Chevron Corporation 1996 Annual Report

Chevron

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

The Chevron Way sets forth the key objectives and principles of the company in five documents – the Mission and Vision statements, Committed Team Values, Total Quality Management, Protecting People and the Environment, and Vision Metrics. None is more important to Chevron than the ideals of the Committed Team Values.

Committed Team Values Chevron people working together as a team are the key to success. The following values will guide our decisions and behavior.

Honesty and Integrity We are honest with ourselves and others. We demonstrate the highest standard of ethics in all business dealings.

Trust We trust, respect and support each other. We treat each other as we expect to be treated.

Diversity We value uniqueness of individuals and the varied perspectives they provide. We promote diversity within our work force and have an inclusive environment that enables each of us to fully participate and contribute.

Communication We have open, honest and effective communication in all directions.

Recognition We can proudly make our maximum contributions, which are valued, recognized and rewarded.

Achievement We continually seek opportunities to improve and gain competitive advantage by promoting and effectively managing change.

Partnership We accept individual responsibility, in partnership with the company, for the success of the business, for our personal development and for balancing work and family responsibilities.

Alignment We clearly understand how our goals are aligned with corporate and our own organization's strategies.

To Our Stockholders

A great year for Chevron

In fact, 1996 was the best year in our company's history. Chevron's earnings hit an all-time high of more than $2.6 billion. Excluding special items, our return on capital employed (ROCE) was 12.8 percent, the highest in 15 years. Perhaps even more important, our total stockholder return was 28.5 percent.

That put us second in a close race among the major petroleum companies, just a little more than 1 percent out of first place. Over the past eight years, however, Chevron holds the top spot. In spite of an aggressive capital spending program, we also were able to reduce our debt by $1.6 billion to $6.7 billion, the lowest level in 13 years.

Ken Derr
Chairman

Other financial highlights are on the following pages, and detailed financial information starts on Page 25.

Dimensions of growth

This is the theme of our *1996 Annual Report.* Chevron not only has many places to grow, it has many ways to grow. As we point out in the essay starting on Page 7, growing doesn't always mean getting bigger. Sometimes it means cutting back and being more focused. For instance, over the past few years we've sold assets, merged companies, cut costs. All these efforts enabled us to concentrate on the best of our assets and gave us the cash to invest in other opportunities. Now those investments are paying off.

Production records set

Chevron produced more than 1 million barrels of oil a day in 1996, our highest level in 11 years. We set records in Nigeria, Angola and Kazakstan. Overall, Chevron replaced 112 percent of its oil and gas production with new reserves. Worldwide, nearly 600 million barrels of oil and equivalent gas were added to proved reserves, which climbed to more than 6 billion barrels.

Our emphasis on international growth continues to produce excellent results. Oil and gas production outside the United States was up 7 percent, and new reserves replaced 149 percent of produced volumes.

Employees make a difference

Many things go into producing the outstanding year that Chevron enjoyed. We have the assets, strategies, technologies and financial resources to be successful. The vital extra ingredient is our talented team of committed employees. I thank them for their terrific efforts in 1996. Their hard work contributed immeasurably, and in February, employees received a special incentive bonus based on the company's outstanding financial performance.

Our pledge to build this committed team is described in *The Chevron Way* and appears on the facing page. Diversity is one of the important core values. We are working to increase the diversity of our work force because we value the uniqueness of individuals and thrive on the different perspectives and opinions they bring to our worldwide businesses.

OUR PLANNED SPENDING FOR 1997 STRONGLY REINFORCES OUR INTENTIONS TO GROW AGGRESSIVELY.

YEAR OF MAJOR ACCOMPLISHMENTS

I have room to mention only a few of the most significant events of an eventful year.

- After months of difficult negotiations, we signed the agreement to build a pipeline linking the supergiant Tengiz oil field in Kazakstan to the Black Sea and the world oil markets beyond.

- The Tengizchevroil joint venture ingeniously developed alternate markets and nearly doubled oil production to a daily average of 112,000 barrels. By year-end, production had reached 160,000 barrels a day.

- Chevron took over as operator of Venezuela's Boscan Field under a fee agreement and started boosting production.

- The merger of our Warren Petroleum Company and our natural gas business unit with NGC Corporation was completed, forming one of the largest natural gas and gas liquids marketers in North America.

- We announced the planned merger of our United Kingdom refining and marketing operations with those of Elf Oil and Murphy Petroleum. The new, larger company will be better able to compete in the tough U.K. market.

- We successfully introduced the California-mandated reformulated gasolines. Chevron is the largest producer of these cleaner-burning fuels, which are improving the state's air quality.

- Our chemicals company launched several U.S. and international expansion projects and new plants. These are expected to improve Chevron's competitive position when the traditionally cyclic chemicals industry begins its upswing.

INVESTING FOR AGGRESSIVE GROWTH

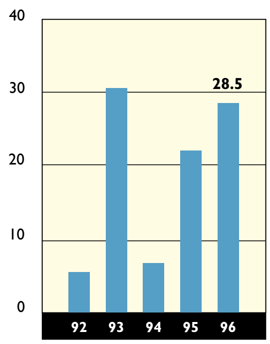
Our planned spending for 1997 strongly reinforces our intentions to grow aggressively and underscores our belief in the tremendous opportunities we see ahead. At $5.9 billion, this will be the largest planned spending program in Chevron's history, up $1 billion over 1996.

The largest part of the planned budget – more than 60 percent or $3.6 billion – is earmarked for worldwide exploration and production. This is an increase of $600 million over last year. Following our strategy to grow internationally, $2.3 billion, an increase of more than 20 percent, will be spent outside the United States. These funds will go to projects such as the Tengiz Field, the Britannia Field in the North Sea and numerous promising developments in West Africa.

We also believe that there are excellent prospects in the United States, and we plan to invest $1.3 billion, an increase of 11 percent. One of our most exciting projects is the Genesis Field in the deep waters of the Gulf of Mexico. An aggressive exploration program will be pursued on some of the 234 deepwater leases we have acquired in the past two years.

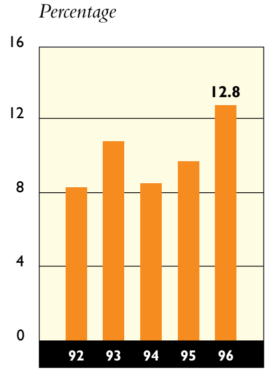
We also plan to increase our worldwide refining, marketing and transportation spending by about 15 percent. We plan to invest about $1.4 billion overall, including about $600 million in the United States, primarily for our various retail marketing projects such as our alliance with McDonald's. In addition, about $700 million will fund expansion by Caltex, our refining and marketing joint venture outside the United States.

AVERAGE ANNUAL RETURN TO STOCKHOLDERS
Percentage



Chevron stockholders have averaged an annual return of almost 19 percent over the past eight years.

RETURN ON AVERAGE CAPITAL EMPLOYED*
Percentage



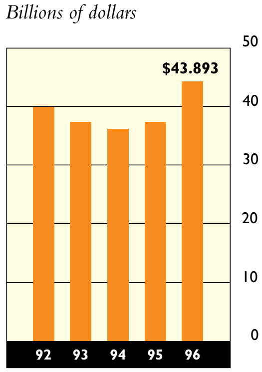
In 1996, Chevron exceeded its goal of a 12 percent return on employed capital.
*Excluding special items

FINANCIAL HIGHLIGHTS

Millions of dollars, except per-share amounts	1996	1995	% Change
Net income	**$ 2,607**	$ 930	180%
Sales and other operating revenues	**$42,782**	$36,310	18%
Capital and exploratory expenditures*	**$ 4,840**	$ 4,800	1%
Total assets at year-end	**$34,854**	$34,330	2%
Total debt at year-end	**$ 6,694**	$ 8,327	(20)%
Stockholders' equity at year-end	**$15,623**	$14,355	9%
Cash flow from operating activities	**$ 5,797**	$ 4,075	42%
Common shares outstanding at year-end *(Thousands)*	**653,086**	652,327	–
Average shares outstanding during year *(Thousands)*	**652,769**	652,084	–
Per-share data			
Net income	**$ 3.99**	$ 1.43	179%
Cash dividends	**$ 2.08**	$ 1.925	8%
Stockholders' equity	**$ 23.92**	$ 22.01	9%
Market price at year-end	**$ 65**	$ 52⅜	24%
Total debt/total debt plus equity	**30.0%**	36.7%	
Return on average stockholders' equity	**17.4%**	6.4%	
Return on average capital employed (ROCE)	**12.7%**	5.3%	

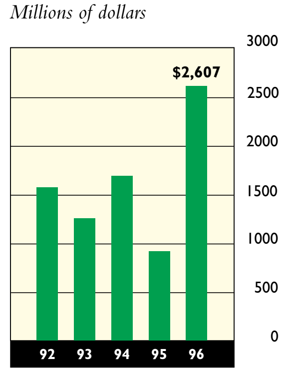
**Includes equity in affiliates*

TOTAL REVENUES
Billions of dollars



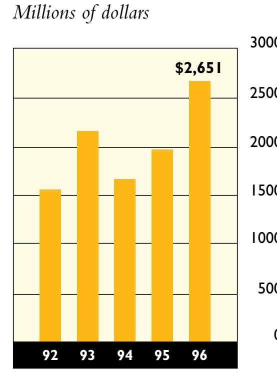
Revenues increased on higher prices for crude oil, natural gas and refined products.

NET INCOME
Millions of dollars



Net income for 1996 was a record $2.6 billion.

EARNINGS, EXCLUDING SPECIAL ITEMS
Millions of dollars



Operating earnings increased 35 percent due primarily to higher prices for crude oil and natural gas.

Operating Highlights

	1996	1995	% Change
Net production of crude oil and natural gas liquids[1] *(Thousands of barrels per day)*	**1,043**	1,001	4%
Net production of natural gas[1] *(Millions of cubic feet per day)*	**2,459**	2,433	1%
Sales of natural gas[1] *(Millions of cubic feet per day)*	**4,366**	3,379	29%
Refinery input[1] *(Thousands of barrels per day)*	**1,488**	1,523	(2)%
Sales of petroleum products[1] *(Thousands of barrels per day)*	**2,289**	2,346	(2)%
Net proved reserves of crude oil, condensate and natural gas liquids[1] *(Millions of barrels)*	**4,364**	4,343	–
Net proved reserves of natural gas[1] *(Billions of cubic feet)*	**10,317**	10,070	2%
Chemicals sales revenues[2] *(Millions of dollars)*	**$3,541**	$3,953	(10)%
Number of employees at year-end[3]	**35,310**	37,795	(7)%

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

PERFORMANCE MEASURES

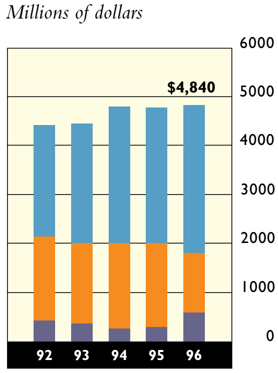
To help achieve its goal of being No. 1 among its major competitors in providing total return on stockholders' investment, Chevron has established several performance measures to track its progress. Some of these are listed below and are discussed throughout this report. The terms are defined on Page 24.

	1996	1995	1994
Earnings, Excluding Special Items *(Millions of dollars)*	**$2,651**	$1,962	$1,671
Adjusted Operating Expenses[4] *(Millions of dollars)*	**$7,832**	$7,594	$7,565
Operational Expenses Per Barrel[4]	**$ 6.10**	$ 6.09	$ 6.07
ROCE, Excluding Special Items	**12.8%**	9.8%	8.6%
Total Stockholder Return	**28.5%**	22.0%	6.8%

[4] *1995 and 1994 restated to conform with 1996 methodology, which excludes expenses of operations sold.*

Capital & Exploratory Expenditures*

Millions of dollars

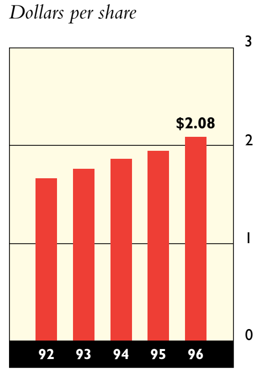


International spending accounted for 57 percent of total 1996 expenditures.

*Includes equity in affiliates

Cash Dividends Paid

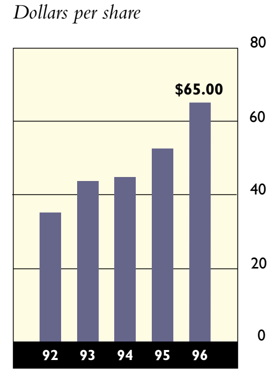
Dollars per share



Annual dividends increased for the ninth consecutive year.

Chevron Year-End Common Stock Price

Dollars per share



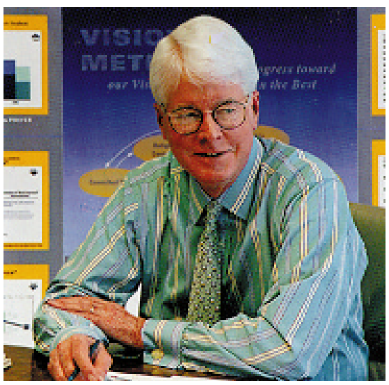
In 1996, stockholders earned a 28.5 percent return, assuming reinvested dividends.

We're determined to outperform our competition and give Chevron's owners the highest rate of stockholder return.

Finally, we plan to invest nearly $700 million in our worldwide chemicals business, up about 40 percent from 1996. We want to grow our chemicals business, especially internationally.

Cost cutting continues

This level of investment would not be possible if we weren't continuing our diligent cost-cutting efforts. Since 1991, we've reduced annual operating expenses by about $1.4 billion. Although our energy costs rose by about $200 million in 1996, we held per-barrel operating expenses flat, absorbing inflation. As I've said many times, cost control is imperative to our success; we must continually reduce unit operating costs.



Jim Sullivan
Vice Chairman

Major safety improvements made

One of the accomplishments of which I'm proudest is the major improvement in Chevron's safety performance. Our goal is to have the best safety record among our key competitors by 1998. From 1993 to 1996, we cut our rate of recordable incidents in half. That statistic translates to 656 fewer injuries among our employees in 1996.

Measuring our performance

Our five-year goal (1994-1998) has not changed. We're still determined to outperform our competition and give Chevron's owners the highest rate of total stockholder return (a combination of stock price appreciation plus dividends). Our 28.5 percent return in 1996 raised our 1994-96 return to 18.7 percent, which is less than 2 percentage points behind the industry leader. We are confident that if we continue to follow our strategies and successfully execute our plans, we will end 1998 in the top position.

Last year, I set another goal that I think we'll have to make if we're going to provide the best total stockholder return. And that's to have $3 billion in annual operating earnings. We had reached $2 billion at the time, and the new goal was a big stretch. We came a long way in 1996, but we can't relax or lose our focus.

Growth through change

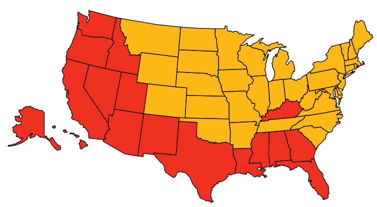
Earlier I said that Chevron is growing in many ways – that there are many dimensions of growth. For Chevron, one of the most important is how our corporate culture has changed. We've decentralized decision-making, increased accountability and emphasized teamwork. At Chevron, our culture is based on the values stated in *The Chevron Way*. By following its principles, we're trying to come closer to realizing the full potential of our outstanding team of employees.

When you finish a great year, the only way you want to go is up. I know that Chevron not only has the plans to grow, but also has the team to make those plans reality. I'm looking forward to the coming years, and I like what I see.

Ken Derr

Kenneth T. Derr
Chairman of the Board
and Chief Executive Officer
February 21, 1997

Chevron at a Glance

BUSINESS	AREAS OF OPERATION	COMPETITIVE ADVANTAGES
Exploration and Production Explores for and produces crude oil and natural gas in the United States and 20 other countries. Third-largest U.S. natural gas producer. Worldwide net production was almost 1.5 million barrels a day of oil and equivalent gas.	Major producing areas include the Gulf of Mexico, California, the Rocky Mountains, Texas, Angola, Nigeria, Canada, the North Sea, Australia, Indonesia, Congo, China and Kazakstan. Exploration areas include the above, as well as frontiers such as Bolivia, Colombia, Peru and Ireland.	A leader in exploration and production technology. • Experienced in international operations. • Balanced, high-value North American and international portfolio of holdings. • One of the leading leaseholders in Gulf of Mexico. • The low-cost operator in many areas.
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.	Principal U.S. locations are El Segundo and Richmond, Calif.; Pascagoula, Miss.; Salt Lake City, Utah; El Paso, Texas; and Honolulu, Hawaii. Also refines in Canada, Wales and (through its Caltex affiliate) Asia, Africa, the Middle East, Australia and New Zealand.	Largest producer of California reformulated gasolines, world's cleanest fuels. • Two large refineries in attractive California market. • Highly efficient, modern Pascagoula Refinery remains among industry pacesetters. • Major Caltex refineries well positioned to supply fast-growing Asia-Pacific markets.
Marketing One of the leading U.S. marketers of refined products, including motor gasoline, diesel and aviation fuels, lubricants and other products. Retail outlets number approximately 7,750 in the United States, about 200 in Canada and more than 450 in the United Kingdom; Caltex supplies about 7,900 retail outlets internationally.	 ■ Chevron holds 9 percent or greater gasoline market share. Retail locations also in Canada, the United Kingdom and (through Caltex) in Asia, Africa, the Middle East, Australia and New Zealand.	No gasolines sold provide better performance or lower emissions than Chevron gasolines with Techron additive. • U.S. stations rate high in customer satisfaction. • Among top three marketers in 16 states. • Canadian subsidiary is largest branded marketer of transportation fuels in British Columbia. • Caltex is a leading marketer in many high-growth markets worldwide. • Bold new Caltex retail image unveiled.
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; Walnut Creek, Calif.; London; Abidjan, Côte d'Ivoire; Singapore; Mexico City; and Moscow. Interests in pipelines throughout the United States and in Africa, Australia, Indonesia, Papua New Guinea, Europe and the Middle East. Tanker operations worldwide.	Chevron's tanker fleet has one of the best safety and environmental records among major oil companies. • More than one-third of the fleet's ships are double-hulled. • Extensive U.S. pipeline system serves key markets.
Chemicals Main products are ethylene, benzene, styrene, normal alpha olefins, paraxylene, polyethylene, polystyrene and a variety of additives used for fuels and lubricants.	Plants in 10 states and in France, Brazil and Japan. Through affiliates and subsidiaries, operates or markets in more than 80 countries.	Aromax and Eluxyl technologies make company low-cost producer of high-purity benzene and paraxylene. • One of lowest-cost producers of other key petrochemicals. • International expansion planned in order to benefit from global demand growth.
Coal Mines and markets coal, ranking among the top 20 coal producers in the United States.	Mines in New Mexico, Wyoming, Alabama and Kentucky; partnership interests in Illinois and Indiana.	Industry leader in providing return on assets. • Significant reserves of low-sulfur, environmentally desirable coal. • One of the best safety records in underground and surface mining.

Dimensions of Growth

Finding New Avenues to Increased Stockholder Value

Chevron sees many new dimensions of growth, even in today's competitive global environment. Growth doesn't always mean getting bigger, and it doesn't always come from traditional sources. But it must translate into increased stockholder value.

Chevron's goal is to exceed the performance of its strongest competitors, with a total stockholder return averaging at least 15 percent a year – an aggressive target because worldwide petroleum demand is increasing only 2 percent annually. This goal demands an entrepreneurial spirit, and it signals a need for greater innovation, creativity and flexibility.

Time-tested methods still work well, and many of the company's long-held operations continue to expand. But Chevron is combining the best traditional practices with the brightest "out-of-the-box" thinking to capitalize on new opportunities. ▶

GROWTH IN TRADITIONAL WAYS. In many areas of the world, Chevron's long-standing projects keep getting better, benefiting from advances in technology. As the company expands activity offshore Angola, for example, oil production is expected to increase 50 percent over the next five years from the current level of 400,000 barrels a day. (Chevron's share is 39.2 percent.) In Australia, Chevron and partners are negotiating a $5 billion expansion of the huge North West Shelf liquefied natural gas project. And in Indonesia, Chevron's Caltex affiliate continues to expand oil recovery projects – using steam and water injection, as well as new technology – in the Duri and Minas oil fields.

GROWTH THROUGH ALLIANCES. From its early years, the company has taken pride in discovering, developing, operating and owning an oil field. More and more, however, Chevron sees opportunities – and new ways to grow – in a wider range of business relationships that use company skills and assets in unconventional ways. The company is more willing to join a project at any point in its life cycle that makes economic sense.

For example, a partnership offshore Congo that Chevron joined in late 1994 during the development phase has surpassed expectations, with production from the Nkossa Field expected to reach more than 100,000 barrels a day in 1997.

Another example of innovation is the 1996 merger of the company's natural gas liquids gathering, processing and marketing operations with NGC Corporation, one of North America's largest natural gas and natural gas liquids marketers. What essentially were support organizations within Chevron became part of a dynamic, growth-oriented business. Since announcement of the merger, the value of NGC stock has more than doubled.

Similarly, to boost performance in fiercely competitive United Kingdom markets, Chevron plans to merge its refining and marketing subsidiary, Gulf Oil (Great Britain), with Elf Oil UK Ltd. and Murco Petroleum Ltd.

In Venezuela and Kuwait, Chevron is helping national oil companies improve production in major fields.

Tengizchevroil, Chevron's partnership in the Republic of Kazakstan and the first major U.S. joint venture in the Commonwealth of Independent States, sees output from the 6 billion-barrel Tengiz oil field on the upswing. A new export pipeline – to be completed in 1999 – will allow greatly increased production.

GROWTH IN NEW REGIONS. Chevron is moving into a new U.S. frontier – water depths of more than half a mile in the Gulf of Mexico. Improved technology and a growing infrastructure make deep-water drilling economically attractive and the Genesis project a harbinger of the future. With an estimated 160 million barrels of recoverable oil and oil equivalent gas, Genesis is the first of several planned deep-water projects.

Chevron Chemical Company plans to increase its international business. New plants are under way in Saudi Arabia, Singapore and China, and the company's access to superior technology in making benzene and paraxylene is expected to promote further expansion.

Chevron is conducting exploratory drilling near the Clair Field, west of Scotland's Shetland Islands; has acquired exploration acreage in new regions of China; and has begun a 3-D seismic survey offshore Qatar.

GROWTH THROUGH KNOWLEDGE MANAGEMENT. To truly explore the dimensions of growth, the company must ensure that the results of learning are shared across the corporation.

The American Productivity and Quality Center recently recognized Chevron as a leader in "knowledge management." The company's "best practices map" was cited as an example of leadership. This map identifies networks, databases and other resources that collect and share the intellectual capital and ideas of some 35,000 employees around the world.

A new Project Resource Group taps the best talent – wherever it is in the corporation – to ensure the matching of individual skills and proven methods with the requirements of new projects.

GROWTH THROUGH TECHNOLOGY. Technology is critical to virtually all of Chevron's operations. And by improving the deployment of technologies, the company sees new avenues of growth.

In 1996, the corporation appointed a Vice President of Technology, responsible for Chevron's three technology companies. By integrating the expertise of the corporation's upstream, downstream and information technologies, Chevron can better match solutions to business problems. Chevron expects "packaged technology" – for example, combining 3-D seismic imaging and reservoir simulation – to provide a competitive edge as it seeks new, and sometimes out of the ordinary, business alliances.

The new technology structure also will coordinate some higher-risk research. This is expected to improve Chevron's access to emerging technologies developed outside the petroleum industry.

GROWTH THROUGH FLEXIBILITY. Chevron employees are creating opportunities where they didn't see them before, discovering dimensions of growth once hidden.

For Chevron Products Company, a refiner and marketer, flexibility is one key to competitiveness. It has found new aspects of growth in non-traditional businesses that supplement its strengths in gasoline marketing. Chevron Products' alliance with McDonald's is in full swing, and the company plans an aggressive expansion of its convenience store business.

Flexibility means knowing when to let go as well. To better concentrate resources on a new generation of North Sea assets, Chevron sold its interests in four mature producing oil fields offshore Scotland, including the historic and once-prolific Ninian. The company also sold its interest in a producing field in Indonesia's Natuna Sea.

• • •

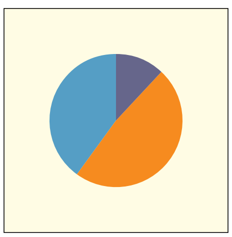
Clearly, there are many ways to add value. Improved skills in asset management – knowing when to expand, when to sell and when to merge – are paying dividends.

In the end, profitable growth cannot be reduced to addition or multiplication. Chevron's success depends on a willingness to continually re-evaluate its businesses and to see the dimensions of growth not as a fixed set of opportunities, but as ever-expanding possibilities.

STRATEGIES FOR THE FUTURE

CHEVRON'S WORLDWIDE PLANS are based on eight key strategies. They provide the direction for growth and improved financial performance. They also support Chevron's mission to create superior value for stockholders, customers and employees. Chevron's continuing success depends on how well these strategies are carried out.

STOCK OWNERSHIP – 1996 YEAR-END
Percentage



- Chevron Employees - 12%
- Institutions - 48%
- Individuals - 40%

Chevron employees own more shares than any other single investor group.

Employees

BUILD A COMMITTED TEAM TO ACCOMPLISH THE CORPORATE MISSION

Of Chevron's eight strategic intents, one – building a committed team – has the greatest potential to distinguish Chevron from its competitors.

Like most major petroleum companies, Chevron has state-of-the-art technology, quality products and sophisticated strategies. Where Chevron can both differentiate itself and gain a competitive edge is through its people – their commitment to the job and their willingness to give extra effort.

To help secure that advantage, employees are guided by *The Chevron Way*, a statement of the company's mission, vision, committed team values, total quality management principles and environmental practices.

EMPLOYEES SHARE COMPANY'S GOALS. At Chevron, building commitment means aligning employees' job goals with the corporation's objectives. It also means recognizing and rewarding employees for their efforts so they benefit when Chevron's financial performance and stockholder return improve. For instance, Chevron Success Sharing and an employee stock option plan reward employees with incentive pay when the company meets financial and operational targets. In addition, more than 95 percent of eligible employees are members of Chevron's profit sharing and savings plans. Cumulatively, they own 80 million shares – or about 12 percent of total outstanding shares.

