Chevron Corporation 1998 Annual Report

Chevron

Staying focused...pursuing opportunities...

shaping the future

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About the Cover *Using the latest visualization technology, Geologist Mary Parke (left), Senior Geophysicist John Moore and Geophysicist Casey Simms view 3-D seismic images of underground formations offshore Nigeria. The "visionarium," recently installed in San Ramon, California, helps earth scientists better manage Chevron's oil and gas fields.*

Whenever possible, Chevron prints on recycled and recyclable paper. The company has printed its Annual Reports on recycled paper since 1990.

TO OUR STOCKHOLDERS

**Staying focused…pursuing opportunities…
shaping the future**

98

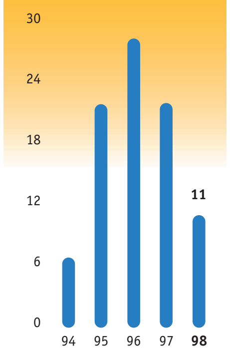
1998 was a tough year for Chevron and for the petroleum industry. The depressed economic conditions in Asia reduced the demand for petroleum products, and the resulting worldwide oversupply of crude oil hammered prices. The price of U.S. benchmark crude dropped to its lowest annual average in 20 years, down some 30 percent from 1997. Chevron's net income fell 59 percent to $1.339 billion from the record $3.256 billion earned in 1997.

All business segments hurt. With low prices squeezing margins, earnings were down in all our businesses – exploration and production; refining, marketing and transportation; and chemicals.

Worldwide exploration and production earnings fell by half, from $2.169 billion in 1997 to $1.098 billion in 1998. However, our production gains were one of the highlights of the year. Our worldwide net liquids production climbed 3 percent to 1.1 million barrels a day. International net liquids production – our main area of focus – increased for the ninth straight year, up 7 percent over 1997. We more than replaced this production with new reserves.

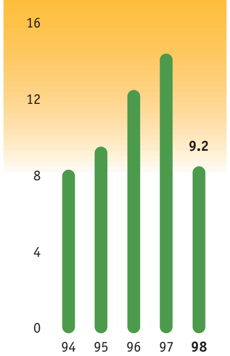
Chevron Chairman Ken Derr meets with Shelli Peacock and Fidel Lopez, two of the 1998 winners of the prestigious Chairman's Award.

Average Annual Return to Stockholders
Percentage



The annual return on Chevron stock has averaged 17.8 percent over the past five years.

Return on Average Capital Employed*
Percentage



After increasing for three consecutive years, Chevron's return on capital employed fell to 9.2 percent.

*Excluding special items

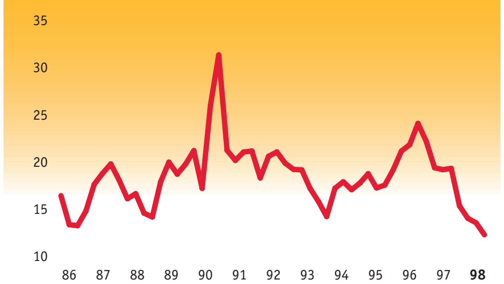
Our worldwide refining, marketing and transportation operations also suffered because of the drop in demand, with earnings down nearly 27 percent from $1.029 billion in 1997 to $756 million in 1998. However, our U.S. operations posted strong profits for the second straight year, with earnings, excluding special items, of $633 million. This excellent performance was boosted by increased gasoline sales and continual emphasis on reducing costs.

Industry overcapacity and the Asian economic slowdown also had a negative effect on our chemicals business. Earnings dropped from $224 million in 1997 to $151 million last year.

Report on stockholder return. Our five-year goal for 1994 through 1998 was to repeat as the major U.S. oil company with the highest total stockholder return. During this period, our total return – dividends plus stock appreciation – averaged 17.8 percent a year, putting us in second place if merger premiums are excluded. For the 10-year period 1989 through 1998, our total return of 18.4 percent a year puts us first, again discounting merger premiums. 1998 was our 11th straight year of dividend increases.

Putting oil prices into perspective. During a period of low oil prices, it's important to maintain perspective. Oil prices tend to be cyclical and to fluctuate within a range – as the chart (above right) shows. We're now working through a period of prolonged oversupply – caused by a combination of increased production from OPEC and other areas – and reduced demand – caused largely by the Asian economic slowdown. This worldwide glut has driven down crude oil prices to the $11 to $13 a barrel range. It's possible these conditions could persist for several years.

Crude Oil Prices 1986 to 1998
Dollars per barrel



Over time, crude oil prices rise and fall, driven by the market forces of supply and demand.

But history strongly suggests that the economic forces of supply and demand will come back into balance, and prices will stabilize somewhere in the $15 to $20 a barrel range.

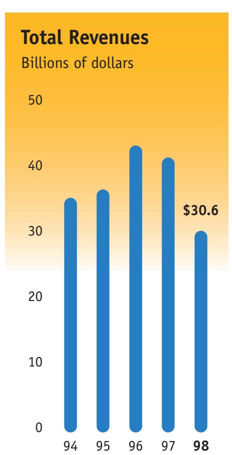
Chevron's answer to low oil prices. Our plans recognize the uncertainty and risk of continued low oil prices. Although this is a time of concern, it's not a time to panic. I believe we have some of the best production growth prospects in the industry, and we plan to focus on taking advantage of them. These projects include:

- *West Africa.* Chevron continues to make major discoveries in the deepwater areas offshore Angola, adding our third and fourth in 1998. We estimate that these four discoveries total 3 billion barrels of potential reserves. Production grew in both Angola and Nigeria during 1998.
- *Caspian Sea Region.* After years of negotiations, we plan to start construction on the pipeline that will link the giant Tengiz oil field in Kazakhstan to a worldwide export market through the Russian port of Novorossiysk on the Black Sea. Completion of the 900-mile pipeline is scheduled for mid-2001. In 1998,

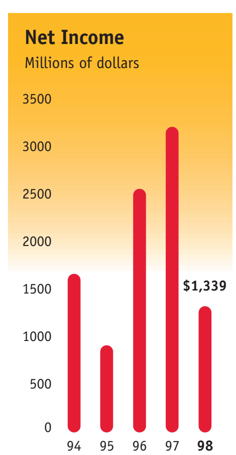
FINANCIAL HIGHLIGHTS

Millions of dollars, except per-share amounts	1998	1997	% Change
Net income	**$ 1,339**	$ 3,256	(59)%
Sales and other operating revenues	**$29,943**	$40,596	(26)%
Capital and exploratory expenditures*	**$ 5,314**	$ 5,541	(4)%
Total assets at year-end	**$36,540**	$35,473	3%
Total debt at year-end	**$ 7,558**	$ 6,068	25%
Stockholders' equity at year-end	**$17,034**	$17,472	(3)%
Cash flow from operating activities	**$ 3,731**	$ 4,880	(24)%
Common shares outstanding at year-end (Thousands)	**653,026**	655,931	–
Average shares outstanding during year (Thousands)	**653,667**	654,991	–
Per-share data			
Earnings – basic	**$ 2.05**	$ 4.97	(59)%
Earnings – diluted	**$ 2.04**	$ 4.95	(59)%
Cash dividends	**$ 2.44**	$ 2.28	7%
Stockholders' equity	**$ 26.08**	$ 26.64	(2)%
Market price at year-end	**$ 82.94**	$ 77.00	8%
Total debt/total debt plus equity	**30.7%**	25.8%	
Return on average stockholders' equity	**7.8%**	19.7%	
Return on average capital employed (ROCE)	**6.7%**	15.0%	

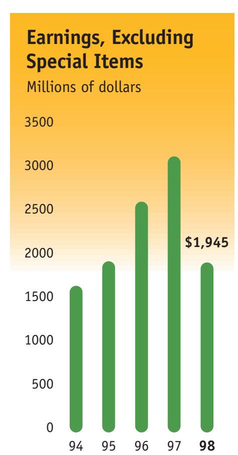
*Includes equity in affiliates



Revenues declined 27 percent, due mainly to lower prices for crude oil and refined products.



Net income of $1.339 billion was down 59 percent from the record level set in 1997.



Operating earnings were down 39 percent in 1998, after increasing for three consecutive years.

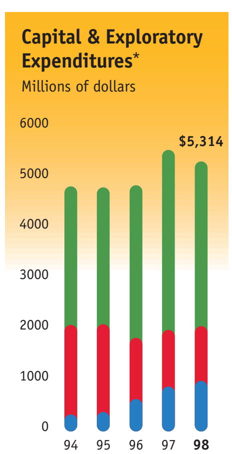
OPERATING HIGHLIGHTS

	1998	1997	% Change
Net production of crude oil and natural gas liquids[1] (Thousands of barrels per day)	**1,107**	1,074	3%
Net production of natural gas[1] (Millions of cubic feet per day)	**2,393**	2,425	(1)%
Sales of natural gas[1] (Millions of cubic feet per day)	**4,807**	4,609	4%
Refinery input[1] (Thousands of barrels per day)	**1,344**	1,498	(10)%
Sales of petroleum products[1] (Thousands of barrels per day)	**2,211**	2,281	(3)%
Net proved reserves of crude oil, condensate and natural gas liquids[1] (Millions of barrels)	**4,697**	4,506	4%
Net proved reserves of natural gas[1] (Billions of cubic feet)	**9,303**	9,963	(7)%
Chemicals sales revenues[2] (Millions of dollars)	**$3,216**	$3,646	(12)%
Number of employees at year-end[3]	**33,676**	34,186	(1)%

[1] Includes equity in affiliates
[2] Includes sales to other Chevron companies
[3] Excludes service station personnel

Performance Measures To help achieve its goal of being No.1 among its major competitors in providing total return on stockholders' investment, Chevron uses several performance measures to track its progress. Some of these are listed below and are discussed throughout this report. Terms are defined on page 22.

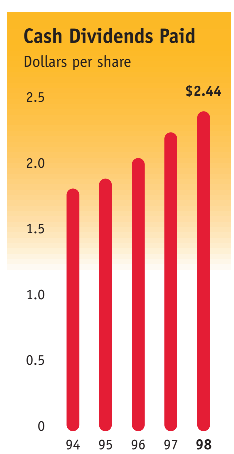
	1998	1997	1996
Earnings, Excluding Special Items (Millions of dollars)	**$1,945**	$3,180	$2,651
Adjusted Operating Expenses (Millions of dollars)	**$6,989**	$7,406	$7,610
Operating Expenses per Barrel	**$ 5.24**	$ 5.69	$ 6.12
Return on Capital Employed, Excluding Special Items	**9.2%**	14.7%	12.8%
Total Stockholder Return	**11.0%**	22.1%	28.5%



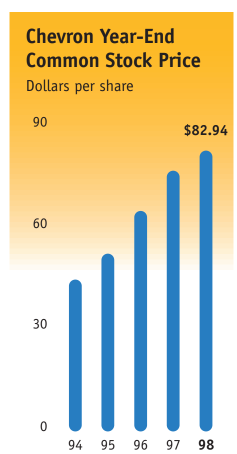
- Exploration & Production
- Refining, Marketing & Transportation
- Other

Exploration and production expenditures accounted for 61 percent of the total 1998 expenditures.

*Includes equity in affiliates



Annual dividends increased for the 11th consecutive year.



The price of Chevron's common stock increased nearly 8 percent in 1998.

Tengiz production averaged a record 188,000 barrels of oil a day.

- *Deepwater Gulf of Mexico.* Chevron holds interests in 428 tracts in this promising U.S. area, and we intend to be a major player in its development. Our first deepwater field, Genesis, started production in January, and our second project, Gemini, is scheduled to flow first oil later this year.

To both fund these priority projects and maintain a strong balance sheet, we'll have to sharply reduce spending in our international refining and marketing, and chemicals businesses. We'll also have to accelerate our cost-reduction efforts.

Planned 1999 spending reduced. Our planned capital and exploratory spending for 1999 is $5.1 billion, about 4 percent less than our 1998 spending. We plan to spend nearly $3.7 billion – 73 percent of the total budget – on worldwide exploration and production. About $2.6 billion of that will be outside the United States.

In addition, we'll invest about $870 million in our worldwide refining, marketing and transportation activities. Finally, we'll spend about $380 million in our worldwide chemicals business.

Cost reduction continues to be imperative. Reducing costs has been a major part of our strategy for years, and we've sliced more than $2.4 billion from operating expenses since 1991, including another $600 million in 1998. At the beginning of 1998, we set a goal to further reduce costs by 40 cents a barrel by 2000. We reached that goal by the end of 1998.

But now we must be even more cost-conscious. We've launched a special effort to reduce our cost structure by $500 million in 1999 and to implement additional sustainable savings in 2000 and beyond.

Mergers and acquisitions are big news. 1998 was a record-setting year for mergers and acquisitions in many industries, including ours. Two of the world's biggest petroleum companies acquired major competitors. First, British Petroleum bought Amoco, and then Exxon announced plans to acquire Mobil. The most commonly quoted reasons – mergers are the best way to reduce costs, and increased size is the best way to improve competitiveness during this difficult business environment.

Clearly, the new and larger merged companies will become formidable competitors. However, I am convinced that Chevron has the size, scope, opportunities and people to compete with anyone. Size does not guarantee growth, which drives stockholder returns. Chevron has the best growth prospects in the industry, and we are confident about our future.

Chevron moves to strengthen competitive positon. This is not to say that Chevron is not continually looking at acquisitions and new ventures.

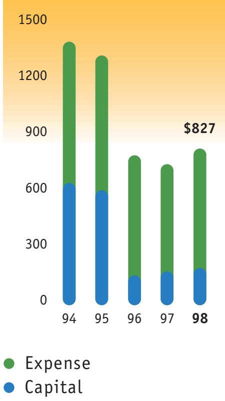
We have made several moves that have strengthened our competitive position and opened new opportunities. For instance, we acquired Amoco's North American lubricants business, making Chevron the leading marketer of heavy-duty and industrial oils in North America. We also formed a joint venture with Texaco in the worldwide fuel oil and marine lubricants business.

We expect to complete the acquisition of the Rutherford-Moran Oil Corporation, which will give us access to an area offshore Thailand

Dave O'Reilly
Vice Chairman

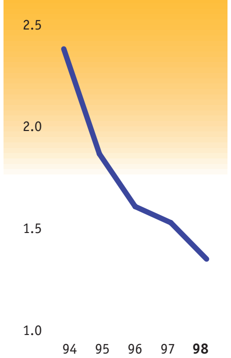
Jim Sullivan
Vice Chairman

U.S. Environmental Capital Expenditures & Expenses
Millions of dollars



With completion of major refinery clean-air projects in 1995, capital spending has stabilized at about $800 million per year.

U.S. Occupational Incidents
Per 200,000 work hours



For the fifth consecutive year, Chevron has cut its U.S. petroleum and petrochemicals illness and injury rate.

and entry into that country's natural gas market. In February 1999, we signed a preliminary agreement with ARCO to join the oil and natural gas producing assets of our two companies in the Permian Basin of West Texas and southeast New Mexico. The planned joint venture will be more efficient and cost-effective. We will continue to consider any acquisition that will add value for Chevron's stockholders.

Litigation causes earnings reduction. We were shocked in early March by an Oklahoma Supreme Court opinion against Chevron in the Cities Service case that dates back to 1982. Even though the company plans to aggressively seek further review of this case in the courts, we recorded a special charge of $637 million to our 1998 earnings under accounting standards that require recognition of such potential losses.

Chevron is committed to protecting people and the environment. We continue to make good progress toward our goal of having the best safety record among our peer competitors. Over the past five years, our recordable injury and illness incident rate is down 56 percent. I'd like to commend all our employees for this great improvement.

Chevron has long been recognized for its efforts to protect the environment – wherever it operates. Safeguarding the environment is an integral part of our day-to-day business philosophy. It's the way we conduct our operations – whether in Texas or Kazakhstan, California or Angola. Our vigilance for health, safety and the environment can never be compromised. We demonstrate our commitment in many ways, including our company contributions, the volunteer efforts of employees, and the respect we show for different cultures and diverse peoples. Our consistent record for honest and ethical behavior has made us the partner of choice around the world.

George Weyerhaeuser retires. I'd like to extend my deepest gratitude to George Weyerhaeuser, who is retiring from our Board of Directors after 22 years of service. George, who is Chairman of the Board of Weyerhaeuser Company, has been a tireless advocate for responsible resource management. We all will miss his wise counsel.

Employees give us an edge. Building a committed team of employees, which is our first strategic intent (see page 15), is more important than ever in these difficult times. It is their dedication, hard work and entrepreneurial spirit that make it possible to accomplish the other seven strategic intents. It is their creativity, willingness to try new things and to adapt to change that will enable us to continue to cut costs and find ever-more-effective ways to do business. Employees help make Chevron a strong, lean and nimble company able to successfully compete in today's tough global environment.

I'm confident that we will be able to stay focused, to pursue our opportunities – which I think are the best in the industry – and to shape our future successes. In brief, I'm optimistic about Chevron's future and about the long-term outlook for the industry.

Ken Derr

Kenneth T. Derr
Chairman of the Board
and Chief Executive Officer
March 4, 1999

Shaping the future...

the people behind the plan

98

Chevron has the strategies, the financial resources and the business skills to continue its successful drive into the next century, even in a climate of low oil prices. But it's people who embody the philosophies and values that make these strategies work – people with good ideas, sound convictions and a commitment to excellence. On the following pages, several employees discuss a variety of topics that, along with strategies, are vital to the company's performance and key to Chevron's being the partner of choice around the world. Among the topics covered are the new workplace, technology and the environment – issues that transcend individual strategies but contribute to Chevron's overall goals.

Going where the action is

Bill Edman
President
Chevron Latin America

Since the early 1990s, Chevron has steadily expanded the scope of its international operations.

Because of the wealth of good business opportunities overseas, we have been accelerating the expansion of our international business, especially our exploration and production operations.

To be successful overseas and differentiate ourselves from our competitors, we work hard at developing long-lasting, mutually beneficial relationships – with governments, state oil companies and local communities. We focus on building trust by recognizing and respecting the heritage, history and culture of all the countries in which we do business. We build important community projects, such as medical and educational facilities. This sort of relationship building is the key to becoming the partner of choice and may be one of the most important elements of our company's future success.

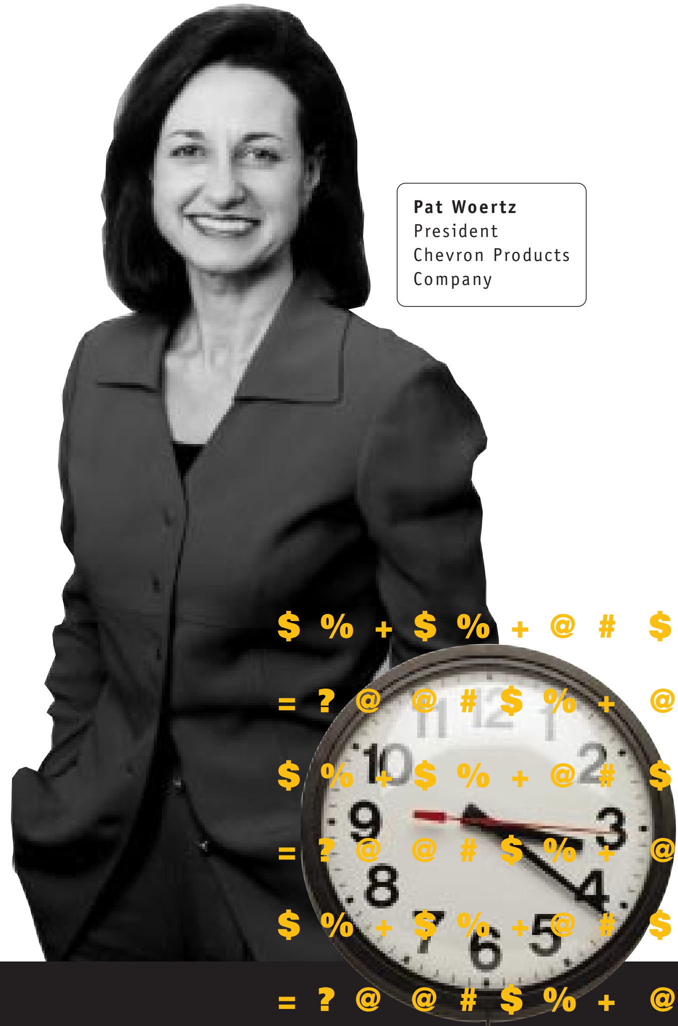
Areas that have been closed to outside investment are continuing to open up and offer attractive projects – countries such as Venezuela, Kuwait and Saudi Arabia. Of course, Chevron's major multinational competitors also are looking for opportunities such as these. Competition for the best projects will intensify, as national oil companies expand their business interests beyond their own borders.

When it makes good business sense, we will take an integrated approach to international business opportunities by forming new ventures and alliances that could include refining, marketing, petrochemicals or electric power generation, in addition to oil and gas exploration and production.

THE NEW WORKPLACE:

SHATTERING BUSINESS BARRIERS

Business as usual is dead.



Pat Woertz
President
Chevron Products
Company

To stay ahead of the competition, we have to continually find new and better ways to do business. That means nothing less than "re-imagining" our work and "re-inventing" our businesses.

How do we go about that? To a large extent, by breaking down artificial barriers and redefining the boundaries of responsibility. For example, Chevron Products Company's marketing, refining and distribution groups work together to improve profits all along the supply chain. All employees should think of themselves as business managers and profit centers.

Cutting cycle time

Today we call on employees to be intellectually engaged in their jobs as never before. These are the new mandates: Constantly ask what helps the business and what doesn't. Take nothing for granted. Cherish ideas. Respect different viewpoints. And, once in a while, let the kid inside you run free.

By always looking for ways to work smarter, we're shrinking the amount of time and money it takes to achieve a result.

There are many ways to do that. Through Web technology, we are simplifying communications and transactions involving suppliers and service station dealers. And the Internet is opening up an electronic marketplace where we are staking a claim.

We've integrated our upstream and downstream laboratories because the two groups have more shared interests than differences. The former traditionally focused on exploration and production; the latter, on refined products and chemicals.

To increase production from some old oil fields in the Gulf of Mexico, we formed new teams and told them to act like small business owners – to "re-imagine" their jobs. The result: They boosted output, reduced costs and improved safety.

Evolving business models require us to stay alert. There may be a better approach just around the corner.

Technology for a new world

THE ENERGY INDUSTRY ALWAYS HAS BEEN TECHNOLOGY-INTENSIVE. NOW, MORE THAN EVER, WE'RE RELYING ON TECHNOLOGY TO REDUCE THE COST OF FINDING OIL AND GAS, AND TO IMPROVE THE EFFICIENCY OF OPERATIONS AND THE QUALITY OF PRODUCTS.

HISTORICALLY, CHEVRON RELIED MAINLY ON ITS OWN RESEARCH AND DEVELOPMENT (R&D) FOR NEW TECHNOLOGY. HOWEVER, IN THE 1990S, WE'VE ADOPTED A DIFFERENT MODEL – ONE SUITED TO A MORE COMPETITIVE BUSINESS ENVIRONMENT AND REFLECTING FUNDAMENTAL CHANGES IN INDUSTRIAL R&D.

Don Paul
Vice President
Technology

FOR MANY BUSINESSES, APPLYING TECHNOLOGY FASTER AND CHEAPER HAS BECOME MORE IMPORTANT THAN OWNING IT. OUR PROPRIETARY RESEARCH NOW FOCUSES ON THE FEW AREAS WHERE BEING THE INVENTOR REALLY MATTERS.

THE MAJOR FORCES DRIVING RESEARCH HAVE SHIFTED AWAY FROM THE ENERGY INDUSTRY. FOR EXAMPLE, INFORMATION TECHNOLOGY HAS REVOLUTIONIZED OUR ABILITY TO VISUALIZE UNDERGROUND FORMATIONS, BUT ADVANCES IN VISUALIZATION ARE BEING PUSHED BY MARKETS OUTSIDE OUR INDUSTRY.

SIMILARLY, ADVANCED CONTROL SYSTEMS, "SUPER MATERIALS" – WHICH HAVE COMPUTING INTELLIGENCE – AND ROBOTICS COULD BE CRITICAL TO DEEPWATER PROJECTS AND NATURAL GAS REFINING, BUT THE FUNDAMENTAL ADVANCES IN THESE FIELDS ARE COMING FROM OUTSIDE OUR INDUSTRY.

WHAT DOES THIS MEAN FOR CHEVRON? TO MAKE THE MOST OF OUR RESEARCH DOLLARS, WE'RE BROADENING ACCESS TO AN EXPANDING EXTERNAL R&D WORLD.

ONE WAY IS BY SHARING THE COST OF RESEARCH PROJECTS WITH OTHER COMPANIES. ANOTHER IS BY TAPPING INTO THE RAPID GROWTH OF NEW COMPANIES IN INFORMATION TECHNOLOGY, BIOTECHNOLOGY AND MATERIALS SCIENCE. BY INVESTING IN THESE DYNAMIC COMPANIES, WE CAN GAIN ACCESS TO NEW TECHNOLOGIES THAT ARE LIKELY TO PLAY A VITAL ROLE IN TRANSFORMING THE PETROLEUM INDUSTRY.

Home is the heart of business

Worldwide, our business has this constant: our commitment to environmental excellence. Chevron does business in more than 90 countries. But we never forget that where we do business is also our home. For me, Nigeria has been more than home for the past 16 years.

Joe Anyigbo
Executive Director
Chevron Nigeria Limited

As far as Chevron's operations are concerned, we endeavor to leave the environment a better place than we found it. It's particularly gratifying to see blue water and schools of fish around our producing platforms. That's due, in part, to our sophisticated waste treatment systems.

Chevron's philosophy of environmental responsibility is to produce oil and gas without damage to the environment. Nigerian regulations have improved greatly over the years. But even when regulations are not specified, our policy is to follow Chevron guidelines or industry "best practices," all of which meet world-class standards.

We have been working on the Escravos Gas Project, which will enable us to eliminate flaring by capturing, processing and selling natural gas. I feel good when visitors from other companies comment about Escravos and the whole area around it as world-class.

We also believe in working safely, although it can mean spending more money. We recently refurbished platforms to the American Petroleum Institute's safety standards, giving them another 20-plus years of life and making them safer for employees and the environment.

We believe that by doing the right things the right way, not only can you protect the environment, you also can save money, time and frustration. It's best when doing things the right way becomes second nature and you don't even have to think about it. That's The Chevron Way. That's how we operate Chevron's business in Nigeria.

Chevron is 'buzzing' with ideas !!!

Barry Leskin
Director
Learning and Development

Investing in employees pays off. In this highly competitive industry, smarter, better-skilled employees and managers will give Chevron an advantage.

KNOWLEDGE MANAGEMENT

Employees who can think and act independently, and adroitly adapt to change are ideal. But simply telling employees to be more efficient doesn't work. That's why we created a Learning and Development group at Chevron. We're not just teaching employees how to manage, but how to apply new skills to new situations. We are providing employees with tools to shape their future and be more effective – knowledge, resources, training.

We feel the best time to focus on learning is at key transition points in an individual's career. Learning starts with an extensive orientation and continues with every transition – when an employee becomes a new supervisor, a new manager, a new executive.

We encourage employees to learn not only from their own experience, but also from that of co-workers, customers and suppliers. Through company-wide sharing of ideas and best practices, we are developing ways for employees to learn faster and better than competitors. By studying other companies, we know that this works. Employees are sharing ideas across organizational and geographic boundaries. Our new Global Information Link puts the latest technology on every desktop computer. Knowledge zips via e-mail from office to office. Chevron is an informational network buzzing with ideas.

Chevron uses many other resources to aid learning and development – collaboration, networking, learning through on-the-job experience, new planning tools and work-tracking software. All this, combined with employees motivated to learn from each other, is knowledge management at its best. And harnessing the knowledge and talent of Chevron employees means that the company prospers.

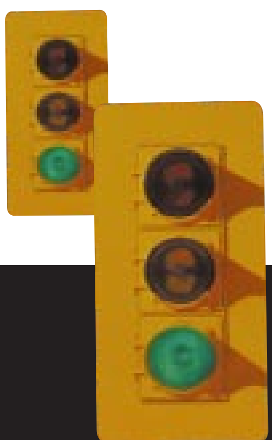
Is the industry headed for change?

John Watson
Vice President
Strategic Planning

Rhonda Zygocki
Manager
Strategic Planning

At Chevron, we believe the petroleum industry will be an important part of the energy picture for years to come.

Today, oil and natural gas are the most efficient and lowest-cost forms of energy. The technological advances that have allowed us to keep pace with both increased demand and stricter environmental standards will help us build desirable and competitive products in the future.



Despite the current economic slowdown in Asia and elsewhere, we expect long-term demand for our products to grow, as the overall world economy resumes its steady advance.

Contrary to what some have predicted, we feel there will be ample supplies of oil and natural gas in the future. Resources – such as those in the Middle East and the former Soviet Union – are continuing to open up to private investment. Also, technological innovations will allow us to tap into new supplies of oil and natural gas in deeper water and harsher environments.

Our industry will continue to face environmental challenges. We will have to demonstrate – as we've done in the past – that we can produce better and cleaner products and protect the environment. Concern over air quality and global climate change will continue to promote technology in alternate fuels that will compete with the fuels of today.

Also, we are seeing consolidation within the industry, driven by the strategy to reduce costs and increase capital efficiency.

A company's survival – no matter what its size – will depend on its ability to manage costs, use capital efficiently, respond quickly to changes in the global marketplace and deliver products at competitive prices.

Shaping the future...

strategies for success

Chevron's worldwide long-range plans are guided by eight key strategic intents. They underlie the company's vision to be "Better than the Best." The strategic intents also provide the clear direction needed to achieve Chevron's mission: to create superior value for its stockholders, its customers and its employees. The company's continued success depends – especially during these difficult economic conditions – on how well these important strategies are carried out in all the company's operations in more than 90 countries around the globe. Chevron's progress and plans within each of the eight strategic intents are described on the following pages.

1

Committed employees – more important than ever

Strategy – Build a committed team to accomplish the corporate mission

Progress made

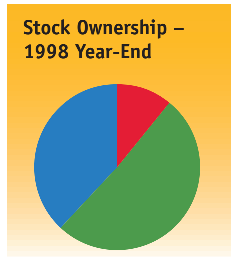
- **Latest worldwide survey shows that employees have a growing commitment to the company and a willingness to contribute more to their jobs.**
- **Learning and Development organization formed to help employees enhance their skills.**

Building a committed team is one of Chevron's top priorities. *The Chevron Way*, an important document issued by the company, provides employees with a common set of values, a shared sense of purpose and a clear strategic direction.

Employees are major stockholders. Chevron's employees own 11 percent of the company's outstanding shares, more than any other single investor group. In addition, Chevron Success Sharing and employee stock option plans reward employees with incentive pay when the company meets financial, operational and safety targets.

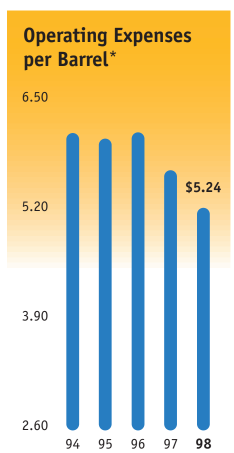
Safety, environmental performance are critical. Chevron's employees are dedicated to protecting the safety and health of people and the environment. This commitment is key to the company's success. Chevron's goals are to be the industry leader in safety and health performance and to be recognized worldwide for environmental excellence.

