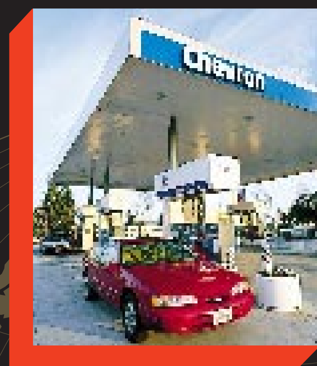
Chevron



1997 Annual Report

Chevron: Building on Success

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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 company's key objectives and principles, including this statement on Protecting People and the Environment: We are committed to protecting the safety and health of people and the environment. We will conduct our business in a socially responsible and ethical manner. Our goal is to be the industry leader in safety and health performance, and to be recognized worldwide for environmental excellence. We will achieve this goal through:**

Safety: Safety is everyone's responsibility. Design, operate and maintain our facilities to prevent injury, illness and incidents.

Compliance: Establish processes to ensure that all of us understand our roles and all operations are in compliance.

Pollution Prevention: Continually improve our processes to minimize pollution and waste.

Community Outreach: Communicate openly with the public regarding possible impact of our business on them or the environment.

Product Stewardship: Manage potential risks of our products with everyone involved throughout the products' life cycles.

Conservation: Conserve company and natural resources by continually improving our processes and measuring our progress.

Advocacy: Work cooperatively with public representatives to base laws and regulations on sound risk management and cost-benefit principles.

Property Transfer: Assess and manage environmental liabilities prior to any property transaction.

Transportation: Work with our carriers and distributors to ensure safe distribution of our products.

Emergency Response: Be prepared for any emergency and mitigate any incident quickly.

Cover photos (clockwise from top): A Chevron service station in Pasadena, Calif.; the recently expanded Port Arthur, Texas, petrochemicals plant; and Britannia, Chevron's newest North Sea platform.

To Our Stockholders

1997 was an outstanding year for Chevron. Our record-setting income of $3.256 billion was up 25 percent over 1996, which had been the best year in our history.

Ken Derr, Chairman

We surpassed our goal of $3 billion in earnings a year ahead of schedule. That goal and the others we've achieved have paid off for Chevron's stockholders.

In 1997, our total stockholder return (dividends plus stock appreciation) was 22.1 percent. The average over the past nine years has been 19.2 percent, tops among our oil industry peers. Our return on capital employed (excluding special items) was 14.7 percent, bettering our 12 percent goal for the second straight year.

A key contributor to success

A major factor in our record year was the outstanding performance of Chevron's U.S. refining, marketing and transportation operations, which had their best year since 1988. Operating earnings of $662 million were more than double the 1996 level. Our strategy of emphasizing the value of the Chevron brand name, focusing on reducing costs and maintaining incident-free operations paid off in a strong market with higher gasoline demand and improved sales margins.

Additional measures of success

In the petroleum industry there are many important measures of success, and Chevron also has excelled in these. They include:

- *Oil and gas production* – At nearly 1.5 million barrels a day, production was the highest in 12 years. International production, where we've concentrated our efforts, climbed for the eighth straight year – up 4 percent over 1996.
- *Reserves replacement* – Chevron replaced 142 percent of the oil and gas it produced (excluding the effects of sales and acquisitions), making 1997 the fifth straight year that replacements exceeded production. Chevron has had the best reserves replacement rate among its peer competitors over the past five years. At year-end, worldwide proved reserves stood at nearly 6.2 billion barrels of oil and equivalent gas.

Saving money pays off

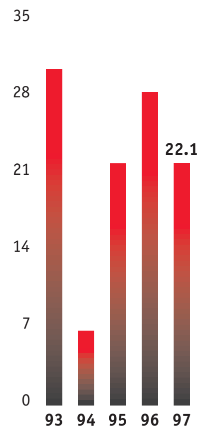
Reducing costs remains a major part of our strategy. Since 1991, we've cut annual operating expenses about $1.8 billion. Moreover, 1997 was a breakthrough year. After three years of relatively flat per-barrel costs, we reduced our costs 7 percent to $5.68 a barrel. Overall, we reduced our cost structure by $400 million last year.

Building on success

Although both 1996 and 1997 were record-setting years, success is not a short-term phenomenon. Success is what you plan for and build on. Success comes as part of a continuous cycle – opportunity, growth, success.

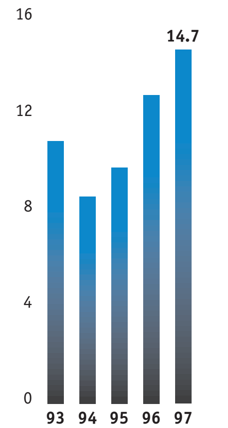
Underlying Chevron's success is a solid, long-range plan. It's this plan that helps us find, create and make the most of our opportunities for our stockholders.

Average Annual Return to Stockholders
Percentage



The annual return on Chevron stock has averaged 21.7 percent over the past five years.

Return on Average Capital Employed*
Percentage



Chevron's return on average capital employed was the highest in more than a decade.

*Excluding special items

Worldwide opportunities abound

We're looking forward to great growth opportunities, including the following:

- Chevron has made two giant oil discoveries (Kuito and Landana) in deep water offshore Angola. Each field is estimated to hold more than 500 million barrels of recoverable oil. Chevron's share is 31 percent. To the north, offshore the Republic of Congo, two new deepwater discoveries hold commercial promise.
- Deepwater areas also are promising in the Gulf of Mexico, where first oil from our Genesis project is expected by year-end.
- The Hibernia project offshore Newfoundland is changing the economic scene in eastern Canada. Production started in November, and peak production of 150,000 barrels a day is expected by mid-1999. Equally important, the enormous platform will be a hub for other potential production in the area.
- Production from a project in Venezuela's Lake Maracaibo is forecast to exceed 100,000 barrels of oil a day in five years. At year-end, Chevron's Boscan project was ahead of schedule and producing 89,000 barrels a day.
- In the North Sea, the platform for the Britannia gas field is in place, and production is scheduled to start this year.
- Chevron Chemical Company is building new plants in Singapore and Saudi Arabia, and is planning its first plant for China.

New opportunities abound in Caspian

Recognizing the enormous economic potential of the Caspian region, we have added a new strategy to our ongoing plan – to accelerate our earnings growth in the area. (See page 14.)

The oil potential of the entire region is enormous. Chevron already is a leading oil producer in Kazakhstan through its 45 percent interest in the supergiant Tengiz oil field. And we have an agreement to explore a deepwater area offshore Azerbaijan.

In February 1998, we signed an agreement with Shell to develop new exploration, production and transportation projects in the Caspian area. With our combined strength, and working closely with the governments of the region, I believe we will be able to develop infrastructure and resources on a basis not previously contemplated. We want Chevron to remain the dominant company in the region.

Our new strategy also looks beyond oil and gas exploration and production. The countries in the region stand on the edge of rapid economic development, and we see the opportunity to help them progress. We have the possibility of expanding many aspects of our business and, at the same time, helping to generate wealth for the people and the countries of the region.

Investing for the future

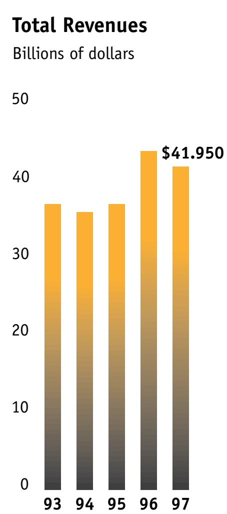
Our planned spending for 1998 – a record $6.3 billion – underscores our commitment to growth and our confidence in the tremendous potential of our worldwide projects. I believe that Chevron has better long-term growth opportunities than any of our competitors.

We plan to spend nearly $4 billion on worldwide exploration and production. Nearly $2.5 billion, or about 63 percent of that total, will be invested in international operations.

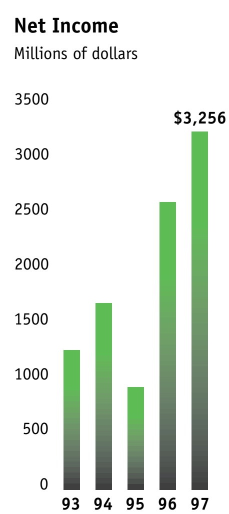
Financial Highlights

Millions of dollars, except per-share amounts	1997	1996	% Change
Net income	$ 3,256	$ 2,607	25%
Sales and other operating revenues	$40,583	$42,782	(5)%
Capital and exploratory expenditures*	$ 5,541	$ 4,840	14%
Total assets at year-end	$35,473	$34,854	2%
Total debt at year-end	$ 6,068	$ 6,694	(9)%
Stockholders' equity at year-end	$17,472	$15,623	12%
Cash flow from operating activities	$ 4,583	$ 5,770	(21)%
Common shares outstanding at year-end (Thousands)	655,931	653,086	–
Average shares outstanding during year (Thousands)	654,991	652,769	–
Per-share data			
Earnings – basic	$ 4.97	$ 3.99	25%
Earnings – diluted	$ 4.95	$ 3.98	24%
Cash dividends	$ 2.28	$ 2.08	10%
Stockholders' equity	$ 26.64	$ 23.92	11%
Market price at year-end	$ 77.00	$ 65.00	18%
Total debt/total debt plus equity	25.8%	30.0%	
Return on average stockholders' equity	19.7%	17.4%	
Return on average capital employed (ROCE)	15.0%	12.7%	

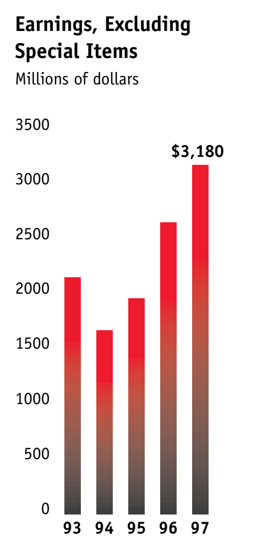
*Includes equity in affiliates



Revenues declined 4 percent on lower crude oil and refined products prices and lower natural gas production.



Net income was $3.256 billion for 1997, the second straight year of record earnings.



Chevron surpassed its goal of $3 billion in earnings one year earlier than targeted.

Operating Highlights

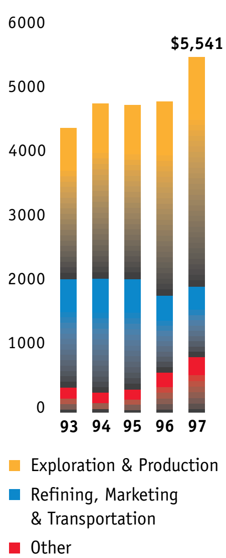
	1997	1996	% Change
Net production of crude oil and natural gas liquids[1] (Thousands of barrels per day)	**1,074**	1,043	3%
Net production of natural gas[1] (Millions of cubic feet per day)	**2,425**	2,459	(1)%
Sales of natural gas[1] (Millions of cubic feet per day)	**4,530**	4,366	4%
Refinery input[1] (Thousands of barrels per day)	**1,498**	1,488	1%
Sales of petroleum products[1] (Thousands of barrels per day)	**2,254**	2,289	(2)%
Net proved reserves of crude oil, condensate and natural gas liquids[1] (Millions of barrels)	**4,506**	4,364	3%
Net proved reserves of natural gas[1] (Billions of cubic feet)	**9,963**	10,317	(3)%
Chemicals sales revenues[2] (Millions of dollars)	**$3,633**	$3,541	3%
Number of employees at year-end[3]	**34,186**	35,310	(3)%

[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 set several performance measures to track its progress. Some of these are listed below and are discussed throughout this report. Terms are defined on page 24.

	1997	1996	1995
Earnings, Excluding Special Items (Millions of dollars)	**$3,180**	$2,651	$1,962
Adjusted Operating Expenses (Millions of dollars)	**$7,618**	$7,832	$7,594
Operating Expenses per Barrel	**$ 5.68**	$ 6.10	$ 6.09
Return on Capital Employed, Excluding Special Items	**14.7%**	12.8%	9.8%
Total Stockholder Return	**22.1%**	28.5%	22.0%

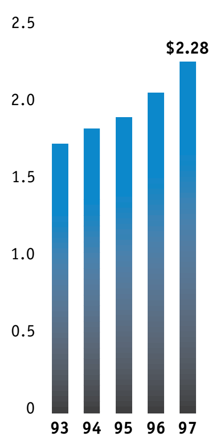
Capital & Exploratory Expenditures*
Millions of dollars



Exploration and production expenditures accounted for nearly 65 percent of total spending.

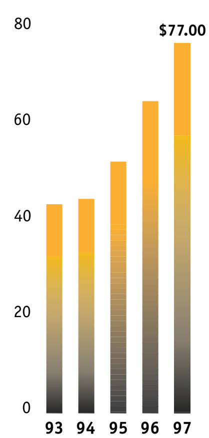
*Includes equity in affiliates

Cash Dividends Paid
Dollars per share



Annual dividends increased for the 10th consecutive year.

Chevron Year-End Common Stock Price
Dollars per share



Chevron's stock price increased 18.5 percent in 1997.

However, we're still planning to spend a hefty $1.5 billion on U.S. projects, focusing on deep-water areas in the Gulf of Mexico.

Chevron plans to invest about $1.1 billion in its worldwide refining, marketing and transportation projects. Nearly half of that, or $600 million, will be spent in the United States. Finally, about $800 million is earmarked for worldwide chemicals projects. Although the chemicals industry still is hampered by a cyclical downturn, we believe that it is near an end and that there are many attractive long-term investment opportunities.

Flexibility from financial strength

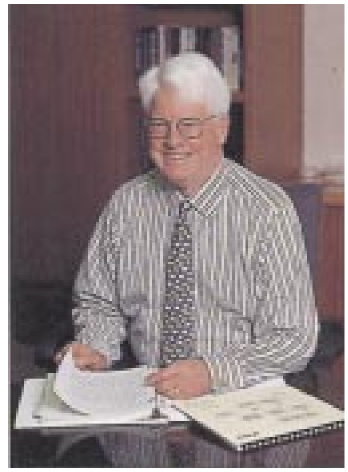
Chevron's balance sheet is the strongest it's been in more than a decade. We've reduced debt more than $2.3 billion in the past two years.

This financial strength gives us the flexibility to pursue important new opportunities. We recently created a mergers and acquisitions group to seek out promising business ventures, especially in exploration and production. In addition, we increased our dividend in the first quarter of 1998, the tenth straight year of dividend increases.

Financial strength and flexibility also help us maintain our focus when oil and gas prices drop. Right now, the short-term price outlook is not strong. Crude oil and natural gas prices started down in late 1997, and in the first quarter of 1998 oil prices hit their lowest level in nearly four years. Although we can't control prices, there are important factors we can control – our costs, and production and sales volumes.

Safety, environment are key priorities

In 1997, we succeeded in implementing our "Protecting People and the Environment" program in nearly all locations worldwide. Chevron takes pride in its highly regarded record of environmental responsibility. Our policy, which is part of The Chevron Way, is stated at the beginning of this report.



Jim Sullivan, Vice Chairman

Employees share in success

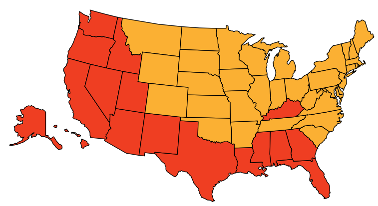
Employees have an important stake in Chevron and benefit when the company does well. In January 1996, each employee was given 150 stock options that could be exercised when our stock price hit $75 a share for three consecutive days. This happened on June 17, 1997. In February 1998, during a worldwide employee teleconference, I announced a new stock option plan that will vest in two years. In addition, all employees are part of a Chevron Success Sharing plan that gives bonuses when specific operational, financial and safety goals are met.

Looking ahead to continuing success

Our talented, hard-working employees turn our strategies into the many successes we discuss in this report, and I want to thank them for their efforts. I'm confident that they will continue to meet any challenge and carry out the plans for our many projects worldwide – building a stronger Chevron and providing superior value for our stockholders.

Kenneth T. Derr
Chairman of the Board
and Chief Executive Officer
February 20, 1998

Chevron at a Glance

Business	Areas of Operation	Keys to Success
Exploration and Production Explores for and produces crude oil and natural gas in the United States and 22 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, Republic of Congo, China and Kazakhstan. Exploration areas include the above, as well as Alaska, Azerbaijan, Colombia, Peru and Ireland.	Balanced, high-value portfolio of international and North American assets. • Positioned to grow in promising areas, including the Caspian, eastern Canada and Africa. • Major leaseholder in Gulf of Mexico. • Leader in exploration and production technology. • 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 and (through its Caltex affiliate) Asia, Africa, Australia and New Zealand.	Largest producer of California reformulated gasolines. • Two large refineries in attractive California market. • Pascagoula Refinery ranks among industry pacesetters. • Caltex refineries well positioned to compete in Asia-Pacific markets.
Marketing One of the leading U.S. marketers of refined products, including motor gasolines, diesel and aviation fuels, lubricants and other products. Retail outlets number approximately 7,800 in the United States, 200 in Canada; Caltex supplies more than 7,900 retail outlets internationally.	 ■ Chevron holds 9 percent or greater gasoline market share. Retail locations also in Canada and (through Caltex) in Asia, southern and eastern Africa, the Middle East, Australia and New Zealand.	No gasolines sold provide better performance or lower emissions than Chevron gasolines with Techron additive. • Among the top three gasoline marketers in 14 states. • No.1 marketer of aviation fuels in the West. • Convenience-store network contributing to retail growth. • Caltex is a leading marketer in many high-growth areas. • Caltex re-imaging program increasing name recognition and brand appeal. • Lubricants business expanding internationally.
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; 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.	Tanker fleet has one of the best safety and environmental records among major oil companies. • Shipping adding four new double-hulled tankers. • Extensive U.S. pipeline system serves key markets. • Planned Caspian pipeline will allow major growth in production from Kazakhstan's Tengiz Field.
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 9 states and in France, Brazil and Japan. Through affiliates and subsidiaries, operates or markets in more than 80 countries.	Low-cost producer of high-purity benzene and paraxylene using Aromax and Eluxyl hybrid technologies. • Expanded U.S. facilities will boost overall product volumes by about 25 percent. • International expansion is under way in order to benefit from global demand growth.
Coal Mines and markets coal, ranking among the top 15 coal producers in the United States.	Mines in New Mexico, Wyoming, Alabama and Kentucky; partnership interests in Illinois, Indiana, Montana and Venezuela.	Industry leader in providing return on assets. • Reserves of low-sulfur, environmentally desirable coal growing. • One of the industry's best safety records.

Building on Success

Record performance and a strong financial base set the stage for continued growth

Chevron has experienced an extraordinary period of achievement, with 1996 and 1997 both being **record-setting years**.

The temptation is to think it doesn't get much better than this. But the **successes** realized so far serve as a springboard for additional growth in many areas at a time when **opportunities** are numerous and compelling. They also will serve as a strong base in the tougher times that inevitably lie somewhere ahead.

Financial success is one measure of performance. But the foundation upon which Chevron is building is multifaceted. To build on success also is to expand **partnerships** into new business relationships, to increase brand recognition, to value the communities where Chevron operates, to employ innovative technology and to unleash the creativity of committed employees. It means banking on a hard-earned reputation for environmental stewardship. It means enhancing the company's appeal as the **partner of choice** around the world.

Building on success also means taking **calculated business risks**.

In 1993, Chevron took a risk when it became a founding partner of Tengizchevroil, a joint venture with the Republic of Kazakhstan and the first such alliance between a former Soviet Union republic and a major Western corporation.

Chevron is building on success in Kazakhstan and **expanding its presence** in the petroleum-rich Caspian region, one of the hottest growth areas for the petroleum industry. (See page 14 for information on Chevron's newest strategic intent.) Additional processing facilities are being constructed to handle increased Tengiz output, and progress is being made on an export pipeline to the Black Sea that will help realize Tengizchevroil's full potential. The risk taken in Kazakhstan, results have shown, was well considered.

Azerbaijan sees new oil boom.
One of the world's oldest oil-producing nations, Azerbaijan is playing a pivotal role in the high-stakes Caspian region, estimated to hold up to 200 billion barrels of oil and gas, and eliciting comparisons with the Persian Gulf.

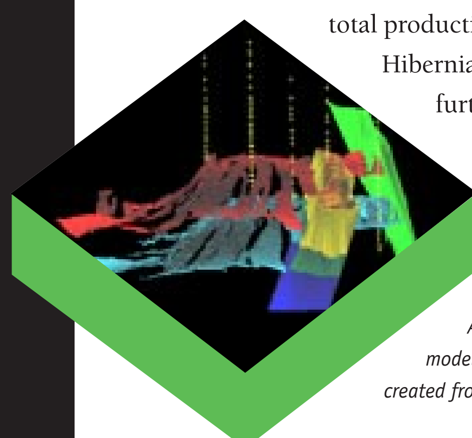
In August, Chevron agreed to explore the deepwater Absheron Block in the southern Caspian Sea – its first major venture in Azerbaijan.

Every major oil company and many smaller ones now have a presence in Baku, Azerbaijan's capital. In the new frenzy of activity, Chevron stands out as a leader in the Caspian. It already has earned a reputation for environmental responsibility, technical know-how and a commitment to the prosperity of Central Asian nations.

In the new frenzy of activity, Chevron stands out as a leader in the Caspian.

Global operations expand.
In many other parts of the world, Chevron also is building on a solid foundation of accomplishments.

Late last year, the giant Hibernia project offshore Newfoundland began production and by 2000 will supply an estimated 7 percent of Canada's total production. Equally important, Hibernia will serve as a hub for further oil and gas development in the area.



A 3-D computer model of the Hibernia Field, created from seismic data.

Chevron is committed to exploration and production in the Gulf of Mexico's deep water, an exciting frontier. The company's first deepwater project, called Genesis, is expected to begin production in December, and development of other nearby prospects is being evaluated. With more than 360 deepwater leases, Chevron is well positioned for the future.

The Gulf of Mexico is the proving ground for deepwater technology. What the company learns there, it uses in other promising deepwater locations – Angola and Australia, for example. Key to this technology transfer – and more broadly, to the rapid sharing of all types of information – is a standardized computing environment, now being installed throughout Chevron and expected to be complete by mid-1998.

Key to this technology transfer ... is a standardized computing environment ....

In 1997, Chevron began production from the North Ndola Field in one of Angola's more remote offshore regions. In addition, the company recently discovered two giant deepwater fields offshore Angola, and production is scheduled to start in early 1999.

Operations in China, too, have bred new opportunities. Since 1990, Chevron and partners have been producing oil in the South China Sea and in October announced a new discovery. In its first onshore effort, Chevron is exploring for oil in the deeper zones of the Shengli Field, China's second largest. In addition, the company plans to build a polystyrene plant in Zhangjiagang City by 1999.

Technical ability, environmental record win respect.

Due to its expertise in processing heavy oil, along with its environmental reputation, Chevron was chosen to operate Venezuela's Boscan Field in 1996 and last year became operator of a consortium that won the right to boost oil production in a Lake Maracaibo field. Chevron also is evaluating a petrochemicals project in Venezuela.

Retail network, petrochemicals business expand.

As part of its brand management program, Chevron is expanding its U.S. service station network and increasing the number of convenience stores, one of the fastest-growing segments of the retail gasoline business. The company also aims to double the size of its petrochemicals company in five years, expanding into international markets.

Success reflects many dimensions of growth.

In January 1998, Chevron created a corporate mergers and acquisitions group that will look to expand the company's business, particularly in the areas of exploration and production.

There are other ways the company is building on success. Safety records continue to improve, cost-reduction efforts are still paying off and Chevron's reputation as the partner of choice is being established around the world.

The company's core philosophy ... is to leave a positive legacy wherever it operates.

The company's core philosophy, which has helped make Chevron a preferred partner, is to leave a positive legacy wherever it operates. This philosophy has served the company well in such diverse places as Papua New Guinea and Peru, Angola and Australia.

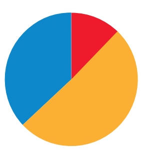
Planning for success.

The strategies for success – in new areas and old – are in place, and a combination of the abundant resources available to Chevron and the ample opportunities at hand may well make this period a defining one in company history.