SURVEY PROVIDES CORPORATE MIRROR. Chevron conducted its fourth worldwide survey in 1996 to measure employee opinions about work, commitment and company policies. The company has addressed concerns from past surveys by creating a standardized open-job selection process and improving upward feedback and leadership training.

International Upstream

CONTINUE EXPLORATION AND PRODUCTION GROWTH IN INTERNATIONAL AREAS

The engine driving Chevron's growth is its collection of international upstream operations, which last year posted record earnings of more than $1.1 billion.

RESERVES, PRODUCTION CLIMB. Non-U.S. proved oil and gas reserves increased for the seventh consecutive year, rising to 4.1 billion barrels and replacing 149 percent of the

Highlights – International Upstream*

Millions of dollars	1996	1995	1994
Earnings Excluding Special Items	**$1,142**	$ 811	$ 519
Capital and Exploratory Expenditures	**$1,854**	$1,835	$1,931
Net Liquids Production (MBPD)	**702**	651	624
Net Natural Gas Production (MMCFPD)	**584**	565	546
Net Liquids Reserves (MMBbl)	**3,215**	3,156	2,967
Net Natural Gas Reserves (BCF)	**5,042**	4,538	4,391

MBPD = Thousands of barrels per day; MMCFPD = Millions of cubic feet per day; MMBbl = Millions of barrels; BCF = Billions of cubic feet

**Includes Canada*

volume produced. Net production also climbed for the seventh year in a row. The daily average was 799,000 barrels of oil and equivalent gas, up 7 percent from last year.

Growth based on focused strategies. Much of Chevron's future international growth is based on three important and successful strategies: to concentrate exploration in a few key areas with high potential, to look for existing projects to join and to continue the excellent operation of important producing assets.

Key pipeline agreement unlocks Tengiz. Chevron has signed an agreement giving it a 15 percent share in the Caspian Pipeline Consortium, which will construct a 900-mile-long pipeline linking the supergiant Tengiz oil field in western Kazakstan to a port on the Black Sea from which oil can be shipped to world markets. The $2 billion project is the key to unlocking the vast potential of the Tengiz Field, in which Chevron now holds a 50 percent interest. The pipeline is set for completion in late 1999.

In the meantime, the joint venture is using creative transportation alternatives to move Tengiz oil to market. As a result, production climbed to 160,000 barrels a day at year-end, nearly triple 1995's average.

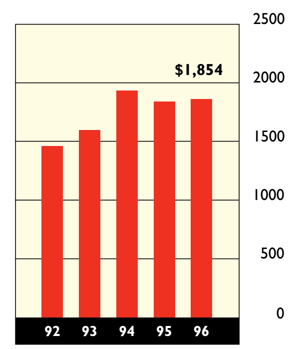
Nigerian production sets record. Average daily oil production from Chevron's fields reached 401,000 barrels, of which the company's share was 142,000 barrels.

The Escravos Gas Project, in which Chevron holds a 40 percent interest, is scheduled to start up in mid-1997. The project will recover about 165 million cubic feet of natural gas and 6,500 barrels of natural gas liquids a day.

Deep-water projects under way in Congo. The Nkossa Field, the deepest-water development offshore West Africa, started production in mid-1996 and reached 80,000 barrels a day by year-end. Peak daily production is expected to reach more than 100,000 barrels. To the west, appraisal of the Moho Field continues. It is the largest deep-water discovery offshore West Africa. Chevron holds a 30 percent interest in both fields. To the north and in shallower water, the Kitina Field is scheduled to start production late this year, with peak production estimated at 45,000 barrels a day. Chevron holds a 29.3 percent share.

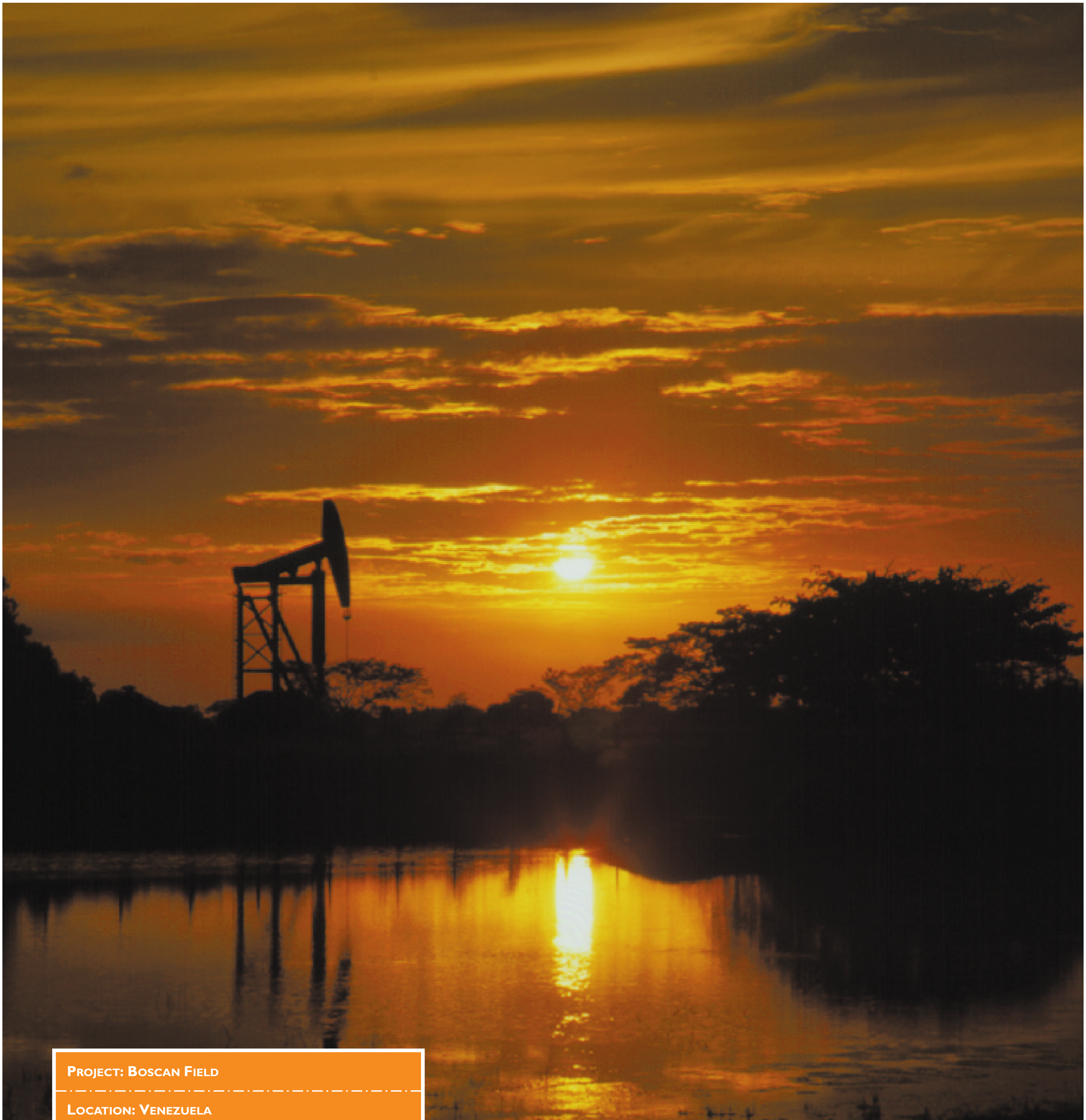
Chevron leads Angola production. Chevron, the largest oil producer in Angola, increased production to more than 400,000 barrels a day in 1996. Work continues on the

International Exploration & Production Capital & Exploratory Expenditures*
Millions of dollars



International accounted for 61 percent of 1996 worldwide exploration and production expenditures.

*Includes Canada and equity in affiliates



PROJECT: BOSCAN FIELD

LOCATION: VENEZUELA

NOTES: The pumping units in Venezuela's Boscan oil field are among the world's largest. The field, which Chevron operates on a service contract basis, produces about 80,000 barrels a day. An expansion project now under way will increase that to 115,000 barrels daily by mid-1999.

Growth through partnerships

Ndola and Sanha fields, with first production expected by mid-1997. First production from the Nemba/Lomba development is expected by mid-1998, and peak production is set at 100,000 barrels a day by 1999.

New field development and improved recovery projects in established fields also are under way. Chevron holds a 39.2 percent interest in the Angolan concession producing areas.

INDONESIAN PRODUCTION GROWS. In Indonesia, where Chevron's interests are managed by two 50 percent-owned affiliates – Caltex Pacific Indonesia and Amoseas Indonesia – daily crude oil production averaged 758,000 barrels in 1996. Chevron's share was 170,000 barrels. The biggest producer, the Duri Field, site of the world's largest steamflood, yielded about 285,000 barrels a day.

Amoseas operates the Darajat geothermal field on Java. The company plans a major expansion project that will more than double output by 1998.

NORTH SEA FOCUS SHIFTS. An important Chevron era ended with the sale of the aging Ninian Field along with interests in several smaller North Sea fields. The sale allows Chevron to focus on growth and on newer prospects. These include the Britannia Field, where first production is scheduled for late next year. Daily production is expected to peak at 740 million cubic feet of gas and 70,000 barrels of condensate in 1999, and the majority of deliverable gas already is under long-term contracts. Chevron holds a 30.2 percent interest.

Another area of focus is the Alba oil field. Chevron holds a 33.2 percent interest in the field, which reached production of 100,000 barrels a day at year-end. The company also is testing the Clair Field.

AUSTRALIAN EXPANSION PLANNED. Chevron and partners continue to evaluate options for expanding production of the highly successful North West Shelf liquefied natural gas project. One option is to use the giant Perseus Field. Located near two producing fields – Goodwyn and North Rankin – Perseus holds estimated reserves of 8 trillion cubic feet of natural gas. Chevron has a 16.7 percent interest in the North West Shelf.

In addition, Chevron is studying plans for developing the nearby Chrysaor and Gorgon natural gas fields. The company holds interests of 50 and 28 percent, respectively.

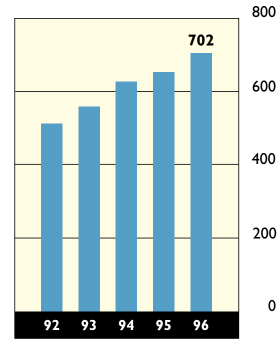
INNOVATIVE VENEZUELAN PROJECT UNDER WAY. In mid-1996, Chevron took over operation and further development of the Boscan Field under an operating service contract. The field, originally discovered by Chevron in 1946, holds an estimated 1.6 billion barrels of recoverable oil.

PAPUA NEW GUINEA PRODUCTION EXPANDS. First production from two new fields – Gobe Main and Southeast Gobe – is scheduled for early 1998. Production, which is expected to peak at 50,000 barrels a day, will use the existing facilities of Chevron's nearby Kutubu Field. Chevron's interest is 15.9 percent. Moran, another promising discovery near Kutubu, is being tested. The area could hold as much as 300 million barrels of recoverable oil.

NEW EXPLORATION UNDER WAY IN CHINA. Chevron is exploring for natural gas and oil in three separate areas offshore China. Two of the areas are in the South China Sea,

INTERNATIONAL NET CRUDE OIL & NATURAL GAS LIQUIDS PRODUCTION*

Thousands of barrels per day

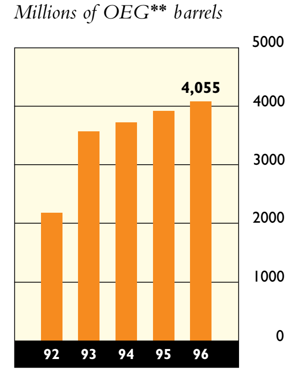


Net liquids production increased 8 percent, reflecting the continued emphasis on international opportunities.

*Includes Canada and equity in affiliates

INTERNATIONAL NET PROVED RESERVES*

*Millions of OEG** barrels*

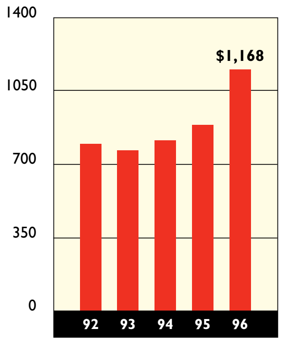


International oil and gas reserves increased for the seventh consecutive year.

*Includes Canada and equity in affiliates

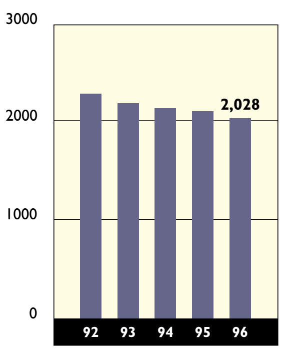
**Oil and equivalent gas

U.S. Exploration & Production Capital & Exploratory Expenditures
Millions of dollars



Spending for major projects in the Gulf of Mexico should stabilize U.S. production.

U.S. Net Proved Reserves
Millions of OEG barrels*



In 1996, Chevron replaced 66 percent of its U.S. oil and gas production.

*Oil and equivalent gas

where the company has a 16.3 percent interest in 100,000 barrels of oil a day from its four Huizhou fields. The third area lies in the North China Basin and is near China's largest oil fields.

North American Upstream

GENERATE CASH FROM NORTH AMERICAN EXPLORATION AND PRODUCTION OPERATIONS, WHILE MAINTAINING VALUE THROUGH SUSTAINED PRODUCTION LEVELS

Chevron is pursuing new growth opportunities in the frontier areas of the Gulf of Mexico and offshore Newfoundland after stabilizing production in its ongoing North American upstream operations.

These operations – Chevron U.S.A. Production Company, Chevron Canada Resources and Chevron's interest in NGC Corporation – contributed $1.2 billion in operating earnings and more than $900 million in cash to the corporation in 1996, while increasing capital spending 19 percent.

Genesis production to start in 1998. One of Chevron U.S.A. Production Company's premier frontier endeavors is the $750 million Genesis project, an oil and gas field 150 miles south of New Orleans in water a half-mile deep. It will be the U.S. company's deepest offshore venture and its first using a spar floating structure. Production from Genesis, which is 57 percent Chevron-owned, is set to start in December 1998 and peak at about 55,000 barrels of oil and 72 million cubic feet of natural gas a day by 2000.

Chevron wins in deep-water bidding. Bidding alone and with others, Chevron won 136 deep-water leaseholds in 1996 Gulf of Mexico sales. This brought its deep-water tracts to 234, ranking it near the top of gulf leaseholders. Chevron plans to drill seven deep-water wildcat wells on these leases in 1997. Delineation drilling continues on the 40 percent Chevron-owned Gemini Field, discovered in 1995 in 3,400 feet of water.

Gulf shallow-water holdings top industry. Chevron continues to be the top producer in shallow water (less than 600 feet) from its industry-leading 1.1 million net acres of gulf leaseholdings. One of the most promising areas is the Norphlet Trend. Chevron completed four wells in 1996, increasing Norphlet net production to 110 million cubic feet of gas a day at year-end. This volume will increase steadily over the next four years when up to 15 wells are drilled.

Hibernia to start producing in 1997. The biggest undertaking for Chevron Canada Resources is the $5.8 billion Hibernia project, 27 percent Chevron-owned. The 1.2 million-ton concrete producing platform will be towed to a site 200 miles offshore Newfoundland in June. Production is scheduled to start by year-end and is expected to peak at 135,000 barrels of oil a day in 2000. Sales of Hibernia crude will account for most of an expected 50 percent increase in output for Chevron Canada in 1998. The platform also will be a hub for future projects. Already, Chevron Canada and its partners are planning to spend $90 million to drill exploratory wells nearby.

PROJECT: GENESIS PRODUCTION SYSTEM

LOCATION: GULF OF MEXICO

NOTES: A massive spar hull – 122 feet by 700 feet – being built in Finland will float like a buoy in the Gulf of Mexico, tapping an oil and gas field lying under water a half mile deep. The $750 million project will be Chevron's deepest water venture in the U.S. and its first using a spar structure.

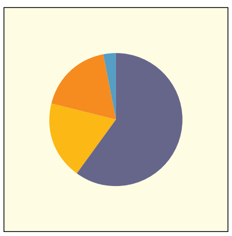
Growth in a new frontier

Highlights – U.S. Upstream

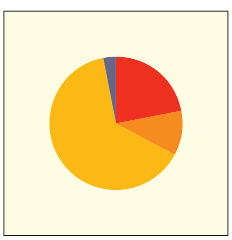
Millions of dollars, except per-share amounts	**1996**	1995	1994
Earnings Excluding Special Items	**$1,109**	$ 552	$ 584
Cash Flow After Capital and Exploratory Expenditures	**$ 982**	$ 672	$ 753
Capital and Exploratory Expenditures	**$1,168**	$ 879	$ 807
Net Liquids Production (MBPD)	**341**	350	369
Net Natural Gas Production (MMCFPD)	**1,875**	1,868	2,085
Net Liquids Reserves (MMBbl)	**1,149**	1,187	1,200
Net Natural Gas Reserves (BCF)	**5,275**	5,532	5,576
Production Expense per OEG Barrel	**$ 5.40**	$ 5.11	$ 4.81

MBPD = Thousands of barrels per day; MMCFPD = Millions of cubic feet per day;
MMBbl = Millions of barrels; BCF = Billions of cubic feet; OEG = Oil and equivalent gas

U.S. Gasoline Sales Volumes by Grade and Type
Percentage



- Regular Unleaded - 60%
- Premium Unleaded - 19%
- Midgrade Unleaded - 18%
- Aviation & Other - 3%



- Reformulated, Calif. - 22%
- Reformulated, Federal - 11%
- Non-Reformulated - 64%
- Aviation & Other - 3%

Chevron successfully introduced California-mandated cleaner-burning gasolines in 1996.

Robust NGC growth expected. Earnings from NGC Corporation, which merged with most of Chevron's natural gas marketing and natural gas liquids businesses in 1996, are expected to grow rapidly over the next several years. The company, 28 percent Chevron-owned, is now one of North America's largest processors and marketers of natural gas and natural gas liquids and is well positioned to seize opportunities in the deregulated natural gas and electrical power sectors worldwide.

U.S. Downstream

ACHIEVE TOP FINANCIAL PERFORMANCE IN U.S. REFINING AND MARKETING

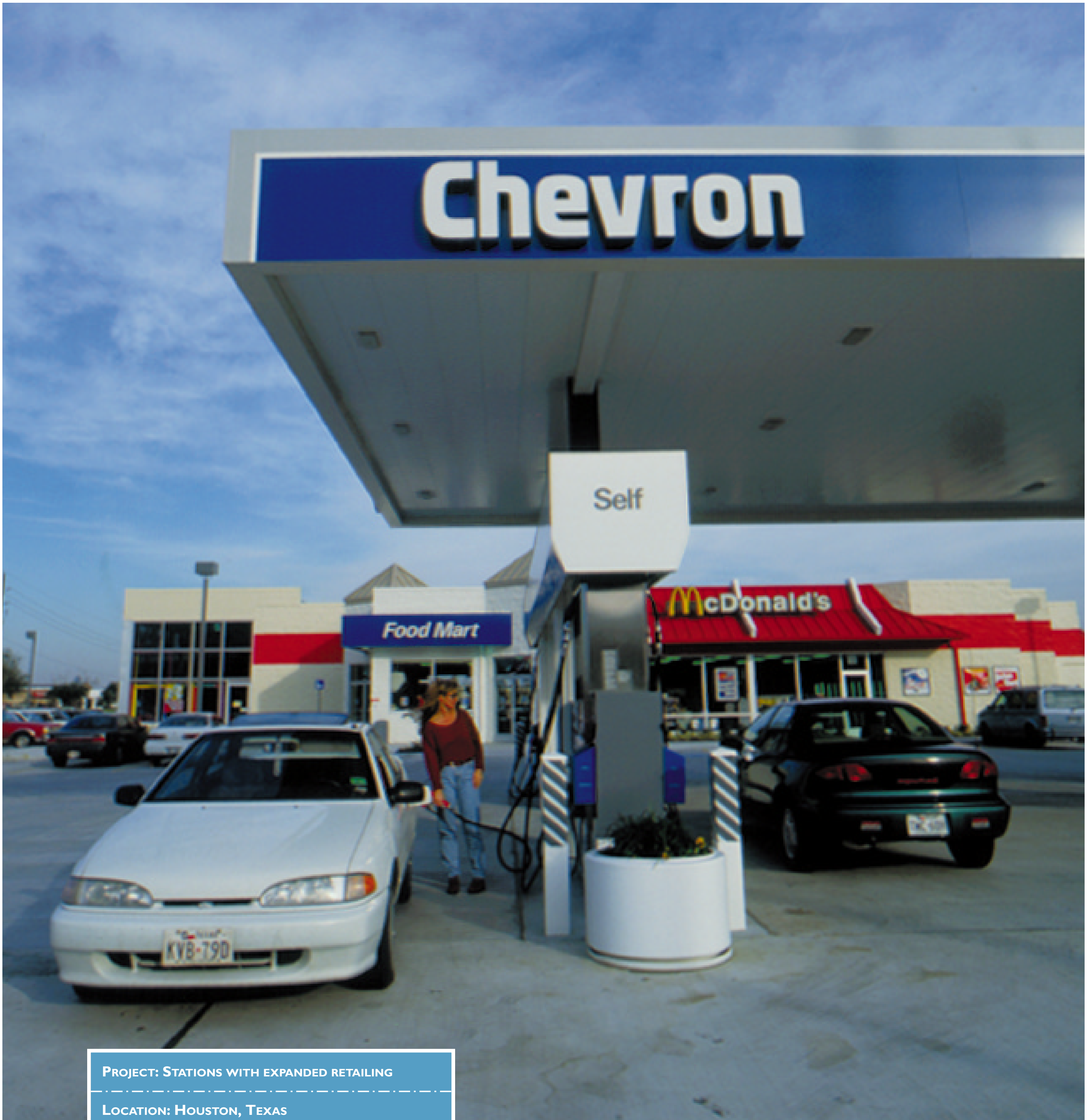
In a year marked by tight profit margins and high raw material costs, Chevron Products Company significantly improved its performance. Earnings from Chevron's U.S. refining and marketing operations rose sharply from $75 million in 1995 to $290 million, excluding special items.

In 1996, Chevron successfully launched a state-mandated fuel – California reformulated gasoline – the cleanest, lowest-emission gasoline in the world. The company provided product that consistently met all specifications, while a number of competitors were hampered by production problems. Consumers again demonstrated their approval by rating Chevron No. 1 in the West in customer-satisfaction surveys.

Costs cut; safety improved. Chevron Products has maintained its four-year trend of cutting costs. In 1996, the company sliced operating expenses by more than $300 million, or 13 percent from 1995 levels.

In addition, the company has improved its safety performance, reducing the reportable illness and injury rate by more than 40 percent between 1993 and 1996. Chevron Products also cut the cost of incidents by more than 30 percent in 1996, compared with 1995. The company continues to work toward its goal of leading the industry in safe and reliable operations.

Volume grows despite tough competition. In spite of fierce competition, Chevron increased retail gasoline sales volumes about 2 percent. The company's strategy is to concentrate efforts in areas where it already has high market share. Chevron is the No. 1 seller in the huge California market and ranks in the top three in 15 other states in the West and South.



PROJECT: STATIONS WITH EXPANDED RETAILING

LOCATION: HOUSTON, TEXAS

NOTES: Chevron is growing its convenience store business and offering a wider range of products and services, including expanded-service automated teller machines. The company also is building on its alliance with McDonald's restaurants and will double the number of sites in 1997.

Growth through innovative marketing

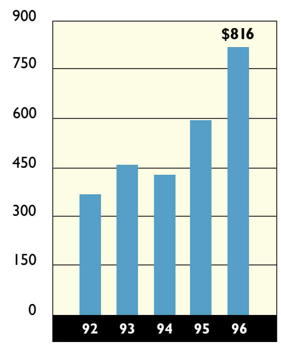
Highlights – U.S. Downstream

Millions of dollars	**1996**	1995	1994
Earnings Excluding Special Items	**$290**	$ 75	$325
Capital and Exploratory Expenditures	**$429**	$892	$885
Refined Products Sales (MBPD)	**1,122**	1,117	1,314
Refinery Capacity (MBPD)	**1,044**	1,044	1,201
Refinery Input (MBPD)	**951**	925	1,213
Number of Service Stations	**7,746**	7,788	7,903

MBPD = Thousands of barrels per day

Caltex Net Income

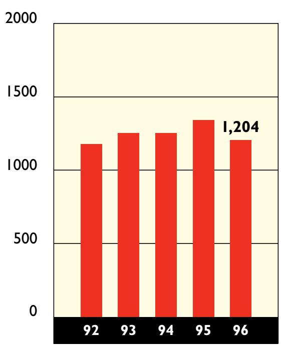
Millions of dollars



1996 earnings included a gain related to the sale of two Japanese refineries.

Caltex Sales of Refined Products

Thousands of barrels per day



Caltex sales of refined products decreased due to the sale of two Japanese refineries.

Investments shift to marketing. In late 1995, Chevron Products completed a three-year, $1 billion upgrade of its Richmond and El Segundo refineries to produce California reformulated fuel. With the fuel's successful introduction, Chevron reduced capital expenditures from about $900 million in 1995 to $400 million in 1996.

The company now is focusing discretionary investments in marketing. For instance, convenience stores will feature new products such as AT&T calling cards and expanded-service automated teller machines that dispense not only cash, but also tickets, stamps and other items.

McDonald's alliance fuels volume growth. Chevron's alliance with McDonald's restaurants aims to increase gasoline sales in a cost-efficient way. By sharing the expense of building sites, Chevron plans to boost volumes while lowering capital investments. As of January 1997, the two companies operated 50 sites throughout the West and Southwest, and plan to double that number in 1997.

Licensing record set. Chevron licensed a record capacity of 180,000 barrels a day of its hydroprocessing technology, which produces high-quality lubricant base oils and cleaner-burning fuels. The company plans to expand its lubricants business in North American and Latin American markets.