Continuous learning vital to success. Chevron's Learning and Development organization helps employees improve their skills to meet the requirements of a rapidly changing global business environment. Companywide programs focus on key transition points during employees' careers – for example, when they become new supervisors – so they can quickly perform at their best.



- Chevron Employees - 11%
- Institutions - 51%
- Individuals - 38%

Holding 11 percent of Chevron stock, employees have a large stake in the company's success.



Lower costs and higher production and sales reduced operating expenses 45 cents a barrel.

*Prior years restated to eliminate divested operations

New computers let employees work faster, smarter. Chevron has installed more than 30,000 standardized personal computers worldwide and linked them through a network called the Global Information Link (GIL). Using GIL, employees now are able to share best practices and other vital information about Chevron's business, conduct "virtual" meetings that save travel time, and enhance their skills by using personal development programs.

2

Low oil prices call for cost-cutting measures

Strategy – Focus on reducing costs across all activities

Progress made

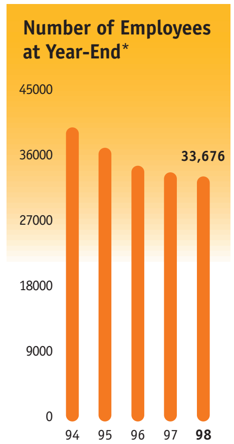
- **Cut operating costs some $2.4 billion, or 26 percent, since 1991, including the impact of major asset sales and reorganizations.**
- **Reduced per-barrel costs 8 percent from 1997 to $5.24, bettering a goal set for 2001.**

Chevron's ability to reduce operating costs since 1991 has been critical to its success. It is, in fact, the key to funding vital growth projects. The company's current business plan calls for cost reductions of $500 million in 1999.

Gains realized in energy use, capital projects, purchasing. Improvements in energy efficiency, project management and procurement are contributing significantly to savings. When compared with 1993, savings in energy efficiency alone amount to $200 million a year. By managing capital projects better, the company cut costs 15 percent since 1991 and this year is making additional improvements that are expected to reduce costs another 10 percent. In addition, Chevron is improving its procurement practices to gain advantages of scale in purchases of products and services.

Corporate services streamlined. The company's Human Resources and Finance departments are continuing to develop "shared services" that offer the greatest value at the lowest cost. In addition, Chevron formed a new subsidiary, called Chevron Environmental Management Company, to centrally manage environmental compliance and remediation efforts at sites throughout the United States. The company's goal is to improve the quality and shorten the duration of remediation projects, while reducing costs and environmental risks.

Other corporate services also are being studied for possible additional savings.



Since 1991, Chevron has reduced its work force by more than 17,000.

*Excludes service station personnel

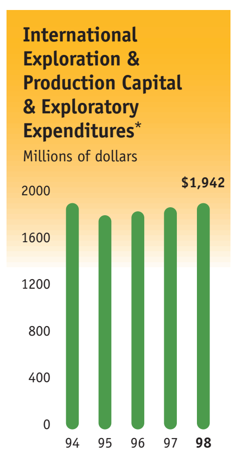
3

International upstream is Chevron's growth engine

Strategy – Accelerate exploration and production growth in international areas

Progress made

- **Increased international liquids production for the ninth straight year, up 7 percent from 1997.**
- **Increased international natural gas production by 14 percent from 1997.**
- **Increased proved oil and gas reserves for the ninth consecutive year, up 211 million barrels from 1997 to 4.35 billion barrels and replacing 165 percent of volume produced.**
- **Discovered the Benguela and Belize oil fields, the third and fourth large discoveries in two years in deep water offshore Angola.**
- **Took over operation and future development of the LL-652 oil field in Venezuela.**
- **Increased the Tengiz Field's average daily production rate to 188,000 barrels of oil for 1998, up from 155,000 in 1997.**
- **Began production at 10 new fields, including the Lomba oil field offshore Angola; the Britannia gas field in the U.K. North Sea; the Gbokoda, Dibi and Opolo oil fields in Nigeria; and the Gobe Main and Southeast Gobe oil fields in Papua New Guinea.**



International expenditures accounted for nearly 60 percent of total exploration and production spending.

*Includes Canada and equity in affiliates

Chevron is projecting an annual growth in international liquids production – oil and natural gas liquids – of about 8 percent a year through 2001.

Major projects key to production upswing. Several large projects will drive the company's projected growth in international oil and gas production over the next several years.

Offshore Angola, the deepwater Kuito and Benguela oil fields will be developed, with first production scheduled for 1999 and 2002, respectively. Chevron's share in each is 31 percent.

Chevron has a goal of producing 600,000 barrels of oil a day from its properties offshore Angola by 2001. In late 1998, the company set a single-day production record of more than 510,000 barrels of oil a day. Several new water-injection projects, designed to increase production from older oil fields, are under development.

The Tengizchevroil project in Kazakhstan, the Britannia gas field in the U.K. North Sea, and the Boscan and LL-652 fields in Venezuela are expected to contribute significantly over the next several years to the increase in Chevron's international oil and gas production. Additional projects in Angola, Nigeria and Congo also will make significant contributions.

In Australia, studies are under way to determine methods to increase sales of liquefied natural gas from the huge North West Shelf Project.

Chevron and its partners began production from the Huizhou 32-5 oil field, offshore China, in February. Using underwater facilities that deliver the oil to an existing platform – technology that accelerated first production and reduced costs – Chevron and partners will become the largest offshore China oil producers when the field reaches peak production.

Chevron and partner SASOL are conducting a feasibility study for a project to convert natural gas into synthetic crude oil at Chevron's Escravos Gas Plant in Nigeria.

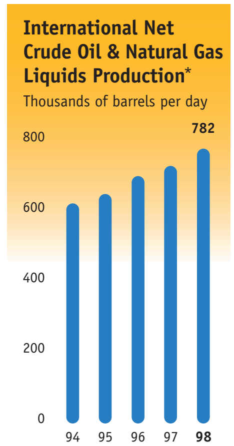
Enhanced recovery projects boost production. In Indonesia, Chevron's 50 percent-owned affiliate, Caltex Pacific Indonesia, will expand steam injection at the Duri Field and water injection at the Minas Field to increase oil recovery.

Reprising a historic relationship. Chevron and Bahrain have signed an agreement that will allow the company to explore for oil and gas in three offshore areas in the Persian Gulf.

Chevron also signed an exploration and production sharing agreement with the Qatar General Petroleum Corporation to explore for oil and gas on the Qatar Peninsula.

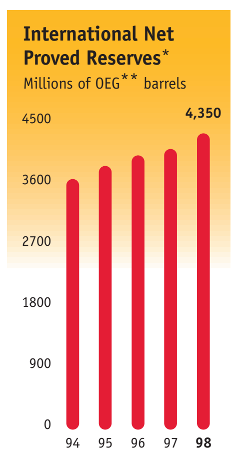
Chevron's presence in the Middle East dates back to the early 1930s when it made the first oil discoveries in Saudi Arabia and Bahrain.

Acquiring strategic assets that make sense. Chevron has signed agreements to acquire the Rutherford-Moran Oil Corporation, which owns a 46 percent interest in Block B8/32 in the Gulf of Thailand. The acquisition would provide Chevron a strategic entry into the Thailand natural gas market and could lead to other attractive investments in the area. It is subject to certain conditions that must be satisfied before the transaction can be completed.



Net liquids production rose 7 percent, with increased production in Canada, Kazakhstan and Indonesia.

*Includes Canada and equity in affiliates



Net proved reserves, up 5 percent, increased for the ninth straight year.

*Includes Canada and equity in affiliates
**Oil and equivalent gas

4 Opportunities abound in the Caspian region

Strategy – Accelerate the growth of the Caspian area earnings

Progress made

- **Obtained final approval from the governments of Russia and Kazakhstan for an export pipeline from Tengiz to the Russian Black Sea port of Novorossiysk. The Caspian Pipeline Consortium expects to begin construction later this year.**
- **Building on a strong base in Kazakhstan, expanded lubricants business into Georgia and opened an office in Tbilisi.**
- **Completed a 3-D seismic survey, offshore Azerbaijan, of the Absheron Block – potentially one of the Caspian Sea's most prolific fields. Drilling is expected to begin in 2000.**

Tengizchevroil (TCO), Chevron's joint venture in Kazakhstan, is the cornerstone of economic development in the Caspian area and the key to the company's expansion in the region.

Pipeline construction to begin. Pipe is being fabricated for the Caspian Pipeline Consortium's (CPC) 900-mile-long pipeline, with construction scheduled to begin later this year. When it is completed in 2001, this vital transportation link will deliver oil from the giant Tengiz Field in Kazakhstan across southern Russia to the Black Sea port of Novorossiysk.

The pipeline is the key to unlocking the potential of Tengiz and will help the field reach the goal of producing more than 700,000 barrels of oil a day by 2010. Chevron, the largest oil company shareholder, owns 15 percent of CPC.

TCO, in which Chevron holds a 45 percent interest, plans to build a fifth plant to process oil at the Tengiz Field. It will be capable of producing more than 50,000 barrels of oil a day. The plant, scheduled to be completed by mid-2000, will increase processing capacity to 240,000 barrels a day. Average daily production in December 1998 reached 218,000 barrels a day.

Company pursues new businesses. Through the Caspian Action Team, formed in February 1998, Chevron has expanded its range of interests in the area.

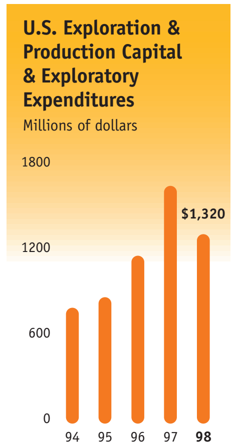
Drawing on experts from across the corporation, the team has focused on ways to further support TCO and to pursue new opportunities in refining, marketing, chemicals and technology licensing. It also has developed projects that both assist local communities and raise Chevron's visibility in the Caspian.

Chevron currently is exploring ways to service the growing aviation markets in the former Soviet Union. Chevron now has three retail gasoline service stations in Kazakhstan and is considering other sites in the region. It also is pursuing other opportunities, including further expansion of the lubricants business.

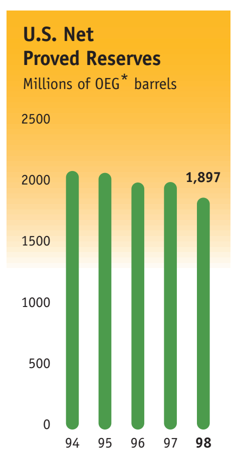
The company is evaluating plans to build a plant in Atyrau, Kazakhstan, to manufacture polyethylene pipe for water and gas distribution and for sewer lines. It also is evaluating opportunities to enhance the value of byproducts from Tengiz oil production.

Businesses benefit from Chevron assistance. In partnership with the United Nations and the European Bank for Reconstruction and Development, Chevron is assisting small- and medium-size businesses in Atyrau, Kazakhstan, with loans, training and business advice.

By giving a boost to local entrepreneurs, this program will increase the goods and services available to TCO. It also can serve as a model for other communities.



Expenditures fell 20 percent in 1998, compared with 1997's aggressive capital program.



U.S. net proved reserves dropped 6 percent in 1998.

*Oil and equivalent gas

5 North American upstream advances key projects

Strategy – Generate cash from North American exploration and production operations

Progress made

- **Began oil production in January from Genesis, the company's first deepwater project in the Gulf of Mexico.**
- **Set a world record for deepwater drilling with a Gulf of Mexico well in 7,700 feet of water.**
- **Began withdrawal from offshore California, including the sale of five platforms and other related facilities.**
- **Offshore Newfoundland, boosted Hibernia production from the 1997 average rate of 65,000 barrels a day to a peak of well over 100,000 by year-end 1998.**

In North America, Chevron remains focused on two main growth areas – the Gulf of Mexico's deep water and offshore eastern Canada. Low oil prices have constrained cash generation and dictated a slowdown in spending in all but major growth areas. North American upstream – Chevron U.S.A. Production Company, Chevron Canada Resources and Chevron's 28 percent interest in Dynegy – contributed almost $300 million in cash to the corporation in 1998, compared with $1.2 billion in 1997.

Deepwater era has arrived. Gemini, the company's second deepwater project in the gulf, is expected to start production midyear, and development of a third discovery, Typhoon, is being evaluated. Chevron's goal is to discover 2 billion barrels of oil and equivalent gas in the deepwater Gulf of Mexico over the next 10 years.

Hibernia production on the rise. In eastern Canada, additional wells, along with water and gas injection, are boosting Hibernia's production, and the field's reservoir quality is better than expected. Production is expected to reach 150,000 barrels a day in 1999. The company also is targeting production from a formation just above Hibernia's – Avalon, with 2 billion barrels of oil in place – and has begun delineating the nearby Hebron Field. To further strengthen its position in the area, Chevron acquired a large deepwater lease offshore Nova Scotia and four more exploration licenses offshore Newfoundland in 1998.

North American exploration curtailed. Chevron's North American onshore operations – in western Canada, the mid-continent and California's San Joaquin Valley – have halted exploration. Their focus is on cutting costs, sustaining the value of ongoing projects and generating cash for growth elsewhere.

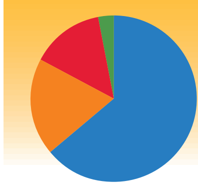
Power generation promises growth. Chevron holds a 28 percent interest in Dynegy, a major natural gas, natural gas liquids and power marketer, as well as a power generator, in North America.

Dynegy plans to invest more than $1 billion in power generation in the United States over the next three years. The company's strong asset base and marketing capabilities position it to capitalize on the deregulating electricity business.

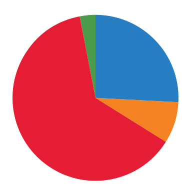
Asset sales, cost cuts partly offset low oil prices. As part of its response to low oil and gas prices, Chevron is focusing on its core holdings. The company sold some marginal fields for about $300 million in 1998. In addition, an ambitious cost-cutting program aims to reduce operating expenses some $120 million in 1999.

Joint venture planned for Permian Basin. The company is pursuing a joint venture with ARCO to combine oil and gas producing assets in the Permian Basin of West Texas and southeast New Mexico. The new company, whose formation is expected by midyear, would have more than 600 million barrels of proved reserves and daily production of 170,000 barrels of oil and gas equivalent.

U.S. Gasoline Sales Volumes by Grade & Type



- Regular Unleaded - 64%
- Premium Unleaded - 19%
- Midgrade Unleaded - 14%
- Aviation & Other - 3%



- Reformulated, Calif. - 26%
- Reformulated, Federal - 8%
- Nonreformulated - 63%
- Aviation & Other - 3%

Cleaner-burning reformulated gasolines account for 34 percent of fuel sales.

6 Gasoline, convenience stores yield strong earnings

Strategy – Achieve top financial performance and generate cash in North American refining and marketing

Progress made

- **Increased branded gasoline sales volumes 5 percent to 521,000 barrels a day and company-operated convenience store sales 31 percent to $232 million.**
- **Maintained No. 1 position in the United States for asphalt sales and No. 1 in the western United States for aviation fuels and diesel.**
- **Reduced per-barrel operating costs 25 cents in 1998 and continues an aggressive cost-savings effort.**
- **Developed and introduced the "Extra Mile" identity for convenience stores.**
- **Introduced the prototype of Foodini's, a food market that provides prepared meals to go.**
- **Increased gasoline yield from refinery operations more than 10 percent since 1994.**

At $633 million, refining, marketing and transportation's 1998 operational earnings, excluding special items, approached last year's exceptional results. And this occurred despite tight margins, fierce competition and Hurricane Georges, which forced closure of the Pascagoula, Mississippi, refinery for more than two months.

Customer focus drives business. Chevron Products Company continues to promote customer convenience at its service stations, with increased emphasis on offering such items as coffee and freshly prepared take-home meals, as well as ATM services. The new "Extra Mile" identity suggests this wide range of offerings.

The number of company-operated convenience stores increased 10 percent to nearly 700 in 1998 and continues to expand in 1999. Chevron plans to increase the average store size and double the number of large convenience stores by 2001.

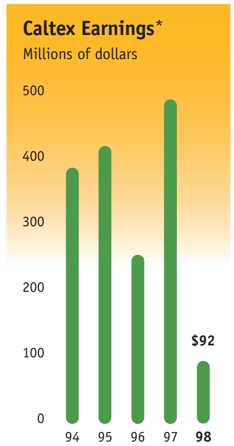
The company also opened two Foodini's markets in Northern California and three in the Phoenix, Arizona, area. Early indicators show high customer satisfaction.

Chevron builds strategic alliances with premier brands. In a 13-year agreement with Disneyland aimed at enhancing brand appeal, Chevron will update and sponsor the theme park's Autopia, a kid-size car concourse. In addition, the number of co-branded Chevron-McDonald's sites has increased to more than 100.

Safety yields major savings. The continued emphasis on safety by Chevron Products has reduced the cost of incidents, before tax, by nearly $150 million a year since 1994.

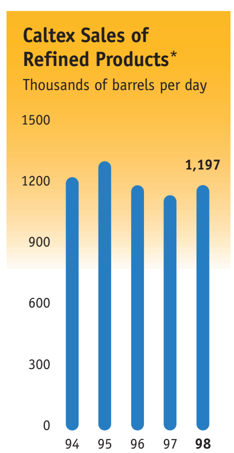
In September, Hurricane Georges forced the Pascagoula, Mississippi, refinery to shut down. Start-up began in mid-November, and the facility was in full operation by year-end. Nevertheless, refining had its safest year ever in 1998.

Amoco, Texaco deals expand lubricants. The lubricants business continues to expand and now serves customers in more than 100 countries. The company acquired Amoco's North America lubricants business in July. This makes Chevron the leading single-brand marketer of heavy-duty and industrial oils in North America.



Caltex earnings declined in 1998, due to foreign exchange currency losses and the Asian economic crisis.

*Excluding special items – 100 percent basis



Despite a slowdown in Asia, Caltex sales of refined products increased 4 percent, due mainly to stronger export demand.

*100 percent basis

Chevron and Texaco formed a joint venture, combining the two companies' global marine fuel oil lubricants businesses. The new company, Fuel and Marine Marketing LLC, will have offices in 18 countries.

Canadian subsidiary challenged by sluggish economy. Chevron Canada Limited's (CCL) earnings declined in 1998 due to a recession in British Columbia and low retail margins brought on by the emergence of new competitors. The company plans to improve profits and cash flow by cutting costs, increasing fuel and convenience store sales and reducing capital expenditures.

CCL has been the No. 1 retail marketer of gasoline and jet fuel in British Columbia for more than a decade. It operates the only West Coast Canadian refinery, which now is able to produce 100 percent reformulated gasoline.

Alberta Envirofuels, a gasoline oxygenate maker half-owned by CCL, increased both production and earnings in 1998.

7 Caltex positioned for improved Asian economy

Strategy – Achieve superior financial performance from Caltex

Progress made

- **Reorganized the business along functional lines, rather than geographic areas, and moved the executive leadership team from Dallas to Singapore.**
- **Converted nearly 1,200 branded outlets to the new retail image by year-end 1998.**
- **Accelerated expansion of the company's convenience store network.**

Reduced product demand, tied to the Asian economic crisis, continued to challenge Caltex, a refining and marketing affiliate owned jointly with Texaco. Caltex operates in more than 60 countries in the Asia-Pacific region, Africa and the Middle East.

Chevron's share of Caltex 1998 results was a loss of $36 million, compared with earnings of $252 million in 1997. Excluding foreign exchange and special items, earnings were $114 million in 1998, compared with $70 million in 1997.

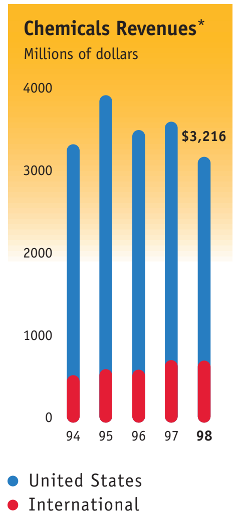
Korean affiliate shows strong results. The company's Korean affiliate, LG-Caltex, turned in an exceptionally strong performance. With about a 30 percent market share, LG-Caltex benefited from firm prices, reduced operating costs and a more efficient, restructured marketing group.

Caltex expects to see a gradual recovery from the Asian economic slowdown beginning this year, with product demand growing through 2005.

Reorganization streamlines the business. The recent reorganization creates a more efficient company, with economies of scale gained by eliminating geographic barriers. Ultimately, the work force will be trimmed by more than 10 percent.

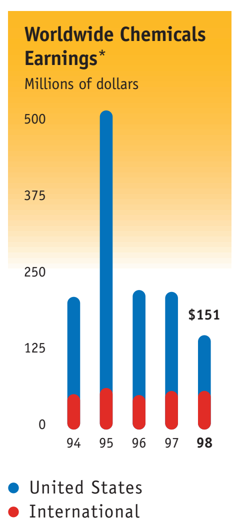
Convenience stores, LPG business expand. The brand re-imaging program, begun in 1996, will transform the look of about 3,750 service stations by 2001. In addition, the company plans to increase the number of convenience stores from 460 to about 800 by 2001, including the new stand-alone "High Street" stores that target foot-traffic customers. Because of the increased focus on nonpetroleum revenues, Caltex Petroleum Corporation changed its name to Caltex Corporation, effective January 1, 1999.

The company is making major investments in liquefied petroleum gas in China, India and Vietnam. Demand growth is expected to remain strong, particularly in less-developed countries.



Revenues fell 12 percent as the industry downturn continued through 1998.

*Includes sales to other Chevron companies



Chemicals earnings fell 33 percent due to low prices caused by industry overcapacity and low demand.

*Excluding special items

Chemicals positioned for next upcycle

Strategy – Improve financial performance in chemicals

Progress made

- **Began construction of a normal alpha olefins plant at Baytown, Texas.**
- **Broke ground for a $70 million polyisobutene facility at Belle Chasse, Louisiana.**
- **Began operations at a new $225 million fuel additives plant in Singapore.**
- **Broke ground for a 100,000-ton-a-year polystyrene plant in Zhangjiagang, China.**

Chevron Chemical Company's operating earnings of $151 million, the lowest since 1993, reflected the combined effects of the continuing industry overcapacity and the slowdown in demand growth in Asia.

International projects on schedule. Construction is nearly complete on the $650 million benzene and cyclohexane facility in Saudi Arabia, scheduled to begin operations in mid-1999. Also, construction has started on the 100,000-ton polystyrene plant in China, scheduled to begin production in 2000.

Drop in demand forces delays. Due to the worldwide drop in product demand, funding for new projects through 2001 has been reduced. Several international projects in the planning stages will be delayed.

U.S. projects remain on track. Chevron will continue to invest in planned U.S. projects to maintain its position or enhance the competitiveness of its core products. Projects scheduled to begin operations through the end of 2000 include a normal alpha olefins expansion project at Baytown, Texas, and a high-density polyethylene gas phase modernization project at Orange, Texas.

GLOSSARY OF ENERGY AND FINANCIAL TERMS

Glossary

Energy Terms

• ***Additives*** Chemicals to control deposits and improve lubricating performance.

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

• ***Development*** Following discovery, drilling and related activities necessary to begin production of oil or natural gas.

• ***Enhanced recovery*** Techniques used to increase or prolong production from oil and natural gas fields.

• ***Exploration*** Searching for oil and/or natural gas, including geologic studies; topographical, geophysical and seismic surveys; and well drilling.

• ***Integrated petroleum company*** A company engaged in all aspects of the industry – from exploration and production of crude oil and natural gas *(upstream)* to refining, marketing and transporting products *(downstream).*

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

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

• ***Natural gas liquids (NGL)*** Separated from natural gas, these include ethane, propane, butanes and natural gasoline.

• ***Oil equivalent gas (OEG)*** The volume of natural gas that can be burned to give the same amount of heat as a barrel of oil (6,000 cubic feet of gas equals one barrel of oil).

• ***Oxygenate*** An oxygen blending component, such as ether or alcohol, that reduces exhaust emissions in winter.

• ***Petrochemicals*** Derived from petroleum, at Chevron they include: *aromatics,* used to make plastics, adhesives, synthetic fibers and household detergents; and *olefins,* used to make packaging, plastic pipes, tires, batteries, household detergents and synthetic motor oils.

• ***Production*** *Total production* refers to all the oil and gas produced from a property. *Gross production* is the company's share of total production before deducting royalties. *Net production* is the gross production minus royalties paid to landowners.

• ***Reformulated gasoline*** Gasoline changed in chemical makeup to reduce exhaust emissions, usually by reducing volatility and aromatics content and adding oxygenates. *California reformulated gasoline,* with stricter requirements mandated by the state's Air Resources Board, reduces emissions more than the federally mandated formula.

• ***Reserves*** Oil or natural gas contained in underground rock formations called *reservoirs. Proved reserves* are the estimated quantities that geologic and engineering data demonstrate can be produced with reasonable certainty from known reservoirs under existing economic and operating conditions. Estimates change as additional information becomes available. *Recoverable reserves* are those that can be produced using all known primary and enhanced recovery methods.

Financial Terms

• ***Cash flow from operating activities*** Cash earnings of the business, an indicator of a company's ability to pay dividends and fund capital programs.

• ***Earnings*** Total revenues, less total expenses (including taxes). Used interchangeably with net income.

• ***Margin*** The difference between the cost of purchasing or producing a product and the sales price.

• ***Operating earnings*** Income generated by the ongoing operations of the company, excluding special items or adjustments caused by changes in accounting principles.

• ***Operating expenses per barrel*** A key Chevron performance measure calculated by taking operating, selling, general and administrative expenses; adding own-use fuel costs; subtracting special items and expenses of divested operations; and then dividing by production and sales volumes.

• ***Return on capital employed, excluding special items (ROCE)*** One of Chevron's key metrics, ROCE is calculated by dividing net income (adjusted for after-tax interest expense and special items) by the average of total debt, minority interest and stockholders' equity for the year.

• ***Special items*** Transactions not considered representative of the company's ongoing operations. These transactions, as defined by management, can obscure the underlying results of operations and affect comparability between years.

• ***Stockholders' equity*** The owners' share of the company, this is the difference between total assets and total liabilities.

• ***Total stockholder return*** An important Chevron measurement, it is the return to stockholders from stock price appreciation and reinvested dividends for a period of time.

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

1998 KEY INDICATORS

- **Net income of $1.339 billion for 1998 declined 59 percent from 1997's record level**
- **Average 1998 U.S. crude oil realizations declined 35 percent to $11.42 per barrel, the lowest in 20 years**
- **Average 1998 U.S. natural gas realizations declined 17 percent to $2.02 per thousand cubic feet**
- **International liquids production increased for the ninth consecutive year, increasing 7 percent during 1998**
- **Operating, selling, general and administrative expenses for 1998, excluding special items, declined by $300 million**
- **Worldwide net oil and gas reserve additions exceeded production for the sixth consecutive year**
- **Annual dividends increased for the 11th consecutive year**

KEY FINANCIAL RESULTS

Millions of dollars, except per-share amounts	**1998**	1997	1996
Sales and Other Operating Revenues	**$29,943**	$40,596	$42,782
Net Income	**$ 1,339**	$ 3,256	$ 2,607
Special (Charges) Credits Included in Net Income	**$ (606)**	$ 76	$ (44)
Per Share:			
Net income – basic	**$ 2.05**	$ 4.97	$ 3.99
– diluted	**$ 2.04**	$ 4.95	$ 3.98
Dividends	**$ 2.44**	$ 2.28	$ 2.08
Return on:			
Average Capital Employed	**6.7%**	15.0%	12.7%
Average Stockholders' Equity	**7.8%**	19.7%	17.4%

Chevron's net income for 1998 was $1.339 billion, down 59 percent from record earnings of $3.256 billion in 1997 and down 49 percent from $2.607 billion in 1996. Excluding special items, earnings in 1998 were $1.945 billion, down 39 percent from $3.180 billion in 1997 and down 27 percent from $2.651 billion in 1996. Foreign currency losses were $47 million in 1998, compared with gains of $246 million in 1997 and losses of $26 million in 1996.

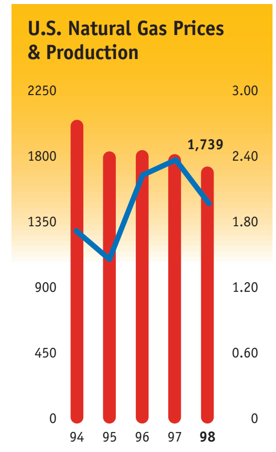
Net income for 1998, compared with 1997 and 1996, also included more favorable effects from income tax adjustments, including those resulting from the finalization of the company's 1997 U.S. federal income tax return, larger net gains from property sales and higher proceeds from favorable settlements of insurance and other claims.

Net income for the company's individual business segments is discussed in the Results of Operations section.

NET INCOME BY MAJOR OPERATING AREAS

Millions of dollars	**1998**	1997	1996
Exploration and Production			
United States	**$ 365**	$1,001	$1,087
International	**707**	1,252	1,211
Total Exploration and Production	**1,072**	2,253	2,298
Refining, Marketing and Transportation			
United States	**572**	601	193
International	**28**	298	226
Total Refining, Marketing and Transportation	**600**	899	419
Chemicals	**122**	228	200
All Other	**(455)**	(124)	(310)
Net Income	**$1,339**	$3,256	$2,607
Special Items	**(606)**	76	(44)
Net Income, Excluding Special Items	**$1,945**	$3,180	$2,651

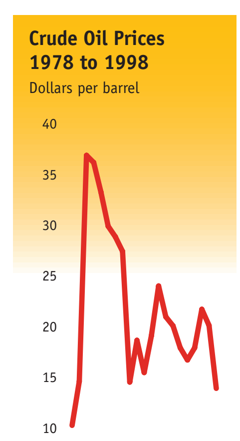
OPERATING ENVIRONMENT AND OUTLOOK. Crude oil prices fell dramatically during 1997 and 1998, with average prices for 1998 reaching their lowest levels in 20 years. The price of spot West Texas Intermediate (WTI) crude oil averaged $22.15 per barrel for 1996. Prices fell throughout 1997, averaging $20.60 per barrel for the year. The downward price trend continued throughout 1998, with crude oil prices in the $13 to $15 range most of the year. The average spot WTI price for 1998 fell to $14.38 per barrel for the year and $11.28 for the month of December. Prices have not improved significantly in 1999, averaging $12.24 per barrel through February and closing at $13.35 on March 4, 1999. Chevron's U.S. crude oil realizations averaged $11.42 per barrel for 1998, down 35 percent and 39 percent from average realizations for 1997 and 1996, respectively.



Prices fell on lower demand; production was down due to normal field declines, asset sales and storm-related shut-ins.

A number of factors continue to exert downward pressure on crude oil prices. Worldwide supplies have increased because of start-ups of new producing fields and higher production from existing fields, while the growth in demand has slowed, resulting in an oversupplied world market. In addition, inventories in early 1999 remained high. It is uncertain how long these conditions will continue. The low crude oil prices, if they persist, could hold down the company's revenues and earnings, particularly in the exploration and production (upstream) operations of the company.