Strategies for Success

Chevron's long-range plans are guided by nine key strategies. They provide the clear strategic direction needed to carry out the company's mission: to create superior value for stockholders, customers and employees. Chevron's continued success depends on how well these strategies are achieved in all the company's worldwide operations.

Stock Ownership – 1997 Year-End
Percentage



- Chevron Employees - 12%
- Institutions - 51%
- Individuals - 37%

Chevron's employees have a large stake in the company's success.

Employees

Build a committed team to accomplish the corporate mission

Building a committed team remains one of Chevron's primary keys to success. Committed employees are guided by The Chevron Way, which provides a common set of values, a shared sense of purpose and a clear strategic direction.

Employee commitment also is built by creating a sense of ownership, by maintaining safe and healthy workplaces, and by developing the critical knowledge, skills and behaviors that will help give Chevron a competitive advantage.

Employees are major stakeholders. Chevron's employees own a significant part of the company and share in its profits. About 98 percent of eligible employees participate in Chevron's profit sharing and savings plans, cumulatively owning 76.6 million shares, or 12 percent of the total outstanding shares. In addition, Chevron Success Sharing and employee stock option plans reward employees with incentive pay when the company meets financial, operational and safety targets.

Chevron is conducting its fifth worldwide employee survey to measure opinions about work, commitment and company policies. In response to previous survey results, the company has improved its programs for filling open jobs and developing leadership skills.

Chevron promotes continuous learning. The company has created a new Learning and Development organization to help employees continually enhance their learning skills. The organization is designed to help meet the business and personal challenges of a changing and increasingly competitive marketplace.

International Upstream

Accelerate exploration and production growth in international areas

Chevron's portfolio of international upstream assets continues to drive the company's growth. These assets generated earnings of about $1.2 billion in 1997.

Production, reserves continue to rise. Non-U.S. net production increased for the eighth year in a row, reaching a daily average of 827,000 barrels of oil and gas equivalent, up 4 percent from 1996.

Proved oil and gas reserves also climbed for the eighth consecutive year, reaching 4.1 billion equivalent barrels and replacing 127 percent of the volume produced.

Highlights – International Upstream*

Millions of dollars	1997	1996	1995
Earnings, Excluding Special Items	**$ 1,197**	$ 1,142	$ 811
Capital and Exploratory Expenditures	**$ 1,903**	$ 1,854	$ 1,835
Net Liquids Production (MBPD)	**731**	702	651
Net Natural Gas Production (MMCFPD)	**576**	584	565
Net Liquids Reserves (MMBbl)	**3,310**	3,215	3,156
Net Natural Gas Reserves (BCF)	**4,972**	5,042	4,538

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

*Includes Canada

Planned projects, new opportunities fuel growth. To build on the continuing success of its international operations, Chevron is focusing on three important elements: concentrating exploration efforts in a few key areas, joining existing projects that fit its long-term strategies and accelerating the start-up of projects.

New discoveries boost Angolan reserves. Chevron and partners have discovered a giant oil field in Angola's deepwater Block 14, in which Chevron holds a 31 percent interest. The Kuito Field is estimated to contain between 500 million and 1 billion barrels of recoverable oil. Appraisal work is continuing on this field and on a second potentially giant field, Landana, discovered in Block 14 in late 1997.

The offshore South Sanha/North Ndola project began production in mid-1997, pushing Chevron's oil production in Angola to 420,000 barrels a day by year-end. First production from the South Nemba/Lomba project is expected by mid-1998. Chevron's share in both projects is 39.2 percent.

First oil flows from Republic of Congo field. The Kitina Field, in which Chevron holds a 29.3 percent interest, began production in December 1997. Peak production of 45,000 barrels a day is expected by year-end.

Developmental drilling continues at the deepwater Moho Field and has led to two discoveries, the first that confirm potentially commercial oil deposits in shallower geologic formations. Chevron holds a 30 percent interest in both discoveries.

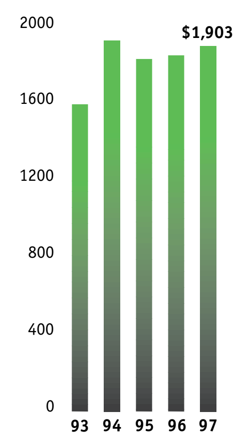
Nigerian oil production increases. The Gbokoda/Dibi project is scheduled to start producing oil by midyear and help push production from Chevron-operated fields to nearly 600,000 barrels a day by 2001.

The Escravos Gas Project has begun processing natural gas that is produced (but not previously recovered) along with crude oil. It will nearly double its capacity by the end of 1999, when a second phase begins operations. The project produces about 73 million cubic feet of natural gas a day for the domestic market and exports 8,000 barrels a day of natural gas liquids.

Papua New Guinea fields start production. First oil from the Gobe Main and Southeast Gobe fields is scheduled to start flowing in the first quarter of 1998. Peak production of 50,000 barrels a day is expected later this year. Chevron holds an average 15 percent share of these fields.

An extended well test is producing nearly 10,000 barrels of oil a day for export from the Moran Field, which was discovered in 1996. Along with additional seismic surveys, the well test will help determine the best method for developing the field.

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



International spending accounted for 53 percent of 1997 worldwide exploration and production expenditures.

*Includes Canada and equity in affiliates

After a nearly flawless installation, the Britannia Platform is being readied to produce natural gas and condensate for the U.K. market in the second half of 1998.

The platform is scheduled to reach peak production of 740 million cubic feet of gas and 70,000 barrels of condensate a day in 1999.

Britannia project personnel include (left to right) Steve Garrett, team leader, reservoir modeling; Lucy Jones, petroleum geologist; Grant Ballantyne, reservoir engineer.

Chevron to swap North Sea assets. The company has exchanged a 12 percent interest in its Alba oil field offshore Scotland for a 7.56 percent interest in Statoil's Draugen Field and varying interests in additional exploration acreage offshore Norway. This swap places Chevron in one of the world's most attractive oil and gas exploration and production regions.

Production from the Britannia Field is scheduled to begin in the third quarter of 1998. Britannia is the largest gas condensate field in the U.K. North Sea, with estimated recoverable reserves of 3 trillion cubic feet of natural gas and 145 million barrels of condensate and natural gas liquids. Chevron's share is 30.2 percent.

Indonesian affiliate keeps top spot. Caltex Pacific Indonesia – Chevron's 50 percent-owned affiliate – produced an average of 765,000 barrels of oil a day in 1997, about half of Indonesia's total. Enhanced oil recovery projects at major fields such as Minas and Duri will help maintain this level beyond 2000.

Tengiz production headed up. Expanded capacity at the giant Tengiz Field in western Kazakhstan is scheduled to increase production from 155,000 to 185,000 barrels of oil a day by mid-1998. Chevron's share of Tengiz is 45 percent. An additional expansion is under way to raise capacity to 240,000 barrels a day. Long term, the key to unlocking Tengiz's full potential is an export pipeline to the Black Sea. Chevron holds a 15 percent interest in the Caspian Pipeline Consortium, and the pipeline could be ready in 2000.

Meanwhile, oil is being exported by rail, pipeline and barge from Tengiz to the Baltic and Black Seas. Additional export routes, including rail shipment to China, are being developed.

Chevron to explore in the Caspian Sea. As part of its strategy to expand its operations in Central Asia, Chevron has signed an agreement with the Republic of Azerbaijan to explore the deepwater Absheron Block, which lies near a major producing area. Drilling could begin as early as 1999. Chevron holds a 30 percent share.

Operations expand in Venezuela. Chevron and partners have been awarded a 20-year contract to operate the giant LL-652 Field in Lake Maracaibo. Chevron plans to increase production from 10,000 to 115,000 barrels of oil a day by 2006.

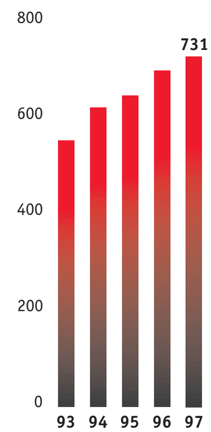
Chevron also operates the 1.6 billion-barrel Boscan Field and plans to increase production to about 115,000 barrels a day by the end of 1998, from 80,000 barrels a day in mid-1996, when the company took over operation.

Exploration to begin onshore China. Chevron has won the right for further exploration in the onshore Shengli Field, China's second-largest oil field.

Chevron and partners have discovered a new oil field near four producing fields in the South China Sea, and the first well is scheduled for later this year. Chevron's share is 16.3 percent.

Australian gas reserves grow. Chevron and partners continue to evaluate the Dionysus Field, a major natural gas discovery offshore Western Australia. These additional recoverable reserves – estimated at 1.3 trillion cubic feet – will help realize Chevron's plans for a major expansion of its liquefied natural gas business in Australia. Chevron

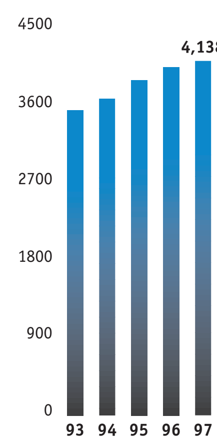
International Net Crude Oil & Natural Gas Liquids Production*
Thousands of barrels per day



Net liquids production rose 4 percent, increasing for the eighth consecutive year.

*Includes Canada and equity in affiliates

International Net Proved Reserves*
Millions of OEG** barrels



International oil and gas reserves increased 2 percent, with major additions from Angola, Australia and Indonesia.

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

holds a 50 percent share in Dionysus. The company also plans to increase liquefied natural gas production by expanding facilities at the North West Shelf Project.

Caspian Region

Accelerate the growth of our Caspian area earnings by cooperatively applying the skills and talents of all Chevron organizations to develop infrastructure, new markets and regional business opportunities

Chevron is both expanding its operations in Kazakhstan and pursuing a wide range of other opportunities in Central Asia, recognizing that the Caspian region holds tremendous potential for long-term growth.

New team named; new alliance formed. In January, the company formed a senior-level team to identify the most promising opportunities that will complement current exploration and production operations in the region. And in February, Chevron and Shell agreed to cooperate on new energy projects in the Caspian, including exploration, production, transporation and marketing.

Kazakhstan sets pace. In a bold, pioneering move in 1993, Chevron formed Tengizchevroil (TCO), a joint venture with the Republic of Kazakhstan. Bucking the wait-and-see approach of most Western corporations after the breakup of the Soviet Union, Chevron led the way in building relationships with newly independent Kazakhstan and other countries bordering the Caspian Sea.

That move – called risky by some – has paid off. Production from Tengiz has increased nearly fivefold to the 1997 daily average of 155,000 barrels a day. An expanding infrastructure will accommodate the increased volume expected over the next 15 years.

Chevron gains experience. Through TCO, Chevron has had several years to demonstrate its technical and business expertise. It also has shown its commitment to environmental protection, to community relations and to a smooth transition for those countries moving from a centrally planned to a free-market economy.

New offices planned. Chevron is building an office complex for up to 800 employees in Atyrau, Kazakhstan, and has opened a service station in Almaty, with others planned for Akmola and Atyrau. It also has set up a regional office in Baku, Azerbaijan, with another planned for Tblisi, Georgia.

The company has formed four project teams to achieve specific new business goals in the Caspian, a region widely compared – for its geologic potential – with Saudi Arabia in the 1930s. They will focus on exploration and production, refining and marketing, transportation, and community development.

North American Upstream

Generate cash from North American exploration and production operations, while maintaining value through sustained production levels

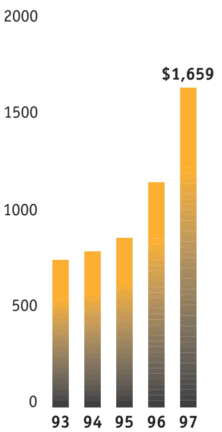
Offshore eastern Canada and deepwater Gulf of Mexico represent the main growth opportunities for Chevron's North American exploration and production. The company also continues to invest in mature areas for modest growth, steady production and cash flow.

The 1.2 million-ton Hibernia Platform was towed into place in May and began producing oil in November. The 3 billion-barrel field is expected to produce for 20 years.

The $5.8 billion project launched a new offshore industry for eastern Canada and will serve as a hub for further growth.

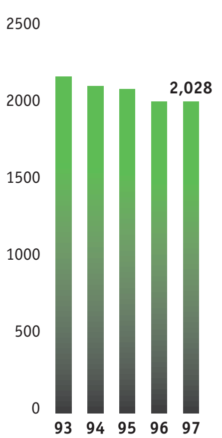
Playing pivotal roles on the Hibernia project are (left to right) Kelly Hanna, process and facilities engineer; Graham Norrie, team leader, production well development; Brian Smillie, controls specialist, Start-Up Team.

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



Acquiring and evaluating new Gulf of Mexico leases helped push expenditures up 42 percent in 1997.

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



Chevron replaced its U.S. oil and gas production for the first time since 1984, excluding sales and acquisitions.

*Oil and equivalent gas

Highlights – U.S. Upstream

Millions of dollars, except per-share amounts	**1997**	1996	1995
Earnings, Excluding Special Items	**$ 972**	$ 1,109	$ 552
Cash Flow After Capital and Exploratory Expenditures	**$ 1,149**	$ 982	$ 672
Capital and Exploratory Expenditures	**$ 1,659**	$ 1,168	$ 879
Net Liquids Production (MBPD)	**343**	341	350
Net Natural Gas Production (MMCFPD)	**1,849**	1,875	1,868
Net Liquids Reserves (MMBbl)	**1,196**	1,149	1,187
Net Natural Gas Reserves (BCF)	**4,991**	5,275	5,532
Production Expense per OEG Barrel	**$ 5.47**	$ 5.40	$ 5.11

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

In 1997, North American upstream operations – Chevron U.S.A. Production Company, Chevron Canada Resources and Chevron's 28 percent interest in NGC Corporation – contributed $1.2 billion in cash to the corporation. Operating earnings were $1.1 billion, with total liquids production up slightly from 1996 levels.

Hibernia signals new Canadian era. The Hibernia Field, offshore Newfoundland, began production in November. With an estimated 650 million barrels of recoverable oil, Hibernia is expected to produce for 20 years, reaching design capacity of 150,000 barrels a day in 1999. Chevron's interest in the $5.8 billion project is about 27 percent. Chevron and partners also acquired the rights to eight exploration blocks that promise further development in the region.

Deepwater projects promise increased reserves. In the next 10 years, Chevron aims to add more than 2 billion barrels of reserves from Gulf of Mexico deepwater projects. Genesis, Chevron's vanguard project – 57 percent company owned – is on course to begin producing in late 1998. The 160 million-barrel field is expected to peak in 2000 at 55,000 barrels of oil and 72 million cubic feet of gas a day. Production from Gemini, a second deepwater project, is scheduled for 1999. Chevron acquired 134 deepwater leases in the gulf in 1997, bringing its total to 362.

Investments, sales support growth. Chevron is a leading producer in Gulf of Mexico shallow waters, and it is investing selectively to offset natural production declines.

In California's San Joaquin Valley, the company is focusing on six core fields that provide steady production with low operating costs, as well as growth opportunities.

Strengthening its position in Alaska, Chevron recently obtained rights to 18 exploration tracts on the eastern North Slope. In February, the company announced an alliance with BP Exploration Alaska to pursue opportunities near Point Thomson.

Taking advantage of a strong acquisition market, the company received some $450 million in proceeds from sales of noncore assets in 1997, with minimal loss of production. It plans additional sales over the next three years, mainly in the Gulf of Mexico and Texas.

NGC expands aggressively. Chevron affiliate NGC – a leading marketer of natural gas, natural gas liquids and electricity – acquired Destec Energy, the second-largest independent U.S. power producer. This move significantly increases NGC's power marketing business, adds power generation to NGC's services and positions it for U.S. and international growth.

Highlights – U.S. Downstream

Millions of dollars	**1997**	1996	1995
Earnings, Excluding Special Items	**$662**	$290	$ 75
Capital and Exploratory Expenditures	**$520**	$429	$892
Refined Products Sales (MBPD)	**1,193**	1,122	1,117
Refinery Capacity (MBPD)	**1,046**	1,044	1,044
Refinery Input (MBPD)	**933**	951	925
Number of Service Stations	**7,752**	7,746	7,788

MBPD = Thousands of barrels per day

To accommodate new Gulf of Mexico production, Venice Energy Services Company – owned by Chevron, NGC, Shell and Koch – expanded its Venice, La., complex. Gas-gathering capacity nearly doubled to 800 million cubic feet a day, and processing capability increased from 1.0 to 1.3 billion cubic feet a day.

U.S. Downstream

Achieve top financial performance in U.S. refining and marketing

U.S. refining, marketing and transportation earnings, excluding special items, were $662 million – more than double last year's results. The strong improvement, continuing a trend established in 1996, was bolstered by increased product sales volumes, improved refining reliability and a decline in both crude oil feedstock costs and operating expenses.

Retail gasoline sales volumes in 1997 increased about 2 percent over 1996 results. At the same time, Chevron Products Company's operating expenses declined about $140 million.

Safety success leads to new goal. For the second consecutive year, Chevron Products reduced its recordable injury rate, resulting in a drop of 50 percent since 1993. The company set a new goal of reducing the rate an additional 50 percent by 2000. The cost of incidents in 1997 decreased more than 40 percent from the 1996 rate.

Company stresses volume growth. Chevron's service station network is expanding as the company pursues growth opportunities and attracts more dealers. Chevron currently has under construction more than 100 new locations to be operated by independent dealers and jobbers. In addition, it plans to open more than 100 new or rebuilt company-operated stations in both 1998 and 1999.

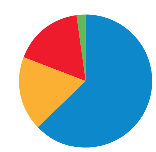
Chevron is one of the top three gasoline marketers in 14 states and remains the No.1 marketer of aviation fuels in the West.

Refining geared to customer needs. In refining, the emphasis is on meeting retail gasoline demands from Chevron's existing refining system. With recent West Coast upgrades completed, the company reduced capital spending on refineries by two-thirds since 1995 to about $200 million a year, a level consistent with maintaining safe, reliable operations.

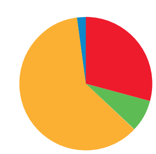
Convenience store sales key to growth. In addition to fuels, the company is stressing growth in convenience store goods and services. These include food and beverages, and automated teller machines that, in addition to cash, dispense items such as maps and lottery, movie and baseball tickets. In the next three years, Chevron plans to increase

U.S. Gasoline Sales Volumes by Grade & Type

Percentage



- Regular Unleaded - 63%
- Premium Unleaded - 18%
- Midgrade Unleaded - 17%
- Aviation & Other - 2%



- Reformulated, Calif. - 29%
- Reformulated, Federal - 8%
- Non-Reformulated - 61%
- Aviation & Other - 2%

Cleaner-burning reformulated gasolines account for 37 percent of Chevron sales.

At a Houston service station, a new 'grand entrance' welcomes customers to the convenience store, an important part of Chevron's retail gasoline business.

Growth in Chevron 'c-stores' has accelerated: Their number is increasing, and new stores are 50 percent larger than the current average.

Employees playing key roles in the c-store business include (left to right) Dok Choe, c-store interior designer; Scott Moline, c-store exterior designer; Eduardo Zubizarreta, Chevron dealer.

the number of company-operated convenience stores by 20 percent, while increasing the average store size by 50 percent.

The Chevron-McDonald's alliance continues to grow, with some 75 sites now operating and further expansion planned through 1999.

Global Lubricants business expands; catalyst sales up. Chevron has begun a $70 million expansion of its lube oil plant in Richmond, Calif., in order to further boost quality and manufacture a broader range of products, including new premium lubes.

Building on its strong base in Kazakhstan and Ukraine, Chevron plans to expand its lubricants business in Azerbaijan and Georgia, as well as in Argentina, Peru and Colombia.

In 1997, Chevron licensed 170,000 barrels a day of its hydroprocessing technologies, used to make quality lubricants and fuels, and reached record catalyst sales, up 20 percent from 1996.

Caltex

Caltex should achieve superior competitive financial performance, while selectively growing in attractive markets

In a year of economic turmoil and currency devaluations in the Asia-Pacific region, Caltex responded by increasing its focus on controlling costs and managing investments. Chevron's 50 percent-owned international refining and marketing affiliate, Caltex operates in about 60 countries in the Middle East, Africa and the Asia-Pacific region.

Operating earnings benefit from currency exchange gains. In 1997, Chevron's share of operating earnings jumped to $247 million from $127 million in 1996, due mainly to foreign exchange gains. Net income in 1997 declined to $252 million from 1996's $408 million, which included a gain from an asset sale in Japan. Operating expenses per barrel were $3.02 in 1997, down from $3.15 in 1996.

Outlook calls for growth, stability. Caltex expects that growth in the Asia-Pacific region will continue to surpass that of most other regions. However, oil demand growth in the Caltex operating area is expected to slow, due to the recent economic downturn. Forecasts for 2000 have been revised downward by 1.4 million barrels a day, or 6.5 percent from previous estimates.

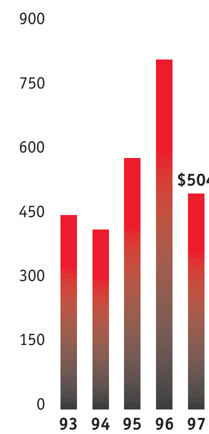
Sales, acquisitions advance strategies. In 1997, Caltex sold its interest in a refinery in Bahrain and agreed to integrate the operations of its 64 percent-owned Star Petroleum Refinery Company Ltd. facility in Thailand with a nearby Shell refinery. To increase its retail market share in Thailand, Caltex acquired 47 British Petroleum service station sites.

Caltex Australia Limited, a company affiliate, gained control of Australia Petroleum Pty. Ltd., the country's No.1 refiner and marketer, by buying Pioneer International's 50 percent share.

Focus is on cost cutting, brand management. To increase efficiency, reduce costs and consolidate support functions, Caltex is establishing a shared services organization in Manila and a computer processing center in Singapore.

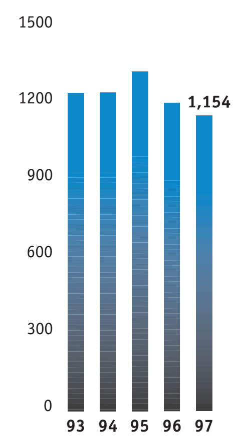
The company continues to enhance the Caltex brand with its service station reimaging program, begun in 1996. It also will be a major sponsor of the Asian Games to be held in Thailand later this year.

Caltex Net Income*
Millions of dollars



1997 earnings included $354 million in foreign currency gains.
*100 percent basis

Caltex Sales of Refined Products*
Thousands of barrels per day



Caltex sales of refined products declined due to the sale of its interest in a Japanese refiner in 1996.
*100 percent basis

In Singapore, Chevron is building Asia's first fuel additives plant with a complete line of products. The $210 million plant should start operations by late 1998.

The new facility will allow the company to more quickly deliver a broader range of products to its worldwide customers.

Plant construction team members include (left to right) Ron Jones, site manager; Zalena Yusoff, document controller; Stephen Wong, painting inspector.

Highlights – Chemicals

Millions of dollars	**1997**	1996	1995
Earnings, Excluding Special Items	**$ 224**	$ 228	$ 524
Capital and Exploratory Expenditures	**$ 664**	$ 497	$ 204
Chemicals Sales and Other Operating Revenues*	**$3,633**	$3,541	$3,953
U.S. Chemicals Division Sales (MMLb)*	**10,562**	9,924	9,774
International Group (MMLb)*	**84**	–	–
Sales of Additives (MMGal)*	**153**	165	151

MMLb = Millions of pounds; MMGal = Millions of gallons

*Includes sales to other Chevron companies

Chemicals

Improve competitive financial performance in chemicals, while developing and implementing attractive opportunities for growth

The ongoing cost-control efforts of the company's chemicals operations offset higher natural gas costs and a sharp decline in prices for styrene and polystyrene, two of Chevron Chemical Company's core products. Operating earnings declined slightly to $224 million from $228 million in 1996, reflecting the continuing cyclical downturn in the chemicals industry.

U.S. volumes head up. Chevron Chemical has expanded facilities at several U.S. plants to take advantage of expected future demand growth for petrochemicals.

