segments on an after-tax basis, excluding the effects of debt financing interest expense or investment interest income, both of which are managed at the corporate level on a worldwide basis. Corporate administrative costs and assets are not allocated to the operating segments; however, operating segments are billed for direct corporate services. Nonbillable costs remain as corporate center expenses. After-tax income (loss) by segment for the three- and six-month month periods ended June 30, 2001 and 2000, are presented in the following table.

| Millions of Dollars | Three Months Ended June 30 | | Six Months End June | |
|----------------------------------|-------------------------------|--------|------------------------|------|
| | 2001 | 2000 | 2001 | 2000 |
| Exploration and Production | | | | |
| United States | \$ 446 | \$ 388 | \$ 1,166 | \$ 7 |
| International | 557 | 580 | 1,246 | 1,2 |
| Total Exploration and Production | 1,003 | 968 | 2,412 | 1,9 |

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| | | | | |
|--|----------|----------|----------|--------|
| Refining, Marketing and Transportation | | | | |
| United States | 327 | 167 | 468 | 1 |
| International | 49 | 20 | 196 | |
| Total Refining, Marketing and Transportation | 376 | 187 | 664 | 1 |
| Chemicals | | | | |
| United States | 10 | 43 | (33) | |
| International | 17 | 8 | 24 | |
| Total Chemicals | 27 | 51 | (9) | 1 |
| Total Segment Income | \$ 1,406 | \$ 1,206 | \$ 3,067 | \$ 2,2 |
| Interest Expense | (51) | (87) | (108) | (1 |
| Interest Income | 28 | 20 | 55 | |
| Other | (59) | (23) | (90) | |
| Net Income | \$ 1,324 | \$ 1,116 | \$ 2,924 | \$ 2,1 |

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Operating segment sales and other operating revenues, including internal transfers, for the three- and six-month periods ended June 30, 2001 and 2000, are presented in the following table. Chemicals segment revenues for the 2000 period were derived from the manufacture and sale of petrochemicals, plastic resins, and lube oil and fuel additives. In 2001, only revenues from the manufacture and sale of lube oil and fuel additives are included, following the formation of the Chevron Phillips Chemicals joint venture in July 2000 (accounted for under the equity method).

| Millions of Dollars | Three Months Ended | | Six |
|--|--------------------|----------|----------|
| | June 30 | | |
| | 2001 | 2000 | 2001 |
| Exploration and Production | | | |
| United States | \$ 1,658 | \$ 1,340 | \$ 3,822 |
| International | 2,553 | 2,588 | 4,988 |
| Sub-total | 4,211 | 3,928 | 8,810 |
| Intersegment Elimination - United States | (779) | (724) | (1,542) |
| Intersegment Elimination - International | (1,174) | (1,224) | (2,195) |
| Total Exploration and Production | 2,258 | 1,980 | 5,073 |
| Refining, Marketing and Transportation | | | |
| United States | 8,048 | 7,462 | 15,087 |
| International* | 2,078 | 2,468 | 3,874 |

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| | | | |
|--|----------|----------|----------|
| Sub-total | 10,126 | 9,930 | 18,961 |
| Intersegment Elimination - United States | (30) | (152) | (54) |
| Intersegment Elimination - International | (4) | (3) | (8) |
| Total Refining, Marketing and Transportation | 10,092 | 9,775 | 18,899 |
| Chemicals | | | |
| United States | 95 | 1,056 | 179 |
| International | 188 | 150 | 372 |
| Sub-total | 283 | 1,206 | 551 |
| Intersegment Elimination - United States | (21) | (46) | (42) |
| Total Chemicals | 262 | 1,160 | 509 |
| All Other | | | |
| United States | 114 | 88 | 220 |
| International | 6 | 4 | 10 |
| Sub-total | 120 | 92 | 230 |
| Intersegment Elimination - United States | (13) | (22) | (25) |
| Intersegment Elimination - International | (2) | (3) | (4) |
| Total All Other | 105 | 67 | 201 |
| Sales and Other Operating Revenues | | | |
| United States | 9,915 | 9,946 | 19,308 |
| International | 4,825 | 5,210 | 9,244 |
| Sub-total | 14,740 | 15,156 | 28,552 |
| Intersegment Elimination - United States | (843) | (944) | (1,663) |
| Intersegment Elimination - International | (1,180) | (1,230) | (2,207) |
| Total Sales and Other Operating Revenues | \$12,717 | \$12,982 | \$24,682 |

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Segment assets at June 30, 2001, and year-end 2000 are presented in the following table. Segment assets do not include intercompany investments or intercompany receivables.

| | At June 30 | At Decem |
|--|------------|----------|
| Millions of Dollars | 2001 | |
| Exploration and Production | | |
| United States | \$ 5,571 | \$ |
| International | 14,922 | |
| Total Exploration and Production | 20,493 | |
| Refining, Marketing and Transportation | | |
| United States | 8,220 | |

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| | | |
|--|----------|----|
| International | 4,267 | |
| Total Refining, Marketing and Transportation | 12,487 | |
| Chemicals | | |
| United States | 2,271 | |
| International | 722 | |
| Total Chemicals | 2,993 | |
| Total Segment Assets | 35,973 | |
| All Other | | |
| United States | 5,187 | |
| International | 2,895 | |
| Total All Other | 8,082 | |
| Total Assets - United States | 21,249 | |
| Total Assets - International | 22,806 | |
| Total Assets | \$44,055 | \$ |

Note 5. Summarized Financial Data - Chevron U.S.A. Inc.

At June 30, 2001, Chevron U.S.A. Inc. was Chevron Corporation's principal U.S. operating subsidiary, consisting primarily of the company's U.S. integrated petroleum operations (excluding most of the pipeline operations). During the first half of 2001, these operations were conducted primarily by two divisions: Chevron U.S.A. Production Company and Chevron Products Company. For the three- and six-month periods ended June 30, 2000, Chevron U.S.A. Inc. also included most of Chevron's worldwide petrochemical operations. Chevron combined most of its petrochemicals businesses with those of Phillips Petroleum Company on July 1, 2000. Chevron U.S.A. Inc. holds the investment in this joint venture, which is accounted for using the equity method. Summarized financial information for Chevron U.S.A. Inc. and its consolidated subsidiaries is presented in the following table.

| Millions of Dollars | Three Months Ended | | Six Months |
|------------------------------------|--------------------|----------|------------|
| | 2001 | 2000 | 2001 |
| Sales and other operating revenues | \$10,269 | \$10,538 | \$19,845 |
| Costs and other deductions* | 9,364 | 9,881 | 17,987 |
| Net income | 650 | 492 | 1,354 |

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| Millions of Dollars | 2001 | |
|---------------------|----------|----|
| Current assets | \$ 5,067 | \$ |
| Other assets | 21,899 | 2 |
| Current liabilities | 4,220 | |
| Other liabilities | 10,596 | 1 |
| Net equity | 12,150 | 1 |

Note 6. Summarized Financial Data - Chevron Transport Corporation

Chevron Transport Corporation Limited (CTC), a Bermuda corporation, is an indirect, wholly owned subsidiary of Chevron Corporation. CTC is the principal operator of Chevron's international tanker fleet and is engaged in the marine transportation of crude oil and refined petroleum products. Most of CTC's shipping revenue is derived by providing transportation services to other Chevron companies. Chevron Corporation has guaranteed this subsidiary's obligations in connection with certain debt securities issued by a third party. Summarized financial information for CTC and its consolidated subsidiaries is presented below. This information was derived from the financial statements prepared on a stand-alone basis in conformity with accounting principles generally accepted in the United States of America.