The company does not expect significant improvements in the prices for crude oil, natural gas and commodity chemicals in the near term. To help offset the impact from low prices, Chevron intends to reduce its cost structure by an additional $500 million in 1999 while selectively investing in areas that provide the greatest opportunities for growth. During 1999, Chevron intends to focus its capital spending on international exploration and production projects, which the company considers its growth engine for the future. However, timely completion of the planned projects will be dependent upon, among other factors, the ability of our partners, some of which are national petroleum companies, to fund their share of the costs. The company expects to minimize capital spending in the international



In 1998, average prices for West Texas Intermediate were at their lowest level since 1978.

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

chemicals and downstream (refining, marketing and transportation) businesses.

Increases in oil and equivalent gas (OEG) production, primarily in the company's international areas such as West Africa, offshore eastern Canada, Indonesia and the U.K. North Sea, have helped to offset partially the effects of low crude oil and natural gas prices. Additional oil and gas production increases are expected in the next few years from developments in West Africa, Hibernia and other prospects offshore eastern Canada, the deep waters of the U.S. Gulf of Mexico, and from continued expansion of production from the Tengiz Field in Kazakhstan.

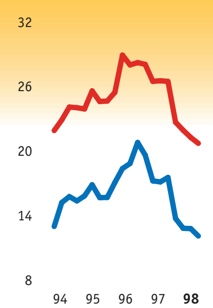
Chevron's U.S. refining, marketing and transportation business was affected adversely by lower product margins in 1998 and the September hurricane that closed the company's Pascagoula, Mississippi, refinery for most of the 1998 fourth quarter. These factors were offset partially by higher refined products sales volumes and lower operating expenses.

In the international refining, marketing and transportation segment, the company's Caltex affiliate's earnings have been, and will continue to be, affected by the economic slowdown in the Asia-Pacific region and fluctuations in the value of Asian currencies. In western Canada, retail product margins declined in 1998 as a result of increased competition.

A cyclical downturn began in the worldwide chemicals industry in the second half of 1995 and continues into 1999. The company's operating earnings from chemicals operations continued to decline in 1998. Prices of chemicals products remain depressed, reflecting industry overcapacity, stagnant demand – especially in Asia – and increasing inventories.

Quarterly U.S. Crude Oil Prices vs. U.S. Refined Products Sales Prices

Dollars per barrel



- Refined Products
- Crude Oil

Over time, the price of crude oil is the major factor in determining refined products prices.

SIGNIFICANT DEVELOPMENTS. Chevron's 1998 worldwide net proved barrels of OEG reserves additions exceeded production for the sixth consecutive year. The worldwide net proved OEG reserves replacement was 119 percent for 1998, excluding sales and acquisitions. Worldwide OEG production was up 2 percent in 1998, with international net liquids production increasing 7 percent.

Total liquids production from the Tengiz Field in Kazakhstan in 1998 averaged 188,000 barrels per day (BPD), an increase of 21 percent over 1997 average production of 155,000 BPD. Production from the field averaged 218,000 BPD in December 1998. Chevron operates the facilities at Tengiz for Tengizchevroil, in which the company has a 45 percent ownership interest. Final local government approvals were secured in late 1998, permitting construction to begin in 1999, on the Caspian Pipeline Consortium's (CPC) pipeline that will deliver crude oil from the Tengiz Field to the Black Sea port of Novorossiysk. Chevron has a 15 percent interest in CPC. The completion of this pipeline in 2001 will provide additional transportation outlets for Kazakh crude oil and is critical for future expansion of production capacity at the Tengiz Field.

The daily rate of production at Block 0 in Angola, in which Chevron has a 39 percent interest, reached a record 514,000 BPD in December 1998. New production commenced during the year at the South Nemba and Lomba fields. In deepwater Angola Block 14, in which the company has a 31 percent interest, the third and fourth commercial discoveries were made in 1998. First production in Block 14 is expected by year-end 1999 from the initial phase of the Kuito Field development, while the company prepares its overall Block 14 development plan.

Chevron's share of net liquids production in Nigeria declined slightly to 150,000 BPD in 1998 as a result of OPEC-directed production curtailments. New production began from the Dibi, Gbokoda and Opolo oil fields during the year. In early 1999, the government of Nigeria announced it will fund only a portion of the budgets submitted for oil and gas activities for 1999. New exploration and development projects, as well as ongoing projects, may be delayed as a result of this funding decision.

Offshore eastern Canada, the Hibernia Field completed its first full year of operation. For 1998, production averaged 65,000 BPD, with daily peaks over 100,000 BPD by year-end. After additional development drilling and gas injection, Hibernia peak daily production rates are expected to reach 150,000 BPD in 1999. Chevron holds a 26.9 percent interest in Hibernia.

International average natural gas production increased by about 14 percent in 1998, primarily reflecting increases in the United Kingdom and Nigeria. In August 1998, natural gas production began at the Britannia Field, in which Chevron holds a 30.2 percent interest, in the U.K. North Sea. In December 1998, the field produced over 600 million cubic feet of gas per day and about 45,000 barrels per day of condensate. In Nigeria, Phase 2 of the Escravos Gas Project is under construction. The Escravos Gas Project processes natural gas, which was previously flared into the atmosphere, into liquefied petroleum gas for use in the domestic market and as condensate for export.

The company signed agreements to explore in Qatar and Bahrain during the first quarter of 1998. In the same quarter, production began at the Moran and Gobe fields in Papua New Guinea. In December, Chevron announced it had executed a purchase agreement with Rutherford-Moran Oil Corporation, which owns a 46 percent interest in Block B8/32 in the Gulf of Thailand. This acquisition in Southeast Asia may lead to other investments in the area.

Chevron acquired 66 additional deepwater tracts at U.S. federal lease sales during the year, furthering its intent to be a major participant in the development of the U.S. Gulf of Mexico deep waters. The company's deepwater inventory consisted of 428 tracts at year-end 1998. Construction and installation of production facilities at the company's first deepwater Gulf operation, Genesis, were completed, and production began in January 1999. Chevron is the operator with a 57 percent working interest. Another of the company's deepwater projects, Gemini, is expected to begin production later in 1999.

Chevron completed the sale of platforms Gail and Grace, located in federal waters in the southeast end of the Santa

Barbara Channel, and their associated platform-to-shore pipelines in February 1999. In March 1999, the company received approval from its partners to sell its interests in the producing, processing and transportation assets in the Point Arguello area, completing the sale of its entire offshore California operations.

In February 1999, Chevron and a unit of Atlantic Richfield, ARCO Permian, announced an agreement to exclusively pursue a combination of the two companies' oil and gas producing assets in the Permian Basin of West Texas and southeast New Mexico. If a final agreement is reached, ARCO and Chevron will each own 50 percent of a new company to be headquartered in Midland, Texas. The new entity is expected to develop and produce oil and natural gas, and market crude oil, natural gas, natural gas liquids and related products in the Permian Basin. Operations will consist of more than 7,000 wells and 150 fields, representing 600 million barrels of proved reserves and producing over 170,000 BPD of oil equivalents. In addition, the company would produce, transport and market carbon dioxide from assets contributed by ARCO and Chevron in Colorado.

Chevron Chemical Company began commercial production in January 1999 at its new $215 million Singapore plant, the largest fuel and lubricating additives manufacturing plant in Asia. The plant will manufacture 26 additive components from over 40 different raw materials and make more than 150 additive package blends tailored to customer needs. The company expects to begin commercial sales from the Singapore plant in March 1999.

On January 1, 1999, 11 of the 15 member countries of the European Union began converting to the "euro" by establishing fixed conversion rates between their existing sovereign currencies and the euro. Chevron has evaluated the impact of the conversion of the euro and has concluded that, based on the company's current level of activity, the conversion will not have a material impact on its business or financial condition.

YEAR 2000 PROBLEM. The Year 2000 problem is the result of computer systems and other equipment with embedded chips or processors using two digits, rather than four, to define a specific year and potentially being unable to process accurately certain data before, during or after 2000. This could result in system failures or miscalculations, causing disruptions to various activities and operations.

Chevron has established a corporate-level Year 2000 project team to coordinate the efforts of teams in the company's operating units and corporate departments to address the Year 2000 issue in three major areas: information technology, embedded systems and supply chain. Information technology includes the computer hardware, systems and software used throughout the company's facilities. Embedded systems exist in automated equipment and associated software, which are used in the company's exploration and production facilities, refineries, transportation operations, chemical plants and other business operations. Supply chain includes the third parties with whom Chevron conducts business. The company also is monitoring the Year 2000 efforts of its equity affiliates and joint-venture partners. Progress reports on the Year 2000 project are presented regularly to the company's senior management and periodically to the Board Audit Committee.

The company is addressing the Year 2000 issue in three overlapping phases: (1) the identification and assessment of all critical equipment, software systems and business relationships that may require modification or replacement prior to 2000; (2) the resolution of critical items through remediation and testing of modifications, replacement, or development of alternative business processes; and (3) the development of contingency and business continuation plans for critical items to mitigate any disruptions to the company's operations.

Chevron intends to address all critical items prior to 2000. Phase 1 – identification and assessment – is essentially complete. The company estimates that at December 31, 1998, it had completed approximately 30 percent of Phase 2 activities. Phase 2 is expected to be about 75 percent complete by the end of the second quarter 1999 and essentially finished by the end of the third quarter 1999. Phase 3 is also scheduled for completion at the end of the third quarter.

The company is using a risk-based analysis of its operations to identify those items deemed to be "mission critical," defined as having the potential for significant adverse effects in one or more of five areas: environmental, safety, ongoing business relationships, financial and legal exposure, and company credibility and image. To date, over 300 items of varying degrees of complexity in the company's own operations and about 1,000 third-party relationships have been deemed mission-critical. Many mission-critical items already have been found to be compliant, while others are undergoing remediation and testing. The company's major financial systems and desktop computer systems were upgraded in separate projects and are already compliant. Chevron is corresponding with all mission-critical third parties and expects to meet with a large percentage of them, either alone or with other potentially affected parties, to determine the relative risks of major Year 2000-related problems and to determine how to mitigate such risks. Additional items and third-party relationships may be added to or removed from this population as more information becomes available.

Using practical risk assessment and testing techniques, Chevron is dividing its list of more than 300 internal items into three categories: (1) those that are expected to be tested and made Year 2000 compliant prior to 2000; (2) items that will be removed from service without testing and replaced with Year 2000 compliant items; and (3) items to be "worked around," if found not to be Year 2000 compliant, until the items can be replaced or made compliant. Because of the scope of Chevron's operations, the company believes it is impractical to eliminate all potential Year 2000 problems before they arise. As a result, Chevron expects that for nonmission-critical items, Year 2000 remedial efforts will continue into the year 2000.

In the normal course of business, the company has developed and maintains extensive contingency plans to respond to equipment failures, emergencies and business interruptions. However, contingency planning for Year 2000 issues is complicated by the possibility of multiple and simultaneous incidents, which could significantly impede efforts to respond to emergencies and resume normal business functions. Such incidents may be outside of the company's control, for example, if mission-critical third parties do not successfully address their own material Year 2000 problems.

The company is enhancing existing plans, where necessary, and in some cases developing new plans specifi-

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

cally designed to mitigate the impact on its operations of potential failures from the Year 2000 issue. The company expects to complete and test, where appropriate, its contingency plans by the end of the third quarter 1999. These plans will be designed to protect the company's assets, continue safe operations, protect the environment and enable the resumption of any interrupted operations in a timely and efficient manner. The company's contingency plans will be focused on: third-party relationships as necessary; internal mission-critical items, if any, that are not remediated or otherwise addressed as expected by the end of the third quarter 1999; and other internal mission-critical items that have been remediated but will not be fully tested prior to 2000.

The company utilizes both internal and external resources in its Year 2000 efforts. The total estimated cost to achieve Year 2000 compliance is approximately $250 million, mostly for expense-type items, not all of which are incremental to the company's operations. Approximately $75 million had been spent through December 31, 1998. Most of the remaining expenditures will be incurred in 1999, with the rate of expenditure expected to increase significantly in 1999. The foregoing amounts include the company's share of expenditures by its major affiliates.

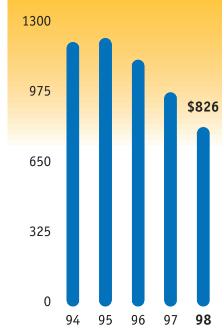
As part of the Securities and Exchange Commission's reporting requirements on the Year 2000 problem, companies must include a description of their "most reasonably likely worst-case scenarios" from potential Year 2000 issues. For Chevron, its business diversity is expected to reduce the risk of widespread disruptions to its worldwide operations from Year 2000-related incidents. The company does not expect unusual risks to public safety or to the environment to arise from potential Year 2000-related failures. While the company believes that the impact of any individual Year 2000 failure most likely will be localized and limited to specific facilities or operations, it is not yet able to fully assess the likelihood of significant business interruptions occurring in one or more of its operations around the world. Such interruptions could delay the company from being able to manufacture and deliver refined products and chemicals products to customers. The company could also face interruptions in its ability to produce crude oil and natural gas. While not expected, failures to address multiple critical Year 2000 issues, including failures to implement contingency plans in a timely manner, could materially and adversely affect the company's results of operations or liquidity in any one period. The company is currently unable to predict the aggregate financial or other consequences of such potential interruptions.

The foregoing disclosure is based on Chevron's current expectations, estimates and projections, which could ultimately prove to be inaccurate. Because of uncertainties, the actual effects of the Year 2000 issues on Chevron may be different from the company's current assessment. Factors, many of which are outside the control of the company and that could affect Chevron's ability to be Year 2000 compliant by the end of 1999, include: the failure of customers, suppliers, governmental entities and others to achieve compliance, and the inability or failure to identify all critical Year 2000 issues, or to develop appropriate contingency plans for all Year 2000 issues that ultimately may arise. The foregoing disclosure is made pursuant to the Federal Year 2000 Information and Readiness Disclosure Act.

ENVIRONMENTAL MATTERS. Virtually all aspects of the company's businesses are subject to various federal, state and local environmental, health and safety laws and regulations. These regulatory requirements continue to change and increase in both number and complexity, and govern not only the manner in which the company conducts its operations, but also the products it sells. Most of the costs of complying with myriad laws and regulations pertaining to its operations and products are embedded in the normal costs of conducting its business.

Using definitions and guidelines established by the American Petroleum Institute, Chevron estimates its worldwide environmental spending in 1998 was about $974 million for its consolidated companies. Included in these expenditures were $275 million of environmental capital expenditures and $699 million of costs associated with the control and abatement of hazardous substances and pollutants from ongoing operations. The total spent includes spending charged against reserves established in prior years for environmental cleanup programs, but not noncash provisions to increase these reserves or establish new ones during the year. For 1999, total worldwide environmental capital expenditures are estimated at $264 million. These capital costs are in addition to the ongoing costs of complying with environmental regulations and the costs to remediate previously contaminated sites.

Year-End Environmental Remediation Reserves
Millions of dollars



Reserves have been falling since 1995 as expenditures for environmental remediation outpaced new accruals.

In addition to the costs for environmental protection associated with its ongoing operations and products, the company may incur expenses for corrective actions at various owned and previously owned facilities, as well as third-party waste disposal sites used by the company. Accidental leaks and spills requiring cleanup may occur in the ordinary course of business. In addition, an obligation may arise when operations are closed or sold, or at non-Chevron sites where company products have been handled or disposed of. Most of the expenditures to fulfill these obligations relate to facilities and sites where past operations followed practices and procedures that were considered acceptable at the time but now require investigative and/or remedial work to meet current standards.

The company retained certain environmental cleanup obligations when it sold the Port Arthur, Texas, refinery in 1995, and anticipated costs were accrued at the time of sale. Previously recorded reserves remain adequate.

Under provisions of the Superfund law, the Environmental Protection Agency (EPA) has designated Chevron a potentially responsible party or has otherwise involved it in the remediation of 289 hazardous waste sites. The company has made provisions or payments in 1998 and prior years for approximately 195 of these sites. No single site is expected to result in a material liability for the company at this time. For the remaining sites, investigations are not yet at a stage where the company is able to quantify a probable liability or determine a range of reasonably possible exposures. The Superfund law provides for joint and several liability. Any future actions by the EPA and other regulatory agencies to require Chevron to assume other responsible parties' costs at designated hazardous waste sites are not expected to have a material effect on the company's consolidated financial position or liquidity.

During 1998, the company recorded $73 million of net before-tax provisions ($46 million after tax) for environmental remediation efforts, including Superfund sites. Actual expenditures charged against these provisions and other previously established reserves amounted to $234 million in 1998. At year-end 1998, the company's environmental remediation reserves were $826 million, including $48 million related to Superfund sites.

It is likely that the company will continue to incur additional charges, beyond those reserved, for environmental remediation relating to past operations. These future costs are 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 amounts of future costs may be material to the company's 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 domestic or international petroleum or chemicals concerns.

In addition to the reserves for environmental remediation discussed previously, the company maintains reserves for dismantlement, abandonment and restoration of its worldwide oil and gas and coal properties at the end of their productive lives. Many of these costs are environmentally related. Provisions are recognized on a unit-of-production basis as the properties are produced. The amount of these reserves at year-end 1998 was $1.4 billion and is included in accumulated depreciation, depletion and amortization on the company's consolidated balance sheet.

For the company's other ongoing operating assets, such as refineries, no provisions are made for exit or cleanup costs that may be required when such assets reach the end of their useful lives unless a decision to sell or otherwise abandon the facility has been made.

During 1998, the company received proceeds – reflected in operating expenses – from settlements with various insurers related to environmental cost-recovery claims. As part of these settlements, Chevron has released rights to assert claims under certain policies, including rights to assert claims in the future under policies previously issued. Additional proceeds may be received in future periods under settlements with other insurers, but the amounts are not expected to be material to the company's results of operations or liquidity.

OTHER CONTINGENCIES. The company is a defendant in a lawsuit that OXY U.S.A. brought in its capacity as successor in interest to Cities Service Company. The lawsuit claims damages resulting from the allegedly improper termination of a tender offer made by Gulf Oil Corporation, acquired by Chevron in 1984, to purchase Cities Service in 1982. A 1996 trial resulted in a judgment against the company of $742 million, including interest that continues to accrue at 9.55 percent per year while this matter is pending. The Oklahoma Supreme Court affirmed the lower court's decision in March 1999, and accordingly, the company recorded in 1998 results a litigation reserve of $637 million, substantially all of which pertained to this lawsuit. The ultimate outcome of this matter cannot be determined presently with certainty, and the company will seek further review of this case in the appropriate courts.

Chevron and five other oil companies are contesting, so far unsuccessfully, the validity of a patent granted to Unocal Corporation for reformulated gasoline, which Chevron sells in California in certain months of the year. Chevron believes Unocal's patent is invalid and any unfavorable rulings should be reversed upon appeal. Unocal continues to file for additional patents for alternate formulations. Should Unocal's patents be upheld, Chevron's ultimate exposure with respect to reformulated gasoline sales would depend on the availability and costs of alternate formulations and the industry's ability to recover additional costs of production through prices charged to its customers.

In June 1997, Caltex Corporation received a claim from the U.S. Internal Revenue Service (IRS) for $292 million in excise taxes, $140 million in penalties and $1.6 billion in interest. Caltex believes the underlying excise tax claim is wrong, and therefore, the claim for penalties and interest is wrong. The IRS claim relates to crude oil sales to Japanese customers beginning in 1980. Caltex is challenging the claim and fully expects to prevail. In early 1998, Caltex provided an initial letter of credit for $2.33 billion to the IRS to pursue the claim. The letter of credit was renewed in February 1999 for $2.52 billion. Caltex's owners, Chevron and Texaco, guaranteed the letter of credit.

The company is the subject of various lawsuits and claims and other contingent liabilities including, along with other oil companies, actions challenging oil and gas royalty and severance tax payments based on posted prices and others related to the use of the chemical MTBE in certain oxygenated gasolines. These lawsuits and other contingent liabilities are discussed in the notes to the accompanying consolidated financial statements. The company believes that the resolution of these matters will not materially affect its financial position or liquidity, although costs associated with their resolution could be material with respect to earnings in any given period.

The company utilizes various derivative instruments to manage its exposure to price risk stemming from its integrated petroleum activities. All these instruments are commonly used in oil and gas trading activities and are relatively straightforward, involve little complexity and are of a short-term duration. Most of the activity in these instruments is intended to hedge a physical transaction; hence, gains and losses arising from these instruments offset, and are recognized concurrently with, gains and losses from the underlying transactions. The company believes it has no material market or credit risks to its operations, financial position or liquidity as a result of its commodities and other derivatives activities, including forward exchange contracts and interest rate swaps. Its control systems are designed to monitor and manage its

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

financial exposures in accordance with company policies and procedures. 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 can be affected by changing economic, regulatory and political environments in the various countries where it operates. Political uncertainty and civil unrest may, at times, threaten the safety of employees and the company's continued presence in a country. These factors are carefully considered when evaluating the level of current and future activity in such countries.

Chevron and its affiliates continue to review and analyze their operations and may close, sell, exchange, purchase or restructure assets to achieve operational or strategic benefits to improve competitiveness and profitability. These activities may result in significant losses or gains in future periods.

NEW ACCOUNTING STANDARDS. The company adopted five new accounting standards in 1998. Effective January 1, 1998, the company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." The statement introduces the concept of comprehensive income, which includes net income plus changes in stockholders' equity other than stockholder transactions (certain foreign currency translation effects, unrealized market value gains/losses for certain debt and equity securities, and minimum pension liability adjustments). Chevron elected to present a Consolidated Statement of Comprehensive Income, along with a disclosure providing details of the changes in the components of other comprehensive income in the audited financial statements.

Chevron adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," effective for year-end 1998 reporting. SFAS No. 131 requires that the operating segments reported externally be essentially the same as those management uses to assess performance and allocate resources. Geographic disclosures are only required on a companywide basis for the company's country of domicile and other material countries. No countries meet the materiality tests for reporting other than the United States. However, the company will provide geographic disclosures of United States and International for the company's operating segments, which include Exploration and Production; Refining, Marketing and Transportation; and Chemicals.

Also effective for year-end 1998 reporting, the company adopted SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits." SFAS No. 132 standardizes the disclosure requirements for pensions and other postretirement benefits, requires additional information on changes in benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates some disclosures.

The adoptions of SFAS Nos. 130, 131 and 132 did not change the measurement or recognition of income or expense.

In March 1998, the American Institute of Certified Public Accountants (AICPA) released a new pronouncement for the accounting for certain software costs, Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." In the fourth quarter 1998, Chevron adopted this new standard effective January 1, 1998. The company's past practice had been to expense, when incurred, the cost of internally developed software. SOP 98-1 requires that the costs incurred to develop, upgrade and enhance software for internal use be capitalized and depreciated over a suitable useful life. The net effect of implementing this pronouncement was not material.

In April 1998, the AICPA released SOP 98-5, "Reporting on the Costs of Start-up Activities." The pronouncement introduced a broad definition of items to be expensed as incurred for start-up activities, including one-time activities related to opening a new facility, introducing new products/services, entering new territories, initiating new processes or commencing new operations. Previous accounting standards were not definitive about the expense-vs.-capitalization treatment of these costs. Chevron already was materially in compliance with the pronouncement, and it had no impact on the company's accounting practices. However, Caltex capitalized these types of costs during the 1992–1996 period for a refinery construction project in Thailand. Chevron, accordingly, restated its 1998 quarterly financial statements for its $25 million share of the charge associated with Caltex's implementation of SOP 98-5.

In the fourth quarter 1998, Chevron changed its method of calculating certain Canadian deferred income taxes, effective January 1, 1998. The benefit from this change was $32 million and resulted in the restatement of first quarter 1998 net income.

The net benefit to Chevron's restated first quarter 1998 net income for the cumulative effect of adopting SOP 98-5 by Caltex and the change in Chevron's method of calculating Canadian deferred taxes was immaterial.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The new standard requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Changes in the fair value of derivatives are to be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction. The company will adopt SFAS No. 133 on January 1, 2000, and does not believe the adoption of this standard will have a material effect on its results of operations or financial position.

In November 1998, the Emerging Issues Task Force (EITF) released Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." This consensus requires companies to record at their fair value contracts involved in energy trading and risk management activities. Changes in the fair value of those contracts are recorded each period in current earnings. The company will adopt EITF 98-10 on January 1, 1999, and does not believe this consensus will have a material effect on its results of operations or financial position.

RESULTS OF OPERATIONS. **Sales and other operating revenues** were $29.9 billion in 1998, compared with $40.6 billion in 1997 and $42.8 billion in 1996. In 1998, revenues fell due primarily to lower crude oil, natural gas and refined products prices and lower U.S. natural gas production. Increased U.S. refined products sales volumes partially mitigated these factors. The company's exit from the U.K. refining and marketing business in the fourth quarter 1997 contributed approximately 27 percent of the decline. In 1997, revenues declined from 1996 levels on lower crude oil and refined products prices and lower U.S. natural gas production, partially offset by increased refined products sales volumes and higher natural gas prices.

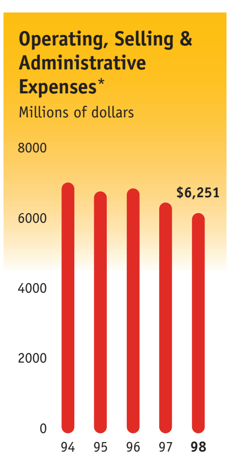
Purchased crude oil and products costs were 31 percent lower in 1998, compared with 1997, because of lower prices for crude oil, natural gas, refined products and chemicals feedstock, and the company's exit from the U.K. refining and marketing business. Lower crude oil, refined products and chemicals feedstock prices also accounted for the 11 percent decrease in purchased crude oil and products costs in 1997, compared with 1996.

Other income totaled $386 million in 1998, $679 million in 1997 and $344 million in 1996. Changes in net gains from the disposition of assets and changes in interest income caused the fluctuations between years.

Millions of dollars	Year ended December 31 1998	1997	1996
Operating Expenses	**$4,834**	$5,280	$6,007
Selling, General and Administrative Expenses	**2,239**	1,533	1,377
Total	**7,073**	6,813	7,384
Less: Special Charges Before Tax	**822**	264	437
Adjusted Operating, Selling, General and Administrative Expenses	**$6,251**	$6,549	$6,947

Operating, selling, general and administrative expenses of $6,251 million, excluding the effects of special items, which were primarily reserves for litigation, declined from $6,549 million in 1997 and $6,947 million in 1996. Approximately $200 million of the 1998 decline resulted from the company's exit from the U.K. downstream business.

Depreciation, depletion and amortization expense increased to $2,320 million from $2,300 million in 1997 and $2,216 million in 1996. In 1998 and 1997, about $100 million of depreciation expense was related to asset impairments, while 1996 included a minor amount for impairments.



Total expenses fell nearly $300 million in 1998.

*Excluding special items

Taxes on income were $495 million in 1998, $2,246 million in 1997 and $2,133 million in 1996, reflecting effective income tax rates of 27 percent, 41 percent and 45 percent, respectively. The lower tax rate in 1998, compared with 1997, reflects favorable prior-period tax adjustments; favorable adjustments associated with the finalization of income tax returns for the year 1997; tax-related credits connected with the utilization of capital loss benefits; lower effective tax rates in West Africa resulting from credits associated with crude oil reserve additions; a shift in the international earnings mix to lower-tax-rate countries; and tax expense reductions associated with provisions for litigation. These effects were offset partially by a decrease in the proportion of the company's share of its equity affiliates' after-tax earnings included in the company's before-tax income. The lower tax rate in 1997, compared with 1996, primarily reflects a shift in the international earnings mix to lower-tax-rate countries and shifts from foreign earnings to U.S. earnings.

SELECTED OPERATING DATA

	1998	1997	1996
U.S. EXPLORATION AND PRODUCTION			
Net Crude Oil and Natural Gas Liquids Production (MBPD)	**325**	343	341
Net Natural Gas Production (MMCFPD)	**1,739**	1,849	1,875
Natural Gas Sales (MMCFPD)[1]	**3,303**	3,400	3,588
Natural Gas Liquids Sales (MBPD)[1]	**130**	133	187
Revenues from Net Production			
Crude Oil ($/Bbl)	**$11.42**	$17.68	$18.80
Natural Gas ($/MCF)	**$ 2.02**	$ 2.42	$ 2.28
INTERNATIONAL EXPLORATION AND PRODUCTION[1]			
Net Crude Oil and Natural Gas Liquids Production (MBPD)	**782**	731	702
Net Natural Gas Production (MMCFPD)	**654**	576	584
Natural Gas Sales (MMCFPD)	**1,504**	1,209	778
Natural Gas Liquids Sales (MBPD)	**53**	69	36
Revenues from Liftings			
Liquids ($/Bbl)	**$11.77**	$17.97	$19.48
Natural Gas ($/MCF)	**$ 1.94**	$ 2.10	$ 1.86
Other Produced Volumes (MBPD)[2]	**95**	82	79
U.S. REFINING, MARKETING AND TRANSPORTATION			
Gasoline Sales (MBPD)	**653**	591	556
Other Refined Products Sales (MBPD)	**590**	602	566
Refinery Input (MBPD)	**869**	933	951
Average Refined Products Sales Price ($/Bbl)	**$22.37**	$28.93	$29.94
INTERNATIONAL REFINING, MARKETING AND TRANSPORTATION[1]			
Refined Products Sales (MBPD)	**785**	886	944
Refinery Input (MBPD)	**475**	565	537
CHEMICALS SALES AND OTHER OPERATING REVENUES[3]			
United States	**$2,591**	$3,046	$2,936
International	**625**	600	605
Worldwide	**$3,216**	$3,646	$3,541

MBPD = Thousands of barrels per day; MMCFPD = Millions of cubic feet per day; Bbl = Barrel; MCF = Thousands of cubic feet.

[1]*Includes equity in affiliates.*

[2]*Total field production under Boscan operating service agreement in Venezuela beginning July 1, 1996.*

[3]*Millions of dollars. Includes sales to other Chevron companies.*

Foreign currency effects decreased net income $47 million in 1998, increased net income $246 million in 1997 and decreased net income $26 million in 1996. These amounts include the company's share of affiliates' currency transactions. The most significant losses in 1998 were incurred in

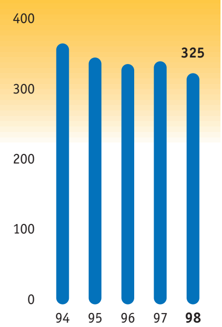
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Continued

Caltex's operations in Korea, Thailand and Japan. The foreign currency gains for 1997 occurred primarily in Australia and in the Asian operating areas of Caltex, where the currencies generally weakened against the U.S. dollar. The largest currency impact for 1997 was in Korea, as a result of local net deferred tax benefits on local currency losses from U.S. dollar-denominated liabilities. The loss on currency transactions in 1996 resulted from fluctuations in the value of the U.K. and Australian currencies relative to the U.S. dollar.

Effective October 1, 1997, Caltex's management changed the functional currency for its Korean and Japanese equity affiliates from their local currencies to the U.S. dollar, based on significantly changed economic facts and circumstances. With the local currency as the functional currency, Caltex's total reported foreign currency losses from its Korean and Japanese affiliates were $62 million for the first nine months of 1997. After the change in functional currency to the U.S. dollar, Caltex reported foreign currency gains of $167 million for the full year 1997 from operations in Korea and Japan. In 1998, Caltex's foreign currency losses from Korea and Japan were $145 million.