As part of a three-year, $2.4 billion capital program, the company has increased ethylene production capacity by 70 percent to 1.7 billion pounds a year at its Port Arthur, Texas, plant. In addition, polystyrene production at the Marietta, Ohio, facility and paraxylene capacity at the Pascagoula, Miss., plant have doubled.

These projects will increase overall product volumes by 25 percent and help maintain the company's position as one of the lowest-cost producers of key petrochemicals.

Company prepares for worldwide upswing. Chevron Chemical also is expanding its international operations to take advantage of the expected growth in global demand for petrochemicals.

Construction is continuing at the company's $210 million lube oil and fuel additives plant in Singapore and at a $650 million benzene and cyclohexane facility in Saudi Arabia.

Chevron Chemical also plans to build a 100,000-ton polystyrene plant in China and is working with the Venezuelan state oil company to develop a world-scale aromatics facility based on Chevron's Aromax and Eluxyl hybrid technologies.

Other Businesses

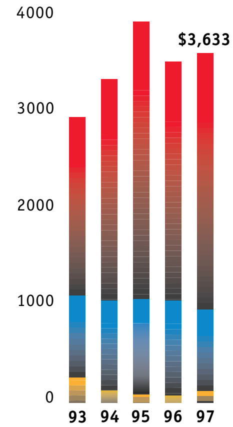
Be selective in other businesses

Chevron's other businesses are managed primarily for cash flow and profitability, and for growth when opportunities arise.

Canadian subsidiary leads competitors. Chevron Canada Limited, the company's Canadian refining and marketing subsidiary, remains the largest retail marketer in British Columbia, with a 21 percent market share. Service station modernization and customer service programs led to retail gasoline and convenience store sales gains in 1997.

Chemicals Revenues by Division*

Millions of dollars



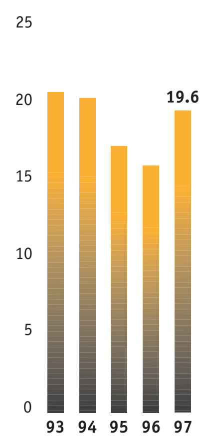
■ U.S. Chemicals
■ Additives
■ International & Other

Sales revenues improved marginally as the cyclical downturn in the industry continued through 1997.

*Includes sales to other Chevron companies

Net Coal Sales*

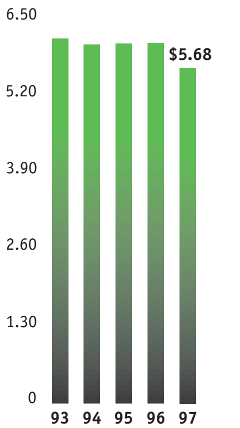
Millions of tons



Coal sales increased as demand for electricity rose.

*Includes interests in affiliates

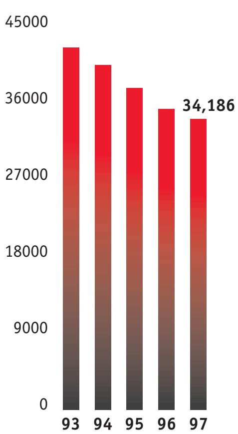
Operating Expenses Per Barrel*



Lower costs and higher production and sales levels reduced operating costs.

*Prior years restated to eliminate divested operations

Number of Employees at Year-End*



Since 1991, Chevron has reduced its work force by more than 16,000.

*Excludes service station personnel

Environmental improvements continue at the company's Burnaby Refinery near Vancouver. Construction also has begun on new facilities to make reformulated gasolines that reduce auto emissions.

Coal demand recovers. Sales volumes for The Pittsburg & Midway Coal Mining Co. (P&M) have increased, and the Black Beauty Coal Company partnership has significantly expanded its operations. P&M acquired the Skull Point Mine in Wyoming from FMC Corporation. It also bought a 29.8 percent interest in Inter-American Coal, which has mining operations in Venezuela. The company formed two partnerships with Wesco Resources in Montana, which give it a significant position in the largest-remaining undeveloped reserve of environmentally desirable low-sulfur coal in the United States.

Chevron exits U.K. marketing and refining business. Chevron has sold its marketing assets in its wholly owned subsidiary in the United Kingdom, Gulf Oil (Great Britain), including 450 service stations, a lubricants and commercial fuels business, and three fuel terminals. The company also divested its interest in a catalytic cracking facility in Pembroke, Wales. In connection with these sales, the company will shut down its 115,000-barrel-a-day refinery in Wales.

Reduce Costs

Focus on reducing costs across all activities

Cost reduction has been an important contributor to profit growth for the past six years. Since 1991, Chevron has cut about $1.8 billion, including the impact of major asset sales and reorganizations, from its annual operating expenses. About $400 million in cost cuts were achieved in 1997.

These lower costs, when combined with higher volumes, pushed per-barrel operating expenses down to $5.68 in 1997 from $6.10 the previous year.

To continuously reduce operating costs, Chevron is focusing on multifunctional work teams, clear priorities and the effective application of new technologies.

Energy, computing and organizational efficiency yield savings. Much of the cost-reduction gains come from "breakthrough" projects – such as the corporatewide energy-efficiency initiative – that were started in 1991 and continue to pay dividends. Substantial savings also are being realized through the reorganizations of North American exploration and production activities, fleet operations and human resources, as well as improvements in financial services.

By standardizing its worldwide computing infrastructure – a project that will be completed in 1998 – Chevron estimates it will save up to $30 million a year.

Costs slashed for capital projects, purchasing and steamfloods. A corporatewide initiative has cut the cost of capital projects 15 percent since 1991 by improving how they are selected, developed and executed.

Through alliances, the company has reduced the number of its suppliers from 70,000 to fewer than 30,000 since 1994. For example, one alliance covers approximately $100 million a year in purchases of pipe used in oil and gas wells – previously split among 26 vendors – and has resulted in a cost savings of 7 percent.

In California's San Joaquin Valley fields, new technology that improves heat management has cut costs for steamflooding – an enhanced oil recovery technique – more than 30 percent since 1991.

Report on the Environment

From responsible operations to contributions, Chevron's commitment to the environment remains an integral part of the company's business philosophy. Striving to improve an already highly regarded record, nearly all Chevron operations met their "Protecting People and the Environment" program goals, fully implementing 102 management practices worldwide by year-end 1997.

The program, which establishes a systematic approach to health, safety and environmental performance, stresses 10 key areas, including emergency preparedness, resource conservation and community programs.

Chevron goes the extra mile. Chevron consistently demonstrates a concern for the environment by sponsoring educational programs, funding research and donating natural habitats. For example, Chevron Canada Resources joined three other oil companies to cede exploration rights to some 320,000 acres of coastal waters, paving the way for the first national marine conservation area on Canada's west coast. The donation will help protect a region rich in marine life.

Lauded by Peruvian authorities, Chevron's community relations program at an exploration tract in the Amazon jungle of Peru sets an example for companies operating in environmentally and socially sensitive areas. This program also earned a commendation from the Christian Emergency Relief Team for its efforts to protect the environment, preserve the indigenous people's livelihood and improve community health.

Good practices recognized. Several other Chevron operations received environmental honors. These include a Governor's award for Chevron Chemical Company's Oak Point plant in Belle Chasse, La., and an Emerald Award for an educational radio program in Alberta, Canada. Chevron also won the National Health of the Land Environmental Award, which recognized the company's environmental practices during an almost 50-year partnership with the U.S Bureau of Land Management and the U.S. Fish and Wildlife Service.

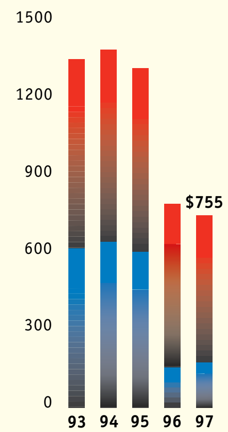
Employees lend a hand. Thousands of employees devote time and energy to such projects as tutoring programs, Yosemite National Park restoration and bird rescues. More than 750 Chevron employees in Louisiana, Florida and Alabama participated in the International Coastal Cleanup, an event that spans more than 90 countries. Volunteers collected 14 tons of tin cans, tires and other garbage.

Shipping adds double-hulled vessels. Chevron Shipping Company has ordered four double-hulled vessels to help ensure the company's outstanding safety record. Equipped with the latest technology, the tankers will join Chevron's worldwide fleet by 2000. At that time, Chevron will have 14 double-hulled tankers.

Routine drills prepare employees. Response teams regularly stage emergency drills to prepare employees for possible crises, such as spills and fires, and to test the company's high-tech communication systems.

A Chevron-built tidal wetland next to its Pascagoula, Miss., refinery is home to migratory birds, mammals and reptiles.

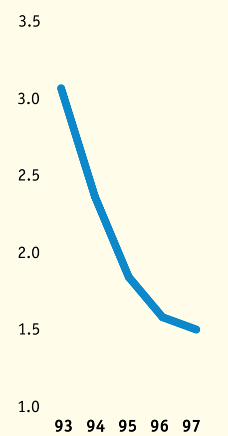
U.S. Environmental Capital Expenditures & Expenses
Millions of dollars



Expensed Environmental Expenditures
Capitalized Environmental Expenditures

With the completion of major refinery clean-air projects in 1995, capital spending has been reduced.

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



Since 1993, Chevron has cut its U.S. petroleum and petrochemicals illness and injury rate by 50 percent.

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 geologic studies; topographical, geophysical and seismic surveys; and well drilling.

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

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

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

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

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

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

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

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

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

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

Financial Terms

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

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

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

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

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

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

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

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

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

Financial Table of Contents

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

1997 HIGHLIGHTS

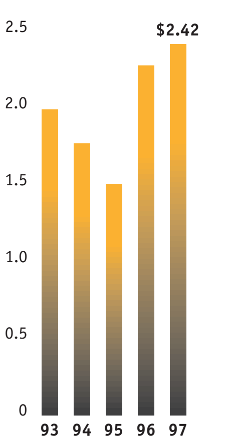
- **Net income was $3.256 billion for 1997, the second consecutive year of record earnings**
- **Operating earnings were $3.180 billion, also a record**
- **Annual return on capital employed, excluding special items, was 14.7 percent, the highest in more than a decade**
- **Worldwide oil and gas reserves increased for the fifth consecutive year; international liquids production increased for the eighth consecutive year**
- **Debt was reduced by more than $600 million**
- **Annual dividend to the stockholders increased for the tenth consecutive year in 1997; another dividend increase was announced in January 1998**

KEY FINANCIAL RESULTS

Millions of dollars, except per-share amounts	1997	1996	1995
Sales and Other Operating Revenues	$40,583	$42,782	$36,310
Net Income	$ 3,256	$ 2,607	$ 930
Special Credits (Charges) Included in Net Income	$ 76	$ (44)	$ (1,032)
Per Share:			
Earnings – basic	$ 4.97	$ 3.99	$ 1.43
– diluted	$ 4.95	$ 3.98	$ 1.43
Dividends	$ 2.28	$ 2.08	$ 1.925
Return On:			
Average Capital Employed	15.0%	12.7%	5.3%
Average Stockholders' Equity	19.7%	17.4%	6.4%

Chevron's net income for 1997 was a record $3.256 billion, up 25 percent from net income of $2.607 billion in 1996 and up 250 percent from $930 million in 1995. Net income benefited $76 million from special items in 1997 and 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. After excluding these items, operating earnings for 1997 were $3.180 billion, up 20 percent from $2.651 billion earned in 1996 and up 62 percent from $1.962 billion in 1995. For the second year in a row, the company earned record profits. In spite of lower crude oil prices, the company reached its earnings goal of $3 billion, set in February 1996, one year ahead of target. Chevron's annual return on employed capital, excluding special items, was 14.7 percent, the highest in more than a decade.

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



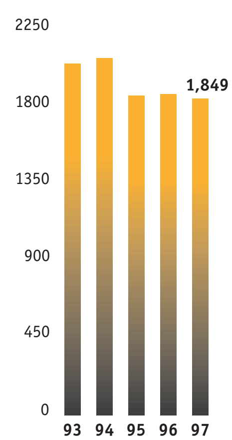
High demand and tight supplies supported natural gas prices in 1997.

OPERATING ENVIRONMENT AND OUTLOOK. The Spot West Texas Intermediate (WTI) crude oil price averaged nearly $25.40 per barrel in December 1996 and began to decline in early 1997, trading in the $19–$21 range during most of the year until December 1997, when it dropped to $18.30 per barrel. The downward trend continued through January 1998, averaging about $16.70 per barrel. On February 20, 1998, the WTI spot price was $16.15 per barrel.

A number of factors continue to exert downward pressure on crude oil prices. Demand growth is slowing as a result of the Asian economic slowdown and the warm winters in the United States, Europe and Japan. At the same time, supplies have been increasing because of the start-up of new producing fields and higher OPEC quotas and production, resulting in an oversupplied world market. It is uncertain how long these conditions will continue. In addition, inventories are ample currently and will have to be worked off before prices can rise.

Lower crude oil prices in 1998 may lead to lower revenues and earnings than experienced in 1997, particularly in the company's exploration and production (upstream) operations. However, further production increases are expected in 1998 from new developments in West Africa and offshore eastern Canada, where the Hibernia oil field began production in November 1997, and from continued expansion of production from the Tengiz Field in Kazakhstan. The company has evaluated its capital spending programs under conservative price assumptions and, at the present time, expects to fully fund its planned $6.3 billion 1998 capital and exploratory expenditure program.

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

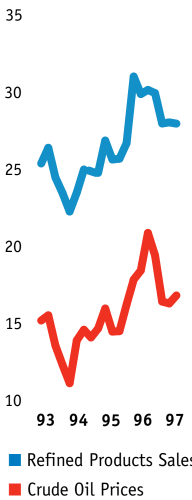


New development projects in the Gulf of Mexico stabilized natural gas production.

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

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

Dollars per barrel



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

However, should this low price environment become more severe and prolonged, the company has the ability to modify its planned expenditures accordingly.

In the international refining, marketing and transportation (downstream) segment, the company's Caltex affiliate's earnings have been, and will continue to be, affected by the decline in the value of Asian currencies. This has generally led to reduced refined product margins, as local prices have trailed the increased local currency costs of crude oil. In certain Asian countries, refined products prices are subject to government-prescribed increases and do not result in immediate recovery of local cost increases. In addition, the higher prices for refined products have caused demand for these products to decline. This trend has continued into 1998 and may slow the rate of growth in refined products demand that was previously expected in this region.

The U.S. chemicals industry entered a cyclical downturn in the latter half of 1995 that persisted throughout 1996 and 1997. Chevron has several major chemicals expansion projects under way to position the company to benefit from the next upturn in the chemicals industry by lowering its unit cost structure.

SIGNIFICANT DEVELOPMENTS. In April 1997, Chevron completed the sale of 10 percent of its 50 percent interest in the Tengizchevroil (TCO) joint venture to LUKARCO, a joint venture between the Russian oil company LUKoil and Arco. The company recorded a gain of $32 million from that sale in the second quarter of 1997.

Total liquids production from the Tengiz Field in 1997 averaged about 155,000 barrels per day, an increase of 38 percent over 1996 average production. In July, TCO announced the construction of a fifth oil and gas processing train at Tengiz, which is expected to boost production capacity to 240,000 barrels per day. TCO continues to successfully move crude oil by pipeline, barge and railcar. In May 1997, Chevron acquired a 15 percent interest in the Caspian Pipeline Consortium, which intends to build a direct pipeline to the Black Sea to carry crude for TCO and other regional producers. Elsewhere in this region, the company signed an agreement with the Republic of Azerbaijan to explore the Absheron Offshore Block in the southern Caspian Sea.

In February 1998, the company announced a new Caspian region cooperative agreement with the Royal Dutch/Shell Group. The agreement establishes a framework for the two companies to jointly identify and develop new projects in the areas of exploration, production and transportation and in the sale of crude oil, gas liquids and natural gas.

The first Chevron production of crude oil from offshore Angola began from the Ndola and Sanha fields in April and August 1997, respectively. The company has a 39 percent interest in these fields. Also, the company announced two giant crude oil discoveries in Block 14, a contract area adjacent to the company's major areas of production, which are the company's first finds in that country's deep water. Chevron is operator and holds a 31 percent interest in Block 14.

Chevron and its partners successfully bid to operate the LL-652 oil field in Venezuela's Lake Maracaibo. Chevron, with a 30 percent interest, will operate the field under a 20-year contract beginning in 1998. The field currently is producing 10,000 barrels per day. The partners have submitted a development plan that is expected to increase the field's production to an estimated potential of 115,000 barrels per day by 2006.

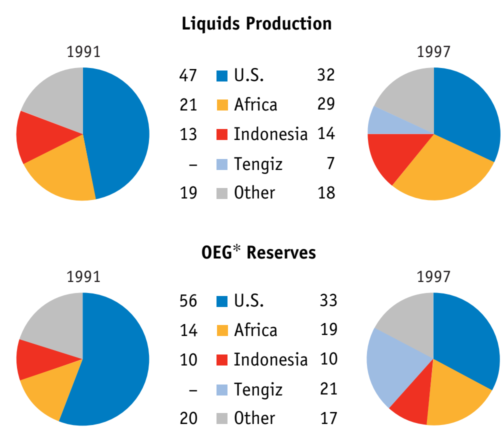
The first liquefied petroleum gas (LPG) exports from the company's Escravos, Nigeria, joint venture gas project occurred in September. This project provides a commercial outlet for LPG derived from natural gas that is produced with the company's crude oil production. Chevron is planning a second phase of the project that will increase the amount of gas processed by 110 to 120 million cubic feet per day from its current level of 175 million cubic feet per day.

In November, initial production began from the Hibernia oil development project, off the east coast of Newfoundland, in which Chevron has an approximate 27 percent interest. At year-end 1997, production from two wells had reached 60,000 barrels per day.

Chevron acquired 134 additional leases offshore Louisiana and Texas at federal sales during the year, furthering its intent to be a major participant in the development of the Gulf of Mexico's deep waters. The company's deepwater portfolio consists of 362 tracts in waters as deep as 8,500 feet, including an interest in the Genesis project, where first liquids production is expected in late 1998.

Diversification Results

Percentage



Since 1991, Chevron has geographically diversified its liquids production and OEG* reserves.

*Oil and equivalent gas

During 1997, the company continued development of international chemicals projects including a $650 million petrochemicals complex in Al-Jubail, Saudi Arabia, that is scheduled to be completed in 1999, and a plant in Singapore to manufacture additives for fuels and lubricating oils. In the United States, the company completed major expansion and debottlenecking projects at the Port Arthur, Texas, and Marietta, Ohio, plants.

Chevron sold its marketing interests in the United Kingdom, including its retail network of 450 stations and its lubricants and commercial fuels businesses, to Shell UK Ltd. in December. The company also divested its 50 percent equity interest in a 90,000-barrel-per-day catalytic cracking facility in Pembroke, Wales. In connection with these divestitures, the company also will close its 115,000-barrel-per-day refinery located near Milford Haven, Wales and will sell its other remaining assets, thereby completing the company's withdrawal from the refining and marketing business in the United Kingdom.

YEAR 2000. At year 2000, a two-digit date of "00" may not be recognized by computer systems and applications developed in the 1970s and 1980s as the year 2000, causing systems to shut down or malfunction. Chevron has established a Project Team to coordinate the Year 2000 efforts of teams in the company's operating units to ensure that its computer systems and applications will function properly beyond 1999. Many of the company's information systems and software are Year 2000 compliant, and others are currently being assessed for compliance. A Year 2000 compliance assessment of the embedded technology in the company's facilities and operating systems is also under way. After these assessments are complete, plans for modification or replacement, testing, and certification will be developed and implemented to ensure the company's facilities and business activities will continue to operate safely and reliably, without interruption, after 1999. The teams also are monitoring the compliance efforts of suppliers, contractors, and trading partners with whom Chevron does business, to ensure that operations will not be adversely affected by the compliance problems of others. Until the assessments are complete, the company cannot state with certainty whether it has, or will have, significant Year 2000 issues. Additionally, the total amount of costs to be incurred cannot be reliably estimated at this time. However, based on the information currently available, the company has no reason to believe that Year 2000 issues will be material to its results of operations, consolidated financial position or liquidity.

ENVIRONMENTAL MATTERS. Virtually all aspects of the company's businesses are subject to various federal, state and local environmental, health and safety laws and regulations. These regulatory requirements continue to increase in both number and complexity and govern the company's operations and the products it sells. Most of the costs of complying with myriad laws and regulations pertaining to the company's 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 1997 was about $893 million for its consolidated companies. Included in these expenditures were $237 million of environmental capital expenditures and $656 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 noncash provisions to increase these reserves or establish new ones during the year. For 1998, total worldwide environmental capital expenditures are estimated at $265 million. These capital costs are in addition to the ongoing costs of complying with environmental regulations and the costs to remediate previously contaminated sites.

In addition to the costs for environmental protection associated with its ongoing operations and products, the company may incur expenses for corrective actions at various owned and previously owned facilities, as well as third party waste disposal sites used by the company. An obligation to take remedial action may be incurred as a result of the enactment of laws, such as the federal Superfund law, 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.

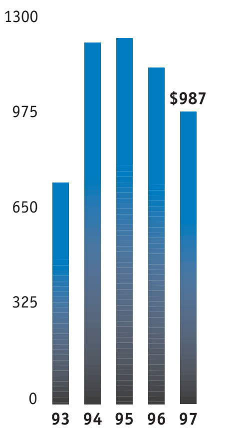
The company retained certain environmental cleanup obligations when it sold the Port Arthur, Texas, refinery in 1995, and anticipated costs were accrued at the time of sale. Under the terms of the sales contract, these obligations were re-evaluated in 1997, resulting in the confirmation that previously recorded reserves were adequate.

During 1997, the company recorded $57 million of before-tax provisions ($35 million after tax) for environmental remediation efforts, including Superfund sites. Actual expenditures charged against these provisions and other previously established reserves amounted to $205 million in 1997. At year-end 1997, the company's environmental remediation reserves were $987 million, including $43 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 282 hazardous waste sites. The company has made provisions or payments in 1997 and prior years for approximately 188 of these sites. No single site is expected to result in a material liability for the company at this time. For the remaining sites, investigations are not yet at a stage where the company is able to quantify a probable liability or determine a range of reasonably possible exposures. The Superfund law provides for joint and several liability. Any future

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

Year-End Environmental Remediation Reserves
Millions of dollars



Reserves fell as expenditures for environmental remediation outpaced new accruals.

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.

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 for the manufacture of cleaner-burning gasoline. The bulk of this spending was completed in 1995, which resulted in a decrease in capitalized air-quality expenditures from approximately $500 million in 1995 to $70 million in 1996 and $74 million in 1997.

In addition to the reserves for environmental remediation, the company maintains reserves for dismantlement, abandonment and restoration of its worldwide oil and gas and coal properties at the end of their productive lives. Many of these costs are environmentally related. Provisions are recognized on a unit-of-production basis as the properties are produced. The amount of these reserves at year-end 1997 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 a defendant in a lawsuit that OXY U.S.A. brought in its capacity as successor in interest to Cities Service Company. The lawsuit claims damages resulting from the allegedly improper termination of a tender offer 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 million, including interest, which continues to accrue at a rate of 9.55 percent per year while the appeal is pending. The company has filed an appeal with the Oklahoma Supreme Court and posted a bond for 1.5 times the amount of the judgment. Although 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.

In a lawsuit in Los Angeles, California, brought in 1995, the company and five other oil companies are contesting the validity of a patent granted to Unocal Corporation (Unocal) for reformulated gasoline, which the company sells in California during certain months of the year. The first two phases of the trial were concluded in October and November 1997, with the jury upholding the validity of the patent and assessing damages at the rate of 5.75 cents per gallon of gasoline sold in infringement of the patent between March 1 and July 1, 1996. In the third phase of the trial, the judge heard evidence to determine if the patent is enforceable; the matter is currently under submission. While the ultimate outcome of this matter cannot be determined with certainty, the company believes Unocal's patent is invalid and any unfavorable rulings should be reversed upon appeal. However, should the jury's findings and Unocal's position ultimately be upheld, the company's exposure with respect to future reformulated gasoline sales would depend on the availability of alternate formulations and the industry's ability to recover additional costs of production through prices charged to its customers.