Caltex

CALTEX SHOULD ACHIEVE SUPERIOR COMPETITIVE FINANCIAL PERFORMANCE, WHILE GROWING IN ATTRACTIVE MARKETS

Caltex, Chevron's 50 percent-owned international refining and marketing affiliate, continues to see strong growth in product demand in many of the 60 countries where it operates. However, increasing competition and more stringent environmental regulations pose ongoing challenges for the company. To meet these challenges, Caltex is restructuring its portfolio and improving performance. The goal: to become the brand of choice in its markets.

Earnings and sales decline. Lower margins resulting from rising crude oil prices and a soft petrochemicals market led to a decline in operating earnings in 1996. Sales volumes dipped slightly to 1.2 million barrels a day as the loss of volume resulting from the sale of Caltex's interest in two Japanese refineries was nearly offset by increased sales elsewhere.

Caltex expects increased operating earnings in 1997, due to continued demand growth, improved margins and its own initiatives, including aggressive cost reductions.

Bold new image and station design unveiled. Much of the $5 billion Caltex will invest over the next five years is targeted to stimulate retail growth and introduce the company's new image. The fresh identity for service stations and new Star Mart convenience stores is being unveiled country by country over two years.

The re-imaging program also includes greater emphasis on employee selection and training, and on incentives for dealers and attendants. In addition, high-speed pumps and electronic credit card readers, which allow customers to pay for gasoline at the dispenser, will be installed at many of Caltex's 4,000 branded stations.

Caltex repositions for growth. The company is shifting its focus to high-growth economies. Consistent with that strategy, Caltex sold its 50 percent share in Nippon Petroleum Refining Company in Japan and completed the Star Refinery in Thailand, which will supply markets in the burgeoning Asia-Pacific region. Also, Caltex's 50 percent-owned Korean affiliate has expanded its Yocheon Refinery to a 600,000-barrel-a-day capacity.

Stricter environmental regulations planned. Several countries are expected to adopt more stringent environmental regulations. For example, South Korea's decision to reduce the sulfur content in petroleum products will require Caltex to spend 20 percent of its 1997 Korean budget on environmental projects.

Cost-cutting measures succeed. Caltex expects to exceed its goal to reduce operating expenses by 50 cents a barrel between 1994 and 1997. This could save more than $40 million in 1997 alone.

Chemicals

CONTINUE TO IMPROVE COMPETITIVE FINANCIAL PERFORMANCE IN CHEMICALS, WHILE DEVELOPING AND IMPLEMENTING ATTRACTIVE OPPORTUNITIES FOR GROWTH

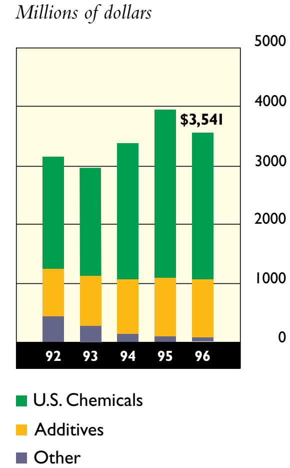
Chevron Chemical Company's long-term returns have been excellent, exceeding the average of the corporation's other businesses. From 1988 through 1995 – the most recent cycle in its cyclic business – Chemical's ongoing businesses averaged more than 15 percent annual return on assets.

In 1996, however, the chemical industry's profitability took a downturn. High feedstock prices intensified the decline. As a result, Chevron Chemical Company's operating earnings decreased to $228 million from the $524 million record set at the cycle's peak in 1995.

Chevron invests for the future. To increase profitability, Chevron Chemical is making investments that will yield benefits at the top of the cycle and improve competitiveness over the span of the cycle. Chevron Chemical is aggressively expanding capacity

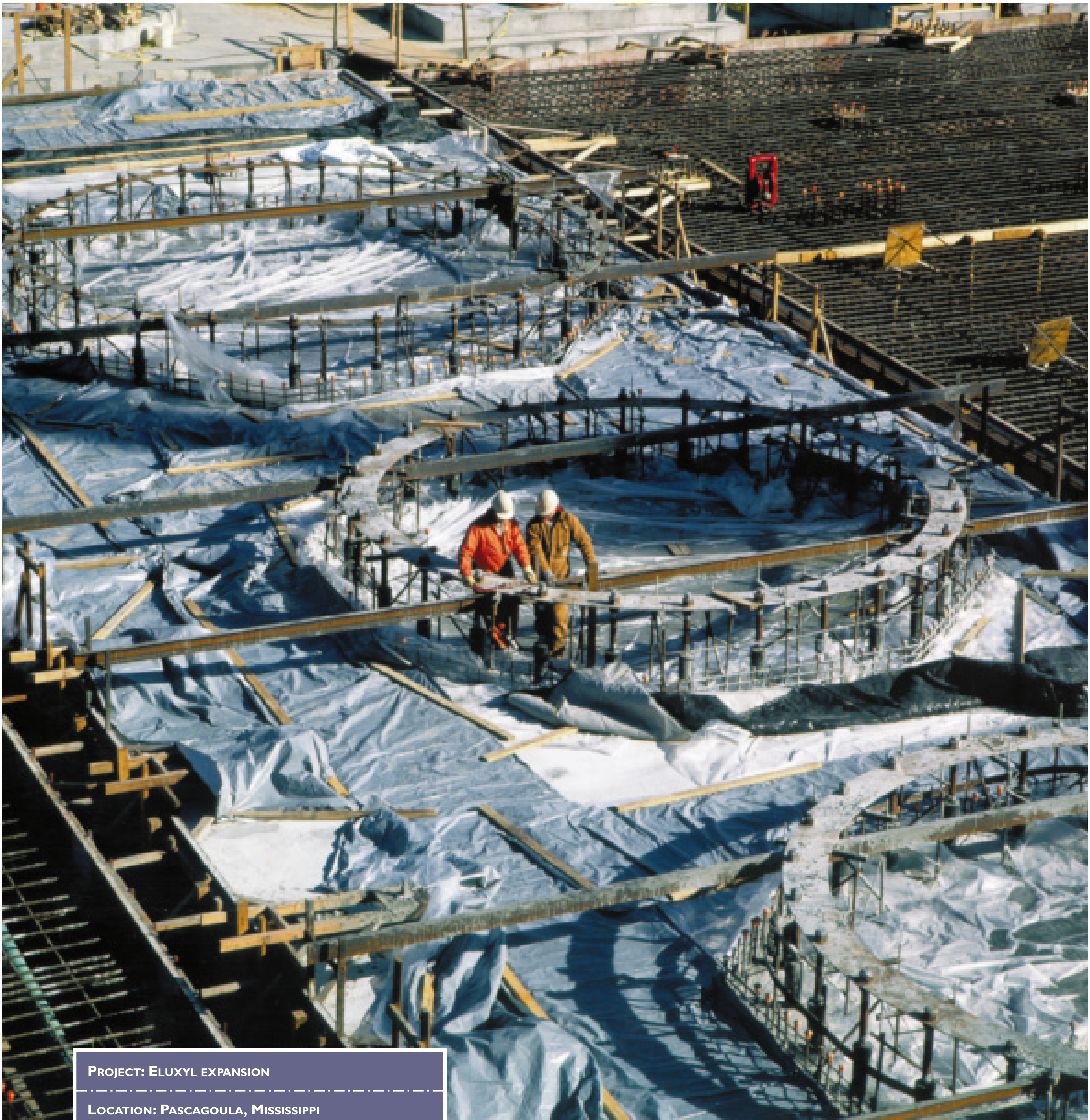
Chemicals Revenues by Division*

Millions of dollars



Revenues declined, reflecting lower prices for major products.

*Includes sales to other Chevron companies



Project: Eluxyl expansion

Location: Pascagoula, Mississippi

Notes: Chevron is laying foundation for a $225 million expansion that will double the capacity of its paraxylene plant. Using Eluxyl technology, the plant annually will produce more than 1 billion pounds of high-quality, low-cost paraxylene, a component of polyester and plastic containers.

Growth through new markets

Highlights – Chemicals

Millions of dollars	**1996**	1995	1994
Earnings Excluding Special Items	**$ 228**	$ 524	$ 215
Capital and Exploratory Expenditures	**$ 497**	$ 204	$ 138
Chemicals Sales and Other Operating Revenues[1]	**$3,541**	$3,953	$3,362
U.S. Chemicals Division Sales (MMLb)[1, 2]	**9,924**	9,774	8,809
Sales of Additives (MMGal)[1, 2]	**165**	151	143

[1] Includes sales to other Chevron companies. [2] 1995 and 1994 amounts restated to conform with 1996 presentation.
MMLb = Millions of pounds; MMGal = Millions of gallons

in selected products by capitalizing on two superior technologies – Aromax and Eluxyl. These technologies produce benzene and paraxylene, respectively, at low cost and high purity.

U.S. EXPANSIONS BOOST VOLUMES, EFFICIENCY. Expansion of Chevron Chemical's U.S. facilities will increase volume by 25 percent and help preserve the company's position as one of the lowest-cost producers of key petrochemicals. Projects are under way at the Port Arthur and Orange plants in Texas, the Marietta facility in Ohio and the Pascagoula Refinery in Mississippi.

COMPETITIVE ADVANTAGES FUEL INTERNATIONAL GROWTH. Chevron plans to expand its international operations from 12 percent of its current chemicals asset base to 30 percent by 2005.

In a 50-50 joint venture, the company is building a $650 million world-class Aromax complex in Saudi Arabia to produce benzene and cyclohexane. In Singapore, the company is constructing a $200 million additives plant. And in Chevron's first chemical manufacturing venture in China, the company is planning to build a 100,000-ton polystyrene facility to supply that country's growing demand.

Other Businesses

BE SELECTIVE IN OUR OTHER BUSINESSES

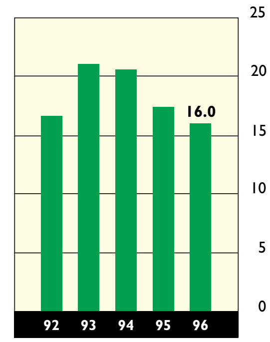
Some Chevron companies operate outside the corporation's core business focus. They are managed for cash flow and profitability, and for growth if opportunities arise.

CANADIAN SUBSIDIARY CONTINUES STRONG PERFORMANCE. Chevron Canada Limited, the company's Canadian refining and marketing subsidiary, sustained its string of robust earnings despite high crude oil prices and pressure on margins. The largest retail marketer in British Columbia (21 percent market share), Chevron Canada had operating income that nearly matched 1995's, when it enjoyed one of its best years. A 15 percent increase in jet fuel sales contributed to the success, as the company capitalizes on Vancouver's expanded airport as a gateway for North American business travel to Asia.

The company also operates a 50,000-barrel-a-day refinery and manages Chevron's 50 percent interest in Alberta Envirofuels, a low-cost producer of MTBE, an oxygenate used in reformulated gasoline.

ABUNDANT HYDROPOWER HURTS COAL EARNINGS. Although slightly higher than in 1995, operating earnings for The Pittsburg

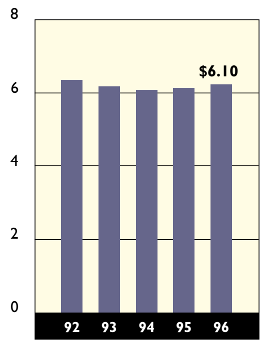
Net Coal Sales*
Millions of tons



Sales declined due to the abundance of low-cost hydroelectric power in the western United States.
*Includes interests in affiliates

Operating, Selling & Administrative Expenses, Excluding Special Items*

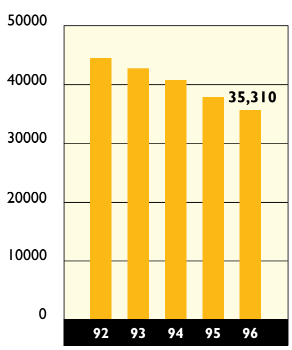
Dollars per barrel



Per-barrel costs were flat as higher expenses were spread over more barrels.

*Prior years restated to eliminate divested operations

Number of Employees at Year-End*



Since 1991, Chevron has reduced its work force by more than 15,000 people.

*Excludes service station personnel

& Midway Coal Mining Co. (P&M) were below target. The shortfall was mainly the result of abundant low-cost hydroelectric power in the western United States. This reduced coal demand at power plants served by the McKinley Mine in New Mexico, the company's largest and most profitable. In response, P&M reduced the mine's work force and is cutting costs at other mines. Despite the pressure on earnings, P&M remains among the coal industry's leaders in return on assets.

New company planned. In an alliance intended to spur growth in a highly competitive market, Gulf Oil (Great Britain), the company's wholly owned refining and marketing subsidiary, will merge in 1997 with Elf Oil UK Ltd. and Murco Petroleum Ltd. to form a new company that will be about 41 percent Chevron-owned.

Chevron sells real estate business. Chevron exited the real estate development business when Chevron Land and Development Company sold the last of its major holdings in 1996. Cash from the asset sale funded other Chevron investments.

Reduce Costs

FOCUS ON REDUCING COSTS ACROSS ALL ACTIVITIES

Cost-consciousness continues to be a way of life at Chevron. Between 1991 and 1996, the company shed $1.4 billion from its total expenses – one of the largest cost-cutting achievements in the petroleum industry.

Rising energy costs added to the company's expenses in 1996, but on a per-barrel basis, increased volumes held the company's ongoing operating and administrative costs about flat at $6.10.

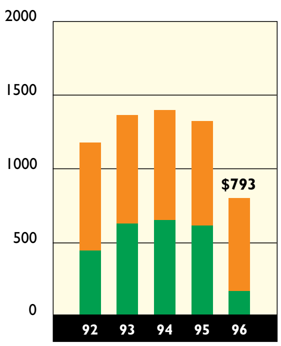
Projects save money, boost efficiency. Chevron pursued a range of new and ongoing projects in 1996 to reduce costs and improve efficiencies. For instance, over the next few years Chevron's restructuring of its research, shipping and information technology companies will improve cost management and save at least $90 million annually. A new companywide financial and business information system is expected to provide another $50 million in annual savings. Finally, the company expects significant savings from initiatives to restructure its corporate human resources and finance departments.

'Breakthrough' projects continue to save. Chevron defines a "breakthrough" as a project yielding large, permanent cost reductions. For instance, the company has saved nearly $650 million through energy efficiency improvements since 1991. Another breakthrough, to increase the company's alliances with selected suppliers, has saved more than $220 million since 1994 and reduced the number of suppliers by about 40 percent. A project-implementation breakthrough has saved additional millions by creating a systematic process for selecting and developing capital projects. Also, Chevron is improving inventory management to enhance cash flow.

REPORT ON THE ENVIRONMENT

Chevron takes pride in its respected record and works to improve it. The company's policy, "Protecting People and the Environment," emphasizes safe operations, compliance, pollution prevention and community programs. Chevron is on schedule to fully implement this policy by year-end.

U.S. ENVIRONMENTAL CAPITAL EXPENDITURES & EXPENSES
Millions of dollars

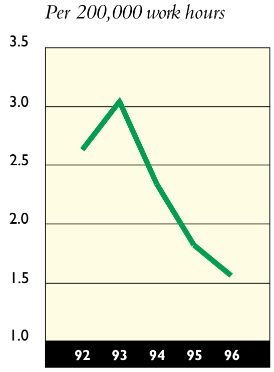


Expensed Environmental Expenditures

Capitalized Environmental Expenditures

With the completion of major refinery clean-air projects, capital spending declined in 1996.

U.S. OCCUPATIONAL INCIDENTS
Per 200,000 work hours



Since 1993, Chevron has cut its U.S. illness and injury rate by 48 percent.

EFFORTS WIN RECOGNITION. The Wyoming Wildlife Federation named Chevron its 1996 Corporate Conservationist of the Year, citing the company's contributions to numerous projects ranging from an air pollution study to an elk and deer refuge. Chevron is the first oil company to receive the award. Chevron Chemical Company's St. James, Louisiana, plant was acknowledged by the Occupational Safety and Health Administration for its outstanding safety processes. Of the 6 million work sites nationwide, only 247 have earned this recognition.

CLEANER-BURNING GASOLINES DEBUT. By June 1, 1996, all of Chevron's California service stations were selling reformulated gasolines mandated by the state. The cleaner-burning gasolines have cut car and light truck emissions by 15 percent, a statewide reduction of 3 million pounds of pollutants a day.

SHIPPING CONTINUES EXEMPLARY RECORD. In 1996, Chevron loaded and unloaded the ships of its owned and chartered fleet 600 times, moving nearly 500 million barrels of oil and releasing into the sea only 4.1 barrels. To match that record, less than four drops could be spilled while filling a car's gas tank 600 times.

DRILLS KEEP COMPANY PREPARED. Each year, several thousand employees from response teams throughout the company participate in dozens of drills to prepare for possible spills, fires and other emergencies.

CHEVRON FOLLOWS THROUGH. The company shows its environmental commitment not only through responsible operations, but also through contributions of various kinds, and by cultivating relationships with independent organizations. For instance, in Papua New Guinea, Chevron worked with the World Wildlife Fund to develop a comprehensive sustainable development plan for the Kutubu oil discovery. The plan included a biodiversity study that, when completed in 1996, showed no significant impact on the area from the project and also helped scientists discover new species.

EMPLOYEES REACH OUT. Each year, thousands of employees volunteer time to a variety of projects. On Santa Rosa Island, off the coast of California, volunteers joined with the Sousson Foundation and the National Park Service to preserve a threatened species of oak tree. Employees also helped restore areas of Yosemite National Park and participated in beach cleanups in Mississippi, Louisiana, Texas and California.

AUDITS ENSURE COMPLIANCE. Chevron conducts corporate compliance reviews, and operating companies worldwide perform self-audits to reinforce compliance with applicable laws and internal policies.

Glossary of Energy and Financial Terms

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 topographical surveys, geologic studies, geophysical surveys, seismic surveys and drilling wells.

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 emission 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. Reserve 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.

Operational 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 measurements, 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.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

1996 Highlights

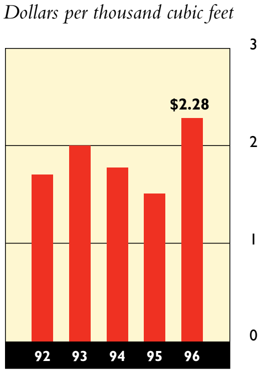
- **Net income of $2.607 billion was the highest in Chevron's history**
- **Chevron's average U.S. crude oil realization of $18.80 per barrel was the highest in seven years; average U.S. natural gas realization of $2.28 per thousand cubic feet was the highest in 13 years**
- **Worldwide oil and gas reserves increased for the fourth consecutive year; international crude oil production increased for the seventh consecutive year**
- **Cash provided by operating activities was $5.8 billion**
- **Debt was reduced by $1.6 billion**
- **Annual dividend to the stockholders increased for the ninth consecutive year**

KEY FINANCIAL RESULTS

Millions of dollars, except per-share amounts	**1996**	1995	1994
Sales and Other Operating Revenues	**$42,782**	$36,310	$35,130
Net Income	**$ 2,607**	$ 930	$ 1,693
Special (Charges) Credits Included in Net Income	**$ (44)**	$ (1,032)	$ 22
Per Share:			
Net Income	**$ 3.99**	$ 1.43	$ 2.60
Dividends	**$ 2.08**	$ 1.925	$ 1.85
Return On:			
Average Capital Employed	**12.7%**	5.3%	8.7%
Average Stockholders' Equity	**17.4%**	6.4%	11.8%

Chevron's net income for 1996 was a record $2.607 billion, up significantly from net income of $930 million in 1995 and $1.693 billion in 1994. Special items in all years and the 1995 adoption of a new accounting standard on asset impairment affected the comparability of the company's reported results. Net income was reduced by net special charges of $44 million in 1996 and $373 million in 1995. In addition, the adoption of a new accounting standard in 1995 reduced net income $659 million. Special items benefited net income $22 million in 1994. After excluding these items, operating earnings for 1996 were $2.651 billion, up 35 percent from $1.962 billion earned in 1995 and up 59 percent from $1.671 billion in 1994.

U.S. Natural Gas Prices
Dollars per thousand cubic feet

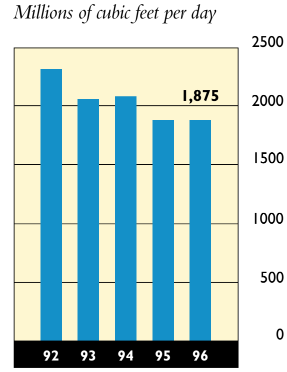


Cold weather and low inventories boosted natural gas prices 50 percent in 1996.

OPERATING ENVIRONMENT AND OUTLOOK. Industry conditions in 1996 in the crude oil and natural gas production business were the best in several years. Higher than expected demand and low industry inventory levels pushed Chevron's average crude oil realizations to their highest level in seven years and U.S. natural gas prices to their highest level in 13 years. With its worldwide oil and gas production at an 11-year high, Chevron was well positioned to benefit from these favorable conditions. Earnings in the company's upstream business (exploration and production) were at record levels.

However, in the downstream side of the business (refining and marketing) these higher prices dampened operating results because a highly competitive marketplace prevented the increased feedstock and fuel costs from being fully recovered in refined product prices, particularly gasoline, for much of the year. Additionally, the increased manufacturing cost of the cleaner-burning gasolines mandated by California in 1996 contributed to the depressed sales margins. Nevertheless, Chevron's downstream earnings improved from 1995, when poor refining margins and significant refinery downtime reduced earnings, particularly in the United States. Much of the 1995 refinery

U.S. Net Natural Gas Production
Millions of cubic feet per day



New development projects in the Gulf of Mexico stabilized natural gas production.

Management's Discussion and Analysis of Financial Condition and Results of Operations – *Continued*

downtime was to upgrade and modify the company's two California refineries to manufacture the California-mandated gasolines required at the pump in 1996. Chevron successfully introduced the fuels with no supply disruptions.

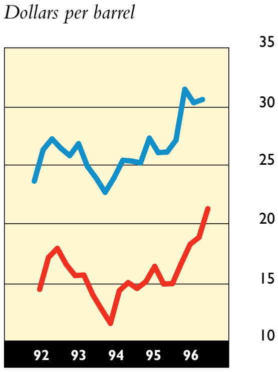
The U.S. chemicals industry entered a cyclical downturn in the latter half of 1995, which persisted throughout 1996. Industry overcapacity depressed prices for most of the company's major chemical products at the same time that rising crude oil and natural gas prices increased feedstock and fuel costs. Although sales volumes remained strong, earnings from Chevron's chemical operations declined.

In early 1997, crude oil and natural gas prices declined. Chevron's posted price for West Texas Intermediate (WTI), a benchmark crude oil, was $25.00 at year-end 1996, and was $20.75 at February 21, 1997. The Henry Hub natural gas spot price, an industry marker, was $3.72 per thousand cubic feet at year-end 1996, but had retreated to the $2.00 level by late February 1997.

Weak sales margins for the company's refined and chemical products have continued into the first quarter of 1997; however, the decline in crude oil prices should eventually allow refined product prices to better reflect their raw material costs. The chemicals industry oversupply is expected to continue through 1997.

Chevron continues to review its operations to improve its competitiveness and profitability. In May 1996, the company completed its exit from the real estate development business with the sale of its last major portfolio of California properties. In October, four mature producing oil fields in the United Kingdom sector of the North Sea and one in Indonesia were sold. Proceeds of nearly $500 million from these sales provided funds for more attractive growth projects.

Quarterly U.S. Crude Oil Prices vs. U.S. Refined Products Sales Prices
Dollars per barrel



■ Refined Products Sales Prices
■ Crude Oil Prices

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

In August 1996, the merger of Chevron's natural gas marketing business and its natural gas liquids company, Warren Petroleum, with NGC Corporation was completed. Chevron received a 28 percent equity ownership in NGC and about $295 million in cash and notes. NGC is a leading gatherer, processor, transporter and marketer of energy products in North America and the United Kingdom.

In April 1996, Chevron's 50 percent-owned Caltex affiliate sold its interest in two Japanese refineries for $2 billion. Caltex paid a dividend from part of the proceeds to its shareholders and used the balance for investment in higher-growth Asia-Pacific areas. Caltex's grass-roots 130,000-barrels-per-day refinery in Thailand started up midyear, and the expansion of its 50 percent-owned refinery in Korea was completed in late 1996, doubling its capacity to 600,000 barrels per day.

The company announced in November it was merging its United Kingdom refining and marketing subsidiary, Gulf Oil (Great Britain) Ltd., with those of Elf and Murphy Oil. After the merger, expected to be completed in the second quarter of 1997, Chevron will own about 41 percent of the new larger company, which through its 1,500 service stations will have about 8 percent of the U.K. fuels market. In connection with this anticipated transaction, a $200 million after-tax estimated impairment provision was recognized in 1996 results.

Several major chemicals projects are under way or have been announced, which should position Chevron to benefit from the next upturn in the chemicals industry. These include expansion of high-density polyethylene capacity at the Orange, Texas, plant; a paraxylene expansion at the Pascagoula, Mississippi, refinery; expansion of ethylene and cumene production facilities at Port Arthur, Texas; and an expansion of a polystyrene plant at Marietta, Ohio. Internationally, the company is constructing a fuel and lube oil additives plant in Singapore; has announced plans to build a polystyrene plant in China; and through a 50-50 joint venture, is building a benzene plant and cyclohexane unit in Saudi Arabia.

INTERNATIONAL EXPLORATION AND PRODUCTION DEVELOPMENTS. Significant progress was made in 1996 in unlocking the vast oil and gas reserves of the Tengiz oil field in Kazakstan, in which Chevron held a 50 percent interest through its Tengizchevroil (TCO) affiliate.

Despite the lack of adequate export facilities, TCO, in 1996, was very successful in developing alternate oil markets, with production averaging 112,000 barrels per day, nearly double the 58,000 barrels per day produced in 1995. At year-end 1996, the joint venture was producing about 160,000 barrels per day. In addition, several significant steps were taken toward the ultimate development of an export pipeline. In March 1996, the Caspian Pipeline Consortium (CPC), formed in 1992 by the governments of Kazakstan, Russia and Oman, was restructured. Private companies, including Chevron, were given the opportunity to join. In early December 1996, an agreement was signed that will allow CPC, in which Chevron will have a 15 percent interest, to begin construction of a pipeline from the Tengiz oil field to the Russian Black Sea coast. The 900-mile, $2 billion pipeline is expected to be completed in 1999.