U.S. exploration and production earnings in 1998, excluding special items, declined more than 60 percent from 1997 earnings and 66 percent from 1996 levels, due primarily to lower crude oil and natural gas sales realizations and lower production. Partially offsetting these factors in 1998 were lower operating and exploration expenses and benefits from property sales. The earnings decline of 12 percent in 1997, relative to 1996's record earnings, was a result of lower crude oil prices, lower natural gas production and higher exploration expenses.

U.S. Net Crude Oil & Natural Gas Liquids Production
Thousands of barrels per day



Production fell 5 percent due to normal field declines, storm-related shut-ins and property sales.

The company's average 1998 U.S. crude oil realization of $11.42 per barrel was $6.26 lower than the $17.68 average for 1997 and $7.38 lower than the 1996 average. Chevron's crude oil realizations increased steadily during 1996, but in early 1997 began a decline that continued into early 1999.

Average 1998 U.S. natural gas prices of $2.02 per thousand cubic feet (MCF) were 40 cents lower than the $2.42 averaged in 1997 and 26 cents lower than the 1996 average price. Warmer weather and abundant supplies depressed prices in 1998.

Net liquids production for 1998 averaged 325,000 BPD, down about 5 percent from 343,000 BPD in 1997 and from 341,000 BPD in 1996. Net natural gas production in 1998 averaged 1.739 billion cubic feet per day, down 6 percent from 1.849 billion cubic feet per day in 1997 and about 7 percent from 1.875 billion cubic feet per day in 1996. Lower liquids and natural gas production between years primarily reflected normal field declines, property sales and, in 1998, reduced production due to September storms in the Gulf of Mexico.

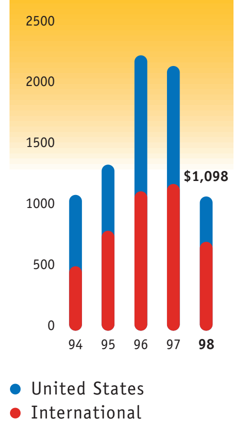
The effect on net income from special items for the years 1996 through 1998 is shown in the following table.

U.S. Exploration and Production

Millions of dollars	**1998**	1997	1996
Earnings, Excluding Special Items	**$381**	$ 972	$1,109
Asset Write-Offs and Revaluations	**(44)**	(68)	(19)
Asset Dispositions	**47**	190	17
Environmental Remediation Provisions	**26**	(6)	(10)
Restructurings and Reorganizations	**–**	(60)	1
Other	**(45)**	(27)	(11)
Total Special Items	**(16)**	29	(22)
Reported Net Income	**$365**	$1,001	$1,087

International exploration and production earnings of $717 million in 1998, excluding special items, declined 40 percent from $1,197 million earned in 1997 and fell 37 percent from $1,142 million in 1996. Earnings declined in 1998, despite increased production, as a result of depressed crude oil prices and lower natural gas sales realizations. The earnings increase in 1997, relative to 1996, was primarily due to higher volumes.

Worldwide Exploration & Production Earnings*
Millions of dollars



U.S. earnings fell 61 percent; earnings outside the United States were down 40 percent.

*Excluding special items

Earnings for 1998, excluding special items, also benefited from net favorable tax adjustments for the prior year.

Earnings for the year 1998 included net foreign currency gains of $29 million, compared with gains of $77 million for the year 1997 and losses of $27 million in 1996. The 1998 gains reflect primarily currency rate fluctuations of the U.S. dollar relative to the Canadian and Australian currencies. In 1997 and 1996, the swings were related to the Australian dollar and the British pound.

The effect on net income from special items for the years 1996 through 1998 is shown in the following table.

International Exploration and Production

Millions of dollars	**1998**	1997	1996
Earnings, Excluding Special Items	**$717**	$1,197	$1,142
Asset Write-Offs and Revaluations	**(6)**	–	(17)
Asset Dispositions	**(56)**	50	91
Prior-Year Tax Adjustments	**56**	10	–
Other	**(4)**	(5)	(5)
Total Special Items	**(10)**	55	69
Reported Net Income	**$707**	$1,252	$1,211

Chevron's average liquids realizations, including equity affiliates, was $11.77 per barrel in 1998, compared with $17.97 per barrel in 1997 and $19.48 in 1996. Average natural gas realizations fell to $1.94 per thousand cubic feet in 1998, compared with $2.10 in 1997 and $1.86 in 1996.

For the year 1998, net liquids production, including production from equity affiliates, increased 7 percent to 782,000 BPD. Operations in Kazakhstan, offshore eastern

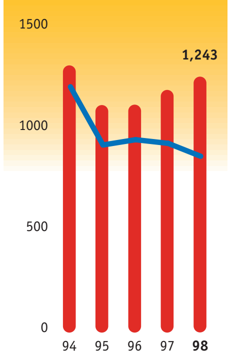
Canada, Indonesia, Angola and Congo were the principal sources of the increases. Net natural gas production increased about 14 percent for the year to 654 million cubic feet per day in 1998. Net natural gas production increased for the year in the United Kingdom, due to the August 1998 start-up of production at the Britannia Field, as well as in Indonesia and Nigeria. Partially offsetting these increases was a decline in natural gas production in western Canada.

This was the ninth consecutive year that international net production and proved reserves increased, reflecting the company's success in expanding its international upstream operations. In 1998, the company estimated it replaced 165 percent of its international oil and gas production through increases to proved reserves, excluding sales and acquisitions. Further production increases are expected in 1999 as new developments come on stream in West Africa and from production increases at the Tengiz Field in Kazakhstan.

In 1997, net liquids production increased 4 percent over 1996 levels to 731,000 BPD. Production growth in Nigeria, Congo and Kazakhstan accounted for most of the increase. Net natural gas production declined about 1 percent in 1997 to 576 million cubic feet per day compared with 1996 due mainly to lower rates in Canada, Kazakhstan, the United Kingdom and Indonesia.

U.S. refining, marketing and transportation earnings in 1998, excluding special items, decreased slightly to $633 million after a strong year in 1997. Declines in refined product margins and Hurricane Georges' adverse effects on earnings were offset mostly by decreases in operating expenses and increases in refined products sales volumes. Also included in 1998 results were benefits to income that included a partial payment of business interruption insurance proceeds for losses associated with Hurricane Georges and prior-year tax adjustments. Earnings in 1997 more than doubled to $662 million, compared with $290 million in 1996. The 1997 increase was driven by higher demand for refined products and improved sales margins, reflecting both lower crude oil costs and lower operating expenses. Earnings for 1996 were depressed by competitive conditions that did not allow the full recovery of all crude oil and manufacturing costs. Although refined products sales realizations declined in 1998 and 1997, sales volumes increased 4 percent to 1.243 million BPD in 1998, compared with 1.193 million BPD in 1997 and 1.122 million BPD in 1996. Most of the increases in 1998 reflected higher gasoline sales volumes, including branded gasoline sales, which increased 5 percent from 1997 and 8 percent from 1996.

U.S. Refined Products Sales vs. Refinery Runs
Thousands of barrels per day



Refined products sales rose 4 percent in 1998; refinery runs declined due to September hurricanes.

In 1998, average U.S. refined products sales realizations declined to $22.37 per barrel from $28.93 per barrel in 1997 and $29.94 per barrel in 1996, reflecting the steep slide in crude oil prices.

The effect on net income from special items for the years 1996 through 1998 is shown in the following table.

U.S. Refining, Marketing and Transportation

Millions of dollars	**1998**	1997	1996
Earnings, Excluding Special Items	**$633**	$662	$290
Asset Write-Offs and Revaluations	**(22)**	–	(48)
Asset Dispositions	**–**	(18)	4
Environmental Remediation	**(39)**	(12)	(29)
Other	**–**	(31)	(24)
Total Special Items	**(61)**	(61)	(97)
Reported Net Income	**$572**	$601	$193

International refining, marketing and transportation earnings include international marine operations and equity earnings of Caltex, in addition to earnings from its consolidated international refining and marketing subsidiaries. Excluding special items, 1998 earnings of $123 million were down 66 percent from $367 million earned in 1997 and were also down from $167 million earned in 1996. Results included foreign currency losses of $69 million in 1998, compared with foreign currency gains of $169 million in 1997 and losses of $17 million in 1996.

The effect on net income from special items for the years 1996 through 1998 is shown in the following table.

International Refining, Marketing and Transportation

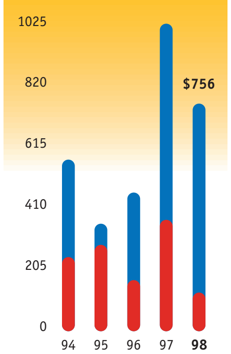
Millions of dollars	**1998**	1997	1996
Earnings, Excluding Special Items	**$123**	$367	$167
Asset Write–Offs and Revaluations	**–**	–	(200)
Asset Dispositions	**–**	(72)	279
Environmental Remediation	**(11)**	–	(15)
Restructurings and Reorganizations	**(43)**	–	1
LIFO Inventory (Losses) Gains	**(16)**	6	(6)
Other	**(25)**	(3)	–
Total Special Items	**(95)**	(69)	59
Reported Net Income	**$28**	$298	$226

The company's share of Caltex's losses was $36 million in 1998 compared with earnings of $252 million and $408 million for 1997 and 1996, respectively. Chevron's share of Caltex results in 1998 included special charges of $14 million for Last-In, First-Out (LIFO) inventory adjustments and $43 million for the company's share of Caltex's costs of restructuring its management and administrative functions and the associated relocation to Singapore. In addition, net income included a special charge of $25 million from Caltex's adoption, effective January 1, 1998, of a new accounting standard – SOP 98-5, "Reporting on the Costs of Start-up Activities." Accordingly, the company has restated its 1998 quarterly results. Excluding special items, the company's share of earnings from Caltex's activities were $46 million, $247 million and $127 million for 1998, 1997 and 1996, respectively.

Included in Chevron's share of Caltex's 1998 earnings were foreign currency losses of $68 million, compared with foreign currency gains of $177 million in 1997 and losses of $24 million in 1996. The largest swing in foreign currency effects in all years was in Korea. Other operating factors for 1998 included inventory valuation losses of about $40 million stemming from the fall in oil prices.

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

Worldwide Refining & Marketing Earnings*
Millions of dollars



● United States
● International

U.S. earnings were strong for the second consecutive year; international earnings were hurt by foreign currency losses.

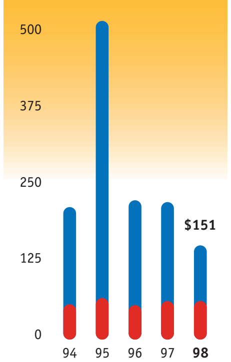
*Excluding special items

Partially offsetting Caltex's large currency gains in 1997 were inventory valuation losses associated with that year's decline in oil prices and higher provisions for uncollectible receivables in Asia.

Chevron's international refined products sales volumes declined in 1998 to 785,000 barrels per day from 886,000 barrels per day in 1997 and 944,000 barrels per day in 1996. During the fourth quarter of 1997, the company withdrew from the refining and marketing business in the United Kingdom. Excluding the 1997 sales volumes from this discontinued business, refined products sales volumes for 1998 were essentially flat compared with 1997. Declines in international trading and Canadian refined products sales volumes were offset by increases from Caltex's operations. The primary reason for the decline in 1997 volumes, compared with 1996, was Caltex's sale of its interest in two Japanese refineries in early 1996.

Chemicals earnings, excluding special items, were $151 million in 1998, down about 33 percent from $224 million in 1997, and $228 million in 1996. Earnings continued to decline in response to industry over-capacity and lower demand resulting from the Asian economic crisis. Sales volumes remained strong, increasing 10 percent in 1998. However, product sales prices fell faster than feedstock and fuel costs, resulting in lower margins for most of the company's major chemicals products. Earnings for 1998 benefited from prior-year tax adjustments, which were partially offset by lower earnings from equity affiliates following a fourth quarter 1997 sale of an investment.

Worldwide Chemicals Earnings*
Millions of dollars



● United States
● International

Chemicals earnings fell 33 percent due to low prices caused by industry overcapacity and low demand.

*Excluding special items

Earnings for 1998 and 1997 benefited from reduced depreciation expense, resulting from a reassessment of the useful lives of certain assets. Lower industry prices and higher operating expenses related to maintenance and expansion activities during 1997 more than offset this depreciation benefit. Earnings for 1996 reflected the receipt of insurance proceeds. A cyclical downturn in the chemicals industry that began in the second half 1995 caused earnings to fall throughout the three-year period.

The effect on net income from special items for the years 1996 through 1998 is shown in the following table.

Chemicals

Millions of dollars	1998	1997	1996
Earnings, Excluding Special Items	**$151**	$224	$228
Asset Write-Offs and Revaluations	**(19)**	(10)	(12)
Asset Dispositions	**–**	33	–
Environmental Remediation	**(5)**	(9)	–
LIFO Inventory Losses	**(5)**	(1)	–
Other	**–**	(9)	(16)
Total Special Items	**(29)**	4	(28)
Reported Net Income	**$122**	$228	$200

All Other activities include coal operations, interest expense, interest income on cash and marketable securities, real estate and insurance activities, and corporate center costs. All Other net operating charges, excluding special items, were $60 million in 1998, compared with charges of $242 million in 1997 and $285 million in 1996.

The effect on net income from special items for the years 1996 through 1998 is shown in the following table.

All Other

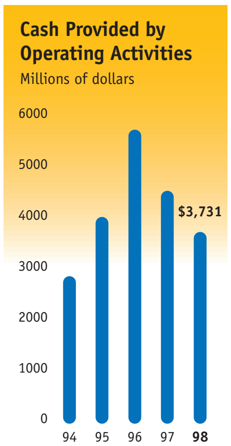
Millions of dollars	1998	1997	1996
Charges, Excluding Special Items	**$ (60)**	$(242)	$(285)
Asset Write-Offs and Revaluations	**(68)**	(8)	(41)
Environmental Remediation	**(10)**	(8)	–
Prior-Year Tax Adjustments	**215**	142	52
Restructurings and Reorganizations	**–**	–	(10)
Other	**(532)**	(8)	(26)
Total Special Items	**(395)**	118	(25)
Reported Charges	**$(455)**	$(124)	$(310)

Special items include litigation reserves, prior-year tax adjustments, resulting from the settlement of tax audit issues or the revaluation by the company of its tax liabilities as a result of new developments, and proceeds from insurance settlements related to environmental cost recovery claims.

Earnings, excluding special items, from the company's coal operations were $77 million in 1998, $41 million in 1997 and $47 million in 1996. Sales volumes improved at most of the company's mines in 1998. In addition, 1998 results included favorable adjustments of about $20 million, related primarily to depreciation expense and reserves for certain claims. The company reached agreement in February 1999 to sell its 33 percent interest in Black Beauty Coal Company, for which a gain is expected. The company's remaining coal assets, with a net book value of $340 million, are held for sale. Revenues from coal operations were about $400 million in 1998.

Included in the 1998 earnings, excluding special items, for the balance of the All Other segment were net incremental benefits totaling approximately $80 million, consisting primarily of tax-related credits, which were connected with the utilization of capital loss benefits, and the receipt of proceeds from favorable insurance settlements. 1998 also included other more favorable tax-related adjustments than 1997. Partially offsetting these items were higher interest expenses on increased debt levels and lower interest income. 1997 net charges were lower than in 1996 due primarily to lower interest expense on reduced debt levels, combined with higher interest income and lower insurance costs.

LIQUIDITY AND CAPITAL RESOURCES. Cash, cash equivalents and marketable securities totaled $1.413 billion at year-end 1998, down 15 percent from $1.670 billion at year-end 1997. Cash provided by operating activities in 1998 was $3.731 billion, compared with $4.880 billion in 1997 and $5.947 billion in 1996. Severely affecting cash flow in 1998 were the low crude oil price environment and the resulting impact on the company's earnings, cash distributions from equity affiliates and working capital requirements. In 1998, cash provided by operating activities was not sufficient to fund investing activities. This shortfall and the cash required to fund the company's dividend payments to stockholders resulted in an increase in borrowings in 1998. In 1997 and 1996, cash provided by operating activities was sufficient to fund the company's investing activities and dividend payments, and to reduce debt balances.



Lower operating earnings and increased working capital requirements reduced cash flow.

In January 1999, the company declared a quarterly dividend of 61 cents a share on its common stock for an annual rate of $2.44 a share.

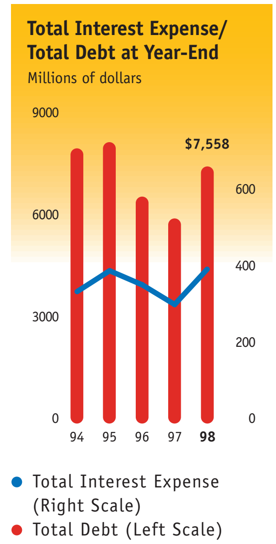
The company's total debt and capital lease obligations were $7.558 billion at December 31, 1998, an increase of 25 percent from $6.068 billion at year-end 1997. Significant debt transactions in 1998 were net additions of $1.528 billion in short-term debt, primarily commercial paper, and newly issued long-term variable-rate obligations of $224 million. Partially offsetting these increases were long-term debt repayments of $356 million and a scheduled $60 million non-cash retirement of 8.11 percent ESOP debt in January 1998.

On December 31, 1998, Chevron had $4.050 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 credit requirements. No borrowings were outstanding under these facilities during the year or at year-end 1998. In addition, Chevron and one of its subsidiaries each have existing "shelf" registrations on file with the Securities and Exchange Commission that together would permit registered offerings of up to $1.3 billion of debt securities.

The company's short-term debt, consisting primarily of commercial paper and the current portion of long-term debt, totaled $5.890 billion at December 31, 1998. Of the total short-term debt, $2.725 billion was reclassified to long-term debt at year-end 1998. Settlement of these obligations is not expected to require the use of working capital in 1999 because the company has the intent and the ability, as evidenced by committed credit arrangements, to refinance them 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 capital spending program, results of operations and eventual outcome of the Cities Service lawsuit. The company currently expects its debt level to increase during 1999 and 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 these ratings denote high-quality, investment-grade securities.



Lower earnings required additional debt to fund long-term projects.

In December 1997, Chevron's Board of Directors approved the repurchase of up to $2 billion of its outstanding common stock for use in its employee stock option programs. During 1998, the company purchased 5.2 million shares of its stock at a cost of $392 million under the repurchase program, bringing the total repurchased to 6.4 million shares at a total cost of $484 million.

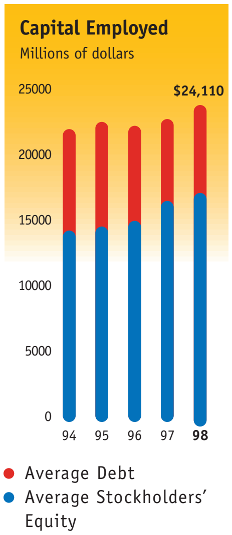
FINANCIAL RATIOS. The **current ratio** is the ratio of current assets to current liabilities at year-end. Two items negatively affected Chevron's current ratio but in the company's opinion do not affect its liquidity. Current assets in all years included inventories valued on a LIFO basis, which at year-end 1998 were lower than current costs by $584 million. Also, the company continually refinances its commercial paper. At year-end 1998, approximately $2.150 billion of commercial paper, after excluding $2.725 billion reclassified to long-term debt, was classified as a current liability, although it is likely to remain outstanding indefinitely. 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 a relatively low level. During 1997, the company increased its committed credit arrangements, which permitted the reclassification of an additional $925 million of short-term debt to long-term debt and provided an improvement to the company's current ratio.

Financial Ratios

	1998	1997	1996
Current Ratio	**0.9**	1.0	0.9
Interest Coverage Ratio	**5.1**	14.3	10.9
Total Debt/Total Debt Plus Equity	**30.7%**	25.8%	30.0%

The **interest coverage ratio** is defined as income before income tax expense, plus interest and debt expense and amortization of capitalized interest, divided by before-tax interest costs. Chevron's interest coverage ratio declined in 1998 due to higher interest expense and lower before-tax income. The

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



Chevron's ratio of debt to debt-plus-equity increased to 31 percent in 1998.

company's **debt ratio** (total debt to total debt plus equity) increased in 1998, as a result of the increase in total debt.

CAPITAL AND EXPLORATORY EXPENDITURES. Worldwide capital and exploratory expenditures for 1998 totaled $5.314 billion, including the company's equity share of affiliates' expenditures. Capital and exploratory expenditures were $5.541 billion in 1997 and $4.840 billion in 1996. Expenditures for exploration and production accounted for 61 percent of total outlays in 1998, compared with 65 percent in 1997 and 62 percent in 1996. International exploration and production spending was 60 percent of worldwide exploration and production expenditures in 1998, compared with 54 percent in 1997 and 61 percent in 1996, reflecting the company's continuing focus on international exploration and production activities.

The company projects **1999 capital and exploratory expenditures** at $5.1 billion, including Chevron's share of spending by affiliates. This is down about 4 percent from 1998 spending levels. The 1999 program provides $3.7 billion for exploration and production investments, of which about 70 percent is for international projects. Major areas of emphasis for exploration and production are Kazakhstan, West Africa and the deep waters of the Gulf of Mexico. Successful implementation of the planned expenditure program for 1999 will depend upon many factors, including the ability of our partners in many of these projects, some of which are national petroleum companies of producing countries, to fund their shares of project expenditures.

Refining, marketing and transportation expenditures are estimated at about $870 million, with $540 million of that planned for projects in the United States, most of which will be spent for marketing projects. Most of the international downstream capital program will be focused on Asia-Pacific countries where the company's Caltex affiliate is upgrading its retail marketing system. The company plans to invest $380 million in the worldwide chemicals business, down about 50 percent from 1998 spending levels.

Capital and Exploratory Expenditures

	1998			1997			1996		
Millions of dollars	**U.S.**	**International**	**Total**	U.S.	International	Total	U.S.	International	Total
Exploration and Production	**$1,320**	**$1,942**	**$3,262**	$1,659	$1,956	$3,615	$1,168	$1,854	$3,022
Refining, Marketing and Transportation	**654**	**431**	**1,085**	520	602	1,122	429	781	1,210
Chemicals	**385**	**359**	**744**	470	194	664	377	120	497
All Other	**223**	**–**	**223**	140	–	140	101	10	111
Total	**$2,582**	**$2,732**	**$5,314**	$2,789	$2,752	$5,541	$2,075	$2,765	$4,840
Total, Excluding Equity Affiliates	**$2,460**	**$1,860**	**$4,320**	$2,487	$1,880	$4,367	$2,037	$1,820	$3,857

FORWARD-LOOKING STATEMENTS

This annual report 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 "expects," "intends," "plans," "projects," "believes," "estimates" and similar expressions are used to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements.

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 the company's aromatics, olefins and additives products; 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 disruption or interruption of the company's production or manufacturing facilities due to accidents or political events; potential disruptions to the company's operations due to untimely or incomplete resolution of Year 2000 issues by the company and other entities with which it has mutual relationships; potential liability for remedial actions under existing or future environmental regulations; 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.

QUARTERLY RESULTS AND STOCK MARKET DATA

Unaudited

Millions of dollars, except per-share amounts	1998 4TH Q	1998 3RD Q	1998 2ND Q	1998 1ST Q[3]	1997 4TH Q	1997 3RD Q	1997 2ND Q	1997 1ST Q
REVENUES								
Sales and other operating revenues[1]	$7,164	$7,561	$7,754	$7,464	$9,725	$10,130	$ 9,947	$10,794
(Loss) income from equity affiliates	(66)	13	155	126	153	164	193	178
Other income	184	104	60	38	390	34	134	121
TOTAL REVENUES	7,282	7,678	7,969	7,628	10,268	10,328	10,274	11,093
COSTS AND OTHER DEDUCTIONS*								
Purchased crude oil and products, operating and other expenses	5,978	5,100	5,314	5,195	6,603	6,792	6,623	7,511
Depreciation, depletion and amortization	646	563	557	554	657	548	549	546
Taxes other than on income[1]	1,115	1,145	1,140	1,011	1,525	1,670	1,630	1,495
Interest and debt expense	109	103	99	94	85	69	76	82
TOTAL COSTS AND OTHER DEDUCTIONS	7,848	6,911	7,110	6,854	8,870	9,079	8,878	9,634
INCOME BEFORE INCOME TAX	(566)	767	859	774	1,398	1,249	1,396	1,459
INCOME TAX (CREDIT) EXPENSE	(360)	306	282	267	523	522	573	628
NET (LOSS) INCOME[2]	$ (206)	$ 461	$ 577	$ 507	$ 875	$ 727	$ 823	$ 831
NET (LOSS) INCOME PER SHARE – BASIC	$(0.31)	$0.70	$0.88	$0.78	$1.33	$1.11	$1.26	$1.27
– DILUTED	$(0.31)	$0.70	$0.88	$0.77	$1.33	$1.10	$1.25	$1.27
DIVIDENDS PAID PER SHARE	$0.61	$0.61	$0.61	$0.61	$0.58	$0.58	$0.58	$0.54
COMMON STOCK PRICE RANGE – HIGH	$89 7/16	$89	$86 13/16	$90 3/16	$88 7/8	$89 3/16	$77 1/4	$72 5/8
– LOW	$78 3/8	$73	$77 3/8	$67 3/4	$71 1/2	$73 1/2	$61 3/4	$63 1/2
[1]*Includes consumer excise taxes of*	*$ 943*	*$ 973*	*$ 988*	*$ 852*	*$ 1,339*	*$ 1,487*	*$ 1,447*	*$ 1,314*
[2]*Special (charges) credits included in Net (Loss) Income*	*$ (709)*	*$ 75*	*$ (43)*	*$ 71*	*$ 68*	*$ (5)*	*$ (14)*	*$ 27*

[3]*Restated for the cumulative effect of accounting changes, the net effect of which was immaterial.*

The company's common stock is listed on the New York Stock Exchange (trading symbol: CHV), as well as on the Chicago, Pacific, London and Swiss stock exchanges. It also is traded on the Boston, Cincinnati, Detroit and Philadelphia stock exchanges. As of March 4, 1999, stockholders of record numbered approximately 124,000.

There are no restrictions on the company's ability to pay dividends. Chevron has made dividend payments to stockholders for 87 consecutive years.

REPORT OF MANAGEMENT

TO THE STOCKHOLDERS OF CHEVRON CORPORATION

Management of Chevron is responsible for preparing the accompanying financial statements and for assuring their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and fairly represent the transactions and financial position of the company. The financial statements include amounts that are based on management's best estimates and judgments.

The company's statements have been audited by PricewaterhouseCoopers LLP, independent accountants, selected by the Audit Committee and approved by the stockholders. Management has made available to PricewaterhouseCoopers LLP all the company's financial records and related data, as well as the minutes of stockholders' and directors' meetings.

Management of the company has established and maintains a system of internal accounting controls that is designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, and the books and records accurately reflect the disposition of assets. The system of internal controls includes appropriate division of responsibility. The company maintains an internal audit department that conducts an extensive program of internal audits and independently assesses the effectiveness of the internal controls.

The Audit Committee is composed of directors who are not officers or employees of the company. It meets regularly with members of management, the internal auditors and the independent accountants to discuss the adequacy of the company's internal controls, its financial statements and the nature, extent and results of the audit effort. Both the internal auditors and the independent accountants have free and direct access to the Audit Committee without the presence of management.

Kenneth T. Derr
Chairman of the Board
and Chief Executive Officer

Martin R. Klitten
Vice President
and Chief Financial Officer

Stephen J. Crowe
Comptroller

March 4, 1999

CONSOLIDATED STATEMENT OF INCOME

Millions of dollars, except per-share amounts	Year ended December 31 1998	1997	1996
REVENUES			
Sales and other operating revenues*	**$29,943**	$40,596	$42,782
Income from equity affiliates	**228**	688	767
Other income	**386**	679	344
TOTAL REVENUES	**30,557**	41,963	43,893
COSTS AND OTHER DEDUCTIONS			
Purchased crude oil and products	**14,036**	20,223	22,826
Operating expenses	**4,834**	5,280	6,007
Selling, general and administrative expenses	**2,239**	1,533	1,377
Exploration expenses	**478**	493	455
Depreciation, depletion and amortization	**2,320**	2,300	2,216
Taxes other than on income*	**4,411**	6,320	5,908
Interest and debt expense	**405**	312	364
TOTAL COSTS AND OTHER DEDUCTIONS	**28,723**	36,461	39,153
INCOME BEFORE INCOME TAX EXPENSE	**1,834**	5,502	4,740
INCOME TAX EXPENSE	**495**	2,246	2,133
NET INCOME	**$ 1,339**	$ 3,256	$ 2,607
NET INCOME PER SHARE OF COMMON STOCK – BASIC	**$2.05**	$4.97	$3.99
– DILUTED	**$2.04**	$4.95	$3.98
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING	**653,666,859**	654,990,921	652,769,250
**Includes consumer excise taxes. 1997 amounts have been reclassified to conform to 1998 presentation.*	*$3,756*	*$5,587*	*$5,202*

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Millions of dollars	Year ended December 31 1998	1997	1996
NET INCOME	**$1,339**	$3,256	$2,607
Currency translation adjustment	**(1)**	(173)	(54)
Unrealized holding gain (loss) on securities	**3**	(4)	(20)
Minimum pension liability adjustment	**(15)**	4	(4)
OTHER COMPREHENSIVE INCOME, NET OF TAX	**(13)**	(173)	(78)
COMPREHENSIVE INCOME	**$1,326**	$3,083	$2,529

See accompanying notes to consolidated financial statements.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE STOCKHOLDERS
AND THE BOARD OF DIRECTORS OF CHEVRON CORPORATION

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Chevron Corporation and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

San Francisco, California
March 4, 1999

CONSOLIDATED BALANCE SHEET

Millions of dollars	At December 31 1998	1997
ASSETS		
Cash and cash equivalents	**$ 569**	$ 1,015
Marketable securities	**844**	655
Accounts and notes receivable (less allowance: 1998 – $27; 1997 – $32)	**2,813**	3,374
Inventories:		
Crude oil and petroleum products	**600**	539
Chemicals	**559**	547
Materials, supplies and other	**296**	292
	1,455	1,378
Prepaid expenses and other current assets	**616**	584
TOTAL CURRENT ASSETS	**6,297**	7,006
Long-term receivables	**872**	471
Investments and advances	**4,604**	4,496
Properties, plant and equipment, at cost	**51,337**	49,233
Less: accumulated depreciation, depletion and amortization	**27,608**	26,562
	23,729	22,671
Deferred charges and other assets	**1,038**	829
TOTAL ASSETS	**$36,540**	$35,473
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt	**$ 3,165**	$ 1,637
Accounts payable	**2,170**	2,735
Accrued liabilities	**1,202**	1,450
Federal and other taxes on income	**226**	732
Other taxes payable	**403**	392
TOTAL CURRENT LIABILITIES	**7,166**	6,946
Long-term debt	**4,128**	4,139
Capital lease obligations	**265**	292
Deferred credits and other noncurrent obligations	**2,560**	1,745
Noncurrent deferred income taxes	**3,645**	3,215
Reserves for employee benefit plans	**1,742**	1,664
TOTAL LIABILITIES	**19,506**	18,001
Preferred stock (authorized 100,000,000 shares, $1.00 par value, none issued)	**–**	–
Common stock (authorized 1,000,000,000 shares, $1.50 par value, 712,487,068 shares issued)	**1,069**	1,069
Capital in excess of par value	**2,097**	2,022
Deferred compensation	**(691)**	(750)
Accumulated other comprehensive income	**(90)**	(77)
Retained earnings	**16,942**	17,185
Treasury stock, at cost (1998 – 59,460,666 shares; 1997 – 56,555,871 shares)	**(2,293)**	(1,977)
TOTAL STOCKHOLDERS' EQUITY	**17,034**	17,472
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$36,540**	$35,473

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Millions of dollars	Year ended December 31 1998	1997*	1996*
OPERATING ACTIVITIES			
Net income	**$ 1,339**	$3,256	$ 2,607
Adjustments			
Depreciation, depletion and amortization	**2,320**	2,300	2,216
Dry hole expense related to prior years' expenditures	**40**	31	55
Distributions greater than (less than) income from equity affiliates	**25**	(353)	83
Net before-tax (gains) losses on asset retirements and sales	**(45)**	(344)	207
Net foreign exchange gains	**(20)**	(69)	(10)
Deferred income tax provision	**266**	622	359
Net (increase) decrease in operating working capital[1]	**(809)**	(253)	649
Other, net	**615**	(310)	(219)
NET CASH PROVIDED BY OPERATING ACTIVITIES[2]	**3,731**	4,880	5,947
INVESTING ACTIVITIES			
Capital expenditures	**(3,880)**	(3,899)	(3,424)
Proceeds from asset sales	**434**	1,235	778
Net (purchases) sales of marketable securities[3]	**(183)**	101	44
Other, net	**(230)**	(297)	(177)
NET CASH USED FOR INVESTING ACTIVITIES	**(3,859)**	(2,860)	(2,779)
FINANCING ACTIVITIES			
Net borrowings (repayments) of short-term obligations	**1,713**	(163)	(1,179)
Proceeds from issuances of long-term debt	**224**	26	95
Repayments of long-term debt and other financing obligations	**(388)**	(421)	(476)
Cash dividends paid	**(1,596)**	(1,493)	(1,358)
Net (purchases) sales of treasury shares	**(261)**	173	23
NET CASH USED FOR FINANCING ACTIVITIES	**(308)**	(1,878)	(2,895)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(10)**	(19)	(2)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(446)**	123	271
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,015**	892	621
CASH AND CASH EQUIVALENTS AT YEAR-END	**$ 569**	$1,015	$ 892

**Certain amounts were reclassified to conform to the 1998 presentation.*
See accompanying notes to consolidated financial statements.