| Millions of Dollars | Three Months Ended | | Six Months |
|------------------------------------|--------------------|-------|------------|
| | June 30 | | Ju |
| | 2001 | 2000 | 2001 |
| Sales and other operating revenues | \$232 | \$171 | \$491 |
| Costs and other deductions | 208 | 193 | 417 |
| Net income (loss) | 24 | (24) | 75 |

| Millions of Dollars | At June 30 | At Decemb |
|---------------------|------------|-----------|
| | 2001 | |
| Current assets | \$ 159 | \$ |
| Other assets | 535 | |
| Current liabilities | 231 | |
| Other liabilities | 323 | |
| Net equity | 140 | |

Separate financial statements and other disclosures with respect to CTC are

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omitted, as such separate financial statements and other disclosures are not material to investors in the debt securities deemed issued by CTC. There were no restrictions on CTC's ability to pay dividends or make loans or advances at June 30, 2001.

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Note 7. Summarized Financial Data - Caltex Group of Companies

Summarized financial information for the Caltex Group of Companies, owned 50 percent each by Chevron and Texaco Inc., is as follows (amounts reported are on a 100 percent Caltex Group basis):

| Millions of Dollars | Three Months Ended June 30 | | Six Months Ju | |
|----------------------------|-------------------------------|---------|------------------|---------|
| | 2001 | 2000 | 2001 | 2000 |
| Gross revenues* | \$4,372 | \$5,161 | \$8,349 | \$8,349 |
| Income before income taxes | 205 | 264 | 550 | 550 |
| Net income | 73 | 128 | 279 | 279 |

Note 8. Income Taxes

Taxes on income for the second quarter and first half of 2001 were \$1.115 billion and \$2.163 billion, respectively, compared with \$1.018 billion and \$1.823 billion for the comparable periods in 2000. The effective tax rates were 43 percent and 46 percent for the first half of 2001 and 2000, respectively. The decrease in the effective tax rate was primarily the result of a shift in international before-tax income from countries with higher income tax rates to countries with lower income tax rates. Partially offsetting this decrease were higher state taxes, higher prior-year tax adjustments, and lower equity affiliates' earnings as a proportion of before-tax income.

Note 9. Litigation

Chevron and five other oil companies filed suit in 1995 contesting the validity of a patent granted to Unocal Corporation for reformulated gasoline, which Chevron sells in California in certain months of the year. In March 2000, the U.S. Court of Appeals for the Federal Circuit upheld a September 1998 District Court decision that Unocal's patent was valid and enforceable and assessed damages of 5.75 cents per gallon for gasoline produced in infringement of the patent. In May 2000, the Federal Circuit Court denied a petition for rehearing with the U.S. Court of Appeals for the Federal Circuit filed by Chevron and five other defendants in this case. The defendant companies petitioned the U.S. Supreme Court and in February 2001, the Supreme Court denied the petition to review the lower court's ruling and the case was remanded to the District Court for an accounting of all infringing gasoline produced from August 1, 1996, to the present. The defendants have advised the District Court that they intend to seek a new trial on the issues of damages and infringement. A hearing is tentatively scheduled for September 2001 to argue the defendants' Motion to Stay and Motion for a Trial on royalty and infringement. Additionally, in May 2001 the U.S. Patent Office granted the defendants' petition to reexamine the validity of Unocal's patent.

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If Unocal's patent ultimately is upheld, the company's financial exposure includes royalties, plus interest, for production of gasoline that is proven to have infringed the patent. As a result of the March 2000 ruling, the company recorded in the first quarter 2000 an after-tax charge of \$62 million. The majority of this charge pertained to the estimated royalty on gasoline production in the earlier part of a four-year period ending December 31, 1999, before Chevron modified its manufacturing processes to minimize the production of gasoline that allegedly infringed on Unocal's patented formulations. Subsequently, the company has been accruing in the normal course of business any future estimated liability for potential infringement of the patent covered by the trial court's ruling. In June 2000, Chevron paid \$22.7 million to Unocal - \$17.2 million for the original court judgement for California gasoline produced in violation of Unocal's patent from March through July 1996 and \$5.5 million of interest and fees.

Unocal has obtained additional patents for alternate formulations that could affect a larger share of U.S. gasoline production. Chevron believes these additional patents are invalid and unenforceable. However, if such patents are ultimately upheld, the competitive and financial effects on the company's refining and marketing operations, while presently indeterminable, could be material.

Another issue involving the company is the ongoing public debate concerning the petroleum industry's use of MTBE and its potential environmental impact through seepage into groundwater. Along with other oil companies,

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the company is a party to lawsuits and claims related to the use of the chemical MTBE in certain oxygenated gasolines. These actions may require the company to correct or ameliorate the alleged effects on the environment of prior release of MTBE by the company or other parties. Additional lawsuits and claims related to the use of MTBE may be filed in the future. Costs to the company related to these lawsuits and claims are not currently determinable. Chevron has eliminated the use of MTBE in gasoline it sells in certain areas.

Note 10. Other Contingencies and Commitments

The company's U.S. federal income tax have been settled through 1993. The company's California franchise tax liabilities have been settled through 1991.

Settlement of open tax years, as well as tax issues in other countries where the company conducts its businesses, is not expected to have a material effect on the consolidated financial position or liquidity of the company and, in the opinion of management, adequate provision has been made for income and franchise taxes for all years under examination or subject to future examination.

The company and its subsidiaries have certain other contingent liabilities with respect to guarantees, direct or indirect, of debt of affiliated companies or others and long-term unconditional purchase obligations and commitments, throughput agreements and take-or-pay agreements, some of which relate to suppliers' financing arrangements.

The company is subject to loss contingencies pursuant to environmental laws and regulations that in the future may require the company to take action to correct or ameliorate the effects on the environment of prior release of chemical or petroleum substances, including MTBE, by the company or other parties. Such contingencies may exist for various sites including, but not limited to: Superfund sites and refineries, oil fields, service stations, terminals, and

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land development areas, whether operating, closed or sold. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions that may be required, the determination of the company's liability in proportion to other responsible parties, and the extent to which such costs are recoverable from third parties. While the company has provided for known environmental obligations that are probable and reasonably estimable, the amount of future costs may be material to results of operations in the period in which they are recognized. The company does not expect these costs to have a material effect on its consolidated financial position or liquidity. Also, the company does not believe its obligations to make such expenditures have had, or will have, any significant impact on the company's competitive position relative to other U.S. or international petroleum or chemical concerns.

The company believes it has no material market or credit risk to its operations, financial position or liquidity as a result of its commodities, and other derivatives activities. However, the results of operations and financial position of certain equity affiliates may be affected by their business activities involving the use of derivative instruments.

The company's operations, particularly oil and gas exploration and production, can be affected by changing economic, regulatory and political environments in the various countries, including the United States, in which it operates. In certain locations, host governments have imposed restrictions, controls and taxes, and, in others, political conditions have existed that may threaten the safety of employees and the company's continued presence in those countries. Internal unrest or strained relations between a host government and the company or other governments may affect the company's operations. Those developments have, at times, significantly affected the company's operations and related results, and are carefully considered by management when evaluating the level of current and future activity in such countries.

