AMAZON WATCH
SUPPORTING INDIGENOUS PEOPLES
PROTECTING THE AMAZON RAINFOREST

May 25, 2009

Dear Chevron Shareholder:

Amazon Watch is an environmental advocacy organization that for several years has worked closely with the indigenous and farmer communities in Ecuador's rainforest who live in the area where Texaco operated a large oil concession from 1964 to 1990, for which Chevron now faces a $27.3 billion environmental liability in a civil lawsuit. We write to inform you of important facts relating to this liability that Chevron management appears to be hiding from shareholders as part of an 11th-hour campaign to defeat Resolution 10 at the company's annual meeting on May 27, 2009. We also write to correct information that is false, misleading, or incomplete that Chevron has filed with the SEC and sent to shareholders in a letter signed by Chevron's Corporate Secretary, Lydia I. Beebe, dated May 20, 2009 (hereafter the "Beebe letter"). We discern a disturbing and ongoing pattern by Chevron's management to omit critical facts about its liability in Ecuador when communicating with shareholders and regulatory authorities; we note New York State Attorney General Andrew Cuomo has opened a probe of the company, at the request of Chevron shareholders in New York, on precisely this issue.

Summary and Background of Ecuador Liability

Resolution 10, co-sponsored by the public pension funds of the City of New York and New York state and supported by several of the nation's largest public pension funds that collectively own more than $1 billion in Chevron stock, calls on the company to assess host country laws to determine if it is in compliance with environmental regulations. It was Texaco's grievous violation of host country laws in Ecuador that currently are the source of Chevron's enormous, and highly embarrassing, liability in an Ecuadorian court. In recent weeks, Chevron has been portrayed in unflattering fashion as a corporate polluter in several large media outlets that have reported on the Ecuador matter – among them *60 Minutes*, the *Wall Street Journal*, and *The New York Times*. Rather than address the serious questions being raised about Chevron's commitment to proper environmental practices, there is increasing evidence that Chevron's management has launched a multi-million dollar public relations and lobbying campaign to deceive its own shareholders and regulatory authorities about the threat posed by its financial exposure in Ecuador. We also note that the Ecuador liability has attracted the attention of several analysts; Barclay's has noted it is a short-term "drag" on Chevron stock, while Potomac Research concluded the Ecuador liability represents an "underappreciated" short-term risk to the company.

The facts behind this disaster are relatively straightforward. Chevron has admitted in a civil lawsuit in Ecuador that Texaco (bought by Chevron in 2001 for $31 billion) systematically dumped billions of gallons of toxic "water of formation" into Amazon waterways while it was the exclusive operator of an oil concession in Ecuador from 1964 to 1990. Evidence at trial suggests this dumping contaminated the entire rainforest ecosystem in an area roughly the size of Rhode Island and decimated the traditional cultures of several indigenous groups. Unlike the Exxon Valdez, the dumping was not an accident; it was done deliberately to lower production costs. Evidence also shows that Texaco built and abandoned 916 open-air, unlined waste pits used for permanent storage of toxic "drilling muds" which to this day leach their contents into streams, groundwater and soils. Evidence makes it clear that the practices used by Texaco in Ecuador had been prohibited for decades in the U.S. before the company set foot in Ecuador. The result, in the words of a representative of the Amazon communities, is a "humanitarian disaster of epic proportions" that threatens the survival of indigenous groups and already has caused more than 1,400 cancer deaths, according to a team of independent experts appointed by the court to assess damages. Before Texaco left Ecuador, it commissioned two environmental audits of its operations from North American companies. Both concluded that Texaco used sub-standard practices, did nothing to protect fresh water sources from contamination, and that all production facilities left behind required remediation. The evidence against Chevron at trial in Ecuador is simply overwhelming, and much of it was provided by the company's own technical reports and internal documents.