[1] "Net (increase) decrease in operating working capital" is composed of the following:			
Decrease in accounts and notes receivable	***$ 552***	*$ 474*	*$ 38*
(Increase) decrease in inventories	***(116)***	*(11)*	*60*
(Increase) decrease in prepaid expenses and other current assets	***(23)***	*59*	*15*
(Decrease) increase in accounts payable and accrued liabilities	***(807)***	*(685)*	*369*
(Decrease) increase in income and other taxes payable	***(415)***	*(90)*	*167*
Net (increase) decrease in operating working capital	***$ (809)***	*$ (253)*	*$ 649*
[2] "Net cash provided by operating activities" includes the following cash payments for interest and income taxes:			
Interest paid on debt (net of capitalized interest)	***$ 407***	*$ 318*	*$ 361*
Income taxes paid	***$ 654***	*$ 1,706*	*$ 1,595*
[3] "Net (purchases) sales of marketable securities" consists of the following gross amounts:			
Marketable securities purchased	***$ (2,679)***	*$ (2,724)*	*$(3,443)*
Marketable securities sold	***2,496***	*2,825*	*3,487*
Net (purchases) sales of marketable securities	***$ (183)***	*$ 101*	*$ 44*

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Amounts in millions of dollars	1998 Shares	1998 Amount	1997 Shares	1997 Amount	1996 Shares	1996 Amount
COMMON STOCK						
Balance at January 1	**712,487,068**	**$ 1,069**	712,487,068	$ 1,069	712,487,068	$ 1,069
Change during year	**–**	**–**	–	–	–	–
Balance at December 31	**712,487,068**	**$ 1,069**	712,487,068	$ 1,069	712,487,068	$ 1,069
TREASURY STOCK AT COST						
Balance at January 1	**56,555,871**	**$ (1,977)**	59,401,015	$ (2,024)	60,160,057	$ (2,047)
Purchases	**5,246,100**	**(398)**	1,255,022	(95)	69,278	(4)
Reissuances	**(2,341,305)**	**82**	(4,100,166)	142	(828,320)	27
Balance at December 31	**59,460,666**	**$ (2,293)**	56,555,871	$ (1,977)	59,401,015	$ (2,024)
CAPITAL IN EXCESS OF PAR						
Balance at January 1		**$ 2,022**		$ 1,874		$ 1,863
Treasury stock transactions relating to employee compensation plans		**75**		148		11
Balance at December 31		**$ 2,097**		$ 2,022		$ 1,874
DEFERRED COMPENSATION						
Balance at January 1		**$ (750)**		$ (800)		$ (850)
Reduction of ESOP debt and other		**59**		50		50
Balance at December 31		**$ (691)**		$ (750)		$ (800)
ACCUMULATED OTHER COMPREHENSIVE INCOME[1]						
Balance at January 1		**$ (77)**		$ 96		$ 174
Change during year		**(13)**		(173)		(78)
Balance at December 31		**$ (90)**		$ (77)		$ 96
RETAINED EARNINGS						
Balance at January 1		**$ 17,185**		$ 15,408		$ 14,146
Net Income		**1,339**		3,256		2,607
Cash dividends (per-share amounts 1998: $2.44; 1997: $2.28; 1996: $2.08)		**(1,596)**		(1,493)		(1,358)
Tax benefit from dividends paid on unallocated ESOP shares		**14**		14		13
Balance at December 31		**$ 16,942**		$ 17,185		$ 15,408
TOTAL STOCKHOLDERS' EQUITY AT DECEMBER 31		**$ 17,034**		$ 17,472		$ 15,623

See accompanying notes to consolidated financial statements.

[1]**ACCUMULATED OTHER COMPREHENSIVE INCOME**

	Currency Translation Adjustment	Unrealized Holding Gain on Securities	Minimum Pension Liability Adjustment	Total
Balance at January 1, 1996	*$ 172*	*$ 34*	*$ (32)*	*$ 174*
Change during the year	*(54)*	*(20)*	*(4)*	*(78)*
Balance at December 31, 1996	*$ 118*	*$ 14*	*$ (36)*	*$ 96*
Change during the year	*(173)*	*(4)*	*4*	*(173)*
Balance at December 31, 1997	*$ (55)*	*$ 10*	*$ (32)*	*$ (77)*
Change during the year	*(1)*	*3*	*(15)*	*(13)*
Balance at December 31, 1998	***$ (56)***	***$ 13***	***$ (47)***	***$ (90)***

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Millions of dollars, except per-share amounts

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Chevron Corporation is an international company that, through its subsidiaries and affiliates, engages in fully integrated petroleum operations, chemicals operations and coal mining in the United States and approximately 90 other countries. Petroleum operations consist of exploring for, developing and producing crude oil and natural gas; transporting crude oil, natural gas and products by pipelines, marine vessels and motor equipment; refining crude oil into finished petroleum products; and marketing crude oil, natural gas and refined petroleum products. Chemicals operations include the manufacture and marketing of a wide range of chemicals for industrial uses.

In preparing its consolidated financial statements, the company follows accounting policies that are in accordance with generally accepted accounting principles in the United States. This requires the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. While the company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

The nature of the company's operations and the many countries in which it operates subject it to changing economic, regulatory and political conditions. Also, the company imports crude oil for its U.S. refining operations. The company does not believe it is vulnerable to the risk of a near-term severe impact as a result of any concentration of its activities.

Subsidiary and Affiliated Companies The consolidated financial statements include the accounts of subsidiary companies more than 50 percent owned. Investments in and advances to affiliates in which the company has a substantial ownership interest of approximately 20 percent to 50 percent, or for which the company exercises significant influence but not control over policy decisions, are accounted for by the equity method. Under this accounting, remaining unamortized cost is increased or decreased by the company's share of earnings or losses after dividends.

Oil and Gas Accounting The successful efforts method of accounting is used for oil and gas exploration and production activities.

Derivatives Gains and losses on hedges of existing assets or liabilities are included in the carrying amounts of those assets or liabilities and are ultimately recognized in income as part of those carrying amounts. Gains and losses related to qualifying hedges of firm commitments or anticipated transactions also are deferred and are recognized in income or as adjustments of carrying amounts when the underlying hedged transaction occurs. Cash flows associated with these derivatives are reported with the underlying hedged transaction's cash flows. If, subsequent to being hedged, underlying transactions are no longer likely to occur, the related derivatives gains and losses are recognized currently in income. Gains and losses on derivatives contracts that do not qualify as hedges are recognized currently in "Other income."

Short-Term Investments All short-term investments are classified as available for sale and are in highly liquid debt securities. Those investments that are part of the company's cash management portfolio with original maturities of three months or less are reported as cash equivalents. The balance of the short-term investments is reported as "Marketable securities."

Inventories Crude oil, petroleum products and chemicals are stated at cost, using a Last-In, First-Out (LIFO) method. In the aggregate, these costs are below market. Materials, supplies and other inventories generally are stated at average cost.

Properties, Plant and Equipment All costs for development wells, related plant and equipment, and proved mineral interests in oil and gas properties are capitalized. Costs of exploratory wells are capitalized pending determination of whether the wells found proved reserves. Costs of wells that are assigned proved reserves remain capitalized. All other exploratory wells and costs are expensed.

Long-lived assets, including proved oil and gas properties, are assessed for possible impairment by comparing their carrying values to the undiscounted future net before-tax cash flows. Impaired assets are written down to their fair values. For proved oil and gas properties in the United States, the company would typically perform the impairment review on an individual field basis. Outside the United States, reviews are performed on a country or concession basis. Impairment amounts are recorded as incremental depreciation expense in the period when the event occurred.

Depreciation and depletion (including provisions for future abandonment and restoration costs) of all capitalized costs of proved oil and gas producing properties, except mineral interests, are expensed using the unit-of-production method by individual fields as the proved developed reserves are produced. Depletion expenses for capitalized costs of proved mineral interests are recognized using the unit-of-production method by individual fields as the related proved reserves are produced. Periodic valuation provisions for impairment of capitalized costs of unproved mineral interests are expensed.

Depreciation and depletion expenses for coal are determined using the unit-of-production method as the proved reserves are produced. The capitalized costs of all other plant and equipment are depreciated or amortized over estimated useful lives. In general, the declining-balance method is used to depreciate plant and equipment in the United States; the straight-line method generally is used to depreciate international plant and equipment and to amortize all capitalized leased assets.

Gains or losses are not recognized for normal retirements of properties, plant and equipment subject to composite group amortization or depreciation. Gains or losses from abnormal retirements or sales are included in income.

Expenditures for maintenance, repairs and minor renewals to maintain facilities in operating condition are expensed. Major replacements and renewals are capitalized.

Environmental Expenditures Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed. Expenditures that

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
– Continued

create future benefits or contribute to future revenue generation are capitalized.

Liabilities related to future remediation costs are recorded when environmental assessments and/or cleanups are probable and the costs can be reasonably estimated. Other than for assessments, the timing and magnitude of these accruals are generally based on the company's commitment to a formal plan of action, such as an approved remediation plan or the sale or disposal of an asset. For the company's U.S. and Canadian marketing facilities, the accrual is based on the probability that a future remediation commitment will be required. For oil and gas and coal producing properties, a provision is made through depreciation expense for anticipated abandonment and restoration costs at the end of the property's useful life.

For Superfund sites, the company records a liability for its share of costs when it has been named as a Potentially Responsible Party (PRP) and when an assessment or cleanup plan has been developed. This liability includes the company's own portion of the costs and also the company's portion of amounts for other PRPs when it is probable that they will not be able to pay their share of the cleanup obligation.

The company records the gross amount of its liability based on its best estimate of future costs using currently available technology and applying current regulations as well as the company's own internal environmental policies. Future amounts are not discounted. Recoveries or reimbursements are recorded as an asset when receipt is reasonably ensured.

Currency Translation The U.S. dollar is the functional currency for the company's consolidated operations as well as for substantially all operations of its equity method companies. For those operations, all gains or losses from currency transactions are currently included in income. The cumulative translation effects for the few equity affiliates using functional currencies other than the U.S. dollar are included in the currency translation adjustment in stockholders' equity.

Taxes Income taxes are accrued for retained earnings of international subsidiaries and corporate joint ventures intended to be remitted. Income taxes are not accrued for unremitted earnings of international operations that have been, or are intended to be, reinvested indefinitely.

Stock Compensation The company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB Opinion 25) and related interpretations in accounting for stock options and presents in Note 19 pro forma net income and earnings per share data as if the accounting prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), had been applied.

Note 2. SPECIAL ITEMS AND OTHER FINANCIAL INFORMATION
Net income is affected by transactions that are unrelated to or are not necessarily representative of the company's ongoing operations for the periods presented. These transactions, defined by management and designated "special items," can obscure the underlying results of operations for a year as well as affect comparability of results between years.

Listed below are categories of special items and their net increase (decrease) to net income, after related tax effects:

	Year ended December 31		
	1998	1997	1996
Asset write-offs and revaluations			
Asset impairments			
– Oil and gas properties	**$ (50)**	$ (68)	$ (68)
U.S. refining, marketing and transportation assets	**(22)**	–	–
U.K. refining and marketing assets	**–**	–	(200)
Chemicals assets	**(19)**	(10)	(12)
Real estate assets	**(9)**	–	(29)
Computer and telecommunications equipment	**(59)**	(8)	(12)
Other assets	**–**	–	(16)
	(159)	(86)	(337)
Asset dispositions, net			
Oil and gas properties	**(9)**	240	80
U.K. refining and marketing exit	**–**	(72)	–
Sale of domestic shipping assets	**–**	(18)	–
Sale of chemicals affiliate	**–**	33	–
Sale of two Caltex affiliate refineries	**–**	–	279
Dynegy merger	**–**	–	32
	(9)	183	391
Prior-year tax adjustments	**271**	152	52
Environmental remediation provisions, net	**(39)**	(35)	(54)
Restructurings and reorganizations			
Caltex affiliate	**(43)**	(6)	(14)
Dynegy affiliate	**–**	(54)	–
	(43)	(60)	(14)
LIFO inventory (losses) gains	**(25)**	5	(4)
Other, net			
Settlement of insurance claims	**105**	7	–
Caltex write-off of start-up costs (SOP 98-5)	**(25)**	–	–
Litigation and regulatory issues*	**(682)**	(24)	(90)
Performance stock options	**–**	(66)	–
Federal lease cost refund	**–**	–	12
	(602)	(83)	(78)
Total special items, after tax	**$(606)**	$ 76	$ (44)

1998 includes provision related to Cities Service litigation.

Other financial information is as follows:

	Year ended December 31		
	1998	1997	1996
Total financing interest and debt costs	**$444**	$411	$472
Less: capitalized interest	**39**	99	108
Interest and debt expense	**405**	312	364
Research and development expenses	**187**	179	182
Foreign currency (losses) gains*	**$ (47)**	$246	$ (26)

Includes $(68), $177 and $(28) in 1998, 1997 and 1996, respectively, for the company's share of affiliates' foreign currency (losses) gains.

The excess of current cost (based on average acquisition costs for the year) over the carrying value of inventories for which the LIFO method is used was $584, $1,089 and $1,122 at December 31, 1998, 1997 and 1996, respectively.

Note 3. CUMULATIVE EFFECT ON NET INCOME FROM ACCOUNTING CHANGES In April 1998, the AICPA released Statement of Position 98-5, "Reporting on the Costs of Start-up Activ-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Millions of dollars, except per-share amounts

Note 3. CUMULATIVE EFFECT ON NET INCOME FROM ACCOUNTING CHANGES – Continued

ities" (SOP 98-5), which introduced a broad definition of items to expense as incurred for start-up activities, including new products/services, entering new territories, initiating new processes or commencing new operations. Chevron was substantially in compliance with the pronouncement, and it had no impact on the company's accounting practices. However, Caltex capitalized these types of costs for certain projects. Chevron, accordingly, restated its 1998 quarterly financial statements for its $25 share of the charge associated with Caltex's fourth quarter 1998 implementation of SOP 98-5, effective January 1, 1998.

In the fourth quarter 1998, Chevron changed its method of calculating certain Canadian deferred income taxes, effective January 1, 1998. The benefit from this change was $32 and resulted in the restatement of first quarter 1998 net income.

The net benefit to Chevron's restated first quarter 1998 net income from the cumulative effect of adopting SOP 98-5 by Caltex and the change in Chevron's method of calculating Canadian deferred taxes was immaterial.

Chevron also adopted other new accounting statements and positions during 1998, but these were not material to the company's results of operations or its consolidated balance sheet.

Note 4. INFORMATION RELATING TO THE CONSOLIDATED STATEMENT OF CASH FLOWS The Consolidated Statement of Cash Flows excludes the following noncash transactions:

During 1997, the company's Venice, Louisiana, natural gas facilities were contributed to a partnership with Dynegy Inc. (Dynegy). An increase in "Investments and advances" from this merger is considered a noncash transaction and resulted primarily from the contribution of properties, plant and equipment.

During 1996, the company merged substantially all of its natural gas liquids and natural gas marketing businesses with Dynegy. The company received cash, a note and shares of Dynegy common stock and participating preferred stock in exchange for its contribution of net assets to Dynegy. Only the cash received is included in the Consolidated Statement of Cash Flows as "Proceeds from asset sales."

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

	Year ended December 31		
	1998	1997	1996
Additions to properties, plant and equipment	**$3,678**	$3,840	$3,250
Additions to investments	**306**	153	195
Payments for other liabilities and assets, net	**(104)**	(94)	(21)
Capital expenditures	**3,880**	3,899	3,424
Expensed exploration expenditures	**438**	462	400
Payments of long-term debt and other financing obligations	**2**	6	33
Capital and exploratory expenditures, excluding equity affiliates	**$4,320**	$4,367	$3,857

There have been other noncash transactions that have occurred during the years presented. These include the contribution of working capital balances in exchange for an equity interest in a newly formed entity; the acquisition of long-term debt in exchange for the termination of a capital lease obligation; the reissuance of treasury shares for management and employee compensation plans; and changes in assets, liabilities and stockholders' equity resulting from the accounting for the company's Employee Stock Ownership Plan (ESOP), minimum pension liability and market value adjustments on investments. The amounts for these transactions are not material in the aggregate in relation to the company's financial position.

"Other, net" operating activities in 1998 include a noncurrent provision for the Cities Service litigation.

Note 5. STOCKHOLDERS' EQUITY Retained earnings at December 31, 1998 and 1997, include $2,121 and $2,272, respectively, for the company's share of undistributed earnings of equity affiliates.

In 1998, the company declared a dividend distribution of one Right to purchase Chevron Participating Preferred Stock. The Rights will be exercisable, unless redeemed earlier by the company, if a person or group acquires, or obtains the right to acquire, 10 percent or more of the outstanding shares of common stock or commences a tender or exchange offer that would result in acquiring 10 percent or more of the outstanding shares of common stock, either event occurring without the prior consent of the company. The amount of Chevron Series A Participating Preferred Stock that the holder of a Right is entitled to receive and the purchase price payable upon exercise of the Chevron Right are both subject to adjustment. The person or group who had acquired 10 percent or more of the outstanding shares of common stock without the prior consent of the company would not be entitled to this purchase.

The Rights will expire in November 2008, or they may be redeemed by the company at 1 cent per Right prior to that date. The Rights do not have voting or dividend rights and, until they become exercisable, have no dilutive effect on the earnings of the company. Five million shares of the company's preferred stock have been designated Series A Participating Preferred Stock and reserved for issuance upon exercise of the Rights. No event during 1998 made the Rights exercisable. Rights associated with a 1988 dividend distribution expired in 1998.

Note 6. FINANCIAL AND DERIVATIVE INSTRUMENTS

Off-Balance-Sheet Risk The company utilizes a variety of derivative instruments, both financial and commodity-based, as hedges to manage a small portion of its exposure to price volatility stemming from its integrated petroleum activities. Relatively straightforward and involving little complexity, the derivative instruments consist mainly of futures contracts traded on the New York Mercantile Exchange and the International Petroleum Exchange and of natural gas swap contracts entered into principally with major financial institutions. The futures contracts hedge anticipated crude oil purchases and sales and product sales, generally forecast to occur within a 60- to 90-day period. Natural gas swaps are used primarily

Note 6. FINANCIAL AND DERIVATIVE INSTRUMENTS – Continued

to hedge firmly committed sales, and the terms of the swap contracts held at year-end 1998 have an average remaining maturity of 55 months. Gains and losses on these derivative instruments offset and are recognized concurrently with gains and losses from the underlying commodities.

In addition, the company in 1998 and 1997 entered into managed programs using swaps and options to take advantage of perceived opportunities for favorable price movements in natural gas. The results of these programs are reflected currently in income and were not material in 1998 or 1997.

The company enters into forward exchange contracts, generally with terms of 90 days or less, as a hedge against some of its foreign currency exposures, primarily anticipated purchase transactions forecast to occur within 90 days.

The company enters into interest rate swaps as part of its overall strategy to manage the interest rate risk on its debt. Under the terms of the swaps, net cash settlements, based on the difference between fixed-rate and floating-rate interest amounts calculated by reference to agreed notional principal amounts, are made either semiannually or annually, and are recorded monthly as "Interest and debt expense." At December 31, 1998, there were three outstanding contracts, with remaining terms of between eight months and seven years.

Concentrations of Credit Risk The company's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash equivalents, marketable securities, derivative financial instruments and trade receivables.

The company's short-term investments are placed with various foreign governments and a wide array of financial institutions with high credit ratings. This diversified investment policy limits the company's exposure both to credit risk and to concentrations of credit risk. Similar standards of diversity and creditworthiness are applied to the company's counterparties in derivative instruments.

The trade receivable balances, reflecting the company's diversified sources of revenue, are dispersed among the company's broad customer base worldwide. As a consequence, concentrations of credit risk are limited. The company routinely assesses the financial strength of its customers. Letters of credit are the principal security obtained to support lines of credit or negotiated contracts when the financial strength of a customer is not considered sufficient.

Fair Value Fair values are derived either from quoted market prices where available or, in their absence, the present value of the expected cash flows. The fair values reflect the cash that would have been received or paid if the instruments were settled at year-end. At December 31, 1998 and 1997, the fair values of the financial and derivative instruments were as follows:

Long-term debt of $1,403 and $1,414 had estimated fair values of $1,485 and $1,481.

The notional principal amounts of the interest rate swaps totaled $700 and $1,050, with approximate fair values totaling $(21) and $(16). The notional amounts of these and other derivative instruments do not represent assets or liabilities of the company but, rather, are the basis for the settlements under the contract terms.

The company holds cash equivalents and U.S. dollar marketable securities in domestic and offshore portfolios. Eurodollar bonds, floating-rate notes, time deposits and commercial paper are the primary instruments held. Cash equivalents and marketable securities had fair values of $1,206 and $1,483. Of these balances, $362 and $828 classified as cash equivalents had average maturities under 90 days, while the remainder, classified as marketable securities, had average maturities of two years and three years.

For other derivatives the contract or notional values were as follows: Crude oil and products futures had net contract values of $33 and $4, approximating their fair values. Forward exchange contracts had contract values of $180 and $47, approximating their fair values. Gas swap contracts, based on notional gas volumes of approximately 67 and 75 billion cubic feet, had fair values approximating their face values. Deferred gains and losses that have been accrued on the Consolidated Balance Sheet are not material.

Note 7. SUMMARIZED FINANCIAL DATA – CHEVRON U.S.A. INC.
At December 31, 1998, Chevron U.S.A. Inc. was Chevron Corporation's principal operating company, consisting primarily of the company's U.S. integrated petroleum operations (excluding most of the domestic pipeline operations) and, effective February 1, 1998, the majority of the company's worldwide petrochemicals operations. In 1998, these operations were conducted primarily by three divisions: Chevron U.S.A. Production Company, Chevron Products Company and Chevron Chemical Company, LLC. Prior to September 1, 1996, Chevron U.S.A. Inc.'s natural gas liquids operations were conducted by its Warren Petroleum Company division, and its natural gas marketing operations were conducted by Chevron U.S.A. Production Company. Beginning September 1, 1996, these operations are carried out through its 28 percent equity ownership in Dynegy. Summarized financial information for Chevron U.S.A. Inc. and its consolidated subsidiaries is presented below:

	Year ended December 31		
	1998	1997	1996
Sales and other operating revenues	**$24,440**	$28,130	$29,726
Total costs and other deductions	**24,338**	26,354	28,331
Net income	**346**	1,484	1,042

	At December 31	
	1998	1997
Current assets	**$ 3,227**	$ 2,854
Other assets	**18,306**	13,867
Current liabilities	**3,809**	3,282
Other liabilities	**6,517**	4,966
Net equity	**11,207**	8,473

Note 8. SUMMARIZED FINANCIAL DATA – CHEVRON TRANSPORT CORPORATION Chevron Transport Corporation (CTC), a Liberian 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 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 where CTC is deemed to be an issuer. In accordance with the Securities and Exchange

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Millions of dollars, except per-share amounts

Note 8. SUMMARIZED FINANCIAL DATA – CHEVRON TRANSPORT CORPORATION – Continued

Commission's disclosure requirements, 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 generally accepted accounting principles.

Separate CTC financial statements and other disclosures are omitted, as such information is 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 December 31, 1998.

	Year ended December 31		
	1998	1997*	1996
Sales and other operating revenues	**$573**	$544	$512
Total costs and other deductions	**580**	557	564
Net income	**17**	28	11

**Certain amounts were reclassified to conform to the 1998 and 1996 presentations.*

	At December 31	
	1998	1997
Current assets	**$270**	$ 243
Other assets	**982**	897
Current liabilities	**898**	666
Other liabilities	**284**	311
Net equity	**70**	163

The 1998 decrease in "Net equity" was due primarily to the return of $110 million of paid-in capital to CTC's parent in partial settlement of a receivable balance.

Note 9. OPERATING SEGMENTS AND GEOGRAPHIC DATA Chevron manages its exploration and production; refining, marketing and transportation; and chemicals businesses separately. The company's primary country of operation is the United States, its country of domicile. The remainder of the company's operations is reported as International (outside the United States) since its activities in no other country meet the requirements for separate disclosure.

Segment Sales and Other Operating Revenues Revenues for the exploration and production segments are derived primarily from the production of crude oil and natural gas. Revenues for the refining, marketing and transportation segments are derived from the refining and marketing of petroleum products such as gasoline, jet fuel, gas oils, kerosene, residual fuel oils and other products derived from crude oil. This segment also generates revenues from the transportation and trading of crude oil and refined products. Chemicals segment revenues are derived from the manufacture and sale of petrochemicals, plastic resins, and lube oil and fuel additives.

"All Other" activities include corporate administrative costs; worldwide cash management and debt financing activities; coal mining operations, which are held for sale; insurance operations, and real estate activities.

Reportable operating segment sales and other operating revenues, including internal transfers, for the years 1998, 1997 and 1996 are presented in the following table. Sales from the transfer of products between segments are at estimated market prices. Segment revenues are presented on the following table.

	Year ended December 31		
	1998	1997	1996
EXPLORATION AND PRODUCTION			
United States			
Crude oil	**$ –**	$ (3)	$ (36)
Natural gas	**1,599**	1,978	2,742
Natural gas liquids	**128**	185	944
Other	**12**	20	59
Intersegment	**1,453**	4,362	2,970
Total United States	**3,192**	6,542	6,679
International			
Refined products	**1**	2	(2)
Crude oil	**1,761**	2,790	2,852
Natural gas	**505**	590	558
Natural gas liquids	**89**	170	142
Other	**130**	116	133
Intersegment	**1,984**	2,810	2,881
Total International	**4,470**	6,478	6,564
TOTAL EXPLORATION AND PRODUCTION	**7,662**	13,020	13,243
REFINING, MARKETING AND TRANSPORTATION			
United States			
Refined products	**10,148**	12,586	12,295
Crude oil	**2,971**	4,531	4,872
Natural gas liquids	**100**	158	48
Other	**622**	592	624
Excise taxes	**3,503**	3,386	3,230
Intersegment	**(1,172)**	(1,916)	(2,068)
Total United States	**16,172**	19,337	19,001
International			
Refined products	**1,312**	2,998	3,493
Crude oil	**3,049**	3,978	4,709
Natural gas liquids	**5**	40	33
Other	**299**	390	367
Excise taxes	**213**	2,188	1,959
Intersegment	**20**	15	18
Total International	**4,898**	9,609	10,579
TOTAL REFINING, MARKETING AND TRANSPORTATION	**21,070**	28,946	29,580
CHEMICALS			
United States			
Products	**2,468**	2,933	2,831
Excise taxes	**2**	–	–
Intersegment	**121**	112	105
Total United States	**2,591**	3,045	2,936
International			
Products	**568**	559	556
Other	**18**	28	35
Excise taxes	**38**	13	12
Intersegment	**1**	2	2
Total International	**625**	602	605
TOTAL CHEMICALS	**3,216**	3,647	3,541
ALL OTHER			
United States – Coal	**399**	359	329
United States – Other	**(1)**	8	(14)
International	**4**	1	11
Intersegment – United States	**52**	47	–
Intersegment – International	**2**	–	–
TOTAL ALL OTHER	**456**	415	326
Sales and Other Operating Revenues – United States	**22,405**	29,338	28,931
Sales and Other Operating Revenues – International	**9,999**	16,690	17,759
Total Segment Sales and Other Operating Revenues	**32,404**	46,028	46,690
Elimination of Intersegment Sales	**(2,461)**	(5,432)	(3,908)
TOTAL SALES AND OTHER OPERATING REVENUES	**$29,943**	$40,596	$42,782

Note 9. OPERATING SEGMENTS AND GEOGRAPHIC DATA
– Continued

Segment Earnings The company evaluates the performance of its operating segments on an after-tax basis, without considering the effects of debt financing interest expense or investment interest income, both of which are managed by the corporation on a worldwide basis. Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are billed for direct corporate services. Nonbillable costs remain as corporate center expenses. Other than depreciation expense and deferred income taxes, there were no significant noncash items included in segment results. After-tax segment operating earnings for the years 1998, 1997 and 1996 are presented in the following table.