For oil and gas producing operations, ownership agreements may provide for periodic reassessments of equity interests in estimated oil and gas reserves. These activities, individually or together, may result in gains or losses that could be material to earnings in any given period. One such equity redetermination process has been under way since 1996 for Chevron's interests in four producing zones at the Naval Petroleum Reserve at Elk Hills in California, for the time when the remaining interests in these zones were owned by the U.S. Department of Energy (DOE). A wide range remains for a possible net settlement amount for the four zones. Chevron currently estimates its maximum possible net before-tax liability at less than \$400 million. At the same time, a possible maximum net amount that could be owed to Chevron is estimated at more than \$200 million. The timing of the settlement and the exact amount within this range of estimates are uncertain.

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Areas in which the company has significant operations include the United States of America, Canada, Australia, the United Kingdom, Norway, Republic of Congo, Angola, Nigeria, Chad, Equatorial Guinea, Democratic Republic of Congo, Papua New Guinea, China, Venezuela, Thailand, Argentina and Brazil. The company's Caltex affiliates have significant operations in Indonesia, Korea, Australia, Thailand, the Philippines, Singapore, and South Africa. The company's Tengizchevroil affiliate operates in Kazakhstan. The company's Chevron Phillips Chemical Company LLC affiliate manufactures and markets a wide range of petrochemicals and plastics on a worldwide basis, with manufacturing facilities in existence or under construction in the United States, Puerto Rico, Singapore, China, South Korea, Saudi Arabia, Qatar, Mexico and Belgium. The company's Dynegy affiliate has operations in the United States of America, Canada, the United Kingdom and other European countries.

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Chevron receives claims from and submits claims to customers, trading partners, host governments, contractors, insurers and suppliers. The amounts of these claims, individually and in the aggregate, may be significant and take lengthy periods to resolve. The company also suspends the costs of exploratory wells pending a final determination of the commercial potential of the related oil and gas fields. The ultimate disposition of these well costs is dependent on the results of future drilling activity and/or development decisions. If the company decides not to continue development, the costs of these wells are expensed. The company and its affiliates also continue to review and analyze their operations and may close, abandon, sell, exchange, acquire or restructure assets to achieve operational or strategic benefits and to improve competitiveness and profitability. These activities, individually or together, may result in gains or losses in future periods.

Note 11. New Accounting Standards

The company adopted The Financial Accounting Standards Board (FASB) Statement No. 133, "Accounting for Derivative Instruments and Hedging Transactions" (FAS 133), as amended by FAS 138, "Accounting for Derivative Instruments and Hedging Transactions - An Amendment of FASB Statement No. 133," effective January 1, 2001. The adoption of these new standards did not have a significant impact on the company's results of operations or financial position. The company uses, on a limited basis, a variety of derivative instruments, principally swaps and futures, to manage a small portion of its exposure to price volatility stemming from its integrated petroleum activities. All of these instruments are commonly used in oil and gas trading activities and involve little complexity. Because of Chevron's limited use of derivative instruments, the company elected not to account for its derivative instruments as hedges under the new standards. Accordingly, upon adoption, the fair values of the derivative instruments were recorded as assets or liabilities, with the associated immaterial gains or losses reported in income. Changes in fair values of these instruments beyond normal sales and purchases were also reflected in current income. The company may elect in the future to apply the hedge accounting prescribed by FAS 133 and FAS 138 if the use of derivative instruments changes significantly. Such an election would reduce earnings volatility that might otherwise result if changes in fair values were recognized in current income.

In September 2000, the FASB issued Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - A Replacement of FASB Statement No. 125" (FAS 140). FAS 140 is effective for transfers occurring after March 31, 2001, and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. Adoption of FAS 140 had no significant effect on Chevron's accounting or disclosures for the types of transactions in the scope of the new standard.

In July 2001, the FASB issued Statement No. 141, "Business Combinations" (FAS 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (FAS142). FAS 141 is effective for all business combinations initiated after June 30, 2001, and for all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. FAS 142 is effective for fiscal years beginning after December 15, 2001, except that goodwill and intangible assets acquired after June 30, 2001, will be subject immediately to the amortization and nonamortization provisions of the Statement. Adoption of FAS 141 will have no effect on Chevron's pooling-of-interests method of accounting for the company's proposed merger with Texaco Inc., but will affect possible future transactions. Similarly, adoption of FAS 142 may affect possible future transactions, but does not have an effect on the company's prior business combinations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Second Quarter 2001 Compared With Second Quarter 2000
And First Half 2001 Compared With First Half 2000

Financial Results

EARNINGS SUMMARY

| Millions of Dollars | Three Months Ended June 30 | | Six Mon |
|--|-------------------------------|---------|---------|
| | 2001 | 2000 | 2001 |
| ----- | | | |
| Operating Earnings | | | |
| Exploration and Production | \$1,003 | \$ 968 | \$2,412 |
| Refining, Marketing and Transportation | 376 | 187 | 664 |
| Chemicals and Other | 5 | (14) | (92) |
| ----- | | | |
| Total* | 1,384 | 1,141 | 2,984 |
| Special Items | (60) | (25) | (60) |
| ----- | | | |
| Net Income* | \$1,324 | \$1,116 | \$2,924 |
| ----- | | | |

Net income for the second quarter 2001 was \$1.324 billion (\$2.05 per share - diluted), compared with net income of \$1.116 billion (\$1.71 per share - diluted) for the 2000 second quarter. Net income for this year's second quarter included net special charges of \$60 million for prior-year tax adjustments and merger-related costs. The second quarter 2000 special charge of \$25 million was for a prior-year tax adjustment. Excluding special items in both quarters, operating earnings were \$1.384 billion (\$2.16 per share - diluted), compared with \$1.141 billion (\$1.75 per share - diluted) in last year's second quarter.

Net income for the first six months of 2001 was \$2.924 billion (\$4.54 per share - diluted), compared with \$2.160 billion (\$3.30 per share - diluted) recorded in the first half of 2000. Net special charges for the first six months of 2001 were the same as the second quarter, while the 2000 period included special charges of \$87 million. Excluding these items, six-month operating earnings were \$2.984 billion in 2001, compared with \$2.247 billion earned in the first half of 2000.

The company's earnings for the quarter and year-to-date 2001 primarily reflected the continued strength of the company's worldwide exploration and production (upstream) operations and the benefit of sharply higher natural gas prices and higher oil and gas production. However, the improvement in earnings from the strong year-ago quarter was largely driven by the U.S. refining, marketing and transportation (downstream) business. U.S. downstream earnings reflected solid refined product margins that prevailed through most of the period, as well as the safe and reliable operation of the company's refinery network. Capacity utilization at Chevron's refineries was higher than in last year's quarter, enhancing the benefits from improved industry market conditions. In the

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international downstream sector, earnings from the shipping company improved over last year's quarter, but financial results for Caltex, an affiliate operating primarily in the Asia-Pacific region remained depressed. Lower Chemicals earnings during the first half of 2001, were the result, especially early in the year, of higher than expected raw material and energy costs, which could not be fully recovered in prices of commodity chemicals.

