

CHEVRON CORP
Form 10-Q
November 06, 2008

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

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-368-2

Chevron Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

6001 Bollinger Canyon Road,

San Ramon, California

(Address of principal executive offices)

94-0890210

(I.R.S. Employer Identification Number)

94583-2324

(Zip Code)

Registrant's telephone number, including area code: (925) 842-1000

NONE

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Class	Outstanding as of September 30, 2008
Common stock, \$.75 par value	2,031,790,705

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

This quarterly report on Form 10-Q of Chevron Corporation contains forward-looking statements relating to Chevron's operations that are based on management's current expectations, estimates, and projections about the petroleum, chemicals, and other energy-related industries. Words such as anticipates, expects, intends, plans, targets, projects, believes, seeks, schedules, estimates, budgets and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The reader should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, Chevron undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the important factors that could cause actual results to differ materially from those in the forward-looking statements are crude-oil and natural-gas prices; refining, marketing and chemicals margins; actions of competitors; timing of exploration expenses; the competitiveness of alternate energy sources or product substitutes; technological developments; the results of operations and financial condition of equity affiliates; the inability or failure of the company's joint-venture partners to fund their share of operations and development activities; the potential failure to achieve expected net production from existing and future crude-oil and natural-gas development projects; potential delays in the development, construction or start-up of planned projects; the potential disruption or interruption of the company's net production or manufacturing facilities or delivery/transportation networks due to war, accidents, political events, civil unrest, severe weather or crude-oil production quotas that might be imposed by OPEC (Organization of Petroleum Exporting Countries); the potential liability for remedial actions or assessments under existing or future environmental regulations and litigation; significant investment or product changes under existing or future environmental statutes, regulations and litigation; the potential liability resulting from pending or future litigation; the company's acquisition or disposition of assets; gains and losses from asset dispositions or impairments; government-mandated sales, divestitures, recapitalizations, industry-specific taxes, changes in fiscal terms or restrictions on scope of company operations; foreign currency movements compared with the U.S. dollar; the effects of changed accounting rules under generally accepted accounting principles promulgated by rule-setting bodies; and the factors set forth under the heading Risk Factors on pages 32 and 33 of the company's 2007 Annual Report on Form 10-K/A. In addition, such statements could be affected by general domestic and international economic and political conditions. Unpredictable or unknown factors not discussed in this report could also have material adverse effects on forward-looking statements.

Table of Contents**PART I.****FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****CHEVRON CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF INCOME****(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
	(Millions of dollars, except per-share amounts)			
Revenues and Other Income				
Sales and other operating revenues*	\$ 76,192	\$ 53,545	\$ 221,813	\$ 154,191
Income from equity affiliates	1,673	1,160	4,480	2,991
Other income	1,002	468	1,509	2,312
Total Revenues and Other Income	78,867	55,173	227,802	159,494
Costs and Other Deductions				
Purchased crude oil and products	49,238	33,988	147,822	95,253
Operating expenses	5,676	4,397	15,379	12,134
Selling, general and administrative expenses	1,278	1,446	4,264	4,093
Exploration expenses	271	295	831	874
Depreciation, depletion and amortization	2,449	2,495	6,939	6,614
Taxes other than on income*	5,614	5,538	16,756	16,706
Interest and debt expense		22		159
Minority interests	32	25	94	72
Total Costs and Other Deductions	64,558	48,206	192,085	135,905
Income Before Income Tax Expense	14,309	6,967	35,717	23,589
Income Tax Expense	6,416	3,249	16,681	9,776
Net Income	\$ 7,893	\$ 3,718	\$ 19,036	\$ 13,813
Per Share of Common Stock:				
Net Income				
Basic	\$ 3.88	\$ 1.77	\$ 9.29	\$ 6.49
Diluted	\$ 3.85	\$ 1.75	\$ 9.23	\$ 6.45
Dividends	\$ 0.65	\$ 0.58	\$ 1.88	\$ 1.68

Weighted Average Number of Shares

Outstanding (000s)

Basic	2,032,433	2,109,345	2,049,812	2,127,409
Diluted	2,044,616	2,124,198	2,063,149	2,141,096

* Includes excise, value-added and similar taxes: \$ **2,577** \$ 2,550 \$ **7,766** \$ 7,573

See accompanying notes to consolidated financial statements.