In June 1997, Caltex Petroleum Corporation received a claim from the U.S. Internal Revenue Service (IRS) for $292 million in excise taxes, $140 million in penalties and $1.6 billion in interest. The IRS claim relates to crude oil sales to Japanese customers beginning in 1980. Caltex is challenging the claim and fully expects to prevail. Caltex believes the underlying excise tax claim is wrong and therefore the claim for penalties and interest is wrong. The Caltex claim has been through the appeals process and will next move to court. In February 1998, Caltex provided an initial letter of credit for $2.33 billion to the IRS to pursue the claim. The letter of credit is guaranteed by Chevron and Texaco. In addition, a yet to be decided portion of the claim must be paid in order to proceed to court.

The company is the subject of other 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. These lawsuits and other contingent liabilities are discussed in the notes to the accompanying consolidated financial statements. The company believes that the resolution of these matters will not materially affect its consolidated financial position or liquidity, although losses could be material with respect to earnings in any given period.

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

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

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

NEW ACCOUNTING STANDARDS. Effective December 1997, the company adopted two new accounting standards: Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," and SFAS No. 129, "Disclosure of Information About Capital Structure." SFAS No. 128 requires Income Statement disclosure of both basic and diluted earnings per share in place of the primary and fully diluted earnings per share required previously. A footnote disclosure of the calculation method is also required. The adoption of SFAS No. 129 required no additional disclosures since the company previously met its requirements.

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." The company will begin reporting comprehensive income in compliance with SFAS No. 130 beginning with the first quarter 1998, while reporting under SFAS No. 131 initially will be presented in the financial statements for the year 1998. While the company is evaluating the criteria of SFAS No. 131 as they apply to Chevron's operations, it does not anticipate significant changes to its reportable segments. The statements require additional reporting and expanded disclosures but will have no effect on the company's results of operations, financial position, capital resources or liquidity.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosure about Pension and Other Postretirement Benefits" that revised disclosure requirements for pension and other postretirement benefits. It does not affect the measurement of the expense of the company's pension and other postretirement benefits.

These new standards become effective for fiscal years beginning after December 15, 1997.

SPECIAL ITEMS. Net income is affected by transactions that are unrelated to, or are not necessarily representative of, the company's ongoing operations for the periods presented. These transactions, defined by management and designated "special items," can obscure the underlying results of operations for a year, as well as affect comparability between years. Following is a table that summarizes the gains or (losses), on an after-tax basis, from special items included in the company's reported net income.

	Year ended December 31		
Millions of dollars	**1997**	1996	1995
Asset Write-Offs and Revaluations	**$ (86)**	$(337)	$ (304)
Initial Implementation of SFAS No. 121	**–**	–	(659)
Asset Dispositions	**183**	391	7
Prior-Year Tax Adjustments	**152**	52	(22)
Environmental Remediation Provisions	**(35)**	(54)	(90)
Restructurings and Reorganizations	**(60)**	(14)	(50)
LIFO Inventory Gains (Losses)	**5**	(4)	2
Other	**(83)**	(78)	84
Total Special Items	**$ 76**	$ (44)	$(1,032)

Asset write-offs and revaluations in 1997 included $68 million of impairment write-downs of U.S. oil and gas properties, $10 million for chemical facilities and $8 million for telecommunications equipment. Asset write-offs in 1996 were related primarily to a $200 million estimated impairment provision in connection with the company's intent at that time to merge its United Kingdom refining and marketing operations with those of two other oil companies. Additionally, 1996 included $68 million of impairment write-downs of oil and gas properties and related pipeline investments, 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, asset write-offs of $304 million were recognized in connection with the company's decision to exit its real estate development business ($168 million), the completion of a comprehensive review of all the company's fixed asset records ($94 million), the write-down of assets made obsolete by the new facilities required to produce California-mandated reformulated gasolines ($38 million) and other miscellaneous write-offs ($4 million). Also effective in 1995, the company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for

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

Long-Lived Assets to be Disposed Of." The adoption of this standard required noncash charges amounting to $659 million after tax, mostly related to impairment write-downs of U.S. oil and gas producing properties.

Asset dispositions in 1997 increased earnings a net $183 million, including net gains of $190 million from the sales of U.S. oil and gas properties; $50 million from the sale of international oil and gas properties, including the sale of 10 percent of the company's ownership interest in the TCO joint venture in Kazakhstan; and $33 million from the sale of the company's interest in a chemical affiliate. Partially offsetting these gains were charges of $90 million to increase provisions for environmental, severance and other costs associated with the company's exit from the U.K. refining and marketing business and for lease termination costs on three oceangoing vessels and their write-down to fair market value. Asset dispositions in 1996 increased earnings $391 million and included a $279 million gain from the company's Caltex affiliate's sale of its interest 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 (NGC).

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 of changes in statutory tax rates on deferred income taxes. Favorable U.S. income tax adjustments of $142 million and a Canadian tax settlement of $10 million benefited 1997 earnings, while 1996 earnings benefited $52 million from a U.S. federal tax audit settlement.

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 future environmental remediation costs amounted to $35 million in 1997, $54 million in 1996 and $90 million in 1995.

Restructurings and reorganizations in 1997 included $54 million for Chevron's share of the charge taken by its affiliate, NGC, primarily for asset write-downs and other costs associated with a planned restructuring of NGC's gas liquids and crude oil business and $6 million in connection with the reorganization of Chevron's North American exploration and production operations. Restructurings 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 primarily of employee severance provisions in connection with reorganizations of various business activities.

LIFO inventory liquidation gains (losses) result from the reduction of inventories in certain inventory pools valued under the Last-In, First-Out (LIFO) accounting method. These amounts include the company's equity share of Caltex LIFO inventory effects. Chevron's consolidated petroleum inventories were 79 million barrels at year-end 1997, 83 million barrels at year-end 1996 and 93 million barrels at year-end 1995.

Other special items in 1997 reduced earnings by $83 million and consisted primarily of net charges for litigation and other matters, including costs associated with the company's employee performance stock option program. Earnings were reduced 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.

RESULTS OF OPERATIONS. In 1997, the company performed very well operationally and achieved record earnings for the second consecutive year. The successful 1997 performance was led by U.S. refining, marketing and transportation, which more than doubled its operating earnings compared with last year, benefiting from increased refined product demand and improved sales margins, reflecting both lower crude costs and lower operating expenses.

International refining, marketing and transportation earnings also increased significantly in 1997. The higher earnings were primarily attributable to Chevron's 50 percent share of its Caltex affiliate's earnings and reflected significant after-tax currency gains, as Asian currencies generally weakened against the U.S. dollar.

Despite a 7 percent decline in crude oil prices compared with 1996, upstream operating earnings were down less than 4 percent from 1996 levels. International upstream exceeded last year's record profits and increased liquids production by 4 percent, marking the eighth consecutive year of increased production. The overall production increase and lower operating expenses nearly offset the decline in crude oil prices.

Net proved reserves increased despite higher production levels in 1997, reflecting the company's success in growing international operations and maintaining production levels in the United States. In 1997, the company estimates it replaced 115 percent of its worldwide oil and gas production through additions to proved reserves. Excluding the effects of any properties purchased or sold in 1997, the company's reserves replacement rate was 142 percent. Outside the United States, replacement of oil and gas production in Angola, Australia, Nigeria and Indonesia more than offset areas – such as Canada, the United Kingdom and Kazakhstan – where production and sales of producing interests exceeded reserve replacements. In the United States, the company replaced 100 percent of oil and gas production in 1997. Excluding the effects of any properties purchased or sold in 1997, U.S. operations replaced 120 percent of production, the highest rate since 1984.

Sales and other operating revenues were $40.6 billion in 1997, compared with $42.8 billion in 1996 and $36.3 billion in 1995. In 1997, revenues declined on lower crude oil and refined product prices and lower U.S. natural gas production.

These factors were mitigated partially by increased refined product sales volumes and higher natural gas prices. Revenues improved in 1996 compared with 1995 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. **Purchased crude oil and products** costs were 11 percent lower in 1997 compared with 1996 because of lower crude oil, refined products and chemicals feedstock prices. Sharply higher crude oil, natural gas and refined products prices accounted for the 27 percent increase in purchased crude oil and products costs in 1996 compared with 1995.

Other income amounted to $679 million in 1997, $344 million in 1996 and $219 million in 1995 and 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, excluding the effects of special items, declined 6 percent in 1997 to $6,549 million from $6,947 million in 1996. The reduction in operational expenses in 1997 was due to lower fuel, transportation and marketing costs, partially offset by the cost of the start up and expansion of chemicals facilities. Operational expenses increased slightly in 1996 compared with 1995, largely because higher fuel and transportation costs and accruals for performance-based employee compensation costs more than offset continued reductions in other expenses. Operating expenses in 1995 were affected adversely by scheduled and unscheduled refinery shutdowns and maintenance.

	Year ended December 31		
Millions of dollars	**1997**	1996	1995
Reported Operating Expenses	**$5,280**	$6,007	$5,974
Reported Selling, General and Administrative Expenses	**1,533**	1,377	1,384
Total Operational Expenses	**6,813**	7,384	7,358
Eliminate Special Charges Before Tax	**(264)**	(437)	(514)
Adjusted Ongoing Operational Expenses	**$6,549**	$6,947	$6,844

Depreciation, depletion and amortization expense increased to $2,300 million in 1997 from $2,216 million in 1996 as a result of higher liquids production levels and SFAS 121 impairment write-downs of U.S. oil and gas properties. This was offset partially by lower expense from the reassessment and extension of the useful lives of certain U.S. chemical assets. Expense declined in 1996 from $3,381 million in 1995 which included approximately $1 billion in additional expense from the implementation of SFAS No. 121.

Taxes on income were $2,246 million in 1997, $2,133 million in 1996 and $859 million in 1995, reflecting effective income tax rates of 41 percent, 45 percent and 48 percent for each of the three years, respectively. The lower tax rate in 1997, compared with 1996, primarily reflects a shift in the international earnings mix from higher tax-rate countries to lower tax-rate countries and shifts from foreign earnings to U.S. earnings. 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 the proportion of equity earnings recorded on an after-tax basis.

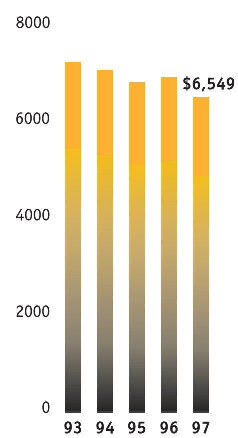
Foreign currency effects increased net income $246 million in 1997 and decreased net income $26 million and $15 million in 1996 and 1995, respectively, and include the company's share of affiliates' foreign currency effects. The foreign currency gains for 1997 primarily occurred in Australia and in the Asian operating areas of Caltex, where the currencies generally weakened against the U.S. dollar. The largest currency impact was in Korea, mostly as a result of local net deferred tax benefits on local currency losses from U.S. dollar-denominated liabilities. The loss on foreign currency effects in 1996 resulted from fluctuations in the value of the United Kingdom and Australian currencies relative to the U.S. dollar, and in 1995, the loss was related to fluctuations in the value of the Canadian and Nigerian currencies.

Effective October 1, 1997, Caltex management changed the functional currency for its Korean and Japanese equity affiliates from their local currencies to the U.S. dollar, based on significantly changed economic facts and circumstances. Previously, the Korean petroleum industry operated in a regulated environment with domestic prices determined by a specific Korean won-based return on equity. During 1997, the pricing of petroleum products was moving toward a market-based return. This trend was accelerated in the fourth quarter 1997 by the severe devaluation of the won, which resulted in higher local currency costs for U.S. dollar-based crude oil and raw materials. In addition, during this period, Caltex's Korean affiliate significantly increased its U.S. dollar-based export sales, moving from a net importer of refined products to a net exporter in 1997.

Japan also has experienced evolving deregulation in its petroleum industry. While not as material as the Korean operations, Caltex management decided to change the functional currency of its Japanese equity affiliate to the U.S. dollar, effective the same date as the Korean change.

With the local currency as the functional currency, Caltex's total reported foreign currency losses of $62 million for the first nine months of 1997 from its Korean and Japanese affiliates compared with foreign currency losses of $46 million for the full year 1996. After the change in functional currency to the U.S. dollar, Caltex reported foreign currency gains of $167 million for the full year 1997 from operations in Korea and Japan. Prior to the change in functional currency, losses from the translation of U.S. dollar-denominated debt to local currency were offset partially by the tax benefit resulting from the deductibility of the losses for local tax purposes.

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



Total expenses fell nearly $400 million in 1997.

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

After the change to the U.S. dollar functional currency, translation of the U.S. dollar-denominated debt does not generate any U.S. dollar exchange losses. However, the deductibility of the local currency losses arising from the debt continues to provide tax benefits that are translated to U.S. dollar income.

RESULTS BY MAJOR OPERATING AREAS

Millions of dollars	**1997**	1996	1995
Exploration and Production			
United States	**$1,001**	$1,087	$ 72
International	**1,252**	1,211	690
Total Exploration and Production	**2,253**	2,298	762
Refining, Marketing and Transportation			
United States	**601**	193	(104)
International	**298**	226	345
Total Refining, Marketing and Transportation	**899**	419	241
Total Petroleum	**3,152**	2,717	1,003
Chemicals	**228**	200	484
Coal and Other Minerals	**48**	46	(18)
Corporate and Other	**(172)**	(356)	(539)
Net Income	**$3,256**	$2,607	$ 930

SPECIAL ITEMS BY MAJOR OPERATING AREAS

Millions of dollars	**1997**	1996	1995
Exploration and Production			
United States	**$ 29**	$ (22)	$ (480)
International	**55**	69	(121)
Total Exploration and Production	**84**	47	(601)
Refining, Marketing and Transportation			
United States	**(61)**	(97)	(179)
International	**(69)**	59	62
Total Refining, Marketing and Transportation	**(130)**	(38)	(117)
Total Petroleum	**(46)**	9	(718)
Chemicals	**4**	(28)	(40)
Coal and Other Minerals	**(2)**	(2)	(65)
Corporate and Other	**120**	(23)	(209)
Total Special Items Included in Net Income	**$ 76**	$ (44)	$(1,032)

U.S. exploration and production earnings, excluding special items, declined 12 percent from record earnings in 1996 but were up 76 percent from 1995 levels. The earnings decline in 1997, relative to 1996, was a result of lower crude oil prices, lower natural gas production and higher exploration expenses. Earnings for 1996 more than doubled from 1995 levels due to higher crude oil and natural gas prices, which more than offset lower liquids production.

Net liquids production for 1997 averaged 343,000 barrels per day, up slightly from 341,000 barrels per day in 1996 but down 2 percent from 350,000 barrels per day in 1995. Net natural gas production in 1997 averaged about 1.85 billion cubic feet per day, compared with 1.88 billion cubic feet per day in 1996 and 1.87 billion cubic feet per day in 1995. The production declines since 1995 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 should help mitigate the decline in its U.S. oil and gas production volumes.

The company's average crude oil realizations of $17.68 per barrel were $1.12 lower than the $18.80 averaged for 1996 but $2.34 more than the $15.34 per barrel averaged in 1995. Realizations remained steady at $15.00 to $16.00 per barrel during 1995. In 1996, Chevron's crude oil realizations increased steadily during the year, reaching an average of $21.93 in December, but declined in early 1997 to about $17.00 by April. Realizations fluctuated around that level until December 1997, when they dropped to $15.66 per barrel, and have continued to decline in early 1998.

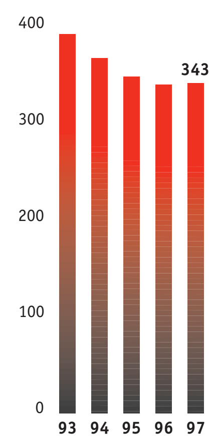
U.S. Exploration and Production

Millions of dollars	**1997**	1996	1995
Earnings, Excluding Special Items	**$ 972**	$1,109	$552
Asset Write-Offs and Revaluations	**(68)**	(19)	(7)
Initial Implementation of SFAS No. 121	**–**	–	(490)
Asset Dispositions	**190**	17	(2)
Environmental Remediation Provisions	**(6)**	(10)	(8)
Restructurings and Reorganizations	**(60)**	1	–
Other	**(27)**	(11)	27
Total Special Items	**29**	(22)	(480)
Reported Earnings	**$1,001**	$1,087	$ 72

The company's average natural gas prices were $2.42 per thousand cubic feet in 1997, up 14 cents from $2.28 in 1996 and up 91 cents from the 1995 average of $1.51. Steady demand and low inventories caused by tight supplies buoyed prices during 1997, but warmer winter weather has softened demand early in 1998.

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

Thousands of barrels per day



Gulf of Mexico projects arrested the decline in U.S. production.

Exploration expenses were higher in 1997 than either 1996 or 1995, due to increased exploration activity in the Gulf of Mexico as the company evaluates its many prospects. Depreciation expense increased 13 percent in 1997 compared with 1996, primarily as a result of higher impairment write-offs, but declined 44 percent from 1995 levels when the implementation of SFAS No. 121 first required significant asset write-offs.

International exploration and production had record earnings for the second consecutive year. The strong earnings in 1997 primarily reflected higher crude oil sales volumes, which more than offset the decline in crude prices. In 1996, higher crude oil and natural gas sales volumes and higher crude oil prices accounted for the 41 percent increase in operating earnings compared with 1995.

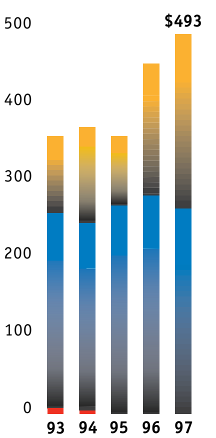
International exploration and production operations, including production from equity affiliates, increased net liquids production by 4 percent, to 731,000 barrels per day in 1997. This was the eighth consecutive year of production increases, reflecting the company's successful strategy of growing its international operations. Kazakhstan, Nigeria and Congo were the principal sources of the increase. In 1996, net liquids production increased 8 percent over 1995 to 702,000 barrels per day. Production growth in Angola, Nigeria and Kazakhstan and new production in Congo accounted for most of the increase. Net natural gas production declined about 1 percent in 1997 to 576 million cubic feet per day compared with 1996 but was up nearly 2 percent from 1995 levels. Net natural gas production declines in 1997 occurred in Canada, Kazakhstan, the United Kingdom and Indonesia. Partially offsetting these declines was initial natural gas production in Nigeria, where the Escravos Natural Gas Project began operation in 1997. Net natural gas production volumes in 1996 were up 3 percent from 1995 levels.

International Exploration and Production

Millions of dollars	**1997**	1996	1995
Earnings, Excluding Special Items	**$1,197**	$1,142	$811
Asset Write-Offs and Revaluations	**–**	(17)	**–**
Initial Implementation of SFAS No. 121	**–**	–	(81)
Asset Dispositions	**50**	91	–
Prior-Year Tax Adjustments	**10**	–	(22)
Restructurings and Reorganizations	**–**	(5)	(10)
LIFO Inventory Losses	**–**	–	(1)
Other	**(5)**	–	(7)
Total Special Items	**55**	69	(121)
Reported Earnings	**$1,252**	$1,211	$690

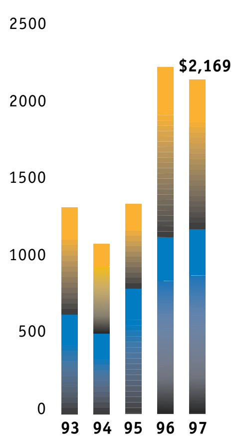
The company's average international liquids prices, including equity affiliates, were $17.97 per barrel in 1997 compared with $19.48 in 1996 and $16.10 in 1995. Average natural gas prices rose to $2.10 per thousand cubic feet in 1997, compared with $1.86 and $1.73 in 1996 and 1995, respectively.

Exploration Expenses
Millions of dollars



Evaluation of Gulf of Mexico leases increased U.S. exploration activity.

Worldwide Exploration & Production Earnings, Excluding Special Items
Millions of dollars



Higher production levels nearly offset a decline in crude oil prices.

Earnings included net foreign currency gains of $77 million for 1997 and losses of $27 million in 1996. These earnings impacts primarily reflected currency rate swings of the U.S. dollar relative to the Australian dollar and the British pound in 1997 and 1996. In 1995, the loss of $16 million reflected rate swings between the U.S. dollar and the Canadian and Nigerian currencies.

SELECTED OPERATING DATA

	1997	1996	1995
U.S. EXPLORATION AND PRODUCTION			
Net Crude Oil and Natural Gas Liquids Production (MBPD)	**343**	341	350
Net Natural Gas Production (MMCFPD)	**1,849**	1,875	1,868
Natural Gas Sales (MMCFPD)[1]	**3,389**	3,588	2,815
Natural Gas Liquids Sales (MBPD)[1]	**132**	187	213
Revenues from Net Production			
Crude Oil ($/Bbl)	**$17.68**	$18.80	$15.34
Natural Gas ($/MCF)	**$ 2.42**	$ 2.28	$ 1.51
INTERNATIONAL EXPLORATION AND PRODUCTION[1]			
Net Crude Oil and Natural Gas Liquids Production (MBPD)	**731**	702	651
Net Natural Gas Production (MMCFPD)	**576**	584	565
Natural Gas Sales (MMCFPD)	**1,141**	778	564
Natural Gas Liquids Sales (MBPD)	**43**	36	47
Revenues from Liftings			
Liquids ($/Bbl)	**$17.97**	$19.48	$16.10
Natural Gas ($/MCF)	**$ 2.10**	$ 1.86	$ 1.73
Other Produced Volumes (MBPD)[2]	**82**	79	–
U.S. REFINING AND MARKETING			
Gasoline Sales (MBPD)	**591**	556	552
Other Refined Products Sales (MBPD)	**602**	566	565
Refinery Input (MBPD)	**933**	951	925
Average Refined Products Sales Price ($/Bbl)	**$28.93**	$29.94	$26.19
INTERNATIONAL REFINING AND MARKETING[1]			
Refined Products Sales (MBPD)	**886**	944	969
Refinery Input (MBPD)	**565**	537	598
CHEMICALS SALES AND OTHER OPERATING REVENUES[3]			
United States	**$3,045**	$2,936	$3,332
International	**588**	605	621
Worldwide	**$3,633**	$3,541	$3,953

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

[1]*Includes equity in affiliates.*

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

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

U.S. refining, marketing and transportation earnings, excluding special items, in 1997 were the highest since 1988. The significant improvement in earnings compared with 1996 and 1995 was driven by higher demand for refined products and improved sales margins, reflecting both lower crude oil costs and lower operating expenses. 1997 operating earnings

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

were more than double 1996 earnings and nearly 9 times the 1995 level. U.S. downstream results were depressed in 1996 and 1995 by competitive conditions in many of the company's markets that did not allow the full recovery of higher crude oil costs and by the increased manufacturing cost of the California-mandated cleaner-burning gasolines. Market conditions were especially difficult late in 1996 when crude oil prices rose to their highest level since 1991. However, refinery performance in 1996 was improved from 1995, which had extensive scheduled and unscheduled downtime.

Refined product sales volumes increased 6 percent to 1.19 million barrels per day in 1997, compared with 1.12 million barrels per day in 1996 and 1995. About half this increase reflected higher-value gasoline sales volumes.

In 1997, average U.S. refined product sales realizations declined about $1.00, or 3 percent, to $28.93 per barrel from $29.94 in 1996 but improved from 1995 levels of $26.19, reflecting the trend in crude oil prices.