Operating Environment and Outlook

Chevron's earnings are affected significantly by fluctuations in industry price levels for crude oil and natural gas. Average U.S. natural gas prices in the second quarter and first half of 2001 were considerably higher than in last year's periods. Henry Hub spot natural gas prices nearly doubled to \$5.54 per thousand cubic feet, compared with \$3.09 in the first half of 2000. The average spot price for West Texas Intermediate (WTI), a benchmark crude oil, remained relatively strong at \$28.33 per barrel in the first six

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months of 2001 - compared with \$28.87 for last year's first half - although down from an average of just over \$30 per barrel for all of 2000. Prices softened somewhat into the third quarter 2001. At the end of July, the spot price for WTI was about \$26.60 per barrel and the Henry Hub spot natural gas price was \$3.11 per thousand cubic feet. In an effort to support crude oil prices, OPEC lowered production twice this year and recently announced that it will cut production by an additional 1 million barrels per day in September. The long-term industry price effect of these curtailment agreements is uncertain.

Chevron's worldwide net oil-equivalent production increased by 3 percent in both the second quarter and first half of 2001 compared with the same periods last year. Additionally, natural gas production in the United States rose 2 percent in the second quarter and 4 percent for the six months. These U.S. production increases, the result of a focused drilling effort in the Gulf of Mexico, came at a time when the average U.S. natural gas realization improved 65 percent from last year's second quarter and more than doubled on a year-to-date basis. However, the company's average U.S. crude oil realization of \$23.87 and \$24.18 for the 2001 second quarter and six months, respectively, was 6 percent lower than the comparable 2000 periods.

Chevron's oil and gas production levels have not been materially affected by production curtailments by OPEC and non-OPEC producers. The company believes that in the current industry environment, the net effect of any production changes directed by host countries will not be significant to its overall production levels. However, limits on production may have an adverse effect on the level of new production from current and future development projects. In addition, civil unrest, political uncertainty and economic conditions may affect the company's producing operations. Community protests have disrupted the company's production in the past, most recently in Nigeria and Indonesia. The company continues to monitor developments closely in these and other countries in which it operates.

The earnings of Chevron's U.S. and Canadian downstream businesses rebounded from the depressed 2000 levels. Margins strengthened this year, with higher product prices offsetting higher feedstock costs and the higher costs of fuel and utilities used in refining operations. However, early in the third quarter this year product margins slipped substantially, primarily on the Gulf Coast, due to high product inventories. It is uncertain how long these industry conditions will continue. In the Asia-Pacific region, conditions remain depressed. Both excess supplies and weakened demand have squeezed industry margins in this area

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of the world.

For commodity chemical products, demand continues to be weak because of the slowing U.S. economy while prices are restrained by industry over-capacity and the strong U.S. dollar. Sales margins remain weak, and no significant near-term improvement is expected.

Significant Developments Since the First Quarter of 2001

Some of the operational highlights since the first quarter of this year were as follows:

Caspian Pipeline: Line fill of the Caspian Pipeline Consortium's (CPC) pipeline, owned 15 percent by Chevron, began in March and is expected to be completed in August. The pipeline connects the Tengiz Field in western Kazakhstan to the Black Sea port of Novorossiysk, enabling full access to world market prices for the Tengiz oil and reducing transportation costs.

Angola: Chevron announced a significant new oil discovery in deepwater Block 14, where the company is operator and has 31 percent ownership. The Tombua Field is the seventh major discovery by Chevron in Block 14. Additional geologic and engineering studies are under way.

Chad-Cameroon: Chevron, with a 25 percent interest, and its partners obtained \$600 million in financing for the construction of a 650-mile pipeline from the Doba oil fields in southern Chad to the coast of Cameroon. First oil production from the combined \$3.5 billion oil field development and pipeline construction project is expected in 2004. Participants in the financing include the International Finance Corporation, the U.S. Export-Import Bank and the French export credit agency, COFACE.

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U.S. Exploration and Production: Production began in late July at the Typhoon Field, operated and 50 percent-owned by Chevron, in the deep waters of the Gulf of Mexico. Production is expected to reach 40,000 barrels of oil and 60 million cubic feet of gas per day in this year's fourth quarter. Chevron and partners also announced that more than 300 feet of hydrocarbons were encountered in a deepwater exploratory well on the Trident prospect, located about 185 miles offshore Corpus Christi, Texas. The wildcat well was drilled in 9,687 feet of water, setting a world record for drilling in ultra-deepwater. Chevron has a 15 percent interest in the Trident prospect. In late July, Chevron sold its equity interest in Shenandoah Energy Inc., an equity affiliate with producing properties in Utah. An after-tax gain of approximately \$50 million will be recognized in the third quarter. Cash proceeds were approximately \$104 million.

Chemicals: Chevron Phillips Chemical Co. (CPCC) and Qatar Petroleum signed a joint venture agreement for the development of a second petrochemical project in Qatar. In the United States, CPCC and Solvay Polymers, Inc. will construct a high-density polyethylene plant at the CPCC chemical complex in Baytown, Texas. Modernization also began of the CPCC styrene monomer plant in St. James, La. For its existing operations, CPCC expects to achieve in excess of \$200 million of net recurring merger synergies and cost savings in 2001, surpassing the previous estimate of \$150 million.

Merger with Texaco

Chevron's merger with Texaco is expected to be completed within the twelve-month timeframe envisioned when the transaction was announced in October 2000. Remaining conditions include the receipt of necessary regulatory clearances and approval by Texaco and Chevron stockholders. The merger is expected to qualify

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as a "pooling of interests," which means that the companies will be treated as if they had always been combined for accounting and financial reporting purposes. It is anticipated that the combined company will realize significant recurring cost savings after one-time costs for merger-related items.

Contingencies and Significant Litigation

Chevron and five other oil companies filed suit in 1995 contesting the validity of a patent granted to Unocal Corporation for reformulated gasoline, which Chevron sells in California in certain months of the year. In March 2000, the U. S. Court of Appeals for the Federal Circuit upheld a September 1998 District Court decision that Unocal's patent was valid and enforceable and assessed damages of 5.75 cents per gallon for gasoline produced in infringement of the patent. In May 2000, the Federal Circuit Court denied a petition for rehearing with the U.S. Court of Appeals for the Federal Circuit filed by Chevron and five other defendants in this case. The defendant companies petitioned the U.S. Supreme Court and in February 2001, the Supreme Court denied the petition to review the lower court's ruling and the case was remanded to the District Court for an accounting of all infringing gasoline produced from August 1, 1996, to the present. The defendants have advised the District Court that they intend to seek a new trial on the issues of damages and infringement. A hearing is tentatively scheduled for September 2001 to argue the defendants' Motion to Stay and Motion for a Trial on royalty and infringement. Additionally, in May 2001 the U.S. Patent Office granted the defendants' petition to reexamine the validity of Unocal's patent.

If Unocal's patent ultimately is upheld, the company's financial exposure includes royalties, plus interest, for production of gasoline that is proven to have infringed the patent. As a result of the March 2000 ruling, the company recorded in the first quarter 2000 an after-tax charge of \$62 million. The majority of this charge pertained to the estimated royalty on gasoline production in the earlier part of a four-year period ending December 31, 1999, before Chevron modified its manufacturing processes to minimize the production of gasoline that allegedly infringed on Unocal's patented formulations. Subsequently, the company has been accruing in the normal course of business any future estimated liability for potential infringement of the patent covered by the trial court's ruling. In June 2000, Chevron paid \$22.7 million to Unocal - \$17.2 million for the original court judgement for California gasoline produced in violation of Unocal's patent from March through July 1996 and \$5.5 million of interest and fees.