	Year ended December 31		
	1998	1997	1996
EXPLORATION AND PRODUCTION			
United States	**$ 365**	$ 1,001	$ 1,087
International	**707**	1,252	1,211
TOTAL EXPLORATION AND PRODUCTION	**1,072**	2,253	2,298
REFINING, MARKETING AND TRANSPORTATION			
United States	**572**	601	193
International	**28**	298	226
TOTAL REFINING, MARKETING AND TRANSPORTATION	**600**	899	419
CHEMICALS			
United States	**79**	138	147
International	**43**	90	53
TOTAL CHEMICALS	**122**	228	200
TOTAL SEGMENT INCOME	**1,794**	3,380	2,917
Interest Expense	**(270)**	(189)	(242)
Interest Income	**63**	75	51
Other	**(248)**	(10)	(119)
NET INCOME	**$ 1,339**	$ 3,256	$ 2,607
NET INCOME – UNITED STATES	**$ 642**	$ 1,622	$ 1,144
NET INCOME – INTERNATIONAL	**$ 697**	$ 1,634	$ 1,463
TOTAL NET INCOME	**$ 1,339**	$ 3,256	$ 2,607

Segment Income Taxes Segment income tax expense for the years 1998, 1997 and 1996 is as follows:

	Year ended December 31		
	1998	1997	1996
EXPLORATION AND PRODUCTION			
United States	**$ 164**	$ 559	$ 521
International	**595**	1,488	1,633
TOTAL EXPLORATION AND PRODUCTION	**759**	2,047	2,154
REFINING, MARKETING AND TRANSPORTATION			
United States	**309**	346	122
International	**54**	6	30
TOTAL REFINING, MARKETING AND TRANSPORTATION	**363**	352	152
CHEMICALS			
United States	**25**	77	72
International	**14**	57	27
TOTAL CHEMICALS	**39**	134	99
All Other	**(666)**	(287)	(272)
TOTAL INCOME TAX EXPENSE	**$ 495**	$2,246	$2,133

Segment Assets Segment assets do not include intercompany investments or intercompany receivables. "All Other" assets consist primarily of worldwide cash and marketable securities, company real estate, information systems, and coal mining assets. Segment assets at year-end 1998, 1997 and 1996 are as follows:

	At December 31	
	1998	1997
EXPLORATION AND PRODUCTION		
United States	**$ 6,026**	$ 5,848
International	**10,794**	9,830
TOTAL EXPLORATION AND PRODUCTION	**16,820**	15,678
REFINING, MARKETING AND TRANSPORTATION		
United States	**8,084**	8,109
International	**3,559**	3,786
TOTAL REFINING, MARKETING AND TRANSPORTATION	**11,643**	11,895
CHEMICALS		
United States	**3,045**	2,828
International	**828**	690
TOTAL CHEMICALS	**3,873**	3,518
TOTAL SEGMENT ASSETS	**32,336**	31,091
ALL OTHER		
United States	**2,467**	2,730
International	**1,737**	1,652
TOTAL ALL OTHER	**4,204**	4,382
TOTAL ASSETS – UNITED STATES	**19,622**	19,515
TOTAL ASSETS – INTERNATIONAL	**16,918**	15,958
TOTAL ASSETS	**$36,540**	$35,473

Investments in and earnings from affiliated companies are included in the segments in which the affiliates operate. Dynegy Inc. is included in U.S. exploration and production; P.T. Caltex Pacific Indonesia (CPI) and Tengizchevroil (TCO) are included in International exploration and production; and Caltex Corporation is included in International refining, marketing and transportation. The company's other affiliates are not material to any segment's assets or results of operations. Information on equity affiliates, including carrying value and equity earnings, is included in Note 12.

Additions to long-lived assets and depreciation expense, by operating segment, are included in Note 13.

Note 10. LITIGATION The company is a defendant in numerous lawsuits, including, along with other oil companies, actions challenging oil and gas royalty and severance tax payments based on posted prices and others related to the use of the chemical MTBE in certain oxygenated gasolines. Plaintiffs may seek to recover large and sometimes unspecified amounts, and some matters may remain unresolved for several years. It is not practical to estimate a range of possible loss for the company's litigation matters, and losses could be material with respect to earnings in any given period. However, management is of the opinion that resolution of the lawsuits will not result in any significant liability to the company in relation to its consolidated financial position or liquidity.

The company is a defendant in a lawsuit that OXY U.S.A. brought in its capacity as successor in interest to Cities Service Company. The lawsuit claims damages resulting from the allegedly improper termination of a tender offer made by

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Millions of dollars, except per-share amounts

Note 10. LITIGATION – Continued

Gulf Oil Corporation, acquired by Chevron in 1984, to purchase Cities Service in 1982. A 1996 trial resulted in a judgment against the company of $742 million, including interest that continues to accrue at 9.55 percent per year while this matter is pending. The Oklahoma Supreme Court affirmed the lower court's decision in March 1999, and accordingly, the company recorded in 1998 results a litigation reserve of $637 million, substantially all of which pertained to this lawsuit. The ultimate outcome of this matter cannot be determined presently with certainty, and the company will seek further review of this case in the appropriate courts.

Note 11. LEASE COMMITMENTS Certain noncancelable leases are classified as capital leases, and the leased assets are included as part of "Properties, plant and equipment." Other leases are classified as operating leases and are not capitalized. Details of the capitalized leased assets are as follows:

	At December 31	
	1998	1997
Exploration and Production	**$ 5**	$ 5
Refining, Marketing and Transportation	**757**	756
Total	**762**	761
Less: accumulated amortization	**398**	371
Net capitalized leased assets	**$364**	$390

At December 31, 1998, the future minimum lease payments under operating and capital leases are as follows:

	At December 31	
Year	Operating Leases	Capital Leases
1999	$133	$ 68
2000	116	61
2001	109	57
2002	103	53
2003	98	52
Thereafter	284	709
Total	$843	1,000
Less: amounts representing interest and executory costs		429
Net present values		571
Less: capital lease obligations included in short-term debt		306
Long-term capital lease obligations		$ 265
Future sublease rental income	$ 17	$ –

Rental expenses incurred for operating leases during 1998, 1997 and 1996 were as follows:

	Year ended December 31		
	1998	1997	1996
Minimum rentals	**$503**	$443	$438
Contingent rentals	**5**	5	6
Total	**508**	448	444
Less: sublease rental income	**3**	5	15
Net rental expense	**$505**	$443	$429

Contingent rentals are based on factors other than the passage of time, principally sales volumes at leased service stations. Certain leases include escalation clauses for adjusting rentals to reflect changes in price indices, renewal options ranging from one to 25 years, and/or options to purchase the leased property during or at the end of the initial lease period for the fair market value at that time.

Note 12. INVESTMENTS AND ADVANCES Chevron owns 50 percent each of P.T. Caltex Pacific Indonesia, an exploration and production company operating in Indonesia; Caltex Corporation, which, through its subsidiaries and affiliates, conducts refining and marketing activities in Asia, Africa, the Middle East, Australia and New Zealand; and American Overseas Petroleum Limited, which, through its subsidiary, manages certain of the company's operations in Indonesia. These companies and their subsidiaries and affiliates are collectively called the Caltex Group.

Tengizchevroil (TCO) is a joint venture formed in 1993 to develop the Tengiz and Korolev oil fields in Kazakhstan over a 40-year period. In April 1997, Chevron sold 10 percent of its interest in TCO to an affiliate of LUKoil, a Russian oil company, and ARCO. The sale reduced Chevron's ownership to 45 percent. The company has an obligation of $420, payable to the Republic of Kazakhstan upon the attainment of a dedicated export system with the capability of the greater of 260,000 barrels of oil per day or TCO's production capacity. This amount was included in the value of the investment, as the company believed at the time, and continues to believe, that its payment is beyond a reasonable doubt given the original intent and continuing commitment of both parties to realizing the full potential of the venture over its 40-year life.

Chevron owns 28 percent of Dynegy Inc., a gatherer, processor, transporter and marketer of energy products in North America and the United Kingdom, including natural gas, natural gas liquids, crude oil and electricity. The market value of Chevron's shares of Dynegy common stock at December 31, 1998, was $424 based on quoted closing market prices.

Equity in earnings, together with investments in and advances to companies accounted for using the equity method, and other investments accounted for at or below cost, are as follows:

	Investments and Advances		Equity in Earnings		
	At December 31		Year ended December 31		
	1998	1997[1]	**1998**	1997[1]	1996[1]
Exploration and Production					
Tengizchevroil	**$1,455**	$1,255	**$ 60**	$169	$110
Caltex Group	**452**	438	**107**	171	188
Dynegy	**265**	385	**49**	(17)	25
Other	**134**	77	**4**	13	(1)
Total Exploration and Production	**2,306**	2,155	**220**	336	322
Refining, Marketing and Transportation					
Caltex Group	**1,751**	1,863	**(36)**	252	408
Other	**124**	84	**24**	57	8
Total Refining, Marketing and Transportation	**1,875**	1,947	**(12)**	309	416
Chemicals	**135**	132	**–**	25	32
All Other	**74**	54	**20**	18	(3)
Total Equity Method	**$4,390**	$4,288	**$228**	$688	$767
Other at or below cost	**214**	208			
Total Investments and Advances	**$4,604**	$4,496			

[1]*Reclassified to conform to the 1998 presentation.*

Note 12. INVESTMENTS AND ADVANCES – Continued

Effective October 1, 1997, Caltex's management changed the functional currency for its Korean and Japanese equity affiliates from their local currencies to the U.S. dollar, based on significantly changed economic facts and circumstances, primarily the changing regulatory environments in those countries.

The company received dividends and distributions of $254, $335 and $828 in 1998, 1997 and 1996, respectively, including $167, $207 and $735 from the Caltex Group. Also during 1998, Dynegy repaid a $155 loan to Chevron, which is reflected as a decrease in the company's investment in the affiliate.

The company's transactions with affiliated companies are summarized in the following table. These are primarily for the purchase of Indonesian crude oil from CPI, the sale of crude oil and products to Caltex Corp.'s refining and marketing companies, the sale of natural gas to Dynegy, and the purchase of natural gas and natural gas liquids from Dynegy.

"Accounts and notes receivable" in the Consolidated Balance Sheet include $156 and $145 at December 31, 1998 and 1997, respectively, of amounts due from affiliated companies. "Accounts payable" include $41 and $57 at December 31, 1998 and 1997, respectively, of amounts due to affiliated companies.

	Year ended December 31		
	1998	1997	1996
Sales to Caltex Group	**$ 772**	$1,335	$1,708
Sales to Dynegy Inc.	**1,307**	1,822	676
Sales to other affiliates	**26**	8	18
Total sales to affiliates	**$2,105**	$3,165	$2,402
Purchases from Caltex Group	**$ 681**	$ 932	$1,022
Purchases from Dynegy Inc.	**642**	854	269
Purchases from other affiliates	**2**	16	41
Total purchases from affiliates	**$1,325**	$1,802	$1,332

The following tables summarize the combined financial information for the Caltex Group and all of the other equity-method companies, together with Chevron's share. Amounts shown for the affiliates are 100 percent.

	Caltex Group			Other Affiliates			Chevron's Share		
Year ended December 31	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996
Sales and other operating revenues	**$16,969**	$ 17,920	$ 16,895	**$16,842**	$16,574	$6,356	**$14,029**	$13,827	$10,218
Total costs and other deductions	**16,655**	17,147	15,991	**16,430**	15,770	5,829	**13,371**	13,118	9,573
Net income	**143**	846	1,193	**295**	556	404	**228**	688	767

	Caltex Group			Other Affiliates			Chevron's Share		
At December 31	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996
Current assets	**$ 1,974**	$ 2,521	$ 2,681	**$ 3,326**	$ 3,232	$3,286	**$ 2,015**	$ 2,289	$ 2,284
Other assets	**7,683**	7,193	6,714	**8,868**	6,713	6,088	**6,663**	5,971	5,524
Current liabilities	**2,840**	2,991	2,999	**2,723**	2,565	2,064	**2,162**	2,232	2,076
Other liabilities	**2,420**	2,131	2,140	**7,147**	5,448	5,034	**2,126**	1,740	1,448
Net equity	**4,397**	4,592	4,256	**2,324**	1,932	2,276	**4,390**	4,288	4,284

Note 13. PROPERTIES, PLANT AND EQUIPMENT

	At December 31						Year ended December 31					
	Gross Investment at Cost			Net Investment			Additions at Cost[1]			Depreciation Expense		
	1998	1997	1996	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996
Exploration and Production												
United States	**$18,372**	$18,104	$17,742	**$ 5,237**	$ 5,052	$ 4,849	**$1,000**	$1,166	$ 974	**$ 818**	$ 887	$ 785
International	**12,755**	11,752	10,516	**7,148**	6,691	6,026	**1,221**	1,310	1,231	**730**	634	581
Total Exploration and Production	**31,127**	29,856	28,258	**12,385**	11,743	10,875	**2,221**	2,476	2,205	**1,548**	1,521	1,366
Refining, Marketing and Transportation												
United States	**11,793**	11,378	11,186	**6,268**	6,186	6,295	**665**	538	415	**483**	464	472
International	**2,005**	2,063	2,259	**1,139**	1,210	1,387	**50**	57	70	**81**	111	115
Total Refining, Marketing and Transportation	**13,798**	13,441	13,445	**7,407**	7,396	7,682	**715**	595	485	**564**	575	587
Chemicals												
United States	**3,436**	3,039	2,587	**2,211**	1,931	1,552	**385**	470	376	**109**	92	138
International	**662**	549	393	**414**	309	163	**116**	157	37	**10**	12	24
Total Chemicals	**4,098**	3,588	2,980	**2,625**	2,240	1,715	**501**	627	413	**119**	104	162
All Other[2]	**2,314**	2,348	2,253	**1,312**	1,292	1,224	**202**	110	93	**89**	100	101
Total United States	**35,915**	34,867	33,764	**15,028**	14,461	13,920	**2,252**	2,284	1,858	**1,499**	1,543	1,496
Total International	**15,422**	14,366	13,172	**8,701**	8,210	7,576	**1,387**	1,524	1,338	**821**	757	720
Total	**$51,337**	$49,233	$46,936	**$23,729**	$22,671	$21,496	**$3,639**	$3,808	$3,196	**$2,320**	$2,300	$2,216

[1]*Net of dry hole expense related to prior years' expenditures of $40, $31 and $55 in 1998, 1997 and 1996, respectively.*

[2]*Primarily coal assets, real estate assets and management information systems.*

Expenses for maintenance and repairs were $833, $738 and $626 in 1998, 1997 and 1996, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Millions of dollars, except per-share amounts

Note 14. TAXES

	Year ended December 31		
	1998	1997	1996
Taxes other than on income			
United States			
Excise taxes on products and merchandise	**$3,505**	$3,386	$3,231
Property and other miscellaneous taxes	**262**	274	274
Payroll taxes	**129**	123	123
Taxes on production	**92**	118	121
Total United States	**3,988**	3,901	3,749
International			
Excise taxes on products and merchandise	**251**	2,201	1,971
Property and other miscellaneous taxes	**137**	185	157
Payroll taxes	**26**	23	26
Taxes on production	**9**	10	5
Total International	**423**	2,419	2,159
Total taxes other than on income	**$4,411**	$6,320	$5,908

U.S. federal income tax expense was reduced by $84, $93 and $77 in 1998, 1997 and 1996, respectively, for low-income housing and other business tax credits.

In 1998, before-tax income, including related corporate and other charges, for U.S. operations was $728, compared with $2,054 in 1997 and $1,631 in 1996. For international operations, before-tax income was $1,106, $3,448 and $3,109 in 1998, 1997 and 1996, respectively.

The deferred income tax provisions included costs of $470, $304 and $204 related to properties, plant and equipment in 1998, 1997 and 1996, respectively.

	Year ended December 31		
	1998	1997	1996
Taxes on income			
U.S. federal			
Current	**$(176)**	$ 369	$ 360
Deferred	**71**	357	165
State and local	**20**	81	59
Total United States	**(85)**	807	584
International			
Current	**385**	1,174	1,356
Deferred	**195**	265	193
Total International	**580**	1,439	1,549
Total taxes on income	**$ 495**	$2,246	$2,133

The company's effective income tax rate varied from the U.S. statutory federal income tax rate because of the following:

	Year ended December 31		
	1998	1997	1996
Statutory U.S. federal income tax rate	**35.0%**	35.0%	35.0%
Effect of income taxes from international operations in excess of taxes at the U.S. statutory rate	**7.6**	9.6	16.8
State and local taxes on income, net of U.S. federal income tax benefit	**0.2**	1.3	0.9
Prior-year tax adjustments	**(4.5)**	(0.3)	(0.2)
Tax credits	**(4.6)**	(1.7)	(1.6)
Other	**(6.4)**	(1.7)	(3.6)
Consolidated companies	**27.3**	42.2	47.3
Effect of recording equity in income of certain affiliated companies on an after-tax basis	**(0.3)**	(1.4)	(2.3)
Effective tax rate	**27.0%**	40.8%	45.0%

The reduction in the 1998 effective rate from prior-year tax adjustments primarily reflects a benefit from the finalization of the company's 1997 tax return. The additional reduction in the effective tax rate in 1998 from tax credits reflects a larger proportion of before-tax income in 1998 than 1997 and 1996 from similar amounts of tax credits. The other effects on the 1998 effective tax rate consist primarily of the utilization of additional capital loss benefits, the settlement of outstanding issues and permanent differences.

The company records its deferred taxes on a tax jurisdiction basis and classifies those net amounts as current or noncurrent based on the balance sheet classification of the related assets or liabilities.

At December 31, 1998 and 1997, deferred taxes were classified in the Consolidated Balance Sheet as follows:

	At December 31	
	1998	1997
Prepaid expenses and other current assets	**$ (30)**	$ (13)
Deferred charges and other assets	**(264)**	(181)
Federal and other taxes on income	**–**	79
Noncurrent deferred income taxes	**3,645**	3,215
Total deferred income taxes, net	**$3,351**	$3,100

The reported deferred tax balances are composed of the following deferred tax liabilities (assets):

	At December 31	
	1998	1997
Properties, plant and equipment	**$5,150**	$4,724
Inventory	**144**	151
Miscellaneous	**184**	200
Total deferred tax liabilities	**5,478**	5,075
Abandonment/environmental reserves	**(774)**	(872)
Employee benefits	**(592)**	(596)
AMT/other tax credits	**(354)**	(362)
Other accrued liabilities	**(408)**	(202)
Miscellaneous	**(294)**	(382)
Total deferred tax assets	**(2,422)**	(2,414)
Deferred tax assets valuation allowance	**295**	439
Total deferred taxes, net	**$3,351**	$3,100

Note 14. TAXES – Continued

It is the company's policy for subsidiaries included in the U.S. consolidated tax return to record income tax expense as though they filed separately, with the parent recording the adjustment to income tax expense for the effects of consolidation.

Undistributed earnings of international consolidated subsidiaries and affiliates for which no deferred income tax provision has been made for possible future remittances totaled approximately $4,558 at December 31, 1998. Substantially all of this amount represents earnings reinvested as part of the company's ongoing business. It is not practical to estimate the amount of taxes that might be payable on the eventual remittance of such earnings. On remittance, certain countries impose withholding taxes that, subject to certain limitations, are then available for use as tax credits against a U.S. tax liability, if any. The company estimates withholding taxes of approximately $186 would be payable upon remittance of these earnings.

Note 15. SHORT-TERM DEBT Redeemable long-term obligations consist primarily of tax-exempt variable-rate put bonds that are included as current liabilities because they become redeemable at the option of the bondholders during the year following the balance sheet date.

The company has entered into interest rate swaps on a portion of its short-term debt. At December 31, 1998 and 1997, the company had swapped notional amounts of $700 and $1,050 of floating rate debt to fixed rates. The effect of these swaps on the company's interest expense was not material.

	At December 31	
	1998	1997
Commercial paper[1]	**$4,875**	$3,352
Current maturities of long-term debt	**123**	303
Current maturities of long-term capital leases	**33**	35
Redeemable long-term obligations		
Long-term debt	**301**	304
Capital leases	**273**	273
Notes payable	**285**	95
Subtotal[2]	**5,890**	4,362
Reclassified to long-term debt	**(2,725)**	(2,725)
Total short-term debt	**$3,165**	$1,637

[1]*Weighted-average interest rates at December 31, 1998 and 1997, were 5.6% and 6.1%, respectively, including the effect of interest rate swaps.*

[2]*Weighted-average interest rates at December 31, 1998 and 1997, were 5.8% and 6.0%, respectively, including the effect of interest rate swaps.*

Note 16. LONG-TERM DEBT Chevron and one of its wholly owned subsidiaries each have "shelf" registrations on file with the Securities and Exchange Commission that together would permit the issuance of $1,300 of debt securities pursuant to Rule 415 of the Securities Act of 1933.

At year-end 1998, the company had $4,050 of committed credit facilities with banks worldwide, $2,725 of which had termination dates beyond one year. The facilities support the company's commercial paper borrowings. Interest on any borrowings under the agreements is based on either the London Interbank Offered Rate or the Reserve Adjusted Domestic Certificate of Deposit Rate. No amounts were outstanding under these credit agreements during the year or at year-end.

At December 31, 1998 and 1997, the company classified $2,725 of short-term debt as long-term. Settlement of these obligations is not expected to require the use of working capital in 1999, as the company has both the intent and ability to refinance this debt on a long-term basis.

Consolidated long-term debt maturing in each of the five years after December 31, 1998, is as follows: 1999–$123, 2000–$229, 2001–$141, 2002–$152 and 2003–$164.

	At December 31	
	1998	1997
8.11% amortizing notes due 2004[1]	**$ 690**	$ 750
7.45% notes due 2004	**349**	349
7.61% amortizing bank loans due 2003	**172**	200
5.6% notes due 1998	**–**	190
6.92% bank loans due 2005	**51**	51
9.75% sinking-fund debentures due 2017[2]	**–**	38
LIBOR-based bank loan due 2000	**100**	–
Other foreign currency obligations (4.5%)[3]	**94**	85
Other long-term debt (5.3%)[3]	**70**	54
Total including debt due within one year	**1,526**	1,717
Debt due within one year	**(123)**	(303)
Reclassified from short-term debt	**2,725**	2,725
Total long-term debt	**$4,128**	$4,139

[1]*Guarantee of ESOP debt.*

[2]*Retired in 1998 through use of sinking fund provisions specified in the Bond Prospectus Supplement.*

[3]*Less than $50 individually; weighted-average interest rates at December 31, 1998.*

Note 17. OTHER COMPREHENSIVE INCOME The components of changes in other comprehensive income and the related tax effects, including the company's share of equity affiliates, are shown below.

	Year ended December 31		
	1998	1997	1996
Currency translation adjustment			
Before-tax change	**$ (1)**	$(173)	$ (54)
Tax benefit (expense)	**–**	–	–
Change, net of tax	**(1)**	(173)	(54)
Unrealized holding gain (loss) on securities			
Before-tax change	**3**	(11)	(38)
Tax benefit (expense)	**–**	7	18
Change, net of tax	**3**	(4)	(20)
Minimum pension liability adjustment			
Before-tax change	**(24)**	6	(6)
Tax benefit (expense)	**9**	(2)	2
Change, net of tax	**(15)**	4	(4)
TOTAL OTHER COMPREHENSIVE INCOME			
Before-tax change	**$(22)**	$(178)	$ (98)
Tax benefit (expense)	**9**	5	20
Change, net of tax	**$(13)**	$(173)	$ (78)

Note 18. EMPLOYEE BENEFIT PLANS

Pension Plans The company has defined benefit pension plans for most employees and provides for certain health care and life insurance plans for active and qualifying retired employees. The company's policy is to fund the minimum necessary to satisfy requirements of the Employee Retirement Income

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Millions of dollars, except per-share amounts

Note 18. EMPLOYEE BENEFIT PLANS – Continued

Security Act for the company's pension plans. The company's annual contributions for medical and dental benefits are limited to the lesser of actual medical claims or a defined fixed per-capita amount. Life insurance benefits are paid by the company, and annual contributions are based on actual plan experience. Non-funded pension and postretirement benefits are paid directly when incurred; accordingly, these payments are not reflected as changes in Plan assets in the table below.

The status of the company's pension plans and other postretirement benefit plans for 1998 and 1997 is as follows:

	Pension Benefits		Other Benefits	
	1998	1997	**1998**	1997
Change in benefit obligation:				
Benefit obligation at January 1	**$4,069**	$3,773	**$ 1,362**	$ 1,236
Service cost	**113**	106	**19**	17
Interest cost	**275**	274	**93**	90
Plan participants' contributions	**1**	2	**–**	–
Plan amendments	**–**	–	**–**	–
Actuarial loss	**248**	336	**72**	94
Foreign currency exchange rate changes	**(10)**	(29)	**–**	–
Benefits paid	**(418)**	(405)	**(78)**	(75)
Special termination benefits	**–**	12	**–**	–
Benefit obligation at December 31	**4,278**	4,069	**1,468**	1,362
Change in plan assets				
Fair value of plan assets at January 1	**4,454**	4,149	**–**	–
Actual return on plan assets	**675**	699	**–**	–
Foreign currency exchange rate changes	**(6)**	(24)	**–**	–
Employer contribution	**11**	10	**–**	–
Plan participants' contribution	**1**	2	**–**	–
Benefits paid	**(394)**	(382)	**–**	–
Fair value of plan assets at December 31	**4,741**	4,454	**–**	–
Funded status	**463**	385	**(1,468)**	(1,362)
Unrecognized net actuarial gain	**(155)**	(115)	**(46)**	(124)
Unrecognized prior service cost	**88**	102	**–**	–
Unrecognized net transitional assets	**(85)**	(127)	**–**	–
Total recognized at December 31	**$ 311**	$ 245	**$(1,514)**	$(1,486)
Amounts recognized in the Consolidated Balance Sheet at December 31:				
Prepaid benefit cost	**$ 524**	$ 437	**$ –**	$ –
Accrued benefit liability	**(298)**	(259)	**(1,514)**	(1,486)
Intangible asset	**12**	18	**–**	–
Accumulated other comprehensive income[1]	**73**	49	**–**	–
Net amount recognized	**$ 311**	$ 245	**$(1,514)**	$(1,486)
Weighted-average assumptions as of December 31				
Discount rate	**6.7%**	7.3%	**6.8%**	7.0%
Expected return on plan assets	**9.1%**	9.1%	**–**	–
Rate of compensation increase	**4.6%**	5.2%	**4.5%**	5.0%

[1]*Accumulated other comprehensive income includes deferred income tax of $26 and $17 in 1998 and 1997, respectively.*

For measurement purposes, separate health care cost-trend rates were utilized for pre-age 65 and post-age 65 retirees. The 1999 annual rates of change were assumed to be 4.6 percent and 10.8 percent, respectively, before gradually converging to the average ultimate rate of 5.1 percent in 2013 for both pre-age 65 and post-age 65. A one-percentage-point change in the assumed health care rates would have had the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total service and interest cost components	$ 19	$ (15)
Effect on postretirement benefit obligation	$149	$(121)

The components of net periodic benefit cost for 1998, 1997 and 1996 were:

	Pension Benefits			Other Benefits		
	1998	1997	1996	**1998**	1997	1996
Service cost	**$113**	$ 106	$ 104	**$ 19**	$ 17	$ 19
Interest cost	**275**	274	271	**93**	90	91
Expected return on plan assets	**(397)**	(371)	(351)	**–**	–	–
Amortization of transitional assets	**(38)**	(40)	(42)	**–**	–	–
Amortization of prior-service costs	**14**	14	13	**–**	–	–
Recognized actuarial (gains) losses	**4**	4	6	**(5)**	(11)	(8)
Net periodic benefit cost	**$ (29)**	$ (13)	$ 1	**$107**	$ 96	$102

Settlement gains in 1998, 1997 and 1996, related to lump-sum payments, totaled $11, $29 and $28, respectively. Curtailment gains were immaterial.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $408, $364 and $87, respectively, at December 31, 1998, and $301, $258 and $6, respectively at December 31, 1997.

Profit Sharing/Savings Plan Eligible employees of the company and certain of its subsidiaries who have completed one year of service may participate in the Profit Sharing/Savings Plan. Charges to expense for the profit sharing part of the Profit Sharing/Savings Plan were $60, $79 and $92 in 1998, 1997 and 1996, respectively. Commencing in October 1997, the company's Savings Plus Plan contributions are being funded with leveraged ESOP shares.

Employee Stock Ownership Plan (ESOP) In December 1989, the company established a leveraged ESOP as part of the Profit Sharing/Savings Plan. The ESOP Trust Fund borrowed $1,000 and purchased 28.2 million previously unissued shares of the company's common stock. The ESOP provides a partial pre-funding of the company's future commitments to the profit sharing part of the plan, which will result in annual income tax savings for the company. The ESOP is expected to satisfy most of the company's obligations to the profit sharing part of the plan during the next six years.

As permitted by AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans," the company has elected to continue its practices,

Note 18. EMPLOYEE BENEFIT PLANS – Continued

which are based on Statement of Position 76-3, "Accounting Practices for Certain Employee Stock Ownership Plans," and subsequent consensus of the Emerging Issues Task Force of the Financial Accounting Standards Board. Accordingly, the debt of the ESOP is recorded as debt, and shares pledged as collateral are reported as deferred compensation in the Consolidated Balance Sheet and Statement of Stockholders' Equity. The company reports compensation expense equal to the ESOP debt principal repayments less dividends received by the ESOP. Interest incurred on the ESOP debt is recorded as interest expense. Dividends paid on ESOP shares are reflected as a reduction of retained earnings. All ESOP shares are considered outstanding for earnings-per-share computations.

The company recorded expense for the ESOP of $58, $53 and $61 in 1998, 1997 and 1996, respectively, including $56, $61 and $65 of interest expense related to the ESOP debt. All dividends paid on the shares held by the ESOP are used to service the ESOP debt. The dividends used were $57, $57 and $53 in 1998, 1997 and 1996, respectively.

The company made contributions to the ESOP of $60, $55 and $62 in 1998, 1997 and 1996, respectively, to satisfy ESOP debt service in excess of dividends received by the ESOP. The ESOP shares were pledged as collateral for its debt. Shares are released from a suspense account and allocated to profit sharing accounts of Plan participants, based on the debt service deemed to be paid in the year in proportion to the total of current year and remaining debt service. The charge (credit) to compensation expense was $2, $(8) and $(4) in 1998, 1997 and 1996, respectively. The ESOP shares as of December 31, 1998 and 1997, were as follows:

Thousands	**1998**	1997
Allocated shares	**10,819**	9,287
Unallocated shares	**14,087**	15,929
Total ESOP shares	**24,906**	25,216

Management Incentive Plans The company has two incentive plans, the Management Incentive Plan (MIP) and the Long-Term Incentive Plan (LTIP) for officers and other regular salaried employees of the company and its subsidiaries who hold positions of significant responsibility. The MIP is an annual cash incentive plan that links awards to performance results of the prior year. The cash awards may be deferred by conversion to stock units or, beginning with awards deferred in 1996, stock units or other investment fund alternatives. Awards under the LTIP may take the form of, but are not limited to, stock options, restricted stock, stock units and nonstock grants. Charges to expense for the combined management incentive plans, excluding expense related to LTIP stock options, which is discussed in Note 19, "Stock Options," were $28, $55 and $36 in 1998, 1997 and 1996, respectively.

Chevron Success Sharing The company has a program that provides eligible employees with an annual cash bonus if the company achieves certain financial and safety goals. The total maximum payout under the program is 8 percent of the employee's annual salary. Charges for the program were $51, $116 and $72 in 1998, 1997 and 1996, respectively.