U.S. Refining and Marketing

Millions of dollars	**1997**	1996	1995
Earnings, Excluding Special Items	**$ 662**	$290	$ 75
Asset Write-Offs and Revaluations	**–**	(48)	(112)
Asset Dispositions	**(18)**	4	–
Environmental Remediation Provisions	**(12)**	(29)	(62)
Restructurings and Reorganizations	**–**	(1)	(7)
LIFO Inventory Gains	**–**	2	2
Other	**(31)**	(25)	–
Total Special Items	**(61)**	(97)	(179)
Reported Earnings (Loss)	**$ 601**	$193	$(104)

International refining, marketing and transportation 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, earnings of $367 million in 1997 more than doubled 1996 earnings of $167 million and were up 30 percent from $283 million earned in 1995. Equity earnings of Caltex were $252 million, $408 million and $294 million for 1997, 1996 and 1995, respectively. Excluding special items, the company's earnings from Caltex's activities were $247 million, $127 million and $213 million, respectively, for 1997, 1996 and 1995.

The higher 1997 operating earnings were largely attributable to Caltex and reflected currency gains of $177 million as Asian currencies generally weakened against the U.S. dollar. The largest currency impact was in Korea, mostly as a result of local net deferred tax benefits on currency losses from U.S. dollar-denominated liabilities. Partially offsetting Caltex's currency gains were inventory valuation losses associated with the recent decline in crude oil prices combined with higher provisions for the noncollectibility of receivables in Asia, together totaling about $50 million. Chevron's share of Caltex earnings in 1997 also included $5 million of favorable LIFO adjustments. Caltex experienced foreign currency losses of $24 million in 1996 and gains of $26 million in 1995. Also in 1996, Caltex earnings benefited $2 million from favorable adjustments to the carrying value of its petroleum inventories to reflect market values and included special gains of $279 million related to the sale of its interest in two Japanese refineries and $2 million of favorable LIFO adjustments. Caltex earnings in 1995 benefited $13 million in inventory adjustments and included net special gains of $81 million, primarily related to a land sale by a Caltex affiliate in Japan.

Results in all three years reflect generally weak industry conditions that have held down product prices and sales margins in the company's major areas of operations.

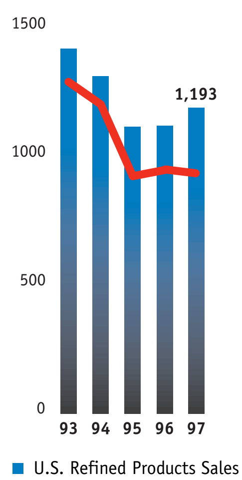
Chevron's international refined products sales volumes declined 6 percent in 1997 to 886,000 barrels per day from 944,000 barrels per day in 1996 and 969,000 barrels per day in 1995. The primary reason for the decline in 1997 and 1996 volumes was Caltex's sale of its interest in two Japanese refineries in early 1996. Total Caltex refined products sales volumes, excluding transactions with Chevron, decreased 4 percent to 1.15 million barrels per day in 1997, compared with 1.20 million barrels per day in 1996 and 1.33 million barrels per day in 1995.

Overall, international refining and marketing foreign currency effects resulted in gains of $169 million and $19 million in 1997 and 1995, respectively, and losses of $17 million in 1996.

International Refining and Marketing

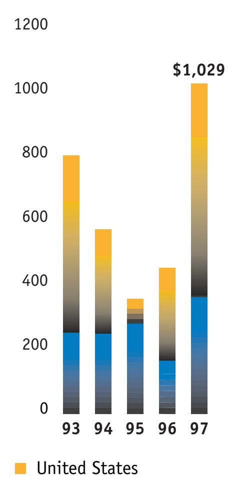
Millions of dollars	**1997**	1996	1995
Earnings, Excluding Special Items	**$ 367**	$167	$283
Asset Write-Offs and Revaluations	**–**	(200)	(1)
Asset Dispositions	**(72)**	279	–
Environmental Remediation Provisions	**–**	(15)	–
Restructurings and Reorganizations	**–**	1	(17)
LIFO Inventory Gains (Losses)	**6**	(6)	–
Other	**(3)**	–	80
Total Special Items	**(69)**	59	62
Reported Earnings	**$ 298**	$226	$345

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



Refined products sales climbed 6 percent in 1997.

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



Refining and marketing earnings more than doubled in 1997, leading the way to Chevron's record year.

Chemicals earnings, excluding special items, were $224 million in 1997, about flat with $228 million in 1996 but down 57 percent from record 1995 results of $524 million. Earnings for 1997 benefited from reduced depreciation expense, as a result of a reassessment and extension of the useful lives of certain assets. This benefit was offset by lower industry prices, higher feedstock and fuel costs, and expenses related to maintenance and expansion activities during the year. Industry overcapacity depressed margins for styrene, paraxylene and polystyrene in 1997, but margins improved for benzene and ethylene. Earnings for 1996 benefited from a nonrecurring receipt of insurance proceeds. A cyclical downturn in the chemicals industry beginning late in 1995 caused earnings to fall substantially in 1996 and 1997. Although sales volumes remained strong for most of 1996 and 1997, lower prices and higher feedstock and fuel costs resulted in lower margins for most of the company's major chemical products compared with 1995.

Chemicals

Millions of dollars	**1997**	1996	1995
Earnings, Excluding Special Items	**$224**	$228	$524
Asset Write-Offs and Revaluations	**(10)**	(12)	(14)
Initial Implementation of SFAS No. 121	**–**	–	(13)
Asset Dispositions	**33**	–	9
Environmental Remediation Provisions	**(9)**	–	(20)
Restructurings and Reorganizations	**–**	–	(3)
LIFO Inventory (Losses) Gains	**(1)**	–	1
Other	**(9)**	(16)	–
Total Special Items	**4**	(28)	(40)
Reported Earnings	**$228**	$200	$484

Coal and other minerals earnings, excluding special items, were about flat at $50 million, compared with $48 million in 1996 and $47 million in 1995. Higher sales volumes and increases in affiliate income in 1997 were offset partially by higher operating costs compared with 1996. 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. Sales in 1997 of approximately 19.6 million tons were up 23 percent from 16 million tons in 1996 and up 15 percent from 17 million tons in 1995. The increase in sales is primarily due to increased demand and low customer inventories.

Coal and Other Minerals

Millions of dollars	**1997**	1996	1995
Earnings, Excluding Special Items	**$ 50**	$ 48	$ 47
Initial Implementation of SFAS No. 121	**–**	–	(63)
Restructurings and Reorganizations	**–**	(2)	(2)
Other	**(2)**	–	–
Total Special Items	**(2)**	(2)	(65)
Reported Earnings	**$ 48**	$ 46	$(18)

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 special items, declined $41 million to $292 million in 1997 as a result of lower interest expense on reduced debt levels combined with higher interest income and lower insurance costs. In the two preceding years, corporate and other net operating charges were about flat at $333 million in 1996 and $330 million in 1995.

Corporate and Other

Millions of dollars	**1997**	1996	1995
Charges, Excluding Special Items	**$(292)**	$(333)	$(330)
Asset Write-Offs and Revaluations	**(8)**	(41)	(170)
Initial Implementation of SFAS No. 121	**–**	–	(12)
Environmental Remediation Provisions	**(8)**		
Prior-Year Tax Adjustments	**142**	52	–
Restructurings and Reorganizations	**–**	(8)	(11)
Other	**(6)**	(26)	(16)
Total Special Items	**120**	(23)	(209)
Reported Charges	**$(172)**	$(356)	$(539)

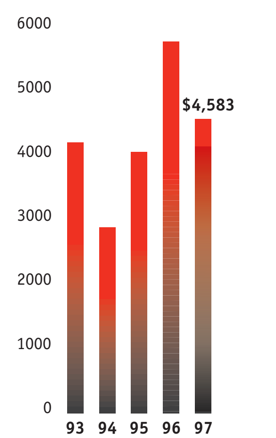
LIQUIDITY AND CAPITAL RESOURCES. Cash, cash equivalents and marketable securities totaled $1.670 billion at year-end 1997, up slightly from $1.637 billion at year-end 1996. Cash provided by operating activities in 1997 was $4.583 billion, compared with $5.770 billion in 1996 and $4.057 billion in 1995. Despite higher 1997 operating earnings, cash from operations declined from 1996 due to lower distributions from equity affiliates and increased working capital and other operating requirements. Distributions from the company's Caltex affiliate were high in 1996 because of its sale of refinery interests. In 1997, cash from operations and proceeds from asset sales were sufficient to fund the company's capital expenditures, dividend payments to stockholders and stock repurchases and also enabled the company to reduce its debt level.

In January 1998, the company announced an increase in the quarterly dividend on its common stock by 3 cents a share, or 5 percent, to 61 cents a share raising Chevron's annualized dividend rate to $2.44 a share.

The company's debt and capital lease obligations totaled $6.068 billion at December 31, 1997, down $626 million from $6.694 billion at year-end 1996.

The company's short-term debt, consisting primarily of commercial paper and current portion of long-term debt, totaled $4.362 billion at December 31, 1997. Of the total short-term debt, $2.725 billion was reclassified to long-term debt at year-end 1997, an increase of $925 million from year-end 1996, reflecting an increase in the company's committed credit facilities with termination dates beyond one year. Settlement of these obligations is not expected to require the use of working capital in 1998 because the company has the intent and the ability, as evidenced by committed credit arrangements, to refinance them on a long-term basis. The

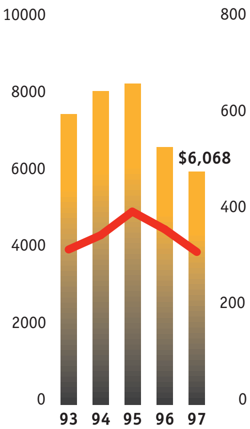
Cash Provided by Operating Activities
Millions of dollars



Higher earnings were more than offset by lower dividends from affiliates, increased working capital and other demands.

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

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



■ Total Interest Expense (Right Scale)
■ Total Debt (Left Scale)

Strong cash flow allowed the company to reduce debt more than $600 million.

company's practice has been to continually refinance its commercial paper, maintaining levels it believes to be appropriate.

Significant debt transactions in 1997 included the scheduled first quarter maturity of $138 million of Swiss franc-denominated 4.625 percent debt and the third quarter early redemption of $142 million of 9.75 percent debentures originally due in 2017. The Employee Stock Ownership Plan also retired in January 1997, as scheduled, $50 million of 7.28 percent debt related to the Employee Stock Ownership Plan.

On December 31, 1997, Chevron had $4.050 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 1997. In addition, Chevron and one of its subsidiaries each have existing "shelf" registrations on file with the Securities and Exchange Commission that together would permit registered offerings of up to $1.3 billion of debt securities.

The company's 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 1998 and believes it has substantial borrowing capacity to meet unanticipated cash requirements.

The company's senior debt is rated AA by Standard & Poor's Corporation and Aa2 by Moody's Investors Service. Chevron's U.S. commercial paper is rated A-1+ by Standard & Poor's and Prime-1 by Moody's, and Chevron's Canadian commercial paper is rated R-1 (middle) by Dominion Bond Rating Service. Moody's counterparty rating for Chevron is also Aa2. All these ratings denote high-quality, investment-grade securities.

In December 1997, Chevron announced that its Board of Directors approved the repurchase of up to $2 billion of its outstanding common stock. The company plans to use the repurchased stock for its employee stock option programs. At year-end 1997, the company had purchased 1,199,300 shares at an average cost of $76.49 per share.

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 neither of which, in the company's opinion, affect its liquidity. Current assets in all years include inventories valued on a LIFO basis, which at year-end 1997 were lower than current costs by $1.1 billion. Also, the company continually refinances its commercial paper. At year-end 1997, approximately $600 million of commercial paper, after excluding $2.725 billion reclassified to long-term debt, is classified as a current liability although it is likely to remain outstanding indefinitely.

Financial Ratios

	1997	1996	1995
Current Ratio	**1.0**	0.9	0.8
Interest Coverage Ratio	**14.3**	10.9	4.1
Total Debt/Total Debt Plus Equity	**25.8%**	30.0%	36.7%

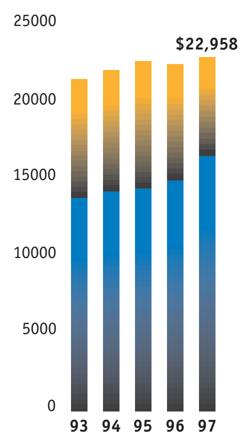
The **interest coverage ratio** is defined as income before income tax expense, plus interest and debt expense and amortization of capitalized interest, divided by before-tax interest costs. Chevron's interest coverage ratio improved significantly in 1997 due to higher before-tax income and lower interest expense. The company's **debt ratio** (total debt to total debt plus equity) decreased in 1997, as total debt decreased and stockholders' equity increased year to year, due to strong cash flow and net income.

CAPITAL AND EXPLORATORY EXPENDITURES. Worldwide capital and exploratory expenditures for 1997 totaled $5.541 billion, including the company's equity share of affiliates' expenditures. Capital and exploratory expenditures were $4.840 billion in 1996 and $4.800 billion in 1995. Expenditures for exploration and production accounted for 64 percent of total outlays in 1997, compared with 62 percent in 1996 and 57 percent in 1995. International exploration and production spending was 53 percent of worldwide exploration and production expenditures in 1997, down from 61 percent in 1996 and 68 percent in 1995, reflecting the company's efforts to slow the decline in its U.S. production while continuing its focus on growth of international exploration and production activities.

The company projects **1998 capital and exploratory expenditures** at $6.3 billion, including Chevron's share of spending by affiliates. The 1998 program provides $4.0 billion for exploration and production investments, of which about 63 percent is for international projects. Several long-term development projects in the Gulf of Mexico account for a major portion of the projected $1.5 billion to be spent in U.S. exploration and production.

Refining, marketing and transportation expenditures are estimated at about $1.1 billion, with $600 million of that planned for projects in the United States, a majority of which will be spent for marketing projects. Most of the international downstream capital program will be focused in Asia-Pacific countries, where the company's Caltex affiliate is upgrading its retail marketing system. The company plans to invest $830 million in the worldwide chemicals business.

Capital Employed
Millions of dollars



■ Average Debt
■ Average Stockholders' Equity

Chevron's debt to debt-plus-equity ratio declined to 26 percent in 1997.

Capital and Exploratory Expenditures

	1997			1996			1995		
Millions of dollars	**U.S.**	**International**	Total	U.S.	International	Total	U.S.	International	Total
Exploration and Production	**$1,659**	**$1,903**	**$3,562**	$1,168	$1,854	$3,022	$ 879	$1,835	$2,714
Refining, Marketing and Transportation	**520**	**602**	**1,122**	429	781	1,210	892	839	1,731
Chemicals	**470**	**194**	**664**	377	120	497	172	32	204
Coal and Other Minerals	**65**	**53**	**118**	31	10	41	40	1	41
All Other	**75**	**–**	**75**	70	–	70	110	–	110
Total	**$2,789**	**$2,752**	**$5,541**	$2,075	$2,765	$4,840	$2,093	$2,707	$4,800
Total, Excluding Equity Affiliates	**$2,487**	**$1,880**	**$4,367**	$2,037	$1,820	$3,857	$2,080	$1,808	$3,888

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; inability of the company's joint venture partners to fund their share of operations and development activities; potential failure to achieve expected production from existing and future oil and gas development projects; potential disruption or interruption of the company's production or manufacturing facilities due to accidents or political events; potential 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.

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, its financial statements and the nature, extent and results of the audit effort. Both the internal auditors and the independent accountants have free and direct access to the Audit Committee without the presence of management.

K. T. Derr | M.R. Klitten | S.J. Crowe

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

Martin R. Klitten
Vice President
and Chief Financial Officer

Stephen J. Crowe
Comptroller

February 20, 1998

Consolidated Statement of Income

Millions of dollars, except per-share amounts	Year ended December 31 1997	1996	1995
REVENUES			
Sales and other operating revenues*	**$40,583**	$42,782	$36,310
Income from equity affiliates	**688**	767	553
Other income	**679**	344	219
TOTAL REVENUES	**41,950**	43,893	37,082
COSTS AND OTHER DEDUCTIONS			
Purchased crude oil and products	**20,223**	22,826	18,033
Operating expenses	**5,280**	6,007	5,974
Selling, general and administrative expenses	**1,533**	1,377	1,384
Exploration expenses	**493**	455	372
Depreciation, depletion and amortization	**2,300**	2,216	3,381
Taxes other than on income*	**6,307**	5,908	5,748
Interest and debt expense	**312**	364	401
TOTAL COSTS AND OTHER DEDUCTIONS	**36,448**	39,153	35,293
INCOME BEFORE INCOME TAX EXPENSE	**5,502**	4,740	1,789
INCOME TAX EXPENSE	**2,246**	2,133	859
NET INCOME	**$ 3,256**	$ 2,607	$ 930
NET INCOME PER SHARE OF COMMON STOCK – BASIC	**$4.97**	$3.99	$1.43
– DILUTED	**$4.95**	$3.98	$1.43
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**654,990,921**	652,769,250	652,083,804
**Includes consumer excise taxes.*	***$5,574***	*$5,202*	*$4,988*

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, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, 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 20, 1998

Consolidated Balance Sheet

Millions of dollars	At December 31 1997	1996
ASSETS		
Cash and cash equivalents	**$ 1,015**	$ 892
Marketable securities	**655**	745
Accounts and notes receivable (less allowance: 1997 – $32; 1996 – $71)	**3,374**	4,035
Inventories:		
Crude oil and petroleum products	**539**	669
Chemicals	**547**	507
Materials, supplies and other	**292**	255
	1,378	1,431
Prepaid expenses and other current assets	**584**	839
TOTAL CURRENT ASSETS	**7,006**	7,942
Long-term receivables	**471**	261
Investments and advances	**4,496**	4,463
Properties, plant and equipment, at cost	**49,233**	46,936
Less: accumulated depreciation, depletion and amortization	**26,562**	25,440
	22,671	21,496
Deferred charges and other assets	**829**	692
TOTAL ASSETS	**$35,473**	$34,854
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt	**$ 1,637**	$ 2,706
Accounts payable	**2,735**	3,502
Accrued liabilities	**1,450**	1,420
Federal and other taxes on income	**732**	745
Other taxes payable	**392**	534
TOTAL CURRENT LIABILITIES	**6,946**	8,907
Long-term debt	**4,139**	3,650
Capital lease obligations	**292**	338
Deferred credits and other noncurrent obligations	**1,745**	1,858
Noncurrent deferred income taxes	**3,215**	2,851
Reserves for employee benefit plans	**1,664**	1,627
TOTAL LIABILITIES	**18,001**	19,231
Preferred stock (authorized 100,000,000 shares, $1.00 par value, none issued)	**–**	–
Common stock (authorized 1,000,000,000 shares, $1.50 par value, 712,487,068 shares issued)	**1,069**	1,069
Capital in excess of par value	**2,022**	1,874
Deferred compensation	**(750)**	(800)
Currency translation adjustment and other	**(77)**	96
Retained earnings	**17,185**	15,408
Treasury stock, at cost (1997 – 56,555,871 shares; 1996 – 59,401,015 shares)	**(1,977)**	(2,024)
TOTAL STOCKHOLDERS' EQUITY	**17,472**	15,623
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$35,473**	$34,854

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Millions of dollars	1997	1996*	1995*
	Year ended December 31		
OPERATING ACTIVITIES			
Net income	**$3,256**	$2,607	$ 930
Adjustments			
Depreciation, depletion and amortization	**2,300**	2,216	3,381
Dry hole expense related to prior years' expenditures	**31**	55	19
Distributions (less than) greater than income from equity affiliates	**(353)**	83	(129)
Net before-tax (gains) losses on asset retirements and sales	**(344)**	207	164
Net foreign exchange (gains) losses	**(69)**	(10)	47
Deferred income tax provision	**622**	359	(258)
Net (increase) decrease in operating working capital[1]	**(288)**	641	40
Other	**(572)**	(388)	(137)
NET CASH PROVIDED BY OPERATING ACTIVITIES[2]	**4,583**	5,770	4,057
INVESTING ACTIVITIES			
Capital expenditures	**(3,899)**	(3,424)	(3,529)
Proceeds from asset sales	**1,235**	778	581
Net sales of marketable securities[3]	**101**	44	144
NET CASH USED FOR INVESTING ACTIVITIES	**(2,563)**	(2,602)	(2,804)
FINANCING ACTIVITIES			
Net repayments of short-term obligations	**(163)**	(1,179)	(227)
Proceeds from issuance of long-term debt	**26**	95	536
Repayments of long-term debt and other financing obligations	**(421)**	(476)	(103)
Cash dividends paid	**(1,493)**	(1,358)	(1,255)
Net sales of treasury shares	**173**	23	14
NET CASH USED FOR FINANCING ACTIVITIES	**(1,878)**	(2,895)	(1,035)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(19)**	(2)	(10)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**123**	271	208
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**892**	621	413
CASH AND CASH EQUIVALENTS AT YEAR-END	**$1,015**	$ 892	$ 621

**Certain amounts were reclassified to conform with the 1997 presentation.*
See accompanying notes to consolidated financial statements.

	1997	1996*	1995*
[1]The "Net (increase) decrease in operating working capital" is composed of the following:			
Decrease (increase) in accounts and notes receivable	***$ 439***	*$ 30*	*$ (62)*
(Increase) decrease in inventories	***(11)***	*60*	*(162)*
Decrease (increase) in prepaid expenses and other current assets	***59***	*15*	*(148)*
(Decrease) increase in accounts payable and accrued liabilities	***(685)***	*369*	*428*
(Decrease) increase in income and other taxes payable	***(90)***	*167*	*(16)*
Net (increase) decrease in operating working capital	***$ (288)***	*$ 641*	*$ 40*
[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)	***$ 318***	*$ 361*	*$ 373*
Income taxes paid	***$ 1,706***	*$ 1,595*	*$ 1,176*
[3]"Net sales of marketable securities" consists of the following gross amounts:			
Marketable securities purchased	***$(2,724)***	*$(3,443)*	*$(2,759)*
Marketable securities sold	***2,825***	*3,487*	*2,903*
Net sales of marketable securities	***$ 101***	*$ 44*	*$ 144*

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 Com-pensation	Currency Translation Adjustment and Other	Retained Earnings	Treasury Stock
BALANCE AT JANUARY 1, 1995	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)
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**3,256**	**–**
Cash dividends – $2.28 per share	**–**	**–**	**–**	**–**	**–**	**–**	**(1,493)**	**–**
Tax benefit from dividends paid on unallocated ESOP shares	**–**	**–**	**–**	**–**	**–**	**–**	**14**	**–**
Market value adjustments on investments	**–**	**–**	**–**	**–**	**–**	**(4)**	**–**	**–**
Foreign currency translation adjustment	**–**	**–**	**–**	**–**	**–**	**(173)**	**–**	**–**
Pension plan minimum liability	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**–**
Reduction of ESOP debt	**–**	**–**	**–**	**–**	**50**	**–**	**–**	**–**
Share repurchase program	**–**	**(1,199,300)**	**–**	**–**	**–**	**–**	**–**	**(92)**
Other purchases of treasury shares	**–**	**(55,722)**	**–**	**–**	**–**	**–**	**–**	**(3)**
Reissuance of treasury shares	**–**	**4,100,166**	**–**	**148**	**–**	**–**	**–**	**142**
BALANCE AT DECEMBER 31, 1997	**712,487,068**	**(56,555,871)**	**$1,069**	**$2,022**	**$(750)**	**$(77)**	**$17,185**	**$(1,977)**

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 percent to 50 percent, or for which the company exercises significant influence but not control over policy decisions, are accounted for by the equity method. Under this accounting, remaining unamortized cost is increased or decreased by the company's share of earnings or losses after dividends.

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

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

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

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

Properties, Plant and Equipment All costs for development wells, related plant and equipment (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.

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

– Continued

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 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 necessarily representative of the company's ongoing operations for the periods presented. These transactions, defined by management and designated "special items," can obscure the underlying results of operations for a year as well as affect comparability of results between years.