Unocal has obtained additional patents for alternate formulations that could affect a larger share of U.S. gasoline production. Chevron believes these additional patents are invalid and unenforceable. However, if

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such patents are ultimately upheld, the competitive and financial effects on the company's refining and marketing operations, while presently indeterminable, could be material.

Another issue involving the company is the ongoing public debate concerning the petroleum industry's use of MTBE and its potential environmental impact through seepage into groundwater. Along with other oil companies, the company is a party to lawsuits and claims related to the use of the chemical MTBE in certain oxygenated gasolines. These actions may require the company to correct or ameliorate the alleged effects on the environment of prior release of MTBE by the company or other parties. Additional lawsuits and claims related to the use of MTBE may be filed in the future. Costs to the company related to these lawsuits and claims are not currently determinable. Chevron has eliminated the

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use of MTBE in gasoline it sells in certain areas.

The company's U.S. federal income tax have been settled through 1993. The company's California franchise tax liabilities have been settled through 1991.

Settlement of open tax years, as well as tax issues in other countries where the company conducts its businesses, is not expected to have a material effect on the consolidated financial position or liquidity of the company and, in the opinion of management, adequate provision has been made for income and franchise taxes for all years under examination or subject to future examination.

The company and its subsidiaries have certain other contingent liabilities with respect to guarantees, direct or indirect, of debt of affiliated companies or others and long-term unconditional purchase obligations and commitments, throughput agreements and take-or-pay agreements, some of which relate to suppliers' financing arrangements.

The company is subject to loss contingencies pursuant to environmental laws and regulations that in the future may require the company to take action to correct or ameliorate the effects on the environment of prior release of chemical or petroleum substances, including MTBE, by the company or other parties. Such contingencies may exist for various sites including, but not limited to: Superfund sites and refineries, oil fields, service stations, terminals, and land development areas, whether operating, closed or sold. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions that may be required, the determination of the company's liability in proportion to other responsible parties, and the extent to which such costs are recoverable from third parties. While the company has provided for known environmental obligations that are probable and reasonably estimable, the amount of future costs may be material to results of operations in the period in which they are recognized. The company does not expect these costs to have a material effect on its consolidated financial position or liquidity. Also, the company does not believe its obligations to make such expenditures have had, or will have, any significant impact on the company's competitive position relative to other U.S. or international petroleum or chemical concerns.

The company believes it has no material market or credit risk to its operations, financial position or liquidity as a result of its commodities and other derivatives activities. However, the results of operations and financial position of certain equity affiliates may be affected by their business activities involving the use of derivative instruments.

The company's operations, particularly oil and gas exploration and production, can be affected by changing economic, regulatory and political environments in the various countries, including the United States, in which it operates. In certain locations, host governments have imposed restrictions, controls and taxes, and, in others, political conditions have existed that may threaten the safety of employees and the company's continued presence in those countries. Internal unrest or strained relations between a host government and the company or other governments may affect the company's operations. Those developments have, at times, significantly affected the company's operations and related results, and are carefully considered by management when evaluating the level of current and future activity in such countries.

For oil and gas producing operations, ownership agreements may provide for periodic reassessments of equity interests in estimated oil and gas reserves.

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These activities, individually or together, may result in gains or losses that could be material to earnings in any given period. One such equity redetermination process has been under way since 1996 for Chevron's interests in four producing zones at the Naval Petroleum Reserve at Elk Hills in California, for the time when the remaining interests in these zones were owned by the U.S. Department of Energy (DOE). A wide range remains for a possible net settlement amount for the four zones. Chevron currently estimates its maximum possible net before-tax liability at less than \$400 million. At the same time, a possible maximum net amount that could be owed to Chevron is estimated at more than \$200 million. The timing of the settlement and the exact amount within this range of estimates are uncertain.

Areas in which the company has significant operations include the United States of America, Canada, Australia, the United Kingdom, Norway, Republic of Congo, Angola, Nigeria, Chad, Equatorial Guinea, Democratic Republic of Congo, Papua New Guinea, China, Venezuela, Thailand, Argentina and Brazil. The company's Caltex affiliates have significant operations in Indonesia, Korea, Australia, Thailand, the Philippines, Singapore, and South Africa. The company's Tengizchevroil affiliate operates in Kazakhstan. The company's Chevron Phillips Chemical Company affiliate manufactures and markets a wide range of petrochemicals and plastics on a worldwide basis, with manufacturing facilities in existence or under construction in the United States, Puerto Rico, Singapore, China, South Korea, Saudi Arabia, Qatar, Mexico and Belgium. The company's Dynege affiliate has operations in the United States of America, Canada, the United Kingdom and other European countries.

Chevron receives claims from and submits claims to customers, trading partners, host governments, contractors, insurers and suppliers. The amounts of these claims, individually and in the aggregate, may be significant and take lengthy periods to resolve. The company also suspends the costs of exploratory wells pending a final determination of the commercial potential of the related oil and gas fields. The ultimate disposition of these well costs is dependent on the results of future drilling activity and/or development decisions. If the company decides not to continue development, the costs of these wells are expensed. The company and its affiliates also continue to review and analyze their operations and may close, abandon, sell, exchange, acquire or restructure assets to achieve operational or strategic benefits and to improve competitiveness and profitability. These activities, individually or together, may result in gains or losses in future periods.

Review of Operations

Second quarter 2001 revenues and other income of \$13.0 billion were slightly lower than \$13.2 billion in the 2000 second quarter. Total revenues and other income for the first half of 2001 were \$25.3 billion, compared with \$25.0 billion in 2000. Revenues and other income from worldwide upstream operations increased about 9 percent in the second quarter, primarily on sharply higher sales prices and volumes of natural gas prices and higher production of crude oil. Downstream revenues and other income were also slightly higher - the result of higher prices for refined petroleum products. These increases were essentially offset by the absence of sales revenues for most of Chevron's former petrochemicals business, following the July 1, 2000, formation of the Chevron Phillips Chemical Co. joint venture, which is accounted for under the equity method.

Improved operating earnings boosted the company's average return on capital employed for the 12 months ending June 30, 2001, to 23 percent.

Total operating expenses (operating, selling, general and administrative expenses) in the second quarter of 2001 were \$1.7 billion, excluding special items, about flat with last year's second quarter. For the six-month period, total operating expenses, excluding special items, were \$3.3 billion, compared

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with \$3.2 billion in last year's first half.

Depreciation, depletion and amortization (DD&A) expense of \$690 million in the second quarter of 2001, compared with \$699 million in the 2000 quarter. For the six-month period, DD&A expense of \$1.372 billion was \$22 million higher than in the first half of 2000. Higher depreciation expenses in worldwide upstream due to increased production levels were nearly offset by the absence of depreciation from the

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assets contributed by Chevron to the formation of Chevron Phillips Chemical Company in July 2000. There were no special-item effects on DD&A in either period.