In January 1997, Chevron reached an agreement in principle to sell 10 percent of its 50 percent interest in TCO to an affiliate of LUKoil, a Russian oil company, and Arco, thereby reducing Chevron's ownership to 45 percent. The company will record a gain from the sale, expected to occur in the first quarter of 1997.

In July 1996, the company began operating the 80,000-barrels-per-day Boscan oil field in Venezuela, under an agreement with Maraven, a subsidiary of Petroleos de Venezuela, the national oil company. Under this 20-year agreement (with a 10-year extension option), Chevron assumed financial, technical and operational responsibilities for the production and development of the field and, in return, will receive operating expense and capital recovery plus interest and an incentive fee. Chevron plans to spend $250 million, on behalf of Maraven, over the next three years with the expectation of increasing production to 115,000 barrels per day by 1999.

ENVIRONMENTAL MATTERS. Virtually all aspects of the businesses in which the company engages are subject to various federal, state and local environmental, health and safety laws and regulations. These regulatory requirements continue to 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 1996 was about $903 million for its consolidated companies. Included in these expenditures were $206 million of environmental capital expenditures and $697 million of costs associated with the control and abatement of hazardous substances and pollutants from ongoing operations. The total amount also includes spending charged against reserves established in prior years for environmental cleanup programs, but not non-cash provisions to increase these reserves or establish new ones during the year.

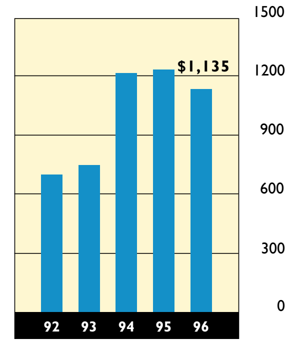
In addition to the costs for environmental protection associated with its ongoing operations and products, the company may incur expenses for corrective actions at various currently and previously owned facilities and waste disposal sites. An obligation to take remedial action may be incurred as a result of the enactment of laws, such as the federal Superfund law, or the issuance of new regulations or as the result of the company's own policies in this area. 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 under standards existing at the time, but now require investigatory 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. Under the terms of the sales contract, these obligations will be re-evaluated in 1997.

During 1996, the company recorded $99 million of before-tax provisions ($64 million after tax) for environmental remediation efforts, including Superfund sites. Actual expenditures charged against these provisions and other previously established reserves amounted to $198 million in 1996. At year-end 1996, the company's environmental remediation reserves were $1.135 billion, including $45 million related to Superfund sites.

Under provisions of the Superfund law, the Environmental Protection Agency (EPA) has designated Chevron a potentially responsible party (PRP), or has otherwise involved it, in the remediation of 266 hazardous waste sites. The company has made provisions or payments in 1996 and prior years for approximately 182 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 exposure. 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.

YEAR-END ENVIRONMENTAL REMEDIATION RESERVES
Millions of dollars



Reserves fell as expenditures for environmental remediation outpaced new accruals.

It is likely 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. Although environmental compliance costs are substantial, the company has no reason to believe they vary significantly from similar costs incurred by other companies engaged in similar businesses in similar areas. The company believes that such costs ultimately are reflected in the petroleum and chemicals industries' prices for products and services.

Over the past several years, the petroleum industry has incurred major capital expenditures to meet clean-air regulations, such as the 1990 amendments to the Clean Air Act in the United States. For companies operating in California, where Chevron has a significant presence, the California Air Resources Board (CARB) has imposed even stricter requirements. Over the five-year period 1991–1995, Chevron spent about $1.8 billion on capital projects to comply with air quality measures, the majority of which related to complying with CARB requirements. The bulk of this spending was completed in 1995, which resulted in a decrease in capitalized air-quality expenditures from approximately $500 million in each of the years 1994 and 1995 to $70 million in 1996. For

Management's Discussion and Analysis of Financial Condition and Results of Operations – *Continued*

1997, total worldwide environmental capital expenditures are estimated at $222 million. These capital costs are in addition to the ongoing costs of complying with other environmental regulations and the costs to remediate previously contaminated sites.

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. Most such 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 1996 was $1.5 billion and is included in accumulated depreciation, depletion and amortization in 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.

OTHER CONTINGENCIES. 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. A breach of contract lawsuit brought by OXY U.S.A. against the company resulted in a judgment against Chevron in July 1996 of $742 million, including interest that continues to accrue. The company has filed an appeal. While the outcome cannot presently be determined with certainty, the company believes that errors were committed by the trial court that should result in the judgment being reversed. These matters 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 losses could be material with respect to earnings in any given period.

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 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.

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, with the exception of certain long-term natural gas swaps, 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 commodities. 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, and that its control systems are designed to monitor and manage its financial exposures in accordance with company policies and procedures.

SPECIAL ITEMS. Net income is affected by transactions that are unrelated to, or are not 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 between years. Following is a table that summarizes the (losses) gains, on an after-tax basis, from special items included in the company's reported net income.

	Year ended December 31		
Millions of dollars	**1996**	1995	1994
Asset Write-Offs and Revaluations			
New Accounting Standard	**$ –**	$ (659)	$ –
Other	**(337)**	(304)	–
Asset Dispositions	**391**	7	48
Environmental Remediation Provisions	**(54)**	(90)	(304)
Prior-Year Tax Adjustments	**52**	(22)	344
Restructurings and Reorganizations	**(14)**	(50)	(45)
LIFO Inventory (Losses) Gains	**(4)**	2	(10)
Other	**(78)**	84	(11)
Total Special Items	**$ (44)**	$(1,032)	$ 22

Asset write-offs and revaluations in 1996 were related primarily to a $200 million estimated impairment provision in connection with the company's decision to merge its United Kingdom refining and marketing operations with those of two other oil companies in 1997. Also, 1996 included $68 million of impairment writedowns of oil and gas properties and related pipeline facilities, a $29 million adjustment to the 1995 provision for the loss anticipated from exiting the real estate development business, including additional amounts for environmental remediation, and $40 million for other asset write-offs. In 1995, an estimated loss of $168 million was recognized in connection with the company's decision to exit its real estate development business. Concurrent with implementing the new accounting standard for asset impairment in 1995, and in preparation for installation of the company's new financial information system, a comprehensive review of all the company's fixed assets was conducted. As a result of this review, asset write-offs of $94 million were recorded. Also, the writedown of certain assets made obsolete by the conversion of two West Coast refineries to produce the new California-mandated reformulated gasolines amounted to $38 million. Other miscellaneous asset write-offs in 1995 amounted to $4 million. Effective in 1995, the company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The adoption of this standard required non-cash charges amounting to $659 million after tax, mostly related to impairment writedowns of U.S. oil and gas producing properties.

Asset dispositions in 1996 increased earnings $391 million and included a $279 million gain from the company's Caltex affiliate's sale of interests in two Japanese refineries; a net $80 million gain from the sales of producing properties in the North Sea, Indonesia and the Gulf of Mexico; and a $32 million gain from the merger of the company's natural gas marketing business and natural gas liquids company with NGC Corporation. In 1995, asset dispositions increased earnings a net $7 million and consisted of sales of a fertilizer plant, a natural gas storage facility, and a U.S. oil and gas property. The 1994 sale of the company's lead and zinc prospect in Ireland generated an after-tax profit of $48 million.

Environmental remediation provisions pertain to estimated future costs for environmental cleanup programs at certain of the company's service stations, marketing terminals, refineries, chemical locations, and oil and gas properties; divested operations in which Chevron has liability for future cleanup costs; and sites, commonly referred to as Superfund sites, for which the company has been designated a PRP by the EPA. Provisions for environmental remediation amounted to $54 million in 1996, $90 million in 1995 and $304 million in 1994.

Prior-year tax adjustments are generally the result of the settlement of audit issues with taxing authorities or the re-evaluation by the company of its tax liabilities as a result of new developments. Also, adjustments are required for the effect on deferred income taxes of changes in statutory tax rates. A federal tax audit settlement in 1996 benefited earnings $52 million. In 1995, charges for prior-year tax adjustments were $22 million, relating primarily to a change in the Australian income tax rate. Tax adjustments in 1994 increased earnings $344 million, including the net reversal of $301 million of tax and related interest reserves resulting from the company's global settlement with the Internal Revenue Service for issues relating to the years 1979 through 1987.

Restructurings and reorganizations in 1996 resulted in charges of $14 million for various employee severance programs. Charges in 1995 were $50 million, including $12 million related to restructurings at Chevron's Caltex affiliate, and consisted principally of employee severance provisions in connection with reorganizations of various business activities. In 1994, a $45 million adjustment was made to a prior-year charge in connection with the terms of the sale of the Philadelphia and Port Arthur, Texas, refineries, and to recognize the effect of the Port Arthur Refinery sale on the company's chemicals operations. The Philadelphia Refinery was sold in August 1994, and the Port Arthur Refinery sale was completed in February 1995.

LIFO inventory liquidation (losses) gains result from the reduction of inventories in certain inventory pools valued under the Last-In, First-Out (LIFO) accounting method. LIFO losses decreased net income in 1996 and 1994 by $4 million and $10 million, respectively, when inventories were liquidated at historical costs that were higher than costs incurred in those years. LIFO effects increased net income in 1995 by $2 million as inventories were liquidated at historical costs that were lower than the current-year costs. These amounts include the company's equity share of Caltex LIFO inventory effects. Chevron's consolidated petroleum inventories were 83 million barrels at year-end 1996, 93 million barrels at year-end 1995 and 99 million barrels at year-end 1994.

Other special items reduced earnings a net $78 million in 1996, consisting primarily of litigation matters that were offset partially by a $12 million refund of federal lease costs. In 1995, other special items benefited earnings a net $84 million, when a gain of $86 million related to a sale of land by a Caltex affiliate in Japan and a refund of $27 million for federal lease costs were offset partially by litigation and other costs of $29 million. Charges in 1994 for litigation and regulatory settlements of $31 million were offset partially by a casualty insurance recovery of $20 million.

RESULTS OF OPERATIONS. 1996 was a very successful year for Chevron. Not only were earnings at record levels, but the company performed well operationally. Both U.S. and international upstream posted record earnings, and the refining and marketing business increased operating earnings by 28 percent from depressed 1995 levels despite market competition that prevented higher feedstock and fuel costs from being fully recovered. A cyclical downturn in the chemicals industry caused an earnings decline in 1996 from the record level of 1995. Although sales volumes remained strong for most of the year, lower prices and higher feedstock and fuel costs resulted in lower margins for most of the company's major chemical products. International oil and gas production and reserves increased for the seventh consecutive year. In 1996, international oil and gas production was up 7 percent, and the company replaced about 149 percent of its international production through proved reserve additions, resulting in a worldwide replacement rate of 112 percent.

Operating results for 1995, compared with 1994, were strong in all areas except for U.S. downstream operations, where very poor results dampened total earnings. Both chemicals and international upstream businesses turned in then-record earnings. U.S. upstream earnings declined slightly from 1994 as higher crude oil prices did not fully offset low natural gas prices. Poor industry refining margins, coupled with scheduled and unscheduled maintenance at all the company's core refineries, particularly an extended turnaround at the Richmond, California, refinery to tie in new units required to produce the new state-mandated reformulated fuels, resulted in severely depressed earnings for these operations.

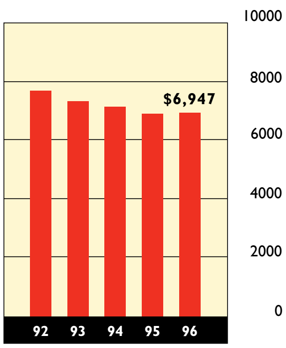
Sales and other operating revenues were $42.8 billion in 1996, compared with $36.3 billion in 1995 and $35.1 billion in 1994. Revenues improved from 1995 and 1994 primarily because of higher prices and sales volumes for crude oil and natural gas and higher prices for refined products, partially offset by lower refined products sales volumes and chemicals prices. Sharply higher crude oil, natural gas and refined products prices accounted for the increase in **purchased crude oil and products** costs in 1996, compared with 1995 and 1994.

Other income in all years included net gains resulting from the disposition of assets, which caused other income to fluctuate from year to year.

Operating, selling and administrative expenses, adjusted for special items, increased slightly in 1996, largely because higher fuel and transportation costs and accruals for performance-based employee compensation costs more than offset continued reductions in other expenses. Operating

Management's Discussion and Analysis of Financial Condition and Results of Operations – *Continued*

Operating, Selling & Administrative Expenses, Excluding Special Items
Millions of dollars



Total expenses increased slightly in 1996 due to higher fuel and transportation costs.

expenses in 1995 were negatively affected by scheduled refinery shutdowns and maintenance. Unanticipated costs associated with unscheduled refinery shutdowns and other refinery operating problems also affected operating costs in both 1995 and 1994.

Reported selling, general and administrative expenses in 1994 were unusually low due to a reversal of $319 million of accrued interest reserves on federal income taxes payable resulting from the company's settlement with the IRS of most issues for nine open tax years.

Millions of dollars	Year ended December 31 1996	1995	1994
Reported Operating Expenses	**$6,007**	$5,974	$6,383
Reported Selling, General and Administrative Expenses	**1,377**	1,384	963
Total Operational Costs	**7,384**	7,358	7,346
Eliminate Special Charges Before Tax	**(437)**	(514)	(230)
Adjusted Ongoing Operational Costs	**$6,947**	$6,844	$7,116

Depreciation, depletion and amortization expense decreased in 1996 following the 1995 adoption of SFAS No. 121, which resulted in the impairment of certain of the company's fixed assets, mostly oil and gas producing properties, and other 1995 adjustments to fixed asset carrying values; 1995 expense included the special charge to implement the new standard.

Taxes on income were $2.133 billion in 1996, $859 million in 1995 and $1.110 billion in 1994, equating to effective income tax rates of 45 percent, 48 percent and 39.6 percent for each of the three years, respectively. The lower tax rate in 1996, compared with 1995, reflects a shift in the international earnings mix from higher tax-rate countries to lower tax-rate countries and a favorable swing in prior-year tax adjustments. These effects were offset partially by a decrease in equity earnings recorded on an after-tax basis. The 1995 tax rate reflected a shift in taxable earnings from lower tax-rate countries to higher tax-rate countries. This increase in the tax rate was offset partially by higher tax credits and an increase in equity earnings recorded on an after-tax basis. The lower 1994 tax rate is attributable to the effect of favorable prior-year tax adjustments resulting from a global settlement with the IRS of most issues for the years 1979 through 1987, which included the reversal of excess interest reserves with little associated tax effect.

Currency transactions decreased net income $26 million, $15 million and $64 million in 1996, 1995 and 1994, respectively. These amounts include the company's share of affiliates' currency transactions. The loss on currency transactions in 1996 resulted from fluctuations in the value of the United Kingdom and Australian currencies relative to the U.S. dollar. In 1995 the loss was related to fluctuations in the value of the Canadian and Nigerian currencies, and in 1994 it was due primarily to fluctuations in the value of the Australian and Philippine currencies.

RESULTS BY MAJOR OPERATING AREAS

Millions of dollars	1996	1995	1994
Exploration and Production			
United States	**$1,087**	$ 72	$ 518
International	**1,211**	690	539
Total Exploration and Production	**2,298**	762	1,057
Refining, Marketing and Transportation			
United States	**193**	(104)	40
International	**226**	345	239
Total Refining, Marketing and Transportation	**419**	241	279
Total Petroleum	**2,717**	1,003	1,336
Chemicals	**200**	484	206
Coal and Other Minerals	**46**	(18)	111
Corporate and Other	**(356)**	(539)	40
Net Income	**$2,607**	$ 930	$1,693

SPECIAL ITEMS BY MAJOR OPERATING AREAS

Millions of dollars	1996	1995	1994
Exploration and Production			
United States	**$ (22)**	$ (480)	$ (66)
International	**69**	(121)	20
Total Exploration and Production	**47**	(601)	(46)
Refining, Marketing and Transportation			
United States	**(97)**	(179)	(285)
International	**59**	62	(10)
Total Refining, Marketing and Transportation	**(38)**	(117)	(295)
Total Petroleum	**9**	(718)	(341)
Chemicals	**(28)**	(40)	(9)
Coal and Other Minerals	**(2)**	(65)	48
Corporate and Other	**(23)**	(209)	324
Total Special Items Included in Net Income	**$ (44)**	$(1,032)	$ 22

U.S. exploration and production earnings in 1996, excluding special items, were the highest in the company's history. Earnings more than doubled from 1995 levels and were up 90 percent from 1994. Operationally, the significant improvement in U.S. upstream earnings for 1996 was due to higher crude oil and natural gas prices compared with 1995 and 1994, more than offsetting lower liquids production. In 1995, higher crude oil prices than in 1994 did not fully offset the effects of lower production volumes and lower natural gas prices. Natural gas accounts for about half the company's combined U.S. oil and gas production.

Net liquids production for 1996 averaged 341,000 barrels per day, down 3 percent from 350,000 barrels per day in 1995 and down 8 percent from 369,000 barrels per day in 1994. Net natural gas production in 1996 and 1995 averaged about 1.9 billion cubic feet per day, compared with 2.1 billion cubic feet per day in 1994. The production declines resulted from producing property sales and normal field declines, partially offset by new production. The company has several major long-term projects under way, primarily in the Gulf of Mexico, which by the 1996 fourth quarter had stabilized its U.S. oil and gas production volumes.

The company's average crude oil realizations were $18.80 per barrel in 1996, an increase of $3.46 from $15.34 per barrel in 1995 and nearly $5.00 more than the $13.86 per barrel averaged in 1994. From a low point of $11.03 per barrel in December 1993, realizations recovered to the $14.50 to $15.00 range by mid-1994 and remained relatively steady at $15.00 to $16.00 during 1995. In 1996, Chevron's crude oil realizations increased during the year, reaching $21.93 in December, but began to decline in early 1997.

U.S. Exploration and Production

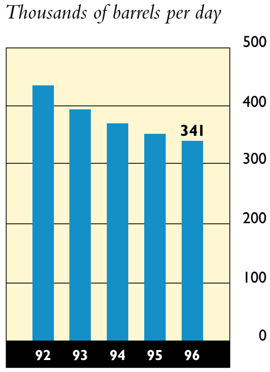
Millions of dollars	**1996**	1995	1994
Earnings, Excluding Special Items	**$1,109**	$552	$584
Asset Write-Offs and Revaluations			
New Accounting Standard	**–**	(490)	–
Other	**(19)**	(7)	–
Asset Dispositions	**17**	(2)	–
Environmental Remediation Provisions	**(10)**	(8)	(51)
Restructurings and Reorganizations	**1**	–	–
LIFO Inventory Losses	**–**	–	(4)
Other	**(11)**	27	(11)
Total Special Items	**(22)**	(480)	(66)
Reported Earnings	**$1,087**	$ 72	$518

The company's average natural gas prices were $2.28 per thousand cubic feet in 1996, up 77 cents from $1.51 in 1995 and up 51 cents from the 1994 average of $1.77. Low inventories and increased demand caused by extremely cold weather in the eastern half of the United States caused the company's natural gas prices to peak at an average of $3.75 in December 1996. Prices remained strong in January 1997, but began falling rapidly in February as the winter weather moderated.

Exploration expenses in 1996 increased from both 1995 and 1994 levels on increased exploration activity in the Gulf of Mexico. Ongoing depreciation expense declined each year as a result of lower production volumes and, in 1996, from lower carrying values of assets impaired upon implementation of SFAS No. 121.

U.S. Net Crude Oil & Natural Gas Liquids Production

Thousands of barrels per day



Gulf of Mexico projects have slowed the decline in U.S. production.

International exploration and production's record earnings in 1996 reflected higher crude oil and natural gas sales volumes and higher crude oil prices, compared with 1995 and 1994. In 1995, the same factors contributed to the increase in earnings from 1994. Also contributing to the improved results in 1995 were significantly lower effective tax rates in West Africa, primarily resulting from tax benefits associated with crude oil reserve additions.

Operationally, the company's average international liquids prices, including equity affiliates, increased to $19.48 per barrel from $16.10 in 1995 and $14.86 in 1994. Average natural gas prices were $1.86 per thousand cubic feet in 1996, compared with $1.73 and $1.84 in 1995 and 1994, respectively.

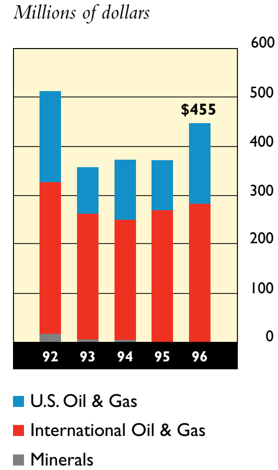
In 1996, net liquids production, including production from equity affiliates, increased 8 percent over 1995 to 702,000 barrels per day, and was up 13 percent from 1994 production levels. Production growth in Angola, Nigeria and Kazakstan and new production in Congo accounted for most of the increase. Net natural gas production volumes also increased in 1996, up 3 percent from 1995 to 584 million cubic feet per day and up 7 percent from 1994 levels. Production of crude oil and natural gas has been increasing steadily since the late 1980s, reflecting the company's successful strategy of growing its international operations.

International Exploration and Production

Millions of dollars	**1996**	1995	1994
Earnings, Excluding Special Items	**$1,142**	$811	$519
Asset Write-Offs and Revaluations			
New Accounting Standard	**–**	(81)	–
Other	**(17)**	–	–
Asset Dispositions	**91**	–	–
Prior-Year Tax Adjustments	**–**	(22)	20
Restructurings and Reorganizations	**(5)**	(10)	–
LIFO Inventory Losses	**–**	(1)	–
Other	**–**	(7)	–
Total Special Items	**69**	(121)	20
Reported Earnings	**$1,211**	$690	$539

Exploration Expenses

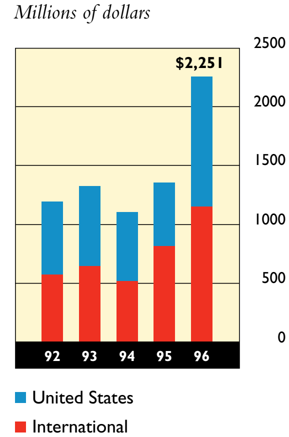
Millions of dollars



U.S. exploration activity increased as Gulf of Mexico leases were evaluated.

Worldwide Exploration & Production Earnings, Excluding Special Items

Millions of dollars



Worldwide earnings climbed 65 percent on the strength of higher oil and natural gas prices.

Management's Discussion and Analysis of Financial Condition and Results of Operations – *Continued*

SELECTED OPERATING DATA

	1996	1995	1994
U.S. Exploration and Production			
Net Crude Oil and Natural Gas Liquids Production (MBPD)	**341**	350	369
Net Natural Gas Production (MMCFPD)	**1,875**	1,868	2,085
Natural Gas Sales (MMCFPD)[1]	**3,588**	2,815	2,598
Natural Gas Liquids Sales (MBPD)[1]	**187**	213	215
Revenues from Net Production			
Crude Oil ($/Bbl)	**$18.80**	$15.34	$13.86
Natural Gas ($/MCF)	**$ 2.28**	$ 1.51	$ 1.77
International Exploration and Production[1]			
Net Crude Oil and Natural Gas Liquids Production (MBPD)	**702**	651	624
Net Natural Gas Production (MMCFPD)	**584**	565	546
Natural Gas Sales (MMCFPD)	**778**	564	461
Natural Gas Liquids Sales (MBPD)	**36**	47	34
Revenues from Liftings			
Liquids ($/Bbl)	**$19.48**	$16.10	$14.86
Natural Gas ($/MCF)	**$ 1.86**	$ 1.73	$ 1.84
U.S. Refining and Marketing			
Gasoline Sales (MBPD)	**556**	552	615
Other Refined Products Sales (MBPD)	**566**	565	699
Refinery Input (MBPD)	**951**	925	1,213
Average Refined Products Sales Price ($/Bbl)	**$29.94**	$26.19	$24.37
International Refining and Marketing[1]			
Refined Products Sales (MBPD)	**944**	969	934
Refinery Input (MBPD)	**537**	598	623
Chemicals Sales and Other Operating Revenues[2]			
United States	**$2,936**	$3,332	$2,801
International	**605**	621	561
Worldwide	**$3,541**	$3,953	$3,362

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]Millions of dollars. Includes sales to other Chevron companies.

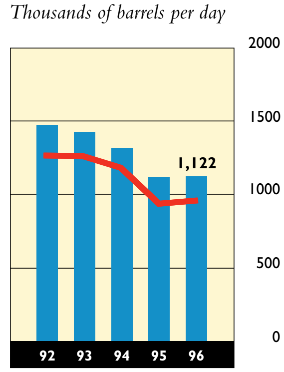
U.S. refining and marketing earnings, excluding special items, were nearly four times greater than 1995 levels, but were still down 11 percent from 1994 results. Although much improved from 1995, U.S. downstream results were depressed in 1996 by competitive conditions in many of the company's markets that did not allow the full recovery of higher crude oil costs and, in California, the increased manufacturing cost of the mandated cleaner-burning gasolines. Market conditions were especially difficult late in the year when crude oil prices rose to their highest level since the 1991 Persian Gulf War, and price competition was especially strong in the major Los Angeles market. Refinery performance was improved from 1995, and the introduction of the new California reformulated gasolines went smoothly with no supply disruptions. Extensive scheduled and unscheduled refinery maintenance in 1995, coupled with weak industry refining margins, resulted in significantly reduced operating earnings compared with 1994. In addition, the Richmond, California, refinery was shut down for an extended period in the 1995 fourth quarter for upgrades required to produce California-mandated cleaner-burning gasolines.