Notably, there is no evidence that Chevron CEO David O'Reilly -- nor any officer of Chevron nor member of Chevron's Board of Directors -- has conducted an on-site inspection of the contamination left by Texaco in Ecuador. Even though Chevron now attacks the court process in Ecuador as unfair, there are more than 64,000 chemical sampling results in evidence that prove that 100% of Texaco's former production sites are highly contaminated, according to the independent court damages assessment. Further, Texaco and then Chevron sought Ecuador as a venue for the trial and voluntarily agreed to jurisdiction there and to be bound by any ruling as a condition of the case being transferred out of U.S. federal court. Chevron argued as late as 2006 to a U.S. federal judge – and as late as 2007 on its website -- that Ecuador's courts were more than adequate to hear environmental claims. Chevron lawyers have said in various interviews that the company expects a significant adverse judgment in Ecuador. Various legal scholars believe such a judgment will be enforceable in U.S. courts because of the particular history of the case and Chevron's ongoing praise of the fairness of Ecuador's judicial system.

Chevron's Failure to Comply With Fiduciary Obligations

We believe Chevron management and the Board of Directors is failing or has failed to comply with its fiduciary and governance obligations in reference to the Ecuador liability in at least three ways, as follows:

1. ***Chevron has failed to disclose its potential civil and criminal liability relating to an investigation by the New York State Attorney General, to determine if the company is misleading shareholders over its Ecuador liability.*** According to several news accounts, Chevron is now the target of an official fraud investigation by the New York State Attorney General under the statutory authority of New York's Martin Act, which provides for both civil and criminal liability. Chevron management has yet to inform shareholders in its public filings of this investigation, which was requested by New York shareholders. The Beebe letter, filed just days ago with the SEC, is silent on this critical point. Based on our analysis of the facts of the case, we believe it is unassailable that Chevron's legal department has provided false and misleading information about four key points in its SEC filings, which apparently provide the basis for the New York probe. This include the company's claim that it is not subject to jurisdiction in Ecuador (Chevron voluntarily submitted itself to jurisdiction in Ecuador before a U.S. federal court as a condition of the case being transferred to Ecuador); its claim that is has statute of limitations defenses in Ecuador (Chevron waived these defenses as a condition of the same transfer); its claim that a release Texaco received from Ecuador's government absolves it of liability (the "release" does not affect private claims of the type being litigated); and its claim that the Ecuadorian law used by the plaintiffs is being applied retroactively (it is not, as the statute used to bring the substantive claims against Chevron in Ecuador dates to 1861).

   We believe Chevron faces additional risk because of these misleading assertions, which may violate various state and federal securities laws. In addition to the office of the Attorney General in New York, we also believe there is a risk that these misrepresentations will attract the attention of other federal and state regulatory authorities.

2. ***There is increasing evidence that Chevron's management significantly overpaid to purchase the Texaco Corporation due to a failure to properly vet the acquisition.*** Given the enormous liability faced in Ecuador by Chevron, it is becoming more and more evident that Chevron's acquisition of Texaco was not properly vetted by management and the Chevron Board of Directors and that as a result Chevron shareholders overpaid for Texaco. The purchase price of Texaco in 2001 was $31 billion; Chevron's actual financial risk in Ecuador is currently $27 billion, and could rise under certain (albeit unlikely) scenarios. There is no evidence that Chevron's management or Board of Directors ever visited Ecuador to understand the potential environmental liability, nor independently vetted Texaco's representations at the time about the nature of the lawsuit or the limitations of its partial "release" which no court of law in either the U.S. or Ecuador has ever accepted as valid in reference to the civil lawsuit. We note that Chevron's management was clearly warned by representatives of our organization at the company's shareholder meeting in 2001 that Texaco faced a large and uncertain environmental liability in Ecuador. If it turns out that Chevron did not adequately vet the purchase of Texaco for this liability, the company's

management and Board of Directors could face additional negative consequences from an adverse judgment in the Ecuador litigation.