Table of Contents**CHEVRON CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****(Unaudited)**

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
	(Millions of dollars)			
Net Income	\$ 7,893	\$ 3,718	\$ 19,036	\$ 13,813
Currency translation adjustment	(67)	9	(84)	12
Unrealized holding gain on securities:				
Net (loss) gain arising during period	(13)	12	(5)	29
Derivatives:				
Net derivatives loss on hedge transactions	126		74	(10)
Reclassification to net income of net realized loss	4	13	15	12
Income taxes on derivatives transactions	(44)	(4)	(32)	(4)
Total	86	9	57	(2)
Defined benefit plans:				
Actuarial loss:				
Amortization to net income of net actuarial loss	62	93	187	278
Actuarial gain arising during period		9		11
Prior service cost:				
Amortization to net income of net prior service credits	(16)	(5)	(47)	(11)
Defined benefit plans sponsored by equity affiliates	7	5	22	13
Income taxes on defined benefit plans	(17)	(31)	(65)	(98)
Total	36	71	97	193
Other Comprehensive Gain, Net of Tax	42	101	65	232
Comprehensive Income	\$ 7,935	\$ 3,819	\$ 19,101	\$ 14,045

See accompanying notes to consolidated financial statements.

Table of Contents**CHEVRON CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET****(Unaudited)**

	At September 30 2008	At December 31 2007
	(Millions of dollars, except per-share amounts)	
ASSETS		
Cash and cash equivalents	\$ 10,636	\$ 7,362
Marketable securities	347	732
Accounts and notes receivable, net	24,922	22,446
Inventories:		
Crude oil and petroleum products	4,778	4,003
Chemicals	382	290
Materials, supplies and other	1,129	1,017
Total inventories	6,289	5,310
Prepaid expenses and other current assets	5,153	3,527
Total Current Assets	47,347	39,377
Long-term receivables, net	2,259	2,194
Investments and advances	21,310	20,477
Properties, plant and equipment, at cost	165,372	154,084
Less: accumulated depreciation, depletion and amortization	79,681	75,474
Properties, plant and equipment, net	85,691	78,610
Deferred charges and other assets	4,174	3,491
Goodwill	4,600	4,637
Assets held for sale	329	
Total Assets	\$ 165,710	\$ 148,786
LIABILITIES AND STOCKHOLDERS EQUITY		
Short-term debt	\$ 832	\$ 1,162
Accounts payable	22,107	21,756
Accrued liabilities	9,211	5,275
Federal and other taxes on income	5,682	3,972
Other taxes payable	1,593	1,633
Total Current Liabilities	39,425	33,798
Long-term debt	5,749	5,664
Capital lease obligations	380	406
Deferred credits and other noncurrent obligations	16,013	15,007
Noncurrent deferred income taxes	12,524	12,170

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Reserves for employee benefit plans	4,454	4,449
Minority interests	211	204
Total Liabilities	78,756	71,698
Preferred stock (authorized 100,000,000 shares, \$1.00 par value, none issued)		
Common stock (authorized 6,000,000,000 shares, \$.75 par value, 2,442,676,580 shares issued at September 30, 2008, and December 31, 2007)	1,832	1,832
Capital in excess of par value	14,415	14,289
Retained earnings	97,507	82,329
Notes receivable - key employees	(1)	(1)
Accumulated other comprehensive loss	(1,950)	(2,015)
Deferred compensation and benefit plan trust	(434)	(454)
Treasury stock, at cost (410,885,875 and 352,242,618 shares at September 30, 2008, and December 31, 2007, respectively)	(24,415)	(18,892)
Total Stockholders' Equity	86,954	77,088
Total Liabilities and Stockholders' Equity	\$ 165,710	\$ 148,786

See accompanying notes to consolidated financial statements.