Taxes on income for the second quarter and first half of 2001 were \$1.115 billion and \$2.163 billion, respectively, compared with \$1.018 billion and \$1.823 billion for the comparable periods in 2000. The effective tax rates were 43 percent and 46 percent for the first half of 2001 and 2000, respectively. The decrease in the effective tax rate was primarily the result of a shift in international before-tax income from countries with higher income tax rates to countries with lower income tax rates. Partially offsetting this decrease were higher state taxes, higher prior-year tax adjustments, and lower equity affiliates' earnings as a proportion of before-tax income.

Foreign currency losses included in second quarter 2001 net income were \$27 million compared with gains of \$29 million in 2000. The U.S. dollar weakened against a number of currencies in the second quarter of 2001, primarily the Canadian and Australian dollars. For the six-month periods, foreign currency gains were \$44 million in 2001, compared with gains of \$75 million in 2000.

The following table details the company's after-tax net income by major operating area.

NET INCOME BY MAJOR OPERATING AREA

| Millions of Dollars | Three Months Ended June 30 | | Six Mon |
|--|-------------------------------|--------|---------|
| | 2001 | 2000 | 2001 |
| Exploration and Production | | | |
| United States | \$ 446 | \$ 388 | \$1,166 |
| International | 557 | 580 | 1,246 |
| Total Exploration and Production | 1,003 | 968 | 2,412 |
| Refining, Marketing and Transportation | | | |
| United States | 327 | 167 | 468 |
| International | 49 | 20 | 196 |
| Total Refining, Marketing and Transportation | 376 | 187 | 664 |
| Chemicals | 27 | 51 | (9) |
| All Other * | (82) | (90) | (143) |

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Net Income \$1,324 \$1,116 \$2,924

U.S. Exploration and Production

| Millions of Dollars | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---------------------|-------------------------------|-------|-----------------------------|-------|
| | 2001 | 2000 | 2001 | 2000 |
| Operating Earnings | \$446 | \$388 | \$1,166 | \$753 |
| Special Items | - | - | - | - |
| Segment Income | \$446 | \$388 | \$1,166 | \$753 |

U.S. exploration and production operating earnings of \$446 million increased 15 percent in the 2001 second quarter on higher natural gas realizations, offset partially by higher operating expenses - primarily fuel costs - and exploration expenses. On a year-to-date basis, earnings of \$1,166 million increased 55 percent.

The second quarter average natural gas realization was \$5.52 per thousand cubic feet, compared with \$3.35 in the year-ago period. Average natural gas realization for the first half of 2001 was \$6.57 per thousand cubic feet, more than double the \$2.87 in the year-ago period. The average crude oil realization of \$23.87

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per barrel in the second quarter and \$24.18 for the 2001 six months declined about 6 percent from the comparable prior year periods.

Net oil-equivalent production increased about 1 percent from the 2000 second quarter and year-to-date periods. Second quarter net natural gas production averaged 1.529 billion cubic feet per day, up 2 percent from the 2000 period and 1.567 billion cubic feet per day in the first half of 2001, up 4 percent from the 2000 period. Net liquids production increased slightly to 312,000 barrels per day in the second quarter. Well workovers and development drilling projects resulted in new and enhanced production - mainly in the shallow-water shelf area of the Gulf of Mexico - more than offsetting the effects of asset sales and normal field declines. Liquids production was down marginally for the six months.

International Exploration and Production

| Millions of Dollars | Three Months Ended June 30 | | Six Mon |
|---------------------|-------------------------------|------|---------|
| | 2001 | 2000 | 2001 |

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| | | | |
|---------------------|-------|-------|---------|
| Operating Earnings* | \$557 | \$580 | \$1,246 |
| Special Items | - | - | - |
| Segment Income* | \$557 | \$580 | \$1,246 |

International exploration and production quarterly earnings of \$557 million in the second quarter declined about 4 percent, mainly the result of a \$48 million well write-off in Azerbaijan. Otherwise, earnings improved with higher liftings of liquids and marginally higher realizations for both liquids and natural gas. In the first half of 2001, earnings increased about 1 percent compared with last year's first half results.

International net oil-equivalent production in the 2001 second quarter and year to date rose about 4 percent from the year-ago periods. Net liquids production was 3 percent higher versus the 2000 quarter to 869,000 barrels per day, primarily the result of higher production in Kazakhstan. Net natural gas production increased 9 percent to 994 million cubic feet per day as a result of higher production in Kazakhstan, Canada and Argentina. These production increases were partially offset by declines in natural gas production in Nigeria and the United Kingdom.

On a year-to-date basis, net liquids production was 869,000 barrels per day compared with 843,000 last year, primarily the result of higher production in Kazakhstan, Argentina and Nigeria. These increases were partially offset by declines in several countries, including Indonesia, Canada and the United Kingdom. Net natural gas production increased 11 percent to 1.0 billion cubic feet per day as a result of higher production in Kazakhstan and Canada. These production increases were partially offset by declines in natural gas production in Nigeria and the United Kingdom.

Earnings for the second quarter included net foreign currency losses of \$27 million, compared with gains of \$21 million in 2000. The losses in the second quarter 2001 primarily reflected weakening of the U.S. dollar relative to Australian and Canadian dollars. For the six-month periods, foreign currency gains were \$22 million in 2001, compared with gains of \$49 million in 2000.

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U.S. Refining, Marketing and Transportation

| Millions of Dollars | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---------------------|-------------------------------|-------|-----------------------------|-------|
| | 2001 | 2000 | 2001 | 2000 |
| Operating Earnings | \$327 | \$167 | \$468 | \$222 |
| Special Items | - | - | - | (62) |
| Segment Income | \$327 | \$167 | \$468 | \$160 |

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Operating earnings for the second quarter and first half of 2001 were \$327 million and \$468 million respectively, up significantly from the corresponding 2000 periods. In the first half of 2000, net income included special charges of \$62 million for a patent litigation matter recorded in the first quarter.

The average refined product sales realization increased about 6 percent from the year-ago quarter to \$39.95 per barrel. In the first half of 2001, the average sales realization was \$39.03 compared with \$37.08 last year. Significantly higher sales margins complemented higher volumes for refined products. Operating expenses increased primarily due to the higher cost of fuel used in the refining process.

Refined product sales volumes increased about 2 percent to 1,409,000 barrels per day in the second quarter and about 4 percent to 1,348,000 barrels per day for the first half of 2001. Higher value branded gasoline sales increased about 5 percent to 568,000 barrels per day in the second quarter, and to 555,000 barrels per day year to date.

International Refining, Marketing and Transportation

| Millions of Dollars | Three Months Ended June 30 | | Six Mon |
|---------------------|-------------------------------|------|---------|
| | 2001 | 2000 | 2001 |
| Operating Earnings* | \$49 | \$20 | \$196 |
| Special Items | - | - | - |
| Segment Income* | \$49 | \$20 | \$196 |

International refining, marketing and transportation is composed primarily of Chevron's interest in Caltex Corporation, the Canadian downstream company and international shipping operations. Earnings for these businesses of \$49 million in this year's second quarter and \$196 million for the first six months increased significantly from \$20 million and \$29 million for the same periods last year. The increase was primarily from improved earnings for the shipping business. Revenues from higher freight rates and lower operating expenses accounted for the earnings increase.