U.S. Refining and Marketing

Millions of dollars	**1996**	1995	1994
Earnings, Excluding Special Items	**$290**	$ 75	$ 325
Asset Write-Offs and Revaluations			
New Accounting Standard	**–**	–	–
Other	**(48)**	(112)	–
Asset Dispositions	**4**	–	–
Environmental Remediation Provisions	**(29)**	(62)	(249)
Restructurings and Reorganizations	**(1)**	(7)	(39)
LIFO Inventory Gains	**2**	2	3
Other	**(25)**	–	–
Total Special Items	**(97)**	(179)	(285)
Reported Earnings (Loss)	**$193**	$(104)	$ 40

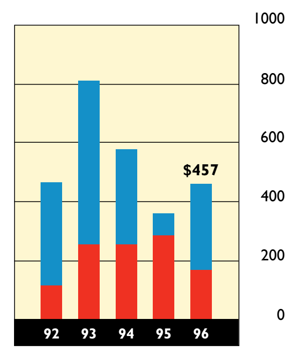
Average refined products prices were higher in 1996 compared with 1995 and 1994, primarily reflecting the increase in crude oil feedstock and manufacturing costs, but margins continued to be weak as industry refined products availability remained ample. Margins were even worse in 1995 when poor industry refining margins combined with higher maintenance expenses caused by extensive refinery downtime. The downtime also required more expensive third-party product purchases to supply the company's marketing system.

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



Branded gasoline sales increased 2 percent for the year.

Worldwide Refining & Marketing Earnings, Excluding Special Items
Millions of dollars



Although earnings increased 28 percent, sales margins remained weak, particularly in international areas.

Refined product sales volumes in 1996 and 1995 averaged 1.12 million barrels per day, down about 15 percent from 1994 levels, largely due to the sales of the company's Philadelphia Refinery in August 1994 and its Port Arthur, Texas, refinery in February 1995 in connection with a major restructuring of U.S. refining and marketing operations. The volume declines in 1996 and 1995 occurred primarily in unbranded bulk sales, whereas volumes sold through the company's marketing system increased 2 percent in 1996 from 1995 and 1994 levels.

International refining and marketing earnings include international marine operations and equity earnings of the company's Caltex Petroleum Corporation affiliate in addition to earnings from its consolidated refining and marketing subsidiaries. Excluding special items, 1996 earnings of $167 million decreased 41 percent from 1995 levels and 33 percent from 1994. The 1996 earnings decline from the two prior periods was due primarily to poor refining margins throughout Caltex's major operating areas in the Asia-Pacific region. The improved results for 1995, compared with 1994, reflected higher ocean freight rates and lower operating expenses in the company's shipping operations from 1994 levels. Results in all three years reflected weak industry conditions that held down product prices, resulting in shrinking sales margins in the company's major areas of operations, particularly in the United Kingdom.

International Refining and Marketing

Millions of dollars	**1996**	1995	1994
Earnings, Excluding Special Items	**$ 167**	$283	$249
Asset Write-Offs and Revaluations			
New Accounting Standard	**–**	–	–
Other	**(200)**	(1)	–
Asset Dispositions	**279**	–	–
Environmental Remediation Provisions	**(15)**	–	–
Restructurings and Reorganizations	**1**	(17)	–
LIFO Inventory Losses	**(6)**	–	(10)
Other	**–**	80	–
Total Special Items	**59**	62	(10)
Reported Earnings	**$ 226**	$345	$239

International refined products sales volumes decreased 3 percent in 1996 after increasing in each of the preceding six years. Caltex's sale of its interest in two Japanese refineries in early 1996 was the primary reason for the decline in sales volumes. Caltex refined products sales volumes, excluding transactions with Chevron, decreased 10 percent to 1.20 million barrels per day in 1996, compared with 1.33 million in 1995, and decreased 3 percent from 1.24 million barrels per day in 1994.

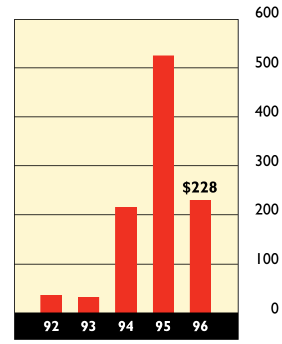
Equity earnings of Caltex were $408 million, $294 million and $210 million for 1996, 1995 and 1994, respectively. In 1996, Chevron's share of Caltex earnings included a $279 million benefit related to the sale of its interest in two Japanese refineries. Caltex earnings in 1995 included $13 million of favorable foreign tax benefits and an $86 million benefit from a gain related to a land sale by a Caltex affiliate in Japan. These gains were offset partially by other special items netting to $18 million related to Caltex restructurings and asset write-offs. Chevron's share of Caltex earnings benefited $2 million, $13 million and $15 million in 1996, 1995 and 1994, respectively, from upward adjustments to the carrying value of its petroleum inventories to reflect market values. Caltex foreign currency transactions resulted in losses of $24 million and $27 million in 1996 and 1994, respectively, and gains of $26 million in 1995.

Overall, international refining and marketing foreign currency transactions resulted in losses of $17 million and $19 million in 1996 and 1994, respectively, and gains of $19 million in 1995.

Chemicals earnings, excluding special items, were $228 million, down 56 percent from record 1995 results of $524 million, but up from $215 million earned in 1994. A cyclical downturn in the chemicals industry caused the 1996 earnings decline. Although sales volumes remained strong for most of the year, lower prices and higher feedstock and fuel costs resulted in lower margins for most of the company's major chemical products.

Chemicals Earnings, Excluding Special Items

Millions of dollars



A cyclical downturn in the industry reduced 1996 earnings 56 percent from record 1995 results.

Chemicals

Millions of dollars	**1996**	1995	1994
Earnings, Excluding Special Items	**$228**	$524	$215
Asset Write-Offs and Revaluations			
New Accounting Standard	**–**	(13)	–
Other	**(12)**	(14)	–
Asset Dispositions	**–**	9	–
Environmental Remediation Provisions	**–**	(20)	(4)
Restructurings and Reorganizations	**–**	(3)	(6)
LIFO Inventory Gains	**–**	1	1
Other	**(16)**	–	–
Total Special Items	**(28)**	(40)	(9)
Reported Earnings	**$200**	$484	$206

Coal and other minerals earnings, excluding special items, were about flat at $48 million, compared with $47 million in 1995, but down 24 percent from 1994 results. Coal earnings were depressed in 1996 and 1995 from an abundance of low-cost hydroelectric power in the western United States, resulting in low coal demand and low prices in both years compared with 1994. Sales, at about 16 million tons, were down 6 percent from 17 million tons in 1995 and down 20 percent from 20 million tons in 1994.

Coal and Other Minerals

Millions of dollars	**1996**	1995	1994
Earnings, Excluding Special Items	**$48**	$ 47	$ 63
Asset Write-Offs and Revaluations			
New Accounting Standard	**–**	(63)	–
Asset Dispositions	**–**	–	48
Restructurings and Reorganizations	**(2)**	(2)	–
Total Special Items	**(2)**	(65)	48
Reported Earnings (Loss)	**$46**	$(18)	$111

Corporate and other activities include interest expense, interest income on cash and marketable securities, real estate and insurance operations, and corporate center costs. Corporate and other net operating charges, excluding

Management's Discussion and Analysis of Financial Condition and Results of Operations – *Continued*

special items, were about flat with 1995 as foreign currency gains and lower interest expense offset higher insurance reserve adjustments and accruals for performance-based employee compensation costs. Corporate and other costs increased in 1995 from 1994 levels as higher interest rates and lower earnings from real estate operations more than offset lower corporate overhead expenses. Interest expense was lower in 1996 than 1995 and about level with 1994. The primary reason for the interest expense decline between 1996 and 1995 was the decrease in debt levels between the two years, while 1995 had higher debt levels and higher interest rates than 1994.

Corporate and Other

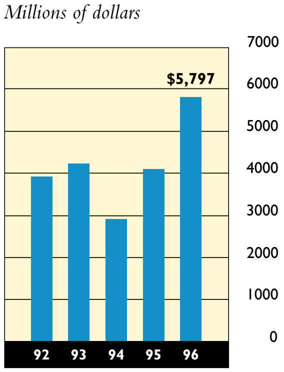
Millions of dollars	**1996**	1995	1994
Charges, Excluding Special Items	**$(333)**	$(330)	$(284)
Asset Write-Offs and Revaluations			
New Accounting Standard	**–**	(12)	–
Other	**(41)**	(170)	–
Prior-Year Tax Adjustments	**52**	–	324
Restructurings and Reorganizations	**(8)**	(11)	–
Other	**(26)**	(16)	–
Total Special Items	**(23)**	(209)	324
Reported (Loss) Earnings	**$(356)**	$(539)	$ 40

LIQUIDITY AND CAPITAL RESOURCES. Cash, cash equivalents and marketable securities totaled $1.637 billion at year-end 1996, an increase of $243 million from year-end 1995. Cash provided by operating activities in 1996 was $5.797 billion, compared with $4.075 billion in 1995 and $2.896 billion in 1994. The 1996 increase reflected higher operating earnings, higher cash dividends from affiliated companies and lower working capital requirements. Cash from operations was more than adequate to fund the company's capital expenditures and dividend payments to stockholders and, together with proceeds from asset sales, enabled the company to reduce its debt level.

The company's debt and capital lease obligations totaled $6.694 billion at December 31, 1996, down $1.633 billion from $8.327 billion at year-end 1995. Significant debt transactions included the repayment of approximately $1.179 billion of short-term obligations, mostly commercial paper, and the early repayment in June 1996 of $280 million of 9.375 percent coupon debt due June 1, 2016. Other miscellaneous transactions reduced long-term debt and capital leases about $150 million.

In 1996, Chevron formed a federally chartered credit card bank, which is primarily responsible for issuing credit to the company's retail customers in the form of branded credit cards. As part of its activities, the bank sells substantially all of its receivables on a daily basis to a trust. In late 1996, $524 million of credit card receivables were sold to the trust, and most of the proceeds were used to reduce commercial paper borrowings.

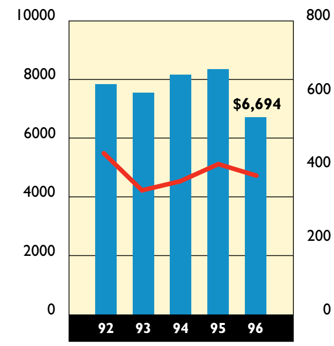
Cash Provided by Operating Activities
Millions of dollars



The increase in cash flow reflects higher operational earnings and lower working capital 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.

Total Interest Expense/ Total Debt at Year-End
Millions of dollars



A strong cash flow allowed the company to reduce debt $1.6 billion.

The company's future debt level is dependent primarily on its capital spending program and its business outlook. The company currently expects its debt level to increase during 1997 and believes it has substantial borrowing capacity to meet unanticipated cash requirements.

On December 31, 1996, Chevron had $4.425 billion in committed credit facilities with various major banks. 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 1996. 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.

At year-end 1996, the company classified $1.8 billion of short-term obligations as long-term debt. Settlement of these obligations, consisting of commercial paper, is not expected to require the use of working capital in 1997 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.

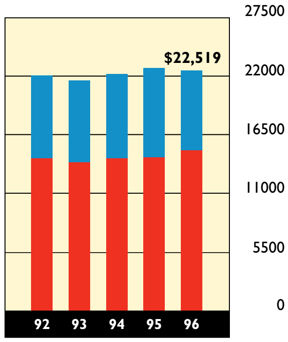
FINANCIAL RATIOS. The **current ratio** is the ratio of current assets to current liabilities at year-end. Two items negatively affect Chevron's current ratio, which in the company's opinion do not affect its liquidity. Included in current assets in all years are inventories valued on a LIFO basis, which at year-end 1996 were lower than current costs by $1.1 billion.

Financial Ratios

	1996	1995	1994
Current Ratio	**0.9**	0.8	0.8
Interest Coverage Ratio	**10.9**	4.1	7.6
Total Debt/Total Debt Plus Equity	**30.0%**	36.7%	35.8%

Capital Employed

Millions of dollars



■ Average Debt
■ Average Stockholders' Equity

Chevron's debt to debt-plus-equity ratio declined to 30 percent in 1996.

Also, the company's practice of continually refinancing its commercial paper, $3.6 billion classified as short-term at year-end 1996, results in a large portion of its short-term debt being outstanding indefinitely. 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 improved significantly in 1996 due to higher before-tax income and lower interest expense. The company's **debt ratio** (total debt to total debt plus equity) decreased in 1996, as total debt decreased and stockholders' equity increased year to year, due to significantly higher net income and cash flows.

CAPITAL AND EXPLORATORY EXPENDITURES. Worldwide capital and exploratory expenditures for 1996 totaled $4.840 billion, including the company's equity share of affiliates' expenditures. Expenditures for exploration and production accounted for 62 percent of total outlays in 1996, compared with 57 percent in 1995 and 1994. International exploration and production spending was 61 percent of worldwide exploration and production expenditures in 1996, down from 68 percent in 1995 and 71 percent in 1994, reflecting the company's efforts to stabilize U.S. production while continuing its focus on international exploration and production activities.

The company projects **1997 capital and exploratory expenditures** at a record $5.9 billion, including Chevron's share of spending by affiliates. This is up about 22 percent from 1996 spending levels. The 1997 program provides $3.6 billion for exploration and production investments, of which about 64 percent is for international projects. Several long-term development projects in the Gulf of Mexico designed to stabilize U.S. oil and gas production account for a major portion of the projected $1.3 billion to be spent in U.S. exploration and production.

Refining, marketing and transportation expenditures are estimated at about $1.4 billion, with $800 million of that planned for international projects. With the completion of the company's U.S. refinery upgrade projects to produce California-mandated gasolines, a majority of the $600 million in the 1997 U.S. downstream capital program will be spent for marketing projects. Most of the international downstream capital program will be focused on high-growth Asia-Pacific countries where the company's Caltex affiliate has a major program under way to upgrade its retail marketing system. The company plans to invest $700 million in the worldwide chemicals business, up about 40 percent from 1996 spending.

Capital and Exploratory Expenditures

	1996			1995			1994		
Millions of dollars	**U.S.**	**International**	**Total**	U.S.	International	Total	U.S.	International	Total
Exploration and Production	**$1,168**	**$1,854**	**$3,022**	$ 879	$1,835	$2,714	$ 807	$1,931	$2,738
Refining, Marketing and Transportation	**429**	**781**	**1,210**	892	839	1,731	885	890	1,775
Chemicals	**377**	**120**	**497**	172	32	204	109	29	138
Coal and Other Minerals	**31**	**10**	**41**	40	1	41	39	15	54
All Other	**70**	**–**	**70**	110	–	110	114	–	114
Total	**$2,075**	**$2,765**	**$4,840**	$2,093	$2,707	$4,800	$1,954	$2,865	$4,819
Total, Excluding Equity in Affiliates	**$2,037**	**$1,820**	**$3,857**	$2,080	$1,808	$3,888	$1,927	$2,046	$3,973

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 margins and marketing margins; chemicals prices and competitive conditions affecting supply and demand for the company's aromatics, olefins and additives products; 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 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	1996 4TH Q	1996 3RD Q	1996 2ND Q	1996 1ST Q	1995 4TH Q	1995 3RD Q	1995 2ND Q	1995 1ST Q
REVENUES								
Sales and other operating revenues	**$11,265**	**$10,846**	**$10,514**	**$10,157**	$8,922	$9,171	$9,397	$8,820
Equity in net income of affiliated companies and other income	**246**	**203**	**483**	**179**	235	143	170	224
TOTAL REVENUES	**11,511**	**11,049**	**10,997**	**10,336**	9,157	9,314	9,567	9,044
COSTS AND OTHER DEDUCTIONS								
Purchased crude oil and products, operating and other expenses	**8,288**	**7,654**	**7,516**	**7,207**	6,606	6,527	6,375	6,255
Depreciation, depletion and amortization[1]	**603**	**558**	**524**	**531**	1,679	560	566	576
Taxes other than on income	**1,550**	**1,493**	**1,452**	**1,413**	1,483	1,475	1,417	1,373
Interest and debt expense	**90**	**93**	**85**	**96**	94	93	104	110
TOTAL COSTS AND OTHER DEDUCTIONS	**10,531**	**9,798**	**9,577**	**9,247**	9,862	8,655	8,462	8,314
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	**980**	**1,251**	**1,420**	**1,089**	(705)	659	1,105	730
INCOME TAX EXPENSE	**516**	**596**	**548**	**473**	(287)	377	498	271
NET INCOME (LOSS)[2]	**$ 464**	**$ 655**	**$ 872**	**$ 616**	$ (418)	$ 282	$ 607	$ 459
NET INCOME (LOSS) PER SHARE	**$0.71**	**$1.00**	**$1.34**	**$0.94**	$(0.64)	$0.44	$0.93	$0.70
DIVIDENDS PAID PER SHARE	**$0.54**	**$0.54**	**$0.50**	**$0.50**	$ 0.50	$0.50	$0.4625	$0.4625
COMMON STOCK PRICE RANGE – HIGH	**$68⅜**	**$63⅜**	**$62⅛**	**$58⅞**	$53⅝	$50⅜	$49¾	$48½
– LOW	**$60¼**	**$55⅞**	**$54½**	**$51**	$46⅛	$46⅝	$44¼	$43⅜
[1] Fourth quarter 1995 includes $985 from the adoption of SFAS No. 121.								
[2] Special (charges) credits included in Net Income, including a $659 charge for the adoption of a new accounting standard, SFAS No. 121, in the fourth quarter of 1995.	***$(221)***	***$5***	***$172***	***$ –***	*$(869)*	*$(222)*	*$(4)*	*$63*

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 February 21, 1997, stockholders of record numbered approximately 129,200.
There are no restrictions on the company's ability to pay dividends. Chevron has made dividend payments to stockholders for 85 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 Price Waterhouse LLP, independent accountants, selected by the Audit Committee and approved by the stockholders. Management has made available to Price Waterhouse 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, 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.

K. T. Derr

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

M. R. Klitten

Martin R. Klitten
Vice President
and Chief Financial Officer

S. J. Crowe

Stephen J. Crowe
Comptroller

February 21, 1997

Consolidated Statement of Income

Millions of dollars, except per-share amounts	Year ended December 31 **1996**	 1995	 1994
REVENUES			
Sales and other operating revenues*	**$42,782**	$36,310	$35,130
Equity in net income of affiliated companies	**767**	553	440
Other income	**344**	219	284
TOTAL REVENUES	**43,893**	37,082	35,854
COSTS AND OTHER DEDUCTIONS			
Purchased crude oil and products	**22,826**	18,033	16,990
Operating expenses	**6,007**	5,974	6,383
Selling, general and administrative expenses	**1,377**	1,384	963
Exploration expenses	**455**	372	379
Depreciation, depletion and amortization	**2,216**	3,381	2,431
Taxes other than on income*	**5,908**	5,748	5,559
Interest and debt expense	**364**	401	346
TOTAL COSTS AND OTHER DEDUCTIONS	**39,153**	35,293	33,051
INCOME BEFORE INCOME TAX EXPENSE	**4,740**	1,789	2,803
INCOME TAX EXPENSE	**2,133**	859	1,110
NET INCOME	**$ 2,607**	$ 930	$ 1,693
NET INCOME PER SHARE OF COMMON STOCK	**$3.99**	$1.43	$2.60
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**652,769,250**	652,083,804	651,672,238
** Includes consumer excise taxes.*	***$5,202***	*$4,988*	*$4,790*

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, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Chevron Corporation and its subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, 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 audits 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.

As discussed in Note 3 to the consolidated financial statements, effective October 1, 1995, the company changed its method of accounting for the impairment of long-lived assets to comply with the provisions of Statement of Financial Accounting Standards No. 121.

Price Waterhouse LLP

San Francisco, California
February 21, 1997

Consolidated Balance Sheet

Millions of dollars	At December 31 1996	1995
ASSETS		
Cash and cash equivalents	**$ 892**	$ 621
Marketable securities	**745**	773
Accounts and notes receivable (less allowance: 1996 – $71; 1995 – $69)	**4,035**	4,014
Inventories:		
Crude oil and petroleum products	**669**	822
Chemicals	**507**	487
Materials, supplies and other	**255**	289
	1,431	1,598
Prepaid expenses and other current assets	**839**	861
TOTAL CURRENT ASSETS	**7,942**	7,867
Long-term receivables	**261**	149
Investments and advances	**4,463**	4,087
Properties, plant and equipment, at cost	**46,936**	48,031
Less: accumulated depreciation, depletion and amortization	**25,440**	26,335
	21,496	21,696
Deferred charges and other assets	**692**	531
TOTAL ASSETS	**$34,854**	$34,330
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt	**$ 2,706**	$ 3,806
Accounts payable	**3,502**	3,294
Accrued liabilities	**1,420**	1,257
Federal and other taxes on income	**745**	558
Other taxes payable	**534**	530
TOTAL CURRENT LIABILITIES	**8,907**	9,445
Long-term debt	**3,650**	4,133
Capital lease obligations	**338**	388
Deferred credits and other non-current obligations	**1,858**	1,992
Non-current deferred income taxes	**2,851**	2,433
Reserves for employee benefit plans	**1,627**	1,584
TOTAL LIABILITIES	**19,231**	19,975
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	**1,874**	1,863
Deferred compensation – Employee Stock Ownership Plan (ESOP)	**(800)**	(850)
Currency translation adjustment and other	**96**	174
Retained earnings	**15,408**	14,146
Treasury stock, at cost (1996 – 59,401,015 shares; 1995 – 60,160,057 shares)	**(2,024)**	(2,047)
TOTAL STOCKHOLDERS' EQUITY	**15,623**	14,355
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$34,854**	$34,330

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Millions of dollars	1996	1995	1994
	Year ended December 31		
OPERATING ACTIVITIES			
Net income	**$2,607**	$ 930	$1,693
Adjustments			
Depreciation, depletion and amortization	**2,216**	3,381	2,431
Dry hole expense related to prior years' expenditures	**55**	19	53
Distributions greater than (less than) equity in affiliates' income	**61**	(132)	(55)
Net before-tax losses (gains) on asset retirements and sales	**207**	164	(83)
Net foreign exchange (gains) losses	**(10)**	47	40
Deferred income tax provision	**359**	(258)	110
Net decrease (increase) in operating working capital[1]	**641**	40	(1,773)
Other	**(339)**	(116)	480
NET CASH PROVIDED BY OPERATING ACTIVITIES[2]	**5,797**	4,075	2,896
INVESTING ACTIVITIES			
Capital expenditures	**(3,424)**	(3,529)	(3,405)
Proceeds from asset sales	**778**	581	731
Net sales (purchases) of marketable securities[3]	**44**	144	(545)
NET CASH USED FOR INVESTING ACTIVITIES	**(2,602)**	(2,804)	(3,219)
FINANCING ACTIVITIES			
Net (repayments) borrowings of short-term obligations	**(1,179)**	(227)	466
Proceeds from issuance of long-term debt	**95**	536	436
Repayments of long-term debt and other financing obligations	**(476)**	(103)	(588)
Cash dividends paid	**(1,358)**	(1,255)	(1,206)
Purchases of treasury shares	**(4)**	(4)	(5)
NET CASH USED FOR FINANCING ACTIVITIES	**(2,922)**	(1,053)	(897)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(2)**	(10)	(11)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**271**	208	(1,231)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**621**	413	1,644
CASH AND CASH EQUIVALENTS AT YEAR-END	**$ 892**	$ 621	$ 413

See accompanying notes to consolidated financial statements.

[1] The "Net decrease (increase) in operating working capital" is composed of the following:			
Decrease (increase) in accounts and notes receivable	***$ 30***	*$ (62)*	*$ (44)*
Decrease (increase) in inventories	***60***	*(162)*	*(57)*
Decrease (increase) in prepaid expenses and other current assets	***15***	*(148)*	*4*
Increase (decrease) in accounts payable and accrued liabilities	***369***	*428*	*(1,510)*
Increase (decrease) in income and other taxes payable	***167***	*(16)*	*(166)*
Net decrease (increase) in operating working capital	***$ 641***	*$ 40*	*$(1,773)*
[2] "Net cash provided by operating activities" includes the following cash payments for interest and income taxes:			
Interest paid on debt (net of capitalized interest)	***$ 361***	*$ 373*	*$ 339*
Income taxes paid	***$ 1,595***	*$ 1,176*	*$ 1,147*
[3] "Net sales (purchases) of marketable securities" consists of the following gross amounts:			
Marketable securities purchased	***$ (3,443)***	*$(2,759)*	*$(1,943)*
Marketable securities sold	***3,487***	*2,903*	*1,398*
Net sales (purchases) of marketable securities	***$ 44***	*$ 144*	*$ (545)*

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Number of shares		Millions of dollars					
	COMMON STOCK ISSUED	COMMON STOCK IN TREASURY	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	DEFERRED COMPENSA-TION–ESOP	CURRENCY TRANSLATION ADJUSTMENT AND OTHER	RETAINED EARNINGS	TREASURY STOCK
BALANCE AT JANUARY 1, 1994	712,487,068	(61,008,858)	$1,069	$1,855	$ (920)	$108	$13,955	$(2,070)
Net income	–	–	–	–	–	–	1,693	–
Cash dividends – $1.85 per share	–	–	–	–	–	–	(1,206)	–
Tax benefit from dividends paid on unallocated ESOP shares	–	–	–	–	–	–	15	–
Market value adjustments on investments	–	–	–	–	–	11	–	–
Foreign currency translation adjustment	–	–	–	–	–	72	–	–
Pension plan minimum liability	–	–	–	–	–	(16)	–	–
ESOP expense accrual adjustment	–	–	–	–	(20)	–	–	–
Reduction of ESOP debt	–	–	–	–	40	–	–	–
Purchase of treasury shares	–	(108,964)	–	–	–	–	–	(5)
Reissuance of treasury shares	–	381,387	–	3	–	–	–	12
BALANCE AT DECEMBER 31, 1994	712,487,068	(60,736,435)	$1,069	$1,858	$ (900)	$175	$14,457	$(2,063)
Net income	–	–	–	–	–	–	930	–
Cash dividends – $1.925 per share	–	–	–	–	–	–	(1,255)	–
Tax benefit from dividends paid on unallocated ESOP shares	–	–	–	–	–	–	14	–
Market value adjustments on investments	–	–	–	–	–	23	–	–
Foreign currency translation adjustment	–	–	–	–	–	(28)	–	–
Pension plan minimum liability	–	–	–	–	–	4	–	–
Reduction of ESOP debt	–	–	–	–	50	–	–	–
Purchase of treasury shares	–	(83,028)	–	–	–	–	–	(4)
Reissuance of treasury shares	–	659,406	–	5	–	–	–	20
BALANCE AT DECEMBER 31, 1995	712,487,068	(60,160,057)	$1,069	$1,863	$ (850)	$ 174	$14,146	$(2,047)
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**2,607**	**–**
Cash dividends – $2.08 per share	**–**	**–**	**–**	**–**	**–**	**–**	**(1,358)**	**–**
Tax benefit from dividends paid on unallocated ESOP shares	**–**	**–**	**–**	**–**	**–**	**–**	**13**	**–**
Market value adjustments on investments	**–**	**–**	**–**	**–**	**–**	**(20)**	**–**	**–**
Foreign currency translation adjustment	**–**	**–**	**–**	**–**	**–**	**(54)**	**–**	**–**
Pension plan minimum liability	**–**	**–**	**–**	**–**	**–**	**(4)**	**–**	**–**
Reduction of ESOP debt	**–**	**–**	**–**	**–**	**50**	**–**	**–**	**–**
Purchase of treasury shares	**–**	**(69,278)**	**–**	**–**	**–**	**–**	**–**	**(4)**
Reissuance of treasury shares	**–**	**828,320**	**–**	**11**	**–**	**–**	**–**	**27**
BALANCE AT DECEMBER 31, 1996	**712,487,068**	**(59,401,015)**	**$1,069**	**$1,874**	**$(800)**	**$ 96**	**$15,408**	**$(2,024)**

See accompanying notes to consolidated financial statements.