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CHEVRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	September 30	
	2008	2007
	(Millions of dollars)	
Operating Activities		
Net income	\$ 19,036	\$ 13,813
Adjustments		
Depreciation, depletion and amortization	6,939	6,614
Dry hole expense	287	324
Distributions less than income from equity affiliates	(278)	(1,070)
Net before-tax gains on asset retirements and sales	(757)	(2,099)
Net foreign currency effects	(74)	299
Deferred income tax provision	37	105
Net increase in operating working capital	(713)	(729)
Minority interest in net income	94	72
Increase in long-term receivables	(221)	(75)
Increase in other deferred charges	(70)	(134)
Cash contributions to employee pension plans	(169)	(219)
Other	313	993
Net Cash Provided by Operating Activities	24,424	17,894
Investing Activities		
Capital expenditures	(13,632)	(11,381)
Proceeds from asset sales	1,384	3,016
Net sales of marketable securities	351	123
Repayment of loans by equity affiliates	169	11
Proceeds from sale of other short-term investments	359	
Net Cash Used for Investing Activities	(11,369)	(8,231)
Financing Activities		
Net borrowings (payments) of short-term obligations	661	(1,004)
Repayments of long-term debt and other financing obligations	(926)	(3,221)
Cash dividends	(3,861)	(3,577)
Dividends paid to minority interests	(88)	(58)
Net purchases of treasury shares	(5,530)	(4,442)
Net Cash Used for Financing Activities	(9,744)	(12,302)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(37)	96

Net Change in Cash and Cash Equivalents	3,274	(2,543)
Cash and Cash Equivalents at January 1	7,362	10,493
Cash and Cash Equivalents at September 30	\$ 10,636	\$ 7,950

See accompanying notes to consolidated financial statements.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 1. Interim Financial Statements**

The accompanying consolidated financial statements of Chevron Corporation and its subsidiaries (the company) have not been audited by an independent registered public accounting firm. In the opinion of the company's management, the interim data include all adjustments necessary for a fair statement of the results for the interim periods. These adjustments were of a normal recurring nature.

Certain notes and other information have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the company's 2007 Annual Report on Form 10-K/A.

The results for the three- and nine-month periods ended September 30, 2008, are not necessarily indicative of future financial results.

Earnings for the third quarter 2008 included approximately \$400 million of expenses associated with damage to upstream facilities in the U.S. Gulf of Mexico caused by hurricanes Gustav and Ike. Largely offsetting the impact of these expenses were gains of about \$350 million on U.S. upstream asset sales.

Earnings for the third quarter 2007 included a \$265 million gain on the sale of marketing assets in the Benelux region of Europe. Earnings for the first nine months of 2007 also included a \$700 million gain on a sale of the company's interest in refining and related assets in the Netherlands and a \$680 million gain on the sale of the company's holding of Dynegy Inc. common stock.

Note 2. Information Relating to the Consolidated Statement of Cash Flows

The Net increase in operating working capital was composed of the following operating changes:

	Nine Months Ended September 30	
	2008	2007
	(Millions of dollars)	
Increase in accounts and notes receivable	\$ (2,559)	\$ (1,665)
Increase in inventories	(979)	(1,099)
Increase in prepaid expenses and other current assets	(461)	(332)
Increase in accounts payable and accrued liabilities	1,507	2,638
Increase (decrease) in income and other taxes payable	1,779	(271)
Net increase in operating working capital	\$ (713)	\$ (729)

The table above excludes items that did not affect cash. The Increase in accounts payable and accrued liabilities for the nine months ended September 30, 2008, excludes a \$2 billion increase in Accrued liabilities for a noncash item

that was offset to Properties, plant and equipment on the Consolidated Balance Sheet. This was the most significant noncash item and relates to an accrual associated with an upstream operating agreement outside the United States.