Chevron's share of Caltex losses, adjusted to exclude foreign currency effects, was \$12 million in the second quarter - slightly higher than the year-ago period. Lower refining margins and a prior-year tax adjustment combined to offset the benefit of an increase in refined product marketing sales. Adjusted earnings for the first six months of 2001 were \$6 million, compared with losses of \$33 million in 2000. In the 2000 period, a rapid rise in crude oil costs could not be immediately recovered in the marketplace due to competitive pressures. The 2001 period benefited from more favorable conditions during the first quarter when feedstock costs were more stable and refined products margins increased. The Asia-Pacific market continues to suffer from excess supply conditions for refined products, limiting the company's ability to raise prices to recover costs and improve margins.

Chevron's total international downstream sales volumes increased 11 percent from

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the 2000 second quarter to 823,000 barrels per day and 8 percent in the first half to 813,000 barrels per day. The company's share of an affiliate's sales of residual fuels and marine lubes accounted for most of the increase in both periods.

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Chemicals

| Millions of Dollars | Three Months Ended June 30 | | Six Mon |
|------------------------------|-------------------------------|------|---------|
| | 2001 | 2000 | 2001 |
| Operating Earnings (Losses)* | \$27 | \$51 | \$ (9) |
| Special Items | - | - | - |
| Segment Income (Loss)* | \$27 | \$51 | \$ (9) |

Operating earnings were \$27 million for chemical operations in this year's second quarter, down \$24 million from last year's second quarter - the result of lower earnings by the 50 percent-owned affiliate, Chevron Phillips Chemical Company LLC. Deterioration of this affiliate's product sales margins, lower sales volumes and interest expense on the affiliate's debt more than offset the benefit in the second quarter of 2001 from business interruption insurance for an incident that occurred in early 2000. On a year-to-date basis, chemicals operations posted a loss of \$9 million compared with earnings of \$119 million a year ago. Demand continues to be weak because of the slowing U.S. economy while prices are restrained by worldwide industry over-capacity and the strong U.S. dollar.

All Other

| Millions of Dollars | Three Months Ended June 30 | | Six Mon |
|------------------------|-------------------------------|---------|----------|
| | 2001 | 2000 | 2001 |
| Net Operating Charges* | \$ (22) | \$ (65) | \$ (83) |
| Special Items | (60) | (25) | (60) |
| Net Charges* | \$ (82) | \$ (90) | \$ (143) |

All Other activities include coal-mining operations, the company's ownership interest in Dynegy Inc., worldwide cash management and debt financing activities, corporate administrative costs, insurance operations, real estate activities and certain e-businesses. Results in this year's second quarter and six months included special charges of \$60 million for prior-year tax adjustments and expenses associated with the pending merger with Texaco.

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Prior-year tax adjustments increased net charges by \$25 million in the 2000 second quarter and six months.

Chevron's share of Dynegy's operating earnings increased \$21 million to \$35 million in the second quarter and doubled to \$69 million for the first six months of 2001 on the strength of Dynegy's core energy marketing and trading business.

The company's coal operations had earnings of \$7 million in the second quarter of 2001, compared with an operating loss of \$2 million in last year's second quarter. Six-month operating earnings were \$13 million in 2001, up from \$1 million last year. The improvement was due to higher sales volumes this year and the absence of the negative effects of last year's union work stoppages at two of the company's mines that began in May and did not end until early August last year.

Net operating charges from other activities were \$64 million in the second quarter and \$165 million for the first six months of 2001, compared with \$77 million and \$143 million in the comparable 2000 periods. In the second quarter, favorable effects of lower interest expense and higher interest income more than offset increases in other corporate charges. For the six-month periods, increases in other corporate charges, including merger-related expenses, exceeded the favorable effect of lower net interest expense.

Liquidity and Capital Resources

Cash and cash equivalents totaled \$2.895 billion at June 30, 2001 - about a \$1 billion increase from year-end 2000. Cash provided by operating activities was \$4.855 billion in the first half of 2001, up \$1.017 billion from the corresponding 2000 period. Capital expenditures and dividend payments to stockholders

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totalled \$3.168 billion in the first half of 2001. Cash provided by operating activities in 2001 benefited from the significantly higher natural gas and refined product prices and higher OEG production volumes.

Total debt and capital lease obligations were \$6.709 billion at June 30, 2000, an increase of \$477 million from year-end 2000. A net increase of about \$925 million in short-term debt (excluding the current portion of long-term debt due within 12 months) was partially offset by a decrease of about \$430 million in long-term debt (including the current portion of long-term debt due within 12 months). These transactions included a non-cash reduction of \$100 million of ESOP debt, a scheduled repayment of \$90 million of other long-term debt, and, in February 2001, the repurchase of \$235 million of 7.45 percent notes due 2004. Redemption notices were issued for the remaining \$115 million of 7.45 percent notes with a call date of August 15, 2001. The company's debt ratio (total debt to total-debt-plus-equity) was 23.2 percent at June 30, 2001, down from 23.8 percent at year-end 2000. The company continually monitors its spending levels, market conditions and related interest rates to maintain what it perceives to be reasonable debt levels.

In order to allow Chevron to maintain active relationships with institutional investors in its commercial paper, the company continues a program instituted in 2000 under which it sells commercial paper and reinvests the borrowed funds in money market instruments with similar terms. As a result of this program, net commercial paper borrowings in the first half of 2001 and net purchases of short-term investments rose \$666 million from year-end 2000 levels.

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In the second quarter 2001, Chevron loaned \$418 million to Caltex Corporation, and its subsidiaries, for the purpose of replacing some of Caltex's existing bank financing. These loans bear interest at market-based floating rates.

At June 30, 2001, Chevron had \$3.2 billion in committed credit facilities with various major banks, \$2.725 billion of which had termination dates beyond one year. These facilities support commercial paper borrowing and also can be used for general requirements. No borrowings were outstanding under these facilities at June 30, 2001.

The company benefits from lower interest rates available on short-term debt; however, Chevron's proportionately large amount of short-term debt keeps its ratio of current assets to current liabilities at relatively low levels. The current ratio was 1.09 at June 30, 2001, up slightly from December 31, 2000. The company's short-term debt, consisting primarily of commercial paper and the current portion of long-term debt, totaled \$4.799 billion at June 30, 2001. Short-term debt of \$2.725 billion was reclassified to long-term debt because settlement of these obligations is not expected to require the use of working capital during the next twelve months. The company has the intent and the ability, as evidenced by committed credit arrangements, to refinance its short-term debt on a long-term basis. The company's practice has been to continually refinance its commercial paper, maintaining levels it believes to be appropriate.

The company's future debt level is dependent primarily on its results of operations and capital-spending program. The company believes it has substantial borrowing capacity to meet unanticipated cash requirements. The company's senior debt is rated AA by Standard & Poor's Corporation, and Aa2 by Moody's Investors Service. Chevron's U.S. commercial paper is rated A-1+ by Standard & Poor's and Prime-1 by Moody's, and Chevron's Canadian commercial paper is rated R-1 (middle) by Dominion Bond Rating Service. Moody's counterparty rating for Chevron is also Aa2. All of these ratings denote high quality, investment-grade securities.

In December 1997, Chevron's Board of Directors approved the repurchase of up to \$2 billion of its outstanding common stock, providing shares for use in its employee stock option programs. Prior to suspending the program in October 2000 upon announcement of the merger agreement with Texaco, Chevron had repurchased 23.3 million shares at a cost of \$1.890 billion.