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

	Year ended December 31		
	1997	1996	1995
Asset write-offs and revaluations			
Asset impairments	**$ (68)**	$ (68)	$ –
U.K. refining and marketing	**–**	(200)	–
Real estate development assets	**–**	(29)	(168)
New accounting standard (SFAS No. 121)	**–**	–	(659)
Adjustment of fixed assets records	**–**	–	(94)
Refining assets	**–**	–	(38)
Other	**(18)**	(40)	(4)
	(86)	(337)	(963)
Asset dispositions, net			
Oil and gas properties	**240**	80	6
U.K. refining and marketing exit	**(72)**	–	–
Sale of chemical affiliate	**33**	–	–
Caltex sale of two refineries	**–**	279	–
NGC merger	**–**	32	–
Other	**(18)**	–	1
	183	391	7
Environmental remediation provisions	**(35)**	(54)	(90)
Prior-year tax adjustments	**152**	52	(22)
Restructurings and reorganizations			
NGC	**(54)**	–	–
Work-force reductions	**(6)**	(14)	(38)
Caltex	**–**	–	(12)
	(60)	(14)	(50)
LIFO inventory gains (losses)	**5**	(4)	2
Other, net			
Performance stock options	**(66)**	–	–
Litigation and regulatory issues	**(24)**	(90)	(23)
Federal lease cost refund	**–**	12	27
Caltex gain related to land sale	**–**	–	86
Miscellaneous, net	**7**	–	(6)
	(83)	(78)	84
Total special items, after tax	**$ 76**	$ (44)	$(1,032)

Other financial information is as follows:

	Year ended December 31		
	1997	1996	1995
Total financing interest and debt costs	**$411**	$472	$543
Less: capitalized interest	**99**	108	142
Interest and debt expense	**312**	364	401
Research and development expenses	**175**	182	185
Foreign currency gains (losses)*	**$246**	$ (26)	$ (15)

**Includes $177, $(28) and $25 in 1997, 1996 and 1995, respectively, for the company's share of affiliates' foreign currency gains (losses).*

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 $1,089, $1,122 and $917 at December 31, 1997, 1996 and 1995, 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

Notes to Consolidated Financial Statements

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company and its affiliates adopted SFAS No. 121 issued by the Financial Accounting Standards Board. The adoption of this standard required noncash 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 noncash transactions:

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

During 1996, the company merged substantially all of its natural gas liquids and natural gas marketing businesses with 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."

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

There have been other noncash 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 and employee 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		
	1997	1996	1995
Additions to properties, plant and equipment*	**$3,840**	$3,250	$3,611
Additions to investments	**153**	195	44
Payments for other liabilities and assets, net	**(94)**	(21)	(126)
Capital expenditures	**3,899**	3,424	3,529
Expensed exploration expenditures	**462**	400	354
Payments of long-term debt and other financing obligations	**6**	33	5
Capital and exploratory expenditures, excluding equity affiliates	**$4,367**	$3,857	$3,888

**Excludes noncash capital lease additions of $282 in 1995.*

Certain amounts of cash flows in 1996 and 1995 have been reclassified to conform to the 1997 presentation.

NOTE 5. STOCKHOLDERS' EQUITY Retained earnings at December 31, 1997 and 1996, include $2,272 and $2,357, 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 1997 made the Rights exercisable.

In December 1997, the company announced a repurchase program for up to $2 billion of the company's common stock. At December 31, 1997, the company had repurchased 1,199,300 shares at a cost of $92.

NOTE 6. FINANCIAL AND DERIVATIVE INSTRUMENTS

Off-Balance-Sheet Risk The company utilizes a variety of derivative instruments, both financial and commodity-based, as hedges to manage a small portion of its exposure to price volatility stemming from its integrated petroleum activities. Relatively straightforward and involving little complexity, the derivative instruments used consist mainly of futures contracts traded on the New York Mercantile Exchange and the International Petroleum Exchange and of natural gas swap contracts entered into principally with major financial institutions. The futures contracts hedge anticipated crude oil purchases and sales and product sales, generally forecast to occur within a 60- to 90-day period. Natural gas swaps are used primarily to hedge firmly committed sales, and the terms of the swap contracts held at year-end 1997 have an average remaining maturity of 51 months. Gains and losses on these derivative instruments offset and are recognized concurrently with gains and losses from the underlying commodities.

In addition, the company in 1997 and 1996 entered into managed programs using swaps and options to take advantage of perceived opportunities for favorable price movements in natural gas. The results of these programs are reflected currently in income and were not material in 1997 or 1996.

The company enters into forward exchange contracts, generally with terms of 90 days or less, as a hedge against

NOTE 6. FINANCIAL AND DERIVATIVE INSTRUMENTS – *Continued*

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, 1997, there were four outstanding contracts, with remaining terms of between 11 months and eight 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, 1997 and 1996, the fair values of the financial and derivative instruments were as follows:

Long-term debt of $1,414 and $1,850 had estimated fair values of $1,481 and $1,915.

The notional principal amounts of the interest rate swaps totaled $1,050 and $1,199, with approximate fair values totaling $(16) and $(1). 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 $1,483 and $1,472. Of these balances, $828 and $727 classified as cash equivalents had average maturities under 90 days, while the remainder, classified as marketable securities, had average maturities of three years and one year.

For other derivatives the contract or notional values were as follows: Crude oil and products futures had net contract values of $4 and $57, approximating their fair values. Forward exchange contracts had contract values of $47 and $231, approximating their fair values. Gas swap contracts, based on notional gas volumes of approximately 75 and 78 billion cubic feet, had negative fair values totaling $(2) and $(8). 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, 1997, 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). In 1997, these operations were conducted primarily by two divisions: Chevron U.S.A. Production Company and Chevron Products Company. Prior to September 1, 1996, Chevron U.S.A. Inc.'s natural gas liquids operations were conducted by its Warren Petroleum Company division and its natural gas marketing operations were conducted by Chevron U.S.A. Production Company. Beginning September 1, 1996, these operations are carried out through its 28 percent equity ownership in NGC Corporation. Summarized financial information for Chevron U.S.A. Inc. and its consolidated subsidiaries is presented below:

	Year ended December 31		
	1997	1996	1995*
Sales and other operating revenues	**$28,130**	$29,726	$24,392
Total costs and other deductions	**26,354**	28,331	25,177
Net income (loss)	**1,484**	1,042	(384)

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

	At December 31	
	1997	1996
Current assets	**$ 2,854**	$ 3,126
Other assets	**13,867**	13,209
Current liabilities	**3,282**	4,035
Other liabilities	**4,966**	5,300
Net equity	**8,473**	7,000

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

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NOTE 8. LITIGATION – *Continued*

continues to accrue at a rate of 9.55 percent per year. The company has filed an appeal and posted a bond for 1.5 times the amount of the judgment. 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, 1997.

	Year Ended December 31		
	1997	1996	1995
Sales and other operating revenues	**$591**	$512	$462
Total costs and other deductions	**557**	564	477
Net income (loss)	**28**	11	(23)

	At December 31	
	1997	1996*
Current assets	**$243**	$ 99
Other assets	**897**	1,593
Current liabilities	**666**	617
Other liabilities	**311**	356
Net equity	**163**	719

**Certain amounts in 1996 have been reclassified to conform to 1997 presentation.*

The 1997 decrease in "Other assets" and "Net equity" was primarily due to the 1997 assignment of an interest-bearing loan agreement to CTC's parent and an associated return of paid-in capital.

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		
	1997	1996	1995
IDENTIFIABLE ASSETS			
United States			
Petroleum	**$13,957**	$14,226	$14,521
Chemicals	**2,828**	2,475	2,115
Coal and Other Minerals	**483**	477	503
Total United States	**17,268**	17,178	17,139
International			
Petroleum	**13,562**	13,893	13,392
Chemicals	**690**	514	409
Coal and Other Minerals	**54**	34	28
Total International	**14,306**	14,441	13,829
TOTAL IDENTIFIABLE ASSETS	**31,574**	31,619	30,968
Corporate and Other	**3,899**	3,235	3,362
TOTAL ASSETS	**$35,473**	$34,854	$34,330

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		
	1997	1996	1995
OPERATING INCOME			
United States			
Petroleum	**$2,507**	$1,922	$ (64)
Chemicals	**216**	219	689
Coal and Other Minerals	**49**	58	(42)
Total United States	**2,772**	2,199	583
International			
Petroleum	**3,042**	3,099	2,074
Chemicals	**146**	80	96
Coal and Other Minerals	**10**	6	3
Total International	**3,198**	3,185	2,173
TOTAL OPERATING INCOME	**5,970**	5,384	2,756
Corporate and Other	**(468)**	(644)	(967)
Income Tax Expense	**(2,246)**	(2,133)	(859)
NET INCOME	**$3,256**	$2,607	$ 930

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 other writedowns of $19.

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 following table include both sales to unaffiliated customers and sales from the transfer of products between segments. Sales from the transfer

NOTE 10. GEOGRAPHIC AND SEGMENT DATA – *Continued*

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.

	Year ended December 31		
	1997	1996	1995
SALES AND OTHER OPERATING REVENUES			
United States			
Petroleum–Refined products	**$12,586**	$12,295	$10,677
–Crude oil	**4,527**	4,836	3,850
–Natural gas	**1,978**	2,741	1,604
–Natural gas liquids	**344**	992	1,130
–Other	**612**	683	717
–Excise taxes	**3,386**	3,231	2,999
–Intersegment	**340**	587	676
Total Petroleum	**23,773**	25,365	21,653
Chemicals–Products	**2,933**	2,831	3,157
–Intersegment	**112**	105	175
Total Chemicals	**3,045**	2,936	3,332
Coal and Other Minerals	**359**	329	350
Total United States	**27,177**	28,630	25,335
International			
Petroleum–Refined products	**2,998**	3,490	2,794
–Crude oil	**6,770**	7,561	5,526
–Natural gas	**590**	558	415
–Natural gas liquids	**209**	175	155
–Other	**497**	501	429
–Excise taxes	**2,188**	1,959	1,977
–Intersegment	**1**	3	–
Total Petroleum	**13,253**	14,247	11,296
Chemicals–Products	**587**	591	600
–Excise taxes	**–**	12	12
–Intersegment	**2**	2	9
Total Chemicals	**589**	605	621
Coal and Other Minerals	**10**	11	7
Total International	**13,852**	14,863	11,924
Intersegment sales elimination	**(455)**	(697)	(860)
Corporate and Other	**9**	(14)	(89)
TOTAL SALES AND OTHER OPERATING REVENUES	**$40,583**	$42,782	$36,310
Memo: Intergeographic Sales			
United States	**$ 510**	$ 695	$ 565
International	**1,187**	1,319	1,077

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

	At December 31	
	1997	1996
Petroleum		
Exploration and Production	**$ 5**	$ 6
Refining, Marketing and Transportation	**756**	806
	761	812
Less: accumulated amortization	**371**	389
Net capitalized leased assets	**$390**	$423

At December 31, 1997, the future minimum lease payments under operating and capital leases are as follows:

Year	At December 31 Operating Leases	Capital Leases
1998	$140	$ 139
1999	120	70
2000	101	63
2001	94	59
2002	86	54
Thereafter	233	740
Total	$774	1,125
Less: amounts representing interest and executory costs		(525)
Net present values		600
Less: capital lease obligations included in short-term debt		(308)
Long-term capital lease obligations		$ 292
Future sublease rental income	$ 18	$ –

Rental expenses incurred for operating leases during 1997, 1996 and 1995 were as follows:

	Year ended December 31		
	1997	1996	1995
Minimum rentals	**$443**	$438	$403
Contingent rentals	**5**	6	9
Total	**448**	444	412
Less: sublease rental income	**5**	15	14
Net rental expense	**$443**	$429	$398

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

NOTE 12. INVESTMENTS AND ADVANCES Chevron owns 50 percent each of P.T. Caltex Pacific Indonesia (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 joint venture formed to develop the Tengiz and Korolev oil fields over a 40-year period. In April 1997, Chevron sold 10 percent of its interest in TCO to

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NOTE 12. INVESTMENTS AND ADVANCES – *Continued*

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, 1997 and 1996, included a deferred payment portion of $429 and $428, respectively, $420 of which is payable to the Republic of Kazakhstan upon the attainment of a dedicated export system with the capability of the greater of 260,000 barrels of oil per day or TCO's production capacity. This 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, 1997, was $679 based on quoted market prices.

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	
	1997	1996
Equity Method Affiliates		
Caltex Group		
Exploration and Production	**$ 438**	$ 449
Refining, Marketing and Transportation	**1,863**	1,815
Total Caltex Group	**2,301**	2,264
Tengizchevroil	**1,255**	1,240
NGC Corporation	**385**	416
Other affiliates	**347**	364
	4,288	4,284
Other, at or below cost	**208**	179
Total investments and advances	**$4,496**	$4,463

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 1997, 1996 and 1995, are as follows:

	Year ended December 31					
	Equity in Earnings			Dividends		
	1997	1996	1995	**1997**	1996	1995
Caltex						
Exploration						
and Production	**$171**	$188	$156			
Refining, Marketing						
and Transportation	**252**	408	294			
Total Caltex Group	**423**	596	450	**$207**	$735	$305
Tengizchevroil	**169**	110	1	**–**	–	–
NGC Corporation	**(35)**	19	–	**2**	1	–
Other	**131**	42	102	**96**	92	116
Total	**$688**	$767	$553	**$305**	$828	$421

Effective October 1, 1997, Caltex's management changed the functional currency for its Korean and Japanese equity affiliates from their local currencies to the U.S. dollar, based on significantly changed economic facts and circumstances, primarily changing regulatory environments in those countries. Caltex's earnings in 1997 include significant foreign currency gains, mostly related to net deferred tax benefits resulting from local currency losses on the translation of U.S. dollar debt of affiliates.

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 $145 and $258 at December 31, 1997 and 1996, respectively, of amounts due from affiliated companies. "Accounts payable" include $57 and $39 at December 31, 1997 and 1996, respectively, of amounts due to affiliated companies.

	Year ended December 31		
	1997	1996	1995
Sales to Caltex Group	**$1,335**	$1,708	$1,330
Sales to NGC Corporation	**1,822**	676	–
Sales to other affiliates	**8**	18	10
Total sales to affiliates	**$3,165**	$2,402	$1,340
Purchases from Caltex Group	**$ 932**	$1,022	$ 934
Purchases from NGC Corporation	**854**	269	–
Purchases from other affiliates	**16**	41	40
Total purchases from affiliates	**$1,802**	$1,332	$ 974

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

	Caltex Group			Other Affiliates			Chevron's Share		
Year ended December 31	**1997**	1996	1995	**1997**	1996	1995	**1997**	1996	1995
Sales and other operating revenues	**$17,920**	$16,895	$15,067	**$16,574**	$6,356	$2,594	**$13,827**	$10,218	$8,549
Total costs and other deductions	**17,147**	15,991	14,256	**15,770**	5,829	2,194	**13,118**	9,573	7,804
Net income	**846**	1,193	899	**556**	404	315	**688**	767	553

	Caltex Group			Other Affiliates			Chevron's Share		
At December 31	**1997**	1996	1995	**1997**	1996	1995	**1997**	1996	1995
Current assets	**$ 2,521**	$ 2,681	$ 2,323	**$ 3,232**	$3,286	$ 877	**$ 2,289**	$ 2,284	$1,527
Other assets	**7,193**	6,714	7,794	**6,713**	6,088	3,888	**5,971**	5,524	5,414
Current liabilities	**2,991**	2,999	3,223	**2,565**	2,064	413	**2,232**	2,076	1,863
Other liabilities	**2,131**	2,140	1,935	**5,448**	5,034	3,341	**1,740**	1,448	1,154
Net equity	**4,592**	4,256	4,959	**1,932**	2,276	1,011	**4,288**	4,284	3,924

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		
	1997	1996	1995	**1997**	1996	1995	**1997**	1996	1995	**1997**	1996	1995
United States												
Petroleum												
Exploration and Production	**$18,104**	$17,742	$18,209	**$ 5,052**	$ 4,849	$ 5,010	**$1,166**	$ 974	$ 776	**$ 887**	$ 785	$1,577
Refining and Marketing[2]	**11,378**	11,186	11,136	**6,186**	6,295	6,520	**538**	415	887	**464**	472	564
Chemicals	**3,039**	2,587	2,075	**1,931**	1,552	1,233	**470**	376	168	**92**	138	162
Coal and Other Minerals	**833**	819	857	**341**	345	359	**35**	17	33	**38**	36	135
Total United States	**33,354**	32,334	32,277	**13,510**	13,041	13,122	**2,209**	1,782	1,864	**1,481**	1,431	2,438
International												
Petroleum												
Exploration and Production	**11,696**	10,484	10,951	**6,639**	5,998	5,463	**1,285**	1,221	1,421	**634**	581	712
Refining and Marketing	**2,063**	2,259	2,459	**1,210**	1,387	1,674	**57**	70	335	**111**	115	116
Chemicals	**549**	393	354	**309**	163	146	**157**	37	26	**12**	24	24
Coal and Other Minerals	**55**	32	22	**53**	28	19	**26**	10	–	**1**	1	1
Total International	**14,363**	13,168	13,786	**8,211**	7,576	7,302	**1,525**	1,338	1,782	**758**	721	853
Corporate and Other[3]	**1,516**	1,434	1,968	**950**	879	1,272	**74**	76	203	**61**	64	90
Total	**$49,233**	$46,936	$48,031	**$22,671**	$21,496	$21,696	**$3,808**	$3,196	$3,849	**$2,300**	$2,216	$3,381

[1]*Net of dry hole expense related to prior years' expenditures of $31, $55 and $19 in 1997, 1996 and 1995, respectively.*
[2]*Includes transportation.*
[3]*Includes primarily real estate and management information systems.*

Expenses for maintenance and repairs were $738, $626 and $833 in 1997, 1996 and 1995, respectively.

NOTE 14. TAXES

	Year ended December 31		
	1997	1996	1995
Taxes other than on income			
United States			
Excise taxes on products and merchandise	**$3,386**	$3,231	$2,999
Property and other miscellaneous taxes	**274**	274	341
Payroll taxes	**123**	123	127
Taxes on production	**118**	121	105
Total United States	**3,901**	3,749	3,572
International			
Excise taxes on products and merchandise	**2,188**	1,971	1,989
Property and other miscellaneous taxes	**185**	157	146
Payroll taxes	**23**	26	30
Taxes on production	**10**	5	11
Total International	**2,406**	2,159	2,176
Total taxes other than on income	**$6,307**	$5,908	$5,748

U.S. federal income tax expense was reduced by $93, $77 and $68 in 1997, 1996 and 1995, respectively, for low-income housing and other business tax credits.

In 1997, before-tax income, including related corporate and other charges, for U.S. operations was $2,054, compared with $1,631 in 1996 and a loss of $(331) in 1995, and for international operations was $3,448, $3,109 and $2,120 in 1997, 1996 and 1995, respectively.

The deferred income tax provisions included (costs) benefits of $(304), $(204) and $75 related to properties, plant and equipment in 1997, 1996 and 1995, 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.

	Year ended December 31		
	1997	1996	1995
Taxes on income			
U.S. federal			
Current	**$ 369**	$ 360	$ 152
Deferred	**357**	165	(289)
State and local	**81**	59	29
Total United States	**807**	584	(108)
International			
Current	**1,174**	1,356	937
Deferred	**265**	193	14
Deferred – Adjustment for enacted changes in tax laws/rates	**–**	–	16
Total International	**1,439**	1,549	967
Total taxes on income	**$2,246**	$2,133	$ 859

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		
	1997	1996	1995
Statutory U.S. federal income tax rate	**35.0%**	35.0%	35.0%
Effect of income taxes from international operations in excess of taxes at the U.S. statutory rate	**9.6**	16.8	26.2
State and local taxes on income, net of U.S. federal income tax benefit	**1.3**	0.9	0.9
Prior-year tax adjustments	**(0.3)**	(0.2)	0.3
Tax credits	**(1.7)**	(1.6)	(3.8)
All other	**(1.7)**	(3.6)	(3.1)
Consolidated companies	**42.2**	47.3	55.5
Effect of recording equity in income of certain affiliated companies on an after-tax basis	**(1.4)**	(2.3)	(7.5)
Effective tax rate	**40.8%**	45.0%	48.0%

Notes to Consolidated Financial Statements

Millions of dollars, except per-share amounts

NOTE 14. TAXES – *Continued*

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

At December 31, 1997 and 1996, deferred taxes were classified in the Consolidated Balance Sheet as follows:

	At December 31 1997	1996
Prepaid expenses and other current assets	**$ (13)**	$ (136)
Deferred charges and other assets	**(181)**	(163)
Federal and other taxes on income	**79**	3
Noncurrent deferred income taxes	**3,215**	2,851
Total deferred income taxes, net	**$3,100**	$2,555

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

	At December 31 1997	1996
Properties, plant and equipment	**$4,724**	$4,534
Inventory	**151**	193
Miscellaneous	**200**	195
Deferred tax liabilities	**5,075**	4,922
Abandonment/environmental reserves	**(872)**	(1,052)
Employee benefits	**(596)**	(561)
AMT/other tax credits	**(362)**	(586)
Other accrued liabilities	**(202)**	(332)
Miscellaneous	**(382)**	(523)
Deferred tax assets	**(2,414)**	(3,054)
Deferred tax assets valuation allowance	**439**	687
Total deferred taxes, net	**$3,100**	$2,555

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 $4,500 at December 31, 1997. 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 $196 would be payable upon remittance of these earnings.

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

The company has entered into interest rate swaps on a portion of its short-term debt. At December 31, 1997 and 1996, the company had swapped notional amounts of $1,050 of floating rate debt to fixed rates. In addition, at 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.

	At December 31 1997	1996
Commercial paper[1]	**$3,352**	$3,583
Current maturities of long-term debt	**303**	269
Current maturities of long-term capital leases	**35**	36
Redeemable long-term obligations		
Long-term debt	**304**	315
Capital leases	**273**	274
Notes payable	**95**	29
Subtotal[2]	**4,362**	4,506
Reclassified to long-term debt	**(2,725)**	(1,800)
Total short-term debt	**$1,637**	$2,706

[1]*Weighted average interest rates at December 31, 1997 and 1996, were 6.1% and 5.9%, respectively, including the effect of interest rate swaps.*

[2]*Weighted average interest rates at December 31, 1997 and 1996, were 6.0% and 5.6%, respectively, including the effect of interest rate swaps.*

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

At year-end 1997, the company had $4,050 of committed credit facilities with banks worldwide, $2,725 of which had termination dates beyond one year. The facilities support the company's commercial paper borrowings. Interest on any borrowings under the agreements is based on either the London Interbank Offered Rate or the Reserve Adjusted Domestic Certificate of Deposit Rate. No amounts were outstanding under these credit agreements during the year nor at year-end.

	At December 31 1997	1996
8.11% amortizing notes due 2004[1]	**$ 750**	$ 750
7.45% notes due 2004	**349**	349
7.61% amortizing bank loans due 2003	**200**	225
5.6% notes due 1998	**190**	190
6.92% bank loans due 2005	**51**	51
9.75% sinking-fund debentures due 2017	**38**	180
4.625% 200 million Swiss franc issue due 1997[2]	**–**	149
7.28% notes due 1997[1]	**–**	50
Other foreign currency obligations (4.1%)[3]	**85**	88
Other long-term debt (7.0%)[3]	**54**	87
Total including debt due within one year	**1,717**	2,119
Debt due within one year	**(303)**	(269)
Reclassified from short-term debt	**2,725**	1,800
Total long-term debt	**$4,139**	$3,650

[1]*Guarantee of ESOP debt.*

[2]*Interest rate swaps effectively changed the fixed interest rate to a floating rate, which was 2.24% at year-end 1996.*

[3]*Less than $50 million individually; weighted average interest rates at December 31, 1997.*

NOTE 16. LONG-TERM DEBT – *Continued*

At December 31, 1997, the company classified $2,725 of short-term debt as long-term, compared to $1,800 of short-term debt classified as long-term at December 31, 1996. The change results from a greater amount of the company's committed credit facilities with termination dates beyond one year. Settlement of these obligations is not expected to require the use of working capital in 1998, as the company has both the intent and ability to refinance this debt on a long-term basis.

Consolidated long-term debt maturing in each of the five years after December 31, 1997, is as follows: 1998–$303, 1999–$121, 2000–$124, 2001–$137 and 2002–$148.