In accordance with the cash-flow classification requirements of FAS 123R, *Share-Based Payment*, the Net increase in operating working capital includes reductions of \$102 million and \$90 million for excess income tax benefits associated with stock options exercised during the nine months ended September 30, 2008, and 2007, respectively. These amounts are offset by an equal amount in Net purchases of treasury shares.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	Nine Months Ended September 30	
	2008	2007
	(Millions of dollars)	
Interest on debt (net of capitalized interest)	\$	\$ 193
Income taxes	14,298	9,684

The Net sales of marketable securities consisted of the following gross amounts:

	Nine Months Ended September 30	
	2008	2007
	(Millions of dollars)	
Marketable securities purchased	\$ (3,232)	\$ (904)
Marketable securities sold	3,583	1,027
Net sales of marketable securities	\$ 351	\$ 123

The Net purchases of treasury shares represents the cost of common shares less the cost of shares issued for share-based compensation plans. Net purchases totaled \$5.5 billion and \$4.4 billion in the 2008 and 2007 periods, respectively. Purchases in the first nine months of 2008 were under the company's stock repurchase program initiated in September 2007. Purchases in the first nine months of 2007 were primarily under the company's stock buyback program initiated in December 2006 and completed in September 2007.

The major components of Capital expenditures and the reconciliation of this amount to the capital and exploratory expenditures, including equity affiliates are presented in the following table:

	Nine Months Ended September 30	
	2008	2007
	(Millions of dollars)	
Additions to properties, plant and equipment*	\$ 12,812	\$ 10,633
Additions to investments	715	619
Current-year dry-hole expenditures	239	264
Payments for other liabilities and assets, net	(134)	(135)

Capital expenditures	13,632	11,381
Expensed exploration expenditures	544	550
Assets acquired through capital-lease obligations	14	193
Capital and exploratory expenditures, excluding equity affiliates	14,190	12,124
Company's share of expenditures by equity affiliates	1,587	1,659
Capital and exploratory expenditures, including equity affiliates	\$ 15,777	\$ 13,783

* Excludes \$2 billion noncash addition discussed on page 7.

Note 3. Operating Segments and Geographic Data

Although each subsidiary of Chevron is responsible for its own affairs, Chevron Corporation manages its investments in these subsidiaries and their affiliates. For this purpose, the investments are grouped as follows: upstream exploration and production; downstream refining, marketing and transportation; chemicals; and all other. The first three of these groupings represent the company's reportable segments and operating segments

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as defined in Financial Accounting Standards Board (FASB) Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information* (FAS 131).

The segments are separately managed for investment purposes under a structure that includes segment managers who report to the company's chief operating decision maker (CODM) (terms as defined in FAS 131). The CODM is the company's Executive Committee, a committee of senior officers that includes the Chief Executive Officer, and that in turn reports to the Board of Directors of Chevron Corporation.

The operating segments represent components of the company as described in FAS 131 terms that engage in activities (a) from which revenues are earned and expenses are incurred; (b) whose operating results are regularly reviewed by the CODM, which makes decisions about resources to be allocated to the segments and to assess their performance; and (c) for which discrete financial information is available.

Segment managers for the reportable segments are directly accountable to and maintain regular contact with the company's CODM to discuss the segment's operating activities and financial performance. The CODM approves annual capital and exploratory budgets at the reportable segment level, as well as reviews capital and exploratory funding for major projects and approves major changes to the annual capital and exploratory budgets. However, business-unit managers within the operating segments are directly responsible for decisions relating to project implementation and all other matters connected with daily operations. Company officers who are members of the Executive Committee also have individual management responsibilities and participate in other committees for purposes other than acting as the CODM.

All other activities include mining operations, power generation businesses, worldwide cash management and debt financing activities, corporate administrative functions, insurance operations, real estate activities, alternative fuels, technology companies, and the company's interest in Dynegy Inc. prior to its sale in May 2007.

The company's primary country of operation is the United States of America, its country of domicile. Other components of the company's operations are reported as International (outside the United States).