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, chemical 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 and liabilities and the 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 to 50 percent, or for which the company exercises significant influence in 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. 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 (including carbon dioxide and certain other injected materials used in enhanced recovery projects), and 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.

Beginning in 1995, long-lived assets, including proved oil and gas properties, are assessed for possible impairment in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 121. Under this standard, the occurrence of certain events, such as a downward revision to proved oil and gas reserves, may trigger a review of affected assets for possible impairment. For proved oil and gas properties, the company would typically perform the review on an individual field basis. Impairment amounts are recorded as incremental depreciation expense in the period in which the specific event occurred.

Prior to the adoption of SFAS No. 121, proved oil and gas properties were regularly assessed for possible impairment on an aggregate worldwide portfolio basis, applying the informal "ceiling test" of the Securities and Exchange Commission.

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.

Notes to Consolidated Financial Statements

Millions of dollars, except per-share amounts

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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 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 in current dollars and 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 assured.

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 (APB) Opinion No. 25 and related interpretations in accounting for stock options and presents in Note 18 pro forma net income and earnings per share data as if the accounting prescribed by SFAS No. 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 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 (decrease) increase to net income, after related tax effects:

	Year ended December 31		
	1996	1995	1994
Asset write-offs and revaluations			
U.K. refining and marketing	**$(200)**	$ –	$ –
Asset impairments	**(68)**	–	–
Real estate development assets	**(29)**	(168)	–
New accounting standard (SFAS No. 121)	**–**	(659)	–
Adjustment of fixed assets records	**–**	(94)	–
Refining assets	**–**	(38)	–
Other	**(40)**	(4)	–
	(337)	(963)	–
Asset dispositions, net			
Caltex sale of two refineries	**279**	–	–
Oil and gas properties	**80**	6	–
NGC merger	**32**	–	–
Lead and zinc property in Ireland	**–**	–	48
Other	**–**	1	–
	391	7	48
Environmental remediation provisions	**(54)**	(90)	(304)
Prior-year tax adjustments	**52**	(22)	344
Restructurings and reorganizations			
Work-force reductions	**(14)**	(38)	–
Caltex	**–**	(12)	–
U.S. refining, marketing and chemicals	**–**	–	(45)
	(14)	(50)	(45)
LIFO inventory (losses) gains	**(4)**	2	(10)
Other, net			
Litigation and regulatory issues	**(90)**	(23)	(31)
Federal lease cost refund	**12**	27	–
Caltex gain related to land sale	**–**	86	–
Miscellaneous, net	**–**	(6)	20
	(78)	84	(11)
Total special items, after tax	**$ (44)**	$(1,032)	$ 22

In 1996, the company recorded a $200 million estimated impairment provision in connection with its decision to merge its United Kingdom refining and marketing operations with those of two other oil companies in 1997. This preliminary estimate is subject to final valuation of the assets. These operations were not material to Chevron's net income in 1996.

NOTE 2. SPECIAL ITEMS AND OTHER FINANCIAL INFORMATION – *Continued*

Other financial information is as follows:

	Year ended December 31		
	1996	1995	1994
Total financing interest and debt costs	**$472**	$543	$419
Less: capitalized interest	**108**	142	73
Interest and debt expense	**364**	401	346
Research and development expenses	**182**	185	179
Currency transaction losses*	**$ (26)**	$ (15)	$ (64)

**Includes $(28), $25 and $(24) in 1996, 1995 and 1994, respectively, for the company's share of affiliates' currency transaction effects.*

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 $1,122, $917 and $684 at December 31, 1996, 1995 and 1994, respectively.

NOTE 3. 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" Effective October 1, 1995, the company and its affiliates adopted SFAS No. 121 issued by the Financial Accounting Standards Board. The adoption of this standard required non-cash charges to 1995 net income amounting to $659, or $1.01 per share, after related income tax benefits of $358, and was mostly related to impairment writedowns of U.S. oil and gas producing properties.

NOTE 4. INFORMATION RELATING TO THE CONSOLIDATED STATEMENT OF CASH FLOWS The Consolidated Statement of Cash Flows excludes the following non-cash transactions:

During 1996, the company merged substantially all of its natural gas liquids and natural gas marketing businesses with NGC Corporation. The company received cash, a note and shares of NGC Corporation common stock and participating preferred stock in exchange for its contribution of net assets to NGC. Only the cash received is included in the Consolidated Statement of Cash Flows as "Proceeds from asset sales." An increase in "Investments and advances" from this merger is considered a non-cash transaction and primarily resulted from the contribution of properties, plant and equipment.

The company's Employee Stock Ownership Plan (ESOP) repaid $50, $50 and $40 of matured debt guaranteed by Chevron Corporation in 1996, 1995 and 1994, respectively. The company reflected this payment as reductions in "Short-term debt" and in "Deferred compensation – ESOP."

Capital lease arrangements of $282 and $65 in 1995 and 1994, respectively, were recorded as additions to "Properties, plant and equipment" and "Capital lease obligations."

There have been other non-cash transactions that have occurred during the years presented. These include the acquisition of long-term debt in exchange for the termination of a capital lease obligation; the reissuance of treasury shares for management compensation plans; and changes in assets, liabilities and stockholders' equity resulting from the accounting for the company's 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.

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		
	1996	1995	1994
Additions to properties, plant and equipment*	**$3,250**	$3,611	$3,112
Additions to investments	**195**	44	284
Payments for other (liabilities) and assets, net	**(21)**	(126)	9
Capital expenditures	**3,424**	3,529	3,405
Expensed exploration expenditures	**400**	354	326
Payments of long-term debt and other financing obligations	**33**	5	242
Capital and exploratory expenditures, excluding equity companies	**$3,857**	$3,888	$3,973

**Excludes non-cash capital lease additions of $282 and $65 in 1995 and 1994, respectively.*

NOTE 5. STOCKHOLDERS' EQUITY Retained earnings at December 31, 1996 and 1995, include $2,357 and $2,363, respectively, for the company's share of undistributed earnings of equity affiliates.

In 1988, the company declared a dividend distribution of one Right for each outstanding share of common 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. Each Right entitles its holder to purchase stock having a value equal to two times the exercise price of the Right. 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 opportunity.

The Rights will expire in November 1998, or they may be redeemed by the company at 5 cents per share 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. Twenty 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 1996 made the Rights exercisable.

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

Notes to Consolidated Financial Statements

Millions of dollars, except per-share amounts

NOTE 6. FINANCIAL AND DERIVATIVE INSTRUMENTS

– Continued

derivative instruments used consist mainly of crude oil and natural gas 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 and natural gas purchases and sales, generally forecast to occur within a 60- to 90-day period. Natural gas swaps are used primarily to hedge firmly committed sales, and the terms of the swap contracts held at year-end 1996 have an average remaining maturity of 59 months. Gains and losses on these derivative instruments offset and are recognized concurrently with gains and losses from the underlying commodities. In 1996, activity relating to hedging natural gas declined substantially following the merger of the company's U.S. natural gas liquids and natural gas marketing businesses with NGC Corporation.

In addition, the company in 1996 entered into a managed program utilizing natural gas options contracts to take advantage of perceived opportunities for favorable price movements in this commodity. The results of this program are reflected currently in income and were not material in 1996.

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, 1996, seven such contracts have remaining terms of between three months and nine 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, 1996 and 1995, the fair values of the financial and derivative instruments were as follows:

Long-term debt of $1,850 and $2,333 had estimated fair values of $1,915 and $2,492.

The notional principal amounts of the interest rate swaps totaled $1,199 and $1,223, with approximate fair values totaling $(1) and $(26). 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 $1,472 and $1,219. Of these balances, $727 and $446 classified as cash equivalents had average maturities under 90 days, while the remainder, classified as marketable securities, had average maturities of one year.

For other derivatives the contract or notional values for 1996 and 1995 were as follows: Crude oil and natural gas futures had contract values of $57 and $57, with fair values of $49 and $57. Forward exchange contracts had contract values of $231 and $102, approximating their fair values. Gas swap contracts, based on notional gas volumes of approximately 78 and 180 billion cubic feet, had negative fair values totaling $(8) and $(33). 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, 1996, 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). These operations were conducted by three divisions: Chevron U.S.A. Production Company, Chevron Products Company and, through August 31, 1996, Warren Petroleum Company. Beginning September 1, 1996, substantially all of Chevron U.S.A. Inc.'s natural gas liquids operations previously conducted by Warren Petroleum Company and natural gas marketing operations previously conducted by Chevron U.S.A. Production Company are carried out through its 28 percent equity ownership in NGC Corporation. Summarized financial information for Chevron U.S.A. Inc. and its consolidated subsidiaries is presented below:

	Year ended December 31		
	1996	1995*	1994
Sales and other operating revenues	**$29,726**	$24,392	$25,833
Total costs and other deductions	**28,331**	25,177	25,367
Net income (loss)	**1,042**	(384)	501

**1995 Net income includes $(490) for the company's adoption of SFAS No. 121.*

NOTE 7. SUMMARIZED FINANCIAL DATA – CHEVRON U.S.A. INC. – *Continued*

	At December 31	
	1996	1995
Current assets	**$ 3,126**	$ 3,426
Other assets	**13,209**	13,666
Current liabilities	**4,035**	5,800
Other liabilities	**5,300**	5,357
Net equity	**7,000**	5,935

NOTE 8. 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. 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.

OXY U.S.A. brought a lawsuit in its capacity as successor in interest to Cities Service Company, which involved claims for damages resulting from the allegedly improper termination of a tender offer to purchase Cities' stock in 1982 made by Gulf Oil Corporation, acquired by Chevron in 1984. A trial with respect to the claims ended in July 1996 with a judgment against the company of $742, including interest, which continues to accrue. The company has filed an appeal. While the ultimate outcome of this matter cannot be determined presently with certainty, the company believes that errors were committed by the trial court that should result in the judgment being reversed on appeal.

NOTE 9. 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 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 financial statements and other disclosures with respect to CTC are omitted as such separate financial statements and other disclosures are not material to investors in the debt securities deemed issued by CTC. There were no restrictions on CTC's ability to pay dividends or make loans or advances at December 31, 1996.

	Year ended December 31		
	1996	1995	1994
Sales and other operating revenues	**$512**	$462	$440
Total costs and other deductions	**564**	477	504
Net income (loss)	**11**	(23)	(58)

	At December 31	
	1996	1995
Current assets	**$ 99**	$ 37
Other assets	**1,622**	1,561
Current liabilities	**617**	459
Other liabilities	**385**	431
Net equity	**719**	708

NOTE 10. GEOGRAPHIC AND SEGMENT DATA The geographic and segment distributions of the company's identifiable assets, operating income, and sales and other operating revenues are summarized in the following tables:

	At December 31		
	1996	1995	1994
IDENTIFIABLE ASSETS			
United States			
Petroleum	**$14,226**	$14,521	$15,540
Chemicals	**2,475**	2,115	1,992
Coal and Other Minerals	**477**	503	592
Total United States	**17,178**	17,139	18,124
International			
Petroleum	**13,893**	13,392	12,493
Chemicals	**514**	409	411
Coal and Other Minerals	**34**	28	45
Total International	**14,441**	13,829	12,949
TOTAL IDENTIFIABLE ASSETS	**31,619**	30,968	31,073
Corporate and Other	**3,235**	3,362	3,334
TOTAL ASSETS	**$34,854**	$34,330	$34,407

Identifiable assets for the business segments include all assets associated with operations in the indicated geographic areas, including investments in affiliates. Corporate and Other identifiable assets consist primarily of cash and marketable securities, corporate real estate and information systems.

	Year ended December 31		
	1996	1995	1994
OPERATING INCOME			
United States			
Petroleum	**$1,922**	$ (64)	$ 831
Chemicals	**219**	689	241
Coal and Other Minerals	**58**	(42)	60
Total United States	**2,199**	583	1,132
International			
Petroleum	**3,099**	2,074	1,672
Chemicals	**80**	96	81
Coal and Other Minerals	**6**	3	79
Total International	**3,185**	2,173	1,832
TOTAL OPERATING INCOME	**5,384**	2,756	2,964
Corporate and Other	**(644)**	(967)	(161)
Income Tax Expense	**(2,133)**	(859)	(1,110)
NET INCOME	**$2,607**	$ 930	$1,693

Notes to Consolidated Financial Statements

Millions of dollars, except per-share amounts

NOTE 10. GEOGRAPHIC AND SEGMENT DATA – *Continued*

Operating income in 1995 included asset impairment writedowns of $998 in connection with the adoption of SFAS No. 121, as follows: U.S. Petroleum – $754; U.S. Chemicals – $20; U.S. Coal and Other Minerals – $97; International Petroleum – $127. Corporate and Other included a writedown of $19.

	Year ended December 31		
	1996	1995	1994
SALES AND OTHER OPERATING REVENUES			
United States			
Petroleum–Refined products	**$12,295**	$10,677	$11,690
–Crude oil	**4,836**	3,850	3,466
–Natural gas	**2,741**	1,604	1,755
–Natural gas liquids	**992**	1,130	1,072
–Other	**683**	717	637
–Excise taxes	**3,231**	2,999	2,977
–Intersegment	**587**	676	977
Total Petroleum	**25,365**	21,653	22,574
Chemicals–Products	**2,831**	3,157	2,528
–Intersegment	**105**	175	273
Total Chemicals	**2,936**	3,332	2,801
Coal and Other Minerals	**329**	350	415
Total United States	**28,630**	25,335	25,790
International			
Petroleum–Refined products	**3,490**	2,794	2,638
–Crude oil	**7,561**	5,526	4,783
–Natural gas	**558**	415	383
–Natural gas liquids	**175**	155	108
–Other	**501**	429	307
–Excise taxes	**1,959**	1,977	1,797
–Intersegment	**3**	–	(2)
Total Petroleum	**14,247**	11,296	10,014
Chemicals–Products	**591**	600	537
–Excise taxes	**12**	12	16
–Intersegment	**2**	9	8
Total Chemicals	**605**	621	561
Coal and Other Minerals	**11**	7	1
Total International	**14,863**	11,924	10,576
Intersegment sales elimination	**(697)**	(860)	(1,256)
Corporate and Other	**(14)**	(89)	20
TOTAL SALES AND OTHER OPERATING REVENUES	**$42,782**	$36,310	$35,130
Memo: Intergeographic Sales			
United States	**$ 695**	$ 565	$ 512
International	**1,319**	1,077	1,803

Sales and other operating revenues for the petroleum segments are derived from the production and sale of crude oil, natural gas and natural gas liquids, and from the refining and marketing of petroleum products. The company also obtains revenues from the transportation and trading of crude oil and refined products. Chemicals revenues result primarily from the sale of petrochemicals, plastic resins, and lube oil and fuel additives. Coal and other minerals revenues relate primarily to coal sales. The company's real estate and insurance operations and worldwide cash management and financing activities are in "Corporate and Other." In 1996, the company completed the sale of most of its real estate development assets.

Sales and other operating revenues in the preceding table include both sales to unaffiliated customers and sales from the transfer of products between segments. Sales from the transfer of products between segments and geographic areas are generally at estimated market prices. Transfers between geographic areas are presented as memo items below the table.

Equity in earnings of affiliated companies has been associated with the segments in which the affiliates operate. Sales to the Caltex Group and NGC Corporation are included in the "International Petroleum" and "United States Petroleum" segments, respectively. Information on the Caltex, Tengizchevroil and NGC affiliates is presented in Note 12. Other affiliates are either not material or not vertically integrated with a segment's operations.

NOTE 11. LEASE COMMITMENTS Certain non-cancelable 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	
	1996	1995
Petroleum		
Exploration and Production	**$ 6**	$ 46
Refining, Marketing and Transportation	**806**	833
	812	879
Less: accumulated amortization	**389**	403
Net capitalized leased assets	**$423**	$476

At December 31, 1996, the future minimum lease payments under operating and capital leases are as follows:

Year	At December 31 Operating Leases	Capital Leases
1997	$159	$ 81
1998	141	78
1999	143	73
2000	133	65
2001	131	59
Thereafter	234	813
Total	$941	1,169
Less: amounts representing interest and executory costs		(521)
Net present values		648
Less: capital lease obligations included in short-term debt		(310)
Long-term capital lease obligations		$ 338
Future sublease rental income	$ 16	$ –

Rental expenses incurred for operating leases during 1996, 1995 and 1994 were as follows:

	Year ended December 31		
	1996	1995	1994
Minimum rentals	**$438**	$403	$410
Contingent rentals	**6**	9	7
Total	**444**	412	417
Less: sublease rental income	**15**	14	14
Net rental expense	**$429**	$398	$403

NOTE 11. LEASE COMMITMENTS – *Continued*

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

	At December 31	
	1996	1995
Equity Method Affiliates		
Caltex Group		
Exploration and Production	**$ 449**	$ 446
Refining, Marketing and Transportation	**1,815**	2,032
Total Caltex Group	**2,264**	2,478
Tengizchevroil	**1,240**	1,153
NGC Corporation	**416**	–
Other affiliates	**364**	293
	4,284	3,924
Other, at or below cost	**179**	163
Total investments and advances	**$4,463**	$4,087

Chevron owns 50 percent each of P.T. Caltex Pacific Indonesia (CPI), an exploration and production company operating in Indonesia; Caltex Petroleum Corporation (CPC), 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 50 percent-owned joint venture formed in 1993 with the Republic of Kazakstan to develop the Tengiz and Korolev oil fields over a 40-year period.

In January 1997, Chevron reached an agreement in principle to sell a 5 percent interest in TCO to an affiliate of LUKoil, a Russian oil company, and Arco. The sale reduces Chevron's ownership to 45 percent.

The investment in TCO at December 31, 1996 and 1995, included a deferred payment portion of $428 and $461, respectively, $420 of which is payable to the Republic of Kazakstan 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 portion of the investment was recorded upon formation of the venture 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 NGC Corporation (NGC), 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 NGC common stock at December 31, 1996, was $902 based on quoted market prices.

Equity in earnings of companies accounted for by the equity method, together with dividends and similar distributions received from equity method companies for the years 1996, 1995 and 1994, are as follows:

	Year ended December 31					
	Equity in Earnings			Dividends		
	1996	1995	1994	**1996**	1995	1994
Caltex						
Exploration and Production	**$188**	$156	$140			
Refining, Marketing and Transportation	**408**	294	210			
Total Caltex Group	**596**	450	350	**$735**	$305	$239
Tengizchevroil	**110**	1	(10)	**–**	–	–
NGC Corporation	**19**	–	–	**1**	–	–
Other affiliates	**42**	102	100	**92**	116	146
Total	**$767**	$553	$440	**$828**	$421	$385

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 CPC's refining and marketing companies, the sale of natural gas to NGC, and the purchase of natural gas and natural gas liquids from NGC.

"Accounts and notes receivable" in the Consolidated Balance Sheet include $258 and $144 at December 31, 1996 and 1995, respectively, of amounts due from affiliated companies. "Accounts payable" include $39 and $37 at December 31, 1996 and 1995, respectively, of amounts due to affiliated companies.

	Year ended December 31		
	1996	1995	1994
Sales to Caltex Group	**$1,708**	$1,330	$1,166
Sales to NGC	**676**	–	–
Sales to other affiliates	**18**	10	7
Total sales to affiliates	**$2,402**	$1,340	$1,173
Purchases from Caltex Group	**$1,022**	$ 934	$ 800
Purchases from NGC	**269**	–	–
Purchases from other affiliates	**41**	40	52
Total purchases from affiliates	**$1,332**	$ 974	$ 852

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. The increases in the combined financial information amounts for other affiliates in 1996 are due to the inclusion of NGC.

Notes to Consolidated Financial Statements

Millions of dollars, except per-share amounts

NOTE 12. INVESTMENTS AND ADVANCES – *Continued*

	Caltex Group			Other Affiliates			Chevron's Share		
Year ended December 31	**1996**	1995	1994	**1996**	1995	1994	**1996**	1995	1994
Sales and other operating revenues	**$16,895**	$15,067	$14,751	**$6,356**	$2,594	$2,237	**$10,218**	$8,549	$8,176
Total costs and other deductions	**15,991**	14,256*	14,037*	**5,829**	2,194	1,815	**9,573**	7,804*	7,589*
Net income	**1,193**	899	689	**404**	315	357	**767**	553	440

	Caltex Group			Other Affiliates			Chevron's Share		
At December 31	**1996**	1995	1994	**1996**	1995	1994	**1996**	1995	1994
Current assets	**$ 2,565**	$ 2,323	$ 2,421	**$3,286**	$ 877	$ 913	**$ 2,226**	$1,527	$1,446
Other assets	**6,830**	7,794	7,389	**6,088**	3,888	4,216	**5,582**	5,414	5,396
Current liabilities	**2,999**	3,223	3,072	**2,064**	413	543	**2,076**	1,863	1,617
Other liabilities	**2,140**	1,935	2,005	**5,034**	3,341	3,225	**1,448**	1,154	1,364
Net equity	**4,256**	4,959	4,733	**2,276**	1,011	1,361	**4,284**	3,924	3,861

**Reclassified to conform with the 1996 presentation.*

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		
	1996	1995	1994	**1996**	1995	1994	**1996**	1995	1994	**1996**	1995	1994
United States												
Petroleum												
Exploration and Production	**$17,742**	$18,209	$17,980	**$ 4,849**	$ 5,010	$ 5,900	**$ 974**	$ 776	$ 675	**$ 785**	$1,577	$ 983
Refining and Marketing[2]	**11,186**	11,136	11,442	**6,295**	6,520	6,524	**415**	887	899	**472**	564	460
Chemicals	**2,587**	2,075	1,915	**1,552**	1,233	1,150	**376**	168	89	**138**	162	131
Coal and Other Minerals	**819**	857	869	**345**	359	461	**17**	33	30	**36**	135	54
Total United States	**32,334**	32,277	32,206	**13,041**	13,122	14,035	**1,782**	1,864	1,693	**1,431**	2,438	1,628
International												
Petroleum												
Exploration and Production	**10,484**	10,951	9,661	**5,998**	5,463	4,800	**1,221**	1,421	1,051	**581**	712	578
Refining and Marketing[2]	**2,259**	2,459	2,482	**1,387**	1,674	1,743	**70**	335	218	**115**	116	114
Chemicals	**393**	354	330	**163**	146	143	**37**	26	25	**24**	24	27
Coal and Other Minerals	**32**	22	21	**28**	19	19	**10**	–	12	**1**	1	–
Total International	**13,168**	13,786	12,494	**7,576**	7,302	6,705	**1,338**	1,782	1,306	**721**	853	719
Corporate and Other[3]	**1,434**	1,968	2,110	**879**	1,272	1,433	**76**	203	125	**64**	90	84
Total	**$46,936**	$48,031	$46,810	**$21,496**	$21,696	$22,173	**$3,196**	$3,849	$3,124	**$2,216**	$3,381	$2,431

[1] *Net of dry hole expense related to prior years' expenditures of $55, $19 and $53 in 1996, 1995 and 1994, respectively.*
[2] *Includes transportation.*
[3] *Includes primarily real estate and management information systems.*

Expenses for maintenance and repairs were $626, $833 and $928 in 1996, 1995 and 1994, respectively.

NOTE 14. TAXES

	Year ended December 31		
	1996	1995	1994
Taxes other than on income			
United States			
Excise taxes on products and merchandise	**$3,231**	$2,999	$2,978
Property and other miscellaneous taxes	**274**	341	395
Payroll taxes	**123**	127	112
Taxes on production	**121**	105	102
Total United States	**3,749**	3,572	3,587
International			
Excise taxes on products and merchandise	**1,971**	1,989	1,812
Property and other miscellaneous taxes	**157**	146	127
Payroll taxes	**26**	30	19
Taxes on production	**5**	11	14
Total International	**2,159**	2,176	1,972
Total taxes other than on income	**$5,908**	$5,748	$5,559

	Year ended December 31		
	1996	1995	1994
Taxes on income			
U.S. federal			
Current	**$ 360**	$ 152	$ 175
Deferred	**165**	(289)	43
State and local	**59**	29	10
Total United States	**584**	(108)	228
International			
Current	**1,356**	937	815
Deferred	**193**	14	67
Deferred – Adjustment for enacted changes in tax laws/rates	**–**	16	–
Total International	**1,549**	967	882
Total taxes on income	**$2,133**	$ 859	$1,110

U.S. federal income tax expense was reduced by $77, $68 and $60 in 1996, 1995 and 1994, respectively, for low-income housing and other business tax credits.

NOTE 14. TAXES – *Continued*

In 1996, before-tax income (loss), including related corporate and other charges, for U.S. operations was $1,631 compared with $(331) in 1995 and $1,194 in 1994, and for international operations was $3,109, $2,120 and $1,609 in 1996, 1995 and 1994, respectively.

The deferred income tax provisions included (costs) benefits of $(204), $75 and $(475) related to properties, plant and equipment in 1996, 1995 and 1994, respectively. Benefits were recorded in 1995 of $358 related to the impairment of long-lived assets and $91 related to the provision for the expected loss from exiting the real estate development business.