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 noncontributory 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 (credit) expense for all of the company's pension plans for the years 1997, 1996 and 1995 consisted of:

	1997	1996	1995
Cost of benefits earned during the year	$ 106	$ 104	$ 99
Interest cost on projected benefit obligations	274	271	273
Actual return on plan assets	(697)	(503)	(728)
Net amortization and deferral	304	129	342
Net pension (credit) expense	$ (13)	$ 1	$ (14)

Settlement gains in 1997, 1996 and 1995, related to lump-sum payments, totaled $29, $28 and $7 respectively. Charges for termination benefits totaled $13 in 1997 and $5 in 1995. There were no charges in 1996.

At December 31, 1997 and 1996, 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:

	1997	1996
Assumed discount rates	7.3%	7.7%
Assumed rates for compensation increases	5.2%	5.2%
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, 1997 and 1996, was as follows:

	Plans with Assets in Excess of Accumulated Benefits		Plans with Accumulated Benefits in Excess of Plan Assets	
At December 31	1997	1996	1997	1996
Actuarial present value of:				
Vested benefit obligations	$ (3,145)	$ (2,932)	$ (250)	$ (231)
Accumulated benefit obligations	$ (3,294)	$ (3,072)	$ (258)	$ (237)
Projected benefit obligations	$ (3,768)	$ (3,515)	$ (301)	$ (270)
Plan assets at fair values	4,448	4,156	6	7
Plan assets greater (less) than projected benefit obligations	680	641	(295)	(263)
Unrecognized net transition (assets) liabilities	(136)	(169)	10	13
Unrecognized net (gains) losses	(206)	(176)	90	68
Unrecognized prior-service costs	97	79	5	6
Minimum liability adjustment	–	–	(85)	(67)
Net pension cost prepaid (accrued)	$ 435	$ 375	$ (275)	$ (243)

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 of 1995, after shareholders' approval, were $79, $92 and $99 in 1997, 1996 and 1995, respectively. Commencing in October 1997, the company's Savings Plus Plan contributions are being funded with leveraged ESOP shares.

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

Notes to Consolidated Financial Statements

Millions of dollars, except per-share amounts

NOTE 17. EMPLOYEE BENEFIT PLANS – *Continued*

The company recorded expense for the ESOP of $53, $61 and $67 in 1997, 1996 and 1995, respectively, including $61, $65 and $68 of interest expense related to the ESOP debt. All dividends paid on the shares held by the ESOP are used to service the ESOP debt. The dividends used were $57, $53 and $50 in 1997, 1996 and 1995, respectively.

The company made contributions to the ESOP of $55, $62 and $69 in 1997, 1996 and 1995, 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 $(8), $(4) and $(1) in 1997, 1996 and 1995, respectively. The ESOP shares as of December 31, 1997 and 1996 were as follows:

Thousands	1997	1996
Allocated shares	**9,287**	7,805
Unallocated shares	**15,929**	17,682
Total ESOP shares	**25,216**	25,487

Management Incentive Plans The company has two incentive plans, the Management Incentive Plan (MIP) and the Long-Term Incentive Plan (LTIP) for officers and other regular salaried employees of the company and its subsidiaries who hold positions of significant responsibility. The MIP is an annual cash incentive plan that links awards to performance results of the prior year. The cash awards may be deferred by conversion to stock units or, beginning with awards deferred in 1996, stock units or other investment fund alternatives. Awards under the LTIP may take the form of, but are not limited to, stock options, restricted stock, stock units and nonstock grants. Charges to expense for the combined management incentive plans, excluding expense related to LTIP stock options, which is discussed in Note 18, "Stock Options," were $55, $36 and $45 in 1997, 1996 and 1995, 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 maximum payout under the program is 8 percent of the employee's annual salary. Charges for the program were $116 and $72 in 1997 and 1996, respectively. There were no expenses accrued for 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.

Nonpension 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, 1997			At December 31, 1996		
	Health	Life	Total	Health	Life	Total
APBO						
Retirees	**$ (495)**	**$(356)**	**$ (851)**	$ (456)	$(327)	$ (783)
Fully eligible active participants	**(162)**	**(80)**	**(242)**	(142)	(75)	(217)
Other active participants	**(222)**	**(47)**	**(269)**	(192)	(44)	(236)
Total APBO	**(879)**	**(483)**	**(1,362)**	(790)	(446)	(1,236)
Fair value of plan assets	**–**	**–**	**–**	–	–	–
APBO greater than plan assets	**(879)**	**(483)**	**(1,362)**	(790)	(446)	(1,236)
Unrecognized net (gain) loss	**(140)**	**16**	**(124)**	(226)	(4)	(230)
Accrued postretirement benefit costs	**$(1,019)**	**$(467)**	**$(1,486)**	$(1,016)	$(450)	$(1,466)

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

	1997			1996			1995		
	Health	Life	Total	Health	Life	Total	Health	Life	Total
Cost of benefits earned during the year	**$14**	**$ 3**	**$17**	$16	$ 3	$ 19	$15	$ 3	$ 18
Interest cost on benefit obligation	**57**	**33**	**90**	58	33	91	67	30	97
Net amortization of gain	**(11)**	**–**	**(11)**	(8)	–	(8)	(9)	(2)	(11)
Net expense for postretirement benefits	**$60**	**$36**	**$96**	$66	$36	$102	$73	$31	$104

For measurement purposes, separate health care cost-trend rates were utilized for pre-age 65 and post-age 65 retirees. The 1998 annual rates of change were assumed to be 3.4 percent and 9.2 percent, respectively, before gradually converging to the average ultimate rate of 5.1 percent in 2014 for both pre-age 65 and 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 1997 by $19 and would increase the December 31, 1997 APBO by $122.

At December 31, 1997, the weighted average discount rate was 7.0 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

NOTE 18. STOCK OPTIONS – *Continued*

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 1997, 1996 and 1995 would have been the pro forma amounts indicated below:

			1997	1996	1995
Net Income	As reported		**$3,256**	$2,607	$930
	Pro forma		**$3,302**	$2,610	$925
Earnings per share	As reported	– basic	**$4.97**	$3.99	$1.43
		– diluted	**$4.95**	$3.98	$1.43
	Pro forma	– basic	**$5.04**	$3.99	$1.42
		– diluted	**$5.02**	$3.98	$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 1997, 1996 and 1995 is presented below:

	Options (000s)	Weighted-Average Exercise Price
Outstanding at December 31, 1994	5,842	$39.08
Granted	1,826	48.15
Exercised	(498)	37.09
Forfeited	(83)	47.77
Outstanding at December 31, 1995	7,087	$41.46
Granted	952	66.00
Exercised	(698)	38.91
Forfeited	(64)	49.45
Outstanding at December 31, 1996	7,277	$44.84
Granted	1,800	80.78
Exercised	(710)	38.66
Forfeited	(98)	71.54
Outstanding at December 31, 1997	8,269	$52.88
Exercisable at December 31		
1995	5,336	$39.26
1996	6,330	$41.68
1997	6,504	$45.31

The weighted-average fair market value of options granted in 1997, 1996 and 1995 was $17.64, $14.18 and $9.06 per share, 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 1997, 1996 and 1995, respectively: risk-free interest rate of 6.1, 6.4 and 6.0 percent; dividend yield of 2.8, 3.3 and 3.9 percent; volatility of 15.2, 16.1 and 17.3 percent and expected life of seven years in all years.

As of December 31, 1997, 8,268,654 shares were under option at exercise prices ranging from $31.9375 to $80.9375 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, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (000s)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable (000s)	Weighted-Average Exercise Price
$31 to $41	1,565	3.87	$34.67	1,565	$34.67
41 to 51	4,067	6.63	44.97	4,067	44.97
51 to 61	23	8.34	56.91	23	56.91
61 to 71	855	8.83	66.25	849	66.25
71 to 81	1,759	9.82	80.82	–	–
$31 to $81	8,269	7.02	$52.88	6,504	$45.31

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

Options for 7,204,800 shares, including similar-termed LTIP awards, were granted in 1996. Forfeitures of options for 302,500 shares reduced the outstanding option shares to 6,902,300 at December 31, 1996. In 1997, exercises of 4,171,300 and forfeitures of 516,050 had reduced the outstanding option shares to 2,214,950 at year-end 1997. Unexercised options expire on March 31, 1999. Under APB Opinion No. 25, the company recorded expenses of $125 and $29 for these options in 1997 and 1996, respectively.

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

In 1998, the company announced a new broad-based Employee Stock Option Program that granted to all eligible U.S. dollar payroll employees an option that varied from 100

Notes to Consolidated Financial Statements

Millions of dollars, except per-share amounts

NOTE 18. STOCK OPTIONS – *Continued*

to 300 shares of stock dependent on the employee's salary or job grade. These options vest in two years or, if the company is No. 1 in total shareholder return among its competitor group for the years 1994 through 1998, in one year. Options for approximately 4 million shares were awarded at an exercise price of $76.3125 per share. The options expire on February 11, 2008. Non-U.S. dollar payroll employees, depending on the country of operation, received stock appreciation rights or performance units that are payable only in cash.

NOTE 19. EARNINGS PER SHARE In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings Per Share," which became effective for reporting periods ending after December 15, 1997. Under the previous standard, APB No. 15, the company presented a single earnings per share (EPS) amount that was calculated by dividing net income by the weighted-average number of shares outstanding for the period. Under the provisions of SFAS No. 128, the company will present basic and diluted EPS. Basic EPS includes the effects of award and salary deferrals that are invested in Chevron stock units by certain officers and employees of the company. Diluted EPS includes the effects of these deferrals as well as the dilutive effects of outstanding stock options awarded under the LTIP and Broad-based Employee Stock Option Program (See Note 18. Stock Options). For purposes of comparability, all prior-period earnings-per-share data have been restated to conform with SFAS No. 128. The following table sets forth the computation of basic and diluted EPS:

	1997			1996			1995		
	Net Income	Shares (millions)	Per-Share Amount	Net Income	Shares (millions)	Per-Share Amount	Net Income	Shares (millions)	Per-Share Amount
Net income	$ 3,256			$ 2,607			$ 930		
Weighted average common shares outstanding		655.0			652.8			652.1	
Dividend equivalents paid on Chevron stock units	2			3			3		
Deferred awards held as Chevron stock units		1.3			1.4			1.4	
BASIC EPS	**3,258**	**656.3**	**$ 4.97**	**2,610**	**654.2**	**$ 3.99**	**933**	**653.5**	**$1.43**
Dilutive effects of stock options		2.1			1.2			.6	
DILUTED EPS	**$3,258**	**658.4**	**$ 4.95**	**$2,610**	**655.4**	**$ 3.98**	**$933**	**654.1**	**$1.43**

Options to purchase 1,731,750 shares of common stock at $80.9375 per share were outstanding at year-end but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. These options expire October 29, 2007.

NOTE 20. OTHER CONTINGENT LIABILITIES AND COMMITMENTS The U.S. federal income tax and California franchise tax liabilities of the company have been settled through 1987 and 1991, respectively.

In June 1997, the company's Caltex affiliate received a claim from the U.S. Internal Revenue Service (IRS) for $292 million in excise taxes, $140 million in penalties and $1.6 billion in interest. The IRS claim relates to crude oil sales to Japanese customers beginning in 1980. Caltex is challenging the claim and fully expects to prevail. Caltex believes the underlying excise tax claim is wrong and therefore the claim for penalties and interest is wrong. The Caltex claim has been through the appeals process and will next move to court. In February 1998, Caltex provided an initial letter of credit for $2.33 billion to the IRS to pursue the claim. The letter of credit is guaranteed by Chevron and Texaco. In addition, a yet to be decided portion of the claim must be paid in order to proceed to court. Caltex is involved with other IRS tax audits in which no claims have been made.

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

At December 31, 1997, the company and its subsidiaries, as direct or indirect guarantors, had contingent liabilities of $73 for notes of affiliated companies and $31 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: 1998–$313; 1999–$347; 2000–$289; 2001–$207; 2002–$176; 2003 and after–$752. Total payments under the agreements were $243 in 1997, $177 in 1996 and $173 in 1995.

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

NOTE 20. OTHER CONTINGENT LIABILITIES AND COMMITMENTS *– Continued*

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 operations and related results and are carefully considered by management when evaluating the level of current and future activity in such countries.

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

Quarterly Results and Stock Market Data

Unaudited

	1997				1996			
Millions of dollars, except per-share amounts	4TH Q	3RD Q	2ND Q	1ST Q	4TH Q	3RD Q	2ND Q	1ST Q
REVENUES								
Sales and other operating revenues[1]	**$9,712**	**$10,130**	**$ 9,947**	**$10,794**	$11,265	$10,846	$10,514	$10,157
Income from equity affiliates	**153**	**164**	**193**	**178**	81	104	446	136
Other income	**390**	**34**	**134**	**121**	165	99	37	43
TOTAL REVENUES	**10,255**	**10,328**	**10,274**	**11,093**	11,511	11,049	10,997	10,336
COSTS AND OTHER DEDUCTIONS								
Purchased crude oil and products, operating and other expenses	**6,603**	**6,792**	**6,623**	**7,511**	8,288	7,654	7,516	7,207
Depreciation, depletion and amortization	**657**	**548**	**549**	**546**	603	558	524	531
Taxes other than on income[1]	**1,512**	**1,670**	**1,630**	**1,495**	1,550	1,493	1,452	1,413
Interest and debt expense	**85**	**69**	**76**	**82**	90	93	85	96
TOTAL COSTS AND OTHER DEDUCTIONS	**8,857**	**9,079**	**8,878**	**9,634**	10,531	9,798	9,577	9,247
INCOME BEFORE INCOME TAX EXPENSE	**1,398**	**1,249**	**1,396**	**1,459**	980	1,251	1,420	1,089
INCOME TAX EXPENSE	**523**	**522**	**573**	**628**	516	596	548	473
NET INCOME[2]	**$ 875**	**$ 727**	**$ 823**	**$ 831**	$ 464	$ 655	$ 872	$ 616
NET INCOME PER SHARE – BASIC	**$1.33**	**$1.11**	**$1.26**	**$1.27**	$0.71	$1.00	$1.34	$0.94
– DILUTED	**$1.33**	**$1.10**	**$1.25**	**$1.27**	$0.71	$1.00	$1.33	$0.94
DIVIDENDS PAID PER SHARE	**$0.58**	**$0.58**	**$0.58**	**$0.54**	$0.54	$0.54	$0.50	$0.50
COMMON STOCK PRICE RANGE – HIGH	**$88 7/8**	**$89 3/16**	**$77 1/4**	**$72 5/8**	$68 3/8	$63 3/8	$62 1/8	$58 7/8
– LOW	**$71 1/2**	**$73 1/2**	**$61 3/4**	**$63 1/2**	$60 1/4	$55 7/8	$54 1/2	$51
[1]Includes consumer excise taxes of	***$1,326***	***$1,487***	***$1,447***	***$1,314***	*$1,357*	*$1,324*	*$1,277*	*$1,244*
[2]Special credits (charges) included in Net Income	***$ 68***	***$ (5)***	***$ (14)***	***$ 27***	*$ (221)*	*$ 5*	*$ 172*	*$ –*

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 20,1998, stockholders of record numbered approximately 122,300.

There are no restrictions on the company's ability to pay dividends. Chevron has made dividend payments to stockholders for 86 consecutive years.

Supplemental Information on Oil and Gas Producing Activities

Unaudited

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

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

	Consolidated Companies				Affiliated Companies		
Millions of dollars	U.S.	Africa	Other	Total	CPI	TCO	Worldwide
YEAR ENDED DECEMBER 31, 1997							
Exploration							
Wells	**$ 278**	**$ 99**	**$149**	**$ 526**	**$ 2**	**$ –**	**$ 528**
Geological and geophysical	**39**	**31**	**59**	**129**	**16**	**–**	**145**
Rentals and other	**43**	**17**	**65**	**125**	**–**	**–**	**125**
Total exploration	**360**	**147**	**273**	**780**	**18**	**–**	**798**
Property acquisitions[2]							
Proved[3]	**3**	**6**	**75**	**84**	**–**	**–**	**84**
Unproved	**101**	**–**	**23**	**124**	**–**	**–**	**124**
Total property acquisitions	**104**	**6**	**98**	**208**	**–**	**–**	**208**
Development	**918**	**461**	**529**	**1,908**	**159**	**152**	**2,219**
TOTAL COSTS INCURRED	**$1,382**	**$614**	**$900**	**$2,896**	**$177**	**$152**	**$3,225**
YEAR ENDED DECEMBER 31, 1996							
Exploration							
Wells	$ 357	$ 75	$ 126	$ 558	$ 1	$ –	$ 559
Geological and geophysical	16	37	70	123	8	–	131
Rentals and other	52	10	54	116	–	–	116
Total exploration	425	122	250	797	9	–	806
Property acquisitions[2]							
Proved[3]	5	1	9	15	–	–	15
Unproved	62	2	43	107	–	–	107
Total property acquisitions	67	3	52	122	–	–	122
Development	603	465	594	1,662	123	50	1,835
TOTAL COSTS INCURRED	$ 1,095	$ 590	$ 896	$ 2,581	$ 132	$ 50	$ 2,763
YEAR ENDED DECEMBER 31, 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

[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, 1997							
Unproved properties	**$ 370**	**$ 58**	**$ 236**	**$ 664**	**$ –**	**$ 378**	**$ 1,042**
Proved properties and related producing assets	**16,284**	**3,303**	**5,644**	**25,231**	**1,112**	**491**	**26,834**
Support equipment	**503**	**209**	**310**	**1,022**	**578**	**209**	**1,809**
Deferred exploratory wells	**120**	**46**	**58**	**224**	**–**	**–**	**224**
Other uncompleted projects	**826**	**549**	**821**	**2,196**	**338**	**153**	**2,687**
GROSS CAPITALIZED COSTS	**18,103**	**4,165**	**7,069**	**29,337**	**2,028**	**1,231**	**32,596**
Unproved properties valuation	**153**	**42**	**98**	**293**	**–**	**–**	**293**
Proved producing properties –							
Depreciation and depletion	**11,657**	**1,459**	**2,521**	**15,637**	**626**	**51**	**16,314**
Future abandonment and restoration	**926**	**304**	**177**	**1,407**	**44**	**6**	**1,457**
Support equipment depreciation	**315**	**79**	**130**	**524**	**343**	**53**	**920**
Accumulated provisions	**13,051**	**1,884**	**2,926**	**17,861**	**1,013**	**110**	**18,984**
NET CAPITALIZED COSTS	**$ 5,052**	**$2,281**	**$4,143**	**$11,476**	**$1,015**	**$1,121**	**$13,612**
AT DECEMBER 31, 1996							
Unproved properties	$ 301	$ 59	$ 208	$ 568	$ –	$ 420	$ 988
Proved properties and related producing assets	16,284	2,753	4,267	23,304	1,018	524	24,846
Support equipment	525	158	254	937	548	200	1,685
Deferred exploratory wells	157	43	94	294	–	–	294
Other uncompleted projects	446	678	1,520	2,644	293	97	3,034
GROSS CAPITALIZED COSTS	17,713	3,691	6,343	27,747	1,859	1,241	30,847
Unproved properties valuation	150	37	86	273	–	–	273
Proved producing properties –							
Depreciation and depletion	11,422	1,240	2,259	14,921	557	34	15,512
Future abandonment and restoration	996	272	160	1,428	37	4	1,469
Support equipment depreciation	310	75	137	522	309	46	877
Accumulated provisions	12,878	1,624	2,642	17,144	903	84	18,131
NET CAPITALIZED COSTS	$ 4,835	$ 2,067	$ 3,701	$ 10,603	$ 956	$ 1,157	$ 12,716
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

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 1997, 1996 and 1995 are shown in the following table.

Net income from exploration and production activities as reported on Page 32 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 32.

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, 1997							
Revenues from net production							
Sales	**$ 1,931**	**$ 1,782**	**$ 899**	**$ 4,612**	**$ 43**	**$ 283**	**$ 4,938**
Transfers	**1,799**	**273**	**656**	**2,728**	**634**	**–**	**3,362**
Total	**3,730**	**2,055**	**1,555**	**7,340**	**677**	**283**	**8,300**
Production expenses	**(1,272)**	**(297)**	**(278)**	**(1,847)**	**(246)**	**(79)**	**(2,172)**
Proved producing properties depreciation, depletion and abandonment provision	**(737)**	**(256)**	**(311)**	**(1,304)**	**(81)**	**(37)**	**(1,422)**
Exploration expenses	**(227)**	**(66)**	**(200)**	**(493)**	**(16)**	**–**	**(509)**
Unproved properties valuation	**(16)**	**(7)**	**(10)**	**(33)**	**–**	**–**	**(33)**
Other income (expense)[2]	**87**	**(46)**	**196**	**237**	**10**	**(13)**	**234**
Results before income taxes	**1,565**	**1,383**	**952**	**3,900**	**344**	**154**	**4,398**
Income tax expense	**(555)**	**(939)**	**(365)**	**(1,859)**	**(173)**	**(46)**	**(2,078)**
Results of Producing Operations	**$ 1,010**	**$ 444**	**$ 587**	**$ 2,041**	**$ 171**	**$ 108**	**$ 2,320**
YEAR ENDED DECEMBER 31, 1996							
Revenues from net production							
Sales	$ 1,695	$ 975	$ 984	$ 3,654	$ 45	$ 256	$ 3,955
Transfers	2,073	1,181	756	4,010	648	–	4,658
Total	3,768	2,156	1,740	7,664	693	256	8,613
Production expenses	(1,252)	(242)	(342)	(1,836)	(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

[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. Also includes net income from related oil and gas activities that do not have oil and gas reserves attributed to them (e.g., equity earnings of NGC Corporation, net income from technical and operating service agreements.*

In 1997, the United States includes $290 before-tax gains on sales of producing properties partially offset by $54 a provision for the writedown of assets and restructuring costs in NGC Corporation. "Other international" includes $71 before-tax gains from the sale of 10 percent of Chevron's interest in TCO and $18 for the sale of producing properties.

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. "Other international" in 1996 includes $103 of gains on sales of producing properties, partially offset by $33 of asset impairments and employee severance provisions.

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 "Other international" segment, net special charges for litigation and employee severance reduced earnings $29.

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, 1997							
Average sales prices							
Liquids, per barrel	**$17.33**	**$18.15**	**$16.88**	**$17.53**	**$15.35**	**$10.69**	**$16.82**
Natural gas, per thousand cubic feet	**2.42**	**–**	**2.35**	**2.40**	**–**	**.51**	**2.35**
Average production costs, per barrel	**5.47**	**2.61**	**2.89**	**4.17**	**5.59**	**2.78**	**4.22**
YEAR ENDED DECEMBER 31, 1996							
Average sales prices							
Liquids, per barrel	$ 18.41	$ 20.41	$ 18.50	$ 19.12	$ 16.26	$ 12.27	$ 18.42
Natural gas, per thousand cubic feet	2.29	–	2.08	2.25	–	.57	2.21
Average production costs, per barrel	5.40	2.29	3.31	4.16	4.99	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
Average sales price for liquids ($/Bbl)							
DECEMBER 1997	**$15.63**	**$15.60**	**$15.09**	**$15.48**	**$14.16**	**$ 9.40**	**$14.91**
December 1996	21.07	23.54	19.45	21.54	19.06	13.64	20.68
December 1995	15.47	17.45	16.03	16.25	15.39	11.37	16.01
Average sales price for natural gas ($/MCF)							
DECEMBER 1997	**$ 2.25**	**$ –**	**$ 2.76**	**$ 2.31**	**$ –**	**$ .63**	**$ 2.26**
December 1996	3.73	–	2.24	3.42	–	.81	3.36
December 1995	2.04	–	1.99	2.03	–	.77	2.02

[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 1997, 1996 and 1995 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 affiliate in Kazakhstan, do not include reserves that will be produced when a dedicated export system is in place. In April 1997, Chevron sold 10 percent of its interest in TCO, reducing its ownership to 45 percent.

In June 1997, a consortium, which Chevron will lead and have a 30% interest in, was successful in their bid to operate, under a risked service agreement, Venezuela's block LL-652, located in the northeast section of Lake Maracaibo. With an extensive operating program, the company plans to increase production to 115,000 barrels per day from a baseline production rate of 10,000 barrels per day.