3. ***Chevron's Board of Directors is failing to discharge its fiduciary obligations, raising serious corporate governance concerns and possibly creating personal liability for Board members.*** It is becoming increasingly evident that Chevron – despite being the nation's third-largest corporation – is beset with an outdated corporate governance structure and a passive Board of Directors that appears not to be adequately discharging its fiduciary duties with regard to the Ecuador liability. It is notable that the same man, David O'Reilly, serves both as CEO of Chevron and Chairman of Chevron's Board of Directors. If Chevron's Board is relying on the same misleading information that management is providing in its SEC filings that prompted the Cuomo probe, then the Board members are seriously compromising their fiduciary duties to shareholders. There is no evidence that the members of Chevron's Board have vetted the company's Ecuador liability independent of management, or tried to independently assess management's handling of the matter. There is no evidence the Board has raised questions about the enormous expense – at least in the many hundreds of millions of dollars – of defending the lawsuit and all of its ancillary litigations for more than 15 years, and of paying millions of dollars annually for public relations and lobbying consultants. There is no evidence that the Board has questioned the close relationship between Chevron's outside counsel on the Ecuador matter (the corporate law firm of Jones Day) and Chevron's General Counsel, Charles S. James, a former partner at the same firm that has earned exorbitant fees by assisting the company propagate false and misleading information about the litigation and the actual financial risk faced by Chevron. Worse, the Board appears to deliberately have buried its head in the sand on this issue. Former Senator Sam Nunn, the chairman of the Board's Public Policy Committee and the person most suited to deal with this issue, declined an invitation to meet with several large shareholders who had toured the Ecuador disaster area.

The Beebe Letter of May 20, 2009

We summarize how the May 20 Beebe letter, which was filed with the SEC, provides information that is demonstrably false, misleading, or incomplete. The bold script are claims made by Chevron in the letter; an accurate explanation of each false or misleading claim follows.

Chevron was "released" from claims. This is false. The Beebe letter neglects to mention that Chevron was released only from *government* claims and not the claims of the private citizens bringing the civil lawsuit. These citizens never signed off on the release, and therefore are not bound by it. The Beebe letter neglects to mention that not a single court in any country ever has accepted Chevron's interpretation of the scope of the so-called release. Yet Chevron continues to falsely claim to its shareholders that the release absolves it of further clean-up responsibility. The Beebe letter also omits the fact

the limited "remediation" that is the basis for the release was determined to be a sham, according to an independent court assessment that relied on evidence at the trial.

Ecuador's government informed the U.S. federal court that it was the "sole possessor of claims for environmental damages to public land." This is misleading. First, Ecuador's government does not own the vast majority of contaminated lands; they are privately held by indigenous groups and local farmers. (The government only owns subsoil rights in the relatively confined areas where wells and production stations were built). The Beebe letter omits the fact that the person making the above assertion to the U.S. court was Edgar Teran, a former Texaco lawyer who was then Ecuador's Ambassador to the U.S. It turned out, via discovery in a later legal case in U.S. federal court, that Teran's notification was written by Texaco's U.S. lawyers and presented for Teran to sign. The submission – made in 1993 just after the lawsuit was filed in U.S. federal court -- quickly was disavowed by Ecuador's government and never had any legal effect. This manipulation by Texaco of an Ecuadorian government official is one of many examples of how Texaco and Chevron have used corrupt practices in Ecuador to evade accountability and delay a resolution of the trial.

Chevron is being sued under a new law enacted in 1999 with the assistance of U.S. trial lawyers. This is false. The substantive claims against Chevron have nothing to do with the 1999 environmental law, which was passed after a multi-year debate in Ecuadorian society in which dozens of organizations and interest groups participated. The claims in the lawsuit are based on Ecuadorian civil code articles 1453 and 2214, which date to 1861 and provide any individual with the right to seek compensation for illegal or tortious acts.

Lawyers for the plaintiffs are trying to force a settlement because they fear they cannot enforce a judgment in Ecuador's courts. To the contrary, numerous legal scholars believe Chevron is particularly vulnerable to enforcement via the U.S. legal system of a judgment in Ecuador's courts because in 2002 it voluntarily submitted to jurisdiction in those courts, and agreed to be bound by any ruling there, as a condition of the case being transferred from U.S. federal court. It does not matter that Chevron has no assets in Ecuador; Chevron has assets in the U.S. and other countries that can be seized to satisfy any judgment in Ecuador. Leaders of the Amazonian communities always have said they are open to a settlement of the case as long as there are sufficient resources for a comprehensive environmental remediation of the damage caused by Texaco. The communities are also demanding that adequate compensation be paid for harm caused to indigenous groups and other affected communities. Chevron itself has announced publicly on multiple occasions that it is open to a settlement of the claims.