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Segment Income The company evaluates the performance of its operating segments on an after-tax basis, without considering the effects of debt financing interest expense or investment interest income, both of which are managed by the company on a worldwide basis. Corporate administrative costs and assets are not allocated to the operating segments. However, operating segments are billed for the direct use of corporate services. Nonbillable costs remain at the corporate level in All Other. Income by major operating area for the three- and nine-month periods ended September 30, 2008 and 2007, is presented in the following table:

Segment Income

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
	(Millions of dollars)			
Upstream				
United States	\$ 2,187	\$ 1,135	\$ 5,977	\$ 3,154
International	3,995	2,296	12,581	6,823
Total Upstream	6,182	3,431	18,558	9,977
Downstream				
United States	1,014	(110)	336	1,021
International	817	487	1,013	2,277
Total Downstream	1,831	377	1,349	3,298
Chemicals				
United States	30	70	32	209
International	40	33	122	118
Total Chemicals	70	103	154	327
Total Segment Income	8,083	3,911	20,061	13,602
All Other				
Interest Expense		(15)		(103)
Interest Income	52	114	157	327
Other	(242)	(292)	(1,182)	(13)
Net Income	\$ 7,893	\$ 3,718	\$ 19,036	\$ 13,813

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Segment Assets Segment assets do not include intercompany investments or intercompany receivables. All Other assets in 2008 consist primarily of worldwide cash, cash equivalents and marketable securities, real estate, information systems, mining operations, power generation businesses, technology companies and assets of the corporate administrative functions. Segment assets at September 30, 2008, and December 31, 2007, are as follows:

Segment Assets

	At September 30 2008	At December 31 2007
	(Millions of dollars)	
Upstream		
United States	\$ 24,862	\$ 23,535
International	70,359	61,049
Goodwill	4,600	4,637
Total Upstream	99,821	89,221
Downstream		
United States	17,921	16,790
International	28,215	26,075
Total Downstream	46,136	42,865
Chemicals		
United States	2,620	2,484
International	1,021	870
Total Chemicals	3,641	3,354
Total Segment Assets	149,598	135,440
All Other		
United States	8,648	6,847
International	7,464	6,499
Total All Other	16,112	13,346
Total Assets United States	54,051	49,656
Total Assets International	107,059	94,493
Goodwill	4,600	4,637
Total Assets	\$ 165,710	\$ 148,786

Segment Sales and Other Operating Revenues Operating-segment sales and other operating revenues, including internal transfers, for the three- and nine-month periods ended September 30, 2008, and 2007, are presented in the following table. Products are transferred between operating segments at internal product values that approximate market prices. Revenues for the upstream segment are derived primarily from the production and sale of crude oil and natural gas, as well as the sale of third-party production of natural gas. Revenues for the downstream segment are derived from the refining and marketing of petroleum products such as gasoline, jet fuel, gas oils, lubricants, residual fuel oils and other products derived from crude oil. This segment also generates revenues from the transportation and trading of crude oil and refined products. Revenues for the chemicals segment are derived primarily from the manufacture and sale of additives for lubricants and fuels. All Other activities include revenues from mining operations, power generation businesses, insurance operations, real estate activities and technology companies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Sales and Other Operating Revenues

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
	(Millions of dollars)			
Upstream				
United States	\$ 11,036	\$ 7,252	\$ 32,980	\$ 22,347
International	12,295	8,297	36,514	24,394
Sub-total	23,331	15,549	69,494	46,741
Intersegment Elimination United States	(4,461)	(3,049)	(13,094)	(8,036)
Intersegment Elimination International	(6,840)	(4,828)	(21,009)	(13,743)
Total Upstream	12,030	7,672	35,391	24,962
Downstream				
United States	27,692	19,611	77,803	54,561
International	35,924	25,750	107,086	73,294
Sub-total	63,616	45,361	184,889	127,855
Intersegment Elimination United States	(126)	(110)	(377)	(377)
Intersegment Elimination International	(44)	(1)	(107)	(16)
Total Downstream	63,446	45,250	184,405	127,462