Chevron is accounting for LL-652 as an oil and gas activity and has recorded 49 million barrels of proved crude oil reserves. No reserve quantities have been recorded for the company's Boscan service agreement, which began in 1996.

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-wide	Consolidated Companies				Affiliates		World-wide
	U.S.	Africa	Other	Total	CPI	TCO		U.S.	Africa	Other	Total	CPI	TCO	
RESERVES AT JANUARY 1, 1995	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
Changes attributable to:														
Revisions	**8**	**(16)**	**38**	**30**	**37**	**92**	**159**	**(98)**	**(67)**	**211**	**46**	**19**	**120**	**185**
Improved recovery	**139**	**72**	**7**	**218**	**27**	**–**	**245**	**111**	**–**	**1**	**112**	**5**	**–**	**117**
Extensions and discoveries	**57**	**156**	**14**	**227**	**4**	**–**	**231**	**470**	**–**	**12**	**482**	**2**	**–**	**484**
Purchases[1]	**–**	**–**	**51**	**51**	**–**	**–**	**51**	**3**	**–**	**1**	**4**	**–**	**–**	**4**
Sales[2]	**(32)**	**–**	**(1)**	**(33)**	**–**	**(120)**	**(153)**	**(95)**	**–**	**(7)**	**(102)**	**–**	**(156)**	**(258)**
Production	**(125)**	**(113)**	**(72)**	**(310)**	**(56)**	**(25)**	**(391)**	**(675)**	**(3)**	**(166)**	**(844)**	**(17)**	**(25)**	**(886)**
RESERVES AT DECEMBER 31, 1997	**1,196**	**1,131**	**519**	**2,846**	**578**	**1,082**	**4,506**	**4,991**	**223**	**3,187**	**8,401**	**161**	**1,401**	**9,963**
Developed reserves														
At January 1, 1995	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
AT DECEMBER 31, 1997	**1,025**	**721**	**293**	**2,039**	**435**	**532**	**3,006**	**4,391**	**223**	**1,695**	**6,309**	**145**	**688**	**7,142**

[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, 1997							
Future cash inflows from production	**$ 28,270**	**$ 16,560**	**$ 16,860**	**$ 61,690**	**$ 9,240**	**$ 10,890**	**$ 81,820**
Future production and development costs	**(14,030)**	**(4,810)**	**(5,090)**	**(23,930)**	**(6,340)**	**(6,550)**	**(36,820)**
Future income taxes	**(4,710)**	**(6,630)**	**(4,330)**	**(15,670)**	**(1,390)**	**(600)**	**(17,660)**
Undiscounted future net cash flows	**9,530**	**5,120**	**7,440**	**22,090**	**1,510**	**3,740**	**27,340**
10 percent midyear annual discount for timing of estimated cash flows	**(3,910)**	**(1,780)**	**(3,290)**	**(8,980)**	**(650)**	**(2,710)**	**(12,340)**
STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS	**$ 5,620**	**$ 3,340**	**$ 4,150**	**$ 13,110**	**$ 860**	**$ 1,030**	**$ 15,000**
AT DECEMBER 31, 1996							
Future cash inflows from production	$ 45,620	$ 24,220	$ 19,560	$ 89,400	$ 12,220	$ 16,040	$ 117,660
Future production and development costs	(14,430)	(3,840)	(4,590)	(22,860)	(7,560)	(5,330)	(35,750)
Future income taxes	(11,170)	(12,560)	(5,290)	(29,020)	(2,210)	(4,220)	(35,450)
Undiscounted future net cash flows	20,020	7,820	9,680	37,520	2,450	6,490	46,460
10 percent midyear annual discount for timing of estimated cash flows	(8,250)	(2,700)	(4,300)	(15,250)	(1,020)	(5,070)	(21,340)
Standardized Measure of Discounted Future Net Cash Flows	$ 11,770	$ 5,120	$ 5,380	$ 22,270	$ 1,430	$ 1,420	$ 25,120
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

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

	Consolidated Companies			Affiliated Companies			Worldwide		
Millions of dollars	**1997**	1996	1995	**1997**	1996	1995	**1997**	1996	1995
PRESENT VALUE AT JANUARY 1	**$22,270**	$13,830	$9,720	**$2,850**	$2,520	$1,900	**$25,120**	$16,350	$11,620
Sales and transfers of oil and gas produced, net of production costs	**(5,493)**	(5,828)	(4,109)	**(635)**	(639)	(454)	**(6,128)**	(6,467)	(4,563)
Development costs incurred	**1,908**	1,662	1,661	**311**	173	104	**2,219**	1,835	1,765
Purchases of reserves	**173**	28	230	**–**	–	–	**173**	28	230
Sales of reserves	**(238)**	(353)	(116)	**(140)**	–	–	**(378)**	(353)	(116)
Extensions, discoveries and improved recovery, less related costs	**2,161**	3,745	2,927	**104**	316	165	**2,265**	4,061	3,092
Revisions of previous quantity estimates	**535**	969	1,979	**980**	59	(723)	**1,515**	1,028	1,256
Net changes in prices, development and production costs	**(20,440)**	13,495	3,602	**(3,570)**	721	1,756	**(24,010)**	14,216	5,358
Accretion of discount	**3,673**	2,236	1,513	**516**	418	310	**4,189**	2,654	1,823
Net change in income tax	**8,561**	(7,514)	(3,577)	**1,474**	(718)	(538)	**10,035**	(8,232)	(4,115)
Net change for the year	**(9,160)**	8,440	4,110	**(960)**	330	620	**(10,120)**	8,770	4,730
PRESENT VALUE AT DECEMBER 31	**$13,110**	$22,270	$13,830	**$1,890**	$2,850	$2,520	**$15,000**	$25,120	$16,350

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

ELEVEN-YEAR FINANCIAL SUMMARY[1]

Millions of dollars, except per-share amounts	**1997**	1996	1995
CONSOLIDATED STATEMENT OF INCOME DATA			
REVENUES			
Sales and other operating revenues			
Refined products	**$15,584**	$15,785	$13,471
Crude oil	**11,297**	12,397	9,376
Natural gas	**2,568**	3,299	2,019
Natural gas liquids	**553**	1,167	1,285
Other petroleum	**1,109**	1,184	1,144
Chemicals	**3,520**	3,422	3,758
Coal and other minerals	**369**	340	358
Excise taxes	**5,574**	5,202	4,988
Corporate and other	**9**	(14)	(89)
Total sales and other operating revenues	**40,583**	42,782	36,310
Income from equity affiliates	**688**	767	553
Other income	**679**	344	219
TOTAL REVENUES	**41,950**	43,893	37,082
COSTS, OTHER DEDUCTIONS AND INCOME TAXES	**38,694**	41,286	36,152
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	**$ 3,256**	$ 2,607	$ 930
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	**–**	–	–
NET INCOME	**$ 3,256**	$ 2,607	$ 930
PER SHARE OF COMMON STOCK:			
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES – BASIC	**$4.97**	$3.99	$1.43
– DILUTED	**$4.95**	$3.98	$1.43
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	**–**	–	–
NET INCOME PER SHARE OF COMMON STOCK – BASIC	**$4.97**	$3.99	$1.43
– DILUTED	**$4.95**	$3.98	$1.43
CASH DIVIDENDS PER SHARE	**$2.28**	$2.08	$1.925
CONSOLIDATED BALANCE SHEET DATA (YEAR-END)			
Current assets	**$ 7,006**	$ 7,942	$ 7,867
Properties, plant and equipment (net)	**22,671**	21,496	21,696
Total assets	**35,473**	34,854	34,330
Short-term debt	**1,637**	2,706	3,806
Other current liabilities	**5,309**	6,201	5,639
Long-term debt and capital lease obligations	**4,431**	3,988	4,521
Stockholders' equity	**17,472**	15,623	14,355
Per share	**$ 26.64**	$ 23.92	$ 22.01
SELECTED DATA			
Return on average stockholders' equity	**19.7%**	17.4%	6.4%
Return on average capital employed	**15.0%**	12.7%	5.3%
Total debt/total debt plus equity	**25.8%**	30.0%	36.7%
Capital and exploratory expenditures[2,3]	**$ 5,541**	$ 4,840	$ 4,800
Common stock price – High	**$89 3/16**	$68 3/8	$53 5/8
– Low	**$61 3/4**	$51	$43 3/8
– Year-end	**$77**	$65	$52 3/8
Common shares outstanding at year-end (in thousands)	**655,931**	653,086	652,327
Weighted average shares outstanding for the year (in thousands)	**654,991**	652,769	652,084
Number of employees at year-end[4]	**39,362**	40,820	43,019

[1]*Comparability between years is affected by changes in accounting methods: 1997, 1996 and 1995 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"; 1987 through 1991 reflect the adoption of SFAS No. 96,"Accounting for Income Taxes"; 1987 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.*	**$1,174**	*$983*	*$912*

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

[4]*Includes service station personnel.*

1994	1993	1992	1991	1990	1989	1988	1987
$14,328	$16,089	$ 16,821	$16,794	$19,385	$15,682	$ 13,707	$ 14,472
8,249	8,501	10,031	10,276	11,303	6,791	5,059	5,871
2,138	2,156	1,995	1,869	2,056	1,693	1,389	1,312
1,180	1,235	1,190	1,165	1,305	937	875	885
944	967	927	812	769	719	658	642
3,065	2,708	2,872	3,098	3,325	3,048	2,960	2,360
416	447	397	427	443	470	430	398
4,790	4,068	3,964	3,659	2,933	2,473	2,526	2,091
20	20	15	18	21	103	118	75
35,130	36,191	38,212	38,118	41,540	31,916	27,722	28,106
440	440	406	491	371	350	422	376
284	451	1,059	334	655	519	713	638
35,854	37,082	39,677	38,943	42,566	32,785	28,857	29,120
34,161	35,817	37,467	37,650	40,409	32,534	27,089	27,870
$ 1,693	$ 1,265	$ 2,210	$ 1,293	$ 2,157	$ 251	$ 1,768	$ 1,250
–	–	(641)	–	–	–	–	–
$ 1,693	$ 1,265	$ 1,569	$ 1,293	$ 2,157	$ 251	$ 1,768	$ 1,250
$2.60	$1.94	$3.26	$1.85	$3.05	$0.37	$2.59	$1.83
$2.59	$1.94	$3.26	$1.85	$3.05	$0.37	$2.59	$1.83
–	–	$(0.95)	–	–	–	–	–
$2.60	$1.94	$2.31	$1.85	$3.05	$0.37	$2.59	$1.83
$2.59	$1.94	$2.31	$1.85	$3.05	$0.37	$2.59	$1.83
$1.85	$1.75	$1.65	$1.625	$1.475	$1.40	$1.275	$1.20
$ 7,591	$ 8,682	$ 8,722	$ 9,031	$10,089	$ 8,620	$ 7,941	$ 9,515
22,173	21,865	22,188	22,850	22,726	23,040	23,798	21,736
34,407	34,736	33,970	34,636	35,089	33,884	33,924	34,057
4,014	3,456	2,888	1,706	59	126	469	915
5,378	7,150	6,947	7,774	8,958	7,457	6,534	7,517
4,128	4,082	4,953	5,991	6,710	7,390	6,833	6,255
14,596	13,997	13,728	14,739	14,836	13,980	14,744	13,853
$ 22.40	$ 21.49	$ 21.11	$ 21.25	$ 21.15	$ 19.69	$ 21.63	$ 20.32
11.8%	9.1%	11.0%	8.7%	15.0%	1.8%	12.4%	9.2%
8.7%	6.8%	8.5%	7.5%	11.9%	3.2%	10.1%	7.8%
35.8%	35.0%	36.4%	34.3%	31.3%	35.0%	33.1%	34.1%
$ 4,819	$ 4,440	$ 4,423	$ 4,787	$ 4,269	$ 3,982	$ 5,853	$ 2,841
$49 3/16	$49 3/8	$37 11/16	$40 1/16	$40 13/16	$36	$25 7/8	$32 5/16
$39 7/8	$33 11/16	$30 1/16	$31 3/4	$31 9/16	$22 7/8	$19 13/16	$16
$44 5/8	$43 9/16	$34 3/4	$34 1/2	$36 5/16	$33 7/8	$22 7/8	$19 13/16
651,751	651,478	650,348	693,444	701,600	710,048	681,750	681,646
651,672	650,958	677,955	700,348	706,926	683,778	681,698	681,636
45,758	47,576	49,245	55,123	54,208	54,826	53,675	51,697
$846	*$701*	*$621*	*$498*	*$433*	*$389*	*$337*	*$304*

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	**1997**	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
UNITED STATES											
Gross production of crude oil and natural gas liquids	**388**	385	397	418	447	488	516	524	552	553	580
Net production of crude oil and natural gas liquids	**343**	341	350	369	394	432	454	458	482	484	507
Refinery input	**933**	951	925	1,213	1,307	1,311	1,278	1,406	1,403	1,407	1,388
Sales of refined products	**1,193**	1,122	1,117	1,314	1,423	1,470	1,444	1,489	1,469	1,451	1,430
Sales of natural gas liquids	**132**	187	213	215	211	194	175	188	184	180	161
Total sales of petroleum products	**1,325**	1,309	1,330	1,529	1,634	1,664	1,619	1,677	1,653	1,631	1,591
Gross production of natural gas	**2,192**	2,216	2,207	2,441	2,407	2,720	2,779	3,131	2,841	2,384	2,290
Net production of natural gas	**1,849**	1,875	1,868	2,085	2,056	2,313	2,359	2,650	2,413	2,024	1,944
Sales of natural gas	**3,389**	3,588	2,815	2,598	2,334	2,539	2,592	2,845	2,657	2,181	2,095
INTERNATIONAL											
Gross production of crude oil and natural gas liquids	**1,037**	1,003	944	896	825	791	784	777	756	756	758
Net production of crude oil and natural gas liquids	**731**	702	651	624	556	512	504	477	467	486	482
Refinery input	**565**	537	598	623	598	543	517	494	490	500	490
Sales of refined products	**886**	944	969	934	923	859	823	772	740	742	710
Sales of natural gas liquids	**43**	36	47	34	37	33	29	33	43	37	34
Total sales of petroleum products	**929**	980	1,016	968	960	892	852	805	783	779	744
Gross production of natural gas	**673**	676	652	657	572	541	525	503	382	348	379
Net production of natural gas	**576**	584	565	546	469	463	447	417	330	300	325
Sales of natural gas	**1,141**	778	564	461	462	466	444	423	303	274	307
TOTAL WORLDWIDE											
Gross production of crude oil and natural gas liquids	**1,425**	1,388	1,341	1,314	1,272	1,279	1,300	1,301	1,308	1,309	1,338
Net production of crude oil and natural gas liquids	**1,074**	1,043	1,001	993	950	944	958	935	949	970	989
Refinery input	**1,498**	1,488	1,523	1,836	1,905	1,854	1,795	1,900	1,893	1,907	1,878
Sales of refined products	**2,079**	2,066	2,086	2,248	2,346	2,329	2,267	2,261	2,209	2,193	2,140
Sales of natural gas liquids	**175**	223	260	249	248	227	204	221	227	217	195
Total sales of petroleum products	**2,254**	2,289	2,346	2,497	2,594	2,556	2,471	2,482	2,436	2,410	2,335
Gross production of natural gas	**2,865**	2,892	2,859	3,098	2,979	3,261	3,304	3,634	3,223	2,732	2,669
Net production of natural gas	**2,425**	2,459	2,433	2,631	2,525	2,776	2,806	3,067	2,743	2,324	2,269
Sales of natural gas	**4,530**	4,366	3,379	3,059	2,796	3,005	3,036	3,268	2,960	2,455	2,402
WORLDWIDE – EXCLUDES EQUITY IN AFFILIATES											
Number of wells completed (net)[2]											
Oil and gas	**779**	710	455	364	422	342	607	543	306	415	340
Dry	**45**	62	64	70	76	33	69	79	71	77	44
Producing oil and gas wells (net)[2]	**12,724**	13,114	11,707	12,111	10,996	10,773	15,502	17,890	21,695	24,802	27,209

[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.*

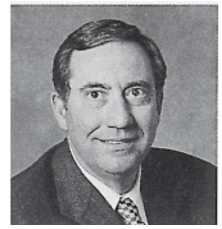
[2] *Net wells include all those wholly owned and the sum of fractional interests in those that are joint ventures, unit operations or similar wells. Wells shut in are excluded. Beginning in 1994, producing wells include injection wells temporarily functioning as producing wells.*

Board of Directors

Kenneth T. Derr, 61, has been Chairman of the Board and Chief Executive Officer since 1989. He joined the corporation in 1960. He was elected a Vice President in 1972, a Director in 1981 and Vice Chairman in 1985. He also is a Director of AT&T Corp., Citicorp and Potlatch Corporation. (2)

James N. Sullivan, 60, is Vice Chairman responsible for worldwide refining, marketing, chemicals and coal mining operations. He joined the corporation in 1961. He was elected a Vice President in 1983, a Director in 1988 and Vice Chairman in 1989. He also is a Director of Weyerhaeuser Company.

Samuel H. Armacost, 58, has been a Director since 1982. He is a Managing Director 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. (3, 4)

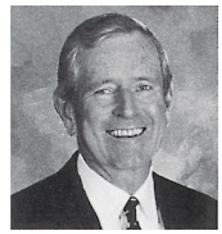


Sam Ginn, 60, was elected a Director in 1989. He is Chairman of the Board and Chief Executive Officer (CEO) of AirTouch Communications, Inc. Previously he was Chairman of the Board and CEO of Pacific Telesis Group. He also is a Director of Hewlett-Packard Company, Transamerica Corporation and Safeway Inc. (1, 3)

Carla A. Hills, 64, was elected a Director in 1993. She is Chairman and Chief Executive Officer of Hills & Company International Consultants. She served as U.S. Trade Representative 1989-1993. She is a Director of American International Group, Inc.; Lucent Technologies Inc.; Bechtel Enterprises; Time Warner Inc.; and Trust Company of the West. (2, 4)

J. Bennett Johnston, 65, was elected a Director in 1997. He is Chief Executive Officer of Johnston & Associates, a consulting firm. He served as a Senator from Louisiana for 24 years. He is a Director of URS Corporation, Columbia Energy Group and Freeport-McMoran Copper & Gold Inc. (1, 2)

Richard H. Matzke, 61, was elected a Director in 1997. He has been a Corporate Vice President since 1990 and President, Chevron Overseas Petroleum, since 1989. Previously he was Vice President, Chevron Chemical Company, and President, Chevron Canada Resources. He joined Chevron in 1961.



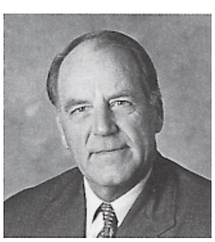
Charles M. Pigott, 68, has been a Director since 1973. He is Chairman Emeritus and a Director of PACCAR Inc, manufacturer of transportation equipment. He also is a Director of The Boeing Company and Seattle Times Company. (3, 4)

Condoleezza Rice, 43, was elected a Director in 1991. She is Provost and Vice President of Stanford University. From 1989 to 1991, she served on the National Security Council as Senior Director for Soviet Affairs. She is a Director of Transamerica Corporation. (2, 4)

Frank A. Shrontz, 66, was elected a Director in 1996. Previously he was Chief Executive Officer and President of The Boeing Company. He served as Assistant Secretary of Defense and Assistant Secretary of the Air Force. He also is a Director of Boise Cascade Corporation, Citicorp, and Minnesota Mining and Manufacturing Company. (1, 3)

Chang-Lin Tien, 62, was elected a Director in 1997. He was Chancellor of the University of California, Berkeley, from 1990 to 1997. He serves on the Board of Trustees of The Asia Foundation. He also is a Director of Raychem Corporation; AirTouch Communications, Inc.; and Wells Fargo & Company. (1, 3)

George H. Weyerhaeuser, 71, 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. (2, 4)



John A. Young, 65, has been a Director since 1985. He is Vice Chairman of the Board of Novell, Inc. Previously he was President, Director and Chief Executive Officer of Hewlett-Packard Company. He also is a Director of Lucent Technologies Inc.; Wells Fargo & Company; Shaman Pharmaceuticals, Inc.; SmithKline Beecham PLC; and Affymetrix, Inc. (1, 2)

Committees of the Board:

(1) Audit:
John A. Young, Chairman

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

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

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

Officers

Lydia I. Beebe, 45, 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, 60, Vice President, Public Affairs, since 1996. Director of Caltex Petroleum Corporation. Previously President, Chevron International Oil Company; General Manager, Marketing, and General Manager, Supply and Distribution, Chevron Products Company. Joined Chevron in 1964.

George K. Carter, 62, 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, 50, Comptroller since 1996. Previously Vice President, Finance, Chevron Products Company, and Assistant Comptroller, Chevron Corporation. Joined Chevron in 1972.

Lloyd E. Elkins, 54, 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, 57, 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, 49, Corporate Vice President. Previously Vice President, Human Resources, since 1993; President, Chevron Canada; and Group Manager, Fuels, Chevron Research and Technology Company. Joined Chevron in 1974.

Martin R. Klitten, 53, 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, 55, 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.

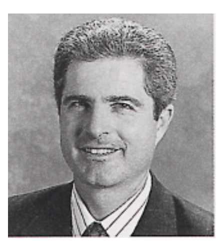
Gregory Matiuk, 52, Vice President, Human Resources and Quality, since February 1998. Previously Vice President, Strategic Planning and Quality; Manager, Strategic Planning, Chevron Corporation; Vice President and General Manager, Western Business Unit, Chevron U.S.A. Production Company. Joined Chevron in 1967.

David J. O'Reilly, 51, 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, 51, Vice President, Technology and Environmental Affairs, since 1996. Director of NGC Corporation. Previously President, Chevron Canada Resources, and President, Chevron Petroleum Technology Company. Joined Chevron in 1975.

John E. Peppercorn, 60, 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, 51, Corporate Vice President and President, Chevron U.S.A. Production Company, responsible for all North American exploration and production, since 1997. Director of NGC Corporation. Previously Corporate Vice President, Strategic Planning and Quality, and President, Warren Petroleum Company. Joined Chevron in 1973.



John S. Watson, 41, Vice President, Strategic Planning, since February 1998. Previously President, Chevron Canada Limited; General Manager, Strategic Planning and Quality, and Manager, Credit Card Enterprises, Chevron Products Company. Joined Chevron in 1980.

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

Stockholder Information
Stockholders with inquiries about stock ownership, changes of address or dividend payments may contact:

Chevron Corporation Transfer Office
575 Market Street, Room 2636
San Francisco, CA 94105-2856
1-800-926-7372

After May 18, contact:

ChaseMellon Shareholder Services
85 Challenger Road
Ridgefield Park, NJ 07660-2108
1-800-368-8357

Dividend Payment Dates
Quarterly dividends on common stock are paid, following declaration by the Board of Directors, on or about the 10th day of March, June, September and December. The annual dividend rate for 1997 was $2.28. The quarterly dividend rate for the first quarter of 1998 is 61 cents a share and will be paid in March. Direct deposit of dividends is available. For information, contact the Transfer Office (see above).

Dividend Reinvestment Plan
Chevron's Direct Stock Services program provides an alternative to traditional methods of purchasing, holding and selling stock. The program's features include dividend reinvestment, optional cash investment of $50 to $100,000 a year, automatic stock purchase and safekeeping of stock certificates. Anyone interested may call 1-800-286-9178.

After May 18, contact:

ChaseMellon Shareholder Services
85 Challenger Road
Ridgefield Park, NJ 07660-2108
1-800-368-8357

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

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

Web Site on Internet
Chevron's Web site 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*, the *Proxy Statement* 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 29, 1998, at the Orpheum Theatre in New Orleans.

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 1997 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

After May 18, contact:

ChaseMellon Shareholder Services
85 Challenger Road
Ridgefield Park, NJ 07660-2108
1-800-368-8357

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

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

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Chevron Corporation
575 Market Street
San Francisco, CA 94105-2856

The language of the environment

When Chevron dismantled four oil platforms offshore Santa Barbara, Calif., it took many steps to protect marine life.

For example, while work was in progress, killer whale calls were projected to keep underwater creatures out of harm's way.