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		
	1996	1995	1994
Statutory U.S. federal income tax rate	**35.0%**	35.0%	35.0%
Effect of income taxes on international operations in excess of taxes at the U.S. statutory rate	**16.8**	26.2	18.5
State and local taxes on income, net of U.S. federal income tax benefit	**0.9**	0.9	0.2
Prior-year tax adjustments	**(0.2)**	0.3	(4.4)
Tax credits	**(1.6)**	(3.8)	(2.1)
All other	**(3.6)**	(3.1)	(3.2)
Consolidated companies	**47.3**	55.5	44.0
Effect of recording equity in income of certain affiliated companies on an after-tax basis	**(2.3)**	(7.5)	(4.4)
Effective tax rate	**45.0%**	48.0%	39.6%

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

At December 31, 1996 and 1995, deferred taxes were classified in the Consolidated Balance Sheet as follows:

	At December 31	
	1996	1995
Prepaid expenses and other current assets	**$ (136)**	$ (139)
Deferred charges and other assets	**(163)**	(138)
Federal and other taxes on income	**3**	11
Non-current deferred income taxes	**2,851**	2,433
Total deferred income taxes, net	**$2,555**	$2,167

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

	At December 31	
	1996	1995
Properties, plant and equipment	**$4,534**	$4,442
Inventory	**193**	182
Miscellaneous	**195**	277
Deferred tax liabilities	**4,922**	4,901
Abandonment/environmental reserves	**(1,052)**	(1,169)
Employee benefits	**(561)**	(567)
AMT/other tax credits	**(586)**	(816)
Other accrued liabilities	**(332)**	(240)
Miscellaneous	**(523)**	(649)
Deferred tax assets	**(3,054)**	(3,441)
Deferred tax assets valuation allowance	**687**	707
Total deferred taxes, net	**$2,555**	$2,167

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 $4,420 at December 31, 1996. 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 $197 would be payable upon remittance of these earnings.

NOTE 15. SHORT-TERM DEBT

	At December 31	
	1996	1995
Commercial paper[1]	**$3,583**	$4,808
Current maturities of long-term debt	**269**	143
Current maturities of long-term capital leases	**36**	42
Redeemable long-term obligations		
Long-term debt	**315**	315
Capital leases	**274**	273
Notes payable	**29**	25
Subtotal[2]	**4,506**	5,606
Reclassified to long-term debt	**(1,800)**	(1,800)
Total short-term debt	**$2,706**	$3,806

[1] *Weighted average interest rates at December 31, 1996 and 1995, were 5.9% and 6.0%, respectively, including the effect of interest rate swaps.*
[2] *Weighted average interest rates at December 31, 1996 and 1995, were 5.6% and 5.9%, respectively, including the effect of interest rate swaps.*

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, 1996 and 1995, the company agreed to swap notional amounts of $1,050 of floating rate debt to fixed rates. In addition, at

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Millions of dollars, except per-share amounts

NOTE 15. SHORT-TERM DEBT – *Continued*

December 31, 1996, the company had swapped $149 of debt, classified as "Current maturities of long-term debt," from a fixed rate to a floating rate. The effect of these swaps on the company's interest expense was not material.

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 1996, the company had $4,425 of committed credit facilities with banks worldwide, $1,800 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 nor at year-end.

At both December 31, 1996 and 1995, the company classified $1,800 of short-term debt as long-term. Settlement of these obligations is not expected to require the use of working capital in 1997, as the company has both the intent and ability to refinance this debt on a long-term basis.

	At December 31	
	1996	1995
8.11% amortizing notes due 2004[1]	**$ 750**	$ 750
7.45% notes due 2004	**349**	348
9.375% sinking-fund debentures due 2016[2]	**–**	278
7.61% amortizing bank loans due 2003	**225**	160
5.6% notes due 1998	**190**	190
9.75% sinking-fund debentures due 2017	**180**	180
4.625% 200 million Swiss franc issue due 1997[3]	**149**	173
6.92% notes due 2005	**51**	51
7.28% notes due 1997[1]	**50**	50
6.92% notes due 1996[1]	**–**	50
Other foreign currency obligations (4.1%)[4]	**88**	80
Other long-term debt (7.3%)[4]	**87**	166
Total including debt due within one year	**2,119**	2,476
Debt due within one year	**(269)**	(143)
Reclassified from short-term debt	**1,800**	1,800
Total long-term debt	**$3,650**	$4,133

[1]*Guarantee of ESOP debt.*
[2]*Redeemed in 1996.*
[3]*An interest rate swap effectively changed the fixed interest rate to a floating rate, which was 2.24% at year-end 1996 and 1995.*
[4]*Less than $50 individually; weighted average interest rates at December 31, 1996.*

Consolidated long-term debt maturing in each of the five years after December 31, 1996, is as follows: 1997–$269, 1998–$303, 1999–$122, 2000–$123 and 2001–$136.

NOTE 17. EMPLOYEE BENEFIT PLANS

Pension Plans The company has defined benefit pension plans for most employees. The principal plans provide for automatic membership on a non-contributory basis. The retirement benefits provided by these plans are based primarily on years of service and on average career earnings or the highest consecutive three years' average earnings. The company's policy is to fund at least the minimum necessary to satisfy requirements of the Employee Retirement Income Security Act.

The net pension expense (credit) for all of the company's pension plans for the years 1996, 1995 and 1994 consisted of:

	1996	1995	1994
Cost of benefits earned during the year	**$104**	$ 99	$ 97
Interest cost on projected benefit obligations	**271**	273	263
Actual return on plan assets	**(503)**	(728)	(62)
Net amortization and deferral	**129**	342	(294)
Net pension expense (credit)	**$ 1**	$ (14)	$ 4

Settlement gains in 1996, 1995 and 1994, related to lump-sum payments, totaled $28, $7 and $17, respectively.

At December 31, 1996 and 1995, the weighted average discount rates, the long-term rates for compensation increases used for estimating the benefit obligations, and the expected rates of return on plan assets were as follows:

	1996	1995
Assumed discount rates	**7.7%**	7.4%
Assumed rates for compensation increases	**5.2%**	5.1%
Expected return on plan assets	**9.1%**	9.1%

The pension plans' assets consist primarily of common stocks, bonds, cash equivalents and interests in real estate investment funds. The funded status for the company's combined plans at December 31, 1996 and 1995, was as follows:

	Plans with Assets in Excess of Accumulated Benefits		Plans with Accumulated Benefits in Excess of Plan Assets	
At December 31	**1996**	1995	**1996**	1995
Actuarial present value of:				
Vested benefit obligations	**$(2,932)**	$(2,961)	**$(231)**	$(218)
Accumulated benefit obligations	**$(3,072)**	$(3,085)	**$(237)**	$(230)
Projected benefit obligations	**$(3,515)**	$(3,557)	**$(270)**	$(259)
Plan assets at fair values	**4,156**	4,020	**7**	13
Plan assets greater (less) than projected benefit obligations	**641**	463	**(263)**	(246)
Unrecognized net transition (assets) liabilities	**(169)**	(240)	**13**	15
Unrecognized net (gains) losses	**(176)**	(29)	**68**	65
Unrecognized prior-service costs	**79**	94	**6**	9
Minimum liability adjustment	**–**	–	**(67)**	(75)
Net pension cost prepaid (accrued)	**$ 375**	$ 288	**$(243)**	$(232)

The net transition assets and liabilities generally are being amortized by the straight-line method over 15 years.

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 and the Savings Plus Plan, which was merged with the Profit Sharing/Savings Plan at the end

NOTE 17. EMPLOYEE BENEFIT PLANS – *Continued*

of 1995, after shareholders' approval, were $92, $99 and $75 in 1996, 1995 and 1994, respectively.

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 eight years.

As allowed by AICPA Statement of Position (SOP) 93-6, the company has elected to continue its practices, which are based on SOP 76-3 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 $61, $67 and $42 in 1996, 1995 and 1994, respectively, including $65, $68 and $71 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 $53, $50 and $50 in 1996, 1995 and 1994, respectively.

The company made contributions to the ESOP of $62, $69 and $63 in 1996, 1995 and 1994, 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. Compensation expense was $(4), $(1) and $(10) in 1996, 1995 and 1994, respectively. The ESOP shares as of December 31, 1996, were as follows:

Thousands	**1996**	1995
Allocated shares	**7,805**	7,223
Unallocated shares	**17,682**	19,490
Total ESOP shares	**25,487**	26,713

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 non-stock grants. Charges to expense for the combined management incentive plans, excluding expense related to LTIP stock options, which is discussed in Note 18, "Stock Options," were $36, $45 and $31 in 1996, 1995 and 1994, respectively.

Chevron Success Sharing In January 1995, the company established a program that provides eligible employees with an annual cash bonus if the company achieves certain financial and safety goals. The total payout opportunity under the program is 8 percent of the employee's salary. In 1996, the payout ranged from 3.9 to 6.0 percent of employees' salaries. There was no payout under the program in 1995.

Other Benefit Plans In addition to providing pension benefits, the company makes contributions toward certain health care and life insurance plans for active and qualifying retired employees. Substantially all employees in the United States and in certain international locations may become eligible for coverage under these benefit plans. The company's annual contributions for medical and dental benefits are limited to the lesser of actual medical and dental 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-pension postretirement benefits are not pre-funded by the company, but are paid when incurred. The accumulated postretirement benefit obligation (APBO) and unrecognized gains and losses for these plans are recorded in the Consolidated Balance Sheet as follows:

	At December 31, 1996			At December 31, 1995		
	Health	Life	Total	Health	Life	Total
APBO						
Retirees	**$ (456)**	**$(327)**	**$ (783)**	$ (467)	$(328)	$ (795)
Fully eligible active participants	**(142)**	**(75)**	**(217)**	(144)	(81)	(225)
Other active participants	**(192)**	**(44)**	**(236)**	(211)	(51)	(262)
Total APBO	**(790)**	**(446)**	**(1,236)**	(822)	(460)	(1,282)
Fair value of plan assets	**–**	**–**	**–**	–	–	–
APBO (greater) than plan assets	**(790)**	**(446)**	**(1,236)**	(822)	(460)	(1,282)
Unrecognized net (gain) loss	**(226)**	**(4)**	**(230)**	(179)	25	(154)
Accrued postretirement benefit costs	**$(1,016)**	**$(450)**	**$(1,466)**	$(1,001)	$(435)	$(1,436)

Notes to Consolidated Financial Statements

Millions of dollars, except per-share amounts

NOTE 17. EMPLOYEE BENEFIT PLANS – *Continued*

The company's net postretirement benefits expense was as follows:

	1996			1995			1994		
	Health	Life	Total	Health	Life	Total	Health	Life	Total
Cost of benefits earned during the year	**$16**	**$ 3**	**$ 19**	$15	$ 3	$ 18	$23	$ 4	$ 27
Interest cost on benefit obligation	**58**	**33**	**91**	67	30	97	71	31	102
Net amortization of gain	**(8)**	**–**	**(8)**	(9)	(2)	(11)	–	–	–
Net expense for postretirement benefits	**$66**	**$36**	**$102**	$73	$31	$104	$94	$35	$129

For measurement purposes, separate health care cost-trend rates were utilized for pre-age 65 and post-age 65 retirees. The 1997 annual rates of change were assumed to be (1.0) percent and 3.7 percent, respectively, increasing to 6.2 percent and 5.2 percent in 1998 and gradually decreasing thereafter to the average ultimate rates of 5.5 percent in 2007 for pre-age 65 and 4.5 percent in 2007 for post-age 65. An increase in the assumed health care cost-trend rates of 1 percent in each year would increase the aggregate of service and interest costs for the year 1996 by $19 and would increase the December 31, 1996, APBO by $103.

At December 31, 1996, the weighted average discount rate was 7.5 percent, and the assumed rate of compensation increase related to the measurement of the life insurance benefit was 5.0 percent.

NOTE 18. 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 Plan 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, "Accounting for Stock-Based Compensation," the company's net income and earnings per share for 1996 and 1995 would have been the pro forma amounts indicated below:

		1996	1995
Net Income	As reported	**$2,607**	$930
	Pro forma	**$2,610**	$925
Earnings per share	As reported	**$3.99**	$1.43
	Pro forma	**$4.00**	$1.42

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 1996, 1995 and 1994 is presented below:

	Options (000s)	Weighted-Average Exercise Price
Outstanding at December 31, 1993	4,300	$37.67
Granted	1,770	42.38
Exercised	(140)	35.02
Forfeited	(88)	42.56
Outstanding at December 31,1994	5,842	$39.08
Granted	1,823	48.15
Exercised	(498)	37.09
Forfeited	(83)	47.77
Outstanding at December 31, 1995	7,084	$41.46
Granted	943	66.08
Exercised	(698)	38.91
Forfeited	(66)	49.38
Outstanding at December 31, 1996	7,263	$44.82
Exercisable at December 31		
1994	4,149	$37.74
1995	5,336	$39.26
1996	6,326	$41.68

The weighted-average fair market value of options granted in 1996 and 1995 was $14.18 and $9.06, respectively. The fair market value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for 1996 and 1995, respectively: risk-free interest rate of 6.4 and 6.0 percent; dividend yield of 3.3 and 3.9 percent; volatility of 16.1 and 17.3 percent and expected life of 7 years in both years.

As of December 31, 1996, 7,262,857 shares were under option at exercise prices ranging from $31.9375 to $66.25 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, 1996:

NOTE 18. STOCK OPTIONS – *Continued*

Range of Exercise Prices	Options Outstanding: Number Outstanding (000s)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Options Exercisable: Number Exercisable (000s)	Weighted-Average Exercise Price
$31 to $36	2,003	4.70	$34.69	2,003	$34.69
36 to 41	25	4.94	37.22	25	37.22
41 to 46	2,688	7.07	43.03	2,688	43.03
46 to 51	1,610	8.55	48.18	1,610	48.18
51 to 56	1	9.08	51.88	–	–
56 to 61	17	9.40	57.96	–	–
61 to 67	919	9.83	66.25	–	–
$31 to $67	7,263	7.09	$44.82	6,326	$41.68

Broad-Based Employee Stock Options In 1996, the company granted to all eligible employees an option for 150 shares of stock or equivalents that become vested if, by December 31, 1998, the price of Chevron stock closes at $75.00 per share for three consecutive business days or the company has the highest annual total stockholder return of its competitor group for the years 1994 through 1998. Employees receiving stock options may exercise their options by cash purchase of stock or a broker-coordinated stock sale. Under this latter form of exercise, employees may, at their discretion, exercise their options on the first date after the options become vested. The options expire on March 31, 1999, whether exercised or not. In addition, a portion of the awards granted under the LTIP had terms similar to the broad-based employee stock options. Options for 7,211,600 shares, including similar-termed LTIP awards, were granted during the year at an exercise price of $51.875 per share. Forfeitures of options for 302,500 shares reduced the outstanding option shares to 6,909,100 by year-end, at which date none were exercisable. Under APB Opinion No. 25, the company recorded expense of $29 for these options in 1996.

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 3 years and a volatility of 20.9 percent.

NOTE 19. OTHER CONTINGENT LIABILITIES AND COMMITMENTS The U.S. federal income tax and California franchise tax liabilities of the company have been settled through 1982 and 1991, respectively. For federal income tax purposes, all issues other than the creditability of taxes paid to the government of Indonesia have been resolved through 1987. While the amounts under dispute with the Internal Revenue Service are significant, settlement of open tax matters is not expected to have a material effect on the consolidated net assets or liquidity of the company, and in the opinion of management, adequate provision has been made for income and franchise taxes for all years either under examination or subject to future examination.

At December 31, 1996, the company and its subsidiaries, as direct or indirect guarantors, had contingent liabilities of $64 for notes of affiliated companies and $68 for notes of others.

The company and its subsidiaries have certain contingent liabilities with respect 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 amount of required payments under these various commitments are: 1997–$174; 1998–$191; 1999–$203; 2000–$153; 2001–$145; 2002 and after–$889. Total payments under the agreements were $177 in 1996, $173 in 1995 and $154 in 1994.

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 has had or will have any significant impact on the company's competitive position relative to other domestic or international petroleum or chemical concerns.

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 related operations and 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, Congo, Angola, Nigeria, Zaire, Papua New Guinea, China and Indonesia. 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 Kazakstan.

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 Zaire. The "Other" geographic category includes activities in Australia, the United Kingdom North Sea, Canada, Papua New Guinea, China and other countries. Amounts shown for affiliated companies are Chevron's 50 percent equity share in each of P.T. Caltex Pacific Indonesia (CPI), an exploration and production company operating in Indonesia, and Tengizchevroil (TCO), an exploration and production partnership operating in the Republic of Kazakstan.

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 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**
YEAR ENDED DECEMBER 1995							
Exploration							
Wells	$ 256	$ 63	$ 141	$ 460	$ 1	$ –	$ 461
Geological and geophysical	9	29	37	75	9	–	84
Rentals and other	47	11	64	122	–	–	122
Total exploration	312	103	242	657	10	–	667
Property acquisitions[2]							
Proved[3]	21	56	–	77	–	–	77
Unproved	31	8	12	51	–	–	51
Total property acquisitions	52	64	12	128	–	–	128
Development	453	640	568	1,661	97	7	1,765
TOTAL COSTS INCURRED	$ 817	$ 807	$ 822	$ 2,446	$ 107	$ 7	$ 2,560
YEAR ENDED DECEMBER 1994							
Exploration							
Wells	$ 163	$ 48	$ 118	$ 329	$ –	$ –	$ 329
Geological and geophysical	5	29	38	72	9	–	81
Rentals and other	41	4	71	116	–	–	116
Total exploration	209	81	227	517	9	–	526
Property acquisitions[2]							
Proved[3]	95	145	4	244	–	–	244
Unproved	28	19	21	68	–	–	68
Total property acquisitions	123	164	25	312	–	–	312
Development	416	276	503	1,195	140	173	1,508
TOTAL COSTS INCURRED	$ 748	$ 521	$ 755	$ 2,024	$ 149	$173	$ 2,346

[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 represent 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, 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**
AT DECEMBER 31, 1995							
Unproved properties	$ 329	$ 57	$ 190	$ 576	$ –	$ 420	$ 996
Proved properties and related producing assets	16,261	1,959	5,334	23,554	900	408	24,862
Support equipment	686	138	295	1,119	494	207	1,820
Deferred exploratory wells	148	40	62	250	–	–	250
Other uncompleted projects	368	1,010	1,176	2,554	320	112	2,986
Gross capitalized costs	17,792	3,204	7,057	28,053	1,714	1,147	30,914
Unproved properties valuation	213	30	95	338	–	–	338
Proved producing properties –							
Depreciation and depletion	11,282	1,071	3,119	15,472	492	18	15,982
Future abandonment and restoration	1,062	247	291	1,600	24	2	1,626
Support equipment depreciation	384	64	179	627	277	30	934
Accumulated provisions	12,941	1,412	3,684	18,037	793	50	18,880
NET CAPITALIZED COSTS	$ 4,851	$ 1,792	$ 3,373	$ 10,016	$ 921	$ 1,097	$ 12,034
AT DECEMBER 31, 1994							
Unproved properties	$ 354	$ 50	$ 213	$ 617	$ –	$ 420	$ 1,037
Proved properties and related producing assets	15,996	1,822	4,946	22,764	804	330	23,898
Support equipment	755	133	302	1,190	456	180	1,826
Deferred exploratory wells	145	44	68	257	–	–	257
Other uncompleted projects	308	403	1,000	1,711	353	210	2,274
Gross capitalized costs	17,558	2,452	6,529	26,539	1,613	1,140	29,292
Unproved properties valuation	230	23	109	362	–	–	362
Proved producing properties –							
Depreciation and depletion	10,296	924	2,713	13,933	435	8	14,376
Future abandonment and restoration	1,005	221	294	1,520	14	1	1,535
Support equipment depreciation	359	60	157	576	250	16	842
Accumulated provisions	11,890	1,228	3,273	16,391	699	25	17,115
NET CAPITALIZED COSTS	$ 5,668	$ 1,224	$ 3,256	$ 10,148	$ 914	$ 1,115	$ 12,177

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 1996, 1995 and 1994 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 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, 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)**	**(213)**	**(97)**	**(2,146)**
Proved producing properties depreciation, depletion and abandonment provision	**(678)**	**(194)**	**(296)**	**(1,168)**	**(80)**	**(34)**	**(1,282)**
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**
YEAR ENDED DECEMBER 31, 1995							
Revenues from net production							
Sales	$ 1,189	$ 748	$ 783	$ 2,720	$ 35	$ 125	$ 2,880
Transfers	1,689	824	662	3,175	583	–	3,758
Total	2,878	1,572	1,445	5,895	618	125	6,638
Production expenses	(1,196)	(190)	(400)	(1,786)	(195)	(94)	(2,075)
Proved producing properties depreciation, depletion and abandonment provision	(752)	(174)	(316)	(1,242)	(69)	(26)	(1,337)
Exploration expenses	(102)	(57)	(213)	(372)	(9)	–	(381)
Unproved properties valuation	(18)	(7)	(11)	(36)	–	–	(36)
New accounting standard for impaired assets	(753)	–	(128)	(881)	–	–	(881)
Other income (expense)[2]	130	(52)	37	115	(13)	–	102
Results before income taxes	187	1,092	414	1,693	332	5	2,030
Income tax expense	(61)	(660)	(246)	(967)	(176)	(4)	(1,147)
Results of Producing Operations	$ 126	$ 432	$ 168	$ 726	$ 156	$ 1	$ 883
YEAR ENDED DECEMBER 31, 1994							
Revenues from net production							
Sales	$ 1,484	$ 353	$ 736	$ 2,573	$ 24	$ 86	$ 2,683
Transfers	1,598	960	642	3,200	531	–	3,731
Total	3,082	1,313	1,378	5,773	555	86	6,414
Production expenses	(1,219)	(222)	(399)	(1,840)	(184)	(65)	(2,089)
Proved producing properties depreciation, depletion and abandonment provision	(885)	(153)	(326)	(1,364)	(53)	(17)	(1,434)
Exploration expenses	(132)	(52)	(192)	(376)	(9)	–	(385)
Unproved properties valuation	(21)	(3)	(15)	(39)	–	–	(39)
Other income (expense)[2]	22	(50)	(21)	(49)	(26)	(8)	(83)
Results before income taxes	847	833	425	2,105	283	(4)	2,384
Income tax expense	(314)	(569)	(252)	(1,135)	(143)	(6)	(1,284)
Results of Producing Operations	$ 533	$ 264	$ 173	$ 970	$ 140	$ (10)	$ 1,100

[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 amount of results of producing operations.*

[2] *Includes gas processing fees, net sulfur income, natural gas contract settlements, currency transaction gains and losses, miscellaneous expenses, etc. In 1996, in the United States, a $48 before-tax gain from the merger of the company's natural gas liquids company and natural gas marketing business with NGC Corporation and a $19 refund of federal lease costs were more than offset by litigation, environmental and impairment provisions totaling $78 and a loss of $17 on the sale of a producing property. Also, includes equity earnings of NGC Corporation.*

Other international in 1996 includes $103 of gains on sales of producing properties, partially offset by $33 of asset impairments and employee severance provisions. Also includes earnings from Boscan Field operating services agreement.

In 1995, before-tax net asset write-offs, asset dispositions, environmental provisions and regulatory issues increased income $15 in the United States. However, in the international other segment, net special charges for litigation and employee severance reduced earnings $29. In 1994, the United States included before-tax net charges of $97 relating to environmental cleanup provisions, litigation and regulatory settlements and an insurance recovery.

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, 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**	**4.99**	**4.15**	**4.23**
YEAR ENDED DECEMBER 31, 1995							
Average sales prices							
Liquids, per barrel	$ 14.98	$ 16.49	$ 15.32	$ 15.55	$ 14.35	$ 11.51	$ 15.29
Natural gas, per thousand cubic feet	1.52	–	1.72	1.56	–	.71	1.55
Average production costs, per barrel	5.11	2.00	3.83	4.12	4.52	7.73	4.24
YEAR ENDED DECEMBER 31, 1994							
Average sales prices							
Liquids, per barrel	$ 13.65	$ 15.16	$ 14.16	$ 14.18	$ 12.65	$ 10.54	$13.90
Natural gas, per thousand cubic feet	1.76	–	1.83	1.78	–	.56	1.76
Average production costs, per barrel	4.81	2.57	3.79	4.13	4.19	7.13	4.19
Average sales price for liquids ($/Bbl)							
DECEMBER 1996	**$21.07**	**$23.54**	**$19.45**	**$21.54**	**$19.06**	**$13.64**	**$20.68**
December 1995	15.47	17.45	16.03	16.25	15.39	11.37	16.01
December 1994	13.80	15.20	14.35	14.36	13.10	10.54	14.12
Average sales price for natural gas ($/MCF)							
DECEMBER 1996	**$ 3.73**	**$ –**	**$ 2.24**	**$ 3.42**	**$ –**	**$ .81**	**$ 3.36**
December 1995	2.04	–	1.99	2.03	–	.77	2.02
December 1994	1.62	–	1.73	1.64	–	.57	1.63

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

TABLE IV – RESERVE QUANTITIES INFORMATION

The company's estimated net proved underground oil and gas reserves and changes thereto for the years 1996, 1995 and 1994 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 over time 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.

Proved reserves for Tengizchevroil (TCO), the company's 50 percent-owned affiliate in Kazakstan, do not include reserves that will be produced when a dedicated export system is in place. In January 1997, Chevron agreed to sell 10 percent of its interest in TCO, reducing its ownership to 45 percent.

In July 1996, the company entered into a 20-year operating service agreement (with a 10-year extension option) with Maraven, a unit of Petroleos de Venezuela, the national oil company, to operate and develop the Boscan oil field in Lake Maracaibo, Venezuela, currently producing 80,000 barrels a day, with plans to increase to 115,000 barrels a day. Chevron receives operating expense reimbursement and capital recovery, plus interest and an incentive fee.

Because Chevron does not have an equity ownership in the oil reserves, the Boscan reserves have not been included in the company's reserve quantities.