Note 19. STOCK OPTIONS The company applies APB Opinion No. 25 and related interpretations in accounting for stock options awarded under its Broad-Based Employee Stock Option Programs and its Long-Term Incentive Plan, which are described below. Had compensation cost for the company's stock options been determined based on the fair market value at the grant dates of the awards consistent with the methodology prescribed by SFAS No. 123, the company's net income and earnings per share for 1998, 1997 and 1996 would have been the pro forma amounts indicated below:

		1998	1997	1996
Net Income	As reported	**$1,339**	$3,256	$2,607
	Pro forma	**$1,294**	$3,302	$2,610
Earnings per share	As reported – basic	**$2.05**	$4.97	$3.99
	– diluted	**$2.04**	$4.95	$3.98
	Pro forma – basic	**$1.98**	$5.04	$3.99
	– diluted	**$1.97**	$5.02	$3.98

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to awards granted prior to 1995. In addition, certain options vest over several years, and awards in future years, whose terms and conditions may vary, are anticipated.

Long-Term Incentive Plan Stock options granted under the LTIP are generally awarded at market price on the date of grant and are exercisable not earlier than one year and not later than 10 years from the date of grant. However, a portion of the LTIP options granted in 1996 had terms similar to the broad-based employee stock options, which are described below. The maximum number of shares of common stock that may be granted each year is 1 percent of the total outstanding shares of common stock as of January 1 of such year.

A summary of the status of stock options awarded under the company's LTIP, excluding awards granted with terms similar to the broad-based employee stock options, for 1998, 1997 and 1996 is presented below:

	Options (000s)	Weighted-Average Exercise Price
Outstanding at December 31, 1995	7,087	$41.46
Granted	952	66.00
Exercised	(698)	38.91
Forfeited	(64)	49.45
Outstanding at December 31, 1996	7,277	$44.84
Granted	1,802	80.78
Exercised	(710)	38.66
Forfeited	(107)	72.18
Outstanding at December 31, 1997	8,262	$52.86
Granted	1,872	79.13
Exercised	(796)	40.47
Forfeited	(104)	80.69
Outstanding at December 31, 1998	9,234	$58.94
Exercisable at December 31		
1996	6,330	$41.68
1997	6,504	$45.31
1998	7,379	$53.86

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Note 19. STOCK OPTIONS – Continued

The weighted-average fair market value of options granted in 1998, 1997 and 1996 was $21.10, $17.64 and $14.18 per share, respectively. The fair market value of each option on the date of grant was estimated using the Black-Scholes option-pricing model with the following assumptions for 1998, 1997 and 1996, respectively: risk-free interest rate of 4.5, 6.1 and 6.4 percent; dividend yield of 3.1, 2.8 and 3.3 percent; volatility of 28.6, 15.2 and 16.1 percent and expected life of seven years in all years.

As of December 31, 1998, 9,234,463 shares were under option at exercise prices ranging from $31.9375 to $84.8750 per share. The following table summarizes information about stock options outstanding under the LTIP, excluding awards granted with terms similar to the broad-based employee stock options, at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (000s)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable (000s)	Weighted-Average Exercise Price
$31 to $41	1,102	2.90	$34.66	1,102	$34.66
41 to 51	3,791	5.64	45.00	3,791	45.00
51 to 61	19	7.33	56.75	19	56.75
61 to 71	810	7.83	66.25	810	66.25
71 to 81	3,489	9.34	79.91	1,657	80.82
81 to 91	23	9.40	82.77	–	–
$31 to $91	9,234	6.92	$58.94	7,379	$53.86

Broad-Based Employee Stock Options In 1996, the company granted to all eligible employees an option for 150 shares of stock or equivalents at an exercise price of $51.875 per share. In addition, a portion of the awards granted under the LTIP had terms similar to the broad-based employee stock options. When the options were issued in February 1996, vesting was contingent upon one of two conditions being met: by December 31, 1998, the price of Chevron stock closed at or above $75.00 per share for three consecutive business days or, alternatively, the company had the highest annual total stockholder return of its competitor group for the years 1994 through 1998. The options vested in June 1997 when the share price performance condition was met.

Options for 7,204,800 shares, including similar-termed LTIP awards, were granted in 1996. Forfeitures of options for 302,500 shares reduced the outstanding option shares to 6,902,300 at December 31, 1996. In 1997, exercises of 4,171,300 and forfeitures of 517,550 had reduced the outstanding option shares to 2,213,450 at year-end 1997. In 1998, exercises of 1,361,000 and forfeitures of 10,800 had reduced the outstanding option shares to 841,650 at year-end 1998. Unexercised options expire on March 31, 1999. Under APB Opinion No. 25, the company recorded expenses of $125 and $29 for these options in 1997 and 1996, respectively.

The fair market value of each option share on the date of grant under SFAS No. 123 was estimated at $5.66 using a binomial option-pricing model with the following assumptions: risk-free interest rate of 5.1 percent, dividend yield of 4.2 percent, expected life of three years and a volatility of 20.9 percent.

In 1998, the company announced a new broad-based Employee Stock Option Program that granted to all eligible employees an option that varied from 100 to 300 shares of stock or equivalents, dependent on the employee's salary or job grade. These options were to vest in two years or, if the company had the highest total stockholder return among its competitor group for the years 1994 through 1998, in one year. Since the stockholders' return performance condition was not met, the options will vest in February 2000. Options for 4,820,800 shares were awarded at an exercise price of $76.3125 per share. Forfeitures of options for 270,650 shares reduced the outstanding option shares to 4,550,150 at December 31, 1998, at which date none was exercisable. The options expire on February 11, 2008. Under APB Opinion No. 25, the company recorded expense of $2 for these options in 1998.

The fair value of each option share on the date of grant under SFAS No. 123 was estimated at $19.08 using the average results of Black-Scholes models for the preceding 10 years. The 10-year averages of each assumption used by the Black-Sholes models were: risk-free interest rate of 7.0 percent, dividend yield of 4.2 percent, expected life of seven years and a volatility of 24.7 percent.

Note 20. EARNINGS PER SHARE (EPS) Basic EPS includes the effects of award and salary deferrals that are invested in Chevron stock units by certain officers and employees of the company. Diluted EPS includes the effects of these deferrals as well as the dilutive effects of outstanding stock options awarded under the LTIP and Broad-Based Employee Stock Option Program (See Note 19. Stock Options). The following table sets forth the computation of basic and diluted EPS:

	1998			1997			1996		
	Net Income	Shares (millions)	Per-Share Amount	Net Income	Shares (millions)	Per-Share Amount	Net Income	Shares (millions)	Per-Share Amount
Net income	**$1,339**			$ 3,256			$ 2,607		
Weighted-average common shares outstanding		**653.7**			655.0			652.8	
Dividend equivalents paid on Chevron stock units	**3**			2			3		
Deferred awards held as Chevron stock units		**1.2**			1.3			1.4	
BASIC EPS COMPUTATION	**$1,342**	**654.9**	**$ 2.05**	$ 3,258	656.3	$ 4.97	$ 2,610	654.2	$ 3.99
Dilutive effects of stock options		**2.2**			2.1			1.2	
DILUTED EPS COMPUTATION	**$1,342**	**657.1**	**$ 2.04**	$ 3,258	658.4	$ 4.95	$ 2,610	655.4	$ 3.98

Note 21. OTHER CONTINGENCIES AND COMMITMENTS The U.S. federal income tax and California franchise tax liabilities of the company have been settled through 1987 and 1991, respectively.

In June 1997, Caltex Corporation received a claim from the U.S. Internal Revenue Service (IRS) for $292 million in excise taxes, $140 million in penalties and $1.6 billion in interest. Caltex believes the underlying excise tax claim is wrong, and therefore the claim for penalties and interest is wrong. The IRS claim relates to crude oil sales to Japanese customers beginning in 1980. Caltex is challenging the claim and fully expects to prevail. In early 1998, Caltex provided an initial letter of credit for $2.33 billion to the IRS to pursue the claim. The letter of credit was renewed in February 1999 for $2.52 billion. Caltex's owners, Chevron and Texaco, guaranteed the letter of credit.

Settlement of open tax years 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.

At December 31, 1998, the company and its subsidiaries, as direct or indirect guarantors, had contingent liabilities of $79 for notes of affiliated companies and $106 for notes of others.

The company and its subsidiaries have certain contingent liabilities relating to long-term unconditional purchase obligations and commitments, throughput agreements and take-or-pay agreements, some of which relate to suppliers' financing arrangements. The aggregate amounts of required payments under these various commitments are: 1999–$314; 2000–$280; 2001–$248; 2002–$231; 2003–$185; 2004 and after–$546. Total payments under the agreements were $201 in 1998, $243 in 1997 and $177 in 1996.

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 disposal or release of chemical or petroleum substances 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 domestic or international petroleum or chemical concerns.

The results of operations and financial position of certain equity affiliates may be affected by its 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.

Areas in which the company has significant operations include the United States, Canada, Australia, United Kingdom, Norway, Congo, Angola, Nigeria, Democratic Republic of Congo, Papua New Guinea, China, Indonesia and Venezuela. The company's Caltex affiliates have significant operations in Indonesia, Korea, Japan, Australia, Thailand, the Philippines, Singapore and South Africa. The company's Tengizchevroil affiliate operates in Kazakhstan.

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES

Unaudited

In accordance with Statement of Financial Accounting Standards No. 69, "Disclosures About Oil and Gas Producing Activities" (SFAS No. 69), this section provides supplemental information on oil and gas exploration and producing activities of the company in six separate tables. Tables I through III provide historical cost information pertaining to costs incurred in exploration, property acquisitions and development; capitalized costs; and results of operations. Tables IV through VI present information on the company's estimated net proved reserve quantities, standardized measure of estimated discounted future net cash flows related to proved reserves, and changes in estimated discounted future net cash flows. The Africa geographic area includes activities principally in Nigeria, Angola, Congo and Democratic Republic of Congo. The "Other" geographic category includes activities in Australia, the United Kingdom North Sea, Canada, Papua New Guinea, Venezuela, China and other countries. Amounts shown for affiliated companies are Chevron's 50 percent equity share in P.T. Caltex Pacific Indonesia (CPI), an exploration and production company operating in Indonesia, and its 45 percent (50 percent prior to April 1997) equity share of Tengizchevroil (TCO), an exploration and production partnership operating in the Republic of Kazakhstan.

TABLE I – COSTS INCURRED IN EXPLORATION, PROPERTY ACQUISITIONS AND DEVELOPMENT[1]

	Consolidated Companies				Affiliated Companies		
Millions of dollars	U.S.	Africa	Other	Total	CPI	TCO	Worldwide
YEAR ENDED DECEMBER 31, 1998							
Exploration							
Wells	**$ 350**	**$108**	**$101**	**$ 559**	**$ 3**	**$ –**	**$ 562**
Geological and geophysical	**49**	**31**	**112**	**192**	**16**	**–**	**208**
Rentals and other	**44**	**23**	**53**	**120**	**–**	**–**	**120**
Total exploration	**443**	**162**	**266**	**871**	**19**	**–**	**890**
Property acquisitions[2]							
Proved[3]	**12**	**–**	**–**	**12**	**–**	**–**	**12**
Unproved	**58**	**–**	**14**	**72**	**–**	**–**	**72**
Total property acquisitions	**70**	**–**	**14**	**84**	**–**	**–**	**84**
Development	**680**	**561**	**411**	**1,652**	**156**	**120**	**1,928**
TOTAL COSTS INCURRED	**$1,193**	**$723**	**$691**	**$2,607**	**$175**	**$120**	**$2,902**
YEAR ENDED DECEMBER 31, 1997							
Exploration							
Wells	$ 278	$ 99	$ 149	$ 526	$ 2	$ –	$ 528
Geological and geophysical	39	31	59	129	16	–	145
Rentals and other	43	17	65	125	–	–	125
Total exploration	360	147	273	780	18	–	798
Property acquisitions[2]							
Proved[3]	3	6	75	84	–	–	84
Unproved	101	–	23	124	–	–	124
Total property acquisitions	104	6	98	208	–	–	208
Development	918	461	529	1,908	159	152	2,219
TOTAL COSTS INCURRED	$ 1,382	$614	$ 900	$ 2,896	$177	$152	$ 3,225
YEAR ENDED DECEMBER 31, 1996							
Exploration							
Wells	$ 357	$ 75	$ 126	$ 558	$ 1	$ –	$ 559
Geological and geophysical	16	37	70	123	8	–	131
Rentals and other	52	10	54	116	–	–	116
Total exploration	425	122	250	797	9	–	806
Property acquisitions[2]							
Proved[3]	5	1	9	15	–	–	15
Unproved	62	2	43	107	–	–	107
Total property acquisitions	67	3	52	122	–	–	122
Development	603	465	594	1,662	123	50	1,835
TOTAL COSTS INCURRED	$ 1,095	$ 590	$ 896	$ 2,581	$132	$ 50	$ 2,763

[1]Includes costs incurred whether capitalized or charged to earnings. Excludes support equipment expenditures.

[2]Proved amounts include wells, equipment and facilities associated with proved reserves; unproved represents amounts for equipment and facilities not associated with the production of proved reserves.

[3]Does not include properties acquired through property exchanges.

TABLE II – CAPITALIZED COSTS RELATED TO OIL AND GAS PRODUCING ACTIVITIES

	Consolidated Companies				Affiliated Companies		
Millions of dollars	U.S.	Africa	Other	Total	CPI	TCO	Worldwide
AT DECEMBER 31, 1998							
Unproved properties	**$ 390**	**$ 58**	**$ 235**	**$ 683**	**$ –**	**$ 378**	**$ 1,061**
Proved properties and related producing assets	**16,759**	**3,672**	**6,253**	**26,684**	**1,015**	**629**	**28,328**
Support equipment	**472**	**182**	**307**	**961**	**768**	**232**	**1,961**
Deferred exploratory wells	**51**	**51**	**91**	**193**	**–**	**–**	**193**
Other uncompleted projects	**700**	**893**	**383**	**1,976**	**408**	**245**	**2,629**
GROSS CAPITALIZED COSTS	**18,372**	**4,856**	**7,269**	**30,497**	**2,191**	**1,484**	**34,172**
Unproved properties valuation	**151**	**49**	**110**	**310**	**–**	**–**	**310**
Proved producing properties –							
Depreciation and depletion	**11,808**	**1,719**	**2,705**	**16,232**	**689**	**72**	**16,993**
Future abandonment and restoration	**861**	**337**	**187**	**1,385**	**57**	**8**	**1,450**
Support equipment depreciation	**315**	**90**	**127**	**532**	**373**	**67**	**972**
Accumulated provisions	**13,135**	**2,195**	**3,129**	**18,459**	**1,119**	**147**	**19,725**
NET CAPITALIZED COSTS	**$ 5,237**	**$2,661**	**$4,140**	**$12,038**	**$1,072**	**$1,337**	**$14,447**
AT DECEMBER 31, 1997							
Unproved properties	$ 370	$ 58	$ 236	$ 664	$ –	$ 378	$ 1,042
Proved properties and related producing assets	16,284	3,303	5,644	25,231	1,112	491	26,834
Support equipment	503	209	310	1,022	578	209	1,809
Deferred exploratory wells	120	46	58	224	–	–	224
Other uncompleted projects	826	549	821	2,196	338	153	2,687
GROSS CAPITALIZED COSTS	18,103	4,165	7,069	29,337	2,028	1,231	32,596
Unproved properties valuation	153	42	98	293	–	–	293
Proved producing properties –							
Depreciation and depletion	11,657	1,459	2,521	15,637	626	51	16,314
Future abandonment and restoration	926	304	177	1,407	44	6	1,457
Support equipment depreciation	315	79	130	524	343	53	920
Accumulated provisions	13,051	1,884	2,926	17,861	1,013	110	18,984
NET CAPITALIZED COSTS	$ 5,052	$ 2,281	$ 4,143	$ 11,476	$ 1,015	$ 1,121	$ 13,612
AT DECEMBER 31, 1996							
Unproved properties	$ 301	$ 59	$ 208	$ 568	$ –	$ 420	$ 988
Proved properties and related producing assets	16,284	2,753	4,267	23,304	1,018	524	24,846
Support equipment	525	158	254	937	548	200	1,685
Deferred exploratory wells	157	43	94	294	–	–	294
Other uncompleted projects	446	678	1,520	2,644	293	97	3,034
GROSS CAPITALIZED COSTS	17,713	3,691	6,343	27,747	1,859	1,241	30,847
Unproved properties valuation	150	37	86	273	–	–	273
Proved producing properties –							
Depreciation and depletion	11,422	1,240	2,259	14,921	557	34	15,512
Future abandonment and restoration	996	272	160	1,428	37	4	1,469
Support equipment depreciation	310	75	137	522	309	46	877
Accumulated provisions	12,878	1,624	2,642	17,144	903	84	18,131
NET CAPITALIZED COSTS	$ 4,835	$ 2,067	$ 3,701	$ 10,603	$ 956	$ 1,157	$ 12,716

TABLE III – RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES[1]

The company's results of operations from oil and gas producing activities for the years 1998, 1997 and 1996 are shown in the following table.

Net income from exploration and production activities as reported on page 30 reflects income taxes computed on an effective rate basis. In accordance with SFAS No. 69, income taxes in Table III are based on statutory tax rates, reflecting allowable deductions and tax credits. Interest income and expense is excluded from the results reported in Table III and from the net income amounts on page 30.

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES – Continued

Unaudited

TABLE III – RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES[1] – Continued

	Consolidated Companies				Affiliated Companies		
Millions of dollars	U.S.	Africa	Other	Total	CPI	TCO	Worldwide
YEAR ENDED DECEMBER 31, 1998							
Revenues from net production							
Sales	**$ 1,386**	**$ 1,118**	**$ 757**	**$ 3,261**	**$ 28**	**$ 176**	**$ 3,465**
Transfers	**1,185**	**212**	**458**	**1,855**	**454**	**–**	**2,309**
Total	**2,571**	**1,330**	**1,215**	**5,116**	**482**	**176**	**5,774**
Production expenses	**(1,172)**	**(346)**	**(304)**	**(1,822)**	**(153)**	**(76)**	**(2,051)**
Proved producing properties: depreciation, depletion and abandonment provision	**(714)**	**(301)**	**(316)**	**(1,331)**	**(106)**	**(40)**	**(1,477)**
Exploration expenses	**(213)**	**(53)**	**(212)**	**(478)**	**(16)**	**–**	**(494)**
Unproved properties valuation	**(20)**	**(8)**	**(16)**	**(44)**	**–**	**–**	**(44)**
Other income (expense)[2]	**96**	**48**	**85**	**229**	**2**	**(7)**	**224**
Results before income taxes	**548**	**670**	**452**	**1,670**	**209**	**53**	**1,932**
Income tax expense	**(178)**	**(328)**	**(323)**	**(829)**	**(102)**	**(16)**	**(947)**
RESULTS OF PRODUCING OPERATIONS	**$ 370**	**$ 342**	**$ 129**	**$ 841**	**$ 107**	**$ 37**	**$ 985**
YEAR ENDED DECEMBER 31, 1997							
Revenues from net production							
Sales	$ 1,931	$ 1,782	$ 899	$ 4,612	$ 43	$ 283	$ 4,938
Transfers	1,799	273	656	2,728	634	–	3,362
Total	3,730	2,055	1,555	7,340	677	283	8,300
Production expenses	(1,272)	(297)	(278)	(1,847)	(197)[3]	(79)	(2,123)
Proved producing properties: depreciation, depletion and abandonment provision	(737)	(256)	(311)	(1,304)	(130)[3]	(37)	(1,471)
Exploration expenses	(227)	(66)	(200)	(493)	(16)	–	(509)
Unproved properties valuation	(16)	(7)	(10)	(33)	–	–	(33)
Other income (expense)[2]	87	(46)	196	237	10	(13)	234
Results before income taxes	1,565	1,383	952	3,900	344	154	4,398
Income tax expense	(555)	(939)	(365)	(1,859)	(173)	(46)	(2,078)
RESULTS OF PRODUCING OPERATIONS	$ 1,010	$ 444	$ 587	$ 2,041	$ 171	$ 108	$ 2,320
YEAR ENDED DECEMBER 31, 1996							
Revenues from net production							
Sales	$ 1,695	$ 975	$ 984	$ 3,654	$ 45	$ 256	$ 3,955
Transfers	2,073	1,181	756	4,010	648	–	4,658
Total	3,768	2,156	1,740	7,664	693	256	8,613
Production expenses	(1,252)	(242)	(342)	(1,836)	(183)[3]	(97)	(2,116)
Proved producing properties: depreciation, depletion and abandonment provision	(678)	(194)	(296)	(1,168)	(110)[3]	(34)	(1,312)
Exploration expenses	(172)	(85)	(198)	(455)	(8)	–	(463)
Unproved properties valuation	(12)	(6)	(8)	(26)	–	–	(26)
Other income (expense)[2]	46	(74)	112	84	8	(13)	79
Results before income taxes	1,700	1,555	1,008	4,263	400	112	4,775
Income tax expense	(600)	(1,059)	(471)	(2,130)	(212)	(34)	(2,376)
RESULTS OF PRODUCING OPERATIONS	$ 1,100	$ 496	$ 537	$ 2,133	$ 188	$ 78	$ 2,399

[1]*The value of owned production consumed as fuel has been eliminated from revenues and production expenses, and the related volumes have been deducted from net production in calculating the unit average sales price and production cost; this has no effect on the results of producing operations.*

[2]*Includes gas processing fees, net sulfur income, natural gas contract settlements, currency transaction gains and losses, miscellaneous expenses, etc. Also includes net income from related oil and gas activities that do not have oil and gas reserves attributed to them (e.g., equity earnings of Dynegy Inc., net income from technical and operating service agreements) and items identified in the Management's Discussion and Analysis on page 30.*

[3]*Certain amounts were reclassified to conform to the 1998 presentation.*

TABLE III – RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES[1,2] – Continued

	Consolidated Companies				Affiliated Companies		
Per-unit average sales price and production cost[1,2]	U.S.	Africa	Other	Total	CPI	TCO	Worldwide
YEAR ENDED DECEMBER 31, 1998							
Average sales prices							
Liquids, per barrel	**$11.27**	**$11.49**	**$11.21**	**$11.34**	**$ 9.73**	**$ 5.53**	**$10.68**
Natural gas, per thousand cubic feet	**2.02**	**.07**	**2.26**	**2.04**	**–**	**.57**	**2.01**
Average production costs, per barrel	**5.30**	**2.94**	**2.93**	**4.12**	**3.10**	**2.32**	**3.91**
YEAR ENDED DECEMBER 31, 1997							
Average sales prices							
Liquids, per barrel	$ 17.33	$ 18.15	$ 16.88	$ 17.53	$ 15.35	$ 10.69	$ 16.82
Natural gas, per thousand cubic feet	2.42	–	2.35	2.40	–	.51	2.35
Average production costs, per barrel	5.47	2.61	2.89	4.17	4.48[3]	2.78	4.22
YEAR ENDED DECEMBER 31, 1996							
Average sales prices							
Liquids, per barrel	$ 18.41	$ 20.41	$ 18.50	$ 19.12	$ 16.26	$ 12.27	$ 18.42
Natural gas, per thousand cubic feet	2.29	–	2.08	2.25	–	.57	2.21
Average production costs, per barrel	5.40	2.29	3.31	4.16	4.30[3]	4.15	4.23
Average sales price for liquids ($/Bbl)							
DECEMBER 1998	**$ 8.86**	**$ 9.55**	**$ 9.04**	**$ 9.17**	**$ 8.33**	**$ 3.69**	**$ 8.58**
December 1997	15.63	15.60	15.09	15.48	14.16	9.40	14.91
December 1996	21.07	23.54	19.45	21.54	19.06	13.64	20.68
Average sales price for natural gas ($/MCF)							
DECEMBER 1998	**$ 2.23**	**$ –**	**$ 2.47**	**$ 2.29**	**$ –**	**$ .57**	**$ 2.26**
December 1997	2.25	–	2.76	2.31	–	.63	2.26
December 1996	3.73	–	2.24	3.42	–	.81	3.36

[1]The value of owned production consumed as fuel has been eliminated from revenues and production expenses, and the related volumes have been deducted from net production in calculating the unit average sales price and production cost; this has no effect on the results of producing operations.

[2]Natural gas converted to crude oil equivalent gas (OEG) barrels at a rate of 6 MCF=1 OEG barrel.

[3]Certain amounts were reclassified to conform to the 1998 presentation.

TABLE IV – RESERVE QUANTITIES INFORMATION

The company's estimated net proved underground oil and gas reserves and changes thereto for the years 1998, 1997 and 1996 are shown in the following table. Proved reserves are estimated by the company's asset teams composed of earth scientists and reservoir engineers. These proved reserve estimates are reviewed annually by the corporation's Reserves Advisory Committee to ensure that rigorous professional standards and the reserves definitions prescribed by the Securities and Exchange Commission are consistently applied throughout the company.

Proved reserves are the estimated quantities that geologic and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change as additional information becomes available.

Proved reserves do not include additional quantities recoverable beyond the term of the lease or contract, unless renewal is reasonably certain, or that may result from extensions of currently proved areas, or from application of secondary or tertiary recovery processes not yet tested and determined to be economic.

Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods.

"Net" reserves exclude royalties and interests owned by others and reflect contractual arrangements and royalty obligations in effect at the time of the estimate.

In April 1997, Chevron sold 10 percent of its interest in Tengizchevroil, reducing its ownership to 45 percent.

In June 1997, Chevron assumed operatorship under a risked service agreement for Venezuela's Block LL-652, located in the northeast section of Lake Maracaibo. Chevron is accounting for LL-652 as an oil and gas activity and, at December 31, 1998, had recorded 55 million barrels of proved crude oil reserves. No reserve quantities have been recorded for the company's other service agreement in Venezuela, which began in 1996, involving the Boscan Field.

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES – Continued

Unaudited

TABLE IV – RESERVE QUANTITIES INFORMATION – Continued

NET PROVED RESERVES OF CRUDE OIL, CONDENSATE AND NATURAL GAS LIQUIDS Millions of barrels

	Consolidated Companies				Affiliates		
	U.S.	Africa	Other	Total	CPI	TCO	Worldwide
RESERVES AT JANUARY 1, 1996	1,187	969	538	2,694	562	1,087	4,343
Changes attributable to:							
Revisions	(9)	73	24	88	(4)	69	153
Improved recovery	38	22	22	82	60	–	142
Extensions and discoveries	63	74	6	143	2	–	145
Purchases[1]	2	–	–	2	–	–	2
Sales[2]	(7)	–	(32)	(39)	–	–	(39)
Production	(125)	(106)	(76)	(307)	(54)	(21)	(382)
RESERVES AT DECEMBER 31, 1996	1,149	1,032	482	2,663	566	1,135	4,364
Changes attributable to:							
Revisions	8	(16)	38	30	37	92	159
Improved recovery	139	72	7	218	27	–	245
Extensions and discoveries	57	156	14	227	4	–	231
Purchases[1]	–	–	51	51	–	–	51
Sales[2]	(32)	–	(1)	(33)	–	(120)	(153)
Production	(125)	(113)	(72)	(310)	(56)	(25)	(391)
RESERVES AT DECEMBER 31, 1997	1,196	1,131	519	2,846	578	1,082	4,506
Changes attributable to:							
Revisions	**(1)**	**106**	**28**	**133**	**110**[3]	**7**	**250**
Improved recovery	**36**	**88**	**36**	**160**	**25**	**–**	**185**
Extensions and discoveries	**43**	**92**	**7**	**142**	**2**	**16**	**160**
Purchases[1]	**5**	**–**	**30**	**35**	**–**	**–**	**35**
Sales[2]	**(12)**	**–**	**(22)**	**(34)**	**–**	**–**	**(34)**
Production	**(119)**	**(117)**	**(77)**	**(313)**	**(62)**	**(30)**	**(405)**
RESERVES AT DECEMBER 31, 1998	**1,148**	**1,300**	**521**	**2,969**	**653**	**1,075**	**4,697**
Developed reserves							
At January 1, 1996	1,061	596	371	2,028	457	406	2,891
At December 31, 1996	1,027	658	281	1,966	448	500	2,914
At December 31, 1997	1,025	721	293	2,039	435	532	3,006
AT DECEMBER 31, 1998	**982**	**891**	**342**	**2,215**	**436**	**646**	**3,297**

NET PROVED RESERVES OF NATURAL GAS Billions of cubic feet

	Consolidated Companies				Affiliates		
	U.S.	Africa	Other	Total	CPI	TCO	Worldwide
RESERVES AT JANUARY 1, 1996	5,532	84	2,794	8,410	155	1,505	10,070
Changes attributable to:							
Revisions	(225)	209	489	473	(1)	(18)	454
Improved recovery	20	–	16	36	1	–	37
Extensions and discoveries	676	–	7	683	15	–	698
Purchases[1]	5	–	11	16	–	–	16
Sales[2]	(47)	–	(11)	(58)	–	–	(58)
Production	(686)	–	(171)	(857)	(18)	(25)	(900)
RESERVES AT DECEMBER 31, 1996	5,275	293	3,135	8,703	152	1,462	10,317
Changes attributable to:							
Revisions	(98)	(67)	211	46	19	120	185
Improved recovery	111	–	1	112	5	–	117
Extensions and discoveries	470	–	12	482	2	–	484
Purchases[1]	3	–	1	4	–	–	4
Sales[2]	(95)	–	(7)	(102)	–	(156)	(258)
Production	(675)	(3)	(166)	(844)	(17)	(25)	(886)
RESERVES AT DECEMBER 31, 1997	4,991	223	3,187	8,401	161	1,401	9,963
Changes attributable to:							
Revisions	**(151)**	**77**	**13**	**(61)**	**7**	**(17)**	**(71)**
Improved recovery	**7**	**–**	**–**	**7**	**12**	**–**	**19**
Extensions and discoveries	**372**	**–**	**3**	**375**	**1**	**21**	**397**
Purchases[1]	**32**	**–**	**5**	**37**	**–**	**–**	**37**
Sales[2]	**(119)**	**–**	**(50)**	**(169)**	**–**	**–**	**(169)**
Production	**(635)**	**(12)**	**(175)**	**(822)**	**(30)**	**(21)**	**(873)**
RESERVES AT DECEMBER 31, 1998	**4,497**	**288**	**2,983**	**7,768**	**151**	**1,384**	**9,303**
Developed reserves							
At January 1, 1996	4,929	84	1,726	6,739	140	562	7,441
At December 31, 1996	4,727	293	1,634	6,654	136	643	7,433
At December 31, 1997	4,391	223	1,695	6,309	145	688	7,142
AT DECEMBER 31, 1998	**3,918**	**263**	**2,074**	**6,255**	**135**	**832**	**7,222**

[1] *Includes reserves acquired through property exchanges.*

[2] *Includes reserves disposed of through property exchanges.*

[3] *Mainly includes crude reserve revisions associated with CPI's cost-recovery formula.*

TABLE V – STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATED TO PROVED OIL AND GAS RESERVES

The standardized measure of discounted future net cash flows, related to the above proved oil and gas reserves, is calculated in accordance with the requirements of SFAS No. 69. Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated net proved reserves. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10 percent midperiod discount factors. This discounting requires a year-by-year estimate of when the future expenditures will be incurred and when the reserves will be produced.

The information provided does not represent management's estimate of the company's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under SFAS No. 69 requires assumptions as to the timing and amount of future development and production costs. The calculations are made as of December 31 each year and should not be relied upon as an indication of the company's future cash flows or value of its oil and gas reserves.