Ecuador's courts are biased against Chevron. Texaco and then Chevron submitted 14 expert affidavits praising Ecuador's courts as fair, and agreed to be bound by any ruling in Ecuador, as a condition of the case being transferred from U.S. federal court where the plaintiffs had sought jurisdiction. Now that the evidence in the trial Chevron wanted points to its own culpability, Chevron is attacking the very courts it had praised and is lobbying the Obama Administration to pressure Ecuador's President, Rafael Correa, to

interfere in his own judiciary to extinguish the legal rights of the victims. On multiple occasions, Chevron has indicated to Correa and members of his government that it would be willing to withdraw its lobbying campaign in Washington to cancel Ecuador's trade preferences if they would essentially fix the legal case so Chevron would face no liability.

The court proceeding in Ecuador is a "farce". To the contrary, the Ecuador court has bent over backwards to afford Chevron probably more due process rights than almost any defendant in history. The company has had almost 16 years to present evidence and disprove the charges against it; during this entire time the pollution it left in Ecuador was and is still causing grievous harm to thousands of people. In the trial, Chevron has submitted more than 100,000 pages of evidence and more than 50,000 chemical sampling results – literally drowning the court in paper. Several legal observers have concluded that it is Chevron that is trying to undermine the due process rights of the local residents by dragging out the proceedings so the trial never ends.

The government of Ecuador is trying to shift responsibility for clean-up from itself to Chevron's shareholders. This is misleading. A more accurate assertion would be that Chevron's management is trying to cover up its own failures in Ecuador by trying to shift responsibility for clean-up from itself to the government of Ecuador. The government of Ecuador is not a party to the legal case. Chevron is being sued by Ecuador's citizens because Texaco – not Ecuador's state-owned oil company -- was the exclusive operator of a sub-standard system and the exclusive polluter during the time of its operation. The lawsuit is about what Texaco did and the ongoing impacts from its operatiions; it is *not* about what Petroecuador did with its own equipment after Texaco left Ecuador in 1992. If Chevron believes Petroecuador is responsible for any pollution, then it can resolve the matter directly with the government of Ecuador -- which is indeed happening in a litigation in the same New York federal court that Texaco had argued was inadequate to hear the claims of the private Ecuadorian citizens. Unlike Chevron, the government of Ecuador has invested significant capital to upgrade the shoddy system of oil extraction built by Texaco.

Ecuador's President, Rafael Correa, has "complete control" over Ecuador's courts. This is false; Chevron has presented no evidence of interference in the civil trial, other than the ample evidence it has tried to interfere politically via a lobbying and public relations campaign. Ecuador has an independent judiciary, as determined by the United Nations, the Organization of American States, and the U.S. State Department. Ecuador has been undertaking judicial reform in recent years, which includes a reorganization of some of its courts; it is this process that has been lauded by various international bodies.

Conclusion

Chevron's management is clearly suffering from major problems surrounding its Ecuador liability. While it is true the company inherited the problem from Texaco, it is equally true that Chevron's management has exacerbated the liability by dragging out the court proceedings and failing to disclose truthful and complete information to its shareholders

about Ecuador. It is our assessment that Chevron's management and Board of Directors have disrespected Chevron shareholders on this matter, and failed to adequately discharge their fiduciary duties. As a result, shareholders need to send Chevron management a strong message that continuing down the current path of defending massive environmental contamination and its related human rights problems – and then trying to mislead shareholders about fundamental facts -- is unacceptable. The best way to send that message is to vote for Resolution 10 at the annual meeting.

Sincerely,

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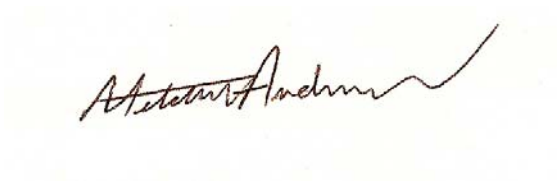

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