On July 25, 2001, Chevron declared a quarterly dividend of 65 cents per share, unchanged from the preceding quarter.

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Worldwide capital and exploratory expenditures for the first half of 2001, including the company's share of affiliates' expenditures, were \$3.325 billion, compared with \$2.448 billion in the first half of 2000. Expenditures for international exploration and production projects were \$1.589 billion, or 48 percent of total expenditures, reflecting the company's continued emphasis on increasing international oil and gas production. In the first half of 2001, expenditures included the acquisition of an additional 5 percent interest in the Tengizchevroil affiliate. Expenditures for the first half of 2000 included an additional investment of about \$300 million in Dynegy Inc.

CAPITAL AND EXPLORATORY EXPENDITURES BY MAJOR OPERATING AREA

Three Months Ended
June 30

Six Months

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| Millions of Dollars | 2001 | 2000 | 2001 |
|--|----------------|----------------|----------------|
| United States | | | |
| Exploration and Production | \$ 369 | \$ 352 | \$ 738 |
| Refining, Marketing and Transportation | 106 | 94 | 200 |
| Chemicals | 54 | 42 | 66 |
| All Other | 90 | 182 | 458* |
| Total United States | 619 | 670 | 1,462 |
| International | | | |
| Exploration and Production | 533 | 442 | 1,589 |
| Refining, Marketing and Transportation | 147 | 128 | 262 |
| Chemicals | 8 | 13 | 12 |
| Total International | 688 | 583 | 1,863 |
| Worldwide | \$1,307 | \$1,253 | \$3,325 |

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SELECTED OPERATING DATA (1), (2)

| | Three Months Ended June 30 | | Six Mo |
|---|-------------------------------|---------|---------|
| | 2001 | 2000 | 2001 |
| U.S. Exploration and Production | | | |
| Net Crude Oil and Natural Gas Liquids Production (MBPD) | 312 | 309 | 305 |
| Net Natural Gas Production (MMCFPD) | 1,529 | 1,506 | 1,567 |
| Sales of Natural Gas (MMCFPD) | 3,492 | 3,353 | 3,565 |
| Sales of Natural Gas Liquids (MBPD) | 161 | 160 | 174 |
| Revenue from Net Production | | | |
| Crude Oil (\$/Bbl.) | \$23.87 | \$25.39 | \$24.18 |
| Natural Gas (\$/MCF) | \$ 5.52 | \$ 3.35 | \$ 6.57 |
| International Exploration and Production | | | |
| Net Crude Oil and Natural Gas Liquids Production (MBPD) | 869 | 841 | 869 |
| Net Natural Gas Production (MMCFPD) | 994 | 913 | 1,010 |
| Sales of Natural Gas (MMCFPD) | 1,742 | 1,801 | 1,732 |
| Sales of Natural Gas Liquids (MBPD) | 68 | 57 | 66 |
| Revenue from Liftings | | | |
| Liquids (\$/Bbl.) | \$25.99 | \$25.93 | \$25.22 |
| Natural Gas (\$/MCF) | \$ 2.70 | \$ 2.21 | \$ 2.89 |
| Other Produced Volumes (MBPD) (3) | 104 | 141 | 108 |
| U.S. Refining, Marketing and Transportation | | | |
| Sales of Gasoline (MBPD) (4) | 722 | 729 | 693 |
| Sales of Other Refined Products (MBPD) | 687 | 653 | 655 |
| Refinery Input (MBPD) | 1,009 | 1,021 | 952 |

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| | | | |
|--|---------|---------|---------|
| Average Refined Product Sales Price (\$/Bbl.) | \$39.95 | \$37.65 | \$39.03 |
| International Refining, Marketing and Transportation | | | |
| Sales of Refined Products (MBPD) (5) | 823 | 741 | 813 |
| Refinery Input (MBPD) | 409 | 416 | 411 |

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

A. **Richmond Refinery - Resolution of Outstanding Notices of Violation**
 The Company has entered into a Settlement Agreement with the Bay Area Air Quality Management District with respect to 52 Notices of Violation issued between 1998 and 2001 to the Company's Richmond Refinery. The alleged violations involve various District regulations and permit conditions applicable to the Refinery. The Company has agreed under the Settlement Agreement to pay a penalty of \$300,000 and has agreed to surrender ten tons per year of emission reduction credits for precursor organic compound/volatile organic compound emissions.

Item 4. Submission of Matters to a Vote of Security Holders

The following matters were submitted to a vote of stockholders at the Annual Meeting on April 25, 2001.

Voters elected nine incumbent directors for one-year terms. The vote tabulation for individual directors was:

| Directors | Shares For | Shares Withheld |
|----------------|---------------|--------------------|
| S. H. Armacost | 520,649,834 | 6,077,734 |
| S. L. Ginn | 521,658,043 | 5,069,525 |
| C. A. Hills | 521,147,997 | 5,579,571 |
| J. B. Johnston | 521,013,884 | 5,713,684 |
| R. H. Matzke | 521,066,635 | 5,660,933 |
| D. J. O'Reilly | 521,822,139 | 4,905,429 |
| F. A. Shrontz | 521,370,608 | 5,356,960 |
| C. Ware | 520,967,009 | 5,760,559 |
| J. A. Young | 521,446,364 | 5,281,204 |

Voters approved amending Chevron's Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock from two billion shares of \$.75 par value to four billion shares of \$.75 par value, subject to stockholder approval and consummation of the merger of Chevron and Texaco, by a vote of 508,437,679 (97.3 percent) for and 14,297,258 (2.7 percent) against. There were also 3,989,937 abstentions and 2,694 broker non-votes.

Voters approved the appointment of PricewaterhouseCoopers LLP as the company's independent accountants by a vote of 505,470,681 (96.6 percent) for and 17,567,712 (3.4 percent) against. There were also 3,689,184 abstentions.

A stockholder proposal to eliminate Bioaccumulative Halogenated Pollutants at the company's facilities was rejected. There were 31,855,549 votes (7.5 percent) for the proposal and 391,173,462 votes (92.5 percent) against. There were also

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18,534,418 abstentions and 85,164,139 broker non-votes.

A stockholder proposal to report on potential environmental damage to the Arctic National Wildlife Refuge was rejected. There were 43,440,369 votes (10.3 percent) for the proposal and 376,787,481 votes (89.7 percent) against. There were also 21,341,873 abstentions and 85,157,845 broker non-votes.

A stockholder proposal to report on greenhouse gas emissions was rejected. There were 40,271,902 votes (9.6 percent) for the proposal and 378,189,863 votes (90.4 percent) against. There were also 23,103,467 abstentions and 85,162,336 broker non-votes.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(4) Pursuant to the Instructions to Exhibits, certain instruments defining the rights of holders of long-term debt securities of the company and its consolidated subsidiaries are not filed because the total amount of securities authorized under any such instrument does not exceed 10 percent of the total assets of the company and its subsidiaries on a consolidated basis. A copy of any such instrument will be furnished to the Commission upon request.

(12) Computation of Ratio of Earnings to Fixed Charges

(b) Reports on Form 8-K

None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHEVRON CORPORATION

(Registrant)

Date August 9, 2001

/s/ S.J. Crowe

S. J. Crowe, Vice President and Comptroller
(Principal Accounting Officer and
Duly Authorized Officer)