TABLE V – STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATED TO PROVED OIL AND GAS RESERVES
– Continued

	Consolidated Companies				Affiliated Companies		
Millions of dollars	U.S.	Africa	Other	Total	CPI	TCO	Worldwide
AT DECEMBER 31, 1998							
Future cash inflows from production	**$ 19,810**	**$ 12,560**	**$ 13,010**	**$ 45,380**	**$ 6,020**	**$ 8,360** [1]	**$ 59,760**
Future production and development costs	**(12,940)**	**(6,980)**	**(4,930)**	**(24,850)**	**(4,470)**	**(5,860)**	**(35,180)**
Future income taxes	**(1,970)**	**(2,110)**	**(2,850)**	**(6,930)**	**(660)**	**(200)**	**(7,790)**
Undiscounted future net cash flows	**4,900**	**3,470**	**5,230**	**13,600**	**890**	**2,300**	**16,790**
10 percent midyear annual discount for timing of estimated cash flows	**(1,880)**	**(1,070)**	**(2,190)**	**(5,140)**	**(390)**	**(1,990)**	**(7,520)**
STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS	**$ 3,020**	**$ 2,400**	**$ 3,040**	**$ 8,460**	**$ 500**	**$ 310**	**$ 9,270**
AT DECEMBER 31, 1997							
Future cash inflows from production	$ 28,270	$ 16,560	$ 16,860	$ 61,690	$ 9,240	$ 10,890	$ 81,820
Future production and development costs	(14,030)	(4,810)	(5,090)	(23,930)	(6,340)	(6,550)	(36,820)
Future income taxes	(4,710)	(6,630)	(4,330)	(15,670)	(1,390)	(600)	(17,660)
Undiscounted future net cash flows	9,530	5,120	7,440	22,090	1,510	3,740	27,340
10 percent midyear annual discount for timing of estimated cash flows	(3,910)	(1,780)	(3,290)	(8,980)	(650)	(2,710)	(12,340)
Standardized Measure of Discounted Future Net Cash Flows	$ 5,620	$ 3,340	$ 4,150	$ 13,110	$ 860	$ 1,030	$ 15,000
AT DECEMBER 31, 1996							
Future cash inflows from production	$ 45,620	$ 24,220	$ 19,560	$ 89,400	$ 12,220	$ 16,040	$ 117,660
Future production and development costs	(14,430)	(3,840)	(4,590)	(22,860)	(7,560)	(5,330)	(35,750)
Future income taxes	(11,170)	(12,560)	(5,290)	(29,020)	(2,210)	(4,220)	(35,450)
Undiscounted future net cash flows	20,020	7,820	9,680	37,520	2,450	6,490	46,460
10 percent midyear annual discount for timing of estimated cash flows	(8,250)	(2,700)	(4,300)	(15,250)	(1,020)	(5,070)	(21,340)
Standardized Measure of Discounted Future Net Cash Flows	$ 11,770	$ 5,120	$ 5,380	$ 22,270	$ 1,430	$ 1,420	$ 25,120

[1] *Includes lower transportation expense and higher crude oil realizations beginning in 2002 associated with the anticipated completion of the CPC pipeline.*

TABLE VI – CHANGES IN THE STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS FROM PROVED RESERVES

	Consolidated Companies			Affiliated Companies			Worldwide		
Millions of dollars	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996
PRESENT VALUE AT JANUARY 1	**$13,110**	$22,270	$13,830	**$1,890**	$2,850	$2,520	**$15,000**	$25,120	$16,350
Sales and transfers of oil and gas produced, net of production costs	**(3,294)**	(5,493)	(5,828)	**(429)**	(684)	(669)	**(3,723)**	(6,128)	(6,467)
Development costs incurred	**1,652**	1,908	1,662	**276**	311	173	**1,928**	2,219	1,835
Purchases of reserves	**208**	173	28	**–**	–	–	**208**	173	28
Sales of reserves	**(347)**	(238)	(353)	**–**	(140)	–	**(347)**	(378)	(353)
Extensions, discoveries and improved recovery, less related costs	**813**	2,161	3,745	**49**	104	316	**862**	2,265	4,061
Revisions of previous quantity estimates	**262**	535	969	**280**	980	59	**542**	1,515	1,028
Net changes in prices, development and production costs	**(11,321)**	(20,440)	13,495	**(2,159)**	(3,521)	751	**(13,480)**	(24,010)	14,216
Accretion of discount	**2,096**	3,673	2,236	**289**	516	418	**2,385**	4,189	2,654
Net change in income tax	**5,281**	8,561	(7,514)	**614**	1,474	(718)	**5,895**	10,035	(8,232)
Net change for the year	**(4,650)**	(9,160)	8,440	**(1,080)**	(960)	330	**(5,730)**	(10,120)	8,770
PRESENT VALUE AT DECEMBER 31	**$ 8,460**	$13,110	$22,270	**$ 810**	$1,890	$2,850	**$ 9,270**	$15,000	$25,120

The changes in present values between years, which can be significant, reflect changes in estimated proved reserve quantities and prices and assumptions used in forecasting production volumes and costs. Changes in the timing of production are included with "Revisions of previous quantity estimates."

ELEVEN-YEAR FINANCIAL SUMMARY[1]

Millions of dollars, except per-share amounts	**1998**	1997	1996
CONSOLIDATED STATEMENT OF INCOME DATA			
REVENUES			
Sales and other operating revenues			
Refined products	**$11,461**	$15,586	$15,785
Crude oil	**7,781**	11,296	12,397
Natural gas	**2,104**	2,568	3,299
Natural gas liquids	**322**	553	1,167
Other petroleum	**1,063**	1,118	1,184
Chemicals	**3,054**	3,520	3,422
Coal and other minerals	**399**	359	340
Excise taxes	**3,756**	5,587	5,202
Corporate and other	**3**	9	(14)
Total sales and other operating revenues	**29,943**	40,596	42,782
Income from equity affiliates	**228**	688	767
Other income	**386**	679	344
TOTAL REVENUES	**30,557**	41,963	43,893
COSTS, OTHER DEDUCTIONS AND INCOME TAXES	**29,218**	38,707	41,286
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	**$ 1,339**	$ 3,256	$ 2,607
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	**–**	–	–
NET INCOME	**$ 1,339**	$ 3,256	$ 2,607
PER SHARE OF COMMON STOCK:			
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES – BASIC	**$2.05**	$4.97	$3.99
– DILUTED	**$2.04**	$4.95	$3.98
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	**–**	–	–
NET INCOME PER SHARE OF COMMON STOCK – BASIC	**$2.05**	$4.97	$3.99
– DILUTED	**$2.04**	$4.95	$3.98
CASH DIVIDENDS PER SHARE	**$2.44**	$2.28	$2.08
CONSOLIDATED BALANCE SHEET DATA (AT DECEMBER 31)			
Current assets	**$ 6,297**	$ 7,006	$ 7,942
Properties, plant and equipment (net)	**23,729**	22,671	21,496
Total assets	**36,540**	35,473	34,854
Short-term debt	**3,165**	1,637	2,706
Other current liabilities	**4,001**	5,309	6,201
Long-term debt and capital lease obligations	**4,393**	4,431	3,988
Stockholders' equity	**17,034**	17,472	15,623
Per share	**$ 26.08**	$ 26.64	$ 23.92
SELECTED DATA			
Return on average stockholders' equity	**7.8%**	19.7%	17.4%
Return on average capital employed	**6.7%**	15.0%	12.7%
Total debt/total debt plus equity	**30.7%**	25.8%	30.0%
Capital and exploratory expenditures[2,3]	**$ 5,314**	$ 5,541	$ 4,840
Common stock price – High	**$90 3/16**	$89 3/16	$68 3/8
– Low	**$67 3/4**	$61 3/4	$51
– Year-End	**$82 15/16**	$77	$65
Common shares outstanding at year-end (in thousands)	**653,026**	655,931	653,086
Weighted-average shares outstanding for the year (in thousands)	**653,667**	654,991	652,769
Number of employees at year-end[4]	**39,191**	39,362	40,820

[1]*Comparability between years is affected by changes in accounting methods: 1995 and subsequent years reflect adoption of Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of"; 1992 and subsequent years reflect adoption of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS No. 109, "Accounting for Income Taxes"; 1988 through 1991 reflect the adoption of SFAS No. 96, "Accounting for Income Taxes"; share and per-share amounts for all years reflect the two-for-one stock split in May 1994.*

	1998	1997	1996
[2]*Includes equity in affiliates' expenditures.*	***$994***	*$1,174*	*$983*

[3]*Includes $2,512 acquisition of Gulf of Mexico properties from Tenneco Inc. in 1988.*

[4]*Includes service station personnel.*

1995	1994	1993	1992	1991	1990	1989	1988
$13,471	$14,328	$ 16,089	$16,821	$16,794	$19,385	$ 15,682	$ 13,707
9,376	8,249	8,501	10,031	10,276	11,303	6,791	5,059
2,019	2,138	2,156	1,995	1,869	2,056	1,693	1,389
1,285	1,180	1,235	1,190	1,165	1,305	937	875
1,144	944	967	927	812	769	719	658
3,758	3,065	2,708	2,872	3,098	3,325	3,048	2,960
358	416	447	397	427	443	470	430
4,988	4,790	4,068	3,964	3,659	2,933	2,473	2,526
(89)	20	20	15	18	21	103	118
36,310	35,130	36,191	38,212	38,118	41,540	31,916	27,722
553	440	440	406	491	371	350	422
219	284	451	1,059	334	655	519	713
37,082	35,854	37,082	39,677	38,943	42,566	32,785	28,857
36,152	34,161	35,817	37,467	37,650	40,409	32,534	27,089
$ 930	$ 1,693	$ 1,265	$ 2,210	$ 1,293	$ 2,157	$ 251	$ 1,768
–	–	–	(641)	–	–	–	–
$ 930	$ 1,693	$ 1,265	$ 1,569	$ 1,293	$ 2,157	$ 251	$ 1,768
$1.43	$2.60	$1.94	$3.26	$1.85	$3.05	$0.37	$2.59
$1.43	$2.59	$1.94	$3.26	$1.85	$3.05	$0.37	$2.59
–	–	–	$(0.95)	–	–	–	–
$1.43	$2.60	$1.94	$2.31	$1.85	$3.05	$0.37	$2.59
$1.43	$2.59	$1.94	$2.31	$1.85	$3.05	$0.37	$2.59
$1.925	$1.85	$1.75	$1.65	$1.625	$1.475	$1.40	$1.275
$ 7,867	$ 7,591	$ 8,682	$ 8,722	$ 9,031	$10,089	$ 8,620	$ 7,941
21,696	22,173	21,865	22,188	22,850	22,726	23,040	23,798
34,330	34,407	34,736	33,970	34,636	35,089	33,884	33,924
3,806	4,014	3,456	2,888	1,706	59	126	469
5,639	5,378	7,150	6,947	7,774	8,958	7,457	6,534
4,521	4,128	4,082	4,953	5,991	6,710	7,390	6,833
14,355	14,596	13,997	13,728	14,739	14,836	13,980	14,744
$ 22.01	$ 22.40	$ 21.49	$ 21.11	$ 21.25	$ 21.15	$ 19.69	$ 21.63
6.4%	11.8%	9.1%	11.0%	8.7%	15.0%	1.8%	12.4%
5.3%	8.7%	6.8%	8.5%	7.5%	11.9%	3.2%	10.1%
36.7%	35.8%	35.0%	36.4%	34.3%	31.3%	35.0%	33.1%
$ 4,800	$ 4,819	$ 4,440	$ 4,423	$ 4,787	$ 4,269	$ 3,982	$ 5,853
$53 5/8	$49 3/16	$49 3/8	$37 11/16	$40 1/16	$40 13/16	$36	$25 7/8
$43 3/8	$39 7/8	$33 11/16	$30 1/16	$31 3/4	$31 9/16	$22 7/8	$19 13/16
$52 3/8	$44 5/8	$43 9/16	$34 3/4	$34 1/2	$36 5/16	$33 7/8	$22 7/8
652,327	651,751	651,478	650,348	693,444	701,600	710,048	681,750
652,084	651,672	650,958	677,955	700,348	706,926	683,778	681,698
43,019	45,758	47,576	49,245	55,123	54,208	54,826	53,675

$912	*$846*	*$701*	*$621*	*$498*	*$433*	*$389*	*$337*

ELEVEN-YEAR OPERATING SUMMARY

WORLDWIDE – INCLUDES EQUITY IN AFFILIATES[1]

Thousands of barrels per day, except natural gas data is millions of cubic feet per day	**1998**	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
UNITED STATES											
Gross production of crude oil and natural gas liquids	**366**	388	385	397	418	447	488	516	524	552	553
Net production of crude oil and natural gas liquids	**325**	343	341	350	369	394	432	454	458	482	484
Refinery input	**869**	933	951	925	1,213	1,307	1,311	1,278	1,406	1,403	1,407
Sales of refined products	**1,243**	1,193	1,122	1,117	1,314	1,423	1,470	1,444	1,489	1,469	1,451
Sales of natural gas liquids	**130**	133	187	213	215	211	194	175	188	184	180
Total sales of petroleum products	**1,373**	1,326	1,309	1,330	1,529	1,634	1,664	1,619	1,677	1,653	1,631
Gross production of natural gas	**2,061**	2,192	2,216	2,207	2,441	2,407	2,720	2,779	3,131	2,841	2,384
Net production of natural gas	**1,739**	1,849	1,875	1,868	2,085	2,056	2,313	2,359	2,650	2,413	2,024
Sales of natural gas	**3,303**	3,400	3,588	2,815	2,598	2,334	2,539	2,592	2,845	2,657	2,181
INTERNATIONAL											
Gross production of crude oil and natural gas liquids	**1,065**	1,037	1,003	944	896	825	791	784	777	756	756
Net production of crude oil and natural gas liquids	**782**	731	702	651	624	556	512	504	477	467	486
Refinery input	**475**	565	537	598	623	598	543	517	494	490	500
Sales of refined products	**785**	886	944	969	934	923	859	823	772	740	742
Sales of natural gas liquids	**53**	69	36	47	34	37	33	29	33	43	37
Total sales of petroleum products	**838**	955	980	1,016	968	960	892	852	805	783	779
Gross production of natural gas	**737**	673	676	652	657	572	541	525	503	382	348
Net production of natural gas	**654**	576	584	565	546	469	463	447	417	330	300
Sales of natural gas	**1,504**	1,209	778	564	461	462	466	444	423	303	274
TOTAL WORLDWIDE											
Gross production of crude oil and natural gas liquids	**1,431**	1,425	1,388	1,341	1,314	1,272	1,279	1,300	1,301	1,308	1,309
Net production of crude oil and natural gas liquids	**1,107**	1,074	1,043	1,001	993	950	944	958	935	949	970
Refinery input	**1,344**	1,498	1,488	1,523	1,836	1,905	1,854	1,795	1,900	1,893	1,907
Sales of refined products	**2,028**	2,079	2,066	2,086	2,248	2,346	2,329	2,267	2,261	2,209	2,193
Sales of natural gas liquids	**183**	202	223	260	249	248	227	204	221	227	217
Total sales of petroleum products	**2,211**	2,281	2,289	2,346	2,497	2,594	2,556	2,471	2,482	2,436	2,410
Gross production of natural gas	**2,798**	2,865	2,892	2,859	3,098	2,979	3,261	3,304	3,634	3,223	2,732
Net production of natural gas	**2,393**	2,425	2,459	2,433	2,631	2,525	2,776	2,806	3,067	2,743	2,324
Sales of natural gas	**4,807**	4,609	4,366	3,379	3,059	2,796	3,005	3,036	3,268	2,960	2,455
WORLDWIDE – EXCLUDES EQUITY IN AFFILIATES											
Number of wells completed (net)[2]											
Oil and gas	**456**	779	710	455	364	422	342	607	543	306	415
Dry	**30**	45	62	64	70	76	33	69	79	71	77
Producing oil and gas wells (net)[2]	**12,516**	12,724	13,114	11,707	12,111	10,996	10,773	15,502	17,890	21,695	24,802

[1] *Gross production represents the company's share of total production before deducting lessors' royalties. Net production is gross production minus royalties paid to lessors.*

[2] *Net wells include all those wholly owned and the sum of fractional interests in those that are joint ventures, unit operations or similar wells. Wells shut in are excluded. Beginning in 1994, producing wells include injection wells temporarily functioning as producing wells.*

BOARD OF DIRECTORS

Kenneth T. Derr, 62, has been Chairman of the Board and Chief Executive Officer since 1989. He joined the corporation in 1960. He was elected a Vice President in 1972, a Director in 1981 and Vice Chairman in 1985. He also is a Director of AT&T Corp., Citicorp and Potlatch Corporation. (2)

David J. O'Reilly, 52, is Vice Chairman for worldwide oil and gas exploration and production and corporate Human Resources. He joined the corporation in 1968. He was elected a Vice President in 1991, President of Chevron Products Company in 1994, and a Director and Vice Chairman in 1998.

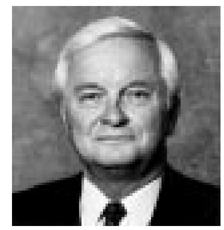
James N. Sullivan, 61, is Vice Chairman responsible for worldwide refining, marketing, chemicals and coal mining operations. He joined the corporation in 1961. He was elected a Vice President in 1983, a Director in 1988 and Vice Chairman in 1989. He also is a Director of Weyerhaeuser Company.

Samuel H. Armacost, 59, has been a Director since 1982. He is Chairman of SRI International. Previously he was Managing Director of Weiss, Peck & Greer L.L.C., an investment firm. He also is a Director of Scios, Inc. and Exponent, Inc. (3, 4)

Sam Ginn, 61, was elected a Director in 1989. He is Chairman of the Board and Chief Executive Officer (CEO) of AirTouch Communications, Inc. Previously he was Chairman of the Board and CEO of Pacific Telesis Group. He also is a Director of Hewlett-Packard Company and Transamerica Corporation. (1, 3)

Carla A. Hills, 65, was elected a Director in 1993. She is Chairman and Chief Executive Officer of Hills & Company International Consultants. She served as U.S. Trade Representative 1989 to 1993. She is a Director of American International Group, Inc.; Lucent Technologies Inc.; Time Warner Inc.; and TCW Group, Inc. (2, 4)

J. Bennett Johnston, 66, was elected a Director in 1997. He is Chief Executive Officer of Johnston & Associates, a consulting firm. He served as a Senator from Louisiana for 24 years. He is President of the U.S. Economic Cooperation Council and a Director of Columbia Energy Group and Freeport-McMoran Copper & Gold Inc. (1, 2)

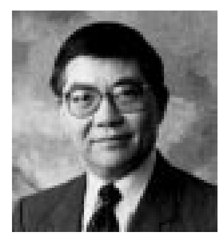


Richard H. Matzke, 62, was elected a Director in 1997. He has been a Corporate Vice President since 1990 and President, Chevron Overseas Petroleum, since 1989. Previously he was Vice President, Chevron Chemical Company, and President, Chevron Canada Resources. He joined Chevron in 1961.

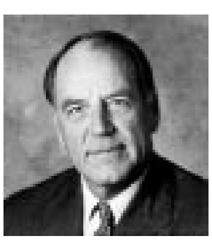
Charles M. Pigott, 69, has been a Director since 1973. He is Chairman Emeritus and a Director of PACCAR Inc, manufacturer of transportation equipment. He also is a Director of The Boeing Company and Seattle Times Company. (3, 4)

Condoleezza Rice, 44, was elected a Director in 1991. She is Provost and Vice President of Stanford University. From 1989 to 1991, she served on the National Security Council as Senior Director for Soviet Affairs. She is a Director of Transamerica Corporation. (2, 4)

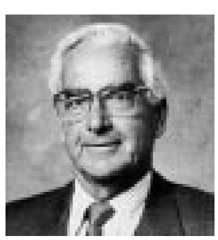
Frank A. Shrontz, 67, was elected a Director in 1996. Previously he was Chief Executive Officer and President of The Boeing Company. He served as Assistant Secretary of Defense and Assistant Secretary of the Air Force. He also is a Director of Boise Cascade Corporation and Minnesota Mining and Manufacturing Company. (1, 3)



Chang-Lin Tien, 63, was elected a Director in 1997. He was Chancellor of the University of California, Berkeley, from 1990 to 1997. He serves on the Board of Trustees of The Asia Foundation. He also is a Director of Raychem Corporation; AirTouch Communications, Inc.; and Wells Fargo & Company. (1, 3)



John A. Young, 66, has been a Director since 1985. He is Vice Chairman of the Board of Novell, Inc. Previously he was President, Director and Chief Executive Officer of Hewlett-Packard Company. He also is a Director of Lucent Technologies Inc.; Wells Fargo & Company; International Integration Inc.; Affymetrix, Inc.; and SmithKline Beecham PLC. (1, 2)



Retiring Director

George H. Weyerhaeuser, 72, a Director since 1977, has reached the mandatory retirement age for directors and will not stand for re-election at the Annual Meeting in April. Weyerhaeuser received a B.S. in Industrial Administration from Yale University. He has been Chairman of the Board of Weyerhaeuser Company, a forest products company, since 1988. He was President and Chief Executive Officer of Weyerhaeuser Company from 1966 to 1991. He is a Director of The Boeing Company and SAFECO Corporation and a member of The Business Council.

Committees of the Board:

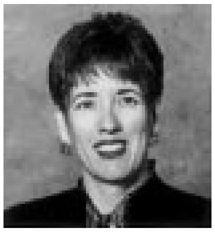
(1) Audit:
John A. Young, Chairman

(2) Public Policy:
Carla A. Hills, Chairman

(3) Board Nominating and Governance:
Charles M. Pigott, Chairman

(4) Management Compensation:
Samuel H. Armacost, Chairman

OFFICERS



Lydia I. Beebe, 46, Corporate Secretary since 1995. Previously Senior Manager, Chevron Tax Department; Manager, Federal Tax Legislation; Staff Attorney; and Chevron Legal Representative in Washington, D.C. Joined Chevron in 1977.

Aldo M. Caccamo, 61, Vice President, Public Affairs, since 1996. Director of Caltex Corporation. Previously President, Chevron International Oil Company; General Manager, Marketing, and General Manager, Supply and Distribution, Chevron Products Company. Joined Chevron in 1964.

Darry W. Callahan, 56, Corporate Vice President and President, Chevron Chemical Company, since January 1999. Director of Dynegy Inc. Previously Senior Vice President, Chevron Chemical Company; President, Warren Petroleum Company; and President, Chevron Oil Bahamas Ltd. Joined Chevron in 1964.

George K. Carter, 63, Vice President and Treasurer since 1989. Previously Vice President, Finance, Chevron U.S.A., and Comptroller, Chevron Corporation. Joined Chevron in 1961.

Stephen J. Crowe, 51, Comptroller since 1996. Previously Vice President, Finance, Chevron Products Company, and Assistant Comptroller, Chevron Corporation. Joined Chevron in 1972.

Lloyd E. Elkins, 55, Corporate Vice President since 1988 and President, Chevron Services Company, since 1993. Director of Caltex Corporation, P.T. Caltex Pacific Indonesia and Amoseas. Previously Vice President, Production, Chevron U.S.A., and Vice President, Production, Chevron Overseas Petroleum. Joined Chevron in 1965.

Harvey D. Hinman, 58, Vice President and General Counsel since 1993. Previously partner and member of the Executive Committee at the law firm of Pillsbury Madison & Sutro.

Martin R. Klitten, 54, Vice President and Chief Financial Officer since 1989. Previously President, Chevron Information Technology Company, and Comptroller, Chevron U.S.A. Joined Chevron in 1970.

R. Bruce Marsh, 56, General Tax Counsel since 1994. Previously Assistant General Tax Counsel, Chevron Corporation, and General Tax Counsel, Chevron U.S.A. Joined the company in 1971.

Gregory Matiuk, 53, Vice President, Human Resources and Quality, since 1998. Previously Vice President, Strategic Planning and Quality; Manager, Strategic Planning, Chevron Corporation; Vice President and General Manager, Western Business Unit, Chevron U.S.A. Production Company. Joined Chevron in 1967.

Donald L. Paul, 52, Vice President, Technology and Environmental Affairs, since 1996. Previously Director of Dynegy Inc.; President, Chevron Canada Resources; and President, Chevron Petroleum Technology Company. Joined Chevron in 1975.

Peter J. Robertson, 52, Corporate Vice President and President, Chevron U.S.A. Production Company, responsible for all North American exploration and production, since 1997. Director of Dynegy Inc. Previously Vice President, Strategic Planning and Quality, and President, Warren Petroleum Company. Joined Chevron in 1973.

John S. Watson, 42, Vice President, Strategic Planning, since 1998. Previously President, Chevron Canada Limited; General Manager, Strategic Planning and Quality; and Manager, Credit Card Enterprises, Chevron Products Company. Joined Chevron in 1980.

Patricia A. Woertz, 46, Corporate Vice President and President, Chevron Products Company, since November 1998. Director of Dynegy Inc. Previously President, Chevron International Oil Company; Vice President, Logistics and Trading, Chevron Products Company; and President, Chevron Canada Limited. Joined the company in 1977.

Executive Committee:
Kenneth T. Derr, David J. O'Reilly, James N. Sullivan, Darry W. Callahan, Harvey D. Hinman, Martin R. Klitten, Richard H. Matzke, Peter J. Robertson and Patricia A. Woertz. Lydia I. Beebe, Secretary.

STOCKHOLDER AND INVESTOR INFORMATION

Stock Exchange Listing
Chevron common stock is listed on the New York, Chicago, Pacific, London and Swiss stock exchanges. On U.S. exchanges, the symbol "CHV" is used. In newspapers, the stock is listed as "Chevron," "Chevrn" or a similar variation.

Stockholder Information
Stockholders with inquiries about stock ownership, changes of address or dividend payments should contact:
ChaseMellon Shareholder Services
85 Challenger Road
Ridgefield Park, NJ 07660-2108
1-800-368-8357

Dividend Payment Dates
Quarterly dividends on common stock are paid, following declaration by the Board of Directors, on or about the 10th day of March, June, September and December. The annual dividend rate for 1998 was $2.44. The quarterly dividend rate for the fourth quarter of 1998 was 61 cents a share. Direct deposit of dividends is available to stockholders. For information, contact ChaseMellon Shareholder Services (see above).

Dividend Reinvestment Plan
The ChaseMellon Investor Services Program provides an alternative to traditional methods of purchasing, holding and selling stock. The program's features include dividend reinvestment, optional cash investment of $50 to $100,000 a year, automatic stock purchase and safekeeping of stock certificates. Anyone interested may call 1-800-842-7629, or write:
ChaseMellon Shareholder Services
85 Challenger Road
Ridgefield Park, NJ 07660-2108

Investor Information
Securities analysts, portfolio managers and representatives of financial institutions seeking financial and operating information may contact:
Peter Trueblood
Manager, Investor Relations
575 Market Street, Room 3444
San Francisco, CA 94105-2856
(415) 894-5690
E-mail: pmtr@chevron.com

Web Site on Internet
Chevron's Web site (www.chevron.com) offers facts and figures about the company and the petroleum industry. The Web site is stocked continually with articles, news releases, speeches, quarterly earnings information, the *Report to Stockholders*, the *Proxy Statement* and the complete text of this *Annual Report*.

Publications for Stockholders
The *Report to Stockholders*, detailing the company's quarterly financial results, is mailed to stockholders three times a year. The *Annual Report*, published in March and mailed with the *Proxy Statement*, summarizes the company's financial performance in the preceding calendar year and provides an outlook for the future.

News by Fax
Chevron's quarterly earnings news releases, as well as other news releases, are available via fax by calling 1-800-758-5804, Ext. 158075.

Annual Meeting
The Annual Meeting of stockholders will be held at 9:30 a.m., Wednesday, April 28, 1999, at Chevron Park in San Ramon, California.

Meeting notice and proxy material are enclosed with this *Annual Report*. Stockholders are urged to study the material and complete the proxy card. For those not attending the Annual Meeting, it is important that this card be signed and returned as soon as possible so their shares are represented in the voting.

Additional Information
The *Supplement to the Annual Report*, containing additional financial and operating data, and *Form 10-K*, prepared annually for the Securities and Exchange Commission, are available upon written request from the Comptroller's Department, 575 Market Street, Room 3519, San Francisco, CA 94105-2856. The *Supplement* and *Form 10-K* are available after April 15.

Contributions: Details of the corporation's political contributions in 1998 are available upon request from Public Affairs, 575 Market Street, Room 910, San Francisco, CA 94105-2856. Information about the corporation's charitable and educational contributions is available in the second half of the year via Chevron's Web site only: www.chevron.com/community/grants/invstmnt.html.

Registrar
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Ridgefield Park, NJ 07660-2108
1-800-368-8357

Corporate Headquarters
575 Market Street
San Francisco, CA 94105-2856
(415) 894-7700

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

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CHEVRON AT A GLANCE

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EXPLORATION AND PRODUCTION

- Explores for and produces crude oil and natural gas in the United States and 25 other countries. Third-largest U.S. natural gas producer. Worldwide net production was more than 1.5 million barrels a day of oil and equivalent gas.
- Producing areas include the Gulf of Mexico, California, the Rocky Mountains, Texas, Angola, Nigeria, Canada, the North Sea, Australia, Indonesia, Kazakhstan, Republic of Congo and Papua New Guinea. Exploration areas include the above, as well as Alaska, Azerbaijan, Bahrain and Qatar.

REFINING

- Converts crude oil into a variety of refined products, including motor gasolines, diesel and aviation fuels, lubricants, asphalt, chemicals, and other products. Chevron is one of the largest refiners in the United States and the largest producer of California reformulated gasolines.
- Principal U.S. locations are El Segundo and Richmond, California; Pascagoula, Mississippi; Salt Lake City, Utah; El Paso, Texas; and Honolulu, Hawaii. Also refines in Canada and (through its Caltex affiliate) Asia, Africa, Australia and New Zealand.

MARKETING

- One of the leading U.S. marketers of refined products, including motor gasolines, diesel and aviation fuels, lubricants and other products. The leading single-brand marketer of heavy-duty and industrial oils in North America.
- Retail outlets number about 7,900 in the United States and 200 in British Columbia, Canada.
- Caltex supplies more than 8,000 retail outlets in Asia, southern and eastern Africa, the Middle East, Australia, and New Zealand.

CHEMICALS

- Main products are ethylene, benzene, styrene, normal alpha olefins, paraxylene, polyethylene, polystyrene, and a variety of additives used for fuels and lubricants. Low-cost producer of high-purity benzene and paraxylene using Aromax and Eluxyl hybrid technologies.
- Plants in nine states and in France, Brazil, Japan, Mexico and Singapore. Through affiliates and subsidiaries, operates or markets in more than 80 countries.

SUPPLY AND DISTRIBUTION

- Purchases, sells, trades and transports – by pipeline, tanker and barge – crude oil, liquefied natural gas, natural gas liquids, chemicals and refined products.
- Cargo trading offices in Houston, Texas; Walnut Creek, California; London; Singapore; Mexico City; and Moscow. Interests in pipelines throughout the United States and in Africa, Australia, Indonesia, Papua New Guinea and Europe. Tanker operations worldwide.

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912-0907