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)							NET PROVED RESERVES OF NATURAL GAS (Billions of cubic feet)						
	Consolidated Companies				Affiliates		World-	Consolidated Companies				Affiliates		World-
	U.S.	Africa	Other	Total	CPI	TCO	wide	U.S.	Africa	Other	Total	CPI	TCO	wide
RESERVES AT JANUARY 1, 1994	1,279	682	453	2,414	669	1,102	4,185	5,484	–	2,257	7,741	142	1,528	9,411
Changes attributable to:														
Revisions	1	30	10	41	(19)	1	23	283	–	(11)	272	(6)	2	268
Improved recovery	22	18	36	76	9	–	85	5	–	7	12	–	–	12
Extensions and discoveries	35	85	46	166	–	–	166	533	–	675	1,208	26	–	1,234
Purchases[1]	1	76	–	77	–	–	77	55	–	1	56	–	–	56
Sales[2]	(4)	–	(3)	(7)	–	–	(7)	(23)	–	(31)	(54)	–	–	(54)
Production	(134)	(87)	(77)	(298)	(56)	(8)	(362)	(761)	–	(176)	(937)	(11)	(12)	(960)
RESERVES AT DECEMBER 31, 1994	1,200	804	465	2,469	603	1,095	4,167	5,576	–	2,722	8,298	151	1,518	9,967
Changes attributable to:														
Revisions	25	62	74	161	(28)	2	135	3	62	71	136	13	2	151
Improved recovery	7	36	66	109	42	–	151	7	–	23	30	–	–	30
Extensions and discoveries	87	137	14	238	–	–	238	609	22	175	806	6	–	812
Purchases[1]	3	25	–	28	–	–	28	48	–	2	50	–	–	50
Sales[2]	(6)	–	(5)	(11)	–	–	(11)	(29)	–	(23)	(52)	–	–	(52)
Production	(129)	(95)	(76)	(300)	(55)	(10)	(365)	(682)	–	(176)	(858)	(15)	(15)	(888)
RESERVES AT DECEMBER 31, 1995	1,187	969	538	2,694	562	1,087	4,343	5,532	84	2,794	8,410	155	1,505	10,070
Changes attributable to:														
Revisions	(9)	73	24	88	(4)	69	153	(225)	209	489	473	(1)	(18)	454
Improved recovery	38	22	22	82	60	–	142	20	–	16	36	1	–	37
Extensions and discoveries	63	74	6	143	2	–	145	676	–	7	683	15	–	698
Purchases[1]	2	–	–	2	–	–	2	5	–	11	16	–	–	16
Sales[2]	(7)	–	(32)	(39)	–	–	(39)	(47)	–	(11)	(58)	–	–	(58)
Production	(125)	(106)	(76)	(307)	(54)	(21)	(382)	(686)	–	(171)	(857)	(18)	(25)	(900)
RESERVES AT DECEMBER 31, 1996	**1,149**	**1,032**	**482**	**2,663**	**566**	**1,135**	**4,364**	**5,275**	**293**	**3,135**	**8,703**	**152**	**1,462**	**10,317**
Developed reserves														
At January 1, 1994	1,151	503	310	1,964	511	421	2,896	4,863	–	1,647	6,510	130	584	7,224
At December 31, 1994	1,097	546	293	1,936	499	414	2,849	4,919	–	1,508	6,427	135	574	7,136
At December 31, 1995	1,061	596	371	2,028	457	406	2,891	4,929	84	1,726	6,739	140	562	7,441
AT DECEMBER 31, 1996	**1,027**	**658**	**281**	**1,966**	**448**	**500**	**2,914**	**4,727**	**293**	**1,634**	**6,654**	**136**	**643**	**7,433**

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

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, 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**
AT DECEMBER 31, 1995							
Future cash inflows from production	$30,200	$17,570	$15,340	$63,110	$ 9,530	$15,630	$ 88,270
Future production and development costs	(14,140)	(4,350)	(4,600)	(23,090)	(5,700)	(7,140)	(35,930)
Future income taxes	(5,390)	(7,910)	(3,660)	(16,960)	(1,950)	(3,350)	(22,260)
Undiscounted future net cash flows	10,670	5,310	7,080	23,060	1,880	5,140	30,080
10 percent midyear annual discount for timing of estimated cash flows	(4,260)	(1,830)	(3,140)	(9,230)	(800)	(3,700)	(13,730)
Standardized Measure of Discounted Future Net Cash Flows	$ 6,410	$ 3,480	$ 3,940	$13,830	$ 1,080	$ 1,440	$ 16,350
AT DECEMBER 31, 1994							
Future cash inflows from production	$26,030	$12,230	$12,450	$50,710	$ 9,160	$14,080	$ 73,950
Future production and development costs	(13,540)	(4,060)	(5,450)	(23,050)	(6,050)	(8,020)	(37,120)
Future income taxes	(3,950)	(5,000)	(2,410)	(11,360)	(1,570)	(2,090)	(15,020)
Undiscounted future net cash flows	8,540	3,170	4,590	16,300	1,540	3,970	21,810
10 percent midyear annual discount for timing of estimated cash flows	(3,490)	(1,220)	(1,870)	(6,580)	(660)	(2,950)	(10,190)
Standardized Measure of Discounted Future Net Cash Flows	$ 5,050	$ 1,950	$ 2,720	$ 9,720	$ 880	$ 1,020	$ 11,620

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

	Consolidated Companies			Affiliated Companies			Worldwide		
Millions of dollars	**1996**	1995	1994	**1996**	1995	1994	**1996**	1995	1994
PRESENT VALUE AT JANUARY 1	**$13,830**	$ 9,720	$8,600	**$2,520**	$1,900	$1,140	**$16,350**	$11,620	$ 9,740
Sales and transfers of oil and gas produced, net of production costs	**(5,828)**	(4,109)	(3,933)	**(639)**	(454)	(392)	**(6,467)**	(4,563)	(4,325)
Development costs incurred	**1,662**	1,661	1,195	**173**	104	313	**1,835**	1,765	1,508
Purchases of reserves	**28**	230	305	**–**	–	–	**28**	230	305
Sales of reserves	**(353)**	(116)	(54)	**–**	–	–	**(353)**	(116)	(54)
Extensions, discoveries and improved recovery, less related costs	**3,745**	2,927	1,775	**316**	165	(3)	**4,061**	3,092	1,772
Revisions of previous quantity estimates	**969**	1,979	1,064	**59**	(723)	(377)	**1,028**	1,256	687
Net changes in prices, development and production costs	**13,495**	3,602	1,317	**721**	1,756	1,384	**14,216**	5,358	2,701
Accretion of discount	**2,236**	1,513	1,233	**418**	310	206	**2,654**	1,823	1,439
Net change in income tax	**(7,514)**	(3,577)	(1,782)	**(718)**	(538)	(371)	**(8,232)**	(4,115)	(2,153)
Net change for the year	**8,440**	4,110	1,120	**330**	620	760	**8,770**	4,730	1,880
PRESENT VALUE AT DECEMBER 31	**$22,270**	$13,830	$9,720	**$2,850**	$2,520	$1,900	**$25,120**	$16,350	$11,620

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." The 1996 changes reflected higher year-end crude oil and natural gas prices and quantity increases in crude oil and natural gas reserves.

Eleven-Year Financial Summary [1]

Millions of dollars, except per-share amounts	**1996**	1995	1994
CONSOLIDATED STATEMENT OF INCOME DATA			
REVENUES			
Sales and other operating revenues			
Refined products	**$15,785**	$13,471	$14,328
Crude oil	**12,397**	9,376	8,249
Natural gas	**3,299**	2,019	2,138
Natural gas liquids	**1,167**	1,285	1,180
Other petroleum	**1,184**	1,144	944
Chemicals	**3,422**	3,758	3,065
Coal and other minerals	**340**	358	416
Excise taxes	**5,202**	4,988	4,790
Corporate and other	**(14)**	(89)	20
Total sales and other operating revenues	**42,782**	36,310	35,130
Equity in net income of affiliated companies	**767**	553	440
Other income	**344**	219	284
TOTAL REVENUES	**43,893**	37,082	35,854
COSTS, OTHER DEDUCTIONS AND INCOME TAXES	**41,286**	36,152	34,161
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	**$ 2,607**	$ 930	$ 1,693
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	**–**	–	–
NET INCOME (LOSS)	**$ 2,607**	$ 930	$ 1,693
PER SHARE OF COMMON STOCK:			
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	**$3.99**	$1.43	$2.60
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	**–**	–	–
NET INCOME (LOSS) PER SHARE OF COMMON STOCK	**$3.99**	$1.43	$2.60
CASH DIVIDENDS PER SHARE	**$2.08**	$1.925	$1.85
CONSOLIDATED BALANCE SHEET DATA (YEAR-END)			
Current assets	**$ 7,942**	$ 7,867	$ 7,591
Properties, plant and equipment (net)	**21,496**	21,696	22,173
Total assets	**34,854**	34,330	34,407
Short-term debt	**2,706**	3,806	4,014
Other current liabilities	**6,201**	5,639	5,378
Long-term debt and capital lease obligations	**3,988**	4,521	4,128
Stockholders' equity	**15,623**	14,355	14,596
Per share	**$ 23.92**	$ 22.01	$ 22.40
SELECTED DATA			
Return on average stockholders' equity	**17.4%**	6.4%	11.8%
Return on average capital employed	**12.7%**	5.3%	8.7%
Total debt/total debt plus equity	**30.0%**	36.7%	35.8%
Capital and exploratory expenditures[2,3]	**$ 4,840**	$ 4,800	$ 4,819
Common stock price – High	**$68⅜**	$53⅝	$49³⁄₁₆
– Low	**$51**	$43⅜	$39⅞
– Year-end	**$65**	$52⅜	$44⅝
Common shares outstanding at year-end (in thousands)	**653,086**	652,327	651,751
Weighted average shares outstanding for the year (in thousands)	**652,769**	652,084	651,672
Number of employees at year-end[4]	**40,820**	43,019	45,758

[1]Comparability between years is affected by changes in accounting methods: 1995 and 1996 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"; 1986 through1991 reflect the adoption of SFAS No. 96, "Accounting for Income Taxes"; 1986 and subsequent years reflect adoption of SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Pension Plans and for Termination Benefits." Share and per-share amounts for all years reflect the two-for-one stock split in May 1994.

[2]Includes equity in affiliates' expenditures.	***$983***	*$912*	*$846*

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

[4]Includes service station personnel.

1993	1992	1991	1990	1989	1988	1987	1986
$16,089	$16,821	$16,794	$19,385	$15,682	$13,707	$14,472	$13,340
8,501	10,031	10,276	11,303	6,791	5,059	5,871	5,532
2,156	1,995	1,869	2,056	1,693	1,389	1,312	1,455
1,235	1,190	1,165	1,305	937	875	885	766
967	927	812	769	719	658	642	688
2,708	2,872	3,098	3,325	3,048	2,960	2,360	1,989
447	397	427	443	470	430	398	380
4,068	3,964	3,659	2,933	2,473	2,526	2,091	1,894
20	15	18	21	103	118	75	201
36,191	38,212	38,118	41,540	31,916	27,722	28,106	26,245
440	406	491	371	350	422	376	480
451	1,059	334	655	519	713	638	606
37,082	39,677	38,943	42,566	32,785	28,857	29,120	27,331
35,817	37,467	37,650	40,409	32,534	27,089	27,870	25,460
$ 1,265	$ 2,210	$ 1,293	$ 2,157	$ 251	$ 1,768	$ 1,250	$ 1,871
–	(641)	–	–	–	–	–	(3,282)
$ 1,265	$ 1,569	$ 1,293	$ 2,157	$ 251	$ 1,768	$ 1,250	$ (1,411)
$1.94	$3.26	$1.85	$3.05	$0.37	$2.59	$1.83	$ 2.74
–	(0.95)	–	–	–	–	–	(4.81)
$1.94	$2.31	$1.85	$3.05	$0.37	$2.59	$1.83	$(2.07)
$1.75	$1.65	$1.625	$1.475	$1.40	$1.275	$1.20	$ 1.20
$ 8,682	$ 8,722	$ 9,031	$10,089	$ 8,620	$ 7,941	$ 9,515	$ 8,330
21,865	22,188	22,850	22,726	23,040	23,798	21,736	22,746
34,736	33,970	34,636	35,089	33,884	33,924	34,057	34,251
3,456	2,888	1,706	59	126	469	915	619
7,150	6,947	7,774	8,958	7,457	6,534	7,517	6,785
4,082	4,953	5,991	6,710	7,390	6,833	6,255	7,738
13,997	13,728	14,739	14,836	13,980	14,744	13,853	13,325
$ 21.49	$ 21.11	$ 21.25	$ 21.15	$ 19.69	$ 21.63	$ 20.32	$ 19.55
9.1%	11.0%	8.7%	15.0%	1.8%	12.4%	9.2%	–
6.8%	8.5%	7.5%	11.9%	3.2%	10.1%	7.8%	–
35.0%	36.4%	34.3%	31.3%	35.0%	33.1%	34.1%	38.5%
$ 4,440	$ 4,423	$ 4,787	$ 4,269	$ 3,982	$ 5,853	$ 2,841	$ 3,018
$49 3/8	$37 11/16	$40 1/16	$40 13/16	$36	$25 7/8	$32 5/16	$24
$33 11/16	$30 1/16	$31 3/4	$31 9/16	$22 7/8	$19 13/16	$16	$17
$43 9/16	$34 3/4	$34 1/2	$36 5/16	$33 7/8	$22 7/8	$19 13/16	$22 11/16
651,478	650,348	693,444	701,600	710,048	681,750	681,646	681,628
650,958	677,955	700,348	706,926	683,778	681,698	681,636	681,770
47,576	49,245	55,123	54,208	54,826	53,675	51,697	51,095
$701	*$621*	*$498*	*$433*	*$389*	*$337*	*$304*	*$329*

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	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
UNITED STATES											
Gross production of crude oil and natural gas liquids	**385**	397	418	447	488	516	524	552	553	580	626
Net production of crude oil and natural gas liquids	**341**	350	369	394	432	454	458	482	484	507	546
Refinery input	**951**	925	1,213	1,307	1,311	1,278	1,406	1,403	1,407	1,388	1,335
Sales of refined products	**1,122**	1,117	1,314	1,423	1,470	1,444	1,489	1,469	1,451	1,430	1,403
Sales of natural gas liquids	**187**	213	215	211	194	175	188	184	180	161	144
Total sales of petroleum products	**1,309**	1,330	1,529	1,634	1,664	1,619	1,677	1,653	1,631	1,591	1,547
Gross production of natural gas	**2,216**	2,207	2,441	2,407	2,720	2,779	3,131	2,841	2,384	2,290	2,335
Net production of natural gas	**1,875**	1,868	2,085	2,056	2,313	2,359	2,650	2,413	2,024	1,944	1,974
Sales of natural gas	**3,588**	2,815	2,598	2,334	2,539	2,592	2,845	2,657	2,181	2,095	2,048
INTERNATIONAL											
Gross production of crude oil and natural gas liquids	**1,003**	944	896	825	791	784	777	756	756	758	763
Net production of crude oil and natural gas liquids	**702**	651	624	556	512	504	477	467	486	482	495
Refinery input	**537**	598	623	598	543	517	494	490	500	490	465
Sales of refined products	**944**	969	934	923	859	823	772	740	742	710	691
Sales of natural gas liquids	**36**	47	34	37	33	29	33	43	37	34	26
Total sales of petroleum products	**980**	1,016	968	960	892	852	805	783	779	744	717
Gross production of natural gas	**676**	652	657	572	541	525	503	382	348	379	349
Net production of natural gas	**584**	565	546	469	463	447	417	330	300	325	300
Sales of natural gas	**778**	564	461	462	466	444	423	303	274	307	281
TOTAL WORLDWIDE											
Gross production of crude oil and natural gas liquids	**1,388**	1,341	1,314	1,272	1,279	1,300	1,301	1,308	1,309	1,338	1,389
Net production of crude oil and natural gas liquids	**1,043**	1,001	993	950	944	958	935	949	970	989	1,041
Refinery input	**1,488**	1,523	1,836	1,905	1,854	1,795	1,900	1,893	1,907	1,878	1,800
Sales of refined products	**2,066**	2,086	2,248	2,346	2,329	2,267	2,261	2,209	2,193	2,140	2,094
Sales of natural gas liquids	**223**	260	249	248	227	204	221	227	217	195	170
Total sales of petroleum products	**2,289**	2,346	2,497	2,594	2,556	2,471	2,482	2,436	2,410	2,335	2,264
Gross production of natural gas	**2,892**	2,859	3,098	2,979	3,261	3,304	3,634	3,223	2,732	2,669	2,684
Net production of natural gas	**2,459**	2,433	2,631	2,525	2,776	2,806	3,067	2,743	2,324	2,269	2,274
Sales of natural gas	**4,366**	3,379	3,059	2,796	3,005	3,036	3,268	2,960	2,455	2,402	2,329
WORLDWIDE – EXCLUDES EQUITY IN AFFILIATES											
Number of wells completed (net)[2]											
Oil and gas	**710**	455	364	422	342	607	543	306	415	340	415
Dry	**62**	64	70	76	33	69	79	71	77	44	79
Producing oil and gas wells (net)[2]	**13,114**	11,707	12,111	10,996	10,773	15,502	17,890	21,695	24,802	27,209	24,947

[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, 60, 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 a Vice Chairman in 1985. He also is a Director of AT&T Corp., Citicorp and Potlatch Corporation. (2)

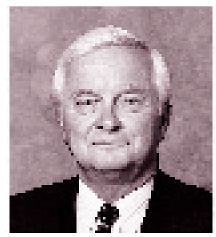
James N. Sullivan, 59, is Vice Chairman responsible for worldwide refining, marketing, chemicals and coal mining operations. He joined the corporation in 1961. He was elected a Vice President in 1983, a Director in 1988 and a Vice Chairman in 1989.

Samuel H. Armacost, 57, has been a Director since 1982. He is a Principal of Weiss, Peck & Greer L.L.C., an investment firm. He also is a Director of SRI International; The Failure Group, Inc.; The James Irvine Foundation; and Scios, Inc. (1, 3, 4)

Sam Ginn, 59, 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, Transamerica Corporation and Safeway Inc. (1, 2, 4)

Carla A. Hills, 63, was elected a Director in 1993. She is Chairman and Chief Executive Officer of Hills & Company International Consultants. From 1989 to 1993, she served as U.S. Trade Representative. She also is a Director of American International Group, Inc.; AT&T Corp.; Bechtel Enterprises; Time Warner Inc.; and Trust Company of the West. (1, 2, 4)

J. Bennett Johnston, 64, was elected a Director in January 1997. He is Chief Executive Officer of Johnston and Associates, a governmental and business consulting firm. A former U.S. Senator, he represented Louisiana for 24 years. He was a member of the Senate Committee on Energy and Natural Resources and served as its Chairman for eight years.



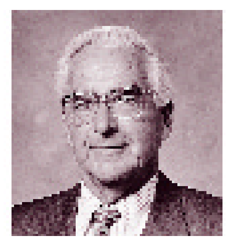
Richard H. Matzke, 60, was elected a Director in February 1997. He has been a Corporate Vice President since 1990 and President, Chevron Overseas Petroleum, since 1989. Previously he was Vice President, Chevron Chemical Company, and President, Chevron Canada Resources. He joined Chevron in 1961.

Charles M. Pigott, 67, has been a Director since 1973. He is Chairman Emeritus of PACCAR Inc, manufacturer of transportation equipment. He also is a Director of The Boeing Company and Seattle Times Company. (2, 3, 4)

Condoleezza Rice, 42, 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 Rand Corporation and Transamerica Corporation. (2, 3, 4)

Frank A. Shrontz, 65, was elected a Director in September 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 The Boeing Company, Boise Cascade Corporation, Citicorp and 3M Company. (4)

Chang-Lin Tien, 61, was elected a Director in March 1997. He is Chancellor of the University of California, Berkeley. He serves on the Board of Trustees of the Asian Foundation and the Carnegie Foundation for the Advancement of Teaching. He also is a Director of Raychem Corporation and Wells Fargo & Company.



George H. Weyerhaeuser, 70, has been a Director since 1977. He is Chairman of the Board of Weyerhaeuser Company, a forest products company. He also is a Director of The Boeing Company and SAFECO Corporation. (1, 3, 4)

John A. Young, 64, has been a Director since 1985. He is 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; Shaman Pharmaceuticals, Inc.; SmithKline Beecham PLC; and Affymetrix, Inc. (1, 2, 4)

Retiring Director

Raymond E. Galvin, 65, a Director since 1995, Corporate Vice President since 1988 and President, Chevron U.S.A. Production Company, since 1992, reached the mandatory retirement age for employee directors. Galvin helped restructure Chevron's U.S. exploration and production business. He served as Chairman of the Natural Gas Council and the Natural Gas Supply Association. Galvin is a Fellow of the External Advisory Council of Texas A&M University's College of Engineering. He served as a Board member of the National Action Council for Minorities in Engineering and the Gas Research Institute. Galvin joined Gulf Oil Corporation in 1953.

Committees of the Board:

(1) Audit:
John A. Young, Chairman

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

(3) Board Nominating and Governance:
Samuel H. Armacost, Chairman

(4) Management Compensation:
Charles M. Pigott, Chairman

OFFICERS

Lydia I. Beebe, 44, 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, 59, Vice President, Public Affairs, since 1996. Director of Caltex Petroleum Corporation. Previously President, Chevron International Oil Company; General Manager, Marketing Sales, and General Manager, Eastern and Western Region Supply and Distribution, Chevron U.S.A. Products Company. Joined Chevron in 1964.

George K. Carter, 61, 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, 49, Comptroller since June 1996. Previously Vice President, Finance, Chevron Products Company, and Assistant Comptroller, Chevron Corporation. Joined Chevron in 1972.

Lloyd E. Elkins, 53, Corporate Vice President since 1988 and President, Chevron Services Company, since 1993. Director of Caltex Petroleum 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, 56, Vice President and General Counsel since 1993. Previously partner and member of the Executive Committee at the law firm of Pillsbury Madison & Sutro.

Ronald C. Kiskis, 48, Vice President, Human Resources, since 1993. Previously President, Chevron Canada Limited, and Group Manager, Fuels, Chevron Research and Technology Company. Joined Chevron in 1974.

Martin R. Klitten, 52, 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, 54, General Tax Counsel since 1994. Previously Assistant General Tax Counsel, Chevron Corporation; General Tax Counsel, Chevron U.S.A.; and General Tax Manager, Gulf Oil Corporation. Joined Gulf Oil Corporation in 1971.

Gregory Matiuk, 51, Vice President, Strategic Planning and Quality, since October 1996. Previously Manager, Strategic Planning, Chevron Corporation; Vice President and General Manager, Western Business Unit, Chevron U.S.A. Production Company; and General Manager, Chevron U.K. Joined Chevron in 1967.

David J. O'Reilly, 50, Corporate Vice President since 1991 and President, Chevron Products Company, since 1994. Previously Director of Caltex Petroleum Corporation; Corporate Vice President, Strategic Planning and Quality; Senior Vice President and Chief Operating Officer, Chevron Chemical Company. Joined Chevron in 1968.

Donald L. Paul, 50, Vice President, Technology and Environmental Affairs, since September 1996. Director of NGC Corporation. Previously President, Chevron Canada Resources; President, Chevron Petroleum Technology Company; and Vice President, Chevron Oil Field Research Company. Joined Chevron in 1975.

John E. Peppercorn, 59, Corporate Vice President since 1990 and President, Chevron Chemical Company, since 1989. Previously Senior Vice President and Vice President, Industrial Chemicals, Chevron Chemical Company. Joined Gulf Oil Corporation in 1961.

Peter J. Robertson, 50, Corporate Vice President and President, Chevron U.S.A. Production Company, since March 1997. Director of NGC Corporation. Previously Corporate Vice President, Strategic Planning and Quality; President, Warren Petroleum Company; and Vice President, Finance, Chevron U.S.A. Joined Chevron in 1973.

Executive Committee:
Kenneth T. Derr, James N. Sullivan, Harvey D. Hinman, Martin R. Klitten, Richard H. Matzke, David J. O'Reilly, John E. Peppercorn and Peter J. Robertson. Lydia I. Beebe, Secretary.

Stockholder and Investor Information

STOCK EXCHANGE LISTINGS
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, dividend payments or the dividend reinvestment plan may contact:

Chevron Corporation
Transfer Office
225 Bush Street, Room 236
San Francisco, CA 94104-4289
(415) 894-3940
1-800-926-7372

or

P.O. Box 7139
San Francisco, CA 94120-7139

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 1996 was $2.08. The quarterly dividend rate for the fourth quarter of 1996 was 54 cents per share. Direct deposit of dividends is available to stockholders. For more information, contact the Transfer Office (see above).

DIVIDEND REINVESTMENT PLAN
Chevron's Direct Stock Services program, offered through Harris Trust & Savings, 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 1-800-286-9178.

INVESTOR INFORMATION
Securities analysts, portfolio managers and representatives of financial institutions seeking financial and operating information may contact:

Meeks Vaughan
Manager, Investor Relations
575 Market Street, Room 3444
San Francisco, CA 94105-2856
(415) 894-5690
E-mail: mbva@chevron.com

WEB SITE ON INTERNET
Chevron's Web site 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 quarterly *Report to Stockholders* and the complete text of this *Annual Report.* The Web site address is: http://www.chevron.com.

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 30, 1997, at the Masonic Center in San Francisco.

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* is available after April 15; *Form 10-K,* after March 31.

Contributions: Details of the corporation's political contributions in 1996 are available upon request from the Secretary's Department, 575 Market Street, 38th Floor, San Francisco, CA 94105-2856. Information about the corporation's charitable and educational contributions is available in the second half of the year.

REGISTRAR
First Trust California
One California Street, Suite 400
San Francisco, CA 94111-5402

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 Corporation
575 Market Street
San Francisco, CA 94105-2856

From pumping jack to pump island: Here are a few of the many employees who are contributing to the success of the four projects pictured inside this *Annual Report*.

Donnie Kenny and Russ Chancey look over the expansion project for paraxylene, a commodity petrochemical, in Pascagoula, Miss., Page 20.

Bridgette Singleton and Nyuget Ton are ready to help customers at a new Chevron site with a McDonald's restaurant in Houston, Page 17.

Eduardo Arze and Mike Jennings help manage the production operations at the rich Boscan Field in northern Venezuela, Page 12.

In Finland, Bill Krieger, Dave McDonald and Jon Heslop are working on a huge deep-water hull bound for the Gulf of Mexico, Page 15.